

Thailand

Yield Movements

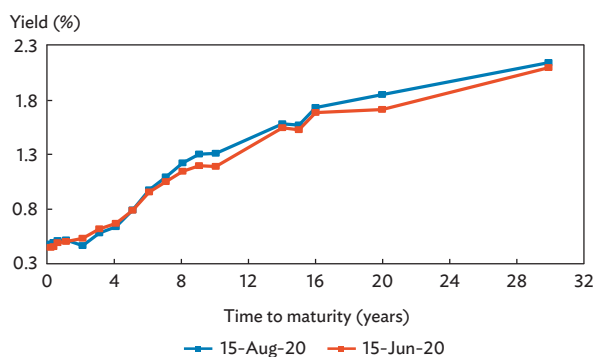
Between 15 June and 15 August, Thailand's local currency (LCY) government bond yields rose for most tenors, gaining an average of 4 basis points (bps) across all tenors (**Figure 1**). Yields for maturities of 1 year or below inched up 3 bps on average, while for those with maturities of 2–4 years fell an average of 5 bps. The yields for maturities of 5 years and longer rose an average of 6 bps, with the 20-year tenor showing the largest gain at 14 bps. The spread between the 2-year and 10-year tenors widened from 66 bps to 85 bps during the review period.

The rise in yields for most tenors reflected weakened appetite for Thai sovereign bonds as the spread of the coronavirus disease (COVID-19) drove the economy to its deepest contraction since the global financial crisis. Weak investor confidence over the economy's trajectory in the short-term drove up the yields at the short end of the curve. Expectations of a gradual recovery, as Thailand has recorded relatively fewer cases of COVID-19 than its neighboring economies, helped boost yields for tenors with maturities of between 2 and 4 years. The prospect of expanded government debt needed to finance economic recovery programs created upward pressure on yields for tenors with maturities of 5 years and over.

Thailand's gross domestic product (GDP) plunged 12.2% year-on-year (y-o-y) in the second quarter (Q2) of 2020 after declining 1.9% y-o-y in the first quarter (Q1) of 2020. Thailand's economy was among the hardest hit in emerging East Asia due to its heavy reliance on exports and tourism; the deeper contraction in Q2 2020 captured the effects of lockdown measures that restricted domestic travel and most business operations until May. Thailand's borders remained closed to most foreign travelers through the end of the review period.

Private consumption declined 6.6% y-o-y in Q2 2020 following a 2.7% y-o-y drop in Q1 2020. Investment contracted an even larger 8.0% y-o-y in Q2 2020 versus 6.5% y-o-y in Q1 2020. The contraction in exports quadrupled, falling 28.3% in Q2 2020 following a 7.3% y-o-y drop in Q1 2020. The plunge in imports deepened to 23.3% y-o-y in Q2 2020 from 3.1% y-o-y

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



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

in the previous quarter. Due to stimulus spending, government expenditure expanded 1.4% y-o-y in Q2 2020, reversing the 2.8% y-o-y drop in Q1 2020.

In June, the Bank of Thailand (BOT) revised its full-year 2020 GDP growth forecast to -8.1% from an earlier projection of -5.3%, while raising the 2021 forecast to 5.0% from an earlier estimate of 3.0%. In August, the National Economic and Social Development Council lowered its GDP forecast to a full-year contraction of 7.3%–7.8% from an earlier estimate of a 5.0%–6.0% decline. Political risks emerged toward the end of the review period, as anti-government protests started to gain traction despite social distancing concerns. Moreover, a cabinet reshuffle after the resignation of key ministers posed a threat to the continuity of economic recovery policies.

Consumer price inflation was -0.5% y-o-y in August, remaining in negative territory for the sixth straight month. Low global energy prices and depressed demand due to COVID-19 were the key factors driving deflationary pressures. May posted the biggest drop in prices in nearly 11 years, with headline inflation at -3.4% y-o-y. Deflation has slowed since then, with readings of -1.6% y-o-y in June and -0.1% y-o-y in July, primarily due to a rise in the prices of fresh food products due to heavy rain, as well as high demand for pork due to a pig pandemic in neighboring markets. Nonetheless, headline inflation remained below the BOT's target range of 1.0%–3.0% for 2020.

Thailand's benchmark interest rate remained at a record low as the Monetary Policy Committee of the BOT decided to leave it unchanged at 0.5% in August. The BOT previously cut the policy rate by 25 bps from 0.75% in May. Since the beginning of the year, the BOT has reduced the benchmark rate by a total of 75 bps in response to COVID-19.

