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THB Thermometer

March 2020

Foreign Exchange Market Update

Recap : February

Price actions across all asset classes displayed the elevated level of risk aversion triggered by concerns over the impact of the COVID-19 outbreak on global economic growth, supporting the dollar against most other majors. Toward the end of February, however, the dollar pulled back on mounting market expectations that the Federal Reserve would soon cut rates.

€ Performance

- The euro initially hit a three-year low as Eurozone economic data continued to disappoint, with the supply chain disruption related to China adding to negative growth momentum. Nonetheless, the single currency pared losses later in the month, joining the low-yielding safe-haven club which benefited from the risk-averse environment.

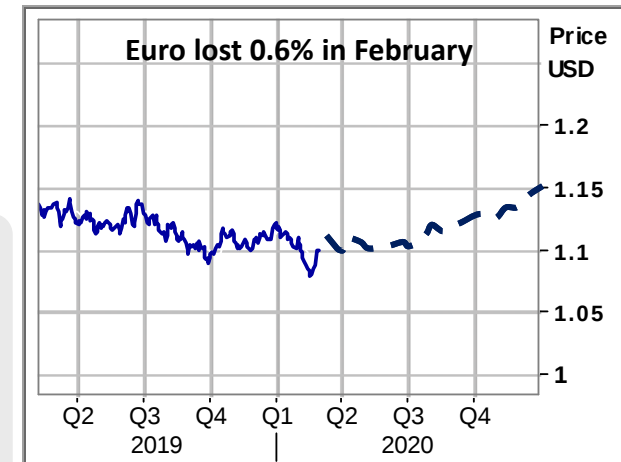
€ Outlook

- As the U.S.-Eurozone yield spread has recently moved against the dollar amid rising Fed rate-cut expectations and the Fed's ample policy space relative to other major central banks, we expect the euro to tend gradually stronger over the coming months.

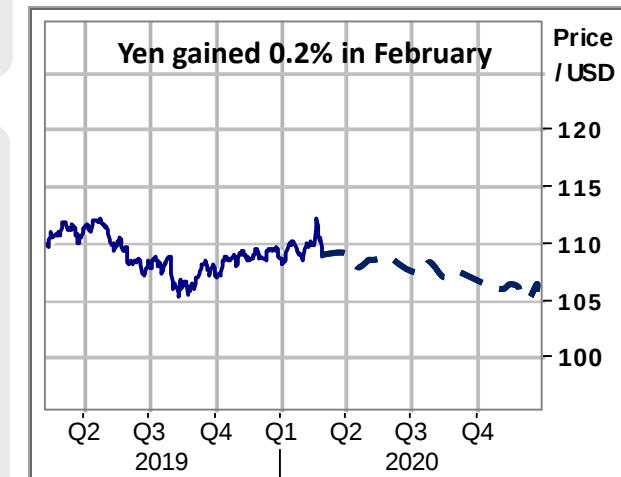
Depreciation

Moderate Appreciation

EUR/USD



USD/JPY



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¥ Performance

- The yen traded weaker against the dollar in the midst of economic resilience in the U.S. before reversing higher toward the end of February after U.S. stock markets and government bond yields plunged due to the intensifying virus outbreak outside of China.

¥ Outlook

- While the swift and growing expectations that the Fed will lower rates by 50bps as soon as March helped stabilize risk sentiment at depressed levels, the yen looks set to remain supported given protracted uncertainties and that global yields are well anchored.

Slight Appreciation

Moderate Appreciation

Foreign Exchange Market Update

Recap : February

Baht Weakens Further

- The Thai baht extended losses to hit the weakest level in nine months as concerns deepened over the impact of COVID-19 outbreak. The Bank of Thailand's Monetary Policy Committee voted unanimously to cut the one-day repurchase rate by 25bps to a new record low of 1.00%, later describing the move to indicate "sense of urgency".
- USD3.4 billion current account surplus in January
- THB19.6 billion net foreign selling in SET-listed shares in February.
- THB22.0 billion* net foreign selling in Thai government bonds in February.

