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THB Thermometer

February 2020

Foreign Exchange Market Update

Recap : January

The dollar appreciated against most other major peers in January. While the signing of phase-one U.S.-China trade agreement initially brightened risk appetite, growth concerns triggered by the novel coronavirus helped enhance demand for safe assets. Evidence of economic strength in the U.S. relative to the rest of the world also kept the dollar supported.

€ Performance

- The euro weakened on anticipations of QE staying for longer while signs of economic stabilization in the Eurozone remained unclear. The European Central Bank kept rates unchanged, as expected, yet ECB President Lagarde struck a more cautious tone due to downside risks to growth, mainly from international trade uncertainty.

€ Outlook

- Expectations of gradual economic rebound and potential easing of fiscal policy could provide the euro some support this year. However, near-term upside looks challenging due to uncertainty during Brexit transition and worries about the impact from the virus outbreak.

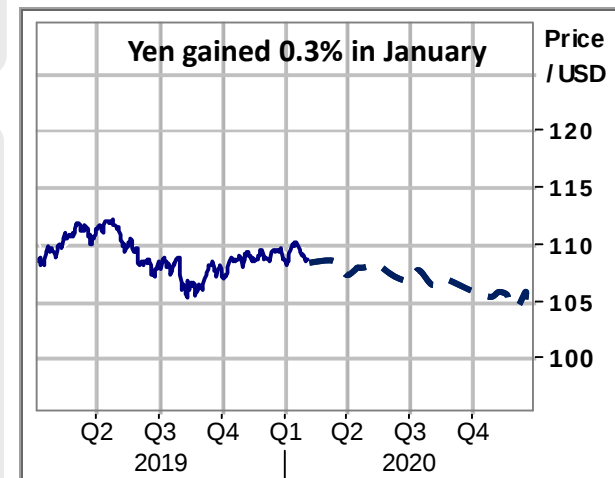
Depreciation

Moderate Appreciation

EUR/USD



USD/JPY



Refinitiv

¥ Performance

- The year 2020 kicked off with the safe-haven yen initially underperforming due to the trade deal optimism while the U.S.-Iran standoff proved short-lived. Nevertheless, the yen later erased losses as the coronavirus outbreak sent global yields broadly lower.

¥ Outlook

- The unpredictability of the virus would continue to dampen risk appetite, keeping the yen in demand at least for now. Besides, given the likelihood that the Federal Reserve will keep rates low for longer, we maintain our view of a moderately stronger yen over time.

Weakness Reversal

Moderate Appreciation

Foreign Exchange Market Update

Recap : January

Baht Losing Appeal

- The fortune has turned for the Thai baht which is now the region's worst performer and wiped out nearly half of the gains posted in 2019. Selloffs in the currency accelerated after concerns arose over the impact from coronavirus particularly on Thailand's tourism alongside potential fiscal gridlock which reinforced anticipations of perhaps a sooner interest rate cut by the Monetary Policy Committee.
- USD4.1 billion current account surplus in December, taking the surplus to a hefty USD37.3 billion for all of 2019.
- THB17.3 billion net foreign selling in SET-listed shares in January.
- THB10.8 billion* net foreign buying in Thai government bonds in January.

* 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	-3.7%	-4.9%
3 months	-3.1%	-2.8%
12 months	0.4%	-0.1%

