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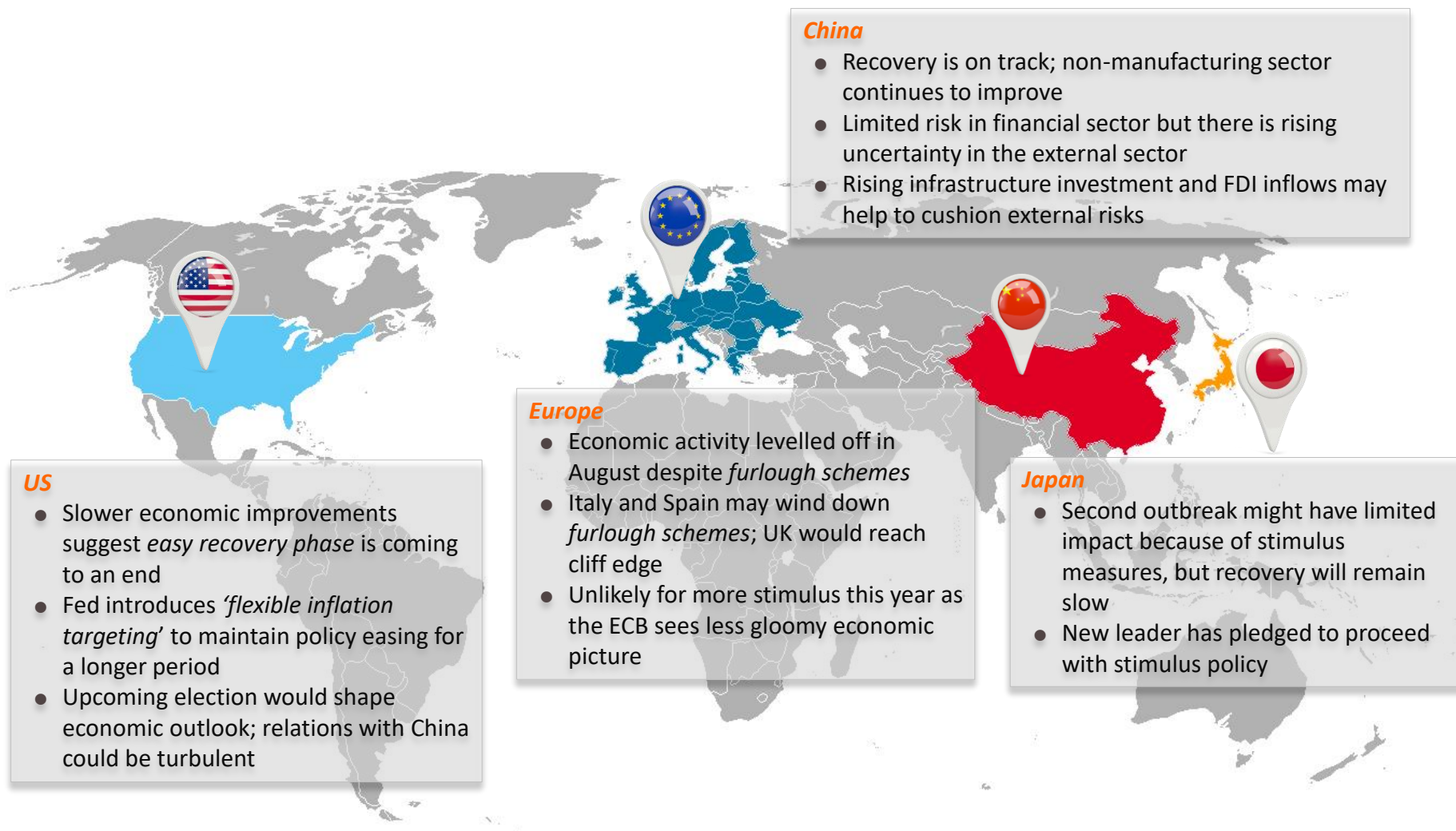
MONTHLY ECONOMIC **BULLETIN**

September 2020



Krungsri Research

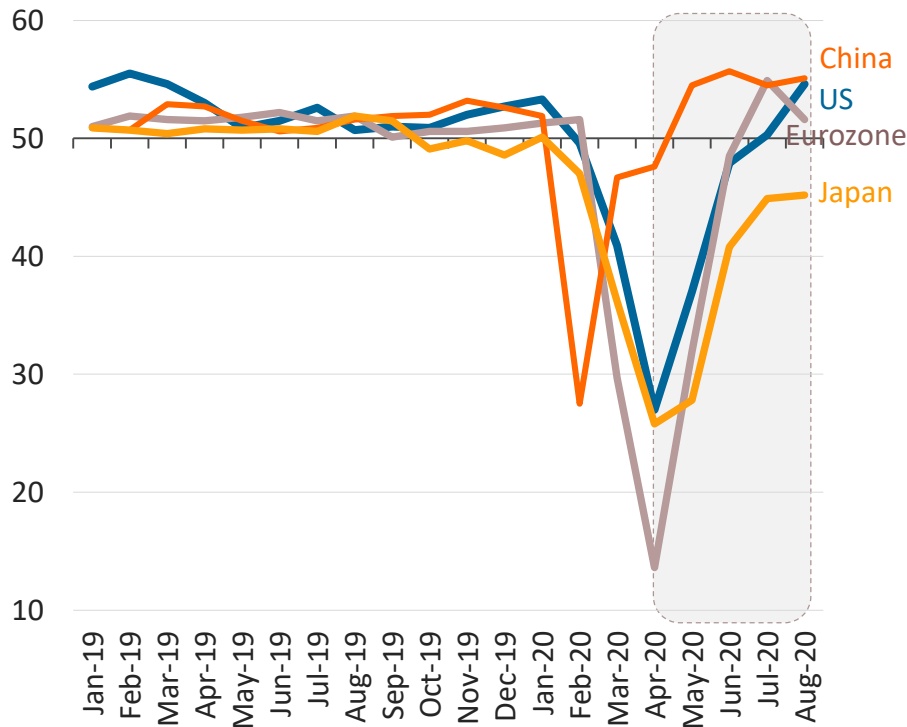
Global Recovery: Going through a tougher phase



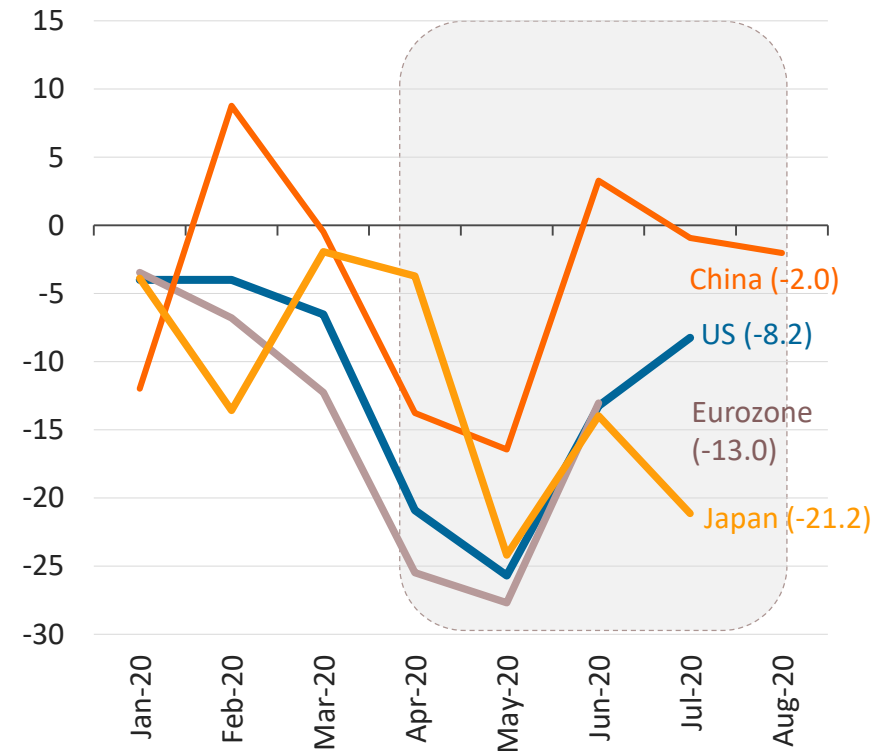
Economic recovery driven by reopening and pent-up demand to end soon; no signs trade is improving

Composite PMI readings in major countries show manufacturing and services activities rebounded in May-June, largely driven by reopening of those business sectors and pent-up demand. However, since the beginning of the third quarter, Composite PMI readings have been improving at a slower pace in the US and China, leveled off in Japan, and edged down in Eurozone. **This could mean the *easy recovery phase* would end soon and they would enter the tougher phase - to heal economic crisis scars such as high unemployment and weak purchasing power.** And, although Composite PMI readings in most major countries have returned pre-crisis levels, their import data remain weak in the contraction zone. All these signs suggest the rebound in economic activities in major countries would only lift external demand slowly, which means global trade will remain sluggish ahead.

Composite PMI (Manufacturing & Services)



Imports of major countries (% YoY)



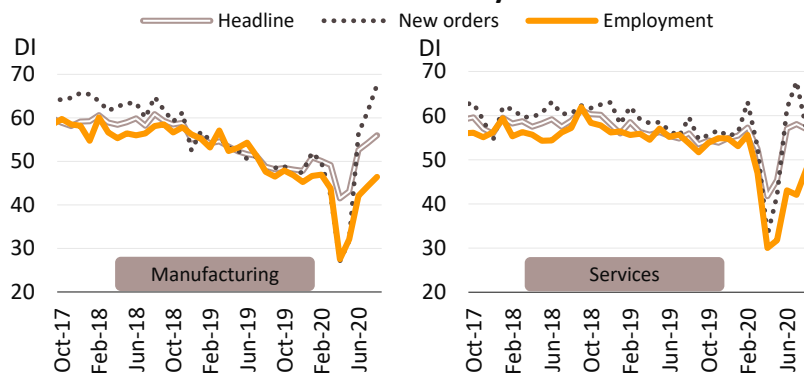
Notes: EA = Euro area, EM = Emerging market

Source: WTO, Bloomberg, Markit, CEIC, Krungsri Research

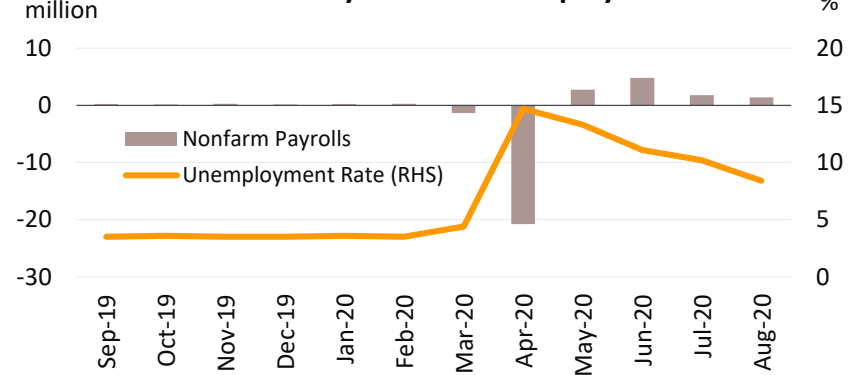
US: Slower improvements suggest *easy recovery phase* will end soon

US Manufacturing PMI reading rose by 1.8 points in August and 1.6 in July, compared to the 9.5 jump in June. Services PMI, which accounts for 78% of the economy, fell from 58.1 in July to 56.9 in August. Employment sub-indices for both sectors remain far below pre-outbreak levels. Non-farm payrolls increased at a slower pace of 1.37 million jobs in August although unemployment rate fell to 8.4%. **Labor market continues to recover but gains have slowed relative to recent months.** The Recovery Tracker indicates ongoing recovery, but it is not broad-based. Consumer spending remains subdued and restaurant bookings are only half the pre-pandemic level. **These reflect still-weak domestic demand, which would require additional support.** Housing market is a bright spot for the economy. Home Builders Market Index rose to a record high of 78 in August, while existing home sales index rose to 1.496 in July as record-low interest rates spurred property purchases. However, **overall economic activity is expanding at a slower pace, suggesting the next phase of recovery would be more challenging.**

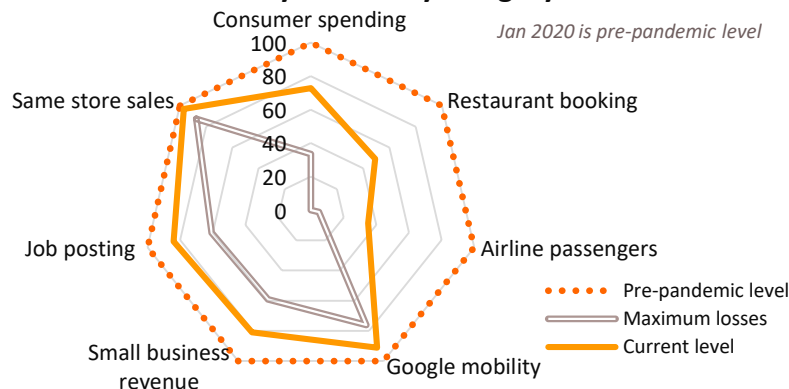
ISM PMI surveys



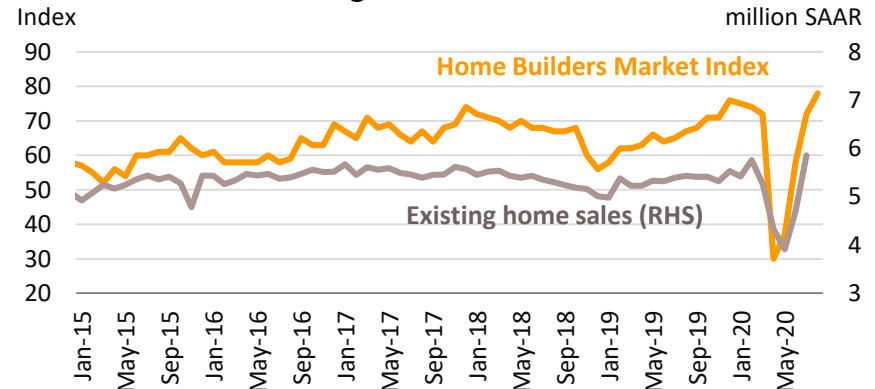
Non-farm Payrolls and Unemployment Rate



Recovery Tracker by category



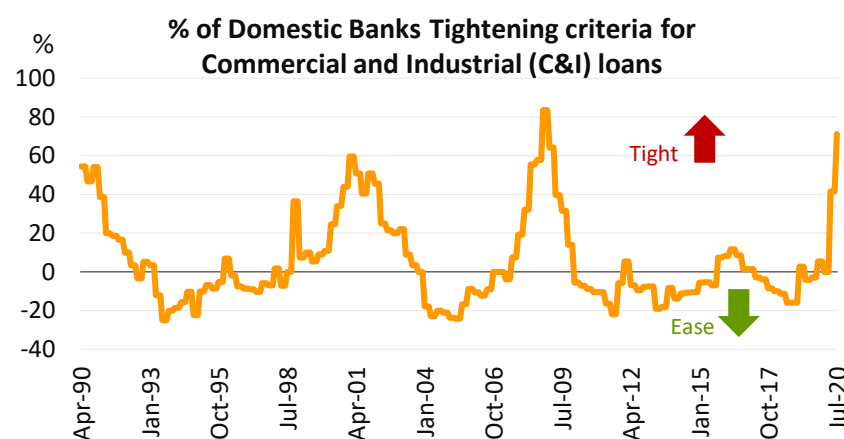
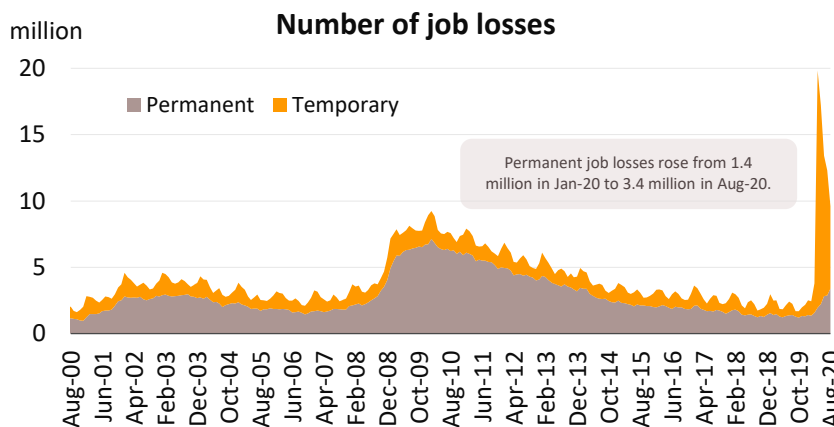
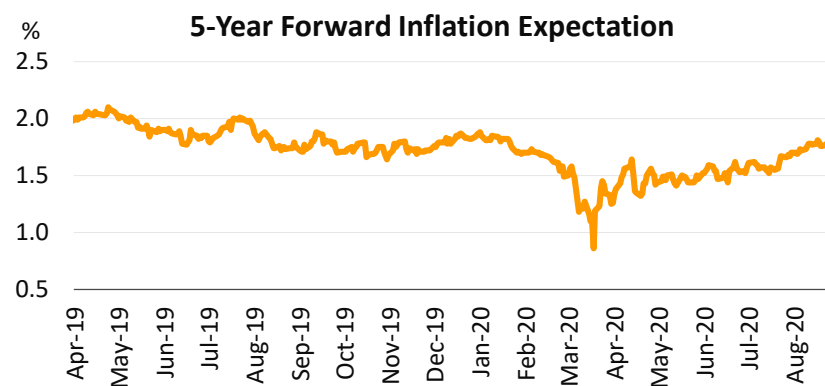
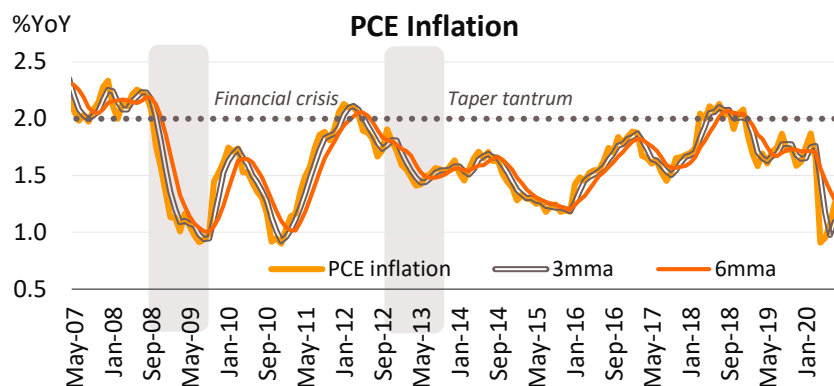
Housing market indicators



Source: Institute for Supply Management (ISM), Bureau of Labor Statistics (BLS), Harvard University, National Association of Realtors, Mortgage Bankers Association, Bloomberg, Krungsri Research

Fed introduces 'flexible average inflation targeting' to maintain policy easing for longer period

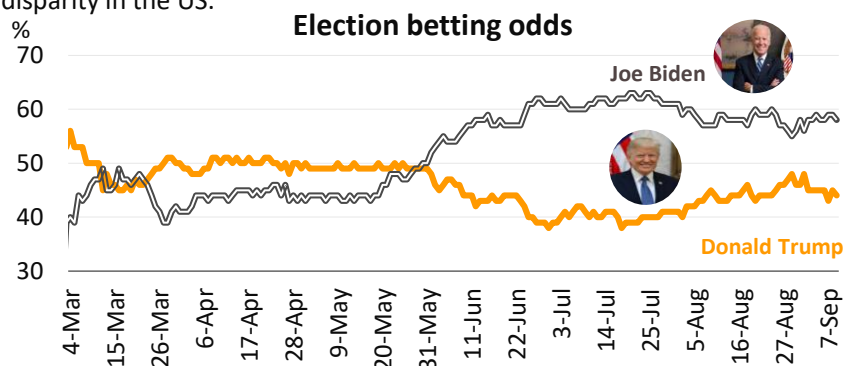
Fed chairman Powell's said at the Jackson Hole symposium that the Fed has adopted a new monetary policy framework '**flexible average inflation targeting**' which would allow inflation to run **moderately above 2%**. In response to this, the 5-year forward inflation expectation has risen to 1.91%, the highest since July 2019. The Fed also targeting a broad-base and inclusive goal, focusing on '**shortfalls of employment**' rather than '**deviation from maximum employment**'. These suggest the Fed's major concerns are the labor market and the real economy. The number of permanent job losses have risen to the highest since 2014. Temporary job losses have dropped, partly because of hiring by the government to conduct 2020 Census survey, but that would reverse when the survey ends. The net percentage of banks which have tightened criteria for commercial and industrial loans has risen from 41% in June to 72% in July, implying it would be more difficult for businesses to access credit. The latest liquidity concerns and policy tweak suggest **the Fed would keep rock-bottom interest rates, implement unlimited QE, and maintain accommodative monetary policy beyond 2022.**



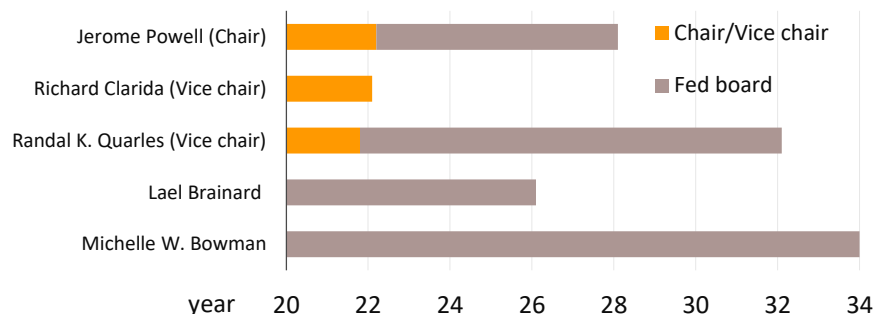
Source: Bureau of Labor Statistics (BLS), Bureau of Economic Analysis (BEA), Federal Reserve Bank of St.Louis, Bloomberg, Krungsri Research

Upcoming election would shape economic outlook; relations with China could turn turbulent

The result of the US presidential election would have the same impact throughout the US economy, but different impact on the global economy. **The US economic growth would still be supported by fiscal and monetary stimulus** regardless who wins. Biden plans to raise tax on top-income earners to support USD4.5trn (22% of GDP) broad-base spending within a decade. Trump is proposing a deficit-financed tax cut during his second term. However, **both of them would likely maintain an accommodative monetary policy to heal COVID-19 crisis scars**. Premised on limited fiscal revenues and space, Trump would adopt a more dovish stance after Powell ends his term. Looking at trade policy, **Biden's victory could benefit global growth more** as the US would rejoin TPP and participate in trade agreements. However, there will be rising tension with China regardless who wins. **Trump's is for a protectionist policy**, which would threaten the growth of EU and small Asian economies. Trump also plans to gradually decouple relations with China in trade, technology and regulations. The latest poll shows Biden is leading Trump. We expect Biden to get more support because of his policy to reduce economic disparity in the US.



