



**ECONOMICS**

**RESEARCH:**

**ASIA PACIFIC**

## Economics & Market Analysis

21 May 2007

**Chua Hak Bin**  
+65-6432 2057  
hak.bin.chua@citigroup.com  
Singapore

**Hiew Leon**  
+65-6432 1166  
leon.hiew@citigroup.com  
Singapore

# Singapore Market Weekly

## Formula 1: The Next Monaco?

- **Staging the Formula 1 race could generate earnings of S\$150-200m based on the track record of other hosts, higher than the official estimate of S\$100m. The event could bring in about 40K tourists, about 4.1% of current annual tourist numbers.**
- **There would be spin-offs to the broader economy, including the less tangible halo benefits from branding. F1 is the third most watched sporting event in the world, beamed on average 58 million times a season to over 200 countries.**
- **Hotels, retail, private banking and media should be beneficiaries. Hotels typically charge 3 times the usual rates during F1. Budgets for advertising, promotions and hospitality are generous.**
- **Monaco thrives on pleasant weather, casinos, low taxes and location (southern France). Residential property prices are the second highest globally after London. But Monaco is far smaller than Singapore in terms of population and GDP size. F1's economic impact is therefore more limited for Singapore, in the order of 0.1% of GDP or less.**
- **Markets: Short-term interest rates will likely remain under downward pressure near-term on the back of flush liquidity.**

Asia Pacific

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# Economics

**Chua Hak Bin**

+65-6432 2057

hak.bin.chua@citigroup.com

**Costs for staging a Singapore F1 is about S\$150m a year**

**Tourism earnings could be higher, closer to \$150-\$200m, based on track record of other hosts**

## Formula 1: The Next Monaco?

Singapore signed a 5-year deal to stage the Formula 1 race, with an option for another 5 years extension. The first race will take place in 2008, probably during September or October. Singapore will be the third street race, after Monaco and Melbourne. But it could be the first ever to host a night race.

Estimated organizational costs for Singapore amounts to S\$150m a year. About 60% will be co-funded by the Singapore Tourism Board. The government estimated that the F1 would generate tourism earnings of about S\$100m a year. The 3-day event is expected to bring in an additional 40,000 tourists, about 4.1% more compared to the annual tourist numbers of about 9.7 million.

We think tourism earnings could be higher, closer to S\$150 - S\$200m, with the right promotion. That would be about 1.2% to 1.6% of the S\$12.4bn in tourism receipts in 2006. The government forecast looks conservative when compared to the earnings of other F1 hosts (see Figure 1). Valencia is hosting the race early 2008 and is estimating about S\$190m in earnings, based on Barcelona's experience. Bahrain made earnings of S\$600m in 2006 and Shanghai \$653m in 2004. Malaysia, right next door, generated S\$175m in earnings.

**Figure 1: Formula 1 Grand Prix – Startup Costs & Estimated Earnings**

Start up Costs	Estimated Earnings
<b>Singapore, 2008</b>	
<b>S\$150m.</b> Consists of sanctioning fees and logistical costs (street circuit)	<b>S\$100m</b> (government estimate). Additional 40,000 tourists for 3-day event.
<b>Valencia, 2008</b>	
<b>S\$53m.</b> Hosting rights.	<b>S\$190m</b> (estimate based on Barcelona Grand Prix)
<b>Bahrain, started 2005</b>	
<b>S\$230m.</b> Purpose built stadium circuit.	<b>S\$600m</b> in 2006, about 3% of GDP.
<b>Turkey, started 2005</b>	
<b>S\$106m.</b> New Istanbul Speedpark. Another S\$365m in surrounding infrastructure.	<b>S\$151m.</b>
<b>Shanghai, started 2004</b>	
<b>S\$456m.</b> New circuit	<b>S\$653m</b> in 2004.
<b>Malaysia, started 1999</b>	
<b>S\$84m</b> spending + <b>\$130m</b> (Sepang track)	<b>S\$175m</b>

Source: New Straits Times, Citigroup estimates.