* 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	-1.3%	-1.7%
3 months	-4.2%	-5.6%
12 months	-0.1%	-3.3%

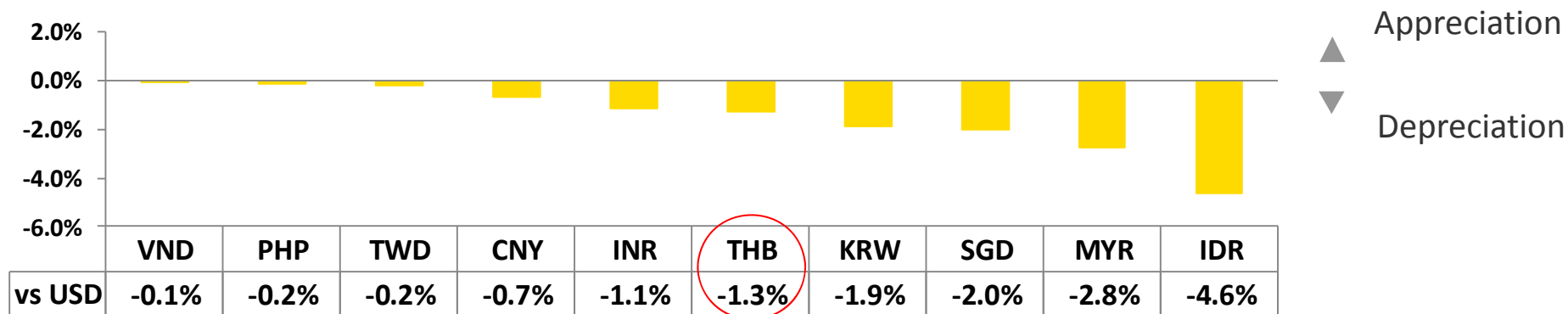
As of February 28, 2020, "-" indicates THB depreciation

Outlook: Consolidation

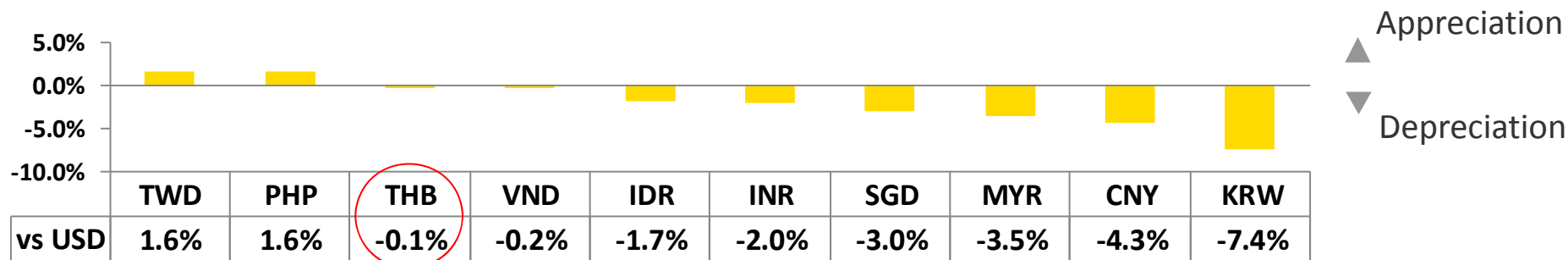
With the already slowing Thai economy severely being hit by the coronavirus, among others, the MPC will continue to feel they have to lend a helping hand. Nonetheless, U.S. rate-cut expectations are now weighing on the dollar given the relatively plenty monetary policy space. On balance, we expect volatility to continue for the Thai baht before consolidation at stronger levels in H2/20.

