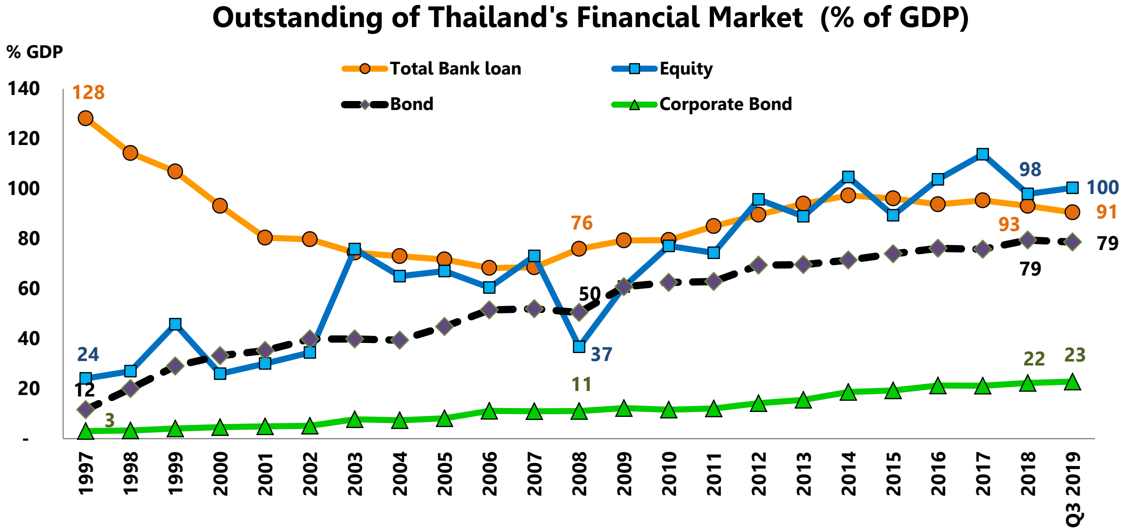
Thai Bond Market Report

2019 ASF Securities Forum, Turkey, Istanbul, November 2019

1. Growth of the Thai bond market

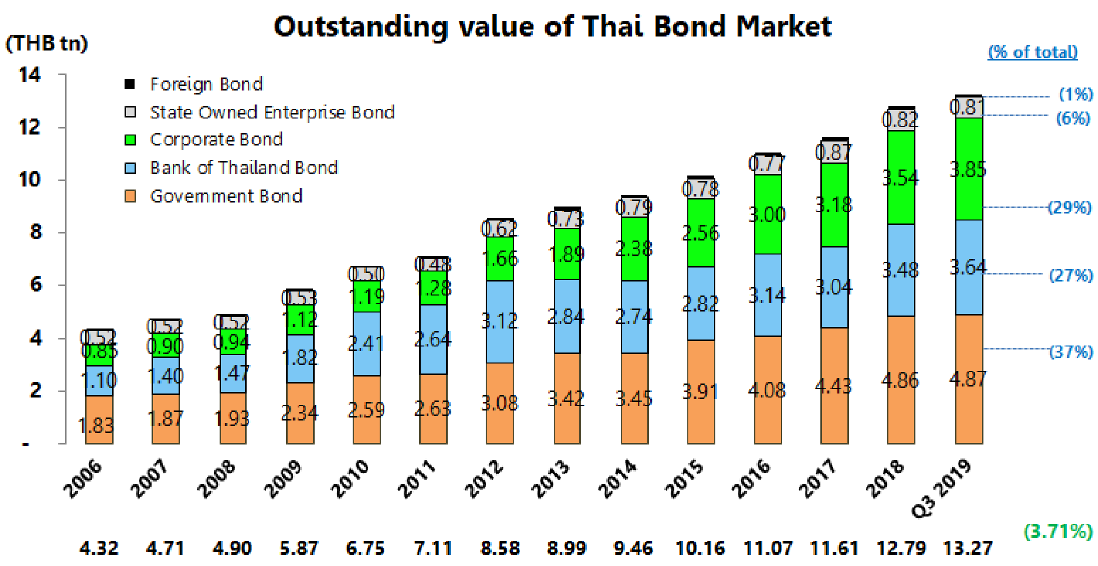
During the past two decades, Thai bond market has been significantly growing from the total outstanding only 12% of GDP in 1997 to stand at 79% of GDP as of Q3, 2019 (Figure 1). Corporate bond market has also expanded to 23% of GDP, representing more room for further growth. With this remarkable growth, Thai bond market has become one of three main pillars of Thailand's financial market besides bank loan and equity, or we could state that funding sources in Thailand is now well-balanced.

