

Thailand

Yield Movements

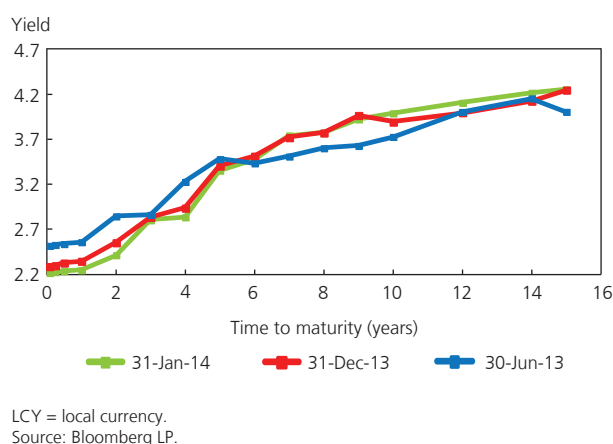
Thailand's local currency (LCY) government bond yield curve steepened between 30 June 2013 and 31 January 2014, as yields fell for shorter-term bonds and rose for longer-term bonds (**Figure 1**). Specifically, yields decreased for tenors of less than 6 years, with the decrease ranging from 6 basis points (bps) for the 3-year bond to 43 bps for the 2-year bond. Meanwhile, yields increased for tenors of 6 years and longer, with the hikes ranging from 4 bps for the 6-year bond to 29 bps for the 9-year bond. The yield spread between the 2- and 10-year tenors widened 69 bps during this period.

The second half of 2013 saw yields falling for most tenors, especially for short-term paper, with the declines more acute during the month of November as foreign investors sold relatively large amounts of short-term debt amid increased concerns over a tapering in the United States (US) Federal Reserve's asset purchase program before the end of the year. In January, yields fell further for most tenors amid expectations of additional tapering of the Federal Reserve's asset purchase program as well as concerns over the domestic political environment.

The Bank of Thailand's (BOT) Monetary Policy Committee decided on 22 January to maintain the policy rate at 2.25%, viewing its accommodative monetary policy stance as appropriate in support of economic recovery. In its previous meeting held on 27 November, the committee decided to reduce the policy rate 25 bps from 2.50% to 2.25% due to slower-than-expected domestic economic growth and increased downside risks. Thailand's real gross domestic product (GDP) growth decelerated to 0.6% y-o-y in 4Q13 from 2.7% in 3Q13, largely due to contractions in household consumption and domestic investment.

Consumer price inflation climbed to 1.9% year-on-year (y-o-y) in January from 1.7% in December amid increasing hikes in retail food prices. The price index for food and non-alcoholic beverages rose at a faster pace in January, increasing 3.6% y-o-y after rising 3.0% in the previous month. Meanwhile, the y-o-y increase in the price index for non-food items and

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



beverages inched up to 1.1% in January from 1.0% in December. On a month-on-month (m-o-m) basis, consumer price inflation rose to 0.4% in January from 0.1% in December. Meanwhile, for the full-year 2013, consumer price inflation in Thailand stood at 2.2%.

Size and Composition

The LCY bond market in Thailand continued to grow in 4Q13, recording growth rates of 0.9% quarter-on-quarter (q-o-q) and 5.7% y-o-y, which were both significantly lower than growth rates in the fourth quarter of the previous year (**Table 1**). The outstanding size of government bonds grew modestly by 3.5% on a y-o-y basis, but recorded a marginal 0.1% decrease from the previous quarter; the relatively slow growth of the government bond market was largely due to a contraction in the outstanding size of central bank bonds. In contrast, positive growth was evident in the outstanding size of bills and bonds sold by the central government, and the bonds of state-owned enterprises (SOEs).

Issuance of LCY government bonds was down in 4Q13, leveling off at THB1.7 trillion, which was down 5.5% q-o-q and 10.7% y-o-y. Central bank bond issues, which accounted for 60% of total LCY bond issuance in 4Q13, amounted to THB1.2 trillion in 4Q13, reflecting declines of 15.8% q-o-q and 27.8% y-o-y. In contrast, LCY central government bonds and treasury

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

	Outstanding Amount (billion)						Growth Rate (%)			
	4Q12		3Q13		4Q13		4Q12		4Q13	
	THB	US\$	THB	US\$	THB	US\$	q-o-q	y-o-y	q-o-q	y-o-y
Total	8,520	279	8,919	286	9,002	275	4.1	19.8	0.9	5.7
Government	6,760	221	7,004	224	6,996	214	3.6	17.7	(0.1)	3.5
Government Bonds and Treasury Bills	3,024	99	3,371	108	3,414	104	1.2	15.1	1.3	12.9
Central Bank Bonds	3,120	102	2,920	93	2,843	87	6.4	18.1	(2.6)	(8.9)
State-Owned Enterprise and Other Bonds	616	20	712	23	738	23	1.5	29.8	3.6	19.9
Corporate	1,760	58	1,915	61	2,006	61	6.3	28.8	4.8	14.0

() = 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.

bills together amounted to THB389 billion, which reflected increases of 86.8% q-o-q and 163.8% y-o-y. For SOE bonds, total issuance in 4Q13 stood at THB47.7 billion, which was down 49.7% q-o-q, but up 172.7% y-o-y.

