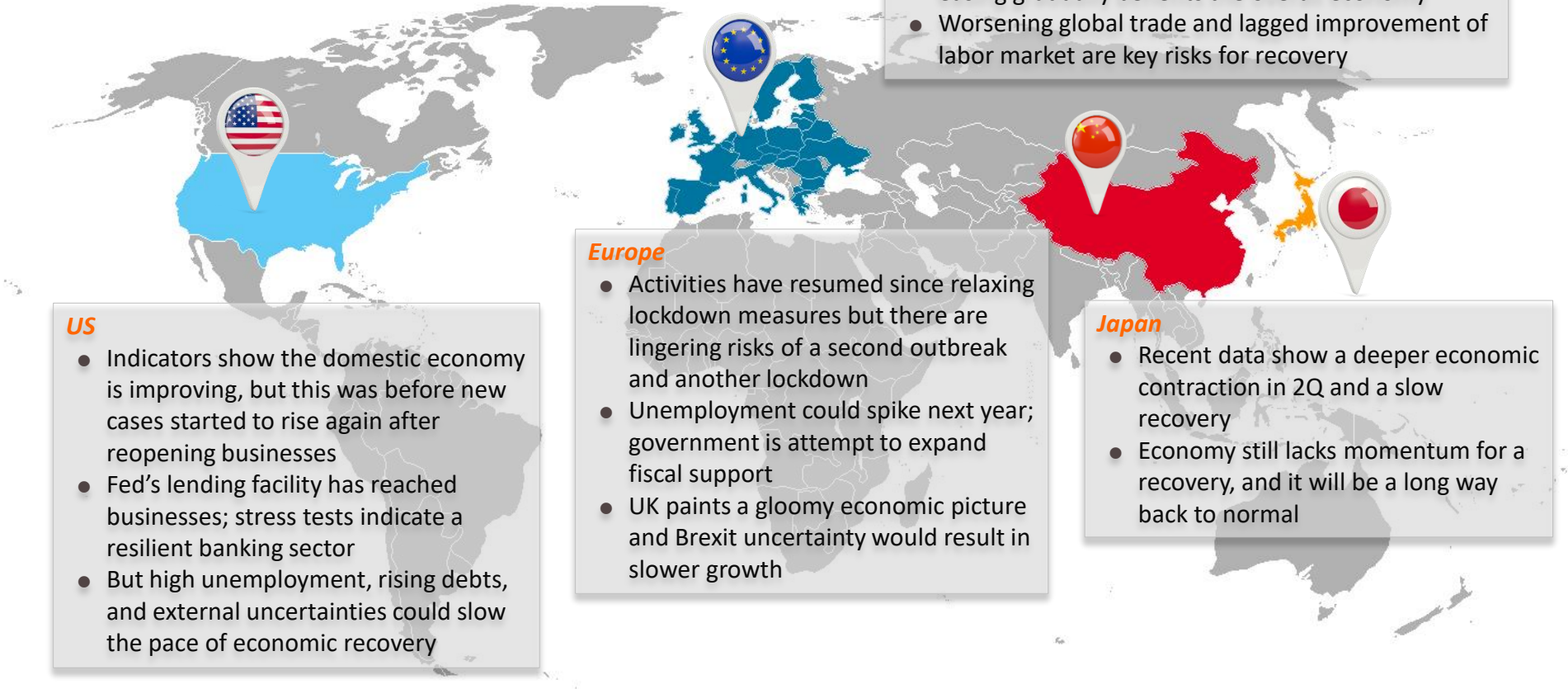

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BULLETIN
July 2020
Krungsri Research

Global: Struggling to escape the economic currents



China

- Improving supply-side activity indicates GDP would expand in 2Q20, investment to support a recovery
- Government may ramp up investment; monetary easing gradually benefits the overall economy
- Worsening global trade and lagged improvement of labor market are key risks for recovery

US

- Indicators show the domestic economy is improving, but this was before new cases started to rise again after reopening businesses
- Fed's lending facility has reached businesses; stress tests indicate a resilient banking sector
- But high unemployment, rising debts, and external uncertainties could slow the pace of economic recovery

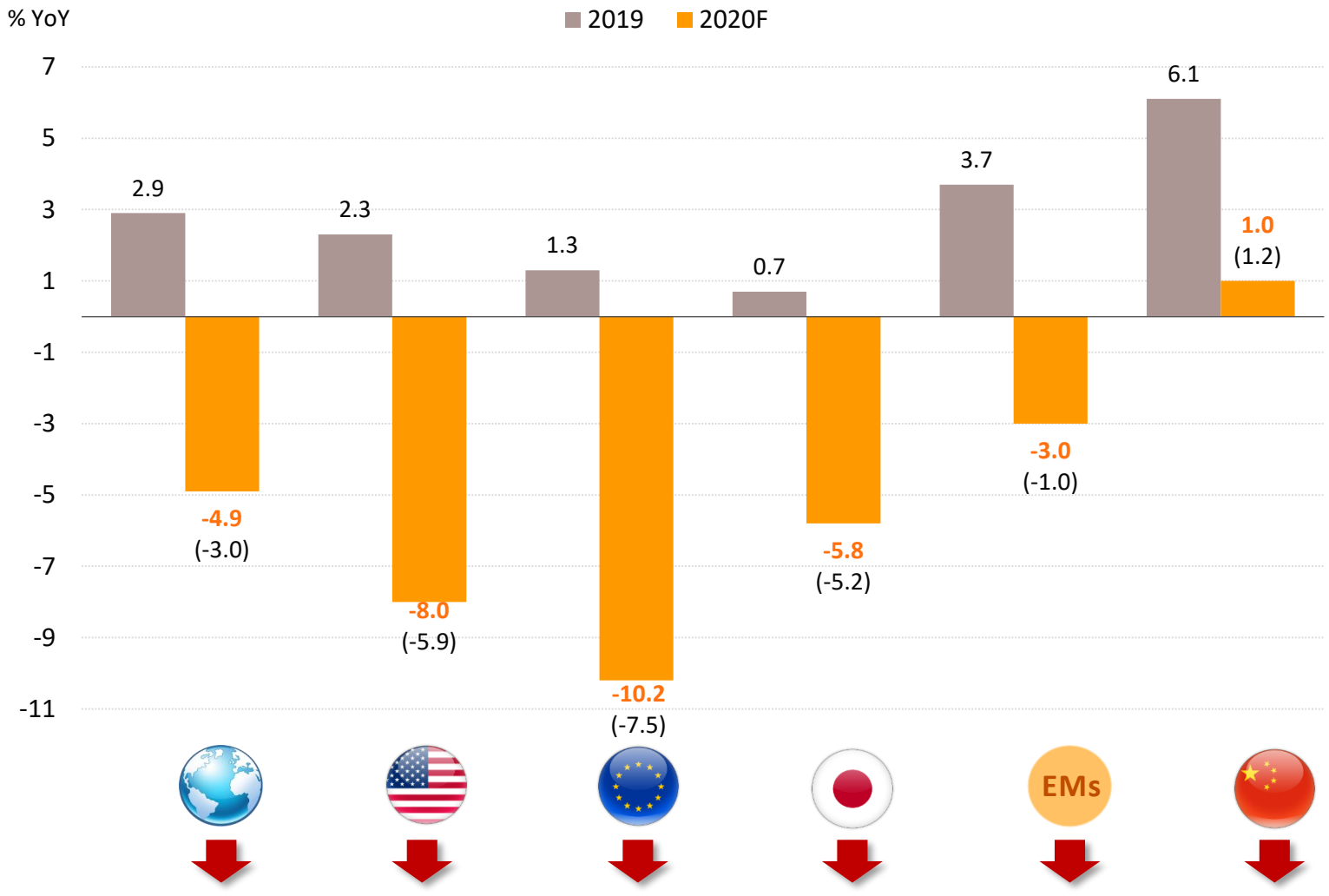
Europe

- Activities have resumed since relaxing lockdown measures but there are lingering risks of a second outbreak and another lockdown
- Unemployment could spike next year; government is attempt to expand fiscal support
- UK paints a gloomy economic picture and Brexit uncertainty would result in slower growth

Japan

- Recent data show a deeper economic contraction in 2Q and a slow recovery
- Economy still lacks momentum for a recovery, and it will be a long way back to normal

IMF slashes 2020 global growth forecast again to -4.9%, citing *"a crisis like no other, an uncertain recovery"*

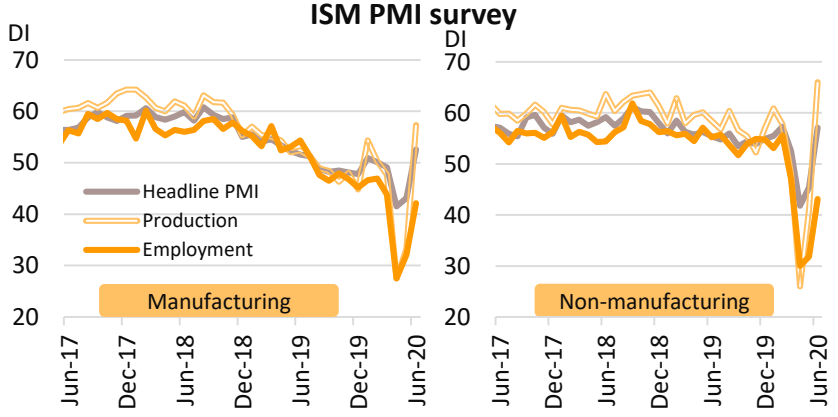


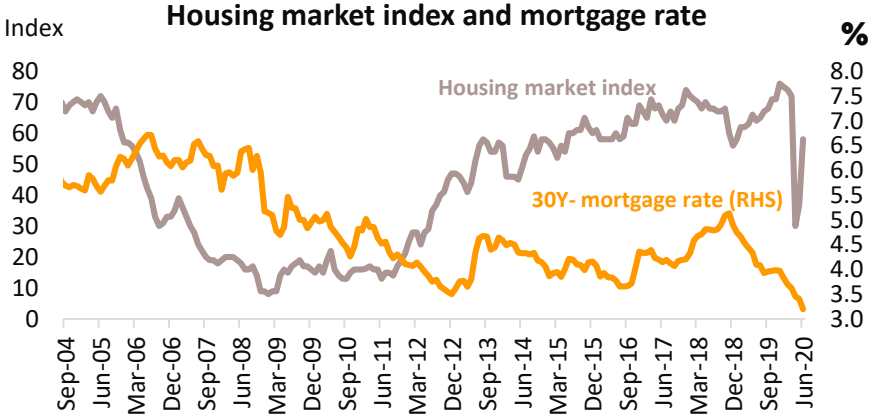
Note: ( ) April 2020 forecast Unit: %

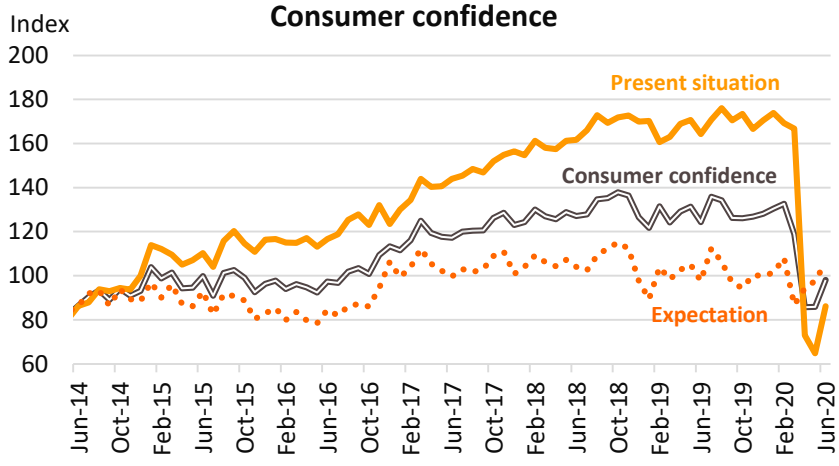
Source: IMF World Economic Outlook (June 2020), Krungsri Research

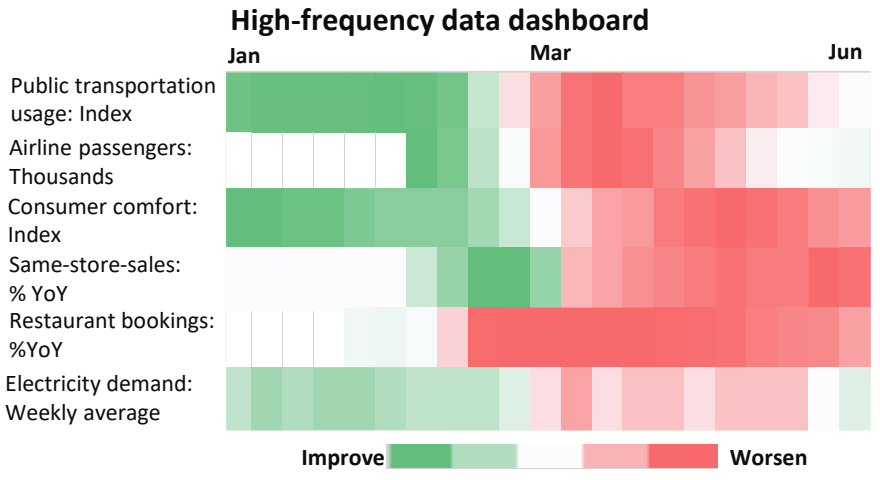
US: Indicators show economy is improving but new cases are rising again and could lead to another lockdown

US Manufacturing PMI rose from 43.1 in May to 52.6 in June and non-Manufacturing PMI rose from 45.4 to 57.1, suggesting production activity has resumed. However, employment sub-indices for both sectors contracted for the fourth consecutive month and remain far below production sub-indices. Housing market index improved from 30 during the peak of the outbreak in April to 58 in June, with improvements in housing starts and pending home sales as 30-year mortgage rate has plunged to a new low of 3.1%. Consumer Confidence Index rose 12.2 points to 98.1 in June driven by more optimistic expectations after reopening, but the survey was conducted in mid-June, before fears of a second outbreak and another round of layoffs. **On the demand side, high-frequency data show a slight improvement in public transportation, airline passengers, and electricity demand, but retail sales and restaurant bookings remain weak.**



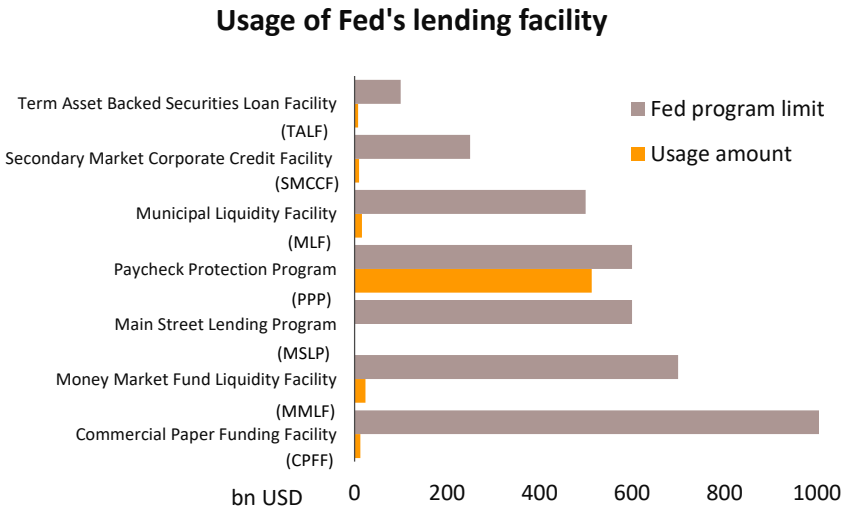


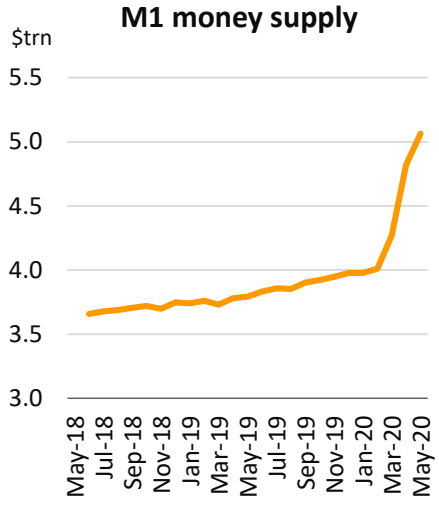


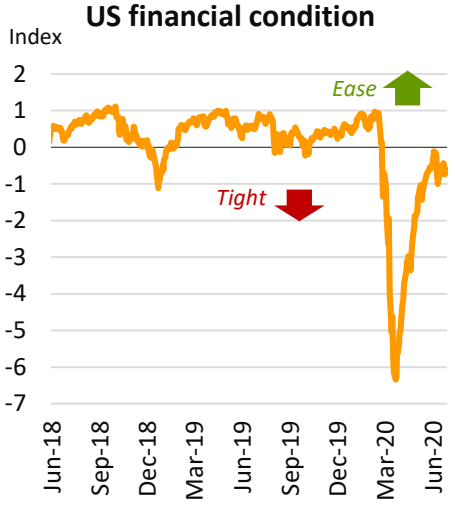


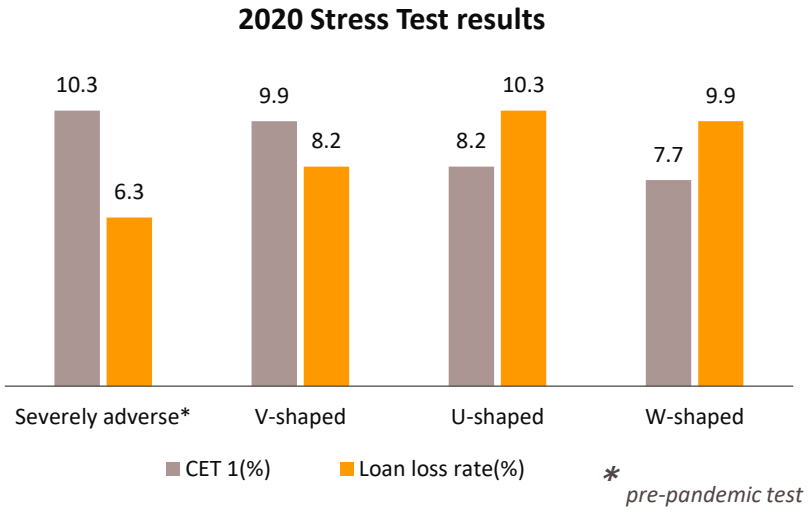
Source: Institute for Supply Management (ISM), Conference Board, National Association of Home Builders, Mortgage Bankers Association, Bloomberg, Krungsri Research

Fed's lending facility has reached businesses; stress tests show a resilient banking sector









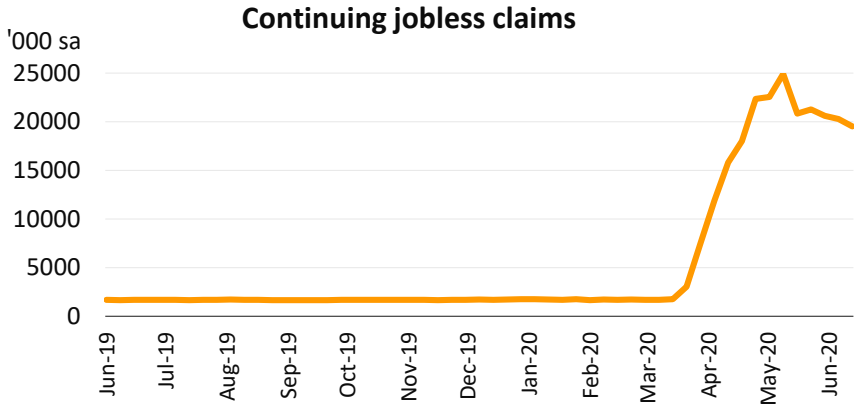
Source: Federal Reserve Board, Bloomberg, Krungsri Research

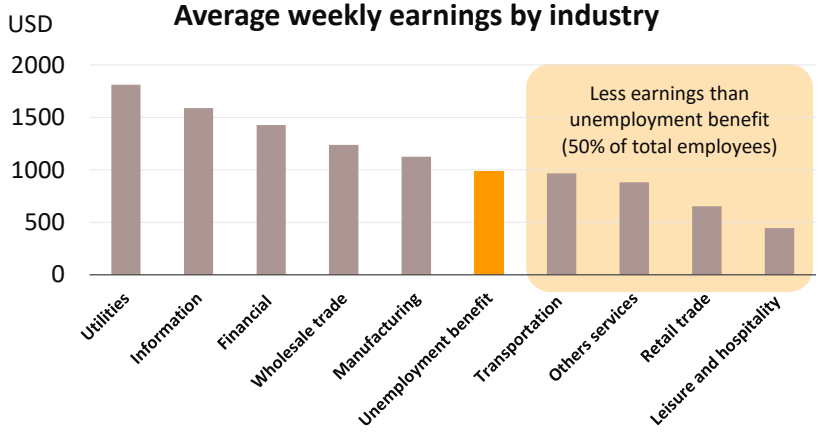
Krungsri Research's view

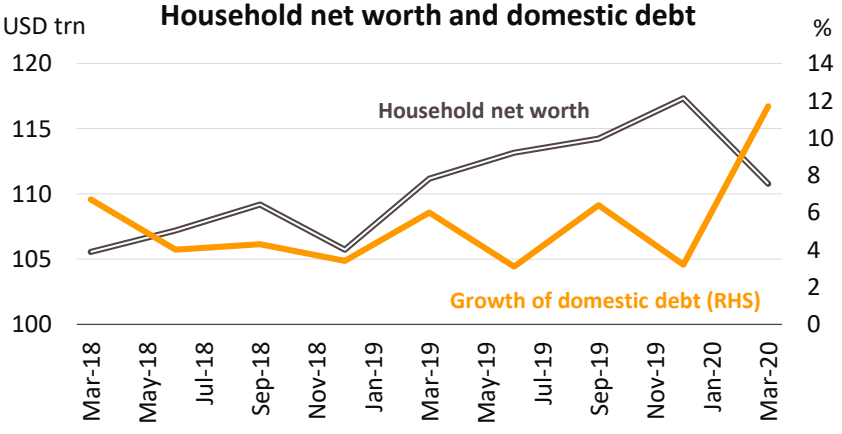
- Total approvals for the *Paycheck Protection Program (PPP)* indicate SMEs have accessed the USD520bn fund to keep employees on the payroll. Even after PPP ends, other policies will continue to release liquidity into the economy. The Fed has started buying bonds in the primary market through PMCCF to support large company bonds with less than 4-year maturity. The Fed will operate until 30 September this year. Moreover, the Fed has bought USD207mn worth of individual bonds from existing investors and ETFs via SMCCF since mid-June and is considering relaxing the minimum loan requirement to provide more liquidity for small borrowers.
- The US has introduced massive fiscal and monetary measures. M1 money supply has jumped by USD1.06 trn in the first-half of the year and financial conditions have improved markedly, implying the injection is smoothing functioning of the financial market. The huge cash aid and proper facilities will help to support economic recovery in the US.
- Fed's stress tests show Common Equity Tier 1 (CET1) under the worst-case scenario (W-shaped) would drop to 7.7%, still above minimum requirement of 4.5%. Aggregate loan loss would rise to 9.9% from 6.3% pre-pandemic. The results are worse than for the pre-pandemic tests, but they show banks would remain resilient during the harshest shocks.

