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THB Thermometer

August 2020

Foreign Exchange Market Update

Recap : July

The USD index posted its biggest drop since September 2010, weighed by concerns over a stalled recovery amid climbing COVID-19 infections in the U.S., deterioration in U.S.-China diplomatic ties, and a lack of conclusion for USD1 trillion in fresh fiscal stimulus. Toward the end of the month, President Trump floated the idea about delaying the presidential election.

€ Performance — *Appreciation*

- The euro hit the strongest level in more than two years as markets cheered a crucial step toward fiscal integration. EU leaders came to an agreement on a EUR750 billion COVID-19 Recovery Fund that provides aid to economies hardest hit by the pandemic. Italian yields eased as details of the package indicated 28% of the money will be allocated to Italy.

€ Outlook — Appreciation

- While the dollar is being hit by the loss of economic recovery momentum plus building political risks, caution lingers over the coronavirus resurgence in Europe. We expect some degree of consolidation in the near term ahead of a longer-term euro strength.

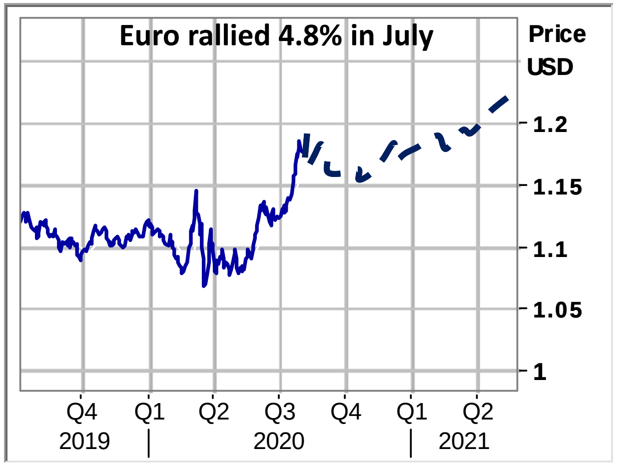
¥ Performance — *Appreciation*

- The yen reached a 4.5-month high, mainly a reflection of the bearish dollar tone. U.S. Treasury yields fell on bleak economic recovery outlook. Meanwhile, China ordered a consulate closure in retaliation to the U.S. move, adding to fears over conflict escalation.

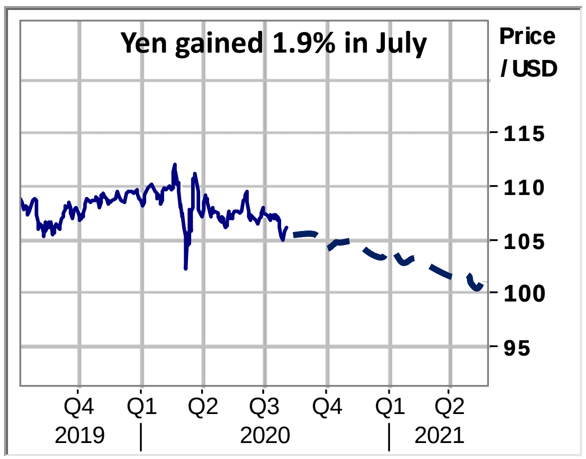
¥ Outlook — Appreciation

- The continued move higher in U.S. equity markets, though led by big tech play, has failed to meaningfully cap safe-haven yen demand. Given that the underlying prospects of the U.S. economy remain highly uncertain, risk assets largely benefit from the Federal Reserve's commitment to ultra-loose policy for as long as needed, suppressing real yields in the U.S. to new lows. These circumstances coupled with the decline in global yields, the yen should remain relatively supported going forward.

