

## Thailand

### Yield Movements

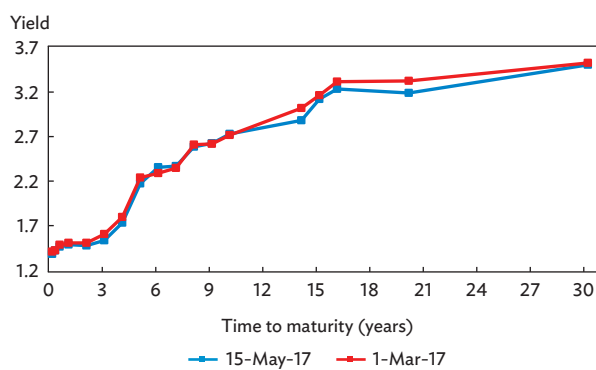
Between 1 March and 15 May, bond yields fell for most tenors of Thailand's local currency (LCY) government bonds. Yields for bonds with maturities of 5 years and less fell an average of 4 basis points (bps), while yields for bonds with maturities of 14–30 years fell an average of 8 bps (**Figure 1**). Only the yields for bonds with 6-, 7-, 9-, and 10-year maturities rose, on average by 3 bps. The yield spread between the 2-year and 10-year bonds rose to 124 bps in 15 May from 119 bps in 1 March.

Noting the successive capital outflows in the last 3 months of 2016, Thailand's capital flows reversed to positive in the first 4 months of 2017. The decline in government bond yields for most tenors can be partially attributed to this strong investor appetite. It can also be a result of the shift in capital flows toward government bonds after the Bank of Thailand tightened its issuance of short-term bonds—bonds with maturities of 3–6 months—by THB80 billion (USD2.3 billion) in April in an effort to stem speculation and unwarranted appreciation of the Thai baht, as well as to dampen continued strong capital inflow.

Thailand's economy continues to grow in the first quarter (Q1) of 2017. Real gross domestic product (GDP) accelerated 3.3% year-on-year (y-o-y) in Q1 2017, overtaking the 3.0% y-o-y growth logged in the fourth quarter (Q4) of 2016. The economic expansion in Q1 2017 was underpinned by strong growth in private consumption (3.2% y-o-y), exports of goods and services (6.6% y-o-y), and public investment (9.7% y-o-y). Factors providing tailwinds for economic growth include (i) continued recovery among Thailand's main trading partners and a rebound in commodity prices, (ii) high growth in public investment, (iii) continued growth in the agricultural sector and favorable prices, (iv) continued growth in the tourism sector, and (v) improvement in the domestic car market. For full-year 2017, the Thai economy is expected to grow between 3.3% and 3.8%.

The Monetary Policy Committee of the Bank of Thailand kept the policy rate unchanged in its meeting on 24 May. The Committee assessed that Thailand's economy continue to improve despite uncertainties from external

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



Sources: Based on data from Bloomberg LP and Thai Bond Market Association.

factors, such as uncertainty in the economic and trade policies of the United States (US), economic structural reforms in the People's Republic of China, and geopolitical risks. In the domestic front, economic growth is mainly supported by the sustained recovery in merchandise exports, private consumption, and tourism. The Committee noted that Thailand's monetary policy will remain accommodative as the central bank is prepared to maintain a sound monetary environment to support economic growth and ensure financial stability.

Thailand's inflation rate peaked in January at 1.6% y-o-y after a deflation seen in March 2016. Since then, inflationary pressure have eased as evident from slower inflation rates in February (1.4% y-o-y), March (0.8% y-o-y), and April (0.4% y-o-y). In May, Thailand was back to deflation with consumer prices marginally dropping by 0.04% y-o-y.

### Size and Composition

At the end of March 2017, Thailand's LCY bond market had risen 2.9% quarter-on-quarter (q-o-q) and 9.5% y-o-y to THB11,171 billion (USD325 billion) from THB10,856 billion at the end of December 2016 (**Table 1**).

**Government Bonds.** In Q1 2017, the outstanding stock of LCY government debt securities rose to THB8,257 billion

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2016		Q4 2016		Q1 2017		Q1 2016		Q1 2017	
	THB	USD	THB	USD	THB	USD	q-o-q	y-o-y	q-o-q	y-o-y
<b>Total</b>	<b>10,206</b>	<b>291</b>	<b>10,856</b>	<b>303</b>	<b>11,171</b>	<b>325</b>	<b>1.9</b>	<b>9.6</b>	<b>2.9</b>	<b>9.5</b>
Government	7,607	217	7,938	222	8,257	240	1.5	7.5	4.0	8.5
Government Bonds and Treasury Bills	3,964	113	4,036	113	4,203	122	1.9	10.8	4.1	6.0
Central Bank Bonds	2,869	82	3,136	88	3,279	95	1.6	7.0	4.6	14.3
State-Owned Enterprise and Other Bonds	774	22	765	21	775	23	(1.1)	(5.5)	1.2	0.1
Corporate	2,599	74	2,919	81	2,914	85	3.3	16.3	(0.2)	12.1

( ) = negative, LCY = local currency, 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 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 Q1 2017.

