

Thailand

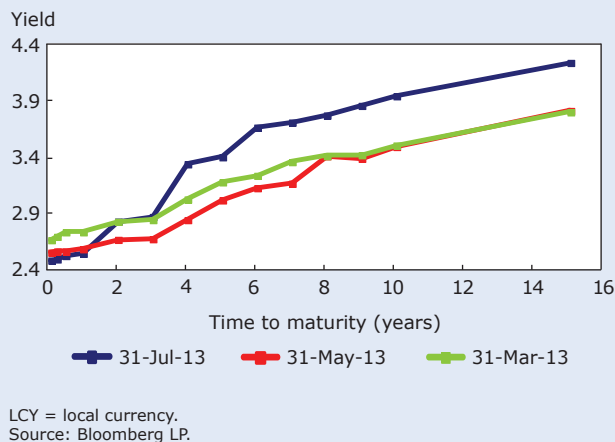
Yield Movements

Thailand's local currency (LCY) government bond yields fell for tenors of 1 year or less and rose for tenors of more than 1 year between end-March and end-July, resulting in a steepening of the yield curve (**Figure 1**). The largest drop in yields during this period was for the 6-month tenor at 21 basis points (bps), while the largest hikes were for the 9-, 10-, and 15-year tenors at 44 bps each. Between end-March and end-May, yields fell for all tenors except the 15-year. However, between end-May and end-July, yields rose for most tenors, especially for tenors of more than 1 year, while falling for tenors of 1 year or less. Meanwhile, the yield spread between the 2- and 10-year tenors widened 43 bps between end-March and end-July to reach 111 bps.

The fall in short-term LCY government bond yields in Thailand between end-March and end-July followed the 28–29 May decision of the Bank of Thailand's (BOT) Monetary Policy Committee to lower the policy rate—the 1-day repurchase rate—by 25 bps to 2.50%. In its subsequent meetings on 9–10 July and 21 August, the committee decided to keep the policy rate steady at 2.50%. On the other hand, the rise in medium- to long-term yields during this period mainly reflected market expectations of a tapering in the United States (US) Federal Reserve's purchase of Treasuries and agency mortgage-backed securities, which triggered an increase in the sell-off by foreign investors of THB-denominated medium- to long-term government bonds.

Consumer price inflation moderated to 1.6% year-on-year (y-o-y) in August from 2.0% in July. The price index for food and nonalcoholic beverages rose 2.7% following a 2.8% increase in July. Meanwhile, the price index for non-food and beverage items climbed 1.1% y-o-y in August, lower than the 1.6% hike posted in the previous month.

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



Real gross domestic product (GDP) growth decelerated to 2.8% y-o-y in 2Q13 from 5.4% y-o-y in 1Q13 amid slower growth in domestic demand and exports. On the expenditure side, the y-o-y growth rate between 1Q13 and 2Q13 fell from 4.4% to 2.4% for private consumption, from 5.8% to 4.5% for gross fixed capital formation, from 8.3% to 2.8% for total exports, and from 8.1% to 4.1% for total imports, whereas it rose from 2.9% to 5.8% for government spending. On the production side, growth in the non-agriculture sector slowed to 3.0% y-o-y in 2Q13 from 5.8% in 1Q13, as the y-o-y growth rate for the manufacturing sector fell to -1.0% from 4.9%, while growth in the agriculture sector slipped to 0.1% y-o-y in 2Q13 from 0.8% in the previous quarter. In August, the Government of Thailand's Cabinet approved measures—covering the areas of private consumption, private investment, government spending, and exports—aimed at promoting stable economic growth.

For the month of July, manufacturing production dropped 4.5% y-o-y after contracting 3.2% in June, according to Bank of Thailand data.

The country's current account deficit widened to US\$708.9 million in July from US\$664.3 million in June. The m-o-m increase was on the back of a 56.2% monthly drop in the merchandise trade surplus, which stood at US\$257.6 million in July, as merchandise imports rose 1.7% m-o-m while merchandise exports slipped 0.1% m-o-m. Moreover, the deficit in the net services, primary income, and secondary income account narrowed 22.8% m-o-m to US\$966.4 million in July.

