



krungsri
กรุงศรี

A member of  MUFG
a global financial group

THB Thermometer

July 2020

Foreign Exchange Market Update

Recap : June

Downbeat economic assessment by the Federal Reserve and fears of the second wave of coronavirus outbreak in many parts of the world limited demand for risk assets. The dollar fell at the beginning of the month before recouping losses to consolidate in ranges.

€ Performance

- The euro initially hit a three-month peak as peripheral Eurozone yields declined after the European Central Bank announced to expand bond buying. The ECB said it would increase the size of its Pandemic Emergency Purchase Program by a bigger-than-anticipated EUR600 billion to buy EUR1.35 trillion of Eurozone government and corporate debt through June 2021.

€ Outlook

- The improving COVID-19 situation in the Eurozone relative to the U.S., a likely resolution to the standoff between the ECB and the German Constitutional Court over the QE scheme, and the prospects of the EU Recovery Fund should lend support to the euro going forward.

Appreciation

Appreciation

EUR/USD



¥ Performance

- The yen weakened earlier in the month after U.S. payrolls for May surprisingly increased by 2.5 million versus expectations for around 8 million job losses. The Fed's cautious tone over the recovery path as well as fears about resurgence of COVID-19 weighed on U.S. Treasury yields toward the end of the month, leaving the yen mostly sideways.

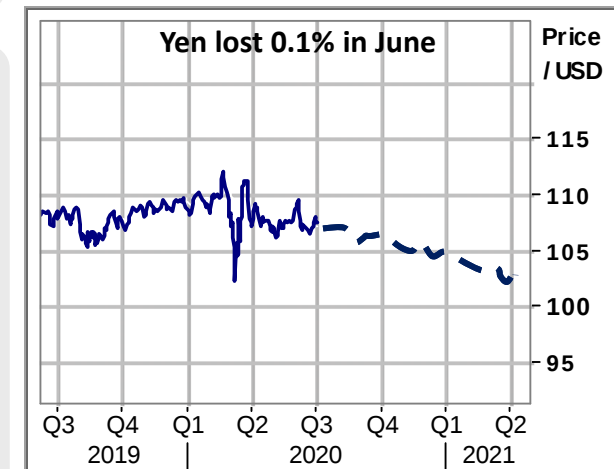
¥ Outlook

- The second-quarter surge in global equity markets points to a potential overstretched valuation, and so we believe risk assets could be exposed to downward correction amid the elevated level of economic uncertainty. Still, MUFG's observation is that the yen has been somewhat losing its safe-haven appeal during the current crisis following the unprecedented and swift response to the pandemic by global policymakers.

Slight Depreciation

Moderate Appreciation

USD/JPY



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Foreign Exchange Market Update

Recap : June

Baht Appreciation

- The baht briefly hit the strongest level in five months alongside the dollar weakness against emerging Asian currencies. The upswing in global gold prices and return of fund inflows to Thai bonds added to the strengthening pressure. The Monetary Policy Committee on Jun. 24 voted 7-0 to keep rates at a record low of 0.50% but cut 2020 GDP forecast to indicate a record contraction of 8.1%. Meanwhile, Thailand has extended a state of emergency until the end of July and started the fifth phase of re-opening.
- USD0.06 billion current account surplus in May
- THB22.7 billion net foreign selling in SET-listed shares in June
- THB23.0 billion net foreign buying in Thai government bonds in June

* 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	2.89%	2.96%
3 months	5.98%	6.30%
12 months	-0.76%	-0.72%