Remaining term of Federal Reserve Board



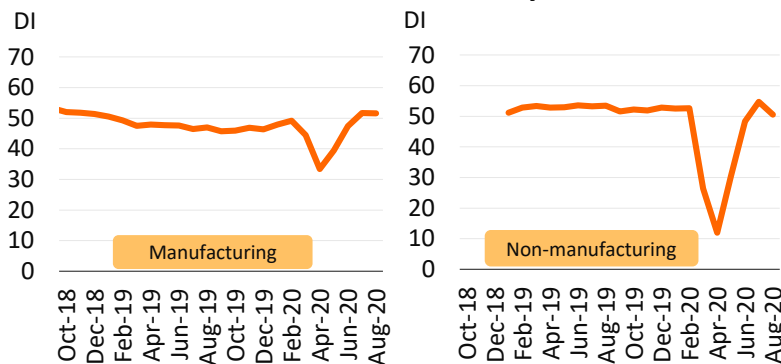
Joe Biden's Key Policies	Donald Trump's Key Policies
Tax hikes on top-income earners to spend more on infrastructure investment - Raise marginal tax rate for top-income earners from 37% to 39.6% - Raise corporate tax to 28% and double minimum tax on foreign profits to 21% - Raise national minimum hourly wage from \$7.25 to \$15	Tax cut policy aimed at middle-income earners - Continue to implement Trump's 2017 tax cut program, under which the highest tax rate for top-earners is 37% - Reduce tax for people who earned around \$40,000-\$85,000 (middle-income class) from 22% to 15%
Maintain accommodative monetary policy by re-appointing Fed chairman Jerome Powell for another term	Adopting more dovish monetary policy with his selected nominee Judy Shelton, who would replace Jerome Powell whose term would end in 2022
Renegotiating trade deal but with more intense relations with China - Propose Buy-American campaign that would spend \$700bn to buy American products and invest in industrial research - Plans to re-negotiate the Trans-Pacific Partnership program (TPP) - Improve multilateral relations with US allies to pressure China, but unlikely to lift tariffs on Chinese goods immediately	More protectionism and more intense relations with China - Promise to buy American-made products - Commit to reduce US offshoring by implementing non-tariff measures on the EU and small Asian economies - Shut the door for phase-two trade deal negotiations with China and continue to decouple from China
Focus more on socio-economic prospects Provide \$300 mn to cities that reduce discriminatory zoning	Maintain economic growth for all Plans to narrow income disparity gap but yet to reveal a firm plan

Source: Predictit.org, Federal Reserve Board, Capital Economics, Reuters, Bloomberg, Krungsri Research

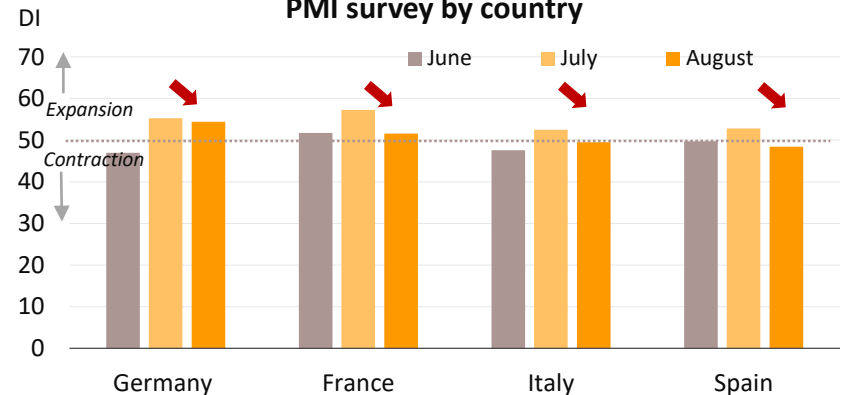
Europe: Economic activity levelled off in August despite furlough schemes

The economic recovery in Europe has been driven by reopening and pent-up demand, but that will end soon. Eurozone Manufacturing PMI edged down to 51.6 in August from 51.7 in July. Non-manufacturing PMI fell to 50.5 from 54.7, suggesting this rapid recovery pace is starting to stall. The recent rise in COVID-19 cases is also hitting the services sector again. Although PMI data for Germany and France remained in expansion zone in August, the readings have dropped by 0.9 and 5.7 points, respectively, after jumping by 8.3 and 5.6 in July. PMI data for Italy and Spain have also dropped to contraction territory, indicating their recovery is lagging behind the other major economies. Eurozone governments have attempted to support the labor market by subsidizing wages but unemployment in key countries rose in July, led by Spain (15.8%) and Italy (9.7%). Public transportation usage data also slowed down in late-August, led by Rome (-54% since January) and Paris (-49%). **The current recovery phase could run out of steam soon.**

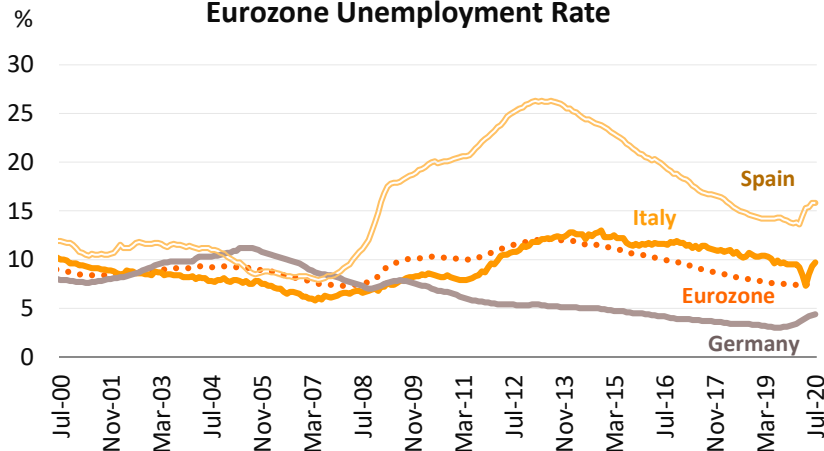
Eurozone PMI surveys



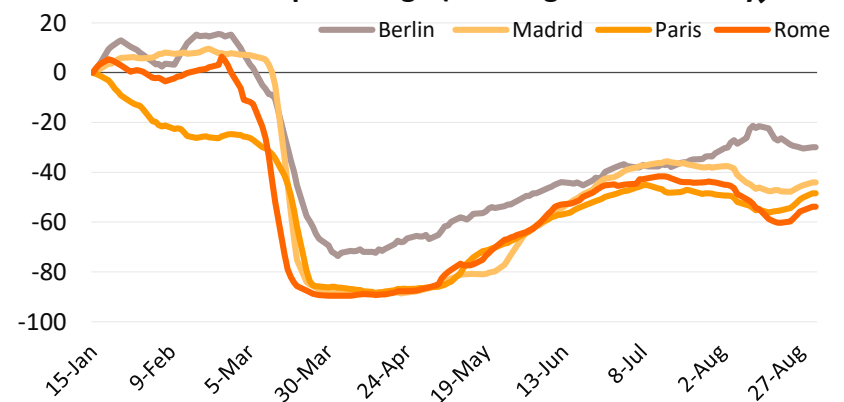
PMI survey by country



Eurozone Unemployment Rate



Public transport usage (% change from January)

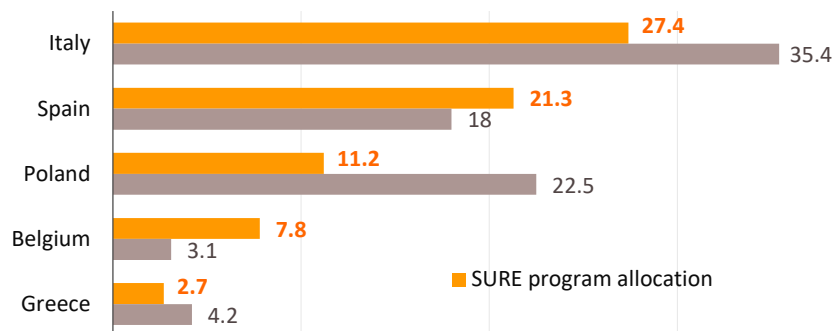


Source: IHS Markit, Moovit, Eurostat, Krungsri Research

Spain and Italy may wind down *furlough scheme*; UK might reach the cliff's edge soon

The European Commission has proposed to European Council to approve loans under the 'SURE' program which aims to support business and 'short-time' workers in 15 member states. Italy would receive the largest allocation of EUR27.4bn, but that would be smaller than its current employment support program. The government in each member state would also attempt to support the *furlough scheme*. Germany would keep the *Kurzarbeit* program until end-2021. Spain would receive EUR21.3bn allocation from the 'SURE' program, similar to the size of its current measures. However, the employment support measure in Spain would be reduced to cover only the hardest-hit sectors and the subsidy would be cut from 70% of prior earnings to 50% in the following months. This has created uncertainty over the outlook for Spain's labor market. The UK government will not extend its program after 31 October, which could push the country to the cliff's edge. Unemployment rate is expected to spike from 3.9% in July 2020 to a high of 8.5% by April 2021.

Allocation of SURE program funds

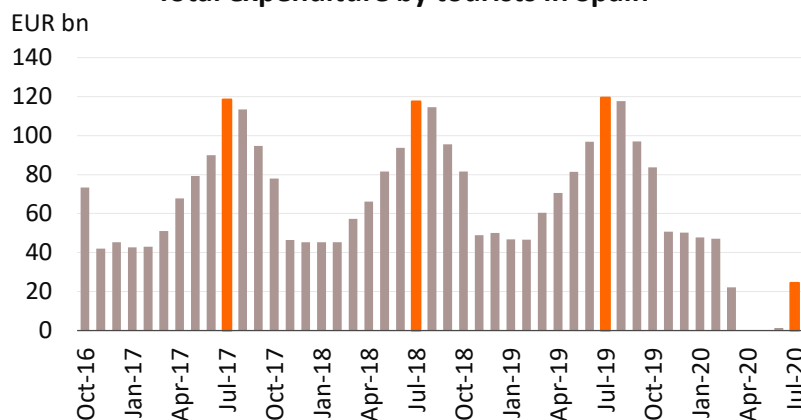


SURE is Support to Unemployment Risks in an Emergency program

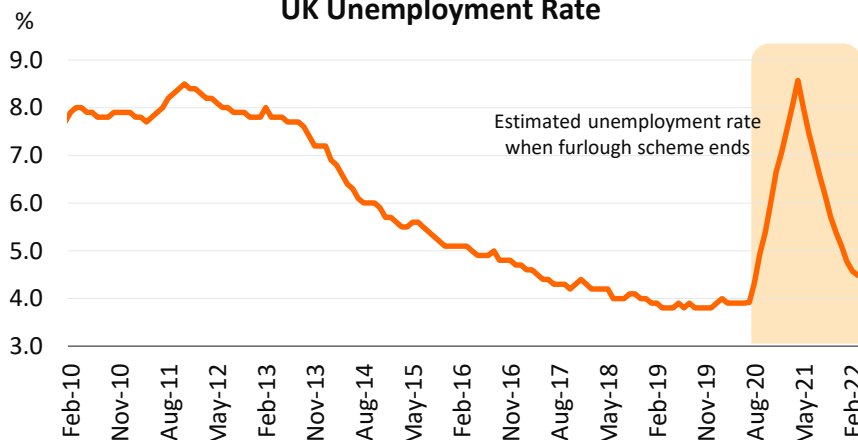
Timeline for furlough schemes

Country	Extension	Details
Germany	End 2021	Extended 'Kurzarbeit' program from 12 months to 24 months
France	End-March 2021	'Partial unemployment' program has been extended from end-Oct
Italy	December 2020	Extended from end-June
Spain	At least the end of 2020	Spain's the Labor Minister says furlough scheme (ERTE) will be extended "as long as is necessary"

Total expenditure by tourists in Spain



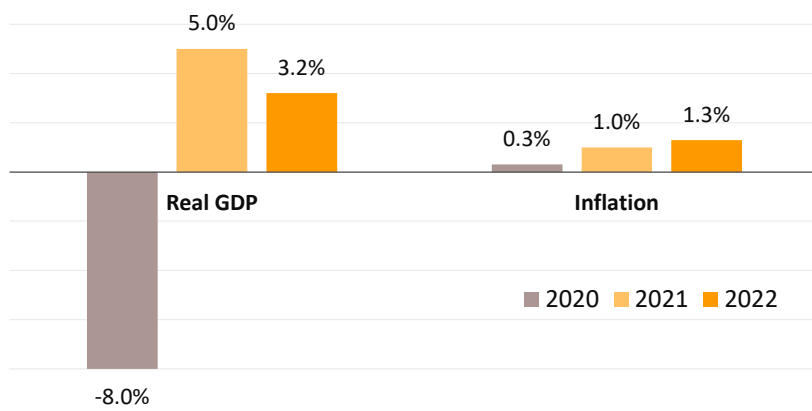
UK Unemployment Rate



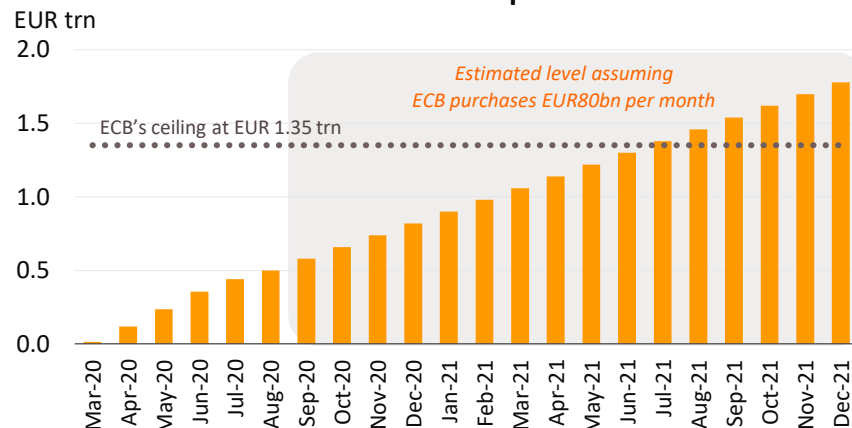
Source: European Commission, International Monetary Fund (IMF), National Statistics Institute of Spain, Bruegel, Office of National Statistics (ONS), Bloomberg, Krungsri Research

Eurozone is unlikely to introduce more stimulus this year given the ECB's *less gloomy* economic picture

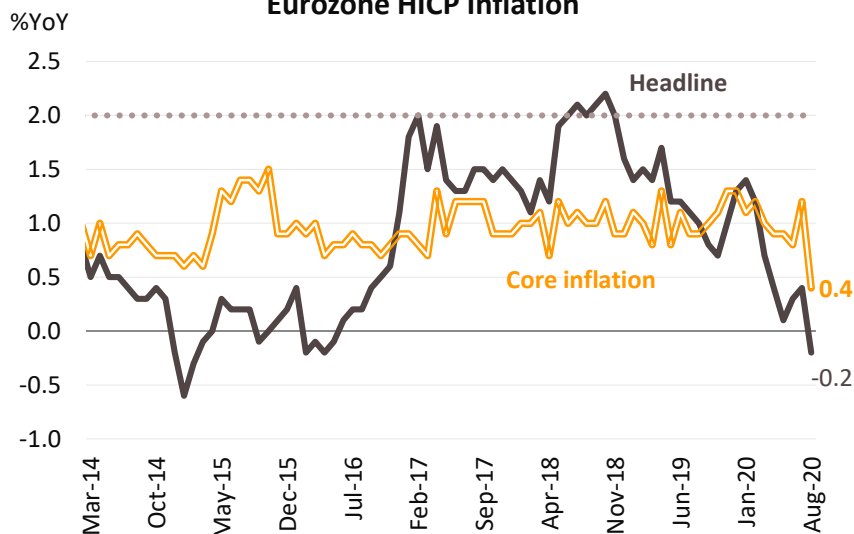
ECB staff projections in September



Cumulative PEPP net purchases



Eurozone HICP Inflation



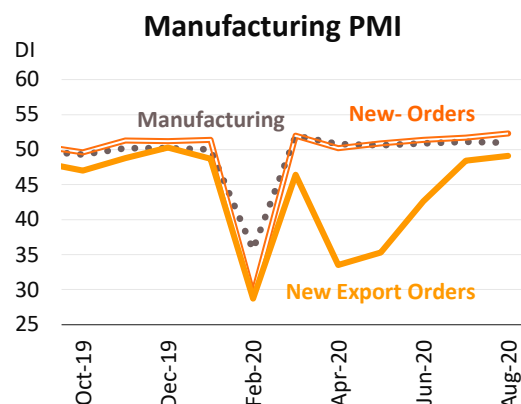
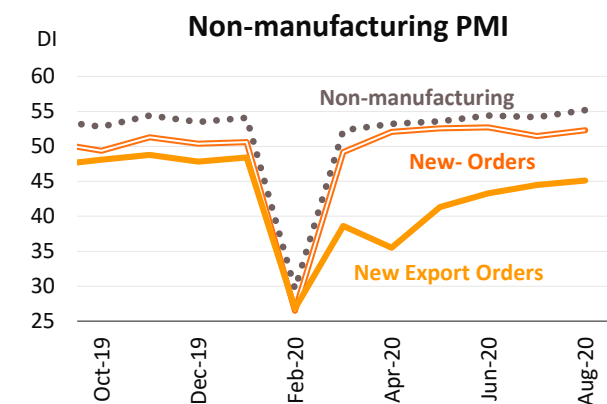
Krungsri Research's view

- The ECB kept policy rates stable at the last meeting on September 10 and nudged up economic growth projections. They project 2020 real GDP for Eurozone at -8.0%, which is less pessimistic than June projection of -8.7%. The ECB also projects growth would rebound to +5.0% in 2021 and +3.2% in 2022, and inflation would remain below-target at least until 2022.
- The press conference indicates officials did not discuss the Pandemic Emergency Purchase Programme (PEPP). Assuming ECB bond purchases is at EUR80bn per month through next year, they would reach the EUR1.35trn ceiling by July 2021. Then, the ECB would likely increase the allocation for PEPP in 1Q21 and extend buying period to 4Q21. Some economists forecast the ECB would allocate EUR210bn through several lending programs to continue to release liquidity.
- Weak demand will continue to weigh on inflation. Eurozone inflation turned negative in August, at -0.2% YoY, the lowest since 2016. Core PCE dropped to 0.4%. This suggests the ECB may take more actions to boost inflation in the medium-term. The ECB is likely to mirror the Fed's move by shifting inflation definition from "below, but close to 2%" to "symmetrical 2% inflation target" later next year.

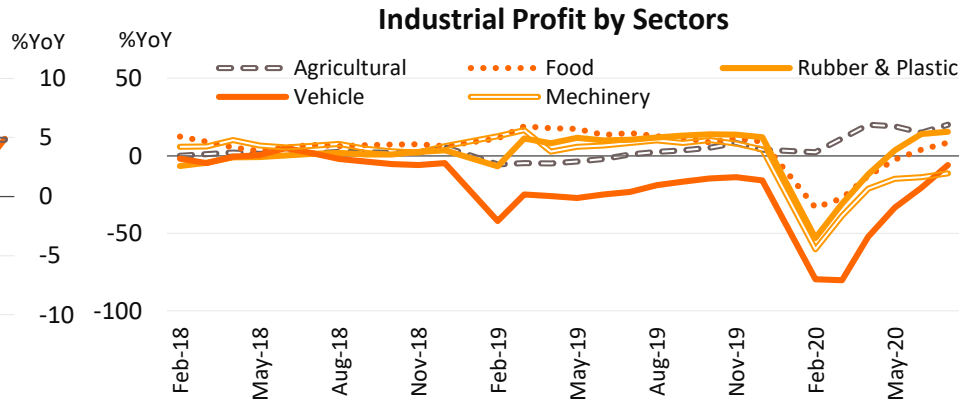
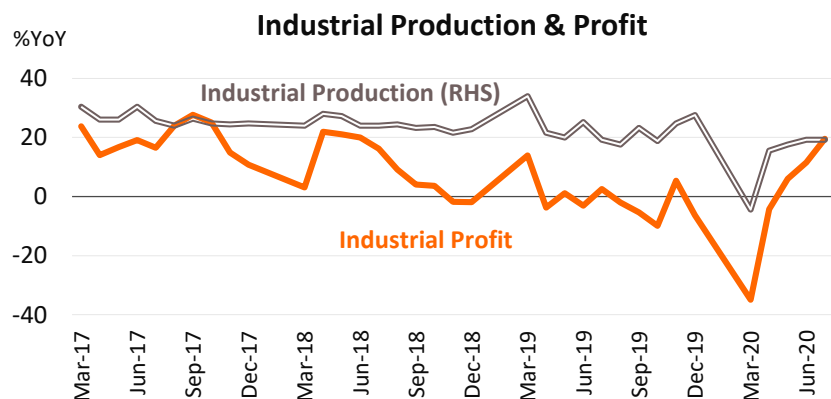
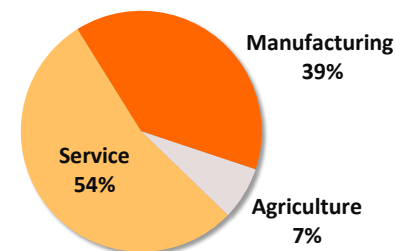
Source: European Central Bank (ECB), Bloomberg, Krungsri Research

China: Recovery is on track; non-manufacturing sectors continue to improve

The ongoing recovery in the non-manufacturing sector is building momentum for further economic recovery. Official Non-Manufacturing PMI reading reached a 2-year high of 55.2 in August. Manufacturing PMI recorded 51.0, just 0.1 points drop from last month. The improvement in the Non-Manufacturing sector was mainly driven by the services and construction sectors, which PMI readings are at the highest since 2018. In fact, the services sector accounted for more than half of China's economy. Looking at the PMI components, an improvement in new orders has been supporting the expansion in the manufacturing and non-manufacturing sectors. Meanwhile, new export orders has been improving gradually, albeit still below-50 (contraction mode). However, industrial production continued to expand for the fourth straight month in July. Industrial profits rose for the third month in a row, reaching 19.6% YoY in July. Moreover, profits have improved in most sectors, except for automobile and machinery which remained in negative territory. Looking forward, further improvements in economic activity will continue to drive recovery in the second half of the year.



Structure of Chinese Economy (2019)

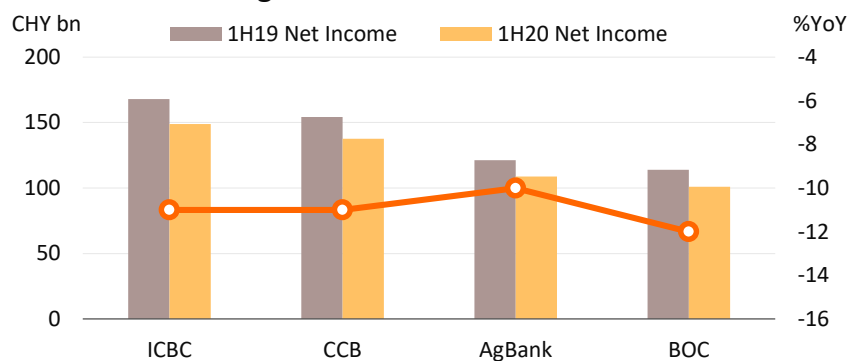


Source: National Bureau of Statistics, Caixin, HIS Markit, CEIC, Capital Economics, Bloomberg, Krungsri Research

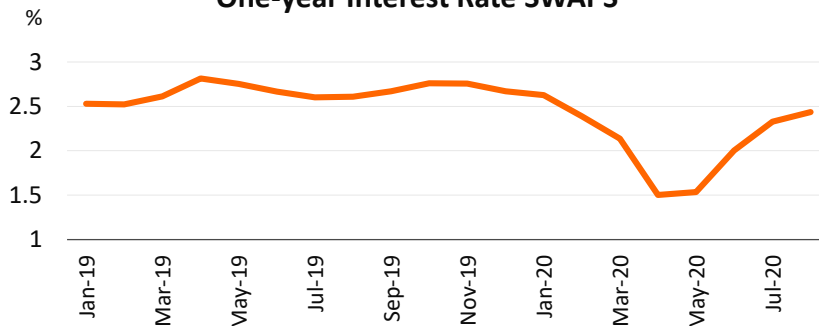
Risk in financial sector could be limited but there is rising uncertainty in the external sector

China's economic recovery could encounter some bumps ahead. In 1H20, the four big banks reported net income had dropped from past year and profits had contracted by 10-12% YoY. Nonetheless, Fitch is keeping its "stable" assessment for the Chinese banking sector because the PBOC has cut interest rates and is helping debtors by deferring loan repayment, which would reduce Chinese banks' exposure to financial risks. Meanwhile, 1-year interest rate swaps have climbed to a 7-month high; this indicates rising stress, but it is still below pre-COVID level. On the external front, exports jumped 9.5% YoY in August, marking an improvement from July and the 3rd month of increase. However, there is rising uncertainty because the US presidential candidates could escalate tension. The extended conflict is a major threat to China's economy. Based on Bloomberg estimates, potential growth is expected to fall to 3.5% by 2030 if the decoupling blocks the inflow of investment and technology transfer from the US to China, compared to 4.5% growth in the base case scenario. The situation would worsen if the allied countries join the US in decoupling from the Chinese economy; China's potential growth would drop sharply to 1.6% by 2030.

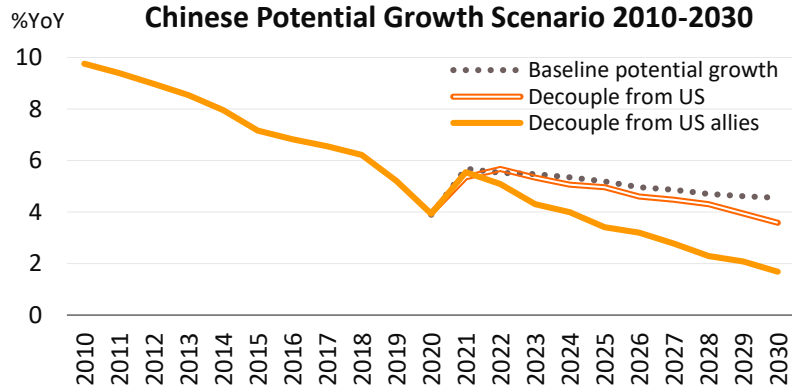
Big-Four Banks' Performance



One-year Interest Rate SWAPS



Chinese Potential Growth Scenario 2010-2030



Source: CEIC, Bloomberg, Capital Economics, Krungsri Research

Trump vs Biden's Trade Policy on China



Donald Trump
President
Republican



Joe Biden
Former Vice President
Democrat

Rejecting the TPP

Bringing a more ally-friendly trade approach, which excludes China.