EUR/USD



USD/JPY



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Foreign Exchange Market Update

Recap : July

Baht Depreciation

- The Thai baht had a volatile month, hitting the weakest level since late May before paring losses toward the end of July. The underperformance mirrored fears over resurgence of domestic community spread of coronavirus and political uncertainty. The government's economic team led by Deputy PM Somkid resigned, paving the way for reshuffle. Meanwhile, the Cabinet named MPC member Sethaput as new BoT governor to succeed Governor Veerathai whose term ends in September.
- USD0.25 billion current account deficit in June
- THB10.2 billion net foreign selling in SET-listed shares in July
- THB18.8 billion net foreign buying in Thai government bonds in July

** Based on outright trading value. The accumulated net buying value may double count the trading value of rollovers.*

USD/THB

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Historical Performance

	THB vs USD	THB vs JPY
1 month	-1.07%	-3.02%
3 months	3.46%	2.27%
12 months	-1.56%	-0.81%

As of July 31, 2020, "-" indicates THB depreciation

Outlook: Long-term Appreciation

We maintain our view of long-term baht strength on the back of Fed-induced dollar weakness although volatility is poised to remain high given the elevated level of global economic uncertainty. Portfolio outflows are being countered by narrowing current account surplus this year, leaving scope for more two-way USDTHB moves.

