Economics

DBS Focus

SGD Rates: The SSB swing factor

Group Research

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- Total SSBs outstanding may be small relative to deposits. But they can act as a swing player for intra-system liquidity
- We offer three ways to gauge SSB demand – absolute & relative attractiveness and the stickiness of SSB holders
- Our analysis suggests that demand for SSBs will be robust over the coming year unless alternatives become more competitive

Rates: Gauging SSB demand

The impact of Singapore Savings bonds (SSBs) on liquidity between the different players in the SGD system should not be underestimated. First introduced in 2015, SSBs provide individuals with a safe and flexible way to save for the long term (see factsheet here). At first glance, the total amount of SSBs outstanding is small (SGD 4bn) compared to SGD deposits (SGD 615bn). However, there already is some impact on bank funding. Below, we put forth three ways to view SSB demand and estimate how much of a drain this could have by the end of the year.

Two regression models highlight the key factors driving demand for SSBs. **Model 1 (see table below) captures the absolute attractiveness of SSBs** – the level of short-term SSB yield (1Y) and the slope steepness (1Y/10Y). Intuitively, the higher the 1Y yield is, the more attractive that issue will be. Similarly, if the step-up yield is high enough to compensate for prolonged spending deferment (>1Y), another group of investors would be drawn in. Assuming constant-to-modestly higher levels of 1Y yields (around 2%), we should reasonably expect SSB demand to be around SGD 300mn per month (a back of the envelope calculation would be the average subscription from November to January).

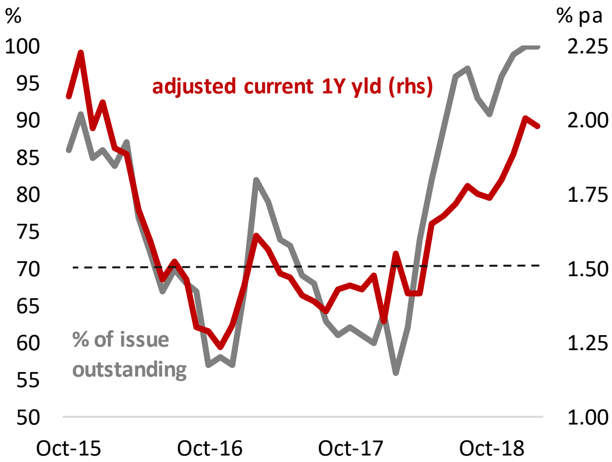
Model 1 Dependent Variable: Application Amt Method: Least Squares Sample (adjusted): 2015M12 2019M03		
	Coefficient	Prob.
C	-343.50	0.01
1Y YLD	213.23	0.01
1Y/10Y Spread	69.62	0.03
Application Amt (-1)	1.18	0.00
Application Amt (-2)	-0.62	0.00
R-squared	0.85	
Adjusted R-squared	0.83	
Durbin-Watson stat	1.74	

Model 2 considers the relative attractiveness of SSBs compared to deposits – 1Y SSB yield less the 1Y fixed deposit rate. If individuals are rational, they should be indifferent between the two products. Therefore, if the gap between the two is positive and large, we would expect more flows into SSBs as the model suggests. Note that this gap between 1Y SSB yield and the 1Y deposit rate has narrowed significantly in recent months, Anecdotal evidence also suggests that several banks have dangled attractive rates to maintain the attractiveness of deposits. From residents' deposit data, we can also see the impact of SSBs on the mix of fixed deposits to savings deposits. Notably, the ratio has climbed to 0.77 in December 2018, from 0.71 a year before.

Model 2		
Dependent Variable: Application Amt		
Method: Least Squares		
Sample (adjusted): 2015M12 2019M01		
	Coefficient	Prob.
C	-117.64	0.01
1Y Yld less 1Y Dep Rate	204.30	0.00
Application Amt (-1)	1.12	0.00
Application Amt (-2)	-0.40	0.00
R-squared	0.89	
Adjusted R-squared	0.88	
Durbin-Watson stat	2.00	

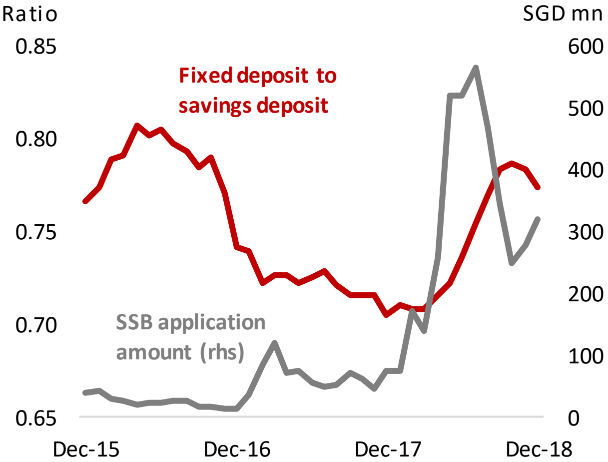
Lastly, we consider the possibility that investors in SSBs are not locked in and will take full advantage if newer issues offer better yields. We parse through data and adjust each SSB issue to the current 1Y yield. For example, a bond issued on February 2017 would have had two years' worth of step up and a much higher current 1Y yield. We plot these adjusted yields to the percentage of outstanding for each issuance. The results are telling. Outstanding issuances are much "stickier" when the 1Y yield is high (above 1.75%). If 1Y yields hold above 1.75% as we expect, individuals are likely to hold on to the upcoming SSB issuances this year.

Holders turn sticky when current yield is close to 2%



Source: Bloomberg, CEIC, DBS, MAS

Fixed deposits are rising relative to savings deposits



Source: Bloomberg, CEIC, DBS, MAS

The upshot is that demand for SSBs is likely to stay strong given elevated 1Y yields and the total amount issued for 2019 could come close to the SGD 2.5bn issued in 2018. Much will depend on how banks react to this competition.

*This paper is the first step towards understanding SSB demand and we acknowledge the limitations of the models used. Other factors that can be considered include equity market performance and the possibility that SSB demand may be saturated at some point.

Sources: Bloomberg, DBS Group Research, MAS,

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Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations).