

Thailand

Yield Movements

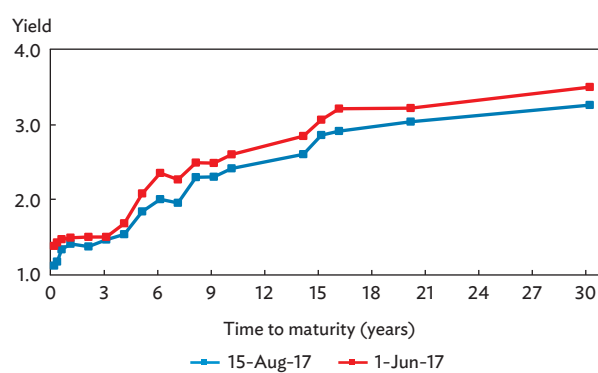
Yields for all tenors of Thailand's local currency (LCY) government bonds fell between 1 June and 15 August (**Figure 1**). Yields for securities with maturities of less than 1 year fell on average 22 basis points (bps), while yields for bonds with 1-year to 3-year maturities fell an average of 8 bps. For bonds with 4-year to 30-year tenors, yields fell an average of 23 bps. The yield spread between 2-year and 10-year bonds narrowed to 104 bps on 15 August from 110 bps on 1 June.

Low inflation this year has contributed to the overall decline in yields during the review period. Consumer price inflation eased to 0.4% year-on-year (y-o-y) in April, before turning negative in May and June. Subsequently in July, inflation inched up to 0.2% y-o-y. With inflation remaining below the Bank of Thailand's (BOT) target range of between 1.0%– 4.0% for 2017, the BOT has held its policy rate unchanged in January to August at 1.50%. The rate has stayed at this level since April 2015.

The strong appreciation of the Thai baht since the start of the year has helped attract foreign funds into the Thai bond market, further pushing yields down. At the end of June, the share of foreign holdings rose to 16.2% from 14.7% at the end of March. To limit speculation on the Thai baht, the BOT began tightening its issuance of short-term bills in April, particularly those with 3-month and 6-month maturities. In June, the BOT further relaxed its foreign exchange regulations, which allowed qualified Thai investors to directly invest a maximum of USD1 million per year in securities abroad, thereby lessening the upward pressure on the Thai baht.

Thailand's gross domestic product (GDP) accelerated in the second quarter (Q2) of 2017, rising 3.7% y-o-y after an expansion of 3.3% y-o-y in the first quarter (Q1) of 2017. GDP growth was supported by the strong performance in exports of goods and services, and the rise in domestic demand backed by continued growth in private and public consumption, and private investment. On the production side, the agricultural sector rebounded in Q2 2017. GDP growth for full-year 2017 is expected to come in at 3.5%–4.0%

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



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

Size and Composition

Thailand's LCY bond market fell to a size of THB10,973 billion (USD323 billion) at the end of June from THB11,163 billion at the end of March, reflecting a decline of 1.7% quarter-on-quarter (q-o-q). On a y-o-y basis, Thailand's LCY bond market expanded 5.8% in Q2 2017 (**Table 1**).

Government bonds. The outstanding stock of LCY government bonds declined 3.4% q-o-q to THB7,964 billion at the end of June from THB8,249 billion at the end of March. Government bonds and Treasury bills, and central bank bonds led the decline, falling to THB4,103 billion and THB3,080 billion on contractions of 2.4% q-o-q and 6.1% q-o-q, respectively. State-owned enterprise and other bonds rose 1.9% q-o-q to reach THB781 billion at the end of June.

In an effort to rein in investor speculation on the Thai baht, the BOT in Q2 2017 decreased new issuance of its short-term bills. As a result, new issuance of central bank bills declined to THB1,199 billion, lower by 30.5% q-o-q and 32.5% y-o-y in Q2 2017. On the other hand, new issuance of central bank bonds totaled THB146.1 billion.

In the same period, the issuance of central government bonds and other government bonds increased by

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2016		Q1 2017		Q2 2017		Q2 2016		Q2 2017	
	THB	USD	THB	USD	THB	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	10,372	295	11,163	325	10,973	323	1.6	8.0	(1.7)	5.8
Government	7,720	220	8,249	240	7,964	235	1.5	5.8	(3.4)	3.2
Government Bonds and Treasury Bills	3,884	111	4,203	122	4,103	121	(2.0)	7.8	(2.4)	5.6
Central Bank Bonds	3,030	86	3,279	95	3,080	91	5.6	4.1	(6.1)	1.7
State-Owned Enterprise and Other Bonds	807	23	766	22	781	23	4.3	2.5	1.9	(3.2)
Corporate	2,652	75	2,914	85	3,009	89	2.0	14.9	3.3	13.5

() = negative, LCY = local currency, 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 LP end-of-period LCY-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 Q2 2017.

Sources: Bank of Thailand and Bloomberg LP.

15.2% q-o-q and 56.4% y-o-y, totaling THB483 billion. The combined total of newly issued bonds by the government amounted to THB1,828 billion in Q2 2017.

