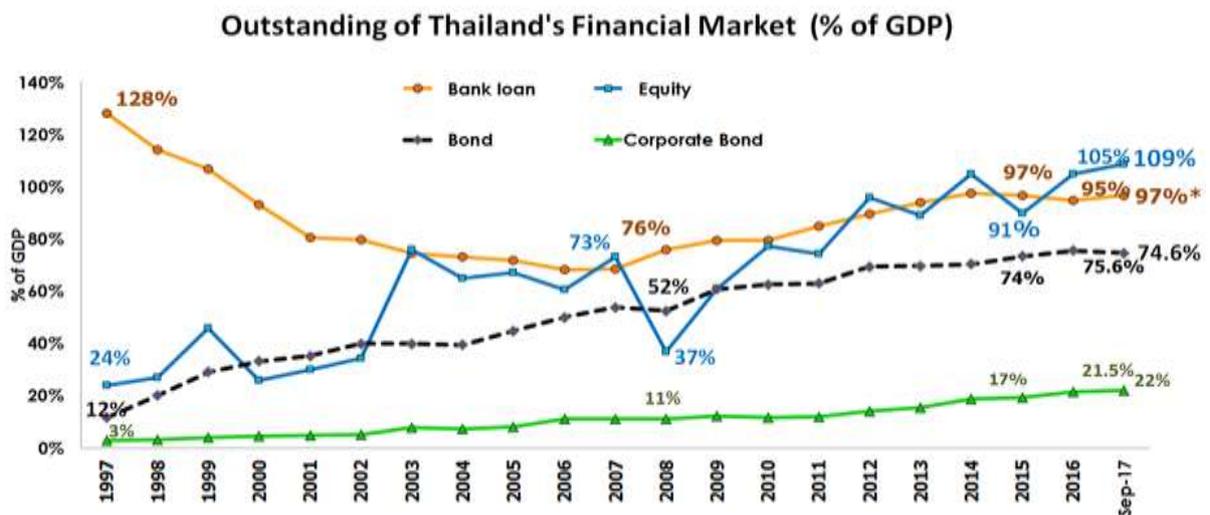


# Thai Bond Market Report

The Thai bond market has grown rapidly since the 1997's economic crisis. In June 1998 the government issued bonds for the first time in the decade and continued to issue bonds since then with the primary objective to finance budget deficit resulted from the crisis. The substantial amount of new government bonds coupled with successive downtrend of interest rates have contributed to the robust bond market as evidenced by a significant increase in both market size and trading volume. Numerous efforts have been made by policymakers and market participants to promote development of the bond market. The regulatory framework was streamlined to facilitate issuance of corporate bonds to be more competitive with other instruments. The financial market has shifted away from heavy reliance on banks to capital market's funding.

As a result, the share of bank financing, although remains an important source of funding, has gradually declined from 128% in 1997 to 97% of GDP in September 2017. Equity market has grown from 24% to 109% of GDP in the same period. The bond market has significantly expanded from 12% to 74.6% of GDP. The three main pillars of Thai financial market become more balanced and contribute to increasing economic resilience (See Figure 1).