Foreign Exchange Market Update

Monthly Performance



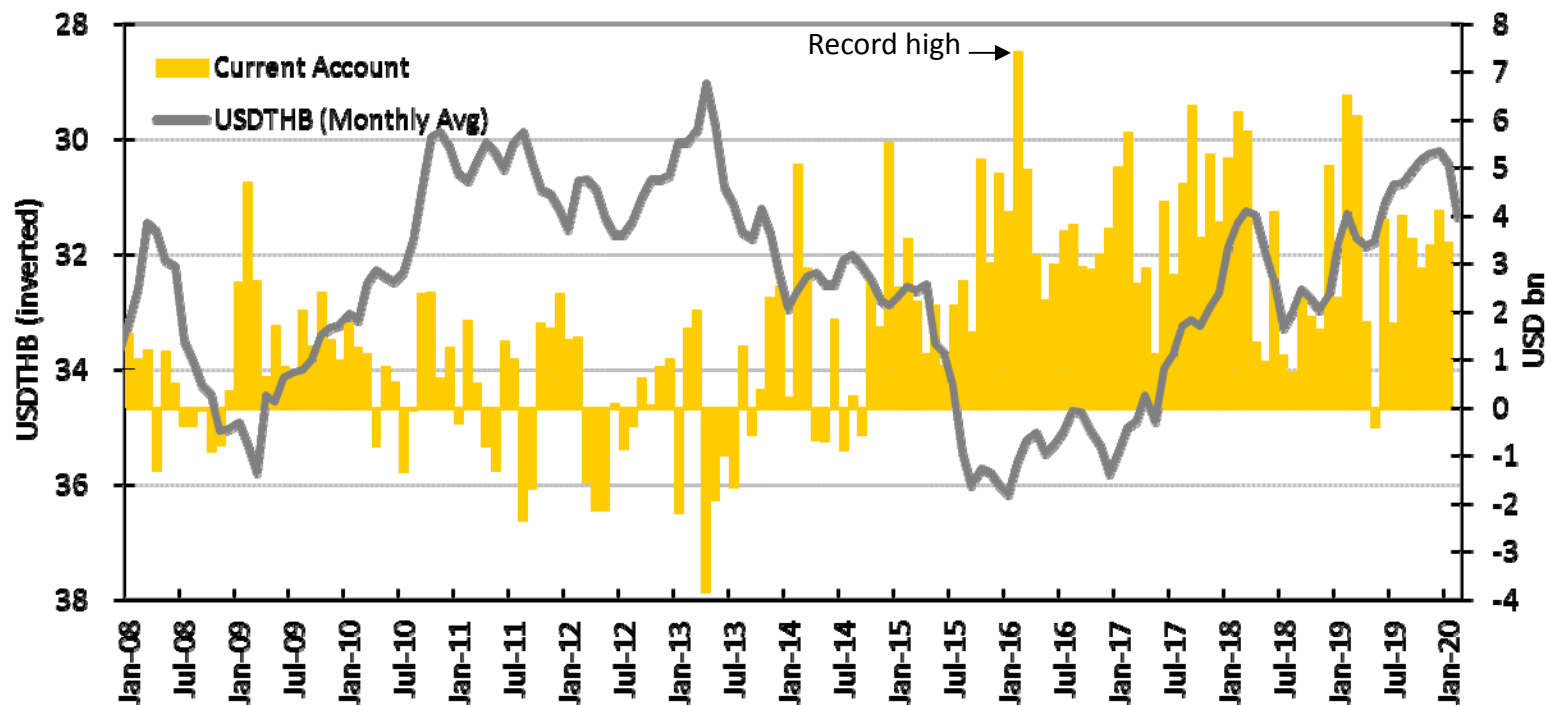
Yearly Performance



Bloomberg, data as of February 28, 2020, "-" indicates currency depreciation against USD

