

## Thailand—Update

### Yield Movements

Thailand's government bond yields fell for most tenors between end-June and end-September, and dropped for all tenors in October (**Figure 1**). Yields for all tenors ranging from 2- to 10-years decreased in 3Q11, with the largest drop of 25 basis points (bps) for the 6-year tenor. In October the decline in yields was relatively large from the belly to the longer-end of the curve, with the 5-year tenor registering the largest decline at 45 bps.

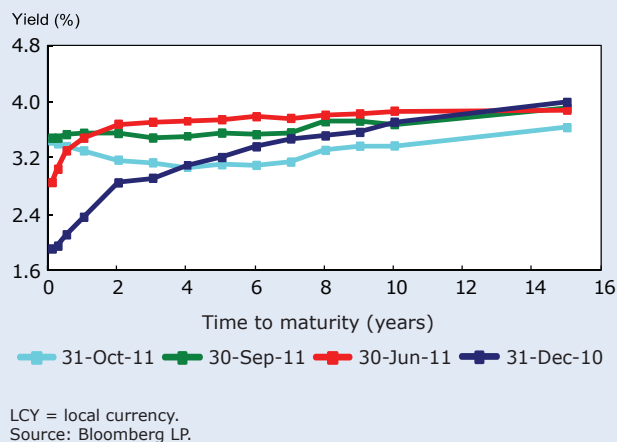
Meanwhile, the yield spread between 2- and 10-year tenors narrowed by 6 bps between end-June and end-September, but widened by 8 bps in October.

The Bank of Thailand's (BOT) Monetary Policy Committee decided on 19 October to hold the policy interest rate—the 1-day repurchase rate—steady at 3.5%. The decision was made on the back of expected inflationary pressures amid massive flooding in Thailand, which has dampened agricultural and manufacturing production, as well as uncertainty in the global economy that is expected to weaken export growth. In 3Q11 the BOT raised the policy interest rate by a total of 50 bps, including one 25 bps hike on 24 August and another on 13 July.

Consumer price inflation in Thailand stood at 4.2% year-on-year (y-o-y) in October, the highest level since June. Higher inflation in October was largely triggered by flood damage to farmlands and crops that resulted in a 9.9% y-o-y spike in food prices. Compared with the previous month, consumer prices climbed 0.2% in October.

The real gross domestic product (GDP) growth rate of Thailand rose to 3.5% y-o-y in 3Q11 from 2.7% in the previous quarter, as growth in exports and in private investment strengthened. The y-o-y growth rate for exports of goods increased to 27.3% in 3Q11 from 19.4% in 2Q11. Growth

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



in private investment also climbed to 9.1% y-o-y in 3Q11 from 8.6% in 2Q11. On the supply side, the manufacturing sector expanded 3.1% y-o-y in 3Q11 following a 0.1% contraction in the previous quarter.

### Size and Composition

The local currency (LCY) bond market in Thailand had a total outstanding size of THB7.1 trillion (US\$229 billion) at end-September, up 8.7% y-o-y and 4.8% from end-June (**Table 1**). The y-o-y growth rate at end-September was also higher than the 6.2% y-o-y growth rate registered at end-June.

Total government bonds outstanding at end-September climbed 8.9% y-o-y and 6.5% from end-June to reach THB5.8 trillion. Government bonds and treasury bills, which accounted for 48.2% of total government bonds, expanded 8.2% y-o-y and 9.9% quarter-on-quarter (q-o-q) to reach THB2.8 trillion. BOT bonds outstanding, which comprised 43.5% of total government bonds, grew 12.7% y-o-y and 4.5% from end-June to level off at THB2.5 trillion. The outstanding bonds of state-owned enterprise and other

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

	Amount (billion)						Growth Rate (%)										
	Jun-11		Jul-11		Aug-11		Sep-11		Jun-11		Jul-11		Aug-11		Sep-11		
	THB	US\$	THB	US\$	THB	US\$	THB	US\$	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	6,820	222	6,870	231	6,903	231	7,149	229	6.2	0.3	0.7	6.2	0.3	0.5	8.7	4.8	3.6
Government	5,466	178	5,523	186	5,566	186	5,823	187	5.6	0.0	1.0	5.6	0.0	0.8	8.9	6.5	4.6
Government Bonds and Treasury Bills	2,557	83	2,625	88	2,630	88	2,809	90	(0.4)	0.9	2.7	(0.4)	0.9	0.2	8.2	9.9	6.8
Central Bank Bonds	2,427	79	2,414	81	2,462	82	2,535	81	15.7	(0.9)	(0.5)	15.7	(0.9)	2.0	12.7	4.5	3.0
State-Owned Enterprise and Other Bonds	482	16	484	16	474	16	479	15	(6.1)	0.0	0.4	(6.1)	0.0	(2.2)	(4.8)	(0.8)	1.1
Corporate	1,354	44	1,346	45	1,337	45	1,326	43	9.0	1.2	(0.5)	9.0	1.2	(0.7)	8.1	(2.0)	(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-US\$ 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.

entities at end-September recorded declines of 4.8% y-o-y and 0.8% q-o-q.

