



Singapore Banking Monthly

Volume and margins still rising

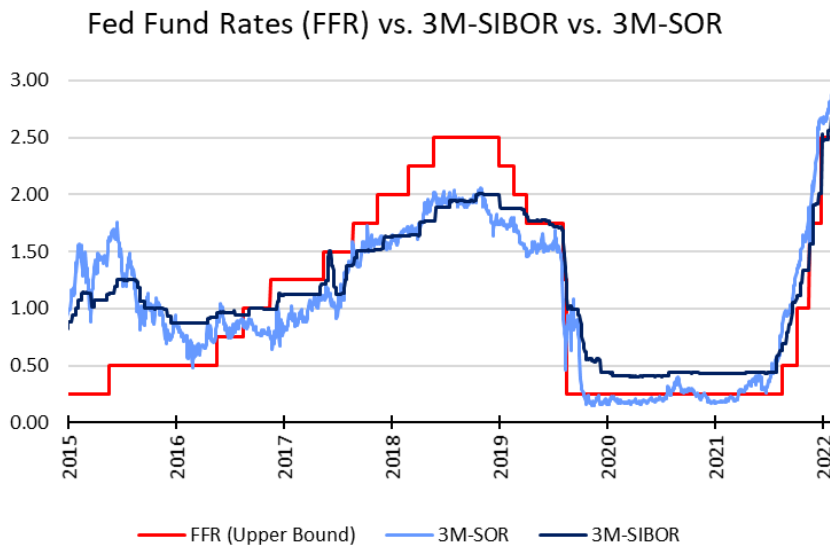
SINGAPORE | BANKING & FINANCE | UPDATE

- August 3M-SIBOR was up by 25bps MoM to 2.72%, the highest in over a decade. Loans growth in Singapore rose 6% YoY in July.
- Singapore domestic loans grew 6.3% YoY in July, tracking our estimates, while Hong Kong's domestic loans declined 0.08% YoY and 0.42% MoM in July.
- Maintain OVERWEIGHT.** We remain positive on banks. Bank dividend yields are attractive at 5% with upside surprise due to excess capital ratios. Stable economic conditions and rising interest rates remain tailwinds for the banking sector. SGX is another beneficiary of higher interest rates. Pressure points for the banks will be higher staff costs and a nudge in general provisioning due to weaker economic assumptions.

3M-SOR and 3M-SIBOR continue to climb in August

Interest rates continued to increase in August. The 3M-SOR was up 25bps MoM to 2.72%, while the 3M-SIBOR was up 51bps MoM to 2.53%. It is the highest interest rates have been in over a decade. The 3M-SOR is 128bps higher than its 2Q22 average of 1.44% and has improved by 254bps YoY. The 3M-SIBOR is 131bps higher than its 2Q22 average of 1.22% and has improved by 210bps YoY (Figure 1).

Figure 1: Interest rates reach new highs in August



Source: Bloomberg, PSR

7 September 2022

Overweight (Maintained)

DBS Group Holdings

BUY (Maintained)

BLOOMBERG CODE	DBS SP
LAST TRADED PRICE	SGD 32.17
FORECAST DIV	SGD 1.44
TARGET PRICE	SGD 41.60
DIVIDEND YIELD	4.48%
TOTAL RETURN	33.79%

Overseas-Chinese Banking Corp

BUY (Maintained)

BLOOMBERG CODE	OCBC SP
LAST TRADED PRICE	SGD 11.98
FORECAST DIV	SGD 0.66
TARGET PRICE	SGD 14.22
DIVIDEND YIELD	5.51%
TOTAL RETURN	24.21%

United Overseas Bank Limited

BUY (Maintained)

BLOOMBERG CODE	UOB SP
LAST TRADED PRICE	SGD 26.86
FORECAST DIV	SGD 1.37
TARGET PRICE	SGD 35.70
DIVIDEND YIELD	5.10%
TOTAL RETURN	38.01%

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List of Abbreviations:

NIM – Net Interest Margin

SIBOR – Singapore Interbank Offer Rate

SOR – Swap Offer Rate

HIBOR – Hong Kong Interbank Offer Rate

DDAV – Derivatives Daily Average Volume

SDAV – Securities Daily Average Value

Singapore loans growth tracking forecast

Overall loans to Singapore residents – which captures lending in all currencies to residents in Singapore – rose by 6.3% YoY in July to S\$838bn, tracking our estimate of mid-single digit growth for 2022 as economies in ASEAN begin to recover from the pandemic lockdowns and borders start to reopen.

Business loans grew by 7.3% YoY in July, even though business loans dipped by 0.6% for the month. Loans to the building and construction segment, the single largest business segment grew 6.3% YoY to S\$173.8bn, while loans to the manufacturing segment grew 10.3% YoY in July to S\$27.6bn.

Consumer loans were up 4.6% YoY in July to S\$315.3bn, aided by strong loan demand in the housing segment. Housing loans, which make up ~70% of consumer lending, grew 5.7% YoY in July to S\$220.5bn for the month.

Total deposits and balances – which capture deposits in all currencies to non-bank customers – grew by 10.8% YoY in July to S\$1,695bn. Current Account and Savings Account (“CASA”) proportion remained stable at 22.6% of total deposits or S\$383.5bn.

Hong Kong loans growth stabilises in July

Hong Kong’s domestic loans growth declined 0.08% YoY and 0.42% MoM in July. The YoY decline in loans growth for July was an improvement from the decline of 2.34% in June, while the MoM loans growth decline of 0.42% was 25bps higher than June’s loans growth decline of 0.17%.

