THB Thermometer

September 2020

Foreign Exchange Market Update

Recap : August

The dollar extended broad losses while concerns lingered over U.S. politics and as real yields in the U.S. declined further. President Trump said a big shift to mail-in voting at the Nov 3 presidential election could lead to many problems. The Federal Reserve's shift to allowing tolerance of inflation overshoot sent the dollar to cyclical lows against most other majors.

€ Performance — *Appreciation*

- The euro hit yet another fresh high in over two years while markets welcomed the EU Recovery Fund agreed in the prior month and as the Fed's framework change weighed broadly on the dollar. Euro gains though were capped by the pickup in COVID-19 cases in Europe while economic data out of the Eurozone have been rather mixed.

€ Outlook — Appreciation

- Given that the Fed's new strategy is reflected in recent dollar bear run, near-term consolidation is likely, with market attention possibly shifting to the European Central Bank policy meeting this month amid low inflation and strength of the single currency of late.

¥ Performance — *Unchanged*

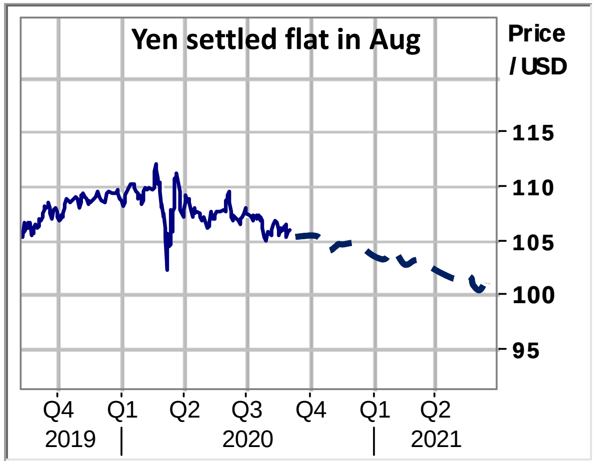
- U.S. equity markets continued to rally while global yields rose amid vaccine hopes, leaving safe-haven yen demand more modest. President Trump said China is in compliance with the first phase of the trade deal, somewhat easing market concerns for now. PM Abe's decision to resign, nonetheless, triggered yen strength at the end of the month.

¥ Outlook — Appreciation

- We maintain our view of yen appreciation due to the potential for a pullback in risk assets as well as the prospects of low real yields abroad in the post-COVID environment. Meanwhile, anticipations the next prime minister will keep stimulatory policies in place should help curb yen strength ignited by PM Abe's resignation.

EUR/USD

USD/JPY



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Foreign Exchange Market Update

Recap : August

Slight Baht Appreciation

- The Thai baht closed out another month of rollercoaster ride with sentiment initially dampened by the biggest anti-government protests in Bangkok since 2014 and the resurgence of COVID-19 overseas which clouded economic recovery outlook. However, market expectations of a change in monetary policy strategy by the Federal Reserve ahead of the Aug 27-28 Jackson Hole symposium led to broad dollar weakness. The Bank of Thailand's Monetary Policy Committee voted unanimously to keep the one-day repurchase rate at 0.50% on Aug 5.
- USD1.79 billion current account surplus in July
- THB27.7 billion net foreign selling in SET-listed shares in August, the biggest monthly selloff since May
- THB1.6 billion net foreign selling in Thai government bonds in August

** 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	0.29%	0.29%
3 months	2.14%	0.35%
12 months	-1.77%	-2.09%

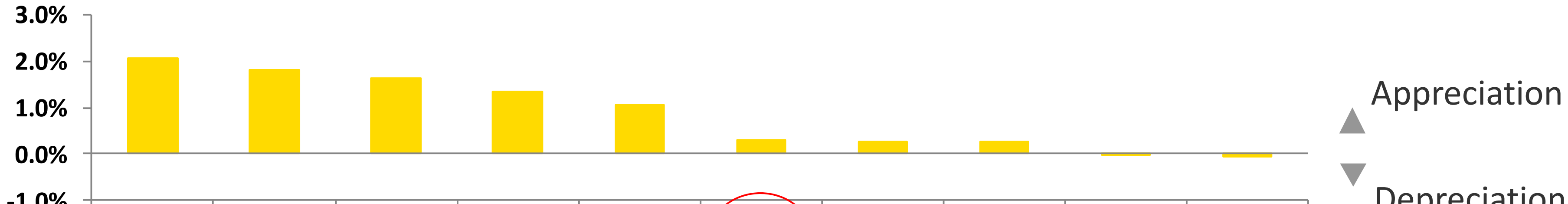
As of August 31, 2020, "-" indicates THB depreciation

