Is it worth investing in Singapore Treasury Bills (T-Bills) in 2022?

Description

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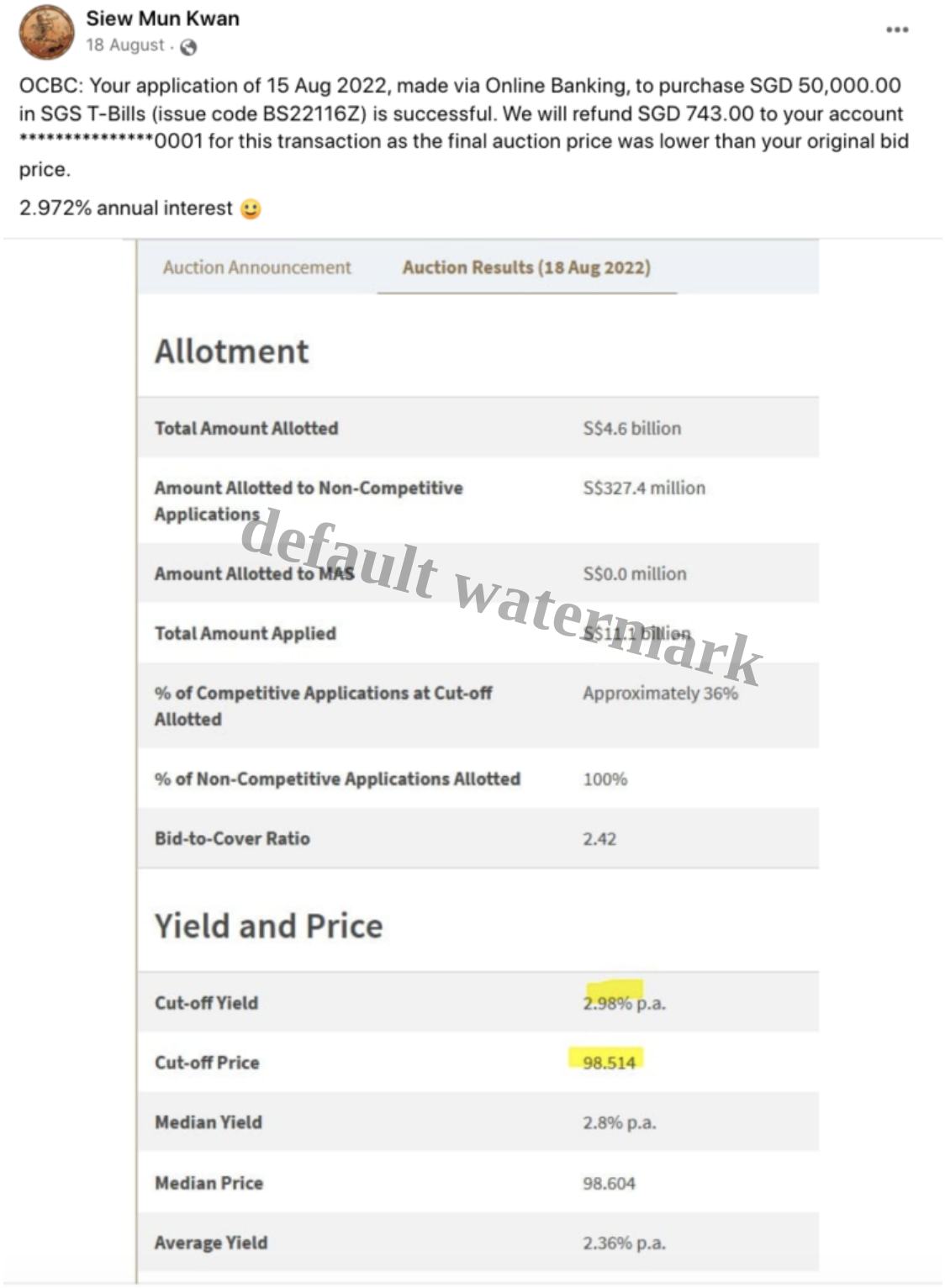
So it seems like everyone around you has been talking about SGS Bonds and T-bills lately. What are they, and should you follow the crowd who have invested their savings into it? Hereâ??s what you need to know before you make any move.

With the latest MAS T-bills cut-off yield at 3.32% p.a., Singaporeâ??s financial scene has been buzzing with talk of it, even among non-investors and folks who have never bought bonds before.

And with rates this high, it is no surprise that almost everyone seems to be excited over the latest **T-Bills, where yields have gone up from 0.61% in January to 3.32% p.a.** for the latest auctions in September.



Siew Mun Kwan
18 August ·

OCBC: Your application of 15 Aug 2022, made via Online Banking, to purchase SGD 50,000.00 in SGS T-Bills (issue code BS22116Z) is successful. We will refund SGD 743.00 to your account **********0001 for this transaction as the final auction price was lower than your original bid price.

