THB Thermometer

October 2020

Foreign Exchange Market Update

Recap : September

The dollar managed a bounce against most other majors while U.S. stock markets corrected lower amid rising coronavirus infections in many parts of the world and as the Federal Reserve appeared to be more patient to follow through with the new policy framework of average inflation targeting framework outlined in August.

€ Performance — *Depreciation*

- After failing to sustain gains above USD1.2000, the euro pulled back alongside corrective moves lower in risk assets while new COVID-19 infection cases also picked up in Europe. The European Central Bank on Sept 10 left policy on hold.

€ Outlook — Appreciation

- ECB President Lagarde on Sept 28 told the European Parliament's committee that the recent appreciation of the euro partly played a role in deflation in the Eurozone. This stance along with bleak economic recovery outlook could lead to additional monetary easing. Beyond near-term correction, the euro is expected to strengthen in the longer term.

¥ Performance — *Appreciation*

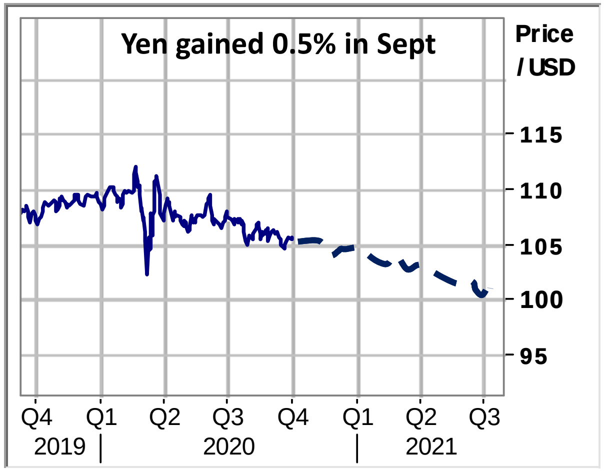
- The yen benefited from the reversal of positive risk sentiment although USDJPY trading range proved rather tight during the month. The Bank of Japan left rates at -0.1% and pledged to cap 10-year bond yields around 0%. Governor Kuroda said the central bank would work closely with new PM Suga to stimulate the economy hit by the pandemic.

¥ Outlook — Appreciation

- From the real yield perspective, we continue to anticipate yen strength over the coming period given global yields are poised to remain low for longer. The likelihood of an uptick in market volatility around the U.S. presidential elections also puts the safe-haven yen as the currency of choice in times of elevated uncertainties.

EUR/USD

USD/JPY



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Foreign Exchange Market Update

Recap : September

Baht Depreciation

- The Thai baht underperformed most other regional currencies, hitting the weakest level in two months, weighed by equity-linked portfolio outflows, domestic political jitters, together with the retreat in global gold prices. The Thai Parliament failed to vote on whether the constitution should be amended, sparking fears over a deepening political conflict going forward. Meanwhile, the Bank of Thailand's Monetary Policy Committee voted unanimously to maintain the one-day repurchase rate at 0.50% on Sept 23.
- USD3.0 billion current account surplus in August, helped mainly by record-high monthly gold exports
- THB23.2 billion net foreign selling in SET-listed shares in September
- THB23.0 billion net foreign buying in Thai government bonds in September

** 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	-1.73%	-2.20%
3 months	-2.53%	-4.95%
12 months	-3.53%	-6.12%

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

Outlook: Long-term Appreciation

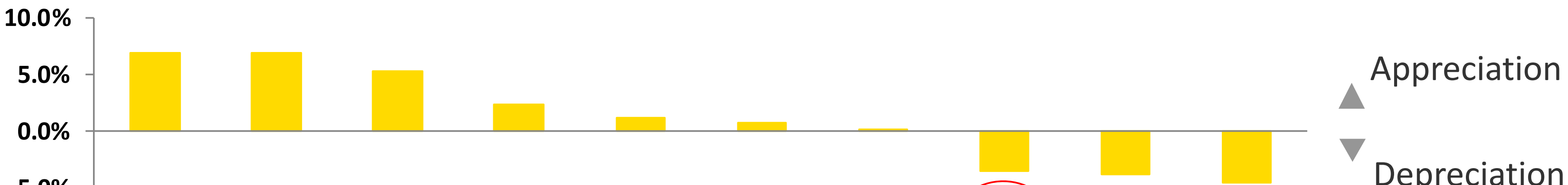
Our moderately bullish Thai baht view is built upon Fed policy-induced dollar weakness over time. Nonetheless, headwinds to growth recovery remain strong and we doubt the scheme attracting long-stay tourists will materially bring in material FX receipts in the coming months. As such, current account surplus will remain subdued relatively to past years, and will remain driven largely by the import collapse.

