

## Thailand—Update

### Yield Movements

Thailand's government bond yields dropped for all maturities, except the 3- and 4-year tenors, between end-December 2011 and end-July 2012, amid market concerns over the eurozone's fiscal and banking problems (**Figure 1**). Meanwhile, the yield spread between the 2- and 10-year tenors climbed 1.5 basis points (bps) between end-December and end-July.

The Bank of Thailand's (BOT) Monetary Policy Committee decided to maintain the 1-day repurchase rate at 3.0% at its 5 September meeting, the fifth consecutive time that the policy rate has remained unchanged. The committee noted that risks to the global economy remained elevated, yet the domestic economy continued its steady growth.

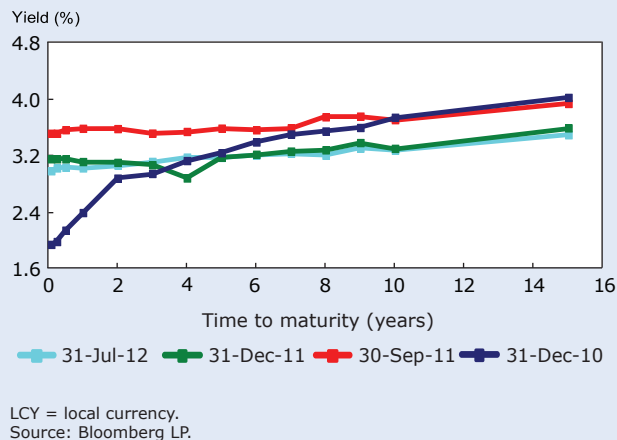
Consumer price inflation stood at 2.69% year-on-year (y-o-y) in August, compared with 2.73% in July. The price index for food and beverages rose 4.02% y-o-y in August, compared with a 5.42% hike in the previous month. Meanwhile, the price index for non-food and beverages climbed 1.84% y-o-y in August, compared with a 1.03% increase in July.

Real gross domestic product (GDP) grew 4.2% y-o-y in 2Q12, following a 0.4% rise in 1Q12. Private consumption expenditure rose 5.3% y-o-y after climbing 2.9% in the previous quarter. Gross fixed capital formation also expanded 10.2% y-o-y, following a 5.2% increase in 1Q12. Exports of goods and services rose 0.9% y-o-y in 2Q12, while the manufacturing sector grew 2.7%.

### Size and Composition

Local currency (LCY) bonds outstanding in Thailand amounted to THB8 trillion (US\$254 billion) at end-

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



June, up 17.7% y-o-y and 4.1% quarter-on-quarter (q-o-q) (**Table 1**). Total government bonds grew 17.9% y-o-y and 4.8% q-o-q to THB6.4 trillion, led by government bonds and treasury bills, which rose 17.3% y-o-y and 8.0% q-o-q to THB3.0 trillion, and central bank bonds, which increased 22.1% y-o-y and 1.7% q-o-q to reach THB3.0 trillion. Meanwhile, the stock of state-owned enterprise (SOE) bonds slipped 0.2% y-o-y, but rose 4.5% q-o-q to level off at THB481 billion.

Total government bond issuance in 2Q12 stood at THB2.3 trillion, down 18.8% y-o-y and 7.2% q-o-q. The drop was caused by a 24.6% y-o-y and 10.1% q-o-q decline in central bank bond issuance, which accounted for about 89% of total government bond issuance. In contrast, 2Q12 issuance in government bonds, treasury bills, and SOE bonds surged 110.9% y-o-y and 25.5% q-o-q to THB260 billion.

