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THB Thermometer

June 2020

Foreign Exchange Market Update

Recap : May

Risk appetite managed to recover further in the wake of gradual relaxation of lockdowns in many epicenters of the COVID-19 outbreak and optimism that the global economy may be bottoming out. The re-escalation of U.S.-China tensions following China's passage of new national security laws, nonetheless, ignited moderate caution toward the end of the month.

€ Performance

- The euro strengthened as players welcomed the European Commission's EUR750 billion aid proposal to shore up economies hit by the coronavirus pandemic. Under the proposal, the Commission would borrow from the market and then disburse two-thirds of the funds in grants and the rest in loans to alleviate the economic fallout due to lockdown measures.

€ Outlook

- While the fiscal aid blueprint still needs ratification by all members, it marks an encouraging development for the Eurozone unity going forward. We maintain our view that the euro will gradually drift higher although caution lingers as to whether the risk rally could sustain.

Appreciation

Moderate Appreciation

¥ Performance

- The yen slipped as risk assets continued to bounce from March lows following unprecedented global policy response to the coronavirus shock and easing of lockdown restrictions. The Bank of Japan on May 22 maintained short-term rate and ten-year JGB yield targets, and introduced a new lending scheme worth JPY30 trillion to support small- and medium-sized firms affected by the pandemic.

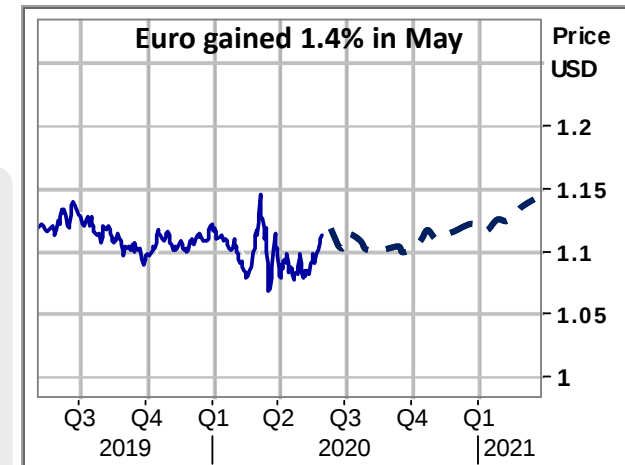
¥ Outlook

- The latest round of U.S.-China frictions so far have not triggered any acute upturn in risk aversion after U.S. President Trump said the U.S. would begin removing special treatment status for Hong Kong but made no reference to the Phase One trade deal with China. With global yields to remain subdued and market volatility potentially pick up heading into the U.S. presidential elections, we expect the yen to trend stronger.

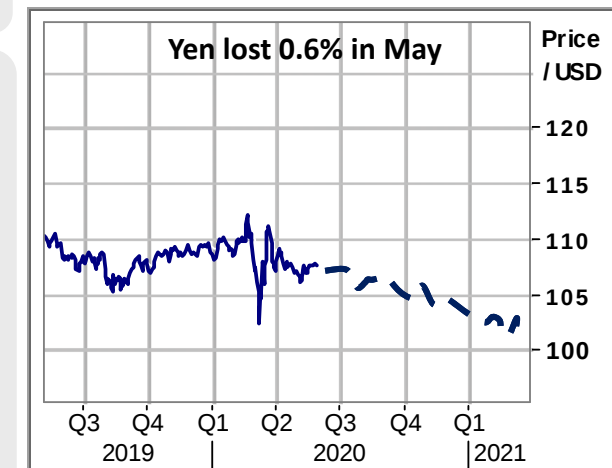
Slight Depreciation

Moderate Appreciation

EUR/USD



USD/JPY



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Foreign Exchange Market Update

Recap : May

Baht Appreciation

- The baht was one of the top performers in the region while foreign portfolio outflows moderated further as risk appetite continued to improve from a depressed level. The rally in gold prices, meanwhile, added to appreciation pressure on the Thai currency. The Monetary Policy Committee on May 20 voted 4-3 to cut rates by 25bps to a fresh low of 0.50% but signaled a shift to non-interest rate tools in the period ahead. Meanwhile, Thailand has extended a state of emergency until the end of June but started the third phase of re-opening.
- USD0.7 billion current account deficit in April, net gold exports amounted to a monthly record of USD2.4 billion
- THB31.6 billion net foreign selling in SET-listed shares in May
- THB9.2 billion net foreign selling in Thai government bonds in May

