

Thailand

Yield Movements

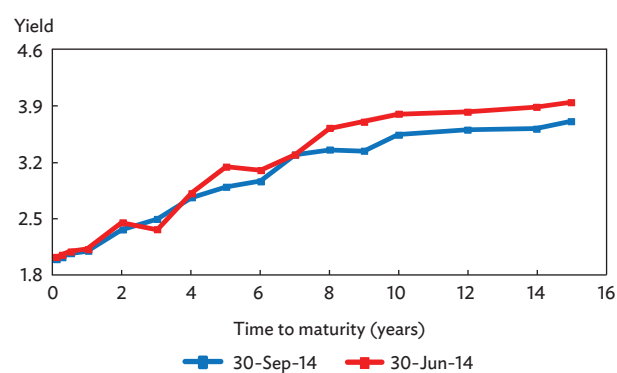
Local currency (LCY) government bond yields in Thailand fell for all tenors, except the 3-year and 7-year, between end-June and end-September, partly on the back of expectations that the policy rate would be kept low to support the country's economic recovery (**Figure 1**). Meanwhile, the yield spread between the 2-year and 10-year tenors fell 17 basis points (bps) between end-June and end-September, resulting in a flattening of the yield curve.

On 5 November, the Bank of Thailand's (BOT) Monetary Policy Committee decided to maintain the policy rate at 2.00%, the fifth consecutive time that it was held unchanged by the committee. Consumer price inflation in Thailand continued to moderate, as the inflation rate (based on the Consumer Price Index) dropped to 1.5% year-on-year (y-o-y) in October from 1.8% in September. Real gross domestic product (GDP) in Thailand grew 0.4% y-o-y in 2Q14 after contracting 0.5% in 1Q14. The BOT reported in September that the Monetary Policy Committee's 2014 GDP growth projection remained unchanged from its previous forecast of 1.5%, while its 2014 inflation forecast was lowered to 2.2% from 2.6%.

Size and Composition

The stock of LCY bonds in Thailand stood at THB9.1 trillion at the end of 3Q14, down 0.4% from 2Q14, but up 2.3% from 3Q13 (**Table 1**). The outstanding amount of LCY

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



LCY = local currency.
Source: Bloomberg LP.

government bonds, which accounted for about three-fourths of the value of total LCY bonds, was down 1.5% on both a quarter-on-quarter (q-o-q) and y-o-y basis, amid a lower stock of central bank bonds. On the other hand, the LCY corporate bond market exhibited positive growth as the stock of corporate bonds climbed 3.4% q-o-q and 16.0% y-o-y to level off at THB2.2 trillion at end-September.

The top 30 corporate issuers had a combined stock of LCY corporate bonds amounting to THB1.3 trillion, which accounted for about 60% of the LCY corporate bond market at end-September (**Table 2**). The five largest LCY corporate bonds issued in Thailand during

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

	Outstanding Amount (billion)						Growth Rate (%)			
	3Q13		2Q14		3Q14		3Q13		3Q14	
	THB	US\$	THB	US\$	THB	US\$	q-o-q	y-o-y	q-o-q	y-o-y
Total	8,931	286	9,169	283	9,134	282	0.6	9.1	(0.4)	2.3
Government	7,005	224	7,008	216	6,899	213	(0.02)	7.3	(1.5)	(1.5)
Government Bonds and Treasury Bills	3,371	108	3,425	106	3,454	106	4.3	12.8	0.8	2.5
Central Bank Bonds	2,920	93	2,824	87	2,700	83	(5.8)	(0.4)	(4.4)	(7.6)
State-Owned Enterprise and Other Bonds	713	23	759	23	746	23	5.5	17.6	(1.7)	4.6
Corporate	1,926	62	2,161	67	2,235	69	2.7	16.3	3.4	16.0

() = 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.

