

Radhika Rao

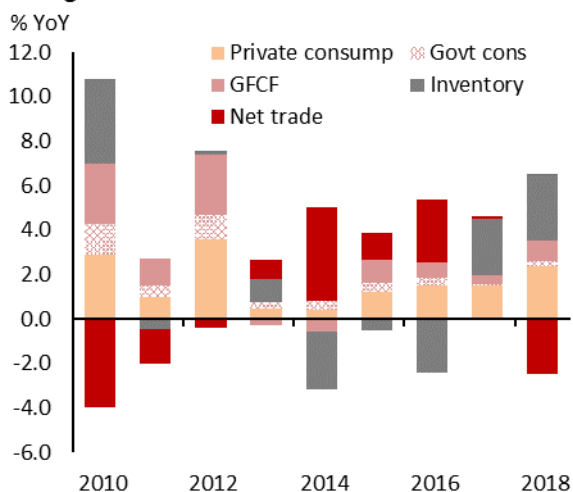
Economist



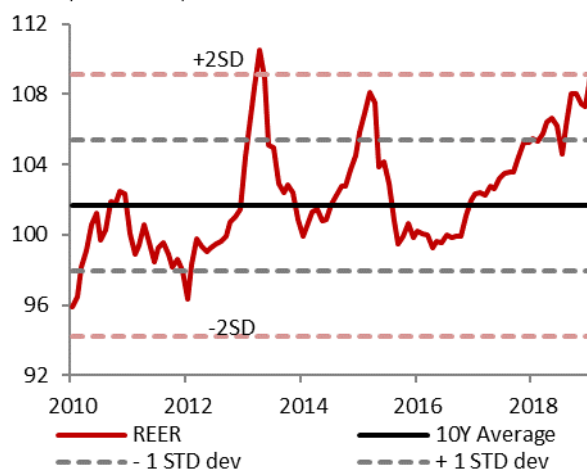
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- The economy ended 2018 on a firm note, with full-year growth at a five-year high. Moderation lies ahead with growth to slow to 3.8%, owing to a pre-election claw back in public spending and tougher trade environment
- The current account surplus likely peaked in 2017 and is expected to narrow to around 6% of GDP in 2019
- Fiscal stability is not at risk as FY20 deficit is set at 2.4% of GDP and public debt levels are below mandated thresholds
- Base effects are likely to prop 1H inflation prints before easing back in the second half. Oil price bounce is likely to feed-through the headline, but not pose a threat to the BOT targets
- The Bank of Thailand continues to maintain that a policy buffer to defend against future contingencies is necessary
- Rate hikes are, however, not imminent given weak inflation and a strong currency. A pause is likely this year
- From a valuation perspective, the THB looks on the high side
- Political outcome on May 9 will be watched closely

GDP growth breakdown**THB Real effective exch rate (REER) movements**

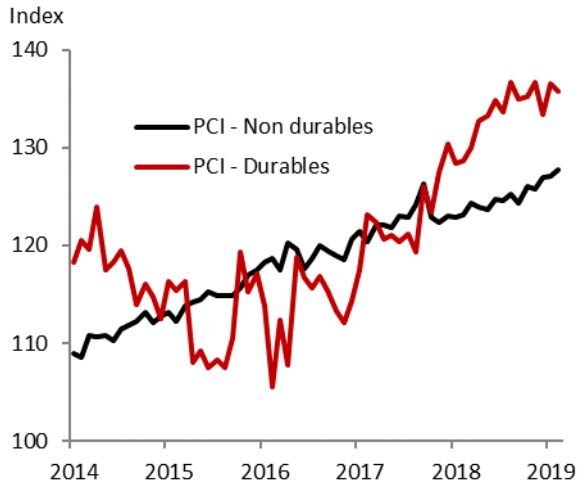
Index; 2010=100, BIS



Growth

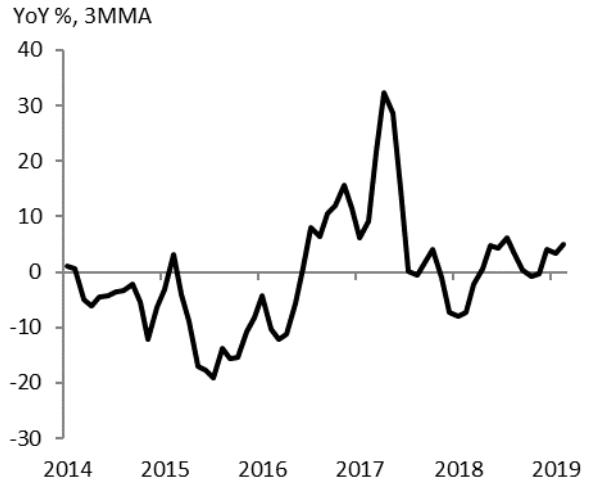
After a strong run in 2018, the consumption index for durables is in midst of consolidation, while non-durable maintains its gradual uptrend. Economic policies of most parties are pro-consumer and pro-farmer, which will underpin consumption this year.

