

Thailand

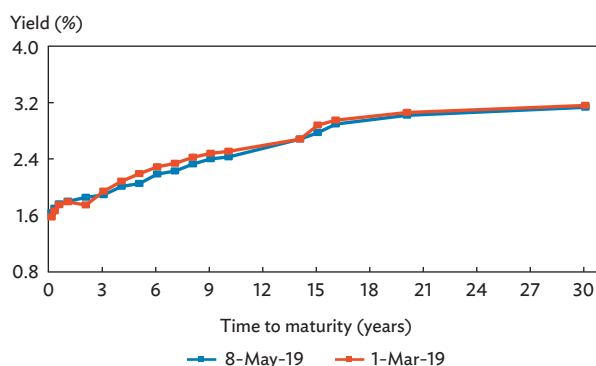
Yield Movements

Between 1 March and 8 May, the local currency (LCY) government bond yield curve in Thailand shifted slightly upward at the short-end and slightly downward at the long-end (**Figure 1**). Yields rose an average of 3 basis points (bps) for tenors with maturities of up to 1 year. The 2-year tenor had the largest gain at 11 bps. Excluding the 14-year tenor, yields fell an average of 8 bps for tenors with maturities of at least 3 years. The spread between the 2-year and 10-year tenors narrowed to 58 bps on 8 May from 77 bps on 1 March.

The marginal downward shift of the yield curve for most tenors resulted from expectations that the policy rate would be kept at its current level of 1.75%. In its monetary policy meeting on 20 March, the Bank of Thailand (BOT) decided to keep its policy rate unchanged as the economy expanded at a slower pace in first quarter (Q1) of 2019 amid weakening external demand. The BOT's gross domestic product (GDP) growth forecast for 2019 was lowered to 3.8% from 4.0% amid sluggish export demand. Inflation was expected to remain within the lower bound of its 0.7%–1.7% target. The BOT deemed that existing accommodative monetary policy was conducive to ensure economic growth and account for the impact of heightened global and domestic uncertainties. It thus decided to keep the policy rate unchanged at 1.75% in March and for a second time at its subsequent monetary policy meeting on 8 May.

Consumer price inflation was broadly unchanged in April, slightly declining 1.23% year-on-year (y-o-y) from 1.24% y-o-y in March, after having accelerated from 0.7% y-o-y in February, buoyed by higher food and oil prices. Core inflation, which excludes volatile food and energy prices, was also broadly unchanged in April at 0.61% y-o-y against 0.58% y-o-y in March. The government expects domestic food prices to rise in the coming months as drought and dry weather may cause a shortage in the supply of fresh vegetables. Consumer prices have been on an upward trend since the beginning of year, but the government is keeping its full-year 2019 inflation forecast at 1.0% y-o-y, which is within its target range. The Thai baht appreciated 0.1% against the United States (US) dollar between 1 March and 8 May,

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



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

once again outperforming its regional peers as the only currency that strengthened during the review period. Thailand's robust external finances are reflected in its high current account surplus, which was equivalent to 10.9% of GDP at the end of Q1 2019, up from 5.5% at the end of fourth quarter (Q4) of 2018. Thailand's current account surplus has shielded the baht from global economic shocks despite a series of net outflows since the beginning of the year. The widening trade surplus suggested that Thailand's economy may be less susceptible than its regional peers to trade tensions between the US and the People's Republic of China (PRC).

Nevertheless, the Thai economy slowed amid the US–PRC trade war, with GDP growth in Q1 2019 posting its slowest pace since Q1 2014, easing to 2.8% y-o-y from revised growth of 3.6% y-o-y in Q4 2018. The Q1 2019 growth was lower than expected, weighed down by the decline in external demand. Exports fell 3.6% y-o-y in Q1 2019, after growing 2.3% y-o-y in Q4 2018, as a result of a weakened demand from Thailand's major trading partners. Domestic demand slowed as well, with private consumption growing 4.6% q-o-q in Q1 2019, easing from growth of 5.4% q-o-q in Q4 2018. Private investment growth slowed to 4.4% q-o-q in Q1 2019 from 5.5% q-o-q in Q4 2018, restrained by weakening investment in construction. Following the weak economic performance in Q1 2019, the National Economic and Social Development Council reduced its full-year GDP

growth forecast in May to 3.3%–3.8% from 3.5%–4.5% and its exports growth forecast to 2.2% from 4.0%.

