

Thailand

Yield Movements

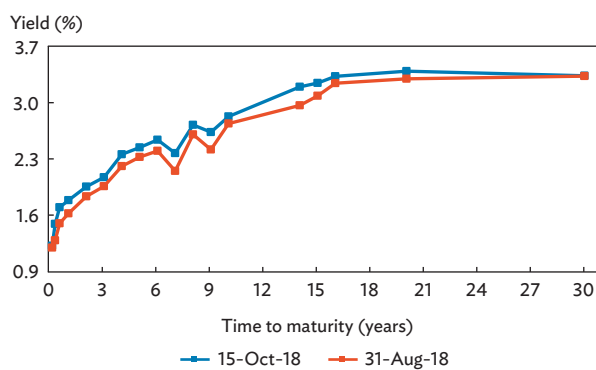
Thailand's local currency (LCY) government bond yields rose across all tenors between 31 August and 15 October (Figure 1). Double-digit increases in yields were observed for most tenors, averaging 17 basis points (bps), while for the 1-month and 10-, 16-, 20-, and 30-year bonds, yield increases were in single digits. The yield for 14-year bonds had the largest increase at 23 bps, while the yield on 30-year bonds was barely changed, gaining a mere 0.6 bps. The yield spread between the 2-year and 10-year bonds narrowed to 87 bps from 91 bps during the review period.

Yields rose during the period on expectations that the Bank of Thailand (BOT) would soon increase its benchmark policy rate. The decision to hike rates rests more on concerns that a prolonged low-interest-rate environment would pose risks to financial stability rather than on pressures from rising interest rates among regional peers and in advanced economies. However, rising interest rates, especially in the United States (US), may have prompted investors to demand higher returns, thus translating into the upward movement in local government bond yields. Uncertainties brought about by contagion fears from the recent emerging market rout and trade tensions also influenced the climb in yields.

The Monetary Policy Committee of the BOT maintained the 1-day repurchase rate at 1.50% in its policy-setting meeting on 19 September. According to the central bank, the current accommodative monetary policy stance remained conducive to the continuation of economic growth and was appropriate given the inflation target. Two committee members, however, voted to raise the policy rate to curb potential financial risks. While the policy rate was left unchanged, the committee stated that the need for accommodative monetary policy would gradually decline over time.

Thailand's economic performance was better than expected in the second quarter (Q2) of 2018 as gross domestic product expanded 4.6% year-on-year (y-o-y); however, this was lower compared with growth of 4.9% y-o-y in the previous quarter. The Thai economy's growth continues to gain traction, supported by domestic

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



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

and external demand as well as tourism. 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 a favorable expansion in domestic consumption and investment.

Consumer price inflation in Thailand slowed to 1.3% y-o-y in September after registering a 4-year high of 1.6% y-o-y in August. In January–September, consumer price inflation averaged 1.1%. While inflation slowed in September, the ministry expects inflation to accelerate in the fourth quarter of 2018 as the excess supply of fresh food is viewed as being temporary and oil prices are expected to rise alongside a weakening baht. Inflation is forecast to average 1.3% in full-year 2018, up from an earlier projection of 1.2%.

The Thai baht appreciated 0.3% against the US dollar between 31 August and 15 October. The domestic currency had performed well compared with other regional currencies despite souring investor sentiments on the back of sell-offs triggered by emerging market doldrums elsewhere in the world, higher US interest rates, and protracted trade tensions. The baht's strength is underpinned by Thailand's strong current account surplus and bright economic prospects. The BOT's earlier hawkish hint also added appeal to the domestic currency. While

the baht depreciated 0.2% against the greenback year-to-date through 15 October, it still outperformed its regional peers.

Size and Composition

Thailand's LCY bonds outstanding expanded in the third quarter (Q3) of 2018 at rates of 2.1% quarter-on-quarter (q-o-q) and 10.3% y-o-y, slower compared with Q2 2018 on a quarterly basis but faster on an annual basis (**Table 1**). LCY bonds outstanding reached THB12,174 billion (USD377 billion) at the end of September, lifted by both the government and corporate segments, which comprised about 72% and 28% of the total, respectively.

Government bonds. The amount of total government bonds outstanding reached THB8,808 billion at the end of September, reflecting growth of 2.0% q-o-q compared with 5.3% q-o-q in Q2 2018. Government bonds and Treasury bills and central bank bonds drove the growth, offsetting the marginal decline in outstanding state-owned enterprise bonds and other bonds.

