

Thailand

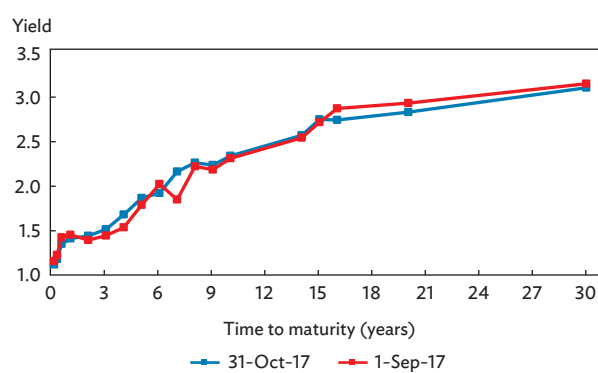
Yield Movements

Yields for Thailand's local currency (LCY) bonds mostly rose between 1 September and 31 October (**Figure 1**). Except for the 6- and 7-year bonds, yields for tenors of between 2 years and 15 years rose 3–14 basis points (bps). The yield for the 7-year bond had the largest gain at 31 bps. Bond yields for short-term bills of 1-year and below fell by an average of 5 bps. Yields for bonds with maturities of 6 years and for between 16 and 30 years fell by an average of 9 bps. The yield spread between the 2-year and 10-year maturities narrowed to 88 bps in 31 October from 90 bps in 1 September.

Prior to the United States (US) Federal Reserve's rosier assessment of the US economy, net foreign inflows to Thailand's LCY bond market had risen progressively since July, peaking in September. Thailand's strong currency—backed by large current account surpluses, its improving economy, and weak inflation—is drawing foreign investors into the bond market. However, in the month leading up to the Federal Reserve's policy announcement on 31 October–1 November meeting, the positive net flows began to reverse at the end of September and gained momentum from mid-October as reflected in the continued rise for most tenors. Moreover, despite leaving its policy rate unchanged, the European Central Bank's decision on 26 October to cut its monthly net asset purchases to EUR30 billion from EUR60 billion beginning in January 2018 may also have indicated an improving outlook for the global economy, leading to the rise in most of Thailand's LCY bond yields.

In view of easing the upward pressure on the Thai baht, Thailand's Ministry of Finance called for a policy rate cut of 50 bps in September. The Bank of Thailand (BOT), however, maintained its independence and in a unanimous vote opted to keep its 1-day repurchase rate at 1.50% in its monetary policy meeting held on 27 September. The BOT maintained that investor confidence in the economy remains strong and noted interest rate cuts alone would not deter capital inflows that have been causing the local currency to appreciate. Moreover, the central bank expects improvement in exports and domestic demand to propel economic

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



Sources: Based on data from Bloomberg LP.

growth. The BOT deems its current accommodative monetary policy stance as supportive of economic growth and will guide inflation back to its target range of 1.0%–4.0%.

In January–October, inflation averaged only 0.6%, with deflation in May and June. Inflation in October was at 0.9% year-on-year (y-o-y), unchanged from September. The BOT expects headline inflation to come in at 0.6% for full-year 2017.

Thailand's economy expanded in the second quarter (Q2) of 2017 by 3.7% y-o-y after growing 3.3% y-o-y in the first quarter of 2017. Gains in merchandise exports and tourism, and improvement in private consumption and investments, continued to support Thailand's economy. Consequently, in its 27 September monetary policy meeting, the BOT revised its economic growth estimate to 3.8% for both 2017 and 2018 from previous estimates of 3.5% and 3.7%, respectively.

