

## Thailand

### Yield Movements

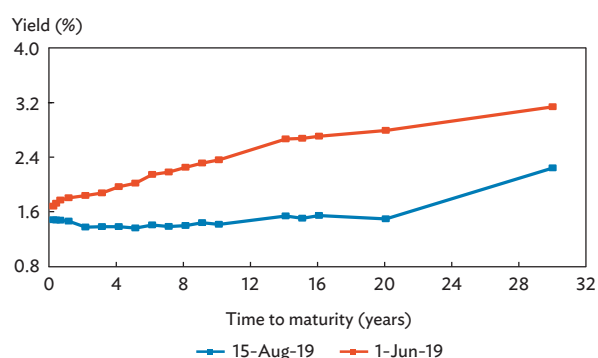
Between 1 June and 15 August, Thailand's local currency (LCY) government bond yields fell for all tenors, shifting the entire yield curve downward (**Figure 1**). The 20-year tenor exhibited the largest drop in yield at 130 basis points (bps). Yields declined an average of 27 bps for short-dated tenors with maturities of up to 1 year, 71 bps for tenors with maturities between 2 years and 10 years, and 113 bps for tenors with maturities longer than 10 years. As a result, the yield curve flattened at the belly of the curve, with the yields of short- to medium-dated bonds converging within the range of 1.36%–1.48%. The spread between 2-year and 10-year tenors narrowed significantly from 52 bps on 1 June to 4 bps on 15 August. Among the tenors with maturities longer than 10 years, the 30-year bond exhibited the smallest decline in yield at 90 bps. It was also the only tenor with a yield above 2.0% at the end of the review period.

The downward shift of the Thai LCY government bond yield curve followed the global trend of falling government bond yields, which has been driven by a surge in investor demand for safe-haven assets, particularly sovereign bonds, amid concerns over slowing global growth and escalating trade tensions between the People's Republic of China and the United States (US). In Thailand, falling yields also reflected the weakening prospects of the export-reliant economy, which continued to suffer from the prolonged trade dispute between two of its major trading partners.

A shift toward a more dovish monetary policy environment globally also created downward pressure on yields. The review period saw a series of monetary policy easing across the region following the 25-bps cut to the federal funds rate announced by the US Federal Reserve on 31 July. On 7 August, the Bank of Thailand (BOT) decided to reduce its policy rate by 25 bps to 1.50% to boost economic growth and push inflation up toward the target range.

Thailand's gross domestic product (GDP) growth slowed to 2.3% year-on-year (y-o-y) in the second quarter (Q2) of 2019 from 2.8% y-o-y in the previous quarter amid a continuing slowdown in domestic and

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



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

external demand. The growth was the slowest pace recorded since the third quarter of 2014. The agriculture sector contracted 1.1% y-o-y in Q2 2019, while the nonagricultural sector expanded 2.6% y-o-y. Growth in the latter was driven primarily by the services sector, which expanded 3.5% y-o-y. In contrast, manufacturing production contracted 0.2% y-o-y, due to a decline in export-oriented sectors such as computers, rubber, and plastic products.

Between 1 June and 15 August, the Thai baht appreciated 2.2% against the US dollar, outperforming other currencies in emerging East Asia. Since the beginning of the year, the baht has appreciated against the US dollar by 5.0%. The baht's strength was partly driven by foreign capital inflows during the period. In May and June, Thailand's LCY bond market recorded inflows of foreign funds worth THB91.4 billion. To curb the baht's appreciation and counter speculative capital flows, the BOT reduced the supply of short-term bills, lowered the limit on nonresident baht accounts, and tightened reporting requirements for nonresident holdings of Thai debt securities in July.

Thailand's consumer price inflation dropped to 0.5% y-o-y in August from 1.0% y-o-y in July. Core inflation, which excludes volatile fresh food and energy prices, rose to 0.5% y-o-y in August from 0.4% y-o-y in July. Headline inflation fell below the BOT's target range of 1.0%–4.0% for a third straight month.

## Size and Composition

Thailand's LCY bond market expanded in size to THB13,036.9 billion (USD424.9 billion) at the end of Q2 2019 from THB12,649.0 billion (USD398.6 billion) in the first quarter (Q1) of 2019 (**Table 1**). The growth of 3.1% quarter-on-quarter (q-o-q) in Q2 2019 surpassed the 1.6% q-o-q growth in the previous quarter, driven by faster expansion of both government and corporate bonds. The bond market in Thailand remains largely dominated by government bonds, which accounted for 71.5% of the LCY bonds outstanding in Q2 2019. On a y-o-y basis, Thailand's LCY bond market expanded 9.4% in Q2 2019, easing slightly from the 10.9% growth in Q1 2019.

