

# Thailand

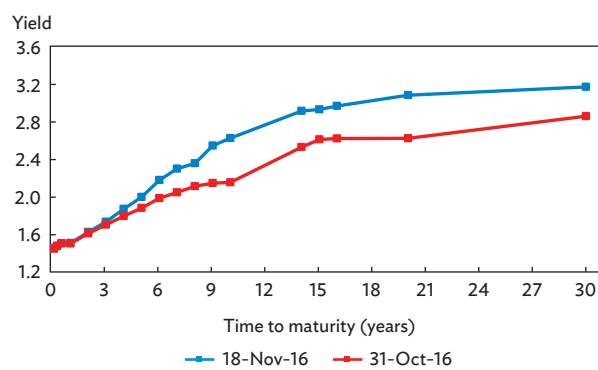
## Yield Movements

Between 31 October and 18 November, Thailand's local currency (LCY) government bond yields rose for all tenors in the aftermath of the United States (US) presidential election, which affected global financial markets (**Figure 1**). Yields for bonds with maturities of 1 month to 1 year rose an average of 1 basis point (bp). Yields for tenors of between 2 years and 9 years rose an average of 16 bps, while yields for bonds with 10-year to 30-year maturities rose an average of 38 bps. The 2-year versus 10-year yield spread widened to 99 bps on 18 November from 54 bps on 31 October.

The economic environment in Thailand was generally good in the third quarter (Q3) of 2016 as the economy expanded amid continued inflation, improved private consumption and investment, and a rise in exports. However, recent events in October and November largely contrasted with the favorable environment in Q3 2016. The passing away of Thailand's King on 13 October, a widely popular and unifying figure in Thailand's political landscape, caused jitters in domestic equity, bond, and currency markets. This was followed by the impact of the US presidential election outcome on 8 November and the US Federal Reserve chair signaling to the US Congress on 17 November that a December rate hike was likely given continued improvement in key indicators of US economic activity, including a tightening labor market amid near full employment. The cumulative impact of these events caused yields to spike across the curve, with yields at the longer end rising more than those at the shorter end.

The Bank of Thailand's Monetary Policy Committee decided to maintain the policy rate at 1.50% for the 12th consecutive time on 9 November. The central bank assessed that Thailand's economy will gradually recover despite the downside risks on both the domestic and global fronts such as the slowdown in tourist arrivals from the People's Republic of China and global political uncertainty, especially in the US and the European Union. The committee decided to preserve policy space to counter uncertainty over the direction of monetary policies and political changes in advanced economies that could lead to exchange rate volatility and sudden capital

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



Source: Based on data from Thai Bond Market Association.

flows in either direction. Inflation is expected to return to within the central bank's target band in the medium term, while monetary conditions remain accommodative to support the gradual economic recovery.

Thailand's consumer price inflation has been positive for 7 consecutive months, increasing 0.3% year-on-year (y-o-y) in October after rising 0.4% y-o-y in September. The gains were led by an increase in prices of fuel and transportation costs, which rose 0.3% y-o-y in October after declining 0.9% y-o-y in September. The excise tax on cigarettes, which took effect in February, also contributed to inflation with tobacco and alcoholic beverages growing 13.0% y-o-y in October, at par with September. Inflation is expected to gradually rise, but the timing will depend on global oil price movements.

Thailand's economy improved in the second quarter of 2016, with gross domestic product (GDP) growth rising to 3.5% y-o-y, up from 3.2% y-o-y in the first quarter of 2016. The expansion was mainly due to improving private consumption as well as growth in government spending, gross fixed capital formation, tourism, and manufacturing. In September, merchandise exports rose 3.5% y-o-y due to improving demand for electronic products and appliances among Thailand's trading partners. According to preliminary report from the Bank of Thailand, the economy also expanded in Q3 2016 supported by growth in public spending and private consumption. Overall,

