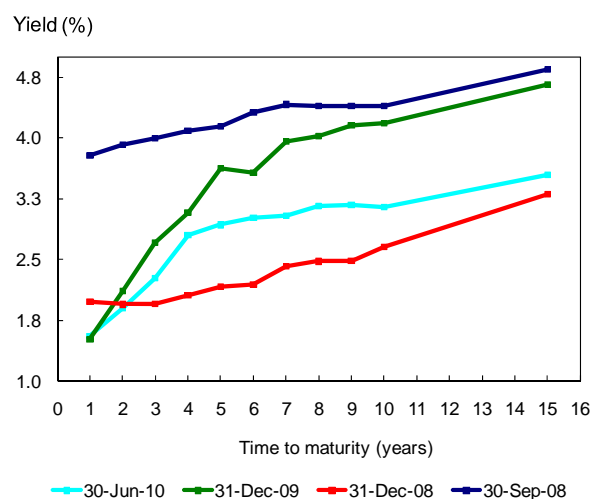


Thailand—Update

Yield Movements

Thai government bond yields dropped for all maturities between end-December 2009 and end-June 2010 (**Figure 1**). From the belly to the longer end of the curve, yields declined by as much as 103 basis points. As a result, the spread between 2- and 10-year bonds narrowed to 125 basis points in end-June from 207 basis points at end-December.

Figure 1: Thailand's Benchmark Yield Curve – Local Currency Government Bonds



Source: Bloomberg LP.

The downward shift in the yield curve reflects 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 maintained the repurchase rate at the current level of 1.25% on 2 June. The yield curve's declining trend also reflects investors moving to safe-haven assets on concerns over the tumultuous political situation.

Thailand's economy expanded 12.0% year-on-year (y-o-y) in 1Q10, compared with 5.8% y-o-y growth in 4Q09. The Thai economy's first quarter expansion was the most since 1995 as household consumption, private investment, and exports continued to improve despite simmering political instability. Thailand's gross domestic product (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 3.5% y-o-y in May, up from 3.0% in April. Higher food prices, particularly fresh fruits and vegetables, lifted consumer prices. Core inflation, which excludes volatile energy and food prices, rose to 1.2% in May compared with 0.5% in April. BOT's Monetary Policy Committee 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 in expectations of higher inflation.

Size and Composition

The amount of local currency (LCY) bonds outstanding in Thailand stood at THB6.2 trillion (USD191 billion) at end-March, climbing 18.1% y-o-y and 4.7% q-o-q (**Table 1**).

Government bonds in 1Q10 were up 17.9% y-o-y and 5.4% q-o-q, with the total amount outstanding valued at THB5 trillion. The amount of treasury bonds, which represented half of total government bonds outstanding, grew 13.0% y-o-y and 4.6% q-o-q to stand at THB2.5 trillion at end-March. Similarly, central bank bonds stood at THB2 trillion for an increase of 29.6% y-o-y and 8.4% q-o-q. State-owned enterprise and other bonds rose 3.8% y-o-y, but shrank 1.7% q-o-q.

In 1Q10, the majority of Thai government bond issues were treasury bills and Bank of Thailand bills. Notable issues included a series of 14-day Bank of Thailand bills worth between THB50 billion and THB65 billion.

In January, the state-owned Export-Import Bank of Thailand (EXIM Thailand) issued USD200 million worth of 5-year floating-rate bonds. EXIM Thailand appointed Daiwa and Mizuho as joint lead managers. Proceeds from the bond issue will be used to refinance EXIM Thailand's maturing debt in 2010 and to support business expansion.

Table 1: Size and Composition of Local Currency Bond Market

	Amount (billion)								Growth Rate (%)							
	Dec-09		Jan-10		Feb-10		Mar-10		Dec-09		Jan-10		Feb-10		Mar-10	
	THB	USD	THB	USD	THB	USD	THB	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m	
Total	5,901.9	176.8	6,053.1	182.4	6,138.6	185.8	6,178.1	191.0	20.5	2.5	2.6	1.4	18.1	4.7	0.6	
Government	4,711.9	141.1	4,862.0	146.5	4,931.8	149.3	4,964.7	153.5	21.0	3.3	3.2	1.4	17.9	5.4	0.7	
Treasury Bonds	2,362.1	70.7	2,410.5	72.6	2,439.0	73.8	2,471.0	76.4	22.3	(0.8)	2.0	1.2	13.0	4.6	1.3	
Central Bank Bonds	1,819.7	54.5	1,921.3	57.9	1,965.3	59.5	1,972.8	61.0	24.2	10.3	5.6	2.3	29.6	8.4	0.4	
State Enterprises Bonds & Other Bonds	530.1	15.9	530.2	16.0	527.5	16.0	520.9	16.1	6.5	(0.1)	0.0	(0.5)	3.8	(1.7)	(1.3)	
Corporate	1,190.0	35.6	1,191.1	35.9	1,206.8	36.5	1,213.4	37.5	18.8	(0.5)	0.1	1.3	19.0	2.0	0.5	

