

Thailand—Update

Yield Movements

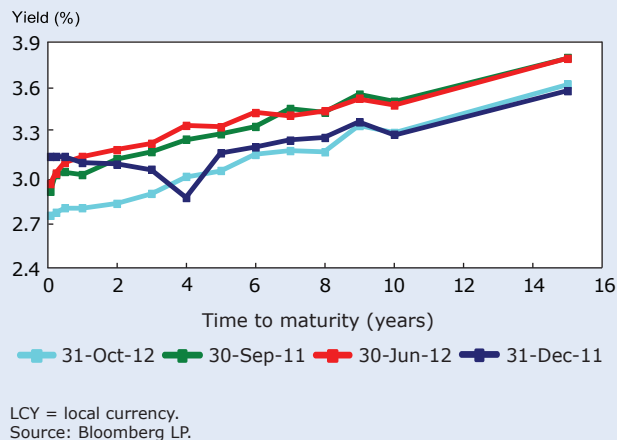
Thailand's government bond yields fell for most tenors between end-June and end-September, and dropped further for all tenors between end-September and end-October (**Figure 1**). The decrease in yields between end-September and end-October ranged from 18 basis points (bps) for the 15-year tenor to 30 bps for the 2-year tenor. Expectations of policy rate cuts were the cause of declining yields. Meanwhile, yield spreads between the 2- and 10-year tenors widened 9 bps between end-June and end-September, and climbed an additional 9 bps between end-September and end-October.

The Bank of Thailand's (BOT) Monetary Policy Committee decided on 17 October to reduce the policy rate—the 1-day repurchase rate—by 25 bps to 2.75%. The BOT stated that the committee's decision to cut the policy rate was in line with monetary easing to help improve domestic demand and cushion the economy from the negative effects of a fragile global economy.

Consumer price inflation in Thailand eased to 3.3% year-on-year (y-o-y) in October from 3.4% in September. The price index for food and beverages rose 3.4% in October following a 3.7% increase in the prior month. Meanwhile, the price index for non-food items climbed 3.3% in October after a 3.2% hike in September.

Thailand's real gross domestic product (GDP) growth accelerated to 4.2% y-o-y in 2Q12 from mild 0.4% growth in 1Q12. Exports of goods and services rebounded in 2Q12, posting 0.9% y-o-y growth for the quarter compared with a contraction of 3.2% in the previous quarter. Comparing y-o-y growth rates in 1Q12 and 2Q12, private consumption rose from 2.9% to 5.3%, government spending rebounded from -0.2% to 5.6%, and domestic investment increased from 5.2% to 10.2%.

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



Size and Composition

The outstanding amount of local currency (LCY) bonds in Thailand grew 14.4% y-o-y and 1.9% quarter-on-quarter (q-o-q) to reach THB8.2 trillion (US\$265 billion) at end-September (**Table 1**). Total government bonds amounted to THB6.5 trillion, which was up 12.1% from a year ago and 1.3% from the previous quarter. The combined size of outstanding government bonds and treasury bills rose 6.3% y-o-y, but declined 0.4% q-o-q, to THB3.0 trillion. Similarly, the central bank's bonds outstanding increased 15.7% y-o-y, but contracted 1.0% q-o-q, to level off at THB2.9 trillion. Meanwhile, state-owned enterprise (SOE) bonds climbed 26.7% y-o-y and 26.0% q-o-q to THB607 billion.

The largest government bond issues in 3Q12 were BOT's 1-year bond worth THB115 billion and 3-year bond worth THB85 billion. Provincial Waterworks Authority (PWA)—an SOE—sold the longest-dated government bonds of the quarter, issuing 15-year bonds in three tranches totaling THB850 million. One tranche of PWA's 15-year bonds was valued at THB350 million and offered the highest coupon rate across all

