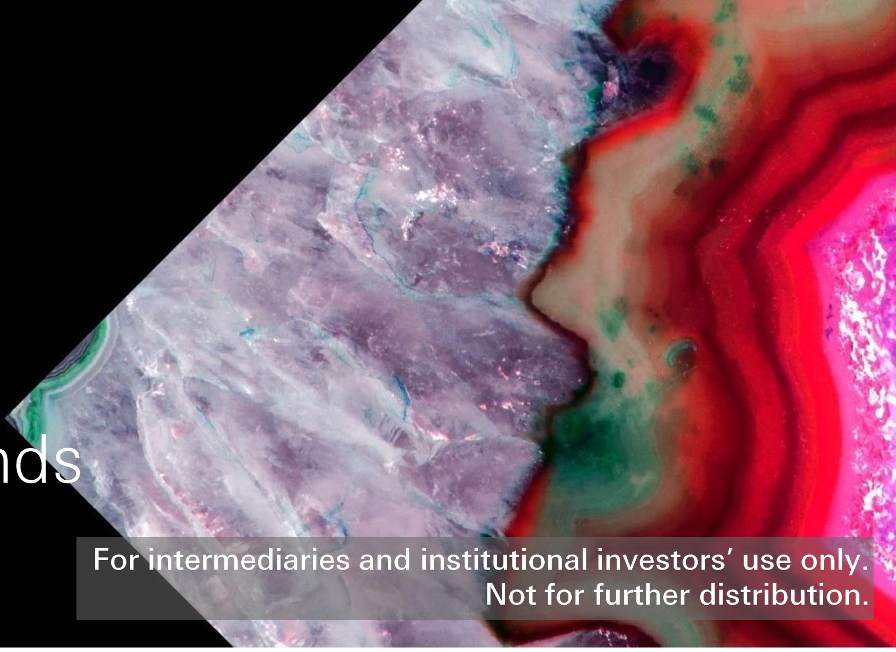
Asset Management

# 2023 outlook: Singapore dollar bonds



For intermediaries and institutional investors' use only. Not for further distribution.

February 2023


**William Goh**

*Portfolio Manager, Fixed Income*


## Key takeaways

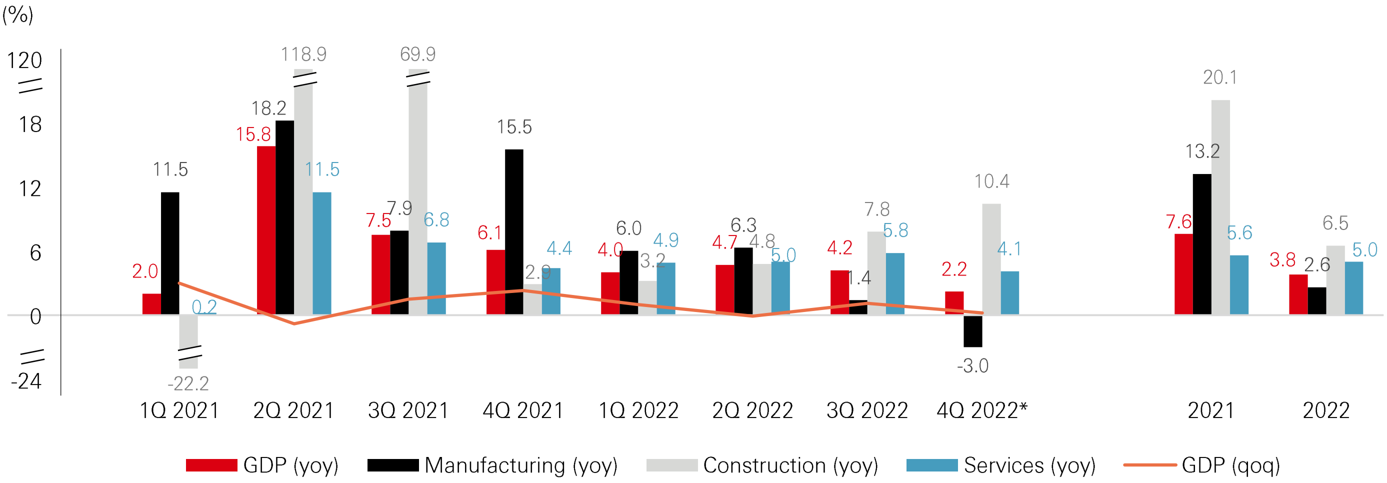
- We believe that a better environment for fixed income and the resilient macroeconomic situation in Singapore provide a much improved backdrop for Singapore dollar (SGD) bonds this year
- The SGD, a proxy for quickly gaining exposure to major Asia Pacific and developed market currencies, is poised to strengthen modestly in 2023
- The SGD bond market is seeing attractive yields and is supported by the limited bond supply. The maturing global monetary tightening cycle further adds to the appeal of SGD bonds
- The HSBC GIF Singapore Dollar Income Bond fund is not a traditional, pure SGD bond product; rather, it has significant flexibility to invest in Asia USD bonds for yield enhancement and/or tactical opportunities, resulting in a well-diversified, quality portfolio

Source: Bloomberg, HSBC Asset Management, February 2023.