Issuing tariffs on Chinese imports

Stepping up WTO trade enforcement measures

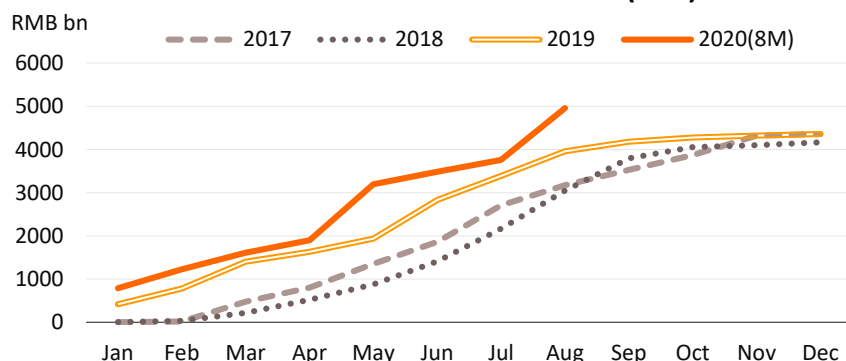
Incentivizing US companies to return back

Mounting a more effective pushback against China

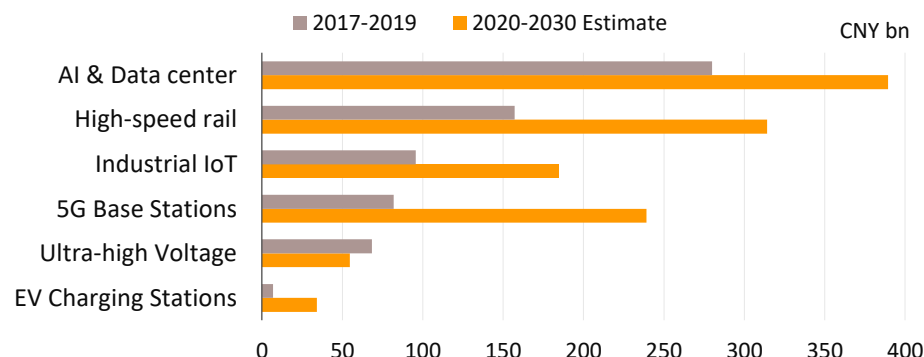
Rising infrastructure investment and FDI inflows might cushion some external risks

The ample liquidity supported by synchronized monetary and fiscal stimulus has continued to drive the recovery. **In August, local government bond issuance surged by 25.1% YoY to shore up demand induced by infrastructure projects.** The investment is primarily aimed at developing capabilities in cutting-edge technology across the country, **especially 5G, artificial intelligence, big data, electric vehicle charging stations, and intra-city rail.** In addition infrastructure investment, **accelerating foreign direct investment would also support recovery ahead.** August data show foreign direct investment surged 14.9%, the highest rate in 3 years. The growth in both infrastructure and foreign direct investment will help to mitigate external risks. This is **aligned with the “Dual Circulation” policy to reduce dependency on global markets and strengthen technological self-reliance.**

Local Government Bond Issuance (YTD)



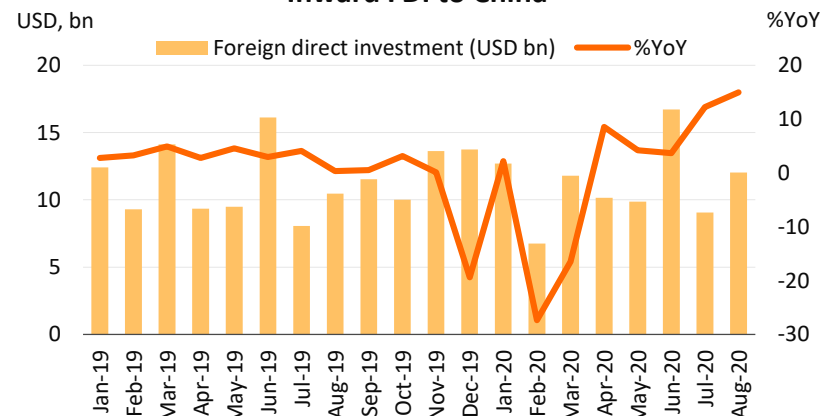
Annual Average New Infrastructure Investment



New Infrastructure Investment Projects in 2020-2022

Area	Projects	Amount (CNY bn)
Zhejiang	5G networks & data center	540
Shanghai	5G networks & industrial IoT	270
Guangzhou	AI & big data	180
Chongqing	AI & IoT	105
Yunnan	5G networks	59

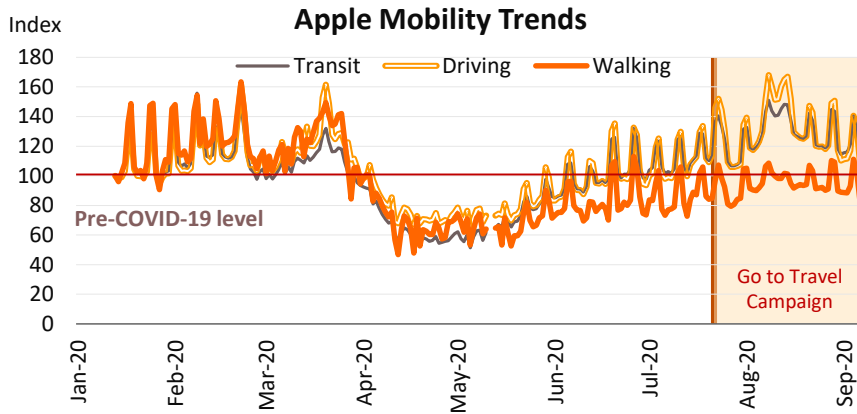
Inward FDI to China



Source: CEIC, Bloomberg, Capital Economics, Reuters, Xinhua, Krungsri Research

Japan: Second outbreak might have limited impact because of stimulus measures, but recovery will remain slow

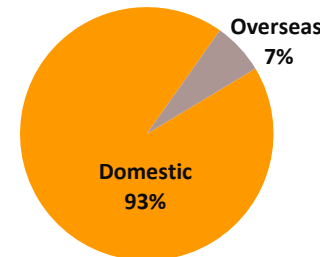
The second wave of infections might have limited impact on the Japanese economy, reflected in improving PMI readings and other indicators. In August, Jibun Manufacturing PMI rose to 47.2, the highest reading since February. Services PMI only edged down from 45.4 to 45.0. Public transportation and driving activities have exceeded pre-COVID levels. The stimulus programs could help to cushion risks from the second wave. One of Japan's key stimulus measures is the "Go to Travel" program which ran from July 22nd to end-August. Domestic travel spending by Japan residents was twice greater than overseas travel expenditure. 7.8 million people took advantage of the "Go To Travel" campaign. The government will launch the "Go to Eat" campaign in September, which would offer (i) discount vouchers of up to 25% valid until end-March 2021, and (ii) point-based rewards which offer up to JPY500-1,000 for online reservations. There was also improvement in the labor market; the number of regular employees continued to increase in July, rising for the third consecutive month. Average monthly wage also rose, which would improve purchasing power in the next period. On external demand, exports remained weak in July (-18% YoY), but it is a smaller contraction for the second straight month. Despite weak external demand, the improving labor market and support from domestic stimulus measures are expected to help the Japanese economy to remain on its slow recovery path.



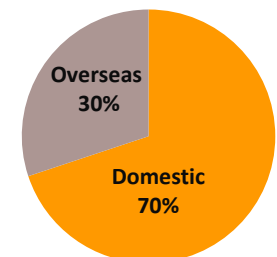
Outcome of "Go to Travel" Campaign

Indicators	Outcome
Travel bookings	Up 20-30% YoY (July-September 2020)
Participation	7.81 million travelers joined the program from July 22 nd to August 31 st

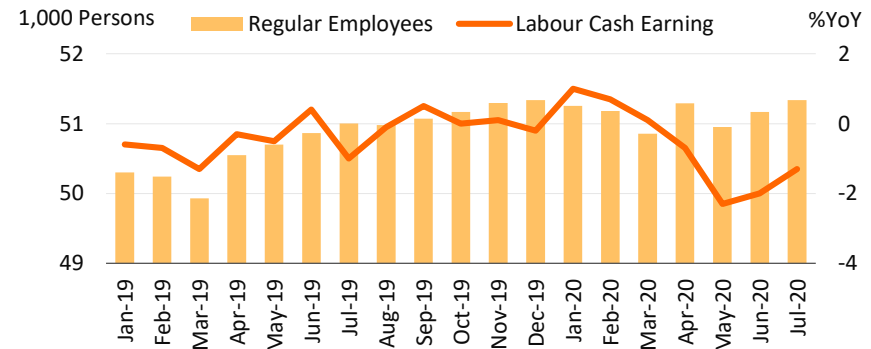
Japanese Travelers



Travel Expenditure



Number of Employees and Average Wage



Source: Capital Economics, Bloomberg, CEIC, Apple Mobility, Japan National Tourism Organization, Krungsri Research

New leader pledges to proceed with stimulus policy

After winning votes to lead the Liberal Democrat Party (LDP), Yoshihide Suga will be the next Japanese prime minister. He would serve the remainder of Abe's term, up to October 2021. Based on Kyodo news poll on September 2nd, Suga is more popular than the other two candidates. On policy issues, he is expected to (i) continue to pursue "Abenomics" to steer Japan out of the COVID-19 crisis, and (ii) conduct a bit more easing, reflecting more targeted ultra-loose monetary policy, fiscal stimulus to provide more support to local economies, and structural reform in the labor market. Suga vowed to strengthen the massive monetary easing, especially to help small businesses. He also promised to lift minimum wage and promote digitization. Looking forward, policies aimed at helping small businesses, and community and digital economies, would facilitate a more inclusive recovery and increase the effectiveness of policy implementation. However, there could be some bumps along the way, including a worsening pandemic situation, difficulty in implementing reforms, and inefficient policy administration.

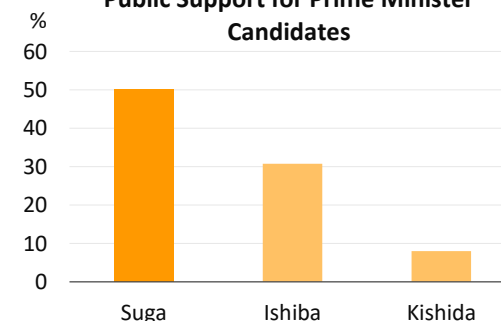
Key Important Dates for the Japanese Political Events 2020-2021



Comparison between Ex-PM Abe and next PM Suga's policies

Key policy	 Shinzo Abe Ex-Prime Minister <i>Abenomics Policy</i>	 Yoshihide Suga The Next Prime Minister <i>Suganomics Policy</i>
Monetary policy	Ultra-loose monetary policy	Ultra-loose monetary policy with a more targeted approach ; for example, protecting jobs, prioritizing SMEs, and promoting consolidation of SMEs
Fiscal policy	Stepped up government spending	- Promoting local economies - Likely to push faster minimum wage hike to eliminate unproductive jobs
Structural reform	Increase women, seniors and foreigners' participation in the labor force	- Likely to continue to create opportunities for women - Create a government agency to coordinate the digital policy, aims to upgrade digital capability Diversifying supply bases, especially moving out from China and Southeast Asia

Public Support for Prime Minister Candidates



Candidates for the New Prime Minister; Yoshihide Suga (center), former defence minister Shigeru Ishiba (right), and former foreign minister Fumio Kishida (left)

Source: Capital Economics, Bloomberg, Japantimes, Kyudo News, Krungsri Research

Thailand: Confronting crisis scars and emerging risks

July consumption rebound is not sustainable; private investment marked deeper contracted

- Private Consumption Index (PCI) fell only 0.1% YoY in July, supported by (i) pent-up demand following the easing of lockdown measures and (ii) replacement Songkran holidays which encouraged tourism and spending in the month. This means the recovery is not sustainable. Private Investment Index (PII) contracted by a larger rate of 12.8% in July. Consumer Confidence Index (CCI) and Business Sentiment Index (BSI) rose for the fourth consecutive month in August, but the indices are still far below pre-outbreak levels.
- Industrial production saw double-digit contraction, despite some improvement. The COVID-19 pandemic continued to hurt demand for durable goods and production of those goods, especially automotive, rubber & plastics and petroleum. However, production of food & beverage products and electrical appliances rebounded.

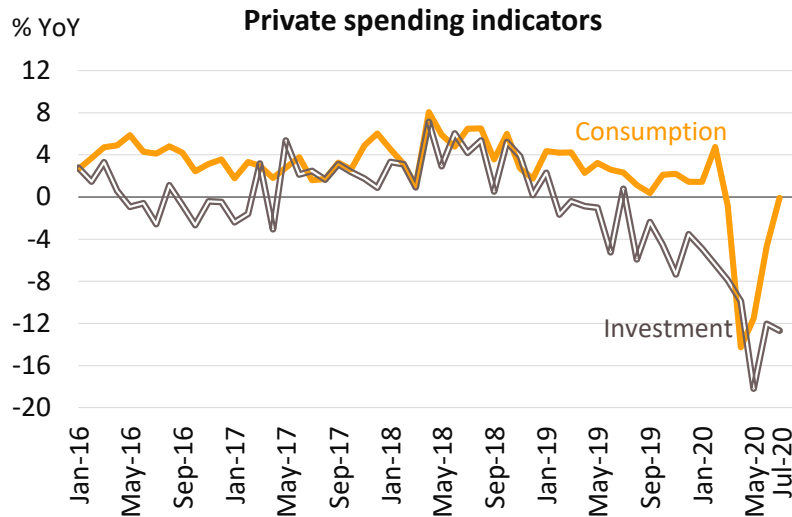
Thai exports continued to drop, but by a smaller magnitude. Plunging imports reflect weak demand and weak export outlook. Foreign tourist arrivals will remain near-zero the rest of this year. COVID-19 crisis could affect one-third of total formal workers.

- Merchandise exports fell 11.4% YoY in July. Excluding gold, exports declined by 14.3%. Imports also tumbled 26.4% in July vs -18.1% in June, reflecting weak domestic demand and still-dim export outlook. Thailand would benefit little from recovering imports in major countries, reinforcing our view of sluggish Thai exports ahead.
- The government agreed to extend the “*We Travel Together*” scheme. This would improve domestic tourism, but the outlook for the tourism sector remains bleak due to near-zero foreign tourists and weak purchasing power.
- COVID-19 crisis has left scars on the labor market. The number of workers laid-off is skyrocketing. Without additional stimulus measures, Krungsri Research estimates one-third of formal workers would experience pay cuts or lose their jobs (details in Special Notes section).

Economic policy responses remain slow. Large outflows reflect weak confidence. Emerging risks could retard recovery.

- Policy responses remain slow and inadequate. The *easy recovery phase* is ending, and the next will be much harder given (i) cash aid would end in September and debt moratorium in October; (ii) rising political risks with the possibility of more protests and delays in approving FY2021 Budget; (iii) weak confidence and larger foreign fund outflows; and (iv) rising unemployment and risk of a second major outbreak worldwide, including Thailand.
- Despite the dim growth outlook and still-negative inflation, Krungsri Research does not expect policy rate cuts in the foreseeable future. We project 2H20 GDP will continue to contract year-on-year. This means households and the corporate sector would still need liquidity or more monetary policy tools. The next policy moves are likely to focus on “targeted quantitative support”.

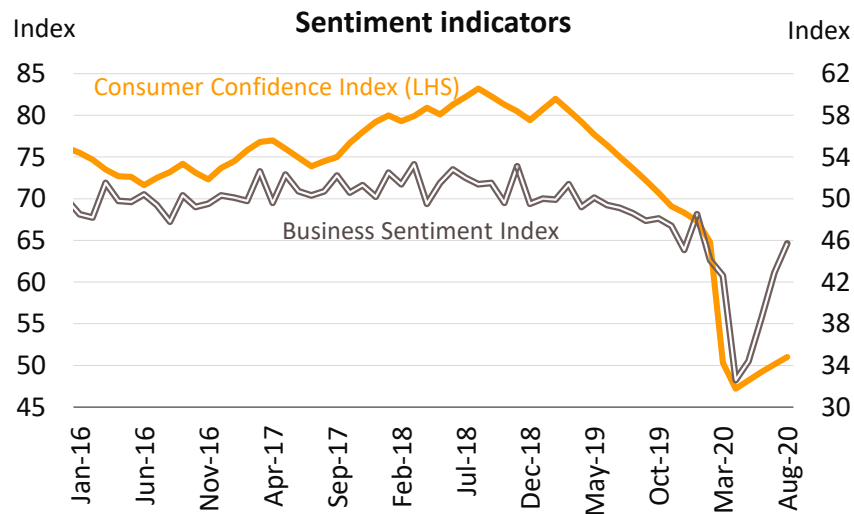
July consumption recovery is not sustainable; private investment continued to shrink



Private spending by category

Private spending indicators % YoY*	2019												2020					
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J
Private consumption																		
Non-durables																		
Semi-durables																		
Durables																		
Services																		
Non-residents expenditure																		
Private investment																		
Construction area permitted																		
Construction material sales																		
Imports of capital goods																		
Machinery sales																		
Newly registered vehicles																		

*Green > 0%, Red < 0% / Darker green (red) indicates stronger (weaker) momentum

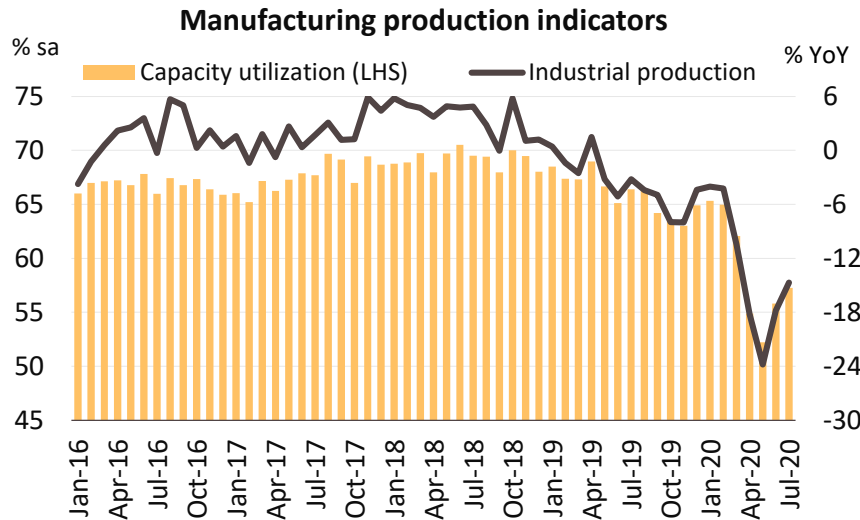


Krungsri Research's view

- In July, Private Consumption Index (PCI) fell only 0.1% YoY (vs -4.5% in June), supported by (i) pent-up demand following the easing of lockdown measures, and (ii) replacement Songkran holidays which encouraged tourism and spending in the month. That means the recovery is not sustainable. Private Investment Index (PII) contracted by a deeper rate of 12.8% in July (vs -10.2% in June) in line with the sharp drops in domestic sales of machinery, imports of capital goods, and vehicle registrations. Investment in construction sector rebounded only slightly.
- The ongoing phased relaxation of lockdown measures lifted the Consumer Confidence Index (CCI) and Business Sentiment Index (BSI) for the fourth consecutive month in August, but the indices are still far below pre-outbreak levels.

Source: Bank of Thailand (BOT), University of the Thai Chamber of Commerce (UTCC), Krungsri Research

Industrial production improved but still booked double-digit contraction; raw material imports continued to drop

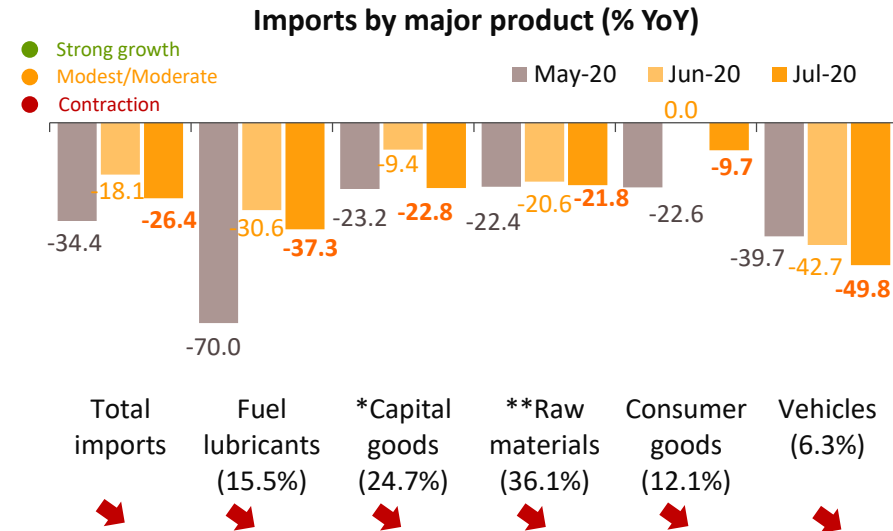


Manufacturing Production: Top 10 industries

Manufacturing Production (% YoY)*	Weight	2019												2020											
		J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J					
All industry	100.0%																								
Food & Beverages	19.9%																								
Automotive	13.9%																								
Petroleum	9.6%																								
Chemicals	9.2%																								
Rubbers & Plastics	8.9%																								
Cement & Construction	5.5%																								
IC & Semiconductors	5.5%																								
Electrical Appliances	3.8%																								
Textiles & Apparels	3.5%																								
HDD	3.4%																								

*Green > 0%, Red < 0% / Darker green (red) indicates stronger (weaker) momentum

Source: Office of Industrial Economics (OIE), MOC, Krungsri Research

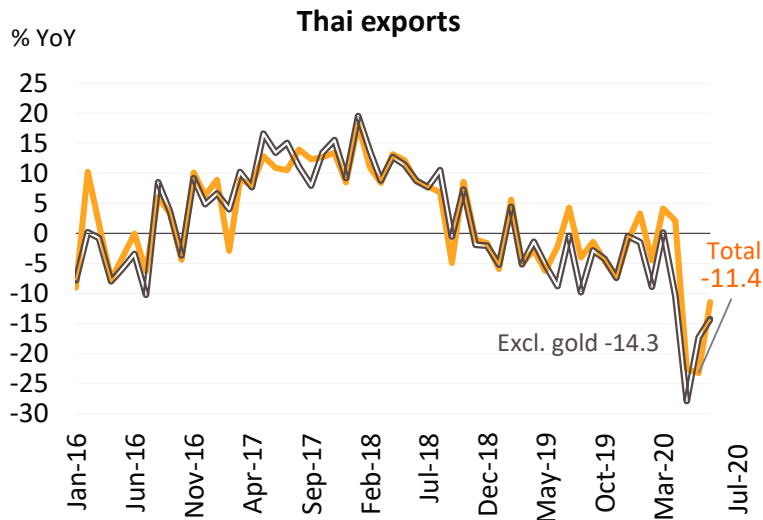


Note: () share in 2019 * Capital goods exclude aircraft, ship ** Raw materials exclude gold

Krungsri Research's view

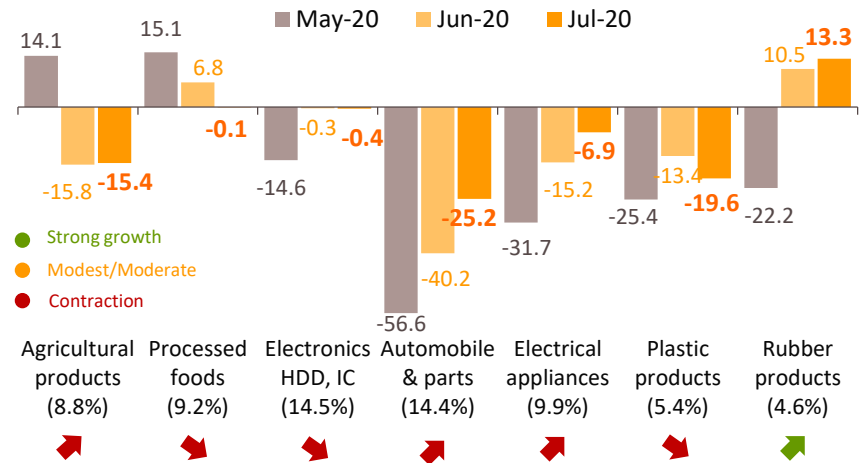
- **The Manufacturing Production Index fell 14.7% YoY in July (vs -17.7% in June),** contracting for the 15th straight month. The COVID-19 pandemic continued to hurt demand for durable goods and production of those goods, especially automotive, rubber & plastics and petroleum. However, production of food & beverage products and electrical appliances rebounded. Capacity utilization (s.a.) rose for the second month to 57.3% in July from 55.8% in June but is still below 65.3% in January (pre-COVID level).
- **July imports tumbled 26.4% YoY,** more severe than -18.1% in June. There were sharp drops in all product categories: fuel-related imports, capital goods excluding aircraft and ship, raw materials & intermediate goods excluding gold, and consumer goods. In the first 7 months of the year, imports fell by 14.7%. The sharper drop in July imports reflect weak domestic demand and still-dim export outlook.

Thai exports still contracted in July despite improving since reopening; outlook remains weak

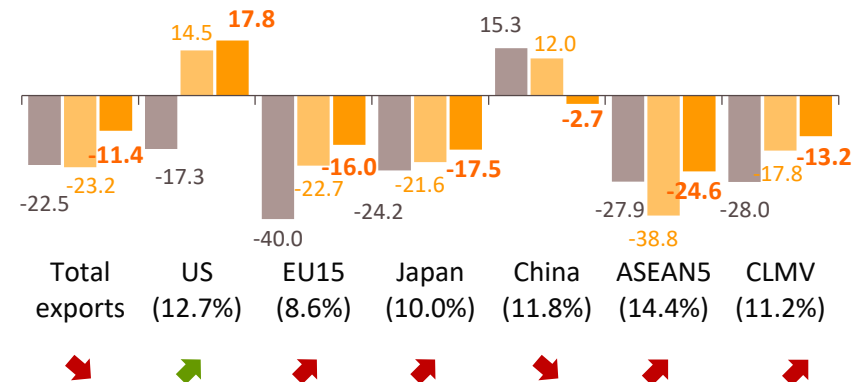


- **Merchandise exports** dropped by 11.4% YoY in July, a smaller contraction than in June (-23.2%). Excluding gold, exports fell by 14.3%. **Exports were weak for several major product categories.** Positive export growth in some categories was driven by social-distancing behavior. By destination, only exports to the US expanded in July. Nevertheless, **exports to most major markets continued to suffer from supply and demand shocks.**
- **Looking forward, Thai exports would remain weak the rest of the year, reflected by** (i) falling imports of raw materials and intermediate goods (-24.1% in July), (ii) weak purchasing power globally due to rising unemployment and high debt burden, and (iii) rising uncertainty over global recovery path due to a potential cut in unemployment benefits in several advanced economies and rising number of new COVID-19 cases in many countries. **Krungsri Research projects Thai exports would contract by 10.5% in 2020, the worst since global financial crisis.**

Exports by product category (% YoY)



Exports by major destination (% YoY)

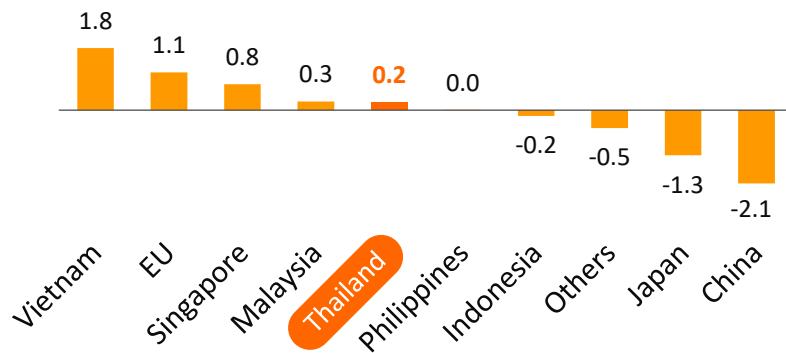


Note: () share in 2019

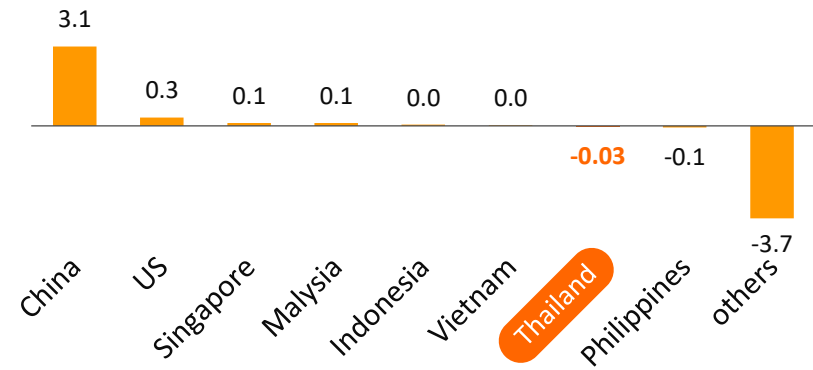
Thailand to benefit little from stronger imports at major countries, implying sluggish exports ahead

There have been signs of a recovery in economic activity in major countries, raising hopes for a rebound in international trade. Imports by the US, the EU, Japan, and China account for almost 60% of world imports. Vietnam would be the largest beneficiary of recovering US imports. Stronger imports in the EU and Japan should benefit China. Recovering Chinese imports could benefit Japan. **Thailand would see relatively small gains from recovering imports in major countries, including Japan. However, Japan's imports remain weak (-21.2% YoY in July). The recovery in EU imports would not benefit Thailand.** This implies Thai exports would recover slower than other Asian countries, such as Vietnam, Singapore and Malaysia.