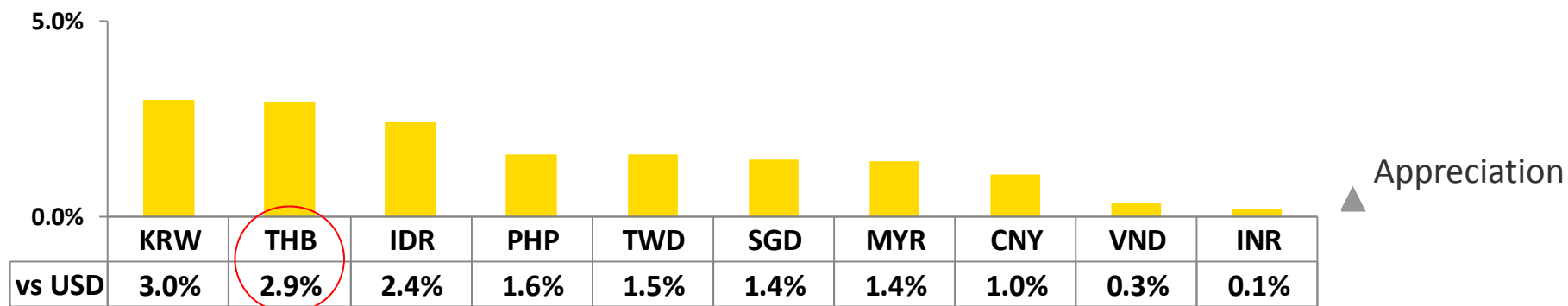
As of June 30, 2020, "-" indicates THB depreciation

Outlook: Long-term Appreciation

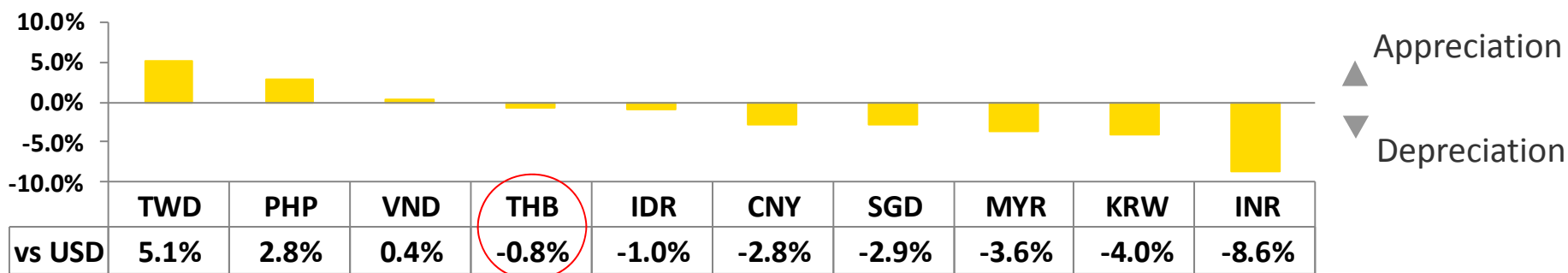
We continue to expect the baht to strengthen in the longer run due to the underlying backdrop of aggressive monetary easing by the Fed to fight the economic downturn, coupled with looming U.S. political uncertainty. While the BoT has repeatedly talked down the baht, we think any draconian measure is unlikely.