Size and Composition

LCY bonds outstanding in Thailand totaled THB8.9 trillion (US\$286 billion) at the end of 2Q13, reflecting increases of 3.0% q-o-q and 10.6% y-o-y (**Table 1**). The growth rates for 2Q13, however, were lower compared with 2Q12. The value of LCY government bonds outstanding, which accounted for 79% of the overall bond market at the end of 2Q13, climbed 3.4% q-o-q and 8.7% y-o-y, slower than the growth posted in 2Q12. Central government bonds reached THB3.2 trillion at the end of 2Q13 on moderating growth rates of 4.3% q-o-q and 7.7% y-o-y. Central bank bonds rose at a slower pace than central government bonds—2.4% q-o-q and 4.6% y-o-y—to level off at THB3.1 trillion, while state-owned enterprise (SOE) and other bonds grew 3.4% q-o-q and 40.5% y-o-y to reach THB676 billion at the end of 2Q13.

Issuance of LCY government bonds fell 3.2% q-o-q and 24.2% y-o-y in 2Q13. This was on the back of reduced issuance from the central bank (-0.6% q-o-q and -24.3% y-o-y) and central government (-19.5% q-o-q and -36.8% y-o-y). Meanwhile, issuance of SOE bonds had a mixed performance in 2Q13, falling 20.1% q-o-q but rising 55.3% y-o-y.

LCY corporate bonds outstanding amounted to THB1.9 trillion at the end of 2Q13, up 1.8% q-o-q and 18.5% y-o-y. The top 30 corporate issuers had combined bonds outstanding of THB1.2 trillion, which comprised 61.7% of total corporate bonds, with PTT and Siam Cement as the two largest corporate bond issuers (**Table 2**). Issuance of LCY corporate debt securities jumped 76.3% q-o-q and 137.5% y-o-y in 2Q13 on the back of a sharp rise in debt issues with tenors of 1 year or less.

The two largest corporate bonds issued in 2Q13 were Siam Cement's 4-year bond worth THB25 billion and with a coupon rate of 4.0%, and True Corporation's 4-year bond valued at THB7.8 billion and carrying a coupon of 5.8% (**Table 3**). The two bond issues with the highest coupon rates in 2Q13 were Property Perfect's 2-year bond worth THB2 billion and offering a 6.05% coupon and True Corporation's 4-year bond at 5.8% coupon. Mitr Phol Sugar Corporation issued the bond with the longest tenor at 12 years.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	2Q12		1Q13		2Q13		2Q12		2Q13	
	THB	US\$	THB	US\$	THB	US\$	q-o-q	y-o-y	q-o-q	y-o-y
Total	8,027	254	8,621	295	8,882	286	4.1	17.7	3.0	10.6
Government	6,444	204	6,779	232	7,007	226	4.8	17.9	3.4	8.7
Government Bonds and Treasury Bills	3,000	95	3,098	106	3,231	104	8.0	17.3	4.3	7.7
Central Bank Bonds	2,963	94	3,026	103	3,099	100	1.7	22.1	2.4	4.6
State-Owned Enterprise and Other Bonds	481	15	654	22	676	22	4.5	(0.2)	3.4	40.5
Corporate	1,583	50	1,842	63	1,875	60	1.6	16.9	1.8	18.5

() = negative, LCY = local currency, 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 an LCY base and do not include currency effects.

Sources: Bank of Thailand (BOT) and Bloomberg LP.

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

Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
	LCY Bonds (THB billion)	LCY Bonds (US\$ billion)			
1. PTT	180.0	5.8	Yes	Yes	Energy
2. Siam Cement	131.5	4.2	Yes	Yes	Diversified
3. Krung Thai Bank	75.1	2.4	Yes	Yes	Financial
4. Charoen Pokphand Foods	64.5	2.1	No	Yes	Consumer
5. Bank of Ayudhya	59.7	1.9	No	Yes	Financial
6. Kasikorn Bank	47.1	1.5	No	Yes	Financial
7. Thanachart Bank	40.5	1.3	No	No	Financial
8. Siam Commercial Bank	40.0	1.3	No	Yes	Financial
9. Thai Airways International	39.7	1.3	Yes	Yes	Consumer
10. Ayudhya Capital Auto Lease	37.4	1.2	No	No	Financial
11. PTT Global Chemical	33.3	1.1	Yes	Yes	Basic Materials
12. Thai Oil	27.8	0.9	Yes	Yes	Energy
13. TMB Bank	27.7	0.9	No	Yes	Financial
14. Toyota Leasing Thailand	27.1	0.9	No	No	Consumer
15. Mitr Phol Sugar	25.2	0.8	No	No	Consumer
16. Banpu	25.2	0.8	No	Yes	Energy
17. PTT Exploration and Production Company	24.2	0.8	Yes	Yes	Energy
18. Indorama Ventures	23.9	0.8	No	Yes	Basic Materials
19. DAD SPV	22.5	0.7	Yes	No	Financial
20. Krung Thai Card	22.5	0.7	Yes	Yes	Financial
21. Tisco Bank	20.3	0.7	No	No	Financial
22. Bangkok Bank	20.0	0.6	No	Yes	Financial
23. IRPC	19.6	0.6	Yes	Yes	Energy
24. Bangkok Expressway	19.2	0.6	No	Yes	Consumer
25. Glow Energy	19.1	0.6	No	Yes	Utilities
26. Quality Houses	18.0	0.6	No	Yes	Real Estate
27. Prukha Real Estate	17.0	0.5	No	Yes	Real Estate
28. True Corporation	16.7	0.5	No	Yes	Communications
29. Land & Houses	16.5	0.5	No	Yes	Real Estate
30. Minor International	16.4	0.5	No	Yes	Consumer
Total Top 30 LCY Corporate Issuers	1,157.4	37.3			
Total LCY Corporate Bonds	1,875.3	60.4			
Top 30 as % of Total LCY Corporate Bonds	61.7%	61.7%			