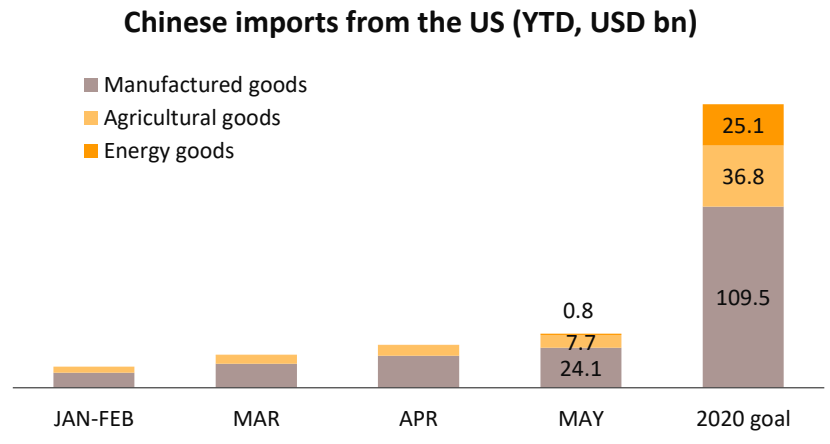
Unemployment, rising debts and external uncertainties could slow the pace of economic recovery

The number of jobless claims have dropped in the US but remain at a record high, with 20 million people losing their jobs and not being recalled. Unemployment benefits have exceeded the average earnings in major sectors, including retail trade, leisure and hospitality. **The PPP-funded and unemployment benefit programs that will end on August 8 and July 31, respectively, could dampen recovery prospects and increase risk of a second wave of layoffs when companies run out of funds.** This could reduce income and consumption substantially. Household net worth saw the largest single-quarter drop to USD100.8trn, while domestic debt surged 11.7%. **There is rising external uncertainty - Chinese imports from the US in the first 5 months only reached USD32.6bn or 20% of targeted items under the deal.** China needs to buy USD139bn worth of US items the rest of the year to meet its commitment. These uncertainties could pressure economic recovery. Hence, we expect more fiscal stimulus from Congress to avoid falling off the financial cliff, help the unemployed, lift market sentiment, and support a sustainable rebound in economic activities.







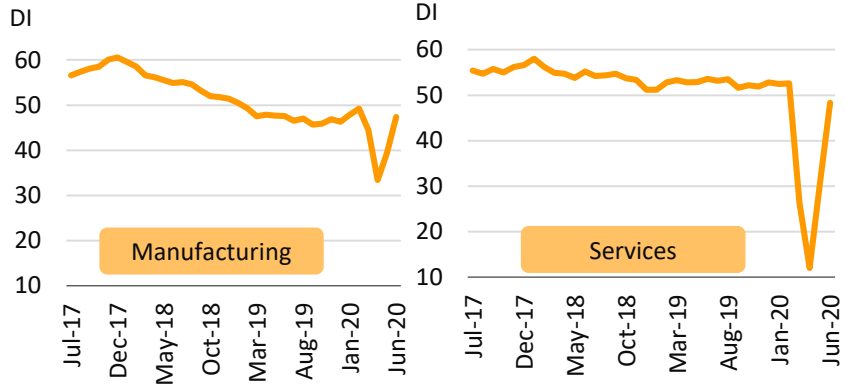


Source: Bureau of Labor Statistics (BLS), Bureau of Economic analysis (BEA), Federal Reserve Board, United States Department of Agriculture (USDA), Bloomberg, Krungsri Research

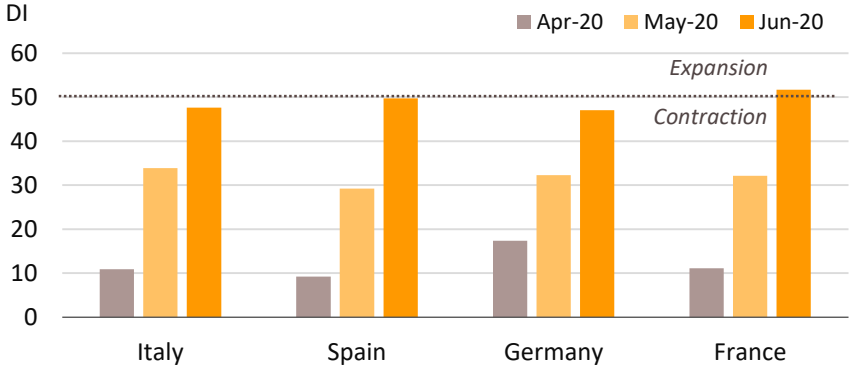
Europe: Activities have resumed but there are risks of a second outbreak and another lockdown

Eurozone PMI data showed a strong recovery in the Services sector, rising from 30.5 in May to 48.3 in June. Manufacturing PMI rose to 47.4 in June. PMI survey by country saw the worst contraction in April, before a marked improvement in May and June as countries eased lockdown restrictions. France is the best performing economy so far, return to modest growth with Composite PMI at 51.7, followed by 49.7 in Spain. Economic sentiment has recovered 30% of the combined losses since the peak of the outbreak, rising from 67.5 in May to 75.7 in June. Employment expectations rose to 82.8 in June but remained 40% below pre-pandemic level. Transit data show that France and German traffic activities have returned to pre-crisis levels and that the economy is recovering. These suggest economic activities have improved since easing restrictions. However, there are still risks of a second outbreak especially in Germany, Spain and Portugal, which would trigger another lockdown.

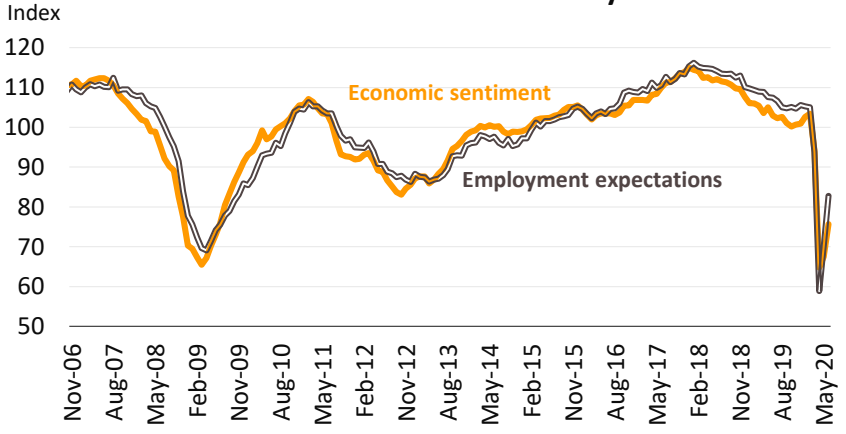
Eurozone PMI survey



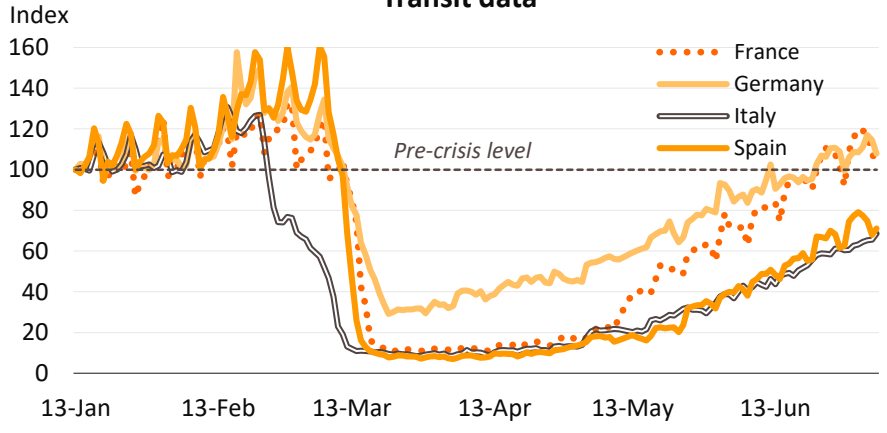
PMI survey by country



Economic and business surveys



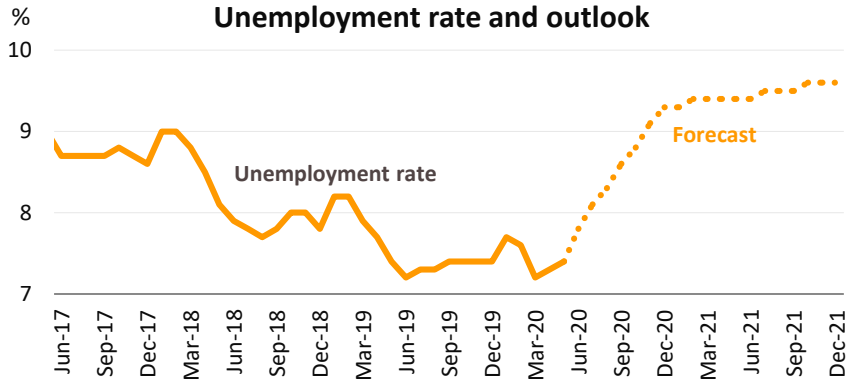
Transit data

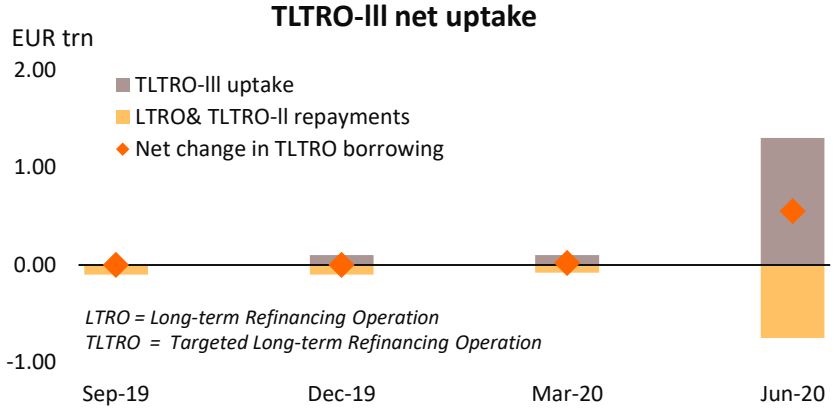


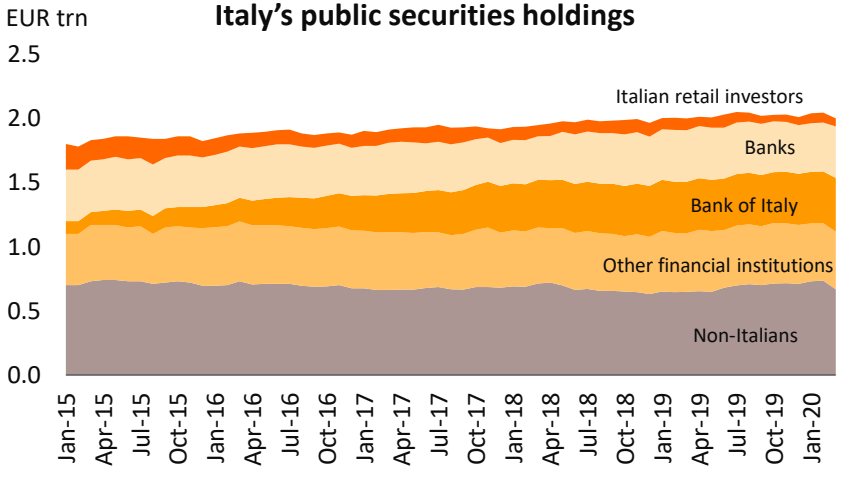
Source: Eurostat, European Commission, IHS markit, Apple mobility data, Krungsri Research

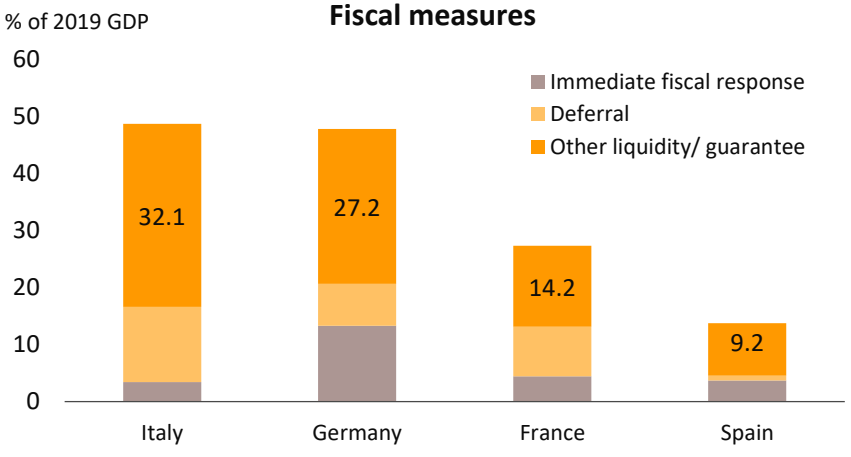
Unemployment could spike next year; government attempts to expand fiscal support

Eurozone unemployment rate only inched up from 7.3% in April to 7.4% in May, reflecting the success of furlough programs. **However, unemployment could spike to over 9% next year when the program ends. This means there is a need for greater monetary and fiscal policy supports.** In terms of monetary policy, net uptake in TLTRO-III was EUR548bn in June, much higher than during previous operations, indicating stronger demand for bank lending to the real economy. In terms of fiscal support, Italy's treasury sold EUR6.12bn (0.3% of GDP) worth of retail securities *BTP futura* to citizens which now own 3.1% of public securities. This would help finance the government's economic stimulus measures. Spain is considering plans to expand its EUR100bn loan-guarantee program by EUR50bn due to strong demand from struggling businesses. Spain's fiscal measures is relatively small compared to that in Europe's largest economies, suggesting inadequate stimulus in some countries. The longer and larger impact of the outbreak could prompt EU policymakers to expand the stimulus program and accelerate coordinated fiscal support through the EU Recovery Fund (EUR750bn) at the July 17-18 meeting.





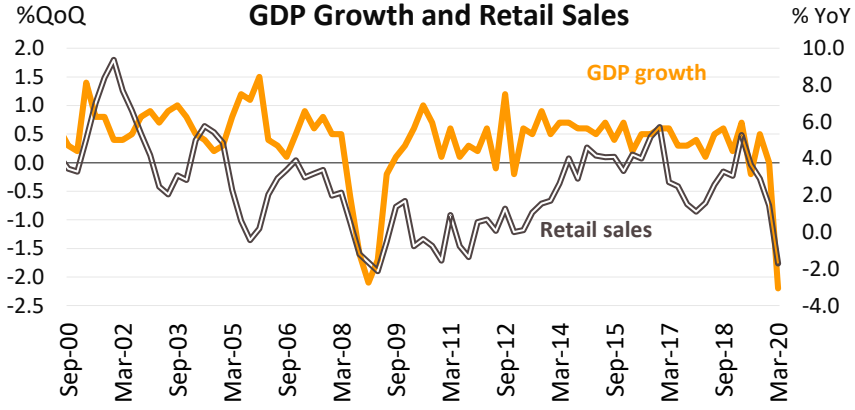


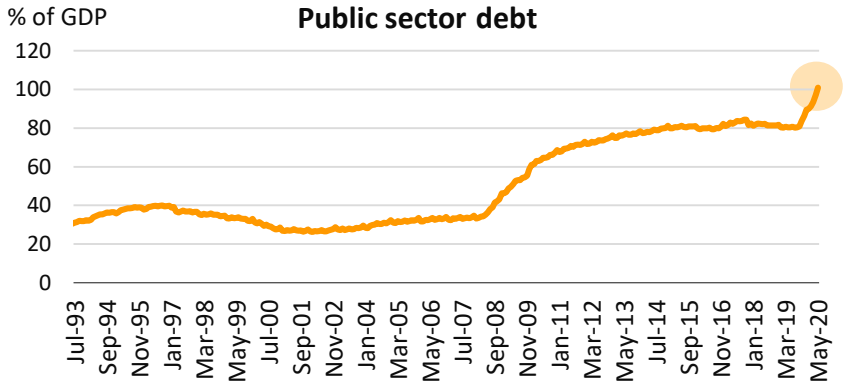


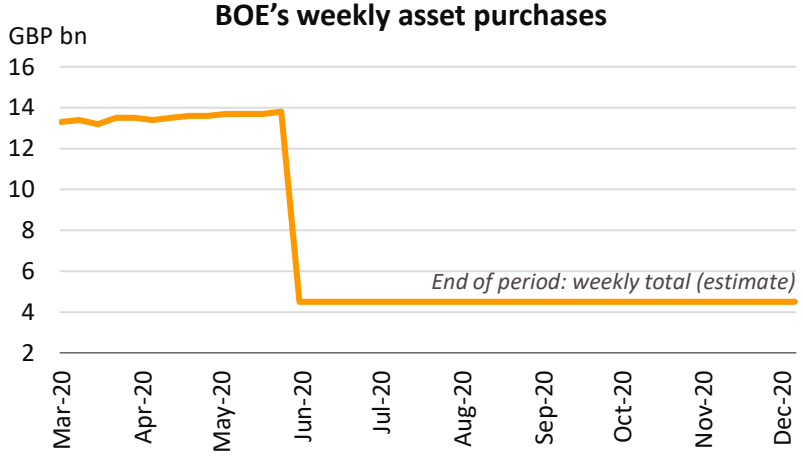
Source: Eurostat, European Central Bank, Bruegel, Capital Economics, Bloomberg, Krungsri Research

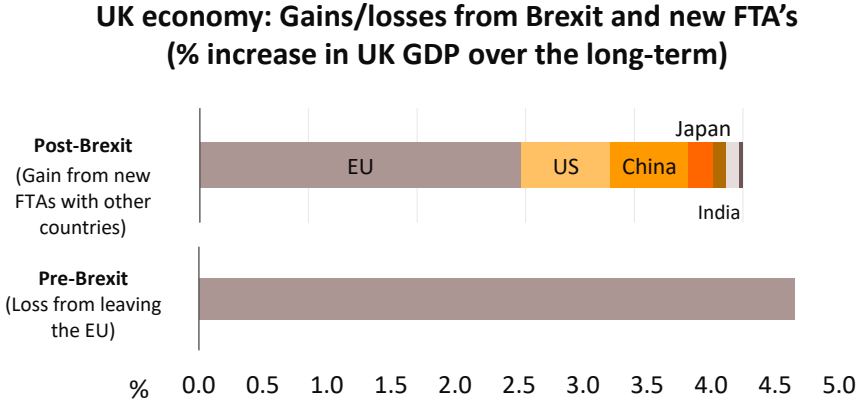
UK paints gloomy economic picture, and Brexit uncertainty would result in slower growth

UK GDP contracted by 2.2% QoQ in the coronavirus-ravaged first quarter, and retail sales fell by 1.7% YoY because of muted demand during the lockdown. Public sector debt reached 100% of GDP in May as tax revenue plunged and public spending surged, posing a risk to further funding to support the economy. The BOE kept interest rate at near-zero and increased asset purchases by GBP100bn at the latest meeting, but plans to slow down stimulus measures by cutting weekly asset purchases from GBP14bn in June to GBP4.5 bn throughout this year. **This indicates the BOE would no longer bear additional debt created by the government and would require the public sector to finance the deficit again. On Brexit, the UK is ramping up trade negotiations after deciding not to extend the transition period, creating uncertainty in future EU-UK relations and the UK economy.** A government report shows that leaving the EU would cost the UK 5% of GDP in the long term even with a free-trade agreement in place, while post-Brexit FTAs with other countries would add only 4% UK GDP. The murky picture could reduce the pace of recovery in the UK and slow its growth trajectory in the long term.







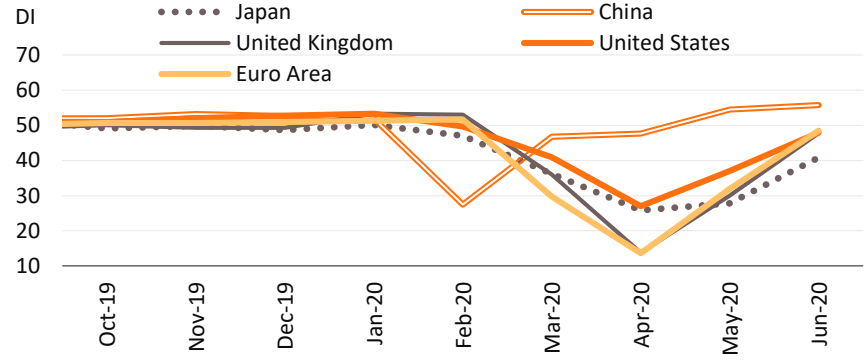


Source: Office of National Statistics (ONS), Bank of England, Bloomberg, Financial Times, Krungsri Research

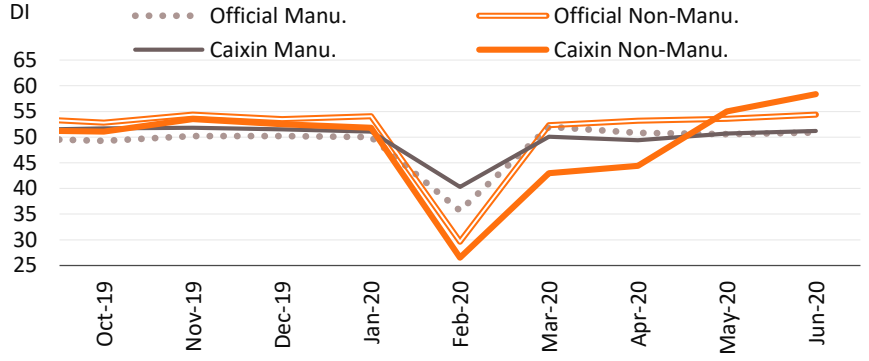
China: Improving supply-side activity indicates GDP would expand in 2Q20, investment will support a recovery

The recovering manufacturing sector indicates the Chinese economy would return to expansion mode in 2Q20. China Composite PMI data has risen more than other key countries, suggesting it is recovering faster. The official Manufacturing PMI data has been rising to reach a 3-month high in June while non-Manufacturing PMI reached a 7-month high. Likewise, the Caixin Composite PMI for June is the highest this year and stronger than the same period last year. The official new export orders sub-index for both manufacturing and non-manufacturing have improved although they remain below-50, implying lingering risk of weaker external demand. The official new orders sub-index for both manufacturing and non-manufacturing have continued to improve and is hovering in expansionary zone (above-50), reflecting stronger domestic demand. **The improvement on the demand side can be observed in domestic investment as total fixed asset investment is showing signs of bottoming-out.** This has been stimulated by rising public investment which registered positive growth for the second consecutive month and surged 11.4% YoY in May, the strongest growth since November 2017.