Foreign Exchange Market Update

Monthly Performance



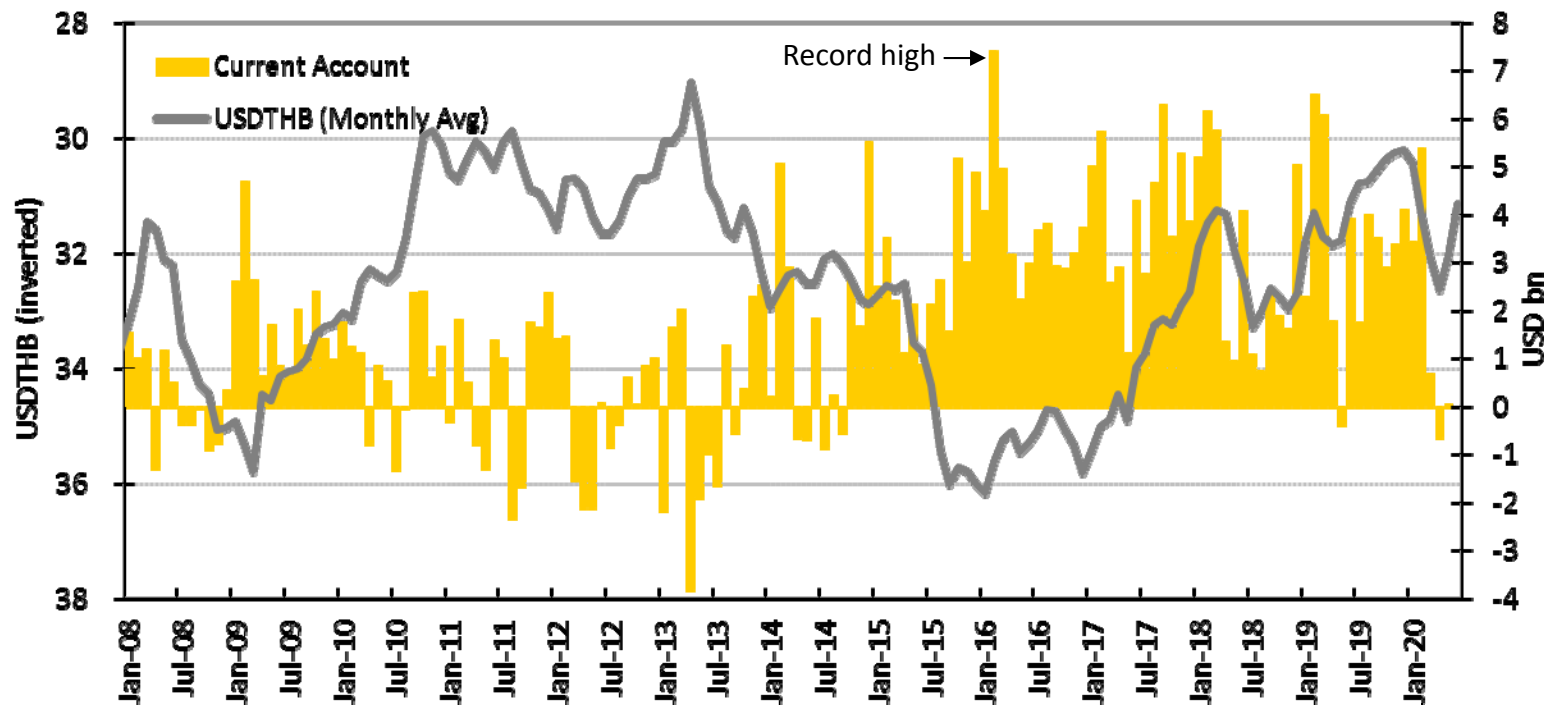
Yearly Performance



Bloomberg, data as of June 30, 2020, yearly is past 12 months, "-" indicates currency depreciation against USD