2.972% annual interest 😀

Auction Announcement | **Auction Results (18 Aug 2022)**

Allotment

Total Amount Allotted	S$4.6 billion
Amount Allotted to Non-Competitive Applications	S$327.4 million
Amount Allotted to MAS	S$0.0 million
Total Amount Applied	S$11.1 billion
% of Competitive Applications at Cut-off Allotted	Approximately 36%
% of Non-Competitive Applications Allotted	100%
Bid-to-Cover Ratio	2.42

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Yield and Price

Cut-off Yield	2.98% p.a.
Cut-off Price	98.514
Median Yield	2.8% p.a.
Median Price	98.604
Average Yield	2.36% p.a.

Screenshot from a public sharing. Image credits: Siew Mun Kwan.

Yield and Price	MAS T-bills Auction Results 15 Sept 2022
Cut-off Yield	3.32% p.a.
Cut-off Price	98.345
Median Yield	3% p.a.
Median Price	98.504
Average Yield	2.76% p.a.
Average Price	98.624

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Source: MAS 15 Sept issuance

Yield and Price	MAS T-bills Auction Results 29 Sept 2022
Cut-off Yield	3.32% p.a.
Cut-off Price	98.345
Median Yield	3.17% p.a.
Median Price	98.419
Average Yield	2.85% p.a.
Average Price	98.579

Source: MAS 29 Sept issuance

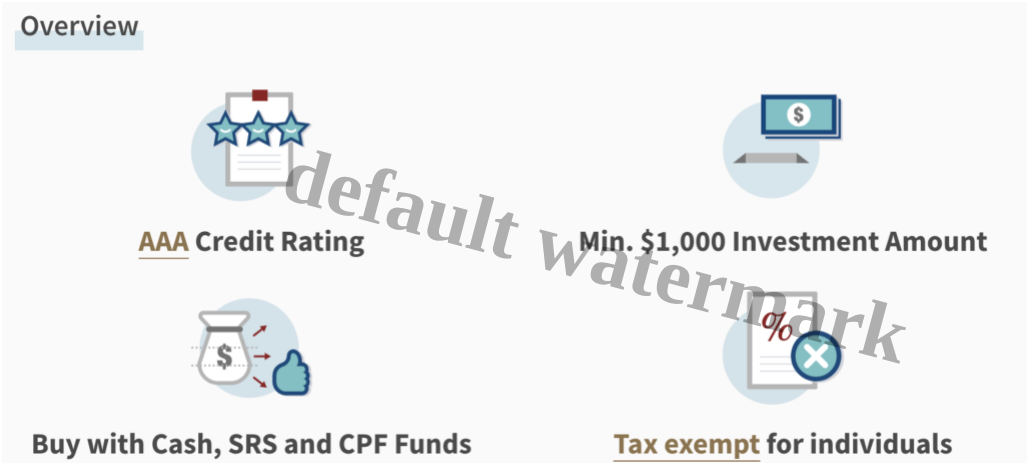
At these rates, even the most competitive fixed deposit look like a weaker offering in contrast, especially with a longer lock-up period too. For instance, the highest rate now is 2.8% p.a. offered by RHB Bank for a minimum $20k placement for 24 months, whereas Hong Leong is offering 2.75% p.a.

on a deposit of at least $50k for a year.

And as it is, the local fixed deposits are already at their highest since the end of the Asian financial crisis almost 24 years ago.

What are Treasury Bills and Is It Worth Investing In?

Singaporeâ??s Treasury Bills (T-bills for short) are short-term government securities issued at a discount to their face value, in the form of 6-month and 1-year T-bills. As an investor, you receive the full face value at maturity, which means your yield can be calculated as the difference between your bid price and the maturity price.