* 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	1.7%	2.2%
3 months	-0.7%	-0.8%
12 months	-0.5%	-1.3%

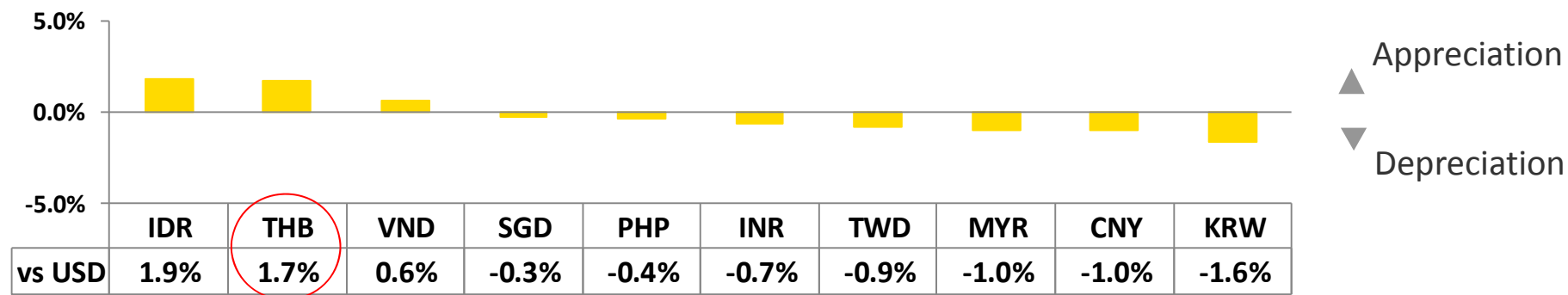
As of April 30, 2020, "-" indicates THB depreciation

Outlook: Eventual Appreciation

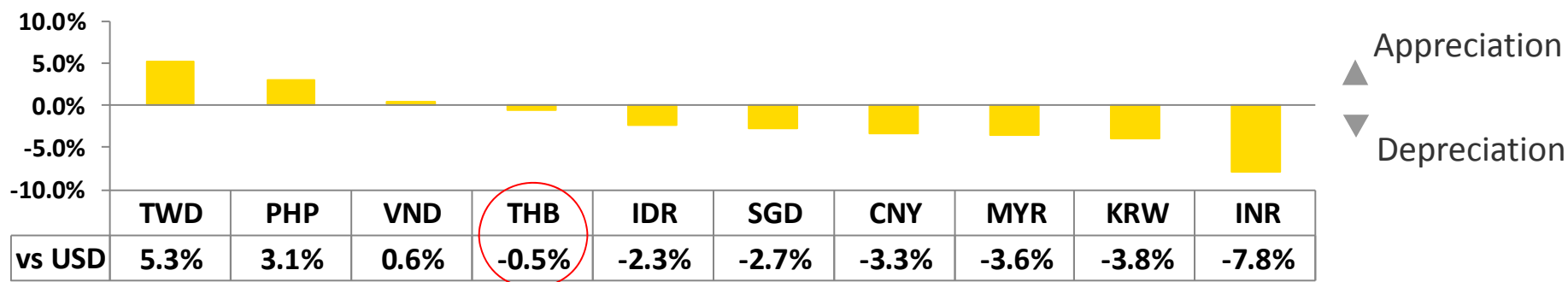
While we remain of the view that the baht will strengthen in the longer term due to the U.S. Federal Reserve's aggressive monetary easing relative to other major central banks, near-term directions will still hinge on day-to-day risk sentiment, with price actions potentially exposed to abrupt volatility along the way. Thailand's narrowing current account surplus this year also serves to act as a dampener on any excessive and rapid strength of the baht.

