



THE THAI BOND MARKET

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Outline

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- The Thai financial system
- History of Thai bond market
- Products
- Market structure
- Thai BMA
- Some statistics

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THAI FINANCIAL SYSTEM

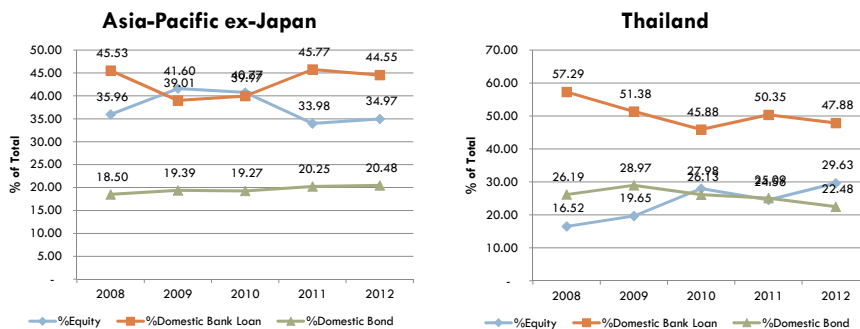
Composition of capital markets

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		GDP (USD Billions)		Equity (USD Billions)		Domestic Bank Loan (USD Billions)		Domestic Bond (USD Billions)	
		2011	2012	2011	2012	2011	2012	2011	2012
Developed Countries	<i>France</i>	2,779.72	2,612.88	1,568.73	1,823.34	3,701.03	3,563.13	2,766.39	2,905.46
	<i>Germany</i>	3,600.83	3,399.59	1,184.46	1,486.31	4,495.09	4,201.17	3,025.24	2,989.13
	<i>Japan</i>	5,896.79	5,959.72	3,540.68	3,680.98	19,899.94	20,627.10	15,512.04	14,404.70
	<i>United Kingdom</i>	2,444.88	2,435.17	2,903.18	3,019.47	5,199.42	5,116.44	1,778.60	2,169.22
	<i>United States</i>	14,991.30	15,684.80	15,640.71	18,668.33	33,914.32	35,856.84	31,523.10	33,114.77
Asia-Pacific ex-Japan	<i>Australia</i>	1,384.15	1,520.61	1,198.16	1,286.44	2,111.32	2,347.14	1,294.28	1,428.30
	<i>China</i>	7,321.94	8,227.10	3,389.10	3,697.38	10,647.31	12,762.22	3,388.98	3,776.54
	<i>Hong Kong</i>	248.73	263.26	889.60	1,108.13	514.77	528.43	132.17	144.52
	<i>Korea</i>	1,114.47	1,129.60	994.30	1,180.47	1,841.76	1,905.68	1,109.51	1,280.22
	<i>Taiwan</i>	464.03	473.97	652.19	721.02	657.87	688.13	267.21	310.85
ASEAN 5	<i>Indonesia</i>	846.34	878.04	390.11	396.77	326.38	373.82	136.37	130.47
	<i>Malaysia</i>	287.93	303.53	395.08	476.34	370.68	406.24	287.97	351.87
	<i>Philippines</i>	224.77	250.27	165.38	264.14	116.51	127.29	68.79	84.57
	<i>Singapore</i>	245.02	274.70	308.32	414.13	224.33	273.43	106.48	116.55
	<i>Thailand</i>	345.67	365.56	268.49	383.00	550.35	618.85	274.19	290.58

Composition of capital markets

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The Thai financial market

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Size of Thai Financial Markets								
	2001	2002	2003	2004	2005	2006	2007	2008
Bank Loans ¹⁾	4,298.9	4,602.7	4,701.5	5,081.4	5,488.4	5,738.4	6,221.8	7,368.7
Equities (SET mkt. cap)	1,607.3	1,986.2	4,789.9	4,521.9	5,105.1	5,078.7	6,636.1	3,568.7
Domestic Bond (at par)	1,882.9	2,300.0	2,518.0	2,740.4	3,412.9	4,202.0	4,888.2	5,086.0
GDP (current price)	5,133.5	5,450.6	5,917.3	6,489.4	7,092.8	7,844.9	8,525.2	9,080.4
GDP Growth rate(at 1988 prices)	2.2	5.3	7.1	6.3	4.6	5.1	5.0	2.5