Foreign Exchange Market Update

Monthly Performance

	KRW	TWD	CNY	MYR	PHP	VND	INR	SGD	THB	IDR
vs USD	1.6%	1.3%	0.9%	0.2%	0.0%	0.0%	-0.2%	-0.4%	-1.7%	-2.1%

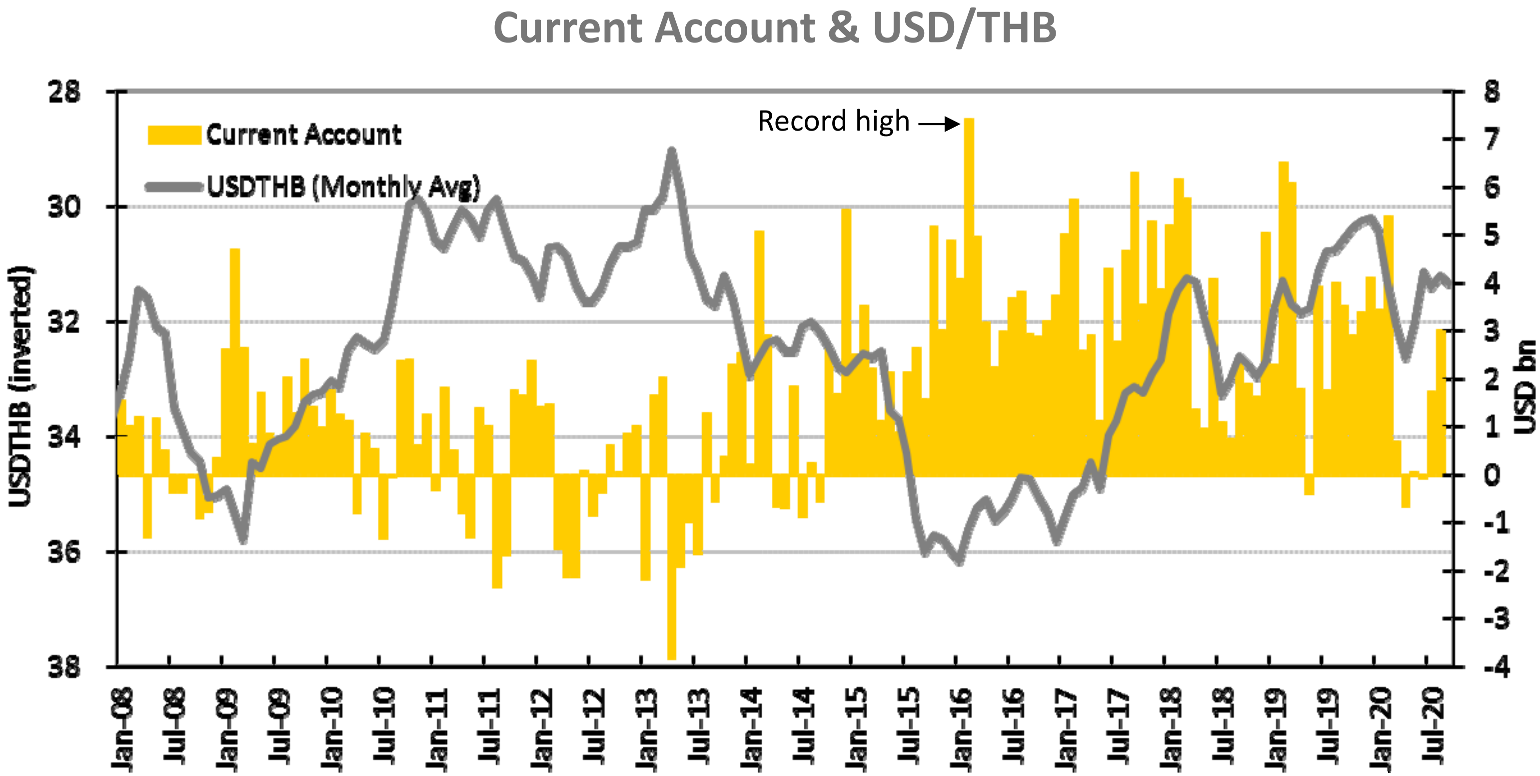
Yearly Performance



	PHP	TWD	CNY	KRW	SGD	MYR	VND	THB	INR	IDR
vs USD	6.9%	6.9%	5.3%	2.3%	1.2%	0.8%	0.1%	-3.5%	-3.9%	-4.6%

