THB Thermometer

May 2020

Foreign Exchange Market Update

Recap : April

Market sentiment and functioning in April improved from extreme volatility and turbulence seen in the prior month although the biggest mover was in the crude oil space. Participants were digesting the lockdown reversals in many parts of the world and dire economic data.

€ Performance — *Depreciation*

▪ The European Central Bank on Apr. 30 announced to lower the interest rate on the targeted longer-term refinancing operations and unveiled the pandemic emergency longer-term refinancing operations to ease strains in short-term funding markets. Other measures were left unchanged. In March, the ECB launched a EUR750 billion bond-buying program. Meanwhile, Italian yields leaped on fears of a lack of coordination of Eurozone coronabonds.

▪ Outlook — Moderate Appreciation

▪ Several European countries pursued a plan to gradually reopen businesses as coronavirus infection rates fell. While ECB President Lagarde left the door open for further stimulus, the more aggressive action from the Federal Reserve will eventually weigh on the dollar.

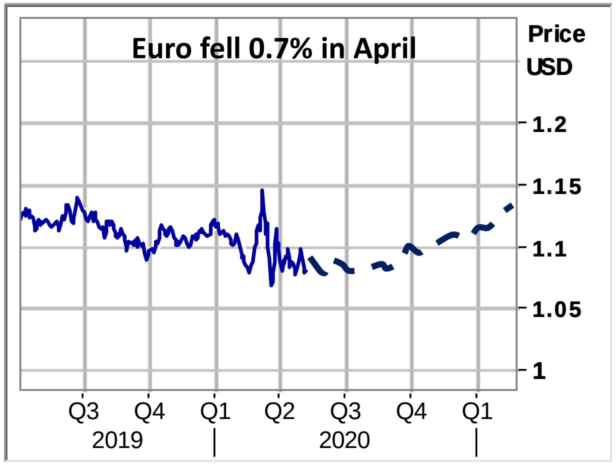
¥ Performance — *Slight Appreciation*

▪ The Bank of Japan kept rates unchanged but pledged to purchase unlimited amount of bonds. Meanwhile, U.S. Treasury bond yields slipped during the month. U.S. crude futures turned negative for the first time in history, highlighting the supply glut and demand collapse. These developments served to support safe-haven yen bids despite reduced overall volatility.

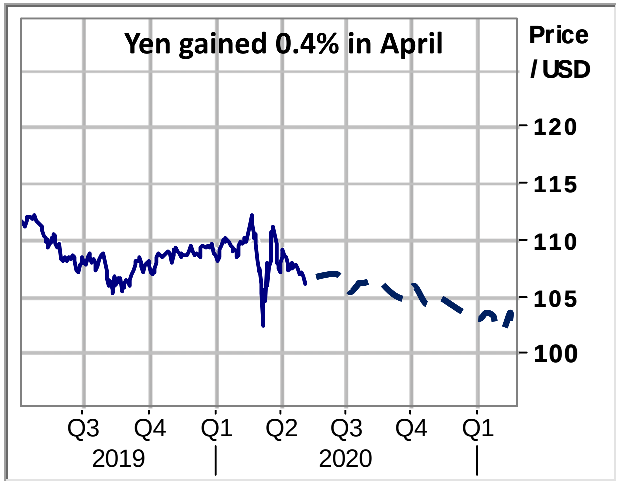
¥ Outlook — Moderate Appreciation

▪ While the virus situation in the U.S. remains fluid, signs of a renewed escalation in U.S.-China trade tensions do not bode well for risk sentiment. Earlier, the Fed announced a USD2.3 trillion program to facilitate local governments and small to medium-sized businesses to help them cope with the pandemic. With the Fed expanding its balance sheet aggressively relative to the BoJ, the yen looks set to strengthen over time.