**Government bonds.** The outstanding stock of LCY government bonds amounted to THB9,319.3 billion at the end of June, with growth accelerating to 2.3% q-o-q in Q2 2019 from 1.4% q-o-q in the previous quarter. Central bank bonds and state-owned enterprise and other bonds led the expansion, rising to THB3,771.7 billion and THB793.6 billion on growth of 5.4% q-o-q and 4.7% q-o-q, respectively. Due to maturities, government bonds and Treasury bills fell slightly in Q2 2019, contracting 0.4% q-o-q to THB4,754.1 billion at the end of June.

In the same period, government bond issuance rose 4.1% q-o-q, reaching THB2,320.1 billion at the end of June. The growth was driven by increased issuance of Treasury and state enterprise bonds, which more than

offset the drop in BOT bond issuance. The growth in new government bond issues in Q2 2019 was weaker than the 16.5% q-o-q expansion in Q1 2019.

**Corporate bonds.** The outstanding stock of LCY corporate bonds rose to THB3,717.5 billion at the end of June from THB3,537.6 billion at the end of March, with growth accelerating to 5.1% q-o-q in Q2 2019 from 2.3% q-o-q in Q1 2019. Annual growth was also faster at 13.2% y-o-y compared to the 10.3% y-o-y expansion in the previous quarter. The growth was supported by relatively high issuance of corporate debt during the quarter. Corporate debt issuance in Q2 2019 rose 11.6% q-o-q and 41.7% y-o-y, reaching THB520.9 billion.

The top 30 issuers of LCY bonds in Thailand accounted for 54.4% of the total outstanding stock of LCY corporate bonds, with a combined amount worth THB2,023.6 billion (**Table 2**). Food and beverages, banking, and communications firms together comprised half of the top 30 issuers. A majority of the companies were listed private companies; only four of them were state-owned firms. Among the top issuers, six had outstanding LCY bond stocks exceeding THB100 billion at the end of Q2 2019: Siam Cement (THB181.5 billion), Thai Beverage (THB180.0 billion), CP All (THB164.8 billion), Bank of Ayudhya (THB130.8 billion), Berli Jucker (THB121.8 billion), and Charoen Pokphand Foods (THB109.5 billion).

In Q2 2019, the Bank of Ayudhya issued the largest amount of corporate bonds totaling THB33.8 billion,

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2018		Q1 2019		Q2 2019		Q2 2018		Q2 2019	
	THB	USD	THB	USD	THB	USD	q-o-q	y-o-y	q-o-q	y-o-y
<b>Total</b>	11,918	361	12,649	399	13,037	425	4.4	8.6	3.1	9.4
Government	8,634	261	9,111	287	9,319	304	5.3	8.4	2.3	7.9
Government Bonds and Treasury Bills	4,532	137	4,774	150	4,754	155	2.4	10.5	(0.4)	4.9
Central Bank Bonds	3,268	99	3,579	113	3,772	123	10.0	6.1	5.4	15.4
State-Owned Enterprise and Other Bonds	834	25	758	24	794	26	3.2	6.8	4.7	(4.8)
Corporate	3,284	99	3,538	111	3,718	121	2.4	9.1	5.1	13.2

( ) = negative, 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 local currency-USD rates are used.

