

Singapore Banking Monthly

Interest rates continue to rise in June

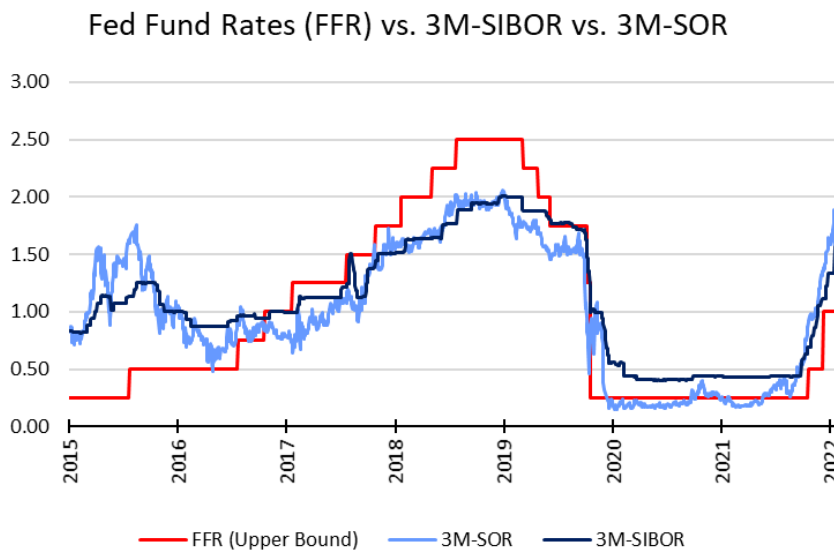
SINGAPORE | BANKING & FINANCE | UPDATE

- June 3M-SIBOR was up by 28bps MoM, the highest since Feb 2020.
- SGX's 1H22 top five equity index futures turnover was up 13.9% YoY. We estimate SGX securities and derivatives volumes from 1H22 was down 3% and up 14% YoY respectively.
- Maintain OVERWEIGHT.** We remain positive on banks. Bank dividend yields are attractive 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 cost and nudge in general provisioning due to weaker economic assumptions.

3M-SOR and 3M-SIBOR up in June

Interest rates continued to increase in June. The 3M-SOR was up 33bps MoM to 1.80%, while the 3M-SIBOR was up 28bps MoM to 1.49%. It is the highest interest rates have been since Feb 2020. The 3M-SOR is 36bps higher than its 2Q22 average of 1.44% and has improved by 156bps YoY. The 3M-SIBOR is 27bps higher than its 2Q22 average of 1.22% and has improved by 106bps YoY (Figure 1).

Figure 1: Interest rates continue to climb in June



Source: Bloomberg, PSR



StocksBnB.com

4 July 2022

Overweight (Maintained)

DBS Group Holdings

BUY (Maintained)

BLOOMBERG CODE	DBS SP
LAST TRADED PRICE	SGD 29.49
FORECAST DIV	SGD 1.44
TARGET PRICE	SGD 41.60
DIVIDEND YIELD	4.88%
TOTAL RETURN	45.95%

Oversea-Chinese Banking Corp

BUY (Maintained)

BLOOMBERG CODE	OCBC SP
LAST TRADED PRICE	SGD 11.30
FORECAST DIV	SGD 0.66
TARGET PRICE	SGD 14.22
DIVIDEND YIELD	5.84%
TOTAL RETURN	31.68%

United Overseas Bank Limited

BUY (Maintained)

BLOOMBERG CODE	UOB SP
LAST TRADED PRICE	SGD 26.15
FORECAST DIV	SGD 1.37
TARGET PRICE	SGD 35.70
DIVIDEND YIELD	5.24%
TOTAL RETURN	41.76%

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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