Unit: THB bln					
2010	2011	2012	Q1/2013	Q2/2013p	Q3/2013p
8,591.4	9,612.5	11,075.0	11,610.1	11,817.6	
8,334.7	8,407.7	11,831.5	13,286.9	12,528.8	12,079.6
6,962.1	7,327.2	8,580.0	8,636.0	8,875.3	8,919.7
10,104.8	10,540.0	11,375.3	2,999.7	2,953.1	
7.8	0.1	6.5	5.4	2.8	

HISTORY OF BOND MARKET

History

- First bond issuance in 1903 by The Royal Thai Government (RTG).
- 40-year bond totaling 1M pounds: half was placed in London and half in Paris.
- Since then RTG has issued a number of foreign bonds



History

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- 1933 first domestic bond issue offered to the public to mobilize funds for investment in revenue generating activities
- 1930s government and private sector issue domestic bonds , but in insignificant amount (bonds held to maturity)
- 1945 government issued short-term securities. BOT (Bank Of Thailand) auction Treasury bills (T<1 year)

History

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- 1970s-1990s policy prohibiting the private sector to issue bonds unless it was a “public” company.
 - ▣ Most firms were not registered as public companies
 - ▣ Bond market dominated by government and state enterprise bonds
- IFCT (Industrial Finance Corporation of Thailand, Act B.E. 2502) played an important role in the private bond market in its early stages
 - 1968 issued 80M and more later on

History

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- SEC Act 1992 established the Securities Exchange Commission which regulate and supervise capital market activities
- This lead to more bond market activities
- 1990s to pre-1997 crisis the economy was buoyant and many companies opted to raise funds in the bond market
- 1980s – 1990s the public sector debt market is stagnant since the government then allowed issuing bonds for financing budgetary deficits
- Thai government ran a surplus 1988-1997

History

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- After 1997 crisis to help cash –strapped financial institutions government issued bonds for the first time in a decade
- In 2002 the government issued 3 trillion baht worth of saving bonds to finance the accumulated debt of the Financial Institution Development Fund (FIDF) issued 1 Trillion (largest offering at the time)
- Government has been issuing bonds for different purposes including borrowing for investment since then

History

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- Outstanding domestic bonds in 1996 is were 547 billion and in 2007 were 4,567 billion
- In 2007: 76.4 government securities 23.1 corporate securities, and 0.5% foreign bonds

Outstanding domestic bonds

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Outstanding of Domestic Bonds				bonds					
Type	2001	2002	2003	2004	2005	2006	2007	2008	2009
Government Bonds	706.4	1,114.6	1,132.2	1,306.6	1,360.5	1,509.1	1,757.6	1,850.6	2,155.6
T-Bills	110.0	134.0	127.0	168.0	209.0	228.0	114.0	81.0	206.5
State enterprise Bonds	416.1	395.7	412.2	405.2	489.1	492.9	521.9	519.0	532.6
- Guaranteed	357.3	343.7	327.3	321.5	333.8	325.1	334.7	379.7	372.2
- Non-guaranteed	58.8	52.0	84.9	83.7	155.3	167.8	187.2	139.9	160.4
State Agency Bonds	112.3	112.3	239.3	312.4	641.3	896.7	1,399.6	1,465.5	1,819.7
Corporate Bonds	538.1	543.4	607.3	548.3	706.0	1,059.2	1,069.3	1,126.0	1,348.0
Foreign Bonds	-	-	-	-	7.0	16.1	25.9	44.0	56.0
Total	1,882.9	2,300.0	2,518.0	2,740.4	3,412.9	4,202.0	4,888.2	5,086.0	6,118.2

