

Thailand

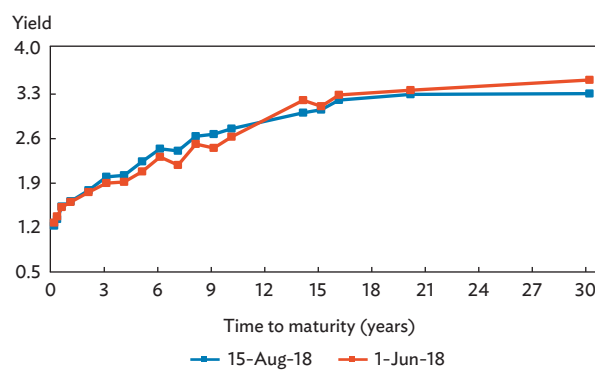
Yield Movements

Between 1 June and 15 August, declining yields on local currency (LCY) government bonds were observed at both ends of the curve, while yields in the belly of the curve increased (**Figure 1**). Yields on Treasury bills with 1-month and 3-month maturities declined 5 basis points (bps) on average, while bonds at the longer-end of the curve (maturities of 14 year and above) saw declines ranging from 5 bps to 21 bps. On the other hand, yields on government securities with 6-month to 10-year tenors increased in the review period, with the biggest jump noted for the yield of the 7-year tenor at 22 bps and the smallest for the 6-month tenor at 0.9 bps. The yield spread between 2-year and 10-year tenors widened to 96 bps on 15 August from 87 bps on 1 June.

The decline in yields for bonds at the shorter-end of the curve can be traced to the Bank of Thailand (BOT) maintaining its key policy rate in its latest policy-setting meeting in August. Expectations of interest rates remaining low, at least in the immediate-term, contributed to the lower bond yields. While the policy rate was left unchanged in August, the central bank stated that there would be less need for an accommodative monetary policy over time, signaling that eventually a policy hike would be forthcoming. This was reflected in the yield increases for medium-term securities. Uncertainties emanating from global developments, monetary policy tightening in developed economies, and trade tensions also influenced the climb in yields. On the domestic front, the weakening Thai baht and the pick-up in inflation may have compelled investors to seek higher interest rates.

The Monetary Policy Committee of the BOT decided to maintain the 1-day repurchase rate at 1.5% in its monetary policy meeting on 8 August, indicating that the BOT would not rush to match the rate hikes of some of its regional peers. The decision came on the back of Thai economic growth that continued to gain traction and as inflation, though picking up, is expected to remain within the central bank's target range of 1.0%–4.0%. However, one committee member voted to raise the policy rate during the meeting, viewing it as a means to curb financial stability risks that could negatively affect the sustainability of economic growth.

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



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

The Thai baht continued to depreciate against the United States (US) dollar during the review period, losing 3.8% in value between 1 June and 15 August, in line with other currencies in emerging East Asia. The volatility of the domestic currency resulted from uncertainties pertaining to the monetary policy outlook of advanced economies, concerns over global trade tensions, and risks related to emerging markets in general. Market participants expect the baht to recover if clearer hints of a policy rate hike emanate from the BOT.

Consumer price inflation in Thailand climbed to 1.5% year-on-year (y-o-y) in July, the 13th consecutive month of price increases since deflation was last recorded in June 2017. Inflation has rebounded to within the central bank's 2018 target range of 1.0%–4.0% since April and is expected to remain within this range for the remainder of 2018. Core inflation, which excludes raw food and energy prices, slowed to 0.79% y-o-y in July from 0.83% y-o-y in June.

Thailand's economic performance was better than expected in the second quarter (Q2) of 2018, with gross domestic product expanding 4.6% y-o-y. However, the growth was slower compared with an expansion of 4.9% y-o-y in the first quarter (Q1) of 2018. On the expenditure side, the expansion was underpinned by an acceleration in private consumption (4.5% y-o-y), investment (3.6% y-o-y), and exports (6.4% y-o-y), while

government consumption growth slowed to 1.4% y-o-y. On the production side, the growth was supported by the accelerated expansion of the agriculture sector to 10.4% y-o-y, while growth in other sectors moderated. For the first half of 2018, Thailand's economy expanded 4.8% y-o-y. According to the National Economic and Social Development Board, the Thai economy is forecast to grow between 4.2% and 4.7% in full-year 2018, supported by improvements in the global economy and favorable expansions in domestic consumption and investment.