Size and Composition

Thailand's LCY bond market expanded to a size of THB12,649 billion (USD399 billion) at the end of March on growth of 1.6% q-o-q and 10.9% y-o-y (Table 1). The quarterly growth rate in Q1 2019 was down from 2.5% q-o-q in Q4 2018, but annual growth in Q1 2019 was slightly faster than the 10.3% y-o-y posted in the previous quarter. Growth was buoyed by expansions in both the government and corporate sectors, which was attributable to the double-digit q-o-q issuance growth during the quarter. The Thai bond market largely comprises government bonds, which accounted for 72% of total bonds outstanding at the end of March.

Government bonds. The size of the LCY government bond market reached THB9,111 billion at the end of March, with growth easing to 1.4% q-o-q in Q1 2019 from 3.3% q-o-q in Q4 2018. Expansions were seen across all government bond segments, except for state-owned enterprise bonds. Central government bonds outstanding marginally increased 0.8% q-o-q during the quarter, which was a slower growth rate than in Q4 2018. While recording only a minimal increase, central government bonds comprised more than half of the aggregate government bond stock during the review period. Central bank bonds outstanding also expanded more slowly in Q1 2019 versus Q4 2018 at 3.0% q-o-q. The amount of state-owned enterprise bonds outstanding declined 1.7% q-o-q, reversing growth of 1.2% q-o-q in Q4 2018,

as issuance volume declined. On a y-o-y basis, total government bonds outstanding grew 11.1% in Q1 2019.

Total issuance from the government surged 16.5% q-o-q in Q1 2019, up from growth of 1.9% q-o-q in the previous quarter, mainly lifted by an increase in central bank bonds that was partly countered by declines in central government bills and state-owned enterprise bonds. On a y-o-y basis, issuance of government bonds went up 24.4%, supported by higher central bank issuance. Government debt sales in Q1 2019 amounted to THB2,228 billion; about 93% of which comprised central bank securities.

Corporate bonds. Outstanding corporate bonds totaled THB3,538 billion at the end of March, reflecting a faster expansion of 2.3% q-o-q in Q1 2019 versus 0.5% q-o-q in Q4 2018, but falling to 10.3% y-o-y from 12.2% y-o-y during the same period. Growth was supported by higher corporate debt sales during the quarter.

The size of bonds outstanding of the top 30 corporate issuers totaled THB1,954 billion at the end of March, accounting for 55.2% of the total corporate bond market (Table 2). The list was dominated by the food and beverage industry with six issuers and aggregate bonds outstanding of THB528 billion. Siam Cement remained the top issuer with outstanding debt of THB182 billion at the end of March, unchanged from the end of December. Thai Beverage ranked second on the list, surpassing CP All, with its outstanding bonds jumping to THB180 billion from THB127 billion during the review period on increased issuance in Q1 2019.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2018		Q4 2018		Q1 2019		Q1 2018		Q1 2019	
	THB	USD	THB	USD	THB	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	11,410	366	12,445	382	12,649	399	1.2	2.2	1.6	10.9
Government	8,203	263	8,986	276	9,111	287	0.1	(0.6)	1.4	11.1
Government Bonds and Treasury Bills	4,425	142	4,738	146	4,774	150	2.1	5.3	0.8	7.9
Central Bank Bonds	2,969	95	3,477	107	3,579	113	(2.4)	(9.4)	3.0	20.5
State-Owned Enterprise and Other Bonds	808	26	771	24	758	24	(1.4)	5.5	(1.7)	(6.2)
Corporate	3,208	103	3,459	106	3,538	111	4.0	10.1	2.3	10.3

(-) = 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.

