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Singapore crucial to ASX and high-wealth investors

STIRLING LARKIN THE AUSTRALIAN MARCH 5, 2016 12:00AM

Singapore is central to business for the Australian Securities Exchange.

Singapore has long been a leading financial centre yet many Australians underestimate how integral the city has become to the ASX.

For example, with the digitalisation of markets, Australian-focused "market makers" — who provide liquidity and price discovery for everything from single stocks to entire indices and markets — have, since 2004, relocated at an ever increasing pace from Sydney and Melbourne to Singapore, primarily because of the better technological infrastructure, expertise and global integration it provides.

With subsea cables connecting Australia's ASX and Chi-X markets with Singapore's SGX, there exists a physical connection that places Singapore near the top of Australian financial markets' important participants.

Within the UHNW private wealth advisory sector Singapore is also becoming the go-to place for custodial, advisory and execution services; all of which may sound trivial but are in fact the central components which keep Australian private wealth connected and functioning.

Appreciating all of this allows the global investor to better come to terms with certain ASX share price movement behaviour, why the Australian and New Zealand dollars jump within and outside their range-bounds and in particular, why more and more of Australian family or private office investment solutions are delivered to clients in US dollars held in offshore vehicles.

And this is why with things set to change in Singapore following the death of esteemed statesman Lee Kuan Yew last year, Australian investors need to pay greater attention and higher respect to their northern commonwealth neighbour.

Indeed, Singapore is not without problems and even though household wealth per adult grew strongly up to 2012, it has since plateaued in domestic US dollar terms, due to adverse exchange rate movements that saw a 5 per cent currency depreciation from peak to trough between October 2015 and January 2016.

This brought their currency, in effective terms, close to fair value and has significance to Australian global investors who are questioning whether the Australian dollar rangebound at US70c-US73c is overvalued or fair value.

This question of an Australian and Singaporean dollar relationship has mattered to Australians directly investing on the SGX or achieved via such instruments as the BlackRock iShares MSCI Singapore ETF (ISG: AU).

Similarities abound between these two island economies:

• Both have faced a rapid expansion in credit growth, particularly directed towards residential property and both now hold more substantial debt burdens than any time previously.

• As small open economies, interest rate policy is not an effective means of controlling domestic prices and both the RBA and Singaporean Monetary Authority struggle with this.

• They both boast two of the most open capital accounts in the world, enjoy good market infrastructure and pricing transparency (due to aforementioned market makers).

• Both sets of government bonds have a stable AAA rating, supported by very strong sovereign credit risk ratios and stable social and political environments.

• Economically, both have structurally strong domestic demand technicals and as commercial banks hold government bonds up to about 20 per cent of their deposits to meet statutory reserves, long-dated assets are in strong demand from well-developed life insurers, regionally and in Europe.

Where these jurisdictions differ vastly for UHNW investing is within withholding tax frameworks.

There is no capital gains tax in Singapore and interest income is subject to tax regulations.

Even though Australia and Singapore share a double taxation treaty, in effect, most investors will find they pay no withholding tax on investments held custodially within Singapore but face domestic tax levies if and when distributions are sent to Australia.

For Australian SMSF investors wishing to rebalance their portfolios with a tilt towards this competitive neighbour, DBS (DBS: SP), Singtel (ST: SP), City Developments (CIT: SP) and ComfortDelGro (CD: SP) may be worth keeping an eye on.

With the weak start to 2016 pushing market valuations down, large cap names such DBS, Singtel and the property developers look compelling versus historical valuation ranges, with DBS, for instance, trading below book value, Singtel delivering a healthy 5 per cent yield and City Developments priced at a 45 per cent discount to RNAV.

Singaporean mid-cap stocks like ComfortDelGro also have more visible catalysts on their horizons, which is more than could be said for most of their ASX peers.

Credit Suisse recently compared Singapore to “a canary in a coalmine”, for its leading global indicator role for investment, market and specifically Chinese trends.

For an economy like Australia, which is sometimes referred to as the world’s coalmine, paying greater attention to the proving grounds of Singapore makes for smarter investing.

Larkin Group is an ultra-high net worth wealth adviser focusing on high-yielding global investments.

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