Unit: THB bln

2010	2011	2012	Q1/2013	Q2/2013	Q3/2013
2,523.2	2,629.5	3,025.6	3,098.0	3,232.8	3,269.7
71.7	0.0	57.8	20.0	0.0	102.1
501.8	480.1	621.7	654.3	677.3	712.3
341.6	324.2	462.3	493.4	509.5	546.1
160.2	155.9	159.4	160.9	167.9	166.3
2,411.7	2,641.7	3,120.5	3,026.4	3,099.3	2,920.4
1,395.8	1,498.7	1,655.7	1,722.7	1,751.4	1,798.6
58.0	77.1	98.7	114.7	114.5	116.5
6,962.1	7,327.1	8,580.0	8,636.0	8,875.3	8,919.7

Issuance of domestic debt securities

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Type	Issuance of Domestic Debt Securities												Unit: THB bln		
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Q1/2013	Q2/2013p	Q3/2013p
Government	149.2	471.5	107.5 ²⁾	271.3	188.9	221.6	330.2	228.1	501.8	511.5	445.5	686.4	173.0	142.4	104.9
T-Bills	441.4	519.0	369.0	569.0	494.0	879.2	553.0	421.0	885.9	485.0	125.7	256.5	-	-	102.1
State owned enterprise	57.6	47.5	56.4	67.9	99.4	69.7	63.8	122.1	99.6	42.8	40.9	211.4	50.3	58.6	95.9
- <i>Guaranteed</i>	57.5	39.5	19.45	40.6	61.7	39.0	49.4	98.2	51.5	30.7	28.2	191.5	39.3	51.1	87.0
- <i>Non-guaranteed</i>	0.1	8.0	37.0	27.3	37.7	30.8	14.5	23.9	48.2	12.1	12.8	19.8	11.0	7.5	8.9
State Agency Bonds	112.0	-	219.5	317.3	988.3	1,001.6	4,121.5	9,272.4	8,419.3	9,439.5	10,896.9	7,799.3	1,593.7	1,583.5	1,451.4
Corporate Bonds	106.8	101.1	181.3	122.4	179.4	879.1	1,188.2	1,272.2	1,017.4	940.4	1,143.3	1,387.7	386.9	563.5	330.0
- <i>L-T Corp bond</i>	106.8	99.0	180.3	122.4	152.7	142.5	212.5	282.1	437.1	261.4	214.2	509.4	43.7	138.3	99.5
- <i>Commercial Paper</i>	-	0.6	1.0	-	-	736.6	975.7	985.3	568.2	678.9	911.5	843.6	319.8	418.3	213.8
- <i>Offshore Bond</i>	-	2.1	-	-	26.7	-	0.0	4.8	12.0	2.1	17.5	152.4	54.4	6.9	16.7
Foreign Bonds	-	-	-	-	7.0	9.1	9.8	18.1	12.0	12.0	42.3	25.8	16.0	4.4	2.0
Total	867.0	1,139.1	933.7	1,347.9	1,957.0	3,059.4	6,266.6	11,333.8	10,936.0	11,433.2	12,694.5	10,367.1	2,219.9	2,352.3	2,086.4

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PRODUCTS

Government securities

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- 1. Treasury bills
- 2. Government bonds
- They are issued by the ministry of finance
- They are medium and long-term bonds that pay coupon semi-annually
- Three types of bonds
 - Investment bonds (IB): Bonds for investments
 - Loan bonds (LB): Use to finance government budgeting expenditures
 - Savings bonds (SB): stimulate public savings
- LB captures the majority of the market
- In 2007, SB= 247M LB 1,230M (The Thai bond market association)

Government securities

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- 3. Bank of Thailand Bonds, Financial Institution Development Fund (FIDF) Bonds, and Property Loan Management Organization (PLMO) bonds
- They are issued by the central bank, the FIDF, and PLMO respectively
- They are no longer issued and there are only few remaining issues

Government securities

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- 4. State Owned Enterprise (SOE) bonds
- These are medium to long-term debt instruments issued by State Owned Enterprises
- Two types: guaranteed and non-guaranteed bonds (categorized by Ministry of finance)
- Guaranteed bonds account for 86%
- Restrictions on the government to provide debt guarantee for not exceeding 10 % of total budget expenditure

Corporate debt securities

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- Long-term corporate bonds
- Fixed-rate bond
- Floating-rate bond and floating rate notes (FRN)
- Convertible bond
- Amortizing bond