Size and Composition

Thailand's LCY bond market rose 0.2% quarter-on-quarter (q-o-q) to THB10,996 billion (USD330 billion) at the end of September from THB10,973 billion at the end of June (**Table 1**). On a y-o-y basis, the LCY bond market expanded 3.8%.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2016		Q2 2017		Q3 2017		Q3 2016		Q3 2017	
	THB	USD	THB	USD	THB	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	10,593	306	10,973	323	10,996	330	2.1	8.4	0.2	3.8
Government	7,819	226	7,964	235	7,976	239	1.3	6.9	0.1	2.0
Government Bonds and Treasury Bills	4,035	117	4,103	121	4,295	129	3.9	9.1	4.7	6.4
Central Bank Bonds	2,961	86	3,080	91	2,887	87	(2.3)	3.5	(6.3)	(2.5)
State-Owned Enterprise and Other Bonds	822	24	781	23	793	24	1.9	9.4	1.6	(3.5)
Corporate	2,775	80	3,009	89	3,021	91	4.6	13.0	0.4	8.9

() = negative, LCY = local currency, 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 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. Q3 2017 data for government bonds outstanding are based on *AsianBondsOnline* estimates; corporate bonds outstanding are as of August 2017.

Sources: Bank of Thailand and Bloomberg LP.

Government bonds. The total outstanding stock of LCY government bonds rose to THB7,976 billion at the end of September, reflecting a rise of 0.1% q-o-q and 2.0% y-o-y. Government bonds and Treasury bills rose 4.7% q-o-q to THB4,295 billion at the end of September from THB4,103 at the end of June. However, this was offset by a corresponding decline in the outstanding stock of total central bank bonds, which contracted 6.3% q-o-q to THB2,887 billion at the end of September from THB3,080 billion at the end of June. The contraction was due to the reduced issuance of BOT bills since April in order to limit foreign fund flows into the short-term bond market. Meanwhile, state-owned enterprise and other bonds rose 1.6% q-o-q to THB793 billion at the end of September.

New securities issued by the BOT reached THB1,337 billion in the third quarter (Q3) of 2017, a decline of 0.6% q-o-q compared to THB1,345 billion in the previous quarter. Of this amount, BOT bonds amounted to THB1,195 billion, accounting for 89.4% of aggregate issuance during the period. Meanwhile, issuance of government bonds and Treasury bills declined 47.8% q-o-q and 14.9% y-o-y to THB229 billion in Q3 2017.

Corporate bonds. As of the end of September, the outstanding stock of Thailand's LCY corporate bonds had risen 0.4% q-o-q to THB3,021 billion. The q-o-q increase in corporate bonds came as new issuance exceeded maturing bonds despite a 39.6% q-o-q decline in new corporate debt issuance in Q3 2017 to THB274 billion.

The total outstanding bonds of Thailand's top 30 corporate bond issuers amounted to THB1,722 billion, making up 57% of the total corporate bonds stock as of the end of September (**Table 2**). The top five corporate entities in the list maintained their rankings from Q2 2017, with each having outstanding LCY bonds exceeding THB100 billion. The majority of the top 30 corporate bond issuers are companies listed on the stock exchange, six of which are state-owned corporations.

Table 3 presents the notable corporate bond issuances in Q3 2017. Bangkok Commercial Asset Management, the largest bad-debt management firm in Thailand, had the largest issuance with a multitranch bond sale worth THB17 billion. CP All, a Thailand-based operator of convenience stores, was the next largest issuer with THB13 billion in total sales of 10-year bonds and perpetual bonds. The next largest issuers were two state-owned firms: PTT, Thailand's oil and gas company, which sold THB10 billion worth of 4-year bonds with a 3.05% coupon rate, and Siam Cement, which sold THB10 billion of 7-year bonds with a 2.97% coupon rate.