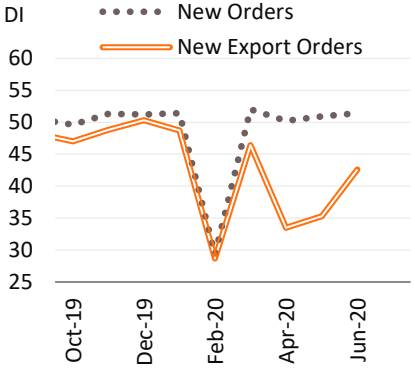
Major countries' composite PMI



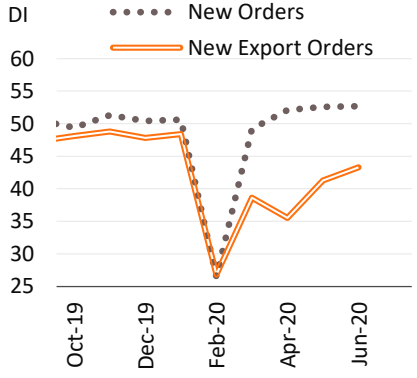
China official and Caixin PMI



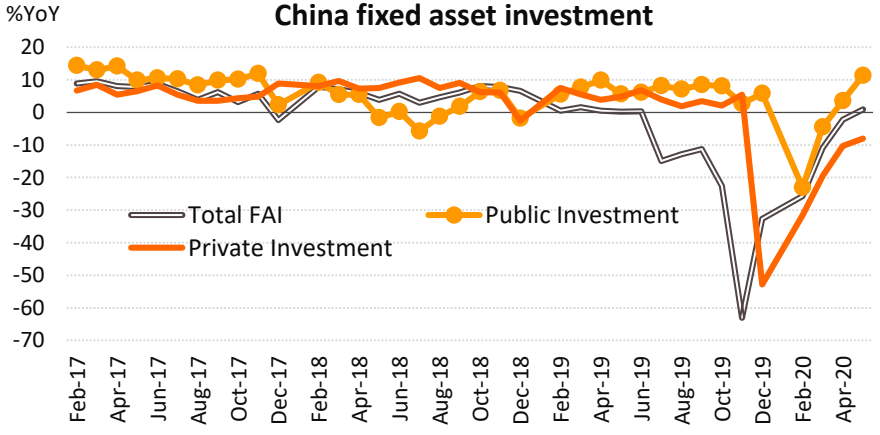
China manufacturing



China non-manufacturing



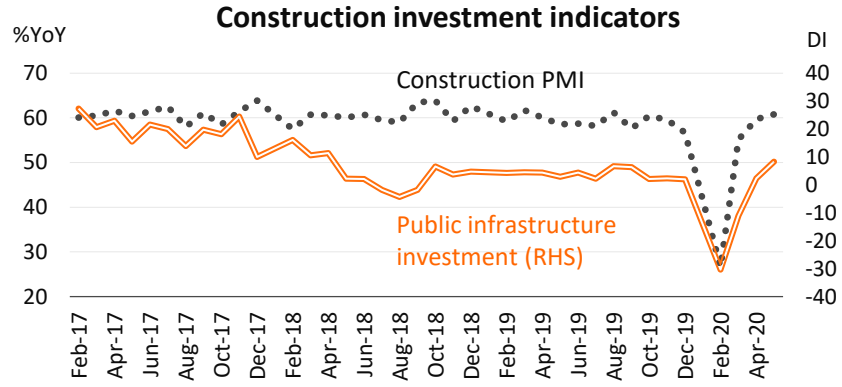
China fixed asset investment



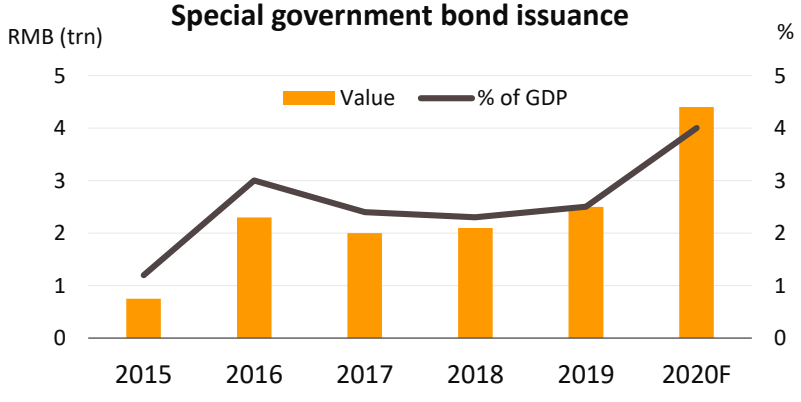
Source: National Bureau of Statistics (NBS), Caixin, HIS Markit, CEIC, Bloomberg, Krungsri Research

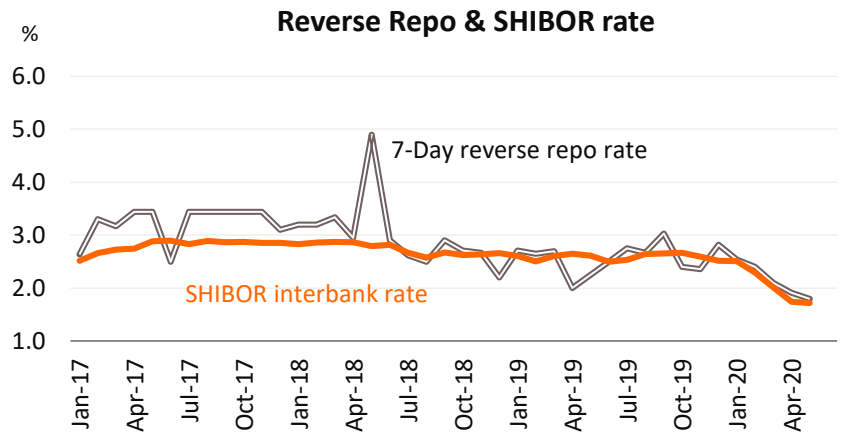
Government may ramp up investment; monetary easing gradually benefits the overall economy

The key domestic economic driver over the next period is rising public infrastructure investment, which has rise 8.3% YoY in May. That helped to boost construction activity, as reflected by the improving Construction PMI data. Infrastructure projects could generate money flows into several sectors, including 5G information technology, power lines, and intracity rail. **In fact, the National People's Congress (NPC) has set a target for special bond issuance at 4.6% of GDP or over RMB4 trn, nearly double the previous year's volume.** This implies more stimulus to boost investment further. And, China has eased monetary policy since early this year with a more targeted approach. **Recently, the central bank announced it would cut both relending and rediscount rate by 25 bps to ease borrowing costs for commercial banks and boost lending to farmers and SMEs** who are vulnerable to the Covid-19 impact, effective 1 July. Falling SHIBOR suggests bank lending rates could drop further. **The ongoing monetary stimulus would boost liquidity and reduce borrowing costs, which would ease the debt burden and encourage more investment.**



PBOC Monetary easing measures in response to Covid-19 impact
7-day reverse repo rate cuts in February and March
1-year medium term lending facility rate cuts in February and April
Reserve requirement ratio cuts in January, March and April
RMB1.8 trn of cheap relending loans to banks
Loan repayment holiday for business until March 2021
Plan to purchase some SMEs loans from banks to help boost lending

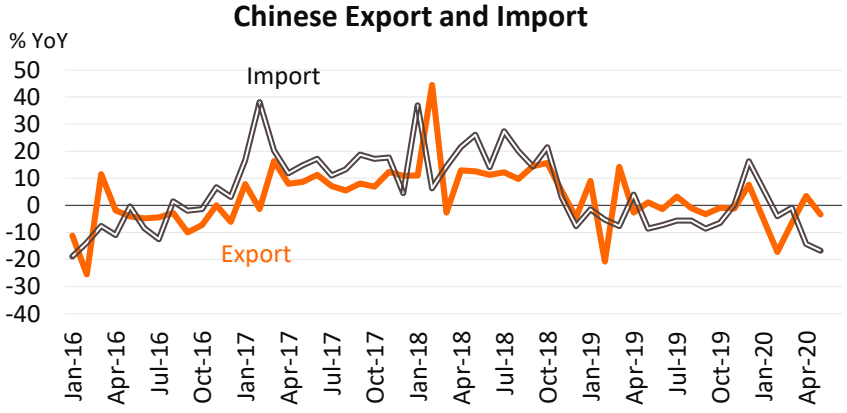


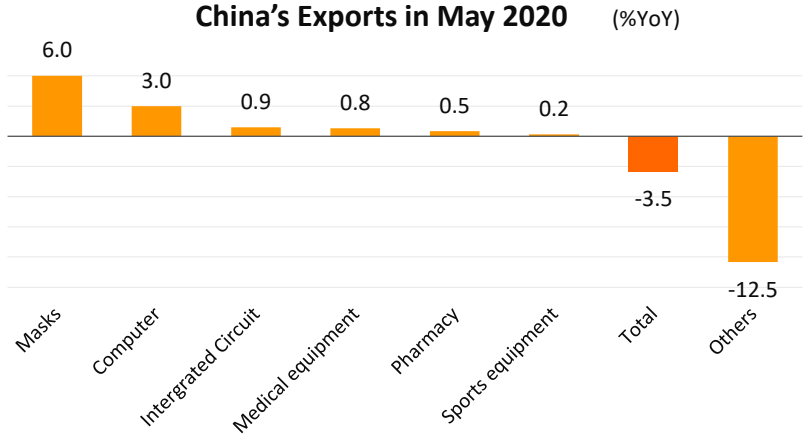


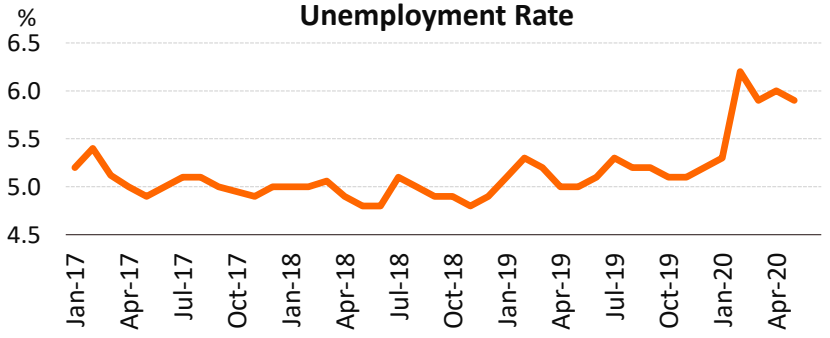
Source: NBS, Ministry of Finance, Caoital Economics, CEIC, Bloomberg, Krungsri Research

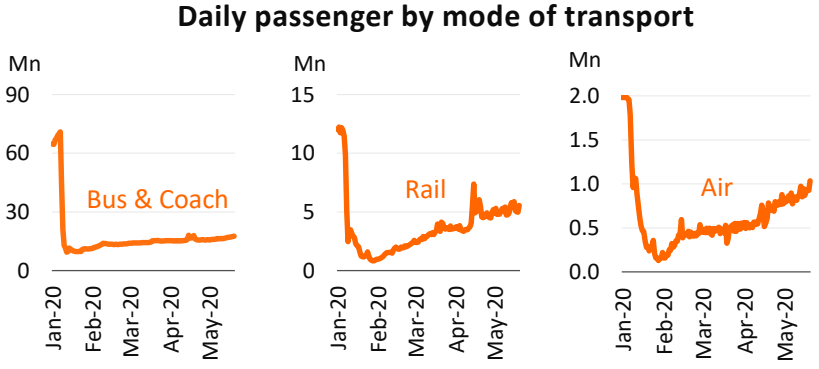
Worsening global trade and lagged improvement of labor market are key risks for economic recovery

China's exports shrank 3.3% YoY in May, partly due to weaker world trade as a result of COVID-19 impact. May exports were partly boosted by higher demand for surgical face masks, pharmaceutical products, work-from-home-related appliances, personal protective equipment, and medical apparatus. Excluding these items, exports tumbled 12.5% YoY. In fact, those items contributed only 3% of total export value and overall external demand could remain weak, as new export orders sub-index for China PMI was still in a contraction zone. Looking at the labor market which is an indicator of the direction of domestic demand, unemployment rate edged down to 5.9% in May from 6.0% in April. Nonetheless, the urban unemployment survey did not count migrant workers. Based on the National Bureau of Statistics data (2019), there were 290.7 million migrant workers accounting for one third of China's labor force (850.7 million). **However, many migrant workers have yet to return to the cities for work.** Using high-frequency data to detect daily traveling activity, only 17.6 million passengers commuted by bus and coach in June compared to 70.9 million in January, prior to the outbreak. As a result, **while public infrastructure investment and construction projects would create employment, the labor market needs more time to return to normal.**





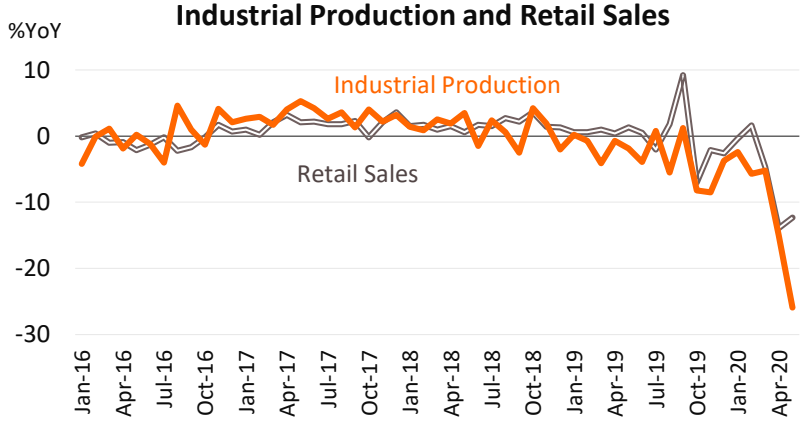


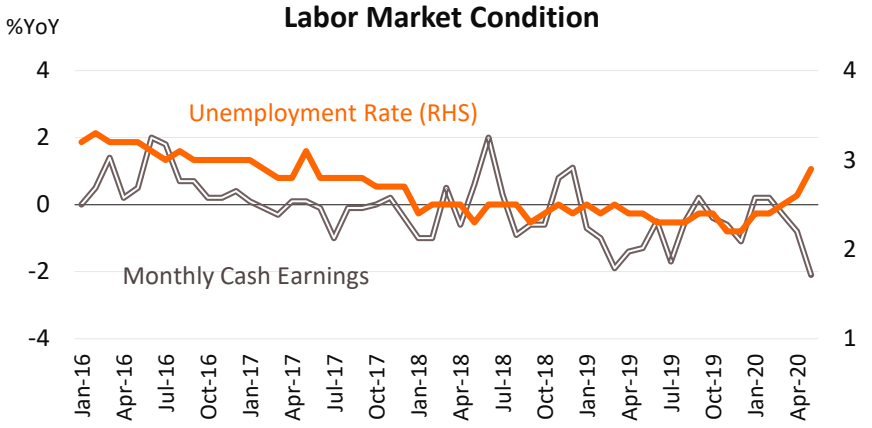


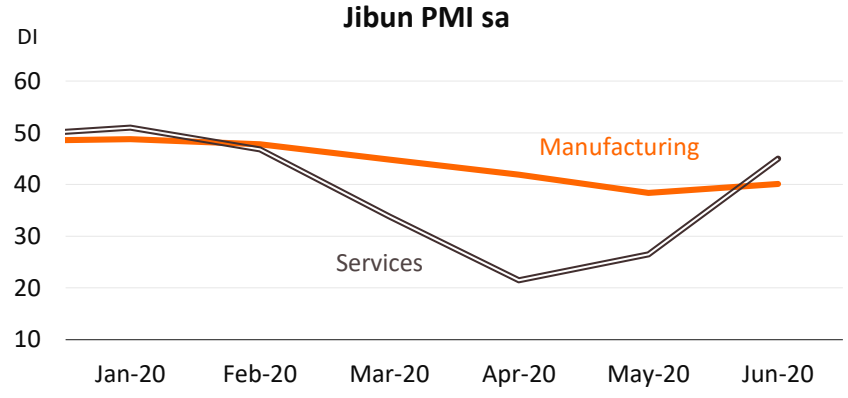
Source: NBS, Chinese customs department, Bloomberg, Capital Economics, Krungsri Research

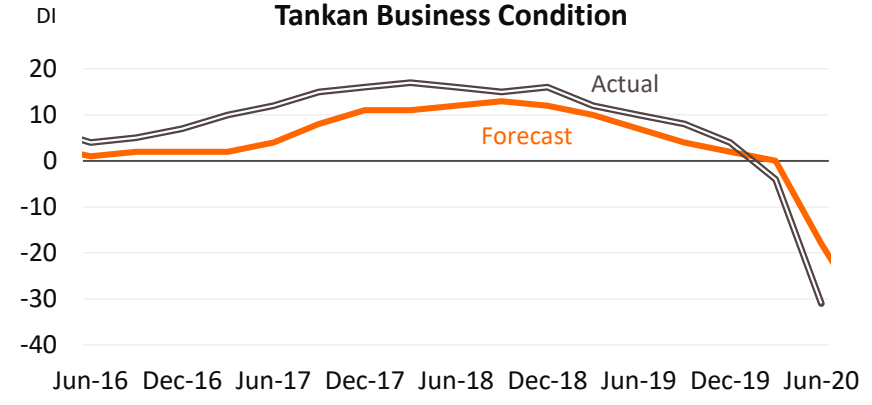
Japan: Recent data show a deeper economic contraction in 2Q and a slow recovery

Japan lifted the state emergency in mid-May but domestic economic activity remains far below the pre-pandemic level. The continued drop in both industrial production (-25.9% YoY) and retail sales (-12.3%) in May points to a deep economic contraction in 2Q. Unemployment rate rose to 2.9% in May while monthly cash earnings continued to fall by 2.1% YoY, implying weaker purchasing power. In June, the Jibun Manufacturing PMI inched up to 40.1 and Service PMI rose to 45.0, but they are still in contraction territory. The 2Q20 Tankan Business Survey results also reflects worsening business conditions, which could discourage investment; the headline index has plunged from -4 to -31, the worst in 11 years since the 2009 global financial crisis. **Looking forward, Japan might register a deeper economic contraction in 2Q20 and economic recovery would be slow even gradually easing restrictions. The economy would likely be depressed for at least a year because the existing fiscal stimulus packages had been late and are insufficient to boost economic growth.**









Source: Capital Economics, Bloomberg, CEIC, Krungsri Research

Economy still lacks momentum for a recovery, and it will be a long way back to normal

In terms of monetary stimulus, **the Bank of Japan (BOJ) announced in June it would ramp up the relief package by raising the ceiling for loan facilities from JPY55 trn to JPY90 trn** because credit demand is escalating. In May, bank lending surged 6.2% YoY driven by tight corporate liquidity. **Although the government has adopted the unprecedented fiscal stimulus, the packages only focus on relieving of negative impact on the hardest-hit segments.** Most of the measures so far involved cash aid for households and firms to prevent layoffs and bankruptcies, rather than to induce and boost consumption and investment. These packages might not generate sufficient multiplier effect to shore up GDP. Moreover, the stimulus measures which started in April, were late and so were the trickle-down effects on the economy. In the June Economy Watchers Survey report, business sentiment index remained far below pre-Covid level, although it had picked up after the state emergency ended in May. Furthermore, June Tankan survey indicates wholesale and finished goods inventories are pilling up at private businesses due to weak domestic demand. **Looking ahead, Japan's economy still lacks a key recovery driver. The BOJ also indicated it might keep negative interest rates for at least another 3 years, which suggests slow recovery for the Japanese economy back to pre-COVID-19 state.**

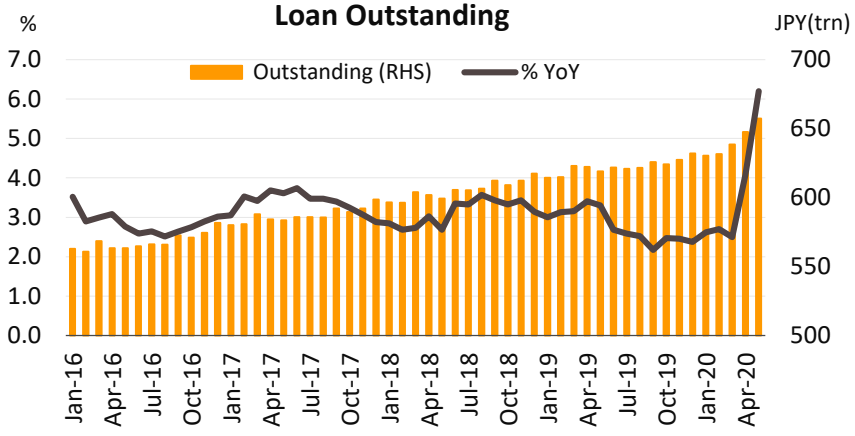
Summary of Fiscal Stimulus to Ease Covid-19 Impact

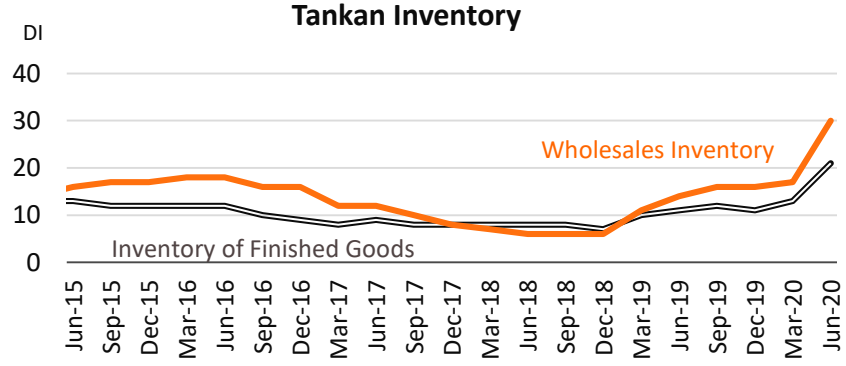
First supplementary budget, enacted by April 2020 (worth JPY117 trn)

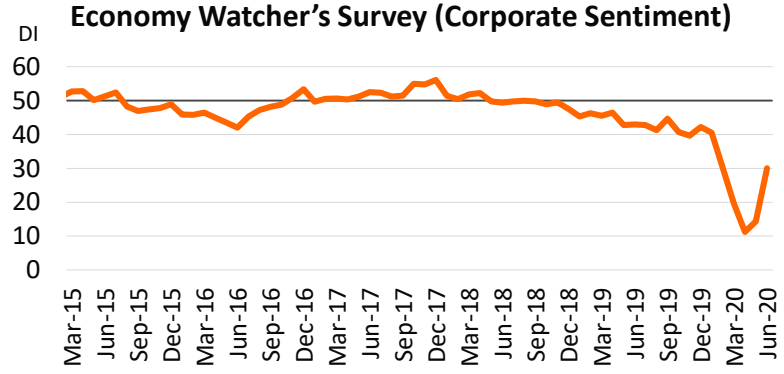
- Preventing the spread of infections and enhancing medical capacity
- Supporting of business (interest-free loans, deferment of taxes)
- Cash payments to household and small business
- Demand stimulation (discounts and vouchers)

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

- Enhancing employment subsidy (Employment Insurance and financial support for employees)
- Lending for SMEs and corporation
- Granting rent support for SMEs
- Supporting medical treatment







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

Thailand: Krungsri Research slashed 2020 GDP growth forecast to a new low of -10.3% from -5.0%

May data revealed weak consumption, investment and exports with zero foreign tourist arrivals

- Easing lockdown measures helped to nudge up confidence but household consumption and business investment continued to tumble in May. Export growth reached a 130-month low dragged by the global lockdown and demand shock. Industrial production contracted further amid rising inventories. There was no foreign tourist arrivals in 2Q20. June core inflation turned negative for the first time in nearly 11 years, implying weak demand and a need for policy support. The BOT maintained policy rates and cut 2020 GDP growth forecast, a sign to improve the effectiveness of policy transmission.

Our analysis suggests a U-shaped recovery ahead, but with higher risk of an L-shaped recovery

- Economic activity is bottoming out but there are signs of behavioral changes. Financial conditions are starting to undermine economic growth despite cutting policy rate to a new low. There is greater downside risk to the Thai economy due to delayed fiscal stimulus measures and inadequate monetary policy. Looking forward, there is uncertainty over the continuity of Thailand's economic policy. This could lead to more business bankruptcies and and higher NPLs which could heighten risks to the financial sector and of an L-shaped recovery.

