

2020 Thai Bond Market Review

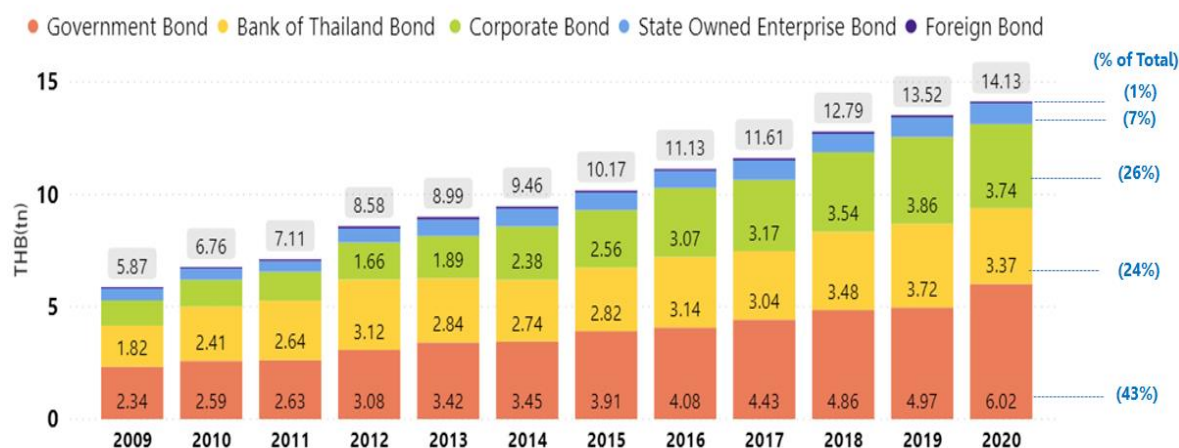
Highlights of 2020

- Despite fluctuated bond yields movement in 1H'20, government bond yields resumed its trajectory in the latter half of the year.
- ESG (Environmental, Social and Governance) bond issuance reached new historical high with various issuers from both public and private sectors.
- Corporate bond issuance declined 36.5% compared to last year from uncertainty amid COVID-19 outbreak.
- The average time to maturity of Non-Resident holding Thai bond extended to new peak at 9.55 years despite fund outflows of THB 64,025 million.

Outstanding Value – The total outstanding value of Thai bond market continued to grow by 5% from 2019

Despite unconventional year of pandemic, the total outstanding value of Thai bond market at the end of 2020 increased by 4.5% from end-2019 to THB 14.13 trillion led by the growth in government bond. The outstanding value of government bond remained at top, recording at THB 6.02 trillion with 43% share of the total outstanding value. Corporate bond came second and Bank of Thailand came third with share at 26% and 24% respectively. The remainders were State Owned Enterprise (SOE) bond for 7% and foreign bond for 1% respectively. (see Figure 1)

Figure 1: Outstanding Value of Thai Bond Market



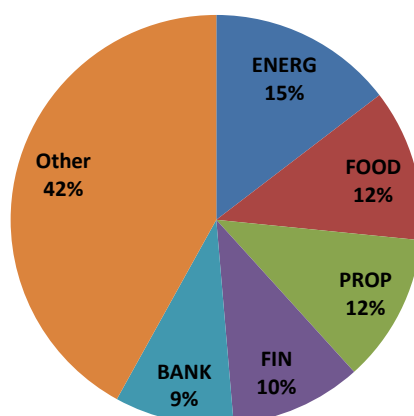
Classified by types of bonds, as aforementioned the outstanding value of government bond grew the most in 2020 particularly treasury bill (tenor equal or less than 1 year) by 1,363.19% from 2019, long-term government bond rose 12.98%. Meanwhile, the outstanding value of commercial paper declined 39.39%, following with the fall in foreign bond at 13.98%. (see Figure 2)

Figure 2: Outstanding Value Classified by Types of Bonds

Type	2019	2020	Growth(%)
Government Bond (Long-Term)	4,939,985	5,581,029	↑ 12.98%
Treasury Bill	30,000	438,958	↑ 1363.19%
State Owned Enterprise Bond	873,603	926,622	↑ 6.07%
Bank of Thailand Bond	3,717,748	3,365,405	↓ -9.48%
Long term Corporate Bond	3,584,540	3,569,330	↓ -0.42%
Commercial Paper	280,275	169,863	↓ -39.39%
Foreign Bond (Baht Bond)	95,098	81,807	↓ -13.98%
Total	13,521,250	14,133,014	4.52%

Classified by sector, the outstanding value of top 5 sectors of long term corporate bond contributed to 58% of the total. Those 5 sectors were energy sector, food sector, property sector, finance (non-bank) sector and bank sector. (see Figure 3)

Figure 3: Long Term Corporate Bond Outstanding Value Classified by Sector

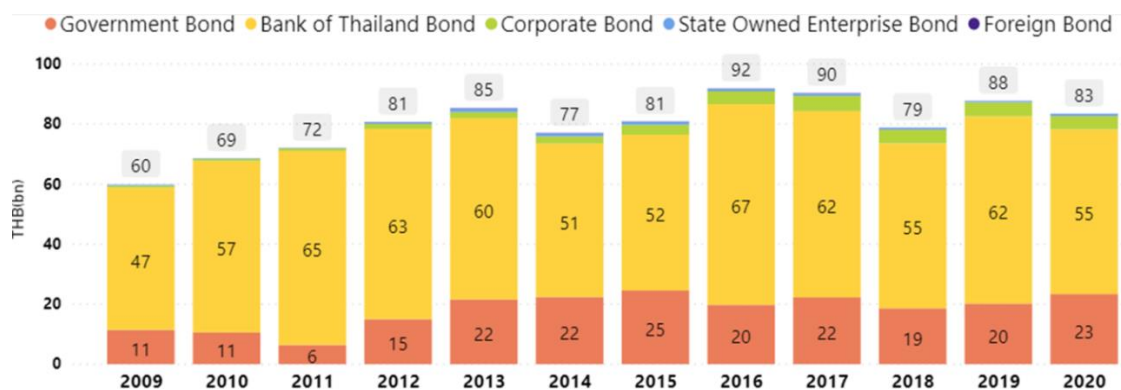


Trading Value – Average trading per day down 5.3%

The daily average trading value in Thai bond market was at THB 83 billion, down 5.3% from previous year at THB 88 billion due mainly to declining trading activities in Bank of Thailand (BoT) bond. Nonetheless, BoT bond remained the most traded security with an average daily turnover at THB 55 billion. Government bond ranked the second with average daily turnover at THB 23

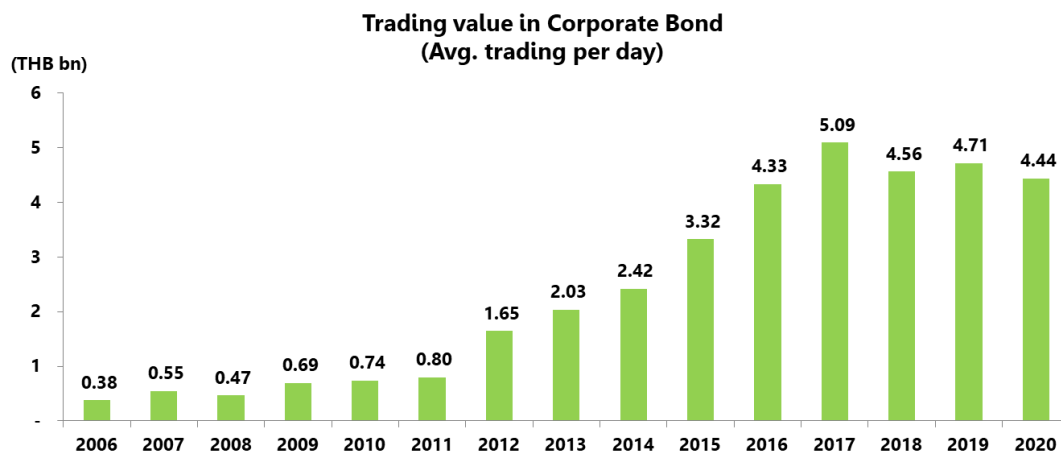
billion, rising 16% from last year. Both bonds accounted for 94% of the total trading value. Corporate bond, meanwhile, ranked the third with average daily turnover at THB 4.4 billion. Compared to others, the average daily turnover of SOE and foreign bonds were minor at THB 791 million and THB 8 million respectively. (see Figure 4)

Figure 4: Average Daily Trading Value in Thai Bond Market



Although corporate bond’s average daily trading activity remained small compared to the total value, the trend has been on the upside in recent years. However, for 2020 the average daily trading value dropped 6% compared to 2019 due to impact from COVID-19 outbreak. (see Figure 5).

Figure 5: Average Daily Trading Value of Corporate Bond



Bond issuance – Overall long term corporate bond issuance declined 36% from last year, but ESG bond issuance reached new milestone

COVID-19 outbreak has derailed many corporate issuers to stay on the sideline for new bond issuance particularly during March to May when bond

yields were highly fluctuated and the nationwide lockdown was implemented. The government remains the main and active issuer in Thai bond market due to funding needed for economic recovery projects.

In 2020, the corporate sector seemingly switched their funding sources from bonds to bank loan. The growth in corporate bank loan was observed in the second quarter of 2020 while outstanding value of corporate bonds declined during the same period. In the meantime, we have seen rising deposits in banking system as there was more asset allocation to cash and cash equivalents due to investors' cautious mode.

In April 2020, the Bank of Thailand has established the Corporate Bond Stabilization Fund (BSF) in order to stabilize the corporate bond market by providing bridge financing to investment grade firms with bonds maturing during 2020-2021. Although the facility has not been utilized so far, it has helped to restore investor confidence during the time of volatility.

The overall bond issuance in Thai bond market in 2020 was at THB 10.17 trillion, down 4.4% compared to last year. Long term corporate bond issuance fell 35.53% from end-2019, while the issuance from government in treasury bills and long term government bond grew 1,297.40% and 16.96% respectively (see Figure 6).

Figure 6: Bond Issuance

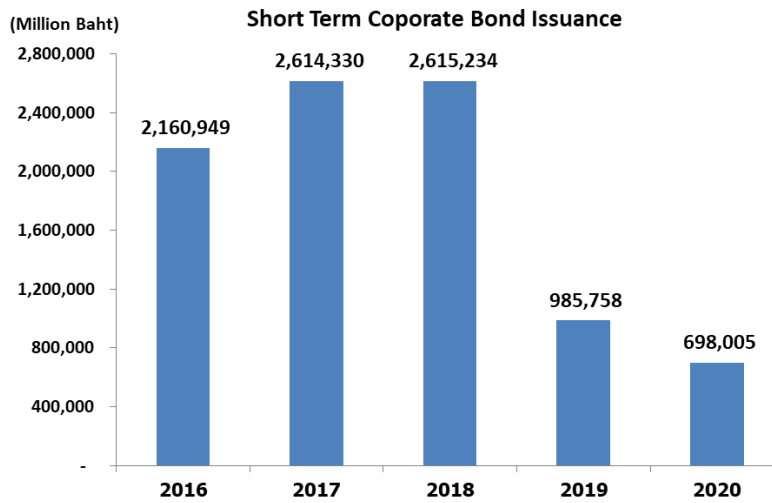
Type	2019	2020	Growth(%)
Government Bond	727,344	850,721	↑ 16.96%
Treasury Bills	40,000	558,958	↑ 1297.40%
State Owned Enterprise Bond	167,070	181,390	↑ 8.57%
Bank of Thailand Bond	7,625,757	7,196,556	↓ -5.63%
Long term Corporate Bond	1,076,642	683,559	↓ -36.51%
Commercial Paper	990,283	698,005	↓ -29.51%
Foreign Bond (Baht Bond)	12,060	1,600	↓ -86.73%
Total	10,639,156	10,170,789	-4.40%

Corporate Bond Issuance

Short term corporate bond issuance

The issuance of short term corporate bond was at THB 698 billion, down 29% from last year. (see Figure 7)