EUR/USD



USD/JPY



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Foreign Exchange Market Update

Recap : April

Baht Appreciation

- The baht gained as the amount of portfolio outflows eased from that of the preceding month amid improving COVID-19 developments in most parts of the world while global policy response to the coronavirus shock helped calm financial markets and prompted players to buy back battered emerging Asian currencies. Gold prices traded at a 7.5-year peak and at almost all-time highs in Thai baht terms, adding to appreciation pressure on the baht as the price rally encouraged local gold traders to export the precious metal. Meanwhile, Thailand has extended a state of emergency until the end of May but started to ease some restrictions.
- USD0.7 billion current account surplus in March
- THB47.0 billion net foreign selling in SET-listed shares in April
- THB18.9 billion* record net foreign selling in Thai government bonds in April

** 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	1.6%	1.2%
3 months	-3.9%	-5.0%
12 months	-1.3%	-5.3%

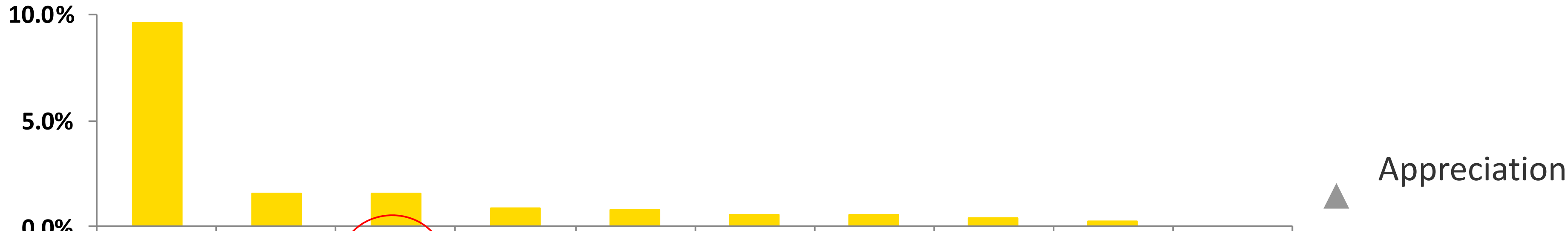
As of April 30, 2020, "-" indicates THB depreciation

Outlook: Eventual Appreciation

We expect the baht to consolidate in a slightly weaker range in the near term while volatility has come down albeit from extreme levels and uncertainty remains high. Thailand's current account surplus is poised to narrow this year, alleviating the risk of excessive baht strength. With sentiment still fragile, markets will be tested by the prospects of renewed U.S.-China trade tensions. In the longer run, however, our view remains one of dollar weakness due to the Fed's massive policy easing steps.