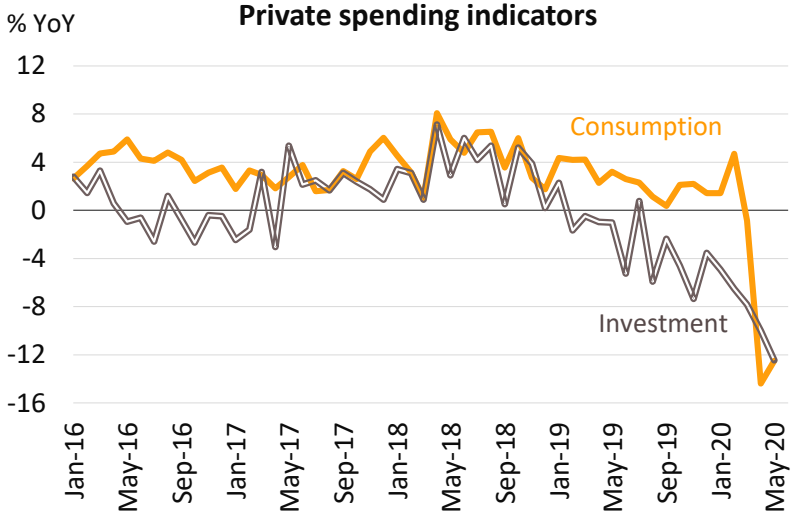
Covid-19 pandemic would shave up to 17.5 ppt off 2Q20 Thai GDP growth due to a crippled tourism industry and multiplier effect

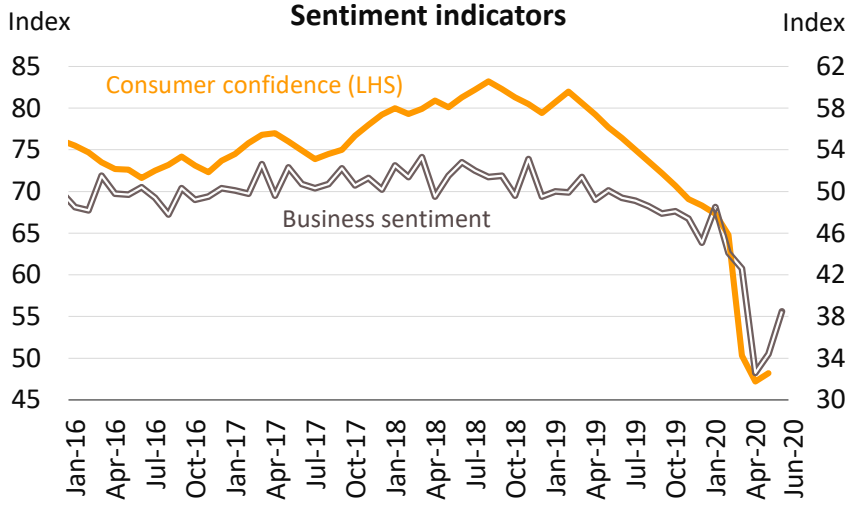
- The Thai economy is sliding into the worst-case scenario, driven by three factors. Firstly, the global COVID-19 pandemic seems to be worse than expected as new cases continue to rise in major countries. International travel bans would be around for longer than expected. Foreign tourist arrivals into Thailand would collapse by 83% in 2020. Secondly, economic activities would decline more severely, and the negative feedback loop would be much worse than the previous projection. Workers affected by the Covid-19 impact could have reached 80% of total labor at the peak of the pandemic, and employment will remain at 30% below normal level in the last quarter of 2020. Lastly, the economic policy responses are inadequate, reflected by signs of tightening financial conditions.

Krungsri Research slashed 2020 GDP growth forecast from -5.0% to a new low of -10.3%

- The coronavirus pandemic could reduce Thai GDP growth by up to 10.6 ppt this year. In addition, delays in infrastructure investment and the drought crisis would drag GDP growth by 1.0 ppt and 0.4 ppt, respectively. The stimulus measures are estimated to add 1.7 ppt to economic growth this year. In all, we expect the Thai economy to register -10.3% growth this year (instead of -5.0%), which is worse than during the 1998 Asian Financial Crisis. This suggests Thai GDP growth (seasonally adjusted) will not recover to pre-Covid-19 level before the second half of 2023.

Recent developments: Easing lockdown measures nudged up confidence but domestic demand still tumbled





Private spending: categories

Private spending indicators % YoY*	2019 J	F	M	A	M	J	J	A	S	O	N	D	2020 J	F	M	A	M
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																	

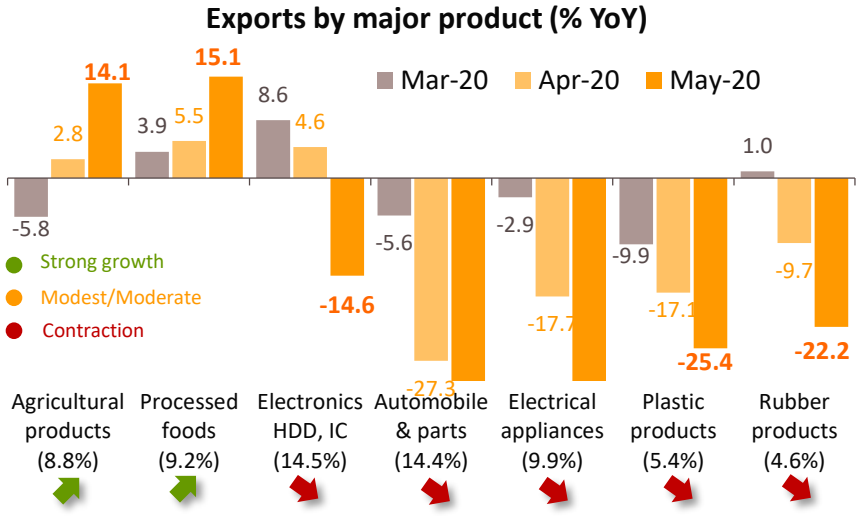
**Green > 0%, Red < 0% / Darker green (red) indicates stronger (weaker) momentum*

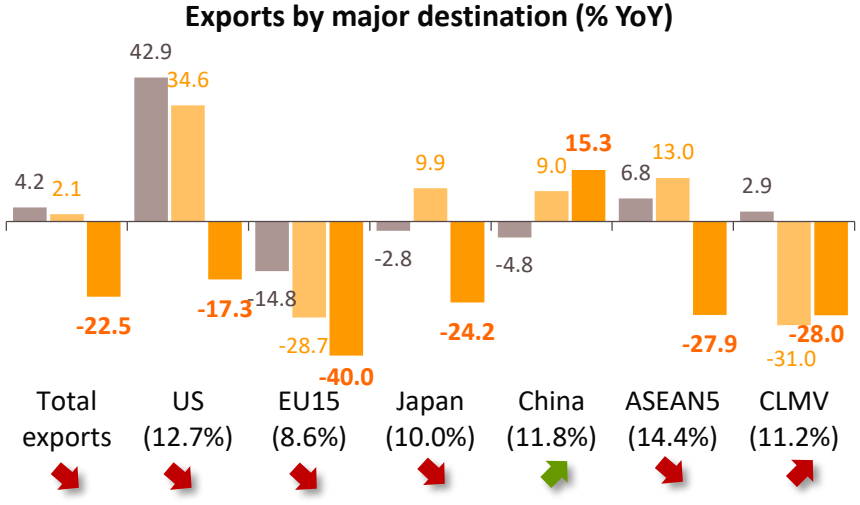
Krungsri Research's view

- The continuous phased relaxation of lockdown measures have lifted Consumer Confidence Index (CCI) and Business Sentiment Index (BSI) for the second straight month in June, but the indices remain weak, reflecting a gloomy picture for domestic demand.
- In May 2020, private consumption fell for the second consecutive month by -12.5% YoY (vs -14.4% in April) with a contraction in spending for all items due to rising unemployment, weaker purchasing power and low confidence. Private investment growth tumbled 12.5% YoY in May (vs -10.0% in April), largely reflecting the sharp drop in new vehicle registrations and imported capital goods (-34.7% and -28.0% YoY vs -25.4% and -17.5% YoY in April).

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

May export growth at 130-month low, dragged by global lockdown and demand shock





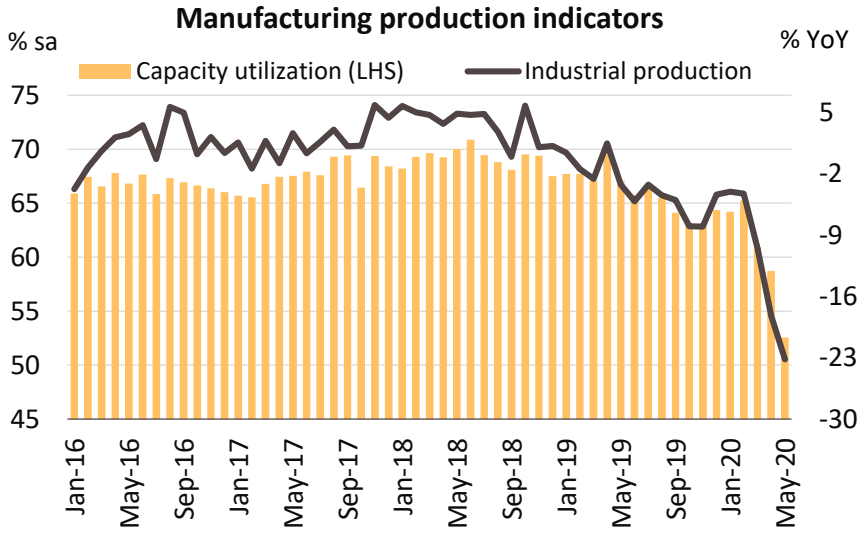
Note: ( ) share in 2019

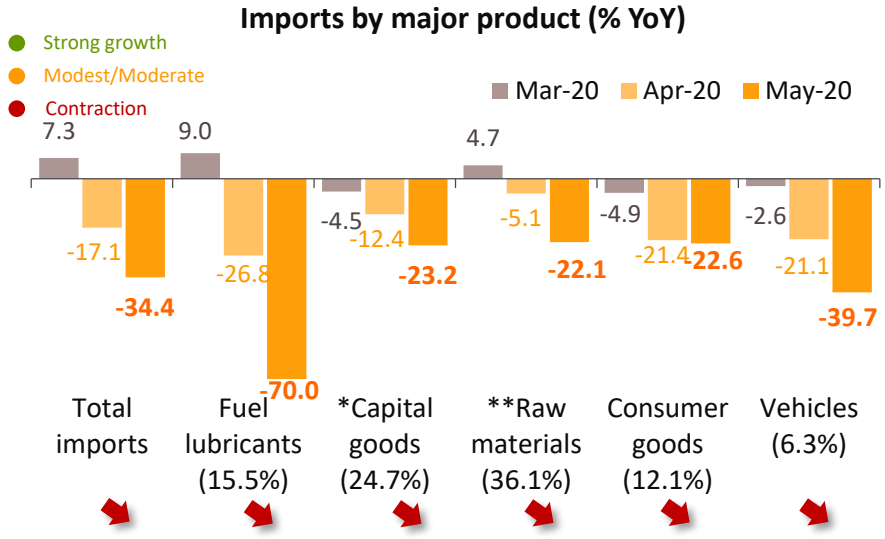
Source: Ministry of Commerce (MOC), Krungsri Research

Krungsri Research's view

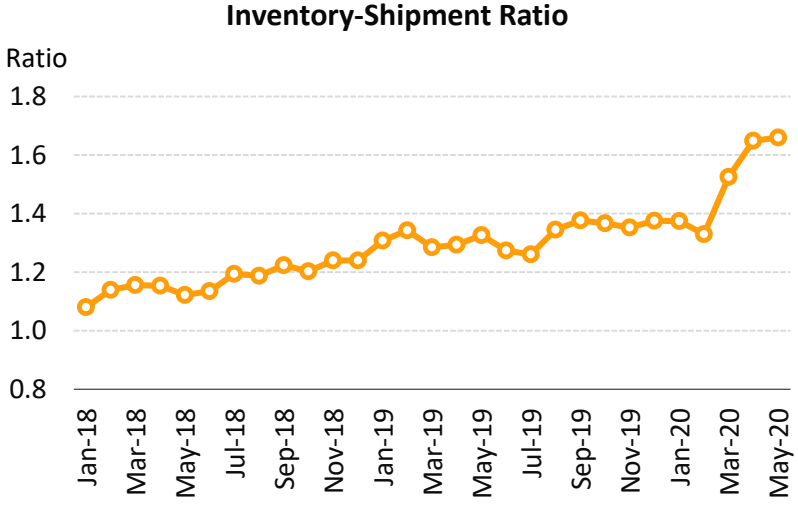
- **Merchandise exports tumbled 22.5% YoY in May,** the sharpest drop in 130 months, while export value was the lowest since 2016. Excluding gold, exports fell deeper by 27.8%. Most major export items registered a sharp contraction led by automobile & parts (-56.6%), rubber (-42.0%), air-conditioning & parts (-39.5%), oil-related products (-33.2%), rubber products (-22.2%), and computer & parts (-21.3%). Meanwhile, strict containment measures worldwide helped to boost exports of agricultural products and processed food such as frozen and processed fruits & vegetables (+83.5%), pet food (+17.1%), cassava (+8.0%) and canned & processed seafood (+5.6%). Exports of semi-conductor devices, transistor and diodes (+29.1%) and teleprinter, telephone sets & parts (+5.0%) outperformed, partly supported by demand for long-distance and network communication due to work-from-home policies, but this was insufficient to offset the sharp drop in export of other items.
- **By destination,** exports collapsed led by shipments to advanced economies (EU -40.0%, Japan -24.2%, and US -17.3%) and other markets (ASEAN5 -27.9%, South Asia -71.0%, Latin America -59.4%, Middle East -30.6% and CLMV -28.0%). Only exports to China grew (+15.3%) due to resumption of economic activities after easing lockdown.
- **Export outlook remains bleak. We cut 2020F export growth to -10.5% (from -8.0%) based on MOC data and to -12.5% (from -10.0%) based on BOT data.** Although global economic activity is gradually resuming since major economies started to ease lockdown restrictions, Krungsri Research projects Thai exports would contract further due to several factors: (i) escalating unemployment and rising debt burden would weaken global demand for both durable and semi-durable goods, which would consequently hurt international trade; (ii) a plunge in import of raw material & intermediate goods and capital goods indicates a Thai exports will drop ahead (iii) despite improving global PMI data, sub-index for new export orders remains far below other sub-indices. This suggests global trade would remain sluggish for an extended period.

Industrial production continued to drop amid rising inventories and a sharp drop in imports of raw material





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

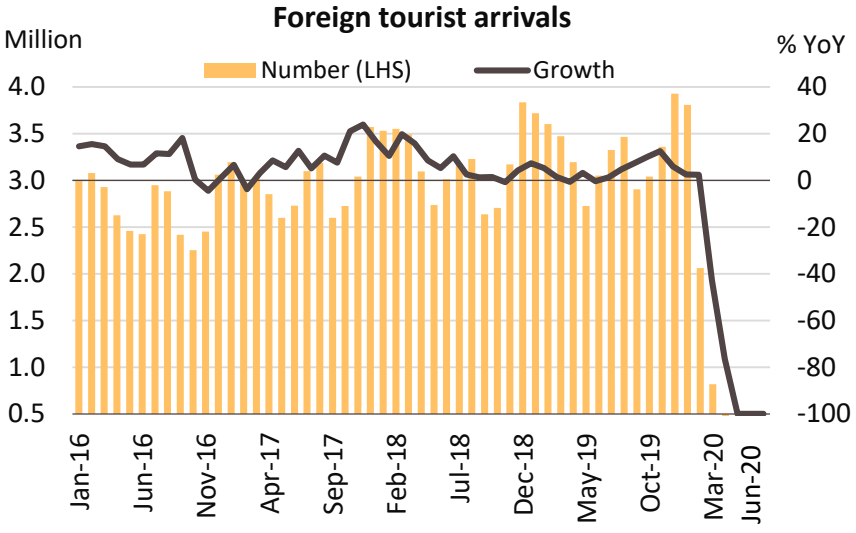


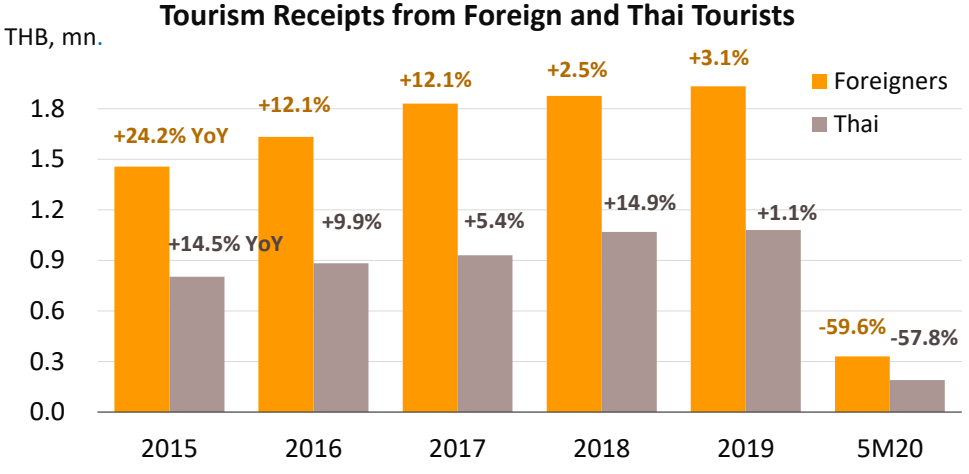
Source: Office of Industrial Economics (OIE), MOC, Krungsri Research

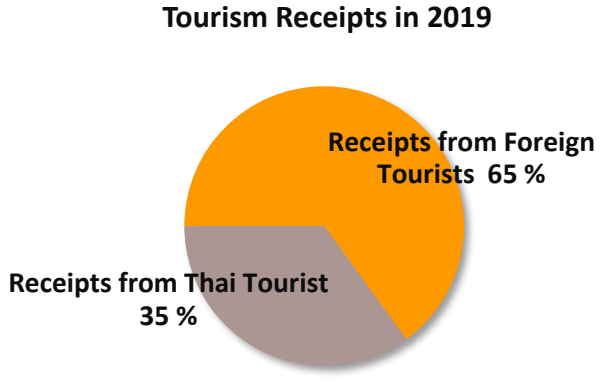
Krungsri Research's view

- **The Manufacturing Production Index plunged 23.2% YoY in May (vs -18.2% in April),** recording negative growth for the 13th straight month and posting the weakest rate since November 2011. The Covid-19 impact has hurt all production sectors, led by cars, petroleum, and air conditioners. Capacity utilization (s.a.) fell to 52.6% in May. In addition, still-high inventories might affect industrial production in the next period.
- **Imports tumbled 34.4% YoY in May vs -17.1% in April.** Imports of all item categories fell substantially: fuel and related products (-70.0%), vehicles & parts (-39.7%), raw material & intermediate goods (-26.1%), capital goods (-25.2%) and consumer products (-22.6%), indicating weaker domestic demand and bleak export prospects.

Foreign tourist arrivals fell by 100% in 2Q20 and would drop by 83% this year; domestic tourism is unlikely to offset that loss





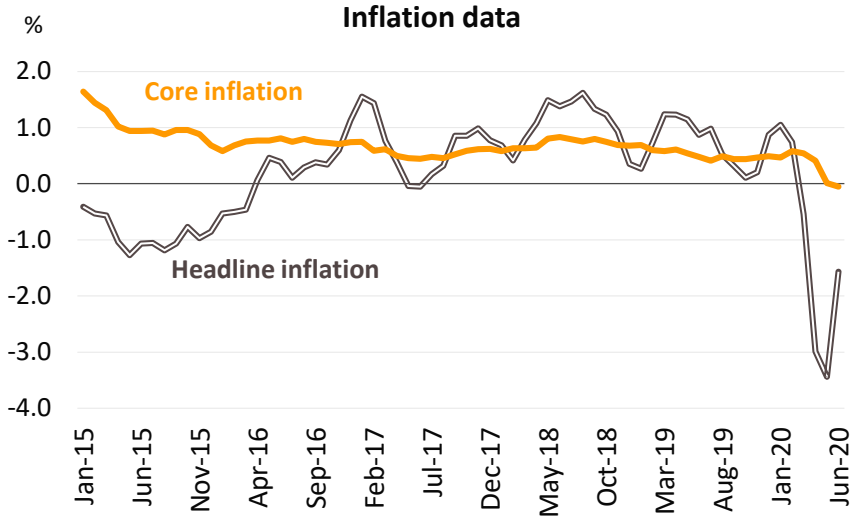


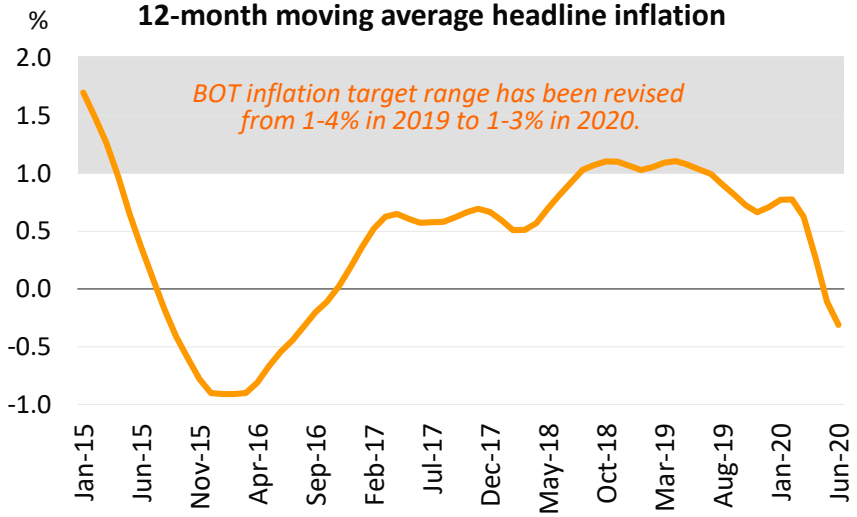
Krungsri Research's view

- **Foreign tourist arrivals tumbled 100% YoY in 2Q20** because of the worldwide lockdown. In 1H20, foreign tourist arrivals fell 66.2% YoY to 6.7mn. Krungsri Research projects foreign tourist arrivals would tumble 83% to 6.7 mn in 2020. Although Thailand is considering the travel bubble scheme, it would cover less than 1% of total foreign tourist arrivals last year.
- **In 5M20, tourism receipts fell 58.9% to THB0.52 trn**, of which THB0.33 trn was derived from foreign tourists (-59.6%) and THB0.19 trn from Thai tourists (-57.8%). The government recently introduced the *We travel together* program worth THB22.4bn (valid July - October 2020). This is expected to bolster domestic tourism receipts the rest of the year but it might not be sufficient to offset the decline in foreign tourist receipts which accounted for 65% of total tourism receipts last year.

