ThaiBMA-FETCO

Interest Rates Expectation Survey

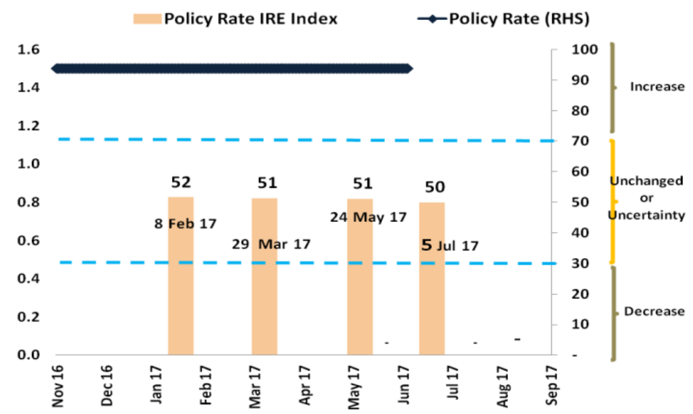
Interest Rates Expectation Index Report

Jul 2017

♣ Interest Rate Expectation Index for July 2017♣

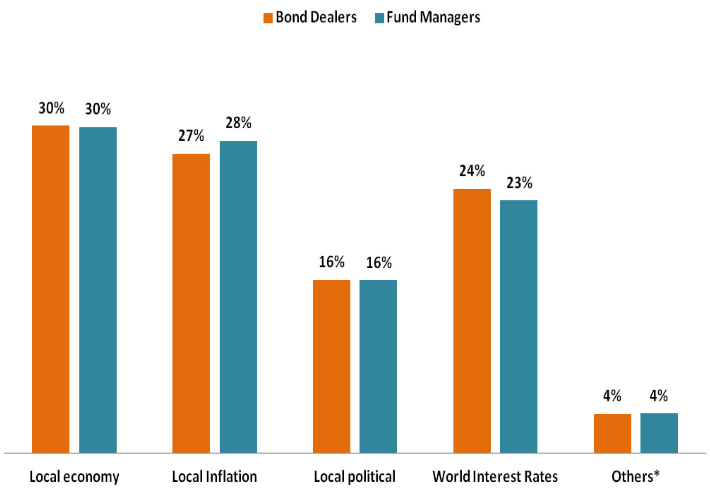
The Interest Rate Expectation Index for the Bank of Thailand's Monetary Policy Committee (MPC) meeting in July stands at 50, reflecting that the market remains confident that the MPC policy rate will be maintained at 1.50%, due to two main factors: 1) Thai economic growth is expected to be low; and 2) inflation rate trend remains low under the policy framework. Meanwhile, Interest Rate Expectation Indices for 5-year and 10-year government bond yields through the August MPC meeting (9 weeks hence) are at 84 and 83 respectively, which are close to the previous levels of 85 and 89. These values reflect that although the market's confidence has dropped somewhat, it still retains its original view that the yields for the both the 5-year and 10-year government bonds are likely to rise from current levels.

Policy Rate IRE Index compared Policy Rate



♣ **The Interest Rate Expectation Index** for the next Bank of Thailand MPC meeting being held **July 5, 2017 stands at 50**, remaining in the **unchanged** range, thus reflecting market sentiment that the MPC will leave the **policy rate at 1.5%.** Bond dealers and fund managers responding to the survey had the same consensus.

Factors Affecting the Interest Rate Policy Trends



♣ **The three top factors influencing the interest rate policy forecasts** by bond dealers and fund managers—ordered from the most important—include the following:

- Thai economic expansion should continue to proceed gradually.
- The Thai inflation rate is lower than anticipated.
- The US interest rate is expected to increase at the most one more time but at a level that should not put pressure on the Thai interest rate policy.