Figure 1 – Outstanding of Thailand's Financial Market (% of GDP)



The total outstanding value of Thai bond market as of end of September 2019 was THB 13.27 trillion, rising 3.71% from the end of 2018. Government bond accounted for the majority at 37% of the total outstanding value. The outstanding value of corporate bond accounted for 29%, outperforming the central bank bonds (27%) since 2017 as shown in Figure 2.

Figure 2 – Outstanding Value of Thai Bond Market



2. Growth of Corporate bond market

Thailand's corporate bond market has experienced unprecedented growth in the last few years. The issuance of long term corporate bond has made record-high consecutively in the last few years (Figure 3). The issuance during the first 9 months of 2019 totaled THB 833,427 million an amount nearly equivalent to the full year of 2018 .

Figure 3 – Long Term Corporate Bond Issuance

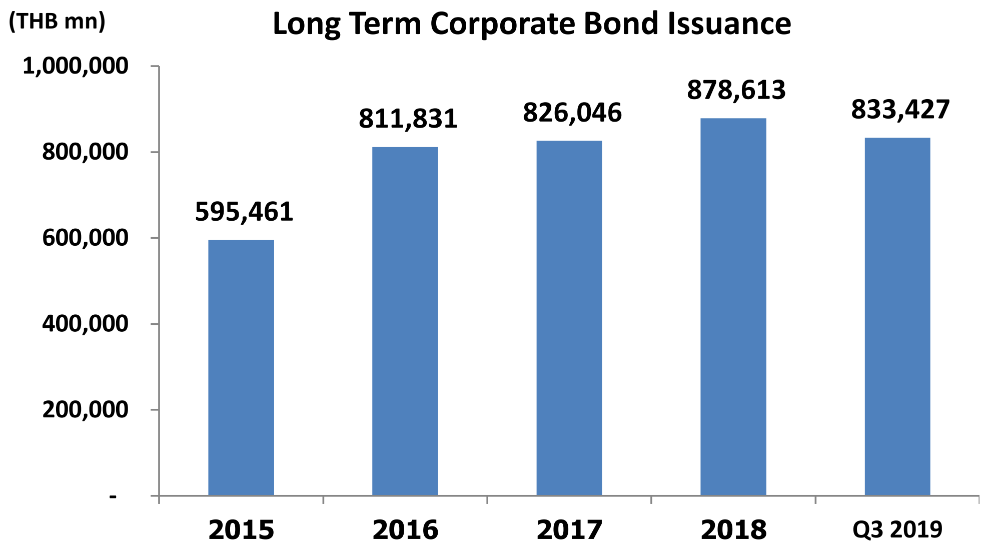
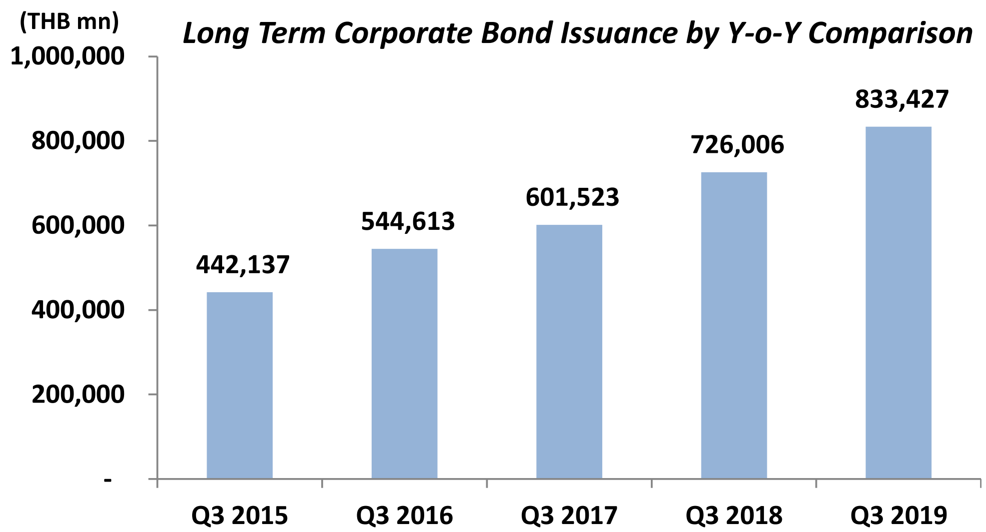