Thailand: External Accounts

Current Account & USD/THB



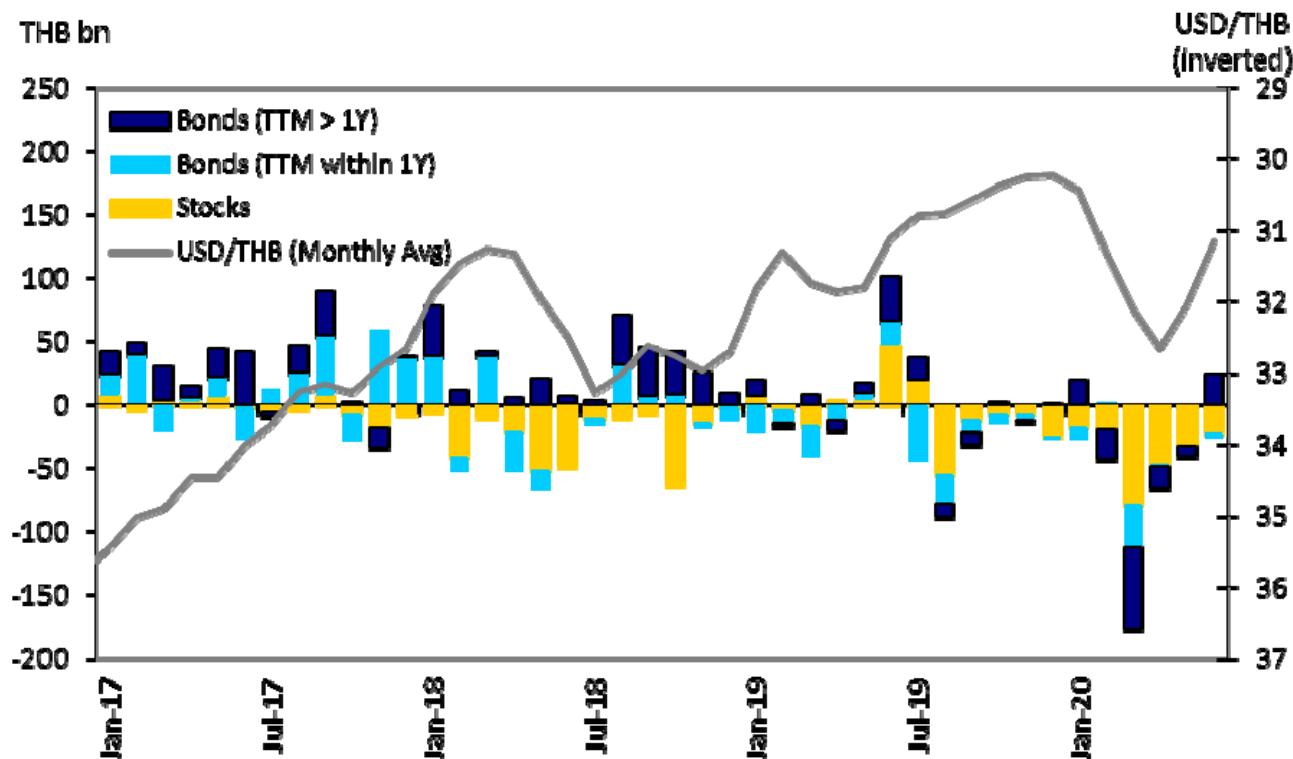
	Exports % y-o-y	Imports % y-o-y	Trade Balance USD bn	Current Account USD bn	Reserves* USD bn
May-20	-23.6	-34.2	3.19	0.06	265.14 ▲
Apr-20	-3.3	-17.0	2.53	-0.65	265.06 ▲
Mar-20	-2.2	4.4	2.27	0.70	260.91 ▼

Bank of Thailand, * including net forward position

Thailand: Foreign Portfolio Flows

Net Foreign Position & USD/THB

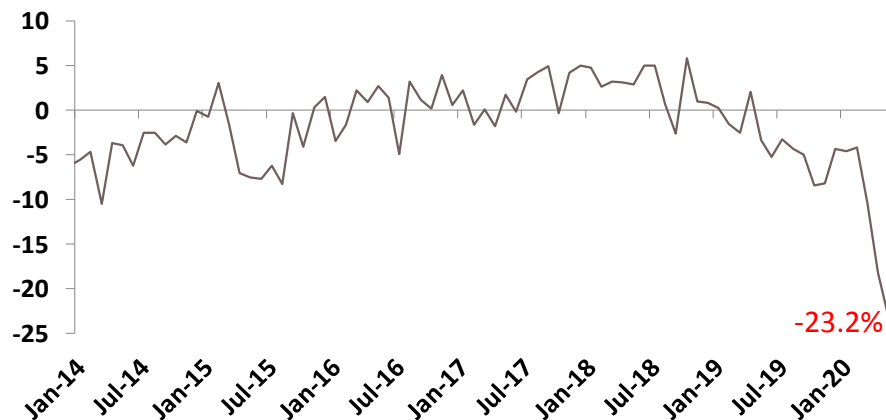
THB mn	2017	2018	2019	H1/2020
Stocks	(25,752)	(287,740)	(45,243)	(216,645)
Bonds (Net Flows)*	216,140	122,120	(79,279)	(114,833)
Bonds (TTM>1)	166,714	240,319	51,961	(69,226)



