

# Thailand

## Yield Movements

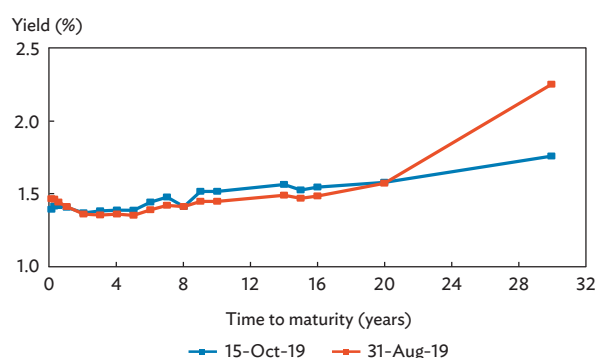
Thailand's local currency (LCY) government bond yield curve flattened between 31 August and 15 October. Yields rose an average of 4 basis points (bps) for bonds with maturities between 2 years and 20 years, with the 10-year yield gaining 7 bps (**Figure 1**). In contrast, yields dropped at the shorter and longer ends of the curve. Short-term tenors with maturities of up to 1 year shed an average of 4 bps, while the 30-year tenor saw its yield drop 49 bps. The spread between the 2-year and 10-year tenors increased from 9 bps on 31 August to 15 bps on 15 October.

The drop in short-term yields followed the Bank of Thailand's (BOT) policy rate cut in early August, when the BOT reduced its policy rate by 25 bps to 1.5% as escalating trade tensions and weak global growth continued to weaken the trade-dependent economy. The reduction in issuance of short-term BOT bills, intended to stem speculative capital flows and curb currency appreciation, added downward pressure on short-term yields. Declining yields on the shorter end of the curve reflected market expectations of another rate cut in the near-term.

The rise in yields of medium-term and long-term bonds was partly driven by capital outflows from the Thai bond market. The review period saw net foreign outflows totaling THB16.9 billion following the implementation of policies designed to rein in the Thai baht. From January to September, the baht appreciated 5.8% against the US dollar, negatively affecting exports and tourism, and thus adding a headwind for the domestic economy. In response, the BOT lowered the cap for the outstanding balance of nonresident baht accounts and nonresident baht accounts for securities. The BOT also tightened its reporting requirements for nonresident holdings of debt securities.

The sharp 49 bps drop in the 30-year bond yield reflected the weakened growth outlook for the Thai economy. Thailand's gross domestic product 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 first quarter amid a continuing slowdown in domestic and external

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



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

demand. The government revised its full-year 2019 growth forecast to 2.7%–3.0% from 2.9%–3.3%.

Thailand's headline inflation slowed to 0.4% y-o-y in September from 0.5% y-o-y in August, falling below the Bank of Thailand's target range of 1.0%–4.0% y-o-y for a fourth straight month. The weakening inflation stemmed primarily from declining energy prices, which fell for a fifth straight month due to falling global oil prices. The Ministry of Commerce revised its expected full-year inflation rate for 2019 to a range of 0.7%–1.0%, down from an earlier forecast of 0.7%–1.3%. The BOT likewise lowered its inflation forecast for full-year 2019 to 0.8% from 1.0%.

The government rolled out expansionary fiscal policies to boost the sluggish economy. In August, the government approved a THB316.0 billion stimulus package that includes additional allowances for low-income earners and the elderly, debt relief and loans for farmers affected by the ongoing drought, incentives for domestic tourism and investment, credit support for small and medium-sized enterprises, and low-interest loans for home buyers. A key part of the package was a THB1,000 cash giveaway and a 15.0% cash rebate on tourism-related spending. In October, the government announced an additional stimulus scheme valued at THB5.8 billion for consumption promotion and low-interest housing loan support.

The BOT decided to keep its benchmark interest rate unchanged at 1.50% during its September policy meeting, preserving policy space for future risks. The continued appreciation of the baht remains one of the central bank's main concerns. During the review period, the baht appreciated 0.7% against the US dollar despite the policies implemented to dampen its strength.

