

Thailand

Yield Movements

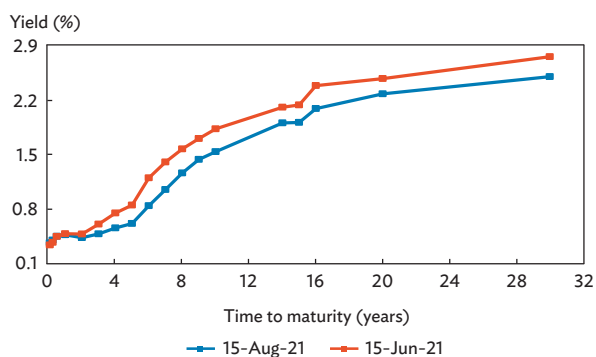
Between 15 June and 15 August, Thailand's local currency (LCY) government bond yield curve flattened, with yields slightly rising at the shorter-end but moving significantly downward at the longer-end (**Figure 1**). Bonds with maturities of less than 1 year gained an average of 2 basis points (bps), while bonds with maturities of 1 year or longer shed an average of 22 bps. The 6-year tenor showed the steepest decline at 36 bps. The 2-year tenor dropped 5 bps, while the 10-year tenor fell 30 bps. As a result, the spread between the 2-year and the 10-year tenors narrowed from 135 bps on 15 June to 110 bps on 15 August.

The overall decline in Thai LCY bond yields, particularly medium- and long-term yields, tracked the regional decline in government bond yields amid the resurgence of COVID-19 cases brought about by the spread of the highly contagious delta variant. Thailand experienced a third wave of COVID-19 infections beginning in April, which disrupted plans to revive tourism. The overall decline in yields also reflected expectations of a protracted recovery, as the global resurgence of virus cases and the resulting movement restrictions pose downside risks to Thailand's tourism-reliant economy.

A rise in net inflows of foreign funds also contributed to the decline in yields. The Thai bond market saw robust inflows amounting to THB51.7 billion during the review period, buoyed by favorable sentiment as Fitch Ratings affirmed Thailand's BBB+ rating in June.

Thailand's economy, which fell into recession in the first quarter (Q1) of 2020 amid the onset of the global pandemic, showed initial signs of recovery in the second quarter (Q2) of 2021. Gross domestic product rose 7.5% year-on-year (y-o-y) in Q2 2021 after a 2.6% y-o-y contraction in the previous quarter. The robust growth was partly due to a low base in the previous year when the economy contracted heavily during the first wave of the pandemic. Private consumption rose 4.6% y-o-y in Q2 2021 after a 0.3% y-o-y decline in the previous quarter. Government expenditure increased 1.1% y-o-y in Q2 2021 versus 2.1% y-o-y in the previous quarter. Investment growth accelerated to 8.1% y-o-y in Q2 2021

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



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

from 7.3% y-o-y in the prior quarter. Exports of goods and services rebounded, rising 27.5% y-o-y in Q2 2021 after contracting 10.5% y-o-y in Q1 2021.

Thailand's growth outlook remained fragile as a third wave of COVID-19 outbreaks delayed the reopening of the economy to tourism and prompted a return of movement restrictions. In August, the National Economic and Social Development Council lowered its GDP growth forecast for full-year 2021 to 0.7%–1.2% from a 1.5%–2.5% forecast announced in May.

Thailand's consumer price inflation slowed to 0.5% y-o-y in July from 1.3% y-o-y in June due primarily to government subsidies on utilities. Core inflation, which excludes volatile fresh food and energy prices, eased to 0.1% y-o-y in July from 0.5% y-o-y in June. Headline inflation from April to June was within the Bank of Thailand's target range of 1.0%–3.0%, but fell short of the target in July. The Bank of Thailand (BOT) expects headline inflation to remain within the target rate for the rest of 2021.

