

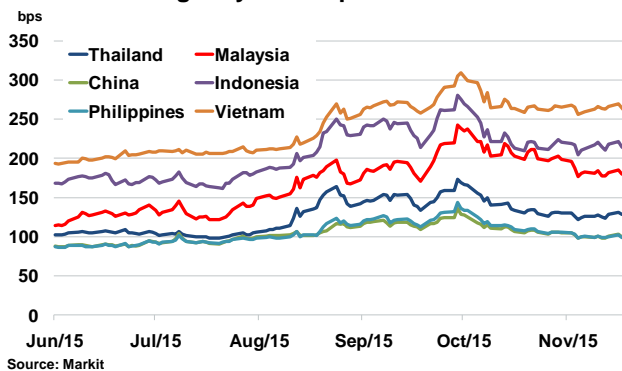
# Thai bond returns avoid broader Asean downturn

Sovereign CDS spreads have fallen across the Asean region over the past two months, but only Thailand has seen its government bond returns remain resilient.

- Credit risk across the Asean region has fallen in tandem since September's highs
- In H2, Thai government bond returns have outperformed the next best Asean peer by 1.4%
- Returns in H2 are on par with Chinese peers, boosted by tourism and spending

Emerging market credit has had a volatile second half (H2) in 2015. Falling commodity prices, slowing global trade and a strong US dollar have all impacted credit risk, nowhere more than in the Asean region.

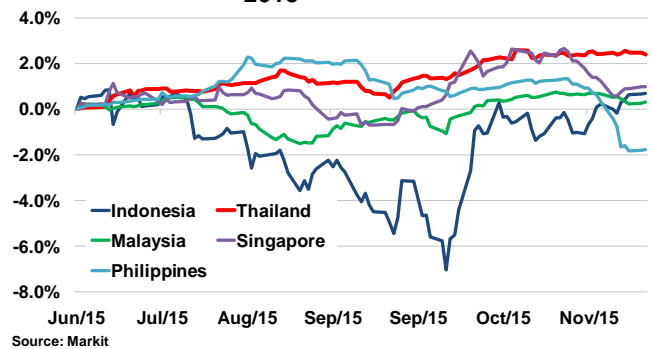
Asian sovereign 5-yr CDS spread



5-yr CDS spreads, which measure implied credit risk, rose steadily in August and September with Malaysia's 5-yr CDS spread more than doubling over the period. Stronger credits such as China and the Philippines were also not immune and saw spreads widen near 150bps, according to [Markit's CDS pricing service](#). Since September's wides, however, credit risk across the Asean region has fallen in tandem, signifying the macro element of the contagion.

## Thai safe haven

Asean-5 government bonds total return H2 2015



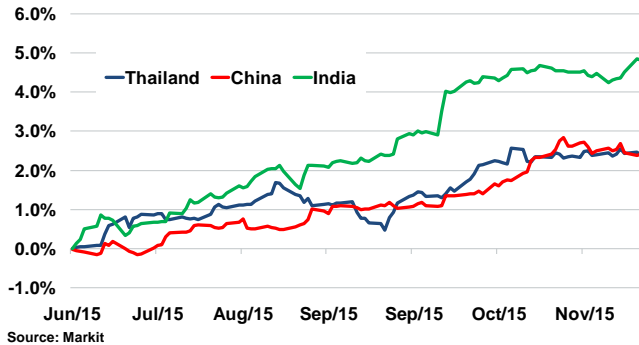
Whereas sovereign credit risk across the region has been largely interconnected, bond investors have had mixed results in the second half of this year. According to [Markit's iBoxx indices](#), Malaysia's government bonds suffered particularly from falling commodity prices and the impact on the ringgit, having shed over 6% from June to September on a total return basis. More recently Singapore and the Philippines have seen returns dive 1.1% and 2.9%, respectively, month to date, even as 5-yr CDS spreads across the region have fallen.

From an investor's perspective, the standout performer in the region has been Thailand, whose government bond returns have sustained the global challenges and remained in positive territory throughout H2. The iBoxx GEMX Thailand index has returned 2.4% so far in H2, 1.4% more than its closest Asean peer. Reduced policy uncertainty, infrastructure spending and tourism have helped investor sentiment in the country while the bigger commodity exporting nations such

as Malaysia and Indonesia are expected to suffer more from weaker global trade.

## On par with China

Asian government bonds total return in H2 2015



Thai government bond returns have also stood up against the larger nations in the Asian region. Undeterred by a slump in commodity prices, both China and India are expected to grow at a faster rate than Thailand, [according to the IMF](#). Meanwhile central bank policy is swaying towards further easing, driving yields down and boosting bond returns. Yet Thailand’s government bonds have managed to provide returns on par with Chinese government bonds in H2, although they have lagged India. The performance does, however, demonstrate the resilience of Thai government bonds compared to the riskier end of the Asean spectrum, and may prove to be the safe haven asset if more market turmoil festers.

### Neil Mehta

Fixed Income Analyst

Markit

Tel: +44 207 260 2298

Email: [neil.mehta@markit.com](mailto:neil.mehta@markit.com)

For further information, please visit [www.markit.com](http://www.markit.com)

The intellectual property rights to this report provided herein is owned by Markit Group limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit’s prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information (“data”) contained herein, any errors, inaccuracies, omission or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, consequential damages, arising out of the use of the data. Markit is a trademark owned by the Markit group.

This report does not constitute nor shall it be construed as an offer by Markit to buy or sell any particular security, financial instrument or financial service. The analysis provided in this report is of a general and impersonal nature. This report shall not be construed as providing investment advice that is adapted to or appropriate for any particular investment strategy or portfolio. This report does not and shall not be construed as providing any recommendations as to whether it is appropriate for any person or entity to “buy”, “sell” or “hold” a particular investment.