Private consumption index (sa)



Farm income growth is gradually improving since late last year, feeding expectations of a pick-up in non-durables consumption.

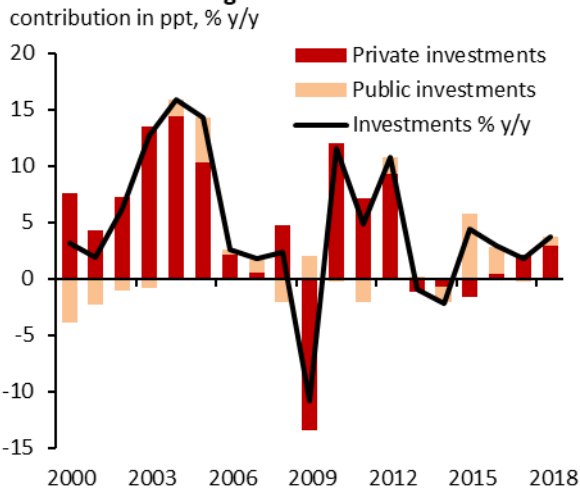
Farm incomes from major crop groups improve



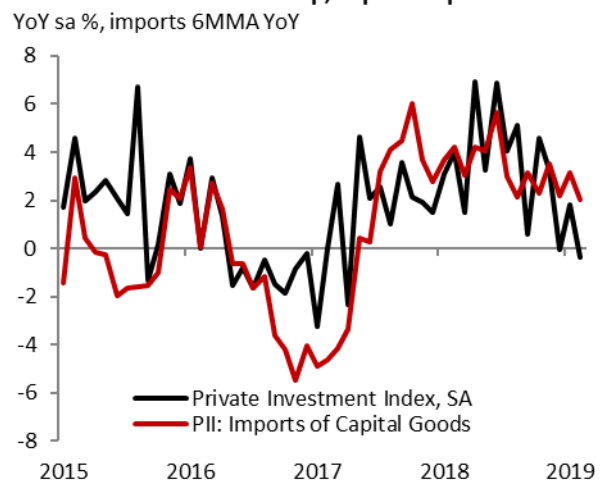
Investment growth trends are subdued compared to the past, but 2018 was a good year as private and public spending picked up in tandem. Latter likely slowed in 1H ahead of the polls but is expected to fare better in 2H.

Private sector interests have moderated as signaled by the draft in investment and imports of capital goods indices.