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.

In April, the Thai Ministry of Finance approved five international financial institutions (IFIs) to issue THB-denominated bonds worth up to THB4 billion each in tenors of more than 3 years. The IFIs include Australia and New Zealand Banking Group Limited, Deutsche Bank, International Finance Corporation, Export-Import Bank of Korea, and the Bank of Nova Scotia.

During the week of 7–11 June, the government sold THB80 billion of public savings bonds. The 6-year bonds will pay an annual yield of 3.0% for the first and second years, 4.0% for the third and fourth years, and 5.0% for the fifth and sixth years. Raised funds will be used to finance infrastructure projects under the Thai Khem Khaeng economic stimulus program.

The stock of corporate bonds outstanding as of end-March rose 19% y-o-y to THB1.2 trillion. On a q-o-q and month-on-month (m-o-m) basis, total corporate bonds grew 2.0% and 0.5%, respectively.

Thus far in 2010, several Thai corporations issued Thai denominated bonds:

February

- Ayudhya Capital sold THB7 billion of 3-year bonds with a coupon of 3.33%.
- PTT PCL sold a total of THB6.636 billion of 7- and 12-year bonds.

March

- Krung Thai Bank sold THB10.4 billion of 10-year subordinated bonds. The bonds will

pay a coupon of 4.35% in the first 5 years and 5.5% onwards.

- Home developer Land and Houses sold a combined THB3 billion worth of 3-year bonds. The THB2 billion issue will pay a coupon of 3.0%, while the THB1 billion bonds offer 3.4%.
- Bangkok Expressway issued 3- and 7-year bonds worth THB1 billion and THB1.5 billion, respectively. Proceeds of the bond issue will be used to refinance its debt this year.
- Toyota Leasing Thailand also issued senior and guaranteed bonds worth THB2.15 billion. The 3-year bonds will pay a fixed rate of 3.0%. Bangkok Bank, Kasikorn Bank, and Standard Chartered are the lead arrangers. Tris rated the issue with a AAA rating.

April

- Thanachart Bank issued 10-year subordinated bonds worth THB6 billion to the public and institutional investors. The bonds carry a coupon of 5.0% for the first 5 years and 5.5% for the remaining years.
- Siam Cement sold THB10 billion worth of 4-year bonds. Proceeds will be used to refinance its maturing bonds.
- Thai Military Bank sold THB8 billion worth of 10-year bonds.
- Glow Energy issued THB8 billion worth of 2-, 7- and 9-year bonds.

May

- Ayudhya Capital issued THB5 billion worth of 4-year bonds with a coupon of 3.68%.

Planned issuances for the rest of the year are listed below:

- Kiatnakin Bank plans to sell THB5 billion–THB6 billion worth of bonds.
- PTT plans to raise about THB30 billion–THB40 billion through loans and bond issues this year.
- Property development firm Supalai plans to sell up to THB5 billion in bonds this year to finance expansion.
- Krungthai Card plans to sell THB10 billion worth of bonds in both 2010 and 2011, mainly to refinance debt, with about THB10 billion in debt due this year.
- Siam Future Development plans to sell bonds worth THB940 million for refinancing.
- Quality Houses plans to sell up to THB4 billion of bonds this year for debt refinancing. The issue is part of the company's plan to sell bonds worth THB5 billion–THB10 billion, subject to shareholder approval.
- PTT Exploration and Production plans to sell a USD-denominated bond this year to match rising USD-based spending on investments and debt refinancing.

As of end-March, the top 10 corporate and state-owned enterprise (SOE) issuers in Thailand were mainly from the industrial and financial sectors, which together represented 50.7% of total LCY corporate and SOE bonds (**Table 2**).