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

	Amount (billion)						Growth Rate (%)									
	Jun-12		Jul-12		Aug-12		Sep-12		Jun-12		Jul-12		Aug-12		Sep-12	
	THB	US\$	THB	US\$	THB	US\$	THB	US\$	Y-o-y	q-o-q	m-o-m	Y-o-y	m-o-m	Y-o-y	q-o-q	m-o-m
Total	8,027	254	8,149	259	8,187	262	8,176	265	17.7	4.1	1.5	14.4	0.5	14.4	1.9	(0.1)
Government	6,444	204	6,560	208	6,559	210	6,527	212	17.9	4.8	1.8	12.1	(0.03)	12.1	1.3	(0.5)
Government Bonds and Treasury Bills	3,000	95	3,043	97	3,107	99	2,987	97	17.3	8.0	1.4	6.3	2.1	6.3	(0.4)	(3.8)
Central Bank Bonds	2,963	94	2,973	94	2,855	91	2,933	95	22.1	1.7	0.3	15.7	(4.0)	15.7	(1.0)	2.7
State-Owned Enterprise and Other Bonds	481	15	545	17	597	19	607	20	(0.2)	4.5	13.1	26.7	9.6	26.7	26.0	1.7
Corporate	1,583	50	1,588	50	1,629	52	1,649	54	16.9	1.6	0.3	24.4	2.6	24.4	4.2	1.3

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.

government bond issues in 3Q12 at 4.18%. The largest SOE issuer for the quarter was Bank for Agriculture and Agricultural Cooperatives (BAAC), which issued a total of THB102.5 billion worth of bonds.

LCY corporate bonds outstanding amounted to THB1.6 trillion at end-September, up 24.4% y-o-y and 4.2% q-o-q. On a month-on-month (m-o-m) basis, the outstanding size of the corporate bond market rose 1.3%. As of end-September, the top 30 corporate bond issuers had combined bonds outstanding of THB1.0 trillion, accounting for 61% of total corporate bonds outstanding (**Table 2**). PTT and Siam Cement remained the two largest corporate issuers of LCY bonds.

The largest corporate bond issues in 3Q12 included Siam Commercial Bank's THB20 billion 12-year subordinated debt offering a 4.65% coupon, PTT's 7-year bond worth THB10 billion with a 4.1% coupon, and Thanachart Bank's THB8.5 billion 10-year subordinated debt carrying a 4.7% coupon. Meanwhile, Charoen Phokphand sold the longest-dated tenor among all corporate bonds issued in the quarter, a 20-year bond worth THB5 billion and carrying a 5.3% coupon. Additionally, Hemaraj Land and Development sold the corporate bond with the quarter's highest coupon rate, a 9-year bond worth THB2 billion and with a coupon rate set at 5.65%.

Investor Profile

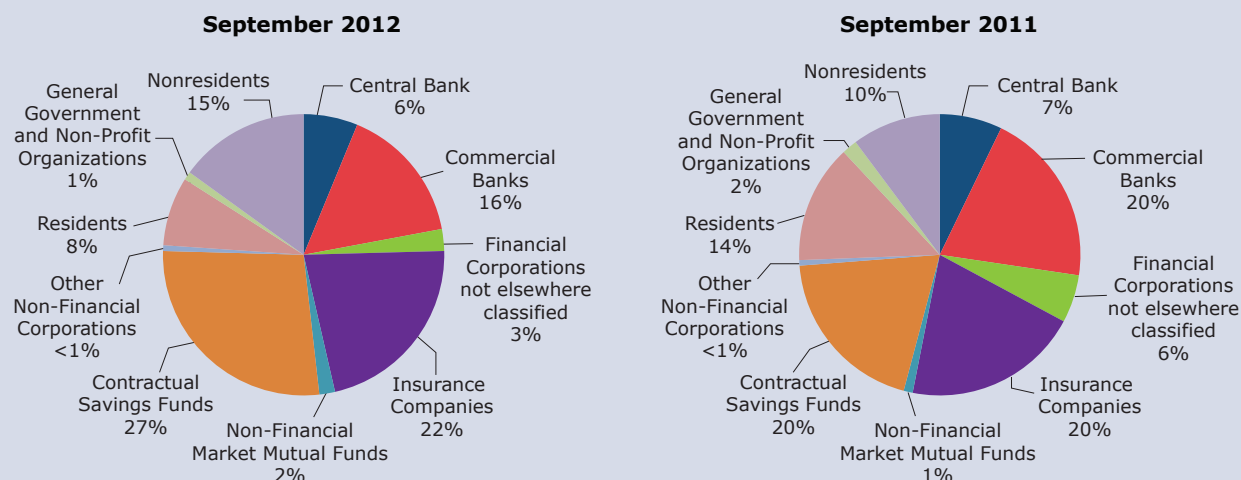
Contractual savings funds remained the largest holder of LCY government bonds in Thailand at end-September, accounting for 27% of the total, followed by insurance companies with a 22% share (**Figure 2**). Compared with end-September 2011, the respective shares of contractual savings funds, foreign investors, insurance companies, and non-financial market mutual funds all increased, while shares fell for most other types of bondholders.