Foreign Exchange Market Update

Monthly Performance

	SGD	PHP	CNY	MYR	KRW	INR	TWD	VND	THB	IDR
vs USD	1.4%	1.4%	1.3%	1.1%	1.0%	0.9%	0.6%	0.2%	-1.1%	-2.3%

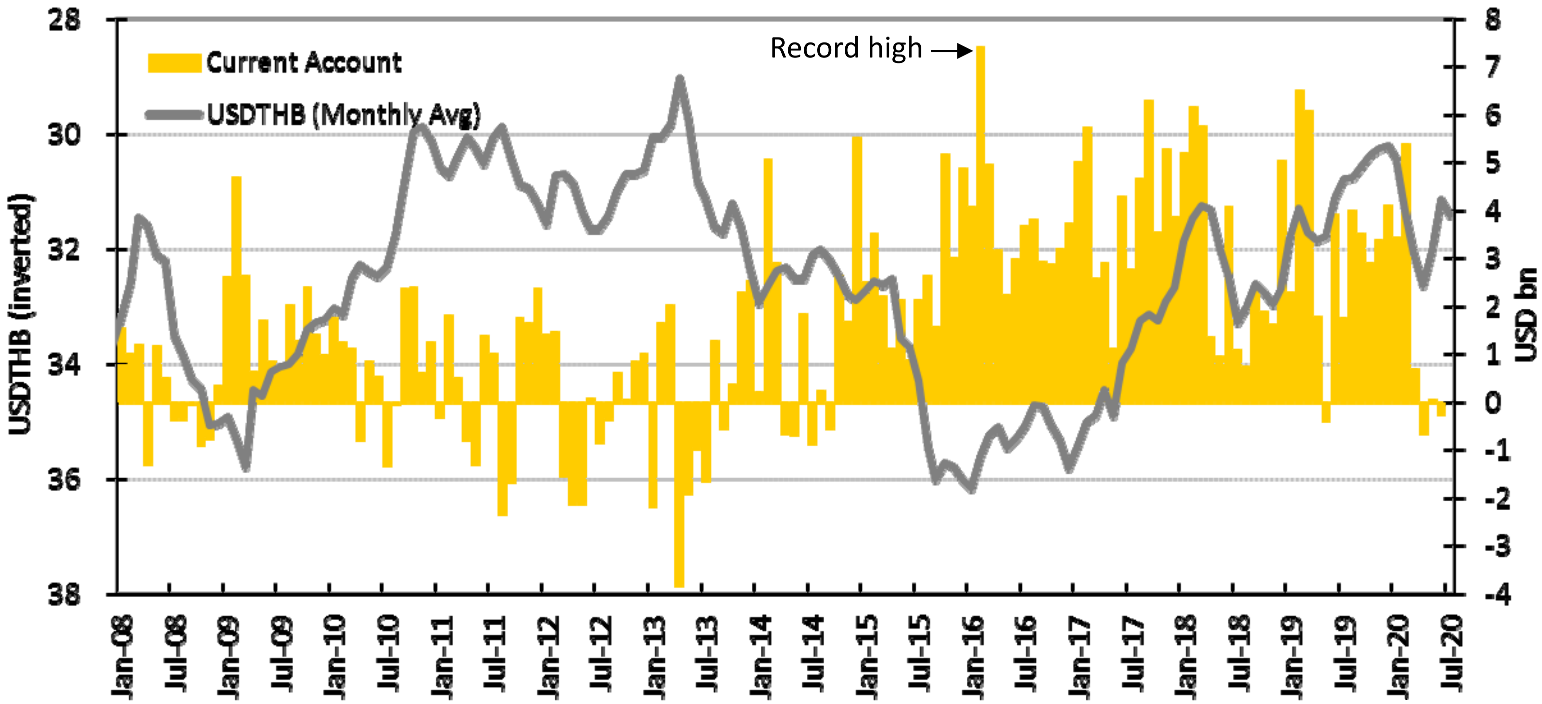
Yearly Performance

	TWD	PHP	VND	SGD	KRW	CNY	THB	MYR	IDR	INR
vs USD	5.8%	3.6%	0.3%	0.0%	-0.7%	-1.3%	-1.6%	-2.7%	-4.0%	-8.0%

Bloomberg, data as of July 31, 2020, yearly is past 12 months, "-" indicates currency depreciation against USD

Thailand: External Accounts

Current Account & USD/THB



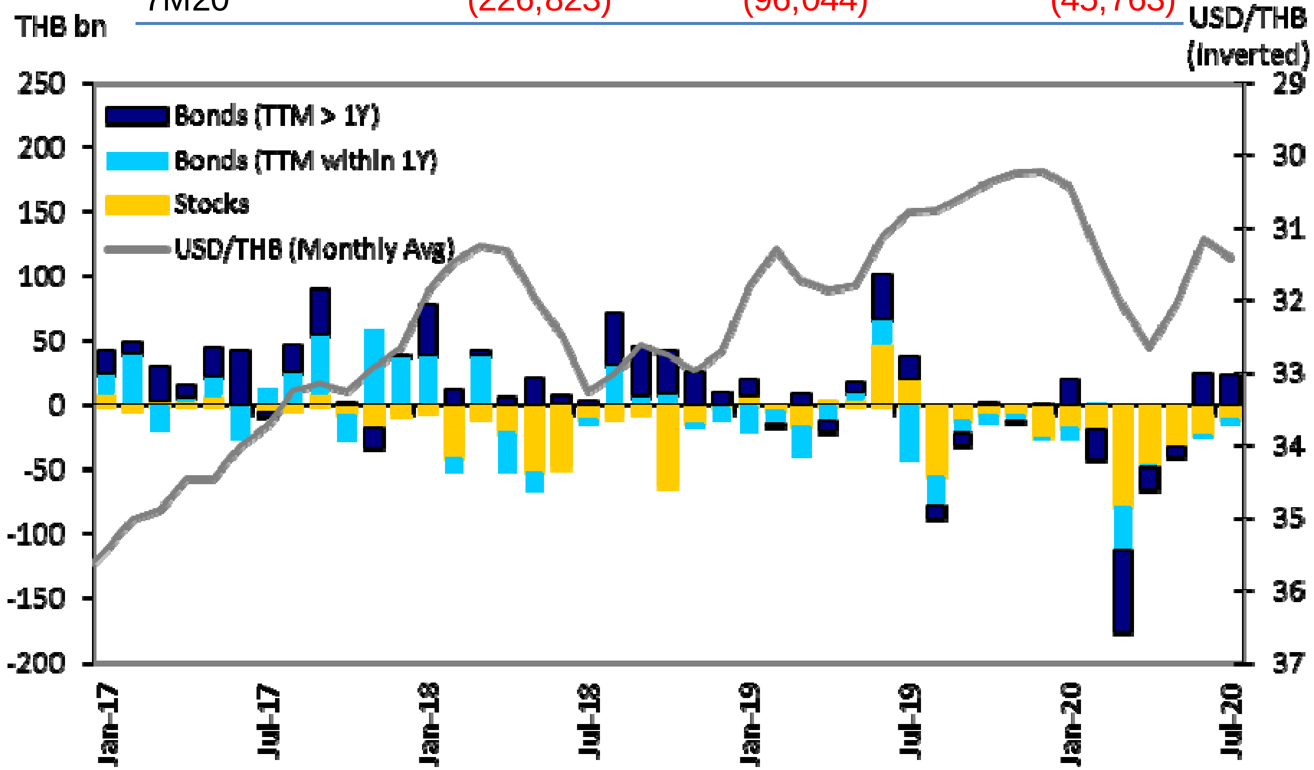
	Exports % y-o-y	Imports % y-o-y	Trade Balance USD bn	Current Account USD bn	Reserves* USD bn
Jun-20	-24.6	-18.2	2.32	-0.25	266.09 ▲
May-20	-23.6	-34.2	3.19	0.06	265.14 ▲
Apr-20	-3.3	-17.0	2.53	-0.65	265.06 ▲

