

Supplement

What would yield curve shape be
if the COVID-19 pandemic
hits the economy?

Yield Curve Movements

The Inverting Yield Curve Is About More Than Recession This Time

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Inverted

Drop in longer dated yields inverts 3-month, 10-year spread



Source: Bloomberg

Yield Curve Movements

A key slice of the **U.S. yield curve inverted** for the first time since October 2020, reviving memories of growth fears that plagued investors last year and **signaling doubts that the Federal Reserve will succeed in reviving inflation.**

The *gap between the yield on three-month and 10-year Treasuries at one point slipped to as low as minus 2 basis points* on Thursday. The *spread -- seen by some as a warning signal because it has inverted before each of the past seven U.S. recessions -- last reached those levels as economic conditions deteriorated at the height of the **trade war**.*

With the **coronavirus outbreak (in January 30,2020) threatening to disrupt the Chinese economy**, concerns about the business cycle are undoubtedly a factor. But more important still are **emerging doubts over the ability and commitment of policy makers to shore up growth and spur inflation.**

Yield Curve Movements

Following his press conference Wednesday, fed funds futures showed **increased conviction by traders that a cut is coming this year**, although they continue to price in just one quarter-point reduction.

*The inversion “highlights broader market fears that the **virus and its human and economic threat could spread.** The more that it does, the more likely it starts to alter consumer and corporate behavior, thereby **promoting policy action to mitigate the dangers.**”*

“We are closely monitoring the emergence of the coronavirus, which could lead to disruptions in China that spill over to the rest of the global economy”

Jerome Powell, Federal Reserve Chair



What would
steepen yield curves imply?

Yield Curve Movements

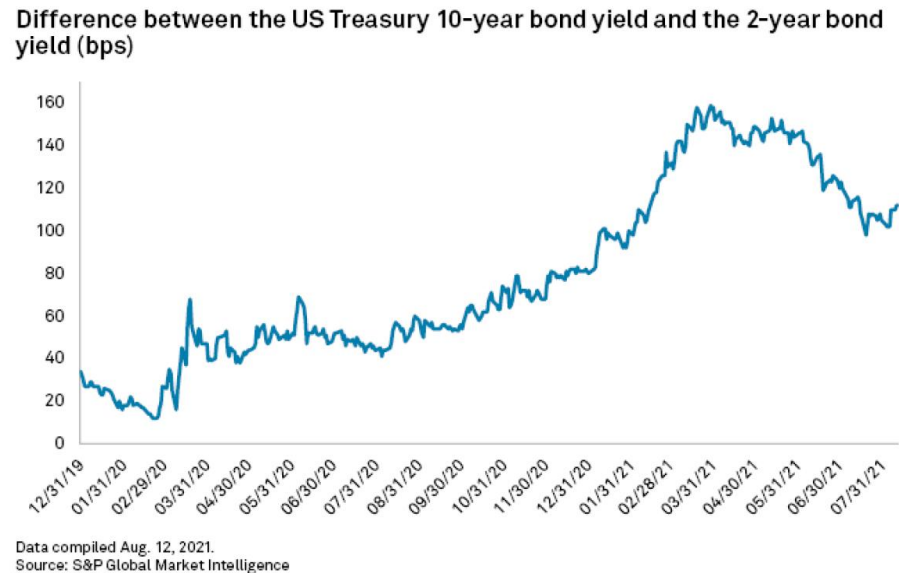
Treasury yield curve steepens as bond market signals economic rebound underway

Analysts say the **steepening curve** — *a linear comparison of interest rates for bonds with different maturities* — is the **government bond market reflecting growing expectations for a robust rebound and a healthy, post-pandemic economy** as longer-maturity yields rise faster than shorter-term yields.

Yield Curve Movements

By early April, the yield curve began to flatten on *slowing vaccination rates, stagnant unemployment, a global supply bottleneck, and fears of the impact of COVID-19 variants.*

The mid-July low *may have been a bottom* and the yield curve may be **facing months of steepening**. The curve will likely continue to steepen as the market *prices in ongoing, rising inflation* and a *Fed gradually moving towards a rate hike.*



The risk of inflation rising also tends to push yields up as investors seek compensation for the potential loss of purchasing power.

Commercial Bank Performance

- a Zooming into Balance Sheet and Income Statement ?

FYE 31 Dec	FY19A	FY20A
BALANCE SHEET (THB m)		
Cash & deposits with banks	46,402.7	39,432.2
Sec. under resale agreements	0.0	0.0
Derivatives financial assets	0.0	0.0
Dealing securities	9,363.0	9,953.2
Available-for-sale securities	0.0	0.0
Investment securities	0.0	0.0
Loans & advances	233,350.4	214,888.0
Financing and advances	0.0	0.0
Central bank deposits	0.0	0.0
Investment in associates/JVs	813.6	804.9
Insurance assets	0.0	0.0
Fixed assets	3,002.5	2,951.4
Intangible assets	329.0	214.3
Other assets	5,043.3	7,199.1
Total assets	298,304.5	275,443.1
Deposits from customers	216,084.5	203,472.8
Deposits from banks & FIs	4,656.1	5,807.6
Derivatives financial instruments	0.0	0.0
Subordinated debt	0.0	0.0
Other securities in issue	25,016.9	12,825.9
Other borrowings	306.9	1,284.7
Insurance liabilities	0.0	0.0
Other liabilities	13,044.0	12,590.0
Total liabilities	259,108.4	235,981.0

Commercial Bank Profitability

Commercial Bank Profitability

FYE 31 Dec	FY19A	FY20A
Share capital	8,006.6	8,006.6
Reserves	31,186.4	31,452.4
Shareholders' funds	39,193.0	39,458.9
Preference shares	0.0	0.0
Minority interest	3.1	3.1
Total equity	39,196.1	39,462.1
Total liabilities & equity	298,304.5	275,443.1

INCOME STATEMENT (THB m)

Pretax profit	9,055.9	7,561.5
Income tax	(1,782.6)	(1,497.7)
Minorities	(2.9)	(0.4)
Discontinued operations	0.0	0.0
Reported net profit	7,270.5	6,063.5
Core net profit	7,270.5	6,063.5

$$ROA_{2019} = \frac{\text{Net Profit after taxes}}{\text{Total Assets}} = \frac{7,270.5}{298,304.5} \times 100 = 2.4$$

$$ROE_{2019} = \frac{\text{Net Profit after taxes}}{\text{Capital}} = \frac{7,270.5}{39,196.1} \times 100 = 18.5$$