Investor Profile

Central government bonds. As of the end of September, the largest holders of Thailand's LCY government bonds were financial corporations, other depository corporations, nonresidents, and the central government. These four groups accounted for a 90.3% share of total central government bonds outstanding. Holdings of financial corporations (not including 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	187.7	5.6	No	Yes	Commerce
2.	Siam Cement	176.5	5.3	Yes	Yes	Construction Materials
3.	PTT	134.8	4.0	Yes	Yes	Energy and Utilities
4.	Berli Jucker	122.0	3.7	No	Yes	Food and Beverage
5.	Bank of Ayudhya	101.9	3.1	No	Yes	Banking
6.	Charoen Pokphand Foods	93.0	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	2.0	Yes	Yes	Transportation and Logistics
9.	Tisco Bank	52.3	1.6	No	No	Banking
10.	Indorama Ventures	49.4	1.5	No	Yes	Petrochemicals and Chemicals
11.	Toyota Leasing Thailand	47.5	1.4	No	No	Finance and Securities
12.	Banpu	47.3	1.4	No	Yes	Energy and Utilities
13.	Krungthai Card	43.9	1.3	Yes	Yes	Banking
14.	Land & Houses	39.3	1.2	No	Yes	Property and Construction
15.	Bangkok Commercial Asset Management	39.2	1.2	No	No	Finance and Securities
16.	Mitr Phol Sugar	34.9	1.0	No	No	Food and Beverage
17.	Thai Union Group	33.8	1.0	No	Yes	Food and Beverage
18.	TPI Polene	33.0	1.0	No	Yes	Property and Construction
19.	Thanachart Bank	32.5	1.0	No	No	Banking
20.	PTT Exploration and Production Company	32.1	1.0	Yes	Yes	Energy and Utilities
21.	True Corp	31.6	0.9	No	Yes	Communications
22.	DTAC Trinet	31.5	0.9	No	Yes	Communications
23.	Advanced Wireless	31.2	0.9	No	Yes	Communications
24.	CPF Thailand	29.0	0.9	No	Yes	Food and Beverage
25.	CH. Karnchang	28.5	0.9	No	Yes	Property and Construction
26.	Bangkok Expressway and Metro	28.2	0.8	No	Yes	Transportation and Logistics
27.	Bangkok Dusit Medical Services	28.0	0.8	No	Yes	Medical
28.	Kasikorn Bank	28.0	0.8	No	Yes	Banking
29.	Minor International	26.0	0.8	No	Yes	Food and Beverage
30.	PTT Global Chemical	24.7	0.7	Yes	Yes	Petrochemicals and Chemicals
Total Top 30 LCY Corporate Issuers		1,722.0	51.7			
Total LCY Corporate Bonds		3,020.7	90.7			
Top 30 as % of Total LCY Corporate Bonds		57.0%	57.0%			

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

Notes:

1. Data as of end-September 2017. Total corporate bonds outstanding are as of August 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 Third Quarter of 2017

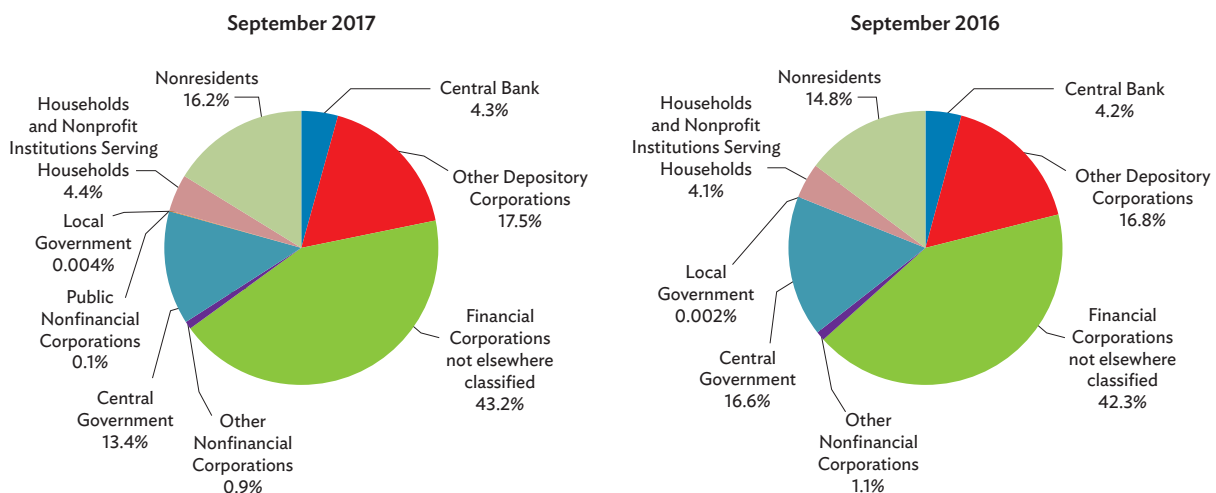
Corporate Issuers	Coupon Rate (%)	Issued Amount (THB million)
Bangkok Commercial Asset Management		
1.5-year bond	2.03	4,000
4-year bond	2.53	1,000
6-year bond	3.44	3,800
8-year bond	3.73	3,200
10-year bond	3.91	5,000
CP All		
10-year bond	3.96	3,000
Perpetual bond	5.00	10,000
PTT Global Chemical		
4-year bond	3.05	10,000
Siam Cement		
7-year bond	2.97	10,000
Betagro		
3-year bond	2.40	2,000
5-year bond	2.95	3,000
7-year bond	3.37	1,000
UOB Thai		
10-year bond	3.56	6,000
DTAC Trinet Co.		
3.5-year bond	2.25	1,500
10-year bond	3.58	2,000
12-year bond	3.78	2,500