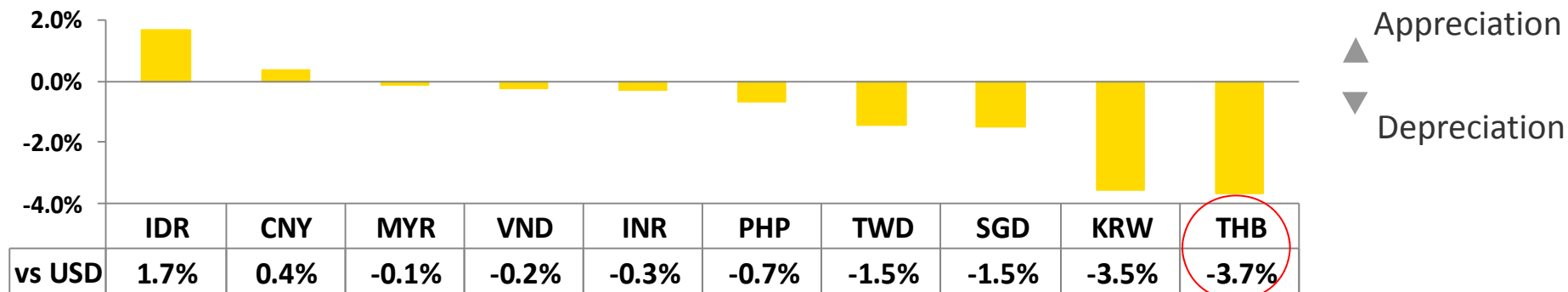
As of January 31, 2020, "-" indicates THB depreciation

Outlook: Near-Term Baht Weakness

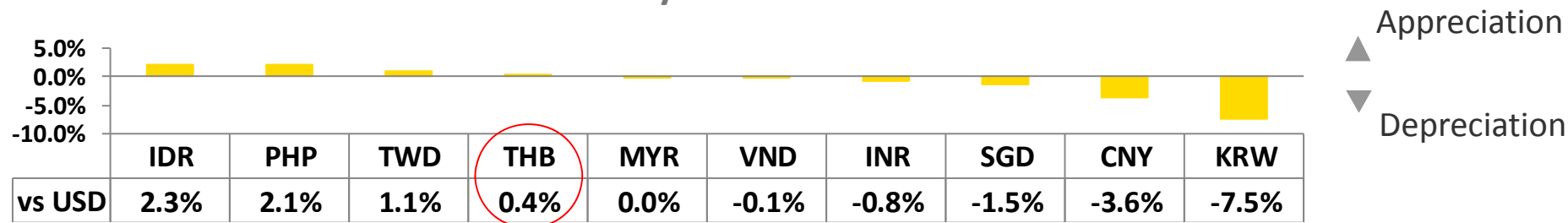
Given the ongoing headwinds from all fronts, we expect the baht to consolidate in weaker ranges in Q1/20. Thailand's heavy reliance on Chinese tourists as well as the overstretched positioning of the baht against the dollar last year will continue to take outsized appreciation pressure off the baht. Capital flows should also prove more volatile in the period ahead.