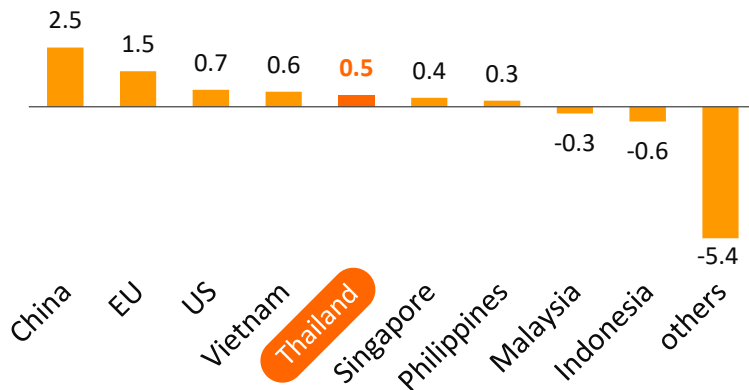
Cumulative change in % share of US imports



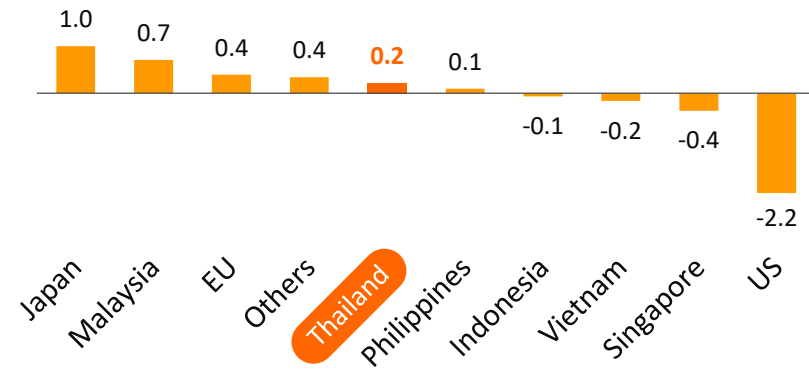
Cumulative change in % share of EU imports



Cumulative change in % share of Japan imports



Cumulative change in % share of China imports

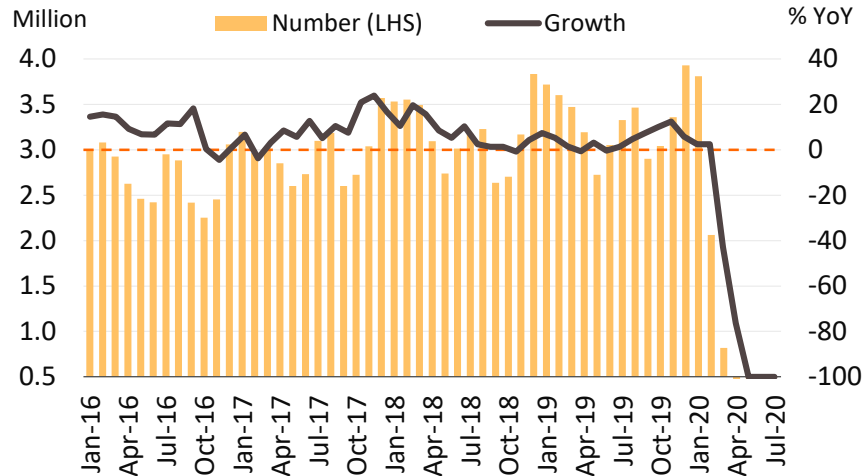


Note: Cumulative since January 2018 (Data as of July 2020 for the US, Japan, and China; as of May 2020 for the EU)

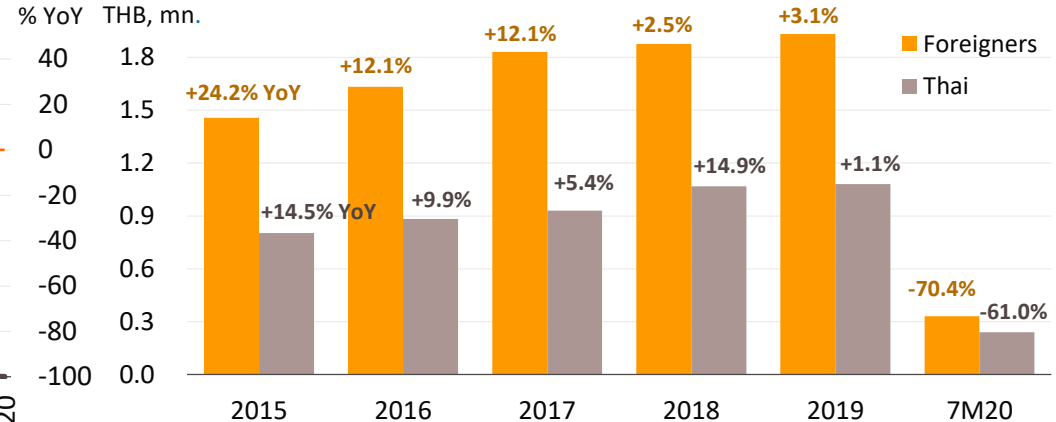
Source: Trade Map, Krungsri Research

Despite stimulus, outlook for tourism sector remains bleak due to near-zero foreign tourists

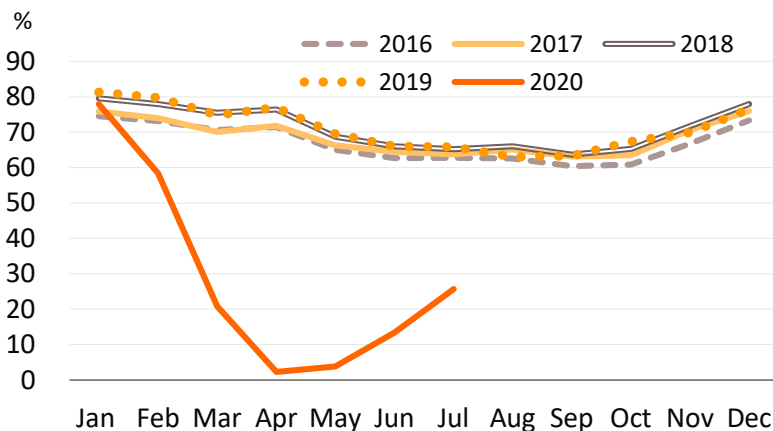
Foreign tourist arrivals



Tourism Receipts from Foreign and Thai Tourists



Nationwide Average Occupancy Rate

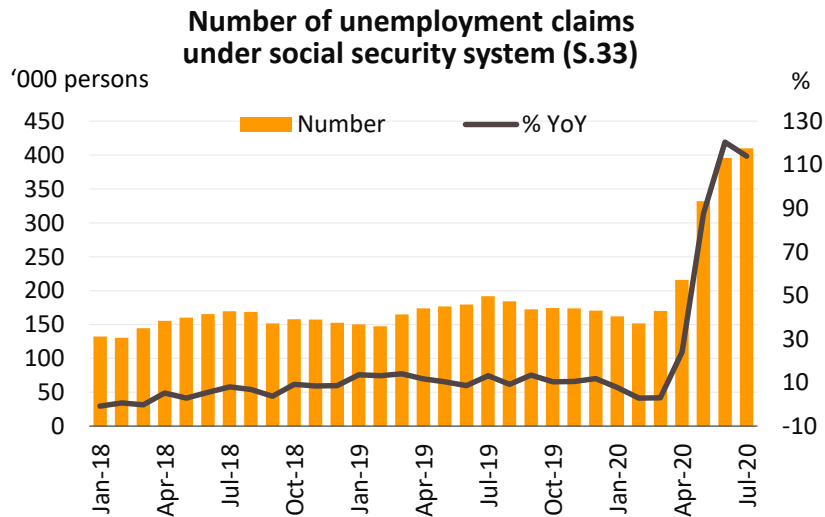
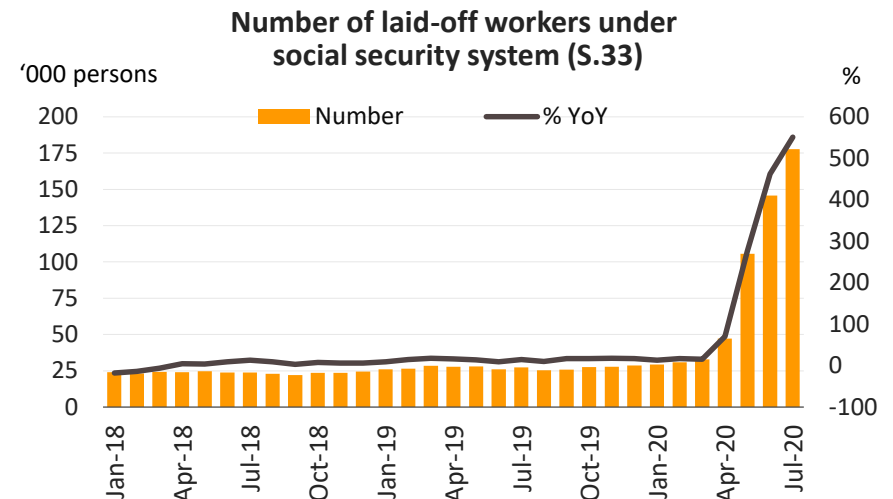
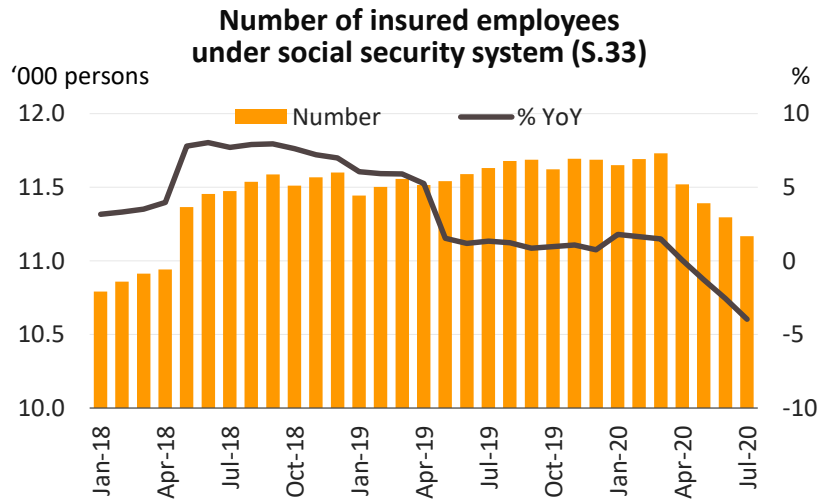


Source: MOTs, Krungsri Research

Krungsri Research's view

- **Foreign tourist arrivals would remain at near-zero the rest of this year** due to travel bans by Thailand and several countries. Thailand continues to impose strict measures and has extended the Emergency Decree to September. The government plans to allow select groups of foreigners to visit Thailand in late 2020 but the number would be very small.
- **In 7M20, tourism receipts fell 67.0% YoY to THB0.57trn**, of which THB0.33trn was derived from foreign tourists (-70%) and THB0.24trn from Thai tourists (-61%). Average occupancy rate nationwide rose from 13.4% in June to 25.7% in July, far below pre-outbreak level of over 60%.
- The government agreed to extend the *"We Travel Together"* scheme from 5 to 10 nights per person and increase subsidy for airfares from THB1,000 to THB2,000 per person. This may **encourage domestic tourism**, but the tourism sector would remain bleak due to near-zero foreign tourists and weak domestic purchasing power.

Lay-offs surged again in July; Cabinet approves THB23bn job creation scheme for new graduates only



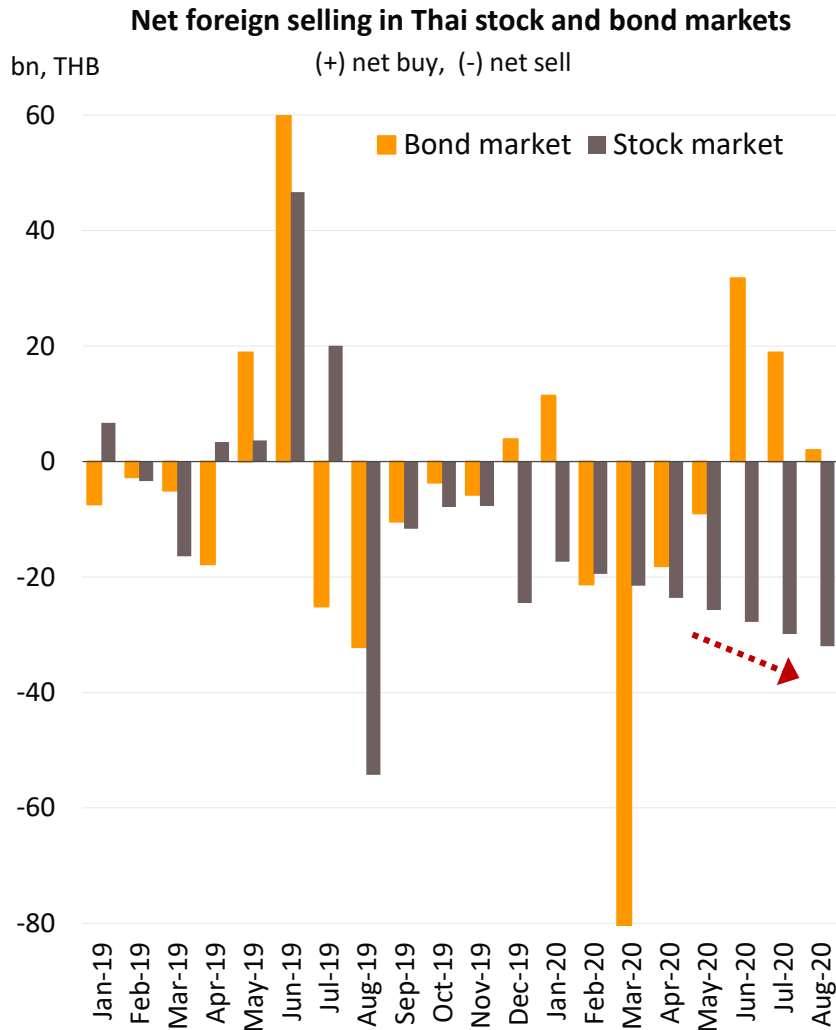
Krungsri Research's view

- The number of employees insured under Section 33 fell for the third straight month, by -4.0% YoY to 11.2 million in July. **The number of laid-off workers skyrocketed 551% YoY and jobless claims surged 114% YoY.** The highest number of lay-offs is in tourism-related sectors such as accommodation, restaurant and food services industries.
- To ease the impact on the labor market, the Cabinet approved a THB23bn program to employ up to 260,000 new graduates, by subsidizing 50% of the salaries up to THB7,500 per month for one year (October 2020-September 2021). However, several institutions forecast unemployment would reach 3 mil by end-2020, compared to 750,000 at end-2Q20. **Without additional measures, Krungsri Research estimates 11.8 mil workers (33.2% of total formal workers) would experience pay cuts or lose their jobs (details in Special Notes).**

Note: The insured persons (Section 33) under Social Security System account for 31% of total number of employed persons.

Source: Social Security Office, Ministry of Labor and Social Welfare, Krungsri Research

Economic policy response remains slow; outflows reflect weak confidence, emerging risks could retard recovery

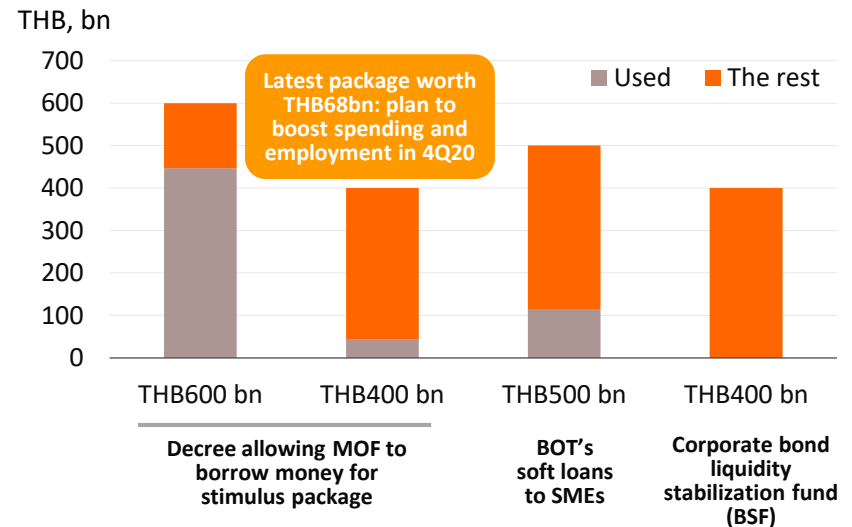


Krungsri Research's view

The recent economic recovery driven by reopening, pent-up demand, and cash aid, will end soon. Despite anticipated new stimulus measures worth THB68bn in 4Q20, policy responses remain slow and inadequate (only 30% utilized so far). **We will soon enter a more difficult recovery phase for the following reasons:**

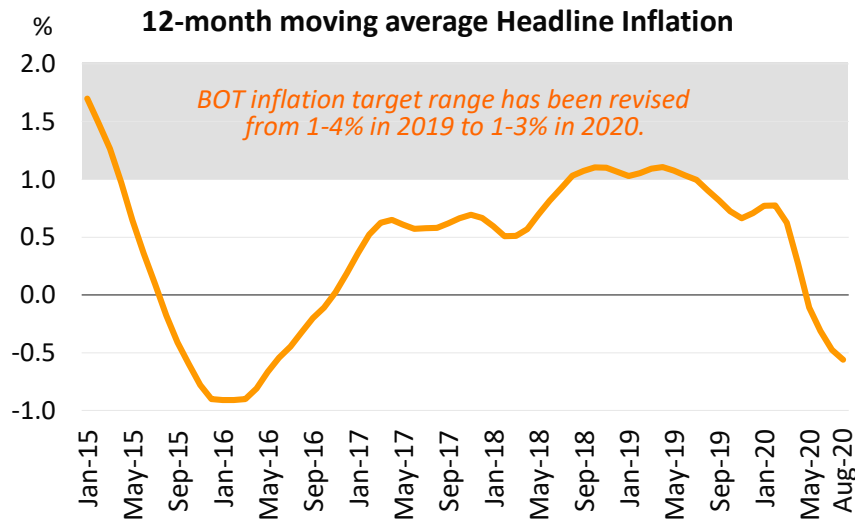
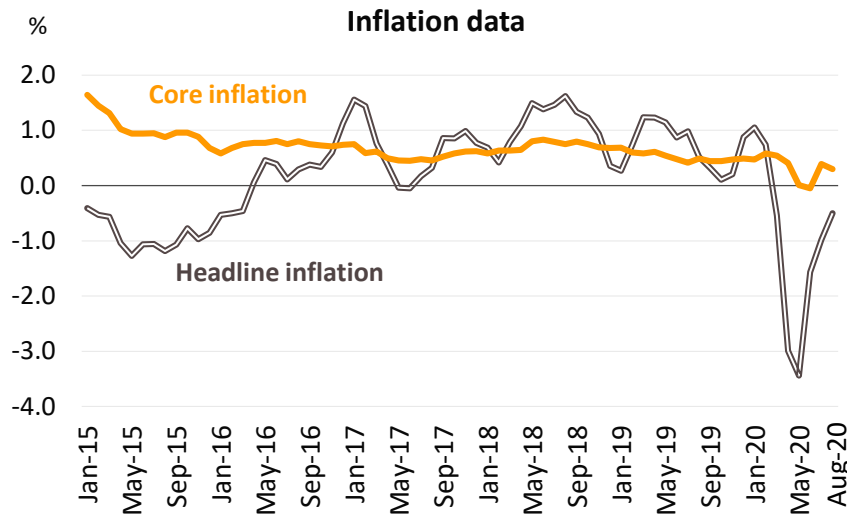
- **Fading supportive factors:** Cash aid will end in September (THB5,000 a month for 3 months) and debt moratorium in October.
- **Rising political risks:** (i) Protests could escalate from September 19. The August protest was the largest political gathering in Thailand since the 2014 coup; (ii) unexpected resignation of the Finance Minister; and (iii) possible delays in approving FY2021 Budget
- **Weak confidence** with larger foreign selling in Thai stocks amounting to THB197bn net in the first 8 month of this year vs THB45bn in 2019.
- **Rising unemployment** and risk of a second major outbreak worldwide, including Thailand

Stimulus packages worth THB1.9 trn



Source: BOI, CEIC, , Krungsri Research

Despite dim growth outlook and still-negative inflation, there is no signs of policy rate cuts in the near future



Source: MOC, Krungsri Research

Key events

- Inflation rose for the 3rd month to **-0.50% YoY in August** (although still negative) from -0.98% in July. This was led by higher prices of food and non-alcoholic beverages (+1.62%) because heavy rains had pushed up prices of fresh vegetables to a 13-month high. Price of non-food and beverages fell for the 7th month, by 1.73% on low global oil prices. Core inflation (excluding raw food and energy) dropped to 0.30% from 0.39% in July. In 8M20, average headline and core inflation stood at -1.03% and 0.33%, respectively.
- The smaller negative inflation rate points to a slow recovery. The low and stable core inflation rate also underlines weak domestic demand, and the fragile labor market will suppress purchasing power and domestic spending in the next period.

Krungsri Research's view

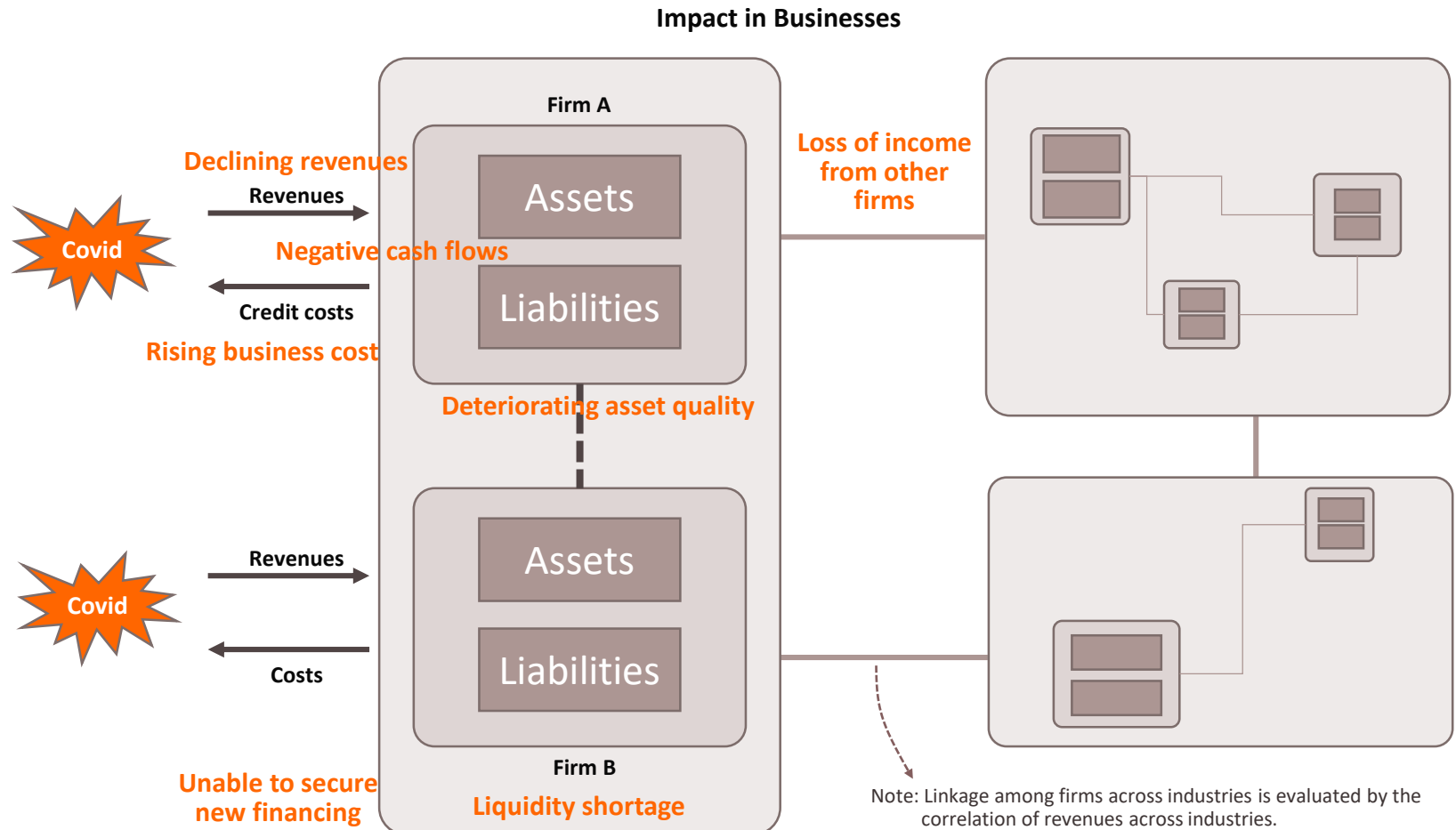
- Despite still-negative inflation and a dim growth outlook, **Krungsri Research sees no sign of policy rate cuts in the foreseeable future** as (i) the MPC has stated that *"the level of overall liquidity in the financial system remains ample,"* suggesting no immediate need for broad-based monetary stimulus including policy rate cuts or quantitative easing (QE); (ii) the MPC did not mention it would employ policy interest rate as a tool in its latest statement; (iii) MPC Secretary said policy interest rate was not *"a leading actor"* in monetary policy because the Thai policy rate is now relatively low compared to neighboring countries.
- We project 2H20 GDP would continue to contract year-on-year. This means households and the corporate sector would still need liquidity or more monetary policy tools. The next policy moves are likely to focus on **"targeted quantitative supports"** – including more liquidity support for micro and small enterprises -- or policy tools to expand financial inclusion to affected households and the business sector (details of policy choices are in the Special Notes section).