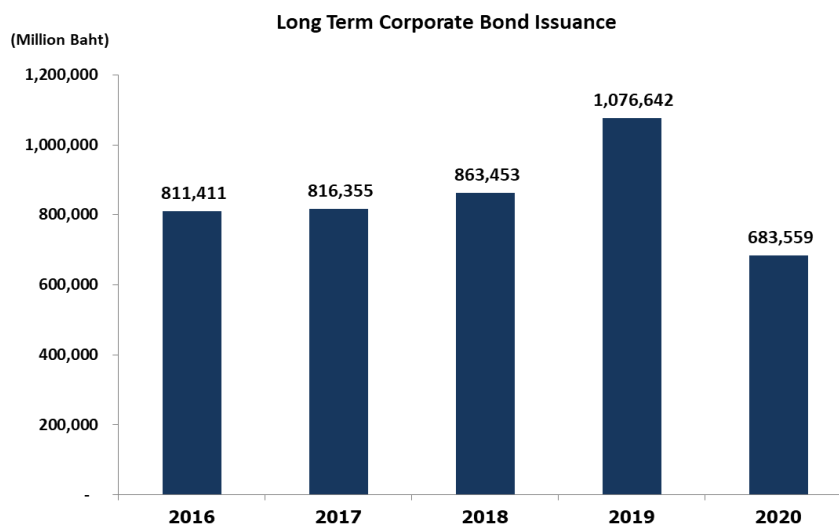
Figure 7: Short Term Corporate Bond Issuance



Long term corporate bond issuance

Competitive rates in bank loans and the delay in investment due to COVID-19 impact discouraged corporates to fund through bond issuance. Issuers from banking sector also scaled back bond issuance because of ample liquidity from increased bank deposit. As a result, long term corporate bond issuance in 2020 was at THB 683,559 million, falling 36.5% from end-2019. (see Figure 8)

Figure 8: Long Term Corporate Bond Issuance

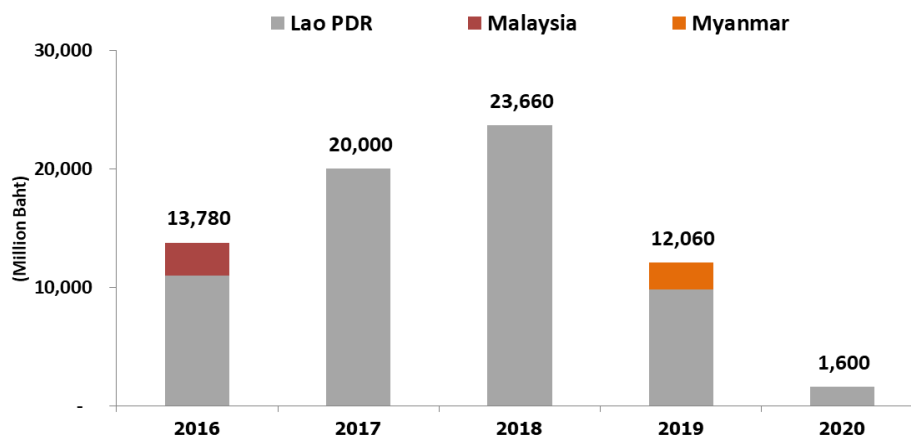


For group of high yield bond (credit rating below BBB- and Non-rated), the portion of secured bond issuance grew 57% in 2020 compared to 38% in 2019. Those secured bond were mainly secured by Land & Building and Guarantor.

Foreign bond issuance

This year there was no new comer in foreign bond issuer (baht bond), only one issuer which was Nam Ngum 2 Power Company Limited from Lao PDR. The company issued 3 bonds with total size at THB 1,600 million. (see Figure 9)

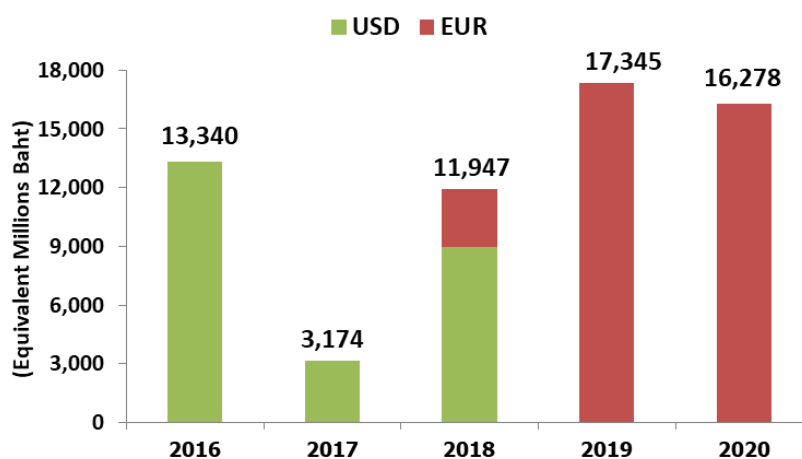
Figure 9: Foreign Bond Issuance



FX bond issuance

The total issuance of FX bond in 2020 was approximately THB 16,278 million, inching down 6% from last year. There were 4 issuers this year who were all commercial banks and issued in euro. (see Figure 10)

Figure 10: FX Bond Issuance











ESG bond issuance – Growth in ESG issuance hit fresh historical high with new issuers from both public and private sectors

COVID-19 outbreak is not all that bad as it helps raising people sustainability awareness, many governments and corporates around the world chose ESG bonds issuance as one of key funding tools in 2020, such as first sovereign green bond issuance in Germany, Sweden and Egypt, while corporates like Chanel, Burberry and Saudi Electricity had marked their first step in ESG bonds.

