

Thailand

Yield Movements

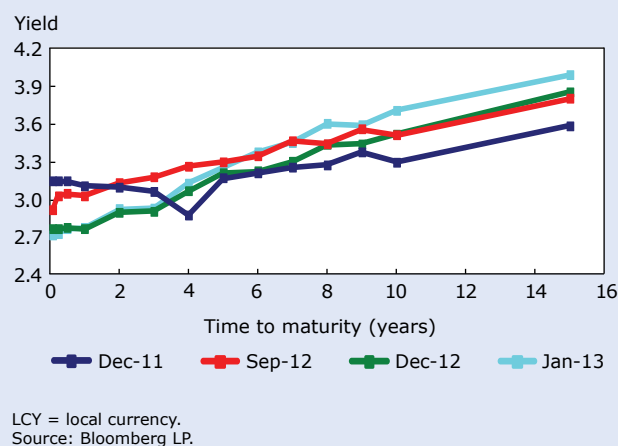
Thailand's government bond yields fell for most tenors between end-September and end-December (**Figure 1**). The drop in yields was especially evident for tenors of less than 9 years, with yields declining most sharply—by 28 basis points (bps)—on the 3-year tenor. In contrast, yields for the 10- and 15-year tenors rose 0.4 bps and 5 bps, respectively, between end-September and end-December. Between end-December and end-January, yields rose for most tenors. Meanwhile, yield spreads between the 2- and 10-year tenors widened 24 bps between end-September and end-December, and climbed an additional 16 bps between end-December and end-January.

On 20 February, the Bank of Thailand's (BOT) Monetary Policy Committee decided to keep the policy rate—the 1-day repurchase rate—steady at 2.75% for the third consecutive committee meeting. The last time the central bank made a policy rate cut was in October.

Consumer price inflation in Thailand moderated to 3.4% year-on-year (y-o-y) in January from 3.6% in December. Food prices rose 4.3% y-o-y in January, compared with a 4.0% hike in December. On the other hand, non-food prices climbed 2.8% y-o-y in January, following a 3.4% increase in December.

Real gross domestic product (GDP) growth accelerated to 18.9% y-o-y in 4Q12 from 3.1% in 3Q12. Total exports of goods and services rose 19.0% y-o-y for the quarter, a reversal from the 2.8% contraction in the previous quarter. Imports of goods and services also rose 14.7% y-o-y in 4Q12 after posting a 1.8% decline in 3Q12. Similarly, between 3Q12 and 4Q12, the y-o-y growth rate rose from 6.0% to 12.2% for private consumption expenditure, from 10.0% to 12.1% for general government consumption expenditure, and from 15.5% to 23.5% for gross fixed capital

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



formation. On the supply side, y-o-y growth in the non-agricultural sector accelerated to 21.3% in 4Q12 from 2.7% in 3Q12, as the manufacturing sector expanded 37.4% y-o-y in 4Q12 after a 1.1% decline in 3Q12. Meanwhile, the agricultural sector's growth eased to 0.8% y-o-y in 4Q12 from 8.3% in 3Q12.

Size and Composition

The outstanding amount of local currency (LCY) bonds in Thailand stood at THB8.5 trillion (US\$279 billion) at end-December, growing 19.8% y-o-y and 4.2% quarter-on-quarter (q-o-q) (**Table 1**). Total government bonds rose 17.7% y-o-y and 3.6% q-o-q to level off at THB6.8 trillion. The outstanding size of central bank bonds increased 18.1% y-o-y and 6.4% q-o-q to reach THB3.1 trillion, while outstanding government bonds expanded 15.1% y-o-y and 1.2% q-o-q to level off at THB3.0 trillion. The size of outstanding state-owned enterprise and other bonds climbed 29.8% y-o-y and 1.5% q-o-q to reach THB616 billion.