## What is the overall outlook on the Singapore economy?

Singapore was one of the first Asian markets to recover strongly from the pandemic, and its economic growth has still maintained momentum, with 4Q 2022 GDP increasing at 2.2% year-on-year. Sectors such as food and beverage, hospitality and tourism are continuing to enjoy tailwinds today as reopening activity picks up across the globe, and consumers regain confidence in travelling and spending. As shown from recent passenger traffic numbers at Singapore's Changi Airport, for example, passenger movements reached a high of 4.6 million in December 2022, or around 72% of 2019's pre-pandemic levels[1] – a solid rebound which also speaks to Singapore's status as a key transport hub.

**Fig. 1: Singapore GDP figures**




Dashes in chart indicate a scale break. *Refers to figures from advance print. yoy refers to year-on-year; qoq refers to quarter-on-quarter
Source: HSBC Global Research, CEIC, January 2023.

The economy grew at 3.8% in 2022, beating estimates of 3.5%, and 2023 GDP is projected to grow at 0.5% according to the Ministry of Trade and Industry's (MTI) official estimates.

On the fiscal front, the long-anticipated Goods and Services Tax (GST) increase from 7% to 8% has taken place despite still high price pressures. The government is in a strong position to provide more GST offsetting support in the upcoming Singapore FY2023 Budget on 14 February 2023, if necessary.

We expect Singapore's economic rebound to continue in 2023, led by a recovery in services, which will help to partially mitigate some of the weakness in the manufacturing sector. One of the risks to growth in 2023 is the increasing trade headwinds, with the cooling global technology cycle expected to continue to be a drag, although we are seeing green shoots in other sectors such as transport and precision engineering.

## How will monetary policy play out in light of the current inflation backdrop?

The Monetary Authority of Singapore (MAS) forecasts inflation in 2023 to remain roughly similar to 2022 – with core inflation, which excludes private transport and accommodation, projected to increase by 3.5% to 4.5% and headline inflation to increase by 5.5% to 6.5% – as the impact of the GST hike offsets the fading base effect of already high consumer prices. Local housing and rental demand continue to drive headline inflation, with private property prices up 8.6% year-on-year in 4Q 2022, while private rental prices jumped 29.7% for the year of 2022.[2]

Overall, even if inflation has peaked, it remains at elevated levels (core at 5.1% year-on-year and headline at 6.5% year-on-year in December 2022) and above the MAS' 2023 forecasted range. The MAS is proactive in the fight against inflation and may continue to tighten monetary policy further, albeit at a slower pace than 2022, especially if inflation pressures after the GST hike are higher than estimated. This will continue to provide support to the SGD, which was already the top performing Asian currency – and the only one that appreciated – against the USD in 2022.

Note 1: Source is Changi Airport Group, data as of December 2022. Note 2: Source is Bloomberg and Urban Redevelopment Authority, data as of December 2022.
Source: Bloomberg, Monetary Authority of Singapore, HSBC Asset Management, February 2023.

## How should investors look at the Singapore dollar after a good year in 2022?

The Singapore dollar, which is allowed to float against a trade-weighted basket of currencies, can be seen as a proxy for quickly gaining exposure to and diversifying across major Asia Pacific and developed market currencies (e.g. USD, EUR, JPY, GBP), without having to buy each currency separately. Non-SGD investors can thus benefit from using the SGD as a base "diversified building block" and if desired, further adjust exposure to individual currencies according to their own investment views. SGD based investors, on the other hand, when investing in the HSBC GIF Singapore Dollar Income Bond fund, benefit from a hedged currency position, as foreign currency denominated securities held in the fund are hedged to the SGD.

We believe the SGD will strengthen modestly in 2023 as the Singapore economy continues to rebound and as the MAS stands prepared to tighten policy if needed.