Source: MOTS, Krungsri Research

Core inflation turned negative for the first time in 11 years, implying weak demand and need for policy support





Source: MOC, Krungsri Research

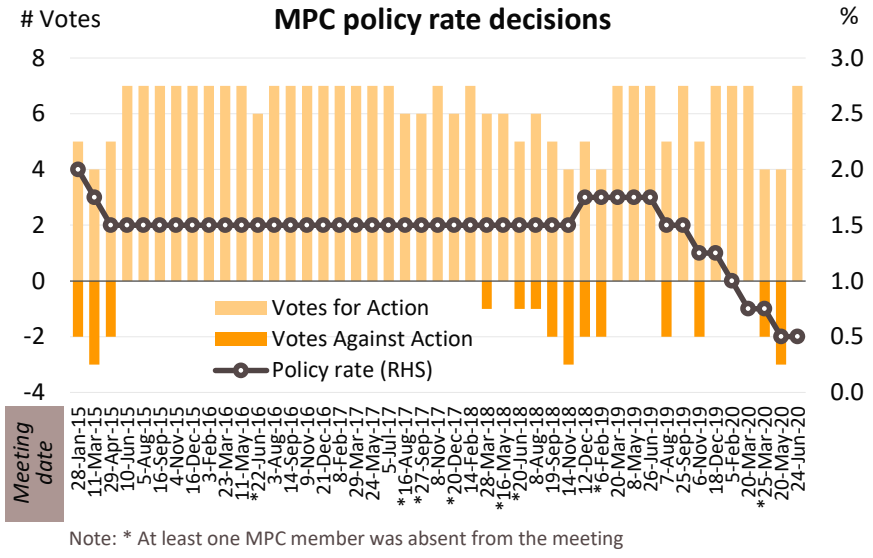
Consumer Price Index (% YoY)*	Weight	2019 J	F	M	A	M	J	J	A	S	O	N	D	2020 J	F	M	A	M	J
Headline CPI	**100.00%**																		
Food & beverages	36.13%																		
Apparel & footwears	2.88%																		
Housing & furnishing	23.25%																		
Medical & personal care	6.22%																		
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*

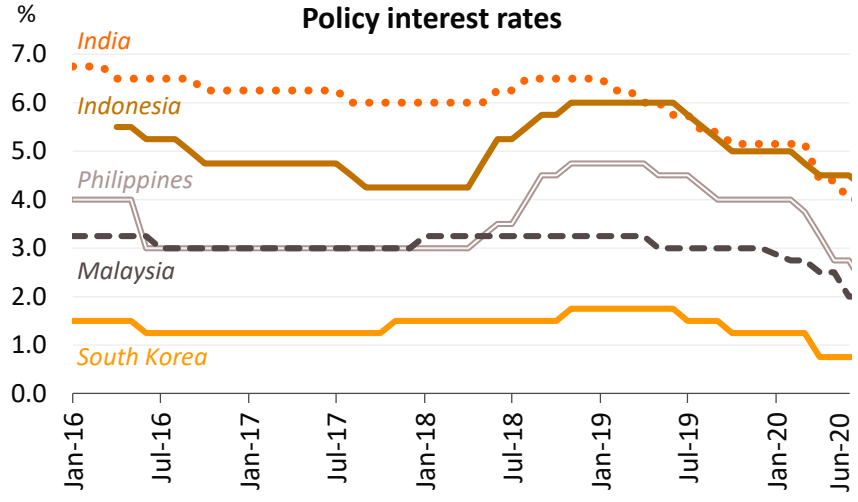
Krungsri Research's view

- **Inflation rose in June but continues to reflect soft domestic demand.** Headline inflation was -1.57% YoY in June, improving from -3.44% in May, led by higher prices for rice, flour & cereal products (+5.52%), seasonings & condiments (+3.40%), and non-alcoholic beverages (+1.95%). The energy category was in smaller negative territory (-11.89% compared to -27.38%) as the phased resumption of economic activity drove up demand. Despite this, core inflation (excluding fresh food and energy prices) turned negative for the first time in almost 11 years, sliding to -0.05% from 0.01% in May. For 1H20, headline and core inflation stood at -1.13% and 0.32%, respectively.
- Although headline inflation is rising, the drop in core inflation suggests domestic demand remains weak, reflected by record low Consumer Confidence Index in June and rising unemployment and household debt.

BOT holds rates but cuts 2020 GDP growth projection, signals need to improve policy transmission



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 despite weaker growth outlook

- The MPC voted unanimously to maintain policy rate at a record low of 0.50% at the June 24 meeting. Despite the weaker growth outlook, the MPC cited the recent implementation of monetary and fiscal policies would mitigate the Covid-19 impact and support economic recovery.

BOT slashes 2020 growth projection, citing more severe than expected Covid-19 impact

- The BOT slashed 2020 Thai GDP growth outlook from -5.3% to -8.1%. The downward revision was broad-based with all economic activity variables noting a weaker tone.

  -The central bank now projects merchandise exports would drop by 10.3% this year and foreign tourists arrivals would tumble, due to lockdowns worldwide and a global economic recession.

  - Looking at variables for domestic demand, household consumption and business investment would *"contract more than previously assessed"* with a decline in employment and income.

  However, the BOT assessed Thai economic growth would recover to +5% next year and inflation would "*return to the target in 2021*".

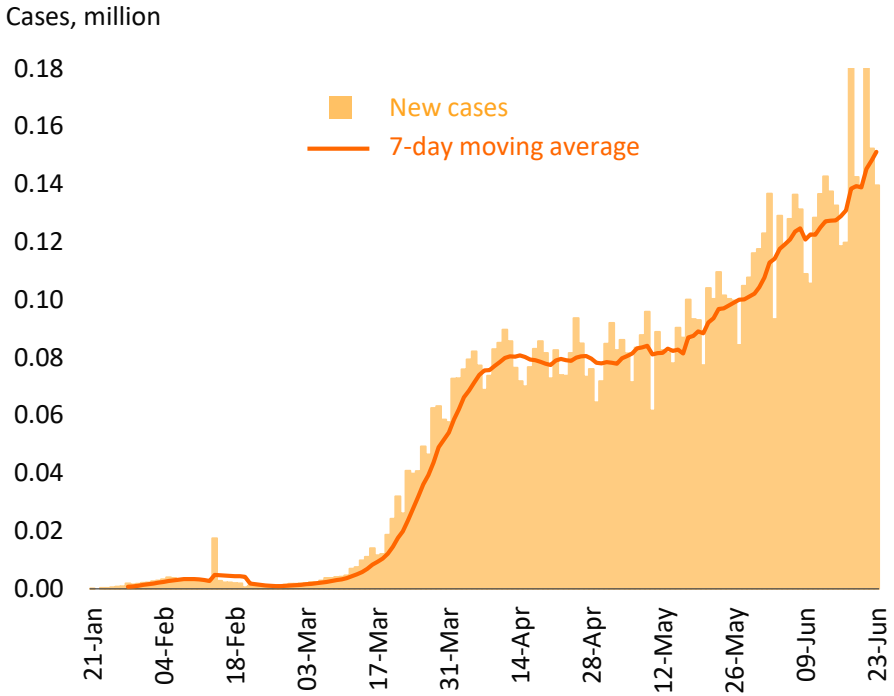
MPC signals move towards increasing policy effectiveness rather than cutting policy rates

- Despite downgrading its growth outlook, the accompanying statement by the MPC indicates it is unwilling to cut policy rates further because (i) "*the level of overall liquidity remains ample*", and (ii) the recent monetary easing would "*support the economic recovery and facilitate the return of inflation to the target*". The MPC deemed it "*important that liquidity be better distributed to affected businesses and households*". The BOT's decision to distribute liquidity is to urge commercial banks to speed up debt restructuring for businesses and households and to accelerate credit extension. In all, the MPC is likely to move towards increasing policy effectiveness rather than cutting policy rates.

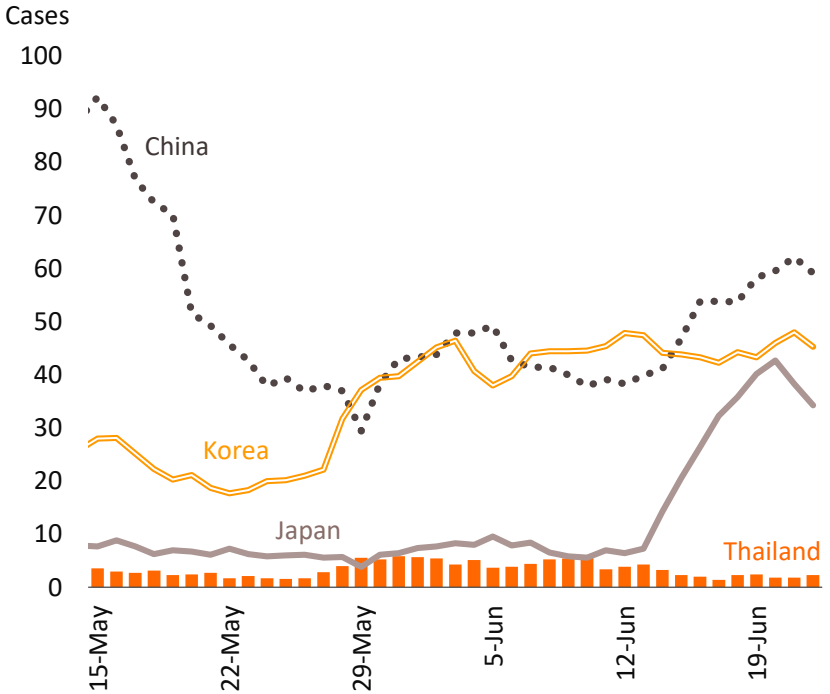
COVID-19 and outlook: Global cases exceed 10 million with rising risk of a second outbreak

Since the first reports of COVID-19 in December last year, the virus has spread to 213 countries and infected more than 10 million people. The number of daily new cases are still rising, especially in the US, Brazil, and India. The death toll has exceeded 0.5 million. Meanwhile, several Asian countries had managed to contain the outbreak recently but there is lingering risk of a second outbreak. Health authorities in many countries concur that **there could be a second wave of infections until an effective vaccine is available or 60% of the world population has been infected (herd immunity theory). Thus, most countries remain vulnerable** because there is unlikely to be a vaccine at least until the end of next year considering most vaccines are still in early trials.

Global New COVID-19 Cases



New Cases in Thailand's Key Trade Partners

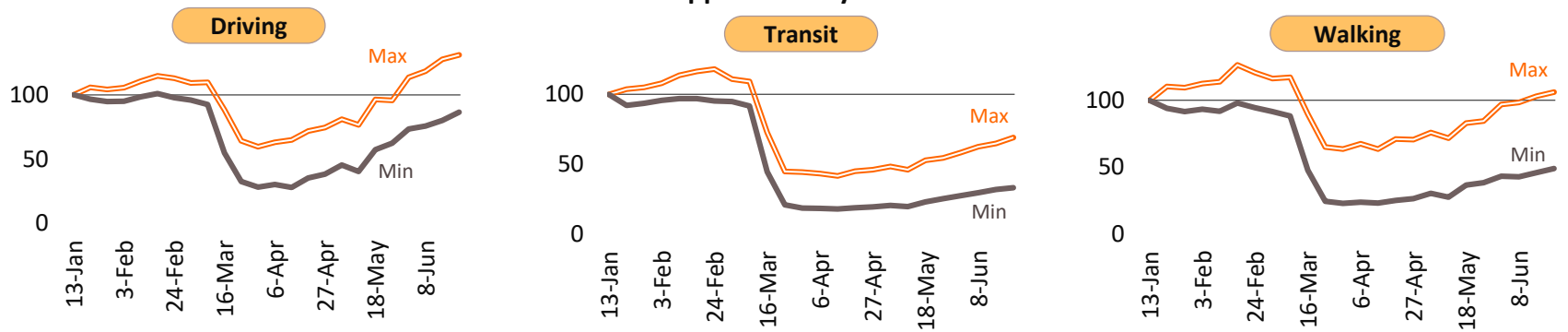


Source: WHO, Krungsri Research

Economic activity is bottoming out but there are signs of behavioral changes after COVID-19 pandemic

The global economy has begun to recover after hitting rock-bottom due to lockdown measures worldwide. Apple Mobility Index suggests people are still reluctant to travel in mass public transportation or go to public areas as the transit sub-index has not rebounded, while he driving sub-index has almost returned to pre-outbreak level. In Thailand, the economic recovery would be slow due partly to the high reliance on the tourism sector, which has been hit severely by the domestic and worldwide lockdown and fear of contracting the virus. Thailand has been recording zero or single-digit new COVID-19 cases and lockdown measures have been relaxed. However, social distancing and some lockdown measures will continue to depress economic activities.

Global: Apple Mobility Index



Covid-19 vulnerability dashboard: Uneven global recovery

Less vulnerable — More vulnerable

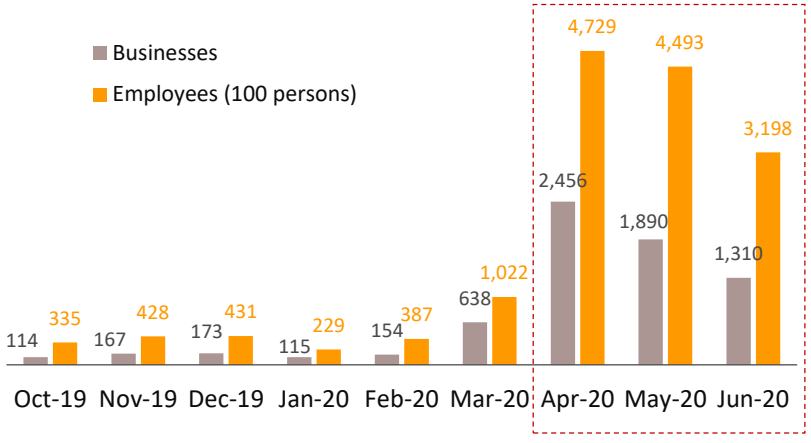
Indicator/Country		South Korea	Japan	Germany	China	Taiwan	Hong Kong	United States	France	Italy	Spain	Vietnam	Philippines	Indonesia	Malaysia	Singapore	India	Thailand	Laos	Argentina	Myanmar	Turkey	South Africa	Brazil
Summarized Score																								
(i) Covid-19 containment		21	29	47	33	43	25	***	***	65	60	66	***	***	***	***	***	46	30	***	***	***	***	***
(ii) Government Effectiveness		1.2	1.7	1.6	0.5	1.4	1.9	1.6	1.5	0.4	1.0	0.0	0.0	0.2	1.1	2.2	0.3	0.3	-0.7	0.0	-1.1	0.0	0.3	-0.4
Fiscal Space	(iii) Public Debt (% of GDP)	40	238	59	56	35	0.1	106	99	133	96	54	39	30	56	114	69	42	58	93	39	30	60	92
	(iv) 10Y Government Bond Yield	1.5	0.0	-0.3	2.8	-0.3	0.6	0.9	0.0	1.4	0.5	n/a	2.2	7.3	3.0	1.1	5.8	1.3	n/a	n/a	n/a	6.4	9.0	7.1
(v) Reliance on Tourism Sector		1.2	0.9	1.5	0.3	4.3	11.5	1.2	2.6	2.5	5.7	4.1	2.9	1.5	4.2	5.6	1.1	12.9	6.1	1.2	2.3	4.8	2.7	0.3

Note: (i) Number of days to contain the Covid-19 outbreak (from the date new cases peak to when new cases are less than 20% of the peak level and that period is longer than 14 days). *** Countries where new cases exceed peak level by more than 20%; (ii) Government Effectiveness Index in 2018 (World Governance Indicators by World Bank): The index captures perceptions on the quality of public services and civil service, and degree of independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. Estimates give the country's aggregate score in units of a standard normal distribution, i.e. ranging from approximately -2.5 to 2.5.; (iii) Latest data 2019 (World Development Indicators); (iv) As of 9 June; (v) Tourism Revenue (% of GDP in 2018)

Source: Apple, BOT, CAAT, Google (community mobility report), WHO , World Bank, CEIC, Bloomberg, Krungsri Research

Much weaker labor market might undermine economic recovery in the next period

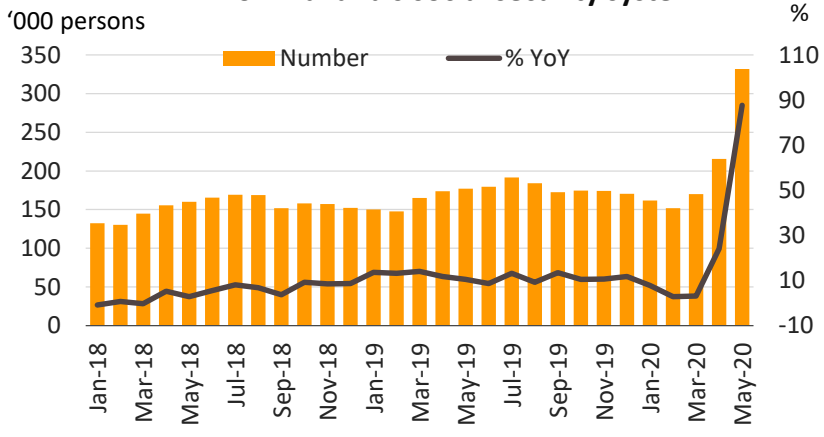
Number of firms and employees affected by business closure under Section 75*



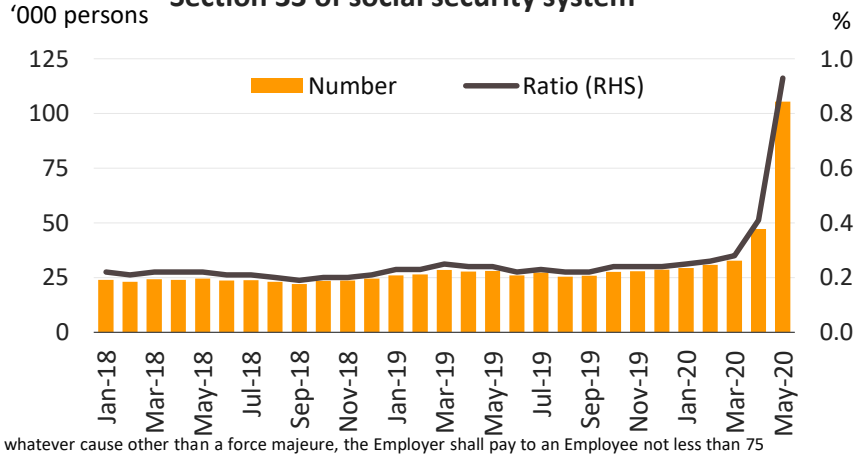
Krungsri Research's view

- The weakening labor market is becoming a concern although the COVID-19 pandemic is largely contained in Thailand. The Ministry of Labor reported that 310 companies had applied to close parts of or entire operations in June (1-21 June 2020 in accordance with Section 75 of the Labour Protection Act B.E. 2541) and 319,824 workers had been laid off. In the first 9 months of FY2020 (1 October 2019 to 21 June 2020), 4,254 companies had closed down and 853,696 workers laid off.
- In the social security system, the number of claims for unemployment benefits surged 87% YoY in May. The number of people laid off has risen to 0.93% to the total number insured, compared to 0.25% in the same period last year.
- The vulnerable labor market, especially in the tourism-related services sector, was largely hurt by the COVID-19 impact and would take a long time to return to normal.

Number of unemployment claims under Section33 of Thailand's social security system**



Number and ratio of laid-off workers under Section 33 of social security system



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

Current stimulus might be insufficient to weather the crisis and there is rising uncertainty over policy continuity

The THB435bn cash aid has been injected into the economy while only THB15.5bn worth of projects (out of a total budget of THB400bn) to boost economic activity has been approved. And the BOT has disbursed only THB95.8bn of its THB500bn soft loans program. The current pace of liquidity injection into the system might not be large enough to boost domestic spending and investment. The delays and insufficient economic policies could slow the pace of economic recovery. There is also uncertainty over the continuity of economic policy given risk of a cabinet reshuffle.

Stimulus packages

THB1 trn

Decree allowing the MOF to borrow money for stimulus package

- **THB600bn to help farmers, laborers and independent workers (cash handout of THB5,000/month for three months) and to support public health services (current approved plan THB435bn)**
- THB400bn plan to strengthen community economies and develop local infrastructure (**current approved projects THB15.5bn)**

THB500 bn

Decree allowing the BOT to provide soft loans to businesses, particularly SMEs

- **THB500bn loan program at 2% annual interest rate to help SMEs by offering credit line of up to THB500mn each (current lending reached only THB95.8bn)**
- BOT allows commercial banks and SFIs to offer a six-month moratorium on principle and interest repayment for SMEs with a credit line of up to THB100mn each

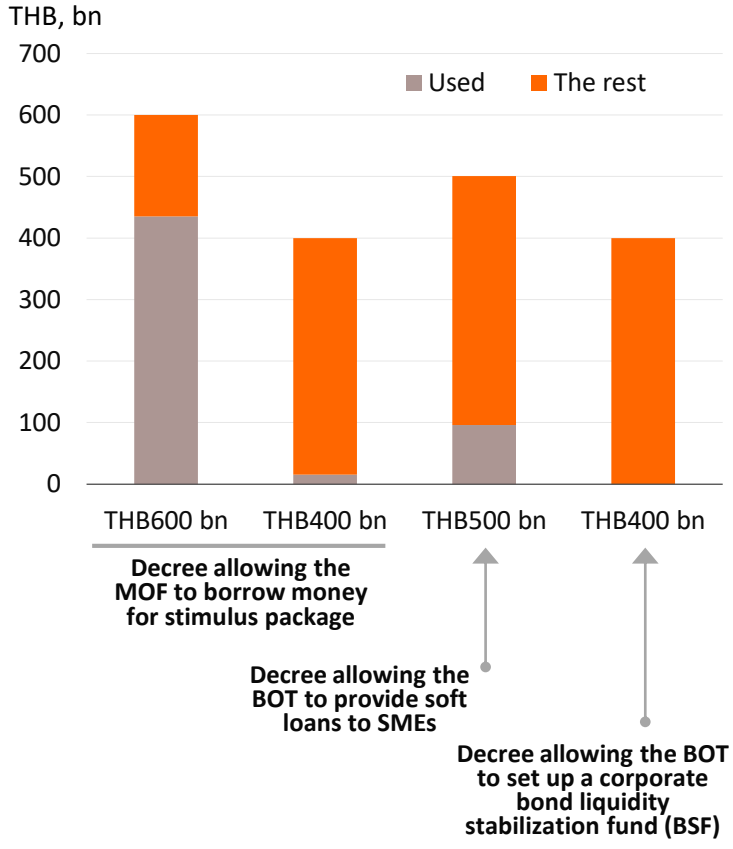
THB400 bn

Decree allowing **the BOT to set up a corporate bond liquidity stabilization fund (BSF)** to back-stop the corporate bond market

Additional measures

- Approve legislation to transfer THB80-100bn of budget allocations between ministries to finance measures to handle the COVID-19 outbreak
- BOT will halve the rate that financial institutions must contribute to the Financial Institutions Development Fund (FIDF) from 0.46% of deposit base to 0.23% for two years

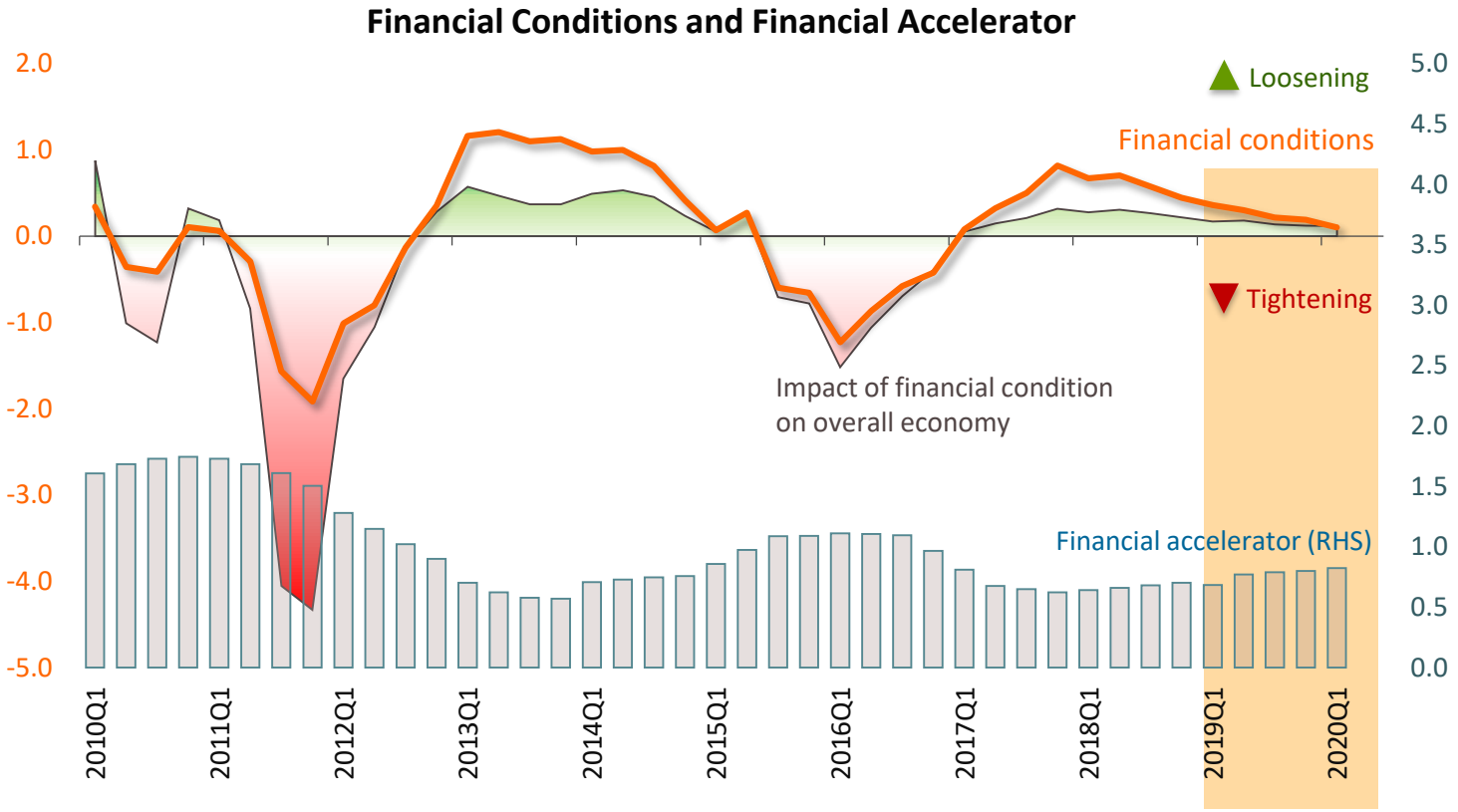
Stimulus packages worth THB1.9 trn



Source: The Cabinet, Krungsri Research

Financial conditions are starting to undermine economic growth despite cutting policy rate to a new low