Bloomberg, Refinitiv, data as of September 30, 2020, yearly is past 12 months, “-” indicates currency depreciation against USD

Thailand: External Accounts



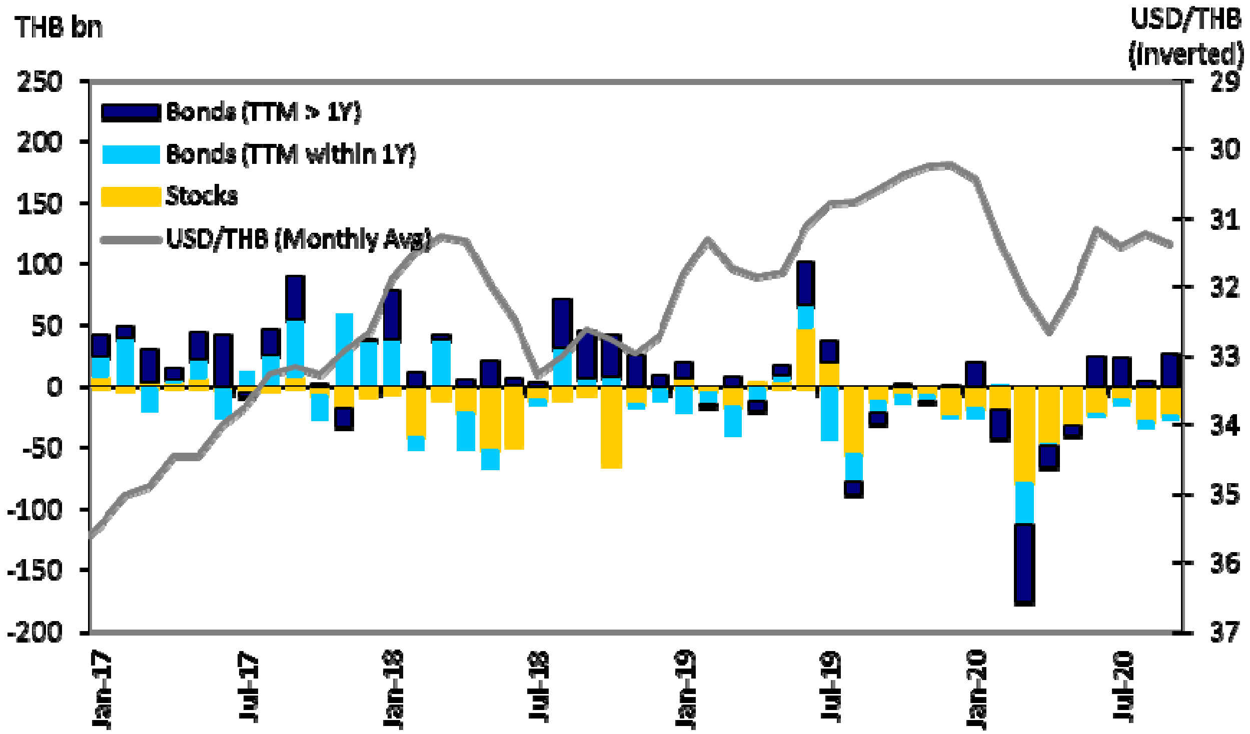
	Exports % y-o-y	Imports % y-o-y	Trade Balance USD bn	Current Account USD bn	Reserves* USD bn
Aug-20	-8.2	-19.1	5.38	3.00	277.38 ▲
Jul-20	-11.9	-25.4	4.11	1.74	274.49 ▲
Jun-20	-24.6	-18.2	2.32	-0.05	266.09 ▲