Size and Composition

Thailand's total LCY bond market reached a size of THB11.9 trillion (USD362 billion) at the end of June on growth of 4.7% quarter-on-quarter (q-o-q) and 8.8% y-o-y, both of which were up compared with the previous quarter (Table 1). On a q-o-q basis, government bonds outpaced corporate bond growth, while the opposite was the case on a y-o-y basis. Government bonds account for 72.5% of the LCY bond market and corporate bonds accounted for 27.5% at the end of June.

Government bonds. The size of the LCY government bond market expanded 5.6% q-o-q, amounting to THB8.7 trillion at the end of June. The q-o-q growth was much faster compared with only a marginal increase at the end of March. All government bond instruments posted positive q-o-q growth in Q2 2018: government bonds and Treasury bills increased 3.0% q-o-q, while central bank bills and state-owned enterprise and other bonds posted growth of 10.0% q-o-q and 3.2% q-o-q,

respectively, following contractions in the previous quarter. On a y-o-y basis, growth at the end of June was 8.7% y-o-y, recovering from the decline observed at the end of March.

The higher q-o-q growth rate in government bonds outstanding was driven by increased debt issuance from the central bank and state-owned enterprises in Q2 2018. BOT bill issuance, which represented 81% of total government bond sales during the quarter, increased 2.5% q-o-q while sales of state-owned enterprise bonds more than doubled on a q-o-q in basis. The increase in BOT bonds can be attributed to the central bank's move to increase its short-term bond supply starting 15 May after a year-long tapering program. In April 2017, the BOT cut its short-term bond issuance to restrain the strength of the baht by shifting fund flows into longer-dated from shorter-dated debt. In contrast, the issuance of government bonds and Treasury bills declined 5.4% q-o-q. While growth in issuance from the government remained positive on a q-o-q basis in Q2 2018, it was modest compared to the growth posted in Q1 2018. Total LCY bond issuance from the government during the quarter amounted to THB1.8 billion.

Corporate bonds. The amount of outstanding LCY corporate bonds totaled THB3.3 trillion at the end of June on growth of 2.4% q-o-q and 9.1% y-o-y. These paces of expansion were slower compared with q-o-q and y-o-y growth rates in Q1 2018. The slower growth was due to weaker bonds sales from corporates. Corporate issuance in Q2 2018 declined 20.5% q-o-q and 18.9% y-o-y, reversing the 3.0% q-o-q and 25.9% y-o-y growth in

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2017		Q1 2018		Q2 2018		Q2 2017		Q2 2018	
	THB	USD	THB	USD	THB	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	10,973	323	11,410	366	11,944	362	(1.7)	5.8	4.7	8.8
Government	7,964	235	8,203	263	8,661	262	(3.4)	3.2	5.6	8.7
Government Bonds and Treasury Bills	4,103	121	4,425	142	4,559	138	(2.4)	5.6	3.0	11.1
Central Bank Bonds	3,080	91	2,969	95	3,268	99	(6.1)	1.7	10.0	6.1
State-Owned Enterprise and Other Bonds	781	23	808	26	834	25	1.9	(3.2)	3.2	6.8
Corporate	3,009	89	3,208	103	3,284	99	3.3	13.5	2.4	9.1

(-) = 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.

Sources: Bank of Thailand and Bloomberg LP.