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2015		Q2 2016		Q3 2016		Q3 2015		Q3 2016	
	THB	USD	THB	USD	THB	USD	q-o-q	y-o-y	q-o-q	y-o-y
<b>Total</b>	<b>9,769</b>	<b>269</b>	<b>10,372</b>	<b>295</b>	<b>10,593</b>	<b>306</b>	<b>1.7</b>	<b>6.5</b>	<b>2.1</b>	<b>8.4</b>
Government	7,312	201	7,720	220	7,819	226	0.2	5.7	1.3	6.9
Government Bonds and Treasury Bills	3,698	102	3,884	111	4,035	117	2.7	7.1	3.9	9.1
Central Bank Bonds	2,862	79	3,030	86	2,961	86	(1.6)	6.0	(2.3)	3.5
State-Owned Enterprise and Other Bonds	752	21	807	23	822	24	(4.5)	(1.4)	1.9	9.4
Corporate	2,456	68	2,652	75	2,775	80	6.5	8.9	4.6	13.0

( ) = negative, q-o-q = quarter-on-quarter, Q2 = second quarter, Q3 = third 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 local currency-USD rates are used.
3. Growth rates are calculated from an LCY base and do not include currency effects.
4. ADB calculations used to estimate data for Q3 2016.

Sources: Bank of Thailand and Bloomberg LP.

Thailand's economy is poised to surpass the 2.8% GDP growth attained in 2015 and is projected to grow 3.2% in 2016 and 2017.

## Size and Composition

Thailand's LCY bond market expanded 2.1% quarter-on-quarter (q-o-q) and 8.4% y-o-y to reach THB10,593 billion (USD304 billion) (Table 1).

**Government Bonds.** Government debt securities rose 1.3% q-o-q in Q3 2016 to THB7,819 billion at the end of September from THB7,720 billion at the end of June. The rise came mainly from a 3.9% q-o-q increase in government bonds and Treasury bills, and a 1.9% q-o-q increase in state-owned enterprise and other bonds. Central bank bonds decreased 2.3% q-o-q, but rose 3.5% y-o-y. The outstanding stock of government issued debt securities comprised government bonds (THB4,035 billion), central bank bonds (THB2,961 billion), and state-owned enterprise and other bonds (THB822 billion).

Newly issued government bonds in Q3 2016 amounts to THB2,219 billion. Most of the new issuance comprised central bank bonds (THB1,899 billion), which increased 29.2% from Q3 2015. New issuance of central government bonds (THB280 billion) declined 18.4% q-o-q, but rose 11.4% y-o-y.

**Corporate Bonds.** Total LCY corporate bonds outstanding rose to THB2,775 billion at the end of September from THB2,652 billion at the end of June. LCY

corporate bonds outstanding in Q3 2016 grew 4.6% q-o-q and 13.0% y-o-y. New issuance of LCY corporate bonds amounted to THB470 billion in Q3 2016.

The top 30 LCY corporate bond issuers in Thailand had combined outstanding bonds amounting to THB1,536.5 billion at the end of September, accounting for 55.4% of the total LCY corporate bond market (Table 2). CP All remained the largest corporate issuer in Thailand in Q3 2016 with THB192 billion of LCY bonds outstanding. Siam Cement was second with THB166.5 billion. PTT remained in the third spot with THB145.4 billion of LCY bonds outstanding.

Table 3 lists the notable corporate bond issuances in Q3 2016. Berli Jucker, a large Thai consumer products export and import firm, led all 70 companies that issued new bonds in Q3 2016 with THB54 billion worth of bonds issued in multiple tranches. CPF Thailand, a world leader in pet foods, was second with a multitranche debt issuance worth THB13 billion. The third largest was CP All, a major convenience store operator, with a multitranche bond issuance worth almost THB12 billion.

## Investor Profile

In Q3 2016, LCY government bonds in Thailand were still mostly held by contractual savings funds, which accounted for a 28.6% share of the total, but this share declined from 29.2% in the previous year (Figure 2). While the second-largest group of holders were insurance companies, whose share increased from 20.3% in Q3 2015 to 26.0% in Q3 2016. Commercial banks'

