a simple guide to

Singapore Government Securities

DrWealth

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What are Singapore Government Securities (SGS)?

They are basically government bonds issued by Monetary Authority of Singapore (MAS) on behalf of the Singapore Government.

Singapore being a politically stable and economically healthy country, poses as an attractive investment avenue for both local and international investors.

The government issues bonds to investors and are known as Singapore Government Securities (SGS).

With good governance and proper budgeting, Singapore Government does not need to meet budget deficits by selling SGS. This was mentioned in Monetary of Singapore guide to SGS:

> *"In general, governments in most countries issue debt securities to raise funds needed to pay off maturing debt and finance their operations and development expenditure. However, since the Singapore Government conducts a prudent fiscal policy and has consistently run budget surpluses over the years, it does not need to borrow to finance its expenditure."*

Hence, the risk of Singapore Government defaulting the loan is much lower than countries who raise money through issuance of bonds. In fact, SGS bonds at this moment are rated AAA (*the highest rating available*) by S&P. All SGS bonds pay coupons semi-annually.

Current Bill Market Development

As of June 2012, the MAS has decided to do away with 3 month SGS issuances and issue 1 month and 3 month MAS bills instead.

The MAS bills are issued in the name of MAS and not the Government of Singapore. Retail investors cannot participate in the auctions as these bills are used as monetary management tools and as such, are available to the wholesale market instead.

SGS bills will be limited to 6 months and 1 year. The 6 month SGS treasury bills will be issued fortnightly and made available to the public through the ATM networks and banking counters.

There are 2 Types of SGS Offered:

- Treasury Bills (< 1 year to maturity) – They can have a maturity of 3, 6 or 12 months.
- Treasury Bonds (> 1 year to maturity) – They can have a maturity of 2, 5, 10, 15, 20 or 30 years.

5 Quick Facts About Singapore Government Securities

Fact #1 — Everyone can buy them. Yes. It is a constitutional right. Do not let the bankers tell you otherwise.

Fact #2 — They are available on auction days with a newspaper announcement preceding, usually in the Finance section of the papers. I am not sure if these announcements appear in all the major language papers but I must say I certainly have not seen them in Today or The New Paper. Update: for the latest, refer to MAS' issuance calendar instead.

Fact #3 — The buying process is pretty much like an IPO application through the ATM. You can also approach banking counters of primary dealer banks to apply for the securities and/or, sell your securities.

Fact #4 — The Central Provident Fund (CPF) does not buy SGS, although the return on your savings is pegged to the higher of 2.5% or the average yield of the 10Y bond. The Ministry of Finance issues special bonds to the CPF for them to deliver returns to the citizens. And I admit I do not know why 2.5% is the magic number, although it may be linked to their target core inflation rate for the country at 2-2.5%.

Fact #5 — SGS is NOT the same as the Singapore Savings Bonds although SSB pegs its interest rate to SGS. To find out the difference, you can read our guide over here: Singapore Savings Bonds: Your Complete Guide

How Safe is Singapore Government Securities?

Singapore maintains it AAA Credit Rating, when even the largest economy in the world US credit rating slipped to AA+ due to the debt limit standoff.

The AAA credit rating is basically the top rating for debt in the world. It means that they are safest borrowers in the world and lenders should feel comfortable lending to them.

It also means that Singapore government will be able to borrow at very low rates as compared to other governments.

According to Moody's, Singapore gets the top rating due to 3 main reasons.

1. Strong Fiscal Position

The fiscal strength of Singapore is basically supported by prudent policies and the large size of the government assets. Singapore also consistently generates a budget surplus. Singapore continued to enjoy a budget surplus until 2020 when the Covid pandemic hit.

The fact that Singapore has a fully funded compulsory pension system, i.e. the CPF, means less strain on the government. The CPF system where everybody is responsible for themselves also helps to mitigate the problems associated with an aging population.

2. Low Debt

With the huge size of government assets and large budget surplus, Singapore government does not actually need to borrow from external creditors. The primary reason for debt issuance by the government is to set a benchmark for corporate debt issuers, as well as encourage the development of fixed income skill set in Singapore.

3. Positive Growth Outlook

As of September 2021, the Ministry of Trade and Industry has estimated the growth forecast for Singapore to between 6-7%.

How to Buy Singapore Government Bonds?

You can buy the bonds either through primary or secondary markets. We will cover each of the markets.

1. Primary Market

This is done through an auction system. Anyone can participate in SGS auctions, but all bids must be submitted through any one of the SGS Primary Dealers.

Retail investors rarely invest in SGS through the Primary market as Primary Dealers would only entertain big bidders like funds and companies.

But you can still submit your bids through the ATM machines like how you subscribe for IPOs. Successful bids will be deposited in your CDP account and you will be notified by CDP. The Primary Dealers with SGS are:

- Bank of America
- Barclays Bank
- Citibank
- Credit Suisse First Boston
- Deutsche Bank
- DBS Bank
- HSBC
- OCBC
- RBS
- Standard Chartered
- UOB

2. Secondary Market

From 8 July 2011, SGS bonds are listed on the Singapore Exchange (SGX), allowing retail investors to buy and sell SGS bonds, the way you do with stocks. Moreover, the SGS bonds you purchased will be stored with CDP.