Figure 3: Hong Kong loans growth stabilises in July



Source: CEIC, PSR

Figure 2: YTD Singapore loans growth

2022	Loans growth (MoM)
July	-0.43%
June	0.22%
May	-0.25%
April	1.44%
March	0.05%
February	0.83%
January	1.48%

Source: CEIC, PSR

Volatility fell as market sentiment remains subdued

Preliminary SDAV for August dipped 12% YoY to \$1,083mn (Figure 4), as market sentiment remained subdued due to macroeconomic factors. The VIX averaged 22.2 in August, down from 25.0 in the previous month.

The top five equity index futures turnover saw a dip of 4.2% YoY in August to 13.71mn contracts (Figure 5), mainly due to the lower trading volumes of its FTSE China A50 Index Futures and FTSE Taiwan Index Futures. Notably, the MSCI Singapore Index Futures grew 6.9% MoM to 1.21mn and the FTSE Taiwan Index Futures dipped 15.3% MoM to 1.21mn.

Figure 4: YTD SDAV and DDAV

	SDAV (\$mn)	YoY	DDAV (mn)	YoY
August	1,083	-12%	-	-
July	886	-25%	0.99	+4%
June	1,141	-5%	1.10	+24%
May	1,487	-6%	1.13	+19%
April	1,257	-1%	1.09	+25%
March	1,536	-6%	1.17	+13%
February	1,625	+20%	1.06	0%
January	1,194	-20%	1.02	+2%

Source: SGX, Bloomberg, PSR

Figure 5: Turnover of top five equity index futures contracts down YoY

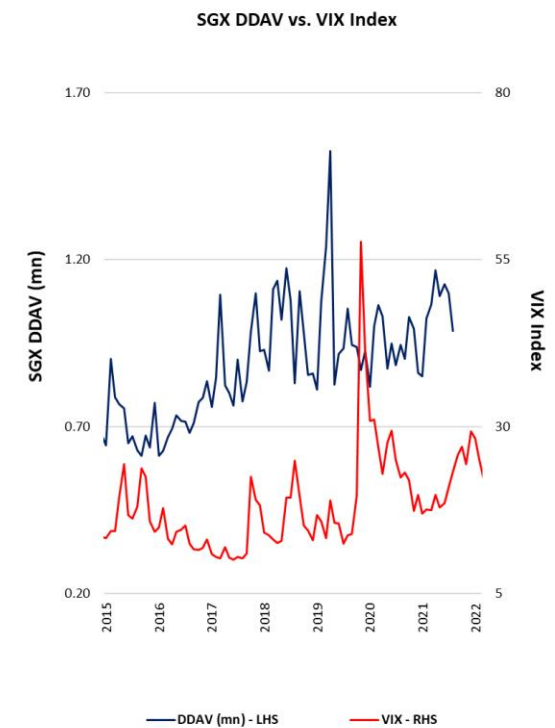
No. of contracts	Aug-21	Aug-22	YoY
FTSE China A50 Index Futures	8,905,288	7,996,925	-10.2%
Nifty 50 Index Futures	1,961,328	2,244,472	+14.4%
Nikkei 225 Index Futures	898,793	1,054,028	+17.3%
MSCI Singapore Index Futures	1,117,858	1,205,388	+7.8%
FTSE Taiwan Index Futures	1,430,433	1,212,156	-15.3%
Sub-total	14,313,700	13,712,969	-4.2%

Source: SGX, Bloomberg, PSR

Investment Action

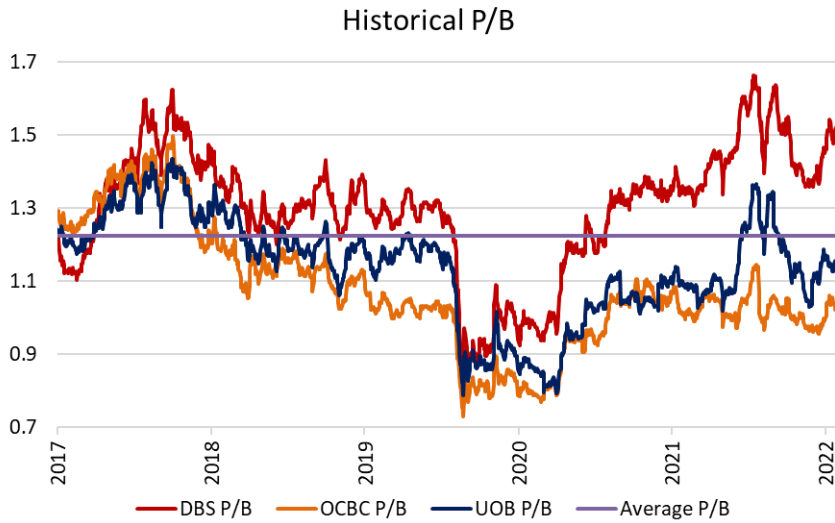
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Figure 6: Correlation of DDAV and VIX Index



Source: SGX, Bloomberg, PSR

Figure 7: Banks' 5-year historical P/B



Source: Bloomberg, PSR

Figure 8: Banks' target P/B

	DBS	OCBC	UOB
High	1.62	1.50	1.43
Low	0.81	0.73	0.79
5-year average	1.17	1.09	1.12
Current	1.34	1.02	0.97
Forward target	1.36	1.27	1.17
TP (S\$)	41.60	14.22	35.70

Source: Bloomberg, PSR

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