

Thailand

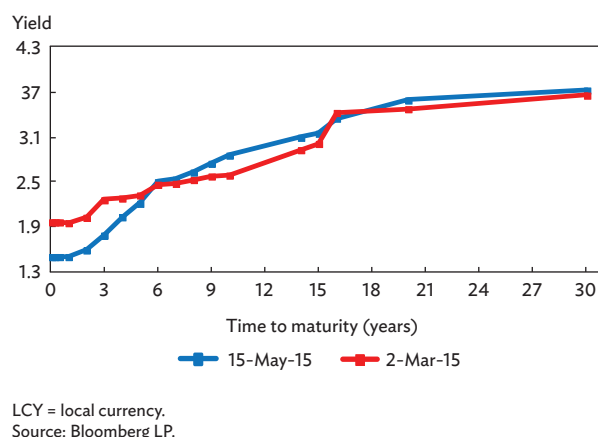
Yield Movements

The yield curve for Thailand's local currency (LCY) government bonds steepened between 2 March and 15 May as yields fell at the shorter-end of the curve and rose for most tenors at the longer-end of the curve (**Figure 1**). The decrease in short-term yields was brought about by expectations of policy rate cuts amid sluggish economic recovery and weak inflationary pressures. Meanwhile, the increase in most long-term yields was partly due to foreign investors' net sales of Thailand's long-term LCY bonds. In the same period, the yield spread between the 2-year and 10-year tenors climbed 70 basis points (bps).

The first 4 months of 2015 saw the Bank of Thailand's (BOT) Monetary Policy Committee lowering its policy interest rate—the 1-day repurchase rate—by a total of 50 bps; the first 25-bps reduction was made on 11 March and the second on 29 April. The reductions in the policy interest rate to 1.50% were made to support Thailand's economic recovery amid falling consumer prices. Year-on-year (y-o-y) inflation, as measured by the Consumer Price Index (CPI), has been negative for 4 consecutive months to start the year: -0.4% in January, -0.5% in February, -0.6% in March, and -1.0% in April.

Meanwhile, real gross domestic product (GDP) growth of Thailand accelerated on a y-o-y basis—rising to

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



3.0% y-o-y in 1Q15 from 2.1% y-o-y in 4Q14—but decelerated on a quarter-on-quarter (q-o-q) basis, falling to 0.3% q-o-q in 1Q15 from 1.1% q-o-q in 4Q14.

Size and Composition

The amount of outstanding LCY bonds in Thailand grew 0.6% q-o-q and 1.7% y-o-y in 1Q15, leveling off at THB9.3 trillion at end-March (**Table 1**). The government bond market rose on both a q-o-q and y-o-y basis in 1Q15 to reach THB7.1 trillion at end-March. This expansion was

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

	Outstanding Amount (billion)						Growth Rate (%)			
	1Q14		4Q14		1Q15		1Q14		1Q15	
	THB	US\$	THB	US\$	THB	US\$	q-o-q	y-o-y	q-o-q	y-o-y
Total	9,158	282	9,258	281	9,314	286	1.7	6.2	0.6	1.7
Government	7,031	217	6,949	211	7,079	218	0.6	3.7	1.9	0.7
Government Bonds and Treasury Bills	3,461	107	3,413	104	3,578	110	1.4	11.7	4.8	3.4
Central Bank Bonds	2,820	87	2,743	83	2,682	82	(0.8)	(6.8)	(2.2)	(4.9)
State-Owned Enterprise and Other Bonds	750	23	793	24	819	25	2.5	14.6	3.2	9.2
Corporate	2,127	66	2,309	70	2,235	69	5.7	15.5	(3.2)	5.1

() = 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 and Bloomberg LP.

driven by positive q-o-q and y-o-y growth in government bonds and Treasury bills, as well as state-owned enterprise bonds. In contrast, the outstanding amount of central bank bonds contracted on both a q-o-q and y-o-y basis in 1Q15. Meanwhile, the stock of LCY corporate bonds valued THB2.2 trillion at end-March, down 3.2% q-o-q but was larger by 5.1% on a y-o-y basis.

