

Thailand

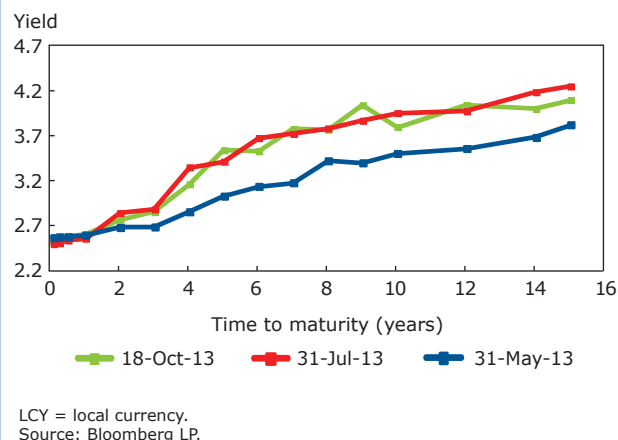
Yield Movements

Yields on Thailand's local currency (LCY) government bonds rose for most tenors between end-May and 18 October (**Figure 1**). Yield hikes were evident in tenors of more than 3 months, ranging from 1 basis point (bp) for 6-month and 1-year government bonds to 64 bps for the 9-year government bond. The increase in yields for most tenors was more pronounced between end-May and end-July, amid market concerns over a possible tapering in the asset purchase program of the United States (US) Federal Reserve. Between end-July and 18 October, yield movements were mixed, rising for half of the tenors along the yield curve and falling for the other half. Meanwhile, the yield spread between the 2- and 10-year tenors widened 22 bps between end-May and 18 October, resulting in a steepening of the curve.

The Bank of Thailand's (BOT) Monetary Policy Committee decided on 16 October to maintain its policy rate at 2.50%. In its monetary policy decision, the committee reported that the global economy has gradually improved amid substantial downside risks, and while the economy of Thailand has grown more slowly than expected it has started to stabilize and exhibit improvements in some sectors. The committee also stated that the current accommodative monetary policy is still appropriate in supporting the country's economic recovery amid uncertainty in the global financial and economic environment.

The BOT reported in October that it has revised downward its 2013 and 2014 gross domestic product (GDP) growth forecasts to 3.7% (from 4.2% in July) and 4.8% (from 5.0%), respectively. The downward revision was made amid the more-than-expected moderation in domestic demand and slow export recovery. The central bank also revised downward its inflation forecasts for both years. Meanwhile, in September, the Ministry of

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



Finance, through its Fiscal Policy Office (FPO), announced its latest economic projections for 2013 and 2014. It forecast that Thailand's economy would expand by not less than 3.5% in 2013, with growth reaching 4.0% if the budget disbursement for October–December follows Cabinet-approved policy measures to promote sustainable economic growth. For 2014, the FPO projected 5.1% annual GDP growth.

In 2Q13, Thailand's real GDP growth stood at 2.8% year-on-year (y-o-y), lower than 1Q13's growth rate of 5.4%, amid slower growth in domestic demand and exports. In August, the Government of Thailand's Cabinet approved measures—covering private consumption, private investment, government spending, and exports—aimed at promoting stable economic growth.

Consumer price inflation inched up to 1.5% y-o-y in October from 1.4% in September. The y-o-y increase in the price index for food and non-alcoholic beverages accelerated to 2.9% in October from 2.5% in September. Meanwhile, the y-o-y hike in the price index for non-food and beverages slowed to 0.7% in October from 0.8% in September.

Thailand's current account deficit narrowed to US\$888 million in 3Q13 from US\$6.7 billion in 2Q13. The quarterly decline was largely induced by the merchandise trade balance shifting into a surplus position of US\$5 billion in 3Q13 from a deficit of US\$497.4 million in the previous quarter. Exports of goods grew 4.3% quarter-on-quarter (q-o-q) to US\$58 billion while merchandise imports contracted 5.6% q-o-q to US\$52.9 billion in 3Q13, leading to the reversal in the merchandise trade balance. Meanwhile, the deficit position in the net services, primary income and secondary income account narrowed 4.0% q-o-q to US\$5.9 billion.