The outstanding amount of LCY corporate bonds at end-June was THB1.6 trillion, up 16.9% y-o-y and 1.6% q-o-q. Between May and June, the LCY corporate bond market contracted 2.5%. LCY corporate bond issuance in 1Q12

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

	Amount (billion)						Growth Rate (%)										
	Mar-12		Apr-12		May-12		Jun-12		Mar-12		Apr-12		May-12		Jun-12		
	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	7,709	250	7,944	259	7,989	251	8,027	254	13.1	8.4	3.0	17.7	4.1	0.6	17.7	4.1	0.5
Government	6,151	200	6,341	206	6,366	200	6,444	204	12.3	7.1	3.1	17.9	4.8	0.4	17.9	4.8	1.2
Government Bonds and Treasury Bills	2,777	90	2,897	94	2,940	92	3,000	95	9.1	5.7	4.3	17.3	8.0	1.5	17.3	8.0	2.0
Central Bank Bonds	2,913	94	2,985	97	2,960	93	2,963	94	19.0	10.3	2.5	(0.8)	1.7	(0.8)	22.1	1.7	0.1
State-Owned Enterprise Bonds	461	15	459	15	467	15	481	15	(4.5)	(2.9)	(0.3)	(0.2)	4.5	1.6	(0.2)	4.5	3.2
Corporate	1,558	51	1,603	52	1,623	51	1,583	50	16.5	14.0	2.9	16.9	1.6	1.2	16.9	1.6	(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.

and 2Q12 amounted to THB419 billion and THB282 billion, respectively, both higher than 4Q11's THB249 billion. The three largest LCY corporate bond issues in the first half of the year were (i) Siam Cement's 4-year senior unsecured bond issued in April worth THB25 billion with a coupon rate of 4.15%, (ii) Kasikorn Bank's 10-year subordinated bond of THB22 billion with a 4.5% coupon issued in February, and (iii) Siam Commercial Bank's 10-year subordinated bond issued in February worth THB20 billion with a 4.5% coupon.

The combined bonds outstanding of the top 30 corporate issuers at end-June were valued at THB962 billion, comprising 61% of total LCY corporate bonds outstanding (**Table 2**). PTT and Siam Cement remained the two largest corporate issuers of LCY bonds.

## Investor Profile

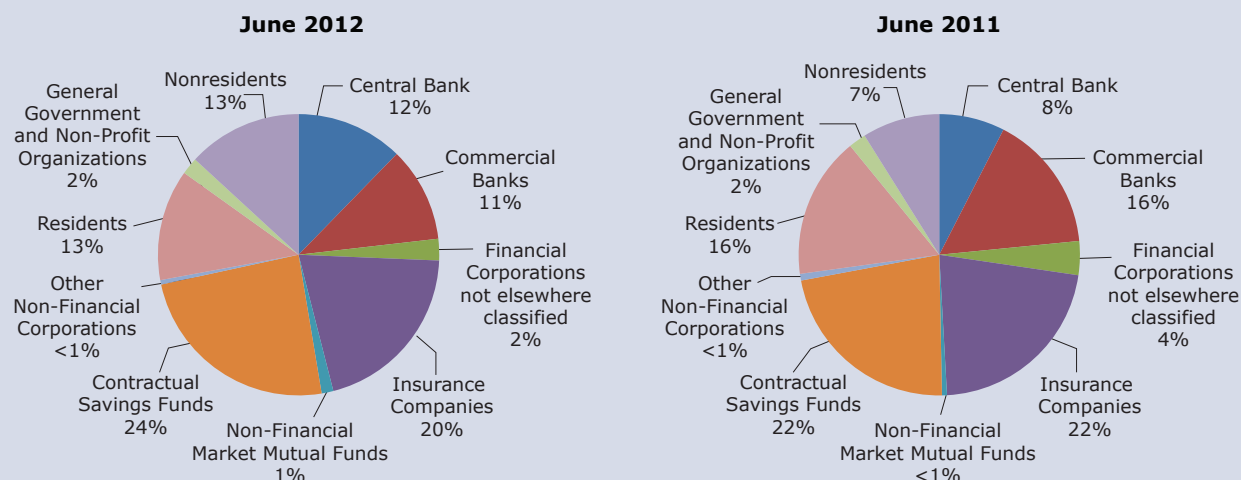
Contractual savings funds remained the largest holder of LCY government bonds in Thailand at end-June, accounting for 24% of the total, followed by insurance companies with a 20% share (**Figure 2**). Compared with end-June 2011, the shares of the central bank, contractual savings funds, foreign investors, and non-financial market mutual funds increased, while shares fell for most other types of bondholders.