Foreign Exchange Market Update

Monthly Performance



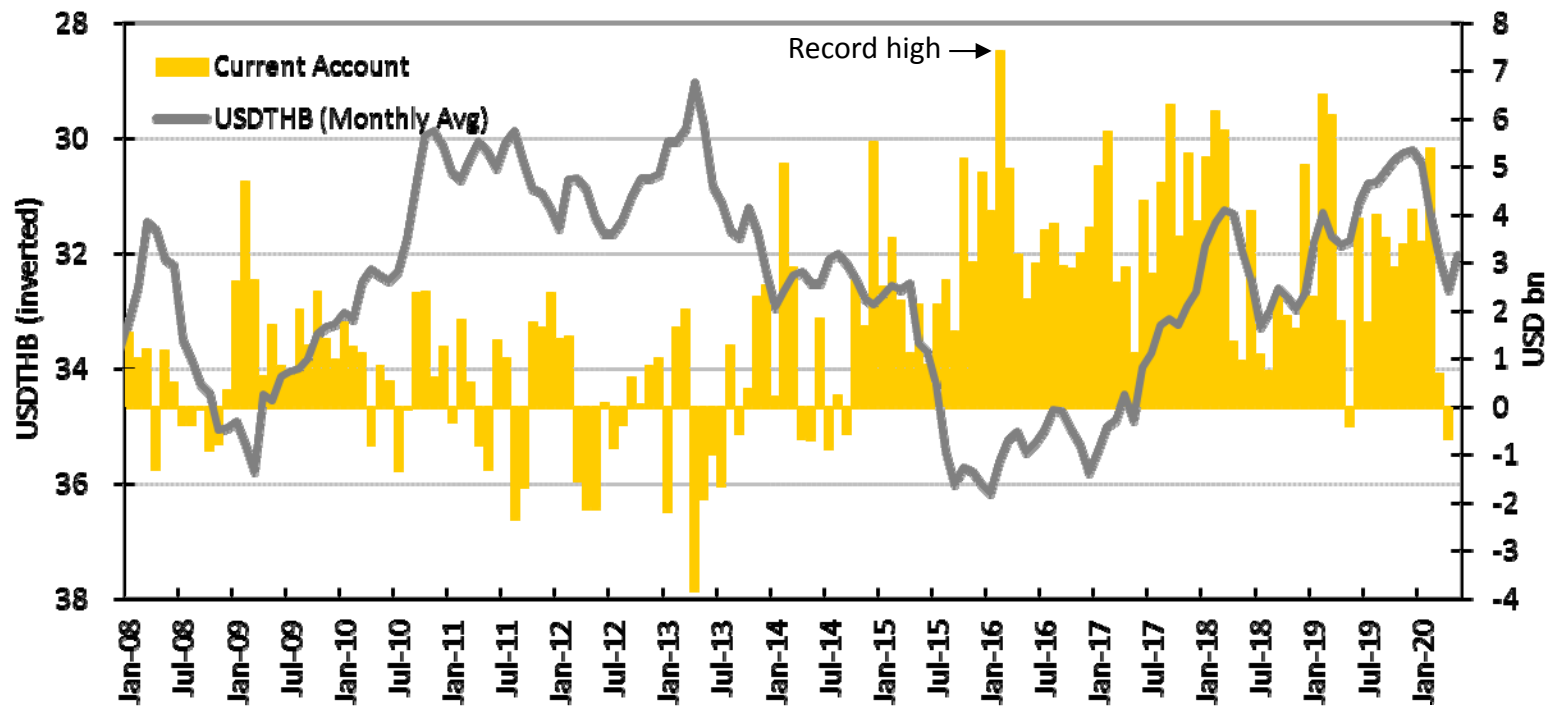
Yearly Performance



Bloomberg, data as of May 29, 2020, yearly is past 12 months, "-" indicates currency depreciation against USD