Sources: Bank of Thailand and Bloomberg LP.

from THB7,938 billion in the previous quarter. The outstanding stock of government LCY bonds comprises government bonds and Treasury bills (THB4,203 billion), central bank bonds (THB3,279 billion), and state-owned enterprise and other bonds (THB775 billion), all of which contributed to the rise in the aggregate stock.

In Q1 2017, newly issued central bank bonds rose 0.9% q-o-q but declined 3.5% y-o-y to THB1,836 billion at the end of March. Newly issued central government bonds rose to THB407 billion, reflecting gains of 132.2% q-o-q and 130.2% y-o-y. Thailand's Ministry of Finance plans to increase its government bond issuance this year to support fiscal spending. Including bonds issued by state-owned enterprises, new issuance of government bonds amounted to THB2,255 billion in Q1 2017.

**Corporate Bonds.** At the end of March 2017, the outstanding amount of LCY corporate bonds stood at THB2,914 billion, slightly down from THB2,919 billion recorded at the end of December 2016. In Q1 2017, a total of THB368 billion worth of corporate bonds were issued, reflecting declines of 26.8% q-o-q and 0.6% y-o-y.

At the end of March 2017, the combined outstanding bonds of Thailand's top 30 LCY corporate bond issuers amounted to THB1,642 billion, comprising 56.4% of Thailand's LCY corporate bond market (**Table 2**). The top corporate issuers in Q1 2017, based on total LCY bonds outstanding, were CP All (THB181.1 billion), Siam Cement (THB166.5 billion), and PTT (THB 134.8 billion).

In Q1 2017, an aggregate amount of THB368 billion of LCY bonds have been issued. Among the most notable issuances, Berli Jucker, delivered a multitranche sale of LCY bonds amounting to THB40 billion. True Corp placed second with a dual-tranche debt issuance worth THB17.5 billion. Charoen Pokphand Foods was the third largest issuer with a perpetual bond issuance worth THB15 billion. **Table 3** lists the notable corporate bond issuances in Q1 2017.

## Investor Profile

At the end of March 2017, more than 50% of Thailand's LCY government bonds were held by contractual savings funds and insurance companies (**Figure 2**). The share of insurance companies increased from 25.5% in Q1 2016 to 27.0% in Q1 2017, while the share of contractual savings funds slightly decreased from 28.4% to 27.0%. At the end of March 2017, commercial banks were the third largest group of holders with a 15.3% share, followed by foreign investors who accounted for 14.7% of the total.

In the first 3 months of 2017, a total of THB89.4 billion in net foreign flows entered Thailand's LCY bond market (**Figure 3**). This amount was a reversal from the THB72.3 billion in net foreign outflows from the last quarter of 2016. Net foreign inflows in April amounted to THB12.5 billion. The continued positive net inflows reflected improved investor confidence in Thailand's economy and its resiliency amid the US Federal Reserve's ongoing rate hikes.

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	181.1	5.3	No	Yes	Commerce
2.	Siam Cement	166.5	4.8	Yes	Yes	Construction Materials
3.	PTT	134.8	3.9	Yes	Yes	Energy and Utilities
4.	Berli Jucker	122.0	3.6	No	Yes	Food and Beverage
5.	Charoen Pokphand Foods	95.0	2.8	No	Yes	Food and Beverage
6.	Bank of Ayudhya	88.4	2.6	No	Yes	Banking
7.	Thai Airways International	59.3	1.7	Yes	Yes	Transportation and Logistics
8.	True Move H Universal Communication	55.2	1.6	No	No	Communications
9.	True Corp	48.7	1.4	No	Yes	Communications
10.	Toyota Leasing Thailand	47.4	1.4	No	No	Finance and Securities
11.	Tisco Bank	47.0	1.4	No	No	Banking
12.	Indorama Ventures	45.9	1.3	No	Yes	Petrochemicals and Chemicals
13.	Krungthai Card	41.3	1.2	Yes	Yes	Banking
14.	Banpu	37.3	1.1	No	Yes	Energy and Utilities
15.	Mitr Phol Sugar	36.4	1.1	No	No	Food and Beverage
16.	Land & Houses	35.8	1.0	No	Yes	Property and Construction
17.	Thai Union Group	33.8	1.0	No	Yes	Food and Beverage
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.	Bangkok Dusit Medical Services	29.6	0.9	No	Yes	Medical
23.	CPF Thailand	29.0	0.8	No	Yes	Food and Beverage
24.	CH. Karnchang	28.5	0.8	No	Yes	Property and Construction
25.	Kasikorn Bank	28.0	0.8	No	Yes	Banking
26.	Minor International	25.8	0.8	No	Yes	Food and Beverage
27.	TMB Bank	25.4	0.7	No	Yes	Banking
28.	Quality Houses	24.5	0.7	No	Yes	Property and Construction
29.	ICBC Thai Leasing	24.1	0.7	No	No	Finance and Securities
30.	Glow Energy	23.6	0.7	No	Yes	Energy and Utilities
<b>Total Top 30 LCY Corporate Issuers</b>		<b>1,642.3</b>	<b>47.8</b>			
<b>Total LCY Corporate Bonds</b>		<b>2,914.0</b>	<b>84.8</b>			
<b>Top 30 as % of Total LCY Corporate Bonds</b>		<b>56.4%</b>	<b>56.4%</b>			

