

Thailand

Yield Movements

Between 1 March and 15 May, Thai local currency (LCY) government bond yields fell for all tenors (**Figure 1**). Yields for tenors of between 1 month and 1 year declined 4–6 basis points (bps). Yields for tenors of between 2 years and 7 years fell 3–19 bps. Yields for tenors of between 8 years and 30 years fell 24–66 bps.

The fall in yields was due to excess liquidity in the market driving up demand for local government bonds. Demand from both domestic and foreign investors rose amid expectations of a more gradual policy rate increase by the United States (US) Federal Reserve and the appreciation of the Thai baht.

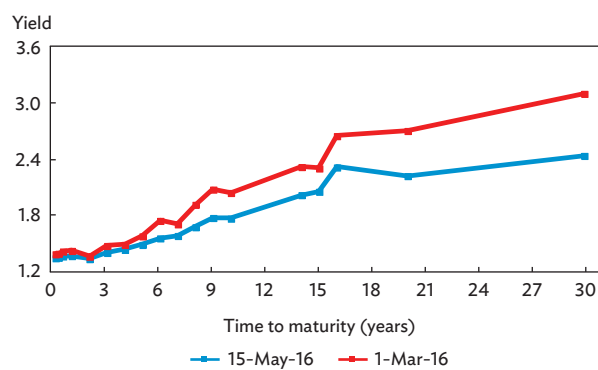
The 2-year versus 10-year spread narrowed from 68 bps to 43 bps during the review period with the yield curve flattening as a result. The flattening reflected market expectations that the Bank of Thailand (BOT) would maintain the overnight policy rate at its record-low level for the rest of the year as the government increasingly relies on fiscal policy to boost the economy.

The BOT decided to maintain the overnight policy rate at 1.50% in its 11 May policy meeting. The central bank stated that while the economy was gradually recovering, downside risks remained, including a continued contraction in merchandise exports and low levels of private investment. The central bank also noted that the appreciation of the Thai baht might have an unfavorable impact on the economy.

Deflation continued in Thailand in January–March before a positive inflation rate of 0.1% year-on-year (y-o-y) was recorded in April. The reversal was primarily due to a larger annual increase in the food and nonalcoholic beverages index, and a slower annual decline in the transportation index as global oil prices recovered. The outlook for inflation could still be affected by oil price volatility and weak domestic demand.

Thailand's economy grew more than expected in the first quarter (Q1) of 2016. Real gross domestic product growth rose to 3.2% y-o-y from 2.8% y-o-y in the fourth (Q4) of 2015. The expansion was mainly due to higher

Figure 1: Thailand's Benchmark Yield Curve—Local Currency Government Bonds



Source: Based on data from Bloomberg LP.

government consumption, which rose 8.0% y-o-y in Q1 2016 following growth of 4.8% y-o-y in the previous quarter, a result of stimulus measures being implemented by the Government of Thailand. Exports also rose 5.1% y-o-y in Q1 2016 following a 3.3% y-o-y contraction in the previous quarter. Meanwhile, growth in private consumption and gross fixed capital formation slowed in Q1 2016.

Size and Composition

The LCY bond market in Thailand expanded 1.9% quarter-on-quarter (q-o-q) to THB10,205 billion (USD291 billion) at the end of March (**Table 1**). On a y-o-y basis, the LCY bond market rose 9.6%. Government bonds outstanding amounted to THB7,607 billion, while corporate bonds summed to THB2,598 billion.

Government Bonds. LCY government bonds outstanding increased 1.5% q-o-q to THB7,607 billion at the end of March as both central government bonds and central bank bonds posted q-o-q increases. Meanwhile, outstanding state-owned enterprise and other bonds declined 1.1% q-o-q.

In terms of issuance, Q1 2016 saw a higher volume of THB2,103 billion, compared with THB1,791 billion in Q4 2015, primarily due to the jump in the issuance of central bank bonds. Central bank bond issuance

Table 1: Size and Composition of the Local Currency Bond Market in Thailand

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2015		Q4 2015		Q1 2016		Q1 2015		Q1 2016	
	THB	USD	THB	USD	THB	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	9,314	286	10,012	278	10,205	291	0.6	1.7	1.9	9.6
Government	7,079	218	7,494	208	7,607	217	1.9	0.7	1.5	7.5
Government Bonds and Treasury Bills	3,578	110	3,888	108	3,964	113	4.8	3.4	1.9	10.8
Central Bank Bonds	2,682	82	2,823	78	2,869	82	(2.2)	(4.9)	1.6	7.0
State-Owned Enterprise and Other Bonds	819	25	782	22	774	22	3.2	9.2	(1.1)	(5.5)
Corporate	2,235	69	2,517	70	2,598	74	(3.2)	5.1	3.2	16.3

() = negative, q-o-q = quarter-on-quarter, Q1 = first quarter, Q4 = fourth quarter, THB = Thai baht, USD = United States dollar, y-o-y = year-on-year.