Individual retail investors were the largest investor group in LCY corporate bonds, holding 46% of the total at end-March (**Figure 3**). This was followed by other investors—such as the government, cooperatives, and foundations—with a combined 15% share, contractual savings funds and mutual funds with a 10% share each, and insurance companies with 9%. Compared with end-March 2011, the share of other investors—such as the government, cooperatives, and foundations—had a relatively large increase, while the shares of most other types of corporate bondholders declined.

**Table 2: Top 30 Issuers of LCY Corporate Bonds in Thailand** (as of end-June 2012)

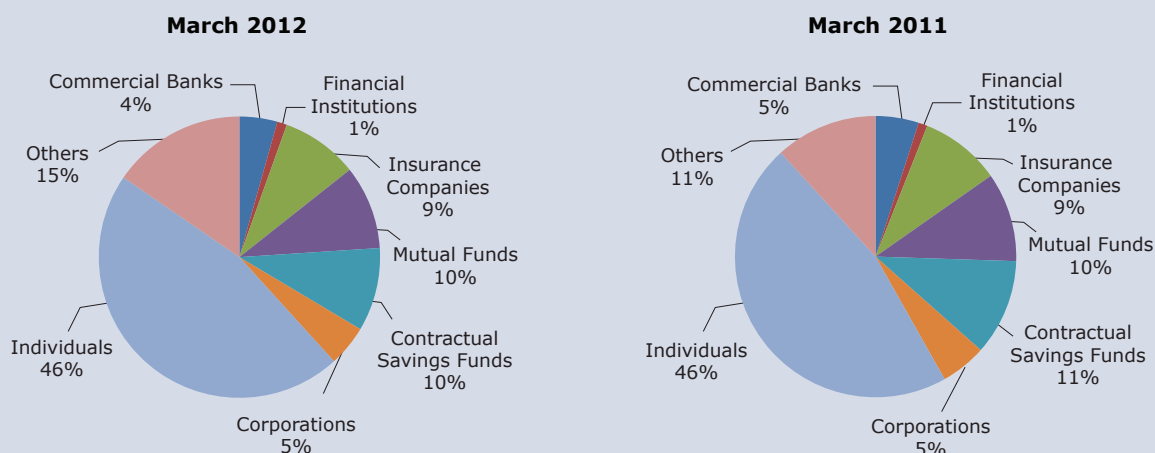
Issuers	Outstanding Amount		State-Owned	Privately-Owned	Listed Company	Type of Industry
	LCY Bonds (THB billion)	LCY Bonds (US\$ billion)				
1. PTT Public Company	178.5	5.7	Yes	No	Yes	Energy
2. Siam Cement Public Company	115.0	3.6	Yes	No	Yes	Diversified
3. Kasikorn Bank	47.1	1.5	No	Yes	Yes	Financial
4. Charoen Pokphand Foods	46.0	1.5	No	Yes	Yes	Consumer
5. Siam Commercial Bank	40.0	1.3	No	Yes	Yes	Financial
6. Bank of Ayudhya	37.8	1.2	No	Yes	Yes	Financial
7. PTT Global Chemical	35.4	1.1	Yes	No	Yes	Basic Materials
8. Thai Airways International	32.2	1.0	Yes	No	Yes	Consumer
9. Thanachart Bank	30.1	1.0	No	Yes	no	Financial
10. PTT Exploration and Production Company	29.2	0.9	Yes	No	Yes	Energy
11. Thai Oil	27.8	0.9	Yes	No	Yes	Energy
12. TMB Bank	27.7	0.9	No	Yes	Yes	Financial
13. Banpu	25.3	0.8	No	Yes	Yes	Energy
14. Toyota Leasing Thailand	22.9	0.7	No	Yes	No	Consumer
15. Mitr Phol Sugar Corporation	22.7	0.7	No	Yes	No	Consumer
16. Krung Thai Card	22.5	0.7	Yes	No	Yes	Financial
17. Ayudhya Capital Auto Lease	22.3	0.7	No	Yes	No	Financial
18. Glow Energy	20.6	0.7	No	Yes	Yes	Utilities
19. Kiatnakin Bank	19.6	0.6	No	Yes	Yes	Financial
20. Quality Houses	18.0	0.6	No	Yes	Yes	Consumer
21. Indorama Ventures	16.9	0.5	No	Yes	Yes	Basic Materials
22. Bangkok Expressway	16.1	0.5	No	Yes	Yes	Consumer
23. True Corporation	16.1	0.5	No	Yes	Yes	Communications
24. Advanced Info Service	15.5	0.5	No	Yes	Yes	Communications
25. Land & Houses	15.5	0.5	No	Yes	Yes	Consumer
26. Tisco Bank	12.8	0.4	No	Yes	No	Financial
27. Central Pattana	12.2	0.4	No	Yes	Yes	Industrial
28. Minor International Public Company	12.2	0.4	No	Yes	Yes	Consumer
29. Bangkok Mass Transit System	12.0	0.4	Yes	Yes	No	Industrial
30. Italian-Thai Development Public Company	12.0	0.4	No	Yes	Yes	Industrial
<b>Total Top 30 LCY Corporate Issuers</b>	<b>961.8</b>	<b>30.5</b>				
<b>Total LCY Corporate Bonds</b>	<b>1,583.0</b>	<b>50.5</b>				
<b>Top 30 as % of Total LCY Corporate Bonds</b>	<b>60.8</b>	<b>60.8</b>				