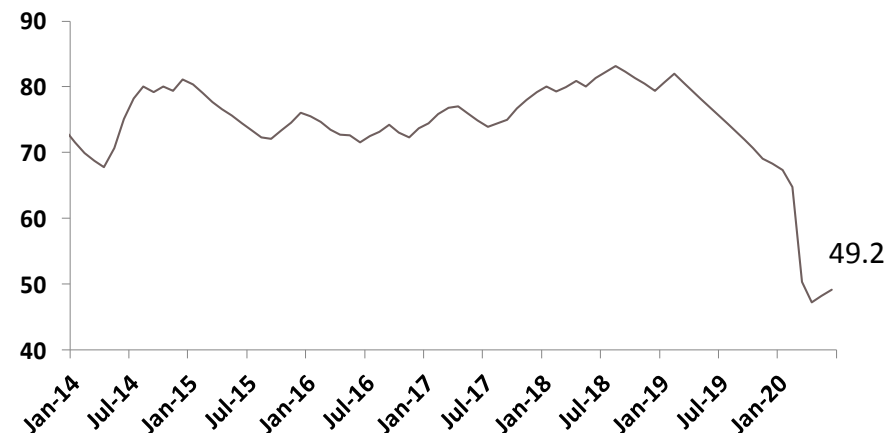
Thai Bond Market Association (* based on outright trading value; the accumulated net buying value may double count the trading value of rollovers), Stock Exchange of Thailand, Bank of Thailand, last data points: June 2020

Thailand: Domestic Economy

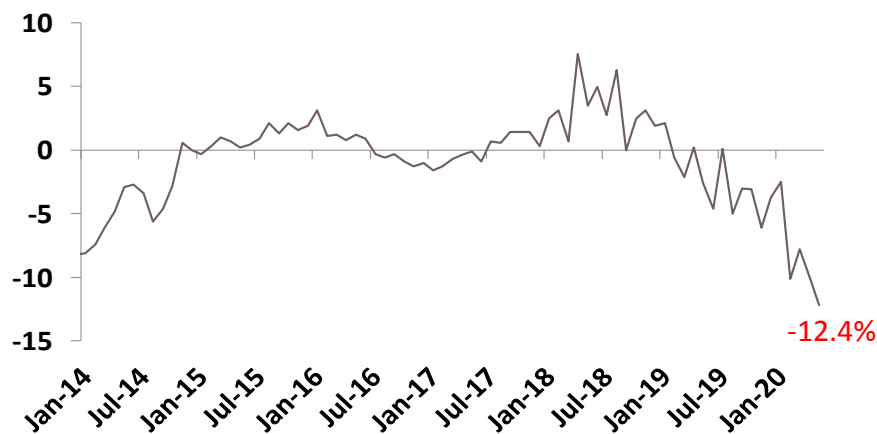
Manufacturing Production (% y-o-y)



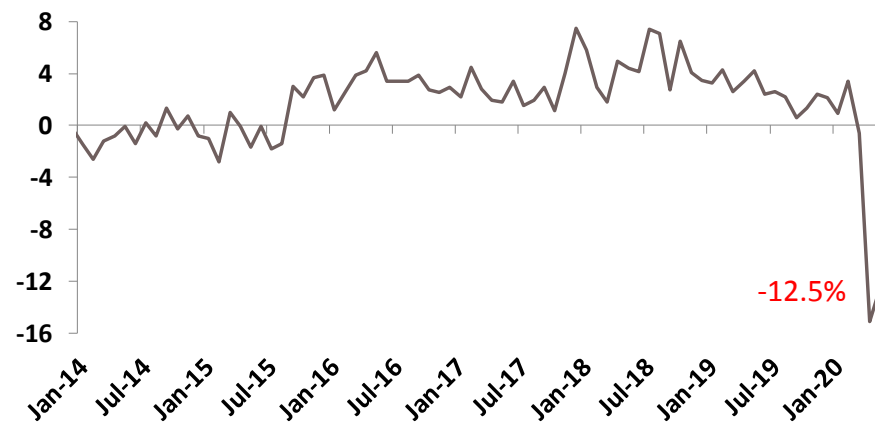
Consumer Confidence



Private Investment (% y-o-y)