*Bank of Thailand, * including net forward position*

Thailand: Foreign Portfolio Flows

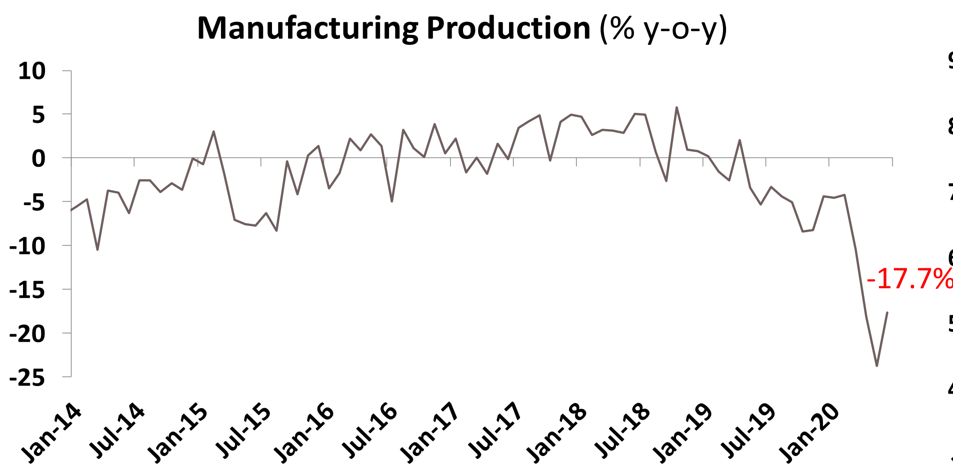
Net Foreign Position & USD/THB

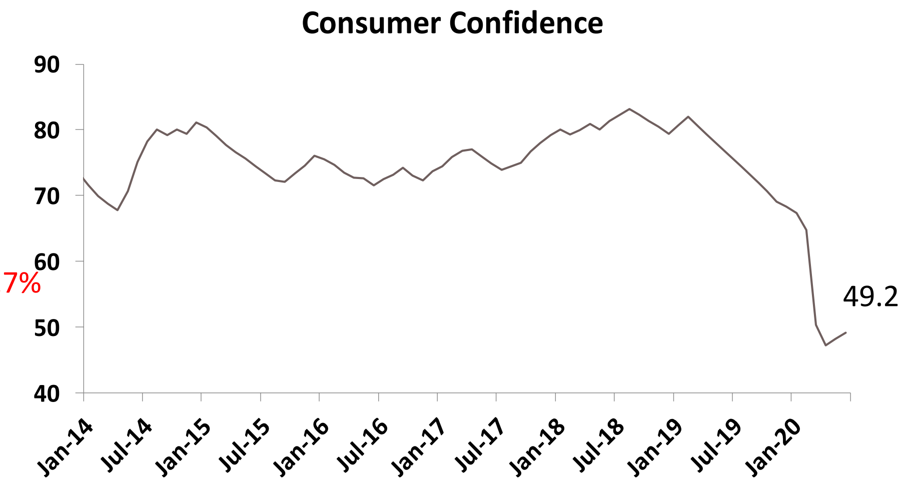
THB mn	Sum of Stocks	Sum of Bonds	Sum of TTM > 1Y
2017	(25,752)	357,633	166,976
2018	(287,740)	286,555	236,524
2019	(45,243)	(79,279)	51,961
7M20	(226,823)	(96,044)	(45,763)