Thailand's LCY corporate bond market again recorded positive growth in 4Q13, rising 4.8% q-o-q and 14.0% y-o-y, stemming from higher bond issuance by corporates, which reached THB386.1 billion on growth of 22.4% q-o-q and 12.1% y-o-y. At the end of 2013, PTT and Siam Cement stood as the two largest issuers in the LCY corporate bond market. Meanwhile, the combined bonds outstanding of the top 30 corporate issuers accounted for 61% of total corporate bonds outstanding (**Table 2**).

The two largest LCY corporate bond issues in Thailand during 4Q13 were a THB22 billion 7-year bond sold by PTT in November at a coupon rate of 4.75%, and a THB20 billion 4-year bond issued by Siam Cement in October at a 4.25% coupon (**Table 3**). CP All, a local store operator, raised THB50 billion from a multi-tranche bond sale in October, which included, among others, a THB11.0 billion 10-year bond at a 5.35% coupon, a THB6.8 billion 3-year bond at a 4.10% coupon, and a THB6.6 billion 5-year debenture at a 4.25% coupon.

Liquidity

Liquidity conditions in Thailand's LCY bond market appear to have tightened further in 4Q13, as the turnover ratios for both government and corporate

bonds declined from 3Q13 and 4Q12 (**Figure 2**). Trading volumes of bonds issued by the central bank, the central government, and SOEs contracted on a q-o-q basis, while trading volumes of central government and SOE bonds fell on a y-o-y basis, contributing to liquidity tightening in the government bond market during the last quarter of 2013. Moreover, the trading volume of corporate bonds fell on both a quarterly and annual basis, thereby resulting in a less liquid corporate bond market in 4Q13.

Investor Profile

Contractual savings funds and insurance companies remained the two largest investor groups in Thailand's LCY government bond market in 3Q13, the most recent quarter for which data are available, as their share of total government bond holdings leveled off at 27% and 23%, respectively, at end-September (**Figure 3**). Compared with September 2012, the biggest increase in the share in government bond holdings was that of non-resident investors, which recorded a 2 percentage point hike, followed by those of the central bank and insurance companies with increases of 1 percentage point apiece. Conversely, commercial banks' government bond holdings share posted the biggest annual decline at 3 percentage points, while a 1 percentage point decrease was incurred by both resident investors and other financial corporations.

Individual retail investors stood as the largest investor group in the LCY corporate bond market, as they held 51% of total LCY corporate bonds in Thailand at end-September (**Figure 4**). Compared with September

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	193.4	5.9	Yes	Yes	Energy
2. Siam Cement	141.5	4.3	Yes	Yes	Diversified
3. Charoen Pokphand Foods	69.3	2.1	No	Yes	Consumer
4. Krung Thai Bank	68.2	2.1	Yes	Yes	Financial
5. Bank of Ayudhya	59.7	1.8	No	Yes	Financial
6. CP All	50.0	1.5	No	Yes	Consumer
7. Thanachart Bank	41.9	1.3	No	No	Financial
8. Thai Airways International	41.1	1.3	Yes	Yes	Consumer
9. Siam Commercial Bank	40.0	1.2	No	Yes	Financial
10. Ayudhya Capital Auto Lease	38.8	1.2	No	No	Financial
11. True Corporation	32.8	1.0	No	Yes	Communications
12. Mitr Phol Sugar	30.2	0.9	No	No	Consumer
13. Kasikorn Bank	30.1	0.9	No	Yes	Financial
14. Banpu	29.6	0.9	No	Yes	Energy
15. TMB Bank	27.7	0.8	No	Yes	Financial
16. Toyota Leasing Thailand	26.7	0.8	No	No	Consumer
17. PTT Global Chemical	25.3	0.8	Yes	Yes	Basic Materials
18. Thai Oil	25.0	0.8	Yes	Yes	Energy
19. PTT Exploration and Production Company	24.2	0.7	Yes	Yes	Energy
20. Indorama Ventures	23.9	0.7	No	Yes	Basic Materials
21. Krung Thai Card	23.0	0.7	Yes	Yes	Financial
22. DAD SPV	22.5	0.7	Yes	No	Financial
23. Tisco Bank	20.6	0.6	No	No	Financial
24. Bangkok Bank	20.0	0.6	No	Yes	Financial
25. Quality Houses	20.0	0.6	No	Yes	Real Estate
26. IRPC	19.6	0.6	Yes	Yes	Energy
27. Thanachart Capital	19.3	0.6	No	Yes	Financial
28. Kiatnakin Bank	19.2	0.6	No	Yes	Financial
29. Glow Energy	19.1	0.6	No	Yes	Utilities
30. Bangkok Expressway	18.1	0.6	No	Yes	Consumer
Total Top 30 LCY Corporate Issuers	1,220.7	37.3			
Total LCY Corporate Bonds	2,006.2	61.3			
Top 30 as % of Total LCY Corporate Bonds	60.8%	60.8%			

LCY = local currency.