Individual retail investors remained the largest investor group in LCY corporate bonds in 2Q12, the latest period for which data is available,

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

Issuers	Outstanding Amount		State-Owned	Privately-Owned	Listed Company	Type of Industry
	LCY Bonds (THB billion)	LCY Bonds (US\$ billion)				
1. PTT	187.0	6.1	Yes	No	Yes	Energy
2. Siam Cement	115.0	3.7	Yes	No	Yes	Diversified
3. Charoen Pokphand Foods	61.0	2.0	No	Yes	Yes	Consumer
4. Siam Commercial Bank	60.0	1.9	No	Yes	Yes	Financial
5. Kasikorn Bank	47.1	1.5	No	Yes	Yes	Financial
6. Thanachart Bank	38.6	1.3	No	Yes	no	Financial
7. Bank of Ayudhya	37.8	1.2	No	Yes	Yes	Financial
8. PTT Global Chemical	35.4	1.1	Yes	No	Yes	Basic Materials
9. Thai Airways International	32.2	1.0	Yes	No	Yes	Consumer
10. PTT Exploration and Production Company	29.2	0.9	Yes	No	Yes	Energy
11. Ayudhya Capital Auto Lease	28.3	0.9	No	Yes	No	Financial
12. Thai Oil	27.8	0.9	Yes	No	Yes	Energy
13. TMB Bank	27.7	0.9	No	Yes	Yes	Financial
14. Banpu	25.3	0.8	No	Yes	Yes	Energy
15. Krung Thai Card	23.7	0.8	Yes	No	Yes	Financial
16. Glow Energy	20.6	0.7	No	Yes	Yes	Utilities
17. Toyota Leasing Thailand	19.9	0.6	No	Yes	No	Consumer
18. IRPC	19.6	0.6	Yes	No	Yes	Energy
19. Quality Houses	18.3	0.6	No	Yes	Yes	Consumer
20. Indorama Ventures	16.9	0.5	No	Yes	Yes	Basic Materials
21. True Corporation	16.1	0.5	No	Yes	Yes	Communications
22. Kiatnakin Bank	15.3	0.5	No	Yes	Yes	Financial
23. Land & Houses	15.0	0.5	No	Yes	Yes	Consumer
24. Minor International	14.9	0.5	No	Yes	Yes	Consumer
25. Bangkok Expressway	14.2	0.5	No	Yes	Yes	Consumer
26. Tisco Bank	12.8	0.4	No	Yes	No	Financial
27. Prukpa Real Estate	12.5	0.4	No	Yes	Yes	Industrial
28. Italian-Thai Development	12.0	0.4	No	Yes	Yes	Industrial
29. Thanachart Capital	12.0	0.4	No	Yes	Yes	Financial
30. Central Pattana	11.7	0.4	No	Yes	Yes	Industrial
Total Top 30 LCY Corporate Issuers	1,007.7	32.7				
Total LCY Corporate Bonds	1,649.5	53.5				
Top 30 as % of Total LCY Corporate Bonds	61.1%	61.1%				