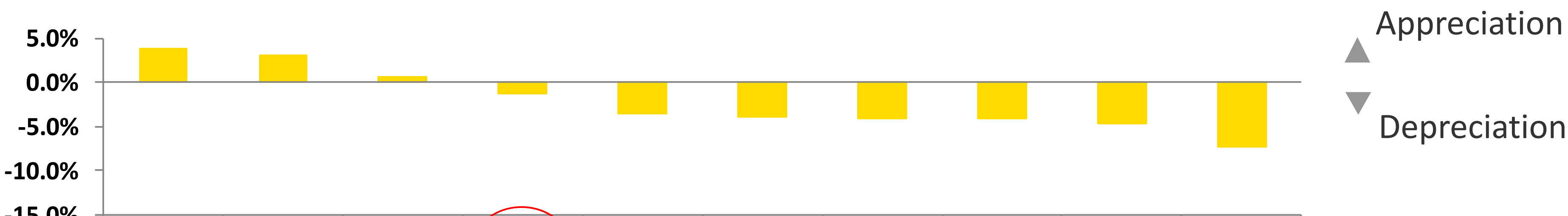
Foreign Exchange Market Update

Monthly Performance



	IDR	TWD	THB	SGD	VND	INR	PHP	MYR	CNY	KRW
vs USD	9.6%	1.6%	1.6%	0.9%	0.8%	0.6%	0.6%	0.4%	0.3%	0.0%

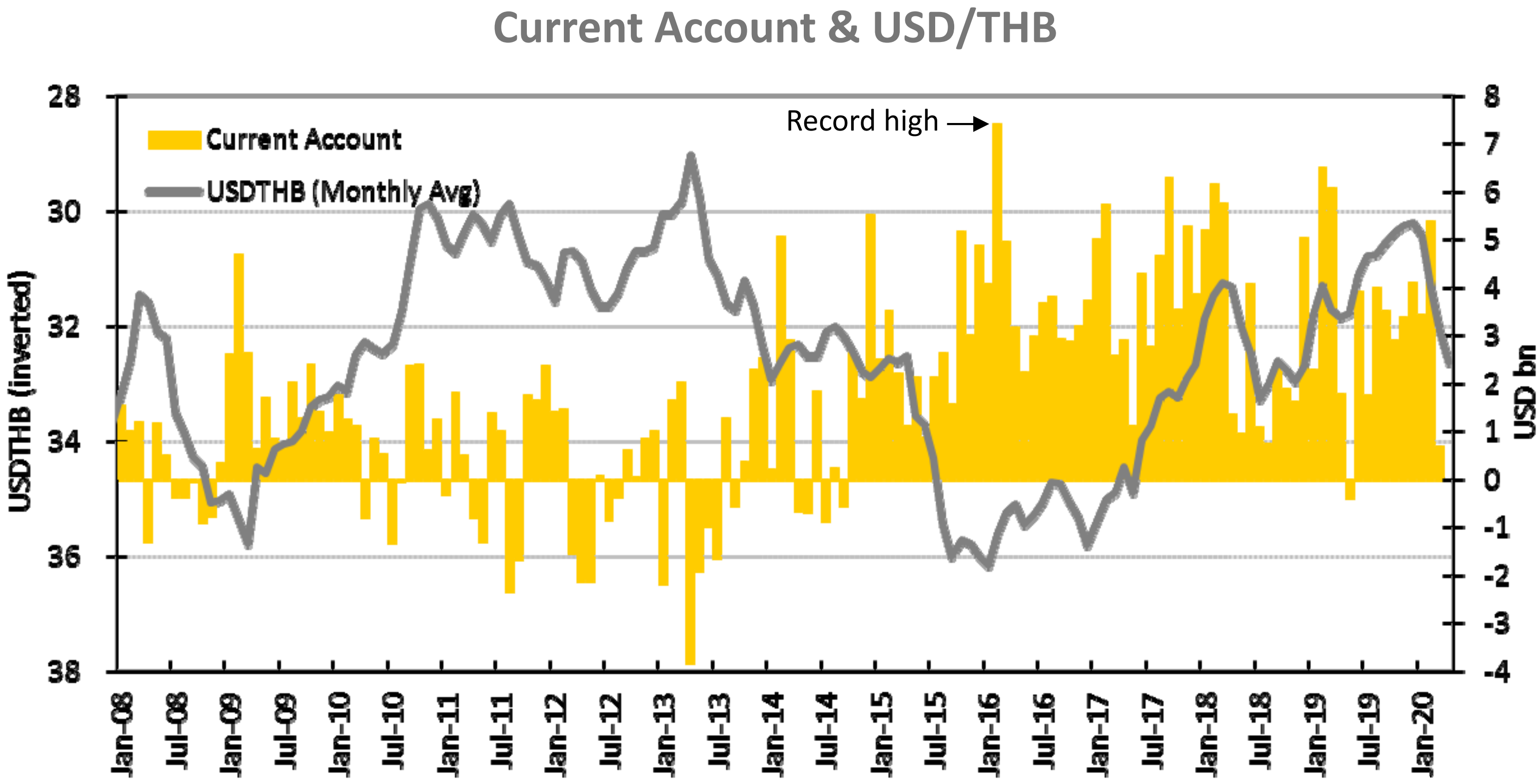
Yearly Performance



	TWD	PHP	VND	THB	SGD	MYR	KRW	IDR	CNY	INR
vs USD	3.8%	3.0%	0.6%	-1.3%	-3.5%	-3.9%	-4.1%	-4.2%	-4.7%	-7.4%

Bloomberg, data as of April 30, 2020, "-" indicates currency depreciation against USD