LCY corporate bonds outstanding reached THB1.3 trillion at end-September, growing 8.1% y-o-y but falling 2.0% from end-June. New issuance of corporate bonds in 3Q11 is estimated to have fallen 22.8% y-o-y and 42.7% q-o-q. The two largest corporate bond issuances in 3Q11 were Glow Energy's 10-year bond worth THB5.6 billion with a coupon of 5.0% and Charoen Pokphand Food's 30-year bond worth THB4.0 billion at a 5.42% coupon.

The top 30 issuers of LCY corporate bonds in Thailand accounted for 70% of total LCY corporate bonds outstanding at end-September (**Table 2**). PTT was the largest corporate issuer with total bonds outstanding of THB183.5 billion, followed by Siam Cement with THB110.0 billion. About one-third of the 30 largest issuers consisted of financial institutions, while 80% were publicly listed companies.

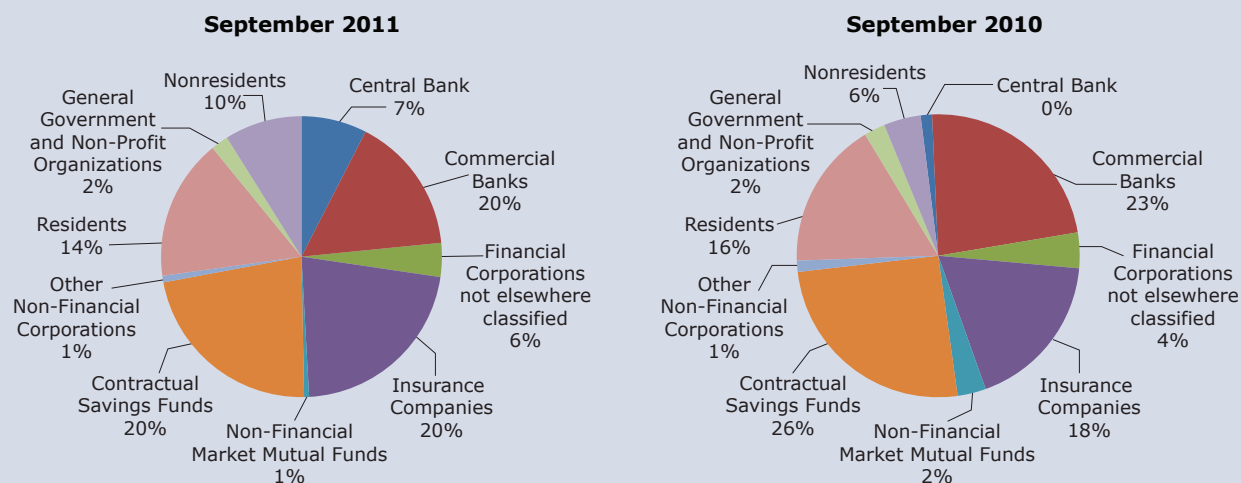
## Investor Profile

At end-September, contractual savings funds, commercial banks, and insurance companies were the three largest investor groups in LCY government bonds in Thailand, with each group accounting for 20% of the total (**Figure 2**). Resident investors were the next largest holder with a share of 14%. Between September 2010 and September 2011, the shares of the central bank and foreign investors increased 7 and 4 percentage points, respectively. In contrast, the shares of all other investor groups dropped, with the largest decline being felt by contractual savings funds at 6 percentage points.

