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Research

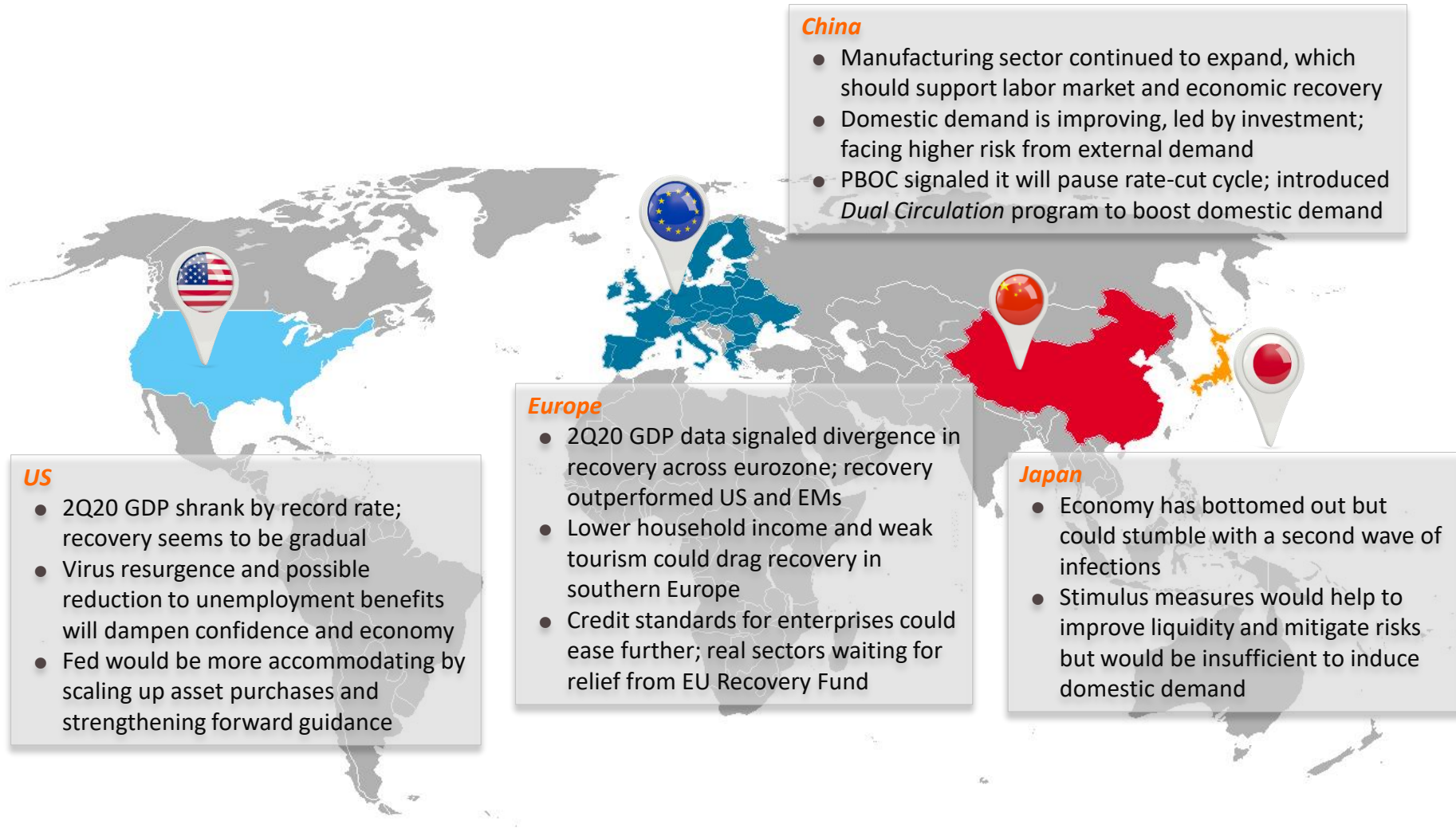
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MONTHLY ECONOMIC **BULLETIN**

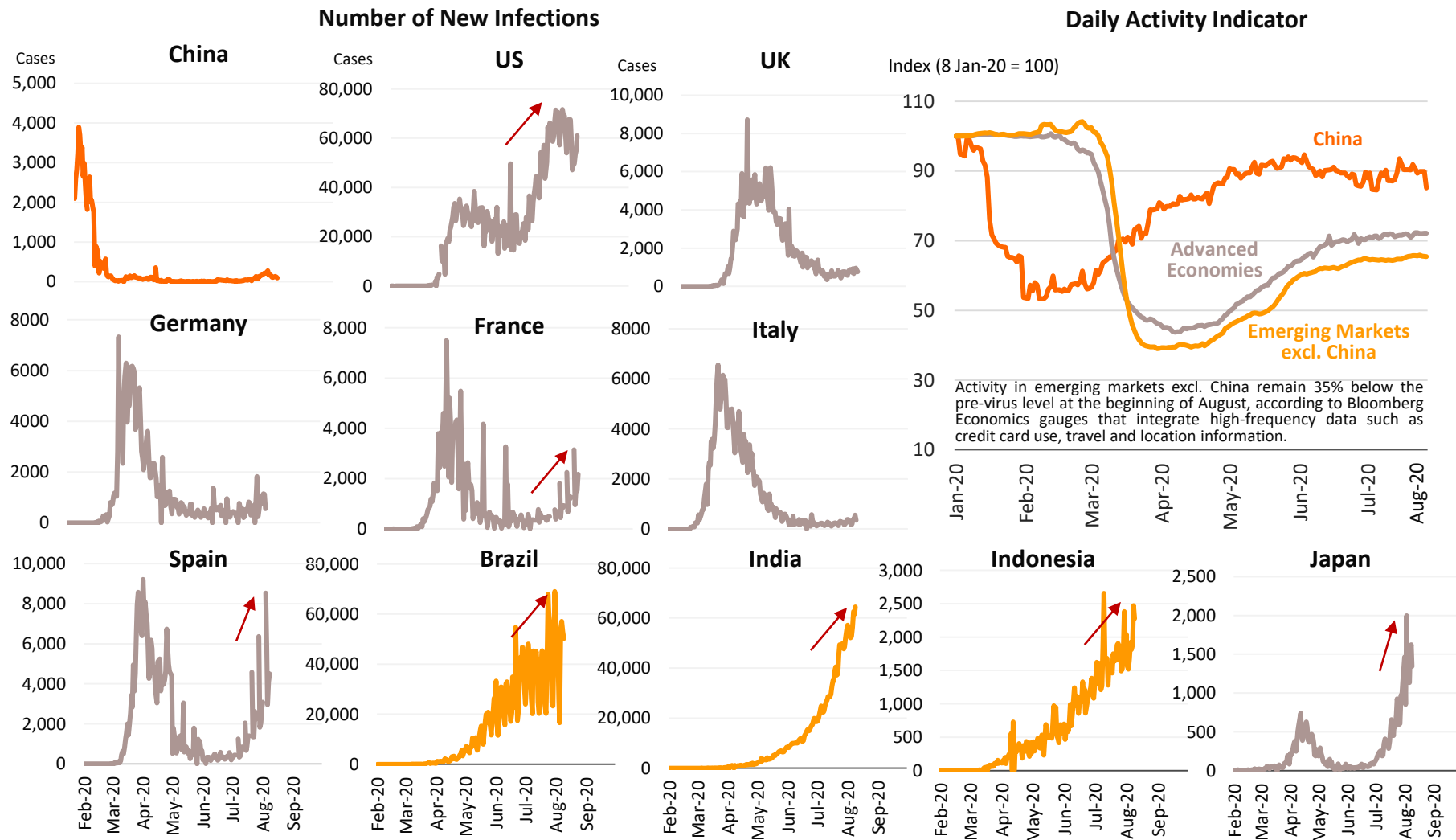
August 2020

Krungsri Research

Global: Uncertain and divergent recovery



Different pandemic dynamics created divergent recovery trajectories; China economy outperformed



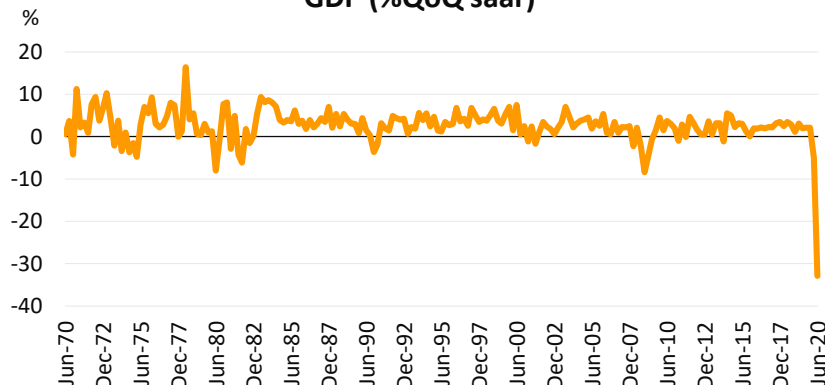
Note: Aggregates are weighted using 2019 PPP weights. Advanced Economies include the US, Canada, Japan, Germany, France, Italy and Spain. Emerging Markets include Brazil, Mexico, Argentina, Colombia, Chile, Turkey, India, South Africa, Russia, Indonesia and Saudi Arabia

Source: WHO, Bloomberg Economics, Google, Moovitaap.com, Bloomberg NEF, Shoppertrak.com, Opportunity Insights, Krungsri Research

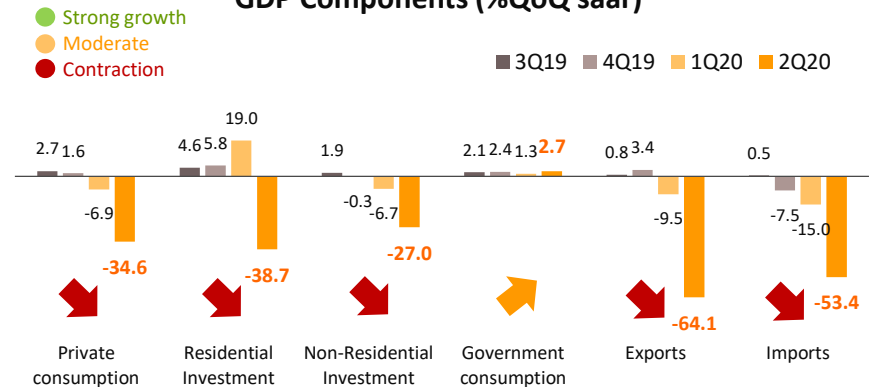
US: 2Q20 GDP contraction largest in its history; recovery is slow

In 2Q20, US GDP shrank by 32.9% QoQ annualized, the largest contraction since 1947, reflecting the devastating impact of the lockdown. The economy was hammered by the sharp drop in personal spending (-34.6%), residential investment (-38.7%) and exports (-64.1%). But economic activities have been improving since May. Manufacturing PMI inched up from 52.6 in June to 54.2 in July, led by expanding production. Non-manufacturing PMI rose to 58.1 in July as new orders sub-index jumped to a record high, but employment sub-index fell for the 6th consecutive month. Other labor market indicators reflected a slight improvement. Non-farm payrolls increased by 1.76 million in July, slowing down from +4.8 million in June. July job gains still left employment at 13 million jobs below February level. **Looking ahead, the economy would continue to recover in 3Q but it has been slow since early July with the resurgence of COVID-19 infections and the end of unemployment benefits.**

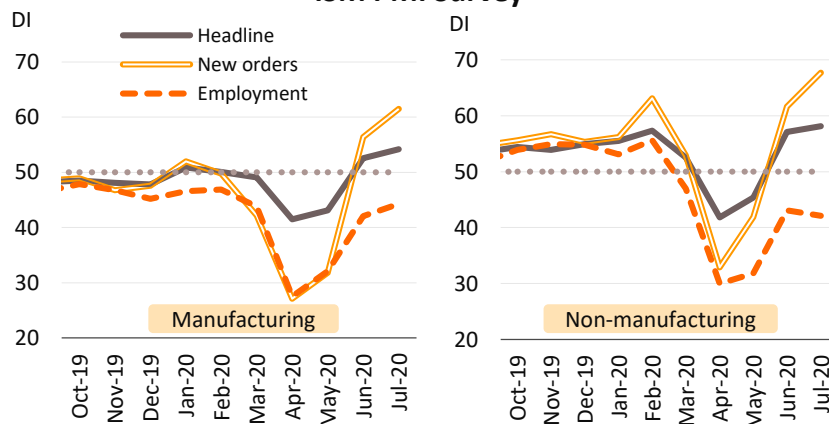
GDP (%QoQ saar)



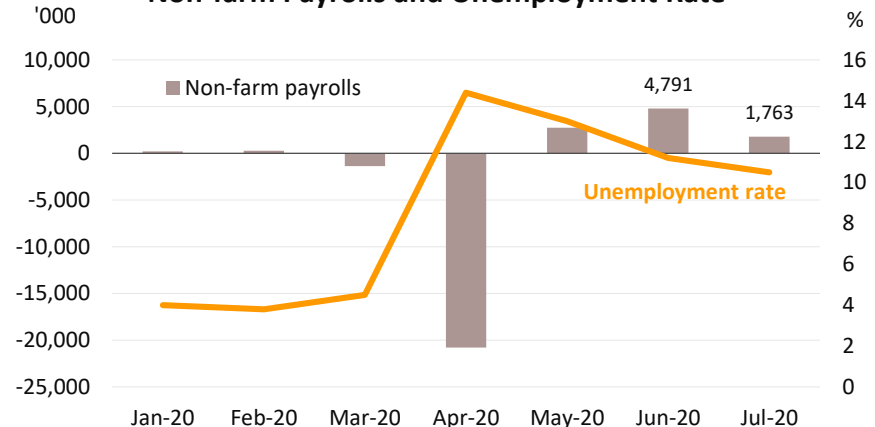
GDP Components (%QoQ saar)



ISM PMI Survey



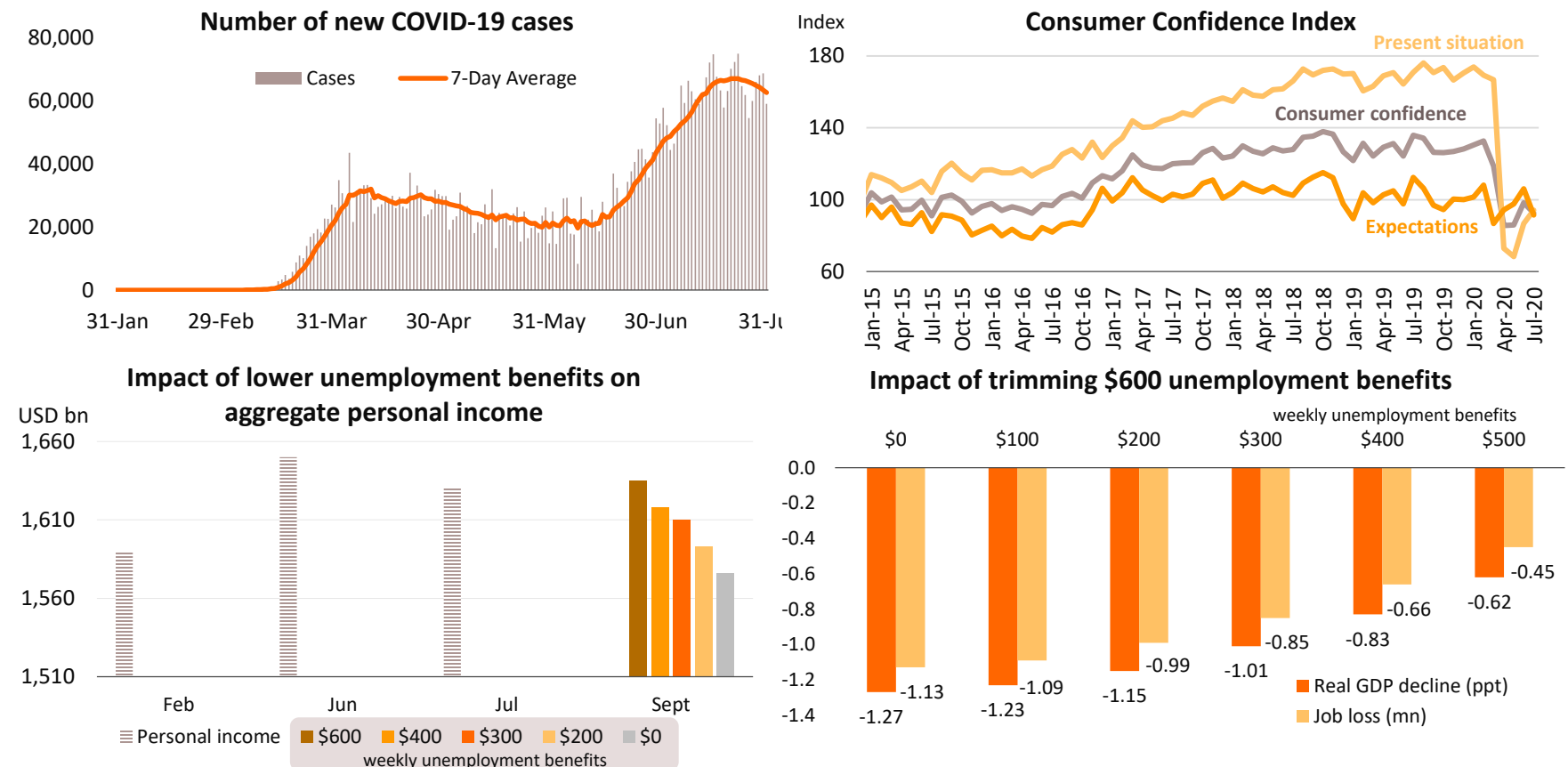
Non-farm Payrolls and Unemployment Rate



Source: Institute for Supply Management (ISM), Bureau of Economic Analysis (BEA), Bureau of Labor Statistics (BLS), Bloomberg, Krungsri Research

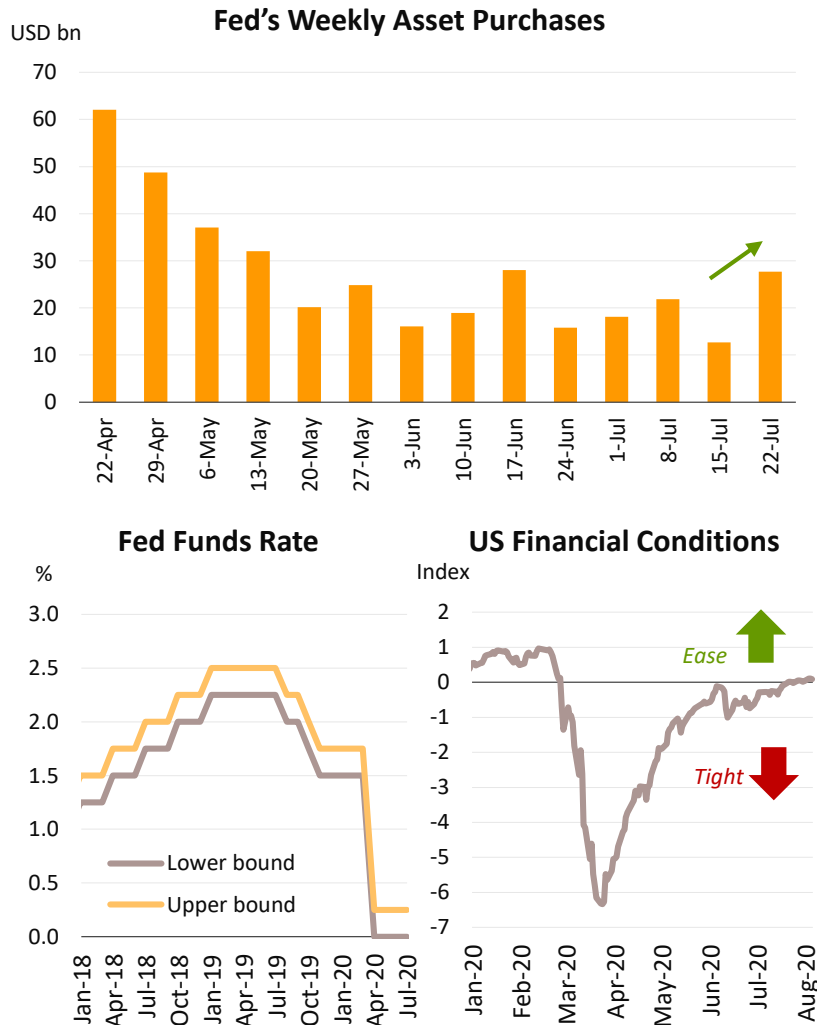
Virus resurgence and possible cut in unemployment benefits will weigh on confidence and the economy

New infections had exceeded 50,000 a day since early July, posing risks to consumer outlook and financial prospects. Consumer Confidence Index has dropped from 98.3 in June to 92.6 in July, while expectation index has tumbled to 91.5, the lowest since 2017. Household consumption will worsen after the \$600-per-week unemployment benefit expires at end-July and lawmakers remains in a deadlock. Democrats has proposed to extend the benefits while Republicans wants to cut that to \$200 a week pending the set-up of a system to cover 70% of prior earnings. Millions of Americans could lose a crucial financial lifeline and that could hurt economic recovery. **If the benefit is not extended, aggregate personal income would drop by USD54bn in September from June level. This would reduce GDP by 1.27 percentage points (ppt) and the economy could lose 1.13 million jobs.** Trump tried to assert executive orders by signing four orders, including a \$400 weekly unemployment benefit, extend payroll tax deferral, eviction protection, and deferment of student loans, but this would be a struggle because only Congress has the power to approve such budgets. However, we expect **Congress to finally approve the benefits but it might be less than \$400 a week due to concerns over government debt levels.**



Source: Center of Disease Control and Prevention, Conference Board, Bureau of Economic Analysis(BEA), Moody analytics, Bloomberg, Krungsri Research

Fed would be more accommodating by scaling up asset purchases and strengthening forward guidance



Source: Board of Governors of the Federal Reserve System, Bloomberg, Krungsri Research

Krungsri Research's view

Key message from FOMC meeting:

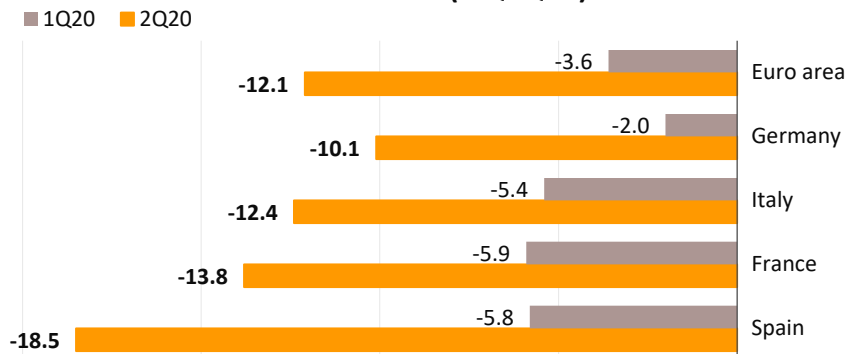
- (i) FOMC unanimously left interest rate unchanged at 0-0.25% at the latest meeting
 - (ii) Fed remains committed to use the "full range of tools" to support economy in this challenging time
 - (iii) Fed will **extend lending facilities to further support lending and liquidity operations** to local governments, businesses and individuals as the resurges of cases in July would dampen recovery. The Primary Dealer Credit Facility, Money Market Mutual Fund Liquidity Facility, Primary Market Corporate Credit Facility, Secondary Market Corporate Credit Facility, Term Asset-Backed Securities Loan Facility, Paycheck Protection Program Liquidity Facility, and Main Street Lending Program, are **extended from September 30 to end of the year**. The Municipal Liquidity Facility will expire on December 31, and the Commercial Paper Funding Facility on March 17, 2021
- The resurgence of COVID-19 cases, uncertainty over fiscal policy, and the expiration of unemployment benefits, could complicate decisions on economic policy. **The Fed has accelerated weekly asset purchases again amid fears of a second wave.** Weekly asset purchases doubled in the last week of July from USD13bn to USD28bn. US financial conditions have eased at a slower pace with the index falling from 0.035 in late-July to 0.109 in early August, after improving strongly in May and June.
 - We expect **the Fed to strengthen forward guidance on interest rates and inflation, and scale up asset purchases at the next meeting on September 15-16**, after assessing the impact of latest policies.
 - (i) The Fed would maintain current interest rates until officials are confident the economy would be able to weather recent events and achieve its maximum employment and price stability goals, and has pledged not to raise rates until inflation hits at least 2%.
 - (ii) The Fed would be more accommodating by scaling up asset purchases, including raising its holdings of Treasury securities and agency residential and commercial mortgage-backed securities to support smooth market function.