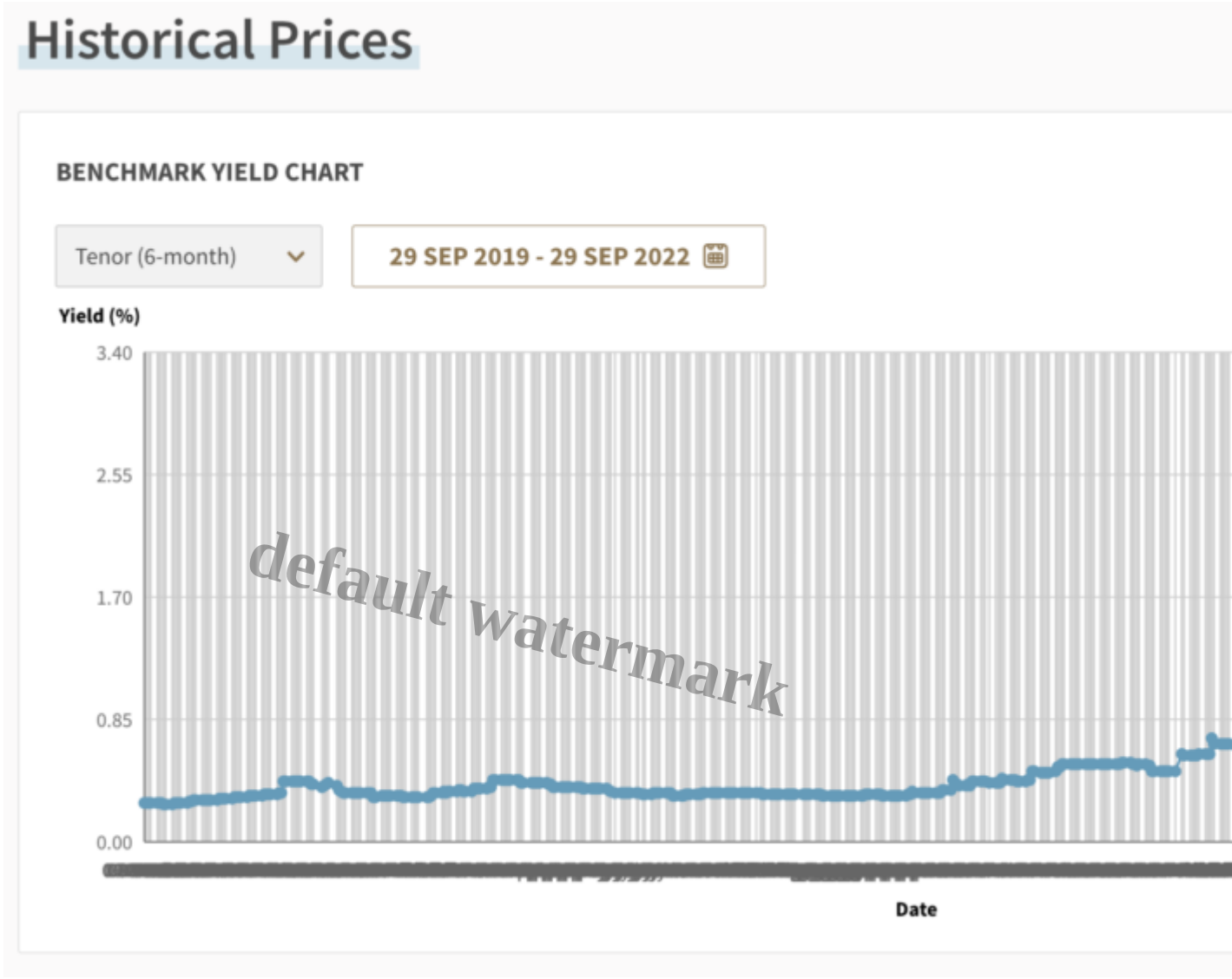


Screenshot from MAS website

Simplified Explainer:
If you successfully bid for and secured a 6-month T-bill at the rate of 3.32%,
• $3,320.

In reality, what would have happened is that you would have paid $96.68 for th

There hasnâ??t been much interest in T-bills prior to this year and for good reason: the yields on our local T-bills have remained fairly flat all along (and for the last 3 years), but started rising steeply from the start of this year (in line with the global Fedâ??s interest rate hikes):



Source: MAS T-bills Historical Chart

My Take: If T-bill yields continue rising and thereâ??s no news about CPF interest rates being revised higher , I may start to use my CPF funds to buy into some T-bills once yields cross t

You can easily find out how to apply for T-bills online, so I wonâ??t cover that in this article. However, what are the **risks** that come with investing in T-bills?

Risks of Investing in T-Bills

Now, if you intend to buy and hold T-bills until maturity, then your risk is almost none â?? since these T-bills are fully backed by the Singapore government and are to be held for only 6-months or 1-year at most. *Unless you think the Singapore government is going to go bankrupt or bail on you within this short time frameâ?¦a risk which I think is almost close to zero.*

However, if your personal financial circumstances changes abruptly during this (short) period and you suddenly need the cash (before maturity), you will then have to sell them in the secondary market.

This can be done by going to any of the local banks and getting a quote from them.

Continuing on the above example, imagine you have $96,680 locked up in a 1-yea

- *instead and letting your bank earn $2,000 because you had to let it go earlie*

T-bills vs. Singapore Government Securities (SGS)

At any rate, T-bills with their shorter maturity are a much better option than SGS bonds, which have maturities ranging from 2 â?? 50 years.

Issue Details

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SGS Type	SGS (Market Development)
Announcement date	22 Aug 2022
Auction date	29 Aug 2022
Issue date	01 Sep 2022
Maturity date	01 Sep 2027
Coupon rate	2.875% p.a.
Coupon payment dates	01 Sep and 01 Mar

Last monthâ??s 5-year SGS bond

Issue Details

SGS Type	SGS (Infrastructure)
Announcement date	21 Sep 2022
Auction date	28 Sep 2022
Issue date	03 Oct 2022
Maturity date	01 Oct 2051
Coupon rate	1.875% p.a.
Coupon payment dates	01 Oct and 01 Apr
Closing yield ⓘ	3.32% p.a.
Closing price ⓘ	73.25

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September 2022â??s 30-year SGS bond

And while you can technically sell your SGS bonds on the secondary market i.e. SGX by yourself (no need to go through your bank), the market is extremely illiquid i.e. it is harder to find buyers than you think.

