

Subzero interest rate trend sends shivers through Asia

Global negative-yield bonds double to \$17tn, posing economic risk

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Central bank officials have expressed interest in Japan's low interest rate policy amid concerns over a global

economic slowdown.

BRUSSELS/LONDON/TOKYO -- Investors and fund managers worldwide are coming to grips with a growing phenomenon: a huge and rapidly expanding pile of negative-yielding debt.

The global stock of bonds with negative yields has doubled since the beginning of the year to around \$17 trillion. Investors are snapping up such debt even though they are guaranteed to suffer a loss if they hold it to maturity, betting

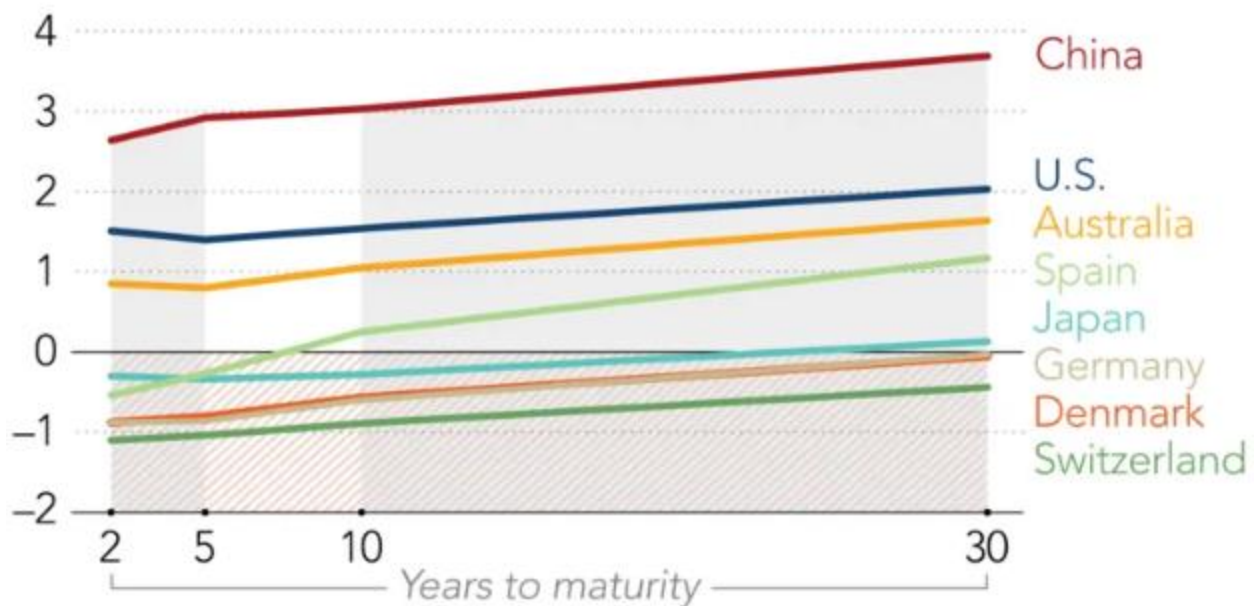
on further rises in bond prices. Speculation is swirling that central banks will further ease their already super-loose monetary policies in response to signs of economic downturns.

In Europe, one bank is even letting homebuyers take out mortgages at a negative rate, which basically means it is willing to pay customers to borrow money. This is fueling concern about a new asset price bubble in the region.

Some economists are warning that the negative rate trend, if it continues to spread, could damage the financial system and the real economy. Asian countries, too, are bracing for an era of endemic negative rates as a result of flagging economic growth.

Negative interest rates stand out in Europe and Japan

Yield on government bonds (in percent)



Source: Refinitiv

Now, a quarter of the world's investment-grade debt securities bear subzero yields. Negative-yielding bonds are proliferating especially in Europe and Japan, where the central banks have pushed down their rates below zero.