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

Notes:

1. Data as of end-March 2017.

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

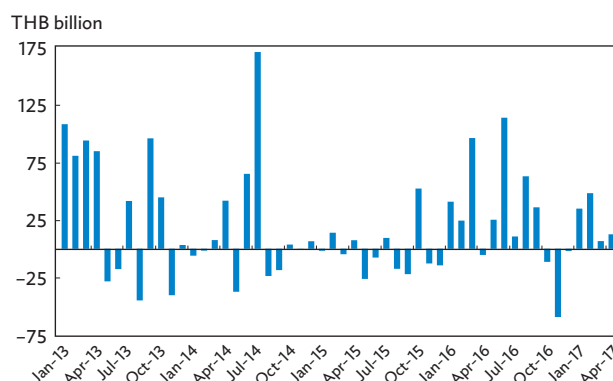
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

**Table 3: Notable Local Currency Corporate Bond Issuance in the First Quarter of 2017**

Corporate Issuers	Coupon Rate (%)	Issued Amount (THB million)
<b>Berli Jucker</b>		
2-year bond	2.55	16,200
3-year bond	3.00	12,000
4-year bond	2.96	300
5-year bond	3.26	2,500
7-year bond	3.85	4,000
10-year bond	4.40	5,000
<b>True Corp</b>		
1-year bond	3.00	10,800
1-year bond	3.00	6,700
<b>Charoen Pokphand Foods</b>		
Perpetual bond	5.00	15,000
<b>True Move H Universal Communication</b>		
1-year bond	3.00	3,500
1-year bond	3.00	2,000
1-year bond	3.00	2,000
1.2-year bond	3.10	4,700
<b>Thai Union Group</b>		
3-year bond	2.49	3,500
5-year bond	2.91	2,000
7-year bond	3.58	2,500
10-year bond	3.94	4,000

THB = Thai baht.  
Source: Bloomberg LP.

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



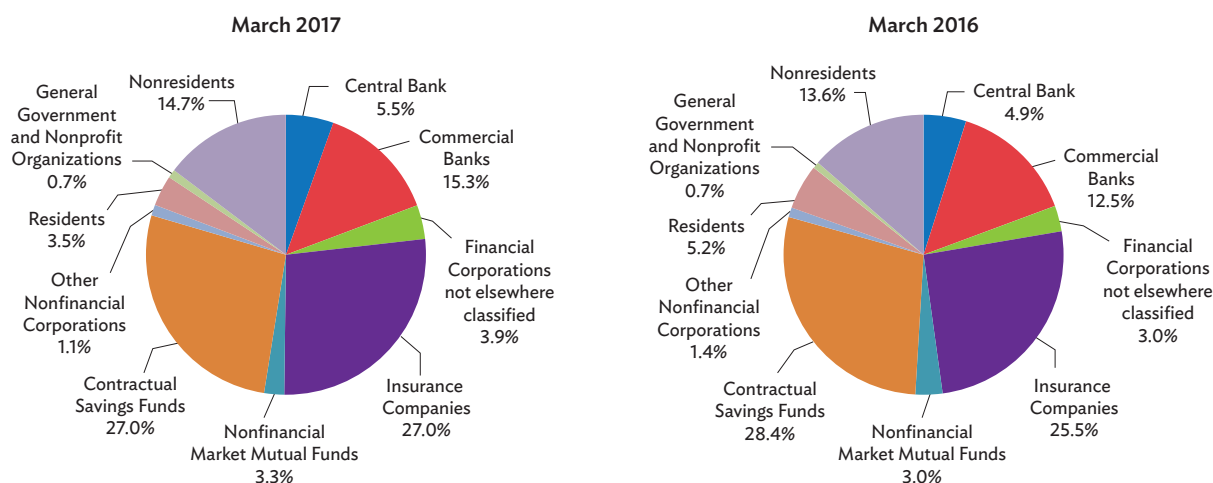
THB = Thai baht.  
Source: Thai Bond Market Association.

## Policy, Institutional, and Regulatory Developments

### Securities and Exchange Commission Tightens Regulations on Nonrated Bonds

New regulations from the Securities and Exchange Commission governing nonrated and non-investment grade bonds went into effect on 16 January. Asset management companies were given 120 days to comply. The new regulations effectively bar any

**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.

intermediary, including asset management companies, from holding more than one-third of any nonrated or non-investment grade bond issue. In addition, the intermediary is also barred from being the issuer's major creditor. The regulations were aimed at reestablishing investor confidence and protecting investors after a string of unrated bills of exchange began defaulting in October 2016.

### **The Bank of Japan and Bank of Thailand Sign Bilateral Swap Arrangement**

On 5 May, the Bank of Japan and the Bank of Thailand signed their fourth bilateral swap arrangement with a facility size of USD3 billion. The arrangement will enable authorities in both economies to swap their local currencies against US dollars. The aim is to reinforce the stability of financial markets and to deepen economic cooperation and trade between both economies.