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.	Siam Cement	181.5	5.5	Yes	Yes	Construction Materials
2.	CP All	179.3	5.4	No	Yes	Commerce
3.	PTT Public Company	129.3	3.9	Yes	Yes	Energy and Utilities
4.	Berli Jucker	122.0	3.7	No	Yes	Food and Beverage
5.	Bank of Ayudhya	118.0	3.6	No	Yes	Banking
6.	Charoen Pokphand Foods	87.5	2.6	No	Yes	Food and Beverage
7.	Indorama Ventures	68.4	2.1	No	Yes	Petrochemicals and Chemicals
8.	Thai Airways International	60.1	1.8	Yes	Yes	Transportation and Logistics
9.	Toyota Leasing Thailand	59.8	1.8	No	No	Finance and Securities
10.	Tisco Bank	56.9	1.7	No	No	Banking
11.	Thai Beverage	50.0	1.5	No	No	Food and Beverage
12.	CPF Thailand	44.0	1.3	No	Yes	Food and Beverage
13.	Krungthai Card	43.7	1.3	Yes	Yes	Banking
14.	Banpu	41.8	1.3	No	Yes	Energy and Utilities
15.	Mitr Phol Sugar	41.7	1.3	No	No	Food and Beverage
16.	Land & Houses	40.5	1.2	No	Yes	Property and Construction
17.	Advanced Wireless	40.2	1.2	No	Yes	Communications
18.	TPI Polene	39.0	1.2	No	Yes	Property and Construction
19.	Bangkok Expressway and Metro	38.2	1.2	No	Yes	Transportation and Logistics
20.	True Move H Universal Communication	36.0	1.1	No	No	Communications
21.	Bangkok Commercial Asset Management	34.5	1.0	No	No	Finance and Securities
22.	Thai Union Group	33.8	1.0	No	Yes	Food and Beverage
23.	PTT Exploration and Production Company	29.6	0.9	Yes	Yes	Energy and Utilities
24.	DTAC Trinet	29.5	0.9	No	Yes	Communications
25.	Thanachart Bank	28.5	0.9	No	No	Banking
26.	Kasikorn Bank	28.0	0.8	No	Yes	Banking
27.	CH. Karnchang	27.8	0.8	No	Yes	Property and Construction
28.	Bangkok Dusit Medical Services	26.7	0.8	No	Yes	Medical
29.	True Corp	25.8	0.8	No	Yes	Communications
30.	Thai Oil	23.5	0.7	No	Yes	Energy and Utilities
Total Top 30 LCY Corporate Issuers		1,765.3	53.4			
Total LCY Corporate Bonds		3,283.9	99.4			
Top 30 as % of Total LCY Corporate Bonds		53.8%	53.8%			

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

Notes:

1. Data as of 30 June 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.

issuance logged in Q1 2018. The declines can be traced to the Securities and Exchange Commission's stricter rules governing bond issuance.

The aggregate outstanding bonds of the top 30 corporate issuers at the end of June amounted to THB1.8 trillion, accounting for 53.8% of the total LCY corporate bond market (**Table 2**). The list of top 30 issuers comprised 23 listed firms and 7 unlisted firms, and was led by food and beverage firms with total outstanding bonds of THB379 billion. However, the firm with the highest amount of outstanding bonds at the end of June was state-owned Siam Cement with THB181.5 billion.

Siam Cement also had the single-largest issuance in Q2 2018 with a 4-year tenor valued at THB30 billion and carrying a coupon rate of 3.0%. Other notable issuances during the quarter are listed in **Table 3**, including multitranche bond sales from Indorama Ventures Public Company, CPF Thailand, and Bangkok Expressway and Metro.

Investor Profile

Central government bonds. The investor profile of central government bond holders in June was little changed from a year earlier (**Figure 2**). Financial corporations remained the largest holder of central government bonds with a share of 42.5%, marginally down