Outlook: Long-term Appreciation

Our bearish dollar view down the road is built upon the Fed's policy path. Yet with short dollar positions looking overstretched and the rising albeit still-low chance of President Trump being re-elected, price actions will remain volatile. Uncertainties over Thai politics and economic policymaking should also result in near-term baht underperformance following the resignation of Finance Minister Preedee.

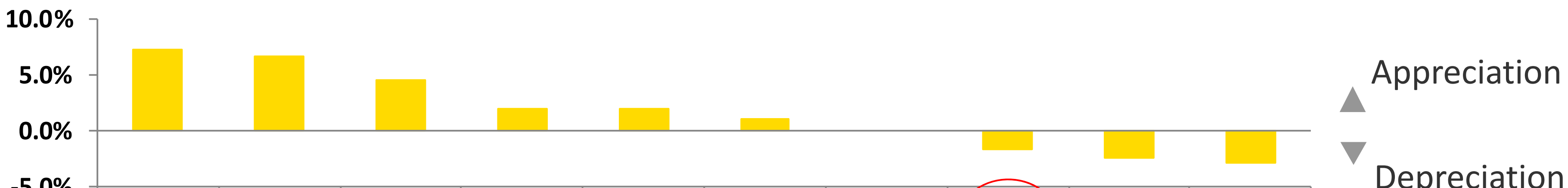
Foreign Exchange Market Update

Monthly Performance



	CNY	MYR	INR	PHP	SGD	THB	KRW	IDR	VND	TWD