Figure 4 – Long Term Corporate Bond Issuance by Y-o-Y Comparison

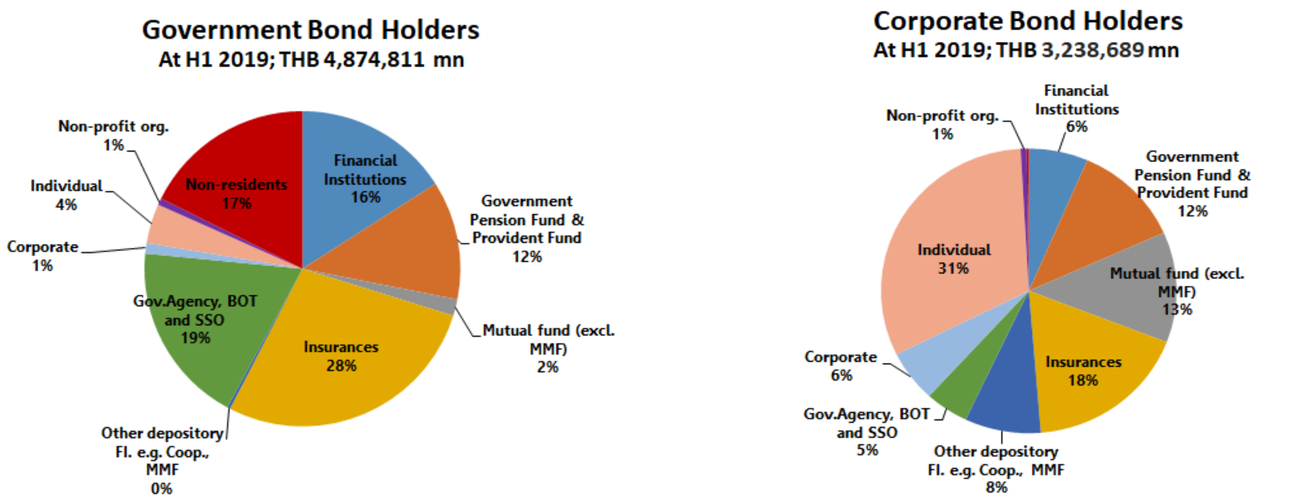


3. Breakdown of Investors

Investors in government bonds are mainly institutional investors. Top three holders of government bonds (as of 30 September 2019) are insurance companies (holding 28% of total holders), non-residents (17%) and financial institutions (16%).

For corporate bond, individual investors are the largest holder (31% of total), followed by insurance companies (18%) and pension & provident funds (12%).