Bondsup

	Trading Name	Trading...	Last	Last (S$100 d...	Acc. Int.	Ind. Last (Clean)	Chng
☆	N518100E 230201	CMHS	99.000	99	0.3	98.7	–
☆	N519100A 240201	LSHS	97.000	97	0.342	96.658	–
☆	N520100A 251101	QGES	–	–	0.211	–	–
☆	N521100V 261101	IRRS	–	–	0.526	–	–
☆	N522100N 270901	EJUS	–	–	0.254	–	–
☆	NA12100N 420401	PH1S	110.000	110	0.015	109.985	–
☆	NA16100H 460301	BJGS	108.000	108	0.243	107.757	–
☆	NA20100F 500301	ZL8S	107.000	107	0.166	106.834	–
☆	NA21200W 511001	ZFGS	87.000	87	0.01	86.99	–
☆	NX13100H 230701	R1MS	100.600	100.6	0.702	99.898	–
☆	NX15100Z 250601	AFUS	99.700	99.7	0.805	98.895	–
☆	NX16100F 260601	BJHS	102.000	102	0.72	101.28	–
☆	NX18100A 280501	CMGS	91.000	91	1.106	89.894	–
☆	NX21100N 310701	RXYS	–	–	0.415	–	–

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SGS bonds on the SGX secondary market

T-bills vs. Singapore Savings Bonds

Another option would be to consider Singapore Savings Bonds (SSBs), which are similarly backed by the Singapore government but offer more flexibility i.e. you can redeem your SSB units at any time.

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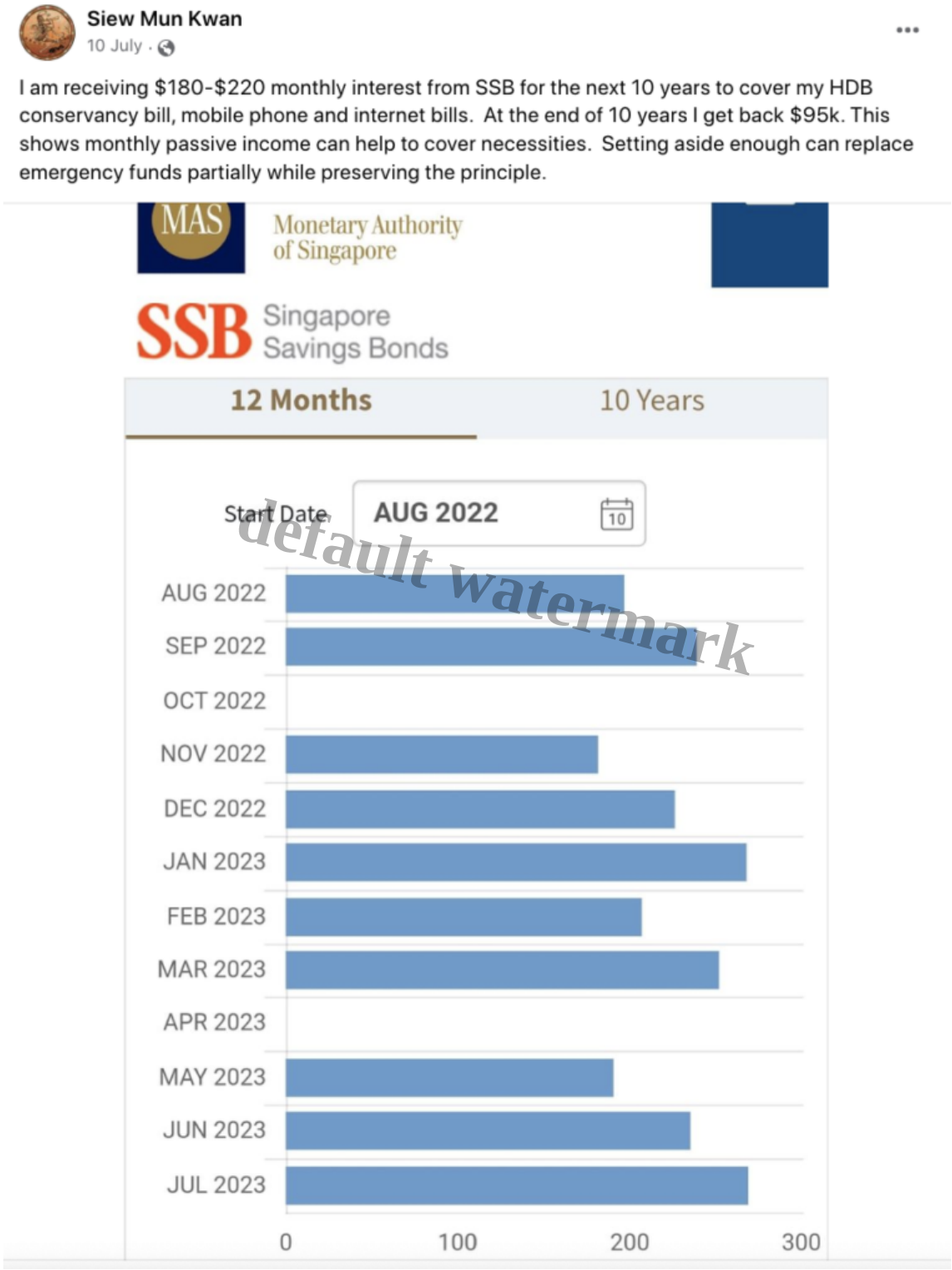
Source: Singapore Savings Bonds