Among East Asian currencies, the Thai baht is among those that has depreciated the most against the United States (US) dollar thus far in 2020. Between 1 January and 15 August, the Thai baht depreciated 3.2% against the US dollar amid the negative impacts of COVID-19 on Thailand's export- and tourism-dependent economy. The BOT stressed in its latest policy statement that given the recent depreciation of the US dollar, it will closely monitor developments in the foreign exchange market as a rapid appreciation of the baht would be detrimental to economic recovery.

Size and Composition

Thailand's LCY bonds outstanding reached THB13,448.9 billion (USD435.1 billion) at the end of June on growth of 2.1% quarter-on-quarter (q-o-q) and 3.2% y-o-y (Table 1). The q-o-q rise in Q2 2020 reversed the 0.5% q-o-q contraction in Q1 2020, driven by strong growth in the government bond segment as the government issued debt to finance measures to combat the negative effects of COVID-19 on the economy. The annual growth of Thailand's LCY bond market weakened in Q2 2020 compared with the 4.1% y-o-y gain in Q1 2020. The Thai bond market is largely composed of

government bonds, which accounted for 72.4% of the total bonds outstanding at the end June, up from 71.0% at the end of March.

Government bonds. The size of the LCY government bond market amounted to THB9,732.5 billion at the end of June, with the 4.1% q-o-q growth reversing the 1.0% q-o-q contraction in Q1 2020. Government bonds and Treasury bills, BOT bonds, and state-owned enterprise and other bonds all showed strong growth in Q2 2020 as the government issued debt to finance relief measures to alleviate the negative effects of COVID-19 on the economy. At the end of June, government bonds and Treasury bills rose 4.5% q-o-q, reaching THB5,306.4 billion, while BOT bonds amounted to THB3,633.4 on growth of 4.0% q-o-q in Q2 2020. State-owned enterprise and other bonds reached THB792.7 billion in Q2 2020, with the 1.4% q-o-q gain reversing the 1.4% q-o-q contraction in the previous quarter. On an annual basis, growth in Thailand's government bond market accelerated to 4.4% y-o-y in Q2 2020 from 2.7% y-o-y in Q1 2020.

Total issuance from the government amounted to THB2,184.7 billion in Q2 2020, as growth more than doubled to 7.5% q-o-q from 3.7% q-o-q in the previous quarter. The growth was solely driven by a sharp increase in the issuance of government bonds and Treasury bills, which rose 117.7% q-o-q in Q2 2020 as the government started issuing Treasury and debt restructuring bills. BOT bond issuance contracted 0.4% q-o-q as the central bank cut its issuance to accommodate the government's financing needs and respond to changes in investor

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2019		Q1 2020		Q2 2020		Q2 2019		Q2 2020	
	THB	USD	THB	USD	THB	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	13,037	425	13,169	402	13,449	435	3.1	9.4	2.1	3.2
Government	9,319	304	9,353	286	9,732	315	2.3	7.9	4.1	4.4
Government Bonds and Treasury Bills	4,754	155	5,079	155	5,306	172	(0.4)	4.9	4.5	11.6
Central Bank Bonds	3,772	123	3,492	107	3,633	118	5.4	15.4	4.0	(3.7)
State-Owned Enterprise and Other Bonds	794	26	782	24	793	26	4.7	(4.8)	1.4	(0.1)
Corporate	3,718	121	3,816	117	3,716	120	5.1	13.2	(2.6)	(0.03)

() = 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.

sentiment amid the COVID-19 pandemic. Issuance of state-owned enterprise bonds contracted 38.5% q-o-q in Q2 2020. On a y-o-y basis, issuance of government bonds declined 5.8% y-o-y in Q2 2020 after falling 8.8% y-o-y in the previous quarter.

Corporate bonds. Outstanding corporate bonds totaled THB3,716.5 billion at the end of June, down from THB3,815.5 at the end of March. The 2.6% q-o-q contraction in Q2 2020 reversed the tepid 0.8% q-o-q growth in the previous quarter. The contraction of the corporate bond market stemmed from a continuing decline in corporate debt issuance, which fell to -23.7% q-o-q in Q2 2020 from -12.4% q-o-q in the previous quarter. Firms deferred issuance of corporate bonds as lockdown measures to contain the pandemic and ensuing economic recession dented investor confidence.