Hence, at the next meeting, the Fed may make significant moves to push the economy back on the recovery track.

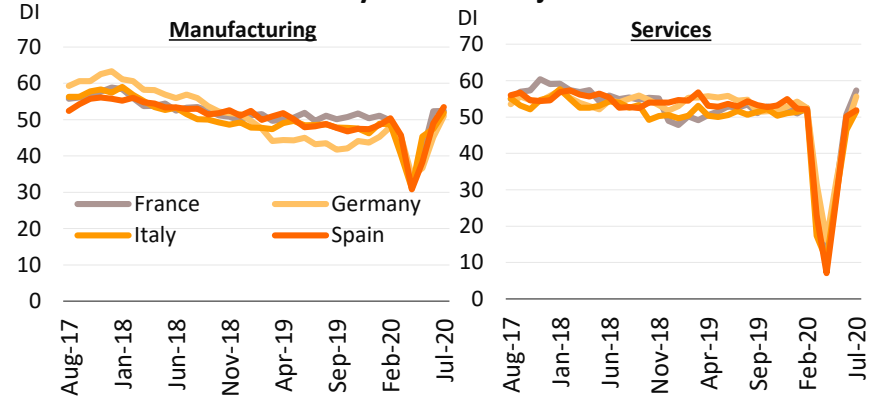
Eurozone: 2Q20 GDP show divergence in recovery across zone; recovery outperformed US and EMs

Eurozone GDP contracted by 12.1% QoQ in 2Q20. Spain was the worst performer at -18.5%, followed by France (-13.8%), Italy (-12.4%) and Germany (-10.1%). The severity of the pandemic impact differed across the eurozone, depending on the effectiveness of containment measures and stimulus measures. Overall indicators showed a broader recovery in early 3Q20. Manufacturing PMI in major countries rose above 50 in July, led by Spain at 53.5 and France at 52.4. Services PMI surged to 57.3 in France and 55.6 in Germany. Economic sentiment improved slightly in July, led by consumer confidence (-15), while the biggest rise was in services sector confidence, reflecting the late lifting of restrictions on parts of this sector. Alternative recovery trackers moved closer to pre-crisis levels in early August. Recovery is faster than in the US and emerging markets (EMs) partly due to relatively fewer new daily cases. **Germany and France are recovering faster. However, a jump in new daily cases in France and Spain recently could threaten economic recovery prospects and pace.**

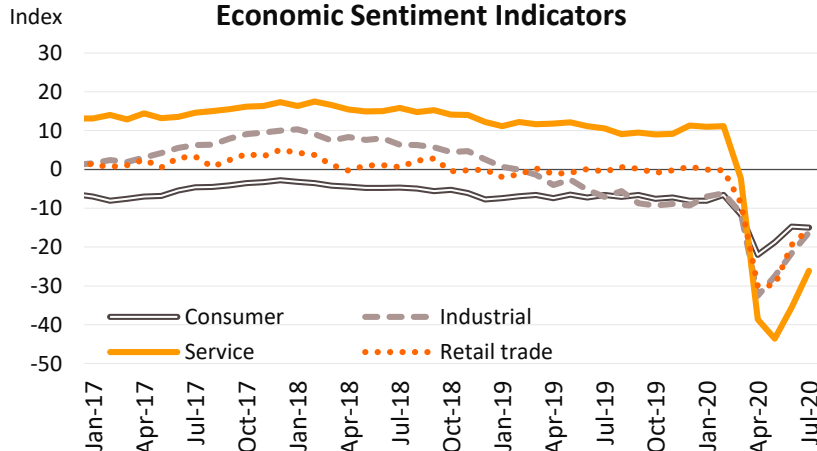
GDP Growth (%QoQ sa)



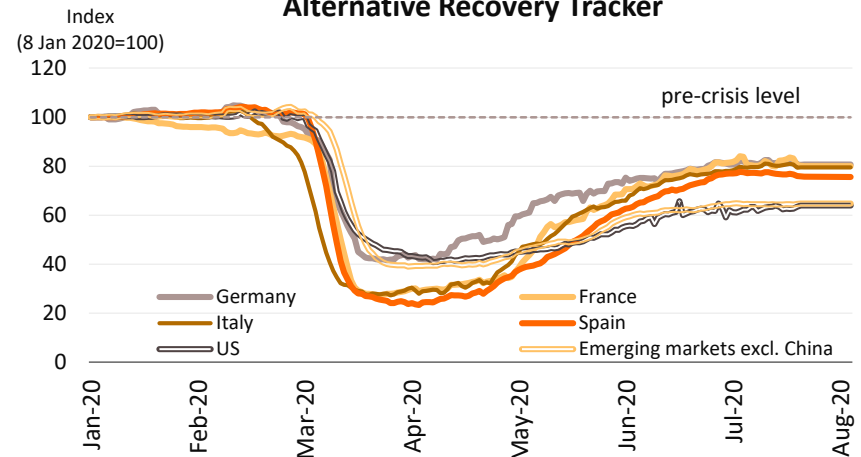
PMI Survey Data for Major Countries



Economic Sentiment Indicators



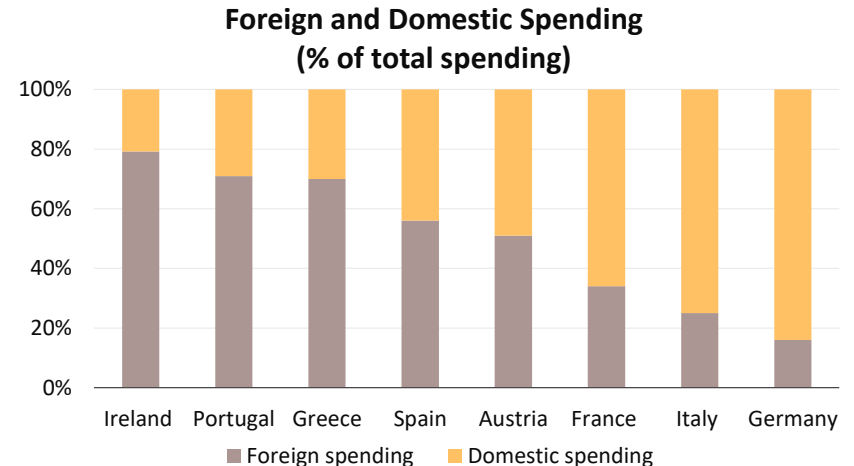
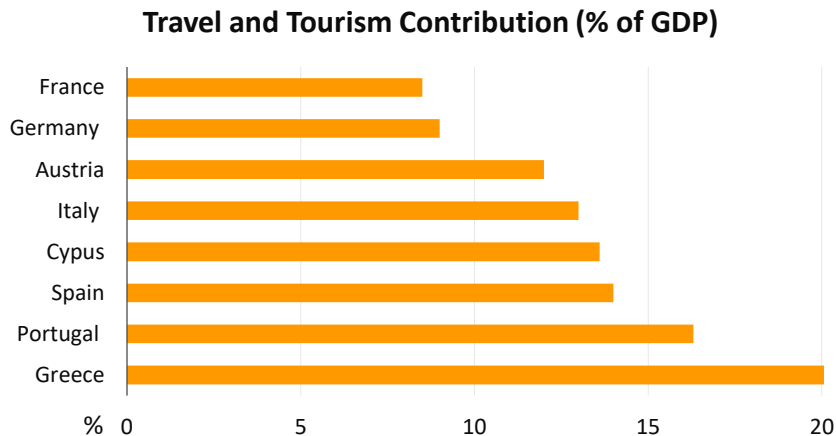
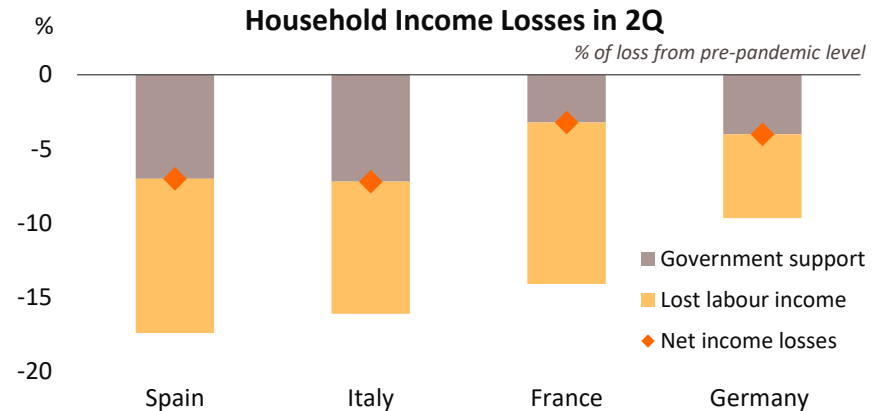
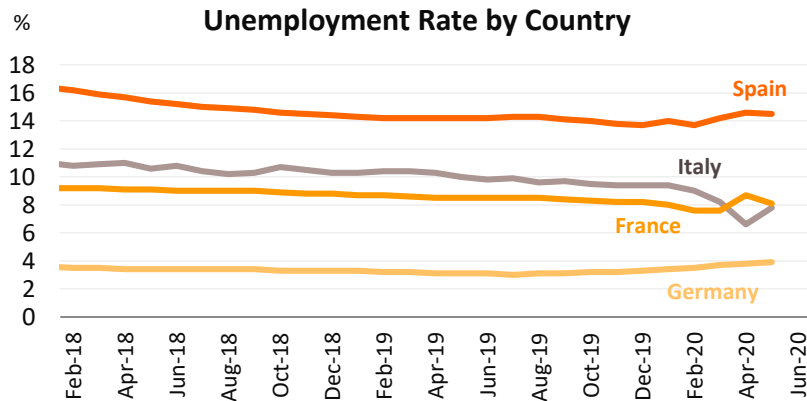
Alternative Recovery Tracker



Source: Eurostat, European Commission, IHS markit, Bloomberg, Krungsri Research

Weak household income and tourism sector could slow the pace of recovery in southern Europe

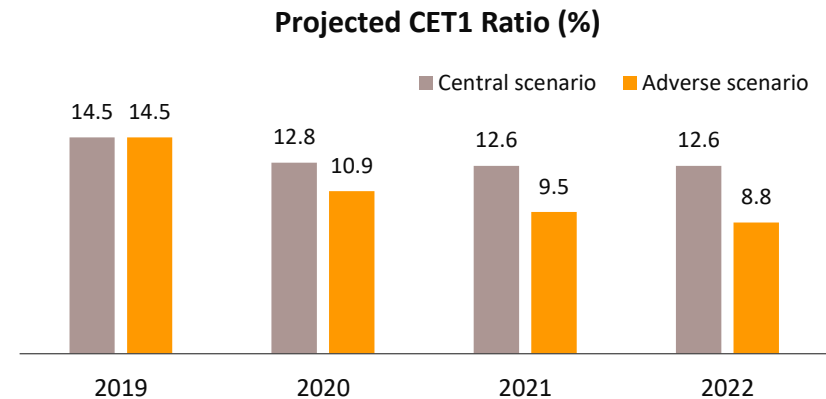
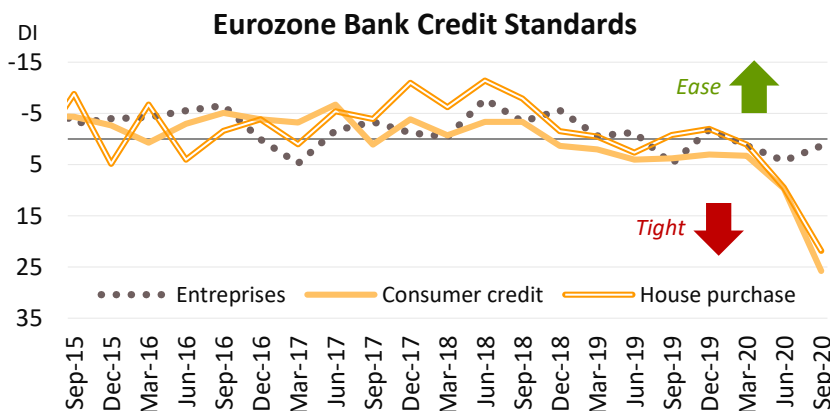
Unemployment rate has risen, especially in Spain where it rose from 14.4% in 1Q20 to 15.3% in 2Q20, more than double the EU average. **This could drag economic recovery which is dependent on household consumption, stimulus programs, and tourism activity in each country in eurozone.** Income losses in Germany might be offset by the *Kurzarbeit* program and other stimulus measures which are expected to trim income losses from 10% to closer 4%. Net loss of household income in Italy and Spain in 2Q20 reached 7.2% and 7.0%, respectively. The pace of economic recovery in southern Europe also depends on tourism activity. Tourism accounts for 14% of national GDP in Spain and 13% in Italy, while that in countries that are leading the recovery in eurozone like Germany and France, is less than 10% of GDP. Moreover, Spain's economy relies on foreign spending more than domestic spending, unlike other major countries. **Hence, we expect Spain to be hardest hit by the coronavirus pandemic and economic recovery could lag its neighbors because tourism activity would take longer to return to pre-pandemic level.**



Source: Eurostat, Capital Economics, World Travel and Tourism Council, Bloomberg, Krungsri Research

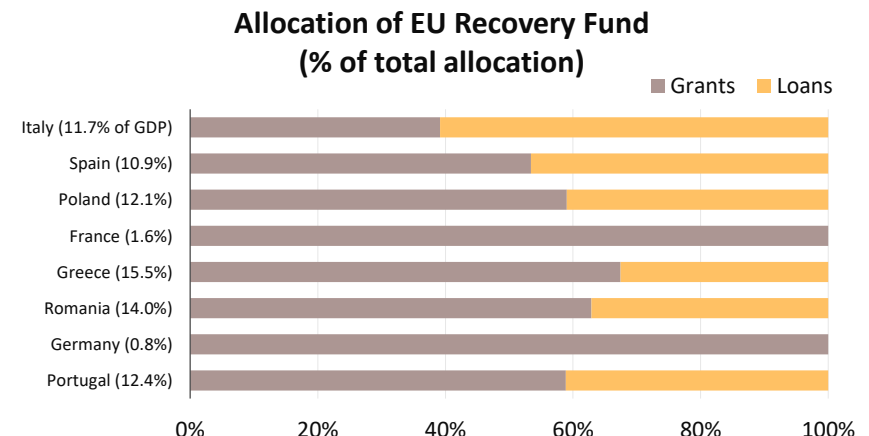
Credit standards for enterprises could ease further in 3Q; real sectors wait for relief from EU Recovery Fund

A survey of bank credit standards shows banks expect loans to enterprises to improve in 3Q20 following the ECB's actions to create favorable credit conditions. The ECB's vulnerability exercise conducted on 86 eurozone banks concluded that banks are resilient, with a 1.9 ppt depletion in Common Equity Ratio (CET1) under central scenario and 5.7 ppt under the severe scenario. Though banks would be able to cope with the COVID-19 repercussions, the ECB remains worried about the health of the financial sector. Hence, it has recently relaxed rules on capital requirements to give banks time to build up their capital bases and reserves as the Eurozone economy stumbles. Tighter credit conditions for housing loans and consumer credit suggest the real sector requires more support. **Each country's government has attempted to support their economies by extending the furlough program to at least the end of 3Q20 to maintain employment. However, Eurozone countries are waiting for relief from the EU Recovery Fund; 70% would be disbursed in 2021 and 30% in 2022 to help buoy household consumption and support economic recovery.**



ECB Recommendations for Commercial Banks

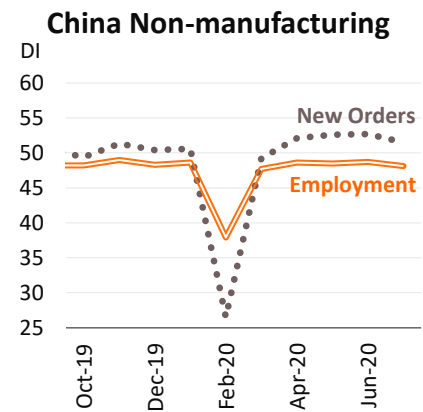
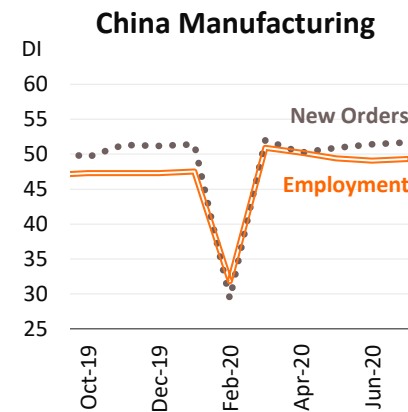
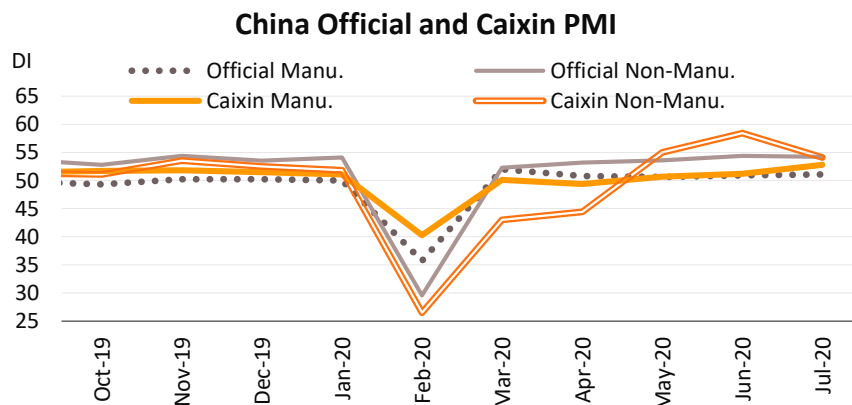
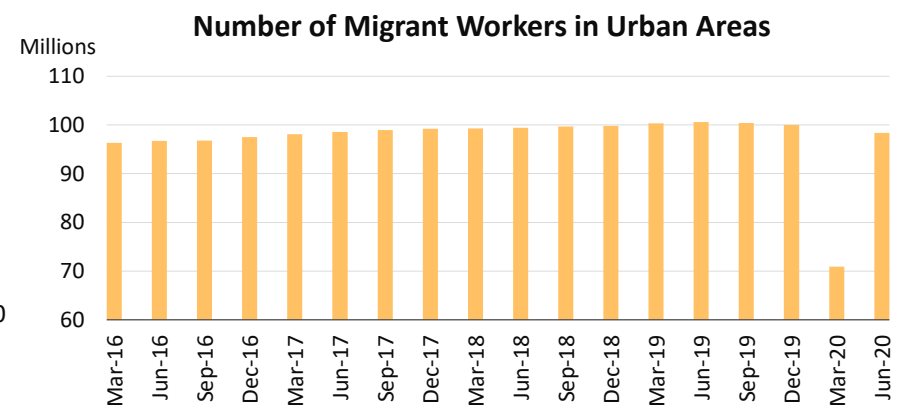
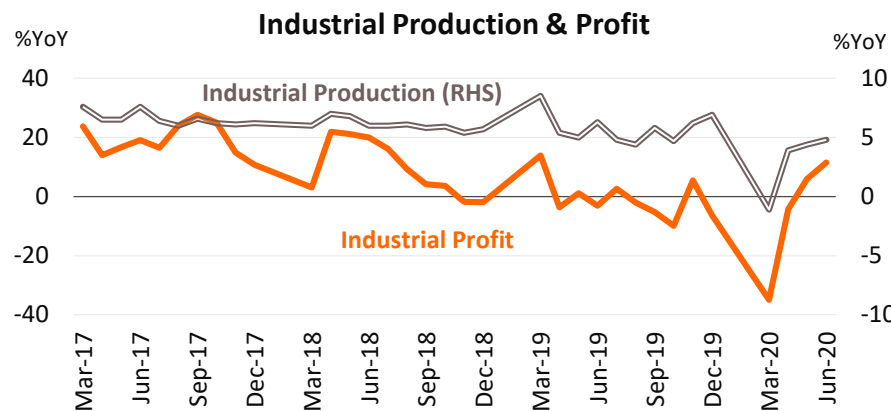
Measures	Extension	Objectives
Extend suspension of dividend payouts and share buybacks	To 1 Jan 2021	To preserve liquidity to support economic recovery.
Extend liquidity buffer requirement	To end-2021	To encourage commercial banks to use their capital and liquidity buffer and allow them more time to replenish capital and liquidity requirement.
Extend capital requirement	To end-2022	



Source: European Central Bank (ECB), European Banking Authority (EBA), Eurostat, Bloomberg, Krungsri Research

China: Continued expansion of production sector should support labor market and economic recovery

China's economy continues to move towards pre-COVID conditions. In June, industrial production rose 4.8 YoY, the largest increase in six months, and industrial profits surged 11.5%, the strongest since March 2019. **The rebound in economic activities support the re-absorption of migrant workers into the workforce** and consequently ease unemployment rate to 5.7% in June from 5.9% in May. Recovery was more pronounced in July as the Caixin Manufacturing PMI rose to 52.8, the highest since 2011, while the official Manufacturing PMI rose to 51.1, rising for the fifth straight month. Similarly, both Caixin and official Non-manufacturing PMI remained above-50, marking the third and fifth consecutive month of expansion, respectively. **The key recovery drivers were improvement in the new orders and employment sub-indices, which have returned to pre-outbreak levels.** Specifically, new orders for manufacturing rose to 51.7 in July, the highest in four months. **These improved PMI indicators suggest economic activity will continue to expand in 2H20.**

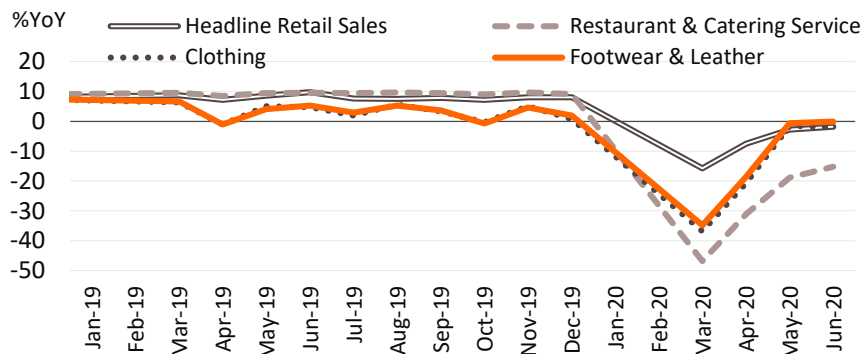


Source: National Bureau of Statistics, Caixin, HIS Markit, CEIC, Capital Economics, Trading Economics, Krungsri Research

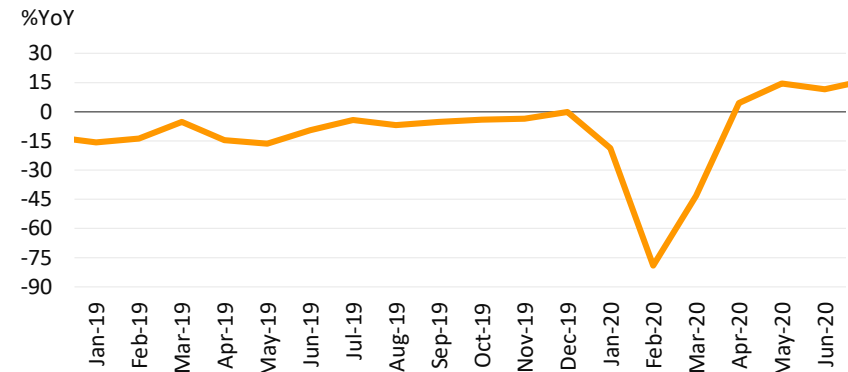
Domestic demand show signs of improvement led by investment; higher risk in external demand

Despite slow consumption growth, the continuous recovery in investment and the labor market are expected to propel domestic spending in the next period. In June, retail sales contracted by a smaller magnitude. Automobile sales surged 16.4% in July, rising for the fourth straight month. Improving public investment is expected to support private investment, as well as the labor market and domestic spending in the next period. On the external front, June exports grew 7.2%, the largest increase in 7 months, but growth was led by temporarily-higher demand for medical products and work-from-home equipment. Besides, exports are threatened by weak global trade and escalating China-US tension. *Capital Economics* estimates if China's exports to the US and the world drop by 10%, China's GDP would contract by 0.3% and 1.4%, respectively.

