

Thailand—Update

Yield Movements

Thai government bond yields dropped for most maturities between end-December 2009 and mid-February (**Figure 1**). At the shorter-end of the curve, yields declined for 3- and 5-year maturities, narrowing 7 and 17 basis points, respectively. Meanwhile, the yield curve flattened by as much as 53 basis points from the belly through the longer-end of the curve. As a result, the spread between 2- and 10-year bonds narrowed to 178 basis points on 12 February from 207 basis points at end-December.

The downward shift in the yield curve reflects investor perceptions of modest growth in 2010 and expectations that the Bank of Thailand (BOT) will not raise the policy rate (1-day repo rate) until the second half of 2010, even though the market expects a modest rise in inflation this year. BOT's Monetary Policy Committee (MPC) maintained the repurchase rate at the current level of 1.25% in March.

Thailand's economy expanded 5.8% year-on-year (y-o-y) in 4Q09, driven by exports, but still contracted 2.3% for all of 2009. Signs of improvement were notable during the second half

of the year as quarter-on-quarter (q-o-q) gross domestic product (GDP) growth recovered from -4.9% in 2Q09 to -2.8% in 3Q09, mainly due to gains in private consumption, tourism, exports, and agriculture. Thailand's GDP is expected to grow 3.5% in 2010, with government spending and private sector recovery likely to be the main forces driving the economy.

Consumer price inflation stood at 3.7% y-o-y in February, a modest decline from 4.1% y-o-y in January. BOT's MPC expects that inflation will further accelerate in 2010 as the Thai government ends its subsidy measures and oil prices continue to rise. The flattening of the government bond yield curve from its belly through the longer-end indicates that investors are not factoring expectations of higher inflation data.

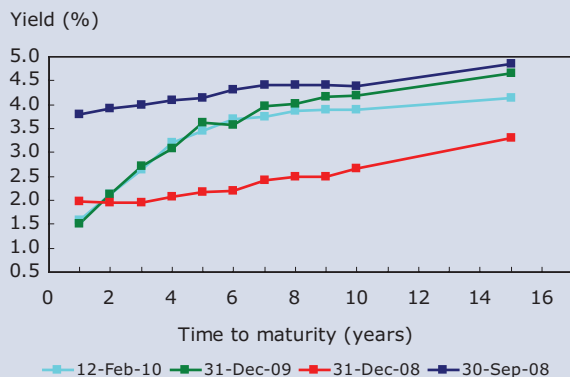
Size and Composition

The amount of local currency (LCY) bonds outstanding in Thailand stood at THB5.9 trillion (USD176.8 billion) at end-December, climbing 20.5% y-o-y and 2.5% q-o-q (**Table 1**).

Government bonds in 4Q09 were up 21.0% y-o-y and 3.3% q-o-q, with the total amount outstanding valued at THB4.7 trillion. The amount of Treasury bonds, which represented half of total government bonds outstanding, grew 22.3% y-o-y, yet contracted 0.8% q-o-q, to stand at THB2.4 trillion at end-December. Similarly, state-owned enterprise and other bonds rose 6.5% y-o-y, but shrank 0.1% q-o-q. Central bank bonds stood at THB1.8 trillion for an increase of 24.2% y-o-y and 10.3% q-o-q.

On 16 February, the Thai government approved the issuance of THB100 billion of government savings bonds with a 6-year maturity. The bonds will be offered at a premium to current market yields with a step-up coupon rate. The Thai government imposed a delay on the issuance until further notice due to current domestic political uncertainties and the upcoming Songkran holidays. Subscription was initially scheduled from 29 March to 5 April.

Figure 1: Thailand's 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 (%)														
	Sep-09		Oct-09		Nov-09		Dec-09		Sep-09		Oct-09		Nov-09		Dec-09						
	THB	USD	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	5,757.2	172.1	5,826.9	174.3	5,836.7	175.6	5,901.9	176.8	15.8	6.2	1.2	20.5	2.5	1.1	13.1	6.6	1.8	21.0	3.3	1.6	
Government	4,561.3	136.4	4,645.5	139.0	4,639.1	139.6	4,711.9	141.1	19.8	6.2	0.0	(1.1)	22.3	(0.8)	7.6	8.4	5.1	24.2	10.3	3.6	
Treasury Bonds	2,380.5	71.2	2,381.5	71.2	2,355.0	70.9	2,362.1	70.7	3.7	2.7	(0.1)	(0.4)	6.5	(0.1)	27.2	5.0	(1.2)	18.8	(0.5)	(0.6)	
Central Bank Bonds	1,650.3	49.3	1,733.8	51.9	1,756.0	52.8	1,819.7	54.5													
State Enterprises Bonds & Other Bonds	530.4	15.9	530.1	15.9	528.1	15.9	530.1	15.9													
Corporate	1,195.9	35.8	1,181.5	35.3	1,197.5	36.0	1,190.0	35.6													

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

Notes:

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.

Proceeds from the issuance will be used to refinance loans borrowed for the Thai Khem Khaeng Program. Thai Khem Khaeng (Strong Thailand) is the government's second-stage stimulus program, with a total budget of THB1.4 trillion (USD42 billion), that aims to fund a range of social and infrastructure development projects in the transport, irrigation, health, and education sectors.