Recent investment growth has been subdued



Private investment holds up, capital imports ease

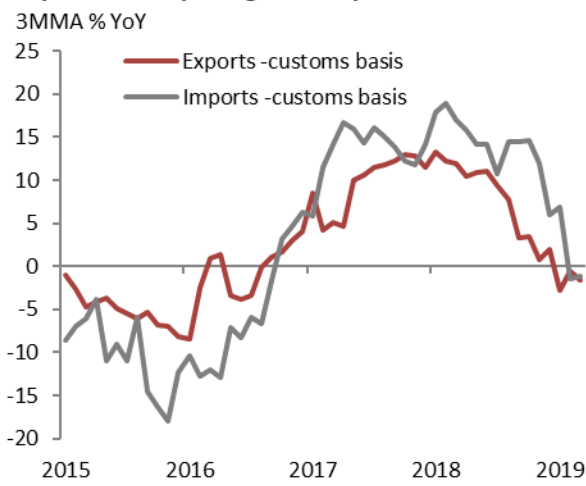


External trade

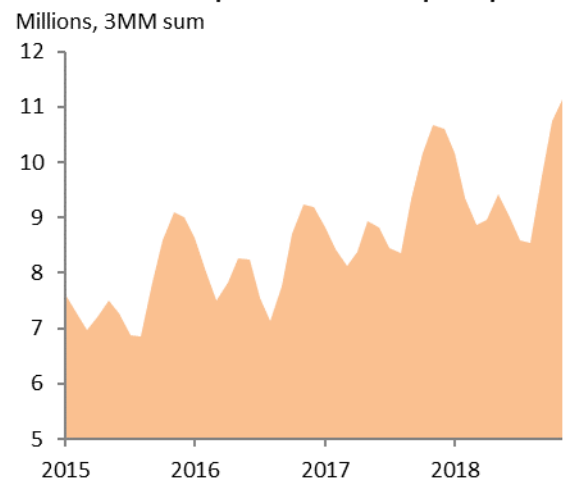
Sharp drop in March exports is of concern, but a deeper correction in imports resulted in a decent trade surplus. Glimmer of stabilisation is stemming from improving data from China and delay in further tariffs in US-China.

Tourist arrivals picked up towards late 2018, early this year on a seasonal push and towards Songkran festivities. This is likely to be a boost external balances, partly offsetting the impact of a narrower trade surplus.

Exports and imports growth tapers



Tourist arrivals improve on seasonal pick-up

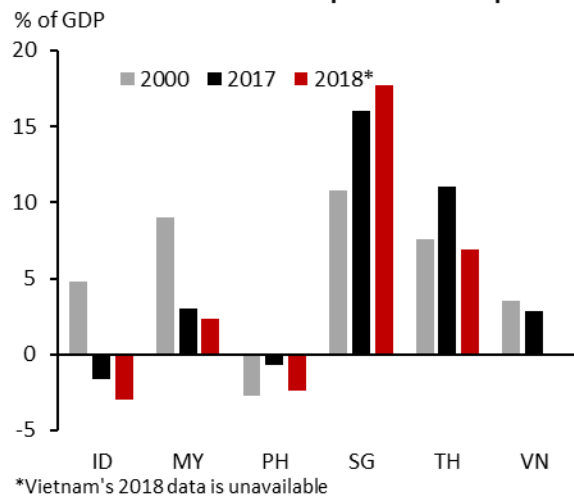


Current account position

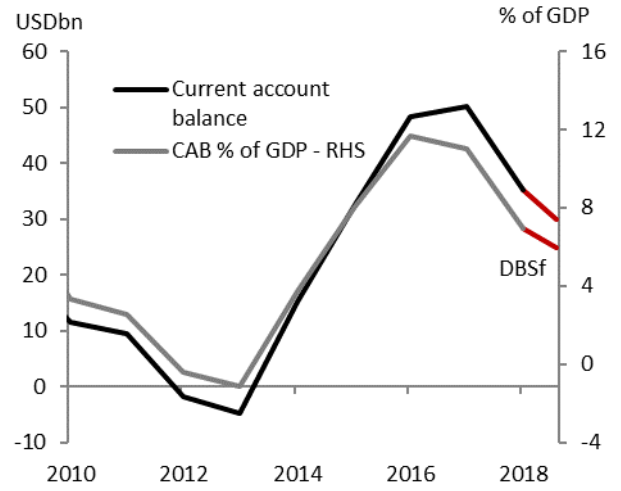
Compared to the ASEAN peers, Thailand's current account surplus is still sizeable (particularly compared to Indonesia and Philippines, which run deficits)

Despite relative outperformance, Thailand's current account position is likely to narrow on a falling trade surplus. Since the peak in 2017 at 11% of GDP, the surplus is likely to be around 6% this year.

Thailand current account surplus vs ASEAN peers



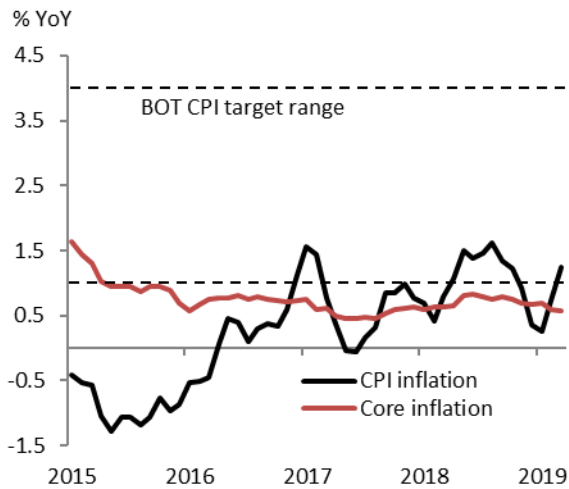
Current account surplus to come off highs



Inflation

Base effects are likely to prop 1H inflation prints before easing back in the second half. Oil price bounce is likely to feed-through the headline, but not pose a threat to the BOT targets.