Size and Composition

The outstanding stock of LCY bonds in Thailand at the end of 3Q13 stood at THB8.9 trillion (US\$285 billion), registering growth of 0.2% q-o-q and 8.8% y-o-y (**Table 1**). The growth rates for 3Q13, however, were lower compared with 3Q12. In the LCY government bond market, the outstanding volume was estimated at THB7 trillion as of end-September, up 7.3% y-o-y, but marginally lower by 0.04% on a q-o-q basis. The combined amount of treasury bills and bonds stood at THB3.4 trillion at the end of quarter, expanding 4.3% q-o-q and 12.8% y-o-y. Similarly, the outstanding value of state-owned enterprise (SOE) and

other bonds grew 5.3% q-o-q and 17.4% y-o-y to reach THB712 billion at the end of 3Q13. In contrast, central bank bonds were down 5.8% q-o-q and 0.4% y-o-y in 3Q13, leveling off at THB2.9 trillion.

LCY government bond issuance in 3Q13 was lower compared with the previous quarter and in the same quarter of the previous year. Between 2Q13 and 3Q13, total LCY government bond issuance was down 7.3%, as issuance of central bank bonds fell 8.3%, more than offsetting the 1.3% increase in the combined bond issues of the central government and SOEs. On a y-o-y basis, issuance of LCY government bonds was down 20.6% in 3Q13, led by a 14.1% reduction in BOT's bond issues and a 48.7% fall in the bond issuance of the central government and SOEs. The relatively sharp annual decline in issuance by both the central government and SOEs was largely due to a high base in 3Q12, due in part to bonds issued by the state-owned Bank for Agriculture and Agricultural Cooperatives (BAAC).

In the LCY corporate bond market, the outstanding stock of bonds stood at THB1.9 trillion in 3Q13, up 1.3% q-o-q and 14.7% y-o-y. By the end of September, the top 30 corporate issuers had combined bonds outstanding of THB1.2 trillion, which comprised 63.7% of the

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

	Outstanding Amount (billion)						Growth Rate (%)			
	3Q12		2Q13		3Q13		3Q12		3Q13	
	THB	US\$	THB	US\$	THB	US\$	q-o-q	y-o-y	q-o-q	y-o-y
Total	8,183	265	8,882	286	8,903	285	1.9	14.5	0.2	8.8
Government	6,527	212	7,007	226	7,004	224	1.3	12.1	(0.04)	7.3
Government Bonds and Treasury Bills	2,987	97	3,231	104	3,371	108	(0.4)	6.3	4.3	12.8
Central Bank Bonds	2,933	95	3,099	100	2,920	93	(1.0)	15.7	(5.8)	(0.4)
State-Owned Enterprise and Other Bonds	607	20	676	22	712	23	26.0	26.7	5.3	17.4
Corporate	1,656	54	1,875	60	1,899	61	4.6	24.9	1.3	14.7

() = 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.

total outstanding stock of LCY corporate bonds (**Table 2**). The two-largest corporate issuers as of end-September were PTT and Siam Cement with bonds outstanding of THB190 billion and THB131.5 billion, respectively. Overall, Thailand's

LCY corporate bond issuance in 3Q13 was down 50.8% q-o-q and 2.5% y-o-y.