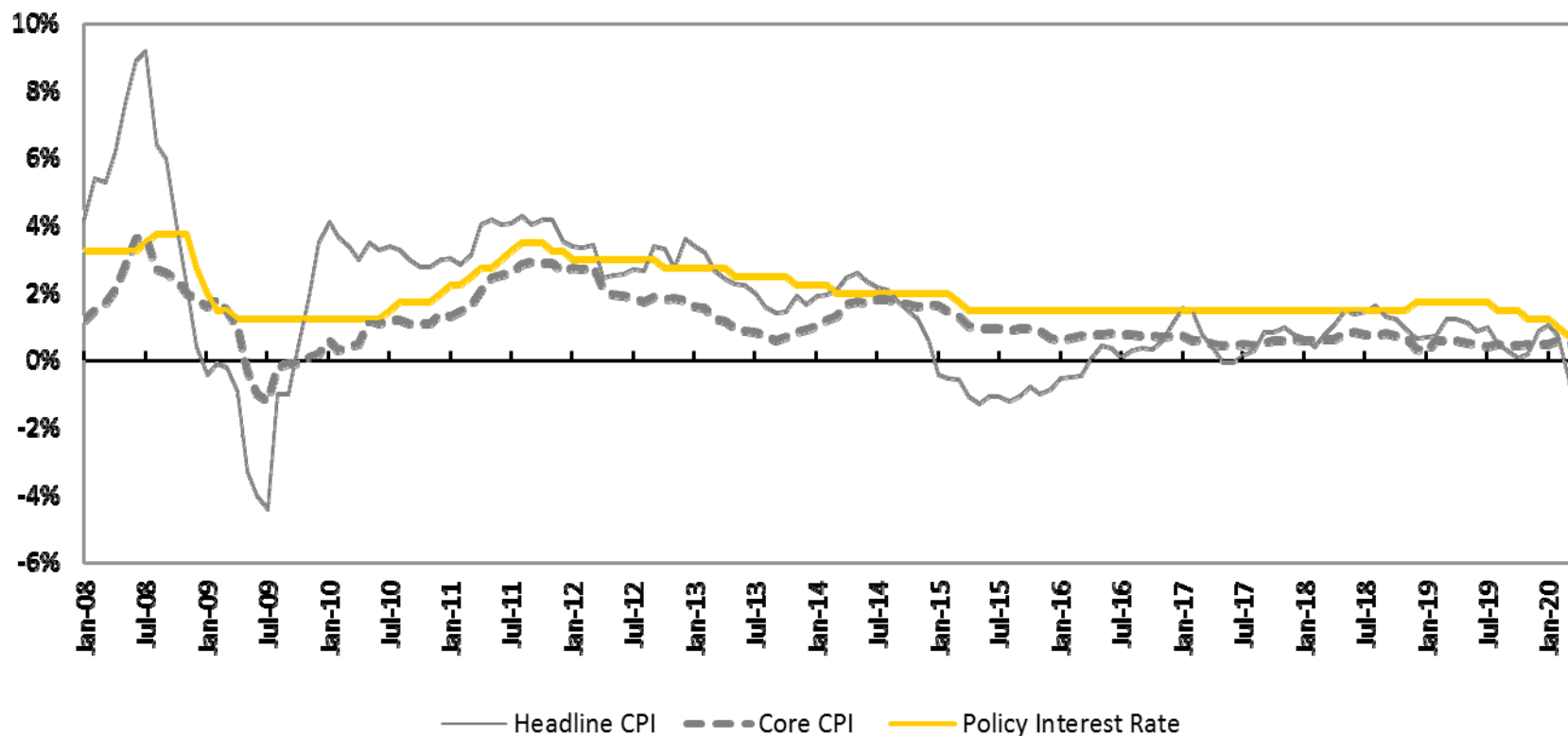
Private Consumption (% y-o-y)



Bank of Thailand, UTCC, last data points: May 2020, except for consumer confidence which represents the figure for June

Thailand: Inflation

Inflation and Policy Interest Rates



year-on-year change	Headline CPI	CPI Excluding Raw Food & Energy
Apr-20	-2.99% ▼	0.41% ▼
Mar-20	-0.54% ▼	0.54% ▼
Feb-20	0.74% ▲	0.58% ▲

