

Thailand—Update

Yield Movements

The Thai government bond yield curve flattened from the belly to the long-end of the curve between end-December 2009 and mid-August 2010 (**Figure 1**). Yields rose by as much as 48 basis points at the short-end of the curve, while yields declined by as much as 108 basis points from the belly to the long-end. The yield spread between 2- and 10-year bonds narrowed to 88 basis points in mid-August from 207 basis points at end-December.

The flattening of the yield curve reflected recent policy rate hikes from the Bank of Thailand (BOT), as investors demanded safer assets due to concerns over the slowing global economic recovery. The BOT raised its 1-day repurchase rate by 25 basis points to 1.75% on 25 August. The August increase followed the first rate hike in 2 years on 14 July.

Inflation remains modest at present, although an increase is expected next year in line with economic expansion and increasing production costs. Consumer price inflation stood at 3.4% year-on-year (y-o-y) in July, compared with 3.3% in June, as food and energy prices continued to

climb. Inflation is expected to slow in the coming months as the supply of agricultural products increases, oil prices stabilize, and interest rates rise.

Thailand's economy expanded 9.1% y-o-y in 2Q10, compared with 12.0% in 1Q10. The dramatic turnaround from the first half of 2009 was driven by strong export growth despite political uncertainties in April and May. Thailand's gross domestic product (GDP) is expected to grow 6.5%–7.5% in 2010 and 3.0%–5.0% in 2011.

Size and Composition

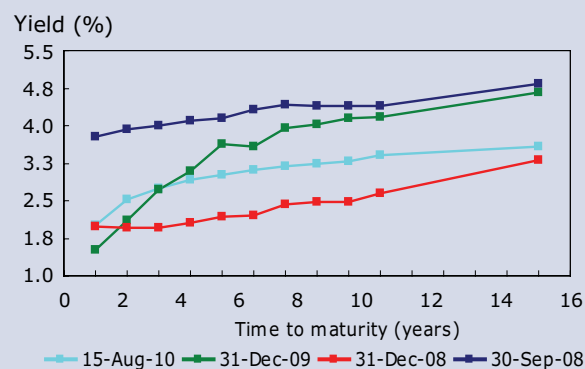
At the end of June, the size of Thailand's total local currency (LCY) bond market had expanded 18.4% y-o-y, with the volume of bonds outstanding amounting to THB6.4 trillion (USD198 billion) (**Table 1**). Total bonds outstanding grew 3.9% quarter-on-quarter (q-o-q) in 2Q10.

Thai government bonds were up 21.0% y-o-y at the end of June for a total outstanding amount of THB5.2 trillion (USD160 billion). BOT bonds recorded the highest growth rate of 37.8% y-o-y as of end-June, with total bonds outstanding of THB2.1 trillion, followed by treasury bonds, which posted a 14.5% y-o-y growth rate with total bonds outstanding of THB2.6 trillion. State-owned enterprise and other bonds, however, declined 0.4% over the same period to THB514 billion.

The Public Debt Management Office (PDMO) announced in June that a planned THB104 billion bond issuance, which is aimed at deepening the bond market, would push through in the fourth quarter of fiscal year 2009/10. The planned issue will bring the full year issuance of government bonds to THB434 billion from an initial target of THB386 billion.

The Thai government plans to issue more types of bonds in 2010, including public savings bonds and Islamic bonds (*sukuk*). Following several

Figure 1: Thailand's Benchmark Yield Curve—LCY Government Bonds



LCY = local currency.
Source: Bloomberg LP.

Table 1: Size and Composition of the LCY Bond Market in Thailand

	Amount (billion)						Growth Rate (%)										
	Mar-10		Apr-10		May-10		Jun-10		Mar-10		Apr-10		May-10		Jun-10		
	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	6,178.1	191.0	6,191.7	191.5	6,185.9	190.3	6,419.0	198.0	18.1	4.7	0.2	18.4	3.9	0.1	18.4	3.9	3.8
Government	4,964.7	153.5	4,950.4	153.1	4,934.5	151.8	5,177.5	159.7	17.9	5.4	(0.3)	21.0	4.3	(0.3)	21.0	4.3	4.9
Treasury Bonds	2,471.0	76.4	2,456.0	75.9	2,462.6	75.7	2,566.7	79.2	13.0	4.6	(0.6)	14.5	3.9	0.3	14.5	3.9	4.2
Central Bank Bonds	1,972.8	61.0	1,975.8	61.1	1,954.9	60.1	2,096.8	64.7	29.6	8.4	0.2	37.8	6.3	(1.1)	37.8	6.3	7.3
State-owned Enterprise & Other Bonds	520.9	16.1	518.5	16.0	517.0	15.9	514.0	15.9	3.8	(1.7)	(0.5)	(0.4)	(1.3)	(0.3)	(0.4)	(1.3)	(0.6)
Corporate	1,213.4	37.5	1,241.3	38.4	1,251.4	38.5	1,241.4	38.3	19.0	2.0	2.3	9.0	2.3	0.8	9.0	2.3	(0.8)