Notes:

1. Data as of end-December 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.

2012, the share of corporate bonds held by mutual funds posted the biggest gain at 2 percentage points, followed by contractual savings funds and non-financial corporations at 1 percentage point each. In contrast, a single percentage point drop was evident in the respective shares of commercial banks, insurance companies, and other investors.

Foreign investors' net trading of LCY bonds was not consistently positive on a monthly basis throughout 2013, unlike in 2012 (**Figure 5**). Foreign investors were net buyers of Thai LCY bonds from January to April, before becoming net sellers in May and June amid expectations of a tapering in the US Federal Reserve's asset purchase program. The second half of

Table 3: Notable LCY Corporate Bond Issuance in 4Q13

Corporate Issuers	Coupon Rate (%)	Issued Amount (THB billion)
PTT		
7-year bond	4.75	22.00
Siam Cement		
4-year bond	4.25	20.00
CP All		
3-year bond	4.10	6.82
5-year bond	4.25	6.60
10-year bond	5.35	10.99

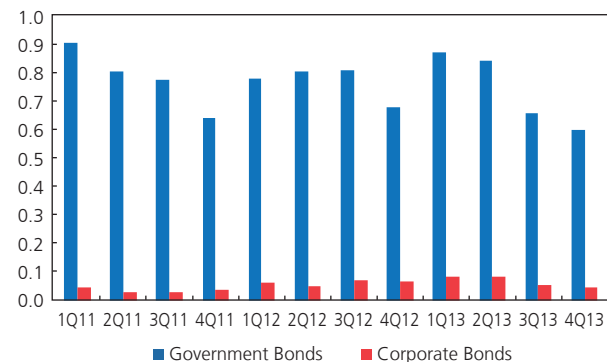
LCY = local currency.
Source: Bloomberg LP.

2013 saw foreign investors again becoming net bond sellers, specifically in August and November. Overall, foreign investors' net bond purchases in full-year 2013 were about half the amount of purchases in 2012. Meanwhile, foreign investors in the LCY bond market were again net sellers during the first month of 2014.

Rating Changes

Rating and Investment Information (R&I) announced in November that it was affirming its foreign currency issuer rating, its domestic currency issuer rating, and its foreign currency short-term debt ratings for Thailand

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



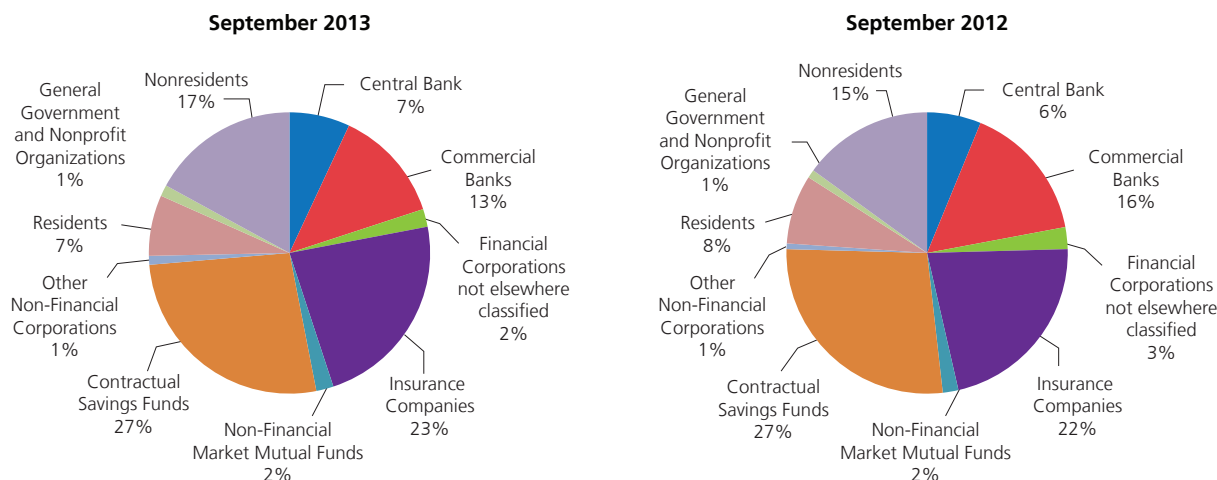
Sources: Bank of Thailand and ThaiBMA.

at BBB+, A-, and a-2, respectively. R&I also assigned a stable rating outlook for the issuer ratings.