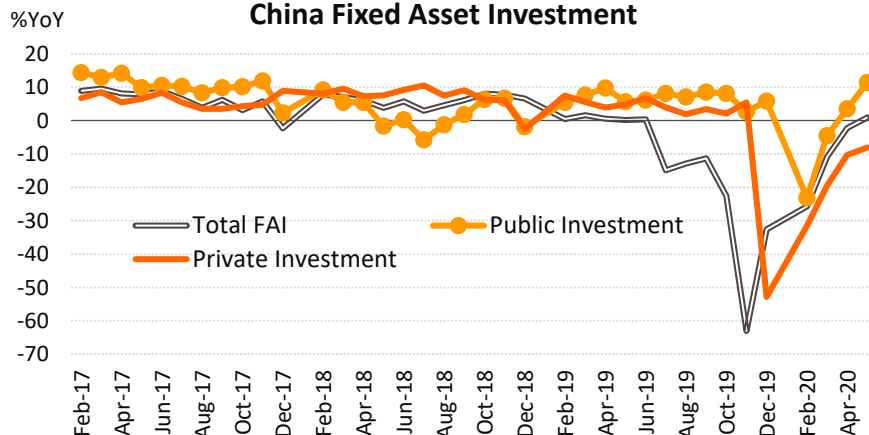
Retail Sales



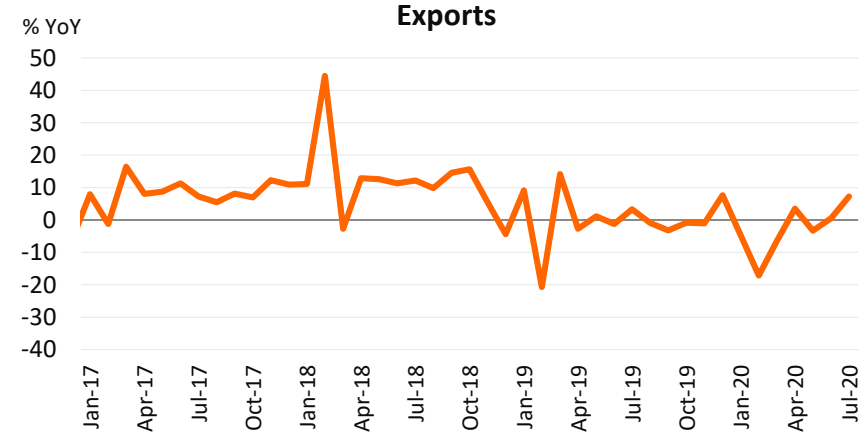
Automobile Sales



China Fixed Asset Investment



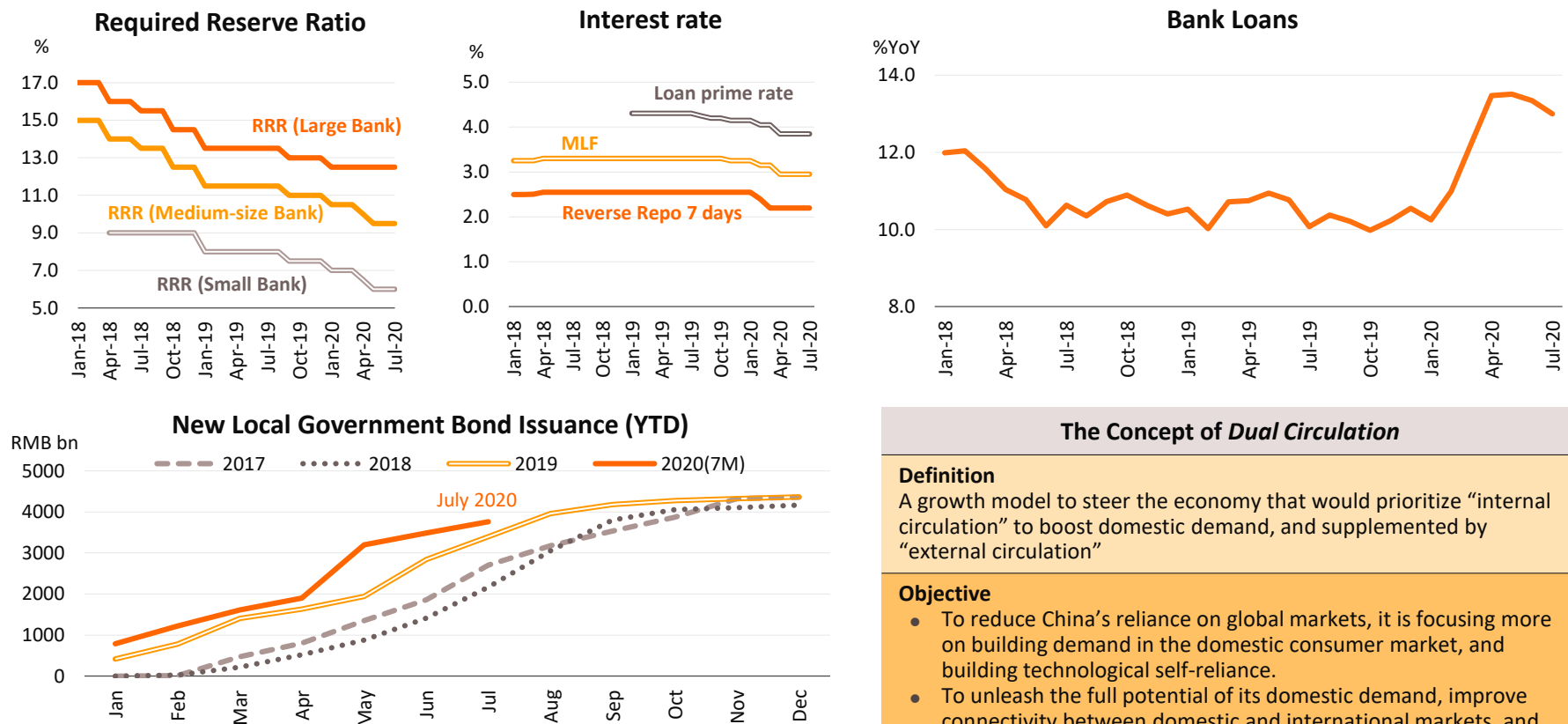
Exports



Source: National Bureau of Statistics, CEIC, Bloomberg, Reuters, Capital Economics, Krungsri Research

PBOC signals to pause rate-cut cycle; government introduces *Dual Circulation* to boost domestic demand

The People's Bank of China (PBOC) has maintained policy interest rates for three consecutive months, saying the “PBOC does not need to step up policy easing as an economic recovery is well under way”, suggesting liquidity is sufficient to support the economic recovery. In July, outstanding bank loans grew 13.0%, following 13.2% growth in June, the highest rate since May 2019. In the real sector, given lingering downside risk to external demand, China needs more fiscal stimulus to boost domestic demand. In the first 7 months of 2020, new issuance of local government bonds rose by 10.8% YoY, which could mean accelerating investment in infrastructure projects. The program to strengthen the domestic economy is called *Dual Circulation*; it was announced by President Xi Jinping at a symposium with corporate leaders in Beijing on July 21. Stronger growth of the domestic economy would help China to maintain its recovery trajectory in 2H20 and cushion the impact of external shocks.



Source: PBOC, CEIC, Bloomberg, Capital Economics, Reuters, South China Morning Post, Krungsri Research

The Concept of *Dual Circulation*

Definition

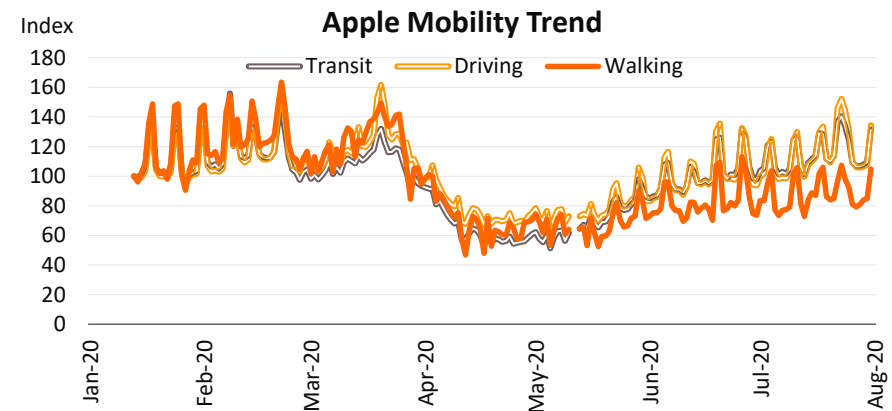
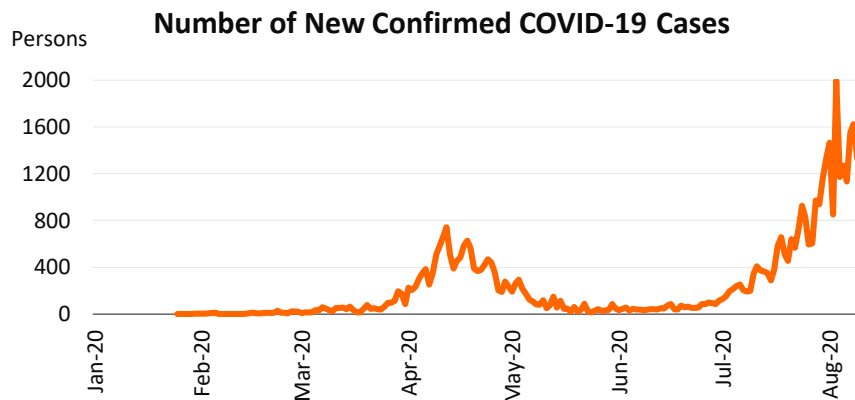
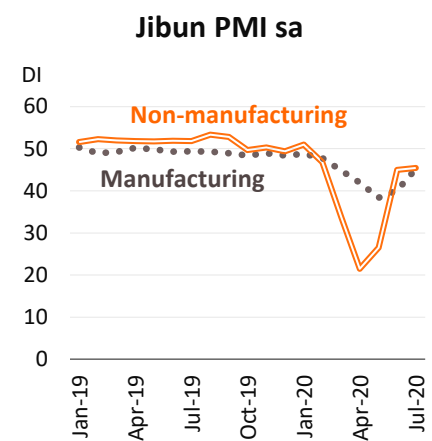
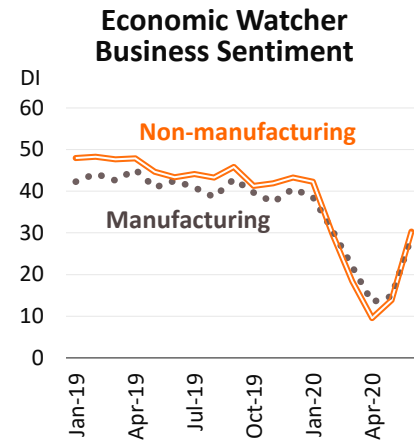
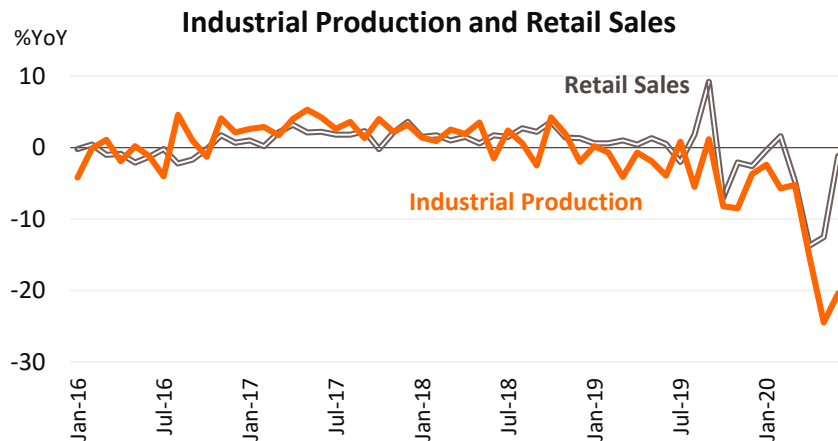
A growth model to steer the economy that would prioritize “internal circulation” to boost domestic demand, and supplemented by “external circulation”

Objective

- To reduce China’s reliance on global markets, it is focusing more on building demand in the domestic consumer market, and building technological self-reliance.
- To unleash the full potential of its domestic demand, improve connectivity between domestic and international markets, and better use resources between the two markets to propel stronger and sustainable development.

Japan: Economy has bottomed out but could stumble with a second wave of infections

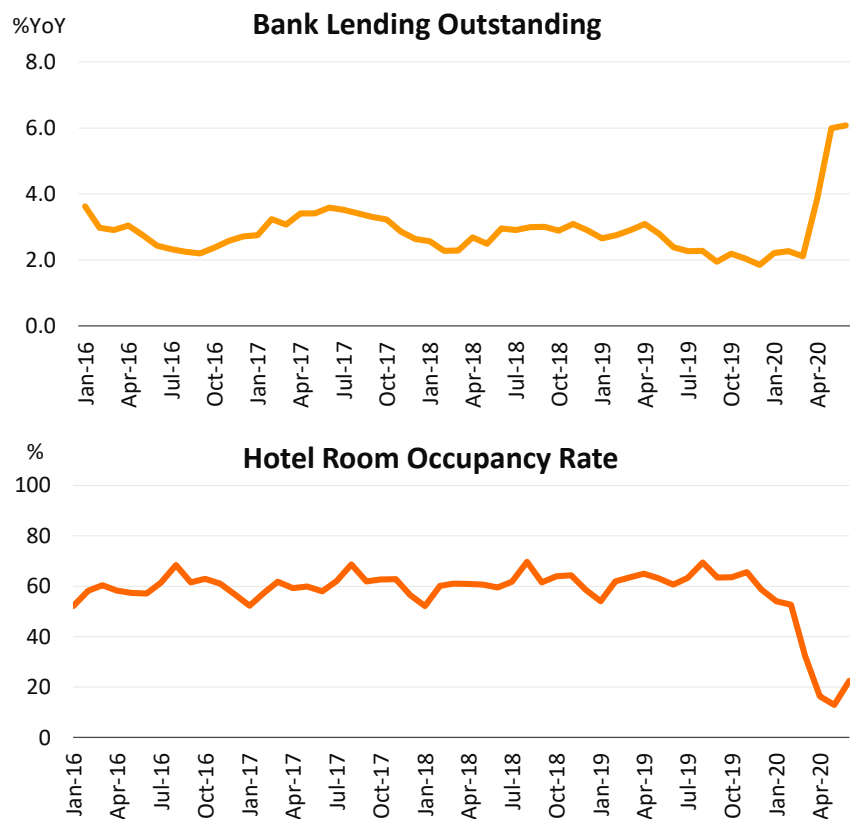
Several indicators suggest the worst is over for Japan. Key indicators reflected improvements after the first state of emergency was lifted in mid-May. In June, industrial production fell by 20.3% YoY, a mild improvement from May (which registered sharpest drop since the global financial crisis). Likewise, retail sales shrank at a softer pace of -1.2%, improving from April which registered the largest drop in two decades. Economic sentiment continued to recover with *Economic Watcher Business Sentiment* indices climbing up for two straight months. July saw improvements in Manufacturing PMI (45.2) and Services PMI (45.4) from 11-year lows, although they remain below 50. **However, in early August, new cases soared to nearly 2,000 per day. High-frequency data suggest the economy is recovering at a slower pace. Apple mobility data suggest traffic have flattened and remain below pre-outbreak levels.** Looking forward, a new wave of infections could drag Japan's economic recovery in 2H20.



Note: The Apple mobility indices measure mobility of driving, taking public transit and walking for every country (or city) relative to 100 at the beginning of the series (13 January 2020).
Source: Capital Economics, Bloomberg, CEIC, Apple Mobility, WHO, Krungsri Research

Stimulus measures would improve liquidity and mitigate risks, but insufficient to induce domestic demand

The Bank of Japan has provided large lending facilities to support liquidity, including credit guarantee program and buying up corporate debt securities. In June, bank lending surged 6.1% YoY, the strongest growth since the early-1990s. In terms of fiscal stimulus, the Japanese government also introduced an unprecedented fiscal package worth JPY234trn, equivalent to 40% of GDP. Actual fiscal spending is 10.4% of GDP, which would contribute 0.7 ppt to 2020 GDP growth. Recently, the government attempted to boost domestic spending by launching the *Go To Travel* campaign that offers to subsidize up to 50% domestic holiday expense, up to JPY20,000 per person per day. The COVID-19 pandemic has damaged the tourism industry; average hotel room occupancy was only 22.4% in June. However, the *Go To Travel* scheme has experienced hiccups, including a second wave of infection, and the exclusion of trips in Tokyo. Overall, these fiscal and monetary measures would help to mitigate the COVID-19 impact and improve liquidity in the economic system, but they may be insufficient to boost domestic spending and economic growth significantly.



Source: Nikkei Asia Review, Kyodo News, Capital Economics, Bloomberg, CEIC, Krungsri Research

Summary of key economic measures in response to COVID-19

Monetary Policy

Enhance monetary easing (announced during March-May 2020)

- Pledged unlimited budget to buy bonds as necessary
- Double ETF and REIT annual purchase limits (ETF: from JPY6 trn to JPY12 trn; REIT: from JPY90 trn to JPY180 trn)
- More than triple upper-holding limits for corporate bond (raised from JPY3.2 trn to JPY10.5 trn) and commercial paper purchases (raised from JPY2.2 trn to JPY9.5 trn)
- Establish a special fund to provide interest-free, 1-year loans equal to the amount of private debt pledged as collateral
- Provide lending facility to support small businesses (worth JPY45 trn)

Fiscal Policy

First supplementary budget, enacted April 2020 (worth JPY117 trn)

- Support businesses (interest-free loans, deferment of taxes)
- Cash aid for households and small businesses
- Stimulate demand (discounts and vouchers)

Second supplementary budget, enacted June 2020 (worth JPY117 trn)

- Enhance employment subsidy
- Lending to SMEs and corporations, rent support for SMEs

Go To Travel Campaign (part of first supplementary budget)

- Subsidize up to 50% of travel costs within Japan, excluding Tokyo, from July 22 until August 31.
- Discount only applies to domestic trips (day trip - maximum JPY10,000 per day, overnight and longer trips - maximum JPY20,000 per day)

Thailand: No visible economic growth drivers

Domestic consumption, business investment and manufacturing remain weak despite some improvement in June following the gradual easing of lockdown measures.

- Domestic consumption and investment continued to contract but indicators showed some improvement following the gradual easing of lockdown measures. In June, private consumption fell 4.7% YoY compared to -11.5% in May. Likewise, private investment contracted by a slower rate of -12.1% in June vs -18.2% in May but investment in construction still tumbled. The Consumer Confidence Index (CCI) and Business Sentiment Index (BSI) rose in July, rising for the third month in a row but remain below pre-outbreak levels.
- Manufacturing Production Index tumbled 17.7% YoY in June (vs -23.2% in May), recording negative growth for the 14th straight month. Capacity utilization (s.a.) picked up from an almost 9-year low of 52.2% in May to 55.9% in June, but is still well below 65.3% in January. In addition, still-high inventory levels suggest a slow recovery in industrial production in the period ahead

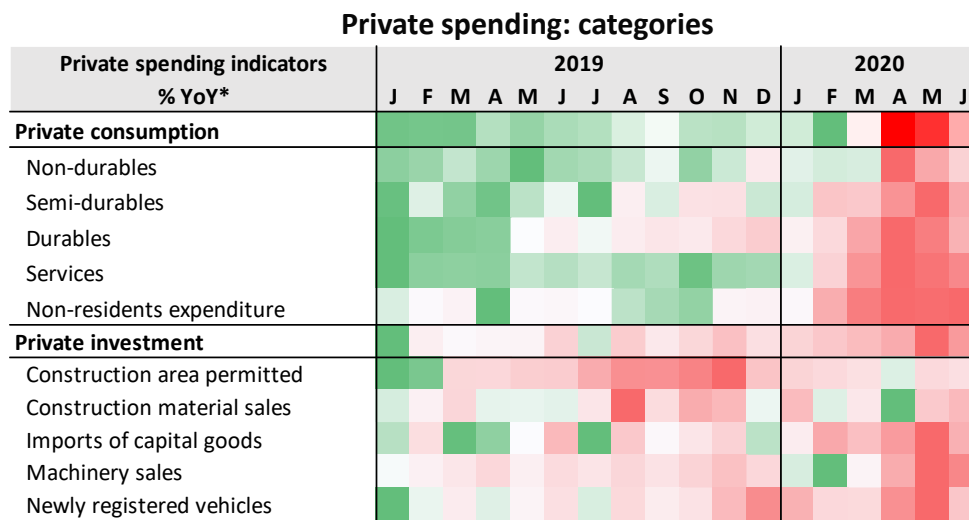
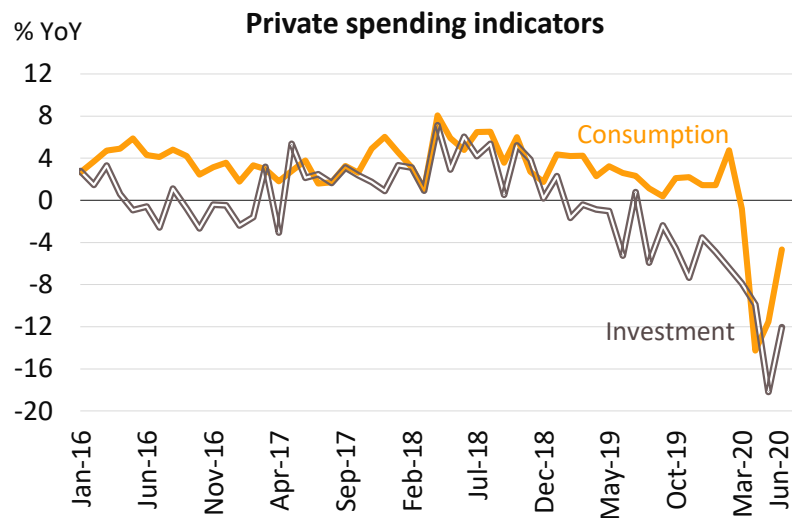
Tourism will not recover so soon; we expect near-zero foreign tourists in 3Q20. Weak external demand and high unemployment will weigh on pace of economic recovery.