Thailand: External Accounts

Current Account & USD/THB



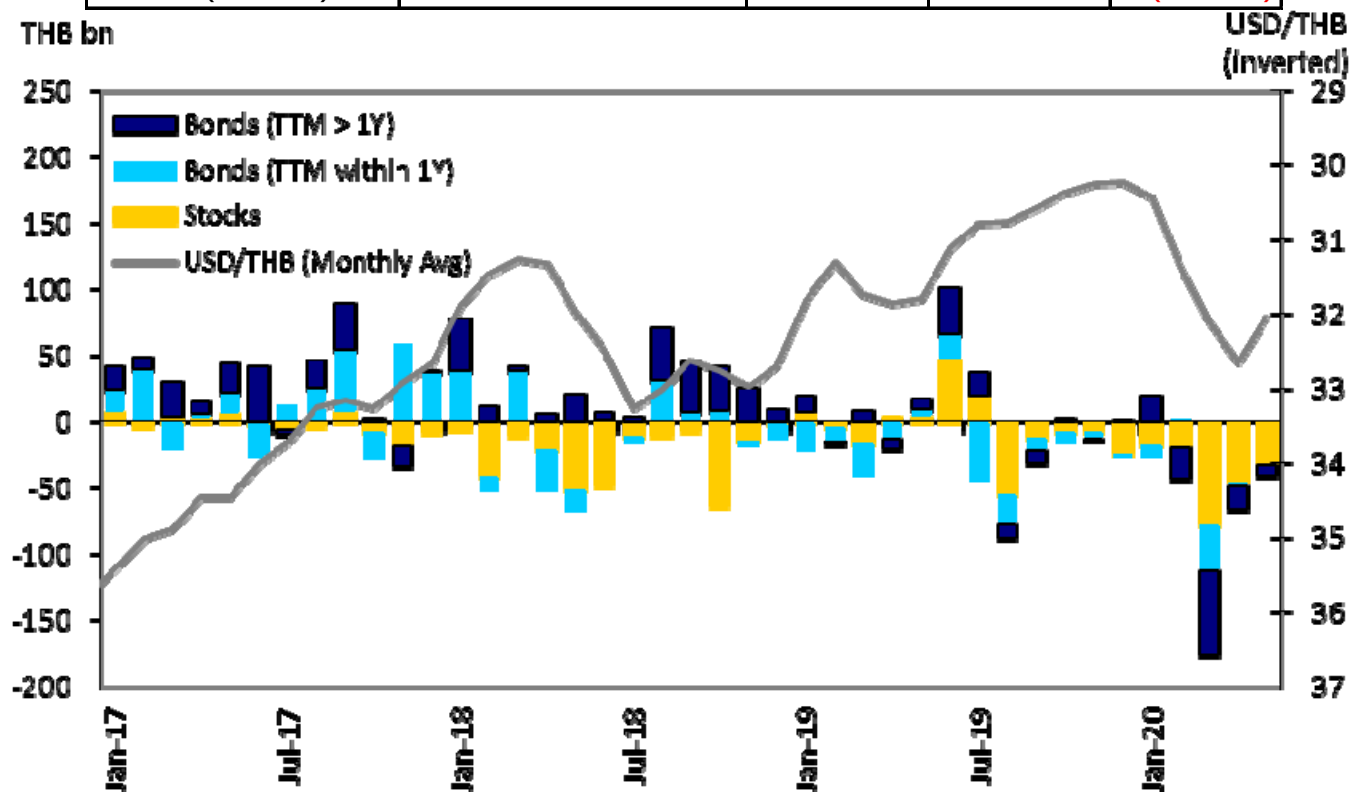
	Exports % y-o-y	Imports % y-o-y	Trade Balance USD bn	Current Account USD bn	Reserves* USD bn	
Apr-20	-3.3	-17.0	2.53	-0.65	265.06	▲
Mar-20	-2.2	4.4	2.27	0.70	260.91	▼
Feb-20	3.6	-7.8	5.39	5.38	261.24	▼

Bank of Thailand, * including net forward position

Thailand: Foreign Portfolio Flows

Net Foreign Position & USD/THB

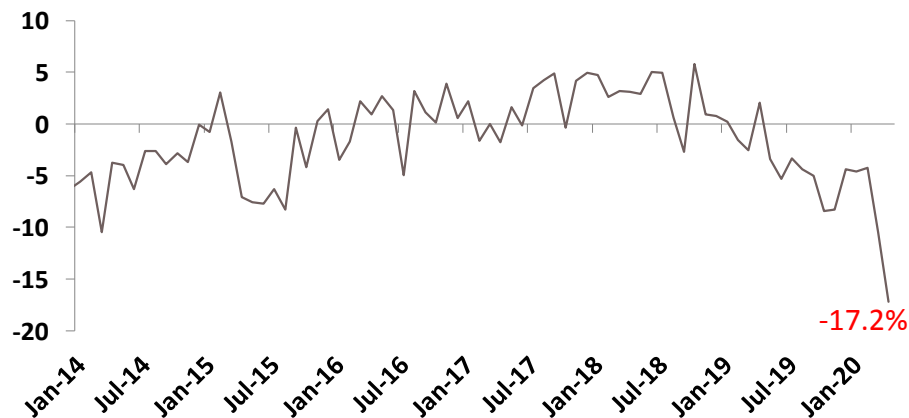
THB mn	2017	2018	2019	5M2020
Stocks	(25,752)	(287,740)	(45,243)	(193,928)
Bonds (Net Flows)*	216,140	122,120	(79,279)	(137,860)
Bonds (TTM>1)	166,714	240,319	51,961	(93,832)



