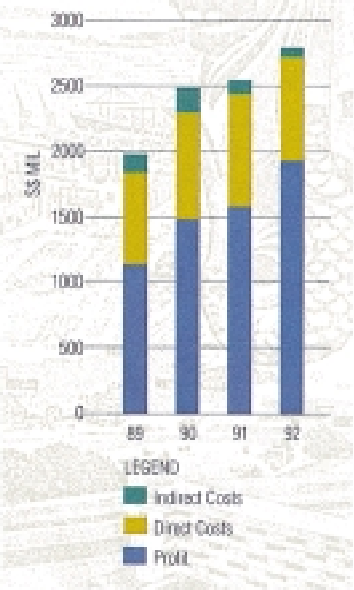
This year's survey of the Singapore Treasury industry revealed another bumper harvest in 1992. Total profits increased over 10% to S$1.90 billion, from S$1.72 billion in 1991. The average Treasury operation made pre-tax profits of S$12.8 million, exceeding that of 1991, where S$11.2 million was reported.

Overall revenue, cost and profit of treasury operations

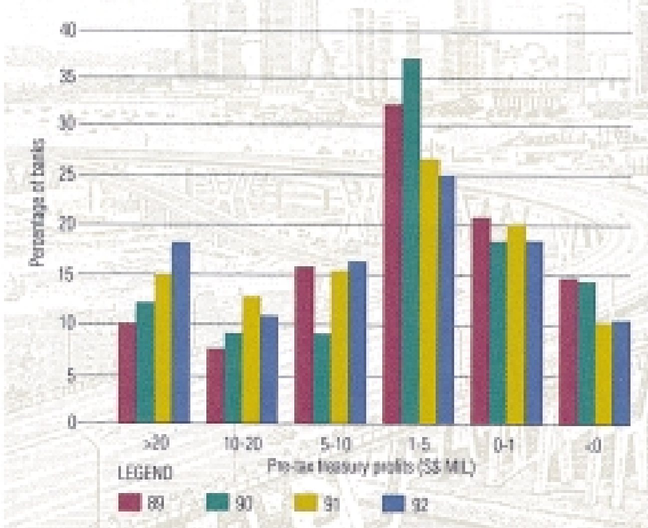


The industry posted better revenues than earlier anticipated. Pessimism had prevailed in the market in early 1992, due to a number of bank mergers and restructuring of foreign banks' Asian operations, and even staff layoffs at the time. The bleak outlook turned out to be unfounded.

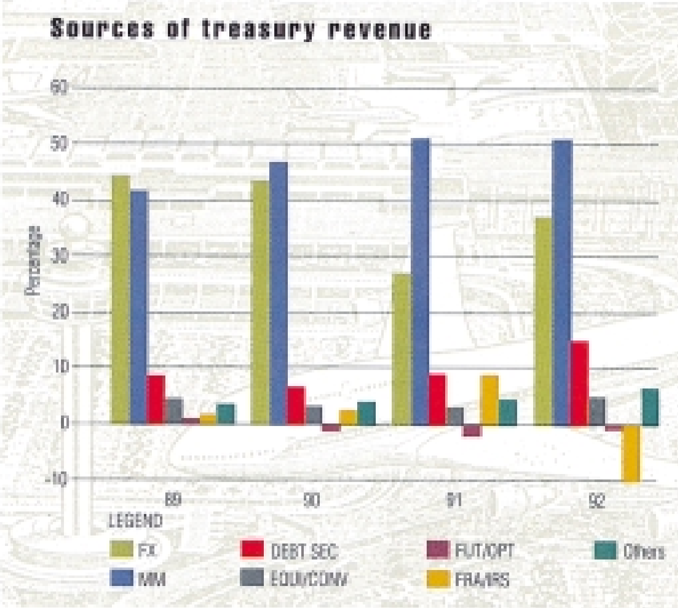
Despite there being 5 fewer Treasuries in operation, total revenues rose, thereby increasing the average revenue per contributor to S$18.7 million in 1992 from S$16.5 million the previous year. While Treasury revenues did grow 13%, direct costs incurred in the industry also grew a strong 21% on average. Most of the increase came from a rise in the largest cost component - manpower. Clearly, Treasury managements will have to keep close watch on this if they want to maintain profitability.

Profit growth which rose by 17%, was again mainly generated by banks in the top echelon (i.e. those with earnings exceeding S$20 million). Of the 22 banks that made this top category in 1991, 19 did well enough to retain their

Distribution of individual treasury profits



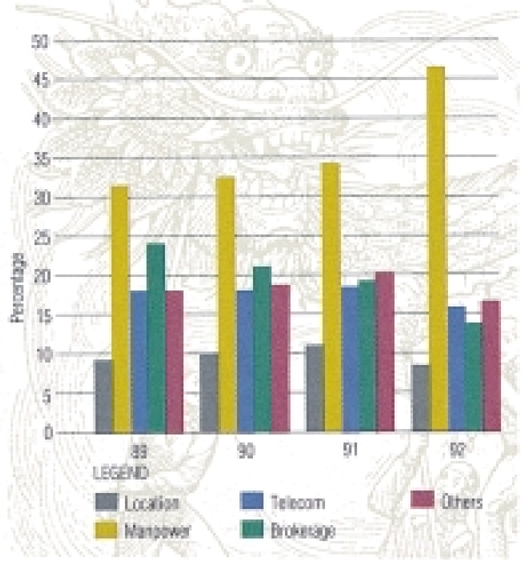
positions here. There were fewer Treasuries making between S$10-20 million. The number of loss-makers this year was unchanged.