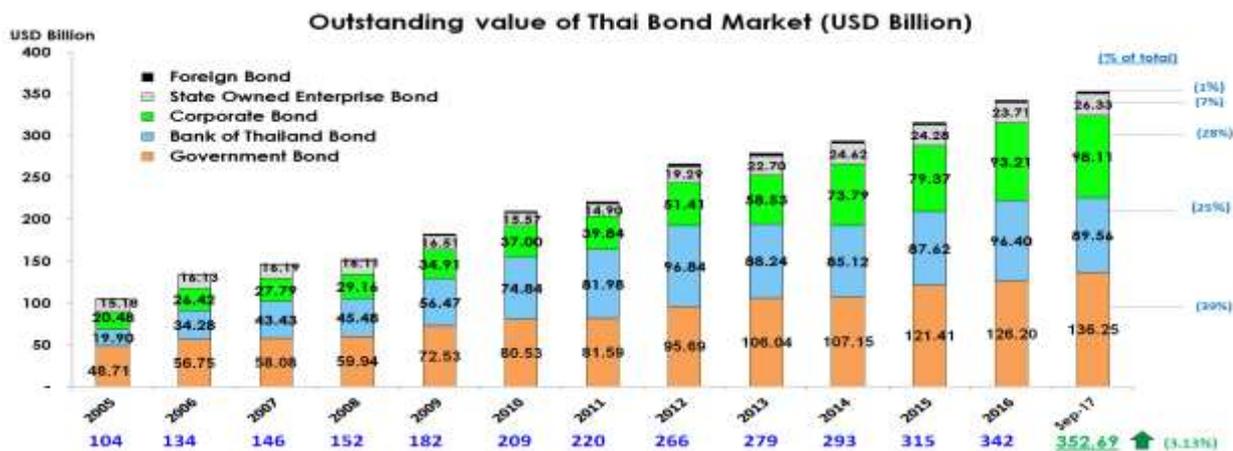
**FIGURE 1: OUTSTANDING OF THAILAND'S FINANCIAL MARKET**



## Outstanding Value of Thai Bond Market

The total outstanding value of Thai bond market as of September 2017 amounted to USD 352.69 billion, increased 3.13% from the end of previous year. Government bonds accounted for 39% of total outstanding (USD 136.25 billion), followed by corporate bonds and BOT bond which accounted for 28% (USD 98.11 billion) and 25% (USD 89.56 billion) respectively. The remaining proportion was 7% of SOE bonds (USD 26.33 billion) and 1% of foreign bond ( USD 2.43 billion) (See Figure 2).

**FIGURE 2: OUTSTANDING VALUE OF THAI BOND MARKET**



## Type of Securities

Bonds issued in Thailand can be divided into two major components: government sector bonds and corporate bonds.

**Government sector bonds** are bonds issued by government, government agencies and state owned enterprises (SOEs). Currently, government sector bonds consist of the following;

**1.1 Treasury Bills (T-Bills)** are short-term debt instruments with maturity less than 1 year. The bills are sold on a discount basis.

**1.2 Government bonds** are medium to long-term debt instruments issued by the Ministry of Finance. Three main types of government bonds are Loan bonds (LBs), Inflation linked bonds (ILBs) and Saving bonds (SBs). LBs capture the majority of the market as they are issued for financing budget deficit. ILBs are issued as a mean of investment to help protect investors from inflation. ILBs are indexed to inflation so that the principal and interest payments rise and fall with the rate of inflation. SBs are issued to provide households with alternative source of saving.

**1.3 Bank of Thailand (BoT) bonds** is tools for Bank of Thailand to manage liquidity. There are two types; Central Bank Bills (CBs) which are short-term debt instrument and BOT Bonds (BOTs) which are long-term debt instruments

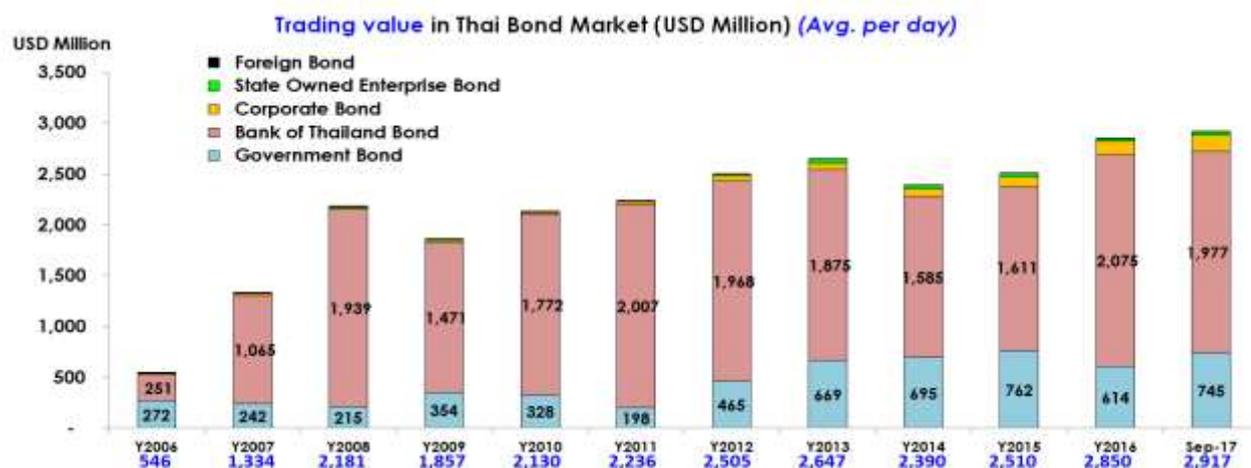
**1.4 State Owned Enterprise (SOE) bonds** are medium to long-term debt instruments issued by State Owned Enterprises. This can be categorized into 2 types; guaranteed and non-guaranteed by the Ministry of Finance (MoF) of which the guaranteed bonds account for 72% of total.