3. Growth rates are calculated from local currency 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	5.9	Yes	Yes	Construction Materials
2.	Thai Beverage	180.0	5.9	No	No	Food and Beverage
3.	CP All	164.8	5.4	No	Yes	Commerce
4.	Bank of Ayudhya	130.8	4.3	No	Yes	Banking
5.	Berli Jucker	121.8	4.0	No	Yes	Commerce
6.	Charoen Pokphand Foods	109.5	3.6	No	Yes	Food and Beverage
7.	PTT	84.7	2.8	Yes	Yes	Energy and Utilities
8.	Toyota Leasing Thailand	82.2	2.7	No	No	Finance and Securities
9.	True Move H Universal Communication	82.0	2.7	No	No	Communications
10.	Thai Airways International	69.1	2.3	Yes	Yes	Transportation and Logistics
11.	Minor International	66.0	2.2	No	Yes	Hospitality and Leisure
12.	Indorama Ventures	63.9	2.1	No	Yes	Petrochemical and Chemicals
13.	CPF Thailand	61.0	2.0	No	Yes	Food and Beverage
14.	True Corp	54.1	1.8	No	Yes	Communications
15.	TMB Bank	50.4	1.6	No	Yes	Banking
16.	Banpu	48.9	1.6	No	Yes	Energy and Utilities
17.	Krungthai Card	44.9	1.5	Yes	Yes	Banking
18.	Mitr Phol Sugar	42.2	1.4	No	No	Food and Beverage
19.	Land & Houses	40.5	1.3	No	Yes	Property and Construction
20.	Bangkok Expressway and Metro	38.2	1.2	No	Yes	Transportation and Logistics
21.	CH. Karnchang	38.1	1.2	No	Yes	Property and Construction
22.	TPI Polene	36.6	1.2	No	Yes	Property and Construction
23.	Advanced Wireless	32.4	1.1	No	Yes	Communications
24.	Thai Union Group	30.6	1.0	No	Yes	Food and Beverage
25.	DTAC Trinet	29.5	1.0	No	Yes	Communications
26.	BTS Group	28.5	0.9	No	Yes	Hospitality and Leisure
27.	Bangkok Commercial Asset Management	28.2	0.9	No	No	Finance and Securities
28.	Kasikorn Bank	28.0	0.9	No	Yes	Banking
29.	Sansiri	27.9	0.9	No	Yes	Property and Construction
30.	Muangthai Capital	27.4	0.9	No	Yes	Finance and Securities
<b>Total Top 30 LCY Corporate Issuers</b>		<b>2,023.6</b>	<b>66.0</b>			
<b>Total LCY Corporate Bonds</b>		<b>3,717.5</b>	<b>121.2</b>			
<b>Top 30 as % of Total LCY Corporate Bonds</b>		<b>54.4%</b>	<b>54.4%</b>			

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

Notes:

1. Data as of 30 June 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.

comprising a 3-year bond with a 2.37% coupon and a 5-year bond with a 3.80% coupon (Table 3). The next largest issuer during the quarter was TMB Bank, which borrowed a total of THB30.0 billion from a 10-year bond carrying a 4.0% coupon. True Corp, a communications company, followed with total issuance of THB25.0 billion from five issuances of bonds with tenors ranging from 1.25 years to 5.26 years, and carrying coupons ranging from 3.3% to 5.0%. CPF Thailand was the fourth-largest issuer during the quarter, with a multitranche issuance amounting to THB17.0 billion. Another notable issuance included Siam Cement's THB15.0 billion 4-year bond carrying a 3.1% coupon.

## Investor Profile

**Central government bonds.** Financial corporations and nonresidents together held more than 60% of Thailand's LCY government bonds at the end of June (Figure 2). Financial corporations continued to hold the single-largest share of LCY government bonds, accounting for 42.7% of the total at the end of June. Between June 2018 and June 2019, the share of nonresidents rose from 15.7% to 18.0%, while the share of other depository corporations dropped from 20.6% to 15.8%. As a result, nonresidents surpassed the holdings of other depository corporations, becoming the second-largest holding group of LCY government bonds at the end of June. During the same period, the central government's share of holdings increased from 11.6% to 14.3%. Together, these four groups accounted for 90.8% of LCY government bonds

