

## Thailand

### Yield Movements

Thailand's local currency (LCY) government bond yields fell for most tenors between 1 June and 15 August (**Figure 1**). Yields for bonds with maturities of 1 month to 1 year declined 2–10 basis points (bps). Yields for tenors of between 3 years and 7 years fell between 8–24 bps. Yields for tenors of between 8 years and 30 years fell between 13–40 bps, except for the 9-year bond which fell marginally by 2 bps. Only yields for bonds with 2-year, 14-year, and 16-year maturities rose during the review period. The 2-year versus 10-year yield spread narrowed from 79 bps to 50 bps between 1 June and 15 August, leading to a flattening of the yield curve.

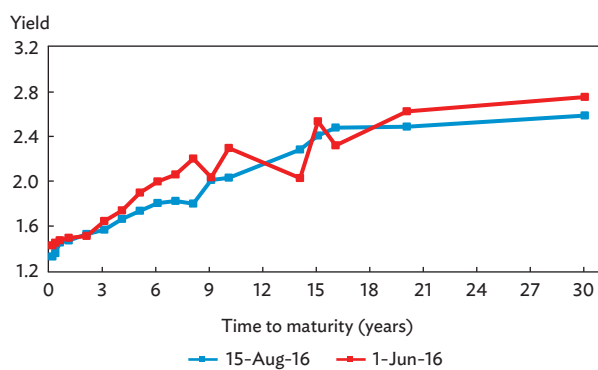
The decline in government LCY bond yields was due to the sudden increase in capital flows induced by increased investor appetite for emerging market assets resulting from the United Kingdom's referendum to leave the European Union on 23 June as well as the United States (US) Federal Reserve refraining from a policy rate increase at its mid-June and end-July meetings.

Bond yields temporarily rose in the days leading up to Thailand's referendum on 7 August in which more than 60% of Thai voters approved the military-backed constitution. The result boosted investor confidence that Thailand's economy, which had suffered due to political uncertainty, is poised to improve. As an example of increased confidence, the Thai baht appreciated to a year-to-date high of THB34.6 to the US dollar on 15 August.

The Bank of Thailand's (BOT) Monetary Policy Committee voted unanimously to maintain the policy rate at 1.50% in its 3 August meeting. The central bank maintained its accommodative monetary policy stance as it assessed that the economy would continue recovering at a gradual pace despite a perceived increase in downside risks generated by the results of the British referendum, weakness in the European financial sector, and financial stability risks in the People's Republic of China.

Consumer price inflation was positive for the fifth consecutive month in August, albeit at a pace of only 0.3% year-on-year (y-o-y), since Thailand exited from

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



Source: Based on data from Bloomberg LP.

deflation in April. The slight uptick in the Consumer Price Index in August came mainly from rising prices for food and nonalcoholic beverages, which account for 33.5% of the index. Prices of nonfood items and beverages, which account for 66.5% of the index, continued to fall, led by housing and furnishings, and transportation and communications. Inflation is expected to gradually rise but the timing will depend on global oil price movements.

Thailand's gross domestic product growth rose to 3.5% y-o-y in the second quarter (Q2) of 2016 from 3.2% y-o-y in the first quarter (Q1) of 2016, buoyed by a rise in private consumption and continued growth in government spending, gross fixed capital formation, tourism, and the manufacturing sector. Exports of services remained strong on growth of 12.1% y-o-y, though this was down from 18.2% y-o-y growth in Q1 2016. Exports of goods remained weak, contracting 2.5% y-o-y in Q2 2016 after tepid growth of 1.0% in Q1 2016. According to the Office of the National Economic and Social Development Board, Thailand's economy is projected to surpass the 2.8% annual growth it achieved in 2015 by expanding 3.0%–3.5% in 2016.