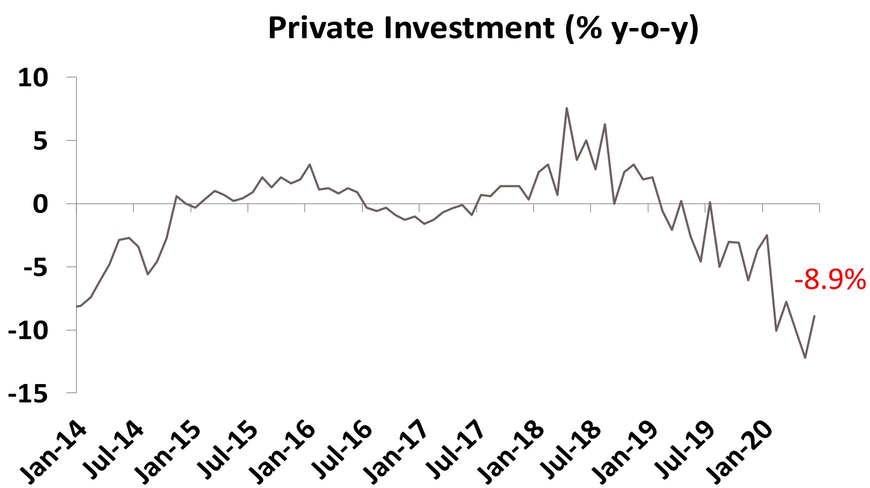


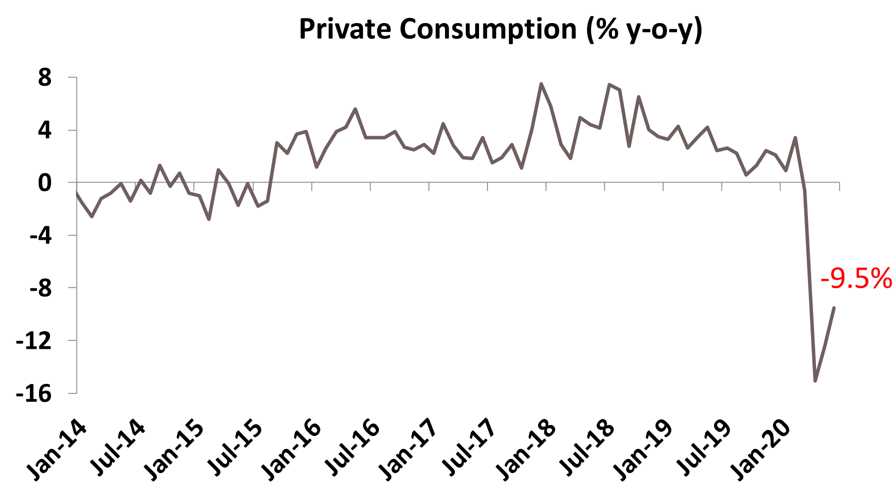
Thai Bond Market Association (based on outright trading value; the accumulated net buying value may double count the trading value of rollovers), Stock Exchange of Thailand, Bank of Thailand, last data points: July 2020*