**Corporate bonds** began to issue bonds since 1992 after the enactment of the SEC Act that has eased criteria for the issuance of corporate bonds. Structures of bonds include Straight, Floating Rate Notes (FRN), Amortizing and Convertible. The bonds with more varying features are increasingly issued in recent years such as perpetual bonds, options embedded bonds, Basel III bonds and securitized bonds.

## Liquidity of Thai Bond Market

In the first 3 quarters of 2017, the average trading value per day of Thai bond market was USD 2,917 million. BOT bonds are the most actively traded securities with average daily turnover of USD 1,977 million. Approximately 94% of total trading value was attributed to government and BOT bonds. Trading value of corporate bonds has significantly increased since 2012. The average trading value per day of corporate bonds rose from USD 25 million in 2011 to USD 164 million in 2017 (See Figure 3).

**FIGURE 3: TRADING VALUE IN THAI BOND MARKET**



## Non-resident Fund Flow

During the first 10 months of 2017, Thai bond market has continued to see foreign capital inflows amid positive investment sentiment toward emerging bond markets. Foreign investors recorded net buy of USD 4,781 million which comprised of net buy on long-term bonds totaling USD 5,362 million and net sell of short-term bonds of USD 581 million. Foreign investor holdings in Thai bond increased to USD 24,441million, comprising of 89% long-term bonds and 11% short-term bonds.

**FIGURE 4: NON-RESIDENT FUND FLOW**

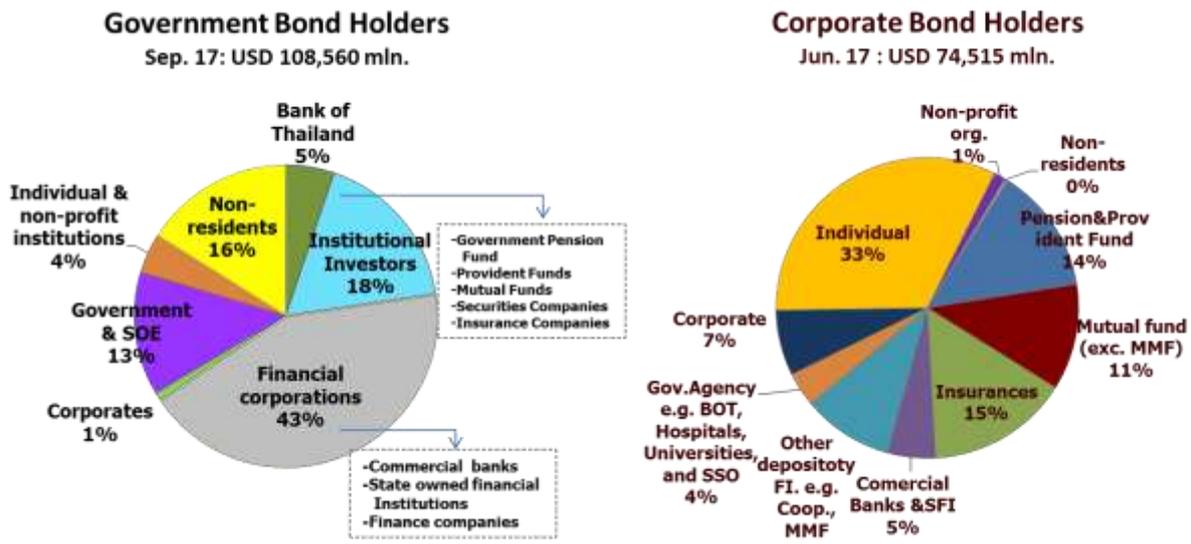
Unit: USD mln.

