

Thailand

Yield Movements

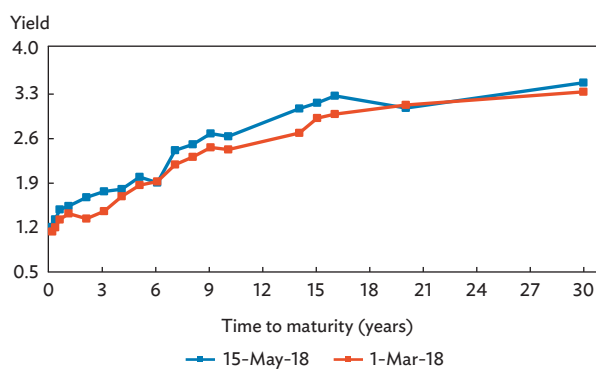
Between 1 March and 15 May, local currency (LCY) government bond yields in Thailand climbed for all tenors except the 6-year and 20-year maturities, which posted slight declines (**Figure 1**). The yields for bonds with maturities of 1 year or less climbed an average of 12 basis points (bps), while yields for the 2-year to 16-year tenors gained an average of 24 bps. The spread between the 2-year and 10-year maturities narrowed from 108 bps on 1 March to 95 bps on 15 May.

Thailand's LCY government bond yields declined earlier this year as bond prices were buoyed by strong investor demand. Toward the end of April, however, bond yields gradually climbed, largely influenced by the rise in yields for United States (US) Treasuries and the broad strengthening of the US dollar. Economic conditions in the US have gained further traction, signaling that the Federal Reserve will proceed with its monetary policy normalization. Tightening liquidity conditions alongside other external risks, including uncertainties relating to rising oil prices and US trade policies, led investors to pull out from most emerging financial markets including Thailand. In April, net foreign bond outflows amounting to USD0.8 billion were recorded in the Thai bond market, following 3 consecutive months of net foreign bond inflows.

Despite rising global risks, the Monetary Policy Committee of the Bank of Thailand decided to hold its policy rate unchanged at 1.50% in its meeting on 16 May. The committee noted that the domestic economy continues to strengthen, buoyed by growth in the external sector and improvements in domestic demand. The central bank deemed its current accommodative policy conducive to ensuring financial stability but noted the risks in the global economy.

In the first quarter (Q1) of 2018, gross domestic product growth accelerated to 4.8% year-on-year (y-o-y) from 4.0% y-o-y in the previous quarter. All major expenditure groups posted positive y-o-y growth during the quarter. Domestic consumption grew 3.6% y-o-y in Q1 2018, up from 3.4% in the fourth quarter (Q4) of 2017. Growth accelerated for government expenditure (1.9%) and

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



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

investment (3.4%) after each had expanded less than 0.5% y-o-y in the previous quarter. Export growth was strong at 6.0% y-o-y in Q1 2018, although slightly down from the 7.4% y-o-y expansion in Q4 2017, buoyed by improving external demand. The strong economic performance in Q1 2018 led the Ministry of Finance to revise its full-year 2018 growth projection to 4.5% from an earlier estimate of 4.2%.

Consumer price inflation rose 1.1% y-o-y in April, up from 0.8% y-o-y in March. The uptick in inflation also contributed to the upward pressure on yields.

Size and Composition

The size of Thailand's LCY bond market stood at THB11.4 trillion at the end of March, with growth slowing on both a q-o-q and y-o-y basis (**Table 1**). Growth eased to 1.2% q-o-q in Q1 2018 following a 2.2% q-o-q expansion in Q4 2017. On a y-o-y basis, bond market growth slowed to 2.2% from 3.9% in the same period.

The Thai bond market was the third-largest bond market in emerging East Asia at the end of March. Among members of the Association of Southeast Asian Nations, its market is the largest in terms of size, accounting for a 27.2% share of the group's total bonds outstanding. The Thai bond market is largely dominated by government bonds with a share of 71.9%; the remaining 28.1% share

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2017		Q4 2017		Q1 2018		Q1 2017		Q1 2018	
	THB	USD	THB	USD	THB	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	11,163	325	11,279	346	11,410	366	2.8	9.4	1.2	2.2
Government	8,249	240	8,196	252	8,203	263	3.9	8.4	0.1	(0.6)
Government Bonds and Treasury Bills	4,203	122	4,334	133	4,425	142	4.1	6.0	2.1	5.3
Central Bank Bonds	3,279	95	3,042	93	2,969	95	4.6	14.3	(2.4)	(9.4)
State-Owned Enterprise and Other Bonds	766	22	820	25	808	26	0.1	(0.9)	(1.4)	5.5
Corporate	2,914	85	3,083	95	3,208	103	(0.2)	12.1	4.0	10.1

() = 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 LP 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.

is accounted for by corporate bonds. Growth during Q1 2018 was largely driven by the corporate bond segment.