Thailand: External Accounts

Current Account & USD/THB



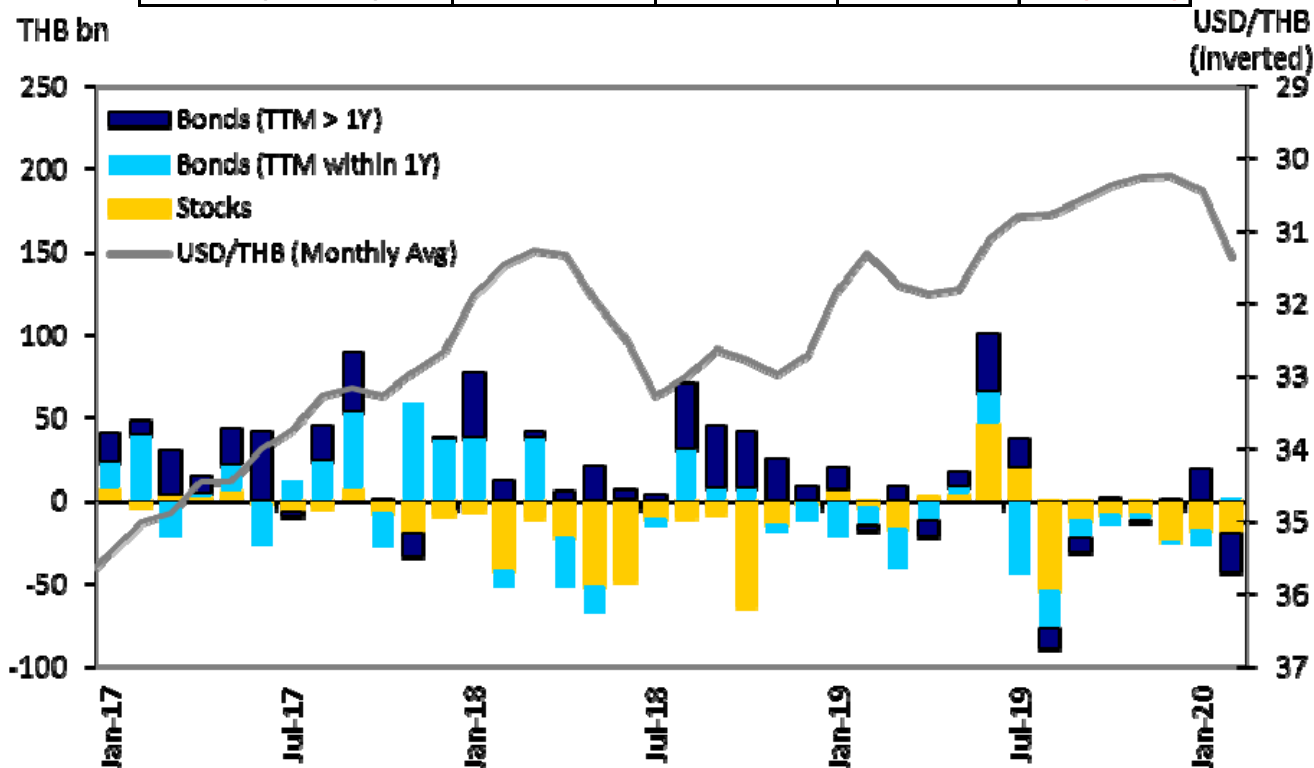
	Exports % y-o-y	Imports % y-o-y	Trade Balance USD bn	Current Account USD bn	Reserves* USD bn
Jan-20	-3.5	-0.1	0.38	3.44	263.40 ▲
Dec-19	-1.7	1.8	1.89	4.11	259.05 ▲
Nov-19	-7.7	-13.9	1.97	3.38	254.31 ▼

Bank of Thailand, * including net forward position

Thailand: Foreign Portfolio Flows

Net Foreign Position & USD/THB

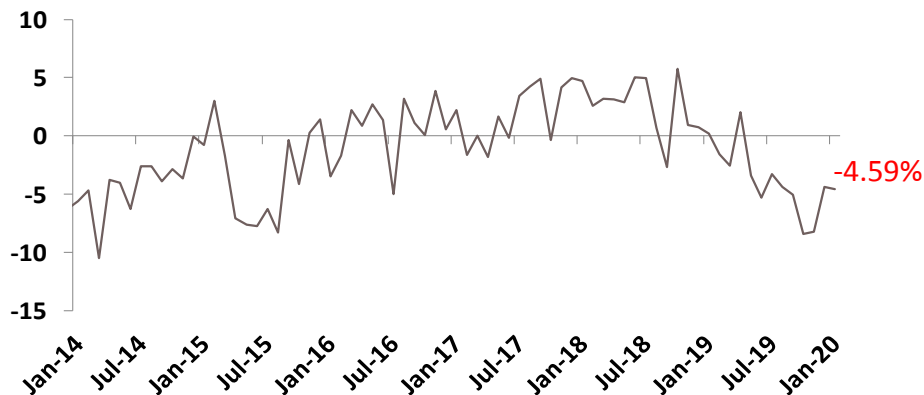
THB mn	2017	2018	2019	2M2020
Stocks	(25,752)	(287,740)	(45,243)	(36,951)
Bonds (Net Flows)*	216,140	122,120	(79,279)	(11,192)
Bonds (TTM>1)	166,714	240,319	51,961	(4,727)