### Size and Composition

Thailand's LCY bond market expanded 1.6% quarter-on-quarter (q-o-q) to THB10,372 billion (USD295 billion)

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2015		Q1 2016		Q2 2016		Q2 2015		Q2 2016	
	THB	USD	THB	USD	THB	USD	q-o-q	y-o-y	q-o-q	y-o-y
<b>Total</b>	<b>9,606</b>	<b>284</b>	<b>10,206</b>	<b>291</b>	<b>10,372</b>	<b>295</b>	<b>3.1</b>	<b>4.6</b>	<b>1.6</b>	<b>8.0</b>
Government	7,299	216	7,607	217	7,720	220	3.1	4.2	1.5	5.8
Government Bonds and Treasury Bills	3,602	107	3,964	113	3,884	111	0.7	5.2	(2.0)	7.8
Central Bank Bonds	2,910	86	2,869	82	3,030	86	8.5	3.0	5.6	4.1
State-Owned Enterprise and Other Bonds	787	23	774	22	807	23	(3.8)	3.7	4.3	2.5
Corporate	2,307	68	2,599	74	2,652	75	3.2	6.2	2.0	14.9

(-) = negative, q-o-q = quarter-on-quarter, Q1 = first quarter, Q2 = second 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.

at the end of June (**Table 1**). On a y-o-y basis, the LCY bond market grew 8.0% in Q2 2016. Of the total amount, government bonds account for THB7,720 billion and corporate bonds for the remaining THB2,652 billion.

**Government Bonds.** LCY government bonds outstanding rose 1.5% q-o-q to THB7,720 billion at the end of June. The increase came mainly from the 5.6% q-o-q increase in central bank bonds outstanding and the 4.3% q-o-q increase in outstanding state-owned enterprise and other bonds. At the end of June, the outstanding stock of central government bonds stood at THB3,884 billion, a slight decrease of 2.0% q-o-q. Central bank bonds rose to THB3,030 billion, leading the overall rise in bonds outstanding.

In Q2 2016, newly issued government bonds totaled THB2,216 billion, up from THB2,103 billion in Q1 2016. Most of the new issuance comprised central bank bonds worth THB1,908 billion, which was roughly on par with the previous quarter's issuance and up 36.9% on an annual basis. New issuance of central government bonds rose 42.0% q-o-q to THB251 billion in Q2 2016 but declined 37.8% y-o-y.

**Corporate Bonds.** Total LCY corporate bonds outstanding rose to THB2,652 billion at the end of June on growth of 2.0% q-o-q and 14.9% y-o-y. LCY corporate bond issuance amounted to THB380 billion in Q2 2016.

At the end of June, the top 30 LCY corporate bond issuers in Thailand had combined outstanding LCY bonds amounting to THB1,465 billion. The top 30 issuers

accounted for 55.3% of total LCY corporate bonds outstanding (**Table 2**). CP All remained the largest corporate issuer in Thailand with THB180 billion of LCY bonds outstanding. Siam Cement, on the back of recent issuances, overtook PTT to become the second largest borrower with THB166.5 billion in outstanding bonds. PTT was in third spot with THB145.4 billion of LCY bonds outstanding.

In Q2 2016, the largest corporate issuance was Siam Cement's 4-year bond sale worth THB25 billion and with a coupon rate of 3.0%. This was followed by Advanced Wireless with a dual-tranche bond sale comprising 7-year and 10-year maturities totaling THB15 billion, and Bangkok Expressway and Metro's issuance of a multitranche bond with maturities ranging from 3 years to 12 years totaling THB15 billion. **Table 3** lists notable corporate bond issuances in Q2 2016.

## Investor Profile

Contractual savings funds remained the largest holder of LCY government bonds in Thailand with a share of 28.8% of the total at the end of June, up slightly from 27.9% in Q2 2015 (**Figure 2**). Insurance companies accounted for the second largest share at 26.3%, which was little changed from 25.8% in Q2 2015. Meanwhile, the share of foreign investors fell to 14.5% at the end of June from 16.5% a year earlier.

Net foreign flows into Thailand's LCY bond market were positive in January–July. In Q1 2016, foreign investors showed renewed interest in the region after