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	192.0	5.6	No	Yes	Commerce
2.	Siam Cement	166.5	4.8	Yes	Yes	Construction Materials
3.	PTT	145.4	4.2	Yes	Yes	Energy and Utilities
4.	Charoen Pokphand Foods	80.0	2.3	No	Yes	Food and Beverage
5.	Bank of Ayudhya	77.3	2.2	No	Yes	Banking
6.	Thai Airways International	54.3	1.6	Yes	Yes	Transportation and Logistics
7.	Berli Jucker	54.0	1.6	No	Yes	Food and Beverage
8.	Kasikorn Bank	50.0	1.4	No	Yes	Banking
9.	Indorama Ventures	45.3	1.3	No	Yes	Petrochemicals and Chemicals
10.	Toyota Leasing Thailand	42.1	1.2	No	No	Finance and Securities
11.	Tisco Bank	41.5	1.2	No	No	Banking
12.	The Siam Commercial Bank	40.0	1.2	No	Yes	Banking
13.	Mitr Phol Sugar	37.8	1.1	No	No	Food and Beverage
14.	Banpu	37.3	1.1	No	Yes	Energy and Utilities
15.	True Corp	37.2	1.1	No	Yes	Communications
16.	True Move H Universal Communication	34.0	1.0	No	No	Communications
17.	Krungthai Card	33.5	1.0	Yes	Yes	Banking
18.	Thanachart Bank	32.5	0.9	No	No	Banking
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.	CH. Karnchang	30.0	0.9	No	Yes	Property and Construction
23.	CPF Thailand	29.0	0.8	No	Yes	Food and Beverage
24.	Land & Houses	29.0	0.8	No	Yes	Property and Construction
25.	Thai Oil	28.0	0.8	Yes	Yes	Energy and Utilities
26.	Minor International	25.8	0.7	No	Yes	Food and Beverage
27.	TMB Bank	25.4	0.7	No	Yes	Banking
28.	Glow Energy	24.6	0.7	No	Yes	Energy and Utilities
29.	Thai Union Group	24.3	0.7	No	Yes	Food and Beverage
30.	ICBC Thai Leasing	24.1	0.7	No	No	Finance and Securities
<b>Total Top 30 LCY Corporate Issuers</b>		<b>1,536.5</b>	<b>44.4</b>			
<b>Total LCY Corporate Bonds</b>		<b>2,774.7</b>	<b>80.2</b>			
<b>Top 30 as % of Total LCY Corporate Bonds</b>		<b>55.4%</b>	<b>55.4%</b>			

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

Notes:

1. Data as of end-September 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.

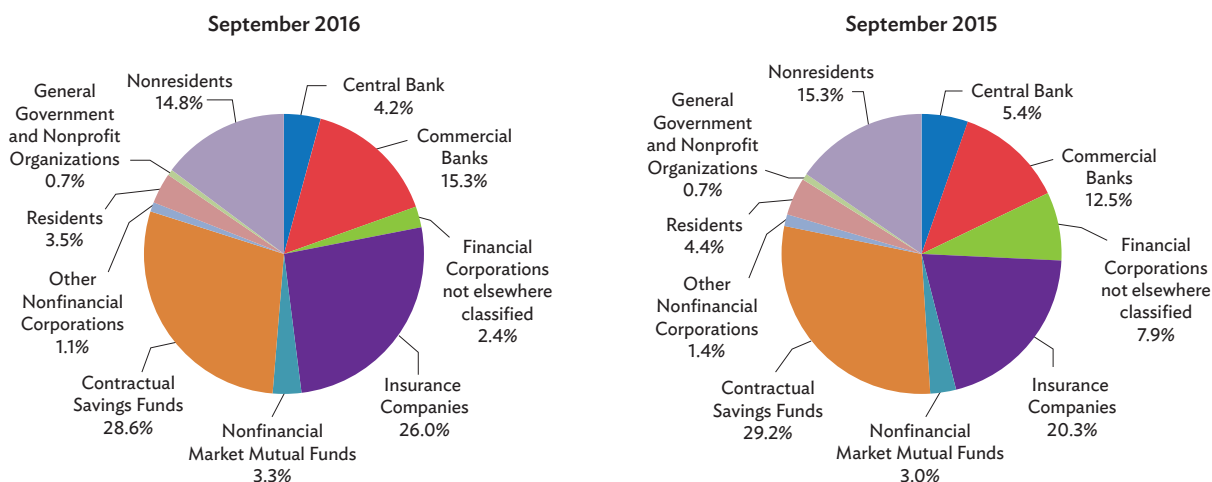
**Table 3: Notable Local Currency Corporate Bond Issuance in Q3 2016**