Foreign Exchange Market Update

Monthly Performance



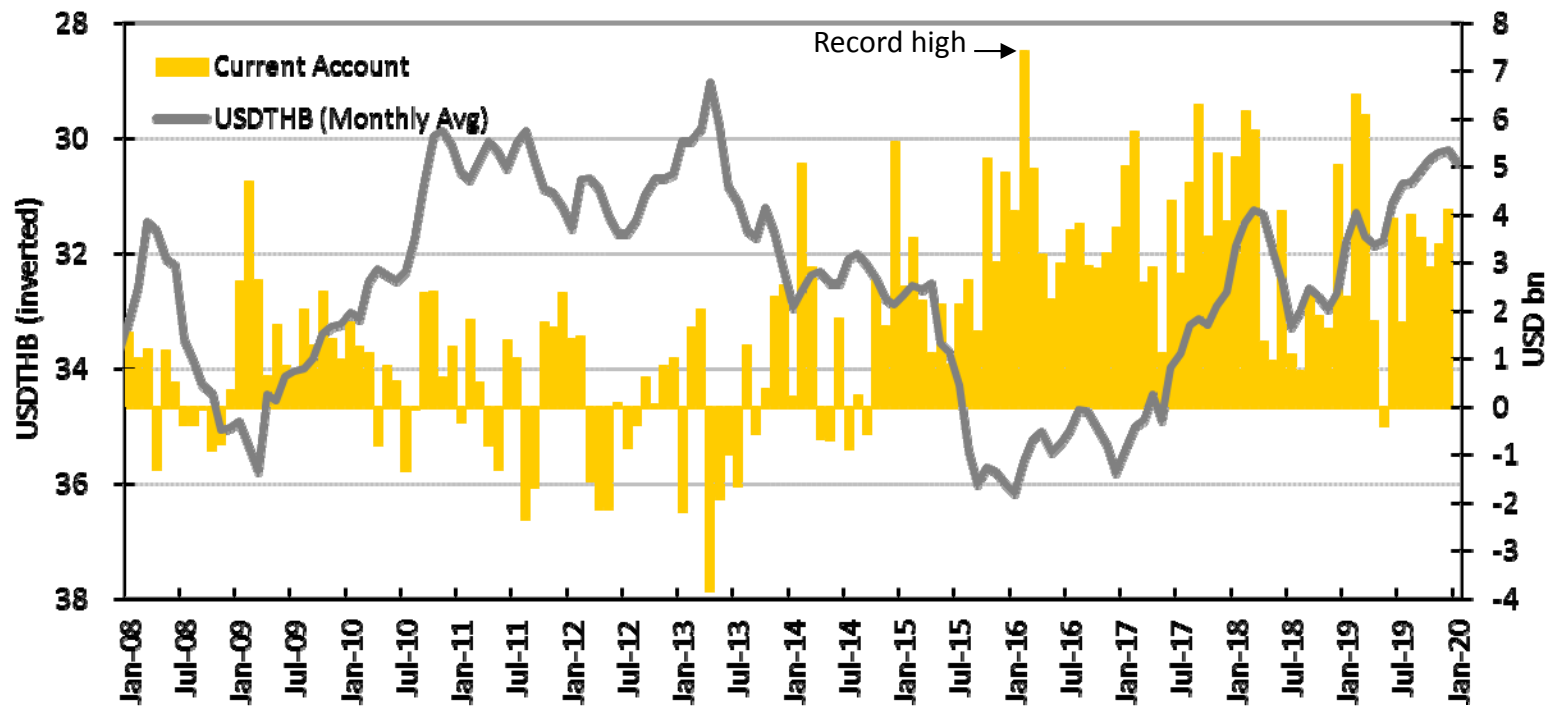
Yearly Performance



Refinitiv data as of January 31, 2020, "-" indicates currency depreciation against USD