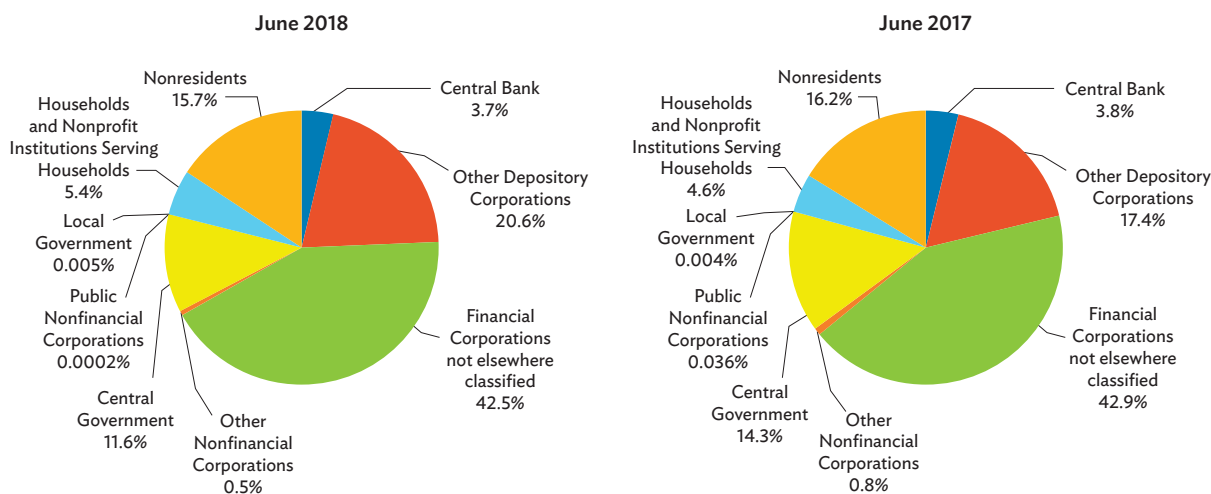
Table 3: Notable Local Currency Corporate Bond Issuance in the Second Quarter of 2018

Corporate Issuers	Coupon Rate (%)	Issued Amount (THB million)
Siam Cement		
4-year bond	3.00	30,000
Indorama Ventures Public Company		
3-year bond	2.31	3,000
5-year bond	2.78	3,000
12-year bond	4.12	5,000
15-year bond	4.27	3,200
CPF Thailand		
3-year bond	2.43	4,500
6-year bond	3.24	4,000
12-year bond	4.16	3,500
Bangkok Expressway and Metro		
5-year bond	2.46	3,500
7-year bond	3.01	3,500

THB = Thai baht.
Source: Bloomberg LP.

from 42.9% in June 2017. Other depository corporations had the second-largest holdings share at the end of June, accounting for 20.6%, and posted the largest nominal share increase (3.2 percentage points), among all investor groups during the review period. The central government, whose holdings comprised 11.6% of central government bonds outstanding, posted the largest nominal drop in its holdings share from 14.3% a year earlier. Public

Figure 2: Local Currency Government Bonds Investor Profile



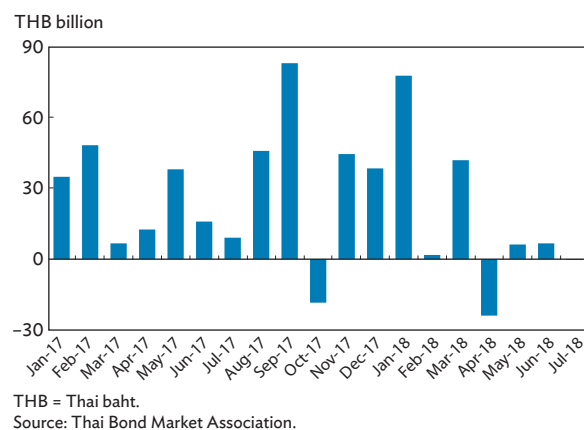
Note: Government bonds include Treasury bills and bonds.
Sources: AsianBondsOnline and Bank of Thailand.

nonfinancial corporations continued to have the smallest holdings share of central government bonds in June.

Central bank bonds. Other depository corporations remained the largest holder of central bank bonds in June, although their share declined to 39.5% from 44.2% from a year earlier (Figure 3). Financial corporations’ holdings share of central bank bonds increased to 27.6% from 23.5% during the review period. Other investor groups that showed increased holdings during the review period were foreign investors, whose share more than doubled to 4.1% from 2.0%; households and nonprofit institutions serving households; and public nonfinancial corporations. The central bank, other nonfinancial corporations, and the central government all experienced decreases in their respective holdings’ shares during the same period.