Thailand: External Accounts



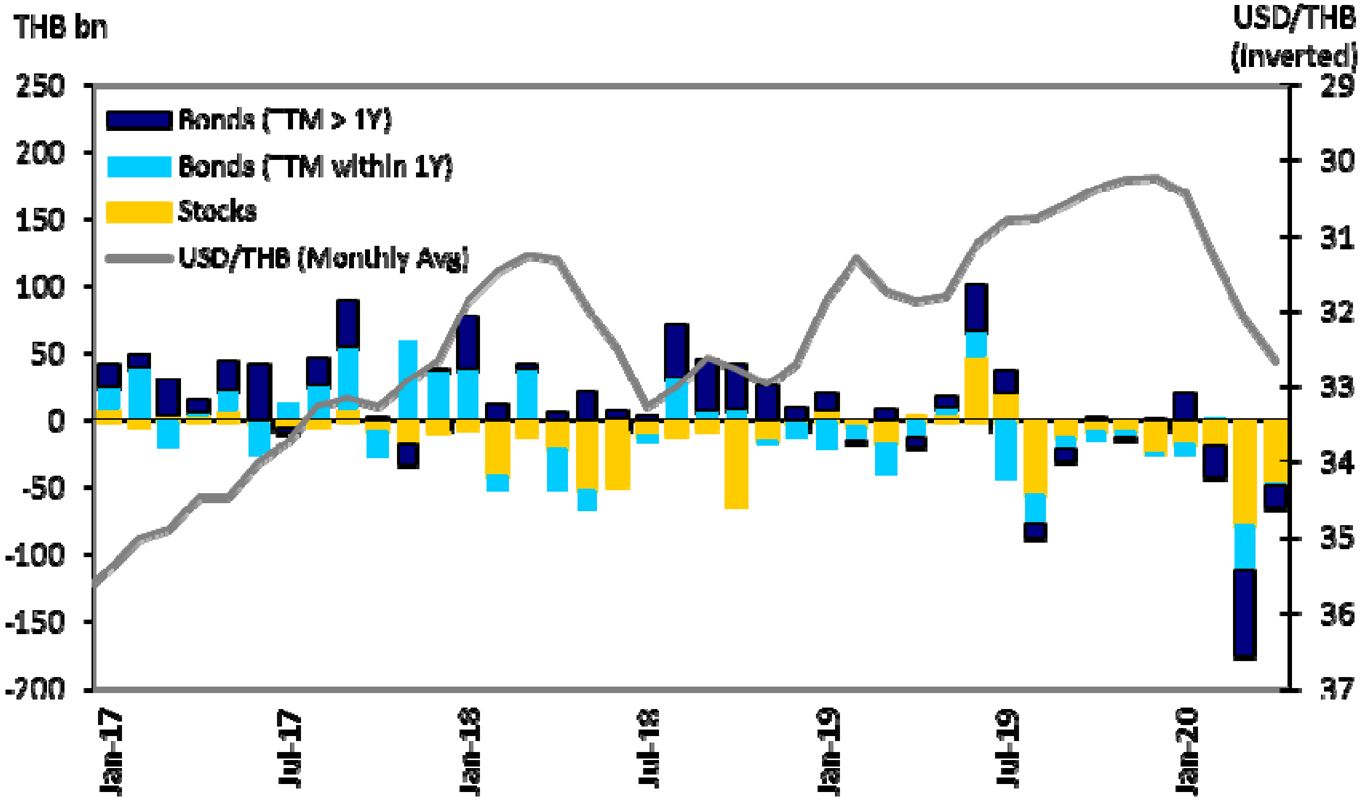
	Exports % y-o-y	Imports % y-o-y	Trade Balance USD bn	Current Account USD bn	Reserves* USD bn
Mar-20	-2.2	4.4	2.27	0.70	260.91 ▼
Feb-20	3.6	-7.8	5.39	5.38	261.24 ▼
Jan-20	-3.5	-0.1	0.38	3.44	263.40 ▲