Hardworking folks can try their hands at building a SSB ladder i.e. replicating what this other low-risk investor, Siew Mun, has done:



Source: Seedly Facebook Group, authored by Siew Mun Kwan

I started talking about SSBs when they were first launched in October 2015, but as rates were low then (<1% for the first 1-2 years), there was little incentive to really build a SSB ladder back then as it felt like too much work for too little gains.

Today, with rates starting at 2.6% for the first year of SSBs, low-risk investors who prefer to go for safe investments (i.e. no risk of capital loss) can consider this.

However, even holding SSBs for 10 years (currently 2.99%) may no longer be enough to beat inflation. Hence, you may want to diversify into other financial tools instead.

T-Bills vs. Cash Management Funds

While T-bills are definitely attractive at this point in time, the yields are constantly changing and you have to bid at each auction i.e. thereâ??s no guarantee that you will get it.

If you do, hooray!

And if you tried but havenâ??t been successful at your prior auctions, another investment tool you can consider are cash management funds â?? *(also known as Money Market Funds (MMFs)* â?? instead.

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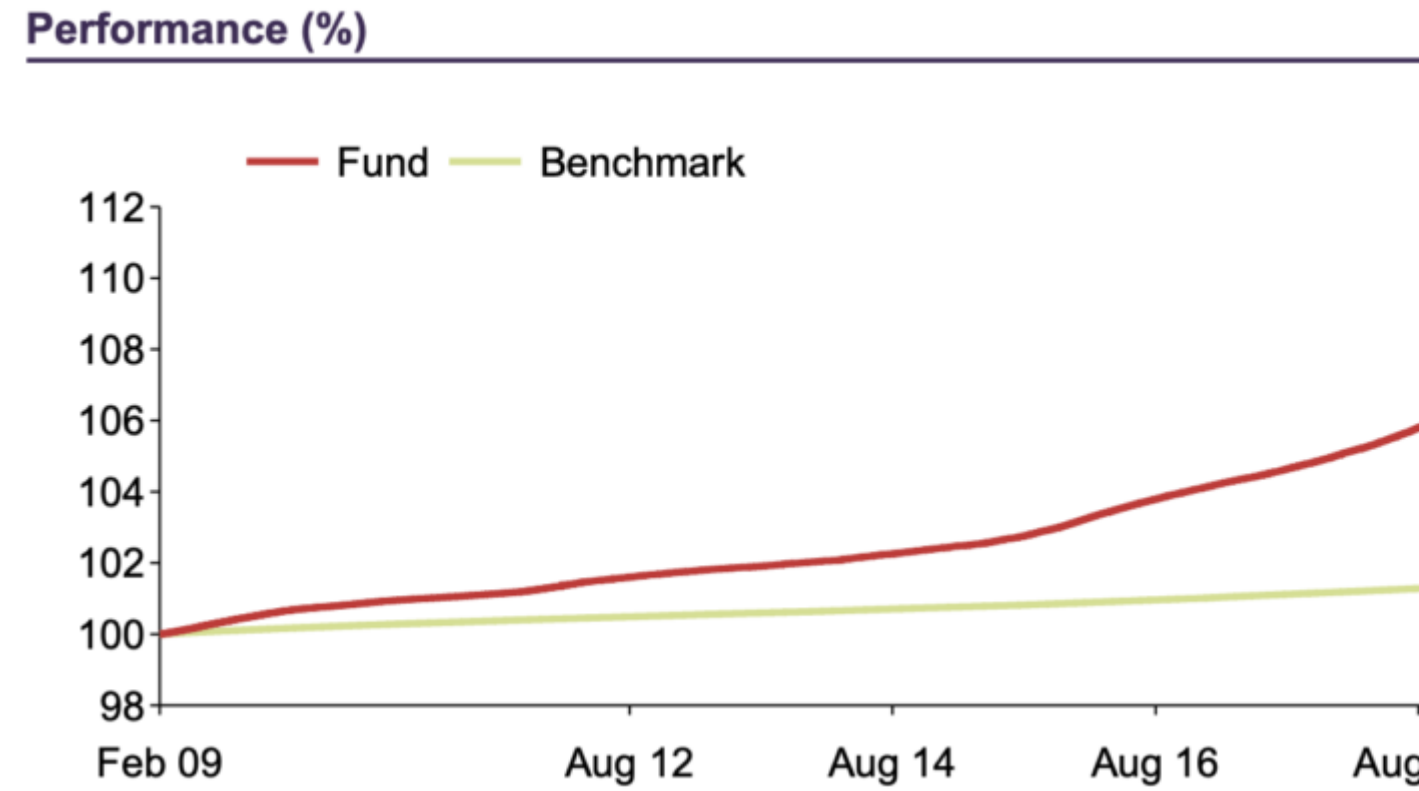
No, theyâ??re not backed up by the Singapore government, but they generally offer a **higher return** than fixed deposits while giving you the flexibility to **redeem your money anytime with no penalty**.

