

Thailand—Update

Yield Movements

Thailand's government bond yields dropped for all tenors between end-September and end-December, with declines ranging from 33 basis points (bps) for the 7-year tenor to 66 bps for the 4-year tenor (**Figure 1**). The drop in yields was partly due to expectations of lower inflationary pressures. Yield movements, however, rose for most tenors between end-December and 15 March.

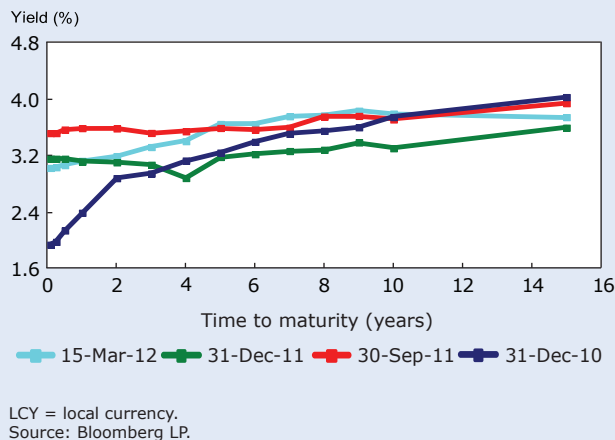
The yield spread between 2- and 10-year tenors widened 7 bps between end-September and end-December—as the decline in the 2-year tenor was larger than that in the 10-year tenor—and increased further by 40 bps between end-December and 15 March—as the rise in the 10-year tenor was larger than that in the 2-year tenor.

The Bank of Thailand's (BOT) Monetary Policy Committee decided on 21 March to keep the 1-day repurchase rate steady at 3.00%. The decision was made in light of the committee's assessment that the global economy would continue to grow slowly, risks to financial stability emanating from Europe had weakened, economic recovery in Thailand had gained pace, and domestic inflationary pressures remained stable in the short-run but were generally inching up amid rising global oil prices. The committee had previously lowered its policy rate by 25 bps from 3.50% to 3.25% on 30 November, and by another 25 bps from 3.25% to 3.00% on 25 January.

Consumer price inflation in Thailand stood at 3.4% year-on-year (y-o-y) in March—compared with 3.3% in February and 3.4% in January—as food and beverage prices climbed 7.1% y-o-y for the month. On a month-on-month (m-o-m) basis, consumer prices increased 0.6% in March, led by a 1.2% monthly hike in raw food and energy prices.

Thailand's real gross domestic product (GDP) in 4Q11 shrank 9.0% y-o-y following a revised 3.7% gain in the previous quarter. The sharp fall

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



in the y-o-y GDP growth rate has been largely attributed to a 6.5% drop in total exports of goods and services, and a 3.0% decline in personal consumption. Compared with the previous quarter, real GDP contracted 6.3%—following 1.1% quarter-on-quarter (q-o-q) growth in 3Q11—largely on the back of a 17.1% decline in total exports of goods and services.

Size and Composition

The outstanding size of the local currency (LCY) bond market in Thailand at end-December amounted to THB7.1 trillion (US\$225 billion), rising 5.3% y-o-y and 1.2% month-on-month (m-o-m), while falling 0.6% q-o-q (**Table 1**). Total government bonds, which accounted for 81% of total bonds outstanding, increased 4.4% y-o-y and 0.9% m-o-m, but fell 1.4% q-o-q, to reach THB5.7 trillion. The annual and quarterly growth in total government bonds was spearheaded by the growth in central bank bonds. The outstanding stock of BOT bonds amounted to THB2.6 trillion at end-December. The size of government bonds also rose at end-December, by 1.2% y-o-y, while contracting 6.5% q-o-q, to level off at THB2.6 trillion. (There were no treasury bills outstanding at end-December.) In contrast, the outstanding bonds of state-owned