In Thailand, the year 2020 was the record year for ESG bond issuance as it rose nearly 3 times from THB 30 billion in 2019 to THB 86 billion, making an accumulated outstanding value reaching THB 130 billion at the end of 2020. It was the first time of Thai government to issue sustainability bond with total size of THB 50 billion (*accumulated amount as of end-2020*) with tenor 15 years for funding mass transportation project and COVID-19 relief package. Of note, the total issuance size of this sustainability bond series by MOF will be THB 85 billion. Meanwhile, SOE like Bank for Agriculture and Agricultural Cooperatives, and National Housing Authority issued their first green bond and social bond respectively in 2020. For private sector, although there was only green bond issuance from 4 issuers but 3 of them were new faces in green bond issuance. Those 3 issuers were PTT Public Company Limited, Global Power Synergy Public Company Limited and RATCH Group Public Company Limited. And the repeated green bond issuer was BTS Group Holdings Public Company Limited. (see Figure 11)

Figure 11: ESG Bond Issuers in 2020 (data as of end-2020)



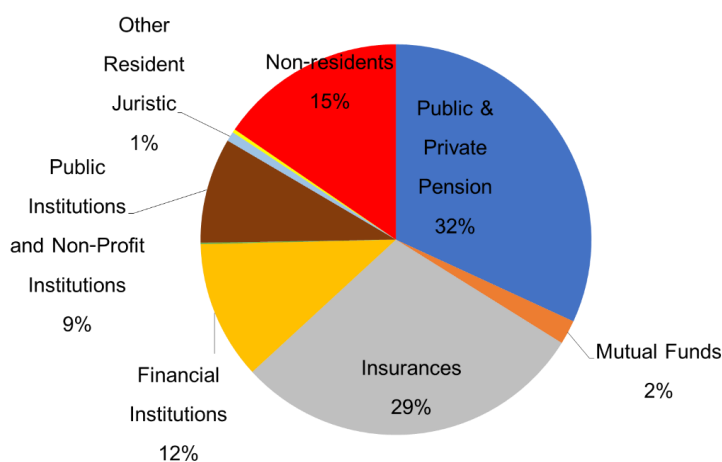
	Theme	Entity	Issue Size
GOV			
	Sustainability	MOF	THB 50,000 mln.
SOE			
	Green	BAAC	THB 6,000 mln.
	Social	NHA	THB 6,800 mln.
CORP			
	Green	GPSC	THB 5,000 mln.
	Green	PTTC	THB 2,000 mln.
	Green	BTSG	THB 8,600 mln.
	Green	RATCH	THB 8,000 mln.
	Total		THB 86,400 mln.

Composition of Bond Holders in 2020

Holders of Government Bond

The top holder of government bond was Public & Private pension at 32% of the total government bond outstanding. Insurances ranked the second with at 29%, while Non-residents remained one of significant government bond holders accounting for 15%. (see Figure 12)

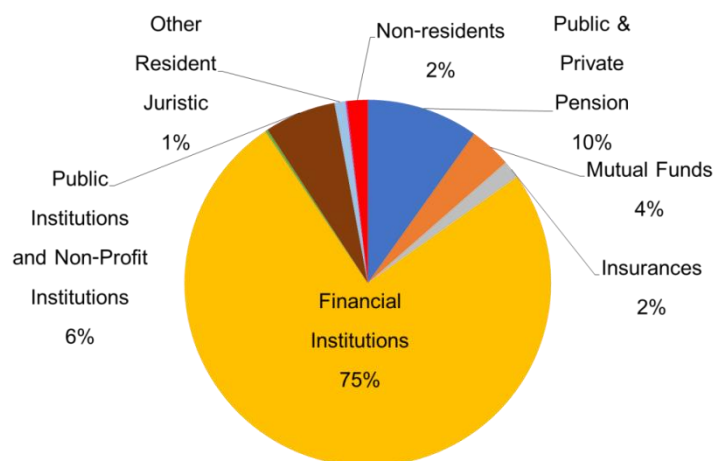
Figure 12: Holder of Government Bond



Holders of Bank of Thailand (BoT) Bond

The main holder of BoT bond was Financial institutions, accounting for 75% of the total BoT bond outstanding, followed by Public & Private pension at 10%. Non-residents held merely 2% of BoT bond. (see Figure 13)