The average Treasury operation turned in stronger revenue in 1992, with growth at over 13%, compared to 10% in 1991. Foreign exchange revenues rose 55%, with the industry reaping the benefits of both the trading opportunities during the European currency crisis in 1992 as well as the higher currency trading volumes globally. Active banks with the largest turnovers in the currency market registered the highest profits in foreign exchange as well as the highest growth rates over the previous year's results.

Money market activity, however, remained the most profitable business area, with its estimated profit margin over 50% higher than in foreign exchange. As such, the revenue pie in 1992 was still dominated by interest rate activities. In fact, money market activities contributed to 51% of total revenue, the same as in 1991. Other interest rate areas, such as debt securities, also grew in importance in 1992, accounting for 14% of revenue, compared to only 9% in 1991. Still declining interest rates worldwide and the expansion of the bond market in Asia contributed to the good performance. FRAs and IRS, however, recorded a loss.

Composition of direct costs



The average Treasury's direct costs rose at a sharp pace of 21% in 1992, compared to only 8% in 1991. As expected, staff remuneration remained the largest component at 36% of total costs, up from 34% in 1991. It was also clearly the fastest growing cost component between 1991 and 1992, almost doubling in magnitude. This reflected a shortage of professional staff to match the growing commitment of many institutions to Singapore, and a diversification to new areas of activity, as well as the moving of Treasury professionals to other centres and financial activities.

Among other cost components, office and staff housing rentals in particular grew strongly, up 34% and 33% respectively. Consequently, location costs as a whole gained 19% in 1992, up from a more moderate 11% in 1991. Rental rates in the financial districts actually declined by close to 10%, as measured by the URA's (Urban Redevelopment Authority) calculated index. Treasuries could have taken the opportunity to enlarge their offices to cater for expanding operations, a trend that continued into 1993. Brokerage fees also rose an absolute 11%, although it fell in relative terms, accounting for a 17% share of total expenditure.

Estimated profit margin* of treasury instruments

Instruments	1991		1992	
	S$'000	No. of Treasuries	S$'000	No. of Treasuries
Foreign Exchange	4369	135	6304	143
Money Market	9002	137	9530	143
Debt Securities	4170	52	8225	51
Futures	-888	71	-1011	84
Options	223	36	1068	47
FRAs/IRS	4612	48	-3963	72
Long-Dated Forward	516	10	158	7
Equivalent/Conversion	1823	25	5249	17
Fund Management	290	12	1190	3

*Revenue-manpower costs

No. of participating treasuries

The money market's edge over foreign exchange in terms of profitability narrowed, with S$9.5 million in profit on average in 1992, about 51% more than the S$6.3 million for foreign exchange. In 1991, the corresponding numbers were S$9.0 million for money market transactions compared to S$4.4 million for foreign exchange. Debt securities made an average of S$8.2 million for the 51 participants while options activity registered a healthy rise in profits to S$1.1 million from a mere S$0.2 million in 1991. The number of Treasuries dealing in long-dated forwards declined, although staff concentration of the ones in business increased. Participation in debt securities rose by more than 10%. This would seem to reflect growing interest in both cash markets as well as the derivative products which are based on fixed income.

As the diversification is only recent, one quarter of the Treasuries still rely on basic foreign exchange, money market and probably futures for their earnings. At the other end of the range, 15% of the Treasuries were engaged in the full range of Treasury products present in international market. While not all Treasury operations have the capacity to take up the newer off-balance sheet instruments, the activities of those who do, should also enhance turnover and hopefully profits in basic cash market business as well.

Dealers continued to be paid more but hardly produced any more revenue than in 1991. Average dealer remuneration rose 12% in 1992, the same rate of growth as in 1991. But whereas they increased earnings by 7% individually in 1991, that increase was only 1% this year. Dealers used to bring in revenue 15 times their remuneration in 1989, but only managed 12.5 times in 1992. In absolute terms, however, the margin between pay and revenue has expanded. Treasury managements should pay heed to keeping manpower cost under control while at the same time, training their staff in order to remain competitive internationally.

Professional employment rose by 127 to 1,704 in 1992. While foreign exchange professionals still formed the majority at 51%, the share declined from 60% in 1991, reflecting diversification into other fields. 58% of foreign exchange professional staff were spot traders, compared with 61% previously, while just over 14% were position takers. Money market professionals again formed 16% of total employment. Involvement in FRAs/IRS increased, as staff more than doubled to 4.8% from 2.2% of all professionals. Supporting Treasury staff totalled 1,540. The cutback of 58, despite the increase in lines and volumes of business covered, speaks well of operations efficiency in Singapore.