Government bonds. At the end of March, the total LCY government bond stock rose to THB8.2 trillion on marginal growth of 0.1% q-o-q. On a y-o-y basis, however, the stock of government bonds contracted 0.6%. Growth in the government bond market came solely from increases in the stock of Treasury bills and government bonds, which rose 2.1% q-o-q in Q1 2018. In contrast, the stock of central bank bills and bonds declined 2.4% q-o-q as maturities exceeded new issuance. The stock of state-owned enterprise bonds also fell 1.4% q-o-q in Q1 2018.

Total issuance of government bonds in Q1 2018 rose 9.9% q-o-q to reach THB1.8 trillion. Of this amount, about 65% was accounted for by central bank bills and bonds.

Corporate bonds. At the end of March, the outstanding stock of corporate bonds reached THB3.2 trillion on growth of 4.0% q-o-q and 10.1% y-o-y. The increase may be attributed to the rush of issuance from corporates ahead of plans by the Securities and Exchange Commission, Thailand to issue stricter regulations on bond issuance by June. In Q1 2018, corporate bond issuance totaled THB463 billion on growth of 3.0% q-o-q hike and 25.9% y-o-y.

The outstanding size of the 30 largest corporate bond issuers in Thailand stood at THB1.8 trillion at the end of March (**Table 2**). This represents nearly 55% of the total

corporate bond stock at the end of the review period. There were five state-owned firms on the list, two of which landed in the top five. A total of 23 firms on the list were also tapping the equity market for their funding needs.

The largest corporate bond issuer at the end of March was CP All with outstanding bonds of THB181.8 billion. A close second was state-owned Siam Cement with bonds valued at THB181.5 billion. In the third spot was another state-owned firm, PTT, with outstanding bonds amounting to THB129.3 billion.

Some of the largest corporate bond issues during the quarter are presented in **Table 3**. Thai Beverage raised a total of THB50 billion from the sale of multitranché bonds in March. Telecommunications service provider True Corporation followed next with total issuance amounting to THB17.5 billion. Bank of Ayudhya and Krungsriayudhya Card Company each issued THB15 billion of bonds during the quarter.

Investor Profile

Central government bonds. The largest investor group in Thailand's central government bond market comprised financial corporations, whose holdings accounted for a 43.3% share of the aggregate central government bond stock at the end of March, up from a 41.8% share a year earlier (**Figure 2**). Other major investor groups that posted increases in their holdings of central government bonds during the review period include other depository corporations and foreign investors. On the other hand, the

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	181.8	5.8	No	Yes	Commerce
2.	Siam Cement	181.5	5.8	Yes	Yes	Construction Materials
3.	PTT	129.3	4.1	Yes	Yes	Energy and Utilities
4.	Bank of Ayudhya	123.0	3.9	No	Yes	Banking
5.	Berli Jucker	122.0	3.9	No	Yes	Food and Beverage
6.	Charoen Pokphand Foods	93.5	3.0	No	Yes	Food and Beverage
7.	Thai Airways International	68.1	2.2	Yes	Yes	Transportation and Logistics
8.	True Move H Universal Communication	60.7	1.9	No	No	Communications
9.	Toyota Leasing Thailand	59.3	1.9	No	No	Finance and Securities
10.	Tisco Bank	51.9	1.7	No	No	Banking
11.	Indorama Ventures	51.4	1.6	No	Yes	Petrochemicals and Chemicals
12.	Thai Beverage	50.0	1.6	No	No	Food and Beverage
13.	Banpu	47.3	1.5	No	Yes	Energy and Utilities
14.	Krungthai Card	44.8	1.4	Yes	Yes	Banking
15.	Land & Houses	41.5	1.3	No	Yes	Property and Construction
16.	Advanced Wireless	40.2	1.3	No	Yes	Communications
17.	Mitr Phol Sugar	34.9	1.1	No	No	Food and Beverage
18.	Thai Union Group	33.8	1.1	No	Yes	Food and Beverage
19.	TPI Polene	33.0	1.1	No	Yes	Property and Construction
20.	DTAC Trinet	31.5	1.0	No	Yes	Communications
21.	Bangkok Commercial Asset Management	30.8	1.0	No	No	Finance and Securities
22.	PTT Exploration and Production Company	29.6	0.9	Yes	Yes	Energy and Utilities
23.	CPF Thailand	29.0	0.9	No	Yes	Food and Beverage
24.	CH. Karnchang	28.5	0.9	No	Yes	Property and Construction
25.	Thanachart Bank	28.5	0.9	No	No	Banking
26.	Bangkok Expressway and Metro	28.2	0.9	No	Yes	Transportation and Logistics
27.	Bangkok Dusit Medical Services	28.0	0.9	No	Yes	Medical
28.	Kasikorn Bank	28.0	0.9	No	Yes	Banking
29.	True Corp	27.6	0.9	No	Yes	Communications
30.	Thai Oil	23.5	0.8	No	Yes	Energy and Utilities
Total Top 30 LCY Corporate Issuers		1,761.1	56.5			
Total LCY Corporate Bonds		3,207.8	102.9			
Top 30 as % of Total LCY Corporate Bonds		54.9%	54.9%			