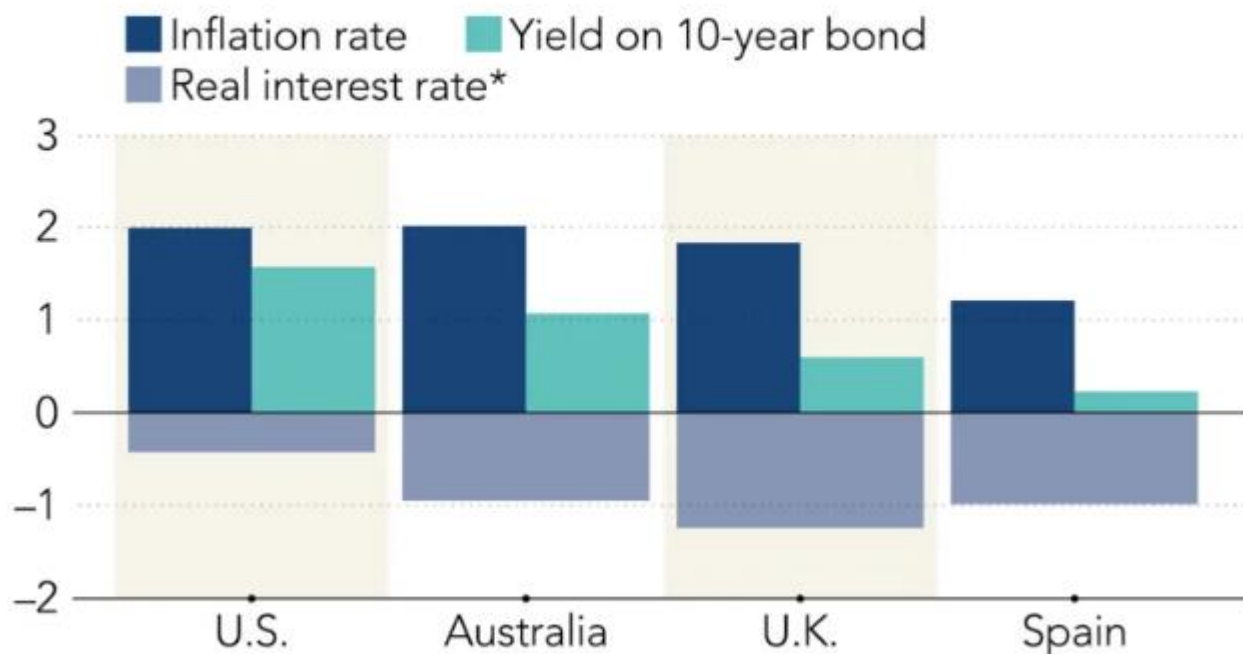
Swiss government bonds, for example, now have negative yields all the way out to 2064, 45 years down the road.

Negative yields occur when bond prices rise to levels above the value of the principal at time of maturity and the stream of interest payments, meaning that bond holders have to pay for the privilege of lending issuers their money.

The yield on 10-year U.S. government bonds is hovering slightly below 1.6%. Adjusted for a projected inflation rate of slightly below 2%, the yield is in negative territory.

In Asia, 10-year Japanese government bonds are offering negative yields. Real government debt yields are also below zero in such Asian markets as Australia, New Zealand, Hong Kong and Taiwan. The same seems to be about to happen in South Korea and Singapore as well.

Real interest rates are also negative in the U.S. and elsewhere *(in percent)*



*Difference between 10-year bond yield and inflation rate
Source: IMF (inflation rate), Refinitiv (bond yield)

In Europe, financial institutions can raise funds at negative costs. And in August, Jyske Bank, Denmark's third-largest bank, started offering a 10-year fixed-rate mortgage with an interest rate of -0.5%, becoming the world's first bank to pay money to mortgage borrowers.

"Right now we have a historic remortgaging on house owners' debt," said Mikkel Hoegh, housing economist at the bank.

Negative borrowing costs are fueling a housing boom in Denmark. The housing price index compiled by Statistics Denmark, the government statistics agency, rose to an all-time high of 116.1 in the first quarter of 2019, using 2015 as a base of 100.

If rising house prices stimulate speculative housing investment, the risk of a bubble will increase.

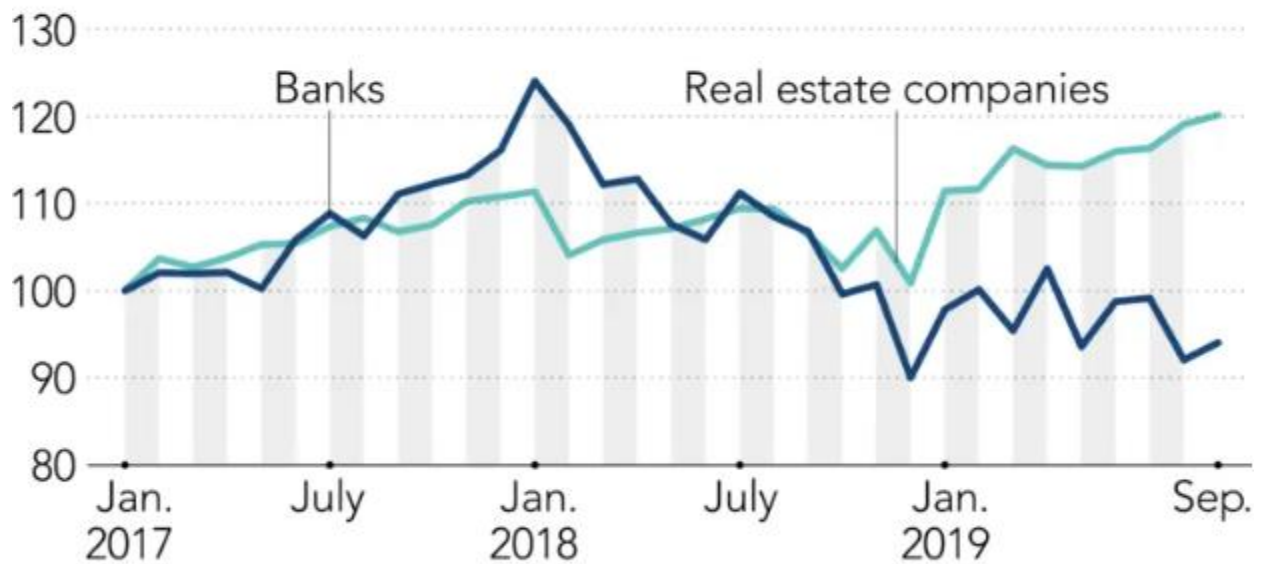
Some economists are sounding the alarm. Excessively low interest rates decimate the profits of banks, forcing them to cut back on lending with negative effects on the economy, warned Markus Brunnermeier, an economics professor at Princeton University.