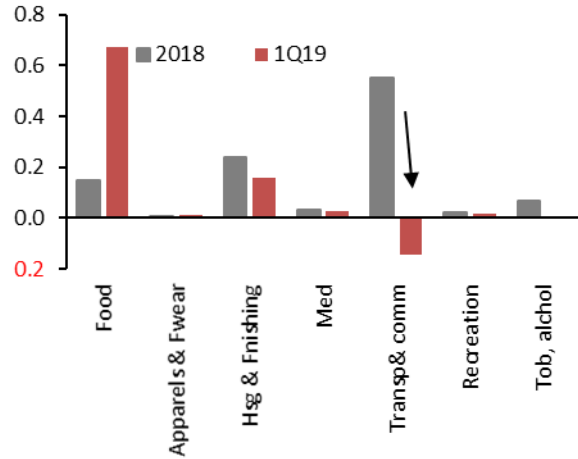
Headline and core inflation - still benign



Inflation breakdown shows that cost-push pressures ebbed in 1Q19. Core is showing benign demand-pull forces, increasing the likelihood that inflation is likely to stabilise around the lower end of the BOT target this year.

Thai inflation - supply-side pressures ebb

contribution, percentage points

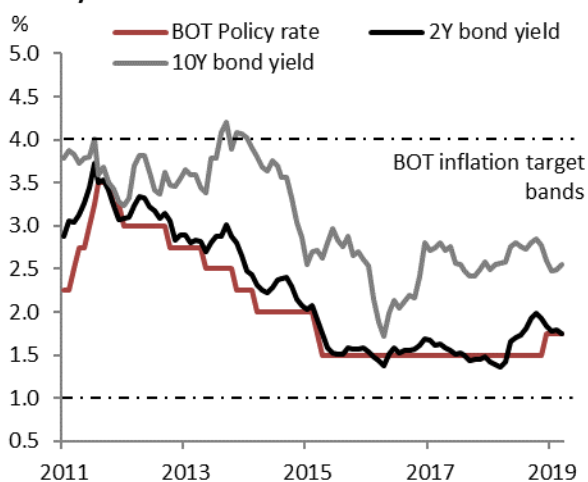


Monetary Policy and Financial markets

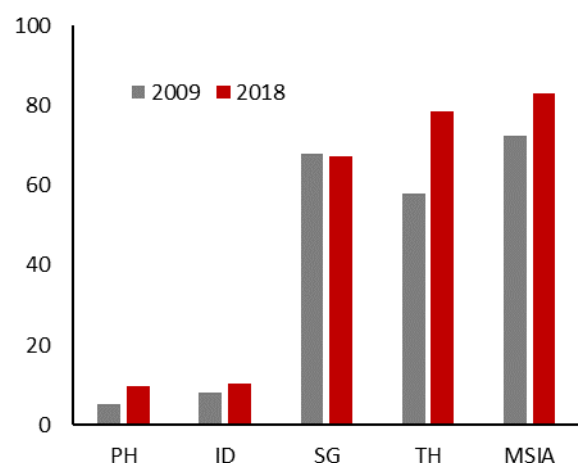
The BOT continues to maintain that a policy buffer to defend against future contingencies is necessary. Rate hikes are, however, not imminent given weak inflation and a strong currency. A pause likely is likely this year.

Thailand's household debt as a % of GDP has risen since the global financial crisis. While levels are off the 2015 peak of over 80%, authorities are paying close attention, underscored by the tightening in regulations last year.