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

Notes:

1. Data as of 31 March 2018.

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 2018

Corporate Issuers	Coupon Rate (%)	Issued Amount (THB million)
Thai Beverage		
2-year bond	1.79	5,000
3-year bond	2.10	11,200
6-year bond	2.76	10,000
7-year bond	3.15	9,300
10-year bond	3.60	14,500
True Corporation		
1-year bond	2.78	10,000
1.01-year bond	2.78	7,500
Bank of Ayudhya		
3-year bond	1.91	15,000
Krungsiyudhya Card Company		
1-year bond	1.60	7,000
2-year bond	1.66	8,000

THB = Thai baht.
Source: Bloomberg LP.

central government posted the largest decline in holdings, with its share declining from 15.7% at the end of March 2017 to 11.6% at the end of March 2018. The central bank posted a decline in holdings from 5.5% to 3.0% in the same period.

Central bank bonds. At the end of March, depository corporations were the largest holders of central bank bonds, accounting for more than a third of the total

(**Figure 3**). Their holdings however slipped from 48.1% from the same period a year earlier. In contrast, financial corporations’ holdings of central bank bonds climbed to 28.2% at the end of March from 22.6% a year earlier. Foreign investor holdings of central bank bonds also rose to a share of 6.8% of the total from 2.3% in the same period.

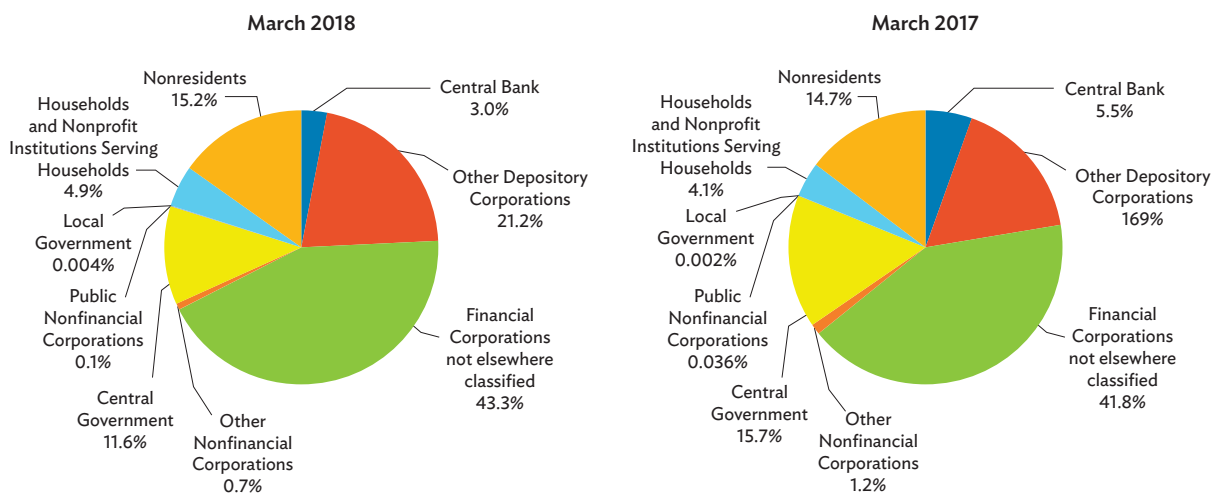
In the January–April period, Thailand recorded net foreign inflows in its LCY bond market of THB97.0 billion, which was lower than the THB101.9 billion recorded in the same period a year earlier (**Figure 4**). April saw net outflows valued at THB23.9 billion, pulling down earlier gains in the first 3 months of the year. Rising interest rates in US Treasuries resulted in foreign investors withdrawing from the Thai bond market as Thai bond yields have stayed below US Treasury rates in recent months.