- Foreign tourist arrivals would be near-zero in 3Q20 due to the international travel bans by several countries, including Thailand. The number of COVID-19 cases worldwide continues to rise, which could prompt authorities to delay travel bubble schemes. The government's *"We travel together"* campaign worth THB22.4bn may help to improve domestic tourism, but the overall tourism sector will remain weak due to near-zero foreign tourists and weaker domestic purchasing power. Despite signs of bottoming out, exports would remain weak the rest of the year due to (i) expectations of another lockdown in several countries where COVID-19 cases continue to rise, and (ii) weaker purchasing power worldwide. We expect Thai exports to contract by 10.5% in 2020.
- Labor market is weakening. In June, the number of jobless claims jumped 120% YoY and the number of laid-off workers skyrocketed by 460%. During April-July, the number of employees affected by business closure reached 1,568,613. The weaker labor market suggests a drop in purchasing power and a bleak outlook for domestic demand.
- Inflation should rise but remain negative the rest of this year.

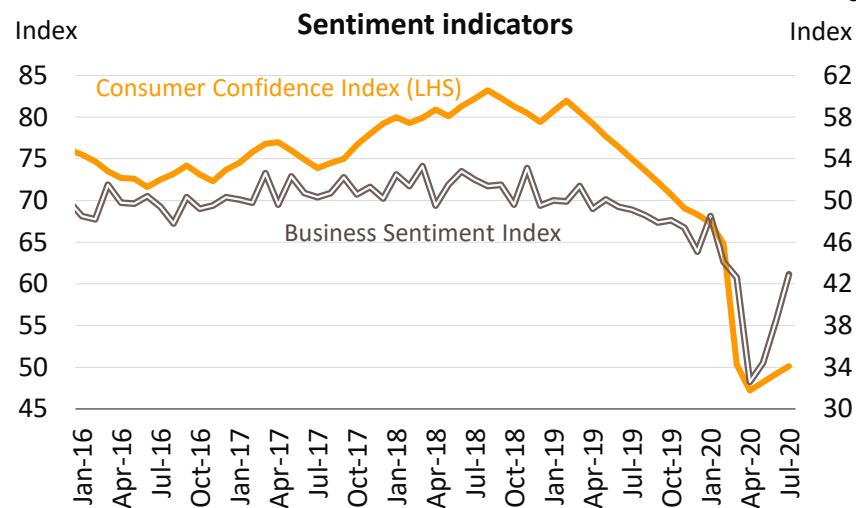
MPC holds rates, signaling it would employ non-interest rate policy tools

- The MPC was unanimous in keeping rates at the last meeting, citing the recent economic measures would support economic recovery. The MPC expects a long road to recovery, implying the need for more policy supports. Krungsri Research sees no sign of policy rate cuts in the foreseeable future, as (i) the MPC views *"the level of overall liquidity in the financial system remains ample"*; (ii) the MPC did not say it would employ policy interest rate as a tool in the latest statement; and (iii) MPC Secretary said policy interest rate is not *"a leading actor"* in monetary policy.

Recent developments: Domestic demand remains weak but is contracting at a slower pace since reopening



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

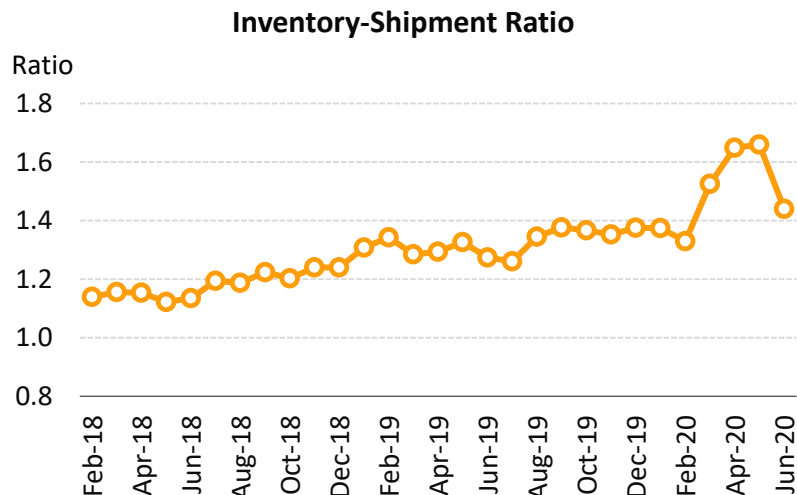
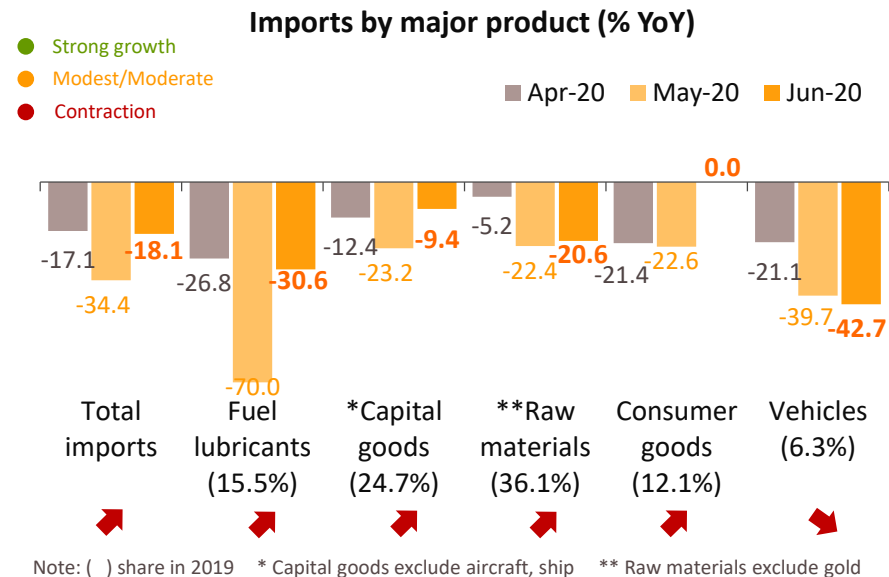
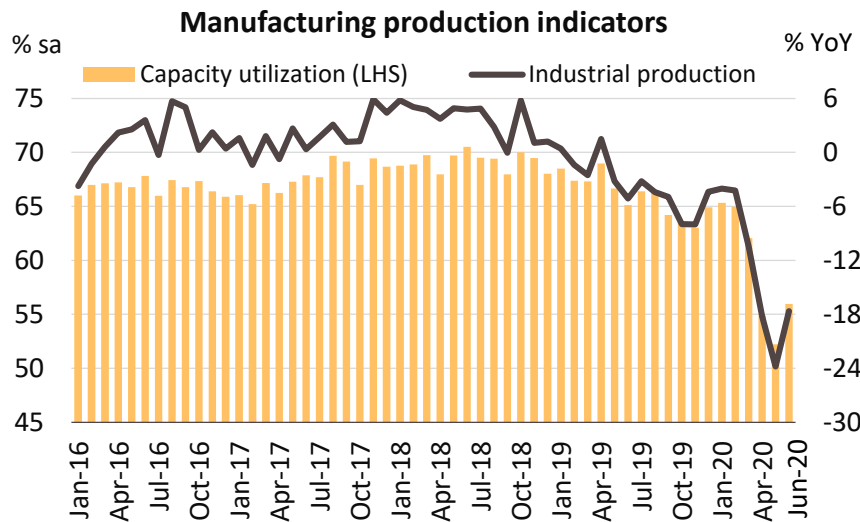


Krungsri Research's view

- Domestic consumption and investment remained weak although several indicators had contracted at a slower pace following the easing of lockdown measures. In June, private consumption fell less than the previous month, by -4.7% YoY (vs -11.5% in May). It was still depressed by the weak labor market and still-low confidence. Likewise, private investment contracted at a slower rate of -12.1% in June vs -18.2% in May partly led by a rebound in domestic sales of machinery, vehicle registrations, and imports of capital goods. However, investment in construction still tumbled.
- The Consumer Confidence Index (CCI) and Business Sentiment Index (BSI) rose for the third month in July, rising for the third straight month but still far below pre-outbreak levels.

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

Industrial production contracted sharply amid large excess capacity and high inventories

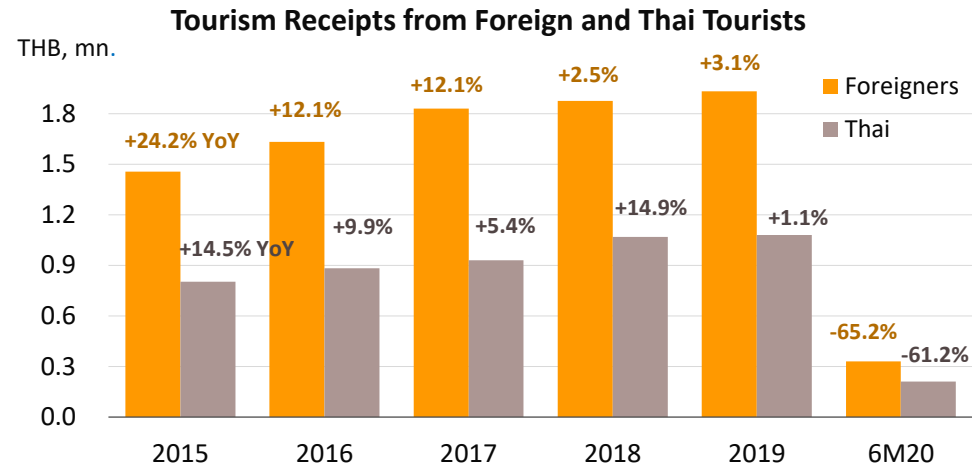
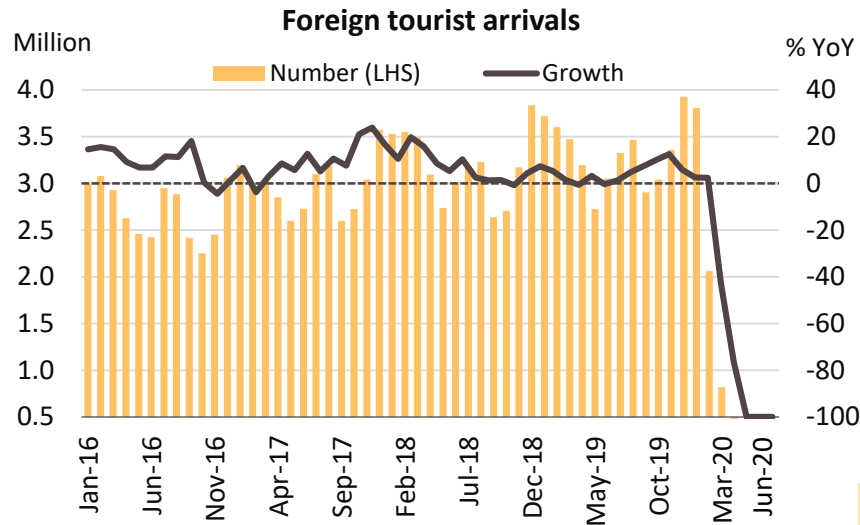


Krungsri Research's view

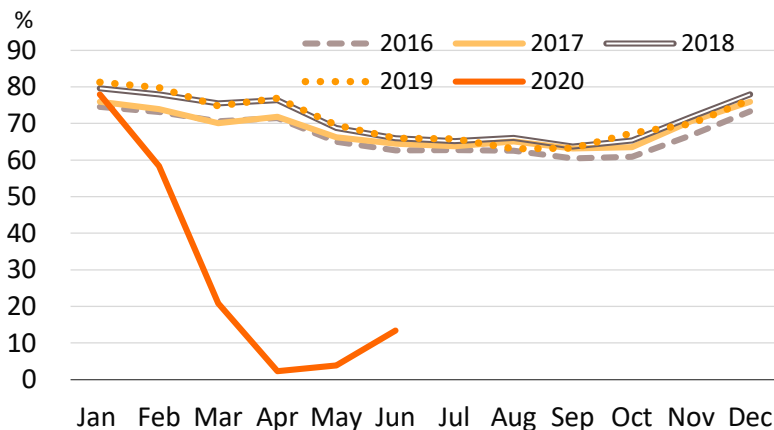
- **The Manufacturing Production Index tumbled 17.7% YoY in June (vs -23.2% in May),** contracting for the 14th straight month. The COVID-19 pandemic continued to hurt demand for durable goods and production of those products, especially cars, petroleum, and air conditioners. However, production of consumer goods rebounded, including canned seafood and animal feed.
- Capacity utilization (s.a.) picked up from an almost 9-year low of 52.2% in May to 55.9% in June, but is still below 65.3% in January. Still-high inventory levels also suggest a slow recovery in industrial production in the period ahead.
- **Imports fell 18.1% YoY in June vs -34.4% in May,** led by imports of raw material & intermediate goods, capital goods, fuel-related products and vehicles & parts. The continual drop in these imports suggests plunging demand for non-essential products and less demand to produce domestic and export products.

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

Tourism will not recover so soon, and travel bubble schemes may be delayed; we expect near-zero foreign tourist arrivals in 3Q20



Nationwide Average Occupancy Rate

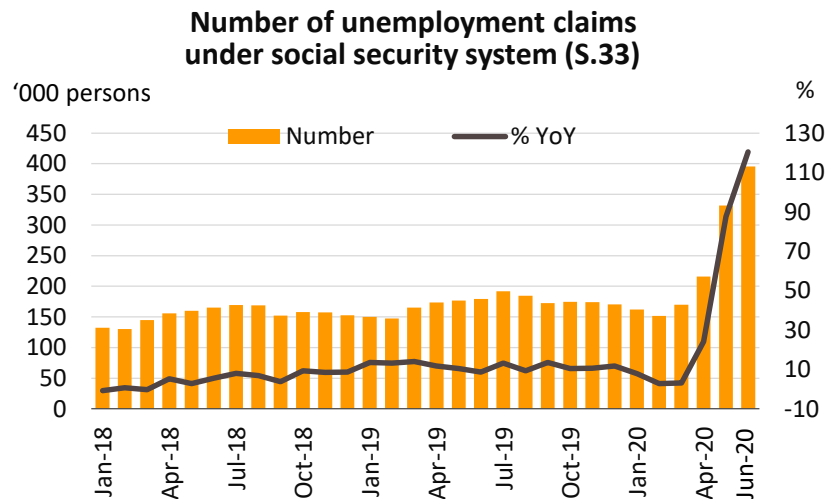
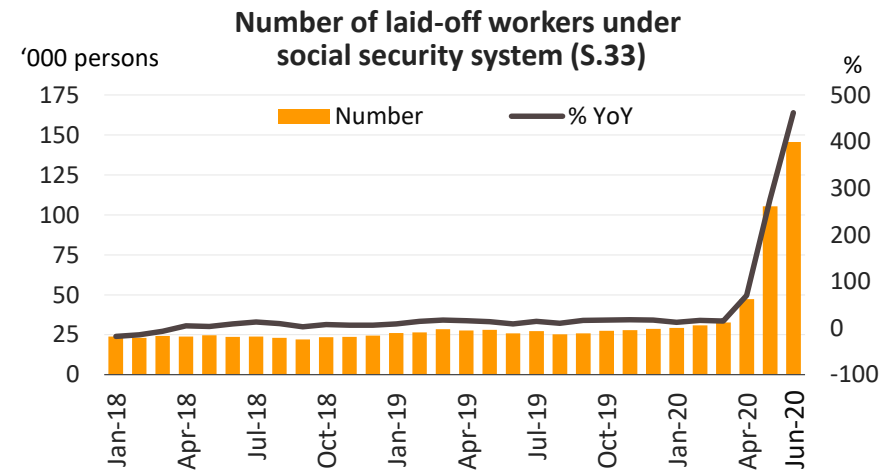
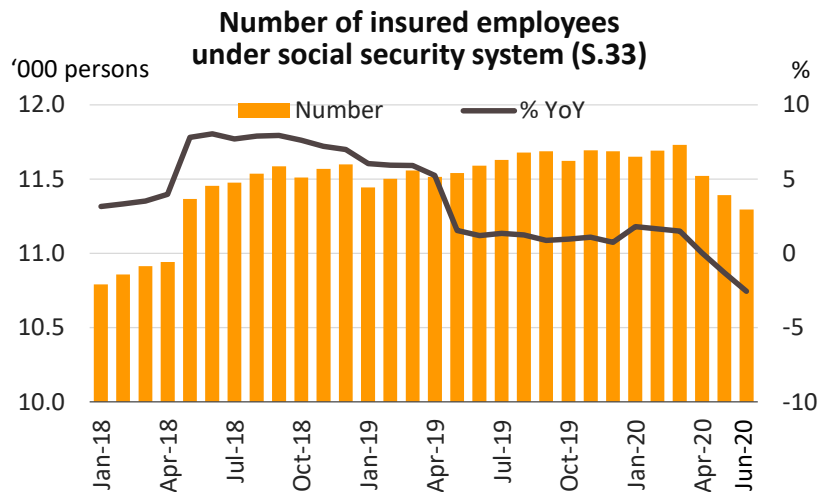


Source: MOTS, Krungsri Research

Krungsri Research's view

- **Foreign tourist arrivals should remain at near-zero in 3Q20** due to international travel bans by several countries. The number of new cases globally has continued to rise and some countries are experiencing a second wave of infections. Thailand continues to impose strict measures and has extended the Emergency Decree to August. This suggests the travel bubble schemes might be delayed.
- **In 6M20, tourism receipts fell 63.7% YoY to THB0.54 trn**, of which THB0.33 trn was derived from foreign tourists (-66%) and THB0.21 trn from Thai tourists (-61%). Average occupancy rate nationwide rose from 3.8% in May to 13.4% in June, still far from pre-outbreak level. The government plans to extend the THB22.4bn "We travel together" program to boost domestic tourism. The original package is valid from late-July to end-October. The program may be extended to year-end and subsidies may be raised from 40% of actual expense to 60%. **This package may help to improve domestic tourism but the tourism sector would remain weak due to near-zero foreign tourists and lower domestic purchasing power.**

Labor market weakens as layoffs jump 400% in June, implying sluggish domestic demand ahead



Krungsri Research's view

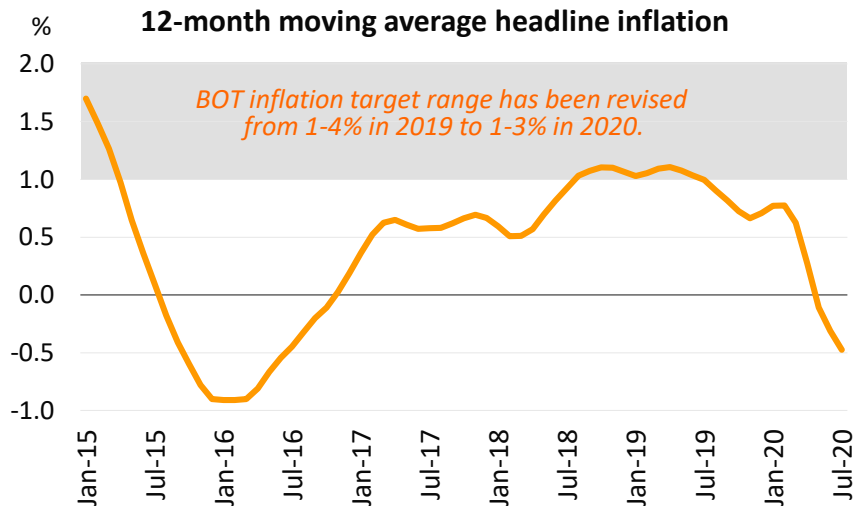
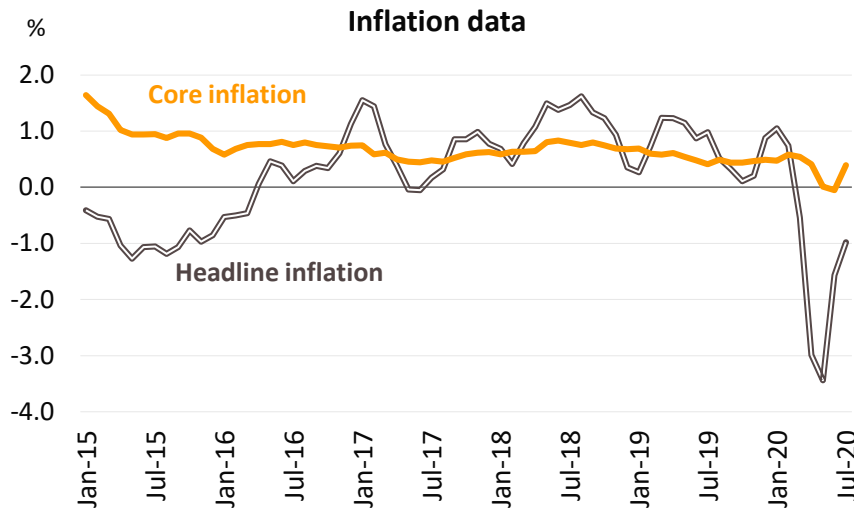
- In June, the number of employees insured under Section 33 fell for the second straight month, by 2.5% YoY to 11.3 million. **The number of jobless claims surged 120% YoY and the number of laid-off workers skyrocketed by 460% YoY.** Most of the unemployed were working in the accommodation, restaurant and food services industries. The Social Security Office expects the number of unemployed to continue to increase towards the end of this year.
- The Ministry of Labor reported that **during April-July, the number of employees and firms affected by business closure (under Section 75) had reached 1,568,613 and 7,080, respectively**, led by automobile sector, electronics & parts, plastic products, metal products, real estate, business services, trade, transport, hotels and restaurants.
- **The weakening labor market suggests purchasing power will drop ahead, and domestic demand would be weak going forward.**

Note: Section 75: Whereas it is necessary for an Employer to temporarily suspend business, in part or in whole, for whatever cause other than a force majeure, the Employer shall pay to an Employee not less than 75 percent of the Wages of a Working Day received by the Employee before the suspension of business throughout the period which the Employer does not require the Employee to work.

