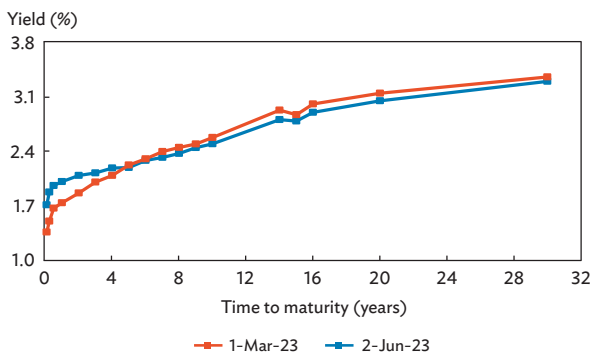


Thailand

Yield Movements

Between 1 March and 2 June, Thailand’s local currency (LCY) government bond yield curve flattened, with yields rising at the shorter end but falling for all tenors longer than 4 years (Figure 1). The flattening of the yield curve reflected elevated short-term uncertainties following the general election in May. Bank of Thailand’s (BOT) policy rate hikes also drove the rise at the shorter-end of the yield curve. The BOT has been among the more aggressive central banks in the region this year in the fight against inflation. To keep inflation in check, the BOT raised its benchmark rate by 25 basis points each during its 25 January, 29 March, and 31 May meetings, bringing the key rate to 2.00%. Consumer price inflation has been on a downward trend since January, with the April reading of 2.7% year-on-year (y-o-y) falling within the BOT’s target range of 1.0% to 3.0%. Nonetheless, the central bank noted that core inflation remained elevated and increased demand amid economic recovery and possible higher spending by the new government could create additional upward pressure on prices. Meanwhile, the decline in yields of most mid-to long-term bonds followed regional yield movements, which trended down on expectations that the United States Federal Reserve would pause its monetary policy tightening during its June meeting.

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

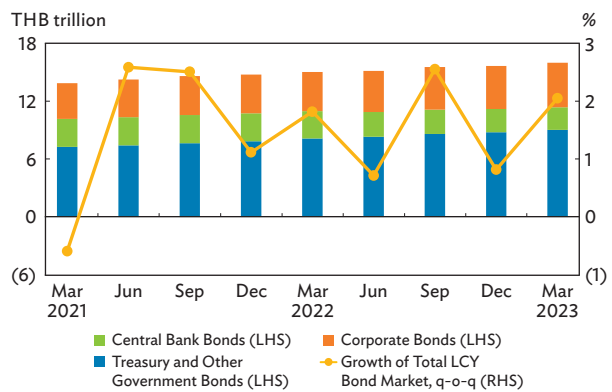


Source: Based on data from Bloomberg LP.

Local Currency Bond Market Size and Issuance

Thailand’s LCY bond market continued to expand, reaching a size of THB15.9 trillion (USD466.4 billion) at the end of March. Growth picked up by 2.1% quarter-on-quarter (q-o-q) in the first quarter (Q1) of 2023 from 0.8% q-o-q in the previous quarter, driven primarily by rapid expansion in the corporate bond market amid continued economic recovery. Thailand’s gross domestic product growth accelerated to 2.7% y-o-y in Q1 2023, driven by the sustained resurgence of domestic demand and tourism. Growth in Treasury and other government bonds also contributed to the overall LCY bond market expansion. With an outstanding stock of THB9.0 trillion, Treasury and other government bonds accounted for 56.5% of the total LCY bond market (Figure 2). Outstanding corporate bonds (THB4.6 trillion) and BOT bonds (THB2.3 trillion) comprised the remaining shares of 28.9% and 14.6%, respectively.

Figure 2: Composition of Local Currency Bonds Outstanding in Thailand

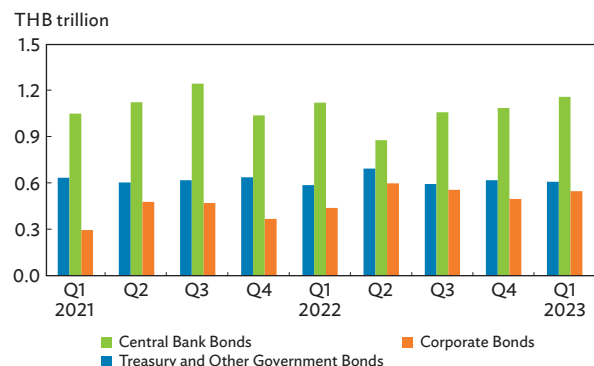


() = negative, LCY = local currency, LHS = left-hand side, q-o-q = quarter-on-quarter, RHS = right-hand side, THB = Thai baht.

Source: Bank of Thailand.

LCY bond issuance tallied THB2.3 trillion in Q1 2023, driven by a rebound in corporate bond issuance. New issuances of LCY bonds rose 5.1% q-o-q in Q1 2023, reversing the 0.3% q-o-q contraction posted in the previous quarter (Figure 3). Growth stemmed primarily from corporate bond issuance, which rose 10.2% q-o-q in Q1 2023 following a 10.9% q-o-q decline in the preceding quarter. Total issuance of new corporate debt reached THB546.9 billion in Q1 2023. The rebound in corporate bond issuance was influenced by improved investor confidence amid sustained economic recovery. The largest corporate issuer in Q1 2023 was True Corporation with a total issuance volume of THB20.8 billion. Meanwhile, issuance of Treasury and other government bonds totaled THB608.1 billion, down 1.7% q-o-q in Q1 2023. The decline in Treasury issuance was mainly due to a high base as the previous quarter saw a record issuance of THB46.1 billion of savings bonds.

Figure 3: Composition of Local Currency Bond Issuance in Thailand



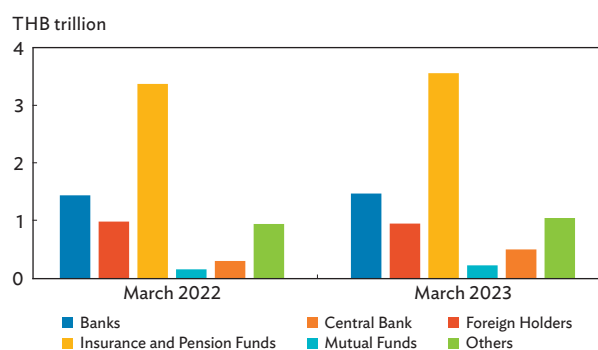
Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter, THB = Thai baht.
Source: Bank of Thailand.

Investor Profile

Insurance and pension funds remained the primary holders of Thailand’s LCY government bonds.

Nonetheless, their share of LCY government bond holdings slipped to 45.9% at the end of March 2023 from 46.9% a year earlier (Figure 4). Foreign holdings also eased to 12.3% from 13.7% during the same period. In contrast, the BOT’s holdings of LCY government bonds rose to 6.4% at the end of March from 4.2% a year prior. To help stabilize the government bond market, the BOT purchased a total of THB85.7 billion of government bonds between March 2022 and March 2023.

Figure 4: Investor Profile of Government Bonds in Thailand



THB = Thai baht.
Source: Bank of Thailand.