

Thailand

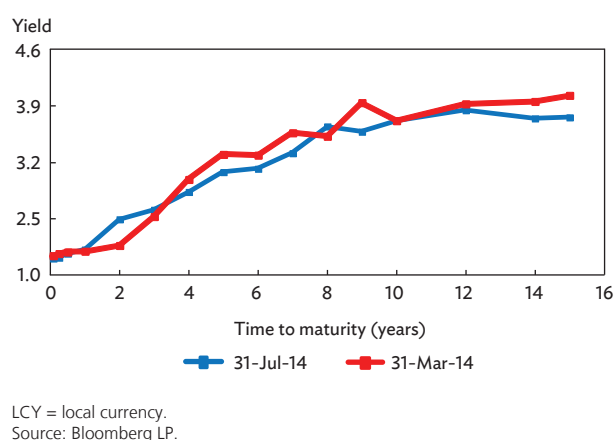
Yield Movements

Thailand's local currency (LCY) government bond yields fell for most tenors between end-March and end-July (**Figure 1**). Yields fell for tenors of (i) less than 1 year; (ii) 4 years to 7 years; (iii) 9 years; and (iv) 12, 14, and 15 years. Yields rose for tenors of 1, 2, 3, 8, and 10 years. The yield curve flattened between end-March and end-July, as the yield spread between 2- and 10-year maturities narrowed by 32 basis points (bps).

The Bank of Thailand's (BOT) Monetary Policy Committee decided on 6 August to maintain the 1-day repurchase rate at 2.00%, marking the third consecutive time that the committee has kept the policy rate unchanged. The committee last cut the policy rate in April by 25 bps.

Thailand's real gross domestic product (GDP) rebounded in 2Q14, rising 0.4% year-on-year (y-o-y) after contracting 0.5% in 1Q14. On the expenditure side, positive growth in household consumption, government spending, and the trade surplus more than offset negative growth in domestic investment in 2Q14. On the production side, growth in the agricultural sector accelerated and output growth in non-agricultural sectors turned positive in 2Q14. In August, the Office of the National Economic and Social Development Board revised its 2014 real GDP growth forecast for Thailand to 1.5%–2.0% from 1.5%–2.5%.

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



Consumer price inflation moderated to 2.1% y-o-y in August from 2.2% in July, led by slower gains in food and non-alcoholic beverage prices. Prices for food and non-alcoholic beverages rose 3.9% y-o-y in August, following a 4.2% hike in July, while nonfood and beverage prices climbed 1.1% in August, the same rate of increase in July.

Size and Composition

The outstanding size of the local currency (LCY) bond market in Thailand grew 0.1% quarter-on-quarter (q-o-q) and 3.2% y-o-y in 2Q14, both of which were down from 2Q13 (**Table 1**). The slower growth can be attributed to

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

	Outstanding Amount (billion)						Growth Rate (%)			
	2Q13		1Q14		2Q14		2Q13		2Q14	
	THB	US\$	THB	US\$	THB	US\$	q-o-q	y-o-y	q-o-q	y-o-y
Total	8,882	286	9,158	282	9,169	283	3.0	10.6	0.1	3.2
Government	7,007	226	7,031	217	7,007	216	3.4	8.7	(0.3)	0.01
Government Bonds and Treasury Bills	3,231	104	3,461	107	3,425	106	4.3	7.7	(1.0)	6.0
Central Bank Bonds	3,099	100	2,820	87	2,824	87	2.4	4.6	0.1	(8.9)
State-Owned Enterprise and Other Bonds	676	22	750	23	758	23	3.4	40.5	1.1	12.1
Corporate	1,875	60	2,127	66	2,162	67	1.8	18.5	1.6	15.3

(-) = 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.

Source: Bank of Thailand.