Other securities

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- Commercial papers
 - ▣ Bills of exchange
 - ▣ Promissory notes
 - ▣ Short-term debentures
- Structured bonds
 - ▣ Derivative bonds
 - ▣ Securitized bonds

Other securities

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- Foreign bonds
 - ▣ Since 2005 Ministry of finance has allowed certain types of institutions to issue Baht denominated foreign bonds in Thailand
- Example:
 - ▣ 2005 ADB issue 4 B, Bank of Japan 3 B
 - ▣ 2006 Japan Bank of international Cooperation
 - ▣ 2007 Citigroup, Emirate Bank International

Other securities

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□ Inflation-linked bonds

Time	CPI index	Inflation	Accrued Principal	Coupon	Final Principal
0	100.00		1,000.00		
1	101.70	1.70%	1,017.00	20.34	20.34
2	103.78	2.05%	1,037.80	20.76	20.76
3	105.70	1.85%	1,057.00	21.14	1,078.14

Total cash flow from holding the Inflation-linked bond increases and decreases with inflation

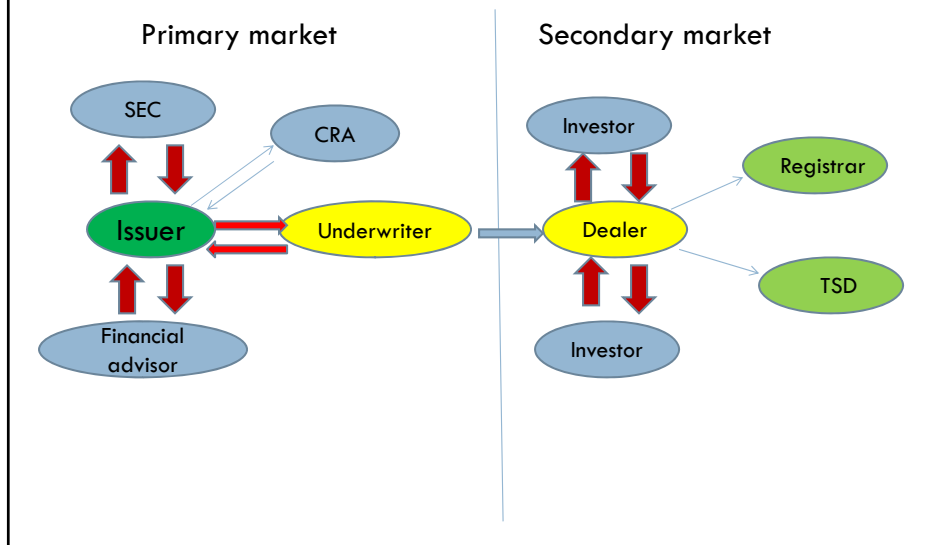
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MARKET STRUCTURE

Market structure

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Issuing process

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- Government bonds and T-Bills
 - BOT organizes auction on a weekly basis
www.BOT.or.th
 - Competitive price auction submit by 9:30 am auction date
 - Non-competitive bid for small investors (4-40 million)
submit to primary dealers 12 am the day before auction, then dealers submit to BOT
 - Multiple price auction

Bidding process

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- Example: total amount auction 100M; 5M non-competitive bids

yield	amount bid for	received
3%	10M	10M
3.1%	50M	50M
3.12%	50M	35M (stop yield)

- Multiple price auction: dealers get their own bid yield. Non-competitive bids get the average
- Secondary market is a dealer market or over the counter market

Issuing process

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- State Owned Enterprise (SOE) bonds
- The issuance and auctions are managed by the Public Debt Management Office (PDMO)
- Dutch auction where the entire issues are awarded to bidders (underwriters) who offer the lowest cost of funding
- PDMO calls for underwriter full commitment basis

Issuing process

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- Savings bonds target retail investors so they are sold mostly through underwriter such as designated commercial banks
- Some SOE manage to issue bonds by themselves without going through PDMO
- There are mostly financial institutions such as EXIM Thailand (Export-Import Bank of Thailand) or the Second Mortgage Corporation (SMC)