Financial conditions in Thailand have been easing by a smaller quantum in 1Q20 even though the Monetary Policy Committee (MPC) had reduced policy rate to a record low. Meanwhile, the financial accelerator has risen steadily over the last few quarters. That implies **financial conditions are tightening, which could undermine economic growth and increase risks to the overall economy.**

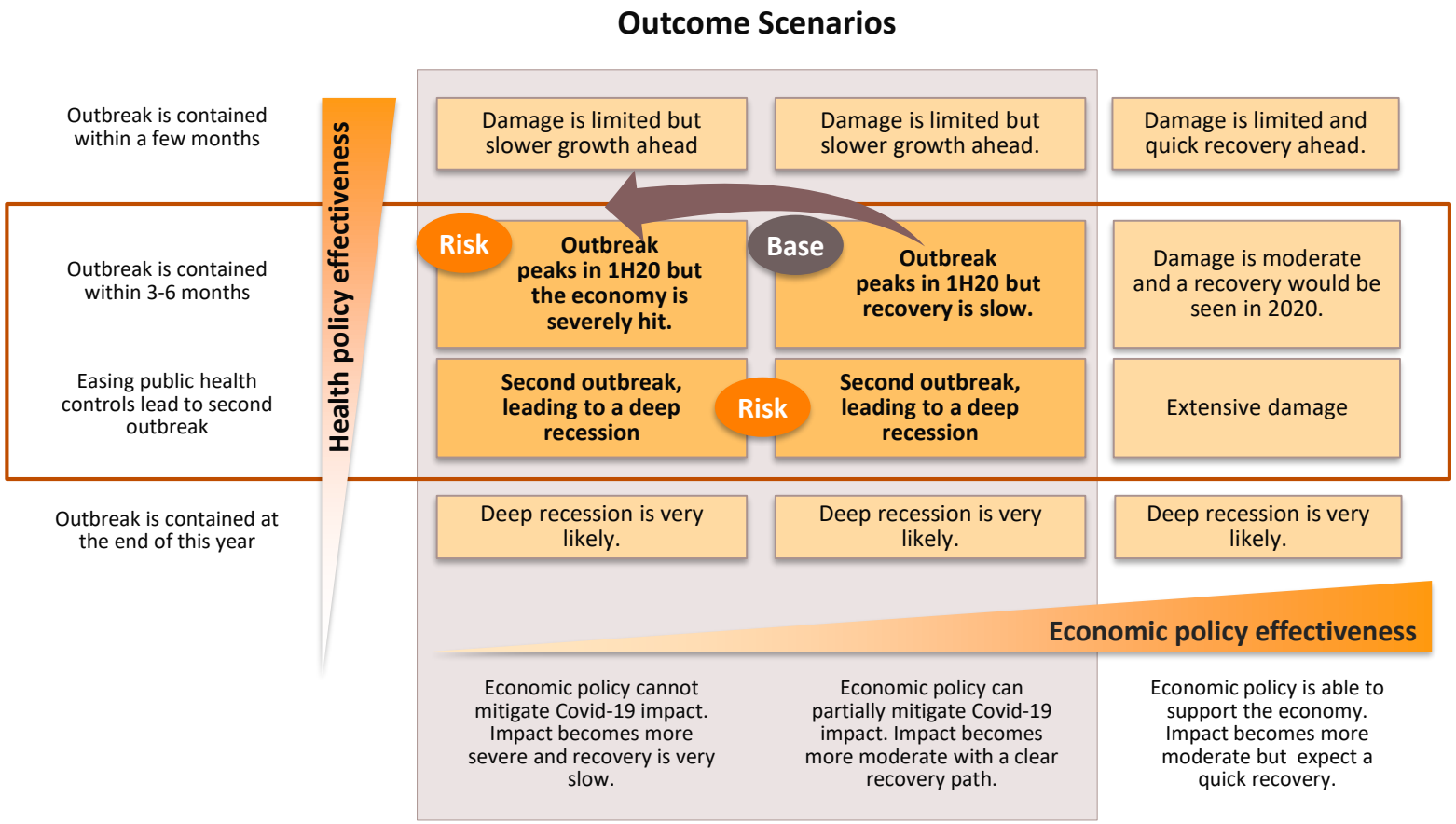


Note:
Positive financial condition implies financial factors support economic growth, while negative financial condition implies financial factors are headwinds for economic growth.
Financial accelerator measures how financial factors affect economic growth. High financial accelerator means any shocks to economic growth would be amplified by financial condition.
The area indicates the impact of financial factors on the overall economy.

Source: BOT, Krungsri Research

Greater downside risk due to slow policy response and inadequate stimulus measures

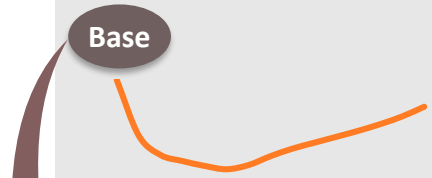
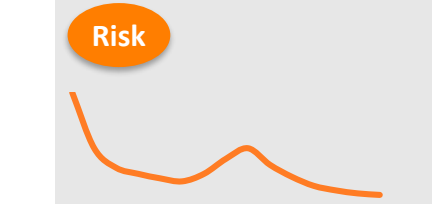
Looking ahead, there is greater downside risk even though new COVID-19 cases have peaked in several areas. An economic recovery would depend on the effectiveness of policy response. Thailand's fiscal policy response have been slow. Monetary stimulus measures have been insufficient and not expansive enough to improve liquidity in the economy and financial system, as financial conditions are starting to undermine economic growth. This could lead to more business bankruptcies and rising NPLs, which will heighten risks to the financial and banking system.



Source: Krungsri Research

Our analysis suggests a U-shaped recovery ahead, but with greater risk of an L-shaped recovery

Even though the number of new cases in Thailand had peaked in 1H20, the slow and inadequate economic policy responses to battle the COVID-19 crisis would have persistent and substantial impact on the Thai economy. Both the real economy and financial sector would be badly hit, and increase risks of a financial contagion which could lead to an L-shaped recovery.

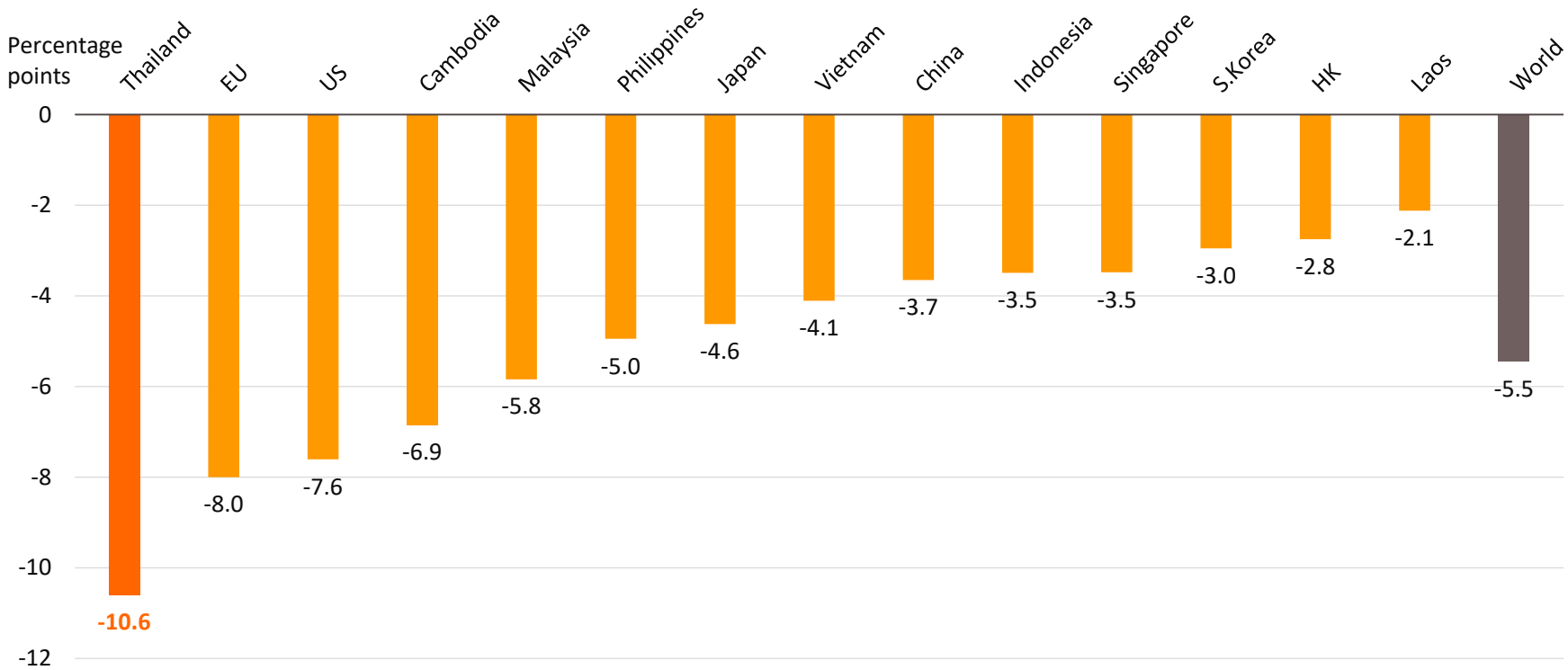
Scenario	COVID-19 period	Transition period	Post-COVID period
Base: U-curve recovery 	Period: 20Q1 – 21Q1 COVID-19 cases peak in 2Q20, coupled with two-month lockdown.	Period: 20Q1 – 21Q1 The economy recovers gradually in the second half of 2020.	Period: 20Q1 – 21Q1 Businesses have to adapt to new trends. That is expected to happen in 2021.
Financial contagion: L-shaped recovery 	Period: 20Q1 – 21Q1 COVID-19 cases peak in 2Q20, coupled with two-month lockdown.	Period: 20Q1 – 21Q1 COVID-19 would have persistent impact on economy as both real and financial sectors are badly hit. Economic policy response is insufficient to support the economy. Recovery is very slow.	Period: 20Q1 – 21Q1 Businesses have to adapt to new trends. That is expected to happen in the second half of 2021.
Second outbreak: UL-shaped recovery 	Period: 20Q1 – 21Q1 Covid-19 cases have peaked. But lax protective/health measures would lead to a second wave of infections. The pandemic would last the whole of 2020.	Period: 20Q1 – 21Q1 Recovery would be very slow.	Period: 20Q1 – 21Q1 The economy would continue to languish for the next few years.

Source: Krungsri Research

Thailand might be among the hardest-hit by the coronavirus pandemic

Despite easing restrictions after a two-month lockdown, the Covid-19 pandemic in several key countries and continued social distancing measures would reduce global GDP growth substantially by 5.5 percentage points (ppt) from pre-outbreak level. The pandemic is likely to hit the Thai economy more severe than we previously expected. **Krungsri Research now projects the Thai economy would be among the hardest hit**, followed by the EU, the US, and Japan. Although the number of new cases in China has started to slow, new cases are still rising in several other key countries. This means worldwide travel restrictions would not be lifted soon, including bans on inbound international flights in Thailand and most countries worldwide. On this note, we estimate Thai GDP would be hurt through the following channels – tourism, supply disruption at home and abroad, and multiplier effect.

Spillover impact of Covid-19 outbreak on GDP growth in selected Asian economies



Note: *Krungsri Research adopted the computable general equilibrium model (CGE) to measure the spillover effects. Also, we adopted a vector auto regression model to assess how economies react periodically to these changes.
Source: Global Trade Analysis Project (GTAP), Krungsri Research

Pandemic could slash Thai GDP growth by up to 17.5ppt in 2Q20 due to multiplier effect and stalled tourism industry

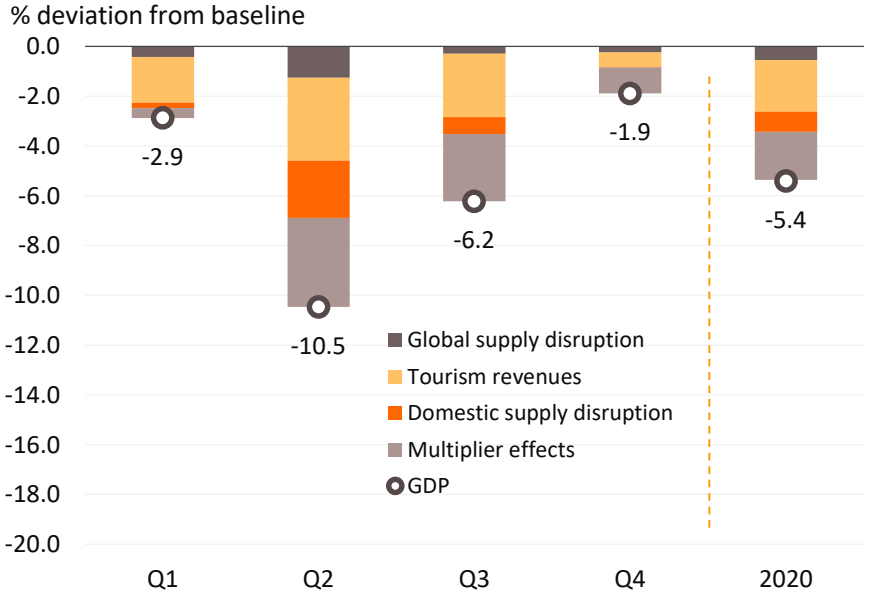
The Thai economy is sliding into the worst-case scenario, dragged by three factors.

- First, the global COVID-19 pandemic is more severe than previously expected as new cases continue to rise worldwide, particularly in the US, and has re-emerged in key countries such as China. This means international travel bans will not be lifted so soon. Foreign tourist arrivals in Thailand is projected to collapse by 83% in 2020 (instead of our earlier forecast of -60%). This means there will be almost zero foreign tourist arrivals the rest of the year. The number of tourists under the potential travel bubble scheme would account for less than 1% of last year's total foreign arrivals.
- Second, economic activities would decline more severely, and the negative feedback loop would be worse than our previous projection. Workers affected by the Covid-19 impact are now estimated to reach 80% of total labor at the peak of the pandemic (vs 50% in the previous forecast), and employment would remain at 30% below normal level in the last quarter of 2020 (vs 10% in the previous forecast).
- Lastly, the economic policy response has been inadequate because financial conditions have continued to tighten.

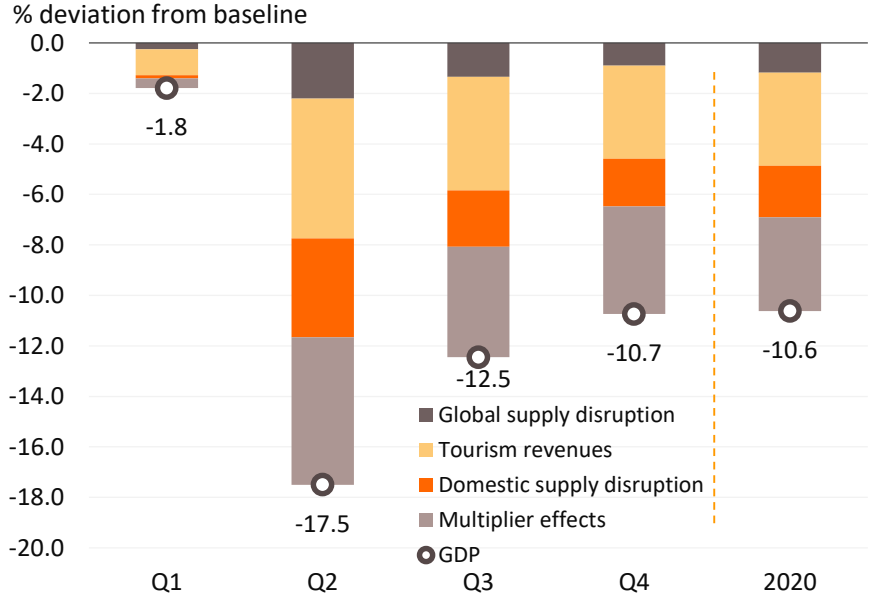
Our findings suggest the adverse consequences would be worst in 2Q20 but the extended containment measures will cause increase the negative multiplier effect. The **Covid-19 pandemic would reduce 2020 Thai GDP growth by 10.6 percentage points (ppt) from baseline with a 17.5ppt decline in 2Q20.** The most severe impact in 2Q20 would come from the multiplier effect (-5.8ppt), followed by tourism sector (-5.5ppt), domestic supply disruption (-3.9ppt), and global supply disruption (-2.2ppt). **In the second half of the year, even if the worst has passed, there would still be some scars on the Thai economy. Weak sentiment and the remaining containment measures would continue to hurt the tourism sector and the negative multiplier effect would continue to harm overall economic activity.**

Covid-19 impact on Thai GDP Growth in 2020

(Assumption: 2-month lockdown and 60% drop in tourist arrivals)



(Assumption: 2-month lockdown and 83% drop in tourist arrivals)



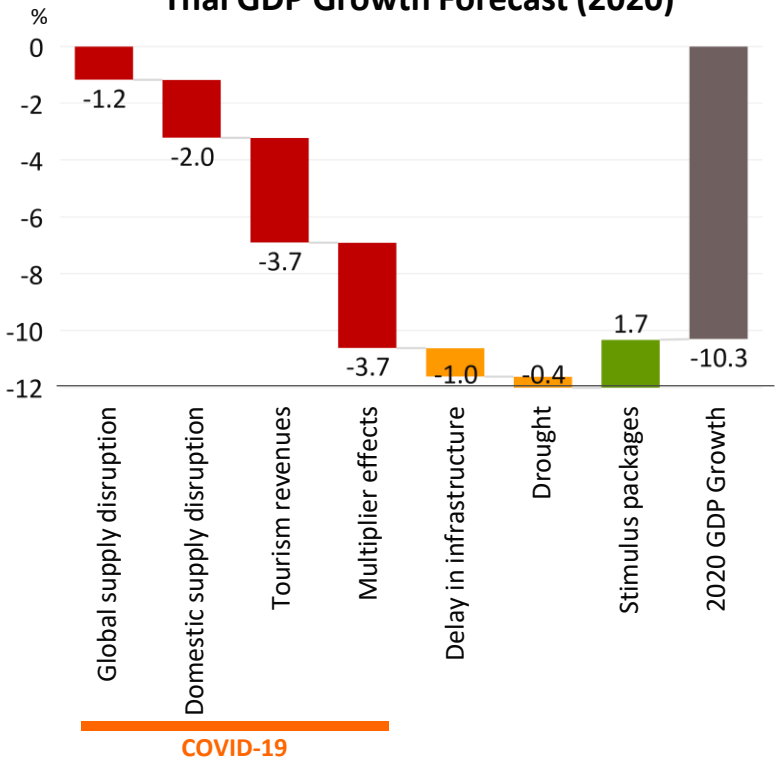
Source: GTAP, Krungsri Research

Krungsri Research has slashed 2020 GDP growth forecast from -5.0% to a record low of -10.3%

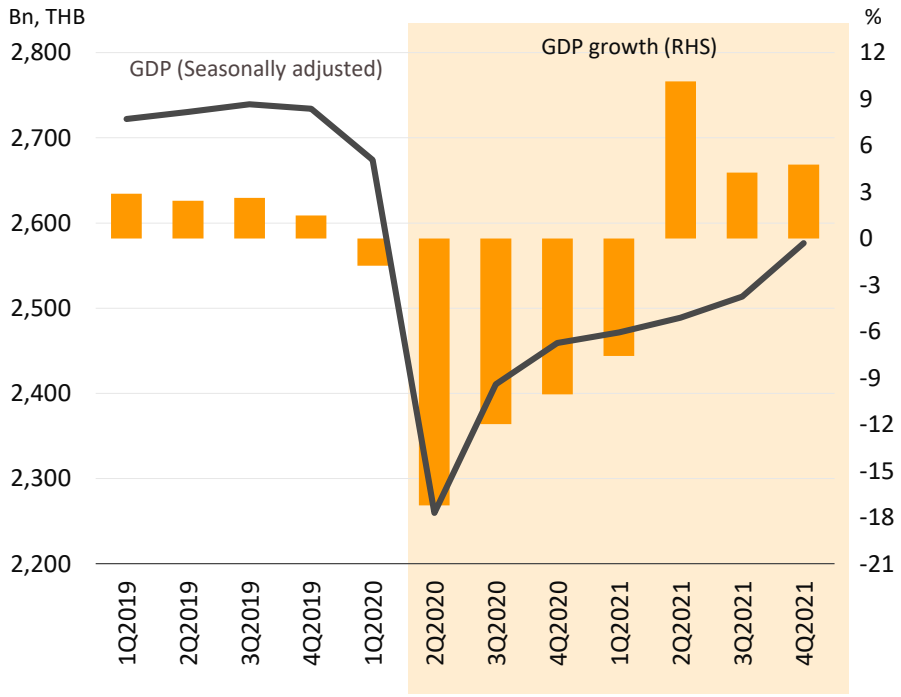
- Despite almost-zero new cases in Thailand and easing lockdown restrictions, **the pandemic could reduce Thai GDP growth by up to 10.6 percentage points (ppt) this year** as continued social distancing and remaining containment measures will hurt the tourism and related sectors harder and longer than we had expected. High unemployment and rising household and business debts would amplify the negative income effects for an extended period. And when supportive measures end, there is is risk of a second round of layoffs and the debt cliff could worsen the vicious cycle between confidence and economic growth.
- **Delays in infrastructure investment and drought crisis would reduce GDP growth by 1.0 and 0.4 ppt, respectively.**
- **Stimulus measures might add only 1.7 ppt to economic growth this year.** However, fiscal measures and monetary easing would likely be insufficient to fend off an economic recession and to encourage household spending and business investment.