vs USD	2.1%	1.8%	1.6%	1.3%	1.0%	0.3%	0.3%	0.3%	0.0%	-0.1%

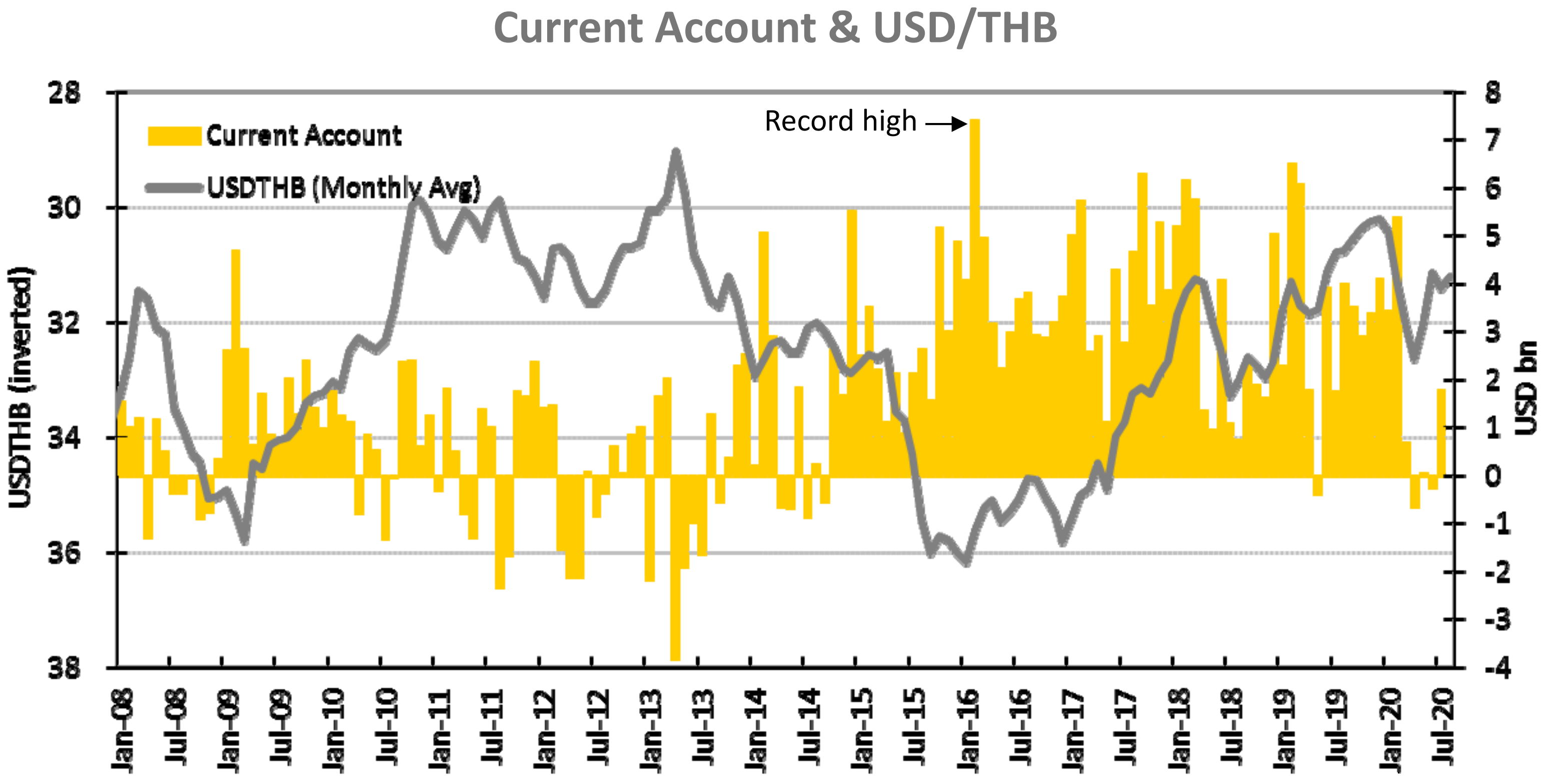
Yearly Performance



	PHP	TWD	CNY	SGD	KRW	MYR	VND	THB	IDR	INR
vs USD	7.3%	6.7%	4.5%	2.0%	2.0%	1.0%	0.0%	-1.8%	-2.6%	-3.0%

Bloomberg, Refinitiv, data as of August 31, 2020, yearly is past 12 months, "-" indicates currency depreciation against USD

Thailand: External Accounts



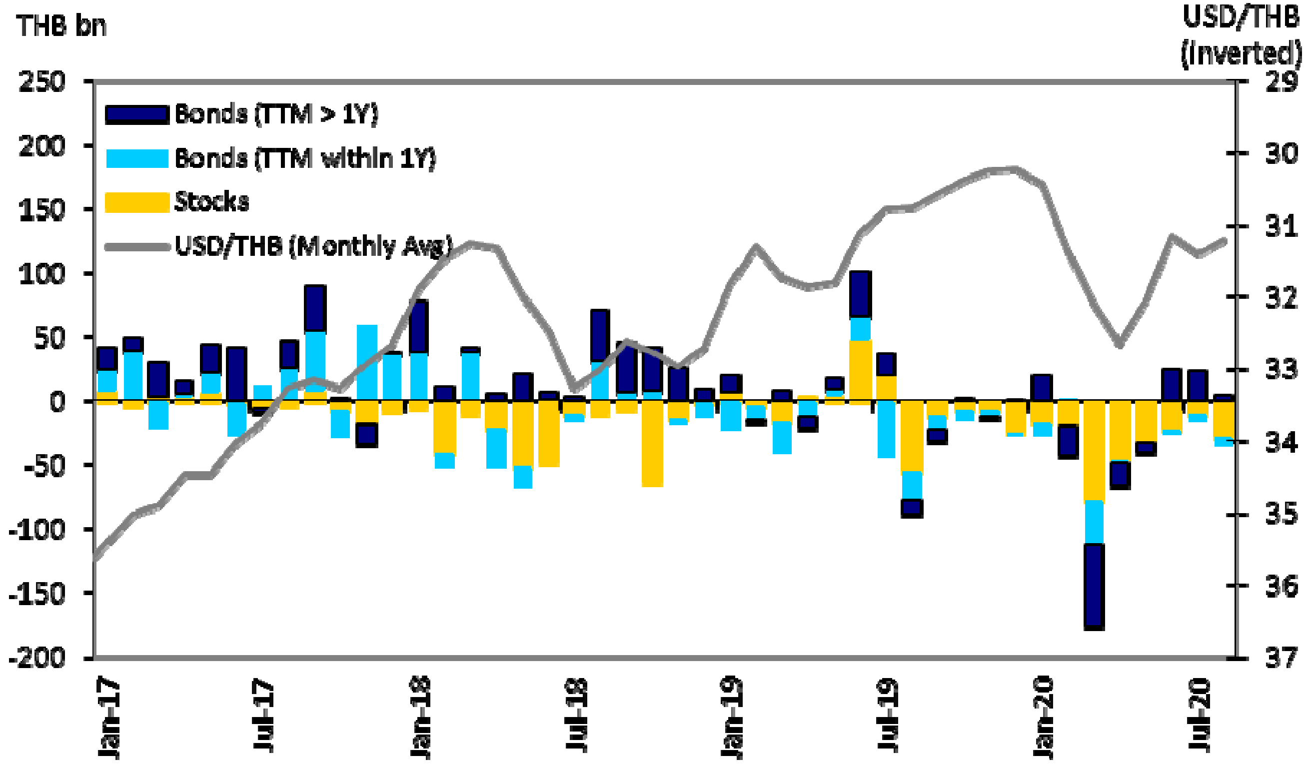
	Exports % y-o-y	Imports % y-o-y	Trade Balance USD bn	Current Account USD bn	Reserves* USD bn
Jul-20	-11.9	-25.4	4.11	1.79	274.49 ▲
Jun-20	-24.6	-18.2	2.32	-0.25	266.09 ▲
May-20	-23.6	-34.2	3.19	0.06	265.14 ▲