Thailand: Domestic Economy



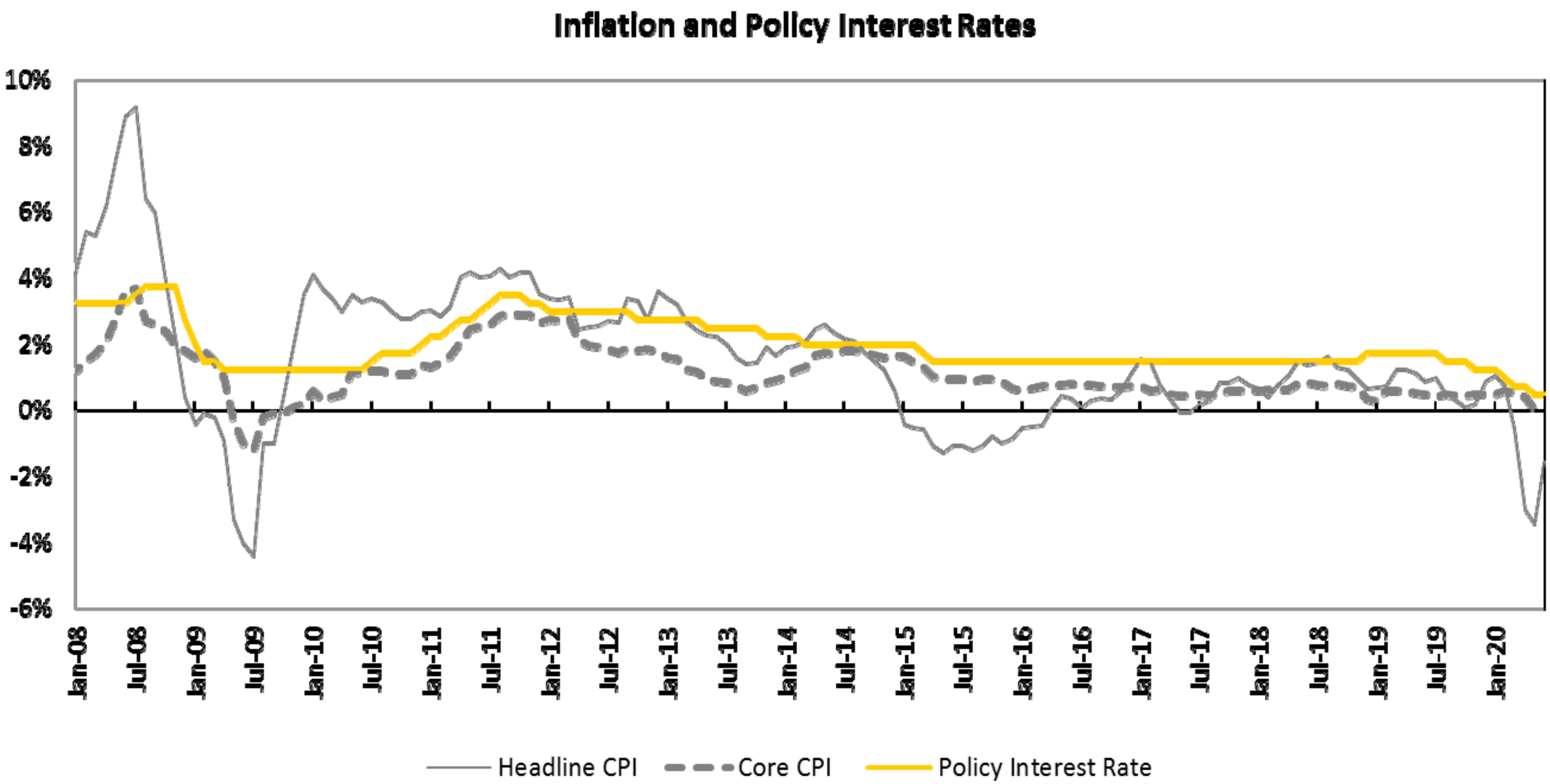






Bank of Thailand, UTCC, last data points: June 2020

Thailand: Inflation



year-on-year change	Headline CPI	CPI Excluding Raw Food & Energy
Jun-20	-1.57% ▲	-0.05% ▼
May-20	-3.44% ▼	0.01% ▼
Apr-20	-2.99% ▼	0.41% ▼