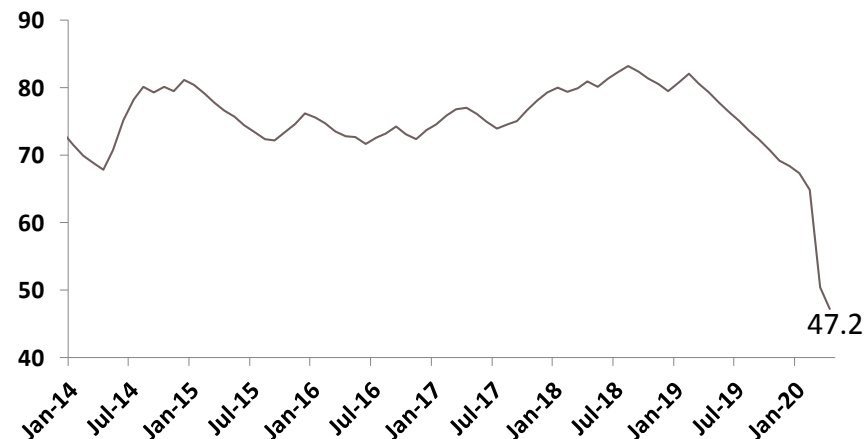
Thai Bond Market Association (* based on outright trading value; the accumulated net buying value may double count the trading value of rollovers), Stock Exchange of Thailand, Bank of Thailand, last data points: May 2020

Thailand: Domestic Economy

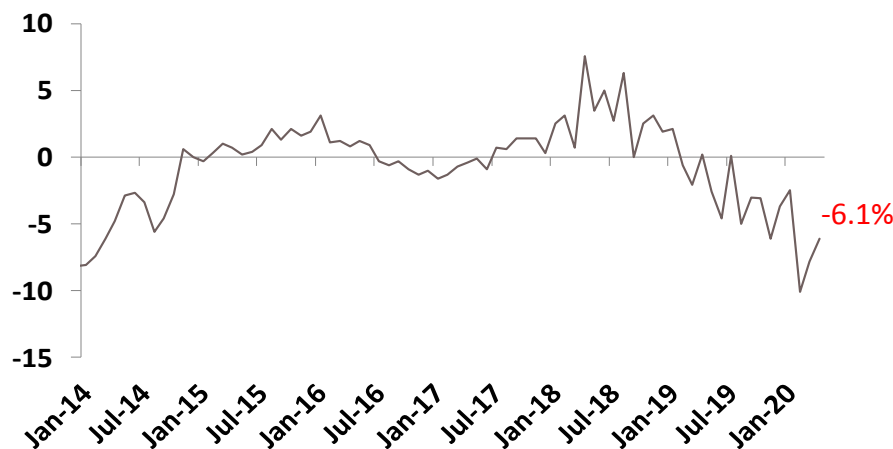
Manufacturing Production (% y-o-y)



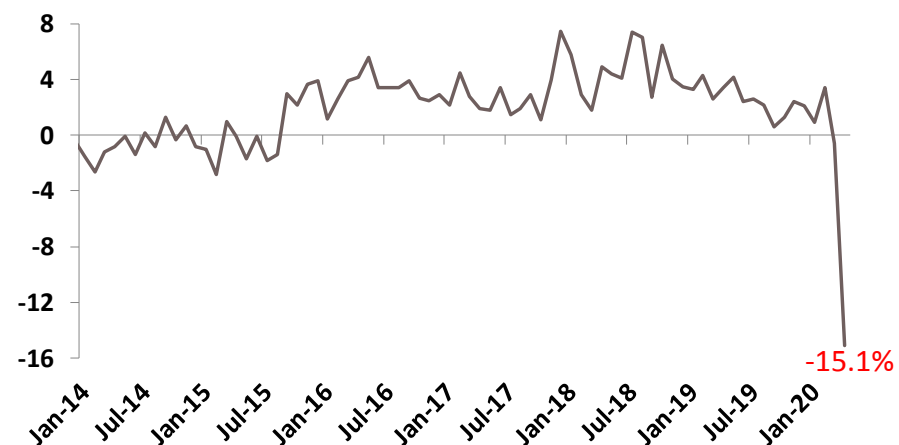
Consumer Confidence



Private Investment (% y-o-y)



