

Thailand

Yield Movements

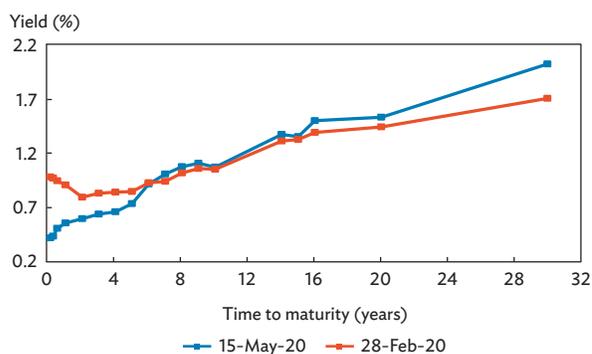
Between 28 February and 15 May, the local currency (LCY) government bond yield curve in Thailand shifted downward at the shorter-end and slightly upward at the longer-end (**Figure 1**). Yields fell an average of 28 basis points (bps) for tenors with maturities of up to 6 years, while yields rose an average of 9 bps for tenors with maturities of 7 years or longer. The 1-month bill exhibited the steepest drop at 55 bps, while the 30-year bond showed the largest gain at 31 bps. On average, yields dropped 10 bps across all tenors. The spread between the 2-year and 10-year tenors widened from 25 bps on 28 February to 47 bps on 15 May.

The decline in yields at the shorter-end of the curve stemmed primarily from the easing of the Bank of Thailand's (BOT) monetary policy in response to the economic headwinds brought by the coronavirus disease (COVID-19). The BOT cut its benchmark policy rate by 25 bps three times during the review period, bringing it to a record low of 0.50%. Aside from the policy rate reduction, the BOT also expressed its readiness to use additional monetary measures if necessary.

The uptick in longer-term bond yields was partly due to capital outflows from the Thai bond market. Risk-off sentiment, brought about by softening global growth and exacerbated by uncertainties due to COVID-19, drove investors away from emerging market assets, including Thai sovereign bonds. Between February and April, the Thai bond market recorded net foreign outflows totaling THB131.3 billion. Domestic demand was also depressed, resulting in heightened volatility and tight liquidity in the Thai bond market, particularly for longer-dated tenors. In March, the BOT tapered its bond issuances and cancelled some offerings to improve market liquidity and reduce volatility.

Another factor contributing to the upward pressure on long-term bond yields were the declining growth prospects and heightened risk associated with the economic fallout from COVID-19. Thailand's economy is highly reliant on exports and tourism, which were both battered by travel bans and social distancing measures imposed by governments around the world to contain the pandemic.

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



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

Thailand's economy fell into recession in the first quarter (Q1) of 2020, with gross domestic product shrinking 1.8% year-on-year (y-o-y), the deepest contraction since the fourth quarter (Q4) of 2011. Consumption growth slowed to 3.0% y-o-y in Q1 2020 from 4.1% y-o-y in Q4 2019. Government spending and investment dropped 2.7% y-o-y and 6.5% y-o-y, respectively. Exports of goods and services plunged 6.7% y-o-y, while imports of goods and services dipped 2.5% y-o-y. In May, the National Economic and Social Development Council revised its forecast for full-year 2020 gross domestic product growth to a contraction of 5.0%–6.0% from an earlier projection of 1.5%–2.5% growth.

Consumer price inflation fell 3.0% y-o-y in April, following a 0.5% y-o-y drop in March. The deflation resulted from a plunge in energy prices and a reduction in costs of goods and services due to government support measures. The headline inflation rate has been well below the BOT's target range of 1.0%–3.0%. The central bank expects inflation to remain in negative territory for the rest of the year amid subdued energy prices.

The Thai baht depreciated 1.7% against the United States dollar between 28 February and 15 May as weak investor confidence and risk aversion drove foreign capital away from Thai assets, dampening demand for the baht. Prior to the onset of COVID-19, the baht had been outperforming its regional peers. The BOT has expressed concern over the possible strengthening of the baht, which could undermine economic recovery.

Size and Composition

Thailand's LCY bonds outstanding amounted to THB13,168.9 billion (USD402.1 billion) at the end of March after a 0.5% quarter-on-quarter (q-o-q) contraction in Q1 2020 (**Table 1**). The decline reversed the 2.2% q-o-q rise seen in Q4 2019. A contraction in the government bond segment, coupled with tepid growth in the corporate bond segment, drove the quarterly decline in outstanding LCY bonds. On an annual basis, the growth of outstanding LCY bonds decelerated to 4.1% y-o-y in Q1 2020 from 16.0% y-o-y in the previous quarter. The Thai bond market is largely composed of government bonds, which accounted for 71.0% of the total bonds outstanding at the end of March.