Thailand: External Accounts

Current Account & USD/THB



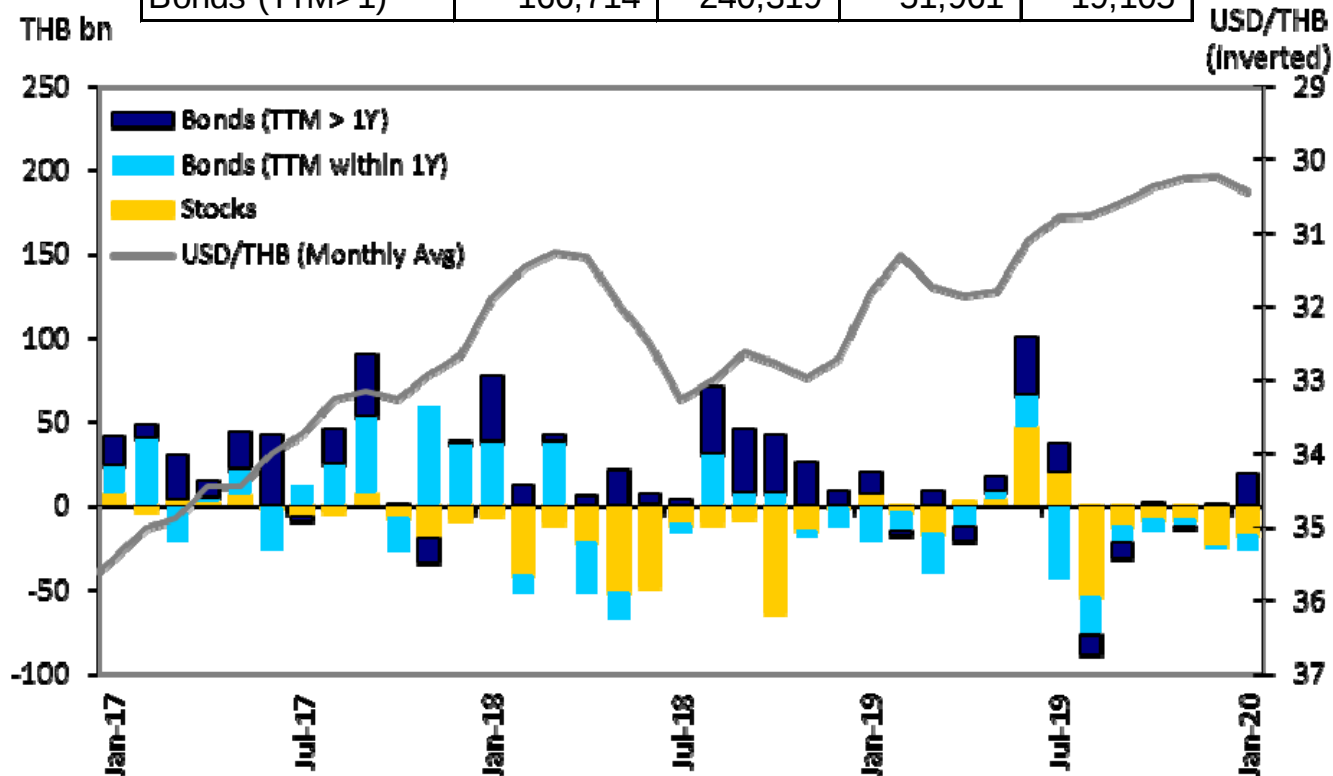
	Exports % y-o-y	Imports % y-o-y	Trade Balance USD bn	Current Account USD bn	Reserves* USD bn	
Dec-19	-1.7	1.8	1.89	4.11	259.05	▲
Nov-19	-7.7	-13.9	1.97	3.38	254.31	▼
Oct-19	-5.0	-9.2	2.09	2.91	257.21	▲

Bank of Thailand, * including net forward position, last data points: December 2019

Thailand: Foreign Portfolio Flows

Net Foreign Position & USD/THB

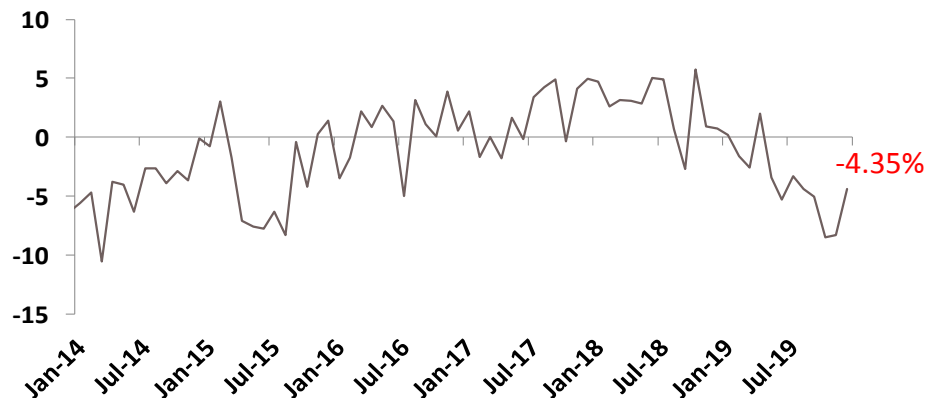
THB mn	2017	2018	2019	1M2020
Stocks	(25,752)	(287,740)	(45,243)	(17,302)
Bonds (Net Flows)*	216,140	122,120	(79,279)	10,786
Bonds (TTM>1)	166,714	240,319	51,961	19,105