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	191.9	5.9	Yes	Yes	Energy and Utilities
2.	The Siam Cement	146.5	4.5	Yes	Yes	Construction Materials
3.	CP All	90.0	2.8	No	Yes	Commerce
4.	Charoen Pokphand Foods	69.3	2.1	No	Yes	Food and Beverage
5.	Bank of Ayudhya	60.1	1.9	No	Yes	Banking
6.	Krung Thai Bank	47.2	1.5	Yes	Yes	Banking
7.	Thai Airways International	43.6	1.3	Yes	Yes	Transportation and Logistics
8.	The Siam Commercial Bank	40.0	1.2	No	Yes	Banking
9.	True Corporation	39.0	1.2	No	Yes	Communications
10.	Thanachart Bank	37.9	1.2	No	No	Banking
11.	Ayudhya Capital Auto Lease	33.8	1.0	No	No	Financial
12.	Toyota Leasing Thailand	32.7	1.0	No	No	Finance and Securities
13.	PTT Exploration and Production Company	32.1	1.0	Yes	Yes	Energy and Utilities
14.	Kasikorn Bank	29.5	0.9	No	Yes	Banking
15.	Mitr Phol Sugar	29.3	0.9	No	No	Food and Beverage
16.	Thai Oil	28.0	0.9	Yes	Yes	Energy and Utilities
17.	IRPC	27.6	0.9	Yes	Yes	Energy and Utilities
18.	Indorama Ventures	27.6	0.8	No	Yes	Petrochemicals and Chemicals
19.	Banpu	27.4	0.8	No	Yes	Energy and Utilities
20.	TMB Bank	23.7	0.7	No	Yes	Banking
21.	ICBC Thai Leasing	23.4	0.7	No	No	Finance and Securities
22.	DAD SPV	22.5	0.7	Yes	No	Finance and Securities
23.	Krung Thai Card	22.4	0.7	Yes	Yes	Finance and Securities
24.	Kiatnakin Bank	22.0	0.7	No	Yes	Banking
25.	Bangkok Bank	20.0	0.6	No	Yes	Banking
26.	Bangkok Expressway	19.4	0.6	No	Yes	Transportation and Logistics
27.	Thanachart Capital	19.3	0.6	No	Yes	Finance and Securities
28.	Glow Energy	19.1	0.6	No	Yes	Energy and Utilities
29.	Minor International	18.9	0.6	No	Yes	Food and Beverage
30.	Quality Houses	18.0	0.6	No	Yes	Property Development
Total Top 30 LCY Corporate Issuers		1,262.0	38.9			
Total LCY Corporate Bonds		2,161.6	66.6			
Top 30 as % of Total LCY Corporate Bonds		58.4%	58.4%			

LCY = local currency.

Notes:

1. Data as of end-June 2014.

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.

the LCY government bond market, which contracted on a quarterly basis and was unchanged on an annual basis. The stock of government bonds and Treasury bills fell on a q-o-q basis, more than offsetting the positive growth in BOT bonds and state-owned enterprise (SOE) bonds. On a y-o-y basis, central government bonds and Treasury bills, and SOE bonds recorded positive growth, but this was offset by a contraction in the stock of central bank bonds.

Issuance of LCY government bonds was up 8.1% q-o-q in 2Q14, induced by a 7.5% hike in the issuance of central government bonds and Treasury bills, and a 10.6% rise in BOT bonds. However, on a y-o-y basis, LCY government bond issuance was down 8.8%, amid declines in the bond offerings of the central bank and SOEs.

Thailand's LCY corporate bonds outstanding expanded 1.6% q-o-q and 15.3% y-o-y in 2Q14. Issuance was up 6.2% q-o-q, but down 17.2% y-o-y. The top 30 corporate issuers accounted for 58% of total corporate bonds outstanding at end-June, with PTT remaining the largest corporate bond issuer (**Table 2**). The five largest LCY corporate bond issues in Thailand in 2Q14 were from a cement company, two banks, and an energy company (**Table 3**).

Table 3: Notable LCY Corporate Bond Issuance in 2Q14

Corporate Issuers	Coupon Rate (%)	Issued Amount (THB billion)
PTT Exploration & Production		
5-year bond	3.91	8.20
10-year bond	4.82	11.40
Siam Cement		
4-year bond	4.00	15.00
Thanachart Bank		
10.5-year bond	6.00	13.00
Bank of Ayudhya		
2-year bond	3.00	6.50

LCY = local currency.
Source: Bloomberg LP.

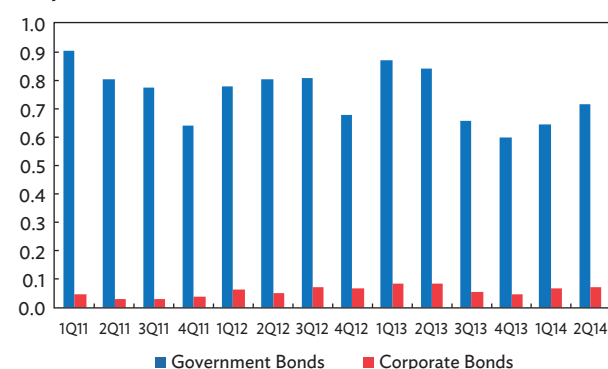
Liquidity

Liquidity in Thailand's LCY bond market improved in the first half of 2014. The turnover ratio for LCY government bonds climbed to 0.71 in 2Q14 from 0.64 in 1Q14 and 0.60 in 4Q13. The turnover ratio for LCY corporate bonds stood at 0.07 in both 2Q14 and 1Q14, up from 0.05 in 4Q13 (**Figure 2**). The quarterly hike in the turnover ratio for LCY government bonds is attributed to an increase in the trading values of central bank bonds and Treasury bills.