Government bonds. The size of the LCY government bond market stood at THB9,353.3 billion at the end of March, with the 1.0% q-o-q contraction in Q1 2020 reversing the 2.5% q-o-q growth posted in Q4 2019. BOT bonds and state-owned enterprise and other bonds posted contractions of 6.1% q-o-q and 1.4% y-o-y, respectively. In contrast, the growth of government bonds and Treasury bills picked up, rising 2.8% q-o-q in Q1 2020 after a 2.3% q-o-q increase in the previous quarter. On an annual basis, the growth of total government bonds outstanding decelerated to 2.7% y-o-y in Q1 2020 from 15.2% y-o-y in the previous quarter.

Total issuance from the government amounted to THB2,032.5 in Q1 2020, with the 3.7% q-o-q growth reversing the 0.9% q-o-q contraction in the previous quarter. The growth stemmed solely from an expansion

in the issuance of BOT bonds, which rose 5.2% q-o-q. There were no new issuances of state-owned enterprise and other bonds, while government bonds and Treasury bills contracted 11.1% q-o-q in Q1 2020. On a y-o-y basis, issuance of government bonds dropped 8.8%, brought down by contractions in the issuance of government bonds and Treasury bills, as well as BOT bonds.

Corporate bonds. Outstanding corporate bonds totaled THB3,815.5 billion at the end of Q1 2020, with q-o-q growth decelerating to 0.8% from 1.6% in the previous quarter. Annual growth was also weaker at 7.9% y-o-y in Q1 2020 compared with 18.0% y-o-y in Q4 2019. The contraction in corporate bonds outstanding was due to a sharp drop in issuance during the review period. Corporate issuance plunged 12.5% q-o-q and 28.6% y-o-y as the onset of the COVID-19 pandemic and the government's containment measures caused wide-scale disruptions in business activities, raising volatility and depressing demand for corporate bonds.

The LCY bonds outstanding of the top 30 corporate issuers amounted to THB2,142.4 billion at the end of March, accounting for 56.1% of the total corporate bond market (**Table 2**). Among the top 30 issuers, food and beverage, commerce, banking, and communication firms together held over half of the outstanding bond stock. Food and beverage firms dominated the list, with total bonds outstanding amounting to THB411.1 billion from five issuers. The majority of the top 30 issuers were listed in the Thai Stock Exchange, while only five were state-owned. Thai Beverage remained the top issuer, with outstanding debt of THB179.5 billion at the end

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2019		Q4 2019		Q1 2020		Q1 2019		Q1 2020	
	THB	USD	THB	USD	THB	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	12,649	399	13,236	446	13,169	402	1.6	10.9	(0.5)	4.1
Government	9,111	287	9,451	318	9,353	286	1.4	11.1	(1.0)	2.7
Government Bonds and Treasury Bills	4,774	150	4,940	166	5,079	155	0.8	7.9	2.8	6.4
Central Bank Bonds	3,579	113	3,718	125	3,492	107	3.0	20.5	(6.1)	(2.4)
State-Owned Enterprise and Other Bonds	758	24	793	27	782	24	(1.7)	(6.2)	(1.4)	3.1
Corporate	3,538	111	3,786	127	3,816	117	2.3	10.3	0.8	7.9