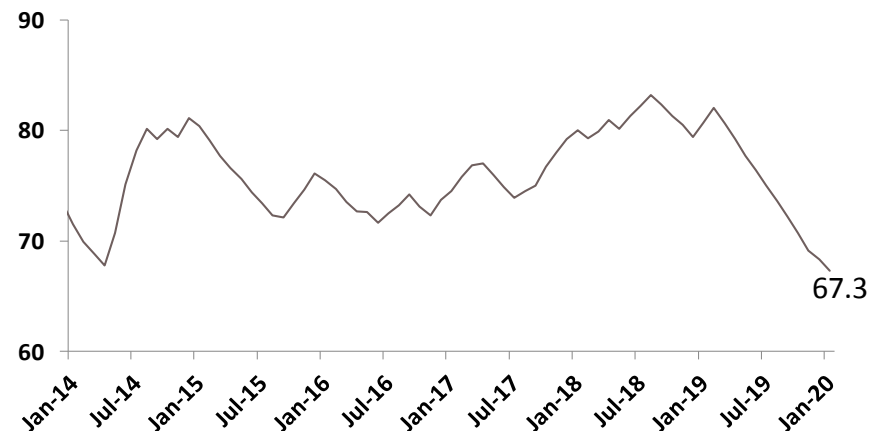
Thai Bond Market Association (* based on outright trading value; the accumulated net buying value may double count the trading value of rollovers), Stock Exchange of Thailand, Bank of Thailand, last data points: February 2020

Thailand: Domestic Economy

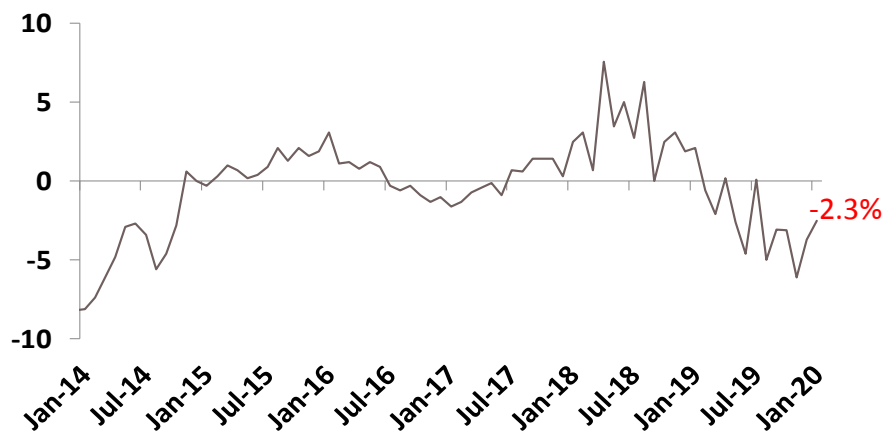
Manufacturing Production (% y-o-y)



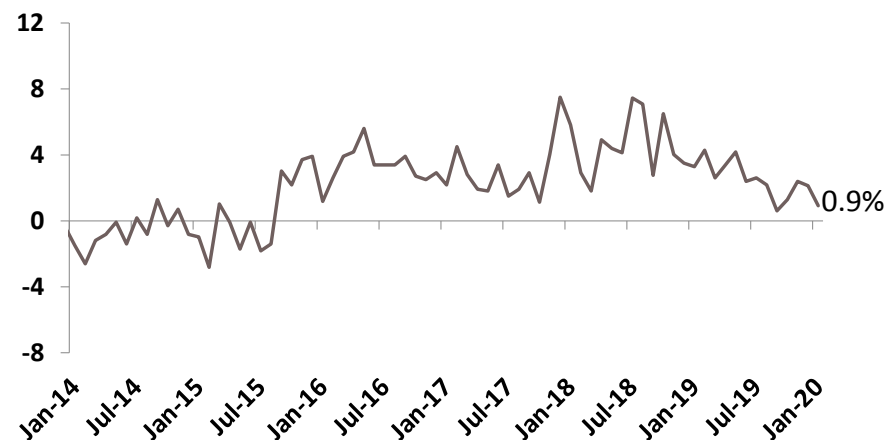
Consumer Confidence



Private Investment (% y-o-y)