Issuing process

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- Corporate bonds
- Public offering
 - Issuance subject to the SEC's approval
 - Approval is granted on 'issuer' basis
 - Issuers can offer bonds several times in 1 year
 - Credit ratings are required
- Private placement
 - Issue amount not exceeding 100M
 - Offer to a specific group no more than 10 investors
 - Offer to existing creditors of the issuer
 - Others as permitted by the SEC

Secondary market

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- Secondary market
 - 1. Exchange traded bonds are traded at the SET
 - 2. Over-the-counter market (OTC)
- Transactions
 - 1. Dealer to dealer
 - 2. Dealer to client
- The ThaiBMA had developed the OTC trading system called iDeal which provides a communication channel for bond traders

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THAI BMA

Thai BMA

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- Thai Bond Market Association
- It is a securities business related association under the Securities and Exchange Commission Act B.E. 2535
- It has a status of self-regulatory organization (SRO) for a fair and efficient operation of the bond market and to be an information center for the Thai bond market
- It plays functional roles on market development, market convention and standards and being Bond Pricing agency for the industry

Thai BMA (history)

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- granted a securities business related association and SRO status from the SEC in September 2005
- it was set up as The Bond Dealers Club (BDC) Nov 1994
- The BDC played roles as the first and only organized secondary market for bonds and it introduced an electronic bond trading system called 'Bondnet'
- restructured as the Bond Exchange under the SEC Act and renamed as The Thai Bond Dealing Centre (Thai BDC) in April 1998
- facilitate the operation of the secondary market for bond trading and to be a forum for discussing issues on bond market development

Thai BMA (history)

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- In December 2004, the Bond Market Development Committee chaired by the Finance Minister initiated a major reform of the Thai bond market.
 - Centralize the trading platform at the Stock Exchange of Thailand (SET) while
 - ThaiBDC sold its newly developed electronic trading platform to the SET in 2005
 - ThaiBDC would remain and expand its functions as the SRO and information center for the bond market
 - To reiterate its focus on SRO functions and information center, ThaiBDC with the support from SEC changed its status and was granted the license of a securities related association under the SEC Act named as “**The Thai Bond Market Association (ThaiBMA)**” on September 8, 2005 .

Thai BMA

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- Membership of ThaiBMA can be classified into 3 types; each of which is subject to different membership fee and requirement
 - 1. **Ordinary member** is a financial institution that has the debt trading license (dealer).
 - 2. **Extraordinary member** is a company that has inter-dealer broker license (IDB).
 - 3. **Associate member** is provided for a dealer that has monthly average trading value in the past one year less than 100 million baht per month.
- In June 2013, membership of ThaiBMA consists of 51 commercial banks and securities companies.

Thai BMA

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- Roles and functions of Thai BMA
- 1. Self-Regulatory Organization (SRO)
- 2. Bond Information Center and Pricing agency
- 3. Market Convention and Standard
- 4. Market Development and Education

Trading assistant products of Thai BMA

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- iBond
 - <http://www.ibond.thaibma.or.th/main/about.html>
- irisk
 - https://www.irisk.thaibma.or.th/brochure/irisk_brochure.html



SOME STATISTICS

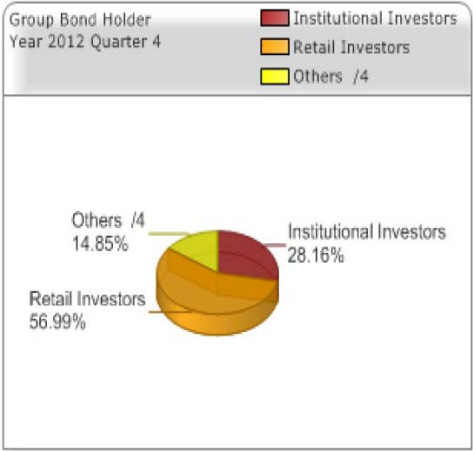
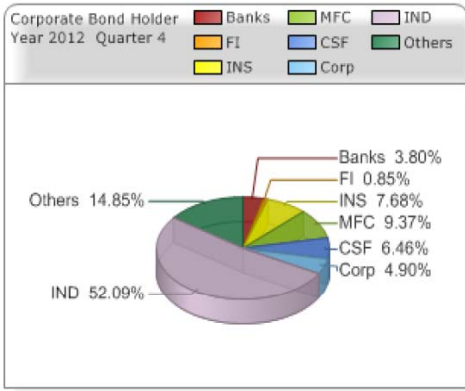
Corporate Bond Holder