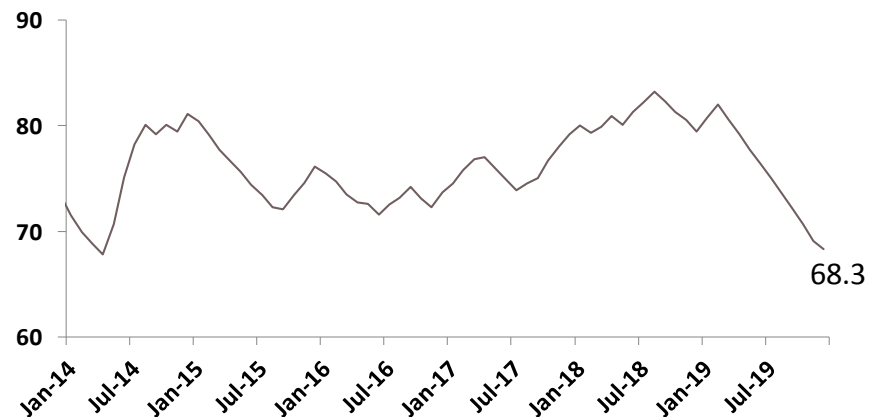
Thai Bond Market Association (* based on outright trading value; the accumulated net buying value may double count the trading value of rollovers), Stock Exchange of Thailand, Bank of Thailand, last data points: January 2020

Thailand: Domestic Economy

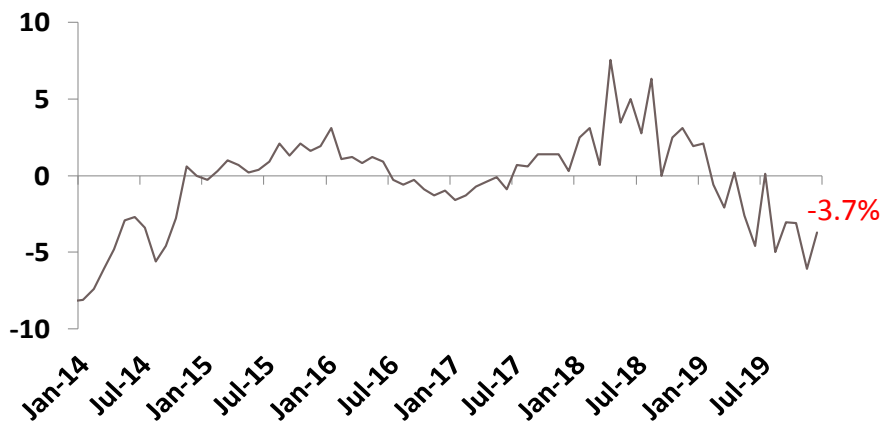
Manufacturing Production (% y-o-y)



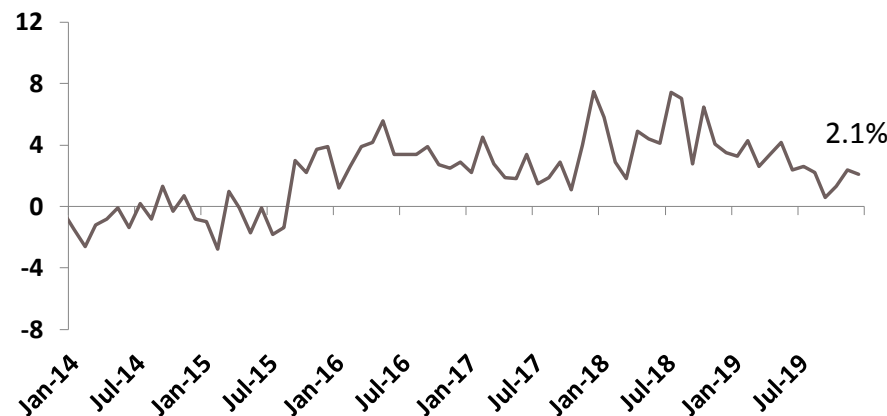
Consumer Confidence



Private Investment (% y-o-y)