## Size and Composition

Thailand's LCY bonds outstanding amounted to THB12,857.3 billion (USD420.1 billion) at the end of the third quarter (Q3) of 2019, down from THB13,036.9 (USD424.9 billion) at the end of Q2 2019 (Table 1). The 1.4% quarter-on-quarter (q-o-q) contraction in Q3 2019 reversed the 3.1% q-o-q growth posted in the previous quarter, driven by a 0.5% q-o-q drop in government bonds outstanding and a 3.5% q-o-q decline in corporate bonds outstanding. The bond market in Thailand remains dominated by government bonds, which accounted for 72.1% of the LCY bonds outstanding in Q3 2019. On a y-o-y basis, Thailand's LCY bond market expanded 5.9% in Q3 2019, down from the 9.4% growth posted in Q2 2019.

**Government bonds.** The outstanding stock of LCY government bonds declined slightly to THB9,270.4 billion at the end of Q3 2019 from THB9,319.3 billion at the end of Q2 2019. The 0.5% q-o-q decline in Q3 2019 reversed the 2.3% q-o-q growth recorded in the previous quarter. The drop in government bonds outstanding stemmed from a 3.6% q-o-q contraction in BOT bonds outstanding, which offset the modest growth in outstanding government

bonds and Treasury bills (1.5% q-o-q) and state-owned enterprise and other bonds (1.8% q-o-q).

The decline in BOT bonds outstanding was mainly due to lower issuance volume during the quarter. Starting in July, the BOT reduced the amount of 91-day, 182-day, and 1-year bonds it issues in an effort to curb speculative capital flows and stem the appreciation of the Thai baht. Issuance of BOT bonds dropped 9.3% q-o-q in Q3 2019 compared to the prior quarter. In the same period, issuance of government bonds and state-owned enterprise bonds also declined 52.6% q-o-q and 40.2% q-o-q, respectively. Total government bond issuance contracted 15.0% q-o-q in Q3 2019.

**Corporate bonds.** The outstanding stock of LCY corporate bonds in Thailand dropped to THB3,586.8 billion at the end of Q3 2019 from THB3,717.5 in Q2 2019. The 3.5% q-o-q contraction reversed the 5.1% q-o-q growth recorded in the previous quarter. Annual growth eased to 4.2% y-o-y from 13.2% y-o-y in the prior quarter. The decline in corporate bonds outstanding was due to maturities and less issuance of corporate debt during the quarter. Issuance of corporate bonds contracted 21.4% q-o-q and 10.5% y-o-y in Q3 2019.

The top 30 issuers of LCY bonds in Thailand accounted for 57.9% of the total outstanding stock of LCY corporate bonds, with a combined amount of outstanding bonds worth THB2,078.4 billion (Table 2). Food and beverages, communications, banking, finance, and property and construction firms together comprised more than half of the top 30 issuers. A majority of the companies were

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2018		Q2 2019		Q3 2019		Q3 2018		Q3 2019	
	THB	USD	THB	USD	THB	USD	q-o-q	y-o-y	q-o-q	y-o-y
<b>Total</b>	12,141	376	13,037	425	12,857	420	1.9	10.0	(1.4)	5.9
Government	8,699	269	9,319	304	9,270	303	0.8	9.0	(0.5)	6.6
Government Bonds and Treasury Bills	4,614	143	4,754	155	4,827	158	1.8	7.4	1.5	4.6
Central Bank Bonds	3,322	103	3,772	123	3,636	119	1.7	15.1	(3.6)	9.4
State-Owned Enterprise and Other Bonds	762	24	794	26	807	26	(8.6)	(4.5)	1.8	5.9
Corporate	3,442	106	3,718	121	3,587	117	4.8	12.7	(3.5)	4.2