*Bank of Thailand, * including net forward position*

Thailand: Foreign Portfolio Flows

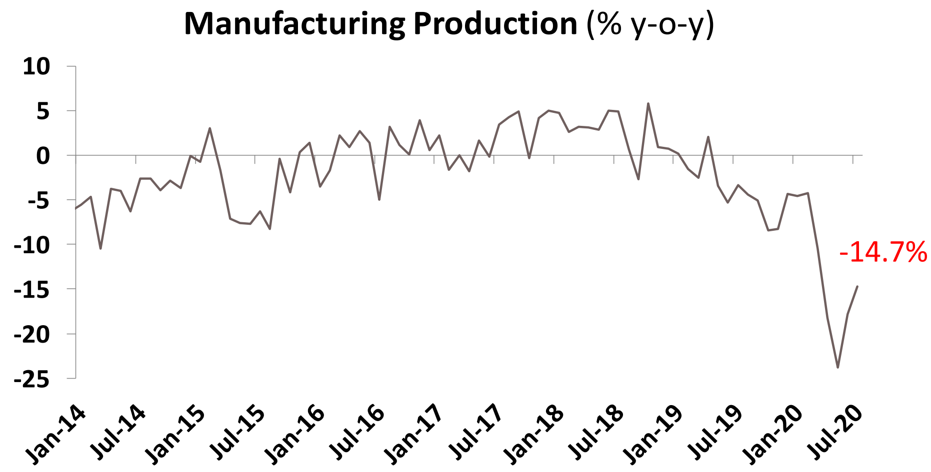
Net Foreign Position & USD/THB

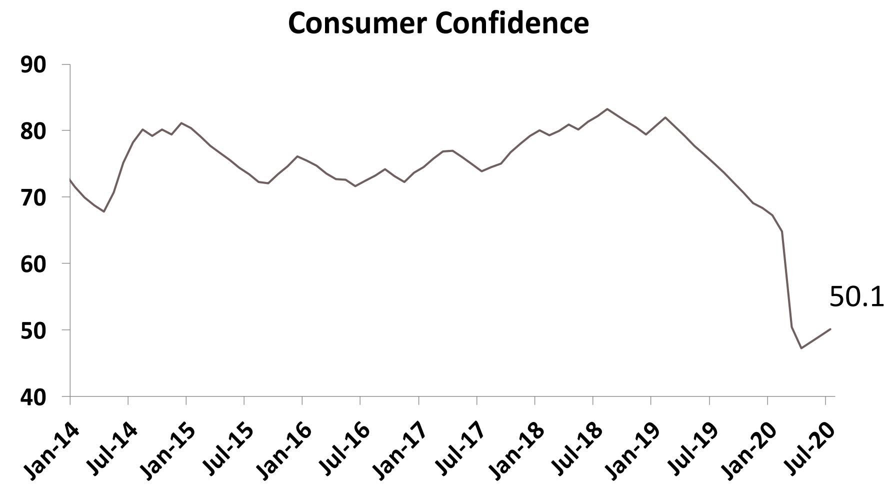
THB mn	2017	2018	2019	8M20
Stocks	(25,752)	(287,740)	(45,243)	(254,483)
Bonds	357,633	286,555	(79,279)	(97,686)
Bonds TTM > 1Y	166,976	236,524	51,961	(41,081)