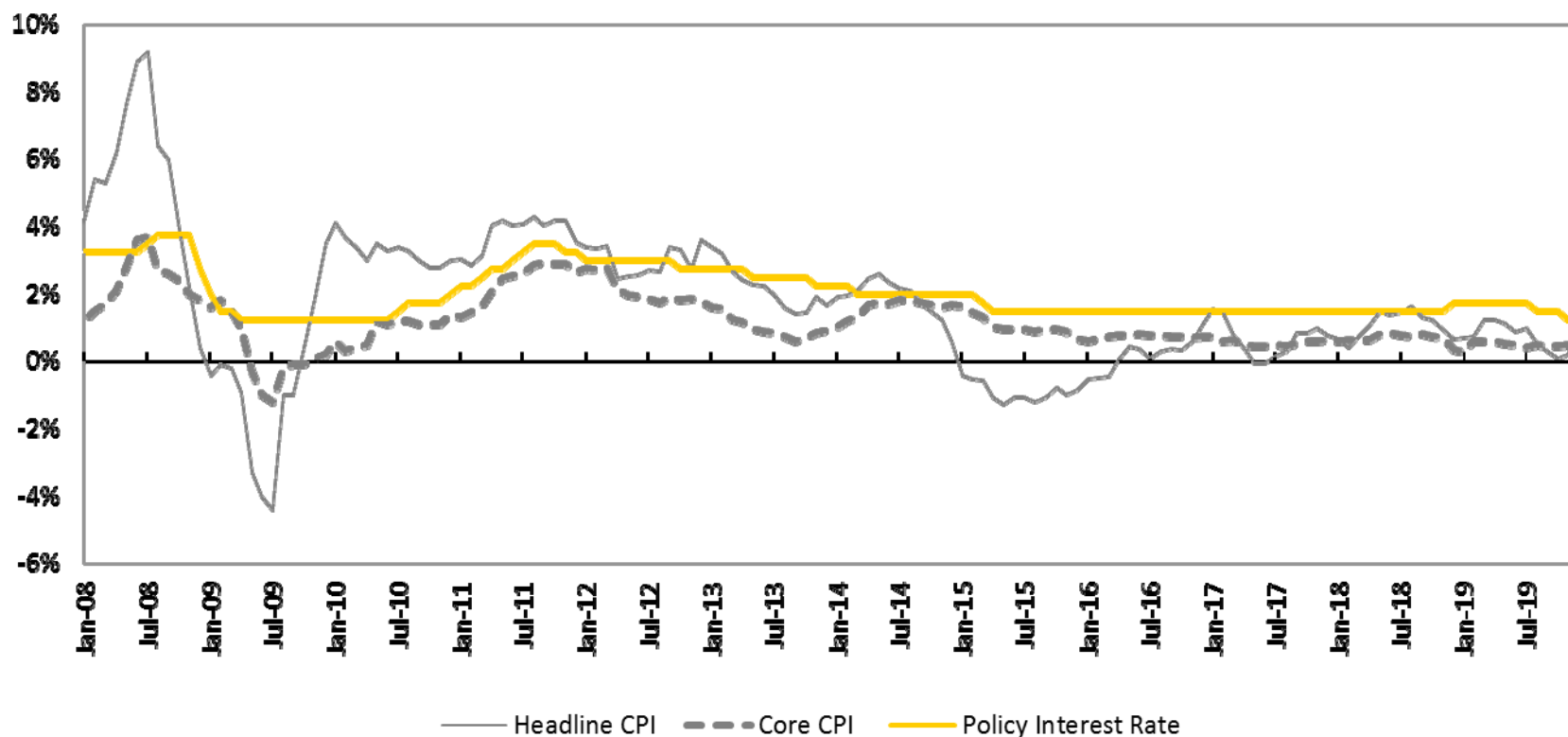
Private Consumption (% y-o-y)



Bank of Thailand, UTCC, last data points: December 2019

Thailand: Inflation

Inflation and Policy Interest Rates



year-on-year change	Headline CPI	CPI Excluding Raw Food & Energy
Dec-19	0.87 % ▲	0.49% ▲
Nov-19	0.21% ▲	0.47% ▲
Oct-19	0.11% ▼	0.44%