The five largest LCY corporate bond issues in Thailand during 3Q13 were (i) True Corporation's

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	190.0	6.1	Yes	Yes	Energy
2. Siam Cement	131.5	4.2	Yes	Yes	Diversified
3. Charoen Pokphand Foods	71.5	2.3	No	Yes	Consumer
4. Krung Thai Bank	68.2	2.2	Yes	Yes	Financial
5. Bank of Ayudhya	59.7	1.9	No	Yes	Financial
6. Kasikorn Bank	59.1	1.9	No	Yes	Financial
7. Thai Airways International	43.7	1.4	Yes	Yes	Consumer
8. Thanachart Bank	41.9	1.3	No	No	Financial
9. Ayudhya Capital Auto Lease	40.4	1.3	No	No	Financial
10. Siam Commercial Bank	40.0	1.3	No	Yes	Financial
11. PTT Global Chemical	33.3	1.1	Yes	Yes	Basic Materials
12. Banpu	29.6	0.9	No	Yes	Energy
13. Toyota Leasing Thailand	28.1	0.9	No	No	Consumer
14. True Corporation	27.9	0.9	No	Yes	Communications
15. Thai Oil	27.8	0.9	Yes	Yes	Energy
16. TMB Bank	27.7	0.9	No	Yes	Financial
17. Krung Thai Card	25.5	0.8	Yes	Yes	Financial
18. Mitr Phol Sugar	25.2	0.8	No	No	Consumer
19. PTT Exploration and Production Company	24.2	0.8	Yes	Yes	Energy
20. Indorama Ventures	23.9	0.8	No	Yes	Basic Materials
21. DAD SPV	22.5	0.7	Yes	No	Financial
22. Tisco Bank	20.6	0.7	No	No	Financial
23. Bangkok Bank	20.0	0.6	No	Yes	Financial
24. IRPC	19.6	0.6	Yes	Yes	Energy
25. Glow Energy	19.1	0.6	No	Yes	Utilities
26. Bangkok Expressway	18.2	0.6	No	Yes	Consumer
27. Land & Houses	18.0	0.6	No	Yes	Real Estate
28. Quality Houses	18.0	0.6	No	Yes	Real Estate
29. Kiatnakin Bank	17.5	0.6	No	Yes	Financial
30. Prukha Real Estate	17.0	0.5	No	Yes	Real Estate
Total Top 30 LCY Corporate Issuers	1,209.4	38.7			
Total LCY Corporate Bonds	1,899.1	60.8			
Top 30 as % of Total LCY Corporate Bonds	63.7%	63.7%			

LCY = local currency.

Notes:

1. Data as of end-September 2013.

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

Source: *AsianBondsOnline* calculations based on Bloomberg data.

THB11.2 billion 4-year bond carrying a coupon rate of 5.55%, (ii) PTT's THB10 billion 10-year bond at a 5.12% coupon, (iii) Charoen Pokphand Foods' 10-year bond worth THB5.5 billion with a 4.90% coupon, (iv) Toyota Access Communication's 3-year bond worth THB5 billion with a 3.72% coupon, and (v) Toyota Leasing's (Thailand) THB4.75 billion 2-year bond at a 3.34% coupon (**Table 3**).

Table 3: Notable LCY Corporate Bond Issuance in 3Q13

Corporate Issuers	Coupon Rate (%)	Issued Amount (THB billion)
True Corporation		
4-year bond	5.55	11.21
PTT		
10-year bond	5.12	10.00
Charoen Pokphand Foods		
10-year bond	4.90	5.50
Toyota Access Communication		
3-year bond	3.72	5.00
Toyota Leasing (Thailand)		
2-year bond	3.34	4.75

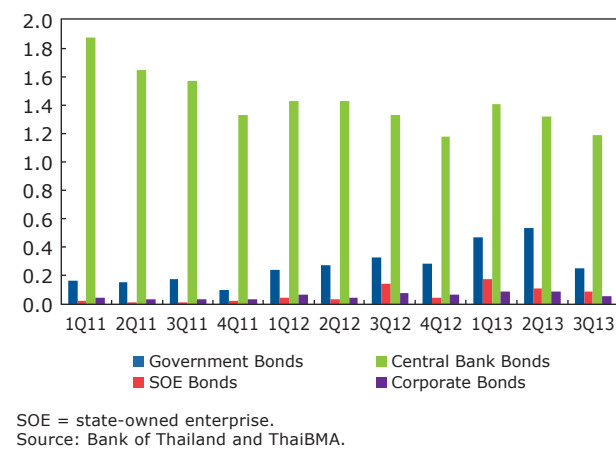
LCY = local currency.
Source: Bloomberg LP.