**F1 is the third most watched sporting event in the world, after Olympics and World Cup**

There will be larger spinoffs to the economy, including the less tangible 'halo' benefits from branding. Formula 1 is the third most watched sporting event in the world after the Olympics and World Cup. It is watched on average 58 billion times a season through television broadcast to over 200 countries. Singapore will suddenly be on the map for these millions. The immediate costs to the government's coffers will likely be defrayed over time by the branding and advertising gains.

**Hotels, retail, private banking and the media should be beneficiaries**

Hotels, retail, private banking and the media may be some of the beneficiaries. The integrated resorts should also gain when they are ready. The F1 crowd is primarily the rich and middle class.

**Hotel rates typically rise by as much as 3 times the usual rates during F1**

Hotel rates typically rise by as much as three times the usual rates during the F1 season based on Monaco and Melbourne. Even with the higher planned Cess tax on hotels during the F1 season, hotels should still come out substantially better off, with room rates net of tax likely to be more than double the usual rates. Hotel occupancy rates moreover in Singapore are already tight, with occupancy rates in March at 91%, the highest since April 1994. Pressure on room rates could be even more substantial. The Cess tax on hotels is expected to help cover staging costs by S\$15 - \$20 million.

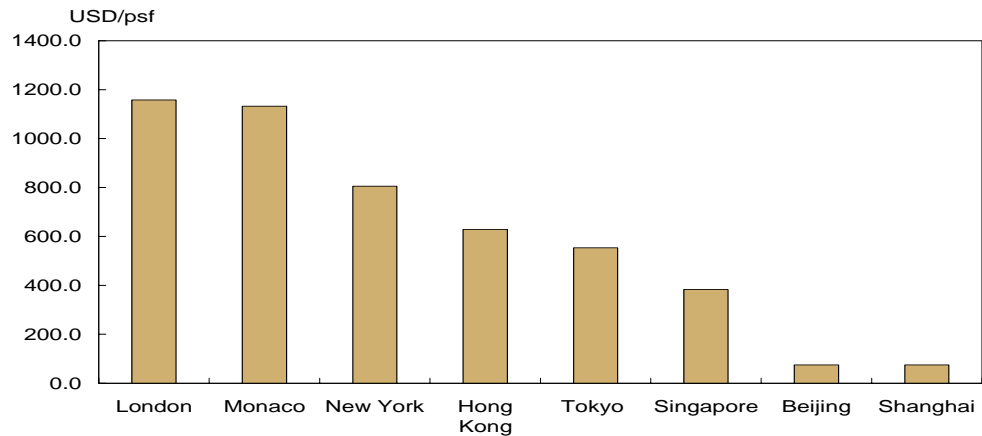
**Australian Grand Prix generates some US\$10.5m in advertising and promotions during the 4 days**

Media, retail and private banking will also benefit. The Australian Grand Prix, for example, generates about US\$10.5 million in advertising and promotions during the 4-day event. Annual budgets for the auto participants are huge, totalling some US\$1.5bn. Toyota ranks highest, with a budget of US\$290m, followed by Ferrari (US\$250m) and Renault (US\$155m), based on 2005 figures.

**Racecar participants spend a smart sum on hospitality**

Some of the car manufacturers spend a smart sum on hospitality. Toyota reportedly spent nearly US\$7 million on hospitality last season. The new team Red Bull Racing spent just US\$6 million, including setting up a floating Energy Station in the harbour for Monaco GP and a US\$1.2m Chinese Village at the Shanghai GP.

**Figure 1: Monaco – Prime Property Prices Second Highest After London**



Source: Frank Night, Citigroup estimates.