Source: Bank of Thailand.

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	5.7	Yes	Yes	Construction Materials
2.	Thai Beverage	180.0	5.7	No	No	Food and Beverage
3.	CP All	164.8	5.2	No	Yes	Commerce
4.	Berli Jucker	121.8	3.8	No	Yes	Food and Beverage
5.	PTT	110.7	3.5	Yes	Yes	Energy and Utilities
6.	Charoen Pokphand Foods	109.5	3.4	No	Yes	Food and Beverage
7.	Bank of Ayudhya	104.0	3.3	No	Yes	Banking
8.	True Move H Universal Communication	82.0	2.6	No	No	Communications
9.	Toyota Leasing Thailand	79.2	2.5	No	No	Finance and Securities
10.	Minor International	66.0	2.1	No	Yes	Hospitality and Leisure
11.	Indorama Ventures	65.4	2.1	No	Yes	Petrochemicals and Chemicals
12.	Thai Airways International	59.1	1.9	Yes	Yes	Transportation and Logistics
13.	Krungthai Card	47.4	1.5	Yes	Yes	Banking
14.	CPF Thailand	44.0	1.4	No	Yes	Food and Beverage
15.	Mitr Phol Sugar	42.2	1.3	No	No	Food and Beverage
16.	Banpu	41.8	1.3	No	Yes	Energy and Utilities
17.	Land & Houses	40.5	1.3	No	Yes	Property and Construction
18.	Advanced Wireless	40.2	1.3	No	Yes	Communications
19.	Tisco Bank	39.7	1.3	No	No	Banking
20.	Bangkok Expressway and Metro	38.2	1.2	No	Yes	Transportation and Logistics
21.	TPI Polene	36.6	1.2	No	Yes	Property and Construction
22.	Thai Union Group	30.6	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.	Sansiri	29.4	0.9	No	Yes	Property and Construction
26.	True Corp	29.1	0.9	No	Yes	Communications
27.	Bangkok Commercial Asset Management	28.2	0.9	No	No	Finance and Securities
28.	CH. Karnchang	28.1	0.9	No	Yes	Property and Construction
29.	Kasikorn Bank	28.0	0.9	No	Yes	Banking
30.	Muangthai Capital	27.3	0.9	No	Yes	Finance and Securities
Total Top 30 LCY Corporate Issuers		1,954.3	61.6			
Total LCY Corporate Bonds		3,537.6	111.5			
Top 30 as % of Total LCY Corporate Bonds		55.2%	55.2%			

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

Notes:

1. Data as of 31 March 2019.

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.

Corporate bond issuance in Q1 2019 increased 31.2% q-o-q to THB467 billion, reversing the 22.2% q-o-q decline in Q4 2018. According to the Thai Bond Market Association, the issuance of nonrated and noninvestment-grade, long-term corporate bonds rose substantially in Q1 2019. Similarly, the highest-rated, investment-grade bonds registered an increase, but at a much slower pace. Firms took advantage of the relatively low interest rate environment as the BOT held off further rate hikes after raising the benchmark policy rate by 25 bps in December.

Thai Beverage recorded the largest corporate debt sales in Q1 2019, totaling THB53 billion from three issuances, following THB77 billion of issuance in the third quarter of 2018, which marked the biggest quarterly corporate debt issuance total yet in Thailand (**Table 3**).