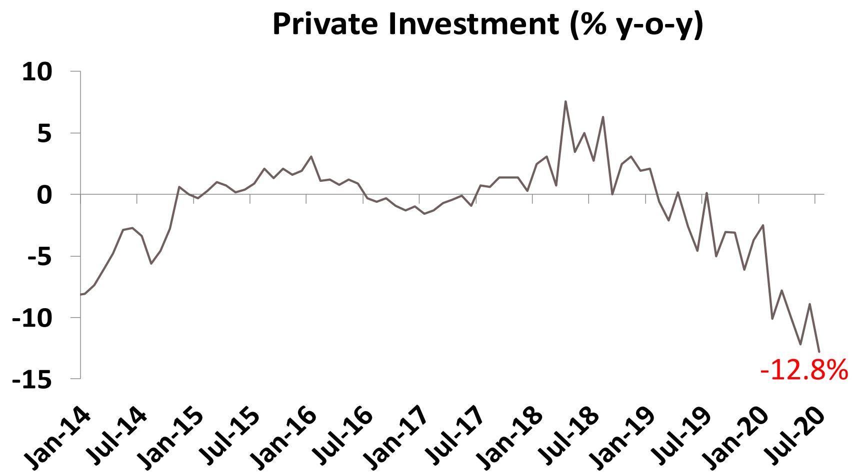


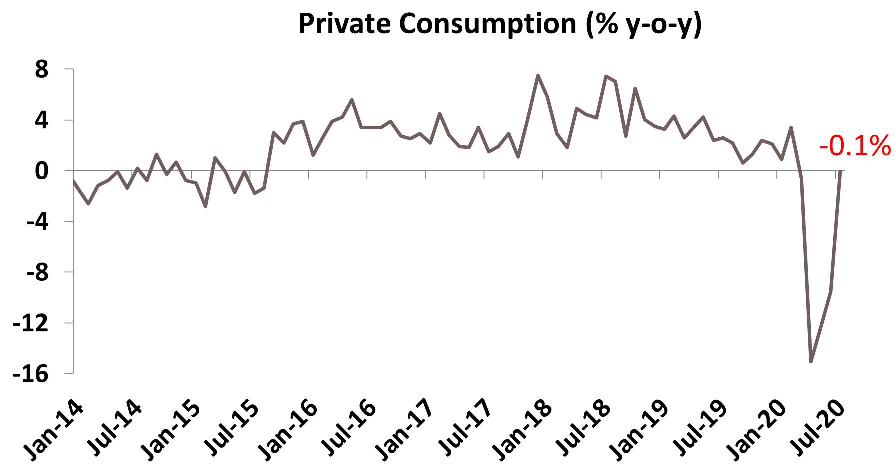
Thai Bond Market Association (based on outright trading value; the accumulated net buying value may double count the trading value of rollovers), Stock Exchange of Thailand, Bank of Thailand, last data points: August 2020*