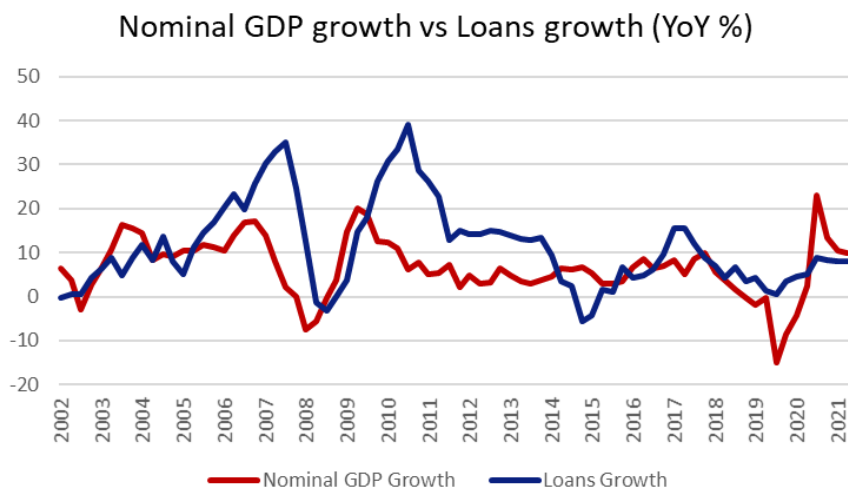
DDAV – Derivatives Daily Average Volume

SDAV – Securities Daily Average Value

Loans growth on par with nominal GDP growth

Loans growth over the past two years was a CAGR of 7.5% is on par with the two-year CAGR of nominal GDP at 7.5%. This is unlike the 2008 global financial crisis (GFC) provisioning cycle, when loans growth was outpacing nominal GDP growth. The two-year CAGR of loans at 25.3% compared to nominal GDP at 20.9%. We believe it is indicative of excessive lending by the banks. In the 2016 (oil and gas) provisioning cycle, loans growth also exceeded nominal GDP growth, with the two-year CAGR of loans at 1.99% compared to nominal GDP at -1.15%.

Figure 2: Loans growth on par with nominal GDP growth



Source: CEIC, PSR

Hong Kong loans growth maintained while Malaysia's loans growth stable in May

Hong Kong’s domestic loans growth was 1.78% YoY and 0.46% MoM in May. The MoM uptick in loans growth for May was the highest since Jan 2022 and the YoY loans growth was up 5bps from April’s loans growth of 1.73%.

Malaysia’s domestic loans growth was 4.99% YoY and 0.28% MoM in May. The increase YoY in May was the highest since Mar 2019 and an increase of 1bps from April’s loans growth of 4.98%, while the increase MoM was a decline of 13bps from April’s loans growth of 0.41%.

Figure 3: Hong Kong loans growth maintains in May



Source: CEIC, PSR

Figure 4: Malaysia loans growth stable in May



Source: CEIC, PSR

Volatility fell as community cases begin to fall

Preliminary SDAV for June dipped 5% YoY to \$1,141mn (Figure 5), as community COVID-19 cases began to fall gradually. The VIX averaged 28.3 in June, down from 29.3 in the previous month.

The top five equity index futures turnover saw an increase of 25.0% YoY in June to 16.66mn contracts (Figure 6), mainly due to the higher trading volumes of its Nikkei 225 Index Futures and Nifty 50 Index Futures. Notably, the FTSE China A50 Index Futures increased 9.4% MoM to 9.43mn and the Nikkei 225 Index Futures increased 52.4% MoM to 1.75mn, while the Nifty 50 Index Futures fell 7.6% MoM to 2.67mn.

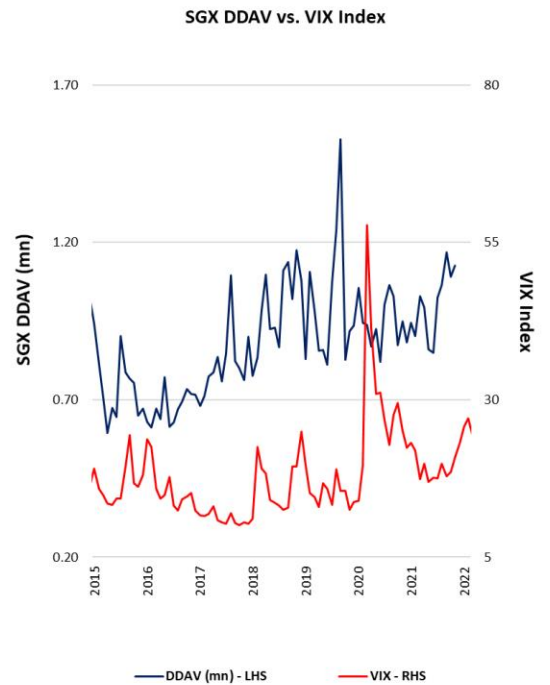
For 1H22, the top five equity index futures turnover saw an increase of 13.9% YoY to a total of 93.8mn contracts (Figure 7). This was mainly due to an increase in trading volumes of its Nifty 50 Index Futures and FTSE China A50 Index Futures.