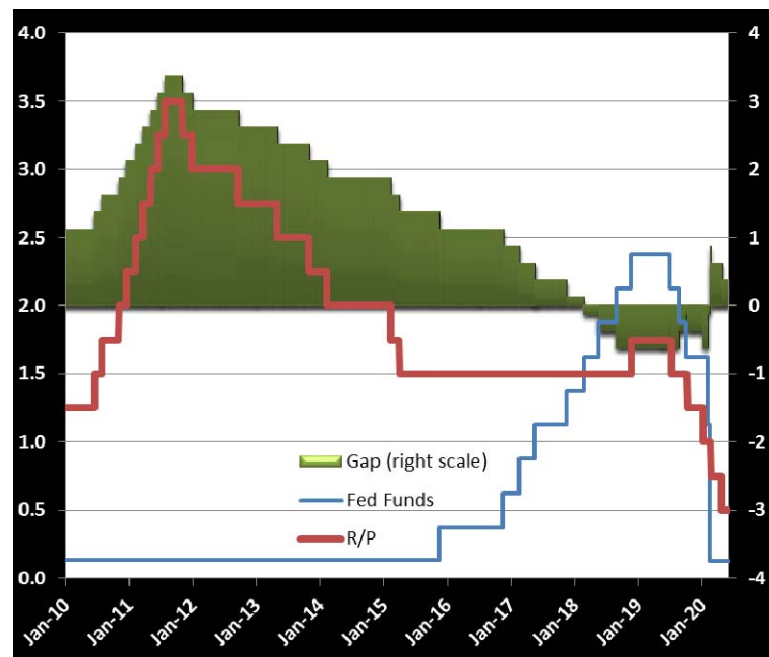
Ministry of Commerce, Bank of Thailand

Interest Rate Market Update

Full Range of Tools

- The Federal Reserve at the end of the Jun. 9-10 meeting maintained ultra-accommodative stance to support the U.S. economy's long road to recovery. The Fed kept its current rate of bond purchases at around USD80 billion a month for government debt and USD40 billion for agency bonds and mortgage-backed securities. The dot plot implied rates will be left near zero until 2022. Fed Chair Powell said the question remains open with regards to the use of yield curve controls. He also played down the surprising job gain in May, highlighting the potential long-run damage from the coronavirus. At his semi-annual testimony, Powell reiterated the Fed would use a full range of tools to aid the economy. Meanwhile, the Fed announced to widen the corporate bond-buying scheme and launched Main Street lending programs.
- U.S. Treasury yields initially climbed following the impressive jobs data but then pulled back to settle the month little changed while the broader risk tolerance remains fragile. We expect the Fed to leave the funds rate unchanged over the coming years and potentially adopt yield curve control.

US Federal Funds and Thai Policy Rates (%)



end of period	Dec-19	Mar-20	May-20	Jun-20
USD6MLIBOR	1.91213%	1.17525%	0.50975%	0.36925%
THBFX6M	1.15797%	1.02511%	0.58412%	0.43918%
Diff	0.75416%	0.15014% ▼	-0.07437% ▼	-0.06993% ▲

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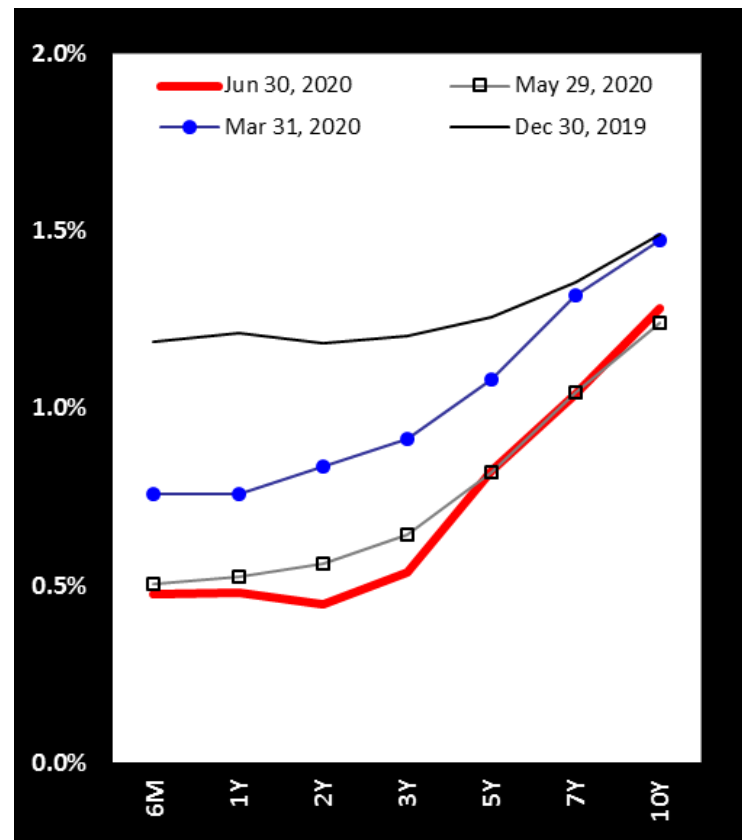
Interest Rate Market Update