*Bank of Thailand, * including net forward position*

Thailand: Foreign Portfolio Flows

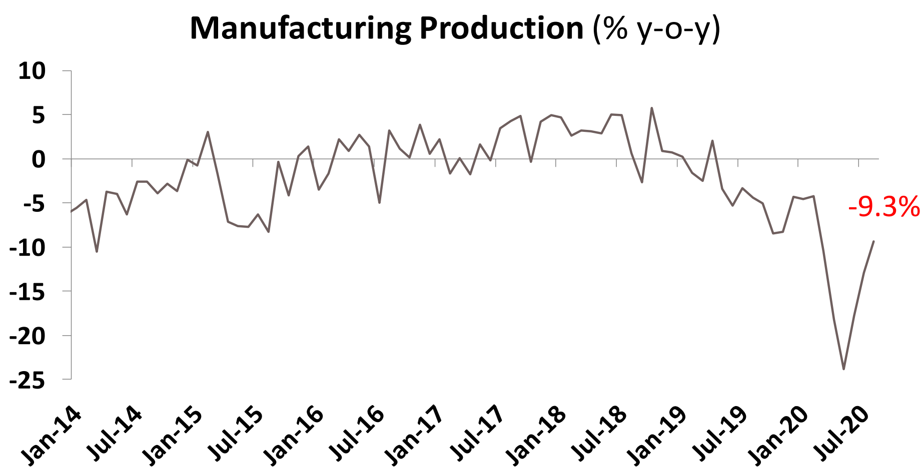
Net Foreign Position & USD/THB

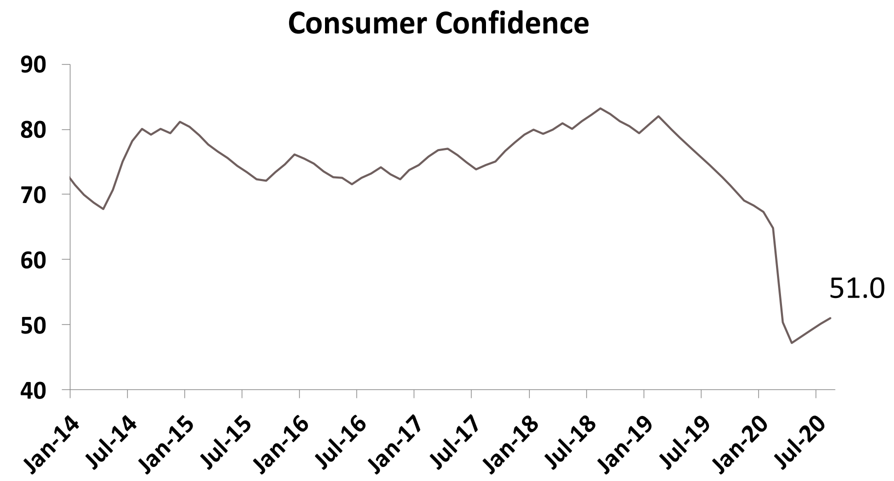
THB mn	2017	2018	2019	9M20
Stocks	(25,752)	(287,740)	(45,243)	(277,673)
Bonds	357,633	286,555	(79,279)	(74,718)
Bonds TTM > 1Y	166,976	236,524	51,961	(14,431)