Liquidity

Liquidity conditions in Thailand's LCY bond market appear to have tightened in 3Q13 from the previous quarter and a year earlier (**Figure 2**). The turnover ratio for LCY government bonds fell to 0.65 in 3Q13 from 0.84 in 2Q13 and 0.80 in 3Q12. The turnover ratios for LCY bonds issued by the central government, central bank, and SOEs fell in 3Q13 from 2Q13 and 3Q12 levels as trading volumes for all of these types of bonds declined on both q-o-q and y-o-y bases. In particular, 3Q13 trading volume was down (i) 51.4% q-o-q and 14.0% y-o-y for central government bonds, (ii) 10.9% q-o-q and 8.5% y-o-y for central bank bonds, and (iii) 9.0% q-o-q and 17.2% y-o-y for SOE bonds.

Similarly, the turnover ratio for LCY corporate bonds also fell on both a quarterly and annual

Figure 2: Turnover Ratios of Government and Corporate Bonds in Thailand



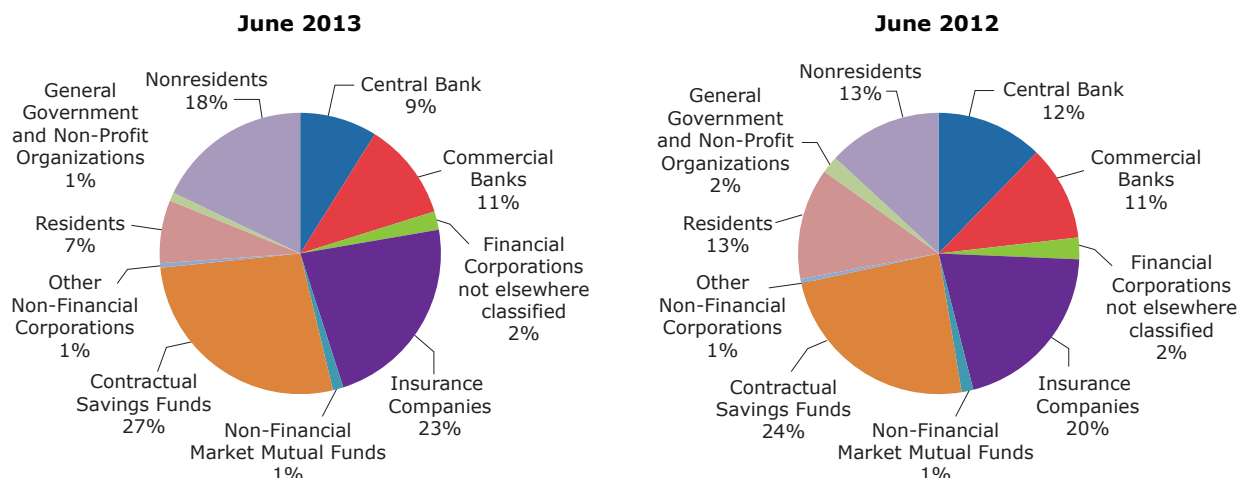
basis to 0.06 in 3Q13 from 0.08 in 2Q13 and 0.07 in 3Q12. These declines were partly induced by a fall in the trading volume of LCY corporate bonds of 32.8% q-o-q and 11.4% y-o-y.

Investor Profile

At end-June, the largest investor group in Thailand's LCY government bond market was contractual savings funds with 27% of total government bonds (**Figure 3**). They were followed by insurance companies with a 23% share. Compared with the same month in the previous year, the shares of contractual savings funds, insurance companies, and nonresidents all climbed, with the share of foreign investors posting the biggest increase. In contrast, the shares of the central bank, general government and non-profit organizations, and domestic residents all decreased during this period.