One of the most attractive cash management funds available to Singaporeans is the **Fullerton SGD Cash Fund**, which is the largest domestic cash fund here and with **a proven track record** of having consistently beaten its benchmark since its inception in 2009. Despite the risk of price volatility, the fund has never had a negative monthly return throughout its entire operating history.



Source: Fullerton SGD Cash Fund Report

How has it fared throughout 2022 â?? the year when growth stocks crashed and of Fed rate hikes? It held up well, as you can see:

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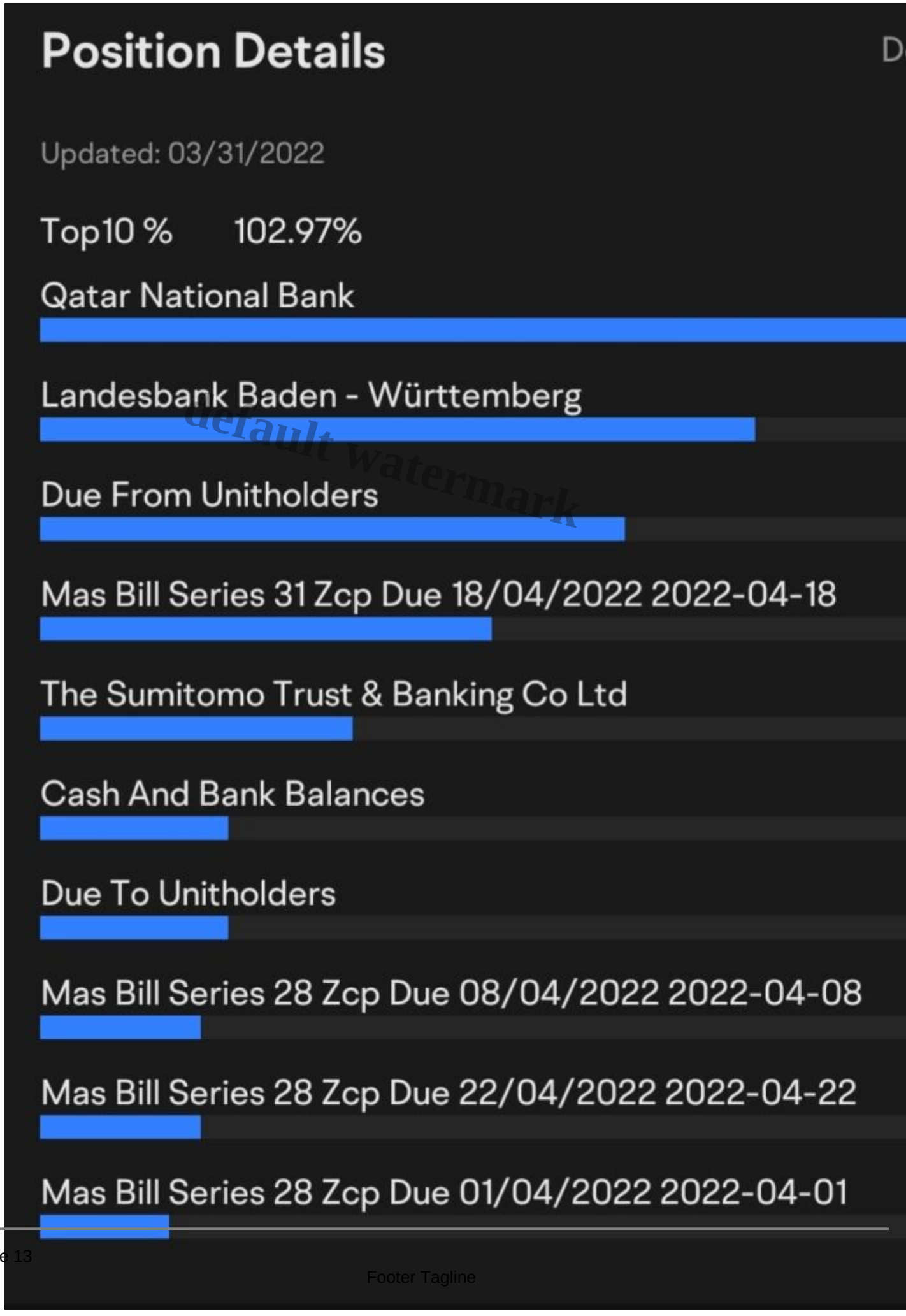
Snapshot of the fundâ??s historical returns, from the moomoo app.