*Bank of Thailand, * including net forward position*

Thailand: Foreign Portfolio Flows

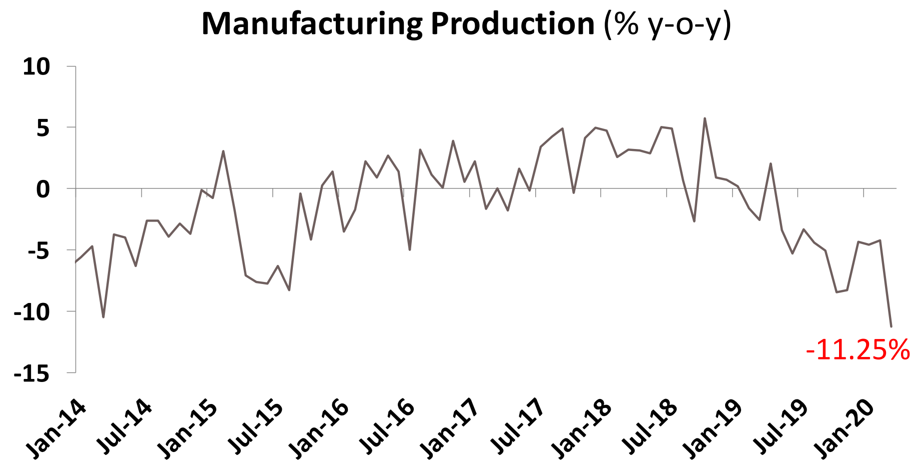
Net Foreign Position & USD/THB

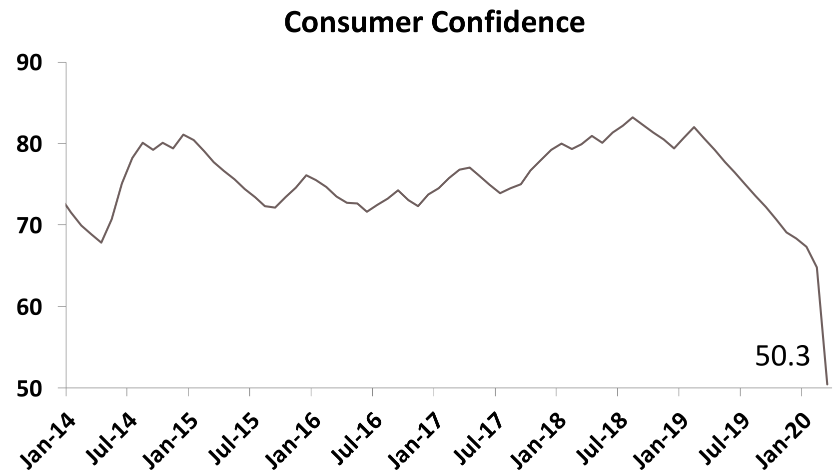
THB mn	2017	2018	2019	4M2020
Stocks	(25,752)	(287,740)	(45,243)	(162,330)
Bonds (Net Flows)*	216,140	122,120	(79,279)	(128,651)
Bonds (TTM>1)	166,714	240,319	51,961	(85,894)

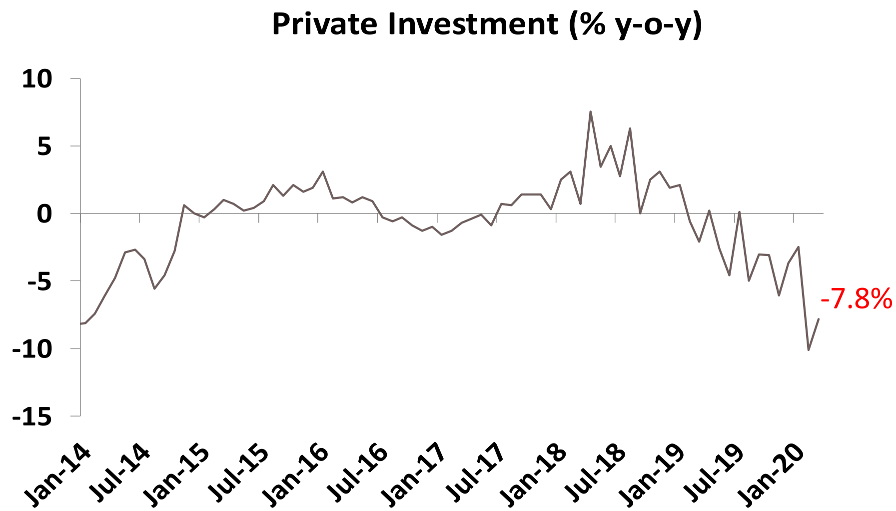


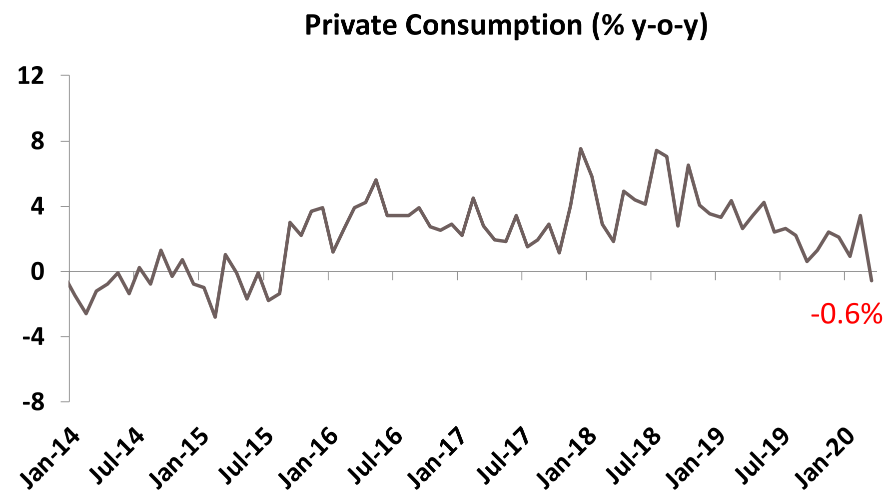
Thai Bond Market Association (based on outright trading value; the accumulated net buying value may double count the trading value of rollovers), Stock Exchange of Thailand, Bank of Thailand, last data points: April 2020*