Thailand: Domestic Economy



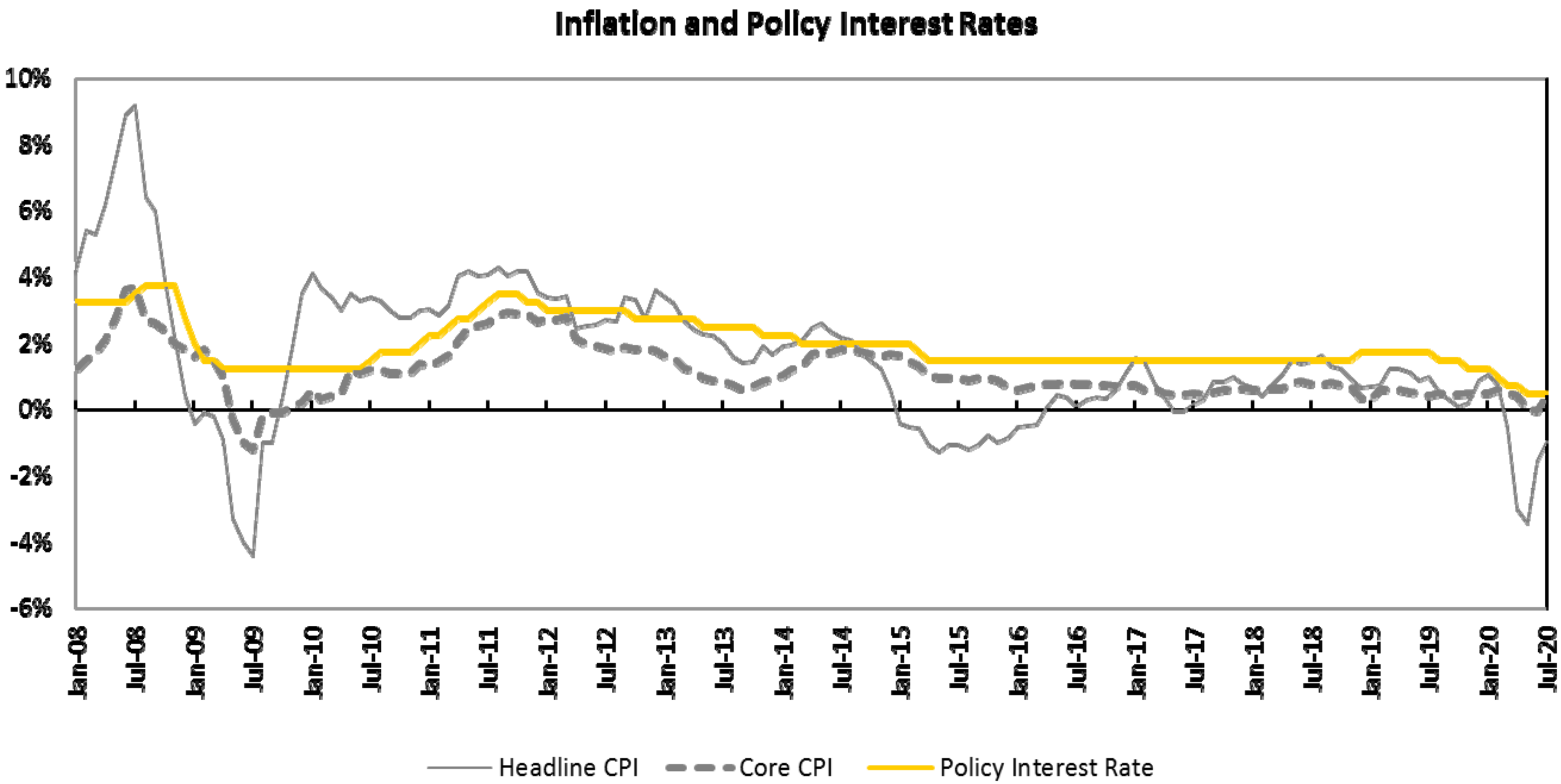






Bank of Thailand, UTCC, last data points: July 2020

Thailand: Inflation



year-on-year change	Headline CPI	CPI Excluding Raw Food & Energy
Jul-20	-0.98% ▲	0.39% ▲
Jun-20	-1.57% ▲	-0.05% ▼
May-20	-3.44% ▼	0.01% ▼