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

Inflation will rise but remain negative the rest of this year



Source: MOC, Krungsri Research

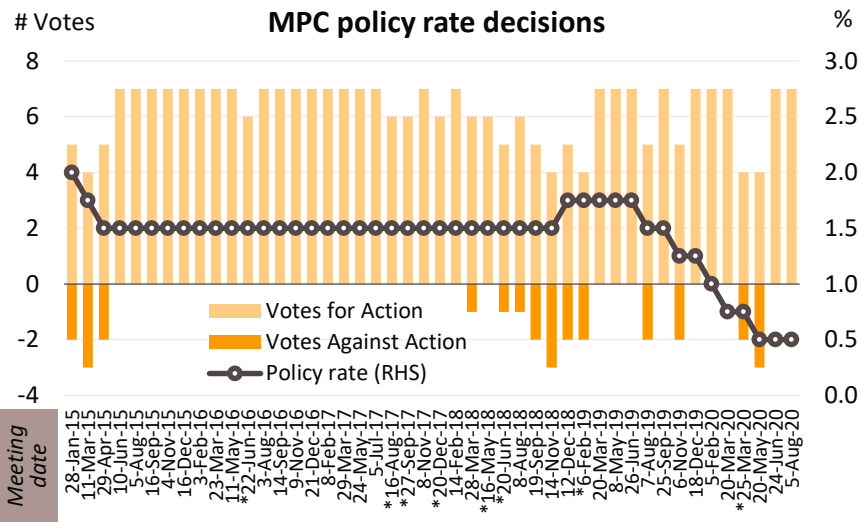
Consumer Price Index (% YoY)*	Weight	2019												2020											
		J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J					
Headline CPI	100.00%																								
Food & beverages	36.13%																								
Apparel & footwears	2.88%																								
Housing & furnishing	23.25%																								
Medical & personal care	6.22%																								
Transportation & communication	24.02%																								
Recreation & education	6.13%																								
Tobacco & alcoholic beverages	1.38%																								
Raw food	15.69%																								
Energy	11.75%																								
Core CPI	72.56%																								

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

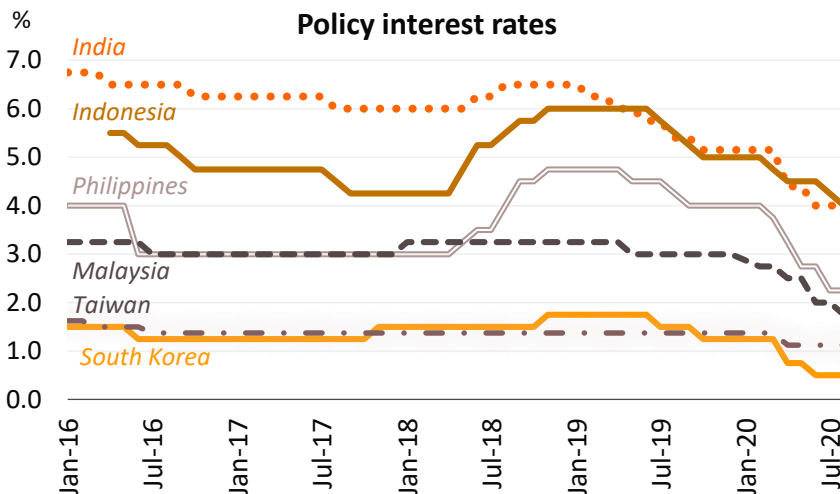
Krungsri Research's view

- **Several factors lifted inflation for the second consecutive month in July.** Although July inflation was at -0.98% YoY, it has been rising since April (-2.99%), May (-3.44%) and June (-1.57%). This was driven by: (i) stable energy prices, which helped to slow the contraction relative to 2019; (ii) rising demand and normalization of economic activities, which turned fresh food inflation positive for the first time in 3 months; (iii) expiry of government subsidies for electricity and water bills; and (iv) higher prices for processed foods and dine-in menus because of fewer promotions. Core inflation turned positive at 0.39%. For 7M20, headline and core inflation averaged -1.11% and 0.34%, respectively.
- Despite higher inflation, domestic demand remains weak due to: (i) persistent, negative headline inflation and still-low core inflation; and (ii) weak Consumer Confidence Index. High unemployment and household debt will cap any recovery in domestic demand in the coming period.

MPC holds policy rate, signals it would employ non-interest rate policy tools



Note: * At least one MPC member was absent from the meeting



Source: BOT, Bloomberg, Krungsri Research

Krungsri Research's view

MPC unanimous in keeping rates, citing the recent economic measures would support economic recovery

- The MPC voted unanimously to maintain policy rate at a record low of 0.50%. They said that *"the extra accommodative monetary policy since the beginning of the year as well as the fiscal, financial, and credit measures helped alleviate adverse impacts and would support the economic recovery."*

MPC sees early signs of recovery and expects inflation to rise back to target range next year.

- The accompanying statement tilted towards a less-dovish tone, noting the Thai economy looks set *"to gradually recover"* following easing lockdown measures and a rebound in global economic activity. The statement also maintained the inflation assessment, noting headline inflation was projected to rise back to the 1-4% target range in 2021 as a result of higher oil prices and the economic recovery.

MPC expects a long road to recovery, implying the need for more policy supports. However, there is no sign of policy rate cuts in the foreseeable future.

- The MPC said *"overall economic activity would take at least two years before returning to the pre-pandemic level."* This indicates a long and bumpy road to economic recovery. We also do not expect Thailand's real GDP to return to pre-COVID-19 level before the second half of 2023.
- The MPC statement indicated a still-dim growth outlook and more policy supports ahead. **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) at the press conference, MPC Secretary Titanun Mallikamas 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.

Krungsri Research Forecast

Krungsri Research Forecast		2019	2020F	2021F
GDP growth	YoY (%)	2.4	-10.3	2.9
Private Consumption Expenditure	YoY (%)	4.5	-4.2	2.7
Government Consumption Expenditure	YoY (%)	1.4	2.3	2.0
Private Investment	YoY (%)	2.8	-14.7	2.5
Public Investment	YoY (%)	0.2	2.0	3.0
Nominal Exports in USD (f.o.b.)	YoY (%)	-3.3	-12.5	4.5
Nominal Imports in USD (f.o.b.)	YoY (%)	-5.6	-17.5	6.5
Current Account Balance	USD, bn	38.4	10.5	16.8
Tourist Arrivals	Mn, persons	39.8	6.7	8.2
Headline Inflation	YoY (%)	0.7	-1.1	0.6
Exchange rate (end of period)	THB/USD	30.12	30.75	30.00
Policy Interest rate (end of period)	(%)	1.25	0.50	0.50
Dubai crude price (period average)	USD/bbl	63	44	54

Source: Office of the National Economic and Social Development Council (NESDC), Bank of Thailand (BOT), Ministry of Commerce (MOC), Ministry of Tourism and Sports (MOTS), Krungsri Research

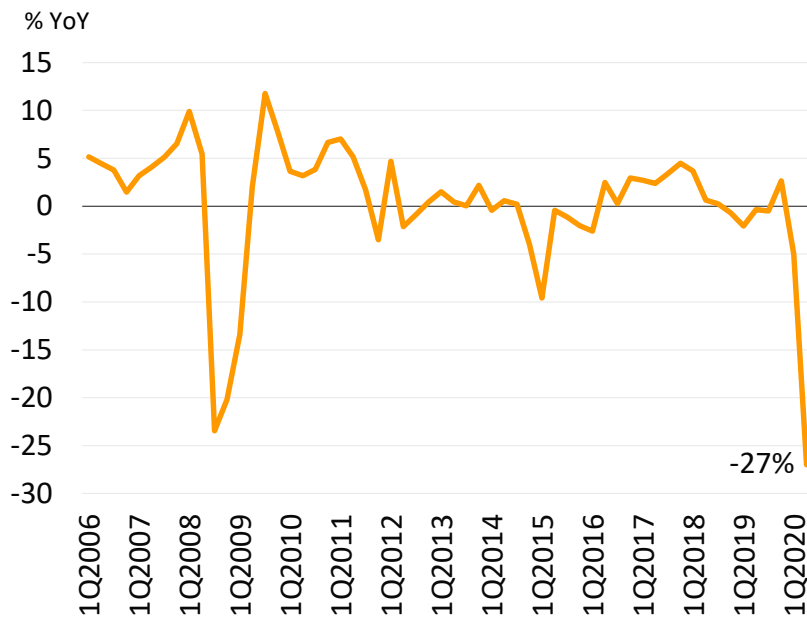
Special notes: Thailand in the new global supply chain after COVID-19

- **Economic disruptions and weak demand triggered by COVID-19 have caused global trade to tumble.** UNCTAD projects global trade would shrink by 20% in 2020. Thai exports have also plunged and would remain weak the rest of the year premised on weaker purchasing power worldwide and several countries imposing lockdown again.
- **Weaker global trade could hit Thai industries through global supply chains.** Our analysis of the OECD input-output table suggests **Thai industries are vulnerable to both global production and demand shocks. More importantly, risks from external shocks had increased in 2005-2015.**
- **The new global supply chain would be shaped by COVID-19 as well as global megatrends,** such as automation/technology, rising risk and uncertainty, and shifts in international trade policies. **The new global supply chain would be shorter, more diversified, and more regionalized.**
 - **Thailand will play a larger role in new global supply chains.** Thailand's participation index is projected to rise from 0.93 in 2015 to 1.03 in 2025, but its position within the supply chain will be unchanged. By sector, Thailand will play a larger role in the global food & beverage (F&B), utility, and financial industries, while its participation would drop in agriculture and mining. It will move downstream in primary sectors and services. Overall exports would rise led by computer and F&B products.
 - **Greater servicification in agriculture and manufacturing.** Services sectors will play a larger role in the new global supply chain. Industries are transforming at the global level and that will induce greater interconnection between sectors.
 - **Regionalized or glocalized supply chains help to build resilience** and enhance efficiency to serve different demand needs. Industries may also need to focus on the regional market. Supply chains are shifting from “seeking materials” to “seeking customer satisfaction”.
- **Servicification and regionalization would be the main challenges and could turn into either opportunities or threats to Thai industries.** The ability to adapt to the new landscape would be a key success factor in the future. The F&B, computer, and financial sectors offer more opportunities abroad. The primary sector, including agriculture and mining, would offer limited opportunities and possibly higher risks.

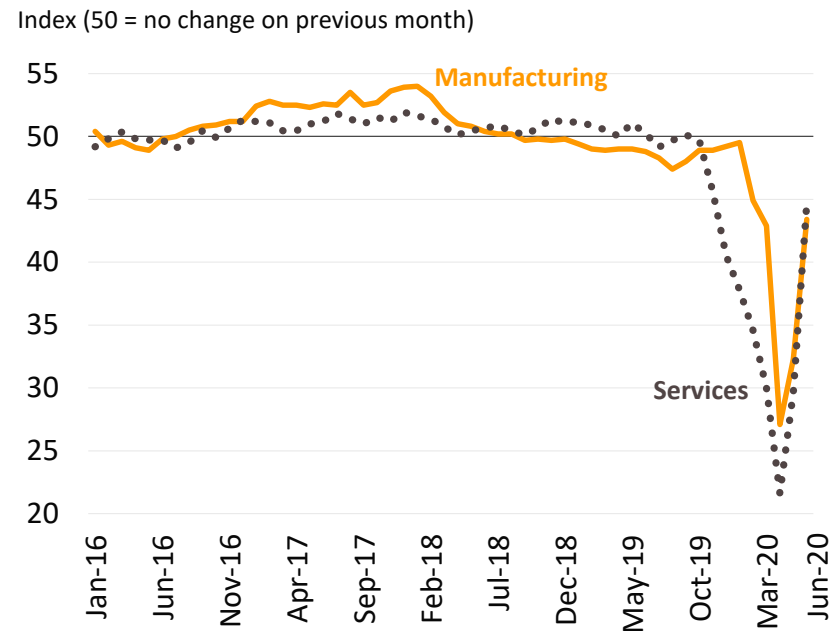
Economic disruptions and weak demand triggered by COVID-19 have shrunk global trade

The COVID-19 pandemic and the resulting containment measures have severely hit the supply and demand sides of economies worldwide. Total value of international trade in goods had dropped by about 5% YoY in 1Q20 and is projected to shrink by 27% in 2Q20, according to UNCTAD. **Global PMI for new export orders also signals a further deterioration of international trade. The index suggests the contraction had slowed but remained below-50 and far below pre-COVID-19 levels.** The magnitude of the contraction will depend on the severity of economic disruptions as well as economic policy response. UNCTAD projects global trade would shrink by 20% in 2020. This is in line with the World Trade Organization (WTO)'s expectation that international trade would drop by 13%-32%. The wide range of estimates suggests still-high uncertainty about an economic recovery in the period ahead.

Global trade value: Contraction triggered by pandemic is more severe than during the financial crisis

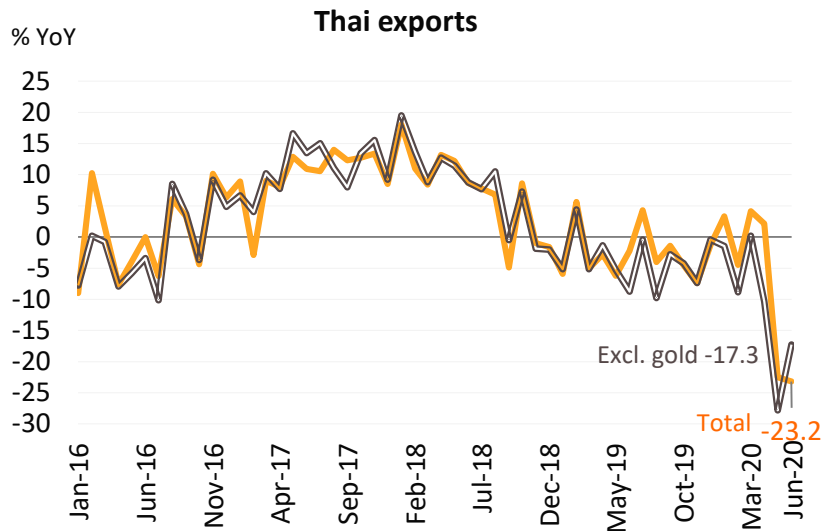


New export orders: rebounded in May but still far below pre-COVID level

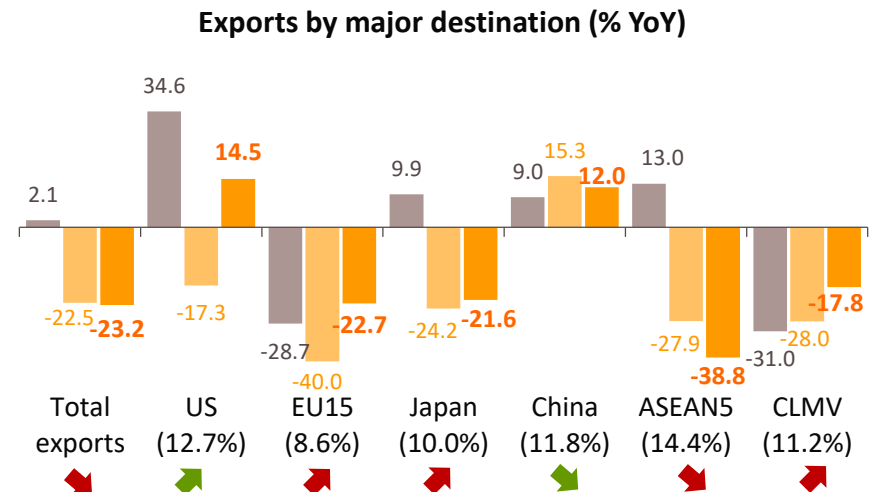
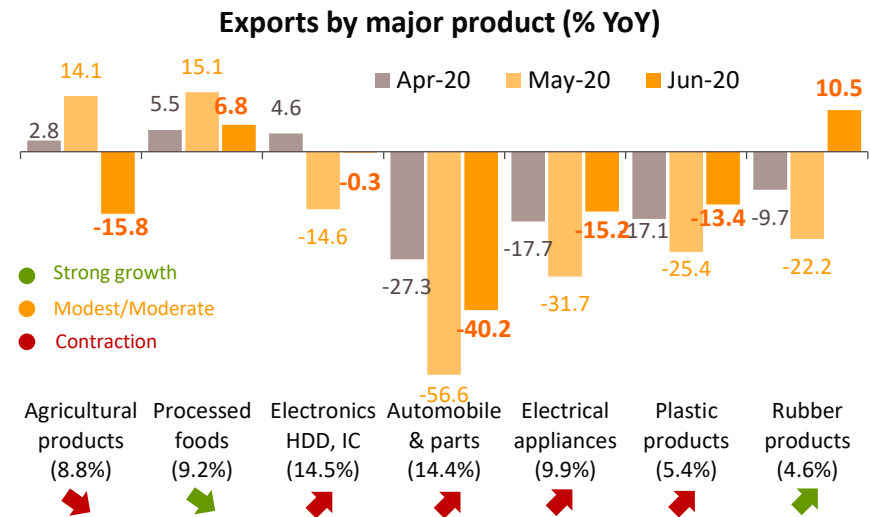


Source: UNCTAD, WTO, Krungsri Research

Thai exports tumbled along with global trade, dragged by both production and demand shocks



- **Thai merchandise exports continued to tumble, by 23.2% YoY in June** vs -22.5% in May. Excluding gold, exports fell by 17.3%. By product, **weaker global demand had hit most of Thailand's major export items**. There was positive growth in some products, driven by (i) demand for essential goods, and (ii) products related to the work-from-home policy. By destination, only exports to the US and China expanded in June. **Exports to many markets continued to suffer from supply and demand shocks**.
- **Exports will remain weak the rest of the year due to weaker purchasing power worldwide. We expect 2020 exports to contract by 10.5%.** Krungsri Research sees a weak outlook for Thai exports, premised on (i) several countries re-imposing lockdown due to rising new COVID-19 cases and a second/third wave of infections, and (ii) weaker purchasing power worldwide as unemployment and debt burden rise.

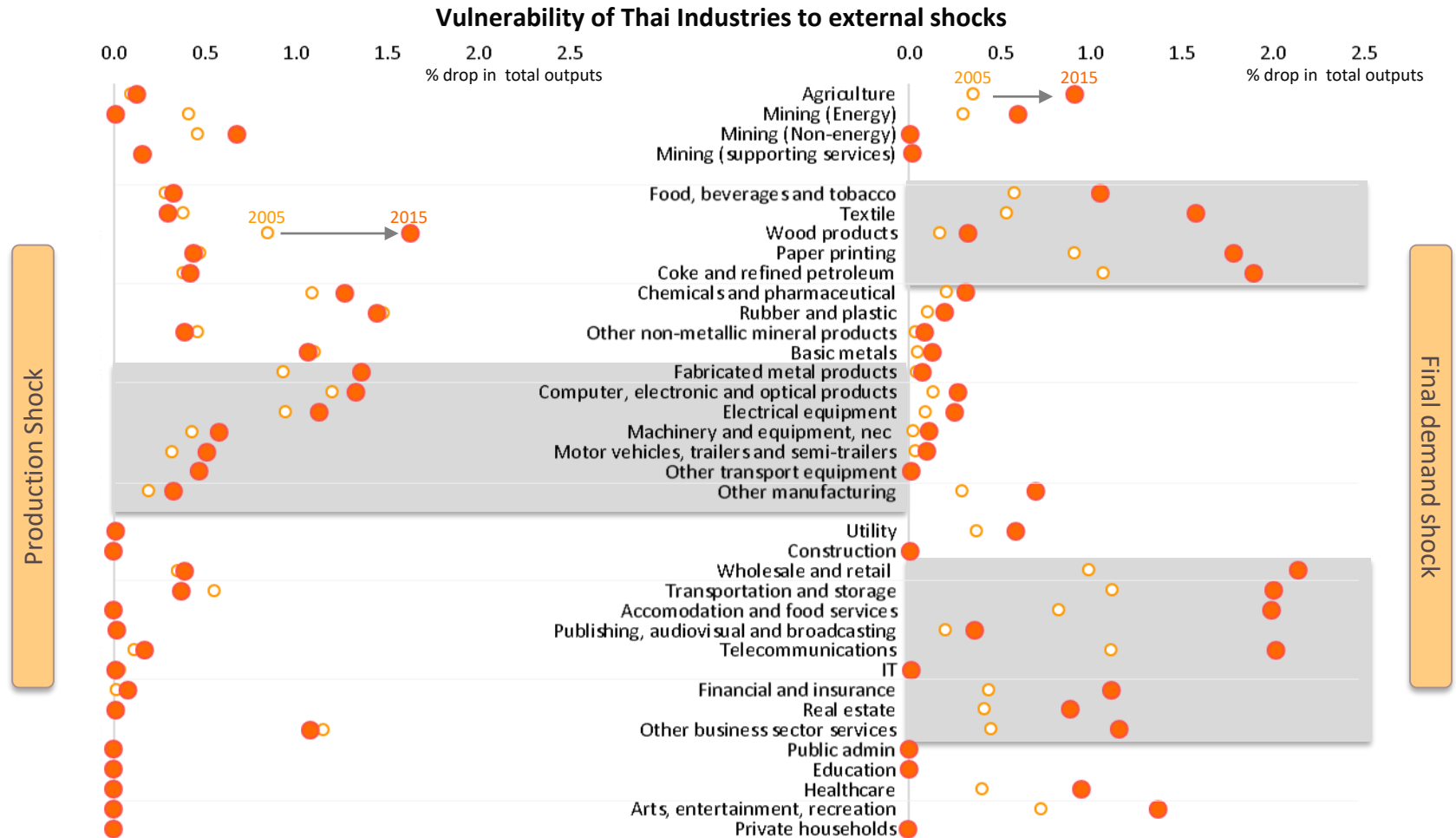


Note: () share in 2019

Source: MOC, Krungsri Research

Shrinking global trade could hit Thai industries as they are vulnerable to global supply and demand shocks

The COVID-19 global pandemic has hurt most industries though several channels. The disruption to global supply chains had the largest ramifications on the global economy and financial system because they are inter-connected. There was disruption to both the supply and demand side. **Our analysis of the OECD input-output table suggests Thai industries are vulnerable to both global supply disruption and external shocks in final demand. In addition, risks from external shocks had increased during 2005-2015.** The services and basic manufacturing sectors have large exposure to external demand. Hi-tech industries are exposed to supply disruption.