Notes:

1. Calculated using data from national sources.

2. Bloomberg end-of-period LCY-USD rates are used.

3. Growth rates are calculated from an LCY base and do not include currency effects.

Sources: Bank of Thailand and Bloomberg LP.

climbed almost 50% to THB1,903 billion in Q1 2016 from THB1,278 billion in Q4 2015, suggesting that the BOT may be intervening in response to the appreciation of the Thai baht brought about by increased foreign fund inflows. A weaker Thai baht is favored by the Government of Thailand to support exports and boost the economy. Meanwhile, the issuance of central government bonds fell in Q1 2016.

Corporate Bonds. Total outstanding LCY corporate bonds rose 3.2% q-o-q to THB2,598 billion at the end of March.

Table 2 provides a breakdown of the top 30 LCY corporate bond issuers in Thailand, whose total LCY bonds outstanding stood at THB1,465 billion. The top 30 issuers accounted for 56.4% of total LCY corporate bonds outstanding at the end of March. CP All remained the largest corporate issuer in Thailand with THB180 billion of outstanding bonds. PTT was the next largest borrower at THB169.5 billion and Siam Cement was in the third spot with THB166.5 billion.

Corporate bonds issuance amounted to THB370 billion in Q1 2016, which was nearly on par with the previous quarter. **Table 3** lists notable corporate bond issuances in Q1 2016.

The largest corporate issuers in Q1 2016 came from various industries. CPF Thai, with major business interests in animal feeds, issued a multi-tranche THB16 billion bond with maturities ranging between 5 years and

12 years. Bank of Ayudhya issued a THB12 billion 3-year bond with a coupon rate of 1.86%.

Investor Profile

Contractual savings funds remained the largest holder of LCY government bonds in Thailand with a share of 28.4% at the end of March, up slightly from a share of 26.8% in Q1 2015 (**Figure 2**). Insurance companies accounted for the second largest share at 25.5%, which was barely changed from 25.4% in Q1 2015. The share of foreign investors fell to 13.6% at the end of March from 17.3% a year earlier.

Net foreign flows into Thailand's LCY bond market were positive in the first 4 months of 2016, particularly in Q1 2016, as foreign investors regained interest in the region after the US Federal Reserve delayed further increases in its policy rate (**Figure 3**). Aggregate fund inflows in Q1 2016 amounted to THB161 billion. Net foreign inflows in April stood at THB4 billion.

Policy, Institutional, and Regulatory Developments

Securities and Exchange Commission and the Association of Investment Management Companies to Prepare Institutional Investor Code

In March, the Securities and Exchange Commission, Thailand (SEC) and the Association of Investment

Table 2: Top 30 Issuers of Local Currency Corporate Bonds in Thailand

Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
	LCY Bonds (THB billion)	LCY Bonds (USD billion)			
1. CP All	180.0	5.1	No	Yes	Commerce
2. PTT	169.5	4.8	Yes	Yes	Energy and Utilities
3. Siam Cement	166.5	4.7	Yes	Yes	Construction Materials
4. Charoen Pokphand Foods	70.9	2.0	No	Yes	Food and Beverage
5. Bank of Ayudhya	62.8	1.8	No	Yes	Banking
6. Thai Airways International	56.3	1.6	Yes	Yes	Transportation and Logistics
7. True Corporation	45.5	1.3	No	Yes	Communications
8. Indorama Ventures	45.3	1.3	No	Yes	Petrochemicals and Chemicals
9. Kasikorn Bank	42.5	1.2	No	Yes	Banking
10. Tisco Bank	41.4	1.2	No	No	Banking
11. The Siam Commercial Bank	40.0	1.1	No	Yes	Banking
12. Banpu	39.4	1.1	No	Yes	Energy and Utilities
13. Mitr Phol Sugar	38.4	1.1	No	No	Food and Beverage
14. Toyota Leasing Thailand	37.3	1.1	No	No	Finance and Securities
15. True Move H Universal Communication	34.0	1.0	No	No	Communications
16. Thanachart Bank	32.5	0.9	No	No	Banking
17. PTT Exploration and Production Company	32.1	0.9	Yes	Yes	Energy and Utilities
18. Krung Thai Bank	31.2	0.9	Yes	Yes	Banking
19. TPI Polene	29.6	0.8	No	Yes	Property and Construction
20. Land & Houses	29.0	0.8	No	Yes	Property and Construction
21. Thai Oil	28.0	0.8	Yes	Yes	Energy and Utilities
22. Minor International	25.8	0.7	No	Yes	Food and Beverage
23. TMB Bank	25.4	0.7	No	Yes	Banking
24. CH. Karnchang	25.0	0.7	No	Yes	Property and Construction
25. Kiatnakin Bank	24.3	0.7	No	Yes	Banking
26. Quality Houses	24.1	0.7	No	Yes	Property and Construction
27. IRPC	23.0	0.7	Yes	Yes	Energy and Utilities
28. ICBC Thai Leasing	22.1	0.6	No	No	Finance and Securities
29. Krung Thai Bank	21.7	0.6	Yes	Yes	Banking
30. Glow Energy	21.6	0.6	No	Yes	Energy and Utilities
Total Top 30 LCY Corporate Issuers	1,465.2	41.7			
Total LCY Corporate Bonds	2,598.5	74.0			
Top 30 as % of Total LCY Corporate Bonds	56.4%	56.4%			

LCY = local currency, THB = Thai baht, USD = United States dollar.