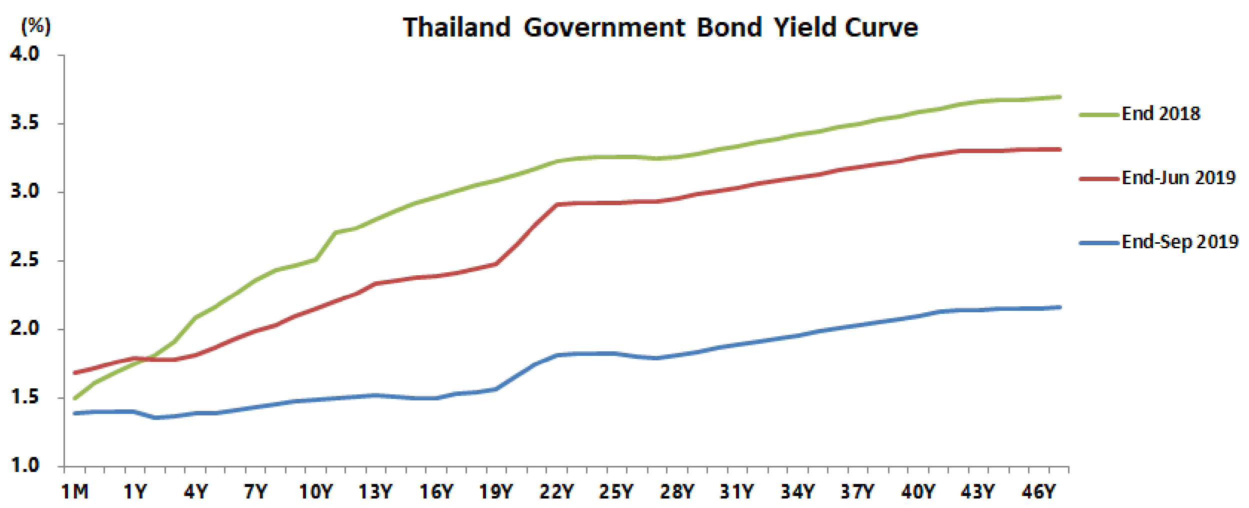
Figure 5 – Government Bond and Corporate Bond Holders



4. Yield Movement

Thailand government yields have been moving lower across the line, tracking downward movement of global bond yields, on the back of concerns over economic slowdown led by lingering US-China trade woe and change in monetary policy globally to loosening stance. As of end-September 2019, the US Federal Reserve already slashed policy rate 2 times to stay at 1.75-2.00%, whereas Bank of Thailand cut its benchmark rate 1 time on 7th Aug by 25 bps to 1.50%. Additionally, some benchmark tenors of Thailand government bonds (e.g. 5-year, 10-year, 15-year, etc.) have been included into JP Morgan GBI-EM Index, thus more liquidity were seen in such tenors. As a result, Thailand government bond yields have fallen to touch new lows particularly on 5-year and 10-year that hit new historically low at 1.34% and 1.43% on 29th Aug 2019, respectively.

Figure 6 – Thailand Government Bond Yield Curve



5. Development and challenges ahead

- **Innovation: The use of DLT for corporate bonds "Registrar Service Platform"**

  ThaiBMA has adopted the use of Distributed Ledger Technology (DLT) to develop "Registrar Service Platform" to allow for more secured and efficient record keeping and transfer of bonds. The distributed ledger technology or blockchain will allow authorized participants to have access to single source of information, see holdings in real-time and facilitate transfer of ownership. Investors will be able to see their own integrated bond portfolio via "e-bond passbook" regardless of differing underwriters, registrars and brokers. The system will be submitted to SEC regulatory sandbox by the end of 2019.

- **Challenges: Withholding tax on coupon payment received by mutual funds.**

  The Ministry of Finance has announced a new tax scheme imposed on mutual funds effective on 20th Aug 2019. Under the new regulation, mutual funds which invest in debt securities or bank deposits are subject to a 15% withholding tax on interest and discount. After the tax implementation, the new issuance of short-term corporate bond declined by 70% while the trading value of mutual funds dropped by 60%.