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

	Amount (billion)						Growth Rate (%)										
	Sep-11		Oct-11		Nov-11		Dec-11		Sep-11		Oct-11		Nov-11		Dec-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	7,149	229	7,047	229	7,023	228	7,110	225	8.7	4.8	(1.4)	5.3	(0.6)	(0.3)	5.3	(0.6)	1.2
Government	5,823	187	5,712	186	5,690	184	5,743	182	8.9	6.5	(1.9)	4.4	(1.4)	(0.4)	4.4	(1.4)	0.9
Government Bonds and Treasury Bills	2,809	90	2,684	87	2,627	85	2,627	83	8.2	9.9	(4.5)	1.2	(6.5)	(2.1)	1.2	(6.5)	0.0
Central Bank Bonds	2,535	81	2,552	83	2,588	84	2,642	84	12.7	4.5	0.7	9.5	4.2	1.4	9.5	4.2	2.1
State-Owned Enterprise and Other Bonds	479	15	476	15	476	15	474	15	(4.8)	(0.8)	(0.6)	(3.7)	(0.9)	(0.0)	(3.7)	(0.9)	(0.3)
Corporate	1,326	43	1,336	43	1,333	43	1,367	43	8.1	(2.1)	0.7	9.1	3.1	(0.2)	9.1	3.1	2.5

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.

enterprises (SOEs) and other government entities posted decreases of 3.7% y-o-y, 0.9% q-o-q, and 0.3% m-o-m to fall to THB474 billion.

Issuance of total LCY government bonds in 4Q11 amounted to THB2.5 trillion for a decline of 16.5% y-o-y and 9.7% q-o-q. The drop is largely attributed to a fall in BOT bond issuance of 14.3% y-o-y and 0.2% q-o-q to THB2.48 trillion. Moreover, issuance of government bonds plunged 74.5% y-o-y and 89.0% q-o-q to THB32.1 billion. Issuance of SOE bonds and other government bonds remained relatively small at THB10.2 billion, which was down 39.1% q-o-q but up a significant 187.3% y-o-y.

LCY corporate bonds outstanding were valued at THB1.4 trillion at end-December, up 9.1% y-o-y and 3.1% q-o-q. On a m-o-m basis, LCY corporate bonds outstanding increased 2.5% in December. New issuance of LCY corporate bonds in 4Q11 stood at THB248.2 billion, up 29.6% q-o-q but down 7.7% y-o-y. The largest corporate bond issue of the quarter was made by Siam Cement in the form of a 4-year bond amounting to THB10 billion and with a coupon rate of 4.5%.

The top 30 issuers of LCY corporate bonds at end-December had combined bonds outstanding of THB917.2 billion, which accounted for about 67% of the total LCY corporate bond market (**Table 2**). PTT and Siam Cement remained the two largest LCY corporate issuers at the end of 4Q11 with bonds outstanding of THB168.5 billion and THB110.0 billion, respectively.

Investor Profile

Contractual savings funds and insurance companies were the two largest holders of LCY government bonds (excluding BOT bonds and SOE bonds) in Thailand at end-December, accounting for 24% and 21% of the total, respectively (**Figure 2**). They were followed by resident investors (15%), commercial banks (14%), and foreign investors (12%). Compared with end-December 2010, the shares of the central bank and foreign investors