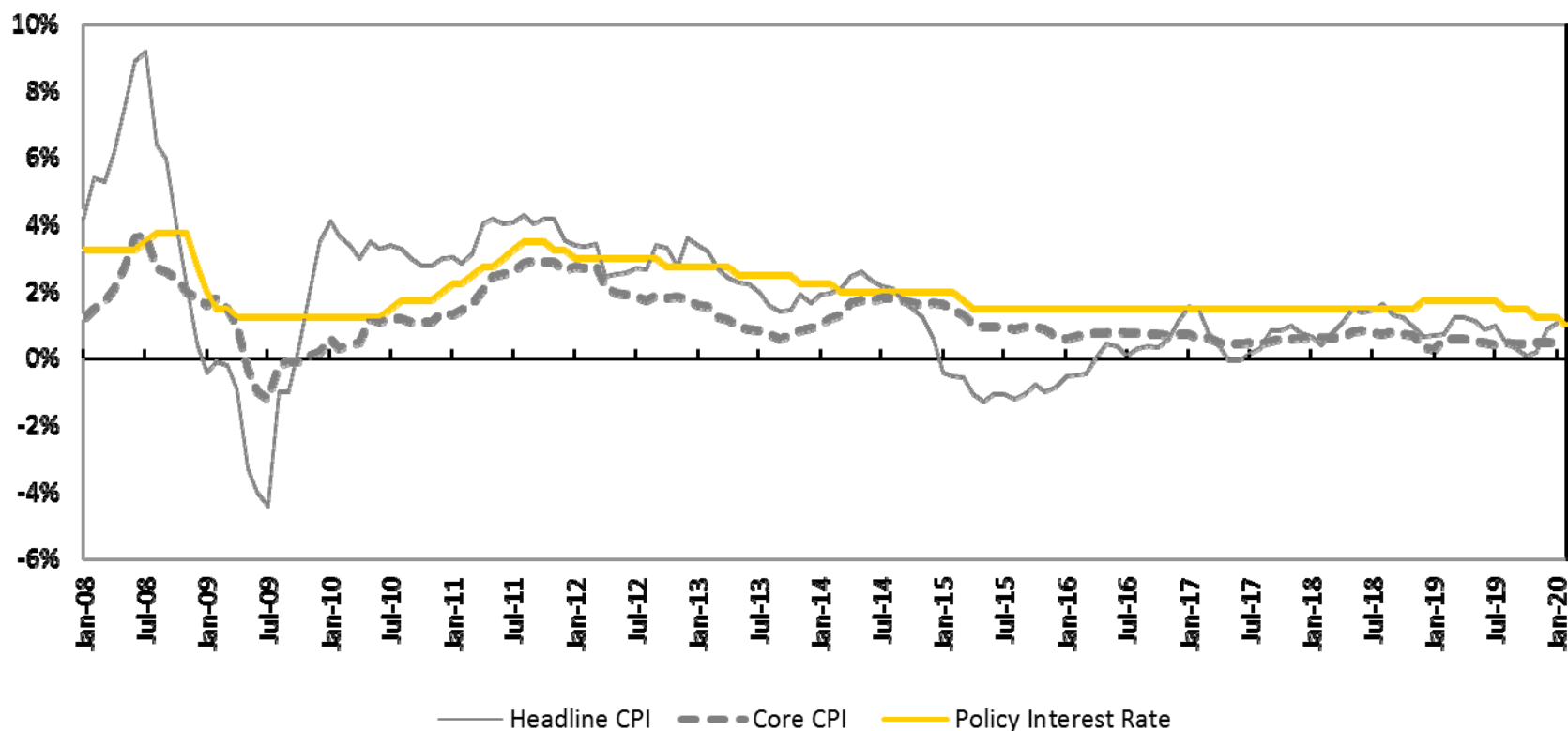
Private Consumption (% y-o-y)



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

Thailand: Inflation

Inflation and Policy Interest Rates



year-on-year change	Headline CPI	CPI Excluding Raw Food & Energy
Jan-20	1.05% ▲	0.47% ▼
Dec-19	0.87 % ▲	0.49% ▲
Nov-19	0.21% ▲	0.47% ▲