Thailand recorded net inflows of THB109.3 billion into its LCY bond market in January–July, down about 34% from the same period in 2017 (Figure 4). The slowdown in fund inflows can be traced to the accelerated pace of interest rate hikes in the US as well as signals of monetary policy tightening from other major central banks at the same time the BOT held its policy rate unchanged. Foreign investors withdrew THB24.0 billion from the Thai bond market in April, with net inflows recovering in May and June to THB6.1 billion and THB6.6 billion, respectively. In July, Thailand recorded net outflows of THB400 million

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



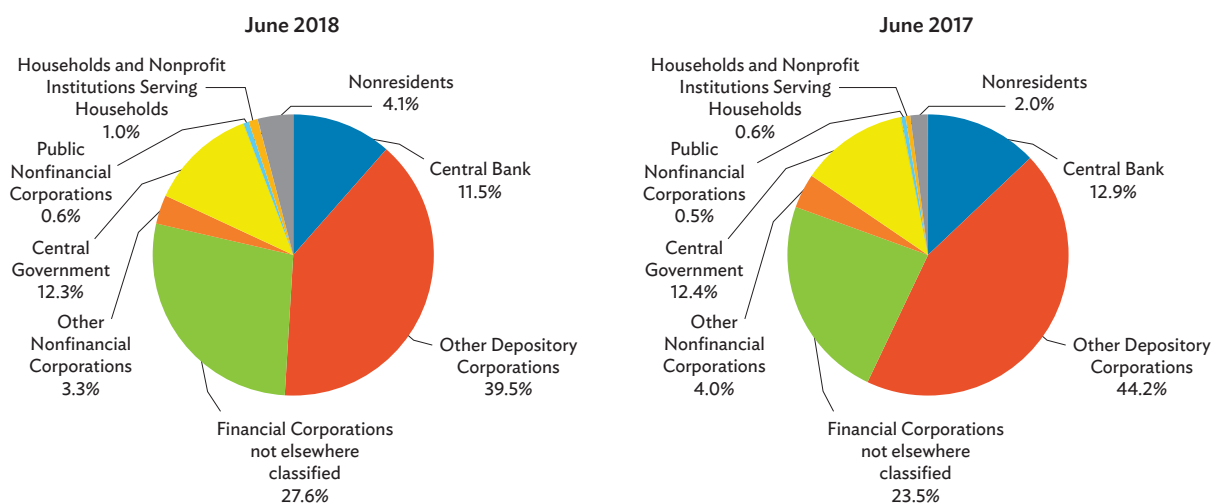
that were triggered by the weakening of the domestic currency.

Ratings Update

Fitch Ratings Affirms Thailand’s BBB+ Rating with a Stable Outlook

On 7 June, Fitch Ratings affirmed Thailand’s long-term, foreign currency issuer default rating at BBB+ with a stable outlook. According to Fitch Ratings, the

Figure 3: Local Currency Central Bank Securities Investor Profile



Source: Bank of Thailand.

affirmation reflected solid external and public finances, which enhance resiliency to economic shocks. The rating agency cited a sustained and broad-based improvement in growth and the resolution of social and political tensions as grounds for the rating upgrade, while renewed political disruption and a larger and/or sustained rise in government debt ratios could negatively affect Thailand's credit rating.

RAM Ratings Affirms Thailand's Ratings

On 12 June, RAM Ratings affirmed Thailand's global scale rating of ${}_{g}BBB_{1}(pi)$ and the Association of Southeast Asian Nations scale rating of ${}_{sea}AA_{1}(pi)$. The ratings were both given a stable outlook. In making its decision, RAM Ratings took note of Thailand's robust external finances, well-diversified economy, and fiscal position.

Policy, Institutional, and Regulatory Developments

Thailand's Cabinet Approves Medium-Term Fiscal Plan, 2019–2020

Thailand's cabinet approved the medium-term fiscal plan for 2019–2020 in accordance with the Fiscal Responsibility Act, which seeks to maximize the effectiveness of budget spending and prevent pork barrel schemes. Under the approved plan, the government is set to increase tax collections and reduce infrastructure expenditures through public–private partnerships and the Thailand Future Fund. In addition, the government will run a budget deficit of THB450 billion in 2018–2019, THB452 billion in 2020, and THB524 billion in 2021.