Why was this so? The answer can be found in its holdings, as the Fullerton SGD Cash Fund mainly invests in short-term Singapore-dollar deposits with reputable financial institutions. *For those who understand ratings, youâ??ll be pleased to note that these are only instruments with a minimum rating of F-2 by Fitch, P-2 by Moodyâ??s or A-2 by Standard and Poorâ??s*.



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Snapshot of the fundâ??s most significant holdings, from the moomoo app

Unfortunately, retail investors cannot buy this fund directly â?? but moomoo has changed this by offering folks like you and me an easy way to invest in the Fullerton SGD Cash Fund â?? via its moomoo Cash Plus.

And if youâ??re looking for a USD-based cash management fund instead, check out if the CSOP USD MMF would fit your needs better.

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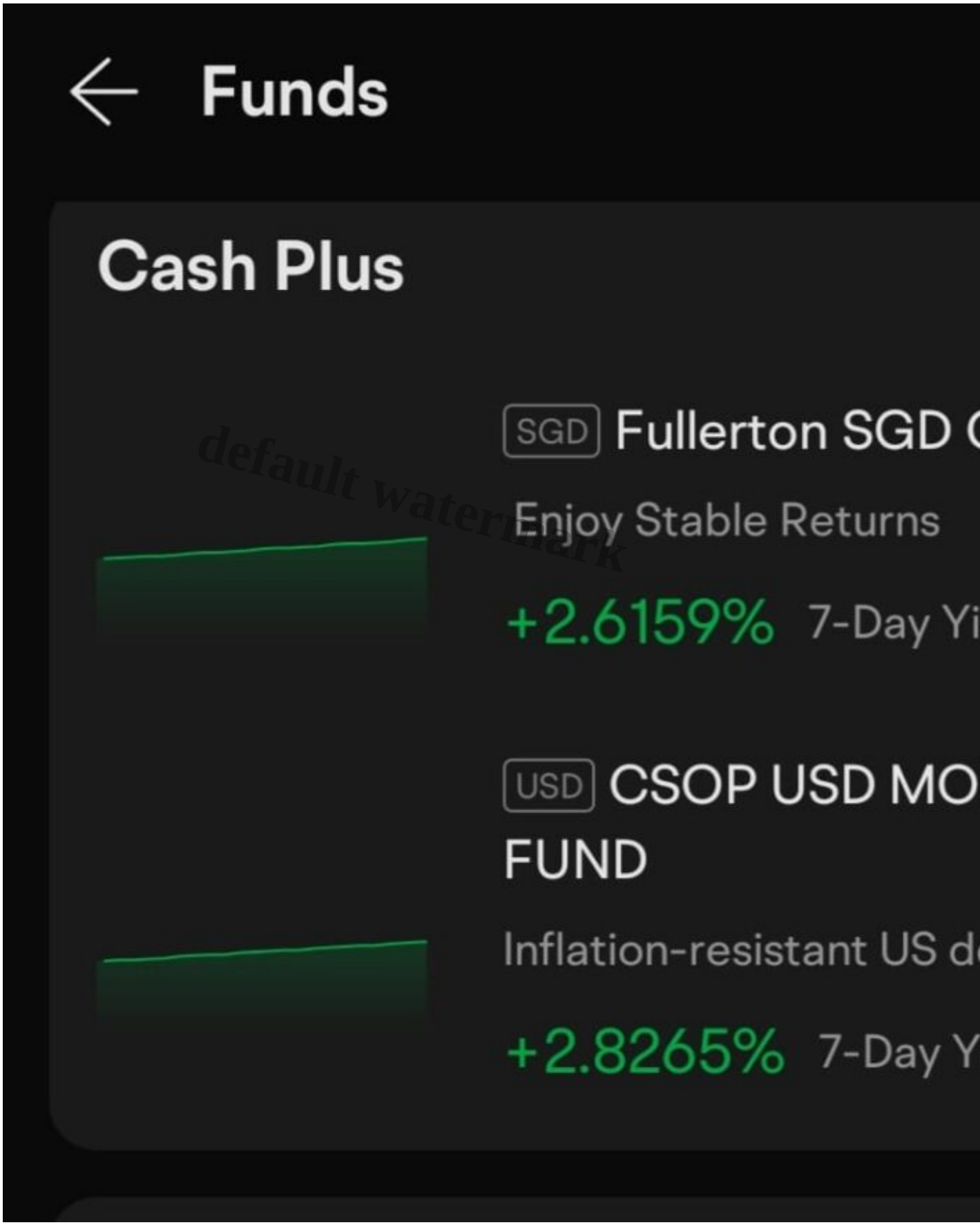

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moomoo Cash Plus offers 2 types of cash management funds, available on its app

Whoâ??s suitable for T-bills vs. Cash Management Funds?