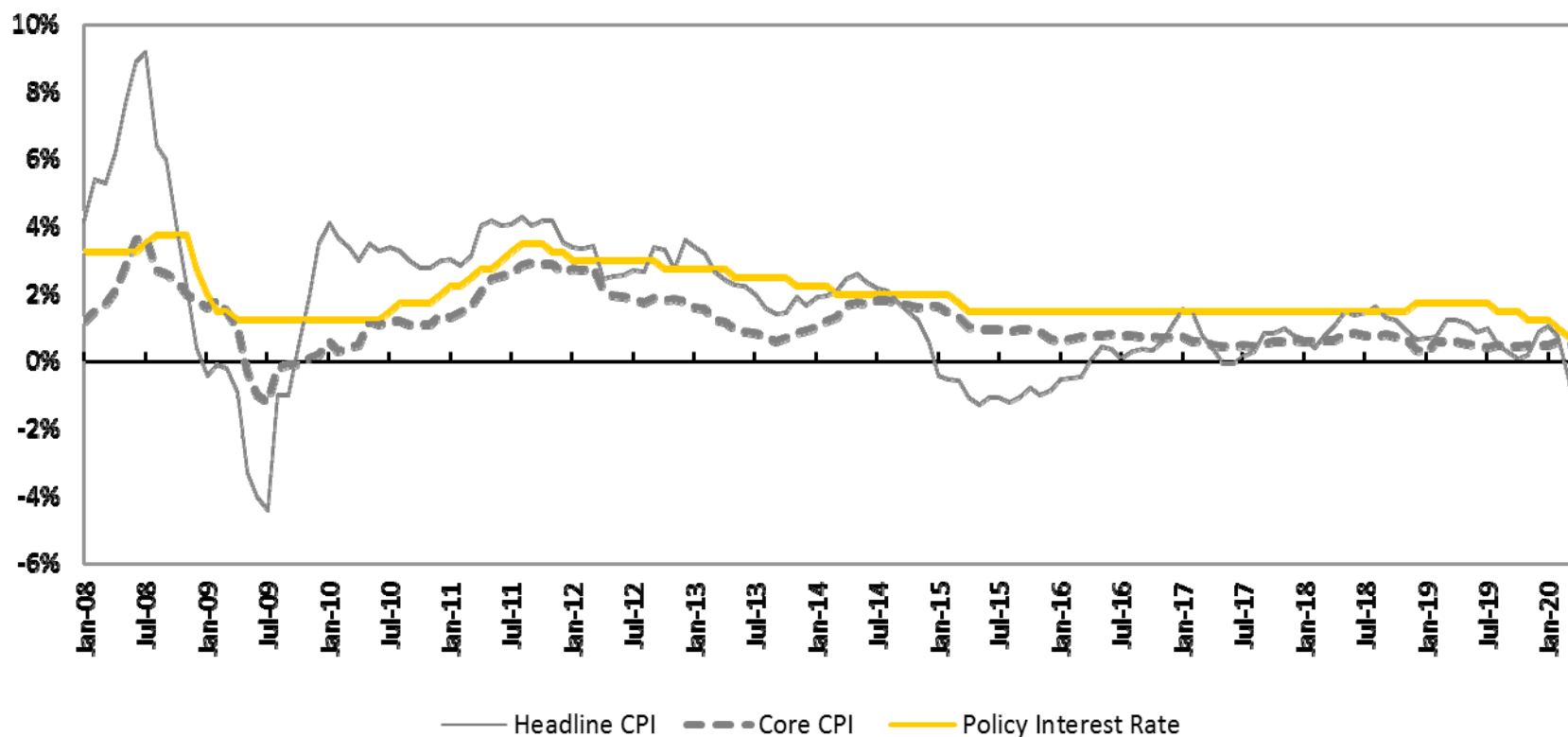
Private Consumption (% y-o-y)