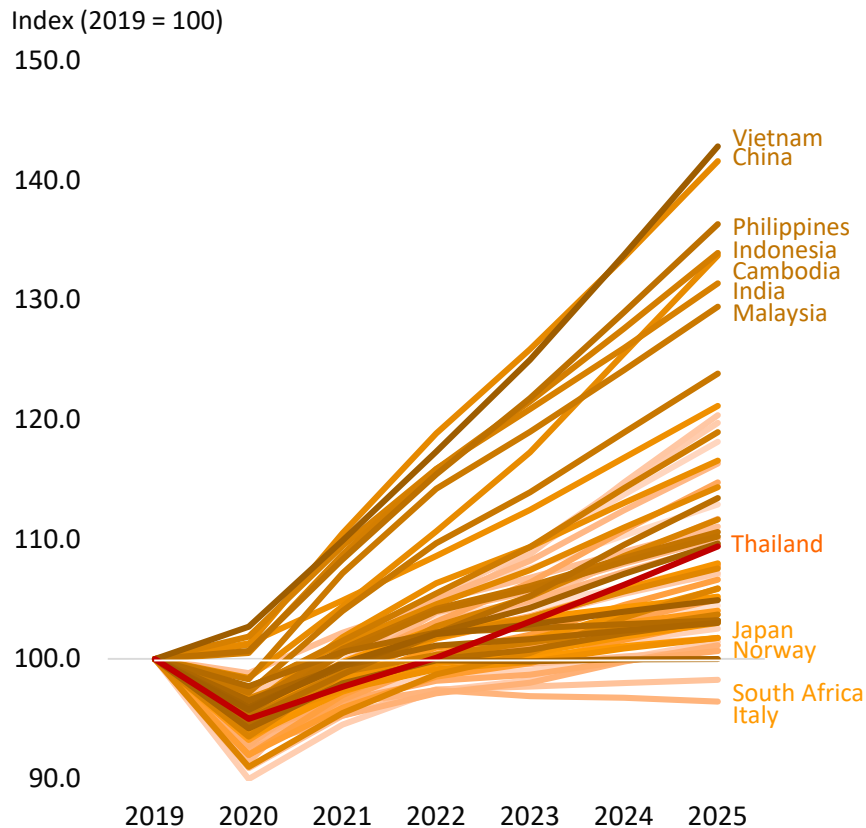
Source: OECD, calculation by Krungsri Research

Most economies will return to pre-pandemic level by 2023

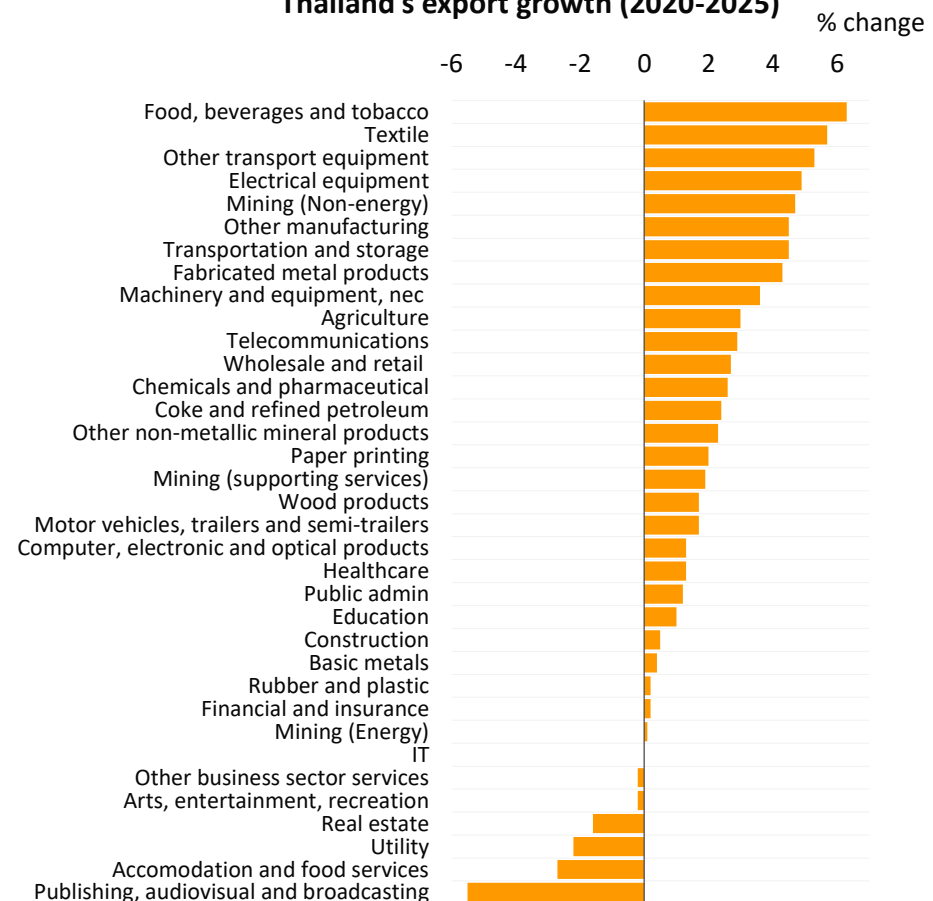
Most countries will experience a deep recession in 2020 due to supply disruption and demand shocks. However, our analysis also suggests most will return to pre-pandemic level by 2023. Vietnam, China, and the Philippines will be among the fastest-growing economies. However, Italy and South Africa might only recover to pre-pandemic levels after 2025. By sector, there are promising export prospects for the F&B and textile sectors. The changes in the economic trajectories and export trends in each sector will influence demand, trade and investment patterns.

Post-COVID Economic Growth and Exports

GDP Growth of key countries (2020-2025)



Thailand's export growth (2020-2025)

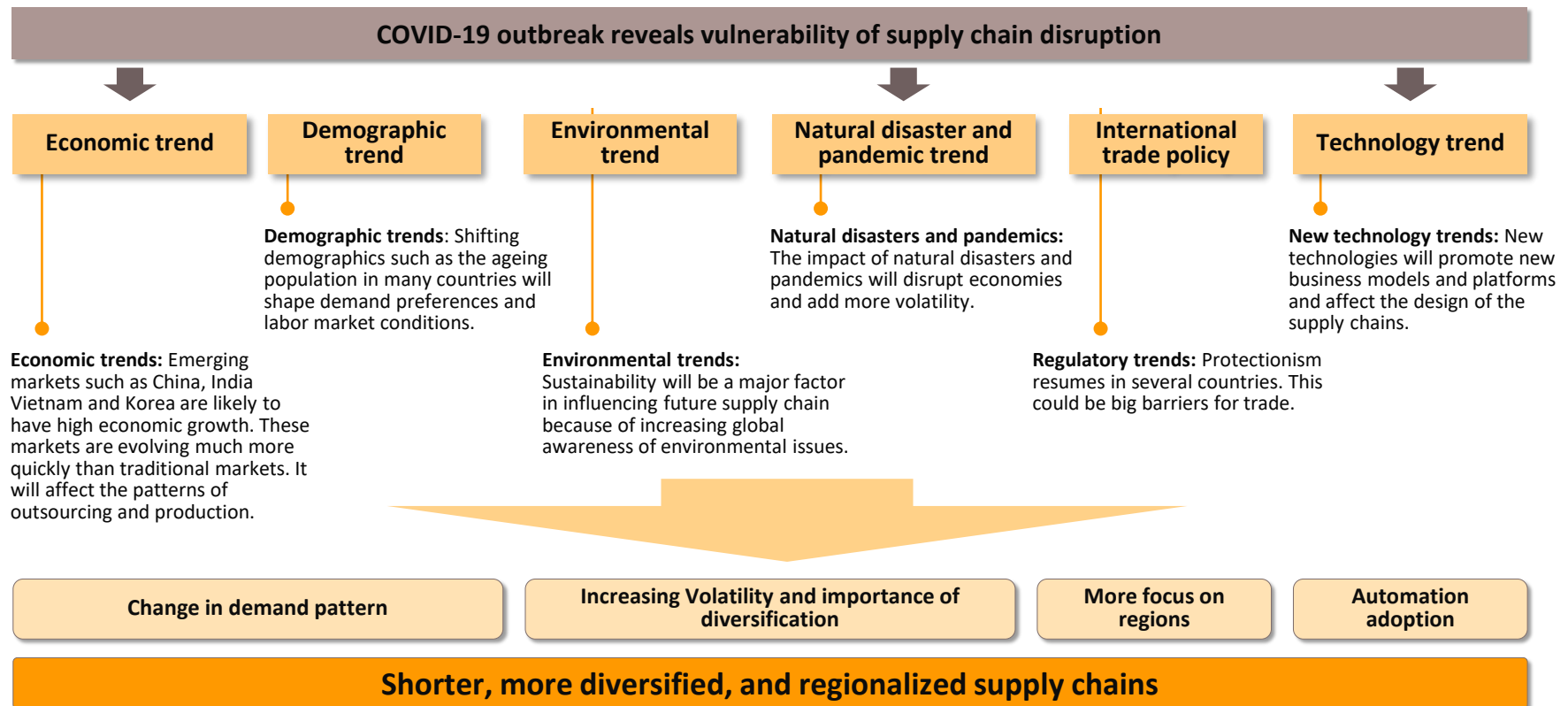


Source: IMF, GTAP, calculation by Krungsri Research

New global supply chains will be shaped by COVID-19 as well as global megatrends

The COVID-19 pandemic will leave scars on global supply chains. It has revealed the vulnerability of global supply chains, and this is encouraging greater adoption of technology to mitigate the adverse impacts of COVID-19 and improve efficiency. The future of our supply chains is also being shaped by global megatrends. Changes in economic and demographic trends will trigger a shift in economic power, and change trade and consumption patterns. Environmental, natural disaster and pandemic trends have heightened risks and volatility. Protectionism, trade war, and other regulatory trends are encouraging regionalization. Meanwhile, advancements in technology are accelerating automation in industries and businesses. **For new supply chain, the main consideration would be to balance efficiency and resilience as the global economy and international trade becomes more volatile. Consequently, we expect the new global supply chains to be shorter, more diversified, and regionalized.**

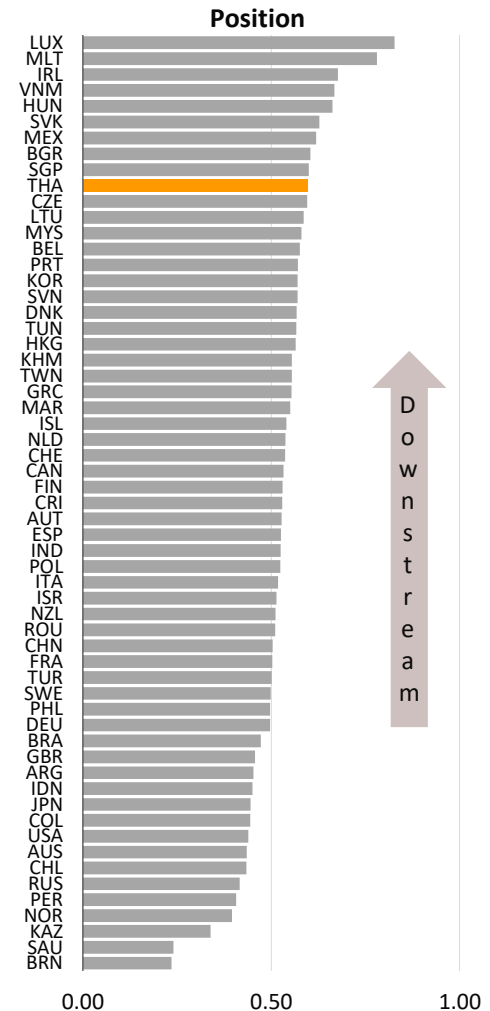
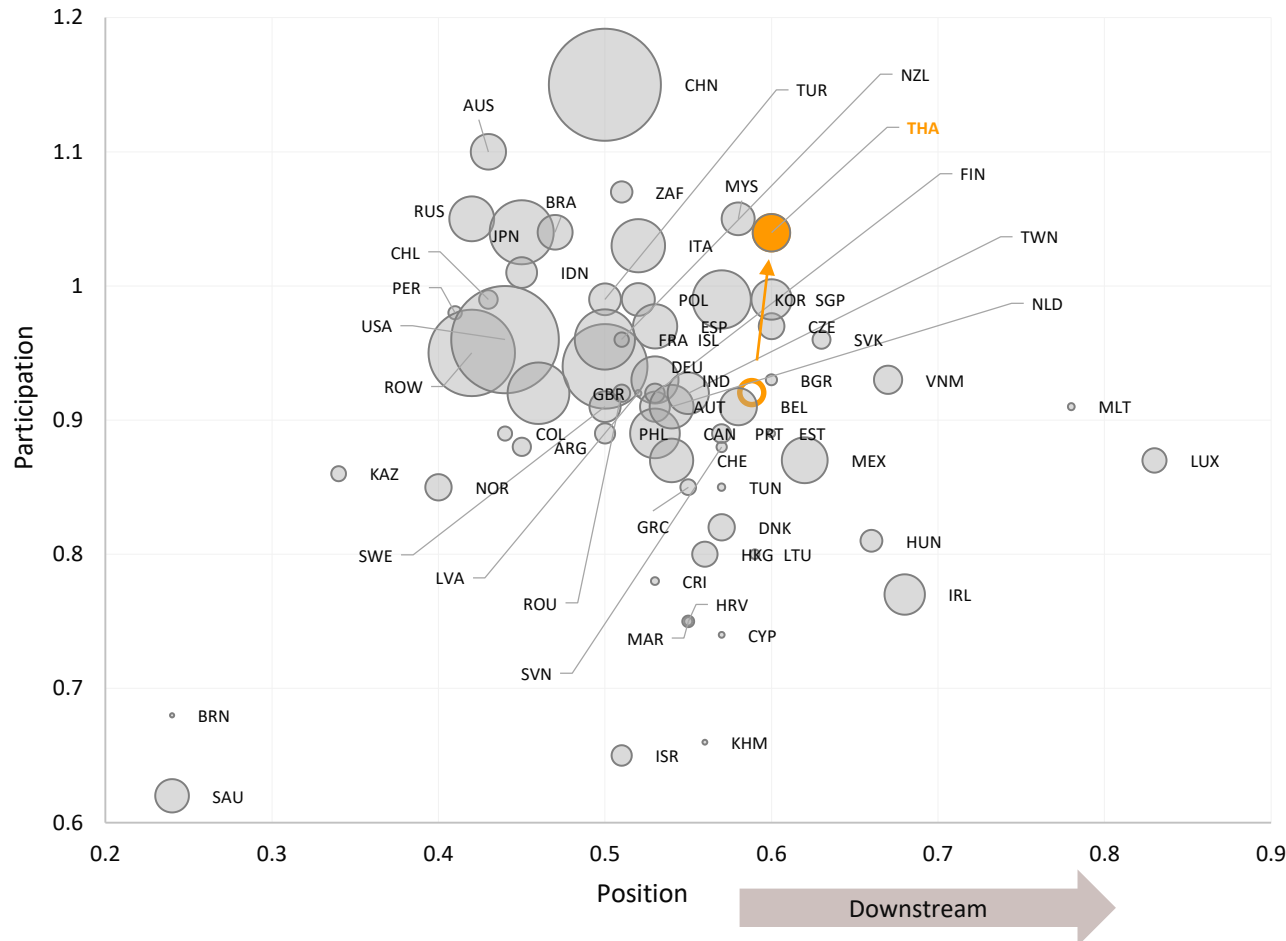
COVID-19 and Megatrends will influence future direction of Global Supply Chains



Source: Krungsri Research

I. Thailand will increase *participation* in the new global supply chains

Our analysis of the OECD input-output table suggests Thailand will increase its participation in the global supply chains. The Participation Index will increase from 0.93 in 2015 to 1.03 in 2025 but Thailand's position along the supply chain will be unchanged.



Source: OECD, calculation by Krungsri Research

F&B sector will see strong export growth and move downstream; financial sector will increase role in GVC

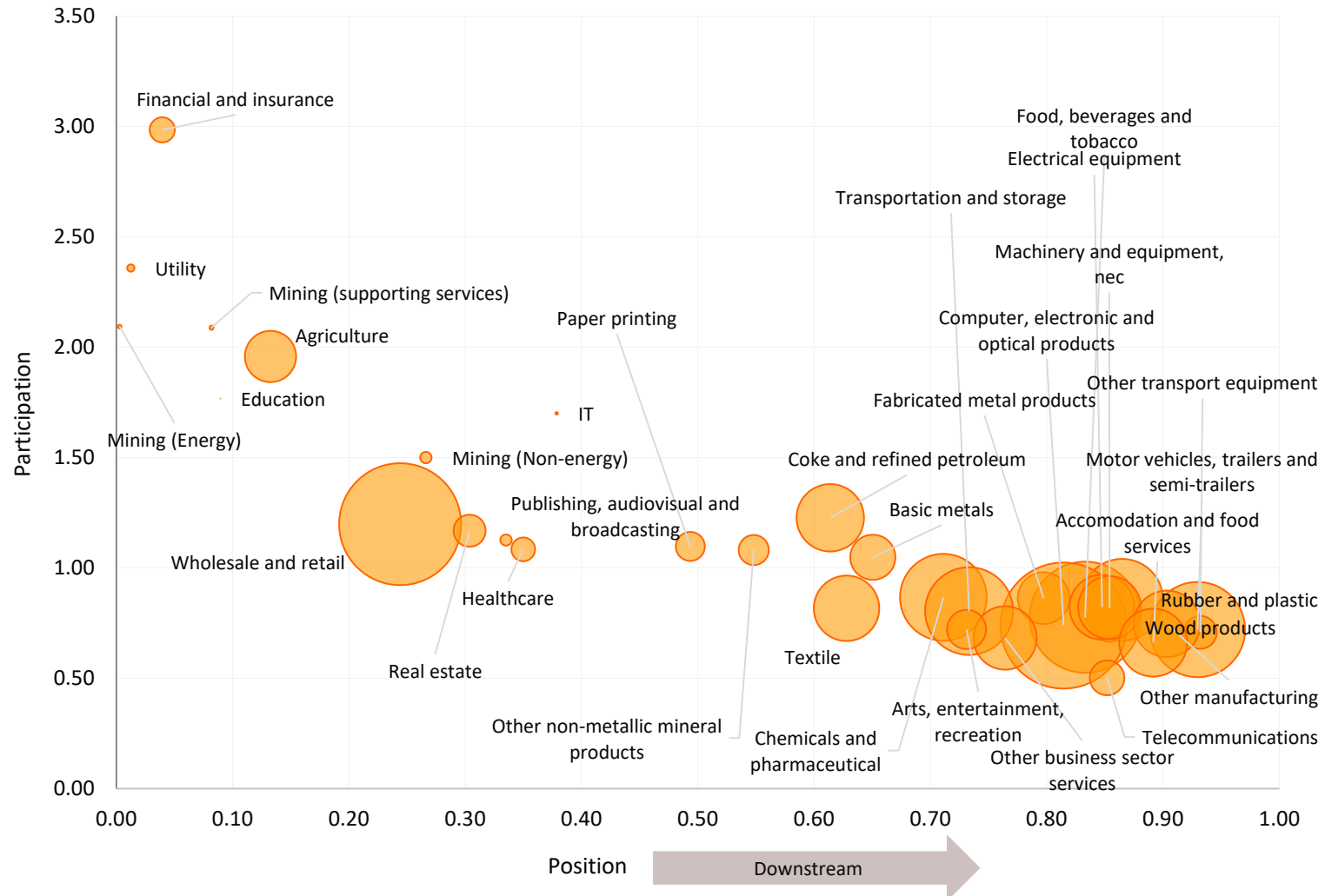
F&B, utility, and financial sectors would be among those to see larger participation in global value chains (GVC). Agriculture and mining sectors would participate at a smaller level. This can be an opportunity to derive economic benefits in terms of enhanced productivity, sophistication and diversification of exports. Primary sectors and services will move downstream. Overall exports would rise led by strong growth at the computer and F&B sectors.



Source: OECD, calculation by Krungsri Research

Most Thai industries will remain in downstream positions in the new global supply chain

Position of Thai industries in New Global Supply Chains

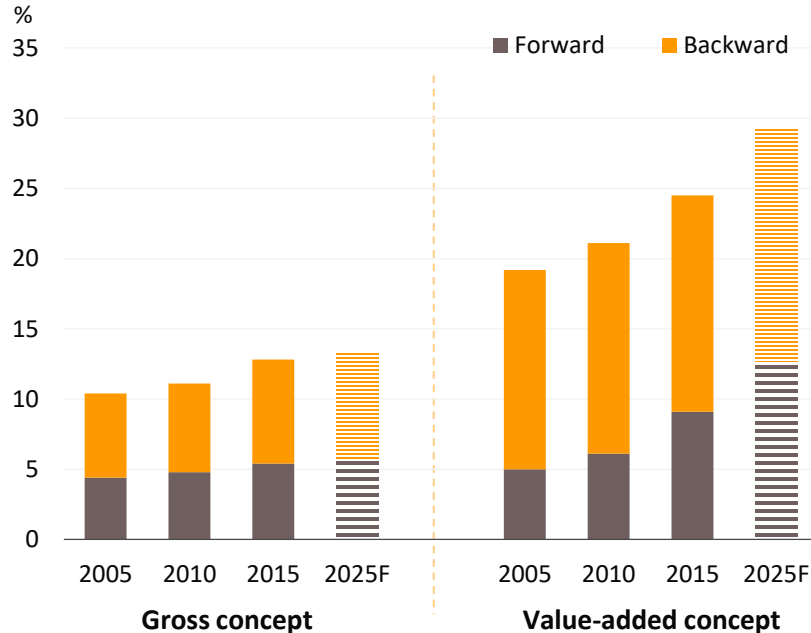


Source: OECD, calculation by Krungsri Research

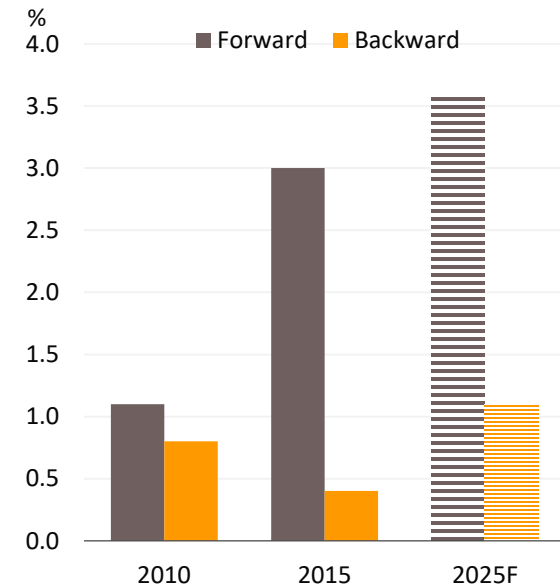
II. *Servicification* will accelerate in manufacturing sector with blurring borders between industries

The services sector will play a greater role in global value chains in both the gross and value-added concepts. The share of services in the value-added concept will be much higher, which suggests the services sector will increasingly blend into other sectors. The services sector would also see greater forward linkages, meaning **it would be increasingly used as intermediate input in other sectors. This would lead to rising servicification in the agriculture and manufacturing sectors. It also implies industries are transforming in some ways at the global level and there would be greater inter-connection among the different sectors.** One example is in the automotive industry – mobility services -- has become a new trend by blending digital technology and services in the industry.