Of course, trading SGS bonds on SGX would incur the usual transaction and brokerage costs. You can take a look at the available SGS bonds traded on SGX here.

Besides cash, investors can use the Central Provident Fund (CPF) Ordinary and Special Accounts to purchase SGS bonds, but not Treasury bills. Like investment in stocks and funds, a CPF Investment Scheme (CPFIS) account is needed to buy/sell the bonds with CPF monies.

How Read Singapore Government Bond Names?

NA12100N 420401 10

This is not some product serial code or a WWII encrypted message. This is the SGS bond name which appeared on SGX website.

What does it even mean?

I believed it wasn't some random alphanumeric code that was generated by MAS so I dropped a mail to them and the staff was efficient in getting back to me.

Let's break the name into 3 parts.

The left set = NA12100N. The middle set = 420401. The right set = 10.

The Left Set

The table below is the Code Breaker.

<table>
<tr><th>N</th><th>A</th><th>12</th><th>100</th><th>N</th></tr>
<tr><td>N means that this security is a SGS Bond.</td><td>A refers to the original maturity of the security, in this case 30 years.</td><td>12 refers to the year the security was issued, in this case 2012.</td><td>100 means that this was the first 30-year security issued in the year 2012.</td><td>The last alphabet is analogous to the last alphabet of the NRIC, and serves a similar function. This letter is used to validate the issue code.</td></tr>
<tr><td>Additional information: B means the security is a SGS Treasury Bill.</td><td colspan="4">The following explains what other alphabets/numbers stand for, in the case of SGS bonds:
– Z: original maturity of 20 years
– Y: original maturity of 15 years
– X: original maturity of 10 years
– 7: original maturity of 7 years
– 2: original maturity of 2 years</td></tr>
<tr><td></td><td colspan="4">For SGS Treasury bills:
– S: original maturity of 6 months
– Y: original maturity of 1 year</td></tr>
</table>

MAS said that the other two sets of numbers were not in their records. I suspected it was SGX who tagged them for easy reference.

The Middle Set

The middle set of numbers shows the maturity date of the bond in this sequence, YYMMDD. In our example, the middle set is 420401, and it means this bond matures in 1st Apr 2042.

The Right Set

So far, the right set has always been 10. I have not seen other numbers for SGS bonds. This means that 1 standard 'lot' size is 10 bonds. So a $100 bond will require a minimum investment of 10 x $100 = $1,000.

Selecting a Treasury Bill/Bond in the Secondary Market

The first thing to look at is the **years to maturity** of the SGS. The longer the years to maturity, the higher the yield the SGS has. If you want to hold till maturity, the SGS that you buy must mature within your investment horizon. If you expect bond prices to increase, you may not be restricted by it as you would sell it before it matures.

The second key is to look at the **yield to maturity** – this is the actual interest that you will be gaining each year, based on the price of the SGS you paid. You must understand that bond price changes while its coupon rate remain constant.

For example, a bond is first issued at $1000 with a coupon rate of 1%. Overtime, the bond price became cheaper to $950 while coupon rate remains at 1%. You actually get a discount if you buy it now. Your yield to maturity (per annum) is 1.05% (1000/950 x 1%). Hence, by looking at yield to maturity, you can tell whether your investment is bang for bucks.

Bonds should be a part of a portfolio and not be invested alone.

Frequently Asked Questions

1. Why do Bond Prices differ between SGS Website and SGX?

The price quoted on SGS website is the "clean price". The price quoted on SGX is the "dirty price".

Dirty Price consists of Clean Price + Accrued Interest.

Dirty price is a fair price because someone who has held the bond for 5 months should be compensated for part of the interest that is going to be given out in the 6th month.

2. How to buy SGS Bond using SRS Money?

You need to link your SRS account with your broker. Then, you can indicate on the broker platform to deduct the money from SRS account when you buy the bonds.

3. "I would also like to know whether it is advisable for Seniors like me over 70 Years of Age to take part in Investments as Our Life Expectancy is very Unpredictable"

Bonds are unfamiliar territory for many investors and people tend to shun the unknown. I admire your willingness to learn and embrace the unknown.

You're right to point out that investing strategies for someone over 70 would be very different from someone in his 20s. Seniors would do well by taking lesser risk and opting for more stable returns. A general rule of thumb that many financial advisors recommend is to balance your portfolio by keeping your age's worth of percentage in bonds (less risky asset) and the rest in stocks (more risky). Eg. for your case now, majority (70%) of your investments should be in bonds.

Having said that, trading and investing is really very personal. Do you require the income stream? Are your mortgages paid up? Do you have cash stashed away and enjoy stock picking as a retirement activity? What is your risk appetite?

All these and much more are questions that only yourself can answer!

Quick Conclusion

We hope you find this guide informative and useful. The SGS's interest rate is not high. No doubt. But you should not simply ignore it consequently as it provides the certainty you would not find in asset normal investments like stocks — something which individuals who dislike risk find it desirable.

You can read more about bonds:

- Singapore Government Securities
- Singapore Savings Bonds
- Singapore Retail Bonds
- Retail Bonds can provide safe yields during this crisis