

Thailand—Update

Yield Movements

The Thai government's bond yield curve steepened in September from June 2009 levels, reflecting the pressure of expanding supply as a result of new government bonds and private debentures (**Figure 1**). The spread between the 2- and 10-year government benchmark yields widened from 153 basis points in June to 198 basis points at end-September 2009, reflecting signs of economic recovery and rising stock prices.

Since April, the Bank of Thailand (BOT) has kept its policy rate—the 1-day repurchase rate—at the 5-year low of 1.25%. Sectors such as manufacturing, export, and tourism have shown signs of improvement, as monetary policy and fiscal stimulus measures support economic recovery. Gross domestic product (GDP) shrank 4.9% year-on-year (y-o-y) in 2Q09 after contracting 7.1% in 1Q09. Annual GDP growth in 2009 is projected to range between -3.5% and -2.5%.

Meanwhile, consumer price inflation for the month of September was at -1.0% y-o-y, which was the

same level as in August. This is the ninth straight month that consumer prices dropped due mainly to lower fuel and transportation costs. Inflation for the whole year is expected to range between -1.5% and -0.5%.

Size and Composition

As of September, total local currency (LCY) bonds outstanding in Thailand reached THB5.8 trillion, increasing 15.8% y-o-y and 6.2% on a quarter-on-quarter (q-o-q) basis (**Table 1**). Government bonds were up 13.1% y-o-y and 6.6% q-o-q, with the total amount outstanding worth THB4.6 trillion. Treasury bonds represented 52.0% of total government bond outstanding, while central bank bonds and state enterprise bonds accounted for 36.0% and 12.0%, respectively. Meanwhile, the value of corporate bonds outstanding in September grew 27.2% y-o-y and 5.0% q-o-q.

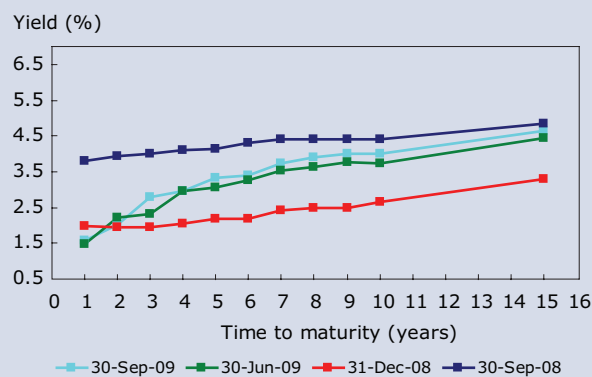
The Thai Finance Ministry has allowed three foreign entities to issue local currency bonds in the Thai debt market. The Commonwealth Bank of Australia (CBA) issued THB2 billion each of 4-year and 7-year bonds. The Swedish Export Credit Corporation (SEK) issued THB2 billion each of 3-year and 7-year bonds. Finally, Agence Francaise de Developpement (AFD) issued THB2.2 billion of 3-year bonds as well as THB1.8 billion of 7-year bonds.

As of September, more than half of the total LCY corporate and state-owned enterprise (SOE) bonds had been issued by the top 10 corporate and SOE issuers. Issuers were mainly from the industrial and financial sectors (**Table 2**).

Investor Profile

Commercial banks (26.4%) remain the largest holders of Thai government bonds, including domestically-registered commercial banks and

Figure 1: Benchmark Yield Curve—Local Currency Government Bonds



Source: Bloomberg LP.

Table 1: Size and Composition of Local Currency Bond Market in Thailand

	Amount (billion)						Growth Rate (%)								
	Jun-09		Jul-09		Aug-09		Jun-09		Jul-09		Aug-09		Sep-09		
	THB	USD	THB	USD	THB	USD	y-o-y	q-o-q	m-o-m	y-o-y	q-o-q	m-o-m	y-o-y	q-o-q	m-o-m
Total	5,419.4	159.0	5,599.3	164.6	5,616.5	165.1	7.8	3.6	3.3	7.8	3.6	0.3	15.8	6.2	2.5
Government	4,280.0	125.6	4,432.4	130.3	4,424.6	130.1	5.6	1.6	3.6	5.6	1.6	(0.2)	13.1	6.6	3.1
Treasury Bonds	2,241.9	65.8	2,368.9	69.6	2,387.8	70.2	13.1	2.5	5.7	13.1	2.5	0.8	19.8	6.2	(0.3)
Central Bank Bonds	1,521.8	44.6	1,546.7	45.5	1,514.5	44.5	(4.3)	(0.1)	1.6	(4.3)	(0.1)	(2.1)	7.6	8.4	9.0
State Enterprise Bonds & Other Bonds	516.3	15.1	516.8	15.2	522.3	15.4	7.3	2.9	0.1	7.3	2.9	1.1	3.7	2.7	1.6
Corporate	1,139.4	33.4	1,166.9	34.3	1,191.9	35.0	17.1	11.8	2.4	17.1	11.8	2.1	27.2	5.0	0.3

y-o-y = year-on-year, q-o-q = quarter-on-quarter, m-o-m = month-on-month.