Figure 5: YTD SDAV and DDAV

	SDAV (\$mn)	YoY	DDAV (mn)	YoY
June	1,141	-5%	-	-
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%
December	834	-25%	0.85	+4%
November	1,318	-24%	0.86	-7%

Source: SGX, Bloomberg, PSR

Figure 8: Correlation of DDAV and VIX Index



Source: SGX, Bloomberg, PSR

Figure 6: Turnover of top five equity index futures contracts were up YoY

No. of contracts	Jun-21	Jun-22	YoY
FTSE China A50 Index Futures	7,863,401	9,425,115	+19.9%
Nifty 50 Index Futures	1,887,457	2,672,987	+41.6%
Nikkei 225 Index Futures	1,181,275	1,749,208	+48.1%
FTSE Taiwan Index Futures	1,345,803	1,559,227	+15.9%
MSCI Singapore Index Futures	1,050,194	1,255,066	+19.5%
Sub-total	13,328,130	16,661,603	+25.0%

Source: SGX, Bloomberg, PSR

Figure 7: Turnover of top five equity index futures contracts up YoY

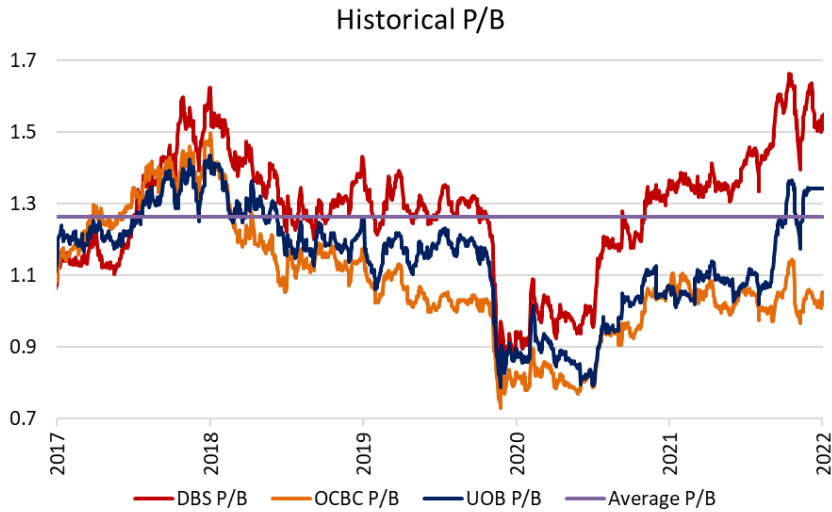
No. of contracts	1H21	1H22	YoY (+/-)
FTSE China A50 Index Futures	46,977,212	54,012,130	+15.0%
Nifty 50 Index Futures	12,350,956	15,633,222	+26.6%
Nikkei 225 Index Futures	7,226,287	7,828,613	+8.3%
FTSE Taiwan Index Futures	9,591,558	9,301,422	-3.02%
MSCI Singapore Index Futures	6,204,189	6,995,868	+12.8%
Sub-total	82,350,202	93,771,255	+13.9%

Source: SGX, Bloomberg, PSR

Investment Action

Maintain OVERWEIGHT. We remain positive on banks. Bank dividend yields are attractive 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.

Figure 9: Banks' 5-year historical P/B



Source: Bloomberg, PSR

Figure 10: 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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