Participation of Services Sector in Global Value Chain



Rising Services Contribution in Global Supply Chains

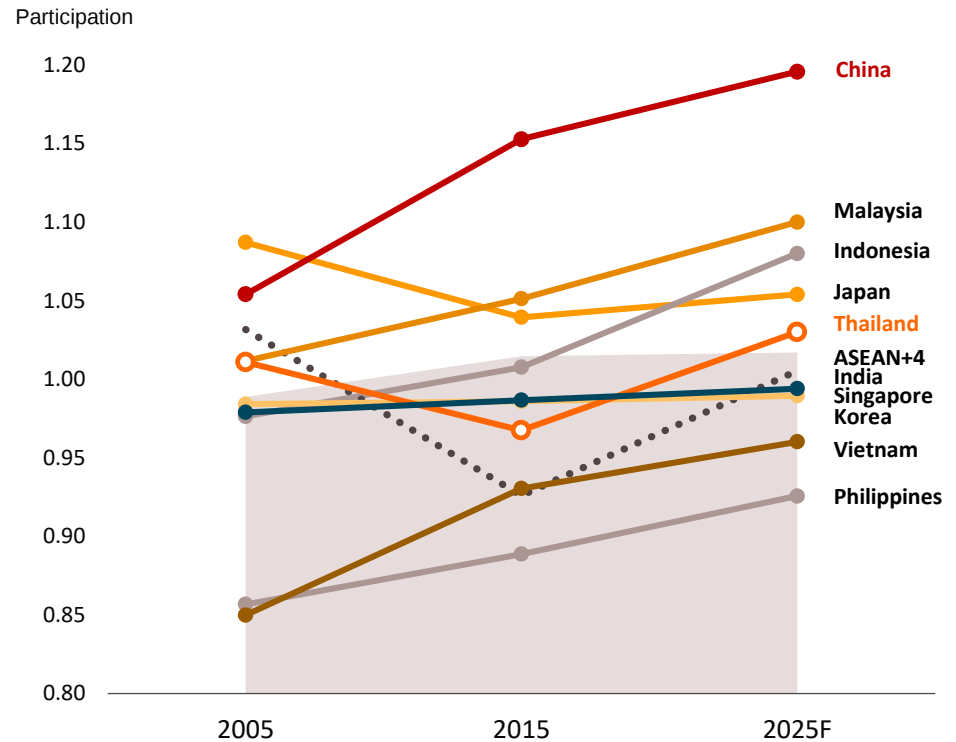


Source: OECD, calculation by Krungsri Research

III. *Regionalization* or glocalization is the new norm

The global supply chain is shifting from “seeking materials” to “seeking customer satisfaction”. Regionalized or glocalized supply chains help build resilience while enhancing efficiency to serve different demand needs. Several countries are increasing their participation in global supply chains, but regional participation is increasing at a faster pace. This implies greater value-creation within a region than at the global level, and suggests **industries should focus on the regional market**.

Regional Supply Chains in ASEAN plus China, Japan, Korea, and India



Source: OECD, calculation by Krungsri Research

Regional Economic and Policy Developments in August

ASEAN

- Total remittances are expected to drop by between 9.9% and 18.6% from baseline in 2018.

Myanmar

- Government creates special economic zone in Mon State, capitalizing on strategic location to attract FDI.
- Japanese retailers are tapping into Myanmar's retail market, affirming vast opportunities.

Lao PDR

- To construct ASEAN's largest wind farm in the country, diversifying its energy generation mix.

Vietnam

- Vietnam re-imposing lockdown in Danang could retard recovery but full-year growth would remain positive.

Cambodia

- Cambodia launches measures to boost tourism; rising COVID-19 cases worldwide could delay travel bubble program.

Philippines

- Economy is in recession after GDP shrank by 16.5% in 2Q20; growth outlook could be derailed by a surge in COVID-19 cases.
- Real interest rate is now negative, but further monetary easing is likely.

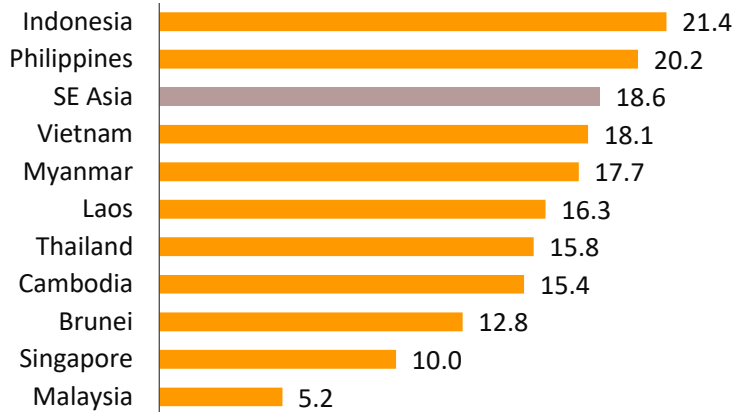
Indonesia

- 2Q20 GDP contracts by 5.3% YoY, the sharpest drop since 1Q99, but economy should have bottomed-out.

ASEAN: Total remittances are expected to drop by between 9.9% and 18.6% from baseline in 2018

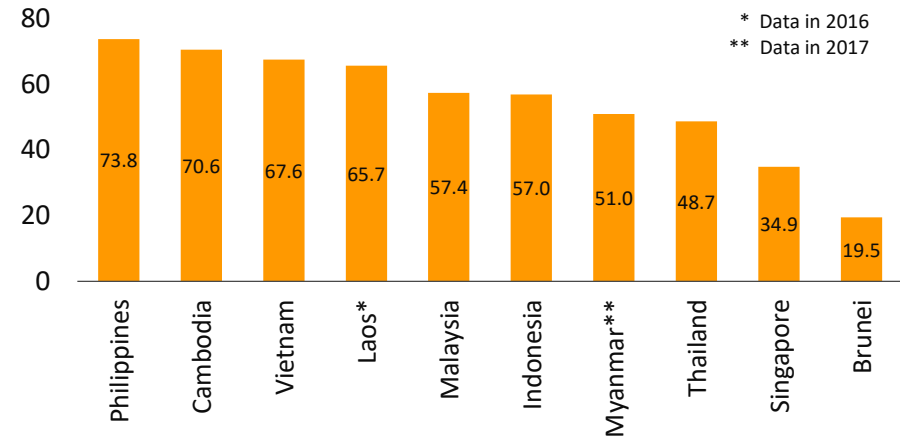
Remittances lost under worst-case scenario

% of baseline remittance in 2018



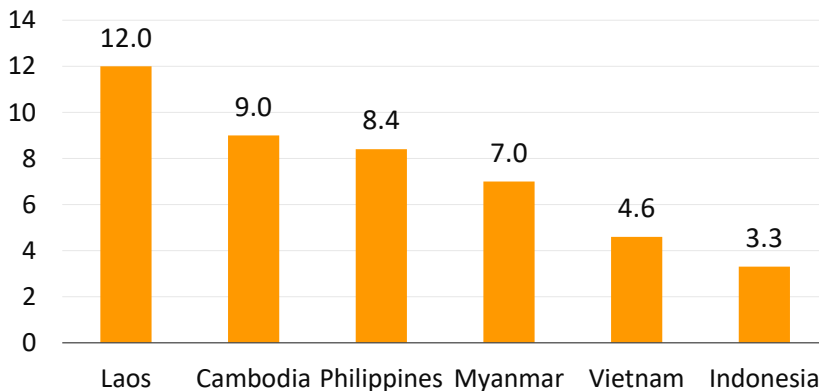
Household consumption in ASEAN countries (2018)

% of GDP



Share of households with international remittance*

% of total households



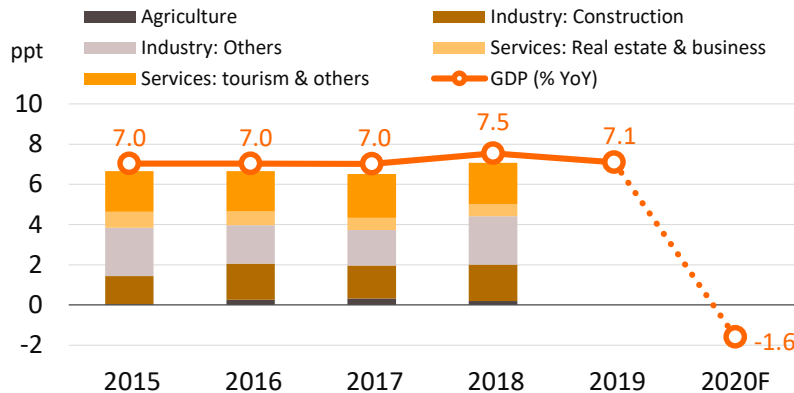
Note: * ADB compilation using data from Mahabub Hossain Panel Data 2014
Source: ADB (August 2020), CEIC, Krungsri Research

Krungsri Research's view

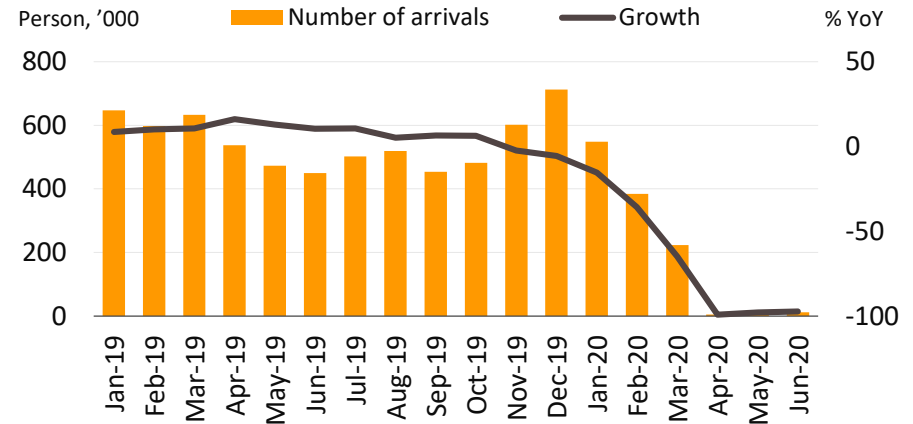
- The Asian Development Bank (ADB) estimates the pandemic would reduce total remittances in Southeast Asia (SE Asia) by between USD6.2bn (baseline scenario) and USD11.7bn (worst-case scenario) in 2020, equivalent to 9.9% and 18.6% of baseline in 2018, respectively.
- SE Asian economies are driven substantially by household consumption, from more than 50% of GDP in Myanmar to 74% in the Philippines. Many households in these countries also depend on international remittances, from 3.3% of total households in Indonesia to 12.0% in Laos. Hence, the sudden drop in remittance inflows due to the pandemic will hurt consumption of these countries, and the respective economies in 2020.
- Philippines' economy would be hardest hit by the sudden drop in remittance inflows because household consumption accounts for 74% of GDP – the highest in ASEAN. Remittances are estimated to drop by 20.2% from baseline.

Cambodia launches measures to boost tourism; rising infections worldwide could delay travel bubble program

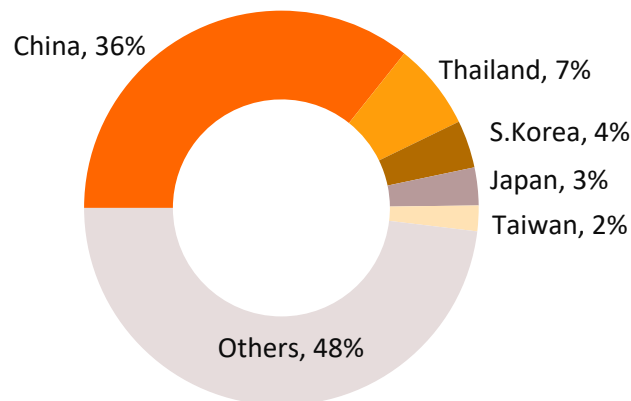
Cambodia: Contribution to GDP - Production side



Tourist arrivals



Major sources of tourists in Cambodia (2019)



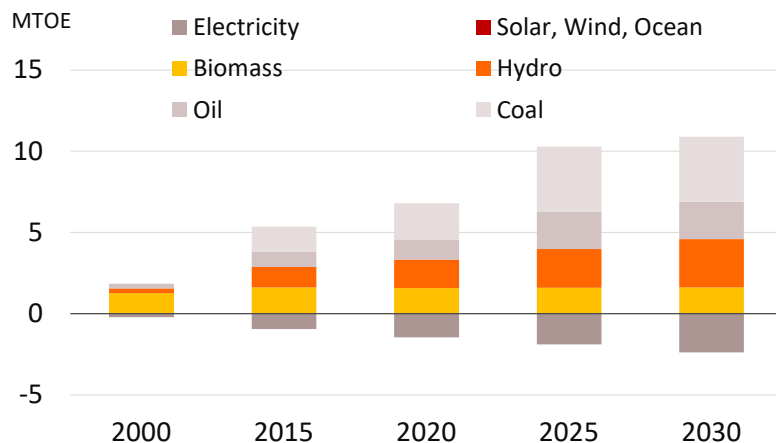
Krungsri Research's view

- Cambodia's tourism sector contributes 18% of GDP. The COVID-19 impact is expected to cause the country to lose up to USD3bn of tourism revenue in 2020 (or 12.2% of GDP), according to the Ministry of Tourism. Cambodia's government recently launched additional relief measures for tourism businesses, including (i) tax exemption (including corporate income tax) in August and September, and (ii) USD40/month cash aid for suspended employees in tourism-related businesses. The government also plans to mobilize USD1.16bn (4.7% of GDP) to restore and help businesses weather the COVID-19 impact, including a USD500m loan program to help SMEs and a USD200m credit guarantee scheme.
- The government also plans to attract more foreign tourists under the travel bubble scheme, initially focusing on ASEAN+3 (China, Japan, and S. Korea). These countries accounted for 68.4% of total visitors in 1H20. Cambodia's international borders are opened but there are very few airlines flying to Phnom Penh and Siem Reap, except for repatriation flights for Cambodians returning home or for foreigners stranded in Cambodia. Since reopening its borders and allowing inbound international flights (restrictions apply) in late-May, Cambodia welcomed only a handful of foreign visitors in June. It would be difficult to boost international tourism, especially given the risk of a second COVID-19 outbreak in several countries and rising cases globally.

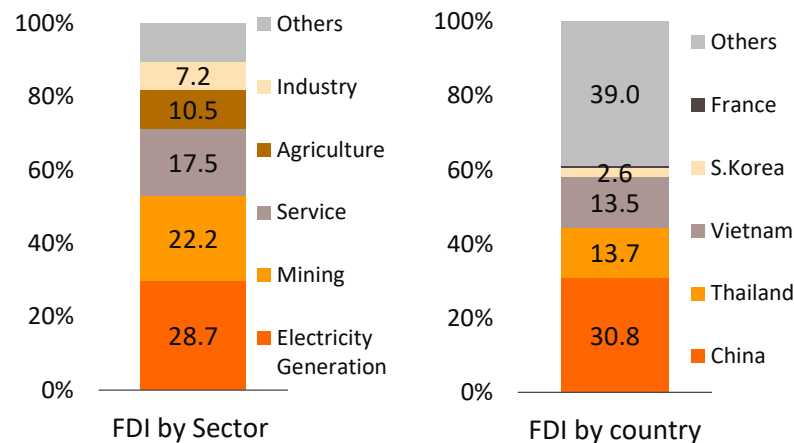
Source: IMF, Ministry of tourism, Local media, CEIC, Krungsri Research

Lao PDR: To build ASEAN's largest wind farm in the country, diversifying its energy generation mix

Energy generation mix in Laos

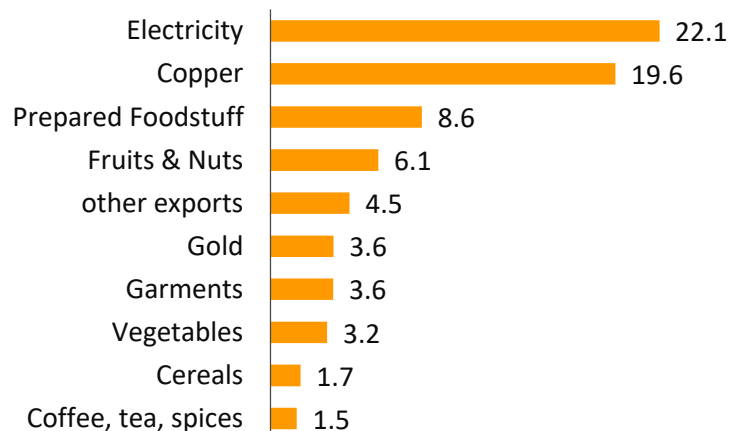


Cumulative FDI in Laos (1989-2018)



Top 10 Export Products (2018)

Unit: % of total exports



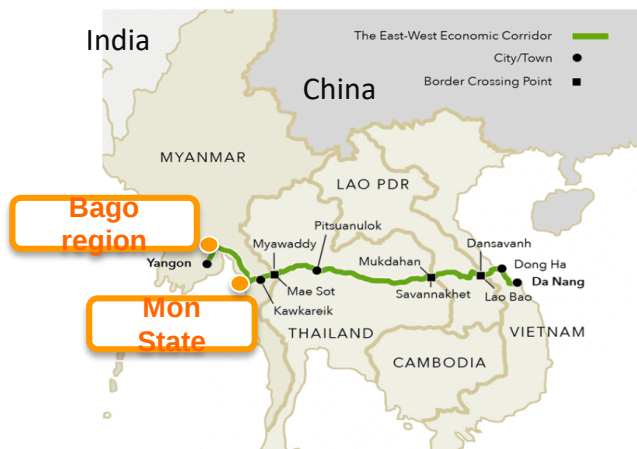
Krungsri Research's view

- One of Thailand's energy company (BCPG) has announced it would invest USD840m to build a 600 MW wind farm - ASEAN's largest wind farm - on a 64,000 hectare site in southern Laos, across from Ubon Ratchathani in Thailand.
- The wind farm will produce electricity for sale to state-run Electricity Vietnam (EVN). The purchase agreement will be signed in October 2020. Construction will start after the signing and the project is expected commence operation in 2023.
- **Electricity generation is the largest FDI destination in Laos, supported by the country's abundant natural resources for energy production. The wind farm project will support Laos' lead position in producing and exporting electricity in ASEAN.**
- This could help increase FDI inflows and improve the labor market in Laos amid the COVID-19 impact on its economy. In the longer-term, the wind farm project could help the country diversify its electricity generation mix, from largely hydropower currently, which is raising a lot of environmental issues. It could also diversify its export markets and reduce its dependence on Thailand.

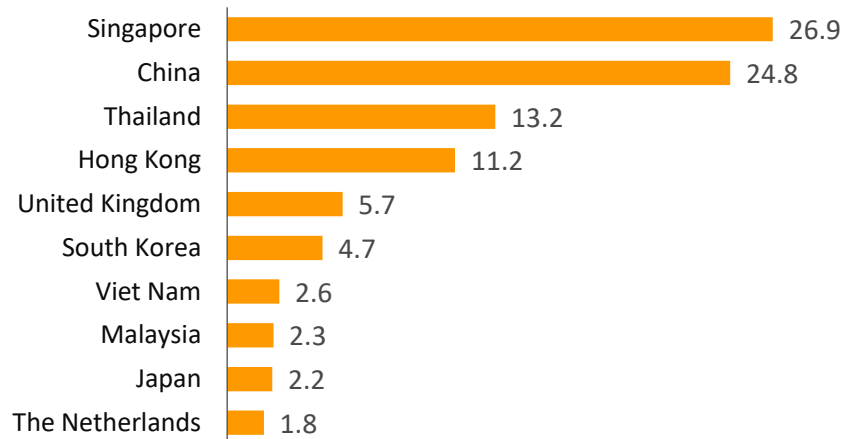
Source: Economic Research Institute for ASEAN and East Asia (ERIA), CEIC, Krungsri Research

Myanmar: Government creates special economic zone in Mon State, capitalizing on strategic location to attract FDI

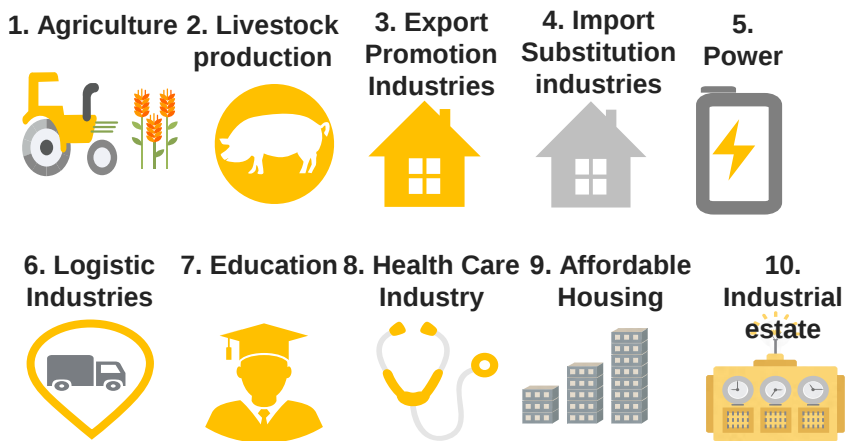
Major cities in the East-West Economic Corridor (EWEK)



Share of cumulative FDI inflows (approved) by source*



Priority sectors for foreign investors



Note: % share of cumulative Permitted Enterprise (PE): Approved Amount, data as of June 2020
Source: Myanmar Investment Commission, Myanmar Business Today, CEIC, Krungsri Research

Krungsri Research's view

- Myanmar is developing a special economic zone (SEZ) in Mon State. The plan was unveiled by the State Counselor and Foreign Minister Aung San Suu Kyi in a Myanmar-Japan Investment Promotion online event on 31 July. Japan will support the new SEZ, which will allow Japanese manufacturers operating in Thailand and the Mekong basin to expand their production units there.
- Mon State is a major trading center and seaport in south-eastern Myanmar. The new SEZ would promote intra-regional connectivity as part of the East-West Economic Corridor that would link Myanmar with Thailand, Laos, Cambodia and Vietnam. In addition, the country has recently received loans from the Asian Development Bank (ADB) to construct an expressway between Mon State and Bago Region, in the northern part of Yangon city. This would improve the transportation and logistic networks for the new SEZ. **This project offers opportunities for investors and is a priority for the current government, covering major investment sectors from agri-business to export promotion, logistic services and industrial estates.**

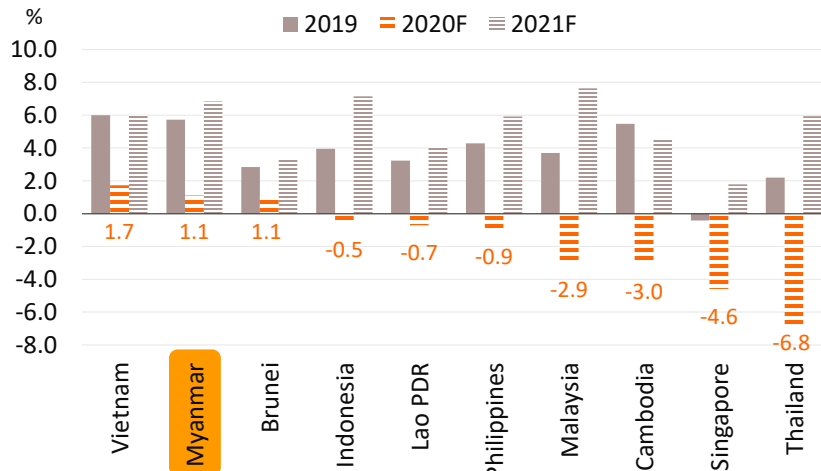
Japanese retailers are tapping into Myanmar's retail market, affirming vast opportunities