Corporate Issuers	Coupon Rate (%)	Issued Amount (THB million)
<b>Berli Jucker</b>		
3-year bond	2.34	22,000
5-year bond	2.69	9,000
7-year bond	3.07	3,000
10-year bond	3.80	20,000
<b>CPF Thailand</b>		
4-year bond	2.51	5,000
7-year bond	3.09	3,300
10-year bond	3.46	1,400
12-year bond	3.65	1,100
15-year bond	3.95	2,200
<b>CP All</b>		
3-year bond	2.49	5,900
7-year bond	3.25	500
10-year bond	3.68	748
12-year bond	4.00	4,850
<b>Bank of Ayudhya</b>		
8.4-year bond	3.50	10,000
<b>Thai Union Group</b>		
3-year bond	2.03	6,000
5-year bond	2.32	2,000
7-year bond	2.79	2,000

Q3 = third quarter, THB = Thai baht.  
Source: Bloomberg LP.

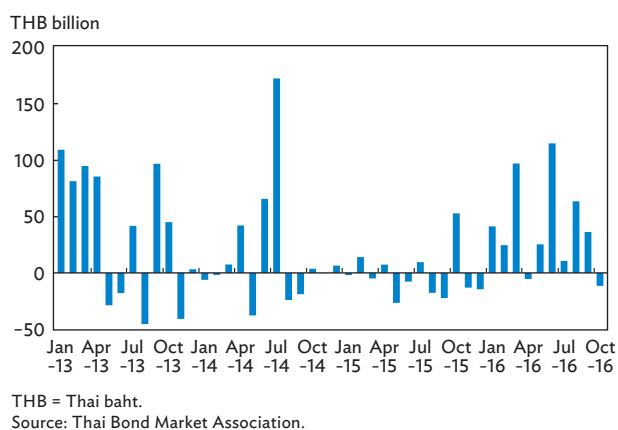
share also increased from 12.5% in Q3 2015 to 15.3% in Q3 2016, while the share of foreign investors fell from 15.3% to 14.8%.

In January–October, net foreign flows into the LCY bond market amounted to THB392.0 billion, up from only THB3.2 billion for the same period in 2015. Foreign flows were net positive in every month during the review period except for April and October. The substantial net inflows reflect positive investor sentiments on improving fundamentals for Thailand’s economy even amid anticipation of a US interest rate hike throughout the year. Meanwhile, the British referendum to leave the European in June acted as a tailwind, further increasing fund flows into Thailand as global financial markets reacted to the vote with shock. However, domestic political uncertainty in Thailand on two occasions also made investors cautious: Thailand’s referendum on a new constitution in August and the passing away of the King in October. Since then, the government’s securing a majority vote for approval of the military-backed constitution and the announcement on the transfer of power to the King’s successor on 1 December have calmed jittery sentiments among investors. Net aggregate fund inflows totaled THB109 billion in Q3 2016. The net decline in October

**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.

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



of THB11 billion mainly comprised large net outflows in mid-October following the King's death as well as reports of improving US economic activity (**Figure 3**). As of 18 November, net outflows for the month amounted to THB50 billion, reflecting investor sentiments following the result of the US presidential election.

## Policy, Institutional, and Regulatory Developments

### Stock Exchange of Thailand Plans New Mutual Fund Service Platform in Early 2017

The Stock Exchange of Thailand on 26 September announced its plan to launch a new mutual fund service platform in the first quarter of 2017 to help broaden and make efficient the channeling and access of mutual funds by the public. An industry-wide test run is expected before the end of the year. The announcement came after memorandums of understanding were signed with about 40 mutual fund firms on 15 March. Upon launch, the many stakeholders—which include asset management firms, securities companies, unit investment trusts, life insurance firms, and commercial banks—have all committed to use the new platform to service customer needs in addition to the continued use of traditional person-to-person channels. According to the Securities and Exchange Commission, the plan is an important milestone in establishing Thailand's national infrastructure investment platform, making transactions easier for stakeholders and their customers.