**Fig. 2: SGD is managed against a basket of currencies**

Current weights based on HSBC Global Research model on SGD NEER index

| Sample | Mar 2019- Dec 2022 |
|---|---|
| 1) USD | 23.84% |
| 2) EUR | 15.25% |
| 3) CNY | 13.94% |
| 4) MYR | 13.10% |
| 5) JPY | 5.81% |
| 6) IDR | 5.23% |
| 7) AUD | 4.86% |
| 8) GBP | 4.85% |
| 9) TWD | 3.68% |
| 10) PHP | 2.96% |
| 11) KRW | 2.67% |
| 12) THB | 2.11% |
| 13) INR | 1.70% |

NEER refers to the Nominal Effective Exchange Rate targeted by the MAS. Source: HSBC Global Research, January 2023

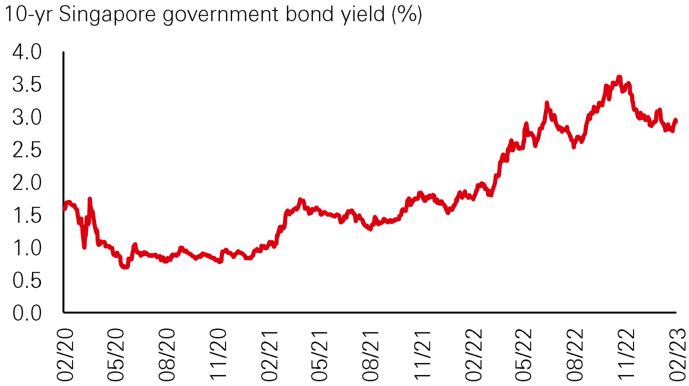
## Is the SGD bond market attractive now?

SGD bonds are attractive from a fundamental, valuation and technical viewpoint.

With the global monetary tightening cycle approaching a mature stage as inflation pressures peak in many major economies, bond investors may benefit from capital appreciation when central banks transit into easing mode.

In terms of valuations, SGD bond yields are looking attractive, particularly on a historical basis, seeing that they are trading at one of the highest carry since the Global Financial Crisis, with 10-year government bond yield currently at 2.92%.[3] From a technical standpoint, with global financial conditions expected to be less accommodative coupled with elevated market volatility, the MAS expects outstanding Singapore Government Securities (SGS) to grow at a slower pace in 2023 compared to 2022, which saw an increase of 8%, while the increase in the past 5 years comes out to an average of 9%. This lower supply will provide key support to the performance of SGS in 2023. There is also no 30-year SGS auction scheduled until September 2023, providing technical support for and mitigating duration risk at the long-end of the curve.

**Fig. 3: 10-year Singapore government bond yields trading at attractive levels**




Source: Bloomberg, February 2023.

**Fig. 4: Singapore Government Securities auction calendar 2023**

| Auction date | Maturity date | Tenor |
|---|---|---|
| 27/01/2023 | 1/8/2032 | 10-year |
| 24/02/2023 | 1/6/2025 | 2-year |
| 29/03/2023 | 1/7/2039 | 15-year |
| 26/04/2023 | 1/5/2028 | 5-year |
| 29/05/2023 | 1/11/2026 | 5-year |
| 27/06/2023 | 1/9/2033 | 10-year |
| 27/07/2023 | 1/8/2028 | 5-year |
| 29/08/2023 | 1/11/2025 | 2-year |
| 27/09/2023 | 1/10/2051 | 30-year |

Source: Bloomberg, January 2023.

Turning to the SGD corporate bond market, it should be noted that the universe is of relatively high quality, being dominated by statutory boards, Temasek-linked companies and other blue chip and highly creditworthy issuers. Investment in SGD corporate bonds allows for additional yield pickup while maintaining sound credit quality amid an overall attractive yield environment.

Note 3: Source is Bloomberg as of 1 February 2023.
Source: Bloomberg, Monetary Authority of Singapore, HSBC Asset Management, February 2023.

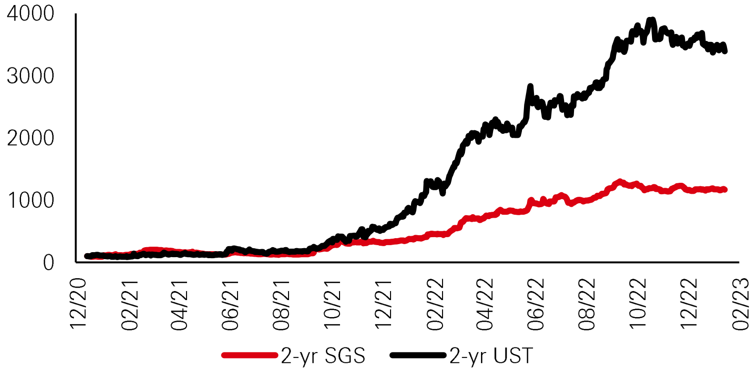
## How have SGD bonds performed in the recent challenging landscape?