Ministry of Commerce, Bank of Thailand

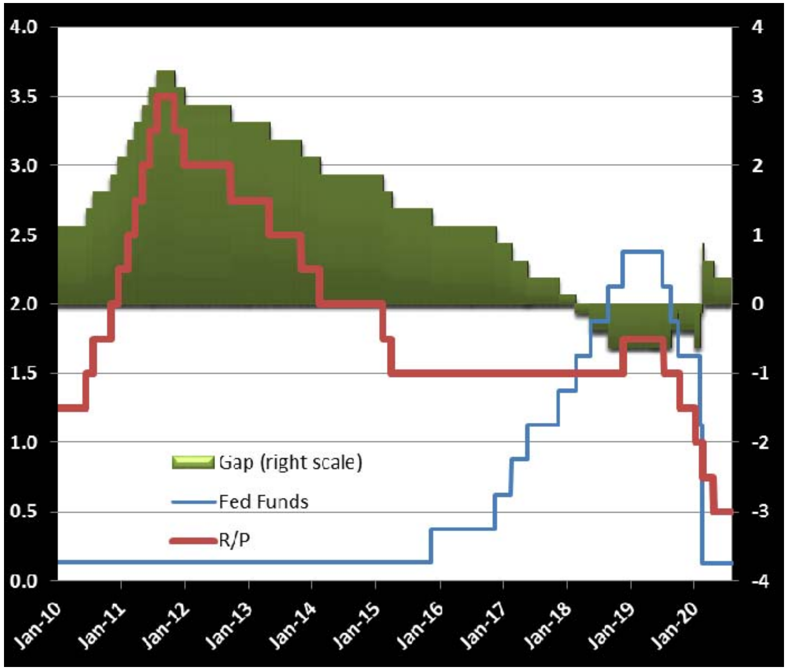
Interest Rate Market Update

Tolerance of Inflation Overshoot

• At the Kansas City Fed's virtual Jackson Hole economic symposium, Chair Powell on Aug 27 announced a shift away from policy goal of keeping 2% inflation toward viewing 2% as an average target over time. Powell explained the evolution of the Fed's monetary policy framework, saying that the public review started in early 2019, explicitly stating that the strong labor market before the pandemic shock did not trigger a meaningful rise in inflation. The Fed's new strategy of average inflation targeting, which puts more weight on boosting employment and less on concerns about too-high inflation, suggests that the Funds rate will stay near zero for longer.

• U.S. Treasury yields rose at the longer end and the curve steepened for the month on the prospect of higher long-term inflation. On the fiscal front, markets eyed hefty auctions and developments over a fresh coronavirus relief package. MUFG noted that while real yields are meant by the Fed's new approach to stay low well into economic recovery, the crucial test for the central bank will be whether higher inflation could be achieved.

US Federal Funds and Thai Policy Rates (%)



end of period	Feb-20	May-20	Jul-20	Aug-20
USD6MLIBOR	1.39725%	0.50975%	0.30613%	0.30988%
THBFIX6M	0.74273%	0.58412%	0.38133%	0.41147%
Diff	0.65452%	-0.07437% ▼	-0.07520% ▼	-0.10159% ▼

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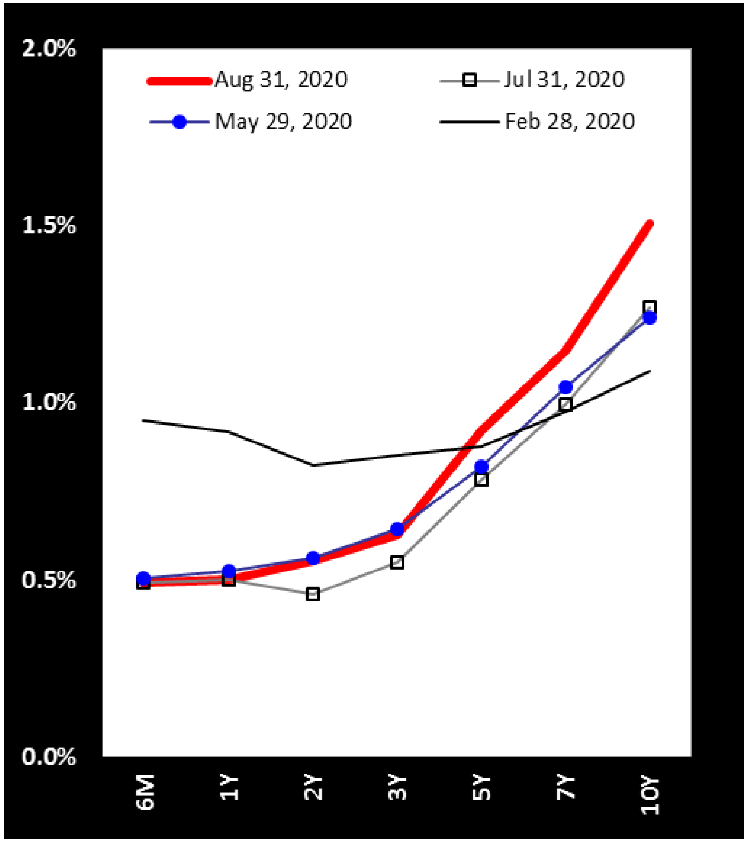
Interest Rate Market Update