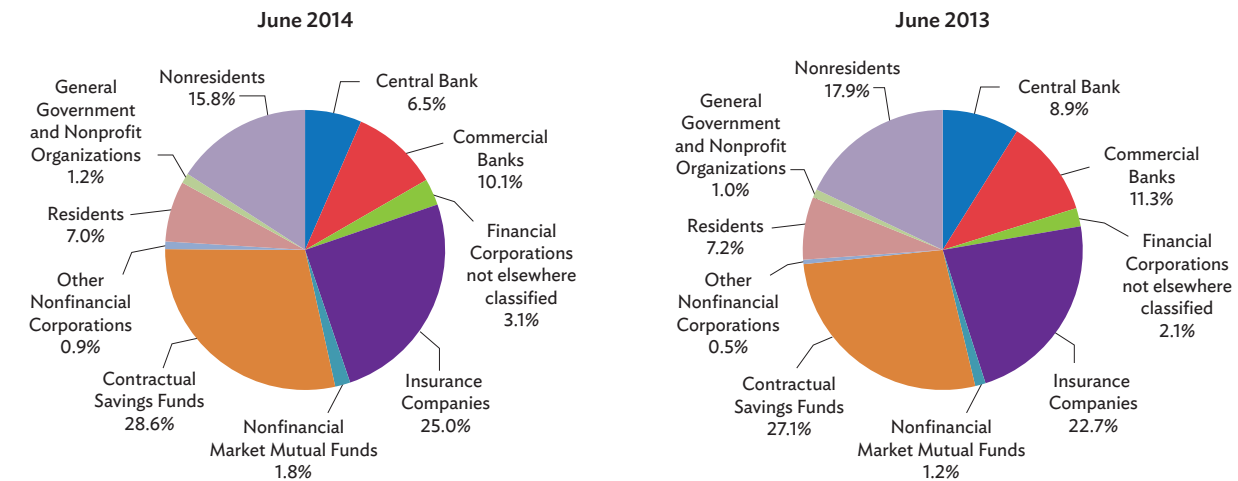
Investor Profile

Contractual savings funds and insurance companies were the two largest investor groups in Thailand's LCY government bond market at end-June, with shares of 29% and 25% of the total, respectively (**Figure 3**). Compared with end-June 2013, the government bond holdings of contractual savings funds, insurance companies, non-financial market mutual funds, and financial companies not classified elsewhere all climbed as a share of the total, while the shares of the central bank, commercial banks, and foreign investors declined.

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



Sources: Bank of Thailand and ThaiBMA.

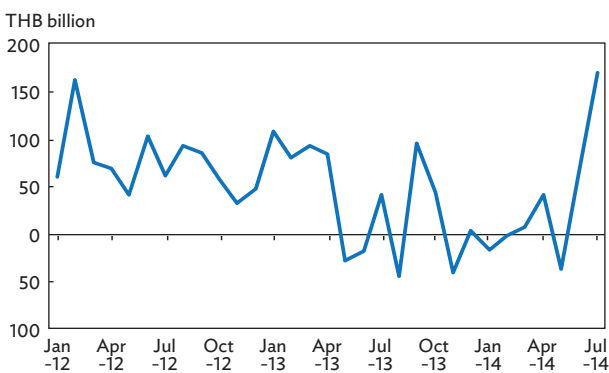
Figure 3: LCY Government Bonds Investor Profile

LCY = local currency.

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

Sources: *AsianBondsOnline* and Bank of Thailand.

Foreign net purchases of Thai LCY bonds soared in June and July, reaching a record high in the latter month, amid sentiments of an improved economic outlook among foreign investors (**Figure 4**). The net bond purchases in June and July were a reversal from net sales in 3 of the first 5 months of the year (January, February, and May).

Figure 4: Foreign Investors' Net Trading Value of LCY Bonds in Thailand

LCY = local currency.

Source: ThaiBMA.

Policy, Institutional, and Regulatory Developments

Structured Notes Regulations Streamlined

The Securities and Exchange Commission announced in August that the Capital Market Supervisory Board had approved the streamlining of regulations on structured notes. The new rules will allow the issuance of LCY- and foreign currency-denominated structured notes; harmonization of the types and classifications of issuers, both in initial public offerings and private placements; removal of the minimum face value of THB10 million in both cases; and removal of the minimum redemption value, which is 80% of the principal, for private placements only. These regulatory revisions will take effect in 4Q14.

New Regulations for Municipal Bond Issuance

The Securities and Exchange Commission reported in July that the Capital Market Supervisory Board approved regulations governing municipal bond issuances from municipalities, provincial administration organizations, public organizations, Bangkok Metropolitan Administration, Pattaya City, and any juristic person as defined by specific law. These regulations, which cover LCY- and foreign currency-denominated municipal bonds offered in onshore and offshore markets, will take effect on 1 January 2015.