There are a few main groups of people who would be suitable for such instruments, and Iâ??ve categorized it below:

T-bills

- Beginners who donâ??t know how to invest, and are dissatisfied with their current savings returns
- Conservative folks who want a safe investment / **almost-zero risk** options
- Investors who want something **backed by the Singapore government**
- Investors who **do not need the cash in the next 6 â?? 12 months**

Cash Management Funds

- Beginners who donâ??t know how to invest, and are dissatisfied with their current savings returns
- Folks who want **low-risk** options, and **without the high volatility** of equities or forex
- Investors who want to reserve **the option of withdrawing their cash at any time** with **zero penalties**
- Seasoned investors who are looking for a flexible place to **temporarily hold their warchest** cash, while **waiting for opportunities in the stock market** to appear

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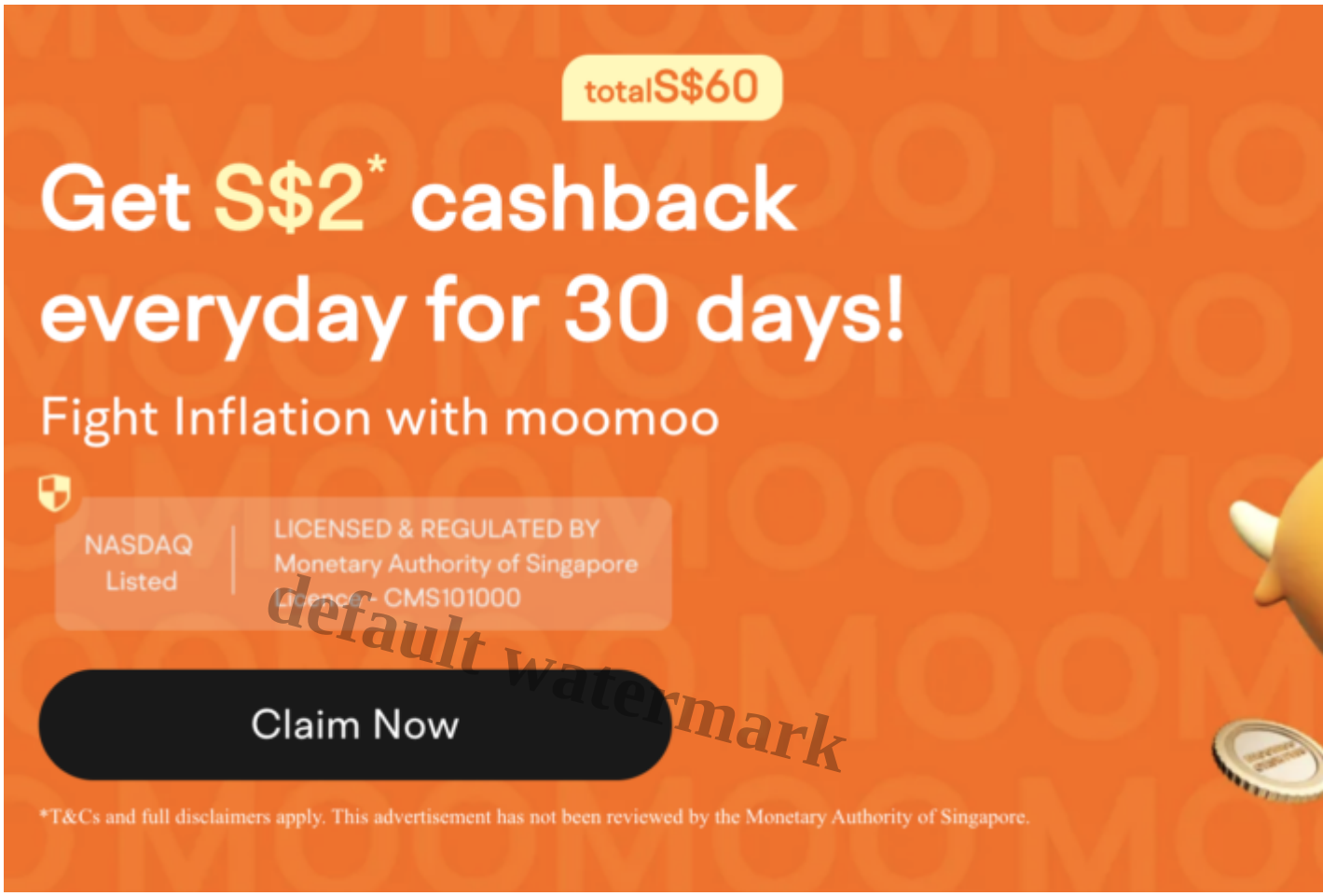
To find out more about cash management funds like moomoo Cash Plus, check out this article here, where I dive into a more detailed review of how they work and what you need to know.



And if youâ??ve always been someone with spare cash who only looked at fixed deposits, check out T-bills and/or cash management funds instead â?? you might just find that theyâ??re a better, more rewarding option for you.

Important note: Cash management funds like moomoo Cash Plus are NOT the same as T-bills, and their core differences have been outlined in this article. Each instrument has its pros and cons, and it is your responsibility to do your own due diligence further before deciding what to do with your money.

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