Brunnermeier is one of the economists promoting the view that a policy rate decline below the so-called "reversal interest rate" -- the rate at which easy monetary policy reverses and starts to provide a disincentive for lending -- depresses rather than stimulates the economy.

The European Central Bank's negative interest rate policy, says the German Savings Banks and Giro Association, cost banks in Germany about 2.3 billion euros (\$2.56 billion) in 2018, equivalent to 10% of their profits in the previous year.

The total market value of banks across the globe has fallen 20% from the beginning of 2018 to \$6.8 trillion.

Bank stocks are falling as real estate stocks continue to climb *(January 2017=100)*



Source: MSCI global equity index for developed nations

Low interest rates can also hit spending by people who depend on interest income, such as senior pensioners.

The ECB and the U.S. Federal Reserve are scheduled to hold policy meetings this and next week and are expected to decide on additional measures to open the monetary taps further.

But the world economy is beginning to falter despite the extremely easy money environment that has been in place since the global financial crisis that started in 2008. This has cast doubt on the conventional wisdom that low interest rates are the answer.

Strong baht deals blow to Pattaya travel

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NEWSPAPER SECTION: [NEWS](#)

WRITER: [CHAIYOT PUPATTANAPONG](#)



The strong baht has taken a heavy toll on European tourist numbers in Pattaya. (Bangkok Post photo)

The strong baht has taken a heavy toll on European tourist numbers in the resort city, according to the Entertainment & Tourism Association of Pattaya City.

"Over the past few months, European travellers have hardly come to Pattaya at all because of the baht's appreciation," said Damrongkiat Phinitkarn, the association secretary.

Tourists are likely opting to go to other countries to save on costs, he said. Additionally, some foreign investors in entertainment venues in Pattaya have begun pulling out, according to Mr Damrongkiat.

He voiced optimism about the government's much-touted Eastern Economic Corridor (EEC) scheme, saying it could help draw foreign tourists to the city, which is close to U-Tapao International Airport.

The scheme covers Chon Buri, Rayong and Chachoengsao provinces. According to him, the number of travellers in Pattaya during this low season has fallen by 20-30% from the same period last year.

The number of Chinese tourists, he said, has also dropped markedly as a result of the boat tragedy in Phuket that claimed 47 Chinese lives in July last year. Amporn Kaewsang, one of the managers of The Stones House, an entertainment venue on Pattaya's Walking Street, said Indian tourists are replacing European travellers.

She also noted that a number of beer bars have closed as a result of the disappearing Europeans. She said bar operators should respond to the currency problem by marketing to bring travellers back.

She said local operators are pinning their hopes that the EEC project will spur economic development and bring people back to Pattaya.

Central, China's JD.com launch financial services app Dolfin

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WRITER: [REUTERS](#)



Central Group and China's JD.com launch an financial services app, Dolfin, to expand services with local banks. (File photo)

Thailand's largest retailer, Central Group, and China's JD.com on Monday launched a financial services app to expand services with local banks in the latest move by the mall operator to increase its digital presence.

The app, called Dolfin, will include an e-wallet function, digital lending platform, as well as insurance and wealth management, the joint venture, JD Central Fintech, said.

"We aim to have 400,000 users by the end of the year and 1.5 million next year," Chief Executive Rungruang Sukkirdkijpiboon, said in an interview.

Siam Commercial Bank Plc, Kasikornbank Plc and Bangkok Bank Plc are partners and the Bank of Ayudhya will join later, he said adding that the platform will help banks tailor insurance and mutual fund products for its customers.

The announcement comes as Thai companies roll out financial services partnerships with e-commerce platforms and ride-hailing services.

Last week, the country's largest lender, SCB, announced a partnership to expand digital lending and payments with Sea Thailand, a unit of Tencent-backed Sea Group.

Dolfin is able to process credit cards payments, the government's e-payment system, PromptPay and also top up its e-wallet, he said

A merchant version of the app will be rolled out next year for small businesses and Central's mall tenants, Rungruang said, adding that merchant data can be used to support bank loans.

JD Central Fintech is part of Central's \$500 million joint venture with China's second largest e-commerce platform JD.com in Thailand, which

also has a separate e-commerce unit that competes with other online shopping platforms such as Alibaba's Lazada and Sea Group's Shopee in Thailand, both of which have digital wallets.

Central Group, owned by the billionaire Chirativat family, plans to file for the listing of Central Retail Crop by the year-end. Refinitiv IFR has pegged the IPO size at between \$1 billion and \$2 billion.