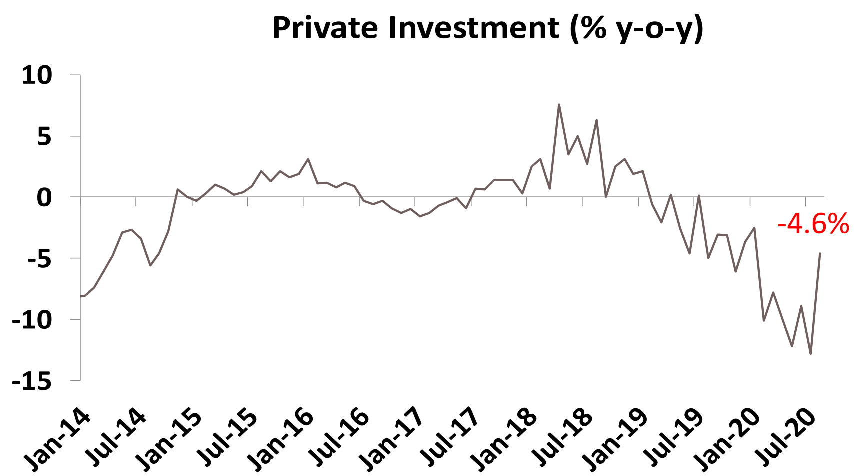


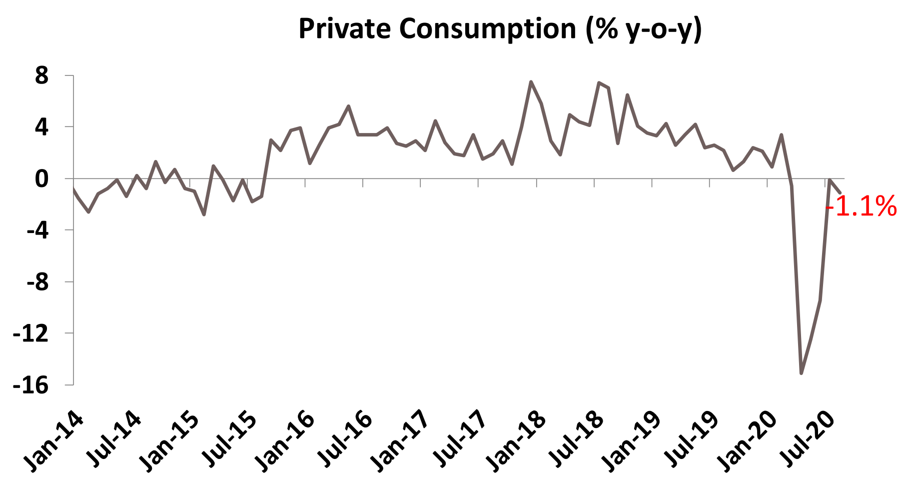
Thai Bond Market Association (based on outright trading value; the accumulated net buying value may double count the trading value of rollovers), Stock Exchange of Thailand, Bank of Thailand, last data points: September 2020*