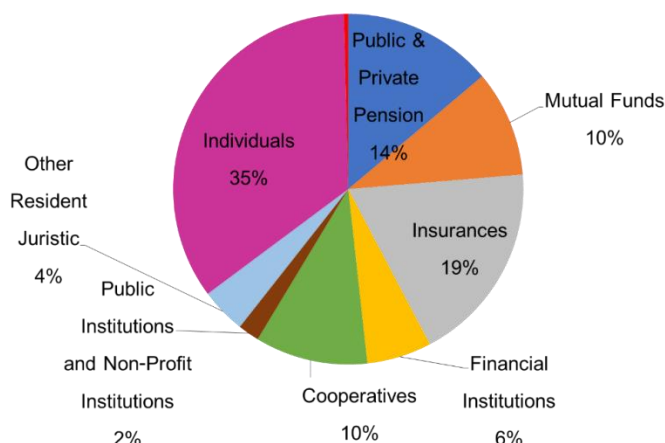
Figure 13: Holder of Bank Of Thailand Bond



Holders of Corporate Bond

The main holder of corporate bond was individuals, accounting for 35% of the total corporate bond outstanding. Insurances and Public & Private pension ranked the second and the third holder with share 19% and 14% respectively. (see Figure 14)

Figure 14: Holder of Corporate Bond



NR flows – A mixed bag of NR flows during the year to end 2020 with net sold THB 64,025 million

NR flows ended the year 2020 with net outflows at THB 64,025 million, recording the second consecutive year of outflow. The panic sell related to the mysterious COVID-19 outbreak early this year triggered global sell-off in securities and flocked to cash or cash-equivalent. Therefore, in the first half of the year there was a net outflow at THB 110,849 million from Thai bond market.

In the latter half of the year, although the coronavirus cases around the world were still on the rise, at home Thailand has been managing to combat the outbreak efficiently and effectively. In addition, the progress in vaccine and the announcements of monetary and fiscal policies were supportive of market sentiment. Market participants started to take more risk, but still with cautious approach. As a result, during 2H'2020, there was a net inflow of THB 46,824 million into Thai bond market.

From net outflow by the end of the year at THB 64,025 million, it could divide into net inflow for long term at THB 8,212 million. Short-term-wise, it

consisted of net sold for outright trading for THB 37,631 million and expired bond for THB 34,606 million, resulting in totally THB 72,237 million of outflows. (see Figure 15)

Figure 15: Non-Resident Fund Flows

Period	Net Flow					Accumulation
	<=1Y Bond			>1Y Bond	All	
	Net Trading	Expired	Net Flow			
End of 2019	-67,401	-69,508	-136,909	52,456	-84,452	-84,452
Jan-20	-7,579	-625	-8,204	19,743	11,539	11,539
Feb-20	2,575	-735	1,839	-23,966	-22,127	-10,589
Mar-20	-27,957	-6,648	-34,605	-60,065	-94,671	-105,259
Q1 2020	-32,962	-8,009	-40,970	-64,289	-105,259	-105,259
Apr-20	-919	-815	-1,734	-17,190	-18,924	-124,183
May-20	-1,064	-1,825	-2,889	-7,347	-10,236	-134,419
Jun-20	6,038	-8,141	-2,103	25,672	23,569	-110,849
Q2 2020	4,056	-10,781	-6,726	1,136	-5,590	-110,849
H1 2020	-28,906	-18,790	-47,696	-63,153	-110,849	-110,849
Jul-20	-4,569	-1,037	-5,606	23,509	17,903	-92,946
Aug-20	-2,666	-4,333	-6,998	4,536	-2,462	-95,409
Sep-20	-2,473	-1,275	-3,748	27,741	23,993	-71,416
Q3 2020	-9,708	-6,644	-16,352	55,786	39,434	-71,416
Oct-20	-3,348	-2,987	-6,335	2,100	-4,235	-75,650
Nov-20	10,380	-3,182	7,198	24,463	31,661	-43,989
Dec-20	-6,049	-3,002	-9,052	-10,984	-20,036	-64,025
Q4 2020	983	-9,172	-8,189	15,579	7,391	-64,025
YTD	-37,631	-34,606	-72,237	8,212	-64,025	