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

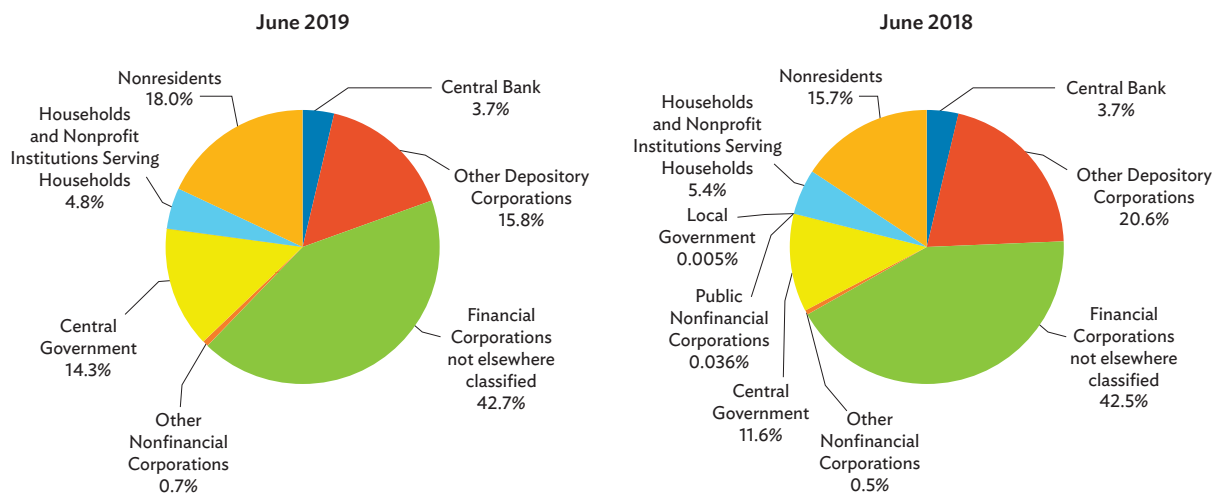
Corporate Issuers	Coupon Rate (%)	Issued Amount (THB billion)
Bank of Ayudhya		
3-year bond	2.37	15.0
10-year bond	3.80	18.8
TMB Bank		
10-year bond	4.00	30.0
True Corp		
1.25-year bond	3.30	1.8
2-year bond	3.70	5.2
2.98-year bond	3.80	0.3
3.25-year bond	4.00	5.8
5.26-year bond	5.00	11.8
CPF Thailand		
4-year bond	2.91	4.0
6-year bond	3.34	2.0
8-year bond	3.65	0.5
10-year bond	4.00	4.0
12-year bond	4.18	6.5
Siam Cement		
4-year bond	3.10	15.0

THB = Thai baht.  
Source: Bloomberg LP.

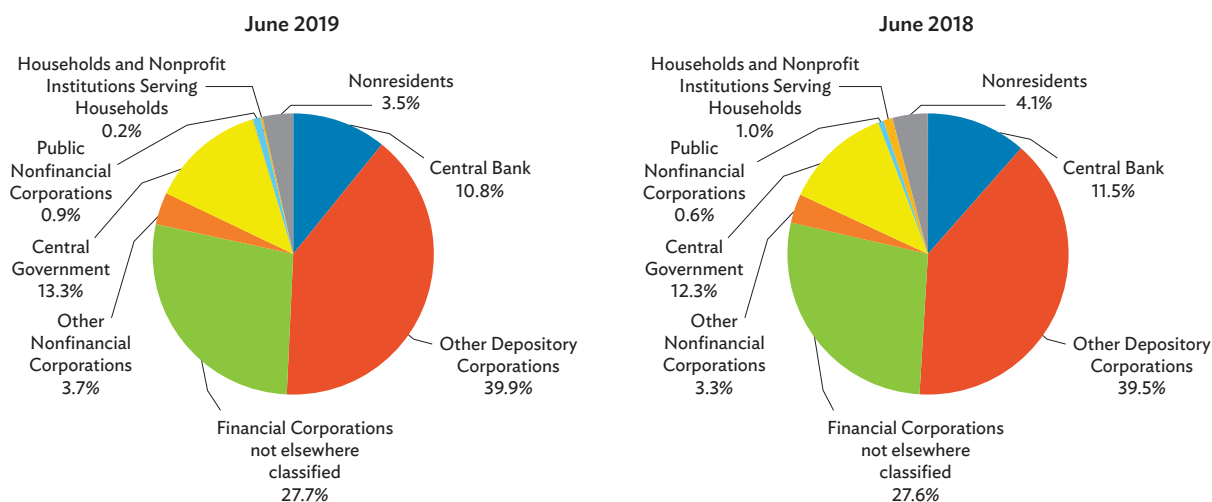
outstanding at the end of June, up from 90.4% a year earlier.

**Central bank bonds.** The distribution of LCY central bank securities remained stable between June 2018 and June 2019 (Figure 3). At the end of June 2019,

**Figure 2: Local Currency Government Bonds Investor Profile**



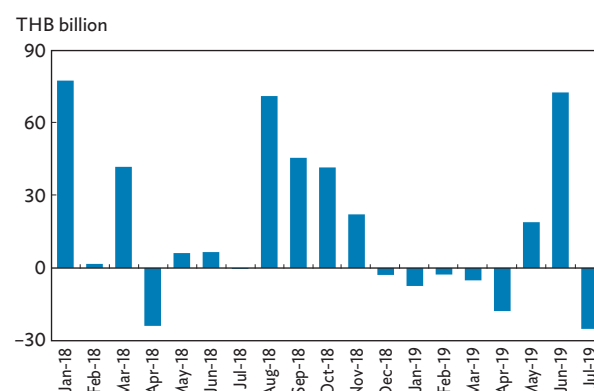
Note: Government bonds include Treasury bills and bonds.  
Sources: AsianBondsOnline and Bank of Thailand.