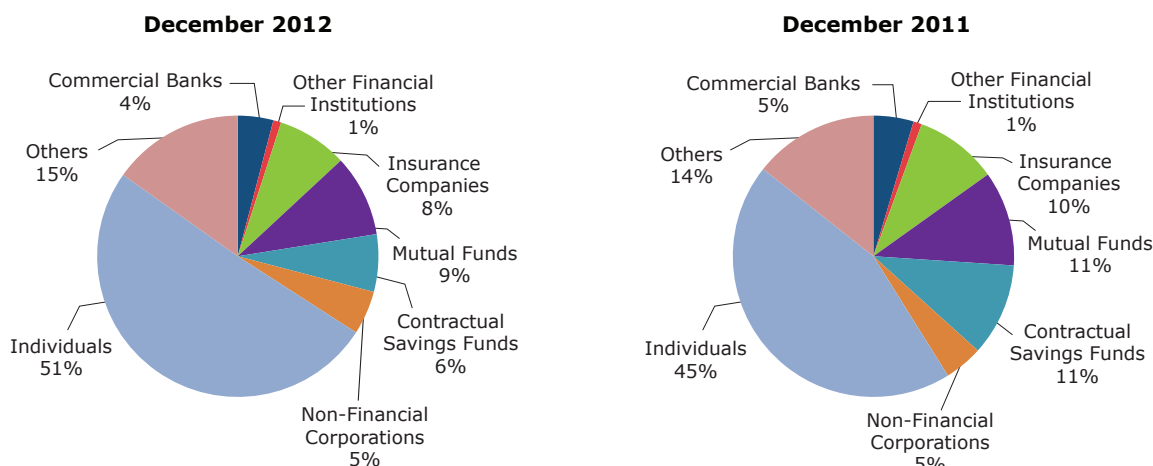
In the LCY corporate bond market, the most recent data on investor holdings indicate that individual retail investors remain the largest investor group, holding 52% of the total at end-December 2012 (**Figure 4**). On an annual basis, the share of individual retail investors rose 6 percentage points, while the share of the combined group of government, cooperatives, foundations, and temples rose 1 percentage point. In contrast, the

Figure 3: 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 4: LCY Corporate Bonds Investor Profile



LCY = local currency.
 Source: ThaiBMA.

shares of commercial banks, contractual savings funds, insurance companies, and mutual funds all fell on an annual basis.

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

On 6 August, the Government of Thailand's Cabinet agreed on the implementation by the relevant government offices of measures focusing on stimulating 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.

Thailand Signs MOU with Malaysia and Singapore to Establish ASEAN CIS Framework

On 1 October, Securities and Exchange Commission, Thailand; the Securities Commission Malaysia; and the Monetary Authority of Singapore (MAS) signed a memorandum of understanding to establish an

Association of Southeast Asian Nations (ASEAN) collective investment schemes (CIS) Framework that will facilitate the cross-border offering of CIS to retail investors in Malaysia, Singapore, and Thailand. The signatories expect the framework to be implemented in the first half of 2014.

Thailand Plans US\$-Denominated Bond Issuance for Infrastructure Financing

The Government of Thailand plans to issue US\$-denominated bonds worth between US\$1 billion and US\$1.5 billion in 2014 to help finance its infrastructure projects—such as transport infrastructure—as well as water management projects. The country's infrastructure needs for fiscal year 2014 was estimated at THB137 billion, and is part of the government's total funding needs worth THB756 billion for the fiscal year.

CGIF Guarantees Noble Group's THB2.85 Billion 3-Year Bond

The Credit Guarantee and Investment Facility (CGIF) announced in April its first guaranteed bond transaction, which is Noble Group's THB-denominated bond issuance worth THB2.85 billion sold in Thailand's LCY bond market. The bond has a tenor of 3 years, a coupon rate of 3.55%, and a rating of 'AAA(thai)' from Fitch Ratings (Thailand).