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

3. Growth rates are calculated from local currency base and do not include currency effects.

4. Q3 figures are based on *AsianBondsOnline* estimates.

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	152.9	5.0	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	101.0	3.3	No	Yes	Food and Beverage
7.	True Move H Universal Communication	93.5	3.1	No	No	Communications
8.	PTT	84.7	2.8	Yes	Yes	Energy and Utilities
9.	Toyota Leasing Thailand	82.2	2.7	No	No	Finance and Securities
10.	True Corp	75.1	2.5	No	No	Communications
11.	Thai Airways International	68.6	2.2	Yes	Yes	Transportation and Logistics
12.	Minor International	66.0	2.2	No	Yes	Hospitality and Leisure
13.	Indorama Ventures	63.9	2.1	No	Yes	Petrochemical and Chemicals
14.	CPF Thailand	61.0	2.0	No	No	Food and Beverage
15.	Banpu	48.9	1.6	No	Yes	Energy and Utilities
16.	Bangkok Commercial Asset Management	48.2	1.6	No	Yes	Finance and Securities
17.	Land and Houses	47.5	1.6	No	Yes	Property and Construction
18.	Krungthai Card	44.1	1.4	Yes	Yes	Banking
19.	Krung Thai Bank	44.0	1.4	Yes	Yes	Banking
20.	PTT Global Chemical	40.0	1.3	No	Yes	Petrochemical and Chemicals
21.	Mintr Phol Sugar	39.4	1.3	No	No	Food and Beverage
22.	Bangkok Expressway and Metro	38.2	1.2	No	Yes	Transportation and Logistics
23.	TPI Polene	37.9	1.2	No	Yes	Property and Construction
24.	TMB Bank	35.4	1.2	No	Yes	Finance and Securities
25.	Muangthai Capital	33.1	1.1	No	Yes	Finance and Securities
26.	Total Access Communication	33.0	1.1	No	Yes	Communications
27.	CH. Karnchang	32.9	1.1	No	Yes	Property and Construction
28.	Advanced Info Service	32.4	1.1	No	Yes	Communications
29.	Sansiri	31.1	1.0	No	Yes	Property and Construction
30.	BTS Group	29.5	1.0	No	Yes	Hospitality and Leisure
<b>Total Top 30 LCY Corporate Issuers</b>		<b>2,078.4</b>	<b>67.9</b>			
<b>Total LCY Corporate Bonds</b>		<b>3,586.8</b>	<b>117.2</b>			
<b>Top 30 as % of Total LCY Corporate Bonds</b>		<b>57.9%</b>	<b>57.9%</b>			

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

Notes:

1. Data as of 30 September 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.

listed private companies; only five were state-owned firms. Among the top issuers, six had outstanding LCY bond stocks exceeding THB100 billion at the end of Q3 2019: Siam Cement (THB181.5 billion), Thai Beverage (THB180.0 billion), CP All (THB152.9 billion), Bank of Ayudhya (THB130.8 billion), Berli Jucker (THB121.8 billion), and Charoen Pokphand Foods (THB101.0 billion).

**Table 3** lists the largest corporate bond issuances in Q3 2019. Krung Thai Bank topped the list with its issuance of a 10-year bond with 3.70% coupon. The next largest issuer during the quarter was Berli Jucker, a consumer product maker, which borrowed a total of THB22.0 billion from a five-tranche issuance intended to refinance a bond that matured in September. True Corp., a communications company, followed with a multitranche issuance totaling THB21.0 billion from bonds with tenors ranging from 1 years to 5.25 years, and carrying coupons ranging from 3.15% to 5.00%. PTT Global, a petrochemical company, was the fourth-largest issuer during the quarter, with a multitranche issuance amounting to THB20.0 billion.

## Investor Profile

Financial corporations and nonresidents together held 60.0% of Thailand's LCY government bonds at the end of September (**Figure 2**). Financial corporations continued to hold the single-largest share of LCY government