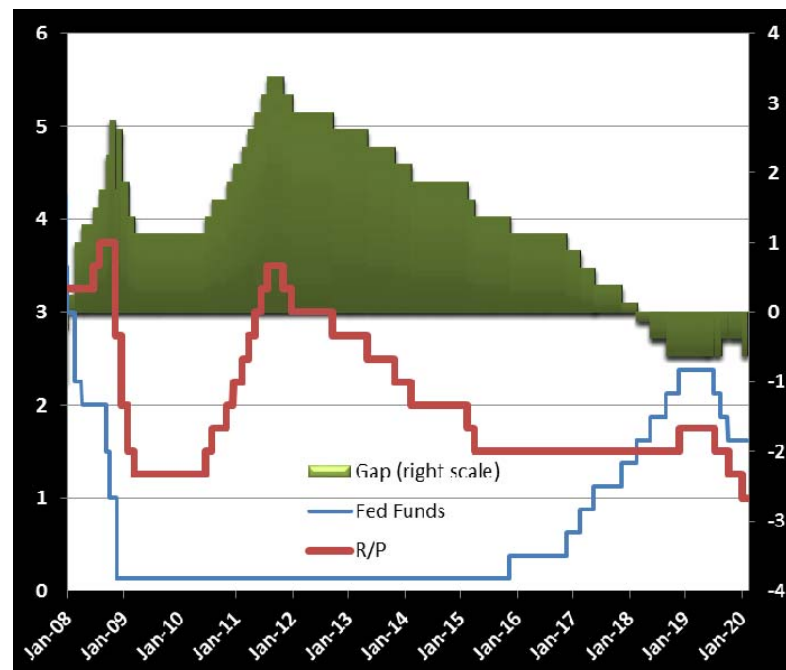
Ministry of Commerce, Bank of Thailand, last data points: January 2020

Interest Rate Market Update

Fed Coming to Rescue

- The FOMC did not meet in February but toward the end of the month Fed Chair Powell, in a rare move, attempted to address market turmoil ignited by the COVID-19 outbreak. Powell provided reassurance that the U.S. central bank will use tools to support the economy. Market participants took the remarks as a strong signal of a looming interest rate cut. Indeed, optimism returned upon the likelihood that there will be a global monetary response to counter the impact of the coronavirus, with the Bank of Japan and Bank of England also saying to stabilize markets.
- U.S. Treasury yields plummeted notably alongside Wall Street shares on escalating fears over the economic impact from the outbreak (albeit with already stretched valuations for U.S. stocks), with 10Y yields hitting record lows. While markets were quick to price in a 50bp rate cut at the March meeting, we reserve our caution for a 25bp move this month and another 50bps in Q2/20, taking total reductions to 75bps for 2020.

US Federal Funds and Thai Policy Rates (%)



end of period	Aug-19	Nov-19	Jan-20	Feb-20
USD6MLIBOR	2.03650%	1.89688%	1.74525%	1.39725%
THBFX6M	1.24574%	1.13903%	0.95728%	0.74273%
Diff	0.79076%	0.75785% ▼	0.78797% ▲	0.65452% ▼

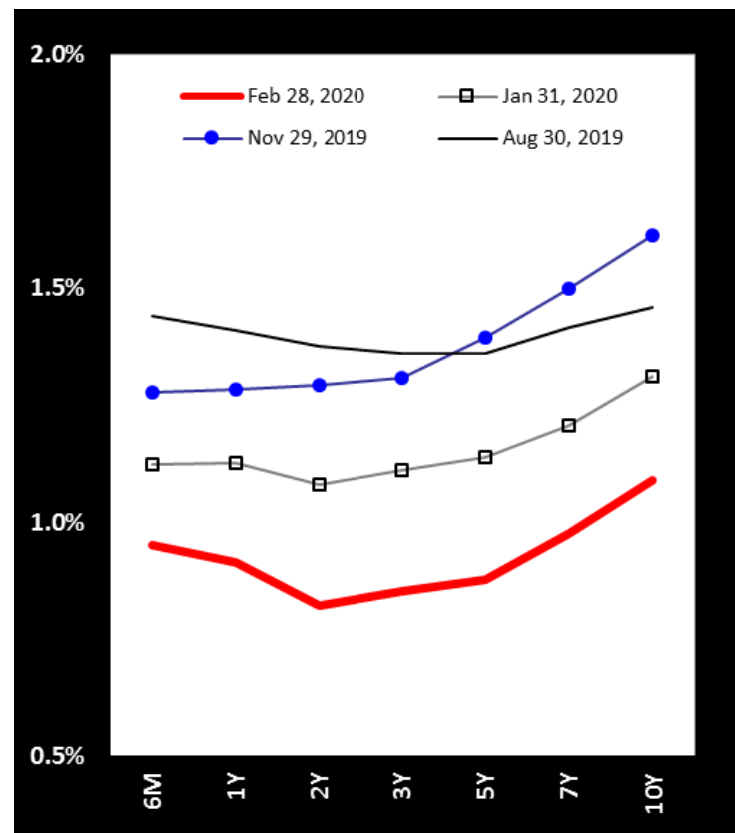
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Interest Rate Market Update