LCY = local currency.

Notes:

1. Data as of end-June 2013.

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.

Table 3: Notable LCY Corporate Bond Issuance in 2Q13

Corporate Issuers	Coupon Rate (%)	Issued Amount (THB billion)
Bank Ayudhya		
2-year bond	3.48	6.0
Charoen Phokpand Foods		
5-year bond	3.93	6.0
Siam Cement		
4-year bond	4.00	25.0
Toyota Leasing (Thailand)		
3-year bond	3.21	5.4
True Corporation		
4-year bond	5.80	7.8

LCY = local currency.
Source: Bloomberg LP.

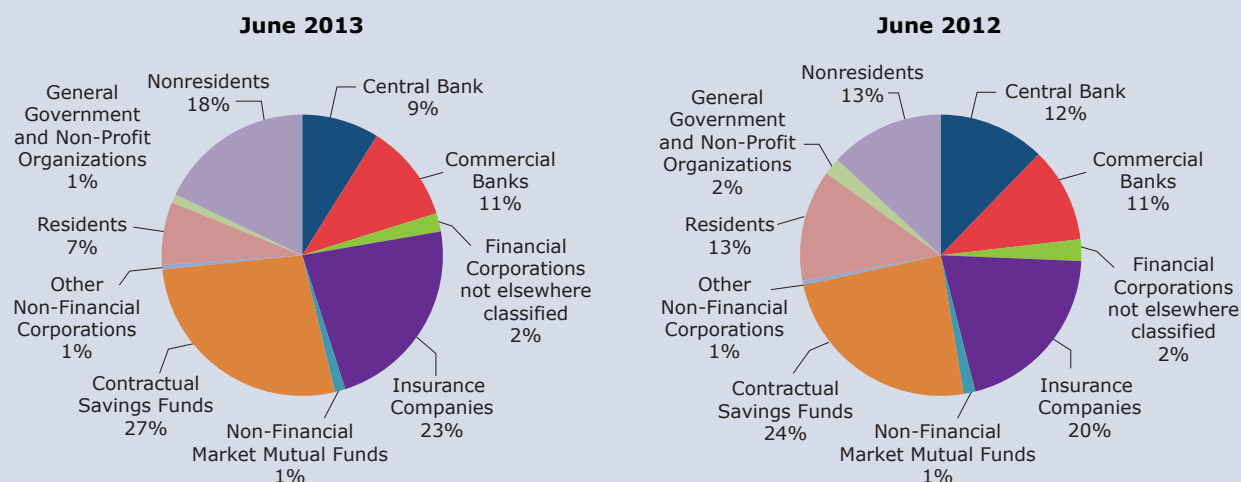
The bond is worth THB2.4 billion and carries a 5.0% coupon.

Investor Profile

Contractual savings funds remained the largest investor group in Thailand's LCY government bond market at the end of June, accounting for 27% of the total, followed by insurance companies with a 23% share (**Figure 2**).

Between June 2012 and June 2013, the shares of contractual savings funds, insurance companies, and nonresidents all increased, while those of the central bank, general government and non-profit organizations, and residents all fell. The share of nonresidents posted the biggest increase at 5 percentage points.