**Table 2: Top 30 Issuers of LCY Corporate Bonds in Thailand** (as of September 2011)

Issuers	Outstanding Amount		State-Owned	Privately-Owned	Listed Company	Type of Industry
	LCY Bonds (THB billion)	LCY Bonds (US\$ billion)				
1. PTT Public Company	183.5	5.9	Yes	No	Yes	Energy
2. Siam Cement Public Company	110.0	3.5	Yes	No	Yes	Diversified
3. Krung Thai Bank	55.4	1.8	Yes	No	Yes	Financial
4. PTT Exploration and Production Company	49.0	1.6	Yes	No	Yes	Energy
5. Bank of Ayudhya	41.5	1.3	No	Yes	Yes	Financial
6. PTT Chemical	35.4	1.1	Yes	No	Yes	Basic Materials
7. Charoen Pokphand Foods	33.9	1.1	No	Yes	Yes	Consumer
8. Thai Airways International	31.3	1.0	Yes	No	Yes	Consumer
9. Thanachart Bank	28.0	0.9	No	Yes	No	Financial
10. Kasikorn Bank	25.1	0.8	No	Yes	Yes	Financial
11. DAD SPV Company LTD	24.0	0.8	Yes	No	No	Financial
12. Ayudhya Capital Auto Lease	22.3	0.7	No	Yes	No	Financial
13. Toyota Leasing Thailand	21.9	0.7	No	Yes	No	Consumer
14. Banpu	21.3	0.7	No	Yes	Yes	Energy
15. Thai Oil	20.8	0.7	Yes	No	Yes	Energy
16. Glow Energy	20.6	0.7	No	Yes	Yes	Utilities
17. Krung Thai Card	20.1	0.6	Yes	No	Yes	Financial
18. Siam Commercial Bank	20.0	0.6	No	Yes	Yes	Financial
19. Quality Houses	18.0	0.6	No	Yes	Yes	Consumer
20. TMB Bank	17.3	0.6	No	Yes	Yes	Financial
21. Bangkok Expressway	17.1	0.5	No	Yes	Yes	Consumer
22. True Corporation	16.1	0.5	No	Yes	Yes	Communications
23. Advanced Info Service	15.5	0.5	No	Yes	Yes	Communications
24. Kiatnakin Bank	15.4	0.5	No	Yes	Yes	Financial
25. Thanachart Capital	13.5	0.4	No	Yes	Yes	Financial
26. Ratchaburi Electricity Generating	13.3	0.4	No	Yes	Yes	Utilities
27. Mitr Phol Sugar Corporation	12.9	0.4	No	Yes	No	Consumer
28. Italian-Thai Development Public Company	12.4	0.4	No	Yes	Yes	Industrial
29. Minor International Public Company	12.4	0.4	No	Yes	Yes	Consumer
30. Bangkok Mass Transit System	12.0	0.4	No	Yes	No	Industrial
<b>Total Top 30 LCY Corporate Issuers</b>	<b>939.9</b>	<b>30.1</b>				
<b>Total LCY Corporate Bonds</b>	<b>1,336.9</b>	<b>42.9</b>				
<b>Top 30 as % of Total LCY Corporate Bonds</b>	<b>70.3%</b>	<b>70.3%</b>				

LCY = local currency.  
Source: Bloomberg LP.

**Figure 2: LCY Government Bonds Investor Profile**

LCY = local currency.  
Source: Bank of Thailand.

## Policy, Institutional, and Regulatory Developments

### BOT and BOJ Collaborate to Provide Liquidity and Assist Flood-Affected Companies in Thailand

In October the BOT announced its collaboration with the Bank of Japan (BOJ) to set up a Thai baht lending facility, with Japanese government securities serving as collateral, in order to aid companies affected by the recent flooding. This facility will also expand the range of liquidity provisioning measures in Thailand to ensure financial stability amid slowing economic growth.

### BOT Revises 2011 Growth Outlook Downward

The BOT's Monetary Policy Committee revised its economic growth outlook for Thailand downward in October, lowering its GDP growth forecast for 2011 to 2.6% from an earlier forecast of 4.1% made in July. The BOT's revision came amid expectations of a weakening global economy—with greater downside risks to the United States (US) economy and the eurozone's sovereign debt problems—as well as disruptions to domestic agricultural and

manufacturing production due to the massive flooding.

### BOT and 11 Commercial Banks Sign MOU for BOT Savings Bond Sale

In August the BOT and 11 commercial banks signed a memorandum of understanding (MOU) authorizing the commercial banks to sell 3- and 7-year BOT savings bonds worth THB50 billion between 26 August and 6 September. The savings bonds were issued to help ensure money market liquidity and provide an alternative investment vehicle for individuals, cooperatives, foundations, and nonprofit organizations.

### Ministry of Finance Adjusts Application Period for LCY Bond Issuance

The Ministry of Finance announced in October that it has approved the adjustment of the application period for issuing LCY bonds in Thailand to three times in a year, covering the months of March, July, and November. The ministry also required that the applicant be able to issue within 9 months of the approval date for the bond issuance. The ministry stated that revisions to the application period would help facilitate and promote LCY bond issuance in Thailand.