**Monaco and Singapore are of completely different scales**

Some have made drawn parallels between Monaco and Singapore. To the extent that Singapore will soon be having its own casinos, targets the wealthy (private banking, high-end property) and offers low taxes for businesses, there are parallels. But Singapore is completely of a different scale in terms of size (136x larger in terms of population, and probably 100x larger in terms of GDP).

**Monaco's pleasant climate, casinos and low taxes are major draws for the wealthy**

Monaco's pleasant climate (12 – 28 degrees celsius), location (bordering France), and casinos are major draws for the wealthy. The state has no income tax and low business taxes, thriving as a tax haven both for individuals who have established residence and for foreign companies that have set up businesses and offices. Living standards are high, with GDP per capita at about US\$30K in 2006 based on purchasing power parity. Monaco's Grand Prix is 77 laps around the narrow, winding streets of Monte Carlo, making it the most exciting in the world, with little room for driver error.

**Monaco's prime property is the second highest after London**

Monaco's prime residential property prices are the second highest in the world after London (see Figure 2) and almost triple that of Singapore. But its population size is only 32,671, made up of over 125 different nationalities. Its population density is high, at 16,620 per km.

**Figure 3: Monaco and Singapore – A Quick Comparison**

	Monaco	Singapore
<b>Population</b>	32,671	4,553,009
<b>Population Density</b>	16,620/sq km	6,669/sq km
<b>Tourist Arrivals</b>	0.6 million	9.7 million
<b>Tourist Spending</b>	S\$810 million	S\$12.4 billion
<b>Nationalities</b>	125 different nationalities make up population. Main ethnic groups include French, Italian and Monegasque with 21% of other populations	A quarter of Singapore's population is foreigners. Main ethnic groups include Chinese, Indians and Malays with less than 2% of other ethnic groups.
<b>GDP (PPP)</b>	US\$976.3 million (estimated: Monaco do not publish GDP data)	US\$138.6 billion
<b>GDP per capita</b>	US\$30,000 (PPP). However, tourists/capita is high. Hence real purchasing power maybe much higher.	US\$30,900
<b>Economic Activity</b>	Industry: 4.9%, Services: 95.1%	Industry: 33.8%, Services: 66.2%. Heavily dependent on exports.
<b>Taxes</b>	No income tax; low business tax	20% highest personal income tax; lower corporate tax rate for headquarters status; low business tax.

Source: CIA, Citigroup estimates

**Economic impact expected only in the order of magnitude of 0.1% of GDP or less**

Hosting Formula 1 would therefore have a much more material economic impact in Monaco as compared to Singapore (see Figure 3), given the difference in economic size and reliance on tourism. Economic impact in Singapore should only be in the order of magnitude of 0.1% of GDP or less, although certain sectors will see strong gains. But spin-offs and gains from branding are hard to pin down, which could potentially be quite large.

# Fixed-Income Market

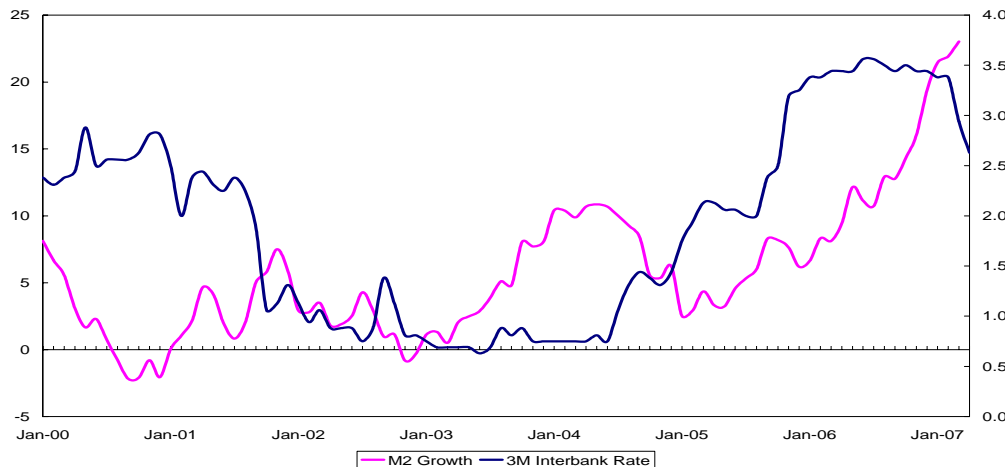
- ▶ Short-end interest rates continued to slide on the back of capital inflows and flush liquidity. Lower interest rates are making holding the SGD a less attractive proposition, contributing to the SGD weakness.
- ▶ We expect short-term rates to remain under downward pressure near-term.