Tweak from Adequacy to Effectiveness

- The MPC voted unanimously to leave the one-day repurchase rate at a record low of 0.50% on Jun. 24. The Committee assessed that the Thai economy would contract more than the previous forecast as the impact from the COVID-19 outbreak proved to be harsher than anticipated. Nonetheless, activities should gradually pick up in H2/20. Headline inflation is likely to sink deeper into negative territory but should return to target in 2021. Financial stability would be more vulnerable alongside the economic outlook, according to the statement. The MPC reiterated concerns over exports, tourism, and the labor market. This year's GDP forecast was downgraded sharply to a contraction rate of 8.1% from a 5.3% decline projected earlier. The Committee said targeted and timely fiscal policy stimuli in coordination with monetary accommodation and credit measures are necessary. There was a tweak toward the end of the statement that the MPC will assess “effectiveness” of fiscal, financial, and credit initiatives, rather than the “adequacy” of measures, in consideration of additional monetary policy tools if warranted.

- Thai government bond yields dipped at the belly of the curve while, to our surprise, sentiment has so far stayed resilient to the THB1 trillion government borrowing plan. We maintain our call for the policy rate to end this year at 0.50% but now expect more contained steepening bias of the benchmark yield curve.

Thai Govt Yield Curve



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Forecast

Factors in Focus

Temporary USD bounce. We expect risk appetite to pull back following the Q2 rally, boding well for a corrective dollar rebound. Volatility is likely to pick up, tracking day-to-day headlines related to the coronavirus, and relations between the U.S. and the rest of the world.

EU Summit, July 17-18. Markets will be watching this event for clues on progress toward the EU Recovery Fund. Any further cohesive stance would send the euro stronger.

FOMC Meeting, July 28-29. With the Fed repeatedly indicating readiness to support the economy hit by the COVID-19 crisis, the focus will be on the forward guidance and potential hints at yield curve control.

BoT Governor Selection. The current term of BoT Governor Veerathai will expire at the end of September. The application period for the next governor has been extended to July 10 from June 16, keeping markets anxious over the monetary policy path during the challenging economic environment in the coming years. Krungsri Research expects the Thai economy to contract by 10.3% this year before posting a positive growth of 2.9% in 2021.

FX	USD/THB	USD/JPY	JPY/THB
Jun 30, 2020	30.89	107.93	28.62
Q3/20F	31.25	106	29.48
	30.50-32.00	104.00-109.00	28.50-30.50
Q4/20F	30.75	105	29.29
	30.00-31.50	103.00-108.00	28.25-30.25
Q1/20F	30.5	104	29.33
	29.75-31.25	102.00-107.00	28.25-30.25
Q2/21F	30.25	103	29.37
	29.50-31.00	99.00-106.00	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-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 July 2, 2020

BoT Economic Projection

	2019A	2020F	2021F
Real GDP growth	2.4%	-8.1%	5.0%
Private Consumption growth	4.5%	-3.6%	2.5%
Private Investment growth	2.8%	-13.0%	5.6%
Public Consumption growth	1.4%	3.8%	3.1%
Public Investment growth	0.2%	5.8%	14.1%
Export Value growth	-3.2%	-10.3%	4.5%
Import Value growth	-5.4%	-16.2%	4.1%
Current Account (USD bln)	37.9	15.5	20.0
Headline CPI Inflation	0.7%	-1.7%	0.9%

Bank of Thailand, as of June 24, 2020

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