Investor Profile

Central government bonds. The profile of LCY central government bond investors at the end of March was little changed from a year earlier (**Figure 2**). Financial corporations again had the largest share of holdings at 41.7% of total LCY central government bonds outstanding, although this was a decrease from 43.3% in March 2018. Similarly, other depository corporations saw their government bonds dip from 21.2% to 18.4% during the review period. On the other hand, the central government and foreign investors registered increases in their

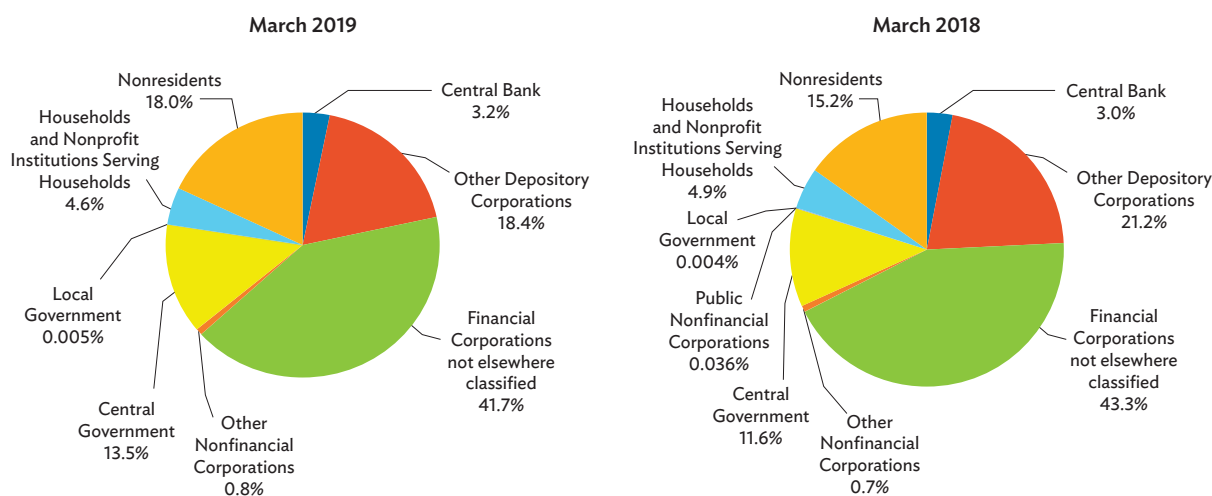
Table 3: Notable Local Currency Corporate Bond Issuance in the First Quarter of 2019

Corporate Issuers	Coupon Rate (%)	Issued Amount (THB million)
Thai Beverage		
2-year bond	3.00	31,600
5-year bond	3.50	11,300
10-year bond	4.00	10,100
Minor International		
5-year bond	3.60	4,635
5-year bond	3.60	2,165
10-year bond	4.17	5,685
10-year bond	4.17	1,815
12-year bond	4.43	2,430
12-year bond	4.43	1,570
15-year bond	4.62	2,430
15-year bond	4.62	3,070
True Move H Universal Communication		
2-year bond	3.80	2,810
5-year bond	5.10	11,190
5-year bond	5.00	200

THB = Thai baht.
Source: Bloomberg LP.

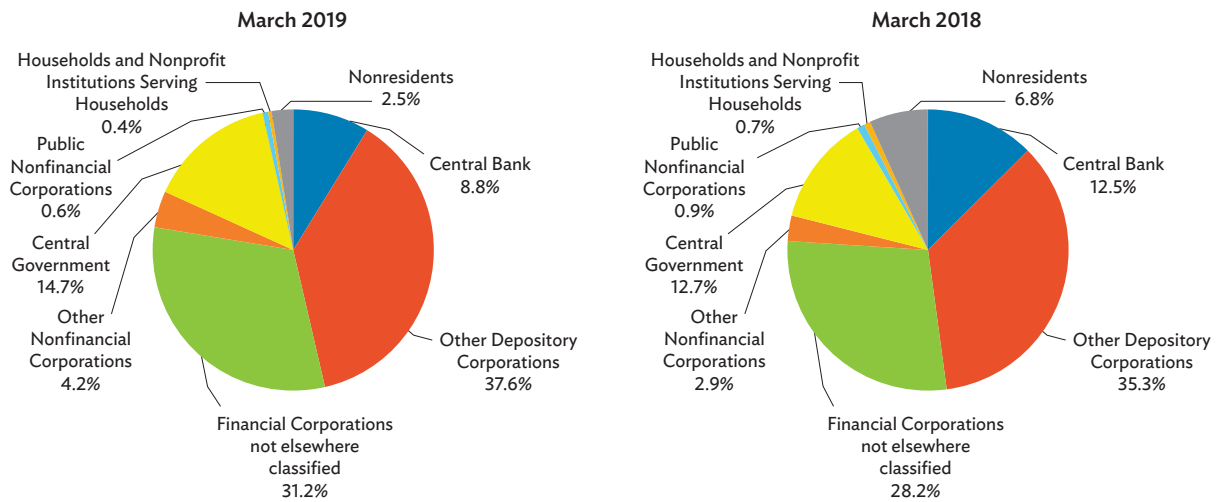
shares, with the former holding 13.5% at the end of March, up from 11.6%, and the latter holding 18.0%, up from 15.2%. These four investor groups together held over 90% of total central government bonds outstanding at the end of March.