The BOT's monetary policy remained accommodative. On 4 August, the Monetary Policy Committee of the BOT voted to maintain the policy rate at 0.5%. The committee viewed that the risks to the economic outlook remained high due to the resurgence of COVID-19, but most members deemed that financial measures would be more effective than a further rate reduction. Since the onset of

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2020		Q1 2021		Q2 2021		Q2 2020		Q2 2021	
	THB	USD	THB	USD	THB	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	13,449	435	13,842	443	14,203	443	2.1	3.2	2.6	5.6
Government	9,732	315	10,152	325	10,324	322	4.1	4.4	1.7	6.1
Government Bonds and Treasury Bills	5,306	172	6,349	203	6,485	202	4.5	11.6	2.1	22.2
Central Bank Bonds	3,633	118	2,911	93	2,917	91	4.0	(3.7)	0.2	(19.7)
State-Owned Enterprise and Other Bonds	793	26	892	29	921	29	1.4	(0.1)	3.2	16.2
Corporate	3,716	120	3,690	118	3,880	121	(2.6)	(0.03)	5.1	4.4

() = 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.

the pandemic, the BOT has reduced its policy rate by a total of 75 bps.

Size and Composition

Thailand's LCY bonds outstanding totaled THB14,203.5 billion (USD443.4 billion) at the end of June (**Table 1**). The bond market expanded 2.6% quarter-on-quarter (q-o-q) in Q2 2021, reversing the 0.6% q-o-q decline in Q1 2021. Both the government and corporate segments contributed to the overall expansion in the LCY bond market. On a y-o-y basis, the growth of outstanding LCY bonds picked up, rising 5.6% in Q2 2021 versus 5.1% in the previous quarter. Government bonds continued to dominate the Thai LCY bond market, accounting for 72.7% of total bonds outstanding at the end of June.

Government bonds. The size of the LCY government bond market reached THB10,323.6 billion at the end of June, with the 1.7% q-o-q growth in Q2 2021 reversing the 0.8% q-o-q decline in Q1 2021. All components of government bonds contributed to the growth, led by state-owned enterprise and other bonds, which rose 3.2% q-o-q in Q2 2021. The outstanding stock of government bonds and Treasury bills increased 2.1% q-o-q, while BOT bonds outstanding inched up 0.2% q-o-q during the review quarter. On a y-o-y basis, the growth of total government bonds outstanding eased to 6.1% in Q2 2021 from 8.5% in Q1 2021.

The issuance of government bonds totaled THB1,730.1 billion in Q2 2021, rising 2.6% q-o-q after a 13.6% q-o-q decline in the previous quarter. The

growth was solely driven by a 7.0% q-o-q rise in BOT bonds issuance. To promote the development of a new reference rate, the BOT terminated its issuance of Bangkok Interbank Offered Rate-lined floating-rate bonds in Q1 2021. The monthly issuance of Thai Overnight Repurchase Rate-lined floating-rate bonds started in March, boosting total BOT issuance in Q2 2021. Meanwhile, issuance of government bonds and Treasury bills contracted 3.7% q-o-q, while issuance of state-owned enterprise and other bonds dropped 17.7% q-o-q in Q2 2021. On a y-o-y basis, issuance of total government bonds contracted 20.8% in Q2 2021 following a 17.0% decline in the previous quarter.

Corporate bonds. Outstanding corporate bonds amounted to THB3,879.9 billion at the end of June, rebounding 5.1% q-o-q in Q2 2021 after a marginal 0.1% q-o-q dip in the previous quarter. The growth was driven by robust issuance of corporate debt during the review period.

The LCY bonds outstanding of the top 30 corporate issuers totaled THB2,297.1 billion at the end of June, accounting for 59.2% of the Thai corporate bond market (**Table 2**). Food and beverage, commerce, banking, and finance and securities firms held over half of the top 30 issuers' outstanding bond stock. The majority of the top 30 issuers were listed on the Thai Stock Exchange, while only four were state-owned firms. CP ALL remained the top issuer, with an outstanding bond stock of THB249.7 billion at the end of June. Thai Beverage and Siam Cement were the next largest issuers, with outstanding bond stocks of THB173.1 billion and THB165.0 billion, respectively.