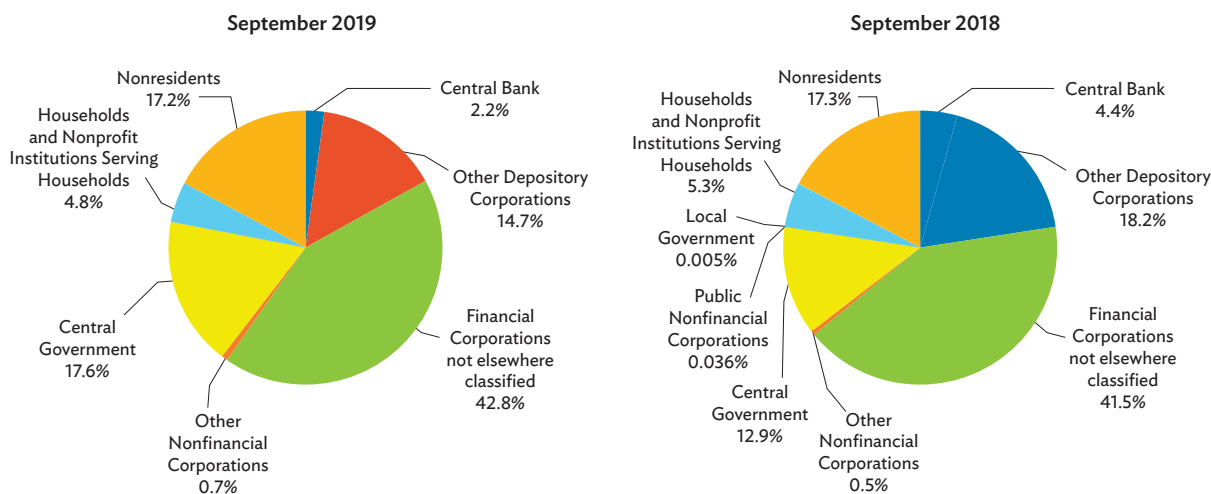
**Table 3: Notable Local Currency Corporate Bond Issuance in the Third Quarter of 2019**

Corporate Issuers	Coupon Rate (%)	Issued Amount (THB billion)
Krung Thai Bank		
10-year bond	3.70	24.0
Berli Jucker		
4-year bond	3.00	4.0
5-year bond	2.65	7.0
6-year bond	2.86	3.0
8-year bond	2.99	1.0
10-year bond	3.32	7.0
True Corp.		
1-year bond	3.15	5.1
1.25-year bond	3.30	2.2
1.9-year bond	3.69	9.0
2-year bond	3.70	1.6
3-year bond	3.80	0.9
3-year bond	3.80	0.8
5.25-year bond	5.00	1.3
PTT Global Chemical		
5-year bond	2.90	10.0
5-year bond	2.20	1.5
7-year bond	2.43	7.0
10-year bond	2.75	1.5

THB = Thai baht.  
Source: Bloomberg LP.

bonds. Their share rose to 42.8% of the total at the end of September from 41.5% a year earlier. Between September 2018 and September 2019, the central

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



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

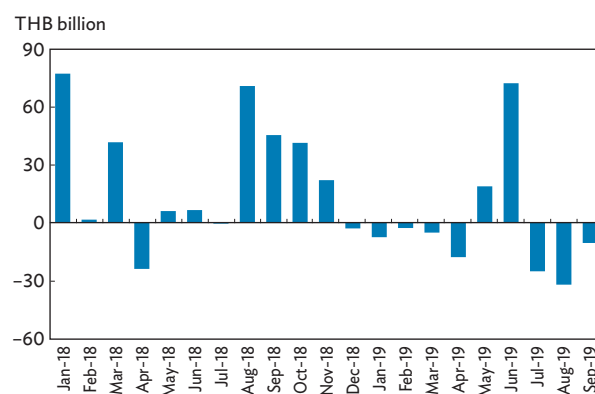
government's share of holdings increased from 12.9% to 17.6%. During the same period, the share of nonresidents dipped slightly from 17.3% to 17.2%, while the share of other depository corporations dropped from 18.2% to 14.7%. Together, these four groups accounted for 92.3% of LCY government bonds outstanding at the end of June, up from 89.8% a year earlier.

**Central bank bonds.** The distribution of LCY central bank securities remained stable between September 2018 and September 2019 (Figure 3). At the end of September 2019, other depository corporations held the largest share of LCY central bank bonds at 42.5%, followed by financial corporations (29.5%), the central bank (12.4%), and the central government (9.7%). These four investor groups cumulatively held 94.1% of the total LCY central bank bonds at the end of September 2019, up from 89.2% a year earlier. Foreign holdings of central bank securities are significantly lower than their share of government bonds. Nonresident's share of central bank bonds dropped to 2.3% in September 2019 from 4.4% a year earlier.