The expansion in the LCY government bond market was mainly driven by the increased issuance of BOT securities in Q3 2018, which gained 9.7% q-o-q. BOT issuance amounted to THB1,633 billion, comprising about 86% of total government issuance in Q3 2018. The amount was large enough to offset the double-digit issuance declines in central government and state-owned enterprise securities. The BOT has continued to increase its short-

term bond supply since 15 May after a year-long tapering in order to restrain the strength of the baht.

Corporate bonds. Total corporate bonds outstanding grew modestly in Q3 2018 at 2.5% q-o-q, broadly unchanged from Q2 2018, while being supported by relatively higher issuance during the quarter. LCY corporate bonds outstanding amounted to THB3,366 billion at the end of September.

The amount of outstanding bonds of the top 30 largest corporate issuers reached THB1.9 trillion at the end of September, or the equivalent of 56.4% of the total corporate bond market (**Table 2**). Siam Cement remained the top issuer with total bonds outstanding amounting to THB181.5 billion. Of the 30 issuers, 23 companies are listed and only 5 companies are state-owned. In terms of industry, firms from the food and beverage sector account for the largest grouping with six issuers, followed by the banking sector with five. Issuers from the food and beverage industry had aggregate outstanding bonds of THB456 billion at the end of September, comprising 24% of the top 30's total.

Corporate bond issuance was fairly vibrant in Q3 2018 with sales rebounding to grow 4.8% q-o-q from a decline of 20.5% q-o-q in Q2 2018. Market participants expect higher issuance from the corporate sector this year, likely breaking the annual record as firms want to lock in lower funding costs ahead of signals of interest rate hikes by the BOT. Firms with debt rollover also see this as the right time to enter the market on the back of sound LCY bond

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2017		Q2 2018		Q3 2018		Q3 2017		Q3 2018	
	THB	USD	THB	USD	THB	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	11,034	331	11,918	361	12,174	377	0.5	4.2	2.1	10.3
Government	7,981	240	8,634	261	8,808	272	0.2	2.1	2.0	10.4
Government Bonds and Treasury Bills	4,295	129	4,532	137	4,656	144	4.7	6.4	2.7	8.4
Central Bank Bonds	2,887	87	3,268	99	3,322	103	(6.3)	(2.5)	1.7	15.1
State-Owned Enterprise and Other Bonds	798	24	834	25	829	26	2.3	(2.9)	(0.6)	3.8
Corporate	3,053	92	3,284	99	3,366	104	1.5	10.0	2.5	10.2

() = 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. For Q3 2018 bonds outstanding data are based on *AsianBondsOnline* estimates.

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	5.6	Yes	Yes	Construction Materials
2.	CP All	179.3	5.5	No	Yes	Commerce
3.	PTT	129.3	4.0	Yes	Yes	Energy and Utilities
4.	Thai Beverage	127.0	3.9	No	No	Food and Beverage
5.	Bank of Ayudhya	125.0	3.9	No	Yes	Banking
6.	Berli Jucker	122.0	3.8	No	Yes	Food and Beverage
7.	Charoen Pokphand Foods	84.5	2.6	No	Yes	Food and Beverage
8.	Indorama Ventures	68.4	2.1	No	Yes	Petrochemicals and Chemicals
9.	Thai Airways International	64.9	2.0	Yes	Yes	Transportation and Logistics
10.	Toyota Leasing Thailand	64.7	2.0	No	No	Finance and Securities
11.	Tisco Bank	58.9	1.8	No	No	Banking
12.	True Move H Universal Communication	56.0	1.7	No	No	Communications
13.	Krungthai Card	45.9	1.4	Yes	Yes	Banking
14.	Mitr Phol Sugar	44.3	1.4	No	No	Food and Beverage
15.	CPF Thailand	44.0	1.4	No	Yes	Food and Beverage
16.	Banpu	41.8	1.3	No	Yes	Energy and Utilities
17.	Advanced Wireless	40.2	1.2	No	Yes	Communications
18.	Land & Houses	39.5	1.2	No	Yes	Property and Construction
19.	Bangkok Expressway and Metro	38.2	1.2	No	Yes	Transportation and Logistics
20.	Minor International	38.0	1.2	No	Yes	Hospitality and Leisure
21.	TPI Polene	36.0	1.1	No	Yes	Property and Construction
22.	Bangkok Commercial Asset Management	34.5	1.1	No	No	Finance and Securities
23.	Thai Union Group	33.8	1.0	No	Yes	Food and Beverage
24.	PTT Exploration and Production Company	29.6	0.9	Yes	Yes	Energy and Utilities
25.	CH. Karnchang	29.6	0.9	No	Yes	Property and Construction
26.	DTAC Trinet	29.5	0.9	No	Yes	Communications
27.	Krungrsriyudhya Card	28.7	0.9	No	Yes	Banking
28.	Thanachart Bank	28.5	0.9	No	No	Banking
29.	Kasikorn Bank	28.0	0.9	No	Yes	Banking
30.	True Corp	25.8	0.8	No	Yes	Communications
Total Top 30 LCY Corporate Issuers		1,897.0	58.7			
Total LCY Corporate Bonds		3,365.7	104.1			
Top 30 as % of Total LCY Corporate Bonds		56.4%	56.4%			