## Week in review

Singapore short-term interest rates fell further on capital inflows and flush liquidity. The 3M interbank rates fell to 2.34% at the end of the week from 2.53% at the start. We expect short-term rates to remain under downward pressure near-term. Latest March figures show M2 growth running at 23%, picking up from February (see Figure). This is the highest rate in two decades and probably the highest in Asia.

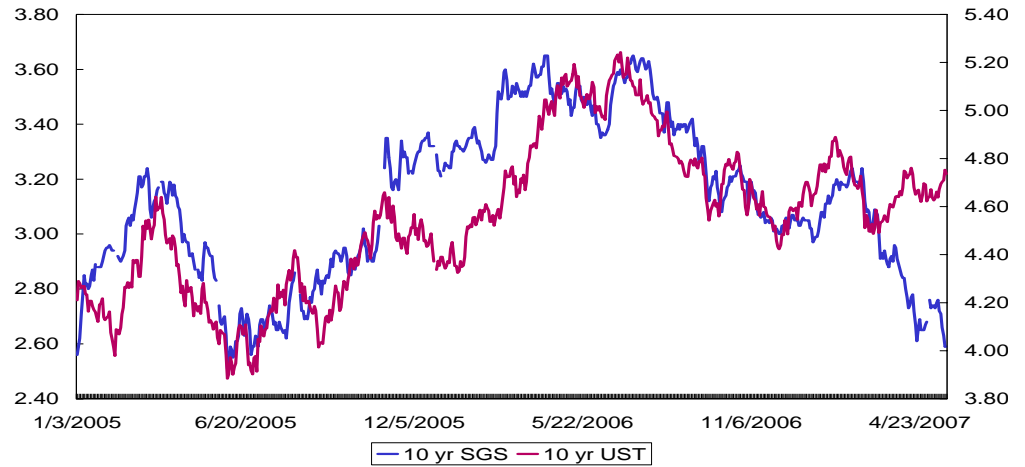
There was some market talk that SGD may be used as a funding currency given falling rates. MAS may not be uncomfortable with such an option or lower short-term rates, as this could help curb money growth and capital inflows. Lower rates will likely make holding the SGD a less attractive proposition, limiting SGD currency strength medium-term.

**Figure: Surging Money Growth May Put Downward Pressure on Rates**



Source: CEIC Data Company Limited.