Thailand: Domestic Economy



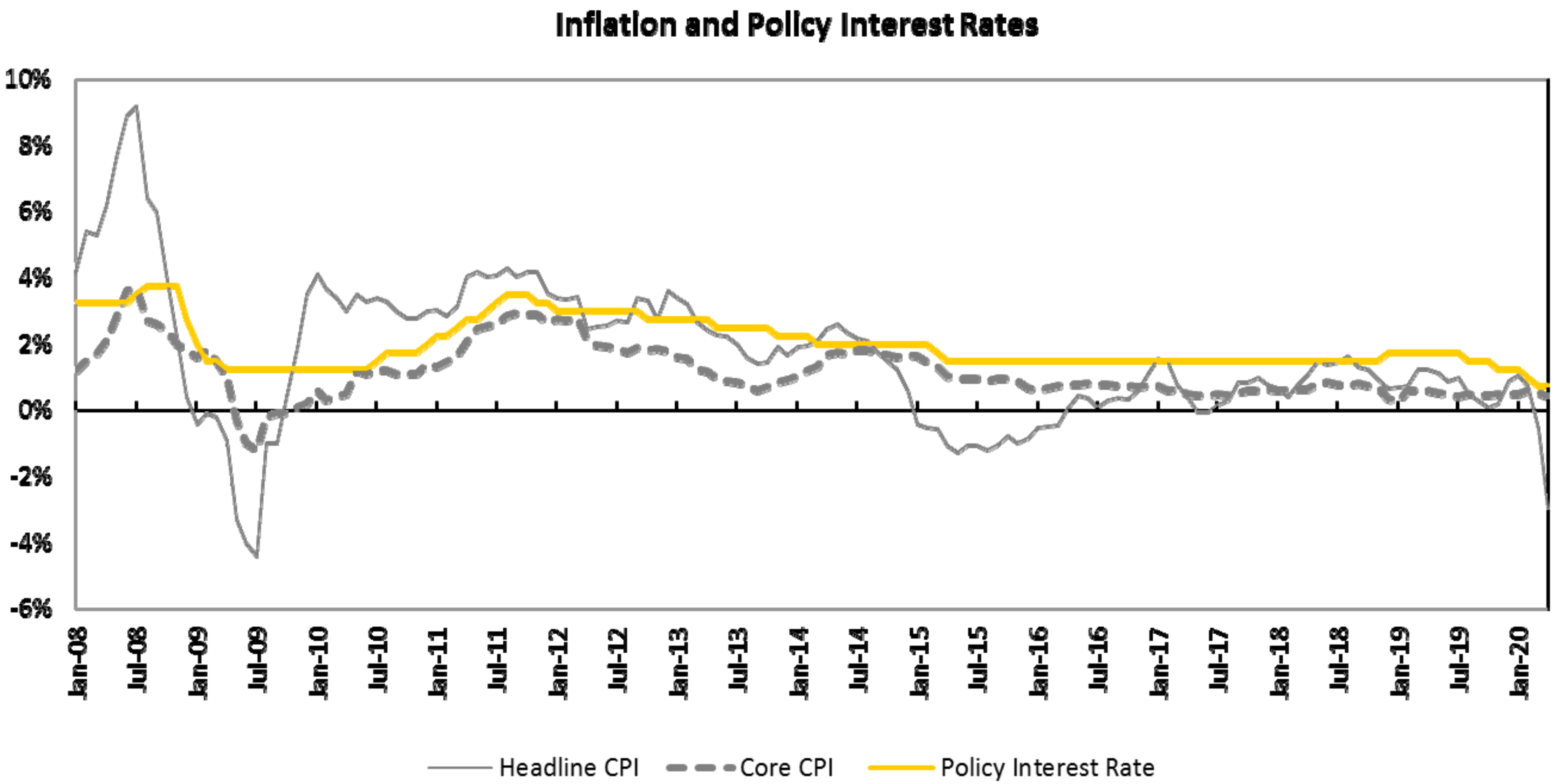






Bank of Thailand, UTCC, last data points: March 2020

Thailand: Inflation



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

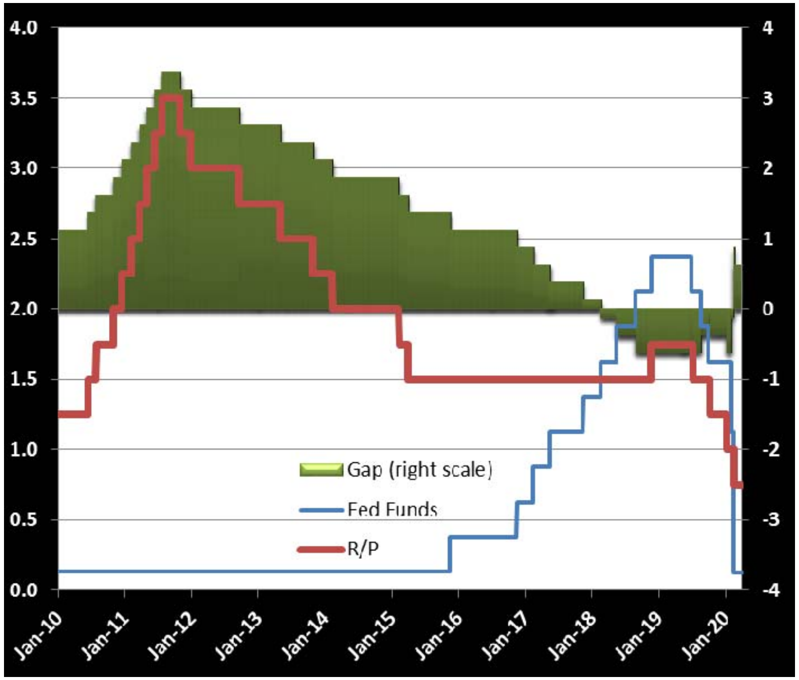
Interest Rate Market Update

Utilizing the Toolbox

• The FOMC at the end of their Apr. 28-29 meeting maintained interest rates at 0-0.25% and repeated a pledge to stimulate the economy severely hit by the pandemic. The Fed portrayed a dovish stance that the central bank will use every tool to shore up the economy and Fed Chair Powell sounded cautious about how long the economy would take to bounce back. Powell made an unusual call for more fiscal spending too and warned about a double-digit jobless rate in April. Separately, Congress passed a USD484 billion coronavirus aid bill that includes a further USD321 billion for a previously established small business lending that saw its funds used up.

• U.S. Treasury yields fell marginally while markets eyed a mixed bag of a phased business reopening, as well as monetary and fiscal stimulus measures. Most economic data for March missed the already dismal expectations, with those for April to more fully reflect the fallout. MUFG view is for the Fed to leave the funds rate near zero through to 2022.

US Federal Funds and Thai Policy Rates (%)



end of period	Oct-19	Jan-20	Mar-20	Apr-20
USD6MLIBOR	1.91625%	1.74525%	1.17525%	0.75950%
THBFIX6M	1.41239%	0.95728%	1.02511%	0.74162%
Diff	0.50386%	0.78797% ▲	0.15014% ▼	0.01788% ▼