The LCY bonds outstanding of the top 30 corporate issuers amounted to THB2,142.4 billion at the end of June, accounting for 57.6% of the total corporate bond market (**Table 2**). Food and beverage firms dominated the list, with an outstanding bond stock of amounting to THB422.2 billion from five issuers. Firms in commerce and banking were the next largest issuers, with outstanding bond stocks totaling THB280.8 billion and THB260.4 billion, respectively. The majority of the top 30 issuers were listed on the Thai Stock Exchange, while only four were state-owned. Due to a large issuance during the quarter, Siam Cement overtook Thai Beverage to become the top issuer in the market at the end Q2 2020, with total outstanding bonds worth THB175.0 billion. Thai Beverage's total outstanding bonds amounted to THB173.3 billion in Q2 2020. CP ALL, Bank of Ayudhya, Berli Jucker, True Move H Universal Communication, and Charoen Pokphand Foods were the next largest issuers, each with total outstanding debt over THB100.0 billion at the end of June.

In Q2 2020, Charoen Pokphand Foods and Siam Cement were the largest issuers, with corporate debt issuance of THB25.0 billion each (**Table 3**). Charoen Pokphand Foods raised funds from six issuances of bonds with tenors ranging from 4 years to 15 years and carrying coupons ranging from 3.0% to 4.0%. Siam Cement issued a 4-year bond with a 2.8% coupon. Berli Jucker was the third-largest issuer during the quarter, with issuances amounting to THB18.0 billion from bonds with tenors ranging from 2 years to 10 years and carrying coupons

ranging from 2.1% to 3.5%. PTT Global was the next largest issuer, with multitranche issuances ranging from 7-year to 15-year bonds amounting to THB11.7 billion. Another notable issuance during the quarter was property developer Sansiri's THB3.0 billion perpetual bond with an 8.5% coupon. Proceeds from the bond sale will be used for new housing projects.

Investor Profile

Central government bonds. The profile of LCY government bonds investors was broadly stable between June 2019 and June 2020 (**Figure 2**). The combined shares of the four largest holders of government bonds in Thailand was little changed from 90.0% in June 2019 to 90.4% in June 2020. Financial corporations continued to hold the largest share of government bonds, with their share stable at 41.8% from June 2019 to June 2020. The central government's share rose from 14.1% to 17.3%, while BOT's share fell to 3.3% from 4.6% between June 2019 and June 2020. During the same period, nonresidents' share of government bonds dropped from 17.5% to 14.4% amid outflows driven by weak investor confidence as Thailand's economy suffered from the impact of COVID-19 on tourism and exports. The share of other depository corporations was little changed during the review period, inching up to 16.8% from 16.5%.

Central bank bonds. The combined shares of the top four holders of BOT bonds rose to 96.7% in June 2020 from 91.7% in June 2019 (**Figure 3**). Other depository corporations held the largest share of BOT bonds at 45.2%, up from 39.9% a year earlier. The share of financial corporations rose to 28.4% in June 2020 from 27.7% in the previous year. During the review period, BOT holdings rose to 13.2% from 10.8%, while central government holdings dropped to 10.0% from 13.3%. Nonresidents held a marginal amount of BOT bonds at the end of June 2020 at 1.2%, down from 3.5% a year earlier.

Foreign investors in Thailand's LCY bond market recorded net inflows of THB4.6 billion in Q2 2020, following net outflows of THB101.8 billion in Q1 2020 (**Figure 4**). The Thai bond market saw net foreign fund outflows amounting to THB140.3 billion from February to May amid the COVID-19 outbreak. Easing of lockdown and the government's stimulus measures provided a boost to investor confidence, resulting in net foreign inflows of THB31.8 billion in June and THB18.9 billion in July.