Finding Bottom

- The MPC voted unanimously to cut the policy interest rate by 25bps to a new record low of 1.00% on Feb 5, describing growth outlook as worse than previously assessed and further below potential. Key headwinds being cited were the outbreak of the novel coronavirus, the uncertainty related to annual budget timeframe, as well as drought conditions. On the baht, the Committee noted that despite recent depreciation relative to currencies of trade partners, the baht's value may not reflect economic fundamentals.
- Government bond yields plunged further to record lows, although the degree of falls proved smaller than those of U.S. counterparts. Q4/19 GDP growth indicated the worst y-o-y print in 11 quarters reflecting the contraction in exports and government spending. The current quarter is undoubtedly devastating as tourism, exports and confidence falter. While the effectiveness of additional monetary easing from the already very accommodative level is questionable, we expect another 25bp cut to 0.75% in March as the central bank would like to reiterate the sense of urgency and joint effort by related parties amid material economic headwinds.

Thai Govt Yield Curve



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Forecast

Factors in Focus

- **Coordinated monetary stimulus hopes.** The month of March kicked off with a bounce in risk assets on the increased prospects major central banks will act to alleviate the financial damage from COVID-19 outbreak. We adjusted our USD/THB forecast to reflect the weaker USD profile in the wake of potentially sooner than expected interest rate cuts by the Fed. Activity recoveries will be driven by pent-up demand in H2/20 once the coronavirus is contained, taking the baht to gradual appreciation path.

- **FOMC Meeting: Mar 17-18.** Markets have just heard from Fed Chair Powell a strong signal toward monetary support following the acute turbulence in the stock markets. With markets pricing in a 50bp move, anything less would shake risk tolerance.

- **MPC Meeting: Mar 25.** As for Thailand, a lot of bad economic news has been repeatedly telegraphed and hence expectations of a 25bp cut at this meeting are well priced. In case the policymakers match street estimates and do not stir anticipations of talk below 0.75% for the year, yields would be left with scope to bounce.

FX	USD/THB	USD/JPY	JPY/THB
Feb 28, 2020	31.60	107.95	29.27
Q1/20F	31.75	108	29.40
	30.00-32.50	107.00-111.00	27.30-30.00
Q2/20F	31	107	28.97
	30.00-32.25	105.00-110.00	28.00-29.00
Q3/20F	30.5	106	28.77
	29.75-32.25	103.00-109.00	27.75-29.75
Q4/20F	30.25	105	28.81
	29.50-31.50	101.00-108.00	27.75-29.90

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%	0.88%
EUR Deposit Facility Rate	-0.50%	-0.60%
JPY O/N Call	-0.10%	⇔
THB 1-day R/P	1.00%	0.75%

As of March 3, 2020

Economic Projection

	2018A	2019A	2020F
Real GDP growth	4.2%	2.4%	2.0%
Private Consumption growth	4.6%	4.5%	3.5%
Private Investment growth	4.1%	2.8%	3.2%
Public Consumption growth	2.6%	1.4%	2.6%
Public Investment growth	2.9%	0.2%	4.8%
Export Value growth	7.5%	-3.2%	1.4%
Import Value growth	13.7%	-5.4%	2.7%
Current Account (USD bln)	28.5	37.3	29.5
Headline CPI Inflation	1.1%	0.7%	0.9%

National Economic and Social Development Council, as of February 17, 2020

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