The outstanding amount of LCY corporate bonds increased 28.8% y-o-y and 6.7% q-o-q to

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

	Outstanding Amount (billion)										Growth Rate (%)					
	Sep-12		Oct-12		Nov-12		Dec-12		Sep-12		Oct-12	Nov-12		Dec-12		
	THB	US\$	THB	US\$	THB	US\$	THB	US\$	q-o-q	y-o-y	m-o-m	m-o-m	m-o-m	q-o-q	y-o-y	
Total	8,176	265	8,175	266	8,362	272	8,520	279	1.9	14.4	(0.01)	2.3	1.9	4.2	19.8	
Government	6,527	212	6,500	212	6,642	216	6,760	221	1.3	12.1	(0.4)	2.2	1.8	3.6	17.7	
Government Bonds and Treasury Bills	2,987	97	2,895	94	2,949	96	3,024	99	(0.4)	6.3	(3.1)	1.9	2.5	1.2	15.1	
Central Bank Bonds	2,933	95	2,988	97	3,076	100	3,120	102	(1.0)	15.7	1.9	3.0	1.4	6.4	18.1	
State-Owned Enterprise and Other Bonds	607	20	618	20	617	20	616	20	26.0	26.7	1.8	(0.01)	(0.3)	1.5	29.8	
Corporate	1,649	54	1,675	55	1,719	56	1,760	58	4.2	24.4	1.6	2.6	2.4	6.7	28.8	

() = negative, 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.

reach THB1.8 trillion at end-December. The top 30 corporate bond issuers had combined bonds outstanding of THB1.1 trillion, which accounted for 65.1% of total corporate bonds outstanding (**Table 2**). PTT and Siam Cement remained the two largest corporate issuers in terms of total LCY bonds outstanding.

The three largest corporate bond issues in 4Q12 included Siam Cement's THB25 billion 4-year bond carrying a coupon rate of 4.15%, Bangkok Bank's THB20 billion 10-year subordinated bond with a 4.375% coupon, and Bank of Ayudhya's THB14.8 billion 10-year subordinated bond offering a 4.7% coupon. True Corporation issued a corporate bond with a relatively high coupon rate: a 4-year bond worth THB6 billion set at 6.0%. The corporate bond issue in 4Q12 with the longest tenor was MBK's 15-year bond worth THB1.5 billion.

Investor Profile

Contractual savings funds remained the largest holders of LCY government bonds in Thailand at end-December, accounting for 28% of the total, followed by insurance companies with a 23% share (**Figure 2**). Compared with end-2011, the respective shares of the central bank, contractual savings funds, insurance companies, non-financial market mutual funds, and nonresident investors all increased, while shares fell for most other types of bond investors. The share of nonresidents or foreign investors recorded the biggest increase, rising 5 percentage points between end-2011 and end-December to reach 16%.

Retail investors remained the largest investor group in LCY corporate bonds, holding 51% of the total at end-June 2012 (**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