Thailand: Domestic Economy



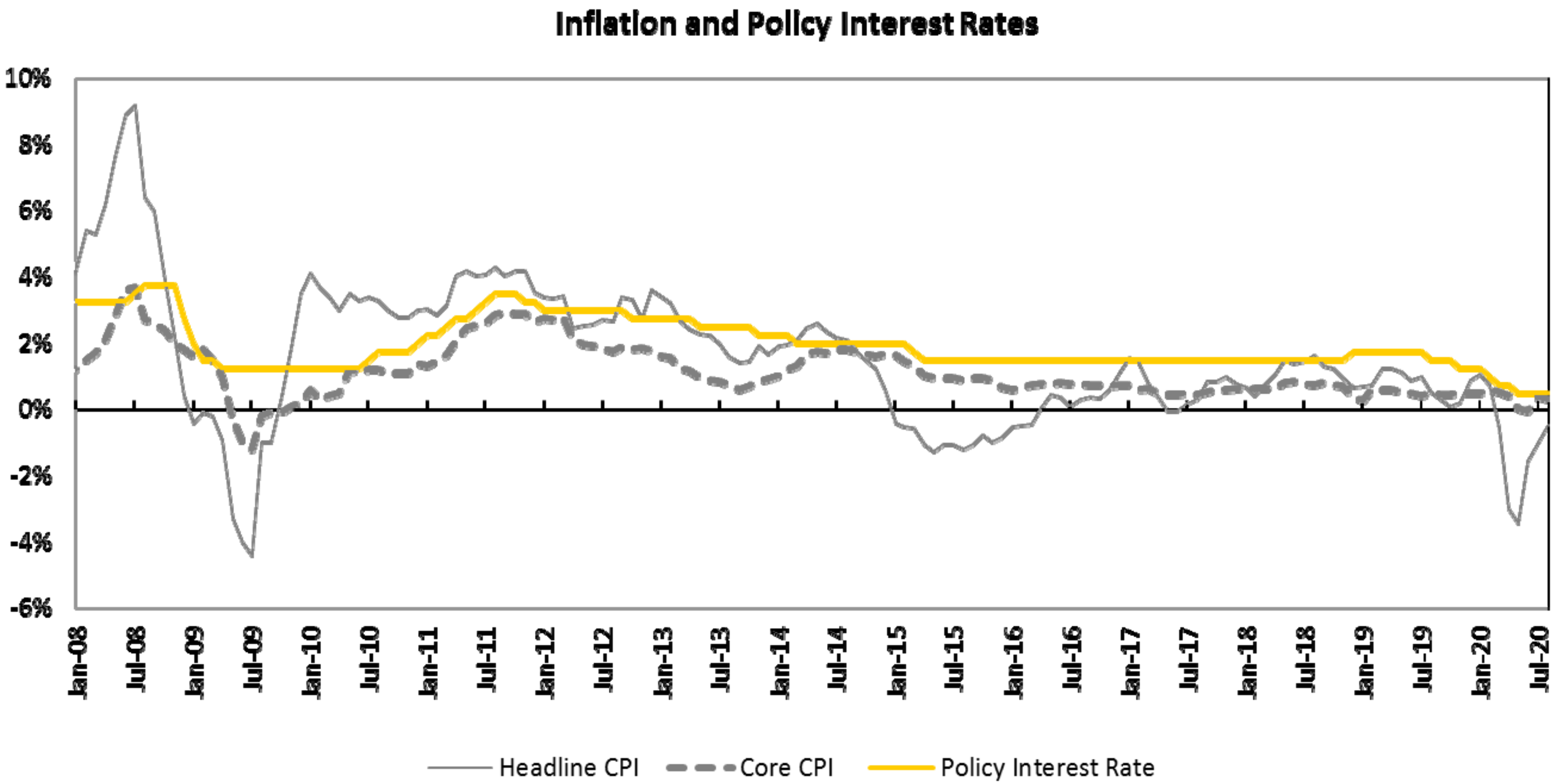






Bank of Thailand, UTCC, last data points: August 2020

Thailand: Inflation



year-on-year change	Headline CPI	CPI Excluding Raw Food & Energy
Aug-20	-0.50% ▲	0.30% ▼
Jul-20	-0.98% ▲	0.39% ▲
Jun-20	-1.57% ▲	-0.05% ▼