Corporate bonds. The outstanding stock of LCY corporate bonds in Thailand rose to THB3,009 billion at the end of June from THB2,914 billion at the end of March. Corporate debt issuance in Q2 2017 rose 23.2% q-o-q and 19.2% y-o-y, reaching THB453 billion from THB368 billion in Q1 2017.

At the end of June, Thailand's top 30 LCY corporate bond issuers continued to dominate the LCY corporate bond market with a combined outstanding bond stock of THB1,690.1 billion, or 56.2% of the total market (**Table 2**). Most of the top issuers are privately listed firms. Among the top issuers, five firms have outstanding LCY bond stocks exceeding THB100 billion: CP All (THB181.1 billion), Siam Cement (THB166.5 billion), PTT (THB134.8 billion), Berli Jucker (THB122.0 billion), and Bank of Ayudhya (THB109.9 billion).

Of the THB453 billion worth of newly issued LCY bonds in Q2 2017, the single largest issuance was the THB25 billion 4-year bond sold with a coupon rate of 3.25% by Siam Cement, the biggest private and listed cement and building materials company in Thailand. The next biggest was the 10.5-year THB17 billion bond with a coupon rate of 3.90% from Thailand's fifth-largest bank,

Bank of Ayudhya, which is also known as Krungsri. True Move H Universal was the third largest issuer in Q2 2017 with a multitranche bond issuance worth THB13 billion. Other notable corporate bond issuances in the LCY bond market in Q2 2017 are listed in **Table 3**.

Investor Profile

Insurance companies (29.2%) and contractual savings funds (25.2%) together continue to hold more than 50% of Thailand's LCY government bonds at the end of June (**Figure 2**). They were followed by commercial banks and foreign residents, whose shares increased to 15.4% and 16.2%, respectively, at the end of June from 15.1% and 14.5% a year earlier. These four groups cumulatively accounted for an 86.0% share of the total market, up from an 84.7% share at the end of June 2016.

In each of the first 7 months of 2017, Thailand recorded positive net foreign flows into its LCY bond market (**Figure 3**). A total of THB89.4 billion was recorded in Q1 2017, while Q2 2017 saw positive net inflows of THB66.2 billion. The positive net inflows into the LCY bond market in 2017 have been attributed to positive investor sentiment over Thailand's economy due to a sustained recovery supported by robust domestic demand, a strong export sector, and a high current account surplus.

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	4.9	Yes	Yes	Construction Materials
3.	PTT	134.8	4.0	Yes	Yes	Energy and Utilities
4.	Berli Jucker	122.0	3.6	No	Yes	Food and Beverage
5.	Bank of Ayudhya	109.9	3.2	No	Yes	Banking
6.	Charoen Pokphand Foods	95.0	2.8	No	Yes	Food and Beverage
7.	True Move H Universal Communication	68.2	2.0	No	No	Communications
8.	Thai Airways International	66.1	1.9	Yes	Yes	Transportation and Logistics
9.	Tisco Bank	54.2	1.6	No	No	Banking
10.	Indorama Ventures	49.4	1.5	No	Yes	Petrochemicals and Chemicals
11.	Banpu	47.3	1.4	No	Yes	Energy and Utilities
12.	Krungthai Card	44.3	1.3	Yes	Yes	Banking
13.	Toyota Leasing Thailand	42.5	1.3	No	No	Finance and Securities
14.	Land & Houses	39.3	1.2	No	Yes	Property and Construction
15.	Mitr Phol Sugar	35.8	1.1	No	No	Food and Beverage
16.	Thai Union Group	33.8	1.0	No	Yes	Food and Beverage
17.	Thanachart Bank	32.5	1.0	No	No	Banking
18.	PTT Exploration and Production Company	32.1	0.9	Yes	Yes	Energy and Utilities
19.	TPI Polene	32.0	0.9	No	Yes	Property and Construction
20.	True Corp	31.6	0.9	No	Yes	Communications
21.	Advanced Wireless	31.2	0.9	No	Yes	Communications
22.	Bangkok Dusit Medical Services	29.6	0.9	No	Yes	Medical
23.	CPF Thailand	29.0	0.9	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.	Quality Houses	26.5	0.8	No	Yes	Property and Construction
27.	Minor International	25.8	0.8	No	Yes	Food and Beverage
28.	DTAC Trinet	25.5	0.8	No	Yes	Communications
29.	ICBC Thai Leasing	24.4	0.7	No	No	Finance and Securities
30.	Thaioil	23.5	0.7	Yes	Yes	Energy and Utilities
Total Top 30 LCY Corporate Issuers		1,690.1	49.8			
Total LCY Corporate Bonds		3,009.2	88.7			
Top 30 as % of Total LCY Corporate Bonds		56.2%	56.2%			

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

Notes:

1. Data as of end-June 2017.

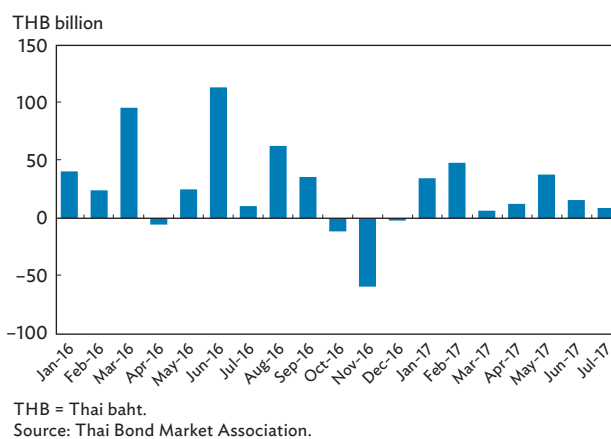
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.

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

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

Corporate Issuers	Coupon Rate (%)	Issued Amount (THB million)
Siam Cement		
4-year bond	3.25	25,000
Bank of Ayudhya		
10.5-year bond	3.90	17,007
True Move H Universal Communication		
5-year bond	4.50	6,258
7-year bond	5.00	2,790
10-year bond	5.50	1,376
12-year bond	5.75	2,576
Siam City Cement		
3-year bond	2.49	1,000
7-year bond	3.65	2,500
10-year bond	4.08	5,000
12-year bond	4.26	4,500
Amata B.Grimm Power		
3-year bond	2.68	1,800
4-year bond	3.00	600
5-year bond	3.25	1,500
6-year bond	3.58	900
7-year bond	3.76	900
9-year bond	4.01	1,000
10-year bond	4.17	1,500
11-year bond	4.33	800
12-year bond	4.35	1,000
13-year bond	4.48	600
15-year bond	4.79	900

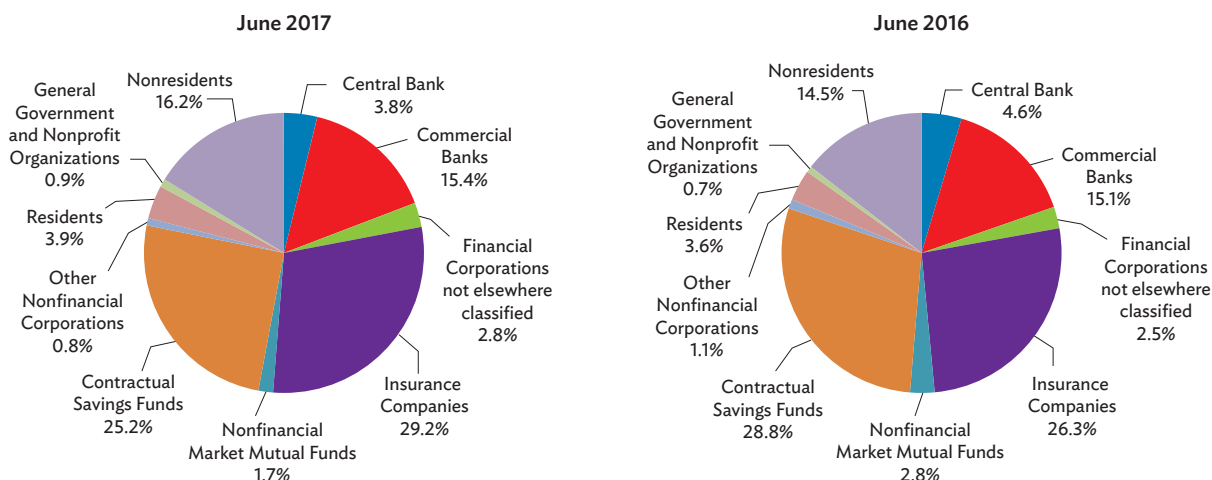
THB = Thai baht.
Source: Bloomberg LP.

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

Policy, Institutional, and Regulatory Developments

Bank of Thailand Reduces Issuance of Short-Term Bills

In April, the BOT decided to scale back the issuance of bills with 3-month and 6-month maturities by THB80 billion. The new measure was made to curb the rapid appreciation of the Thai baht.

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.

Bank of Thailand Eases Regulations on Foreign Exchange

On 5 June, the BOT relaxed its foreign exchange regulations to enhance the ease of doing business through a reduction in compliance costs. Starting in the fourth quarter of 2017, Thai investors with assets above THB50 million will be allowed to directly invest a maximum of USD1 million in securities abroad each year. The reform aims to give the private sector flexibility in conducting foreign exchange transactions and hedging based on internal risk management and control policies

within the framework set by BOT. The loosening of foreign exchange rules will (i) streamline the process, reduce required documents, and encourage the use of electronic forms; (ii) enhance flexibility in foreign exchange risk management; (iii) allow more alternatives in foreign exchange services, especially in retail cross-border transactions; and (iv) allow more investment options for investors and companies based in Thailand. Given the continued appreciation of the Thai baht, the BOT reform will not only improve the ease of doing business, but also address currency speculation by improving the process of capital outflows.