THB = Thai baht.
Source: Bloomberg LP.

increased to 43.2% of the total at the end of September from 42.3% in the same period a year earlier (**Figure 2**). In the same period, the share of other depository corporations (including commercial banks) increased to 17.5% from 16.8%. Notably, nonresidents became the third largest investor group, holding a 16.2% share at the end of September versus a 14.8% a year earlier, due to increased foreign fund inflows. The share of central government dropped from 16.6% to 13.4%.

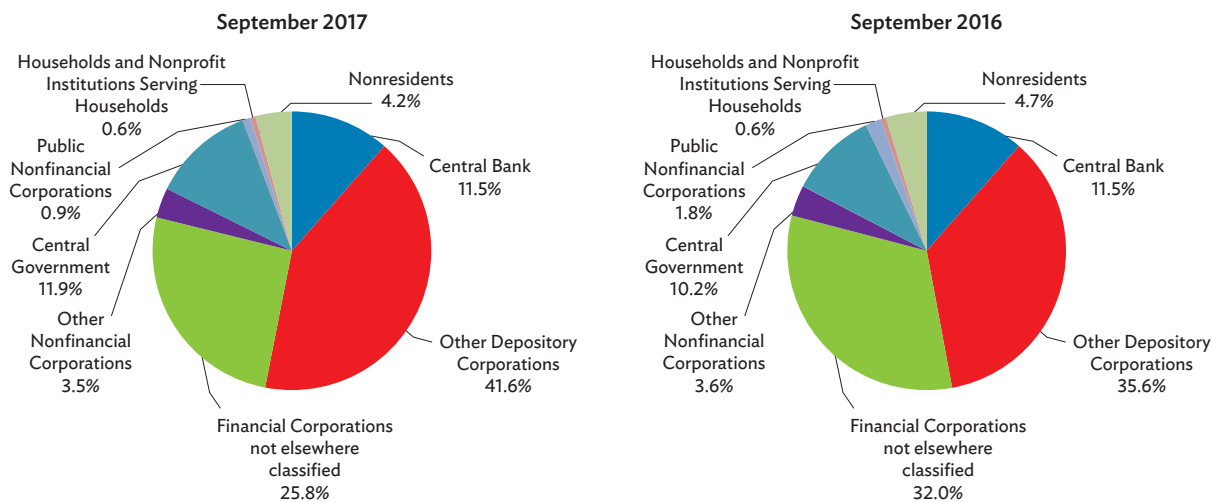
Central bank bonds. At the end of September, commercial banks and other depository corporations were the largest holders of central bank bonds at a share of 41.6% (**Figure 3**). This was higher from its share of 35.6% in the same period a year earlier. The central government also posted an increase in its holdings of central bank securities during the review period. All other investor group posted either declines or remained unchanged in their respective holdings of central bank bonds at the end of September compared with the same period a year earlier.

Foreign investor holdings of central bank bonds accounted for only a 4.2% share at the end of September. While their overall holdings remain relatively small compared with other investor groups, it has risen significantly from about 2.0% over the past 3 quarters (**Figure 4**).