**Figure 3: Local Currency Central Bank Securities Investor Profile**

Source: Bank of Thailand.

other depository corporations held the largest share of LCY central bank bonds at 39.9%, followed by financial corporations (27.7%) and the central government (13.3%). The share of these three groups barely changed from that of a year earlier. The central bank's holdings decreased slightly to 10.8% from 11.5% a year earlier. These four investor groups cumulatively held 91.7% of the total LCY central bank bonds at the end of June 2019, up from 90.9% a year earlier.

Foreign investors in Thailand's LCY bond market recorded net outflows in 5 of the 7 months from January to July (**Figure 4**). However, the relatively high inflows in May (THB18.9 billion) and June (THB72.5 billion) more than offset the outflows, resulting in net inflows of THB33.2 billion during the 7-month period. Following the orderly conclusion of the national election in March, which eased political uncertainties, renewed market sentiment drew large inflows in May and June. The surge of inflows into short-term bonds contributed to the accelerated appreciation of the baht, prompting the BOT to implement several measures to stem short-term capital inflows and curb the baht's appreciation. In July, the BOT reduced its supply of 3-month, 6-month, and

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

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

1-year bonds by a total of THB60 billion. It also lowered the limit on the outstanding balance of nonresident baht accounts and nonresident securities accounts to THB200 million from THB300 million. In addition, the BOT tightened reporting requirements for nonresident holdings of Thai debt securities. As a result, net trading of LCY bonds recorded outflows of THB25.1 billion in July.

## Policy, Institutional, and Regulatory Developments

### Bank of Thailand Implements Measures to Enhance Monitoring of Short-Term Capital Flows

In July, the BOT issued new measures to stem the impact of short-term capital inflows amid a strengthening baht. The BOT lowered the limit on the outstanding balance of nonresident baht accounts and nonresident securities accounts for securities to THB200 million from THB300 million. The measures became effective on 22 July. Nonfinancial corporations with underlying trade and investment activities in Thailand that have opened accounts directly with Thai financial institutions may request a waiver from the new outstanding balance limit; requests for waivers will be considered on a case-by-case basis. In addition, the BOT tightened reporting requirements for nonresident holdings of debt securities issued in Thailand. The names of end beneficiaries are required to be reported for all nonresident holdings of Thai debt securities, effective for the July 2019 reporting period. In its press statement, the BOT emphasized that it would take additional measures if speculative inflows persisted.

### Bank of Thailand Cuts Bond Supply in July

The BOT trimmed its supply of short-term bonds for July in a move viewed by market observers as an effort to slow capital inflows and curb the baht's appreciation. The weekly issuance of 3-month bonds was reduced from THB45 billion to THB35 billion, while the supply of 6-month bonds was cut from THB45 billion to THB40 billion per week. The supply of 1-year bonds

was likewise be reduced to THB35 billion in July from THB40 billion in June. The total reduction in the month of July amounted to THB60 billion.

### Bank of Thailand and the Bank of the Lao People's Democratic Republic Sign Memorandum of Understanding on Banking Supervision

On 22 June, the BOT and the Bank of the Lao People's Democratic Republic signed a memorandum of understanding (MOU) on banking supervision. The MOU provides guidance on how the two monetary authorities will coordinate and share information to effectively supervise banking organizations that operate in both economies in accordance with the principles set out in the Basel Core Principles for Effective Banking Supervision.

### Bank of Thailand and the State Bank of Vietnam Sign MOU on Banking Supervision and Financial Innovation

On 6 August, the BOT and the State Bank of Vietnam signed an MOU covering banking supervision and financial innovation. The MOU for banking supervision superseded the previous MOU signed in 2010 and was designed to strengthen cooperation between the two monetary authorities in the areas of information exchange and crisis management. The MOU on cooperation for financial innovation aimed to promote cooperation between the two central banks in developing financial services that leverage financial technology. It also provided a framework for cooperation in facilitating digital payment systems connectivity between the two economies.