**Figure 2: 10-Year Benchmark SGS and UST Yield (Percent)**



Source: MAS, Bloomberg

# Market Snapshot

## Market Snapshot (at 18 May 2007)

	CURRENT	WEEK AGO	3 MONTHS AGO	6 MONTHS AGO	CHANGE VERSUS			2-YEAR PERIOD		
					WEEK AGO	3 MONTHS AGO	6 MONTHS AGO	AVERAGE	HIGH	LOW
SGD/USD	1.528	1.518	1.531	1.557	0.010	-0.004	-0.029	1.604	1.702	1.510
STI Index	3,512.4	3,446.9	3,236.9	2,813.2	65.5	275.5	699.2	2,600.8	3,512.4	2,154.7
<b>Interbank Rates</b>										
Overnight	1.78	2.28	2.88	3.25	-0.50	-1.09	-1.47	2.69	3.50	1.59
3-Month	2.34	2.53	3.31	3.41	-0.19	-0.97	-1.06	2.96	3.50	1.88
6-Month	2.38	2.53	3.34	3.41	-0.16	-0.97	-1.03	2.96	3.56	0.00
<b>SGD Swap Offer Rate</b>										
1-Day	1.83	2.48	3.27	3.52	-0.65	-1.43	-1.69	3.10	4.76	1.78
3-Month	2.34	2.53	3.31	3.41	-0.19	-0.97	-1.06	2.96	3.50	1.88
6-Month	2.38	2.53	3.34	3.41	-0.16	-0.97	-1.03	2.96	3.56	0.00
<b>Interest Rate Swap</b>										
1-Year	2.57	2.67	3.50	3.54	-0.10	-0.93	-0.97	3.13	3.79	2.04
2-Year	2.61	2.70	3.48	3.48	-0.09	-0.88	-0.88	3.13	3.78	2.10
3-Year	2.65	2.74	3.49	3.45	-0.09	-0.84	-0.80	3.16	3.79	2.17
5-Year	2.76	2.85	3.49	3.42	-0.08	-0.73	-0.65	3.25	3.84	2.36
7-Year	2.88	2.97	3.53	3.43	-0.09	-0.65	-0.55	3.34	3.89	2.54
10-Year	3.00	3.09	3.58	3.45	-0.09	-0.58	-0.45	3.45	3.97	2.73
<b>Government Bond Yields</b>										
3-Month T-Bill	2.07	2.24	3.11	3.24	-0.17	-1.04	-1.17	2.65	3.33	1.85
1-Year T-Bill	2.15	2.29	2.97	3.15	-0.14	-0.82	-1.00	2.69	3.25	1.90
2-Year SGS	2.21	2.35	2.93	3.05	-0.14	-0.72	-0.84	2.69	3.22	1.91
5-Year SGS	2.35	2.48	3.06	3.06	-0.13	-0.71	-0.71	2.93	3.43	2.20
7-Year SGS	2.50	2.64	3.11	3.05	-0.14	-0.61	-0.55	2.69	3.52	2.35
10-Year SGS	2.59	2.72	3.19	3.08	-0.13	-0.60	-0.49	3.14	3.65	2.56
15-Year SGS	2.73	2.88	3.28	3.17	-0.15	-0.55	-0.44	3.18	3.55	2.73
<b>Swap Spreads (IRS-SGS, Unmatched Maturity)</b>										
2-Year	39.5	34.8	55.0	43.0	4.8	-15.5	-3.5	44.3	79.3	11.3
5-Year	41.3	36.5	42.8	35.5	4.8	-1.5	5.8	32.0	51.0	10.5
7-Year	37.8	32.5	41.8	37.5	5.3	-4.0	0.2	32.1	48.0	10.0
10-Year	40.8	36.8	39.0	36.5	4.0	1.8	4.3	31.3	47.5	12.5
<b>Swap Curve Spread</b>										
2Y - 3M	15.5	4.1	-8.5	-10.4	11.4	24.0	25.8	-1.9	23.3	-21.3
5Y - 2Y	15.8	14.8	0.7	-6.5	1.0	15.0	22.3	11.6	36.3	-6.5
7Y - 5Y	11.5	12.0	4.0	1.0	-0.5	7.5	10.5	9.4	23.3	0.2
10Y - 7Y	12.0	12.3	5.3	2.0	-0.2	6.7	10.0	10.8	24.0	0.2

Source: Reuters, Citigroup.