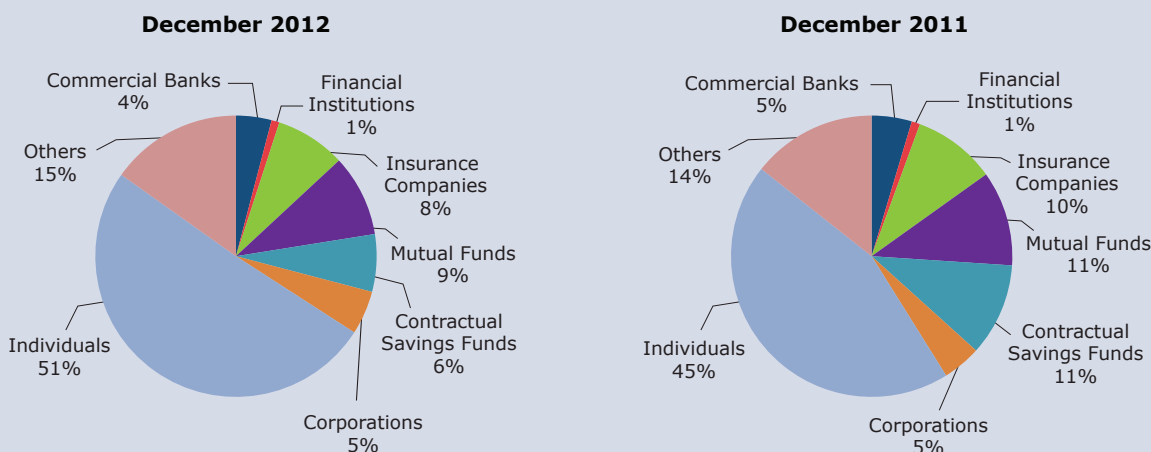
Retail investors remained the largest investor group in LCY corporate bonds, according to the most recent data, holding 51% of the total at end-December 2012 (**Figure 3**). They were followed by other investors—such as the government, cooperatives, foundations, and temples—with a combined 15% share, then mutual funds (9%), insurance companies (8%), contractual savings funds (6%), non-financial corporations (5%), commercial banks (4%), and other financial institutions (1%). Compared with end-December 2011, the share of individual retail investors rose 6 percentage points, while the share of the combined group of government, cooperatives, foundations, and temples rose 1 percentage point. In contrast, the shares of commercial banks, contractual savings funds, insurance companies, and mutual funds, all fell compared with end-December 2011.

Figure 2: LCY Government Bonds Investor Profile

LCY = local currency.

Note: Government bonds exclude central bank bonds and state-owned enterprise bonds.

Sources: *AsianBondsOnline* and Bank of Thailand.

Figure 3: LCY Corporate Bonds Investor Profile

LCY = local currency.
Source: ThaiBMA.

Rating Changes

On 8 March, Fitch Ratings (Fitch) announced that it had upgraded Thailand's long-term foreign currency (FCY) issuer default rating (IDR) to BBB+ from BBB with a stable outlook, affirmed the long-term LCY IDR at A- with a stable outlook, upgraded the short-term FCY IDR to F2 from F3, and upgraded the country ceiling to A- from BBB+. In making its rating decisions, Fitch cited key rating drivers such as the economy's resilience to shocks, sound external finances, and low gross general government indebtedness, among other factors.

Policy, Institutional, and Regulatory Developments

Thailand's Cabinet Approves Measures to Promote Stable Economic Growth

The Government of Thailand's Cabinet agreed during its 6 August meeting on the implementation by the relevant government offices of measures focusing on private consumption, private investment, government spending, and exports. These measures, aimed at promoting stable economic growth, include (i) offering tax incentives to boost the tourism industry and promote the organization of seminars, (ii) promoting investments in the agro-processing industry, (iii) accelerating budget disbursements for fiscal

years 2013 and 2014, (iv) expanding exports into potential new markets, and (v) increasing the access of small and medium-sized enterprises (SMEs) to financing.

MOF Permits Two Foreign Entities to Issue LCY Bonds in Thailand

The Ministry of Finance (MOF) announced in May that it was permitting two foreign entities to sell THB-denominated bonds and debentures in Thailand, totaling THB14 billion, between 1 May 2013 and 31 January 2014. These two entities and their respective authorized bond issuance amounts are (i) Australia and New Zealand Banking Corporation (THB8 billion) and (ii) Westpac Banking Corporation (THB6 billion).

Amendments Approved to Regulations Governing REITs

Thailand's Securities and Exchange Commission (SEC) announced in July that the Capital Market Supervisory Board approved amendments to regulations governing the creation and management of real estate investment trusts (REITs). The amendments will allow an REIT trustee to participate in more REIT-related businesses for as long as the trustee is independent from the REIT manager. Measures preventing conflicts of interest among REIT-related businesses will also be put in place.