Notes:

1. Data as of end-March 2016.

2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.

Source: *AsianBondsOnline* calculations based on Bloomberg data.

Management Companies (AIMC) announced the preparation of the Thailand Institutional Investor Code. Through the code, the SEC and AIMC aim to promote responsible investment among institutional investors through the establishment of policies based on corporate governance principles. The code will

also provide guidelines for institutional investors in monitoring the operations of the companies they have invested in to protect the interest of their clients and the investment management industry as a whole.

Table 3: Notable Local Currency Corporate Bond Issuance in Q1 2016

Corporate Issuers	Coupon Rate (%)	Issued Amount (THB million)
CPF Thai		
5-year bond	3.10	7,450
7-year bond	3.47	2,150
10-year bond	3.87	3,350
12-year bond	4.15	3,050
Bank of Ayudhya		
3-year bond	1.86	12,000
UOB Thai		
3-year bond	1.85	5,000
5-year bond	2.16	5,000
Toyota Leasing Thailand		
3-year bond	1.93	3,500
4-year bond	2.14	4,500
CP All		
5-year bond	2.95	1,382
7-year bond	3.40	937
10-year bond	4.00	2,074
12-year bond	4.15	2,607

Q1 = first quarter, THB = Thai baht.
Source: Bloomberg LP.

Figure 3: Foreign Investor Net Trading of Local Currency Bonds in Thailand

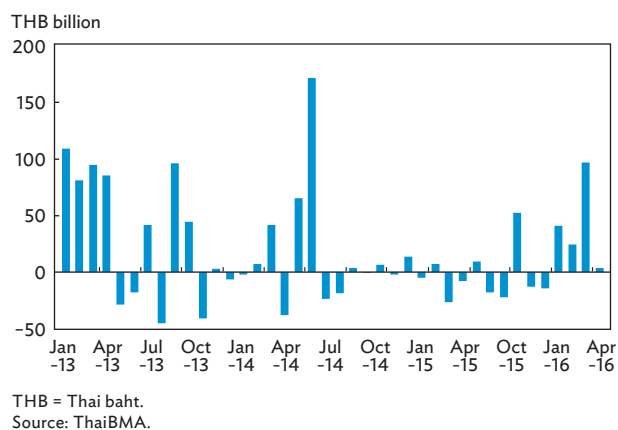
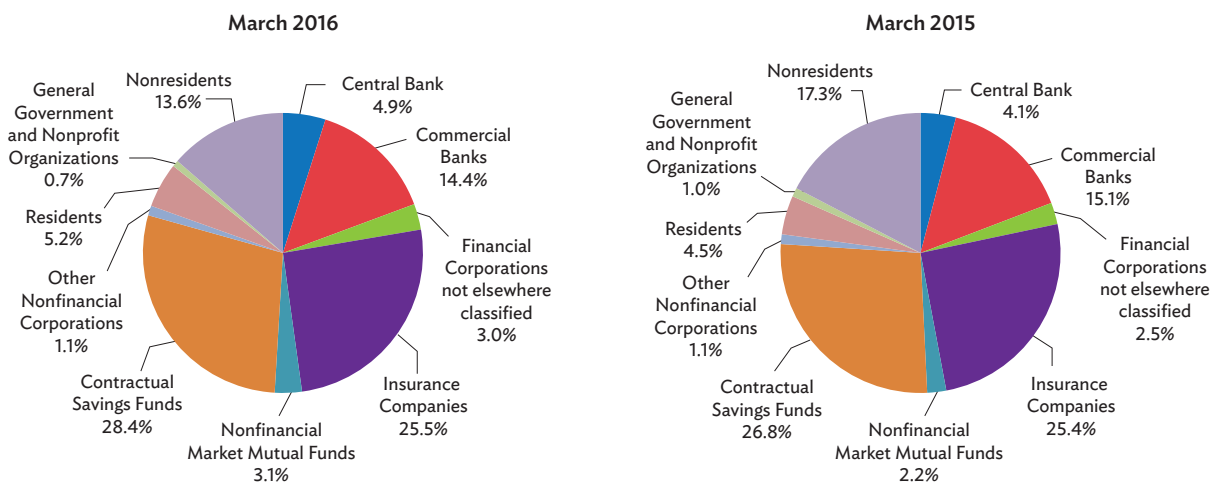


Figure 2: Local Currency Government Bonds Investor Profile



Note: Government bonds exclude central bank bonds and state-owned enterprise bonds.
Sources: AsianBondsOnline and Bank of Thailand.