Investment criteria in Myanmar's retail & wholesale sector

Criteria	Retail		
	Myanmar-owned company	Joint venture	100% foreign-owned company
Initial investment	Not specified	More than USD700,000	More than USD3m
Myanmar's shareholding	100%	> 20%	-

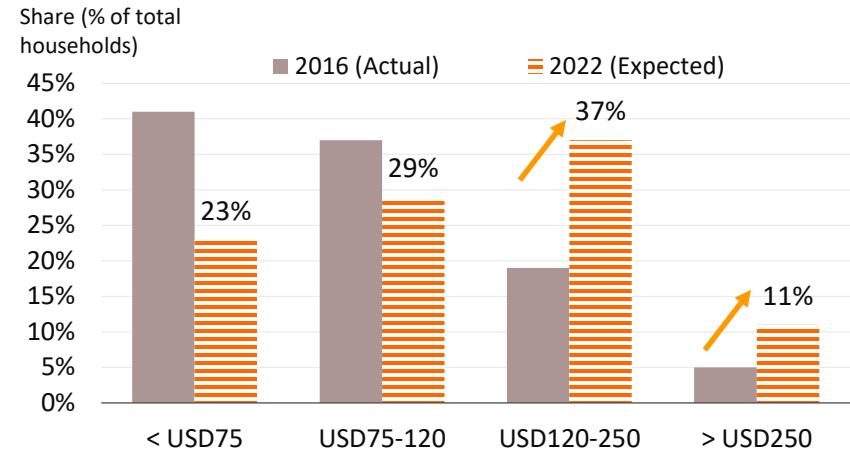
Criteria	Wholesale		
	Myanmar-owned company	Joint venture	100% foreign-owned company
Initial investment	Not specified	More than USD2 m	More than USD5m
Myanmar's shareholding	100%	> 20%	-

ASEAN: GDP per capita (purchasing power parity)



Source: Eurocham Myanmar: Business Guide 2020, Colliers International, CEIC, Krungsri Research

Average monthly income distribution

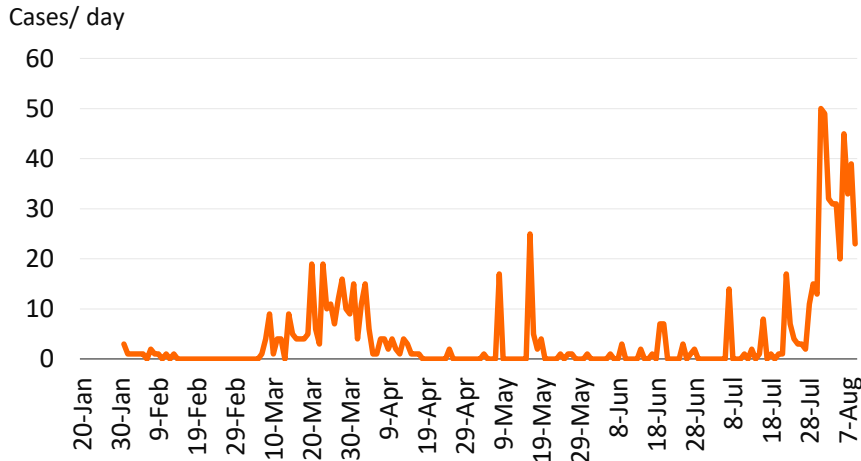


Krungsri Research's view

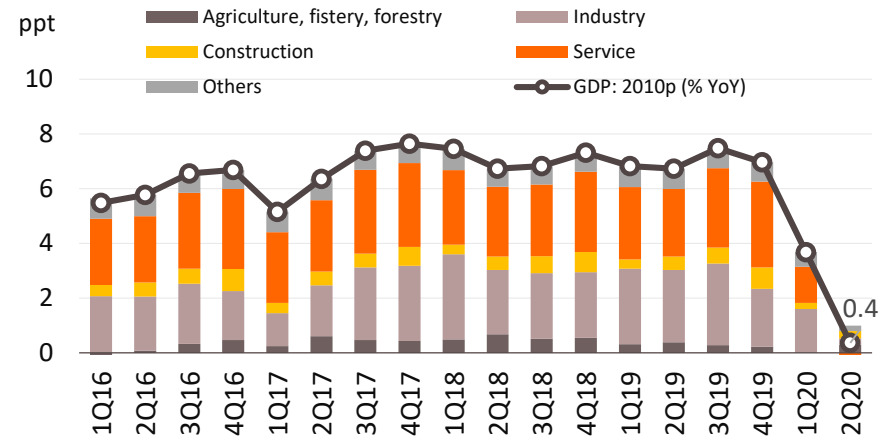
- In early August, the Myanmar Investment Commission approved a joint venture (JV) investment of USD180m between Aeon Mall Myanmar Co., Ltd. (70% of total investment) – a Japanese retail arm - and Shwe Taung Real Estate Co., Ltd. (30%) – a leading conglomerate in Myanmar. The first AEON MALL in Myanmar will be in Dagon Seikkan Township in Yangon. It will be a five-storey shopping mall with 1.2 million square feet of gross floor area and 2,300 parking lots. Construction will start in 2021 and the mall expected to open in 2023.
- This latest move by Japanese investors reflects the huge opportunities in Myanmar's consumer market as it continues to open up its economy to foreign investors. We anticipate greater FDI inflows into the country over the medium-to long-term to capture the growing consumer market. Myanmar's retail sector, especially modern trade, would continue to expand supported by rising household income. Myanmar is among few countries in ASEAN that is projected to see positive growth in per capita income this year, and has a large consumer market with a 60-million population. In May 2018, the country opened up its retail and wholesale sector to foreign investors by allowing 100% foreign ownership. The Ministry of Commerce has approved up to 34 foreign wholly-owned and 27 JV (foreign and Myanmar citizens) retail and wholesale businesses between July 2018 – December 2019. And, since the market opened up, modern trade has grown and currently accounts for 10% of Myanmar's retail sector. That share is expected to increase to 25% in 2020 (source: EuroCham's Consumer Goods Guide 2020).

Vietnam: Re-imposing lockdown in Danang might drag recovery but full-year growth would remain positive

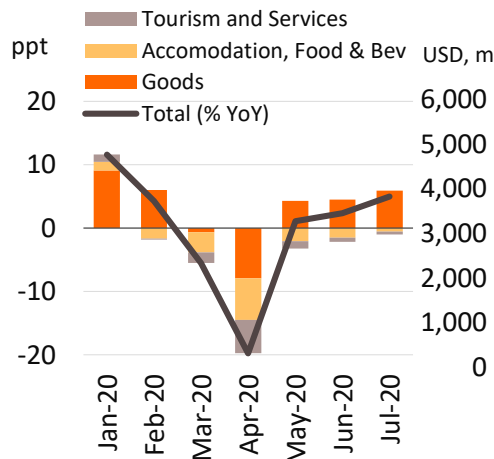
New COVID-19 cases in Vietnam



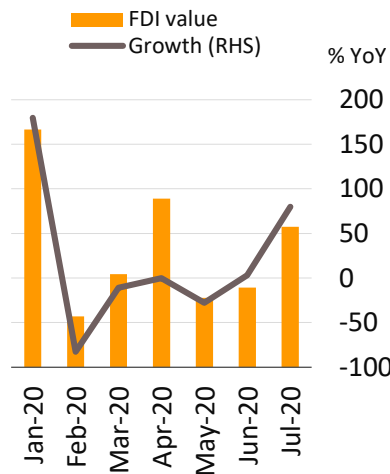
Vietnam: Contribution to GDP - Production side



Vietnam retail sales: component contribution



FDI inflows in Vietnam



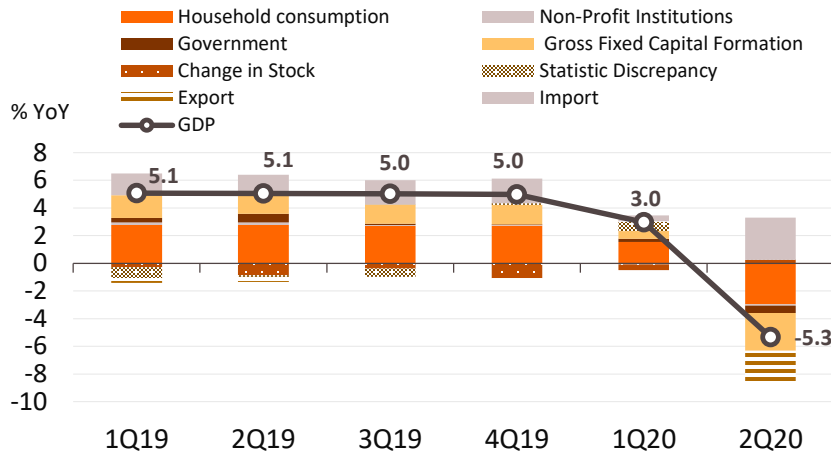
Source: WHO, GSO, CEIC, Krungsri Research

Krungsri Research's view

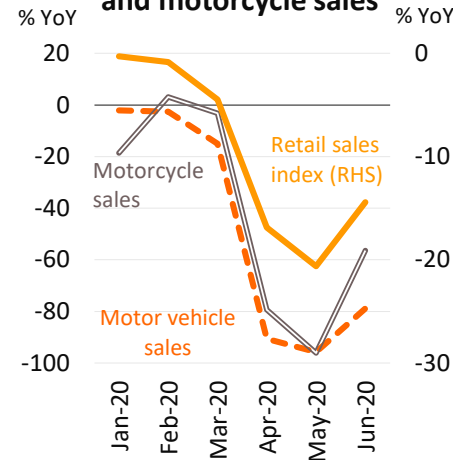
- Vietnam has re-imposed lockdown measures in Danang province, its 3rd largest city which accounts for 1.8% of national GDP. The 15-day lockdown starting 25 July is meant to contain a new cluster in the city. **The swift measure was prompted by fears of a second outbreak because the country has allowed domestic flights.**
- **The latest cluster has created uncertainty over Vietnam's economic recovery trajectory, and we project slower-than-expected growth in 2H20. However, we anticipate full-year growth would remain positive, driven by (i) solid fundamentals to support consumer spending, and (ii) positive prospects for FDI inflows** thanks to a favorable investment environment and the recently-signed European Union – Vietnam FTA (EVFTA). Recent data show a strong recovery in both retail sales and FDI inflows in Vietnam, rising for the third consecutive month since reopening the economy in late-April.

Indonesia: 2Q20 GDP contracts by 5.3% YoY, the sharpest drop since 1Q99; economy has bottomed-out

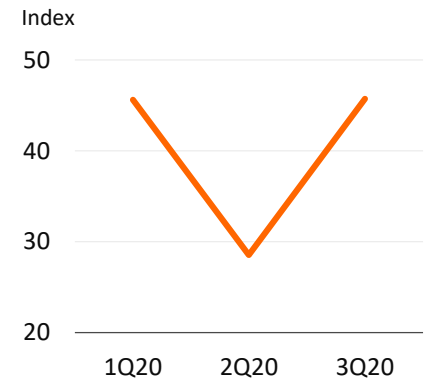
Indonesia: Contribution to GDP - Expenditure side



Indonesia's motor vehicle and motorcycle sales

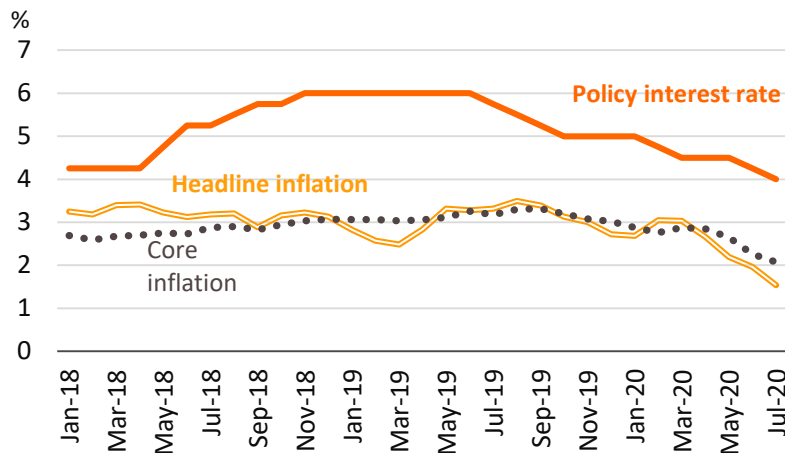


Bank Indonesia's Prompt Manufacturing Index* (PMI-BI)



Note: * the level below 50 means contraction

Indonesia's policy interest rate and inflation



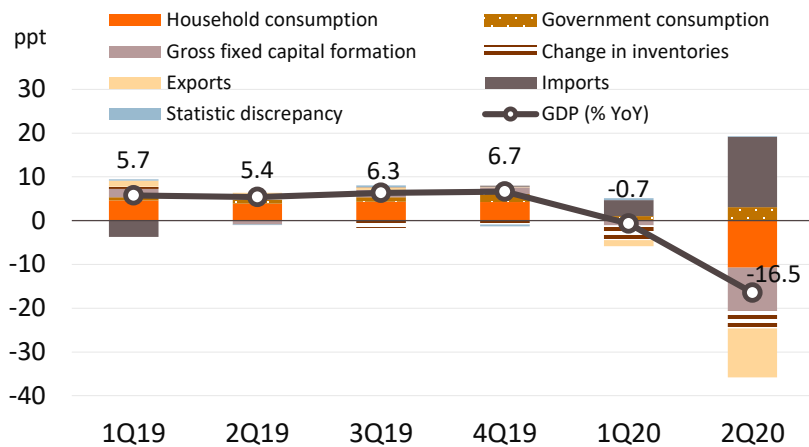
Krungsri Research's view

- Indonesia's economy contracted by 5.3% YoY in 2Q20, the sharpest drop since 1Q99. Key drag was the large-scale social distancing policy which had slowed down overall economic activity, consumption and investment.
- Looking ahead, the economy has bottomed-out but would remain weak and register negative growth in 2H20. We expect a gradual recovery ahead, supported by (i) gradual relaxation of lockdown measures, (ii) further easing of monetary and fiscal policies to boost business liquidity and consumer spending. Bank Indonesia has cut policy interest rate by a total of 100 bps this year, and we expect them to cut rate by at least 25 bps at the next meeting on 19 August to support growth, given benign inflation. The government has also recently announced it would accelerate disbursement of USD50bn expenditure. This includes IDR28.8trn (USD1.96bn) to pay an extra month salary to civil servants and state pensioners, and IDR37.7trn (USD2.7bn) in cash incentives for 16 million formal workers. Recently, there have been signs of improving economic activity, such as a rise in domestic retail sales and Bank Indonesia's Prompt Manufacturing Index (a survey of enterprises' expectations of manufacturing sector performance in the next quarter).

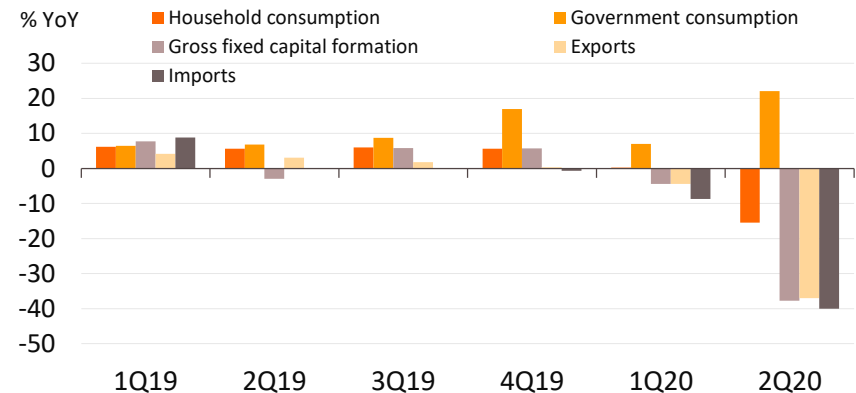
Source: Bank Indonesia, Central Bureau of Statistics, CEIC, Krungsri Research

Philippines: Economy is in recession after GDP shrank by 16.5% in 2Q20; growth outlook could be derailed by a surge in COVID-19 cases

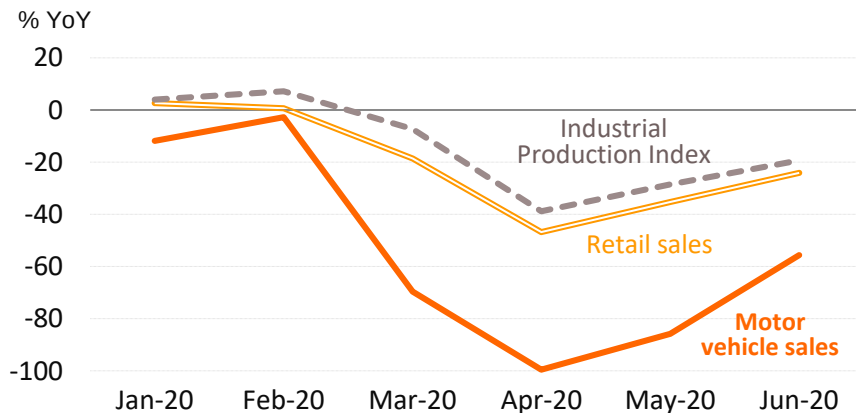
Philippines: Contribution to GDP - Expenditure side



Growth in economic activity by component



Philippines' economic activities

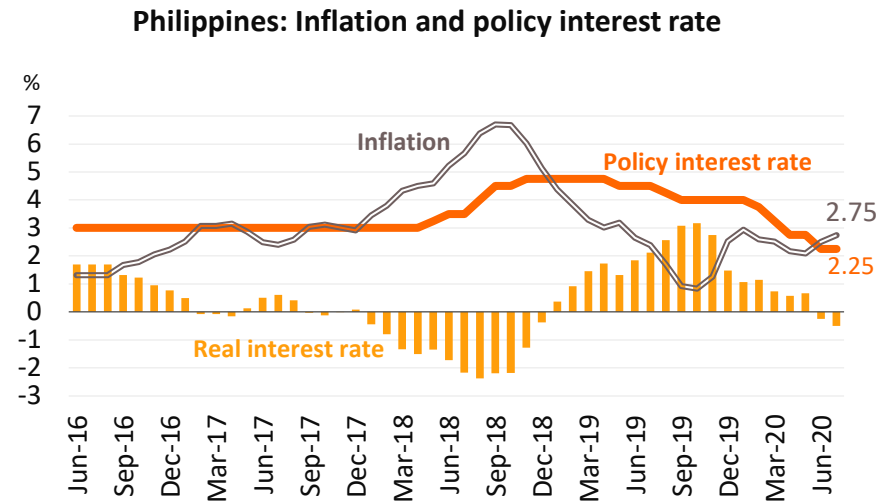
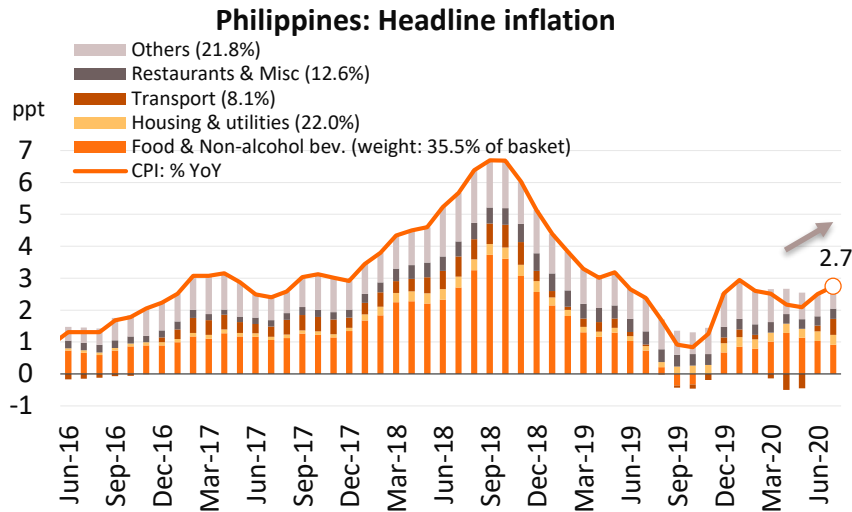


Krungsri Research's view

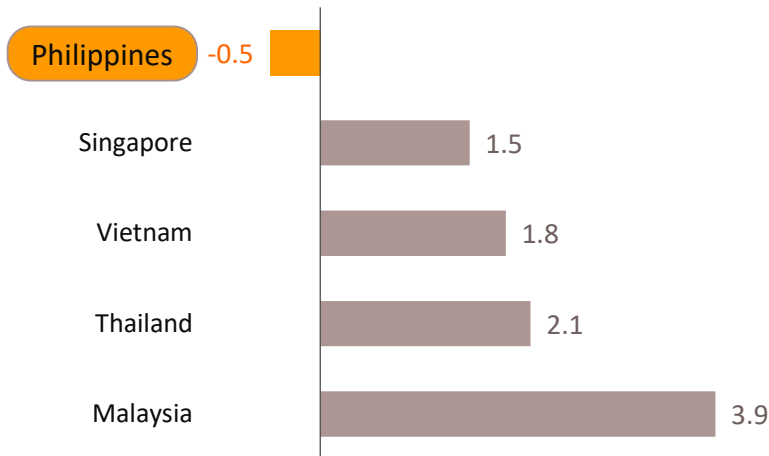
- Philippines' 2Q20 GDP contracted by 16.5% YoY, deeper than -0.7% YoY in 1Q20 (revised) and the lowest since 1981. This was due to the lockdown during the quarter which reduced household consumption by 15.5% YoY – that component is the largest economic driver at 70% of GDP. Investment and exports also dropped by 38% and 37%, respectively.
- Looking ahead, we maintain that full-year 2020 GDP growth would be in negative territory because of weak demand. Looking at 3Q20, the number of new COVID-19 cases has surged from an average of 1,700 daily in June to over 4,100 in early August. And, the government has re-imposed a 15-day lockdown in Manila and nearby provinces, which account for a combined 67% of Philippines' GDP. This would hurt the labor market and reduce consumer purchasing power further in the coming months. The ADB projects remittance inflows to the Philippines this year would drop by up to 20.2% from baseline (in 2018). In addition, the government has decided to revive the infrastructure program comprising 92 flagship projects valued at PHP4.1trn but that would take time to realize investment. These could derail a recovery in 3Q20. However, growth could accelerate in 4Q20 supported by easing monetary and fiscal policies.

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

Philippines' real interest rate is negative but further monetary easing is likely



Real interest rate (June 2020)



Note: *as of July 2020
Source: CEIC, Krungsri Research

Krungsri Research's view

- Philippines' annual inflation rate accelerated for a second straight month in July to a 6-month high of 2.7%, driven by rising costs of transportation, housing, water and gas, but remains within the government's target range of 2%-4% for the year. Meanwhile, the central bank's policy interest rate is at 2.25%. This means **real interest rate is in negative territory, the only nation in SE Asia to to register this**. However, the Philippines had experienced negative interest rates in the past few years.
- We maintain that the authorities would continue to ease monetary policy**, such as reduce reserve requirement ratio (RRR) and cut policy interest rates, premised on the following: (i) inflation stays within the official target range of 2%-4%, and (ii) the economy falls into a recession as new COVID-19 cases continue to surge in the country.

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