Holder	Mar / 2012		Jun / 2012		Sep / 2012		Dec / 2012	
	THB mln.	% of Total	THB mln.	% of Total	THB mln.	% of Total	THB mln.	% of Total
I Institutional Investors	477,060.00	33.55	421,655.00	29.09	437,665.00	28.80	457,464.00	28.16
Commercial Banks (Banks)	61,914.10	4.35	59,150.60	4.08	60,157.90	3.96	61,742.70	3.80
Financial Institutions (FI) /1	15,908.10	1.12	13,215.80	0.91	13,450.10	0.88	13,734.70	0.85
Insurance Companies (INS) /2	125,999.00	8.86	117,313.00	8.09	120,718.00	7.94	124,838.00	7.68
Mutual Fund (MFC)	136,944.00	9.63	136,162.00	9.39	143,248.00	9.43	152,178.00	9.37
Contractual Saving Funds (CSF) /3	136,295.00	9.59	95,813.20	6.61	100,091.00	6.59	104,970.00	6.46
II Retail Investors	725,725.00	51.04	807,806.00	55.74	850,857.00	55.98	926,008.00	56.99
Corporation (Corp)	67,051.10	4.72	72,853.40	5.03	75,990.40	5.00	79,612.30	4.90
Individual (IND)	658,674.00	46.32	734,953.00	50.71	774,866.00	50.98	846,396.00	52.09
III Others /4	219,140.00	15.41	219,895.00	15.17	231,335.00	15.22	241,333.00	14.85
Others (Others) /4	219,140.00	15.41	219,895.00	15.17	231,335.00	15.22	241,333.00	14.85
Total	1,421,920.00	100.00	1,449,360.00	100.00	1,519,860.00	100.00	1,624,800.00	100.00

Composition of Corporate Bond Holder

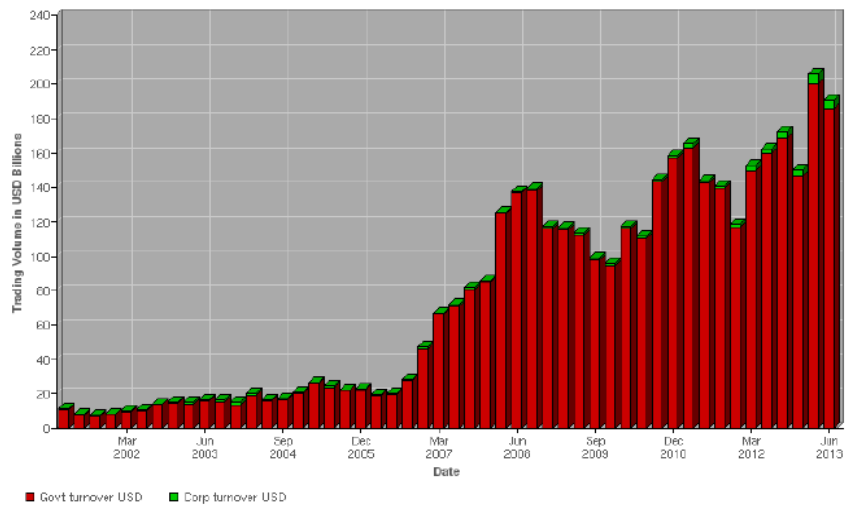
Corporate bond holders

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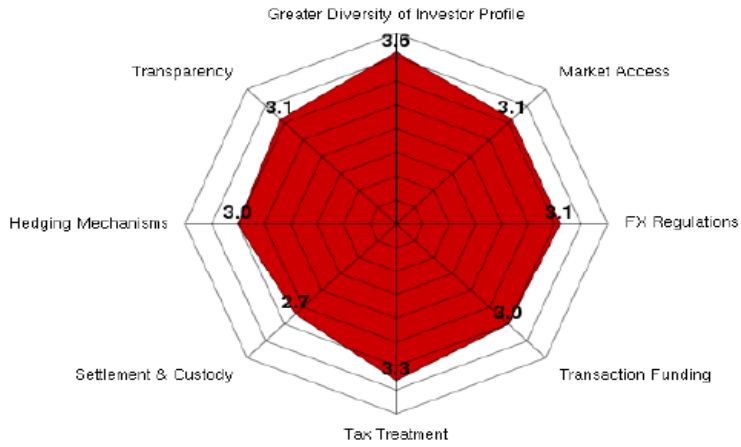
Trading Volume