Policy, Institutional, and Regulatory Developments

Bank of Thailand Increases Frequency of Issuance of 2-Year Bonds

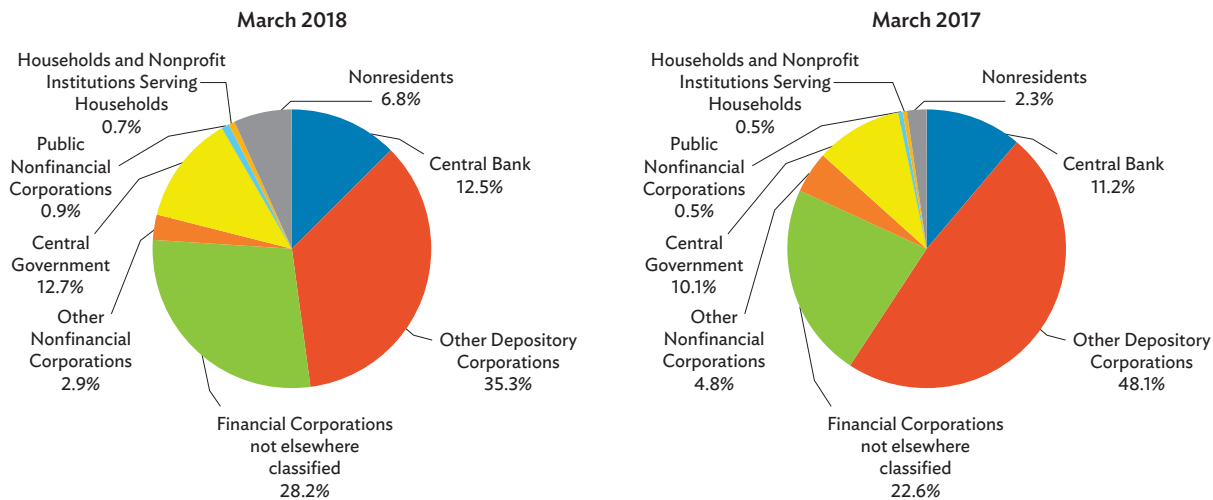
In January, the Bank of Thailand raised the frequency of issuance of its 2-year bonds to monthly from the previous schedule of every even month. New issuance of 2-year Bank of Thailand bonds are scheduled for February, May, August, November, while reopenings are scheduled in the months between each new issuance. The maximum

Figure 2: Local Currency Government Bonds Investor Profile



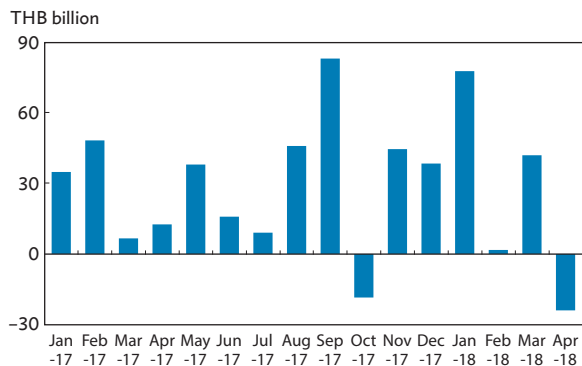
Note: Government bonds include Treasury bills and bonds.
Sources: AsianBondsOnline and Bank of Thailand.

Figure 3: Local Currency Central Bank Securities Investor Profile



Source: Bank of Thailand.

Figure 4: Foreign Investor Net Trading of Local Currency Bonds in Thailand



THB = Thai baht.

Source: Thai Bond Market Association.

issue size for a 2-year bond was also reduced to a range of THB15 billion–THB40 billion due to the increased frequency of issuance. The revision to the issuance plan was made to help ease liquidity conditions. The Bank of Thailand issues bonds for the management of money market liquidity.