LCY = local currency, 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.

months of delay due to political tensions, the Thai government sold THB80 billion in savings bonds in June out of a planned total of THB100 billion. The 6-year bonds pay an average annual yield of 4.17%. Proceeds from the issue will be used to finance infrastructure projects under the Thai Khem Khaeng economic stimulus program. Also, the Islamic Bank of Thailand is planning to issue THB5 billion worth of *sukuk* in 4Q10. Target buyers are domestic and international institutional investors, including Malaysian firms doing business in Thailand. Proceeds from the bond issue will finance lending expansion and capital base restructuring.

Thai corporate bonds outstanding at the end of June stood at THB1.2 trillion (USD38.3 billion), up 9.0% y-o-y and 2.3% q-o-q. New issuance in 2Q10 declined 5.2% y-o-y to THB275 billion, but increased 37.1% on a q-o-q basis. Notable THB-denominated corporate bond issues in 2Q10 included Bank of Ayudhya's THB20 billion of 10-year subordinated bonds, Siam Cement's THB10 billion of 4-year bonds, and Thai Military Bank's THB8 billion worth of 10-year bonds. Thanachart Bank also issued 10-year subordinated bonds worth THB6 billion to the general public and institutional investors.

In April, the Thai Ministry of Finance granted approval to five international financial institutions (IFIs) to issue THB-denominated bonds worth up to THB4 billion each and with 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.

In August, the Thai Finance Ministry granted approval to three Korean firms to issue a total of THB14 billion in bonds in the Thai bond market before the end of 2010. Industrial Bank of Korea and Korea Development Bank have each been granted permission to issue THB5 billion in bonds, while Korea Water Resources Corp. has been permitted to issue THB4 billion in bonds.

The following corporations have bond issues in the pipeline for the second half of 2010:

- (i) True Corporation plans to sell THB30 billion of bonds with tenors of up to 20 years.
- (ii) Thailand's largest energy firm PTT will sell THB20 billion worth of bonds.
- (iii) Leading coal miner Banpu PCL plans to raise up to THB20 billion to be able to compete with Australia's Centennial Coal.
- (iv) Siam Cement plans to sell THB5 billion of 4-year bonds.
- (v) The second-largest Thai property developer Pruksa Real Estate plans to sell THB5 billion of 3- to 5-year bonds in November.
- (vi) PTT Chemical plans to raise THB3 billion to repay project investments.

At the end of June, the top 30 corporate issuers in Thailand were mainly from the industrial and financial sectors, and together represented 76% of total LCY corporate bonds outstanding (**Table 2**). PTT ranked first as the top LCY and foreign currency (FCY) corporate issuer, with total bonds outstanding of THB181.2 billion and USD1.2 billion, respectively.

In July, PTT Exploration and Production became the first Thai issuer to sell bonds in the international market in 3 years. The firm issued USD500 million worth of 5-year bonds with a coupon of 4.152%. Asian investors bought 69% of the bonds, Europeans took 11%, and offshore investors from the United States purchased 20%. The last Thai corporate bond issuance in the international market—USD350 million of 7-year bonds—was conducted by True Move in July 2007.

Table 2: Top 30 Corporate Issuer, June 2010

Top 30 Corporate Issuers	Outstanding Amount		
	LCY Bonds (THB billion)	LCY Bonds (USD billion)	FCY Bonds (USD billion)
PTT PCL	181.2	5.6	1.16
Siam Cement PCL	110.0	3.4	—
Krung Thai Bank PCL	73.7	2.3	0.22
Bank Ayudhya Public Ltd	63.2	1.9	—
PTT Exploration and Product PCL	49.0	1.5	—
Kasikorn Bank PCL	37.1	1.1	0.18
Thai Airways International PCL	36.8	1.1	—
Toyota Leasing Thailand	28.7	0.9	—
Charoen Pokphand Foods	26.2	0.8	—
TMB Bank PCL	25.3	0.8	0.02
Dad SPV Company Ltd	24.0	0.7	—
Thai Oil PCL	20.8	0.6	0.35
PTT Chemical PCL	20.6	0.6	0.30
Siam Commercial Bank Co	20.0	0.6	—
Krung Thai Card PCL	19.5	0.6	—
Advanced Info Service	19.5	0.6	—
Bangkok Expressway PCL	19.0	0.6	—
Thanachart Bank PCL	18.0	0.6	—
Ayudhya Capital Auto Lease	15.5	0.5	—
Glow Energy PCL	15.0	0.5	—
PTT Aromatics and Refining	15.0	0.5	—
True Corporation PCL	14.0	0.4	—
Thanachart Capital PCL	13.5	0.4	—
Quality Houses Public Co	13.0	0.4	—
Bangkok Mass Transit System	12.0	0.4	—
Central Pattana Public	11.7	0.4	—
CH. Karnchang Public Co	10.9	0.3	—
Minor International PCL	10.4	0.3	—
Land & Houses Public Co	10.0	0.3	—
Siam City Bank PCL	10.0	0.3	—
Total Top 30 Corporate Issuers	944	29	
Total Corporate Bonds Outstanding	1,241	38	
Top 30 as % of Total Corporate	76%	76%	