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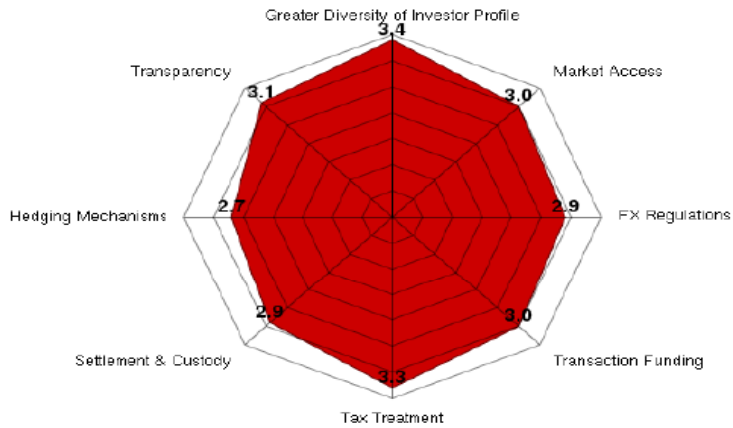
Government bond market structural issues

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Corporate bond structural issues

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Statistics on stability

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	2006	2007	2008	2009	2010	2011	2012
Financial Stability Indicators							
Capital Adequacy Ratio (CAR)	13.59	14.80	13.92	15.77	16.04	14.79	16.29
Loans-to-Deposits Ratio	87.74	92.97	102.65	104.51	111.20	118.43	106.38
Non-Performing Loans Ratio	8.07	7.86	5.65	5.26	3.92	2.94	2.44
Base Money (M1) (y-o-y,%)	2.39	9.70	4.13	12.80	10.89	8.59	13.01
Broad Money (M2) (y-o-y,%)	8.16	6.25	9.16	6.76	10.92	15.20	10.33
Bank Loan Growth Rates (y-o-y,%)	n.a.	n.a.	21.20	3.42	12.24	11.63	15.29
Total External Debt (US\$ billion)	69.97	74.42	76.10	75.31	100.56	104.59	133.68
International Reserves (excluding gold) (US\$ billion)	65.15	85.11	108.32	133.60	165.66	165.20	171.11
Bank Net Foreign Assets (US\$ billion)	16.11	19.08	7.49	1.34	(6.60)	(0.46)	(13.62)
Bank Foreign Assets (US\$ billion)	26.60	28.19	17.90	14.69	16.26	23.45	24.68
Bank Foreign Liabilities (US\$ billion)	10.49	9.11	10.41	13.35	22.86	23.91	38.29
Government Credit Indicators							
Central Bank Policy Rate (%)							
Fiscal Balance (% of GDP)							
Total Government Debt (US\$ billion)							
Government LCU Bonds (US\$ billion)							
Government FCY Bonds (US\$ billion)							
Total Government Debt (% of GDP)							
BIS Data: External positions of reporting banks vis-a-vis individual countries (US\$ millions)							
Net Assets vis-à-vis Thailand							
Assets vis-à-vis Thailand							
Liabilities vis-à-vis Thailand							
Memo Item							
FX Rate (THB-US\$) -- End Period							
FX Rate (THB-US\$) -- Period Average							

Summary

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- The Thai financial system: mostly bank loans, bonds only recently
- History of Thai bond market: first bond 1903, SEC since 1992 and significant bonds issues and trading 1996
- Products: similar to other countries, bonds pay semi-annual coupon
- Market structure: primary and secondary (SET and OTC)
- Thai BMA
- Some statistics