Ministry of Commerce, Bank of Thailand

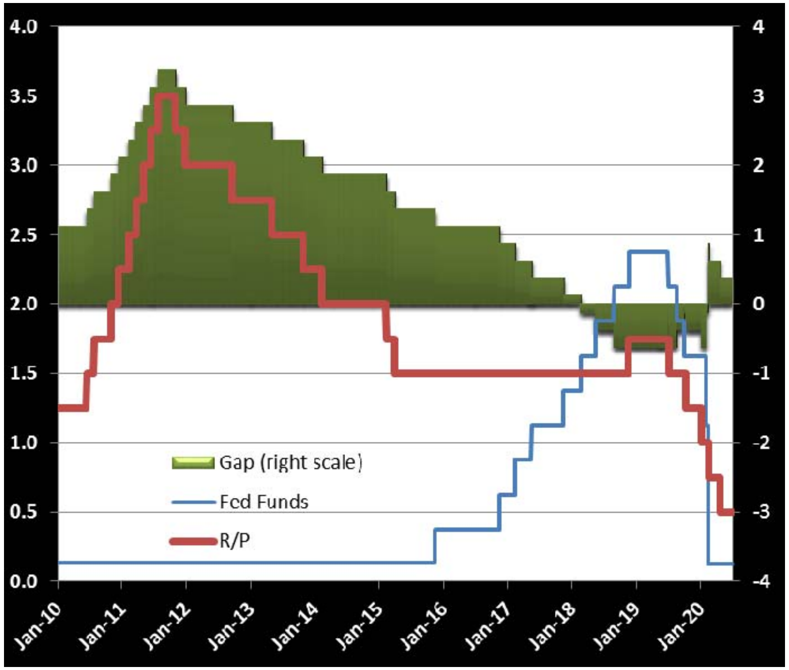
Interest Rate Market Update

Economic Path Hinges on Virus Course

- The FOMC at the end of Jul 28-29 meeting kept rates unchanged at 0-0.25% and Fed Chair Powell repeated that the Fed remains committed to using the "full range of tools" for as long as necessary to facilitate some relief and stability, to ensure that the recovery will be as solid as possible, and to limit lasting economic damage from the pandemic. While the FOMC policy statement displayed very few material changes, it directly linked the economic path to the course of the coronavirus development. Chair Powell expressed concerns that the number of infection cases has risen sharply in many parts of the U.S. since mid-June, and that renewed restriction measures are starting to hinder economic activity.

- U.S. Treasury yields fell and the curve flattened for the month. The U.S. economic recovery appears to have lost momentum amid resurgence of COVID-19 spread which will keep intact market expectations for the Fed to provide additional easing down the road. MUFG sees a good possibility for some form of yield curve control to be announced in September.

US Federal Funds and Thai Policy Rates (%)



end of period	Jan-20	Apr-20	Jun-20	Jul-20
USD6MLIBOR	1.74525%	0.75950%	0.36925%	0.30613%
THBFIX6M	0.95728%	0.74162%	0.43918%	0.38133%
Diff	0.78797%	0.01788% ▼	-0.06993% ▼	-0.07520% ▼

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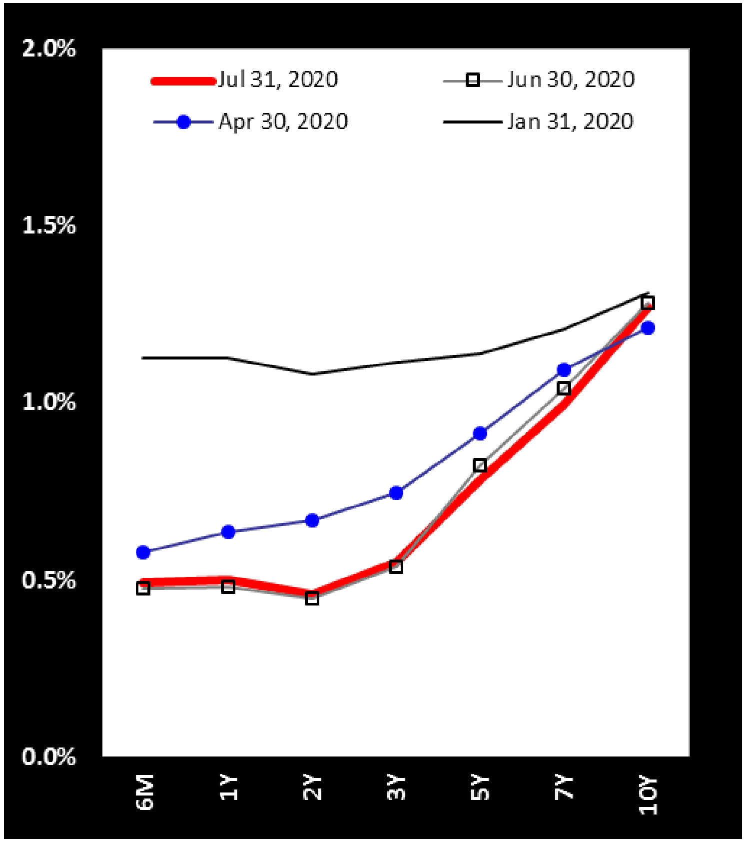
Interest Rate Market Update

Policy Continuation, or Bolder

• BoT Governor Veerathai said economic recovery may take around two years based on expectation that the outbreak will be kept under control whereas it will be several more years to go back to 40-million tourist arrivals seen before the COVID-19 outbreak. Earlier, Deputy Governor Mathee noted the record-low policy interest is unlikely to go to 0% while the central bank is studying yield curve control. Policy space should be used effectively and be prepared for the worst, according to a central bank remark at an analyst meeting on Jul 14.