LCY = local currency.  
Source: Bloomberg LP.

**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.

## Rating Changes

Rating and Investment Information, Inc. (R&I) reported in March that it affirmed Thailand's foreign currency (FCY) and LCY issuer ratings at BBB and BBB+, respectively, and that it was maintaining a stable rating outlook for both (**Table 3**). R&I noted the country's rapid recovery from last year's flooding, its current account surplus, and solid fiscal management.

**Table 3: Selected Sovereign Ratings and Outlook for Thailand**

	Moody's	S&P	Fitch	R&I
Sovereign FCY LT Ratings	Baa1	BBB+	BBB	BBB
Outlook	Stable	Stable	Stable	Stable

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

## **Policy, Institutional, and Regulatory Developments**

### **BOT and MAS Sign Memorandum of Understanding on Cross-Border Collateral Arrangement**

BOT announced in June that it had signed a memorandum of understanding with the Monetary Authority of Singapore (MAS) to enter into a cross-border collateral arrangement to help maintain financial stability in Thailand and Singapore. Under this arrangement, eligible financial institutions operating in Thailand may obtain Thai baht liquidity from BOT by pledging Singaporean dollars or Singaporean central bank and government securities. Eligible financial institutions operating in Singapore may acquire Singaporean dollar liquidity from MAS by pledging Thai baht or Thai central bank and government securities.

### **Ministry of Finance Gives Approval to Five Foreign Entities to Issue LCY Bonds**

The Ministry of Finance announced in June that it had given approval to five foreign entities to sell LCY bonds in Thailand, totaling THB33 billion, between 1 May 2012 and 31 January 2013. The foreign entities and the allowable amount of their respective bond issuances are (i) International Bank for Reconstruction and Development (THB5 billion), (ii) International Finance Corporation (THB5 billion), (iii) Swedish Export Credit Corporation (THB5 billion), (iv) Korea Gas Corporation (THB8 billion), and (v) Kookmin Bank (THB10 billion).

### **SEC Allows Sale of Unrated Bonds to Accredited Investors**

The Securities and Exchange Commission (SEC) decided in June to allow the sale of the following financial products to accredited investors such as institutional investors and high-net worth investors: (i) unrated bonds and (ii) non-retail mutual funds that invest in non-investment grade debt securities or in unrated bonds.