At end-March, the combined outstanding bonds of the top 30 corporate issuers amounted to THB1.3 trillion, which accounted for 60% of the total LCY corporate bond market (**Table 2**). The largest LCY corporate bonds issued in Thailand in 1Q15 included (i) CP All's THB10.2 billion 5-year bond carrying a 4.1% coupon and THB9.9 billion 2-year bond with a 3.55% coupon,

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	183.9	5.7	Yes	Yes	Energy and Utilities
2.	CP All	160.0	4.9	No	Yes	Commerce
3.	The Siam Cement	151.5	4.7	Yes	Yes	Construction Materials
4.	Charoen Pokphand Foods	63.1	1.9	No	Yes	Food and Beverage
5.	Bank of Ayudhya	61.8	1.9	No	Yes	Banking
6.	Thai Airways International	44.6	1.4	Yes	Yes	Transportation and Logistics
7.	Kasikorn Bank	43.5	1.3	No	Yes	Banking
8.	Indorama Ventures	42.6	1.3	No	Yes	Petrochemicals and Chemicals
9.	Toyota Leasing Thailand	40.6	1.2	No	No	Finance and Securities
10.	The Siam Commercial Bank	40.0	1.2	No	Yes	Banking
11.	True Corporation	36.5	1.1	No	Yes	Communications
12.	Banpu	35.4	1.1	No	Yes	Energy and Utilities
13.	Mitr Phol Sugar	34.4	1.1	No	No	Food and Beverage
14.	PTT Exploration and Production Company	32.1	1.0	Yes	Yes	Energy and Utilities
15.	Thanachart Bank	30.5	0.9	No	No	Banking
16.	Thai Oil	28.0	0.9	Yes	Yes	Energy and Utilities
17.	IRPC	27.6	0.8	Yes	Yes	Energy and Utilities
18.	TMB Bank	25.4	0.8	No	Yes	Banking
19.	Ayudhya Capital Auto Lease	25.2	0.8	No	No	Financial
20.	Quality Houses	24.9	0.8	No	Yes	Property and Construction
21.	ICBC Thai Leasing	24.7	0.8	No	No	Finance and Securities
22.	Krung Thai Card	24.2	0.7	Yes	Yes	Finance and Securities
23.	Krung Thai Bank	23.8	0.7	Yes	Yes	Banking
24.	DAD SPV	22.5	0.7	Yes	No	Finance and Securities
25.	PTT Global Chemical	20.3	0.6	No	Yes	Petrochemicals and Chemicals
26.	Bangkok Bank	20.0	0.6	No	Yes	Banking
27.	CH. Karnchang	20.0	0.6	No	Yes	Property and Construction
28.	Pruksa Real Estate	20.0	0.6	No	Yes	Property and Construction
29.	Kiatnakin Bank	19.8	0.6	No	Yes	Banking
30.	Glow Energy	19.1	0.6	No	Yes	Energy and Utilities
Total Top 30 LCY Corporate Issuers		1,345.9	41.4			
Total LCY Corporate Bonds		2,234.5	68.7			
Top 30 as % of Total LCY Corporate Bonds		60.2%	60.2%			

LCY = local currency.

Notes:

1. Data as of end-March 2015.

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.

both rated A(thai) by Fitch Ratings (Thailand); (ii) Bank of Ayudhya’s THB4 billion 2-year bond at 2.61% and THB4 billion 3-year bond at 2.89%, both rated AAA by Fitch Ratings; and (iii) CH Karnchang’s THB4 billion 6-year bond carrying a 4.16% coupon, rated A- by TRIS Rating (Table 3).

Table 3: Notable LCY Corporate Bond Issuance in 1Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (THB billion)
CP All		
2-year bond	3.55	9.85
5-year bond	4.10	10.15
Bank of Ayudhya		
2-year bond	2.61	4.00
3-year bond	2.89	4.00
CH Karnchang		
6-year bond	4.16	4.00

LCY = local currency.
Source: Bloomberg LP.