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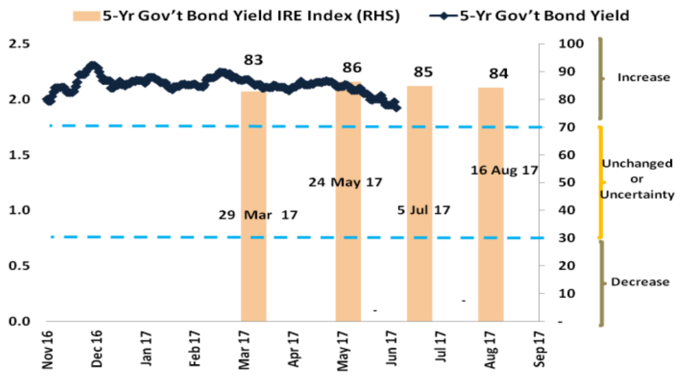
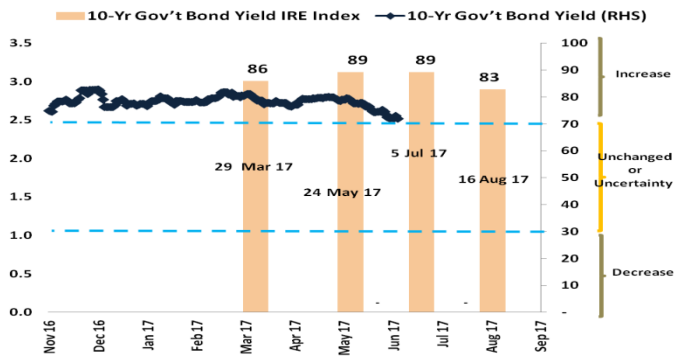
5 Yr- IRE Index compared 5 Yr-Gov't bond yield



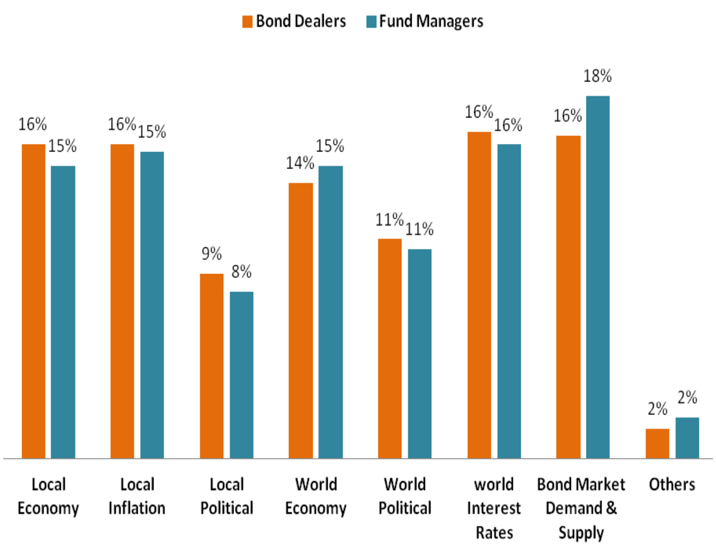
♣The Interest Rate Expectation Index for 5-Year Government Bonds through the next two meetings of the Bank of Thailand MPC (through August 16, 2017) is **at 84**. Although this index level is slightly lower than the previous IRE index of 85, it still **reflects an upward trend**, indicating the market still expects 5-year government bond yields to rise in the next nine weeks from the 1.97% yield on June 14, 2017. The majority of bond dealers and fund managers have views consistent with this expectation of this future bond market trend.

10 Yr- IRE Index compared 10 Yr-Gov't bond yield



♣ The Interest Rate Expectation Index for 10-Year **Government Bonds** for the period through the next two Bank of Thailand MPC meetings (through August 16, 2017) **stands at 83**, lower than the previous IRE index of 89. This still **indicates an upward trend**, reflecting a market confident that 10-year government bond yields will rise in the nine weeks ahead from the 2.57% yield on June 14, 2017. Both bond dealers and fund managers agree with this general expectation for the direction of yields on 10-year government bonds.

Factors Affecting Long-term Government Bond Yields



♣ Factors influencing Bond Dealers' and the Fund Managers' outlooks for 5-year and 10-year government bond yields include the following, sorted from most influential to least:

- **Supply in the bond market** with an increased number of auctions, especially for bonds with long-term maturities, is expected to impact yields for long-term government bonds.
- **US interest rate hikes** based on "dot plot" projections will affect Thailand's bond yields, and US government plans to reduce the size of its budget will impact fund flows and the value of the Thai baht.
- The trend continues for **gradual growth of the Thai economy**; government mega projects require close monitoring as well as the expansion of the number of foreign tourists.