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

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% ▲

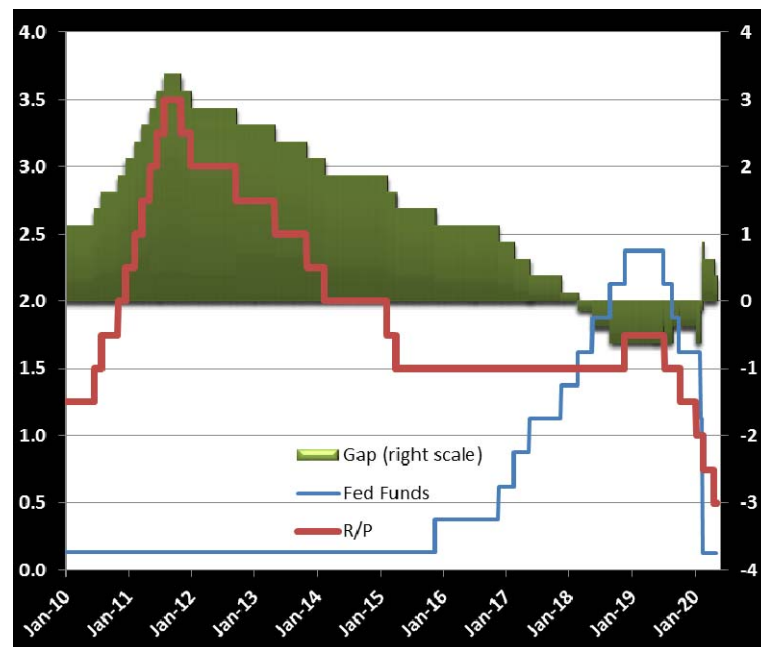
Ministry of Commerce, Bank of Thailand

Interest Rate Market Update

Powell Talks Down NIRP

- While there was no FOMC rate review in May, around the middle of the month markets started to price in the risk that the Fed would join the sub-zero club by 2021. Some Fed funds futures contract months briefly implied negative rates although the central bank indicated no such backup. U.S. Fed Chair Powell on May 13 warned about extended economic weakness without additional, large-scale fiscal support but dismissed the notion of negative Fed funds rate policy. Powell noted policymakers prefer other options such as forward guidance and quantitative easing. At an online congressional hearing, Powell reiterated his call for more fiscal spending to prevent long-term damage from high unemployment and bankruptcies.
- U.S. Treasury yields fell at the front end of the curve as two-year yields hit an all-time low on talks the Fed might pursue NIRP. MUFG continues to expect the Fed to keep rates at the current level possibly through to 2022.

US Federal Funds and Thai Policy Rates (%)



end of period	Nov-19	Feb-20	Apr-20	May-20
USD6MLIBOR	1.89688%	1.39725%	0.75950%	0.50975%
THBFX6M	1.13903%	0.74273%	0.74162%	0.58412%
Diff	0.75785%	0.65452% ▼	0.01788% ▼	-0.07437% ▼

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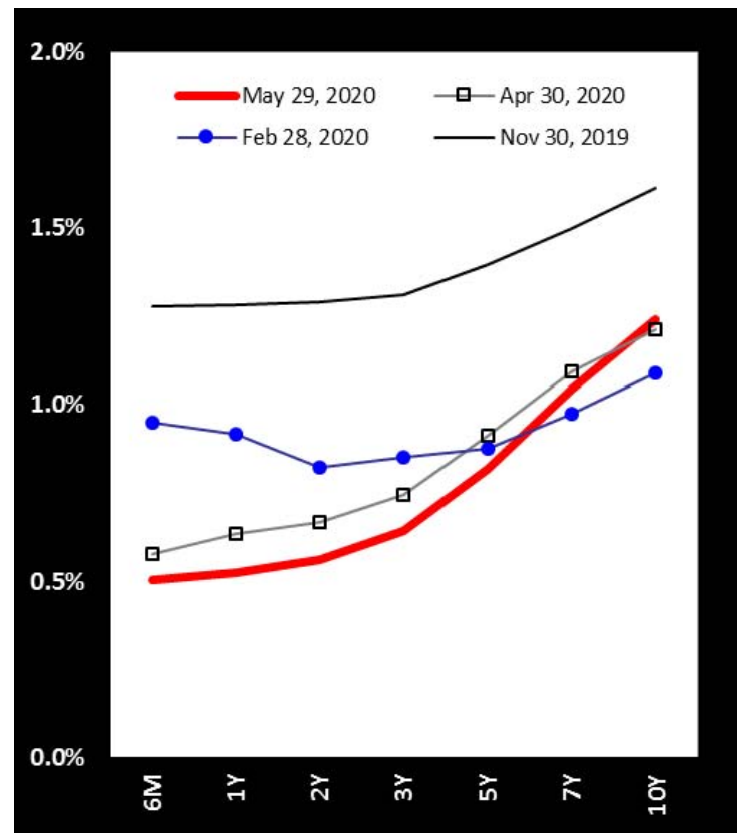
Interest Rate Market Update