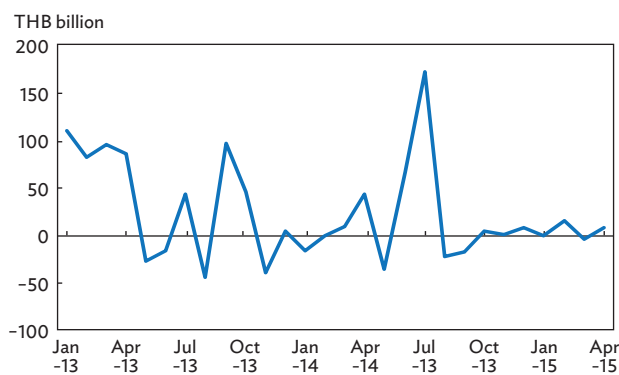
Investor Profile

Contractual savings funds and insurance companies remained the two largest investor groups in the LCY government bond market, with their holdings of Thai government bonds accounting for 27% and 25% of the

total, respectively, at end-March (Figure 2). Meanwhile, commercial banks recorded the biggest y-o-y increase in the share of Thai government bond holdings, rising 4 percentage points.

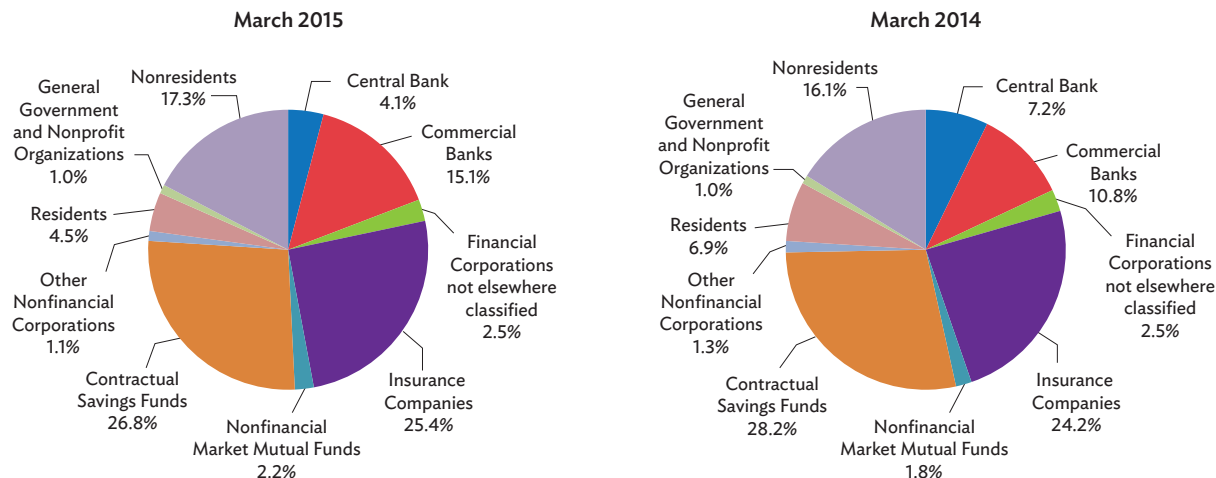
Net foreign bond flows into Thailand appeared stable in the first 4 months of 2015 as foreign investors recorded net bond purchases in February and April, and net bond sales in January and March, both at relatively small levels (Figure 3).

Figure 3: Foreign Investor Net Trading of LCY Bonds in Thailand



LCY = local currency.
Source: ThaiBMA.

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.

Ratings Update

In February, Rating and Investment Information (R&I) affirmed Thailand's foreign currency issuer rating at BBB+ and domestic currency issuer rating at A-, with a rating outlook of negative for both.

Policy, Institutional, and Regulatory Developments

SEC Allows Retail and Private Funds to Invest in GMS Financial Instruments

The Securities and Exchange Commission (SEC) reported in January that the Capital Market Supervisory Board has approved revisions to investment rules to allow retail funds and private funds to invest in financial instruments in Greater Mekong Subregion (GMS) countries, which include Cambodia, the Lao People's Democratic Republic, and Myanmar.

SEC and ThaiBMA to Promote Corporate Bond Issuance

In March, the SEC launched a joint project with the Thai Bond Market Association (ThaiBMA) to entice local businesses to raise funds in the LCY corporate bond market. ThaiBMA will approve exemptions from registration fees and discounts from annual fees for businesses that participate in the project and issue long-term bonds in 2015.

BOT to Ease Foreign Exchange Regulations

The BOT announced in April plans to relax foreign exchange regulations in order to facilitate the foreign asset holdings of Thai residents and entice nonbanks to participate in foreign exchange transactions. The central bank plans to ease measures aimed at curbing speculation on the Thai baht to encourage nonresidents to borrow Thai baht from local financial institutions.