Investor Profile

As of end-March, contractual savings funds were the largest holder of Thai government bonds (26.4%), which stood at THB651.6 billion (**Figure 2**). Commercial banks were the second-largest holder of government bonds with a 24.1% share, followed by insurance companies (17.3%), residents (14.9%), and financial corporations not elsewhere classified (5.5%). Nonresidents had a 3.9% share and non-financial market mutual funds had a 3.5% share of total bonds. Meanwhile, general government and non-profit organizations, other non-financial corporations, and Thailand's central bank held shares of 2.2%, 1.6%, and 0.7%, respectively.

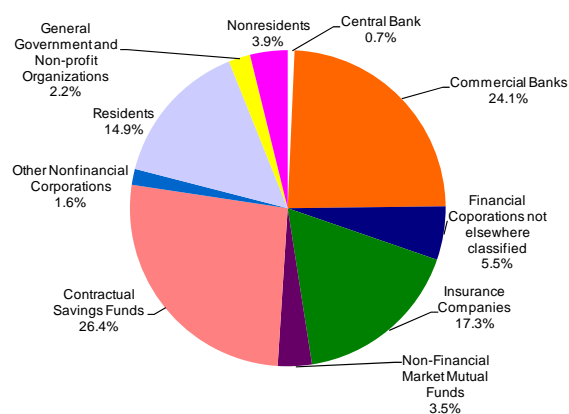
Table 2: Top 10 Corporate and SOE Issuers as of June 2009 (THB Bn)

Issuer	Amount Outstanding (THB billion)
1. PTT (parent oil company)	162.8
2. Siam Cement	110.0
3. Government Housing Bank	88.1
4. Electricity Generating Authority of Thailand	80.4
5. Krung Thai Bank PCL	73.7
6. Expressway Authority of Thailand	70.7
7. State Railway of Thailand	68.3
8. Provincial Electricity Authority of Thailand	62.8
9. Bank of Ayudhya Public Ltd.	57.1
10. PTT Exploration and Production PCL	55.0
Total - Top 10	829.0
Total - Corp. and SOE Bond Outstanding	1,635.3
% of Total Corp. and SOE Bond Outstanding	50.7

SOE = state-owned enterprise.

Source: Bloomberg LP.

Figure 2: Local Currency Government Bonds Investor Profile (March 2010)



Source: Bank of Thailand (BOT)

Policy, Institutional and Regulatory Developments

Public Debt Management Office of Thailand Plans Further Development of Thai Bond Market

The Public Debt Management Office of Thailand (PDMO) plans to increase liquidity in the Thai government bond market, particularly for

5- and 10-year bonds, to help establish a benchmark for the market. The PDMO also plans to develop the longer end of the yield curve by issuing 20- and 30- year bonds. The PDMO will continue to issue public savings bonds and plans to issue index-linked bonds and floating-rate notes. Future plans also entail developing a broader macroeconomic database that includes economic growth forecasts and exchange rate movements with links to Reuters and Bloomberg.

SEC Approval and Credit Rating Required From State Enterprises and Government Agencies

The Securities and Exchange Commission (SEC) of Thailand announced a regulation that requires state enterprises and government agencies to obtain SEC approval and a credit rating before issuing bonds. This is the same rule that private companies comply with when issuing debt instruments. The Thai Finance Ministry has been reducing the financial dependency of state enterprises and state agencies on the central government by trimming down guaranteed debts and signaling that they need to take responsibility for their own financing instead of relying on the government.

SEC Allows FX Bonds

The SEC has approved, in principle, the issuance of foreign-currency-denominated bonds by both Thai and foreign issuers to domestic investors. Existing rules only allow foreign issuers to issue USD-denominated bonds to Thai commercial banks. Issuers are keen on issuing USD-denominated bonds domestically as this helps lower the cost of funding. Among these issuers are PTT Exploration and Production, Bangkok Bank, and Siam Commercial Bank.

Thai Cabinet Approves Draft Securities Bill

The Thai Council of Ministers approved a draft securities bill that allows the demutualization of the Stock Exchange of Thailand (SET). The bill will pass through the National Economic and Social Development Board and the Commerce Ministry for scrutiny. The SET will be the trading center and the SEC will be in charge of capital market development and rule formulation. The Finance Ministry proposed the amendment in

order to better connect Thailand's financial markets with the global economy and to better manage the free flow of investments.