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

Notes:

1. Data as of 30 September 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.

market and economic fundamentals. Moreover, several merger and acquisition deals were done in Q3 2018, which led to higher debt sales, including those from Thai Beverage, which issued Thailand's biggest corporate bond yet amounting to THB77 billion. Other notable LCY corporate bond issuances in Q3 2018 are given in **Table 3**.

Investor Profile

Central government bonds. The profile of LCY government bond investors at the end of September was barely changed from a year earlier (**Figure 2**). Financial corporations remained the largest holders of government bonds in Thailand, although their share slightly dipped during the review period to 41.5% from 42.8%. Other large holders at the end of September include other depository corporations with an 18.2% share, nonresidents with 17.3%, and the central government with 12.9%. Nonresidents' share increased from 16.5% in September 2017, which can be attributed to foreign fund flows into the Thai bond market. The attractiveness of Thai bonds derives from the economy's strong fundamentals that make Thailand a safe haven for offshore investors. Public nonfinancial corporations had a negligible holdings share at the end of September.

Central bank bonds. Other depository corporations were the largest holders of central bank bonds with a

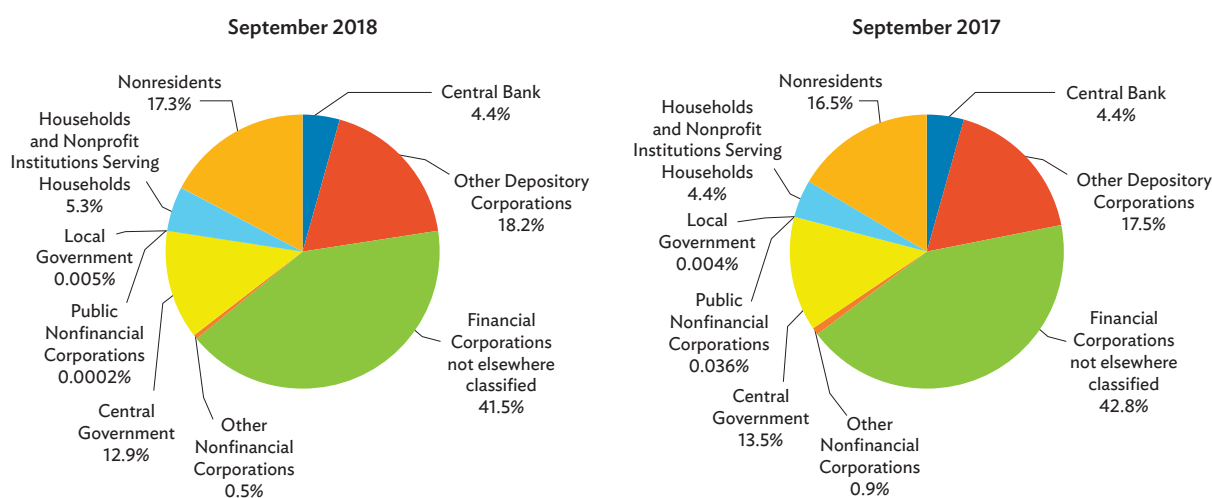
Table 3: Notable Local Currency Corporate Bond Issuance in the Third Quarter of 2018

Corporate Issuers	Coupon Rate (%)	Issued Amount (THB million)
Thai Beverage		
2-year bond	2.60	4,692
3-year bond	2.64	2,452
4-year bond	3.20	43,895
5-year bond	3.35	4,387
7-year bond	3.62	941
10-year bond	4.16	13,719
10-year bond	4.16	6,914
True Move H Universal Communication		
4-year bond	3.70	11,998
5-year bond	4.05	8,002
Minor International		
Perpetual bond	5.85	15,000
Bank of Ayudhya		
3-year bond	2.22	14,000

THB = Thai baht.
Source: Bloomberg LP.