Foreign investors in Thailand's LCY bond market recorded net outflows of THB67.7 billion in Q3 2019, reversing the net inflows of THB73.6 billion in the previous quarter (Figure 4). Concern over the sharp appreciation of the baht prompted the BOT to implement several measures to stem speculative capital flows and curb the baht's strength. The BOT reduced

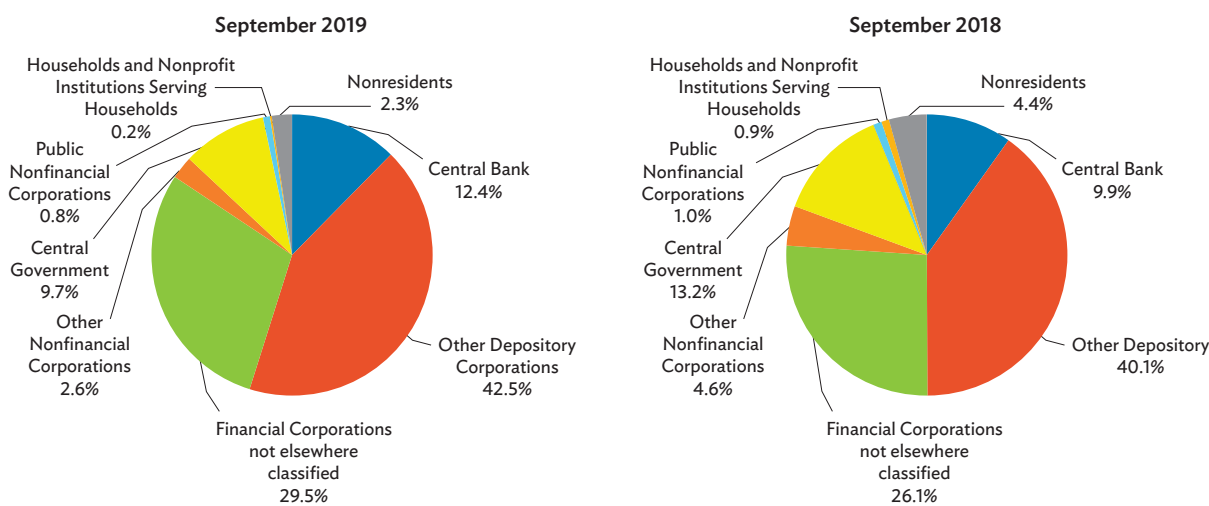
its supply of 3-month, 6-month, and 1-year bonds by a total of THB60.0 billion in July and an additional THB20.0 billion in August. It also lowered the limit on the outstanding balance of nonresident baht accounts and nonresident securities accounts to THB200.0 billion from THB300.0 billion. In addition, the BOT tightened reporting requirements for nonresident holdings of Thai debt securities. As a result, foreign trading of LCY bonds logged net outflows in July (THB25.1 billion), August (THB32.1 billion), and September (THB10.4 billion), which reversed the cumulative net inflows of THB91.4 billion in May and June.

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



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

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



Source: Bank of Thailand.

## Policy, Institutional, and Regulatory Developments

### Mutual Funds Subject to 15% Income Tax, Effective 30 August

A tax regulation amendment affecting the bond market came into effect on August 20. Investments in mutual funds became subject to a 15.0% withholding tax on gross income. The amendment was intended to reduce discrepancies in the tax burden imposed on direct investments in debt instruments compared to investments in debt instruments through mutual funds. Prior to the amendment, direct investments in debt instruments were subject to a 15.0% withholding tax on interest, profits, or discount, while investments in mutual funds with an asset allocation in debt instruments were tax-exempt.

### Government of Thailand Approves Fiscal Stimulus Package to Boost Growth

On 20 August, the Thai cabinet approved a THB316.0 billion stimulus package to boost the sluggish economy. The stimulus package included additional allowances for low-income earners and the elderly, debt relief and loans for farmers affected by the ongoing drought, incentives for domestic tourism and investment, credit support for small- and medium-sized enterprises, and low-interest loans for home buyers. The government estimates that the stimulus measures will raise full-year 2019 growth by 0.5–0.6 percentage points to at least 3.5%.