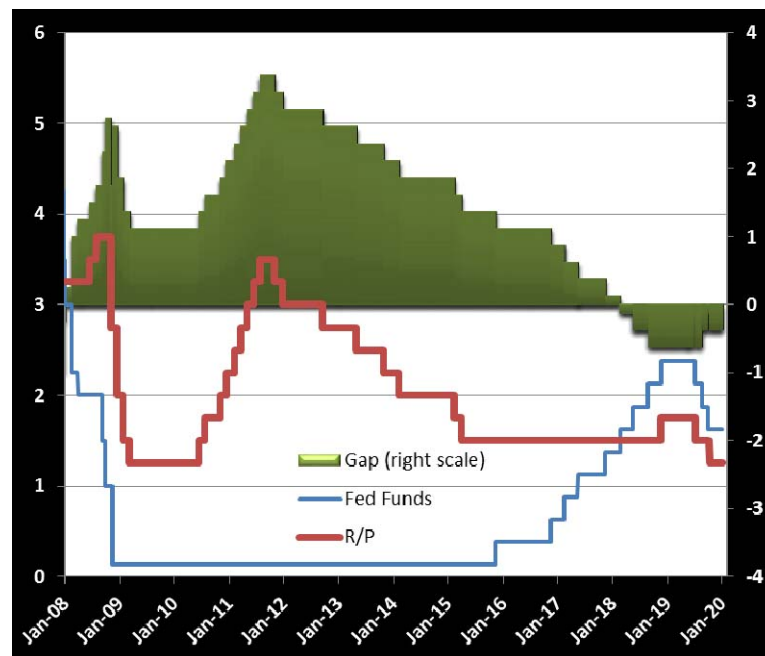
Ministry of Commerce, Bank of Thailand, last data points: December 2019

Interest Rate Market Update

A Shift in Strategy?

- The Federal Reserve at the Jan. 28-29 meeting voted unanimously to keep the funds rate unchanged in a range of 1.50-1.75% and lifted the IEOB rate by 5bps to 1.60%. Notably though, the accompanying statement indicated a tweak of policy stance being consistent to facilitate inflation from “near” to “returning to” the Committee’s symmetric 2% objective. The policymakers offered little changes in other areas, with a slight downgrade in household spending assessment from “strong” to “moderate.”
- U.S. Treasury yields fell across the curve in January with the 10-year and 3-month tenors re-inverting while the virus outbreak boosted safe-haven bids. We now expect the Fed to stand pat on rates this year although the implied shift in policy toward “makeup” inflation strategy, if materialized, would mean low(er) rates for longer over the coming years. Cr. MUFG

US Federal Funds and Thai Policy Rates (%)



end of period	Jul-19	Oct-19	Dec-19	Jan-20
USD6MLIBOR	2.20688%	1.91625%	1.91213%	1.74525%
THBFX6M	1.39985%	1.41239%	1.15797%	0.95728%
Diff	0.80703%	0.50386% ▼	0.75416% ▲	0.78797% ▲

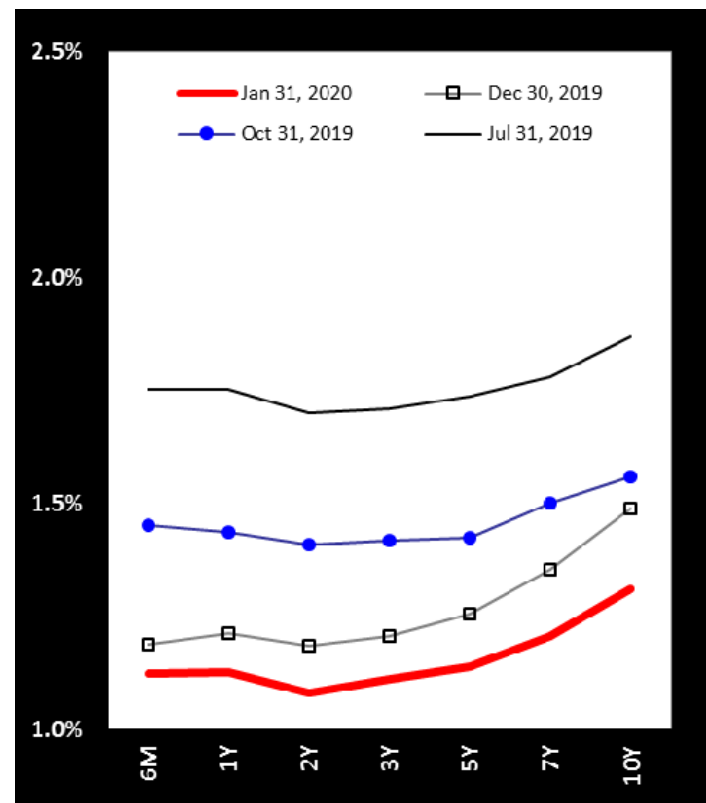
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Interest Rate Market Update