# Key Economic Data and Forecasts

## Singapore — Key Economic Data and Forecasts

	2000	2001	2002	2003	2004	2005	2006E	2007E	2008E
<b>Real Sector</b>									
Real GDP (% yoy)	10.1	-2.4	4.2	3.1	8.8	6.4	7.9	6.2	5.6
Domestic demand ex Inventory (% yoy)	13.4	0.9	-0.5	-0.1	6.2	2.7	6.4	5.8	5.1
Real Consumption: Private (% yoy)	14.9	4.0	5.1	1.2	5.6	3.1	2.5	3.8	4.1
Real Gross Fixed Capital Formation (% yoy)	9.8	-3.8	-11.4	-3.3	10.2	0.1	11.5	8.5	6.7
Consumer Prices (period average, % yoy)	1.3	1.0	-0.4	0.5	1.7	0.5	1.0	1.5	1.7
Nominal GDP (US\$ bn)	93	85	88	92	107	117	132	149	169
GDP per capita (USD)	23,077	20,693	21,113	22,066	25,329	26,876	29,475	33,365	36,635
Unemployment Rate (%)	2.7	2.7	3.6	4.0	3.4	3.1	2.6	2.5	2.5
<b>External Sector</b>									
Exports (% yoy, US\$)	20.2	-11.7	2.8	16.9	25.0	25.5	18.4	12.1	15.4
Imports (% yoy, US\$)	21.1	-13.8	0.4	12.0	26.9	20.8	19.3	14.7	18.1
Trade balance (US\$ bn)	3.3	5.8	8.7	15.9	17.4	29.6	33.1	30.9	28.3
Current account (% of GDP)	11.6	14.0	13.7	24.2	20.1	24.5	27.5	24.6	22.5
International Reserves ex. Gold (US\$ bn)	80	75	82	96	112	116	137	145	160
Local Currency/USD (period average)	1.72	1.79	1.79	1.74	1.69	1.66	1.59	1.51	1.44
<b>Other</b>									
3M Interbank Rate (period average, %)	2.6	2.0	0.9	0.7	1.0	2.2	3.5	2.5	2.5
10 Year SGS Yield (period average, %)	4.4	3.6	3.5	2.9	3.2	2.9	3.4	2.6	2.8
Fiscal balance (% of GDP)	11.3	-0.3	-1.6	6.5	5.6	6.9	10.0	7.0	6.0
Population (persons million)	4.0	4.1	4.2	4.2	4.2	4.3	4.5	4.5	4.6

Source: CEIC Data Company Limited, Citigroup estimates.

## Interest and Exchange Rate Forecasts

	17-May	2007	3Q07	4Q07	1Q08	In 1M	In 3M	In 6M	In 12M
<b>SG</b> 3-Month Interbank Rate	2.63	2.35	2.40	2.50	2.50	2.35	2.40	2.50	2.50
10-Year SGS	2.75	2.55	2.60	2.65	2.60	2.55	2.60	2.65	2.60
SG\$/US\$	1.5197	1.5150	1.5000	1.4850	1.4700	1.5250	1.5158	1.5150	1.5085
<b>US</b> Fed Fund Rate	5.25	5.25	5.00	5.00	5.00	5.25	5.25	5.00	5.00
10-Year Treasuries	4.67	4.65	4.70	4.75	4.80	NA	NA	NA	NA

Sources: MAS, Citigroup estimates, Reuters.

## Week Ahead Calendar

Date	Country	Period	Topic	Forecast	Market Median	Prev 1	Prev 2
17-25 May	Singapore	1Q	Real GDP (% YoY)	5.8%	5.7%	6.0%	6.6%
17-25 May	Singapore	1Q	Real GDP (% QoQ saar)	5.8%	5.7%	6.7%	5.6%
24-May	US	Apr	Durable Goods Orders	-0.8%	0.8%	3.7%	1.7
24-May	US	May 20	Initial Jobless Claims	-	300K	293K	339K
24-May	US	Apr	New Home Sales	-	860K	858K	848K
25-May	US	Apr	Existing Home Sales	-	6.10M	6.12M	6.69M
29-May	US	May	Consumer Confidence	-	-	104.0	107.2

Source: Citigroup estimates, Bloomberg, IDEAGlobal.

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