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.	Siam cement	166.5	4.7	Yes	Yes	Construction Materials
3.	PTT	145.4	4.1	Yes	Yes	Energy and Utilities
4.	Charoen Pokphand Foods	80.0	2.3	No	Yes	Food and Beverage
5.	Bank of Ayudhya	67.3	1.9	No	Yes	Banking
6.	Thai Airways International	54.3	1.5	Yes	Yes	Transportation and Logistics
7.	Indorama Ventures	45.3	1.3	No	Yes	Petrochemicals and Chemicals
8.	Kasikorn Bank	42.5	1.2	No	Yes	Banking
9.	Tisco Bank	40.8	1.2	No	No	Banking
10.	The Siam Commercial Bank	40.0	1.1	No	Yes	Banking
11.	Toyota Leasing Thailand	39.1	1.1	No	No	Finance and Securities
12.	Mitr Phol Sugar	37.8	1.1	No	No	Food and Beverage
13.	Banpu	37.3	1.1	No	Yes	Energy and Utilities
14.	True Corp	37.1	1.1	No	Yes	Communications
15.	True Move H Universal Communication	34.0	1.0	No	No	Communications
16.	Krungthai Card	32.8	0.9	Yes	Yes	Banking
17.	Thanachart Bank	32.5	0.9	No	No	Banking
18.	Land & Houses	32.5	0.9	No	Yes	Property and Construction
19.	PTT Exploration and Production Company	32.1	0.9	Yes	Yes	Energy and Utilities
20.	TPI Polene	32.0	0.9	No	Yes	Property and Construction
21.	Advanced Wireless	31.6	0.9	No	Yes	Communications
22.	Thai Oil	28.0	0.8	Yes	Yes	Energy and Utilities
23.	Minor International	25.8	0.7	No	Yes	Food and Beverage
24.	Quality Houses	25.4	0.7	No	Yes	Property and Construction
25.	TMB Bank	25.4	0.7	No	Yes	Banking
26.	ICBC Thai Leasing	24.9	0.7	No	No	Finance and Securities
27.	Glow Energy	24.6	0.7	No	Yes	Energy and Utilities
28.	CH. Karnchang	24.5	0.7	No	Yes	Property and Construction
29.	IRPC	23.0	0.7	Yes	Yes	Energy and Utilities
30.	Bangkok Dusit Medical Services	22.6	0.6	No	Yes	Medical
<b>Total Top 30 LCY Corporate Issuers</b>		<b>1,465.1</b>	<b>41.7</b>			
<b>Total LCY Corporate Bonds</b>		<b>2,651.5</b>	<b>75.5</b>			
<b>Top 30 as % of Total LCY Corporate Bonds</b>		<b>55.3%</b>	<b>55.3%</b>			

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

Notes:

1. Data as of end-June 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 LP data.

the US Federal Reserve announced it would delay further increases in its policy rate. Toward the end of Q2 2016, the United Kingdom's referendum on leaving the European Union caused uncertainty in global financial markets and directed funds toward the region. In addition, there was a further delay in the next rate hike

by the US Federal Reserve. Aggregate net fund inflows in Q2 2016 amounted to THB133 billion. On a monthly basis, the decline in net inflows from THB113 billion in June to THB11 billion in July was the result of political uncertainty ahead of Thailand's referendum on 7 August (Figure 3).

**Table 3: Notable Local Currency Corporate Bond Issuance in Q2 2016**

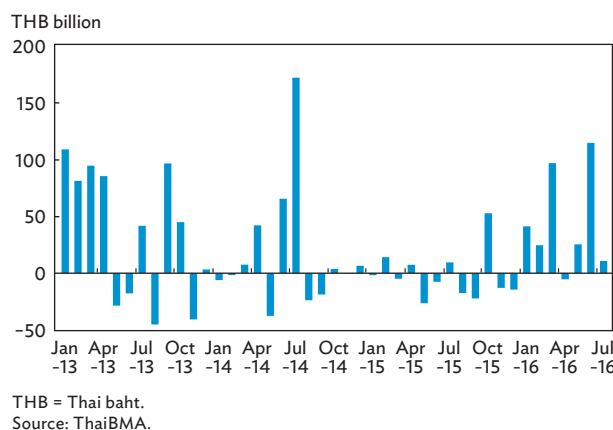
Corporate Issuers	Coupon Rate (%)	Issued Amount (THB million)
Siam Cement		
4-year bond	3.00	25,000
Advanced Wireless		
7-year bond	2.51	7,820
10-year bond	2.78	7,180
Bangkok Expressway and Metro		
3-year bond	2.22	5,000
5-year bond	2.52	1,915
7-year bond	3.00	2,000
10-year bond	3.30	3,335
12-year bond	3.61	2,750
Bank of Ayudhya		
2-year bond	1.89	5,000
3-year bond	1.96	7,000
Charoen Pokphand Foods		
4-year bond	2.28	3,060
8-year bond	3.11	3,500
15-year bond	3.73	2,500

Q2 = second quarter, THB = Thai baht.  
Source: Bloomberg LP.

