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INFORMATION FOR INVESTORS APPLYING FOR REOPENED SGS BONDS

Current Market Conditions and Their Impact on the Prices of SGS Bonds

1. Since 2011, the prices of SGS bonds in the secondary market have risen due to increased demand among investors for safe assets. As a result, the auction cut-off prices of reopened SGS bonds have risen to reflect their current market values. Given these trends, this note highlights the pricing implications and application process for reopened SGS bonds.

Reopened Bonds and the Secondary Market

2. The reopening of an SGS bond refers to the issuance of an additional amount of an existing bond partway through its tenor. Unlike new issuances, a reopened bond retains the existing bond's maturity date and coupon rate. The auction result of a reopened bond is therefore influenced by the existing bond's market price in the secondary market, which takes into account capital gains and accrued interest.

3. Bond prices and yields move in opposite directions. Intuitively, if you bought your bond when yields were at 2%, a rise in yields to 3% would mean that price of your bond would decline. This is because investors would be able to buy new bonds that offer a higher yield (i.e. 3%). Therefore, if you sought to sell the bond at this time, you would only be able to sell it at a lower price than what you paid for it. On the other hand, if yields fell (e.g. from 2% to 1%), investors would find your bond attractive relative to new bonds with lower yields. Therefore, the price of your bond would rise.

4. For example, NY07100X was first issued in September 2007 as a 15-year bond with a coupon of 3.125%. When the bond was re-opened as a 10-year SGS benchmark in June 2012, the auction cut-off yield was 1.60%, suggesting that successful investors were willing to pay approximately S\$115.298 per S\$100 nominal value for the bond.

Bidding Process for Reopened Bonds

5. Investors should therefore take note of two key differences between new issuances and reopened bonds:

- a. **Firstly, the rate entered in bid applications for a reopened bond refers to the bond's yield-to-maturity.** Yield-to-maturity combines the coupon income of a bond and the capital gain or loss from holding the bond to maturity. So even though an investor would enjoy the coupon rate as stated for a reopened bond, the price paid for the reopened bond would be determined by the auction results, which could be higher or lower than the nominal value of the bond.
- b. **Secondly, individual investors bidding for reopened bonds will have 115% of their bid amounts deducted from their bank accounts upon application to take into account capital gains and accrued interest, since the market price of the reopened bond is only known after**

the auction. If their bids are successful and the cut-off price for the reopened bond is lower (or higher) than 115% of the bid amount, the difference will be credited to (or debited from) their bank account.

Illustrative Example

- i. NY07100X was first issued in September 2007 as a 15-year bond with a coupon of 1.60%. This bond was re-opened as a 10-year SGS bond in June 2012 at a cut-off price of S\$115.298 per S\$100 nominal value.
- ii. If an individual investor submitted a bid for S\$10,000 in nominal value of this SGS bond, the system would deduct S\$11,500 from his bank account.
- iii. Should his bid be successful, an additional S\$29.80 would be deducted from the investor's bank account after the auction since the cut-off price of his application is higher than S\$11,500 deducted earlier.
- iv. The calculation of the application is illustrated in the table below:

Amount debited at ATM	S\$10,000 x 115% = S\$11,500.00
Purchase price determined at the auction	S\$10,000 x 115.298% = S\$11,529.80
Additional amount to be debited	S\$11,529.80 - S\$11,500.00 = S\$29.80

Investors should ensure that there is enough money in their accounts to factor in the possibility of such additional deductions.

Other Useful Information

6. The SGS website contains resources that would be helpful to individual investors. These include:
 - a. A FAQ that explains the relationship between bond prices and their yields:
http://www.sgs.gov.sg/pub_guide/faqs/publ_faqindinvestors.html
 - b. A Bond Calculator that illustrates the price-yield relationship:
<https://secure.sgs.gov.sg/calculator/bond.aspx>
 - c. Daily and historical prices of all SGS bonds:
 - i. <https://secure.sgs.gov.sg/fdanet/SgsBenchmarkIssuePrices.aspx>
 - ii. <https://secure.sgs.gov.sg/fdanet/BenchmarkPricesAndYields.aspx>