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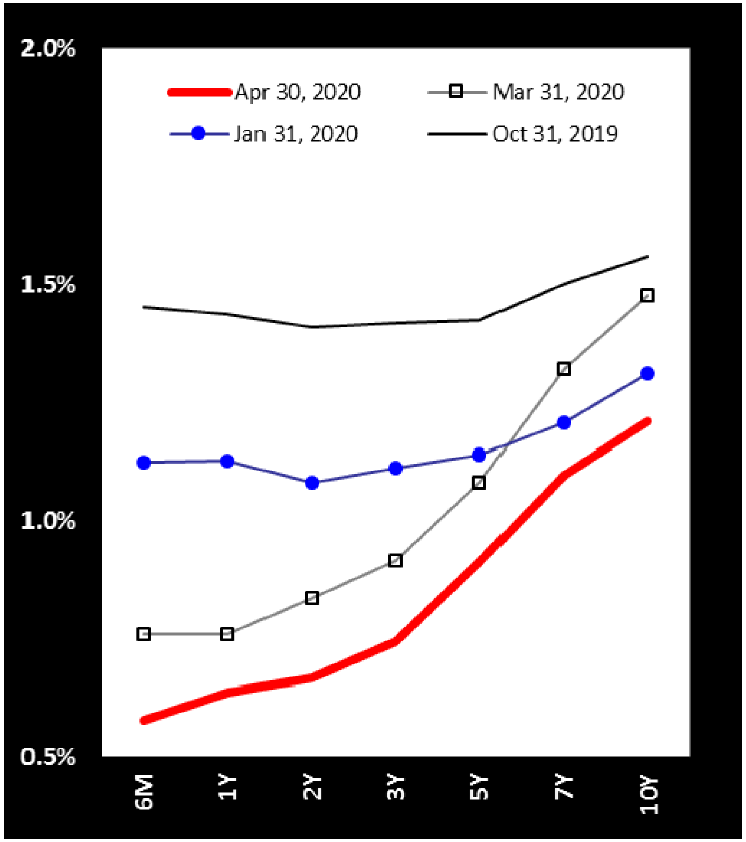
Interest Rate Market Update

Unconventional Policy Options

• The Cabinet approved a package of measures worth THB1.9 trillion to alleviate the impact of the coronavirus outbreak. The package includes a law to borrow THB1 trillion. The government expects to start borrowing in May, mainly from domestic sources. BoT Governor Veerathai said the central bank will provide soft loans worth THB500 billion plus a loan payment holiday to help smaller businesses hit by the COVID-19 crisis. The BoT will also set up a corporate bond stabilization fund worth THB400 billion to provide bridge financing to high-quality firms with bonds maturing during 2020-2021. Toward the end of April, BoT Assistant Governor Vachira said the local bond market has stabilized but not completely returned to normal.

• Thai government bond yields shifted lower across the curve as demand from local asset managers returned while selling by offshore investors eased from the prior month's record level. March exports surprisingly expanded, potentially reflecting growth in hard disk drives and food products, replacing Chinese exports during the pandemic, and work-from-home-related items. Still, shipments are poised to plummet in the current quarter. Separately, data showed international arrivals collapsed 76.41% y-o-y in March. On the fiscal front, public debt stood at 41.44% of GDP at the end of February while the MoF expects the ratio to reach 57.96% at the end of fiscal year 2021. Given the acute deterioration in domestic and overseas economic conditions amid the pandemic, and expected slow recovery, the MPC is likely to cut rates by 25bps to 0.50% this month although upcoming government bond supply may defend the downside of market yields.

Thai Govt Yield Curve



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Forecast

Factors in Focus

Near-term USD Support. Given the uncertainties over the coronavirus infection after gradual lockdown reversals, as well as renewed concerns about the U.S.-China trade tensions, risk appetite looks set to remain fragile. In these circumstances, the dollar should stay supported against emerging market currencies. However, we maintain our bearish dollar view in the longer run in light of the Fed's aggressive easing relative to other major central banks.

Q1/20 GDP May 18. Thailand's economic performance is expected to have shown a contraction in reflection of the start of COVID-19 shock as tourist arrivals began to tumble in February and partial lockdown in Bangkok and other provinces commenced by late March. As is the case elsewhere, Q2/20 will be far more devastating.

MPC Meeting May 20. We expect the Thai monetary policy makers to cut rates by 25bps to yet another record low of 0.50%, which would likely be the final one. More targeted stimulus measures could be in the offing with growth recovery from the meltdown to prove very gradual.

FX	USD/THB	USD/JPY	JPY/THB
Apr 30, 2020	32.34	107.18	30.17
Q2/20F	32.75	106	30.90
	31.75-33.75	104.00-109.00	29.20-31.75
Q3/20F	32.5	105	30.95
	31.50-33.50	103.00-108.00	29.20-32.00
Q4/20F	32	104	30.77
	31.00-33.00	101.00-107.00	29.00-32.00
Q1/21	31.75	102	31.13
	30.75-32.75	99.00-106.00	29.20-32.20

*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	0.75%	0.50%

As of May 7, 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