COVID-19 crisis: Choice of policy tools and the impact on businesses

- As the number of COVID-19 cases continue to rise, the global economy continues to suffer from social distancing and containment measures. The worst hit are tourism and related sectors. Thailand's economy is projected to contract sharply in 2020 and would take more than three years to recover to pre-pandemic level. **This will hit most industries and businesses through several channels in the near- and longer-term.**
- Company-level data reveal that **out of 473,324 companies in Thailand, 30.3% or 143,414 would experience tight liquidity in 2021. Most of the troubled firms would be small in size.** Another 132,980 companies (28.1%) would be at risk of facing liquidity shortage. Only 32.6% or 154,318 companies are financially healthy.
- **About 11.8 mil workers, or 33.2% of formal workers, are estimated experience a pay cut or lose their job. The includes 4 mil in the agriculture sector, 1.4 mil in retail trade, and 1 mil in the restaurant industry.**
- **The most troubled sectors - in terms of both number of companies and employment data – would be amusement & recreation, restaurant, hotel, crop farming and fishery. Krungsri Research estimate at least, THB2.3trn would be required to help businesses stay afloat in 2021.**
- **Thailand's *potential (economic) growth* would be wiped out by 0.5 percentage points (ppt) in the coming years triggered by business failures and declining labor productivity. Permanent business shutdowns would cause assets held by these firms to be under-utilized. That would trigger long-term unemployment, leading to lower labor productivity.**
- **To help businesses stay afloat, there is a need to identify the specific problems plaguing each business and/or sector, in order to develop targeted policy measures.** Some companies would sustain permanent damage from the Covid-19 pandemic, but the impact would be temporary for the majority. Most Thai companies are finding it hard to secure additional liquidity to tide them through this difficult period. Hence, it is crucial for the measures to address liquidity issues. Each policy tool would benefit each company differently and each tool would have limited resources, so, it may be necessary to choose targeted measures.
- **Economic policy responses, especially during this crisis, are important. They would not only prevent losses in the near-term but also help Thailand to stay on its long-term *potential* growth trajectory.**

Business performance has been hit by supply and demand shocks; losses and linkage will create a vicious cycle

The pandemic has led to a worsening outlook for the overall economy because it is hurting business revenues and profitability. Asset quality has also deteriorated and businesses finding it increasingly difficult to secure new financing. These could lead to liquidity shortage and force businesses to shut down. This will compound the initial impact and create a vicious cycle of closures because of financial linkages among firms. Thus, our analysis and simulation model also capture the link between businesses across industries.

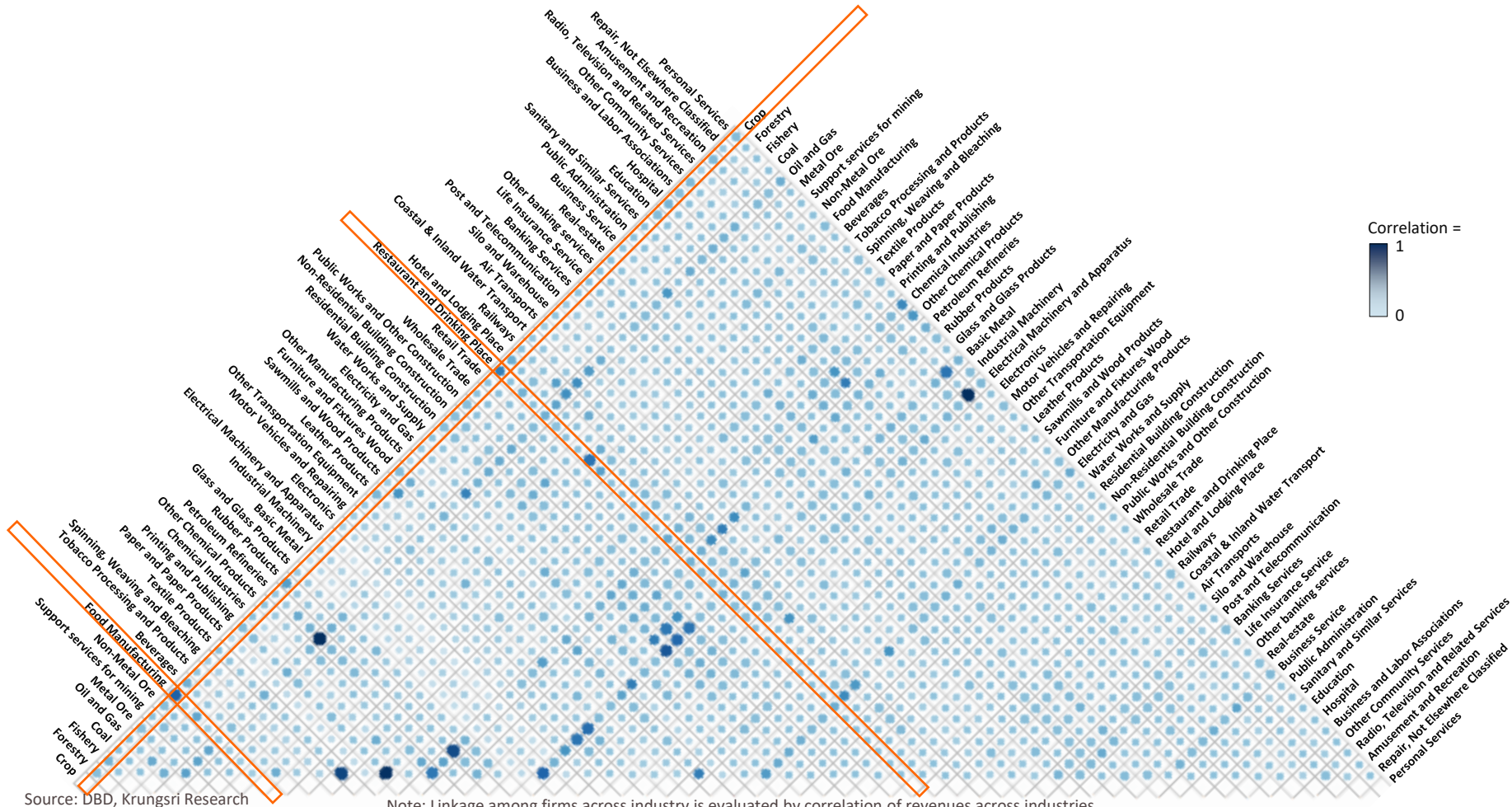


Source: Krungsri Research

Businesses are linked within the same industry and also across industries

One business closure could hurt another's revenues, which would in turn, lead to a rising number of businesses with insufficient liquidity to repay debts. For example, the closure of a restaurant would reduce revenues of food suppliers, and ultimately those in the related agriculture sector. This would increase risk of business closures in those industries and business sectors.

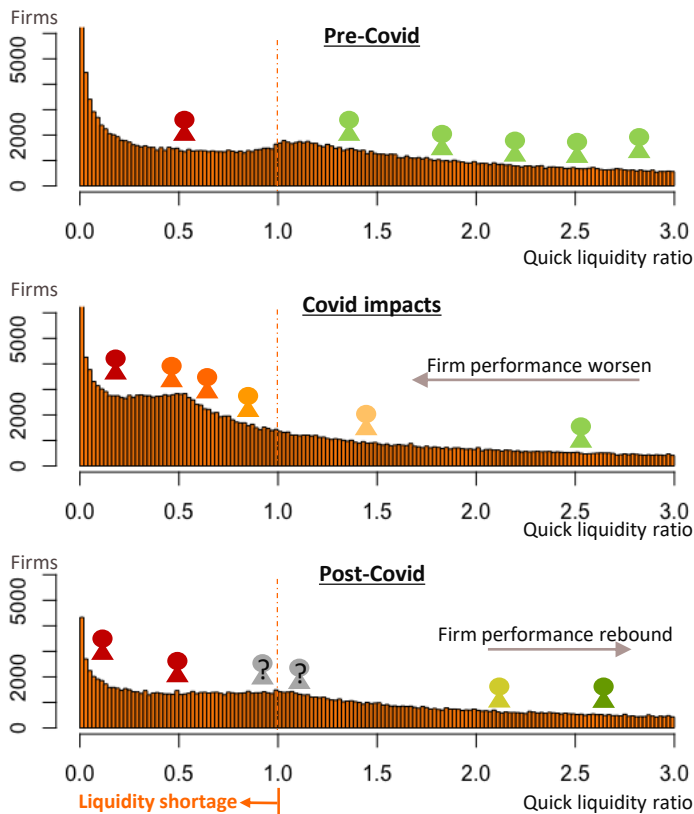
Correlation between industry revenues



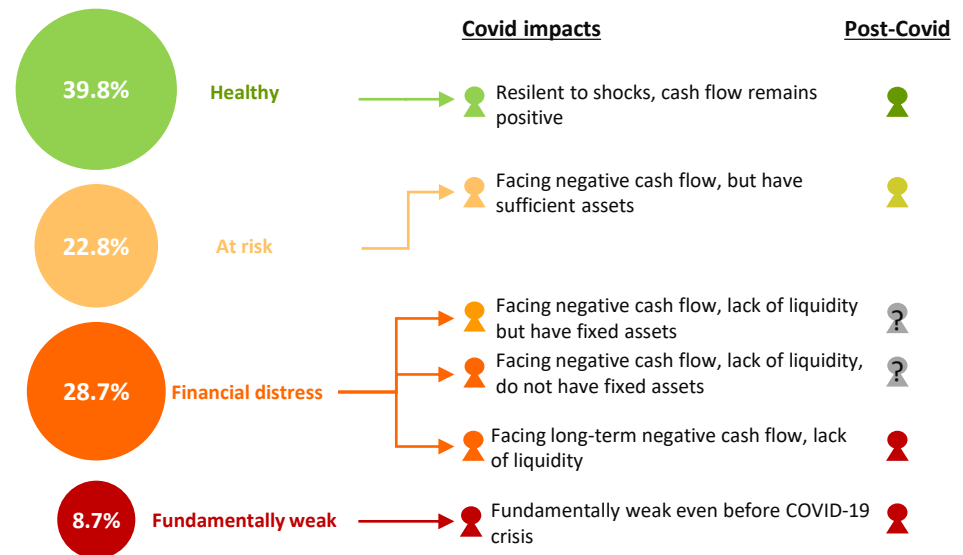
Liquidity problems differ among businesses; impact may be permanent on some but would be temporary on most

The COVID-19 pandemic has hurt business revenues and profits and the majority are experiencing liquidity shortage. Their financial health would only improve when the overall economy recovers. The pace of improvement would differ among businesses, and there would be a group that would shut down permanently. The latest available data suggest most Thai firms do not have sufficient assets to keep their business running, which means their cash flows are vulnerable to shocks. We identified six channels through which COVID-19 might hit businesses in the near future (see chart). Meanwhile, to keep business afloat through this crisis, the OECD has suggested several policy choices, including debt moratorium, offering direct loans to businesses, and easing regulations in the financial market.

Distribution of Quick Liquidity ratio



% of total assets



COVID-19 Impact on business performance: Transmission channels

Immediate impact		Longer-term impact
Temporarily hit demand	Lack of assets	Behavioral changes triggered by pandemic
Cannot secure new funding	High interest burden	Low competitiveness or in the wrong industry

Note: "Quick liquidity ratio gap" is an amount of liquidity required by firms to make current assets equal to current liabilities.

Source: Department of Business Development (DBD), Krungsri Research

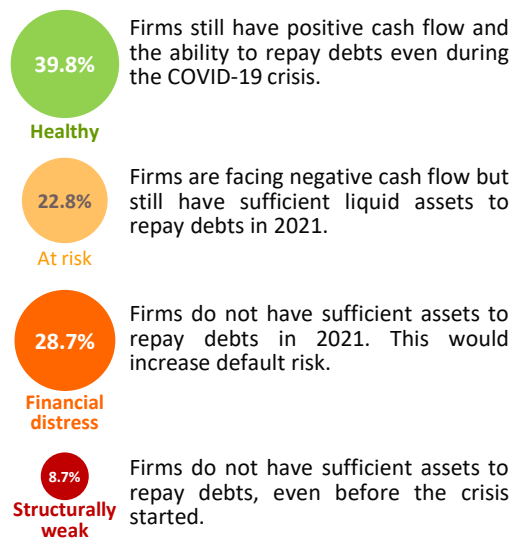
Company-level data suggest 143,414 companies (30% of total) would face liquidity shortage

Our analysis covers 473,324 firms in Thailand with available data. We identified **143,414 firms (or 30% of total firms)** that could face liquidity shortage or become financially distressed in 2021. The hardest-hit sectors include Amusement & Recreation, Hotel, Restaurant, and Fishery.

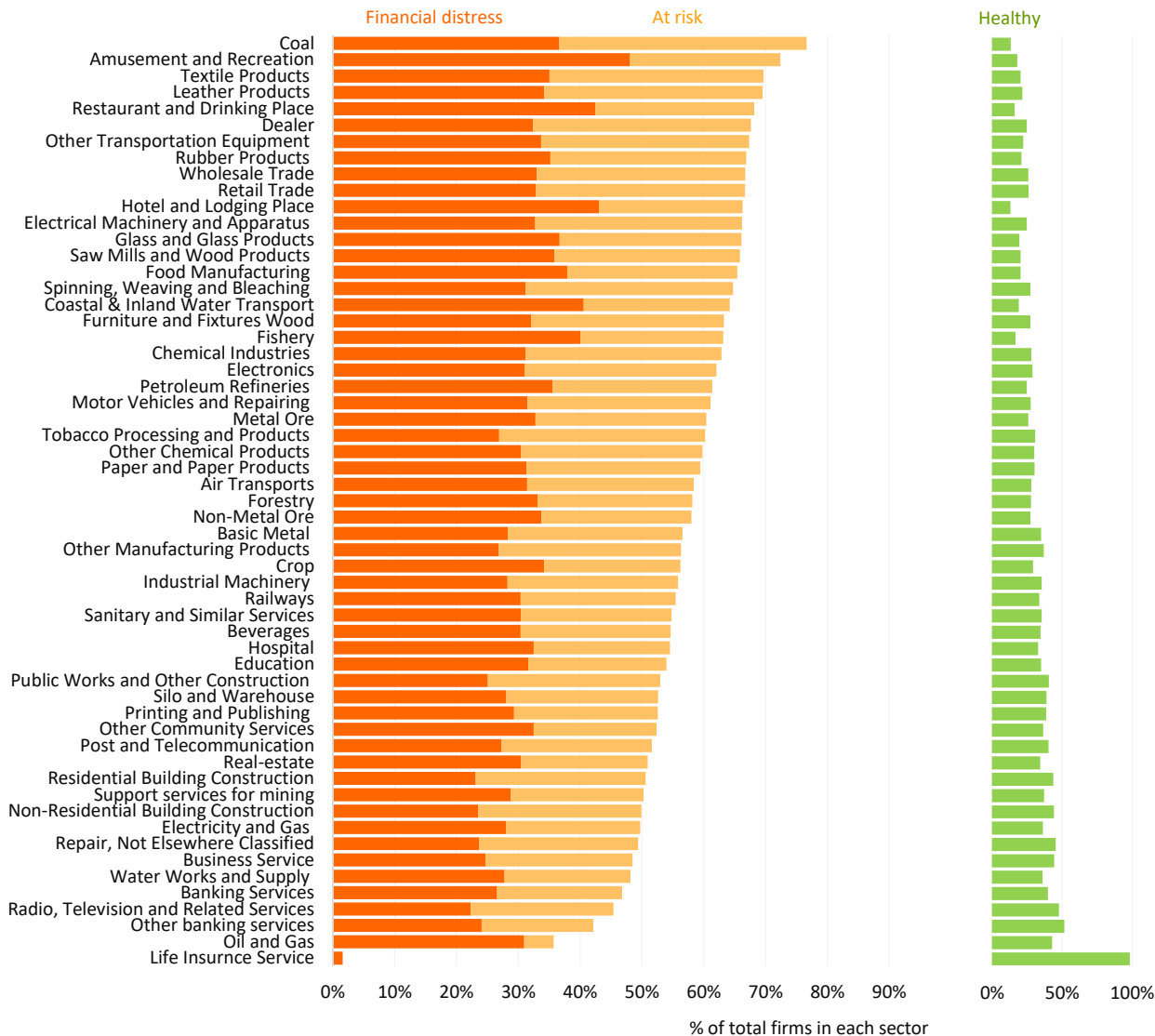
Another 132,980 firms (28% of total) would be vulnerable (at risk). There is higher risk in the coal, recreation, textile, and leather sectors.

Only 32% or 154,318 companies are considered financially healthy and projected to survive the COVID-19 crisis.

Asset sizes



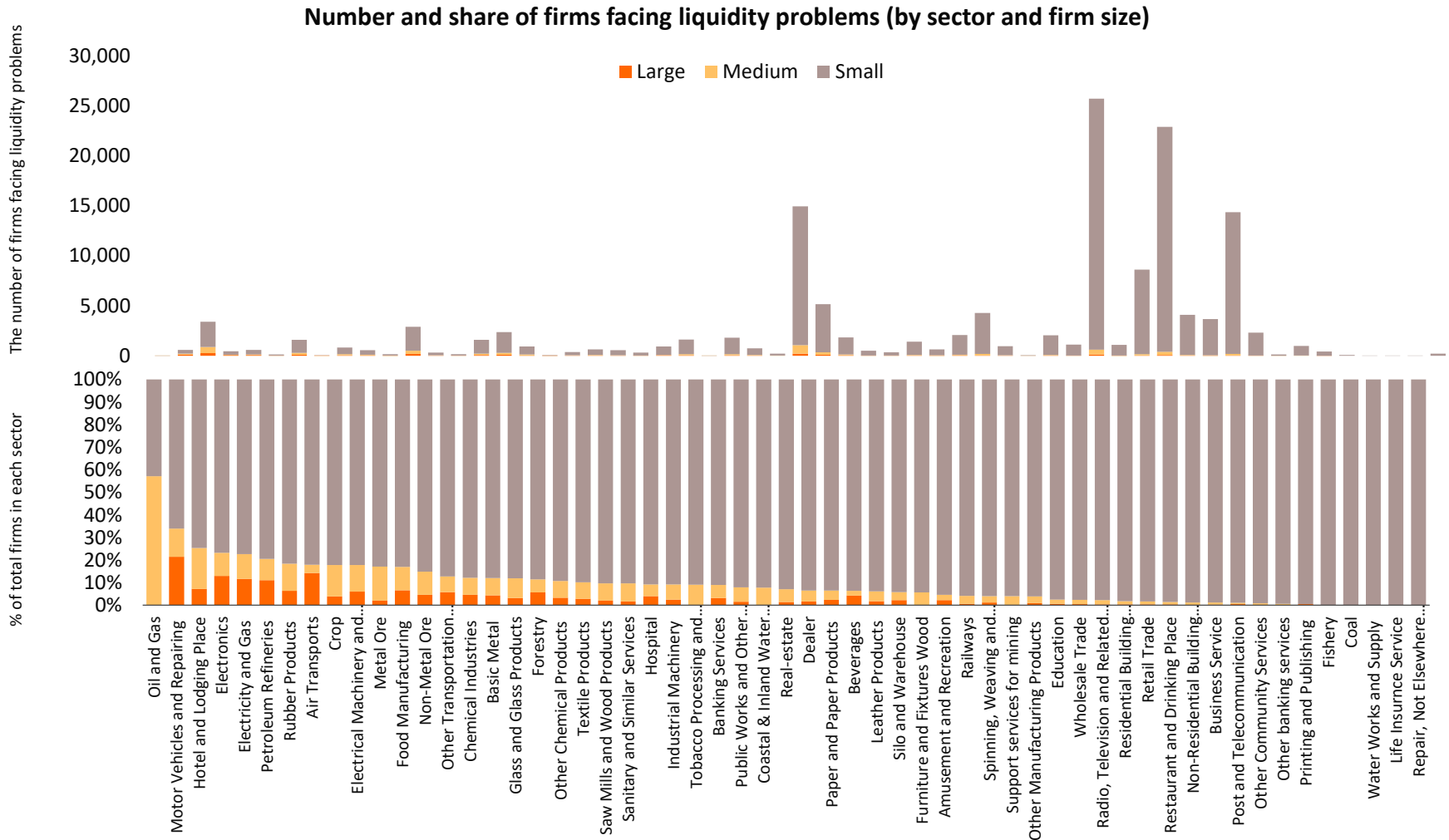
Impact on businesses



Source: DBD, Krungsri Research

Those facing liquidity issues are relatively small firms

Our analysis suggests 143,403 firms might be unable to repay their debts. Of this, 136,152 (or 95%) are small-size firms. A large number of them are in wholesale and retail, business services, and real estate, in that order. Meanwhile, a large number in the oil & gas, motor vehicle, and hotel sectors are large- and medium-size firms.

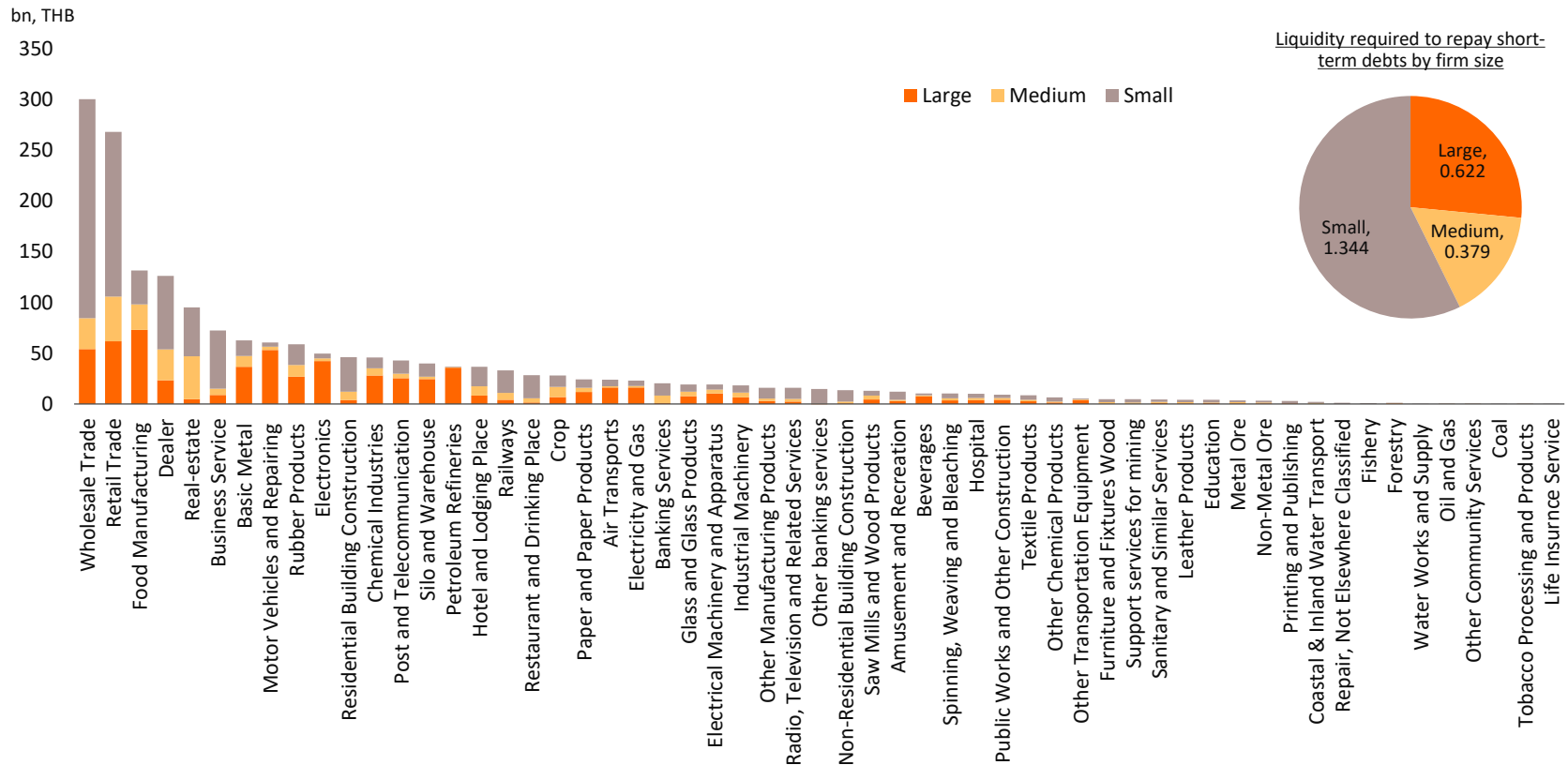


Source: DBD, Krungsri Research

Business would need THB2.3 trillion to stay afloat in 2021

Krungsri Research estimates businesses would need THB2.3 trillion to repay debts. By industry, the wholesale and retail sectors would need a combined THB500 billion. Food manufacturers and dealers would require THB120 billion each. By size, large firms would need THB0.6 trillion and medium-size THB0.38 trillion. Small-size firms would need up to THB1.34 trillion.