Non-interest Rate Tools in Offing

- The Monetary Policy Committee on May 20 voted 4-3 to cut the one-day repurchase rate by 25bps to yet another all-time low of 0.50%, taking combined cuts this year to 75bps. The Committee assessed that 2020 economic outlook has worsened on all fronts due to the impact from restriction measures to curb the coronavirus outbreak globally. Inflation is projected to sink deeper into negative territory. Notably, while the MPC reiterated readiness to use monetary tools as deemed appropriate and necessary, the Committee dropped the reference to using the “policy rate” mentioned in the March statement. The wording tweak coupled with three members voting to keep rates steady, suggests the shift toward non-interest rate tools, in our view. We expect rates to remain at 0.50% in the coming year and the MPC to pursue additional targeted measures in coordination with fiscal stimulus schemes to shore up the battered economy.

- The government bond curve steepened, with yields falling at the short end. Long-dated yields rose while foreign buying petered out as the month wore on. The Thai economy slipped into recession in Q1/20 and had its worst quarter in eight years but the 1.8% contraction rate still beat forecasts. A bigger meltdown is seen for the current quarter at the height of the COVID-19 crisis, with tourist arrivals collapsing 100% y-o-y in April. Government think-tank NESDC downgraded 2020 GDP forecast to a contraction range of 5-6% from 1.5-2.5% growth projected in February.

Thai Govt Yield Curve



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Forecast

Factors in Focus

Market Mood. As many cities are gradually moving out of lockdown, expectations mount that the worst of the pandemic and economic crises have passed whereas progress in vaccines should add to buoyancy. The improved sentiment looks set to weigh on the dollar and hence we revised our forecast profile. However, the resilience of risk assets will be tested by U.S.-China tensions while volatility could pick up amid increased U.S. political uncertainty.

FOMC Meeting, June 9-10. The Fed is likely to provide downbeat assessment of the economy due to the coronavirus shock while committing to ultra-low rates.

MPC Meeting, June 24. We expect rates to be left at 0.50% with the focus on other potential measures to alleviate the economic fallout in a joint effort with fiscal stimuli. The House of Representatives voted in favor of THB1.9 trillion decrees for rehabilitation plans and schemes to stabilize the financial system. Separately, markets will eye the selection of a successor to BoT Governor Veerathai who declined to apply for his second term. His current term is due to expire at the end of September.

FX	USD/THB	USD/JPY	JPY/THB
May 29, 2020	31.81	107.86	29.49
Q2/20F	32	107	29.9
	31.25-32.75	106.00-109.00	29.00-30.80
Q3/20F	31.75	105	30.24
	31.00-32.50	104.00-108.00	29.25-31.25
Q4/20F	31.5	104	30.29
	30.75-32.25	102.00-107.00	29.25-31.50
Q1/21	31.25	102	30.64
	30.50-32.00	99.00-106.00	29.50-31.75

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-Q1/21F
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 June 2, 2020

Economic Projection

	2018A	2019A	2020F
Real GDP growth	4.2%	2.4%	-5.5%
Private Consumption growth	4.6%	4.5%	-1.7%
Private Investment growth	4.1%	2.8%	-4.2%
Public Consumption growth	2.6%	1.4%	3.6%
Public Investment growth	2.9%	0.2%	5.6%
Export Value growth	7.5%	-3.2%	-8.0%
Import Value growth	13.7%	-5.4%	-13.2%
Current Account (USD bln)	28.5	37.9	24.0
Headline CPI Inflation	1.1%	0.7%	-1.0%

National Economic and Social Development Council, as of May 18, 2020

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