An Abrupt Blow to Growth Momentum

- As Thailand's tourism is being hit particularly hard by the virus outbreak in China, and confidence further eroded by a potential delay in budget disbursement, market expectations of an insurance rate cut on Feb. 5 by the MPC continued to mount. Nonetheless, the ease in both global trade tensions and baht strength coupled with the already limited policy space and a data-dependent central bank argued for a wait-and-see approach. While we think the MPC would like to choose to wait until March before delivering a cut, there is as well a good possibility they would act this month given the ongoing pressure.
- Local government bond yields fell broadly with tenors from 2-year to 11-year registering all-time lows. The increased downside risks to growth are now extending the downtrend of the curve. The BoT commented that GDP growth in Q4/2019 may be less than 2.4% posted in Q3/2019 and signaled it might re-downgrade growth forecasts. While the stars are aligned for a 25 bps rate cut in Q1/20, we believe pent-up demand, as with past experiences of disease outbreak, could bring about a v-shaped recovery in the second half of the year.

Thai Govt Yield Curve



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Forecast

Factors in Focus

- **Coronavirus Impact, Stretched Positioning.** In hindsight, price actions in January did explain a whole lot about Thailand's exposure to Chinese tourist receipts and the rich positioning of the baht against the dollar in 2019. We have adjusted our forecast to reflect the events, pushing further out the resumption of the baht's strengthening trend. Volatility also looks set to pick up on IPO flows and potential M&A activities.

- **MPC Meeting: Feb 5.** Market participants are divided as to whether the MPC would deliver a 25bp insurance rate cut at this meeting. On balance, even if the MPC stands pat this month, the likelihood is that the Committee will still act in March. The release of Q4/19 GDP on Feb. 17 may allow the MPC to better assess the growth-spurring effect of past rate cuts amid limited policy space.

- **Road to 2020 U.S. Elections.** Candidate selection from major political parties, especially the Democrat Party, may draw market interests and could shape expectations of the outcome too.

FX	USD/THB	USD/JPY	JPY/THB
Jan 31, 2020	31.13	108.32	28.83
Q1/20F	31.75	108	29.40
	30.00-32.75	107.00-111.00	27.30-30.00
Q2/20F	31.5	107	29.44
	30.50-32.50	105.00-110.00	28.25-30.00
Q3/20F	31	106	29.25
	30.25-32.00	103.00-109.00	28.50-30.25
Q4/20F	30.75	105	29.29
	30.00-31.75	101.00-108.00	28.50-30.50

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-Q4/20F
USD Fed Funds	1.50-1.75%	↔
EUR Deposit Facility Rate	-0.50%	↔
JPY O/N Call	-0.10%	↔
THB 1-day R/P	1.25%	1.00%

As of February 4, 2020

Economic Projection

	2018A	2019F	2020F
Real GDP growth	4.1%	2.5%	2.8%
Private Consumption growth	4.6%	4.4%	3.2%
Private Investment growth	3.9%	2.4%	4.2%
Public Consumption growth	1.8%	1.9%	2.5%
Public Investment growth	3.3%	2.1%	6.5%
Export Value growth	7.5%	-3.2%	1.0%
Import Value growth	13.7%	-5.4%	1.7%
Current Account (USD bln)	28.5	35.5	31.4
Headline CPI Inflation	1.1%	0.7%	0.8%

Fiscal Policy Office, as of January 29, 2020

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