() = negative, 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 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.	Thai Beverage	179.5	5.5	No	No	Food and Beverage
2.	Siam Cement	172.8	5.3	Yes	Yes	Construction Materials
3.	CP All	152.8	4.7	No	Yes	Commerce
4.	Bank of Ayudhya	135.2	4.1	No	Yes	Banking
5.	True Move H Universal Communication	121.2	3.7	No	No	Communications
6.	Berli Jucker	119.2	3.6	No	Yes	Commerce
7.	Charoen Pokphand Foods	100.3	3.1	No	Yes	Food and Beverage
8.	True Corp	91.4	2.8	No	No	Communications
9.	Toyota Leasing Thailand	87.2	2.7	No	No	Finance and Securities
10.	PTT	82.4	2.5	Yes	Yes	Energy and Utilities
11.	Thai Airways International	74.3	2.3	Yes	Yes	Transportation and Logistics
12.	Minor International	66.9	2.0	No	Yes	Hospitality and Leisure
13.	Indorama Ventures	65.3	2.0	No	Yes	Petrochemicals and Chemicals
14.	CPF Thailand	59.5	1.8	No	No	Food and Beverage
15.	Banpu	49.5	1.5	No	Yes	Energy and Utilities
16.	Bangkok Commercial Asset Management	45.8	1.4	No	Yes	Finance and Securities
17.	Krungthai Card	45.8	1.4	Yes	Yes	Banking
18.	Krung Thai Bank	45.5	1.4	Yes	Yes	Banking
19.	Global Power Synergy	42.7	1.3	No	Yes	Energy and Utilities
20.	PTT Global Chemical	41.4	1.3	No	Yes	Petrochemicals and Chemicals
21.	Land & Houses	39.5	1.2	No	Yes	Property and Construction
22.	TPI Polene	39.3	1.2	No	Yes	Property and Construction
23.	Mitr Phol Sugar Corp	38.4	1.2	No	No	Food and Beverage
24.	Bangkok Expressway & Metro	37.5	1.1	No	Yes	Transportation and Logistics
25.	TMB Bank	37.2	1.1	No	Yes	Finance and Securities
26.	Muangthai Capital	36.7	1.1	No	Yes	Finance and Securities
27.	Sansiri	36.0	1.1	No	Yes	Property and Construction
28.	Thai Union Group	33.4	1.0	No	Yes	Food and Beverage
29.	Frasers Property Thailand	33.0	1.0	No	Yes	Property and Construction
30.	CH Karnchang	32.8	1.0	No	Yes	Property and Construction
Total Top 30 LCY Corporate Issuers		2,142.4	65.4			
Total LCY Corporate Bonds		3,815.5	116.5			
Top 30 as % of Total LCY Corporate Bonds		56.1%	56.1%			

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

Notes:

1. Data as of 31 March 2020.

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.

of March. Siam Cement remained the second-largest issuer, with total bonds worth THB172.8 billion at the end of March. CP All, Bank of Ayudhya, True Move H Universal Communication, Berli Jucker, and Charoen Pokphand Foods were the next largest issuers, all with bonds outstanding over THB100.0 billion at the end of March.

In Q1 2020, Berli Jucker issued the largest amount of corporate debt totaling THB12.0 billion, comprising bonds with tenors ranging from 3 years to 10 years and carrying coupons ranging from 1.40% to 2.43% (**Table 3**). Toyota Leasing was the second-largest issuer during the quarter, with total issuance amounting to THB8.0 billion from bonds with tenors ranging from 1.5 years to 3 years and coupons ranging from 1.22% to 1.34%. Bank of Ayudhya, True Corp, and Frasers Property were the next largest issuers, with issuances amounting to THB7.0 billion, THB5.5 billion, and THB5.0 billion, respectively.

Investor Profile

Central government bonds. The profile of LCY government bonds investors at the end of March was little changed from last year (**Figure 2**). The combined shares of the four largest holders of LCY government bonds in Thailand remained at 91.5% at the end of March. Financial corporations continued to hold the largest share of government bonds, with their share inching up to 42.5% at the end of March from 41.7% a year earlier. Between March 2019 and March 2020, the central government's share of government bond holdings rose to 18.2% from 13.5%, while that of the BOT dipped to 15.5% from 18.4%. During the same period, the share of nonresidents dropped to 15.3% from 18.0% amid foreign capital outflows from Thailand's government bond market as investors reduced their holdings of emerging market sovereign bonds amid rising uncertainty. The BOT bought government bonds worth THB100.0 billion in the week of 13–20 March to inject liquidity into the bond market given the thin demand for government bonds.

Central bank bonds. Between March 2019 and March 2020, the combined shares of the four largest holders of BOT bonds rose to 96.1% from 92.3% (**Figure 3**). Other depository corporations held the largest share of BOT bonds at 49.5%, up from 37.6% a year earlier. Financial corporations remained the second-largest holder of BOT bonds, although their share of the total holdings fell to

Table 3: Notable Local Currency Corporate Bond Issuance in the First Quarter of 2020