The stock of corporate bonds outstanding as of end-December rose 18.8% y-o-y to THB1.2 trillion. On a q-o-q and month-on-month (m-o-m) basis, however, total corporate bonds contracted 0.5% and 0.6%, respectively.

As of end-December, the top 10 corporate and SOE issuers in Thailand were mainly from the industrial and financial sectors, which together represented 48.6% of total LCY corporate and SOE bonds (**Table 2**).

Krung Thai Bank, Thailand's second-largest lender, sold THB13 billion of subordinated bonds in October. The 10-year bonds carried a coupon rate of 4.8%. Proceeds will be used to refinance existing debt and provide working capital. Siam Cement, Thailand's biggest industrial conglomerate, sold THB10 billion of senior unsecured bonds in October.

Table 2: Top 10 Corporate and SOE Issuers as of December 2009

Issuer	Amount Outstanding (THB billion)
1. PTT (parent oil company)	115.2
2. Siam Cement	110.0
3. Government Housing Bank	88.1
4. Electricity Generating Authority of Thailand	80.4
5. Expressway Authority of Thailand	73.2
6. Bank of Ayudhya Public Ltd.	67.6
7. State Railway of Thailand	67.3
8. Krung Thai Bank PCL	63.3
9. Provincial Electricity Authority of Thailand	61.3
10. PTT Exploration and Production PCL	58.5
Total - Top 10	785.0
Total - Corp. and SOE Bond Outstanding	1,616.7
% of Total Corp. and SOE Bond Outstanding	48.6

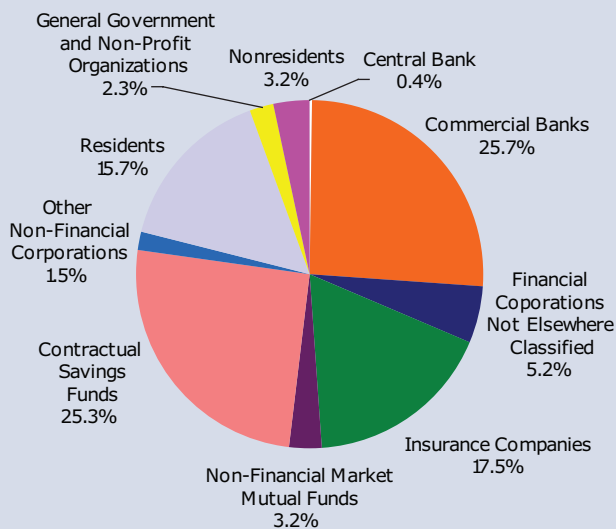
SOE = state-owned enterprise.
Source: Bloomberg LP.

The 4-year bonds carried a coupon rate of 4.15%. Proceeds will be used as part of a plan to refinance existing bonds worth THB25 billion that were due for redemption in 2009. Thanachart Capital sold THB9 billion of 5-year senior unsecured bonds with a 4.9% coupon, while Thai Military Bank sold THB5.3 billion of 10-year unsecured bonds with a 5.0% coupon.

Investor Profile

As of end-December, commercial banks remained the largest holder of Thai government bonds (25.7%), which stood at THB606.6 billion (**Figure 2**). Contractual savings funds were the second-largest holder of government bonds with a 25.3% share, followed by insurance companies (17.5%), residents (15.7%), and financial corporations not elsewhere classified (5.2%). Non-financial market mutual funds and nonresidents each had a 3.2% share of total bonds. Meanwhile, general government and non-profit organizations, other non-financial corporations, and Thailand's central bank held shares of 2.3%, 1.5%, and 0.4%, respectively.

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



Source: Bank of Thailand (BOT).

Policy, Institutional, and Regulatory Developments

Bank of Thailand Lifts Capital Outflow Controls

In February 2010, Thailand further relaxed foreign exchange regulations pertaining to investments abroad, foreign exchange hedging transactions, and corporate treasury centers. Thai firms are now allowed to freely make direct investments overseas. The size of portfolio investments allocated to investors and under the supervision of the Securities and Exchange Commission (SEC) has been expanded from USD30 billion to USD50 billion. Exporters and importers in Thailand can now unwind their foreign exchange hedging transactions without seeking permission. Also, an existing firm can set up a corporate treasury center and transfer foreign currencies between the treasury center and its affiliated firms located in Thailand. In addition, Thailand has raised the limit for the purchase of immovable properties overseas for Thai individuals from USD5 million per year to USD10 million per year and is allowing Thai companies to lend up to USD50 million to non-affiliated companies overseas.

Bank of Thailand Releases Financial Sector Master Plan Phase II

In November 2009, the Thai Economic Cabinet, Ministry of Finance, and BOT released the second phase of the Financial Sector Master Plan (FSMP), which aims to boost the efficiency of financial institutions over the period 2010–2014. The plan includes reducing system-wide operating costs, promoting competition and financial access, and strengthening financial infrastructure. An FSMP Implementation Committee will be formed once the cabinet approves the principles stipulated in the plan.