— = not applicable, FCY = foreign currency, LCY = local currency.
Source: Bloomberg LP.

Investor Profile

At the end of June, contractual savings funds were the largest holder of Thai government bonds (25.4%), with a total amount of THB651.2 billion (**Figure 2**). Commercial banks were the second-largest holder of government bonds with a 23.0% share, followed by insurance companies (18.1%), residents (16.9%), and nonresidents (4.2%). Financial corporations “not elsewhere classified” held 4.1% of all Thai government bonds, non-financial market mutual funds had a 3.2% share, and general government and non-profit organizations had a 2.4% share. Meanwhile, other non-financial corporations and the BOT both held shares of 1.3%.

Rating Changes

Moody’s and Standard & Poor’s (S&P) affirmed Thailand’s sovereign ratings in spite of the political turmoil in 2Q10 (**Table 3**). Moody’s kept Thailand’s long-term FCY rating at Baa1 and maintained its negative outlook, while S&P affirmed Thailand’s long-term FCY rating of BBB+ and also retained its negative outlook.

Table 3: Selected Sovereign Ratings and Outlook for Thailand

	Moody’s	Standard & Poor’s	Fitch
Sovereign FCY LT Ratings	Baa1	BBB+	BBB
Outlook	negative	negative	stable

FCY = foreign currency, LT = long term.
Source: Rating Agencies.

Policy, Institutional, and Regulatory Developments

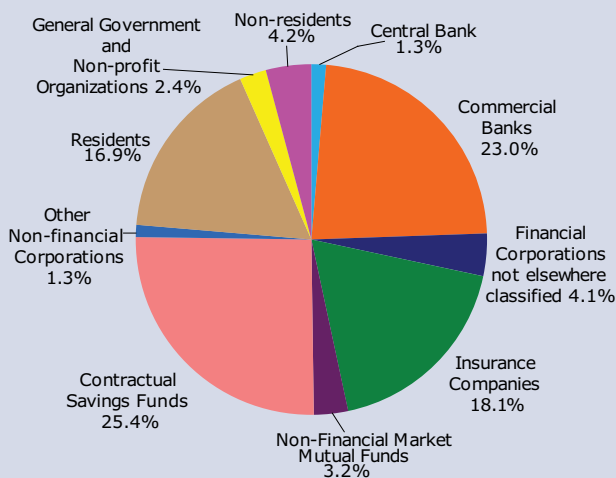
SEC Allows Thai Firms to Issue USD-Denominated Bonds

In April, the Securities and Exchange Commission (SEC) of Thailand approved, in principle, the issuance of FCY-denominated bonds to domestic investors by both Thai and foreign issuers. Previously, only foreign firms were allowed to issue FCY-denominated bonds to Thai commercial banks. Thai issuers—including PTT Exploration and Production, Bangkok Bank, and Siam Commercial Bank—are keen on issuing USD-denominated bonds domestically to help lower their cost of funding.

Thai Cabinet Approves Draft Securities Bill

In May, 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 to better connect Thailand’s financial markets with the global economy and improve the management of investment flows.

Figure 2: LCY Government Bonds Investor Profile, June 2010



LCY = local currency.
Source: Bank of Thailand.

SEC Approval and Credit Rating Required for State-Owned Enterprises and Government Agencies to Issue Bonds

The SEC announced a regulation that requires state-owned enterprises and government agencies to obtain SEC approval and a credit rating before issuing bonds. This rule has previously only applied to private companies issuing debt instruments. The Thai Finance Ministry has been reducing the financial dependency of state-owned enterprises and state agencies on the central government by decreasing the amount of guaranteed debt, and signaling that such enterprises and agencies need to rely less on the government for financing.