Table 2: Top 30 Issuers of LCY Corporate Bonds in Thailand

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	126.5	4.1	Yes	No	Yes	Diversified
3. Krung Thai Bank	75.7	2.5	Yes	No	Yes	Financial
4. Siam Commercial Bank	60.0	2.0	No	Yes	Yes	Financial
5. Charoen Pokphand Foods	58.5	1.9	No	Yes	Yes	Consumer
6. Bank of Ayudhya	52.7	1.7	No	Yes	Yes	Financial
7. Kasikorn Bank	47.1	1.5	No	Yes	Yes	Financial
8. Thanachart Bank	42.6	1.4	No	Yes	No	Financial
9. Thai Airways International	34.7	1.1	Yes	No	Yes	Consumer
10. PTT Global Chemical	33.3	1.1	Yes	No	Yes	Basic Materials
11. Ayudhya Capital Auto Lease	32.1	1.0	No	Yes	No	Financial
12. PTT Exploration and Production Company	29.2	1.0	Yes	No	Yes	Energy
13. Thai Oil	27.8	0.9	Yes	No	Yes	Energy
14. TMB Bank	27.7	0.9	No	Yes	Yes	Financial
15. Banpu	25.3	0.8	No	Yes	Yes	Energy
16. Krung Thai Card	23.5	0.8	Yes	No	Yes	Financial
17. DAD SPV	22.5	0.7	Yes	No	No	Financial
18. Mitr Phol Sugar	22.2	0.7	No	Yes	No	Consumer
19. True Corporation	22.1	0.7	No	Yes	Yes	Communications
20. Indorama Ventures	21.7	0.7	No	Yes	Yes	Basic Materials
21. Toyota Leasing Thailand	20.9	0.7	No	Yes	No	Consumer
22. Bangkok Bank	20.0	0.7	No	Yes	Yes	Financial
23. IRPC	19.6	0.6	Yes	No	Yes	Energy
24. Glow Energy	19.1	0.6	No	Yes	Yes	Utilities
25. Quality Houses	18.3	0.6	No	Yes	Yes	Consumer
26. Minor International	16.4	0.5	No	Yes	Yes	Consumer
27. Bangkok Expressway	16.2	0.5	No	Yes	Yes	Consumer
28. Land & Houses	15.0	0.5	No	Yes	Yes	Consumer
29. Thanachart Capital	15.0	0.5	No	Yes	Yes	Financial
30. Tisco Bank	14.1	0.5	No	Yes	No	Financial
Total Top 30 LCY Corporate Issuers	1,146.5	37.5				
Total LCY Corporate Bonds	1,760.5	57.6				
Top 30 as % of Total LCY Corporate Bonds	65.1%	65.1%				

LCY = local currency.

Notes:

1. Data as of 31 December 2012.

2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.

Source: *AsiaBondsOnline* calculations based on Bloomberg data.

Figure 2: LCY Government Bonds Investor Profile

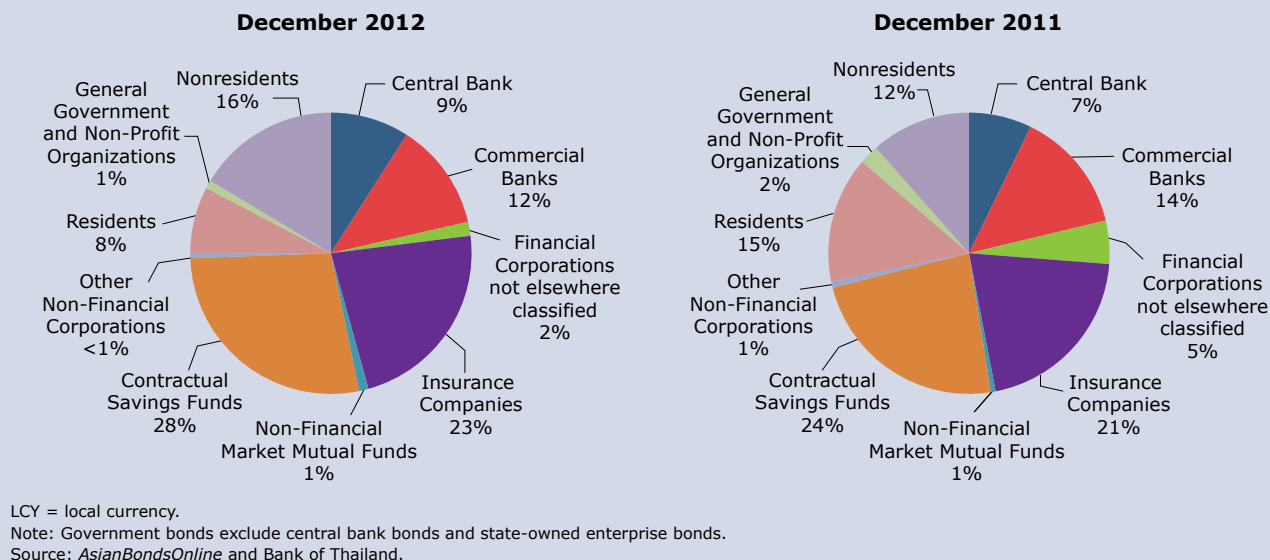
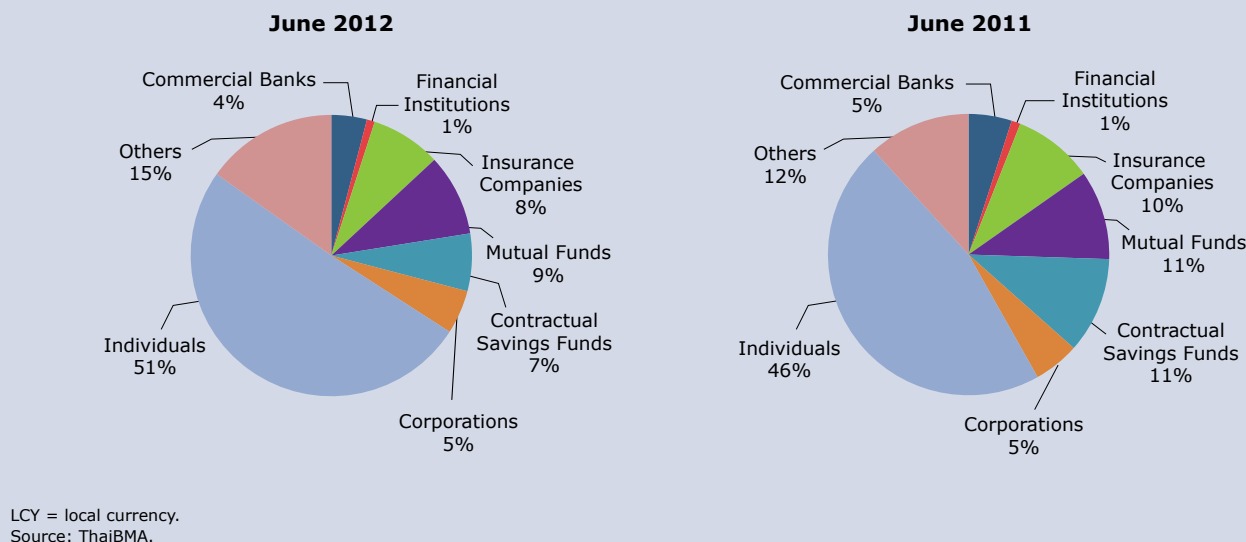