Table 2: Top 30 Issuers of LCY Corporate Bonds in Thailand (as of end-December 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	168.5	5.3	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. Charoen Pokphand Foods	39.9	1.3	No	Yes	Yes	Consumer
6. PTT Global Chemical	35.4	1.1	Yes	No	Yes	Basic Materials
7. Thanachart Bank	28.0	0.9	No	Yes	no	Financial
8. Thai Airways International	27.8	0.9	Yes	No	Yes	Consumer
9. Krung Thai Card	26.5	0.8	Yes	No	Yes	Financial
10. Kasikorn Bank	25.1	0.8	No	Yes	Yes	Financial
11. Bank of Ayudhya	24.0	0.8	No	Yes	Yes	Financial
12. DAD SPV Company LTD	24.0	0.8	Yes	No	No	Financial
13. Ayudhya Capital Auto Lease	22.3	0.7	No	Yes	No	Financial
14. Toyota Leasing Thailand	21.9	0.7	No	Yes	No	Consumer
15. Banpu	21.3	0.7	No	Yes	Yes	Energy
16. Thai Oil	20.8	0.7	Yes	No	Yes	Energy
17. Glow Energy	20.6	0.7	No	Yes	Yes	Utilities
18. Siam Commercial Bank	20.0	0.6	No	Yes	Yes	Financial
19. Quality Houses	17.8	0.6	No	Yes	Yes	Consumer
20. TMB Bank	17.3	0.5	No	Yes	Yes	Financial
21. Kiatnakin Bank	16.5	0.5	No	Yes	Yes	Financial
22. True Corporation	16.1	0.5	No	Yes	Yes	Communications
23. Advanced Info Service	15.5	0.5	No	Yes	Yes	Communications
24. Bangkok Expressway	15.1	0.5	No	Yes	Yes	Consumer
25. Central Pattana	14.7	0.5	No	Yes	Yes	Industrial
26. Mitr Phol Sugar Corporation	14.3	0.5	No	Yes	No	Consumer
27. Ratchaburi Electricity Generating	13.3	0.4	No	Yes	Yes	Utilities
28. Minor International Public Company	12.2	0.4	No	Yes	Yes	Consumer
29. Italian-Thai Development Public Company	12.1	0.4	No	Yes	Yes	Industrial
30. Bangkok Mass Transit System	12.0	0.4	Yes	Yes	No	Industrial
Total Top 30 LCY Corporate Issuers	917.2	29.1				
Total LCY Corporate Bonds	1,367.0	43.3				
Top 30 as % of Total LCY Corporate Bonds	67.1%	67.1%				

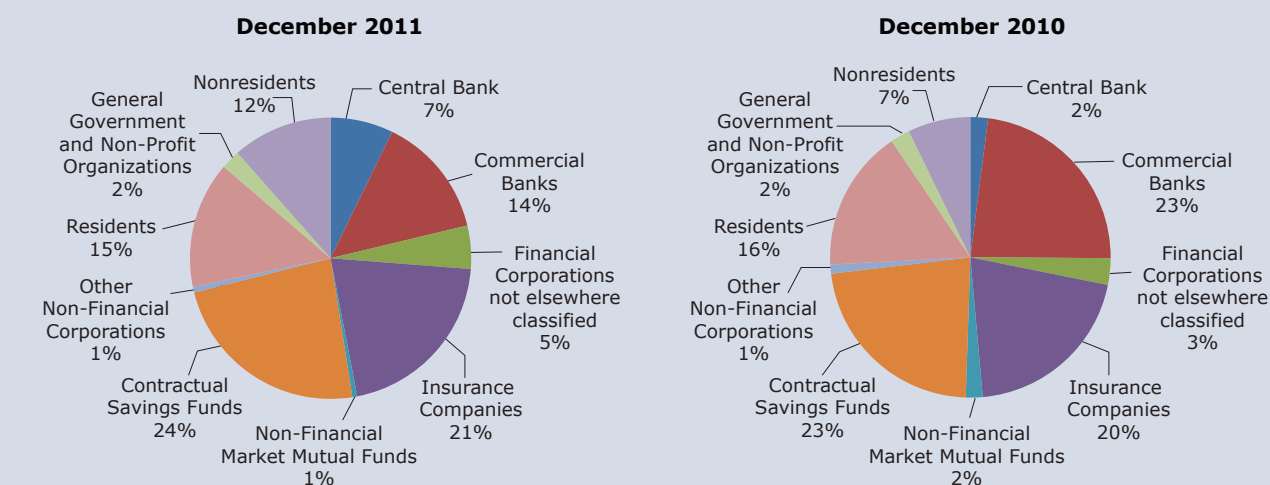
LCY = local currency.
Source: Bloomberg LP.

increased the most at 5 and 4 percentage points, respectively. In contrast, the share of commercial banks had the biggest drop over the same period, declining 9 percentage points.