Bear Steepener

• The MPC on Aug 5 voted unanimously to leave the policy interest rate at an all-time low of 0.50%, viewing that the economy will gradually recover alongside easing of restriction measures to curb the spread of COVID-19. However, caution remains over the risk of wave 2 outbreak. The MPC expects at least two years for the economy to bounce back to pre-pandemic levels yet the speed of recovery will be uneven, with international tourist arrivals far lagging. The Committee judged that headline inflation will return to the target range in 2021. Meanwhile, policymakers emphasized funds need to be efficiently distributed to targeted business sectors and households. Going forward, we expect the policy rate to be left on hold over the coming quarters. While BoT Governor Veerathai dismissed the prospect of a notable change in inflation targeting framework, we note with caution over profound implications from the recent Fed's shift for central banks in the evolving global economic environment.

• Thai government curve steepened as long-dated yields climbed with players digesting upcoming supply to fund government borrowing, sizeable bond switching in August, and spillover from the Fed's change in framework toward average inflation target. Indeed, 10Y benchmark yields went back to where there were at end-2019. The Thai economy in Q2 saw its biggest annual decline in 22 years, down 12.2% y-o-y, and a record quarterly drop of 9.7%, as the pandemic and restriction measures hit tourism, exports and domestic activity.

Thai Govt Yield Curve



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Forecast

Factors in Focus

USD Consolidation. While we keep our long-term view of dollar weakness based on the Fed's policy outlook, we also reckon the potential for the oversold dollar to undergo a and temporary bounce. The near-term focus is shifting to policy stance at other major central banks with deflationary forces at play. U.S. 2020 Presidential Debate could add to market fluctuations as performance of Trump and Biden may clearer shape market expectations of the race. Appetite for THB assets, meanwhile, is for now likely to remain restrained by the increased political angst, planned protests, and concerns over uncertainty in policymaking in the midst of economic fallout and vacuum at the MoF.

ECB Meeting, Sept 10. A potential move toward more dovish policy language is likely to be in the offing. This should help limit euro gains in the immediate term.

FOMC Meeting, Sept 15-16. Judging from recent comments from Fed officials post-Jackson Hole, there appears to be no rush to take further policy steps at this meeting although market participants will look forward to more details of the new framework.

MPC Meeting, Sept 23. This will mark the final one for BoT Governor Veerathai and we expect no change in policy yet the impact of political risks on confidence will prompt more caution over the pace of economic recovery.

FX	USD/THB	USD/JPY	JPY/THB
Aug 31, 2020	31.13	105.93	29.39
Q3/20F	31.25	104	30.05
	30.50-32.00	103.00-107.00	28.75-30.50
Q4/20F	30.75	103	29.85
	30.00-31.50	102.00-106.00	28.50-30.30
Q1/21F	30.5	102	29.90
	29.75-31.25	100.00-105.00	28.50-30.35
Q2/21F	30.25	101	29.95
	29.50-31.00	99.00-104.00	28.50-30.40

*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 September 3, 2020

Economic Projection

	2019A	2020F
Real GDP growth	2.4%	-7.8% to -7.3%
Private Consumption growth	4.5%	-3.1%
Private Investment growth	2.8%	-10.2%
Public Consumption growth	1.4%	3.6%
Public Investment growth	0.2%	8.6%
Export Value growth	-3.3%	-10.0%
Import Value growth	-5.6%	-15.4%
Current Account (USD bln)	38.4	12.6
Headline CPI Inflation	0.7%	-1.2% to -0.7%

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

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Thank you