Note:

1. Calculated using data from national sources.

2. Bloomberg end-of-period LCY-USD rates are used.

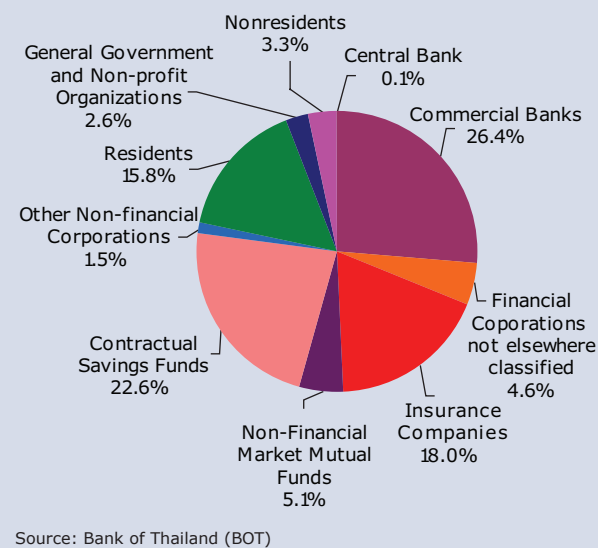
3. Growth rates are calculated from LCY base and do not include currency effects.

Source: Bank of Thailand (BOT) and Bloomberg LP.

Table 2: Top 10 Corporate and SOE Issuers as of September 2009 (THB billion)

Issuer	Amount Outstanding
1. PTT (parent oil company)	184.2
2. Siam Cement	114.0
3. Bank of Ayudhya	67.6
4. PTT Exploration & Production	58.5
5. Krung Thai Bank	50.3
6. Thai Airways	47.8
7. Kasikorn Bank	29.6
8. Toyota Laasing	28.8
9. True Corporation	25.3
10. DAD SPV	24.0
Total—Top 10	630.1
Total—Corp. and SOE Bond Outstanding	1,132.1
% of Total Corp. and SOE Bond Outstanding	55.7

Source: Bloomberg LP.

Figure 2: Local Currency Government Bonds Investor Profile (September 2009)

branches of foreign banks (**Figure 2**). Contractual savings funds came in as the second-largest bondholders of government bonds with 22.6%, followed by insurance companies (18.0%), residents (15.8%), non-financial market mutual funds (5.1%), financial corporations not elsewhere classified (4.6%), nonresidents (3.3%), general government and nonprofit organizations (2.6%), other non-financial corporations (1.5%) and the central bank (0.1%).

Rating Changes

Moody's announced in September that its negative outlook on Thailand will be maintained because of "ongoing concerns over the country's political stability," but pointed out that Thailand's credit

Table 3: Selected Sovereign Ratings and Outlook for Thailand

	Moody's	S&P	Fitch
Sovereign FCY LT Ratings	Baa1	BBB+	BBB
Outlook	negative	negative	stable

FCY = foreign currency and LT = long-term.

Source: Rating agencies.

fundamentals have held up well since late 2006.

Policy, Institutional and Regulatory Developments

ThaiBMA to Explore Municipal Bonds

In early October, the Thai Bond Market Association (ThaiBMA) was considering expanding the role of municipal bonds in the development of Thailand's bond market. ThaiBMA lists municipalities that could potentially raise funds for local infrastructure investment through issuance of bonds (e.g., Phuket and Pattaya). However, current government regulations limit bond issues to only 10% of a municipality's total budget.

BOT Plans to Raise Offshore Investment Ceiling

In September, the Bank of Thailand announced plans to increase the offshore investment ceiling of institutional investors as the current ceiling of USD30 billion might soon be exhausted. To date, the Securities and Exchange Commission (SEC) has approved USD20.7 billion of overseas investments, which are mostly directed to Korean fixed-income funds. Institutional investors are likely to expand their holdings of longer maturities as they seek higher returns, according to BOT.