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	175.0	5.7	Yes	Yes	Construction Materials
2.	Thai Beverage	173.3	5.6	No	No	Food and Beverage
3.	CP ALL	158.9	5.1	No	Yes	Commerce
4.	Bank of Ayudhya	133.8	4.3	No	Yes	Banking
5.	Berli Jucker	121.9	3.9	No	Yes	Commerce
6.	True Move H Universal Communication	121.0	3.9	No	No	Communications
7.	Charoen Pokphand Foods	116.4	3.8	No	Yes	Food and Beverage
8.	True Corp	89.9	2.9	No	No	Communications
9.	PTT	84.7	2.7	Yes	Yes	Energy and Utilities
10.	Toyota Leasing Thailand	79.8	2.6	No	No	Finance and Securities
11.	Minor International	62.0	2.0	No	Yes	Hospitality and Leisure
12.	Indorama Ventures	61.4	2.0	No	Yes	Petrochemicals and Chemicals
13.	CPF Thailand	61.0	2.0	No	No	Food and Beverage
14.	PTT Global Chemical	51.7	1.7	No	Yes	Petrochemicals and Chemicals
15.	Banpu	48.9	1.6	No	Yes	Energy and Utilities
16.	Krungthai Card	47.2	1.5	Yes	Yes	Banking
17.	Bangkok Commercial Asset Management	44.2	1.4	No	Yes	Finance and Securities
18.	Krung Thai Bank	44.0	1.4	Yes	Yes	Banking
19.	Bangkok Expressway & Metro	41.2	1.3	No	Yes	Transportation and Logistics
20.	Global Power Synergy	40.0	1.3	No	Yes	Energy and Utilities
21.	Muangthai Capital	39.7	1.3	No	Yes	Finance and Securities
22.	TPI Polene	39.3	1.3	No	Yes	Property and Construction
23.	Bangchak Corp PCL	39.0	1.3	No	Yes	Energy and Utilities
24.	Mitr Phol Sugar	38.4	1.2	No	No	Food and Beverage
25.	Land & Houses	37.6	1.2	No	Yes	Property and Construction
26.	TMB Bank	35.4	1.1	No	Yes	Banking
27.	Sansiri	33.3	1.1	No	Yes	Property and Construction
28.	Thai Union Group	33.1	1.1	No	Yes	Food and Beverage
29.	dtac TriNet	33.0	1.1	No	Yes	Communications
30.	CH Karnchang	32.9	1.1	No	Yes	Property and Construction
Total Top 30 LCY Corporate Issuers		2,142.4	69.3			
Total LCY Corporate Bonds		3,716.5	120.2			
Top 30 as % of Total LCY Corporate Bonds		57.6%	57.6%			

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

Notes:

1. Data as of 30 June 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.

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

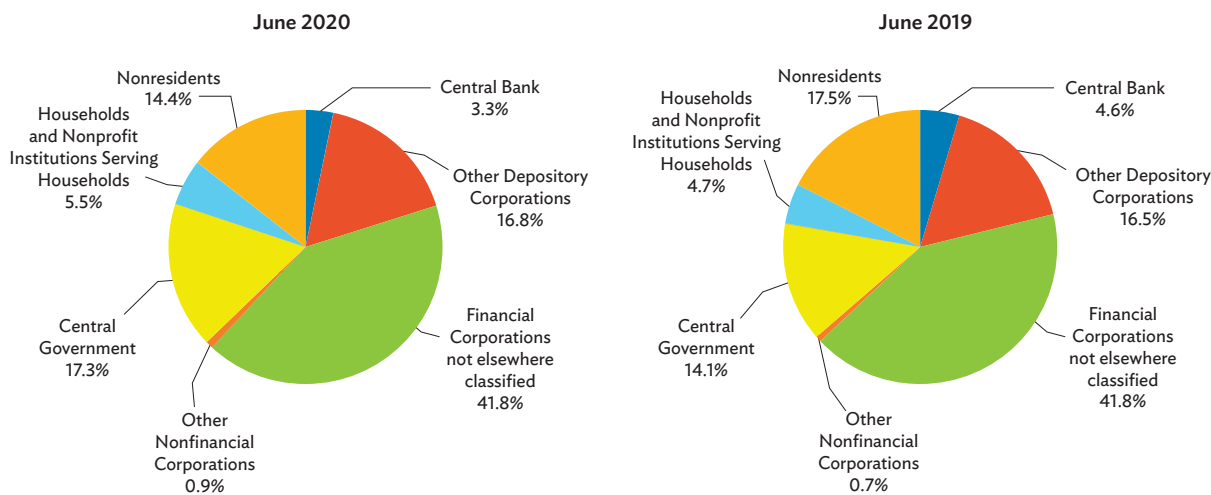
Corporate Issuers	Coupon Rate (%)	Issued Amount (THB billion)
Charoen Pokphand Foods		
4-year bond	3.00	2.7
4-year bond	3.00	8.4
7-year bond	3.40	2.6
7-year bond	3.40	7.2
12-year bond	3.75	0.9
15-year bond	4.00	3.1
Siam Cement		
4-year bond	2.80	25.0
Berli Jucker		
2-year bond	2.10	1.7
4-year bond	3.00	12.3
10-year bond	3.50	4.0
PTT Global		
7-year bond	2.60	1.5
12-year bond	3.29	4.4
15-year bond	3.50	5.8
Sansiri		
Perpetual bond	8.50	3.0

THB = Thai baht.
Source: Bloomberg LP.