Liquidity required to repay short-term debts (by sector and firm size)

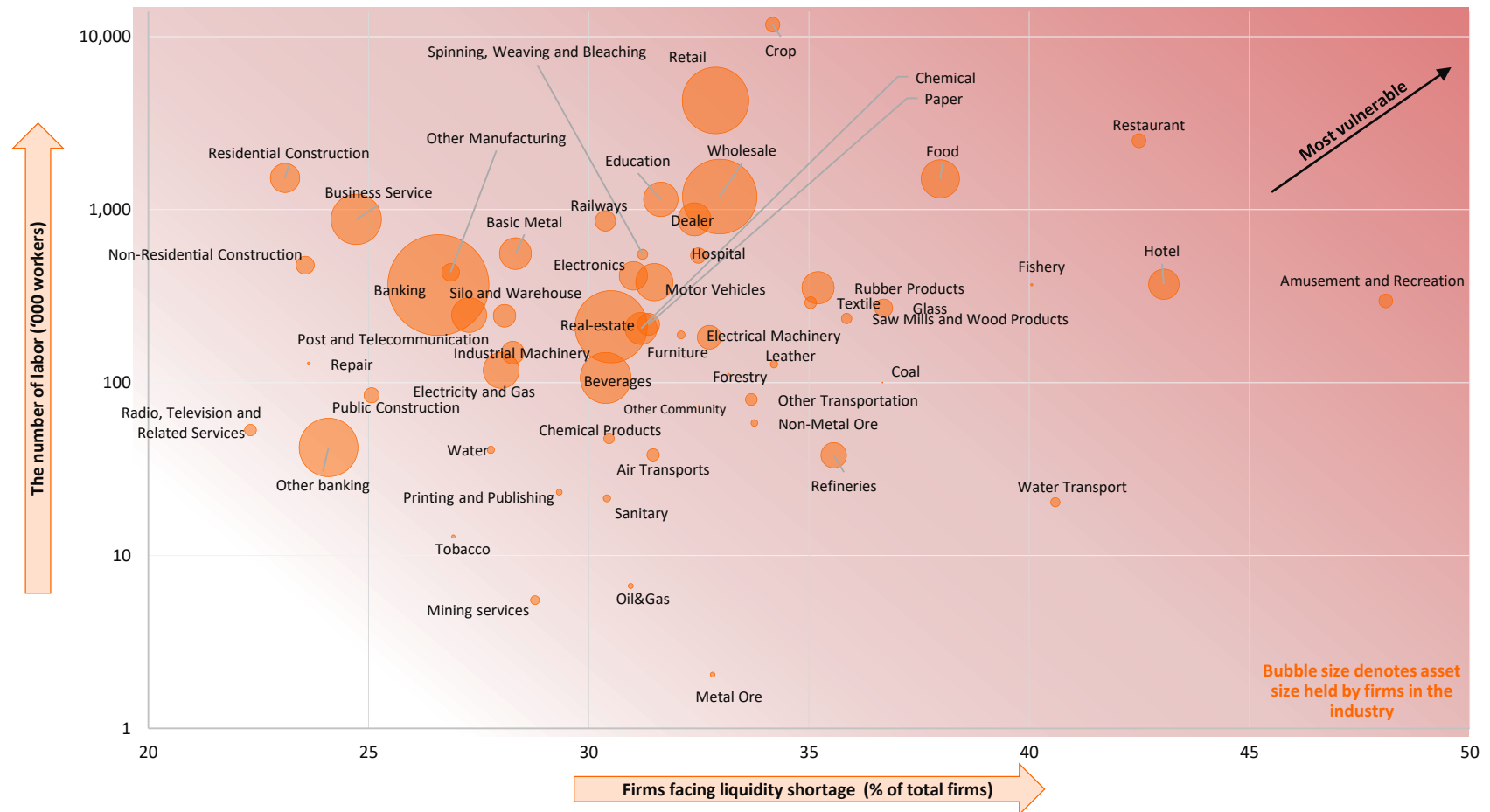


Source: DBD, Krungsri Research

11.8 million workers at risk of pay cuts or losing their jobs

Our analysis also suggests 11.8 million workers, or 33.2% of total formal workers, may see pay cuts or lose their jobs. That includes 4 million in agriculture, 1.4 million in retail trade, and 1 million in the restaurant industry. **The most vulnerable sectors - in terms of both number of troubled firms and employment - are amusement & recreation, restaurant, hotel, crop farming, and fishery.**

Firms that would face liquidity shortage in 2021 and impact on workers

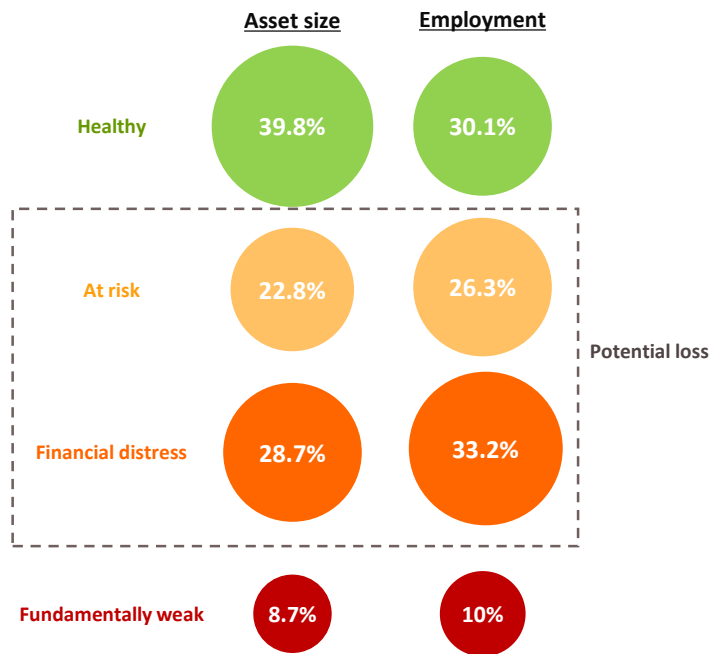


Source: DBD, Krungsri Research

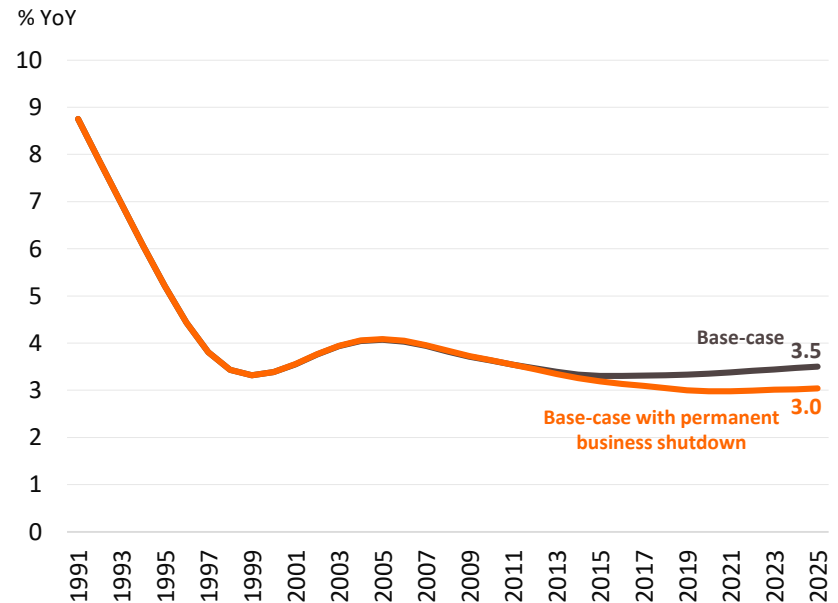
Business closures and lower labor productivity could shave 0.5ppt off Thailand's *potential growth* trajectory

The European Commission and Federal Reserve believe the Spanish Influenza had short- and long-term impact on the economy. At that time, income fell by 6-9% and reduced potential economic growth by 0.6ppt. Today, of the 48.3 trillion baht worth of assets held by Thai firms, 28.7% (or 6.9 trillion baht) are held by firms facing financial distress, and another 22.8% is held by those identified as *at-risk*. These assets could become under-utilized soon if business activity drop. They would lay off employees, which would likely lead to permanent unemployment. This would hurt demand in the near-term and reduce labor productivity in the longer-term. **Krungsri Research estimates business closures, under-utilized assets and lower labor productivity would shave 0.5 ppt of Thailand's *potential growth* trajectory.** There is a need to keep businesses afloat to prevent economic growth from sliding further in the long run. To assess the positive impact of policy responses, we simulated scenarios under five policy tools: interest rate cut, corporate income tax waiver, debt moratorium, easing credit conditions, and targeted direct loans to firms.

Firms facing risks of liquidity shortage



Potential Growth of Thai Economy



Source: GTAP, DBD, Krungsri Research

Policy choices: I. Interest rate cut would only help those with existing bank loans; limited positive impact

Assumption: **Charged interest rates are reduced by 50 bps**

Firms that would benefit from this program: **Those with existing bank loans**

Cost: **Banks earn less interest income**

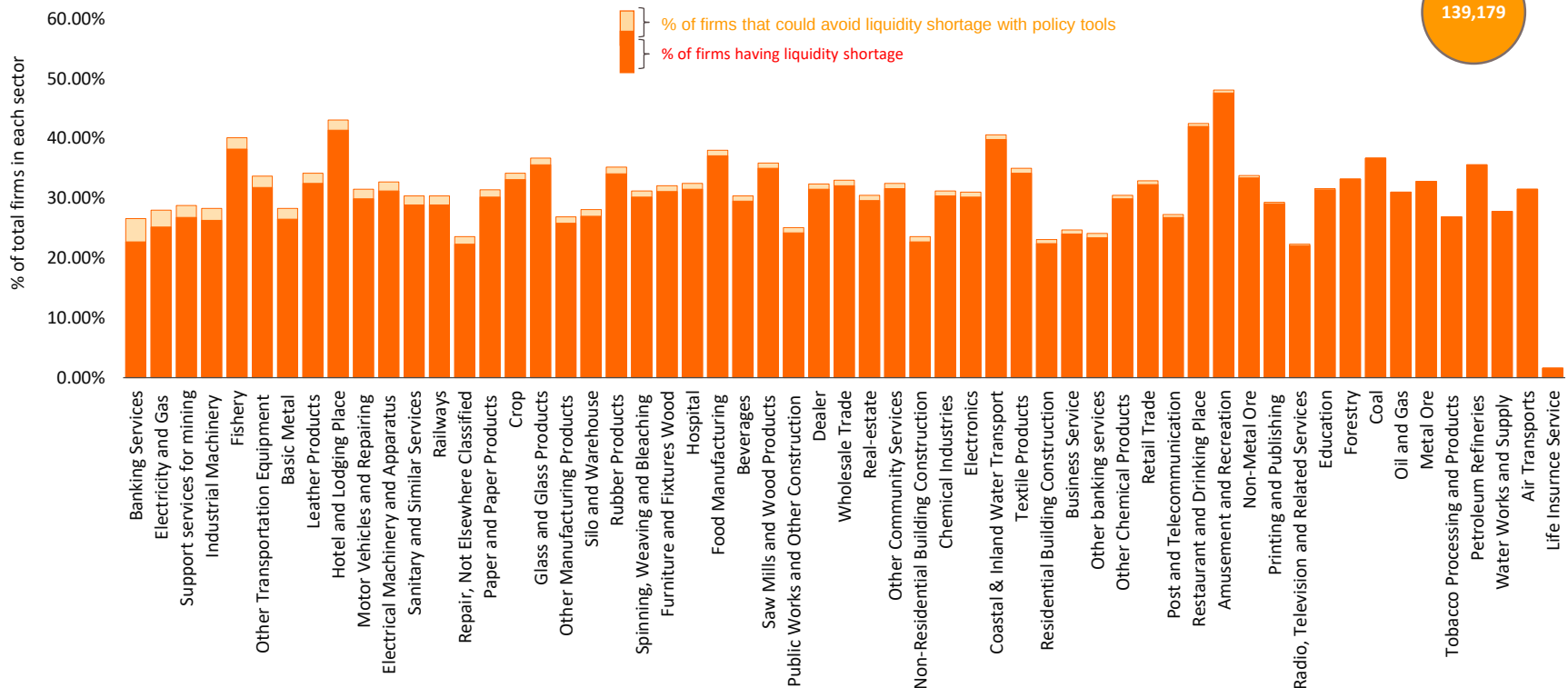
Number of firms that could be saved: **4,235 (3.0%)**

Number of firms facing liquidity shortage

143,414

139,179

Firms that could face or avoid liquidity shortage in 2021



Source: DBD, Krungsri Research

II. Corporate income tax waiver could prevent defaults only in firms with positive cash flow

Assumption: **20% corporate income tax waiver**

Firms that would benefit from this program: **Those positive cash flow**

Cost: **Government would lose tax revenue**

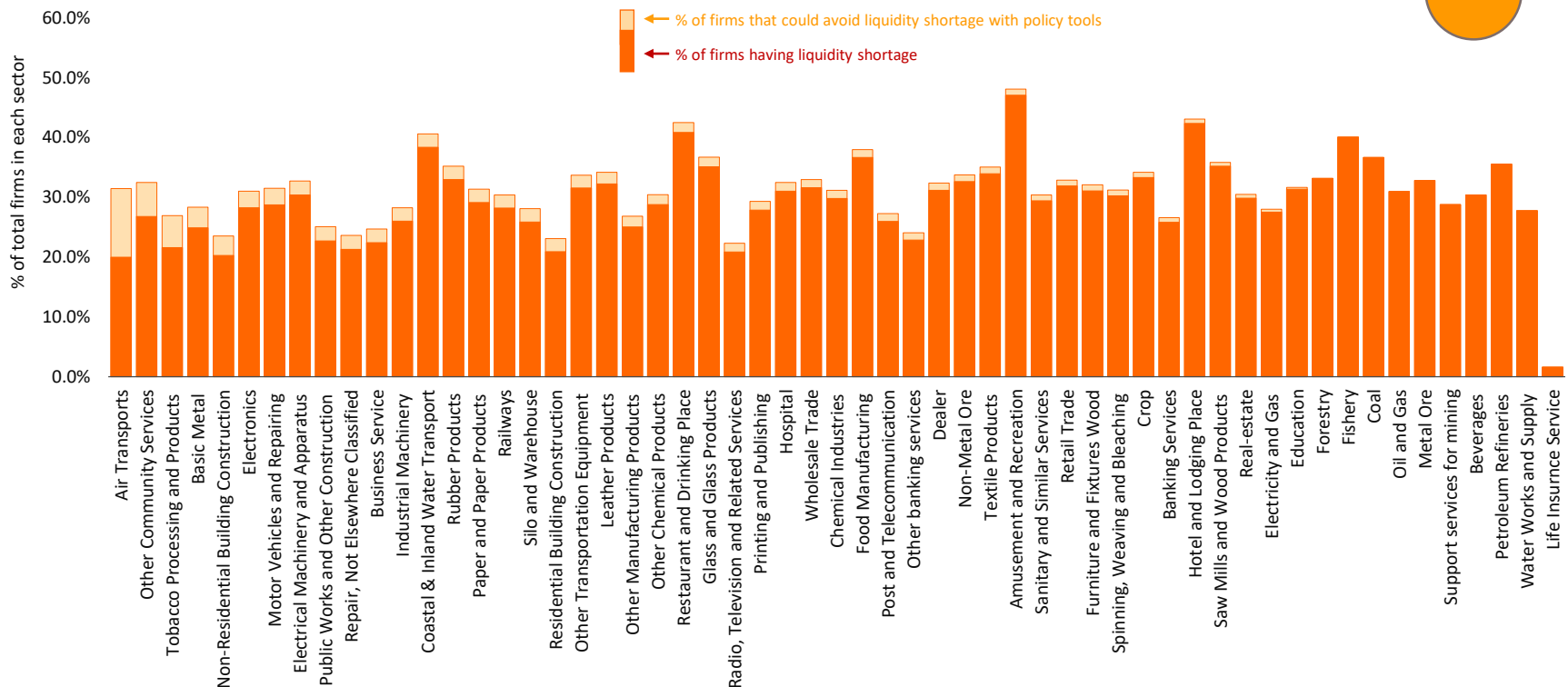
Number of firms that could be saved: **7,430 (5.2%)**

Number of firms facing liquidity shortage

143,414

135,984

Firms that could face or avoid liquidity shortage in 2021



Source: DBD, Krungsri Research

III. Debt moratorium will help those with existing bank loans, especially firms in rapid-recovery industries

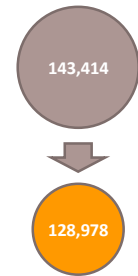
Assumption: **Repayments are postponed to end-2020**

Firms that would benefit from this program: **Those with existing bank loans**

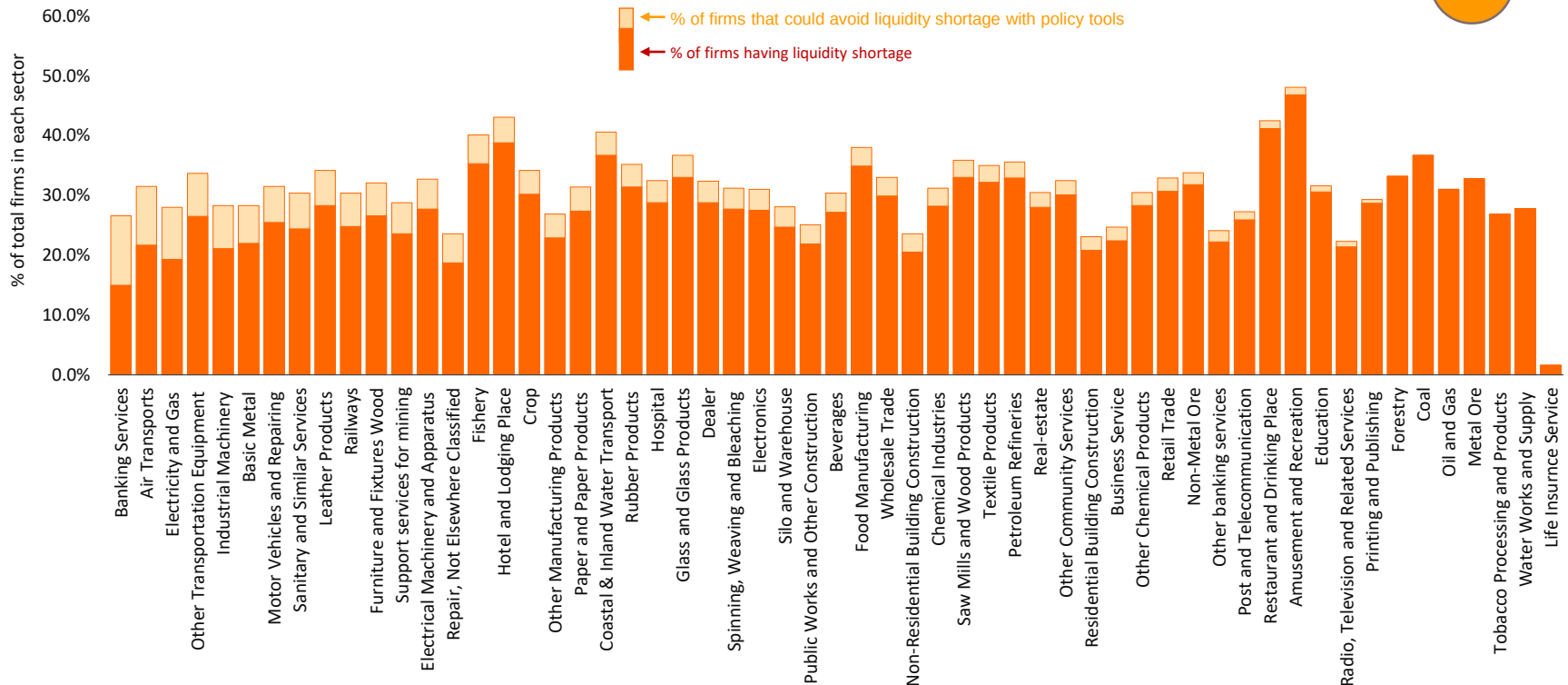
Cost: **Banks would earn less interest income**

Number of firms that could be saved: **14,436 (10.1% of total troubled firms)**

Number of firms facing liquidity shortage



Firms that could face or avoid liquidity shortage in 2021



Source: DBD, Krungsri Research

IV. Easing credit conditions in financial market would support normal market function

Assumption: Each firm would be able to secure sufficient (asset-backed) loans to meet liquidity gaps

Firms that would benefit from this program: Those that are able to access more loans

Cost: Banks would bear risk and costs in case of defaults

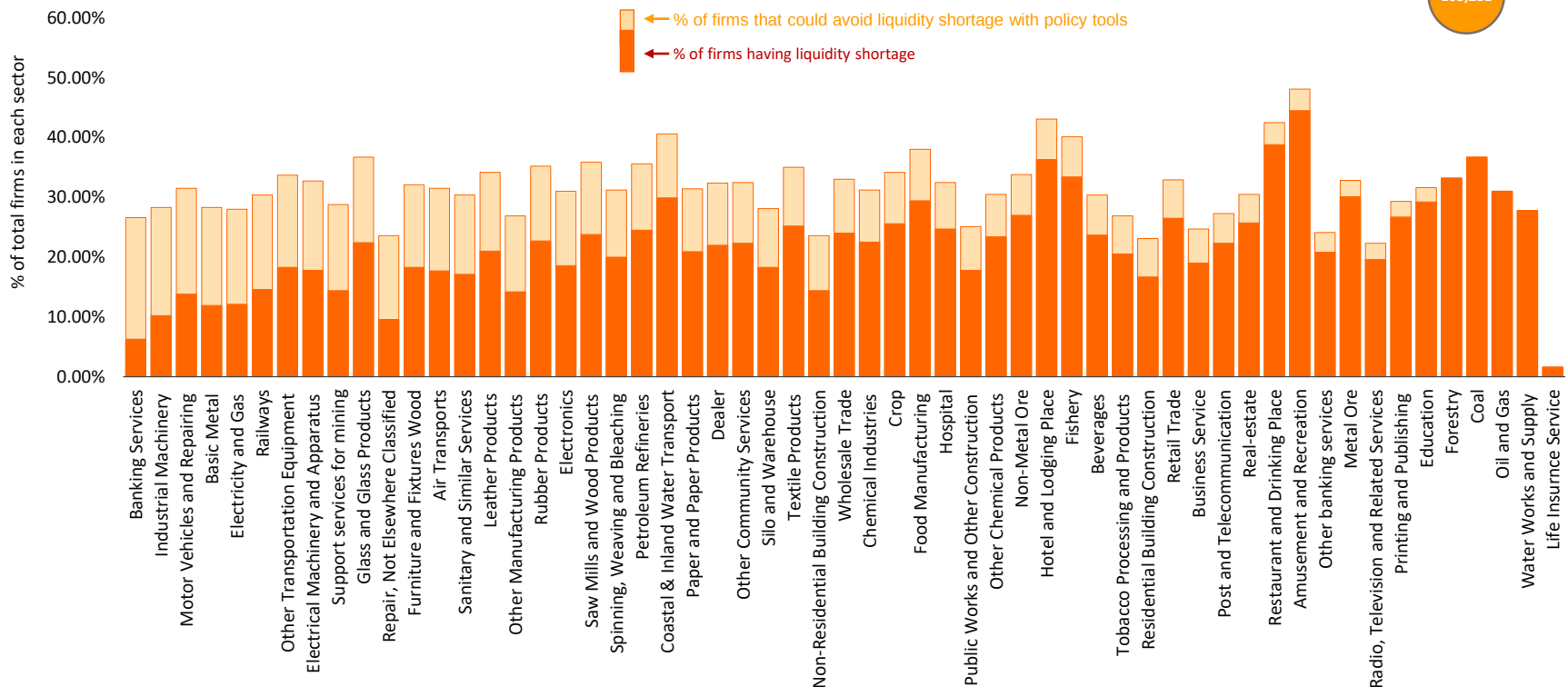
Number of firms that could be saved: **38,133 (26.6%)**

Number of firms facing liquidity shortage

143,414

105,281

Firms that could face or avoid liquidity shortage in 2021



Source: DBD, Krungsri Research

V. Direct loans targeted at severely-troubled firms would prevent more than 40,000 closures

Assumption: THB500 billion are lent to targeted firms that meet two criteria:

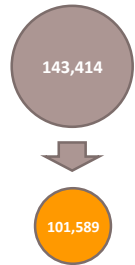
(i) severity of impact (quick ratio analysis), and (ii) degree of positive multiplier effect on other sectors

Firms that would benefit from this program: All troubled firms

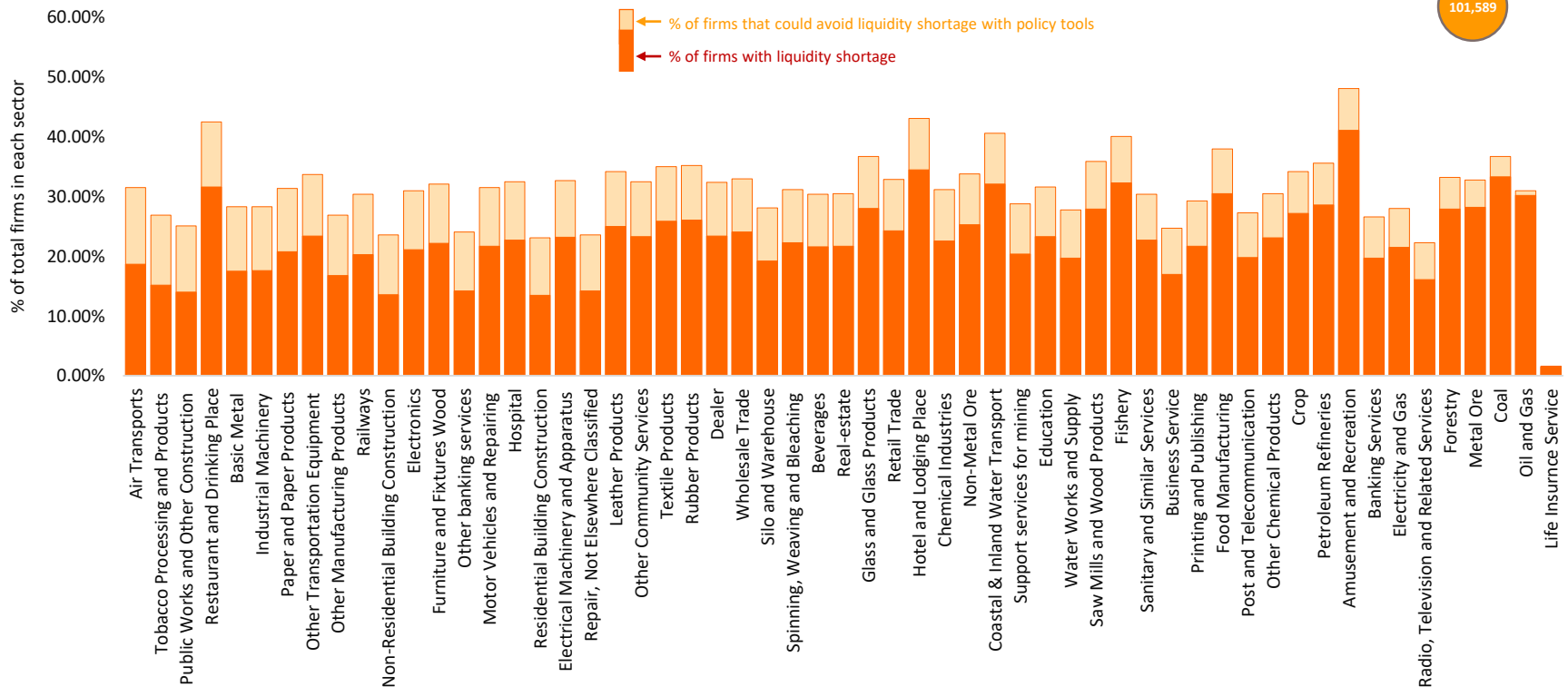
Cost: Government bears costs in case of defaults