• Thai government bond yields proved fairly stable in July while foreign investors were net buyers for a second consecutive month. Markets welcomed the Cabinet's move in naming MPC member Sethaput as new BoT governor, which paves the way for maintaining status quo of the broader monetary policy stance given his somewhat similar background with the outgoing governor. Although Dr. Sethaput rarely makes public comments of late, we reckon his future policy actions may prove relatively bold. More unconventional measures could be in the offing to heal the economy severely hit by the COVID-19 shock amid limited rate-cut ammunition. Beyond fixing the ongoing damage, challenges for the new governor include longer-term steps to address structural issues, how to effectively manage the baht and digital economy. On balance, we expect the policy rate to be left unchanged at 0.50% and yields to remain anchored for the time being.

Thai Govt Yield Curve



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Forecast

Factors in Focus

USD Weakness. While the scale of selloffs in July may leave scope for a corrective dollar bounce, underlying fundamentals remain negative for the dollar. Meanwhile, the risk of entering the U.S. Treasury Department's watch list for currency manipulation has perhaps increased limitation for the BoT to curb the strength of the baht. Separately, the surge in gold prices alongside declining U.S. real yields may add to baht appreciation pressure although the BoT will allow more trading of gold in dollars to reduce FX volatility. The evolving COVID-19 situation, U.S.-China tensions, and U.S. politics will continue to drive markets. Our long-term view remains one of dollar weakness due mainly to the Federal Reserve's policy stance.

MPC Meeting, Aug 5. We expect rates to be left at an all-time low of 0.50% with cautious assessment over downside risks to growth amid still-elevated level of uncertainty, and the notable impact on the labor market. With the pandemic still spreading abroad, international arrivals will only stay muted for longer, clouding the broader recovery.

Thailand's Q2 GDP, Aug 17. As the economy is likely to have bottomed out in the second quarter, the focus will be on the level of confidence in recovery momentum.

FX	USD/THB	USD/JPY	JPY/THB
Jul 31, 2020	31.22	105.89	29.48
Q3/20F	31.25	104	30.05
	30.50-32.00	103.00-107.00	28.75-30.50
Q4/20F	30.75	103	29.85
	30.00-31.50	102.00-106.00	28.50-30.30
Q1/21F	30.5	102	29.90
	29.75-31.25	100.00-105.00	28.50-30.35
Q2/21F	30.25	101	29.95
	29.50-31.00	99.00-104.00	28.50-30.40

*JPY/THB is per 100 yen, * USD/THB based on Bangkok closing rate, USD/JPY, JPY/THB based on New York close*

Policy Interest Rates	Current	end-Q2/21F
USD Fed Funds	0-0.25%	0-0.25%
EUR Deposit Facility Rate	-0.50%	-0.50%
JPY O/N Call	-0.10%	-0.10%
THB 1-day R/P	0.50%	0.50%

As of August 4, 2020

BoT Economic Projection

	2019A	2020F
Real GDP growth	2.4%	-8.5%
Private Consumption growth	4.5%	-2.6%
Private Investment growth	2.8%	-12.6%
Public Consumption growth	1.4%	4.3%
Public Investment growth	0.2%	9.7%
Export Value growth	-3.3%	-11.0%
Import Value growth	-5.6%	-14.2%
Current Account (USD bln)	38.4	13.3
Headline CPI Inflation	0.7%	-1.3%

Fiscal Policy Office, as of July 30, 2020

Contact Persons
Global Markets Research and Analysis Section
Roong Sanguanruang
Roong.Sanguanruang@krungsri.com
Pitchaporn Sriphanomsak
Pitchaporn.Sriphanomsak@krungsri.com

Bank of Ayudhya Public Company Limited
(A member of MUFG, a global financial group)
<Head Office>
1222 Rama Ⅲ Road, Bang Phongphang Yan Nawa, Bangkok 10120 Thailand
<Global Markets Group>
550 Ploenchit Road, Lumphini, Pathumwan, Bangkok 10330 Thailand

Thank you