Policy, Institutional, and Regulatory Developments

Public Debt Management Office Launches THB1 Savings Bonds via Blockchain

On June 24, the Ministry of Finance issued THB200 million worth of savings bonds at an unprecedented face value of THB1 each through Krungthai Bank's blockchain-based e-wallet. Using the blockchain system, the Public Debt Management Office was able to lower the amount of the savings bond face value from the regular THB1,000. The small-ticket bonds were part of the government's plan to encourage low-income earners to invest in risk-free assets. The bonds were divided into 5-year and 10-year tenors, with the 5-year bond carrying a coupon of 2.4% and the 10-year bond carrying a coupon of 3.0%. The bonds were sold in under 2 minutes, prompting the Public Debt Management Office to issue a second batch worth THB5,000 million on 25 August.

Figure 2: Local Currency Government Bonds Investor Profile

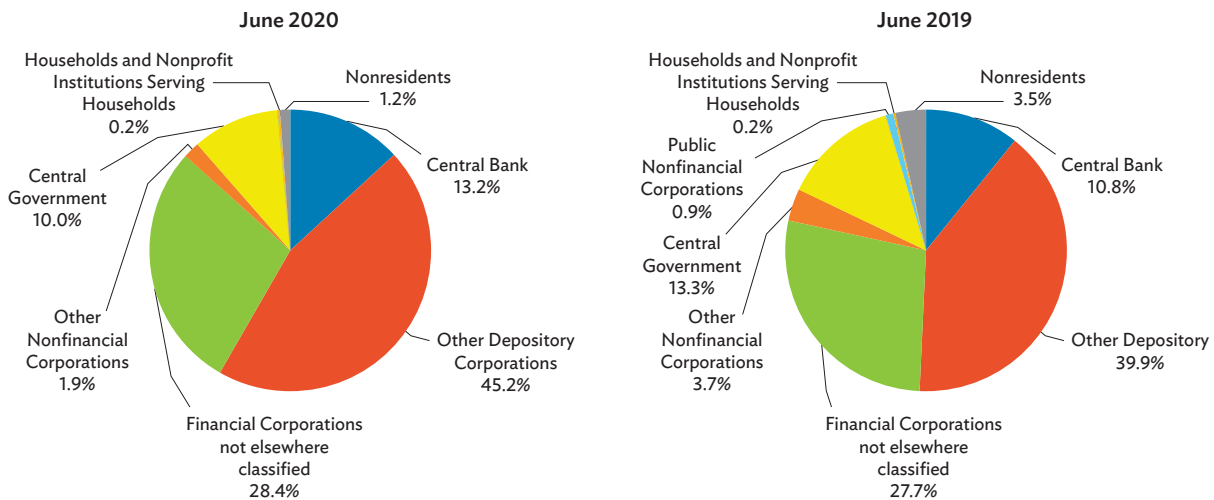
Notes:

1. Government bonds include Treasury bills and bonds.

2. Local Government not presented in the chart due to its relatively small shares of 0.0000002% in June 2019 and 0.0000003% in June 2020.

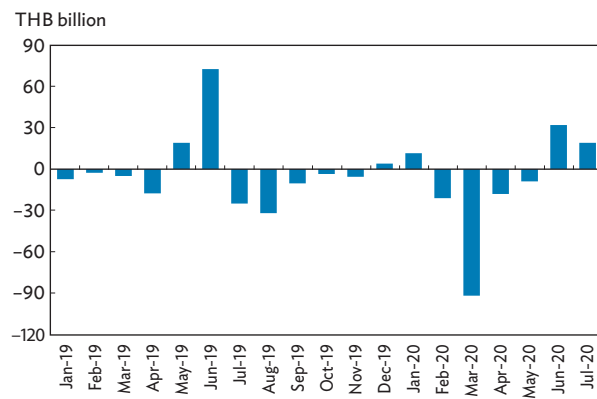
Sources: AsianBondsOnline and Bank of Thailand.

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.