Period	Net Flow				All	Accumulation
	Net Trading	<=1Y Bond Expired	Net Flow	>1Y Bond		
End of 2016	9,216	-8,734	482	1,444	1,926	1,926
Jan-17	677	-215	462	565	1,027	1,027
Feb-17	1,241	-277	964	253	1,218	2,245
Mar-17	-540	-484	-1,025	824	-201	2,044
Quarter 1	1,378	-976	402	1,642	2,044	2,044
Apr-17	106	-587	-481	285	-196	1,848
May-17	481	-99	382	661	1,042	2,891
Jun-17	-766	-444	-1,210	1,295	85	2,976
Quarter 2	-180	-1,130	-1,310	2,241	932	2,976
Jul-17	402	-111	291	-61	230	3,205
Aug-17	714	-219	495	649	1,143	4,349
Sep-17	1,459	-990	469	1,108	1,577	5,925
Quarter 3	2,574	-1,320	1,254	1,696	2,950	5,925
Oct-17	-620	-261	-881	67	-814	5,111
1-3/11/2017	12	-58	-46	-285	-331	4,781
YTD	3,164	-3,746	-581	5,362	4,781	

## Breakdown of Investors

As of September 2017, the top 3 government bond holders are financial corporations (43%), institutional investors (18%), and Non-residents (16%). For corporate bond, as of June 2017, the largest investor type is individual (33%) followed by insurances (15%) and pension & provident fund (14%) (See Figure 5).

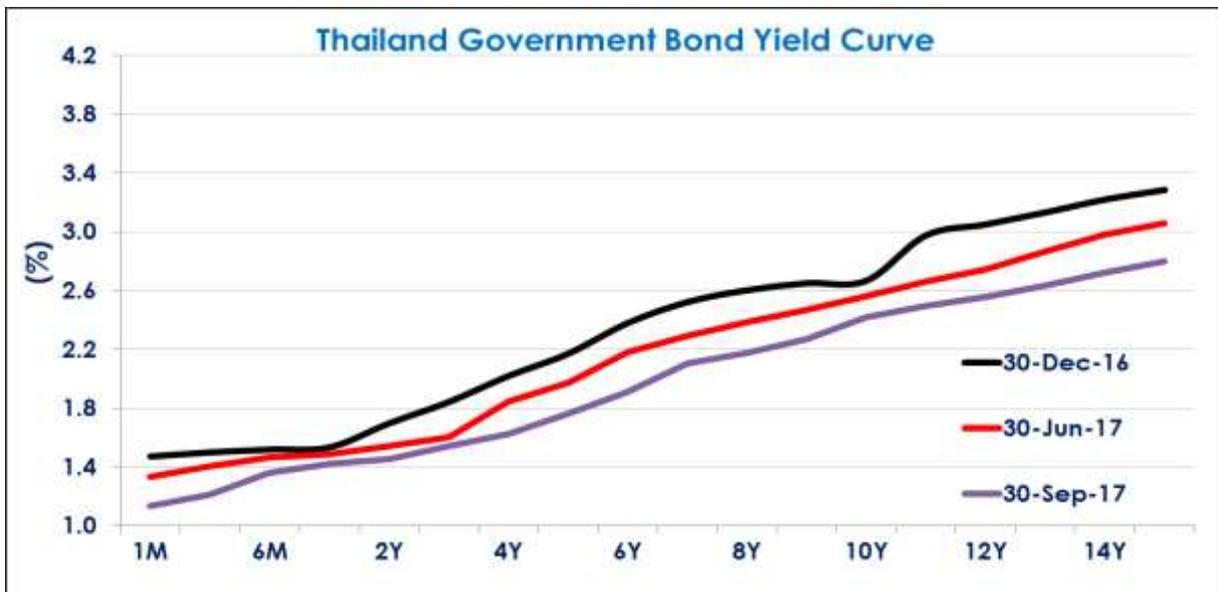
**FIGURE 5: GOVERNMENT BOND AND CORPORATE BOND HOLDER**