Number of firms that could be saved: **41,825 (29.2%)**

Number of firms facing liquidity shortage



Firms that could face or avoid liquidity shortage in 2021



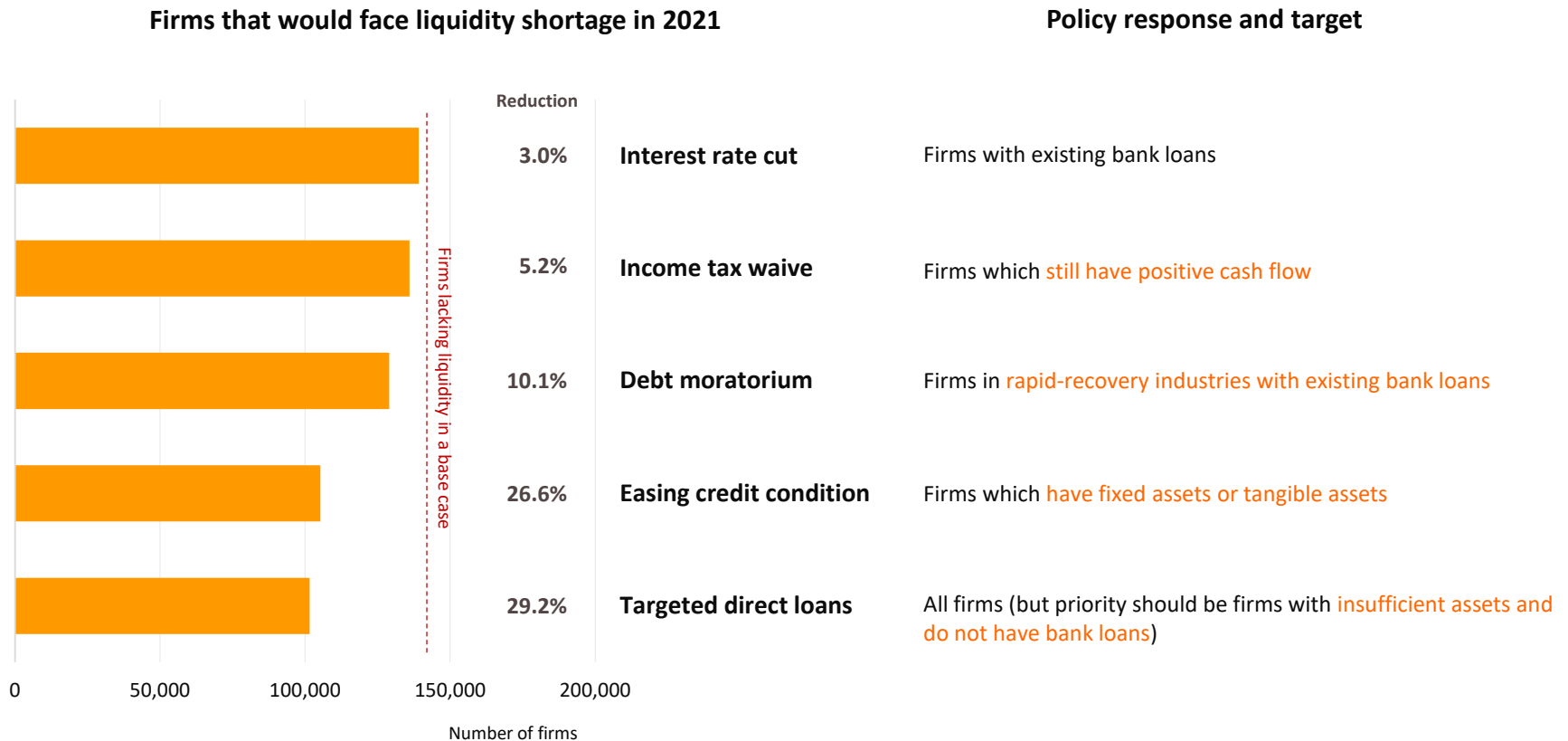
Note: (i) "Quick liquidity ratio gap" is the liquidity required to make current assets equal to current liabilities.

(ii) Linkage among firms across industries is evaluated by correlating revenues.

Source: DBD, Krungsri Research

Conclusion: Targeted loans and easing credit conditions would be best to keep businesses afloat

These two tools would help 29.2% and 26.6% of firms to avoid liquidity shortage in the next two years, respectively. Interest rate cuts would help only 3.0% of total firms. More importantly, each policy tool would benefit a different type of business. Debt moratorium and interest rate cuts would help those with existing bank loans. Corporate income tax waiver would only benefit firms with positive cash flow, while easing credit conditions would only help those with sufficient assets. Targeted direct loans would help all severely-troubled firms.

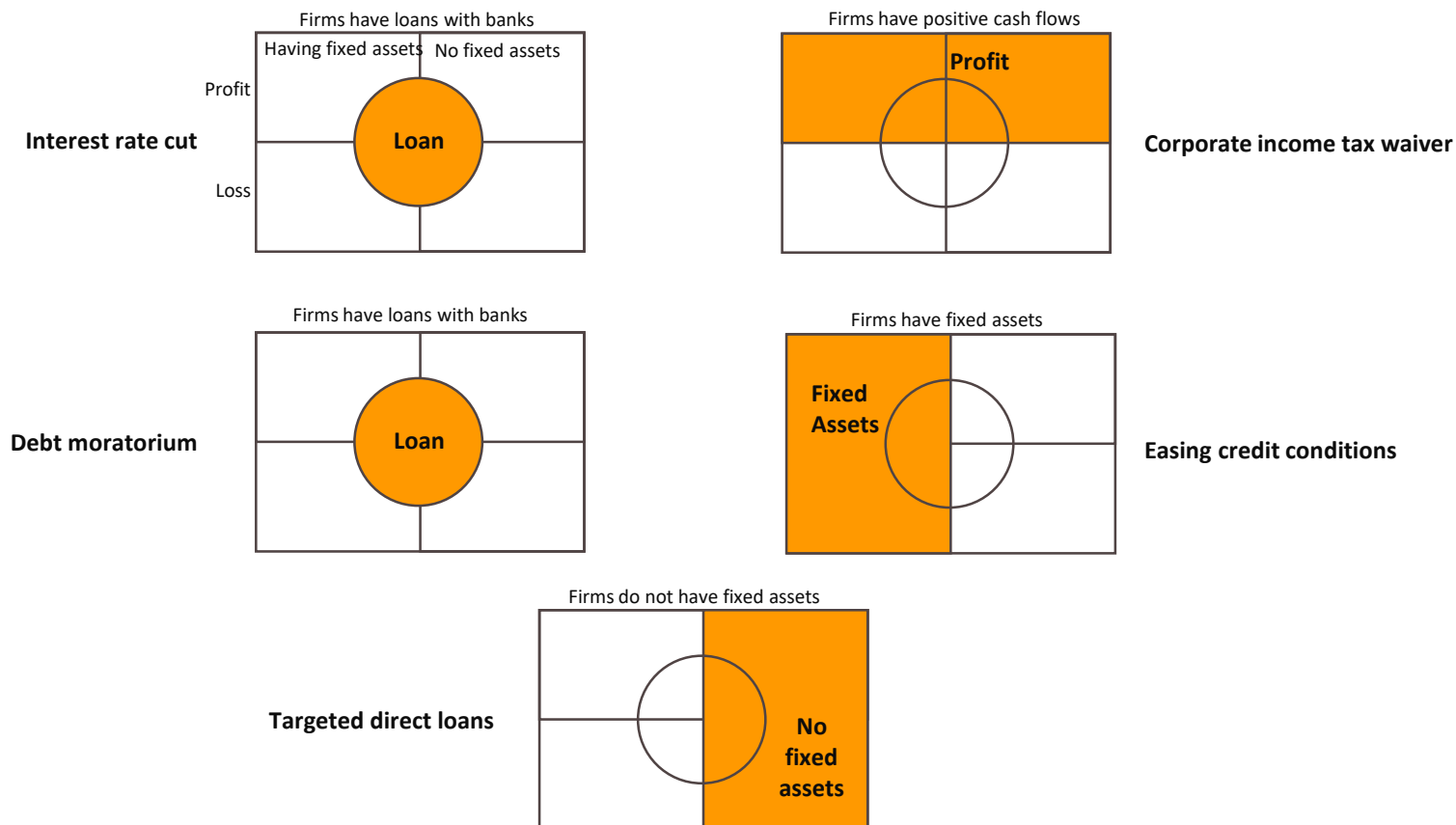


Source: DBD, Krungsri Research

Policy choices should be determined by the problems

Each policy tools would benefit each business differently. Each tool would also have limited resources and there are limitations for each policy instrument. On this note, we opine policy tools should be determined by the targeted business. For example, if the targeted businesses have sufficient fixed assets, the solution would be easing credit conditions. For firms with little fixed assets and no bank loans, the appropriate tool would be targeted direct loans. Economic policy responses are important especially during a crisis. They would not only prevent business closures in the near-term but could keep the economy on its *potential growth* trajectory in the long term.

Policy response and target



Source: Krungsri Research

Regional Economic and Policy Developments in September

ASEAN

- ASEAN manufacturing PMIs have been more stabilized, though remain contract; yet to see concrete signs of recovery.

Myanmar

- Myanmar targets 6% GDP growth in FY2020-21 led by an anticipated increase in FDI inflows and election spending.

Lao PDR

- Moody's downgrades government issuer rating by 2 notches to Caa2, changes outlook to "Negative".

Vietnam

- Vietnam's exports hit new high at USD26.5bn in August; promising growth outlook.
- Vietnam to halve its 2020 target growth range to 2.0-2.5% given weak consumption and modest recovery of exports

Cambodia

- Cambodia resumes international flights with several Asian countries; outlook remains negative given strict conditions.

Philippines

- A stronger peso would help to rein in inflationary pressure; more room to ease monetary policy.
- Philippines to launch *PhilSys* national ID with biometric information, improving access to the unbanked.

Indonesia

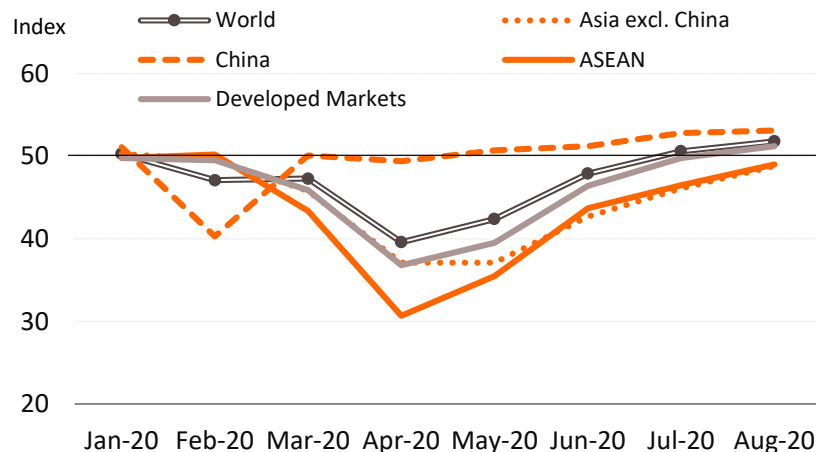
- Indonesian government adjusts 2020 target GDP growth to -1.1% to +0.2% due to larger downside risks.

ASEAN manufacturing PMIs have been more stabilized, though remain contract; yet to see concrete signs of recovery

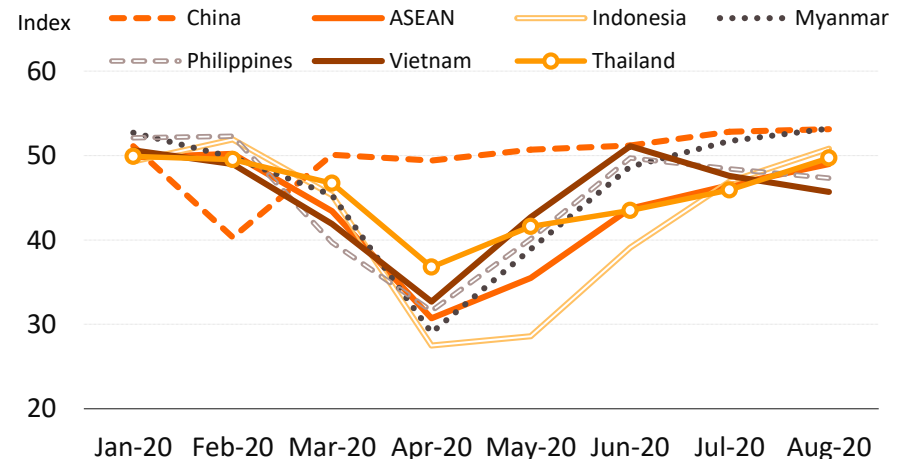
Krungsri Research's view

- After a deep contraction in 2Q20, the ASEAN Manufacturing PMI, based on IHS Markit survey, has improved gradually to a 6-month high of 49.0 in August. The recovery is in line with that for overall Asia (excluding China) but still lags behind the global average.
- Myanmar and Indonesia are leading the improvement in the ASEAN index. This is supported by recovering business conditions in the manufacturing sector as the two countries continue to relax lockdown measures. Output and new orders also expanded at a faster rate. These led to a mild improvement in the job market. However, we project the recovery has been driven by pent-up demand and reopening in some countries, which could be temporary given still-fragile consumption.
- Countries which registered a drop in PMI readings are Vietnam and the Philippines, due to a resurgence of COVID-19 cases. However, Vietnam has better conditions to support a recovery because it has had better success in containing the outbreak; the number of new cases has dropped from a daily average of 50 in the last week of July to single-digit since late-August.
- Looking ahead, we see a mixed – and weak – recovery for the manufacturing sector across ASEAN. They would be dragged by (i) still-rising COVID-19 cases in the Philippines and Indonesia, and authorities in Vietnam has reinstated lockdown measures in some cities after a spike in new cases, (ii) weak external demand as global growth would remain sluggish, and (iii) high unemployment for an extended period, which would cap consumer spending for a longer period.

IHS Markit Manufacturing PMI: World and region



IHS Markit Manufacturing PMI: China and selected ASEAN



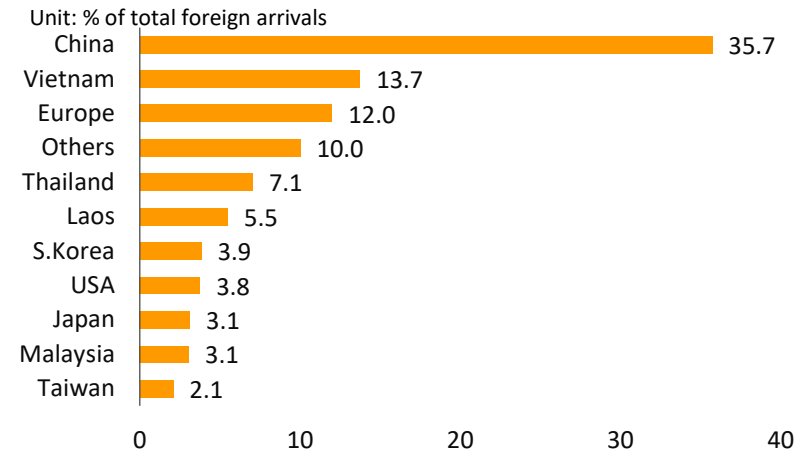
Source: IHS Markit, CEIC, Krungsri Research

Cambodia resumes international flights with several Asian countries; outlook remains negative given strict conditions

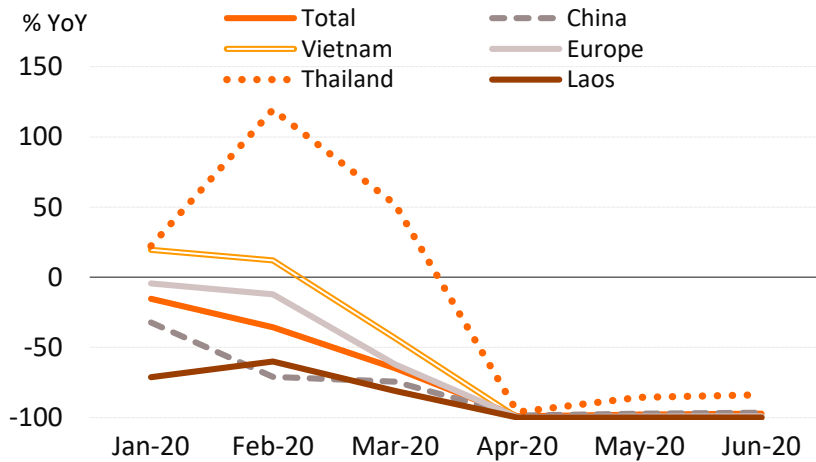
Countries resuming flights to/from Cambodia

Country	Start from
China*	3 September 2020
Japan	September 2020
Singapore	1 September 2020
Malaysia	1 September 2020

Share of top 10 foreign arrivals in Cambodia (2019, by country)



Top 5 sources of tourists in Cambodia



Note: * China will resume direct flights to Beijing from eight countries including Cambodia, Thailand, Greece, Denmark, Sweden and Canada from 3 September. (Reuters)

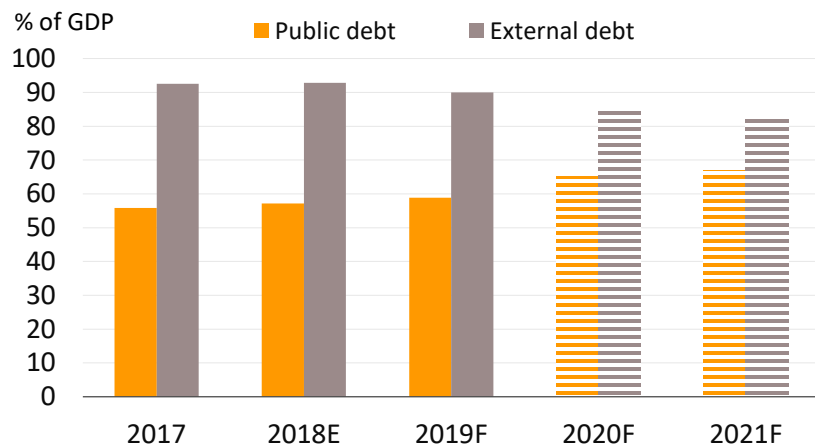
Source: Ministry of Tourism, Reuters, local news media, CEIC, Krungsri Research

Krungsri Research's view

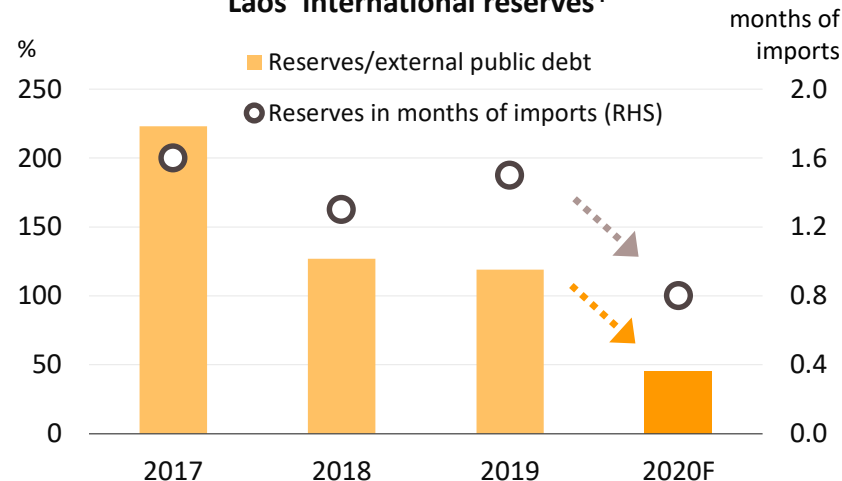
- Cambodia is among the first ASEAN member countries to resume international flights since early September to/from several Asian countries including China, Japan, Singapore and Malaysia. **This move is not only critical to support economic recovery and for medical purposes, but also for people with a work and/or residence permit and for business travel.** To prevent a second wave from imported cases, all arriving passengers are subjected to a COVID-19 test and mandatory 14-day quarantine at their designated locations.
- The latest move by Cambodian authorities may help the tourism sector, by reopening to foreign arrivals. However, **there would be limited positive impact on the tourism sector, which will still shrink this year, because leisure travel is still not permitted.** The above-mentioned countries account for 44% of total tourist arrivals (pre-COVID-19) in Cambodia (China is the largest source with 36% share). To conclude, we expect only a small number of foreign arrivals in Cambodia over the next few months. Major reasons include (i) the 14-day mandatory quarantine for each trip, (ii) still-high risk of a second outbreak from imported cases, and (iii) changing consumer behavior, e.g. fear of travelling overseas as cases continue to rise globally, weaker purchasing power, and rising unemployment.

Lao PDR: Moody's downgrades the government's issuer rating 2 notches to Caa2, outlook changed to "Negative"

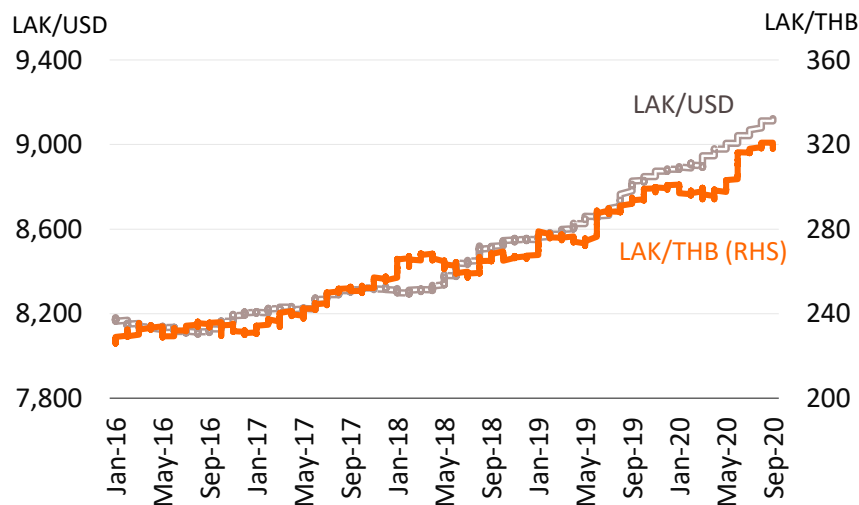
Laos' public and external debts



Laos' international reserves*



Laos: Foreign exchange rate



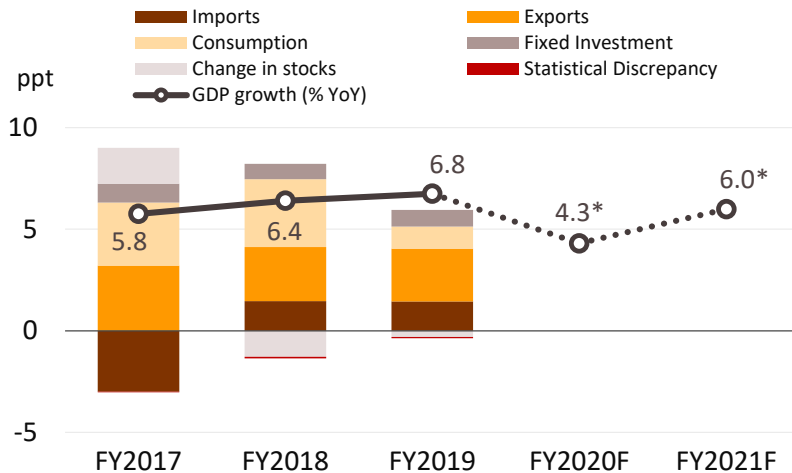
Note: * forecasted by the World Bank
Source: Moody's, the World Bank, CEIC, Krungsri Research

Krungsri Research's view

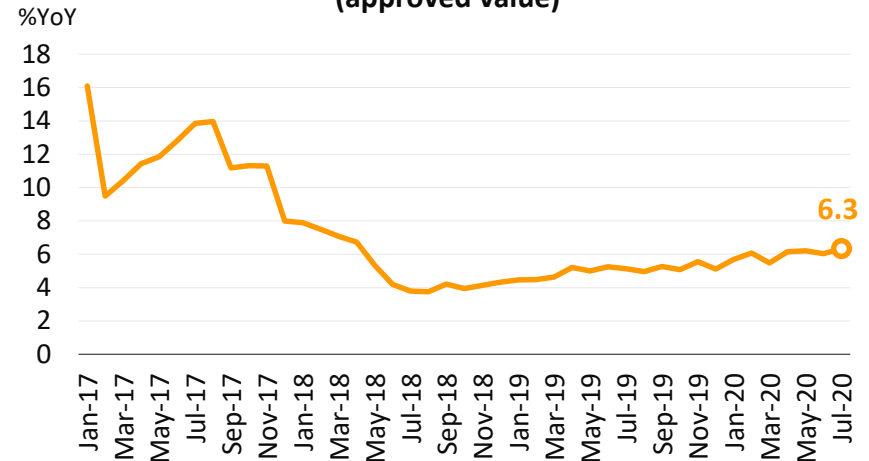
- On 14 August, Moody's Investors Service downgraded the Government of Laos' issuer rating to "Caa2" from "B3", and changed the outlook to "negative". That rating reflects Laos is facing severe liquidity stress, given sizeable debt repayment due this year and up to 2025, according to Moody's.
- In our view, the main determinant of country conditions is the interplay between structural weakness and cyclical factors in the country. Laos' economic fundamentals are weak, with relatively low government revenues, high public debt, high external debt, low foreign reserves, and high risk of debt distress. And recently, the cyclical factor triggered by the COVID-19 pandemic, has also dampened economic activities (weaker economic growth, more volatile FX rates, and rising inflation), which heightens country risks. Looking ahead, some improvement in the cyclical factors, e.g. easing COVID-19 impact, recovering exports of electricity, and FDI inflows in infrastructure and electricity generation, could help mitigate structural risks. Given the looming uncertainties, Laos needs to be more cautious of risks to external stability over the next few months.