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.	CP ALL	249.7	7.8	No	Yes	Commerce
2.	Thai Beverage	173.1	5.4	No	No	Food and Beverage
3.	Siam Cement	165.0	5.2	Yes	Yes	Construction Material
4.	Charoen Pokphand Foods	139.7	4.4	No	Yes	Food and Beverage
5.	True Corp	135.7	4.2	No	No	Communications
6.	Berli Jucker	121.6	3.8	No	Yes	Commerce
7.	True Move H Universal Communication	117.0	3.7	No	No	Communication
8.	Bank of Ayudhya	108.8	3.4	No	Yes	Banking
9.	PTT	91.6	2.9	Yes	Yes	Energy and Utilities
10.	Toyota Leasing Thailand	77.6	2.4	No	No	Finance and Securities
11.	Indorama Ventures	66.5	2.1	No	Yes	Petrochemicals and Chemicals
12.	CPF Thailand	64.1	2.0	No	No	Food and Beverage
13.	Bangkok Commercial Asset Management	60.2	1.9	No	Yes	Finance and Securities
14.	Minor International	58.1	1.8	No	Yes	Hospitality and Leisure
15.	PTT Global Chemical	51.7	1.6	No	Yes	Petrochemicals and Chemicals
16.	Frasers Property Thailand	47.3	1.5	No	Yes	Property and Construction
17.	Banpu	45.3	1.4	No	Yes	Energy and Utilities
18.	Global Power Synergy	45.0	1.4	No	Yes	Energy and Utilities
19.	Krungthai Card	45.0	1.4	Yes	Yes	Banking
20.	Krung Thai Bank	44.0	1.4	Yes	Yes	Banking
21.	Muangthai Capital	43.7	1.4	No	Yes	Finance and Securities
22.	TPI Polene	43.1	1.3	No	Yes	Property and Construction
23.	ICBC Thai Leasing	41.5	1.3	No	No	Finance and Securities
24.	CH Karnchang	40.9	1.3	No	Yes	Property and Construction
25.	Bangkok Expressway & Metro	40.1	1.3	No	Yes	Transportation and Logistics
26.	Sansiri	39.0	1.2	No	Yes	Property and Construction
27.	dtac TriNet	37.5	1.2	No	Yes	Communications
28.	Land & Houses	35.6	1.1	No	Yes	Property and Construction
29.	TMB Bank	35.4	1.1	No	Yes	Banking
30.	Bangchak	33.5	1.0	No	Yes	Energy and Utilities
Total Top 30 LCY Corporate Issuers		2,297.1	71.7			
Total LCY Corporate Bonds		3,879.9	121.1			
Top 30 as % of Total LCY Corporate Bonds		59.2%	59.2%			

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

Notes:

1. Data as of 30 June 2021.

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 Issuances in the Second Quarter of 2021

Corporate Issuers	Coupon Rate (%)	Issued Amount (THB billion)
CP ALL		
2-year bond	1.53	3.0
3-year bond	1.76	3.0
4-year bond	2.14	6.5
5-year bond	3.00	17.8
7-year bond	3.40	7.4
10-year bond	3.90	21.4
12-year bond	4.20	7.0
Thai Beverage^a		
2-year bond	1.17	7.5
3-year bond	1.45	7.0
3-year bond	1.21	8.0
4-year bond	2.07	11.5
5-year bond	2.43	11.0
8-year bond	2.71	1.5
10-year bond	3.03	1.5
True Corp		
1.8-year bond	2.95	2.9
3-year bond	3.50	4.4
3.8-year bond	3.85	4.2
4.8-year bond	4.20	3.9
5.8-year bond	4.55	6.6

THB = Thai baht.

^a Multiple issuance of the same tenor indicates issuance on different dates.

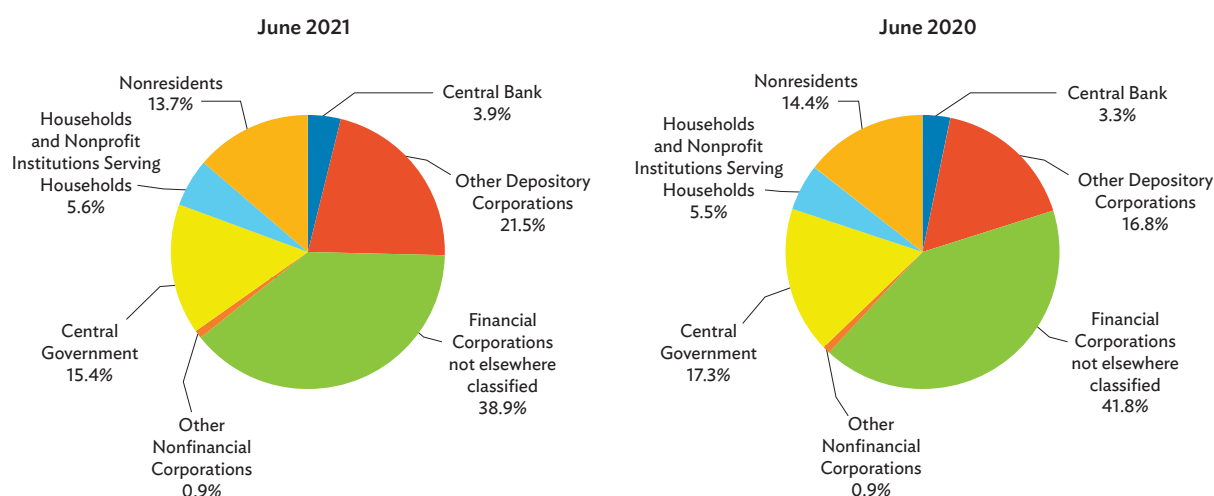
Source: Bloomberg LP.