Figure 2: Local Currency Government Bonds Investor Profile

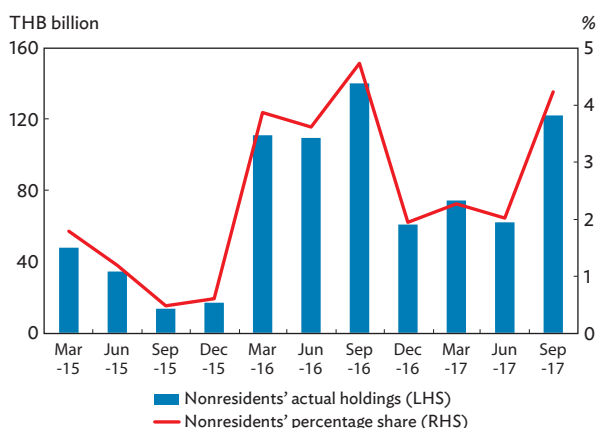
Note: Government bonds exclude central bank bonds and state-owned enterprise bonds.
Sources: AsianBondsOnline and Bank of Thailand.

Figure 3: Local Currency Central Bank Securities Investor Profile



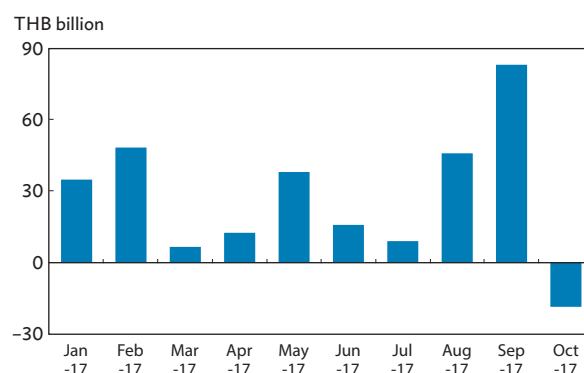
Source: Bank of Thailand.

Figure 4: Foreign Holdings of Local Currency Central Bank Securities



LHS = left-hand side, RHS = right-hand side, THB = Thai baht.
Source: Bank of Thailand.

Figure 5: Foreign Investor Net Trading of Local Currency Bonds in Thailand



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

Since January, foreign investment flows into Thailand's LCY bond market remained positive, peaking in September at THB137 billion (Figure 5). Foreign investment inflows rose significantly in August and September due to improving investor confidence in Thailand's economy. Also, rising geopolitical risks in the Republic of Korea may have led foreign investors to shift

their portfolios to Thailand's bond market. In October, Thailand's bond market experienced a net foreign investment outflow of THB18 billion as a result of global monetary tightening. The US Federal Reserve started its balance sheet normalization in the same month. Moreover, the European Central Bank announced it would taper its asset purchases starting January 2018.

Policy, Institutional, and Regulatory Developments

Bank of Thailand Eases Capital Outflow Regulations

On 4 September, the Bank of Thailand eased its capital outflow regulations. It approved the maximum quota for overseas indirect investments set by the Securities and Exchange Commission to USD100 billion from the previous USD75 billion. It also relaxed rules governing money changers to allow the buying and selling of foreign-currency-denominated banknotes with foreign banks and other money changers. In loosening its capital outflow regulations, the Bank of Thailand aims to curb the appreciation of the Thai baht while increasing the opportunity for Thai investors to invest in foreign securities and giving money changers additional room to streamline their business.

Public Debt Management Office Allots Special Period to Foreign Entities for THB-Denominated Bond Issuance Applications

The Public Debt Management Office (PDMO) regularly accepts applications for Thai baht bond issuance by foreign firms three times a year in March, July, and November. In a measure to further ease the appreciation of the Thai baht, the PDMO in September opened an additional period (6 September–6 October) for foreign entities to apply for permission to issue THB-denominated bonds. Upon approval, foreign entities must comply with the conditions that (i) issued bonds must carry a tenor of 3 years or less, (ii) the issue date must fall between 1 November 2017 and 31 March 2018, and (iii) proceeds must be used for either domestic transactions in baht or onshore USD–THB spot exchange.

Public Debt Management Office Announces Funding Plan for Fiscal Year 2018

In September, PDMO conducted a public dialogue and announced its funding plan for fiscal year 2018, which will help finance its budget deficit projected at THB450 billion. About 56.0% of the borrowing plan will be financed through the issuance of benchmark bonds with maturities of 5, 10, 15, 20, 30, and 50 years. PDMO also plans to issue savings bonds and short-term debt securities, and conduct a debt switch program.