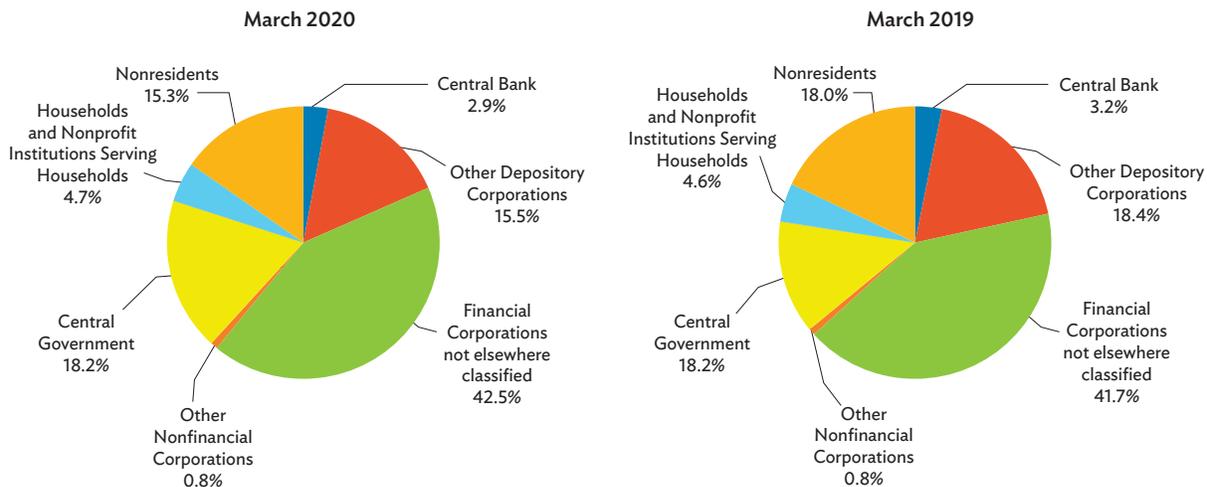
Corporate Issuers	Coupon Rate (%)	Issued Amount (THB billion)
Berli Jucker		
3-year bond	1.40	1.0
5-year bond	1.63	1.0
8-year bond	2.16	7.0
10-year bond	2.43	3.0
Toyota Leasing		
1.5-year bond	1.22	2.0
2.1-year bond	1.27	3.0
3-year bond	1.34	3.0
Bank of Ayudhya		
2-year bond	1.44	2.9
3-year bond	1.57	4.1
True Corp		
1.2-year bond	2.88	0.5
3-year bond	3.43	4.3
5.5-year bond	4.65	0.7
Frasers Property		
3-year bond	2.00	0.5
3.5-year bond	2.10	1.0
5-year bond	2.36	1.8
7-year bond	2.85	0.5
10-year bond	3.20	1.2

THB = Thai baht.
Source: Bloomberg LP.

21.7% at the end of March 2020 from 31.2% the year before. The BOT and the central government remained the next largest holders of BOT bonds. The BOT's holdings of its LCY bonds nearly doubled to 16.0% at the end of March 2020 from 8.8% a year earlier. The central government's share dipped to 8.9% in March 2020 from 14.7% the year before. Nonresidents held a marginal amount of LCY BOT bonds at the end of March 2020 at 1.1%, down from 2.5% a year earlier.

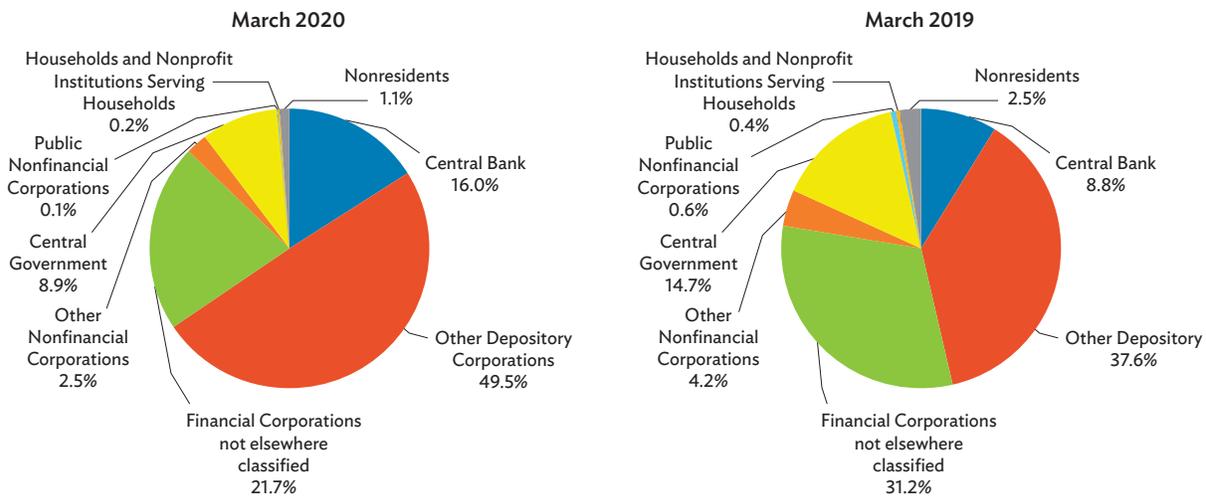
Foreign investors in Thailand's LCY bond market recorded net outflows of THB101.8 billion in Q1 2020, following net outflows of THB5.5 billion in Q4 2019 (**Figure 4**). The capital outflows in Q1 2020 were the largest quarterly totals in the last 3 years. The Thai bond market saw net foreign fund outflows for most of 2019 but experienced a slight reprieve in December and January with net inflows of THB3.9 billion and THB11.4 billion, respectively. However, the spread of COVID-19 in Thailand once again prompted an exodus of foreign funds, with outflows amounting to THB21.3 billion in February and THB91.9 billion in March. In April, smaller outflows of