NR investor holding of Thai bond declined from THB 916,816 million by end-2019 to THB 857,151 million at the end of 2020. Nonetheless, the Average Time to Maturity (ATM) of NR holding Thai bond prolonged to the longest level at 9.76 years in August before ended the year 2020 at 9.55 years, up from last year's end at 8.81 years.

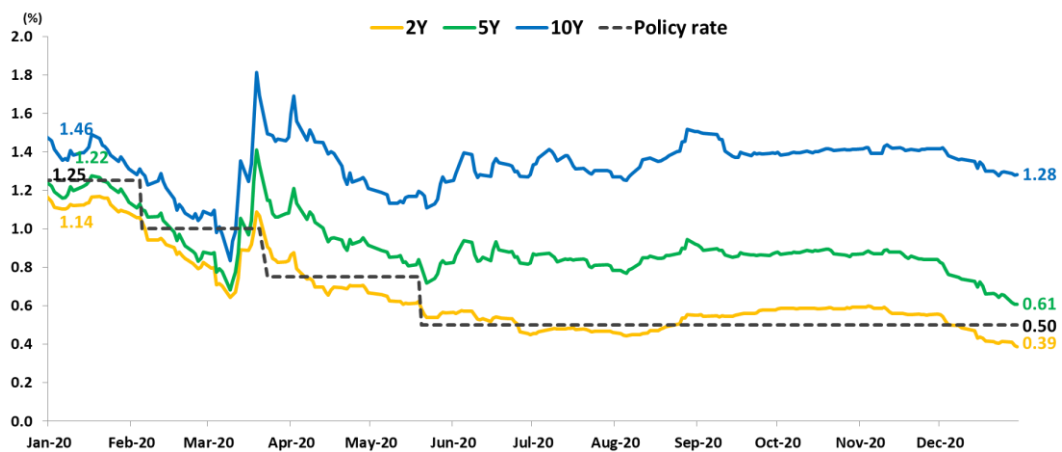
Yield Movements

At the very beginning of the year uncertainty over US-China trade was still the main market concern, driving yields of Thai government bond that considerably as a safe-haven asset lowered. Later then when there were reports of new infectious and fatal disease from COVID-19 market participants turned exceptionally cautious on investment and allocated their securities to cash or cash equivalent. Therefore there were sell-offs across the board of securities around the world in March, consequently Thai government bond yields jumped at the time.

In order to cushion the impact from economic slowdown, central banks around the world started to ease their monetary policies by policy rate cut

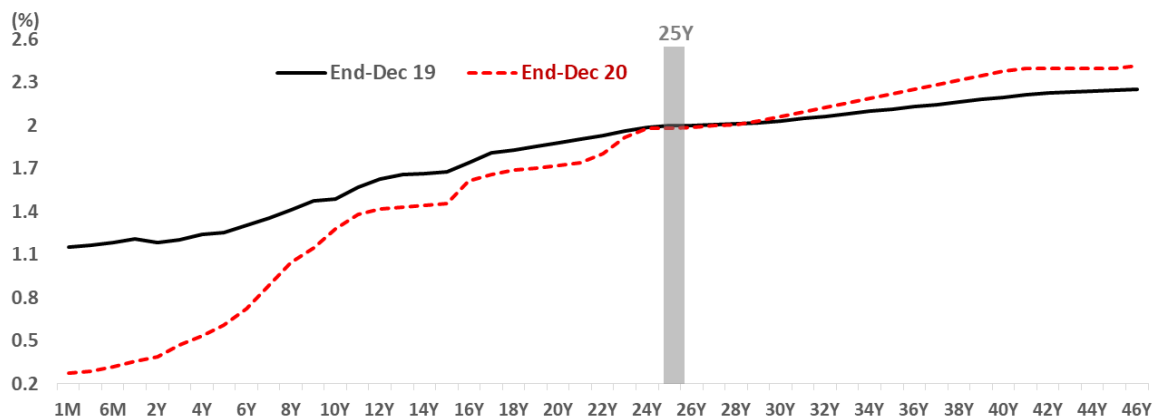
and quantitative easing. Bank of Thailand's MPC also acted promptly to provide pre-emptive measures by reducing policy rates and preparing liquidity facilities for market (e.g. Mutual fund liquidity facility, Corporate bond stabilization fund and Soft loan). Throughout the year 2020, MPC reduced policy rate 3 times by 25 bps each time to stand historical low at 0.50%. Besides of monetary policy, the government launched a series of fiscal stimulus (e.g. COVID-19 package, Soft loan, Tax relief). As a result since April, Thai government bond yields retraced to the path with less volatile movement. (see Figure 16)