## Yield Movement

Government bond yield moved in the downward direction in 2017 due to strong foreign investment. At the end of the third quarter, short-term bond yields decreased around 26 basis points, while yields of long-term bonds (longer than 1 year) went down 16-50 basis points YTD (See Figure 6).

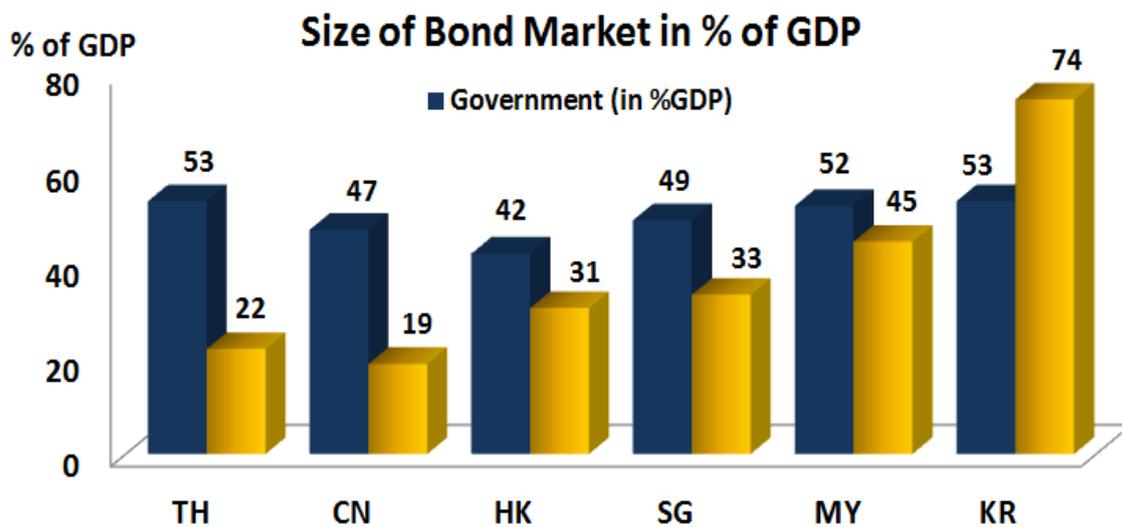
**FIGURE 6: THAIBMA GOVERNMENT BOND YIELD CURVE MOVEMENT**



## Challenges facing ahead

While Thailand's government bond market has grown continuously and stayed well equivalent to peers at 53% of GDP, corporate bond market stood at only 22% of GDP, quite small compared to other countries in Asia (See Figure 7). This posted both challenge and opportunity for the corporate sector to be able to utilize lower cost of funding in the capital market.

FIGURE 7: SIZE OF BOND MARKET IN % OF GDP



Although issuance of corporate bonds has risen substantially in recent years, further development in term of standards and infrastructure is seen necessary to foster long-term sustainability. Bond's prospectus standards should be reviewed to uplift roles and duties of issuers and bond holder representative in order to enhance investor protection. Fiduciary duties of relevant parties such as bond registrar and underwriter should also be strengthen.

Currently, most of corporate bonds are in certificate form as nearly half of corporate bond holders are individuals who prefer to hold bonds in scrip format. It takes at least two or three days for settlement of bond trading transactions which creates settlement risk for buyers and sellers. This also contributes to illiquid secondary market trading of corporate bonds.

ThaiBMA has been working to address the above challenges in corporate bond market. The Corporate bond market 4.0 project was initiated and now underway to create new standardization, achieve real-time DVP with the ultimate goal to enhance investor protection and market integrity.