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	130.0	4.0	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.	Toyota Leasing Thailand	41.6	1.3	No	No	Finance and Securities
9.	The Siam Commercial Bank	40.0	1.2	No	Yes	Banking
10.	True Corporation	39.0	1.2	No	Yes	Communications
11.	TMB Bank	38.7	1.2	No	Yes	Banking
12.	Thanachart Bank	37.9	1.2	No	No	Banking
13.	Mitr Phol Sugar	35.4	1.1	No	No	Food and Beverage
14.	Banpu	35.4	1.1	No	Yes	Energy and Utilities
15.	PTT Exploration and Production	32.1	1.0	Yes	Yes	Energy and Utilities
16.	Ayudhya Capital Auto Lease	30.2	0.9	No	No	Financial
17.	Kasikorn Bank	29.5	0.9	No	Yes	Banking
18.	Thai Oil	28.0	0.9	Yes	Yes	Energy and Utilities
19.	IRPC	27.6	0.9	Yes	Yes	Energy and Utilities
20.	Indorama Ventures	27.6	0.8	No	Yes	Petrochemicals and Chemicals
21.	Krung Thai Card	25.3	0.8	Yes	Yes	Finance and Securities
22.	Quality Houses	22.5	0.7	No	Yes	Property Development
23.	DAD SPV	22.5	0.7	Yes	No	Finance and Securities
24.	Kiatnakin Bank	21.9	0.7	No	Yes	Banking
25.	Bangkok Dusit Medical Services	21.1	0.7	No	Yes	Health Care
26.	ICBC Thai Leasing	20.4	0.6	No	No	Finance and Securities
27.	PTT Global Chemical	20.3	0.6	No	Yes	Petrochemicals and Chemicals
28.	Bangkok Bank	20.0	0.6	No	Yes	Banking
29.	Pruksa Real Estate	20.0	0.6	No	Yes	Property Development
30.	Bangkok Expressway	19.4	0.6	No	Yes	Transportation and Logistics
Total Top 30 LCY Corporate Issuers		1,345.0	41.5			
Total LCY Corporate Bonds		2,235.0	68.9			
Top 30 as % of Total LCY Corporate Bonds		60.2%	60.2%			

LCY = local currency.

Notes:

1. Data as of end-September 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.

Table 3: Notable LCY Corporate Bond Issuance in 3Q14

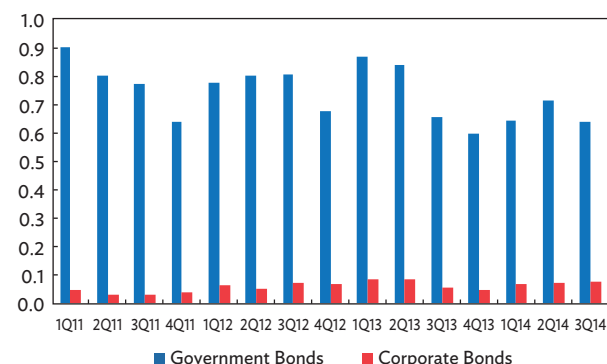
Corporate Issuers	Coupon Rate (%)	Issued Amount (THB billion)
TMB Bank		
10-year bond	5.50	15.00
CP All		
10-year bond	5.05	10.44
Bangkok Dusit Medical Services		
5-year bond	1.85	10.00
PTT Global Chemical		
7-year bond	4.50	10.00
Toyota Leasing (Thailand)		
5-year bond	3.85	8.00

LCY = local currency.
Source: Bloomberg LP.

3Q14 were (i) TMB Bank's (Basel III-compliant) THB15 billion Tier 2 10-year bond carrying a 5.5% coupon, (ii) CP All's THB10.4 billion 10-year bond offering a 5.05% coupon, (iii) Bangkok Dusit Medical Services' THB10 billion 5-year zero-coupon convertible bond, (iv) PTT Global Chemical's THB10 billion 7-year bond carrying a 4.5% coupon, and (v) Toyota Leasing Thailand's THB8 billion 5-year bond offering a 3.85% coupon (**Table 3**).