Bond yields vs benchmark rates

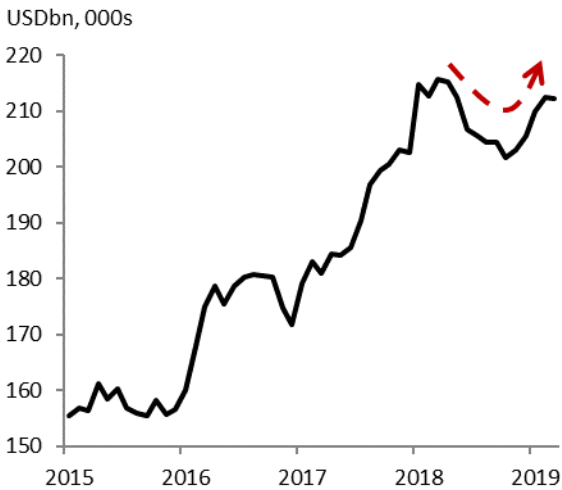


ASEAN 5 - household debt as % of GDP



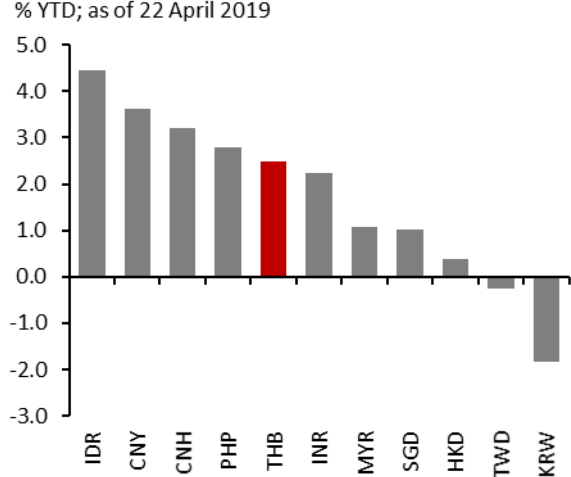
Besides relative strength in external balances, Thailand’s foreign reserves backstop is comfortable. After last year’s dent, the reserves stock has improved into early 2019 as portfolio flows resumed.

Foreign reserves position - stock recovers in 2019



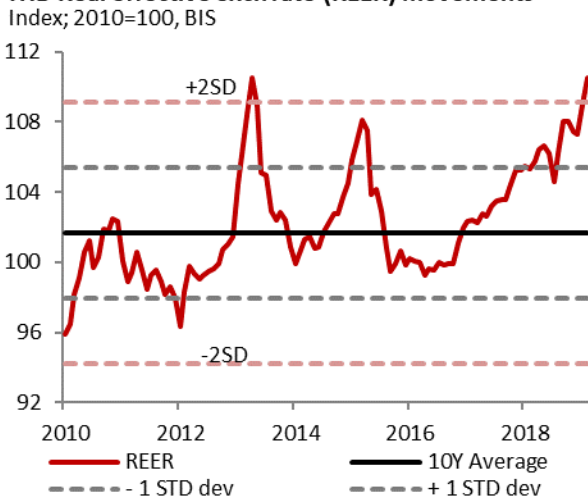
On total return basis (FX and interest rates), the Thai Baht is in the middle of the regional space. This factors in a 2% appreciation in the THB and 0.5% returns on the rates, as of April 22, 2019.

THB total returns (FX and rates) vs regionals



Apart from spot, the THB has appreciated strongly on effective exchange rate basis (EERs on trade weighted basis). 2018 and this year’s gains have seen the Real EERs revisit 2013 highs and breach past the 2% SD range. This is likely to be a negative for Thailand’s trade competitiveness.

THB Real effective exch rate (REER) movements



The final count of the election results is due on May 9, 2019. Below is a snapshot of the end-March results. Negotiations are underway and if neutral parties join Palang Pracharath, then a narrow majority might emerge. Opposition parties have announced a multi-party coalition to lay stake to the top office, of which one new entrant has run into legal challenges. The Election Commission has ordered recounts and re-polling in selected provinces across the country.

Parties	No. of votes	Constituency
	millions	/350 seats
Palang Pracharath	8.4	119
Pheu Thai	7.9	137
Future Forward	6.3	88
Democrat	3.95	56
Bhumjaithai	3.73	53

* 100% votes counted; Source press reports, DBS

Forecasts on major indicators

	GDP (YoY)				CPI inflation (YoY)			
	2017	2018	2019f	2020f	2017	2018	2019f	2020f
Annual change (%)	3.3	4.1	3.8	4.0	0.7	1.1	1.0	1.3

Exchange rate and interest rates forecasts									
		Mar 29/ Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20	Q3 20	Q4 20
USD/THB	eop	31.7	32.5	33.0	32.8	32.6	32.4	32.2	32.0
BOT rate	(%, eop)	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
Government bond yields	2Y (%, eop)	1.78	1.80	1.80	1.80	1.80	1.80	1.80	1.80
	10Y (%, eop)	2.43	2.40	2.50	2.60	2.60	2.60	2.60	2.60
	10Y-2Y (bps)	65	60	70	80	80	80	80	80

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Sources: Data for all charts and tables are from CEIC, Bloomberg, govt agencies and DBS Group Research (forecasts and transformations).

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