Meanwhile, Fitch Ratings reported in early February that political tensions in Thailand were weighing on the country's economic activity, and that a more intense or prolonged political stand-off could eventually hurt Thailand's economic performance and financial stability, particularly when compared to its rating peers.

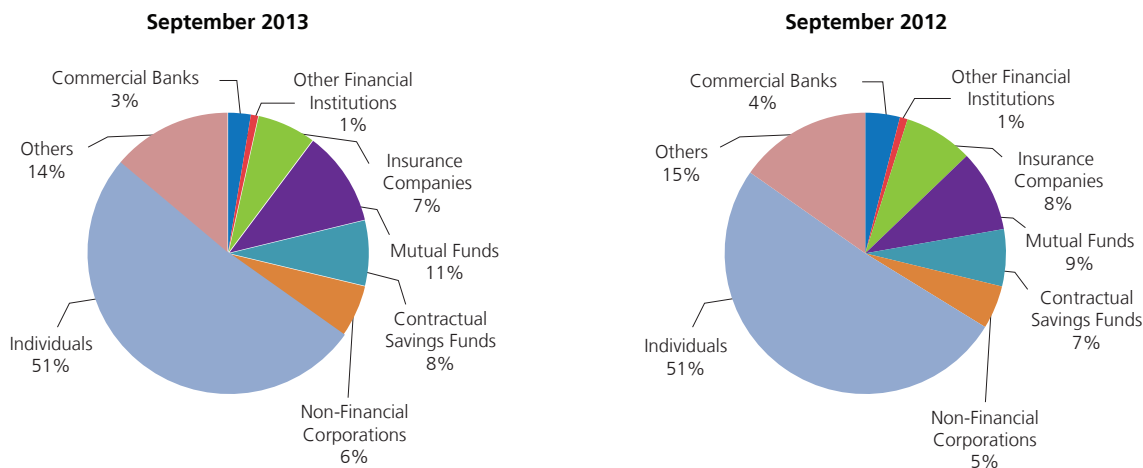
Moody's announced on 21 February that it has affirmed Thailand's government bond rating at Baa1, with its outlook for the rating being stable.

Figure 3: LCY Government Bonds Investor Profile



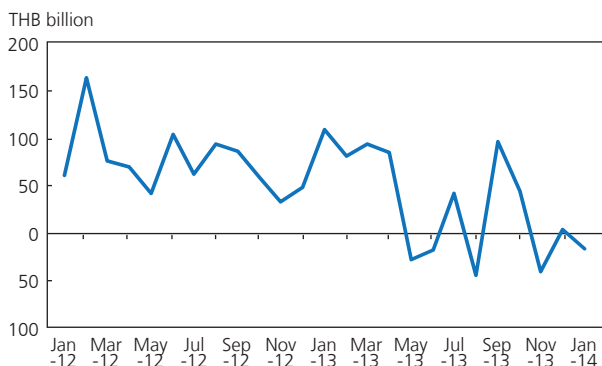
LCY = local currency.
Note: Government bonds exclude central bank bonds and state-owned enterprise bonds.
Sources: AsianBondsOnline and Bank of Thailand.

Figure 4: LCY Corporate Bonds Investor Profile



LCY = local currency.
Source: ThaiBMA.

Figure 5: Foreign Investors' Net Trading Value of LCY Bonds in Thailand



LCY = local currency.
Source: ThaiBMA.

Policy, Institutional, and Regulatory Developments

SEC Sets Strategic Plans for Capital Market Development

The Securities and Exchange Commission (SEC) of Thailand announced in January its 2014–16 strategic plans for the development of Thailand’s capital market. The objective of the plan is to step up capital

market development in Thailand—specifically in the areas of corporate governance, market capitalization, liquidity, and sustainable development—in order to widen the market’s visibility in the international community. The SEC also announced its key initiatives for 2014 that aim to improve the public’s awareness and understanding of savings and investments. Furthermore, the SEC stated that it plans to carry out measures to issue regulations that will accommodate overseas offerings of equities, debt, and mutual funds, as well as conduct studies on the laws and regulations of overseas jurisdictions in order to facilitate the listing of foreign securities on the Stock Exchange of Thailand (SET).

SEC Revises Rules Governing Provident Fund Investments

The SEC announced in January revisions to the rules on provident fund investments, which are consistent with international standards, in order to provide greater investment opportunities and more clarity for provident funds. Effective 1 January, provident funds were allowed to invest in derivatives up to a permissible proportion for “efficient portfolio management” purposes.