To conclude, Krungsri Research slashed 2020 GDP growth forecast from -5.0% to -10.3%, worse than the 1998 Asian Financial Crisis. Thai GDP growth (seasonally adjusted) would not recover to pre-Covid-19 level before the second half of 2023

Thai GDP Growth Forecast (2020)



Thai GDP Growth Forecast (2020-2021)



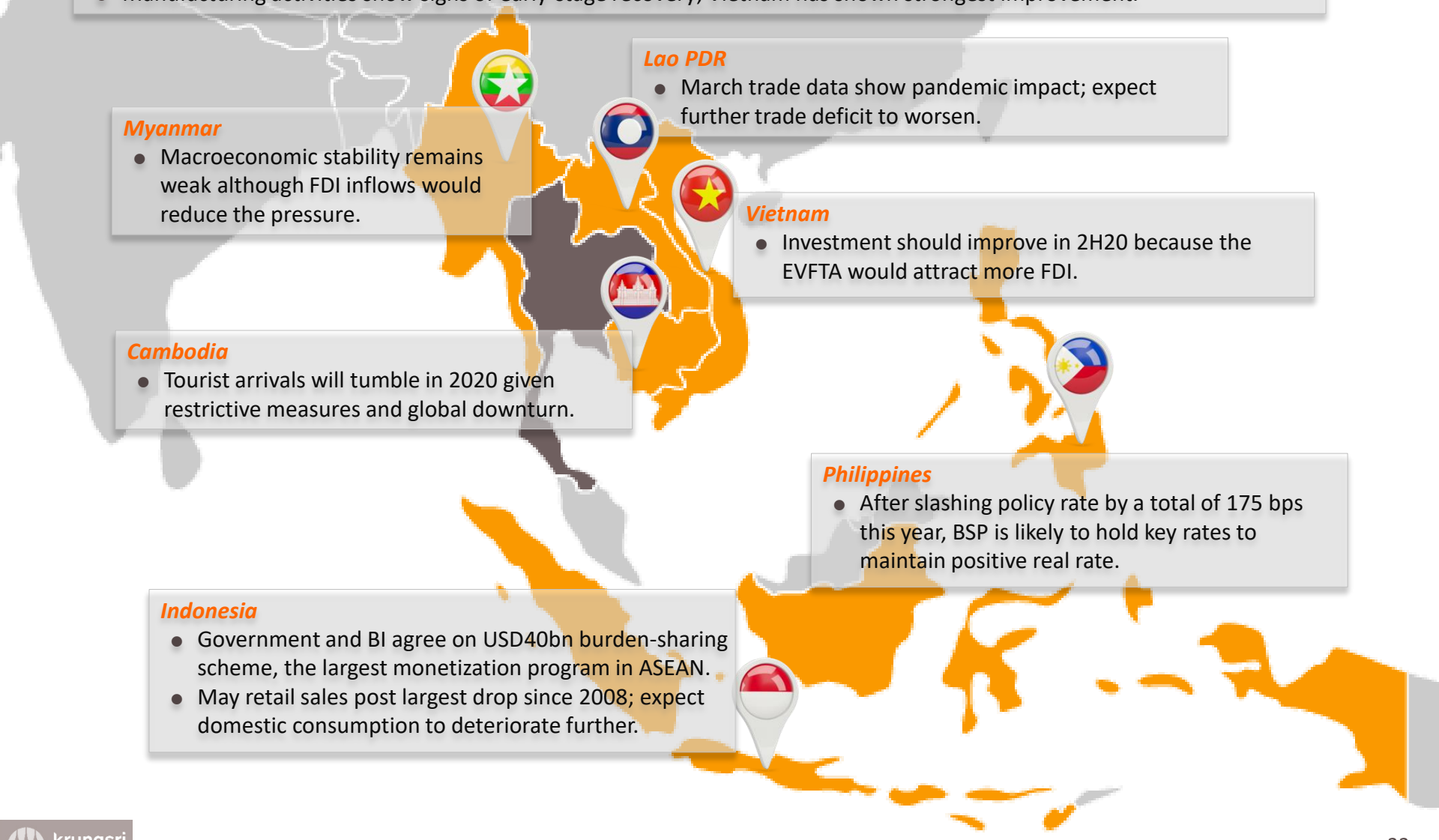
Source: Krungsri Research

Krungsri Research Forecast

Krungsri Research Forecast		2019	2020F		2021F	
			Previous	Latest	Previous	Latest
GDP growth	YoY (%)	2.4	-5.0	-10.3	2.0	2.9
Private Consumption Expenditure	YoY (%)	4.5	-1.1	-4.2	1.8	2.7
Government Consumption Expenditure	YoY (%)	1.4	2.3	2.3	2.0	2.0
Private Investment	YoY (%)	2.8	-5.5	-14.7	-0.7	2.5
Public Investment	YoY (%)	0.2	2.0	2.0	3.0	3.0
Nominal Exports in USD (f.o.b.)	YoY (%)	-3.3	-10.0	-12.5	3.0	4.5
Nominal Imports in USD (f.o.b.)	YoY (%)	-5.6	-16.0	-17.5	5.0	6.5
Current Account Balance	USD, bn	38.4	18.4	10.5	39.4	16.8
Tourist Arrivals	Mn, persons	39.8	14.2	6.7	19.9	8.2
Headline Inflation	YoY (%)	0.7	-0.8	-1.1	0.5	0.6
Exchange rate (end of period)	THB/USD	30.12	31.50	30.75	30.50	30.00
Policy Interest rate (end of period)	(%)	1.25	0.50	0.50	0.50	0.50
Dubai crude price (period average)	USD/bbl	63	44	44	54	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

Regional Economic and Policy Developments in July 2020



ASEAN

- ASEAN expects to sign the RCEP by November; this would strengthen intra-Asia trade and investment relations.
- Manufacturing activities show signs of early-stage recovery; Vietnam has shown strongest improvement.

Lao PDR

- March trade data show pandemic impact; expect further trade deficit to worsen.

Myanmar

- Macroeconomic stability remains weak although FDI inflows would reduce the pressure.

Vietnam

- Investment should improve in 2H20 because the EVFTA would attract more FDI.

Cambodia

- Tourist arrivals will tumble in 2020 given restrictive measures and global downturn.

Philippines

- After slashing policy rate by a total of 175 bps this year, BSP is likely to hold key rates to maintain positive real rate.

Indonesia

- Government and BI agree on USD40bn burden-sharing scheme, the largest monetization program in ASEAN.
- May retail sales post largest drop since 2008; expect domestic consumption to deteriorate further.

ASEAN expects to sign the RCEP by November; this would strengthen intra-Asia trade and investment relations

- At the 36th ASEAN Summit in June 2020, **the ASEAN and its five partners – China, Japan, South Korea, Australia and New Zealand – have planned to sign the Regional Comprehensive Economic Partnership (RCEP) agreement by November.** India had participated in initial talks but withdrew from the deal in November 2019.
- **The 15 participating countries account for almost half of the world's population and contribute 30% of global GDP and about a quarter of global exports.** Since the ASEAN and the five partners opened up their markets under the ASEAN Plus scheme in 2010, several countries have seen a significant increase in trade with RCEP countries, especially Myanmar, Philippines, and Cambodia. And, the combined value of FDI from the RCEP participating countries accounts for more than a half of each countries' FDI.
- **We are optimistic that the RCEP will bring more significant benefits to the signatory countries, by expanding trade and investment opportunities across the Asian region. It will not only allow member countries easier access to this large market, but ASEAN countries could also integrate deeper with the global value chain.** Although there may be limited additional benefits from a tariff reduction under the prevailing ASEAN Plus trade pact, they are expected to gain from the more flexible **Rules of Origin (RoO) to reduce implicit costs in the supply chain**, which would facilitate easier trade. In addition, the RCEP will also encourage more **significant bilateral FTAs between members, for example the China-Japan and Japan-South Korea FTAs**. This would enhance economic development in the region. In addition, the pact would also lure more investment from the RCEP partners through a more relaxed investment environment and strengthen investment relations between member countries.

Free Trade Agreement among RCEP participating countries

	ASEAN	Japan	China	South Korea	Australia	New Zealand
ASEAN	-	Y	Y	Y	Y	Y
Japan	Y	-	N	N	Y	(under CPTPP)
China	Y	N	-	Y	Y	Y
South Korea	Y	N	Y	-	Y	Y
Australia	Y	Y	Y	Y	-	Y
New Zealand	Y	(under CPTPP)	Y	Y	Y	-

Y Yes N No

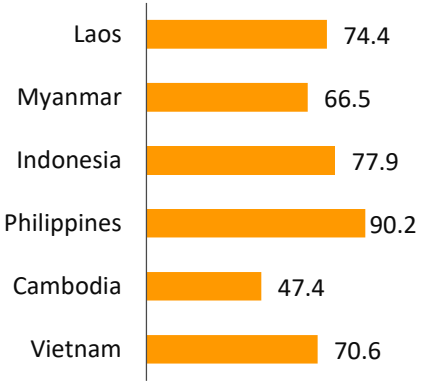
Trade with the RCEP

(% of each country trade)



FDI from the RCEP in 2019

(% of each country FDI)

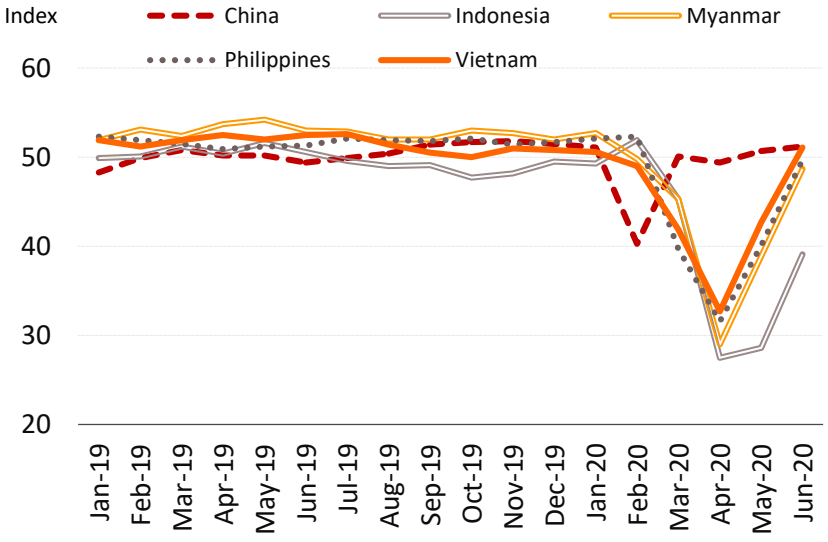


Source: Trademap, CEIC, ASEAN Secretariat, Asia Regional Integration Center, Krungsri Research

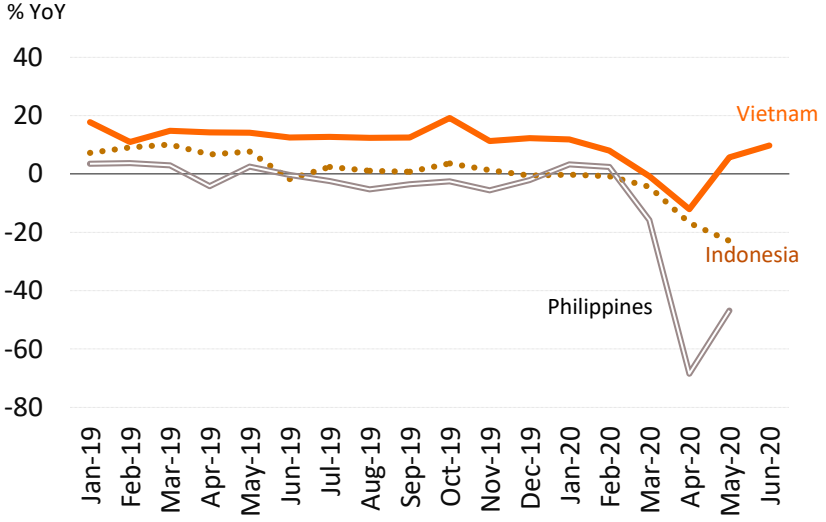
Manufacturing activities show signs of early-stage recovery; Vietnam has shown strongest improvement

- **Following the easing lockdown measures, production activities in ASEAN countries registered broad improvements in June**, although the indices remain in contraction territory. The exception was Vietnam, the only ASEAN country to register an expansion in the Purchasing Manager's Index (PMI). The improvements in Manufacturing PMI are also in line with retail sales trends in the respective countries.
- **Given a deeper-than-expected global recession, external demand should contract this year** and dampen prospects for trade-dependent SE Asian economies, especially Vietnam and Cambodia which trade value accounts for over 200% and 130% of GDP, respectively.
- **This will continue to deter manufacturing activities across ASEAN. Given the SE Asia nations' manufacturing sector employs 20-25% of the total labor force in the respective countries, the weak recovery in manufacturing activities would drag household spending the rest of this year, especially in countries with still-fragile domestic consumption like Indonesia and Philippines. Retails sales in both these countries have tumbled in recent months amid extended lockdown measures.**

China and selected ASEAN countries' manufacturing PMI

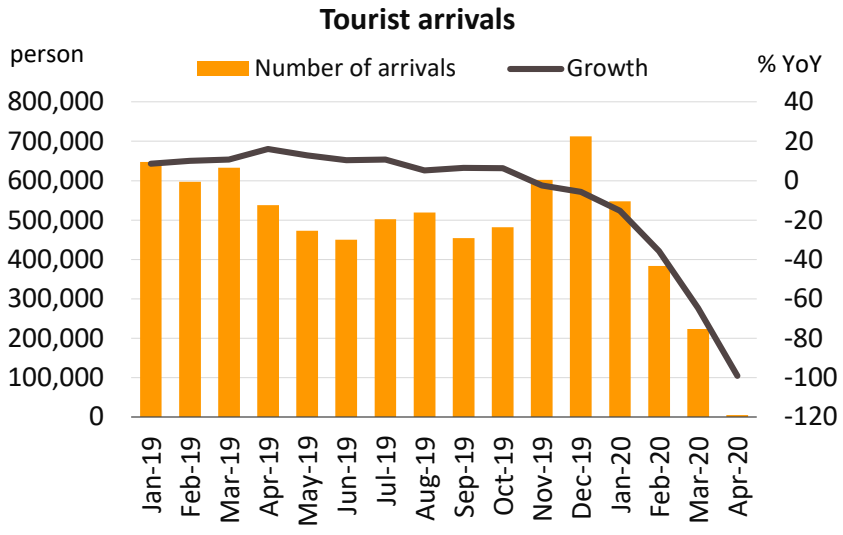


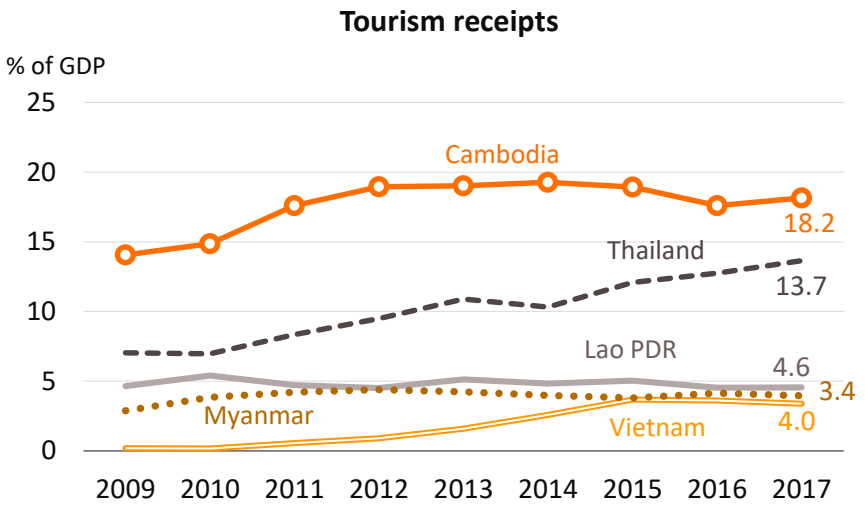
Retail sales in selected ASEAN countries

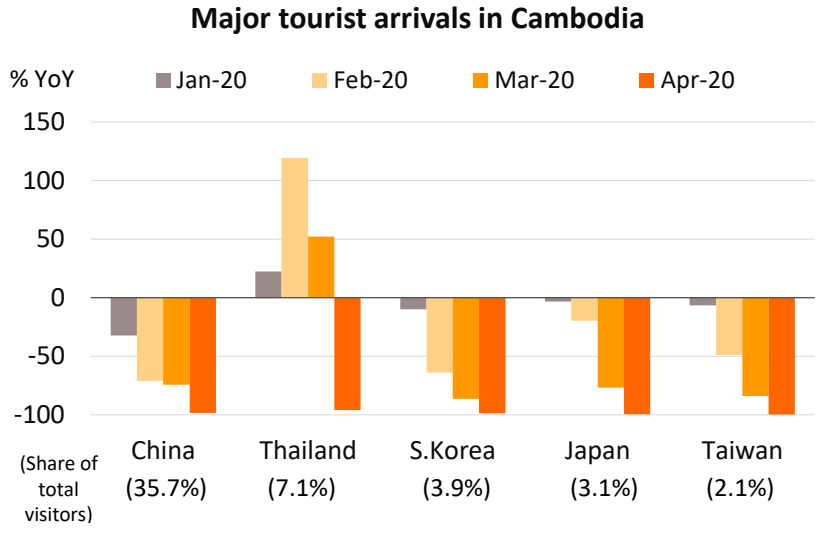


Source: IHS Markit, CEIC, Krungsri Research

Cambodia: Tourist arrivals will tumble in 2020 given restrictive measures and global downturn







Source: ASEAN Investment Report 2019, Ministry of Tourism, CEIC, Krungsri Research

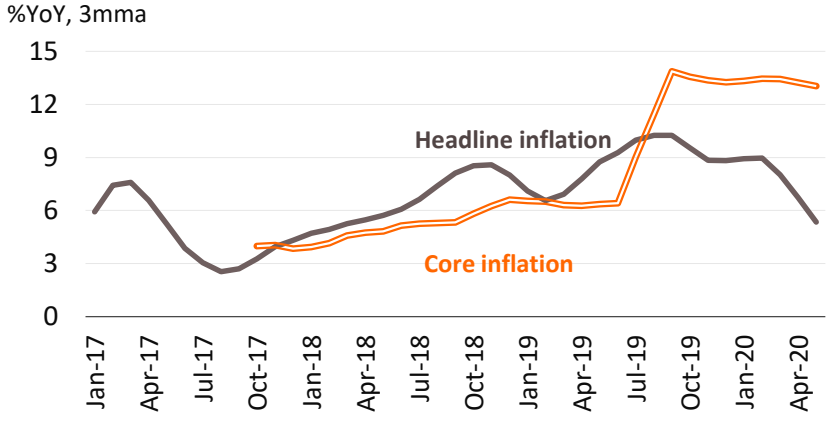
Krungsri Research's view

- Cambodia's tourism industry has been hit hard by the COVID-19 impact because it depends heavily on tourists form China. China had imposed lockdown measures since late-January while Cambodia had banned nationwide travel in March, causing foreign visitor arrivals to drop by almost 100% YoY in March. Since lifting the ban on international flights in mid-May, tourist arrival growth has softened to -40%.
- **Given that the global travel restrictions are likely to stay at least for the rest of the year, coupled with the unprecedented global economic downturn, we expect Cambodia's tourism sector to register negative growth this year. And, as the sector accounts for over 18% of GDP, it would weigh down Cambodia's economic growth significantly. There are also lingering fears a second outbreak would continue to stall tourism activities.**

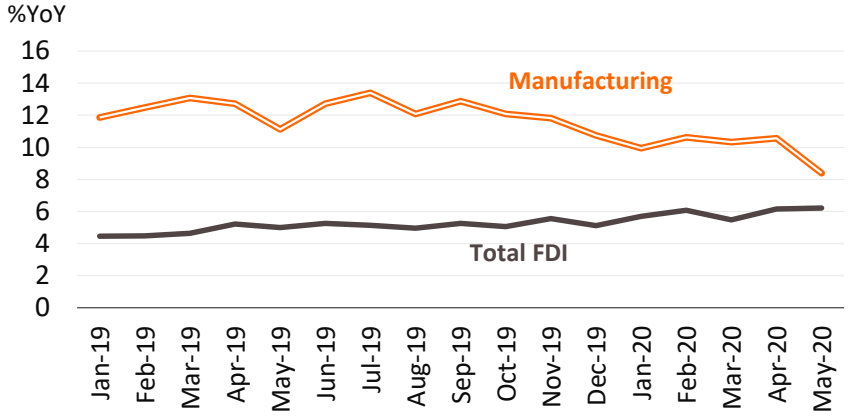
Myanmar: Macroeconomic stability remains weak although FDI inflows would reduce the pressure

Myanmar's core inflation remains high at about 13% YoY, which reflects still-high cost of living amid lower income. The Covid-19 impact could widen the country's trade deficit. Myanmar's exports would drop further because of weak global demand, while imports are expected to recover gradually (but continue to post negative YoY growth) led by the resumption of construction activities. This would result in a still-large current account deficit (CAD), which would, in turn, put downward pressure on the MMK which is currently stable. However, **the continued growth in FDI inflows would partly help finance the CAD and reduce pressure on external stability.**

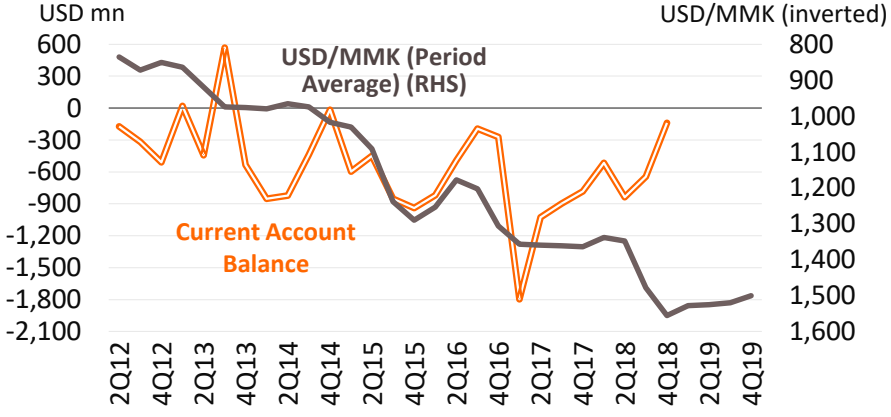
Inflation trends



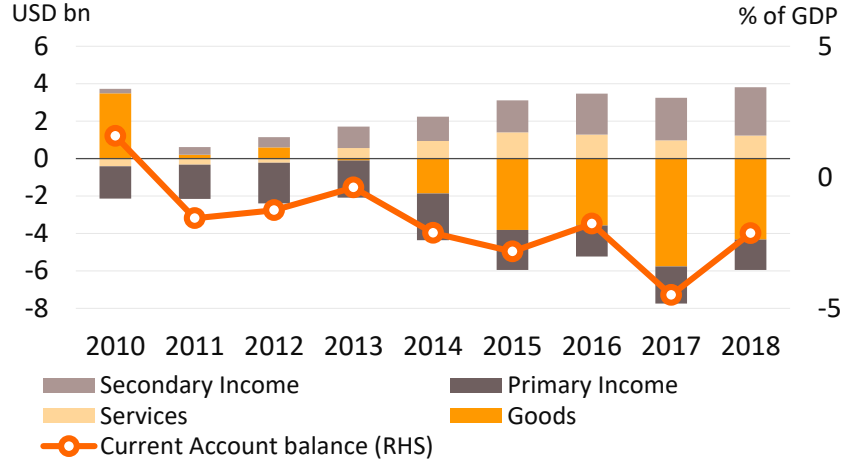
Growth of Cumulative FDI (approved value)