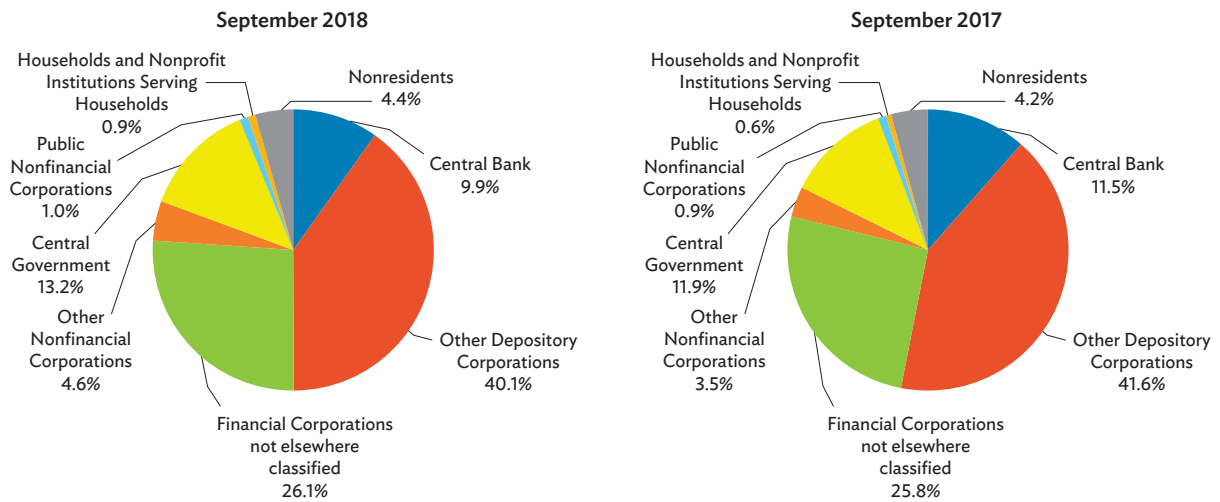
share of 40.1% in September 2018, slightly lower than the 41.6% share in September 2017 (**Figure 3**). The BOT's holdings share also decreased to 9.9% from 11.5% during the review period. The remaining investor groups saw increases in their holding shares, with the central government having the largest gain from 11.9% to 13.2%. Nonresidents' share increased slightly from 4.2% to 4.4%,

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

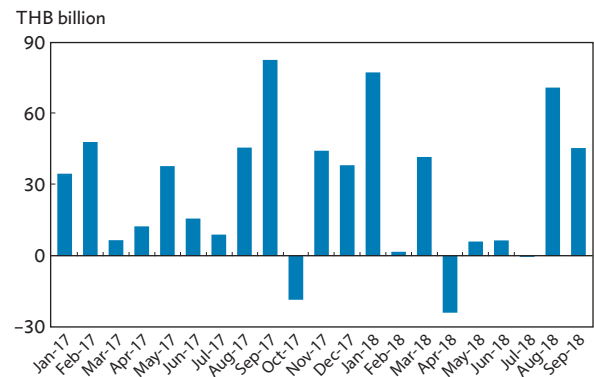


Source: Bank of Thailand.

reflecting the increased attractiveness of Thailand’s LCY bonds.

Despite the wilted risk appetite for emerging market assets driven by contagion fears, Thailand was able to draw foreign fund inflows of THB116 billion in Q3 2018, bringing total inflows for the first 9 months of the year to THB226 billion (Figure 4). While Thailand registered outflows of THB400 million in July, this was easily offset by inflows during August and September. Excluding the PRC, Thailand outperformed its regional peers in terms of fund flows as all markets in emerging East Asia experienced net outflows in September, demonstrating how Thailand has become a safe haven for foreign investors seeking capital exposure to the region’s assets. The attractiveness of THB-denominated bonds is anchored on a stable currency, low inflation, high international reserves, a current account surplus, low external debt, and an economy growing at a sound pace. Rising interest rates in the US may erode some of the appeal of Thai bonds, but market participants expect foreign funds to continue to flow into the local market.

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



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

However, net inflows may not be as large as last year and could be marked by episodes of volatility over investor wariness and the search for higher yields, resulting in some sell-offs.

Policy, Institutional, and Regulatory Developments

Thailand Plans to Develop “Bond Coin” to Facilitate Settlement of Corporate Bonds

The Thai Bond Market Association is studying the development of a digital token or “bond coin” to facilitate settlement and clearing of corporate bonds. Under the plan, participants will have information regarding payment stages, interest rates, and other time-sensitive information. The aim will be to shorten traditional banking processes from about 7–10 days to 1–3 days and to reduced corporate bond clearing from 2 days to less than 24 hours. The plan will come in three phases: (i) the development of a bond registrar subscription system to record bond transactions between participants; (ii) the inclusion of additional features such as bond deposit servicing and system development; and (iii) structuring of the “bond coin,” which will include a clearing and settlement infrastructure using the digital token.