Figure 3: LCY Corporate Bonds Investor Profile



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

Rating Changes

In October, Rating and Investment Information (R&I) upgraded Thailand’s foreign currency (FCY) issuer rating 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.

Policy, Institutional, and Regulatory Developments

MOF Permits Eight Foreign Entities to Issue LCY Bonds in Thailand

The Ministry of Finance (MOF) has permitted eight foreign entities to sell THB-denominated bonds and debentures in Thailand, totaling THB59 billion, between 1 January and 30 September. These entities and their respective authorized bond issuance amounts are as follows: (i) Industrial Bank of Korea (THB10 billion), (ii) ING Bank (THB10 billion), (iii) Korea Eximbank (THB10 billion), (iv) Shinhan Bank (THB10 billion), (v) Woori Bank (THB10 billion), (vi) Rabobank Nederland (THB4 billion), (vii) Noble Group (THB3.5 billion), and (viii) Ministry of Finance of Lao PDR (THB1.5 billion).

BOT Announces Planned Bond Issuance Program for 2013

In December, BOT announced its planned bond issuance program for 2013. BOT noted that in 2013 it would cease issuance of 4-year fixed coupon bonds, as well as 2- and 3-year floating rate bonds. BOT will also raise the issue size per auction of its short-term bonds and slightly lower the issue size of its medium-term bonds. The central bank stated that these plans were in line with changing market conditions and would further facilitate the development of Thailand's bond market.

BOT Provides Notification on Basel III's Capital Adequacy Framework

In December, BOT provided notification on Basel III's capital adequacy framework. The central bank informed Thai banks of the requirement to maintain a minimum common equity ratio of 4.5%, a Tier 1 ratio of 6.0%, and a total capital ratio of 8.5%. The notification also stipulates that branches of foreign banks are required to maintain a total capital ratio of 8.5%.