Myanmar targets 6% GDP growth in FY2020-21, led by an anticipated increase in FDI inflows and election spending

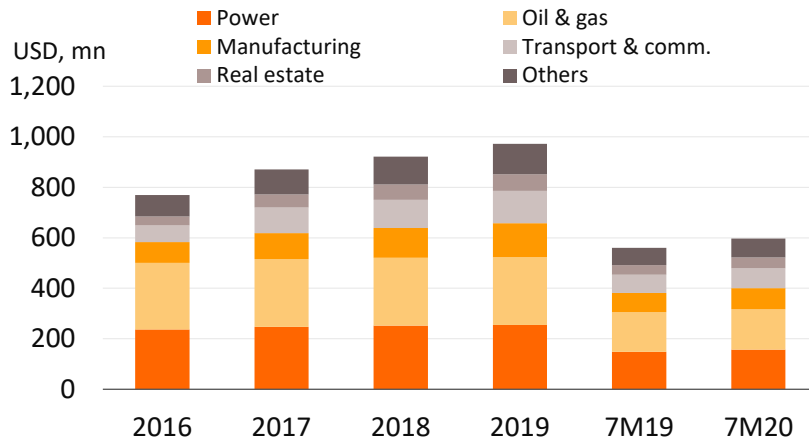
Myanmar: Contribution to real GDP growth (%)



Growth of cumulative FDI inflow to Myanmar (approved value)



Myanmar: FDI by industry



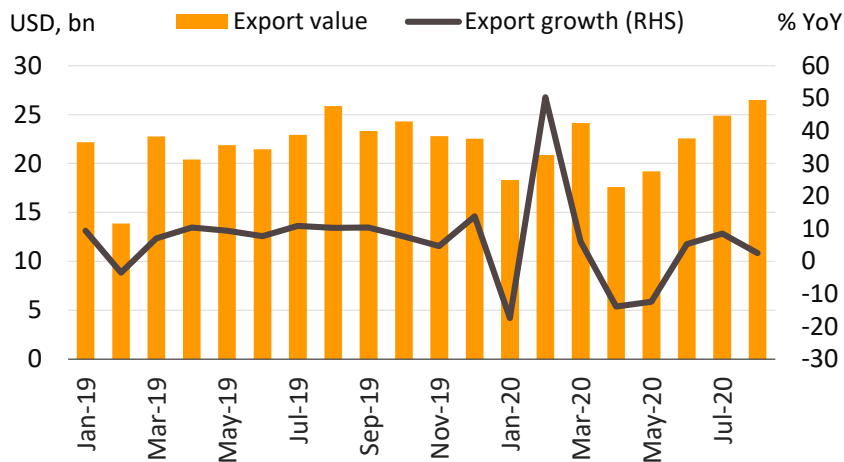
Note: * forecast by Myanmar's government
Source: Central Statistical Organization, CEIC, Krungsri Research

Krungsri Research's view

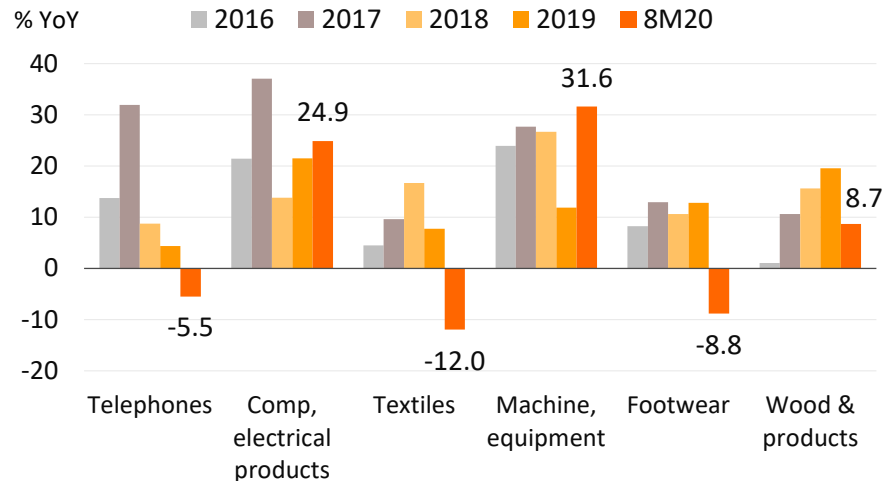
- Myanmar recently approved the National Planning Law for fiscal 2020-21. Under the law, **the economy is forecast to grow by 6% in fiscal year 2020-21 (October 2020-September 2021). Major growth drivers include power generation, communications, banking and finance, transport, and construction sectors.** In addition, the 2020-21 growth target is higher than the latest revised projection of 4.3% for fiscal year 2019-20, according to official data.
- We expect Myanmar's economy to recover to close to its medium-term growth rate of 6% by next year, supported by rising investment and fiscal spending – through stimulus measures and election spending.** FDI inflows to Myanmar grew 6.3% YoY in the first seven months of 2020, driven by the oil & gas industry. Looking ahead, Myanmar would continue to attract FDI to a wider range of sectors, including the financial sector as it continues to liberalize that industry, tax reforms, improving electricity supply, and other policies to promote investment.

Vietnam's exports hit new high at USD26.5bn in August; promising growth outlook

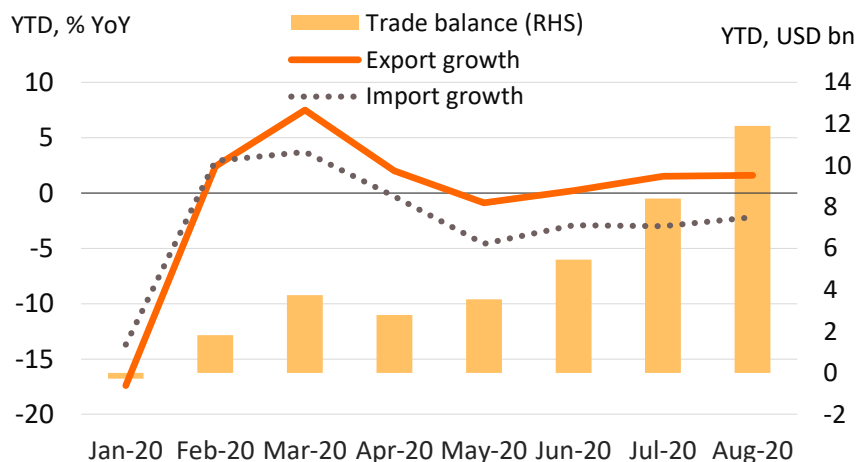
Vietnam's exports



Growth of Vietnam's major export products



Vietnam's trade statistics



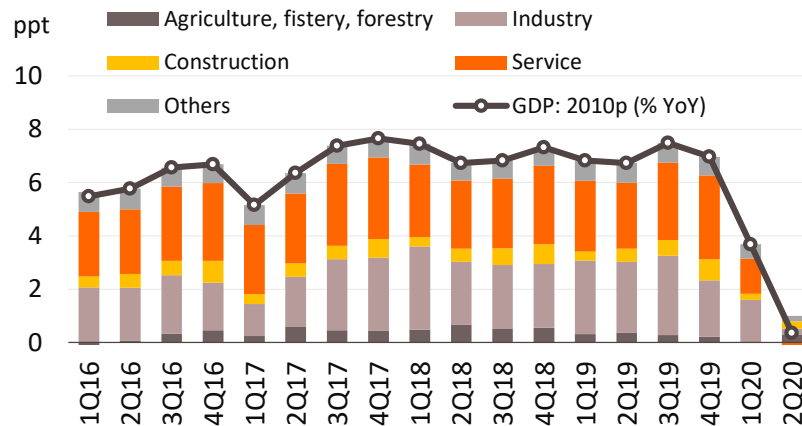
Krungsri Research's view

- Vietnam's exports grew by 6.5% YoY to a new-high of USD26.5bn in August. In the first 8 months of the year, total export value rose 1.6% YoY to USD174bn. However, imports fell 2.2% YoY in August. This led to a larger trade surplus of USD11.9bn – a new high for the country.
- For the rest of the year, we expect Vietnam's exports to continue to grow supported by strong competitiveness and the opportunity to export a wider range of products to more countries under several FTAs, including the CPTPP and EVFTA.** Exports of major product groups are projected to rise, including computer & electrical products (13.6% of total exports), machinery & equipment (7.0%), and wood & related products (4.0%). These product groups would see strong growth premised on improving economic conditions in the major export destinations. The US and China are Vietnam's largest export markets, partly because they have already expanded their supply-chain networks to various sectors in the country. However, the report by the US Department of Treasury that Vietnam made large foreign currency purchases in 2019, suggests there could be downside risk to if Vietnam is named a currency manipulator.

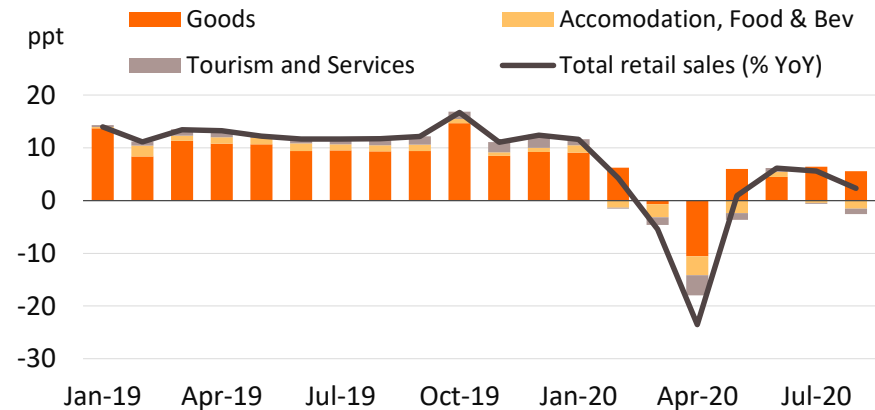
Source: General Statistics Office, CEIC, Krungsri Research

Vietnam may halve 2020 target growth range to 2.0-2.5% given weak consumption and modest recovery of exports

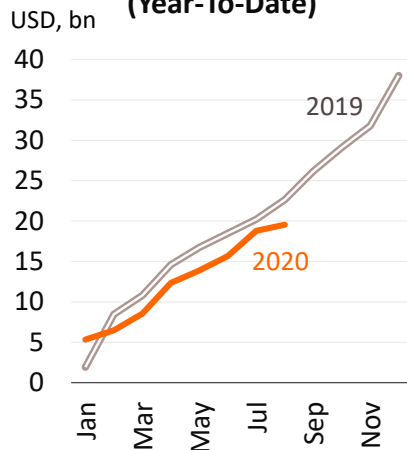
Vietnam: Contribution to GDP - Production side



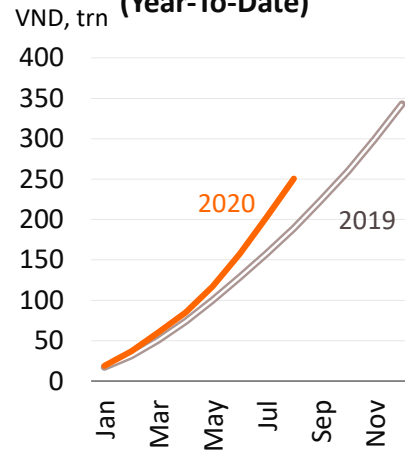
Vietnam Retail Sales: Contributors



**Vietnam's FDI value
(Year-To-Date)**



**Vietnam's state investment
(Year-To-Date)**



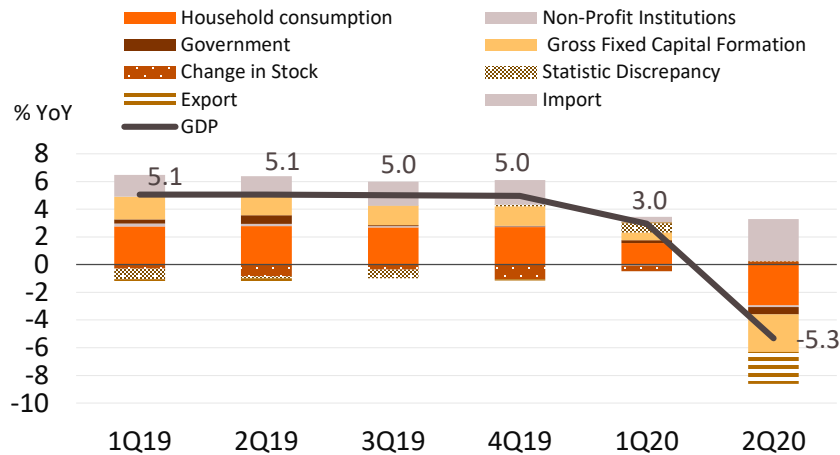
Krungsri Research's view

- Vietnam's government may downgrade its economic growth target range for this year to 2-2.5%, according to Nikkei Asian Review. In May, the government had vowed to deliver over 5% growth this year.
- We maintain a positive outlook for Vietnam, with growth projection of 2.0-2.5% for 2020. Growth would be supported by higher exports and FDI inflows, premised on (i) strong competitiveness, (ii) the several FTAs attracting more FDI, and (iii) diversification of potential sectors. However, to meet the current official target of 5.0% growth, 2H20 GDP would have to grow by at least 8.2%, which is challenging given still-weak domestic consumption and a modest recovery in exports. However, GDP growth could reach +3.2% in 2H20, which would take full-year growth to around +2.5%.

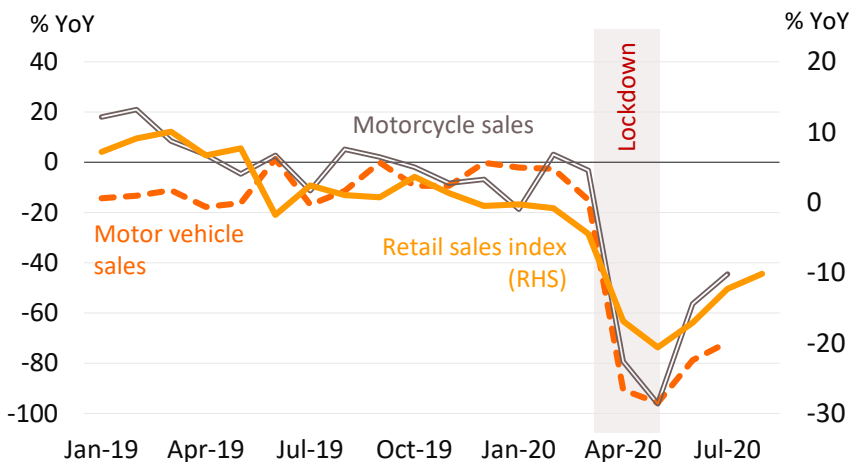
Source: General Statistics Office, CEIC, Krungsri Research

Indonesian government adjusts 2020 target GDP growth to -1.1% to +0.2% due to larger downside risks

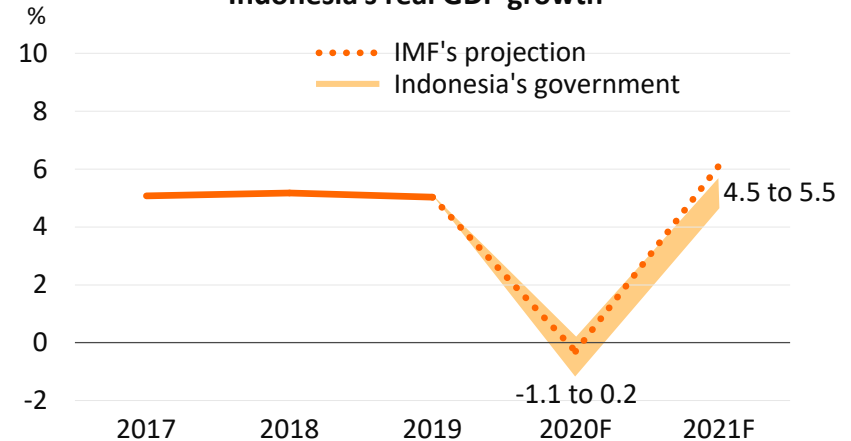
Indonesia: Contribution to GDP - Expenditure side



Indonesia's consumption spending indicators



Indonesia's real GDP growth



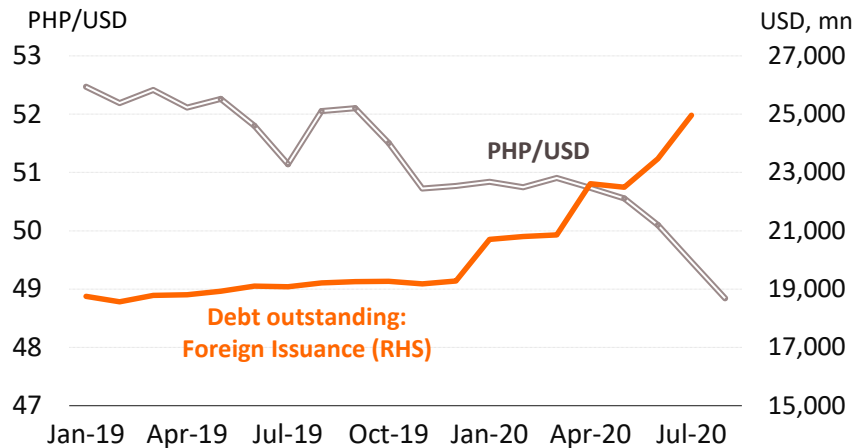
Krungsri Research's view

- Indonesia's government has revised down 2020 GDP growth forecast to between -1.1% and +0.2%, from -0.4% to +2.3% previously. It also projects 4.5% to 5.5% growth for 2021.
- We expect Indonesia's economy to enter a recession in 3Q20 and full-year GDP growth could be in negative territory. In 2Q20, the economy shrank by 5.3% YoY, the first contraction since the Asian Financial Crisis. However, we still see weak domestic consumption – the largest component at 57% of GDP – in 3Q20. In addition, the situation would likely deteriorate for the rest of the year as the country has reinstated lockdown in Jakarta since 14 September, which would dampen consumption spending. **This will partly offset the positive effect of government stimulus packages;** the government has spent IDR151.2trn as of the 1st week of August, only 21.7% of the total stimulus packages. But still-high unemployment – and the extended period of unemployment – will continue to dampen the consumption-dependent economy in the coming months.
- Though Manufacturing PMI improved, it was mostly driven by pent-up domestic demand since reopening. External receipts, including exports, tourism, FDI, and remittances, are expected to decline further as the extended pandemic continues to hurt the global economy. July exports contracted by 9.9% YoY. In 1H20, FDI inflow to Indonesia fell by 38.8% YoY to USD8.8bn (or 1.7% of GDP). The country's plan to resume inbound tourism is also delayed to 2021 as Bali – the pilot tourism destination to reopen – has announced it would postpone reopening to next year.

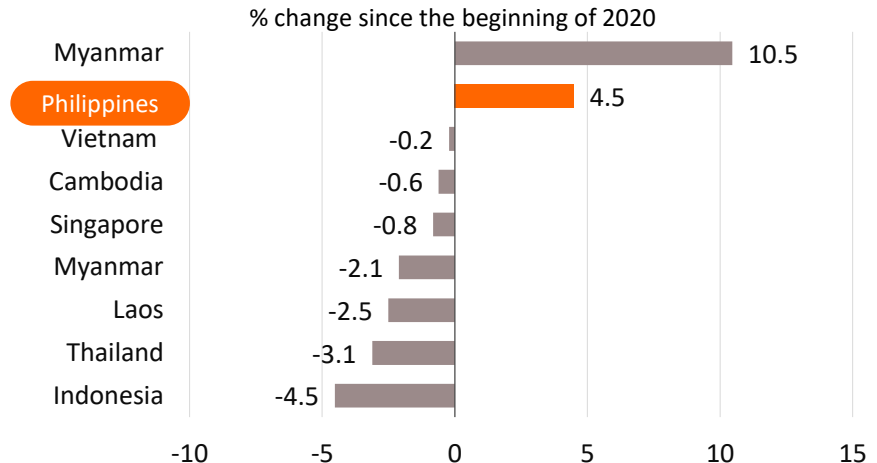
Source: IMF, Bank Indonesia, Central Bureau of Statistics, CEIC, Krungsri Research

Philippines: Strong peso will tame inflationary pressure; more room to ease monetary policy

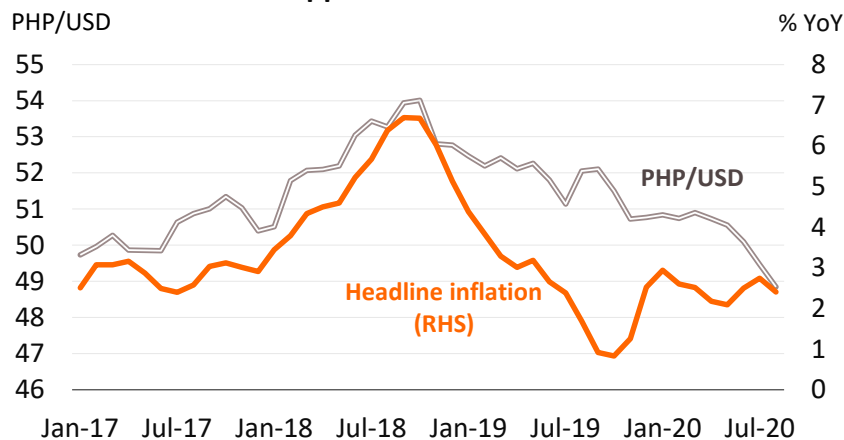
Philippines: Outstanding Debt and PHP/USD Rate



Local currency movements in ASEAN (end-August 2020)



Philippines: FX and Inflation



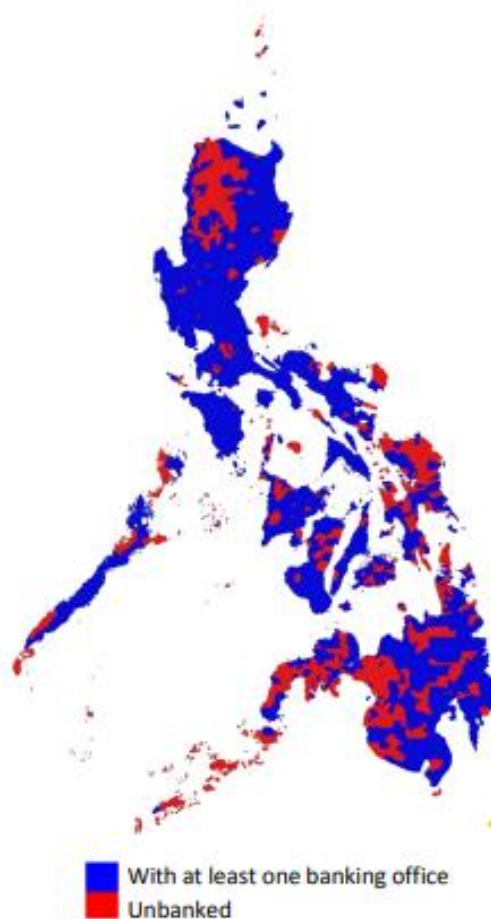
Krungsri Research's view

- **The Philippine peso has appreciated by 4.5% this year.** The key reason for that is because **the government has been issuing foreign currency bonds to finance its fiscal stimulus programs this year.** The other reason is **the weakening USD.**
- **In addition, inflationary pressure remains benign in the country.** Inflation moderated to 2.4% YoY in August from a 6-month high of 2.7% in July. Looking ahead, we expect inflation to remain within the BSP's target of 2%-4% the rest of the year, given still-weak demand and low cost-push inflation pressure given the strong peso would reduce cost of imports.
- Given the strong peso and low inflationary pressure, there is room to ease monetary policy to reduce the impact of the deep economic recession the country is experiencing. BSP governor Diokno recently said the central bank made a prudent decision to hold interest rate at 2.25%. **We expect the central bank to ease monetary policy by introducing more instruments, including a targeted policy, and another 25 bps rate cut.**

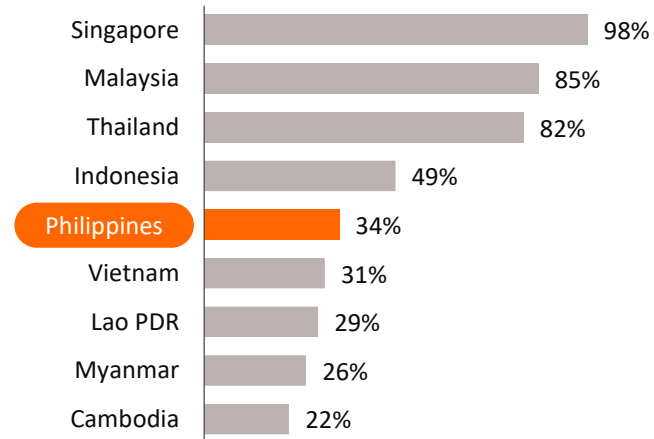
Source: Bangko Sentral ng Pilipinas, Philippine Statistics Authority, CEIC, Krungsri Research

Philippines to launch *PhilSys* national ID with biometric information, improving access to the unbanked

Map of bank locations and the unbanked in Philippines



Population with bank accounts* (% , age 15+)



Krungsri Research's view

- Authorities recently announced the Philippine Identification System (*PhilSys*) – an ID that uses biometric technology and contains personal details for identification. That is expected to be implemented in 4Q20.
- In the next few months, *PhilSys* could help to facilitate the rollout of welfare benefits to citizens affected by the COVID-19 impact. Over the longer term, we see the *PhilSys* could play a key role in transforming the Philippines into a digital economy. The ID would also allow greater financial inclusion of the unbanked, because the ID would be accepted as proof of identity through the biometric information, instead of the documentary method. The BSP targets to increase financial access of adult Filipinos from 34% of the national population to 70% within three years. According to data from the Global Findex database (2017), the percentage of unbanked in the Philippines is the median in ASEAN. Among the population aged 15+ with no bank account, the biggest reason is because financial institutions are too far away (29%) and they do not have the necessary documentation (32%).

Note: * data from Global Findex database (2017)
Source: Bangko Sentral ng Pilipinas, World Bank, CEIC, Krungsri Research

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