Ministry of Commerce, Bank of Thailand

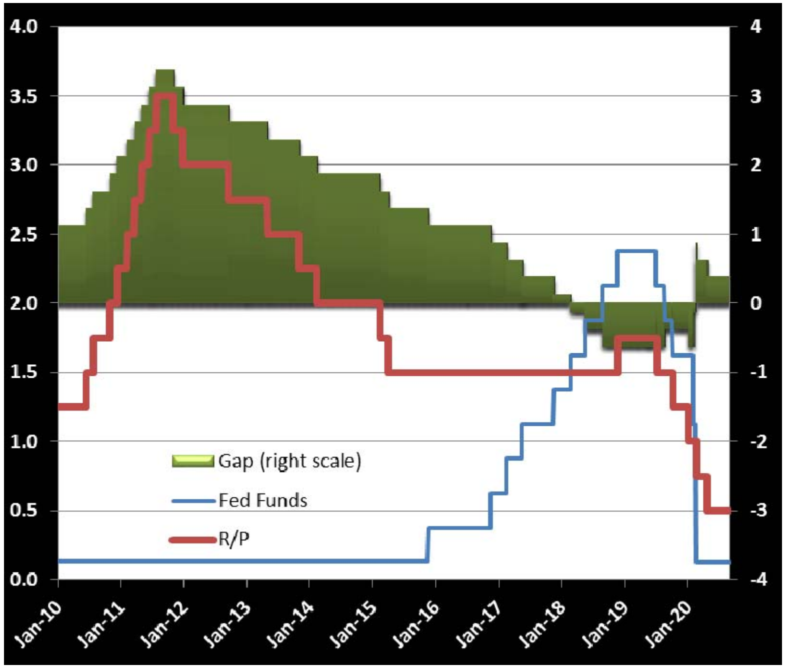
Interest Rate Market Update

No Rush after Jackson Hole

• The FOMC announced to keep rates in a range of 0-0.25% at the end of the Sept 15-16 meeting. The updated dots indicated most Federal Reserve policymakers expect rates to be left on hold at least until 2023, until inflation is on track to "moderately exceed" the 2% target "for some time." Chair Powell noted that the recovery is enduring but the pace is expected to slow, warranting continued monetary and fiscal stimulus measures. The U.S. central bank stated it would maintain its monthly government bond purchase at least at the current pace of USD120 billion. Still, there appeared to be no concrete specifics on the new average inflation strategy. The Fed's decision was met with two dissents, with one favoring more flexibility but another a stronger commitment to achieving inflation target.

• The UST curve flattened as yields slipped at the long end while the equities underwent a downward correction. Fears over a protracted pandemic outbreak and uncertainty about a new fiscal aid package kept intact safe-haven bond demand in September. Looking ahead, a Biden presidency could lift inflation expectations through massive fiscal stimulus.

US Federal Funds and Thai Policy Rates (%)



end of period	Mar-20	Jun-20	Aug-20	Sep-20
USD6MLIBOR	1.17525%	0.36925%	0.30988%	0.25975%
THBFIX6M	1.02511%	0.43918%	0.41147%	0.32677%
Diff	0.15014%	-0.06993% ▼	-0.10159% ▼	-0.06702% ▲

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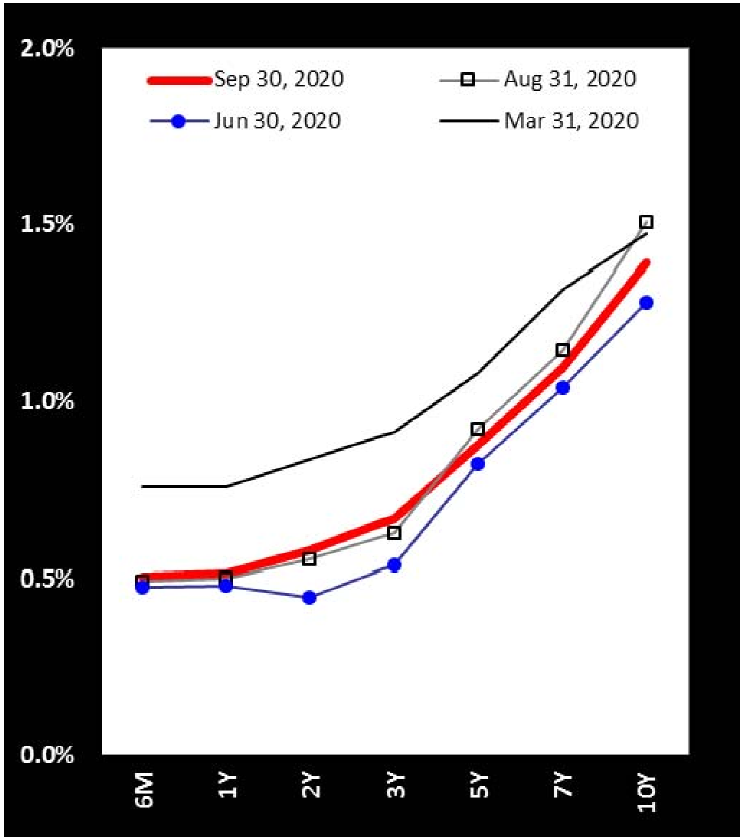
Interest Rate Market Update