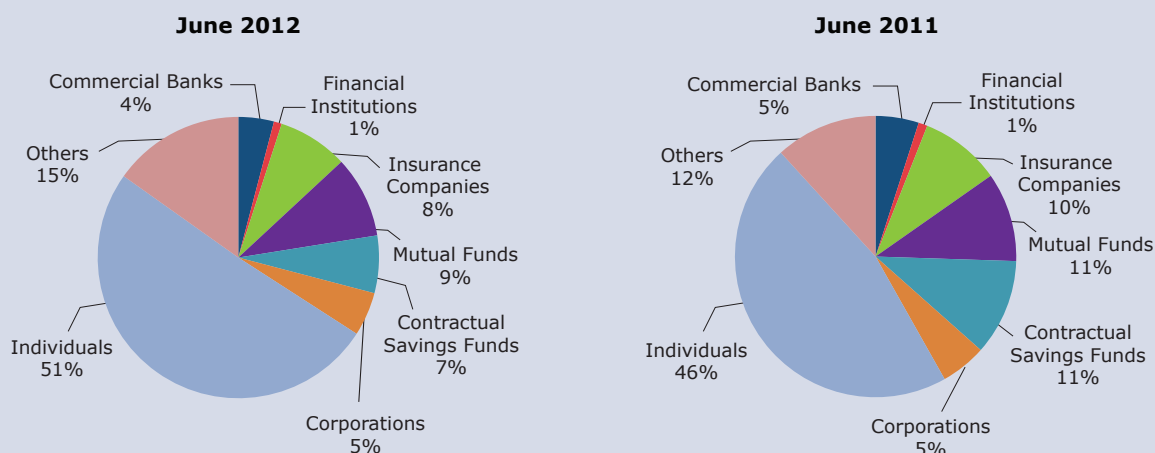
LCY = local currency.
Source: Bloomberg LP.

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.

holding 51% of the total at end-June (**Figure 3**). They were followed by other investors—such as the government, cooperatives, and foundations—with a combined 15% share, then mutual funds (9%), insurance companies (8%), contractual savings funds (7%), non-financial corporations (5%), commercial banks (4%), and other financial institutions (1%). Compared with end-June 2011,

the share of individual retail investors rose 5 percentage points, while the share of the combined group of government, cooperatives, and foundations rose by 3 percentage points. In contrast, the respective shares of contractual savings funds, mutual funds, insurance companies, and commercial banks fell compared with end-June 2011.

Rating Changes

Rating and Investment Information, Inc. (R&I) upgraded Thailand's foreign currency (FCY) issuer rating in October to BBB+ from BBB, and its LCY issuer rating to A- from BBB+, while affirming the country's FCY short-term debt rating at a-2 (**Table 3**). R&I stated that Thailand's external balance is stable and that the economy is returning to a normal growth path following its recovery from massive flooding in late 2011.

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 Announces Capital Account Liberalization Master Plan

In October, the BOT proposed the Capital Account Liberalization Master Plan to encourage businesses and depositors to diversify their investments and enhance business efficiency, create an environment for more balanced capital flows, and promote financial market development to facilitate economic integration under the Association of Southeast Asian Nations (ASEAN) Economic Community, which comes into effect in 2015. Specifically, the BOT announced plans to relax rules on outward portfolio investment

to allow (i) listed companies to directly invest in derivatives and securities products outside Thailand, (ii) Thai residents to buy foreign currency (FCY) bonds issued in Thailand, and (iii) institutional investors to freely unwind foreign exchange hedging. Additionally, the BOT stated that it will conduct an initial relaxation of foreign exchange regulations by the end of the year and that it will allow Thai individuals to invest in securities outside Thailand through securities companies or private funds without BOT approval.

MOF Restricts Foreign Entities from Issuing LCY Bonds in Thailand between September 2012 and May 2013

The Ministry of Finance (MOF) announced in September that it would not permit foreign entities to issue THB-denominated bonds or debentures in Thailand from 1 September 2012 to 31 May 2013. Normally, foreign entities planning to issue an LCY bond or debenture in Thailand can submit a letter of intent to MOF during three months in a year: March, July, and November.

SET Connects to ASEAN Trading Link

The Stock Exchange of Thailand (SET) became the third stock exchange to connect to the ASEAN Trading Link in October, following Bursa Malaysia and Singapore Exchange. The ASEAN Trading Link was launched in September to offer investors single entry-point access to ASEAN's participating stock exchanges. Brokers who are connected through the ASEAN Trading Link can execute trades directly on any of these three stock exchanges.