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.

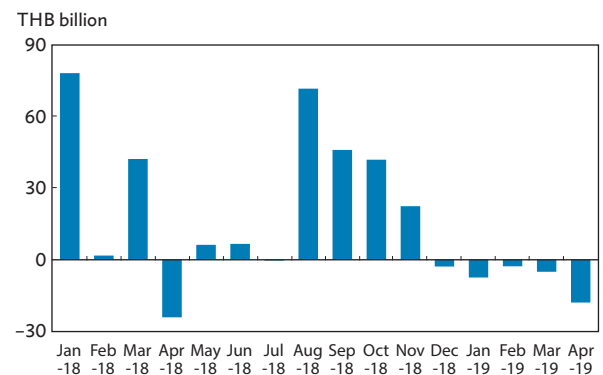
Central bank bonds. The three largest investor groups in the central bank bond segment registered increased holding shares in March compared with a year earlier (Figure 3). Other depository corporations’ share increased 2.2 percentage points to 37.6%, financial corporations’ share rose 3.1 percentage points to 31.2%, and the BOT’s share was up 2.0 percentage points to 14.7%. The foreign investors share in central bank bonds decreased to 2.5% in March from 6.8% in March 2018, the largest percentage decrease among all investor groups.

Between January and April, Thailand’s LCY bond market recorded net outflows of THB33 billion, reversing net inflows of THB97 billion recorded in January–April 2018 (Figure 4). Unsettled by external factors such as the global economic slowdown, the US–PRC trade war, and the unclear terms of Brexit, investors have been selling short-term bonds since the beginning of the year to lock in profits on expectations of higher interest rates and the Thai baht’s depreciation. Uncertainties on the domestic political front stemming from the general elections in March also made investors more risk averse, leading net outflows to surge to THB18 billion in April.

Ratings Update

Rating and Investment Information (R&I) affirmed Thailand’s foreign currency issuer rating at BBB+, with

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



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

a stable outlook, on 31 January. The rationale behind the rate affirmation is Thailand’s strong economic fundamentals underpinned by a consistent current account surplus and inflows of foreign direct investment. The economy is projected to stay on a solid growth path. R&I also said that while the government’s fiscal deficit is on an upward trend, the introduction of the Fiscal Responsibility Act will keep the economy’s fiscal position sound. Furthermore, R&I expects the post-election government transition to be smooth and deemed the resurgence of political and social turmoil to be unlikely.

Policy, Institutional, and Regulatory Developments

BOT and Bank Indonesia Sign Memorandum of Understanding on Payment Systems and Financial Innovation

The BOT and Bank Indonesia signed a memorandum of understanding on 4 April to strengthen payment systems and financial innovation cooperation between Thailand and Indonesia. The agreement also aims to strengthen the implementation of central bank policies and address the increasingly complex challenges in payments between the two economies. It will also reinforce the implementation of policies against money laundering and terrorism financing.