Risks of Lengthy Stagnation

• The MPC voted unanimously to keep the one-day repurchase rate at a record low of 0.50% on Sept 23, marking a third consecutive stand-pat verdict. The Committee assessed that the pace of recovery will be slower in 2021 than previously thought due mainly to still-severe tourism fallout. GDP forecast for this year was revised to indicate a contraction of 7.8% instead of the 8.1% decline projected in June. However, for 2021, the policymakers expect the economy to grow by 3.6% instead of 5.0% predicted earlier. Economic activities will likely take at least two years to return to pre-COVID level and will prove uneven across sectors, requiring targeted and timely measures as well as comprehensive coordination led by fiscal policy, according to the statement. Indeed, the direction was clear that flows of liquidity should be urgently distributed to those affected by the crisis. Given the Committee's preference to pursue non-interest rate tools, we continue to expect rates to be left on hold over the coming quarters.

• The Thai government curve flattened from the previous month as long-dated yields dipped while other areas of the curve were little changed. Foreign investors came back as net buyers in September after modest selling in August. While net offshore selling during the first nine months of the year totaled THB74 billion, Q3 saw positive bond flows of THB40 billion. A somewhat lighter-than-expected government borrowing of around THB1.4 trillion in the 2021 fiscal year, with a number of planned projects reportedly not ready to be implemented, should keep yields in consolidation mode for now.

Thai Govt Yield Curve



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Forecast

Factors in Focus

Volatility. The looming Nov 3rd U.S. presidential elections, vaccine developments and unsettling Brexit path will add to market fluctuations from the start of Q4/20. Currency price actions toward the end of September already pointed to renewed caution over the resurgence of COVID-19 and subsequent risks of some form of a lockdown in Europe. The U.S. economy, after picking up in Q3/20 may as well lose recovery momentum in the final quarter. This backdrop of mounting global growth concerns does not bode well for emerging markets assets in the near term. Nonetheless, a combination of tolerance of inflation overshoot by the Fed and Thailand's structural surplus still suggests to us the move lower in USD/THB over time.

Domestic Angst. A new finance minister will be announced in early October after more than a month of vacuum. Anti-government protests planned for this month, the ongoing shakeup at the main opposition party Pheu Thai, and an expiring debt payment holiday may further fuel uncertainties over the course of economic recovery.

ECB Meeting, Oct 29. The focus will be on whether the central bank will explictly hint at more stimulus measures.

FX	USD/THB	USD/JPY	JPY/THB
Sept 30, 2020	31.67	105.44	30.04
Q4/20F	30.75	104	29.57
	30.50-32.25	102.00-107.00	29.00-30.35
Q1/21F	30.5	102	29.9
	30.25-31.75	100.00-106.00	29.25-30.50
Q2/21F	30.25	101	29.95
	30.00-31.25	99.00-105.00	29.25-30.50
Q3/21F	30	100	30
	29.75-31.00	98.00-104.00	29.30-30.55

*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-Q3/21F
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 October 2, 2020

Economic Projection

	2019A	2020F	2021F
Real GDP growth	2.4%	-7.8%	3.6%
Private Consumption growth	4.5%	-3.5%	2.0%
Private Investment growth	2.8%	-11.4%	4.2%
Public Consumption growth	1.4%	3.4%	5.1%
Public Investment growth	0.2%	8.8%	11.4%
Export Value growth	-3.2%	-8.2%	4.5%
Import Value growth	-5.4%	-13.7%	4.4%
Current Account (USD bln)	37.9	14.0	14.6
Headline CPI Inflation	0.7%	-0.9%	1.0%

Bank of Thailand, as of September 23, 2020

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Thank you