Corporate debt issuance totaled THB477.2 billion in Q2 2021, up from THB294.8 in Q1 2021. Issuance growth jumped to 61.9% q-o-q in Q2 2021 from 6.4% q-o-q in the previous quarter. Firms tapped the bond market to raise funds for working capital and debt refinancing, taking advantage of the low-interest-rate environment.

Table 3 lists the top corporate issuers in Q2 2021. CP ALL issued the largest amount of corporate debt in Q2 2021, raising a total of THB66.0 billion from a multitranche issuance of bonds with tenors ranging from 2 years to 12 years and coupons ranging from 1.53% to 4.20%. Thai Beverage was the second-largest issuer during the quarter, with total issuance amounting to TH48.0 billion from bonds with tenors ranging from 2 years to 10 years and carrying coupons ranging from 1.17% to 3.03%. True Corp was the third-largest issuer with total issuance of THB22.0 billion from bonds with tenors ranging from 1.8 years to 5.8 years and carrying coupons ranging from 2.95% to 4.55%.

Investor Profile

Central government bonds. Between June 2020 and June 2021, the combined share of the four largest holders of LCY government bonds declined slightly to 89.5% from 90.4% (**Figure 2**). Financial corporations continued to hold the largest share of government bonds,

Figure 2: Local Currency Government Bonds Investor Profile

Note: Government bonds include Treasury bills and bonds.

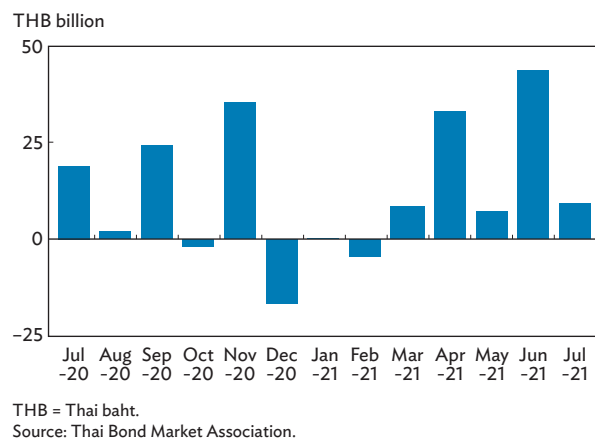
Source: AsianBondsOnline and Bank of Thailand.

although their share fell to 38.9% at the end of June 2021 from 41.8% a year earlier. In contrast, the share of other depository corporations increased to 21.5% from 16.8% between June 2020 and June 2021. The share held by the central government decreased to 15.4% from 17.3% during the same period. Nonresident holdings inched down to 13.7% in June 2021 from 14.4% a year earlier. The BOT's holdings of government bonds rose slightly to 3.9% in June 2021 from 3.3% a year earlier, as the central bank purchased government bonds to stabilize the market amid uncertainties during the prolonged pandemic.

Central bank bonds. Between June 2020 and June 2021, the combined share of the four largest holders of BOT bonds slipped to 96.2% from 96.7% (Figure 3). Other depository corporations held the largest share of BOT bonds, although their share dropped to 37.8% from 45.2% during the review period. Financial corporations remained the second-largest holder of BOT bonds, with 33.9% of total holdings at the end of June, up from 28.4% a year earlier. The BOT's holdings of its LCY bonds rose to 14.6% from 13.2% during the same period. The central government's share was stable at 10.0% between June 2020 and June 2021. Nonresidents continued to hold a marginal share of BOT bonds at 0.7% in June 2021, down from 1.2% a year earlier.