Figure 16: Movement of 2Y 5Y 10Y Thai Government Bond Yields and Policy Rate



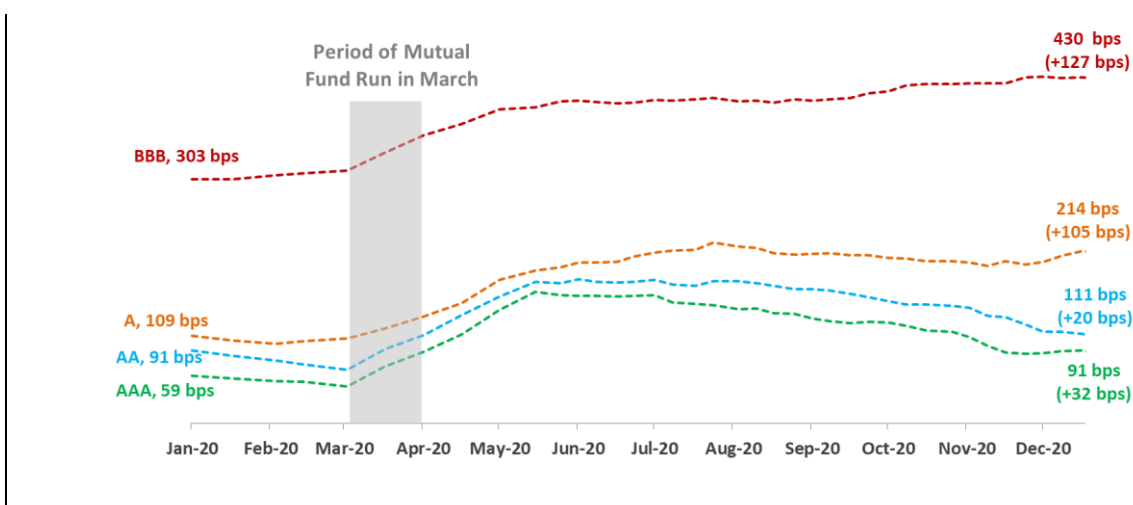
Compared to end-2019, Thai government bond yields in 2020 has been steepened with tenor less than 25-year fell 1-88 bps on the back of easing monetary policy, while yields with tenor over 25-year rose 1-18 bps from gradual economic recovery and inflation expectation in the period ahead. (see Figure 17)

Figure 17: Thai Government Bond Yield Curve between 2019 and 2020



For credit spread movement, we had seen the increase of credit spread starting in March due to concerns over COVID-19 and mutual fund run. The range of credit spread during that month for rating AAA to BBB was up 16-26 bps. Later then in the second half of the year, the movement of credit spread in rating AA and above tilted downward, but credit spread for rating A and below its movement was barely changed or still heading up slightly. By the end of the year, credit spread for rating AA and above rose 20-32 bps compare to the beginning of 2020, while credit spread for rating A and below rose 105-127 bps for the same period. (see Figure 18)

Figure 18: Credit Spread Movement of Rating from AAA to BBB in 2020



Summary

The COVID-19 has been the worst pandemic threatening humanity in the century undoubtedly, and also created volatility in global financial market including in Thai bond market. But at the same time it has been the catalyst or disruptor for changes like digital transformation or raising awareness on sustainability. For Thai bond market, so far it has been resilient to recover and resume its trajectory shortly. And going forward despite unforeseeable ending of COVID-19 yet, we at ThaiBMA hope that lessons learned from this crisis will be the stepping stone for sustainable growth of Thai bond market.