Figure 2: Local Currency Government Bonds Investor Profile



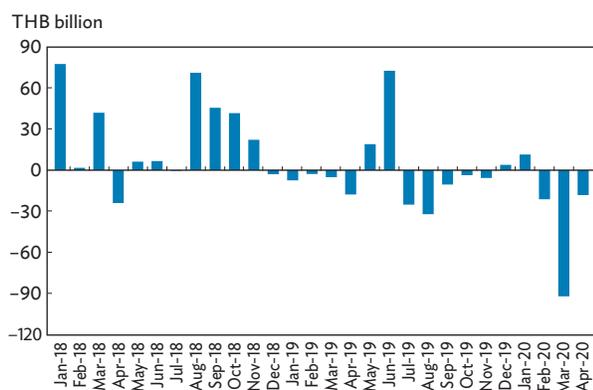
Notes:
 1. Government bonds include Treasury bills and bonds.
 2. Local Government not presented in the chart due to its relatively small shares of 0.005% in March 2019 and 0.00003% in March 2020.
 Sources: AsianBondsOnline and Bank of Thailand.

Figure 3: Local Currency Central Bank Securities Investor Profile



Source: Bank of Thailand.

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



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

THB18.1 billion were recorded as the Government of Thailand approved a stimulus package worth at least THB117.0 billion to mitigate the impact of COVID-19 on the economy.

Ratings Update

On 14 April, S&P Global revised downward its outlook on Thailand to stable from positive amid uncertainties over the extent of economic fallout from the COVID-19 pandemic. The revised outlook reflected the rating agency's assessment that the risks being generated by COVID-19 and the ensuing containment efforts could delay the political transition under the civilian government. The rating agency noted that another downgrade is possible if the sluggish economic recovery continues. It affirmed Thailand's BBB+ long-term and A-2 short-term foreign currency sovereign credit ratings.

Policy, Institutional, and Regulatory Developments

Public Debt Management Office to Issue Shorter-Dated Bonds

In March, the Public Debt Management Office (PDMO) announced that it will adjust its bond issuance plan to include shorter-dated bonds amid weak demand for government bonds due to heightened uncertainties caused by the COVID-19 pandemic. The PDMO announcement came after a wave of fixed-income

redemptions as alarm over COVID-19 drove investors to switch from debt instruments to cash.

Bank of Thailand Implements Measures to Stabilize Bond Market

In March, the BOT implemented several measures to alleviate the impact of COVID-19 on the Thai bond market. It established a mutual fund liquidity facility to provide liquidity for mutual funds through commercial banks. The BOT promised to inject about THB1.0 trillion into the bond market through the facility, which will be available until market conditions normalize. Commercial banks that buy investment units of high-quality mutual funds in money market and daily fixed-income funds can apply for liquidity support and use the underlying investment assets as collateral.

Along with the Thai Bankers' Association, the Government Savings Bank, Thai insurance providers, and the Government Pension Fund, the BOT also launched a Corporate Bond Stabilization Fund amounting to THB70 billion–THB100 billion. The fund will be used to inject liquidity into the corporate bond market by buying newly issued investment-grade bonds by corporates that cannot fully rollover maturing debt. The BOT will also continue to purchase government bonds to ensure stability in the government bond market.

Bank of Thailand Revises Bond Issuance Program

On 11 May, the BOT launched a revised bond issuance program for 2020 to accommodate the government's financing needs to fund relief measures and respond to changes in investor sentiment amid the COVID-19 pandemic. The auction days and frequency will remain as announced at the beginning of the year, but the BOT may adjust the issue sizes and will notify market participants of relevant changes at least 2 days before the auction dates. If necessary, the BOT will adjust the auction frequency of 3-month and 6-month BOT bills and of fixed-coupon bonds to accommodate the issuance schedule of Treasury bills and government bonds of comparable tenors. The ranges and minimum issue size per auction were expanded to between TH10.0 billion and THB60.0 billion for all maturities of BOT bills. The BOT will closely coordinate with the PDMO and take into consideration domestic and global market conditions in setting the issue sizes of BOT bills and bonds.