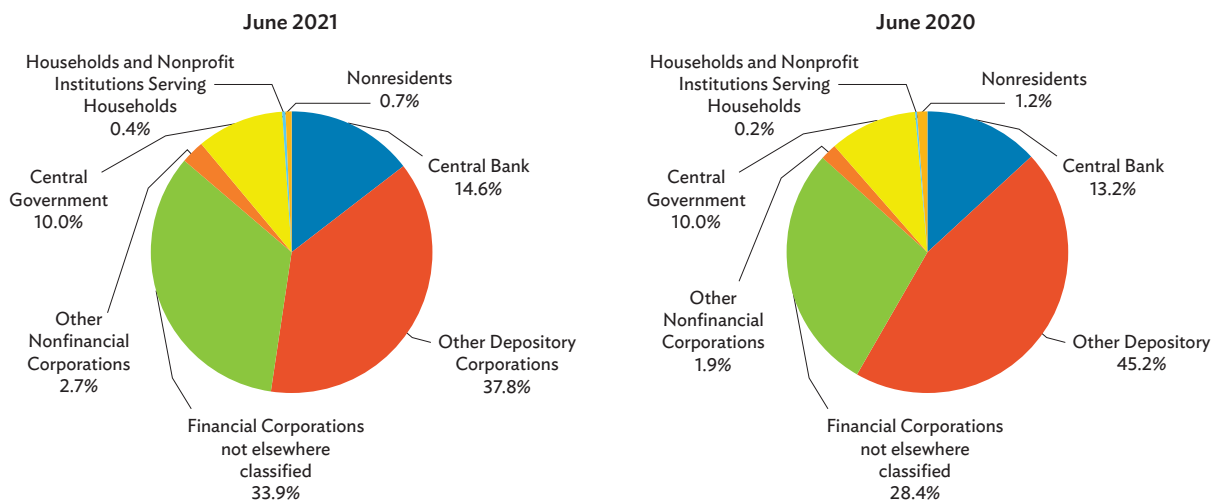
Net inflows from foreign investors to the Thai LCY bond market soared to THB83.7 billion in Q2 2021 from

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



THB4.0 billion in the previous quarter (Figure 4). The uptick in foreign investment flows to the Thai sovereign bond market was driven by an increase in demand for emerging market bonds as investors sought to diversify portfolios amid low global yields. The Thai bond market has recorded monthly net inflows of foreign capital since March 2021, peaking at THB43.6 billion in June amid investor optimism as the government ramped up its mass vaccination program. Net inflows dropped to THB9.3 billion in July as the spread of the delta variant in the region dampened investor sentiment.

Figure 3: Local Currency Central Bank Securities Investor Profile



Source: Bank of Thailand.

Ratings Update

On 18 June, Fitch Ratings affirmed Thailand's long-term foreign currency issuer default rating at BBB+ with a stable outlook. The rating was based on the assessment that Thailand's robust external position and public finances would continue to cushion against any downside risks from a protracted economic recovery from the global pandemic. Fitch Ratings viewed that the debt incurred to finance the government's fiscal response to the pandemic was sustainable in the medium-term based on Thailand's record in managing its public finances.

Policy, Institutional, and Regulatory Developments

Cabinet Approves Emergency Decree for Additional THB500 Billion of Borrowing

In June, Thailand's House of Representatives approved an executive decree authorizing the Ministry of Finance to borrow up to an additional THB500 billion for relief measures in response to the impacts of COVID-19. Up to THB30 billion will be allocated for the Ministry of Public Health. The rest of the loan amount was earmarked for assistance to individuals (THB300 billion) and businesses (THB170 billion) affected by the pandemic.

Japan and Thailand Renew Bilateral Swap Agreement

On 23 July, the Bank of Japan and the BOT renewed the existing Bilateral Swap Agreement (BSA) between Japan and Thailand. The agreement allows the two central banks to exchange their domestic currencies for United States dollars. It also allows the BOT to swap Thai baht for Japanese yen. The size of the BSA was left unchanged at up to USD3.0 billion or its equivalent in Japanese yen. The renewed BSA incorporates a precautionary scheme, as well as amendments to align it with recent changes in the Chiang Mai Initiative Multilateralization Agreement.