Individual retail investors were the largest investor group in LCY corporate bonds in Thailand, holding 45% of the total as of end-September (Figure 3). This was followed by

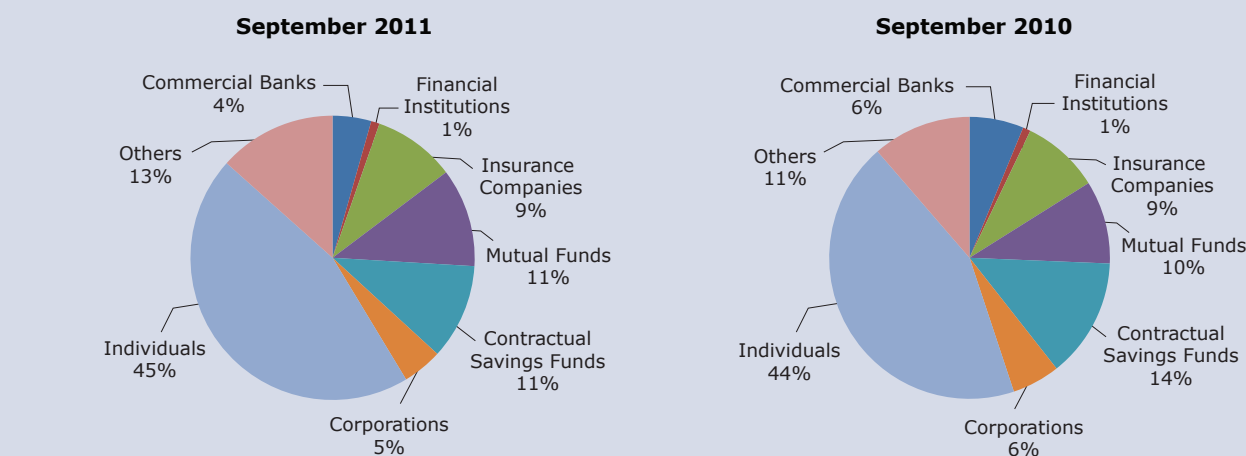
other investors—such as the government, cooperatives, and foundations—with a combined 13% share, contractual savings funds and mutual funds with an 11% share each, and insurance companies with 9%. Compared with end-September 2010, the shares of individual investors and mutual funds rose 1 percentage point each, while the share of other investors climbed 2 percentage points. On the other

Figure 2: LCY Government Bonds Investor Profile



LCY = local currency.
 Note: Government bonds exclude central bank bonds and state-owned enterprise bonds.
 Source: AsianBondsOnline and Bank of Thailand.

Figure 3: LCY Corporate Bonds Investor Profile



LCY = local currency.
 Source: ThaiBMA.

hand, the shares of contractual savings funds, commercial banks, and corporations declined 3, 2, and 1 percentage point(s), respectively.

Policy, Institutional, and Regulatory Developments

BOT and BNM Sign MOU on Cross-Border Collateral Arrangement

BOT announced in February that it had signed a memorandum of understanding (MOU) with Bank Negara Malaysia (BNM) to enter into a cross-border collateral arrangement to strengthen liquidity facility measures for financial institutions operating in both countries. Under this arrangement, eligible financial institutions operating in Thailand may acquire Thai baht liquidity from BOT by pledging ringgit or MYR-denominated central bank and government securities, while eligible financial institutions in Malaysia may obtain Malaysian ringgit liquidity from BNM by pledging baht or THB-denominated central bank and government securities.

Ministry of Finance Gives Approval to Seven Foreign Companies to Issue LCY Bonds

The Ministry of Finance announced that it granted approval to seven foreign companies to sell LCY bonds totaling THB66 billion between 1 January and 30 September. The foreign entities and the allowable amount of their respective bond issuances are (i) Australia and New Zealand Corporation (THB8 billion), (ii) Citigroup (THB10 billion), (iii) Hana Bank (THB10 billion), (iv) Industrial Bank of Korea (THB10 billion), (v) Korea Development Bank (THB8 billion), (vi) Korea Eximbank (THB10 billion), and (vii) Korea National Oil Corporation (THB10 billion). Hana Bank issued THB10 billion worth of dual-tranche bonds in February.

Bank of Thailand Receives QFII License

BOT was granted a Qualified Foreign Institutional Investors (QFII) license by the China Securities Regulatory Commission (CSRC) in December, allowing the central bank to invest in CNY-denominated bonds and stocks listed on the Shanghai and Shenzhen stock exchanges.