USD/MMK exchange rate and CAB



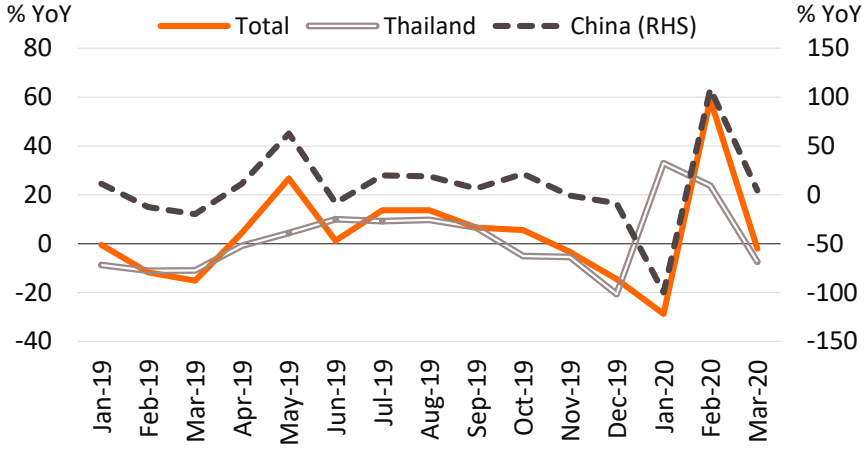
Current account balance



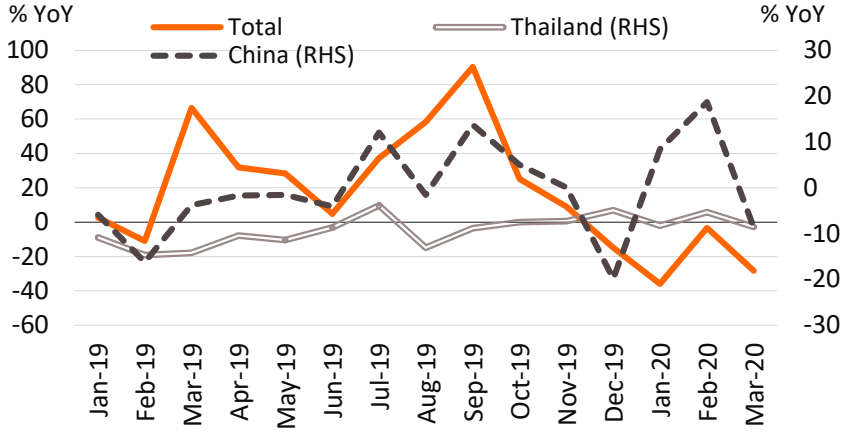
Source: CEIC, Krungsri Research

Lao PDR: March trade data show pandemic impact; expect further trade deficit to worsen

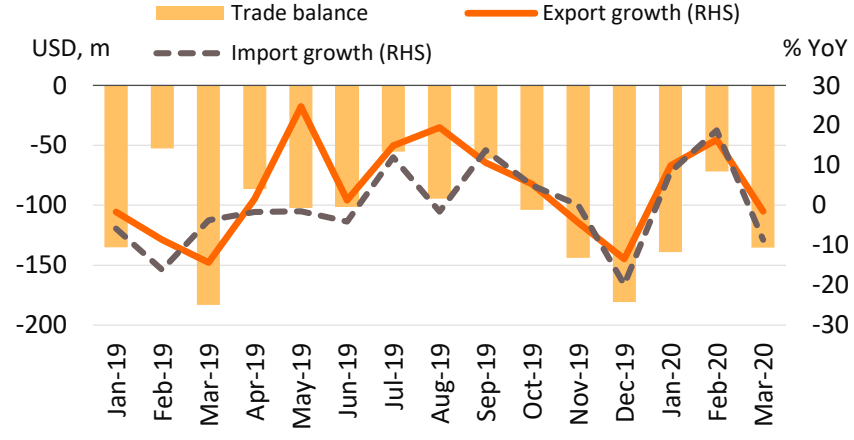
Laos' export growth by major export market



Laos' import growth by import source



Laos' trade statistics



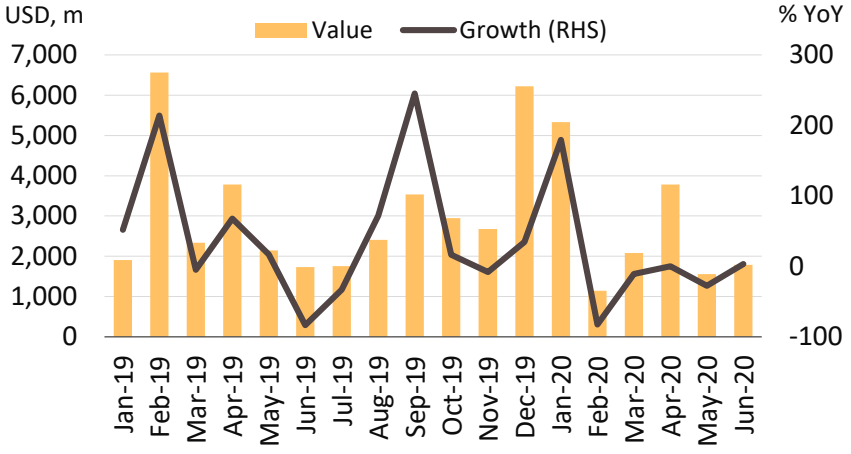
Source: IMF, the Bank of Lao PDR, CEIC, Krungsri Research

Krungsri Research's view

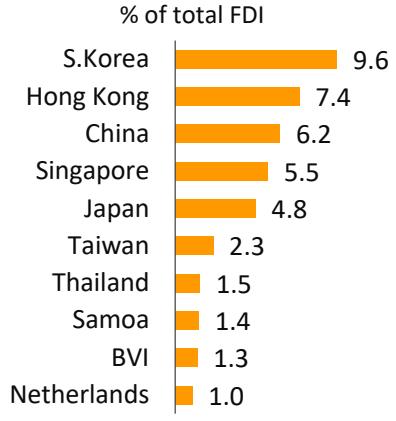
- **Latest data show Laos' trade has suffered from the COVID-19 impact because of slower economies in its major export markets.** Total exports fell 2% YoY in March due weaker exports to Thailand, which normally account for 50% of Laos' total exports. **Total imports fell by 28.2% mainly because of a sharp drop in imports from China (mostly construction material), which normally account for 55% of Laos' imports.**
- **Looking ahead, we expect Laos' exports to shrink in 2020** mainly due to weaker electricity demand from Thailand. **Imports would contract less than exports** because construction activity has resumed for most China-led projects – which had stalled in the first quarter of 2020 following the outbreak and lockdown in China, and later worldwide. **Hence, Laos should continue to register a large trade deficit this year.**

Vietnam: Investment should improve in 2H20 because the EVFTA would attract more FDI

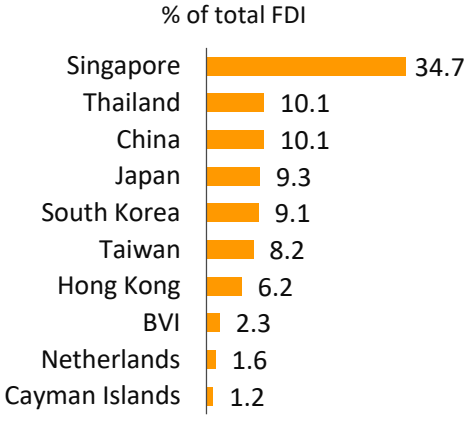
Vietnam's FDI



2019: Source of FDI by Country

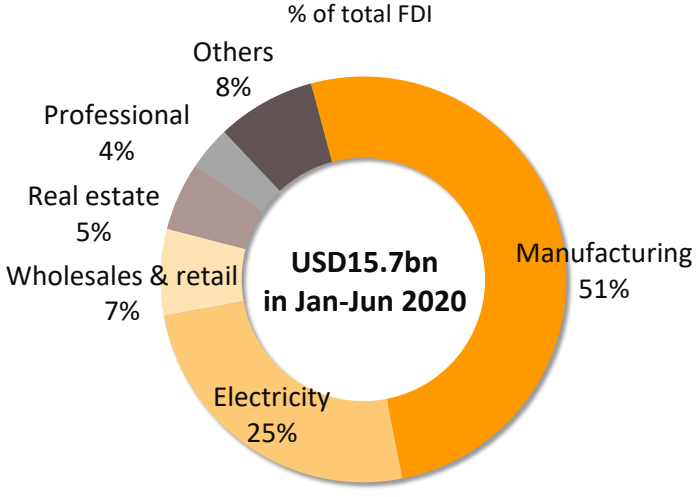


1H20: Source of FDI by Country



Note: BVI refers to British Virgin Islands

Vietnam's FDI by sector (1H20)



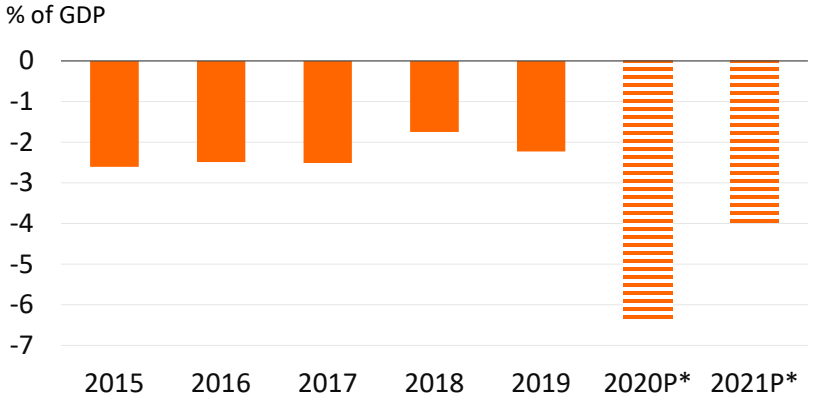
Source: GSO, CEIC, Krungsri Research

Krungsri Research's view

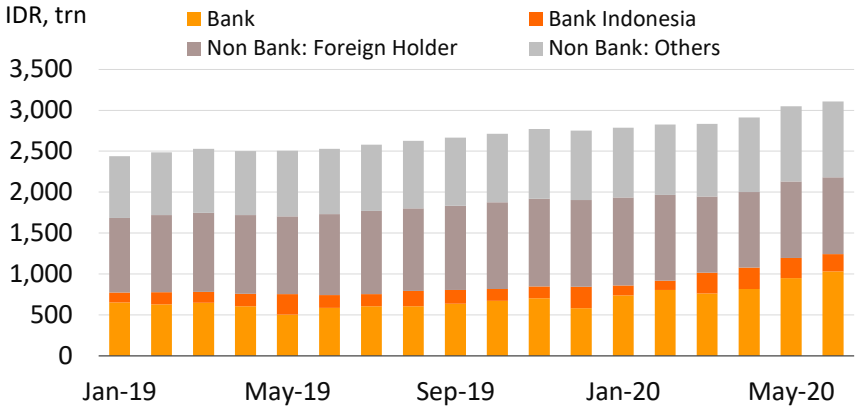
- After registering strong 7.2% growth in 2019, FDI in Vietnam fell 15.1% YoY to USD15.7bn in 1H20 due to the COVID-19 impact. Specifically, in February and March when the country imposed lockdown measures and new cases had been rising in Asian countries, FDI had tumbled 82.6% YoY and 10.8% YoY, respectively. **However, we expect trends to improve in the coming months, following easing lockdown measures. There is investment demand in Vietnam but it might be capped by a second outbreak and global economic uncertainties.**
- **Looking ahead, we expect FDI to gradually return to Vietnam because the country is relatively more attractive than its neighbors. It offers the strongest economic growth prospects in the region and mainland China companies will continue to relocate to Vietnam. When the EVFTA takes effect by August 2020, the EU would immediately remove import tariffs on about 85% of Vietnamese products. This would increase Vietnam's competitiveness in the EU market amid the current economic downturn. Vietnam will also gain from recent FTAs, including the CPTPP and the RCEP, the latter likely to be signed by November.**

Indonesia: Government and BI agree on USD40bn burden-sharing scheme, the largest monetization program in ASEAN

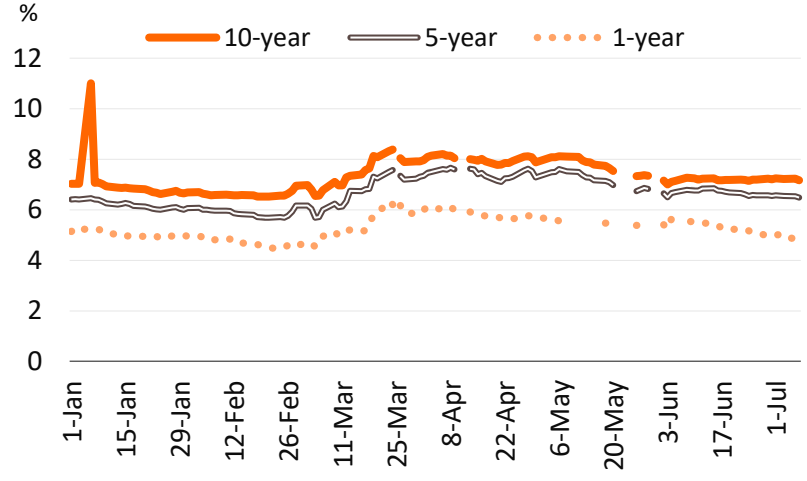
Indonesia's fiscal deficit



Indonesia's government bonds by ownership



Indonesian government bond yield



Note: Projected by IMF.

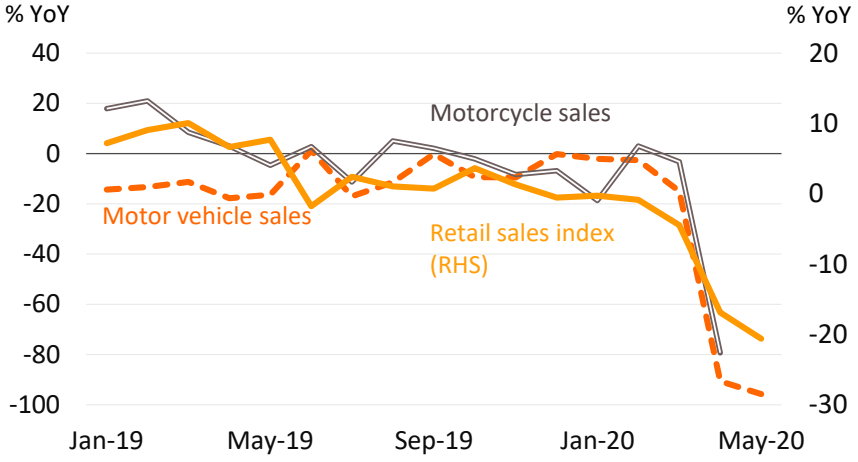
Source: IMF, BI, Directorate General of Budget Financing and Risk Management, CEIC, Krungsri Research

Krungsri Research's view

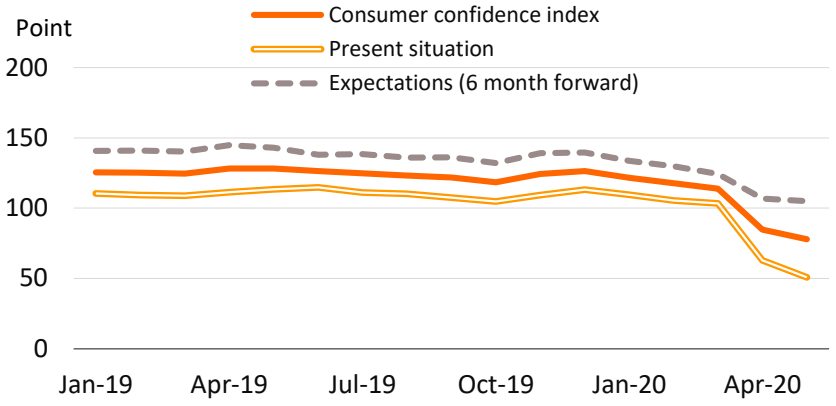
- **The government is preparing to issue IDR900.4trn (USD62.4bn) worth of government bonds or sovereign debt papers (SBN) in 2H20** to finance its widening budget deficit to cover the COVID-19 stimulus and relief programs. **The government and Bank Indonesia (BI) recently agreed on a burden-sharing scheme worth IDR574.59trn (USD39.7bn), accounting for 64% of the planned bond issue. This is the largest monetization program in SE Asia.** BI will buy IDR397.5trn worth of government bonds at its 7-day reverse repurchase rate of 4.25%, and for the rest, it would pay the spread between market rates for each tenor and its 3-month reverse repurchase rate minus 1 ppt.
- **The scheme is expected to help the government to avoid cost burden** as market bond yields are relatively high at 7.17% for 10-year government bond as of 7 July. In addition, **although the deficit funding under this scheme is large, we expect inflation to remain low.** After registering 1.96% in May, the country's inflation rate should stay below the lower bounds of BI's 2%-4% inflation target for 2020. This would be on the back of weak demand and subsidies for electricity and utilities charges.
- **As these bonds are expected to have long maturities, the burden-sharing scheme would affect the central bank's balance sheet. However, the central bank could sell the bonds as part of its monetary operations (e.g. through the open market) later.**

May retail sales post largest drop since 2008; expect domestic consumption to deteriorate further

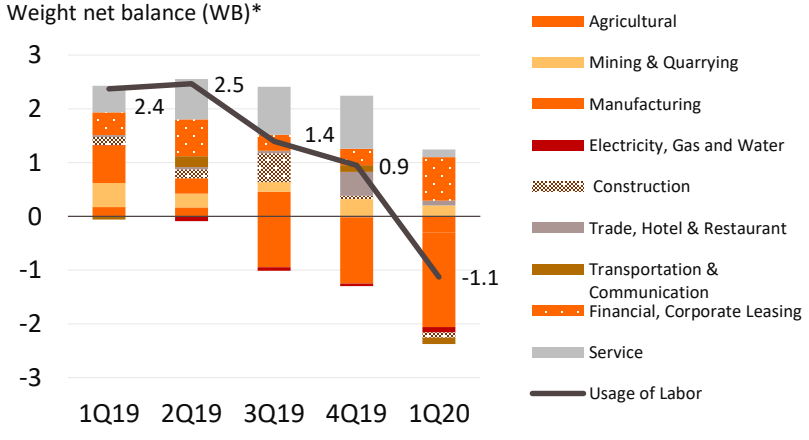
Indonesia's motor vehicle and motorcycle sales



Indonesia's consumer confidence index



BI's business survey: Realization of usage of labor



Note: *A positive reading indicates an expansion of usage of labor while a negative reading reflects a contraction

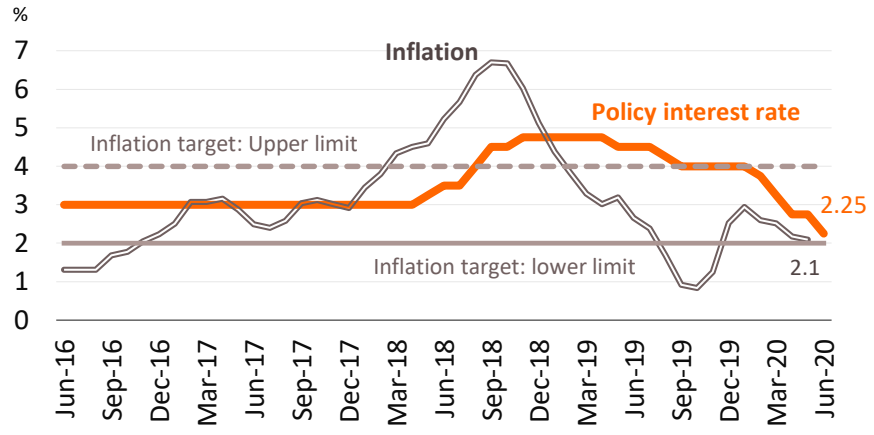
Source: Bank Indonesia, Central Bureau of Statistics, CEIC, Krungsri Research

Krungsri Research's view

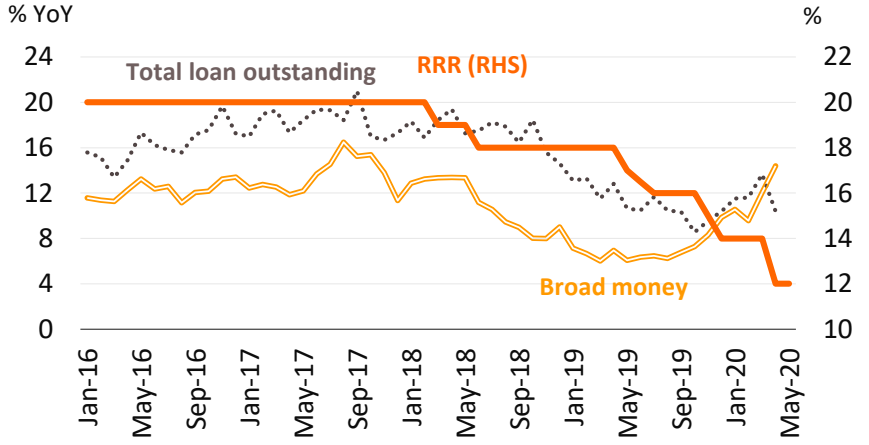
- **After a 2-month lockdown that started in late-March, Indonesia's household expenditure fell by 20.6% in May. We expect a deeper contraction in 2Q20 and and the rest of the year.**
- **Other household consumption indicators also showed a similar trend.** Motorcycle sales tumbled 79.3% YoY in April and motor vehicle sales fell by 95.8% YoY in May. And, latest consumer confidence survey data indicates extremely weak confidence in the next six months.
- Given the deeper-than-expected contraction of global economy, partial lockdown and social-distancing measures locally and worldwide, and the resulting disruption to the domestic supply chain, Indonesia's **labor market will remain fragile**. **Premised on this and still-weak consumer confidence, we project consumption would continue to drop the rest of this year.**

Philippines: After delivering deep interest rate cut by 175 bps, BSP would keep its key rates as it prefers positive real rate

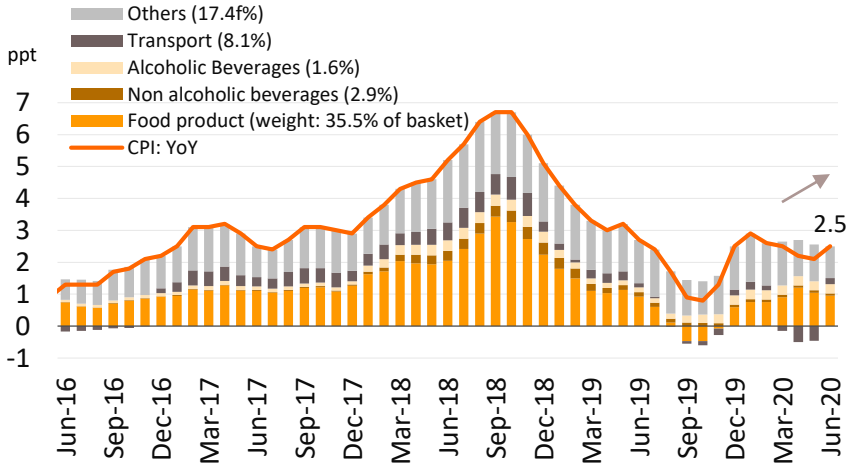
Philippines: Inflation and policy interest rate



Liquidity in Philippines' banking system



Philippines: Headline inflation



Krungsri Research's view

- **The Bangko Sentral ng Pilipinas (BSP) took another interest rate cut by 50 bps to 2.25%, effective 26 June 2020, making totally 175 bps this year. We expect the latest policy rate of 2.25% to be unchanged for the rest of 2020. This is supported by a slight upside of inflationary pressure** as the latest inflation rate was 2.5% in June. And, the BSP's latest baseline inflation forecast has revised to 2.3% (vs. previous projection of 2.2%), 2.6% in 2021, and 3.0% in 2022. Importantly, the BSP's governor Benjamin Diokno is likely to favor positive real policy rate. **Then, another 25-bp rate cut would result in a negative real policy rate, which we expect a less possibility to go there.**
- The BSP targets to cut reserve requirement ratio (RRR) by totaling up to 400 bps to inject liquidity into the economy. However, after a total cut of 200 bps year-to-date, money supply increased sharply by 14.4% YoY in April 2020 vs. 9.8% YoY in December 2019. Hence, this implies **the central bank could be able to delay another cut of the RRR.**

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

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