Liquidity

The turnover ratio for LCY government bonds fell to 0.64 in 3Q14 from 0.71 in 2Q14, while the turnover

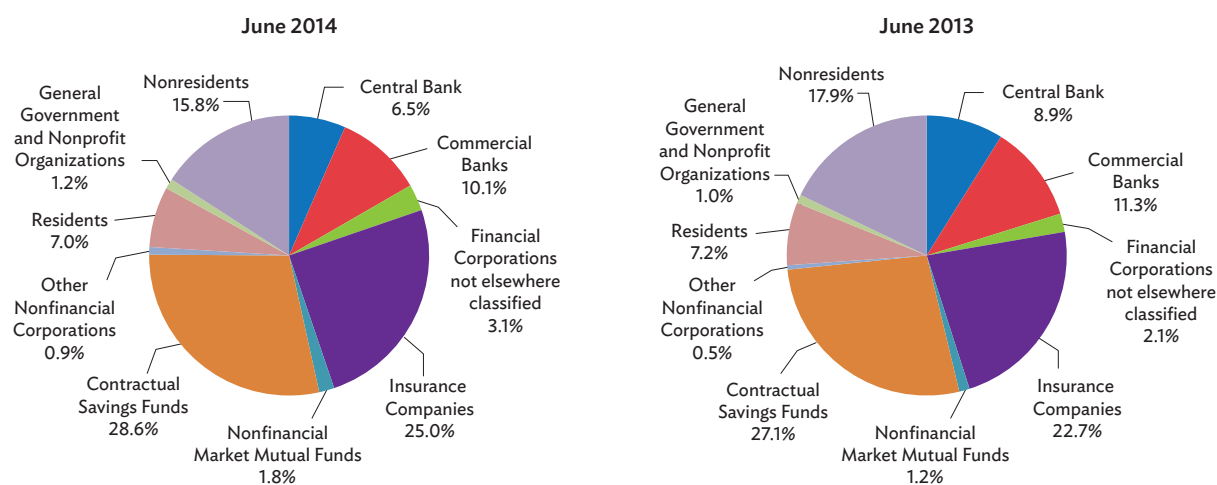
Figure 2: Turnover Ratios of Government and Corporate Bonds in Thailand


Sources: Bank of Thailand and ThaiBMA.

ratio for LCY corporate bonds remained steady at 0.07 (**Figure 2**). The quarterly drop in the turnover ratio for LCY government bonds was brought about by a q-o-q decline in the trading value of government bonds, central bank bonds, and Treasury bills.

Investor Profile

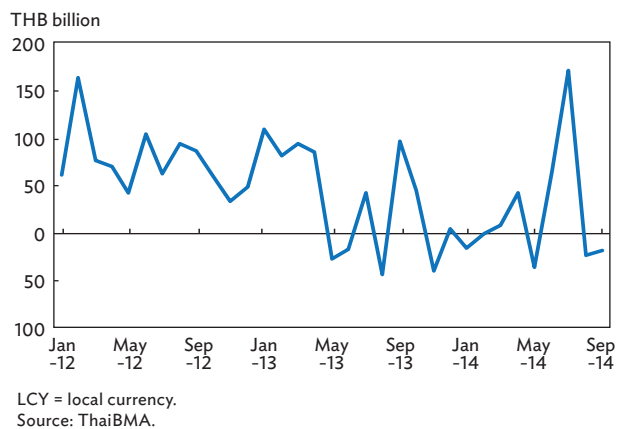
As of end-June, contractual savings funds were the largest investor group in Thailand's LCY government bond market, with holdings accounting for 29% of the total LCY government bond market (**Figure 3**). They were followed by insurers, which held 25% of the total.

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 investors recorded net sales of Thai LCY bonds in September and August following relatively large net bond purchases in July (**Figure 4**). However, on a q-o-q basis, foreign investor net bond purchases rose to THB128.1 billion in 3Q14 from THB69.3 billion in 2Q14 amid a positive economic outlook.

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



Policy, Institutional, and Regulatory Developments

SEC Allows Commercial Banks to Offer Basel III-Compliant Tier 2 Instruments to Retail Investors

The Securities and Exchange Commission (SEC) announced in September that the Capital Market Supervisory Board has approved regulations to allow the offering of commercial banks' Basel III-compliant Tier 2 instruments to retail investors, with the regulations to take effect starting in 4Q14.

Revised Rules on Adequacy of Net Capital of Securities Companies

The SEC announced in September that the Capital Market Supervisory Board had approved the revision of rules governing securities firms that are unable to maintain adequate net capital as required. The revised rules took effect in October 2014.