SGD bonds tend to be less volatile than USD bonds of similar credit rating and duration, providing valuable defensive qualities in challenging environments. This can be explained by the greater proportion of SGD investors (both institutional and retail) who hold their bonds to maturity; on the other hand, there are more opportunistic investors in the USD bond market due to its more liquid nature.

To illustrate this concept, the yield for 2-year Singapore government bonds has been significantly less volatile than that of the equivalent US Treasury (UST) bond during the recent period of rising interest rates (Fig. 5).

**Fig. 5: Singapore government bonds have exhibited much lower volatility compared to US Treasuries since 2020**

Cumulative increase of bond yield, normalized at 100 on 31 December 2020




Source: Bloomberg, 1 February 2023.

## How is the HSBC GIF Singapore Dollar Income Bond fund positioned to benefit under current market conditions?

The HSBC GIF Singapore Dollar Income Bond fund is not a traditional, pure SGD bond product; rather, it has significant flexibility to invest in USD bonds for yield enhancement and/or tactical opportunities, resulting in a well-diversified, quality portfolio.

We are currently more constructive on Asia credit (USD corporate bonds), which saw spreads widen more than SGD credit in 2022; Asia credit provides a higher SGD-hedged yield than SGD corporate bonds. SGD corporate bonds tend to provide stability to the portfolio, while volatility in foreign currencies is expected to be mitigated via currency hedges into SGD.

In our positioning, we are holding a meaningful size of SGD denominated investment grade bonds. At the same time, as the portfolio diversifies into the Asia USD bond market, we have added bonds across different sectors in mainland China, including positions in investment grade property developers which are expected to be beneficiaries of support measures. We also like bank subordinated debt from Singapore and broader Asia Pacific region given their relatively defensive nature and attractive yields.

We have increased our allocation to high yield to participate in the market recovery from the trough formed in November 2022. We are seeing opportunities in the mainland China property sector with names being repriced higher given the better expectations for the sector in 2023; we continue, though, to remain selective in the sector as recovery in property sales still faces challenges. Other high yield exposure in Hong Kong unrated names stand to gain from border reopening between Hong Kong and mainland China. Macau leisure is also getting a boost with the removal of Macau entry restrictions for foreign arrivals, including Hong Kong visitors. Elsewhere, Indonesia cyclicals and commodities are expected to benefit from the improvement in ASEAN's domestic fundamentals. Additionally, we like India renewable energy, which has gained increased importance in the transition of Asia to a lower carbon future.

Finally, portfolio duration has been increased in a controlled fashion as the global monetary tightening cycle nears a mature phase and with the increasing likelihood of a pause or rate cut.

## Important information

This document does not constitute an offering document and should not be construed as a recommendation, an offer to sell or the solicitation of an offer to purchase or subscribe to any investment.

This advertisement has not been reviewed by the Monetary Authority of Singapore. This document is for information only and is not an investment recommendation, research, or advice. Any views and opinions expressed are subject to change without notice. It does not have regard to the specific investment objectives, financial situation, or needs of any specific person. Investors and potential investors should not invest in the Fund solely based on the information provided in this document and should read the prospectus (including the risk warnings) and the product highlights sheets, which are available upon request at HSBC Global Asset Management (Singapore) Limited ("AMSG") or our authorised distributors, before investing. You should seek advice from a financial adviser. Investment involves risk. Past performance of the managers and the funds, and any forecasts on the economy, stock or bond market, or economic trends that are targeted by the funds, are not indicative of future performance. The value of the units of the funds and income accruing to them, if any, may fall or rise and investor may not get back the original sum invested. Changes in rates of currency exchange may affect significantly the value of the investment. AMSG has based this document on information obtained from sources it reasonably believes to be reliable. However, AMSG does not warrant, guarantee or represent, expressly or by implication, the accuracy, validity or completeness of such information.

**HSBC Global Asset Management (Singapore) Limited**
10 Marina Boulevard, Marina Bay Financial Centre, Tower 2, #48-01, Singapore 018983
Telephone: (65) 6658 2900 Facsimile: (65) 6225 4324
Website: www.assetmanagement.hsbc.com.sg
Company Registration No. 198602036R