## Ratings Update

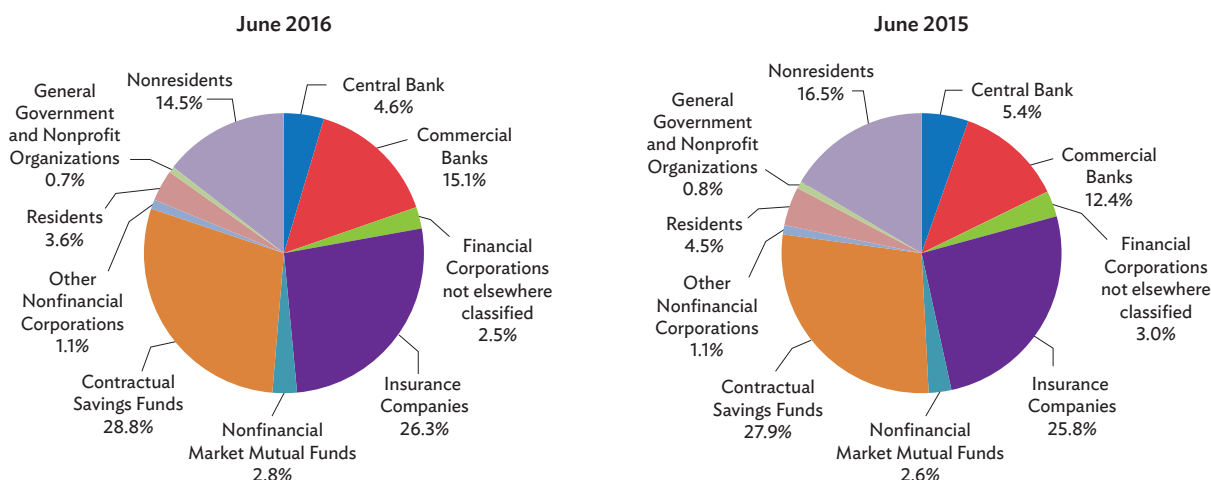
On 22 July, Fitch Ratings (Fitch) downgraded Thailand’s long-term local currency issuer default rating (IDR) to BBB+ from A-, while it affirmed the long-term foreign

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



currency IDR at BBB+. Both ratings were given a stable outlook. Thailand’s country ceiling was affirmed at A-, while its short-term local and foreign currency IDRs were assigned a rating of F2. The downgrade was in accordance with the revised sovereign rating criteria set forth on 18 July. Among other factors, Fitch stated that Thailand’s key rating drivers are its strong and robust external and public finances amid multiple domestic and external economic shocks. However, these positives are tempered by weak growth prospects and the uncertain political environment.

**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.

On 25 July, RAM Ratings reaffirmed Thailand's global scale rating of  $BBB1_{(pi)}$  with a stable outlook. It cited Thailand's robust external finances, strong fiscal position, and well-diversified economy as the primary basis for the reaffirmation. It notes, however, political instability, weak private demand, and structural challenges as key concerns for the economy.

## Policy, Institutional, and Regulatory Developments

### Bank of Thailand Releases Plan for Bond Issuance Program for the Second Half of 2016

In June, the BOT announced its plan to increase the maximum issuance sizes of all bills and fixed-coupon bonds, except for the 3-year floating-rate bond, as a response to potentially rapid changes in market liquidity conditions and large swings in the appetite for bonds amid heightened volatility in the global financial markets. Auction days and issuance frequencies for all types of

BOT bonds will remain the same. Depending on liquidity conditions and the issuance calendar for Treasury bills, the central bank will also consider issuing 1-month BOT bills on an occasional basis.

### Bank of Thailand Eases Rules for Ownership of Foreign Securities

On 5 July, the BOT issued a memorandum allowing Thailand's citizens direct investment access to foreign securities, effective 20 July. Individuals and corporations with deposits or securities of at least THB100 million can directly invest a maximum amount each year of USD5 million in foreign securities. Corporate treasuries will also be allowed to both issue and invest in onshore and offshore foreign-currency-denominated debt beginning 28 July. Previously, stricter rules only allowed for firms to borrow foreign currency from financial institutions and invest in foreign-currency-denominated securities that were issued offshore. This comes as part of the central bank's effort to dampen the strengthening of the Thai baht vis-à-vis the US dollar.