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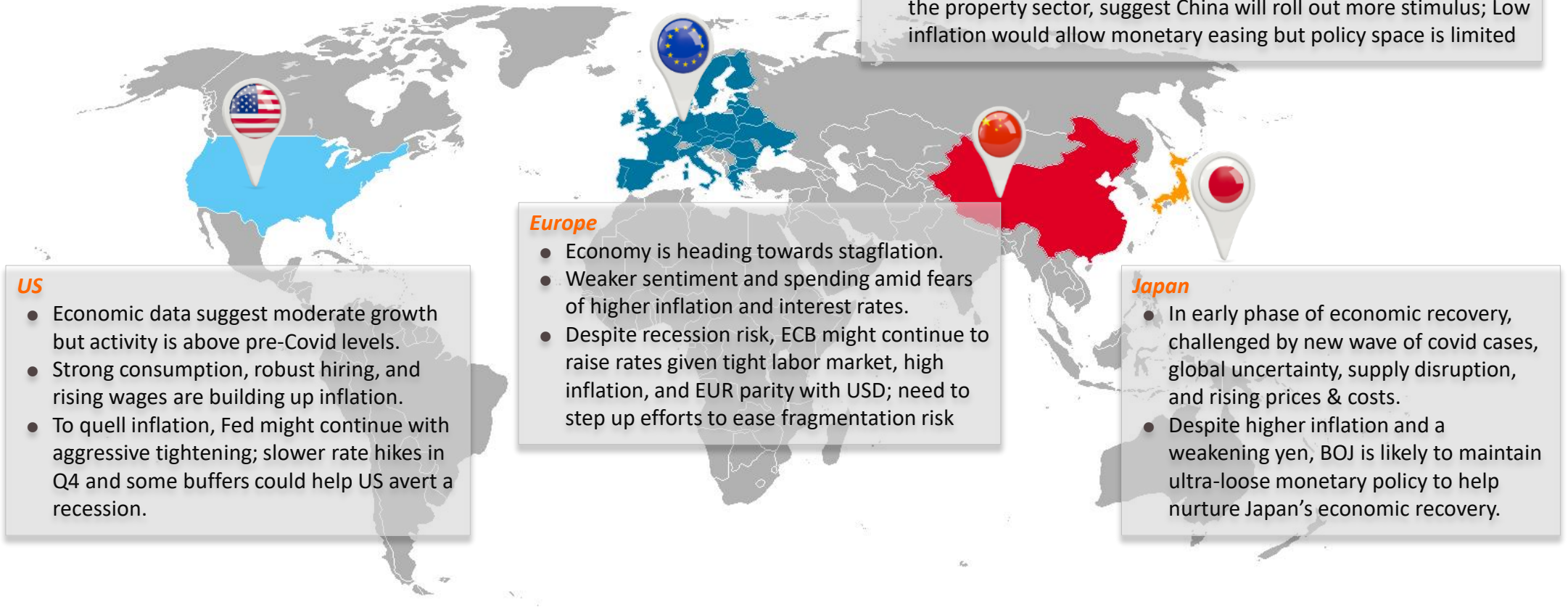
MONTHLY ECONOMIC BULLETIN

July 2022



Krungsri Research

Global: Troubling trade-off between inflation and growth



China

- Despite recovering since reopening, economic growth could be far below official target of 5.5% for this year amid a gloomier global outlook and the zero-covid strategy
- Rising number of Covid-19 cases, weak labor market, and risks in the property sector, suggest China will roll out more stimulus; Low inflation would allow monetary easing but policy space is limited

Europe

- Economy is heading towards stagflation.
- Weaker sentiment and spending amid fears of higher inflation and interest rates.
- Despite recession risk, ECB might continue to raise rates given tight labor market, high inflation, and EUR parity with USD; need to step up efforts to ease fragmentation risk

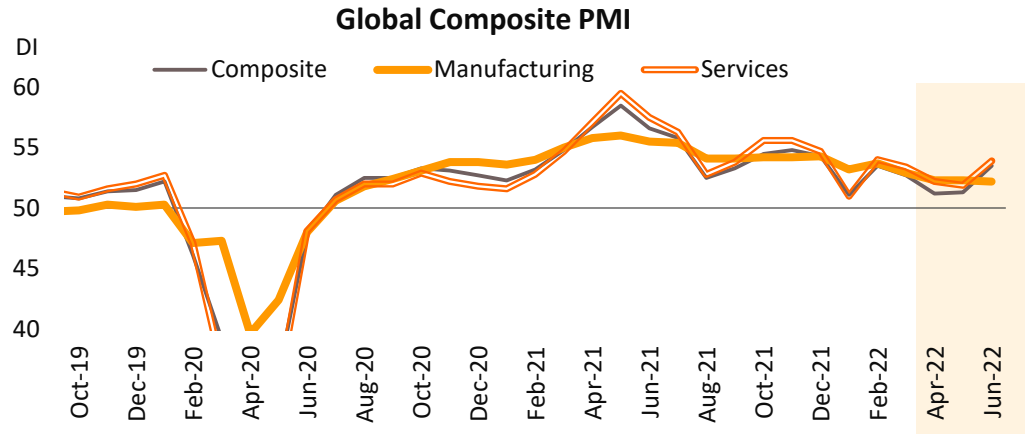
US

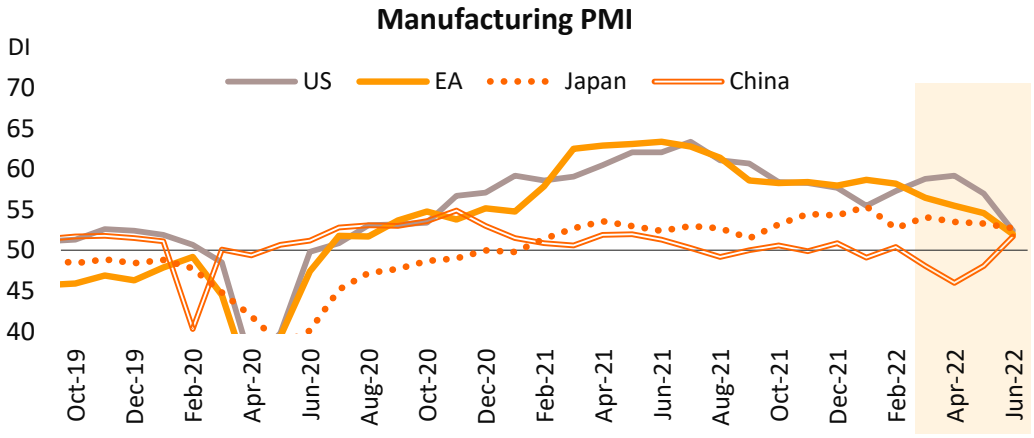
- Economic data suggest moderate growth but activity is above pre-Covid levels.
- Strong consumption, robust hiring, and rising wages are building up inflation.
- To quell inflation, Fed might continue with aggressive tightening; slower rate hikes in Q4 and some buffers could help US avert a recession.

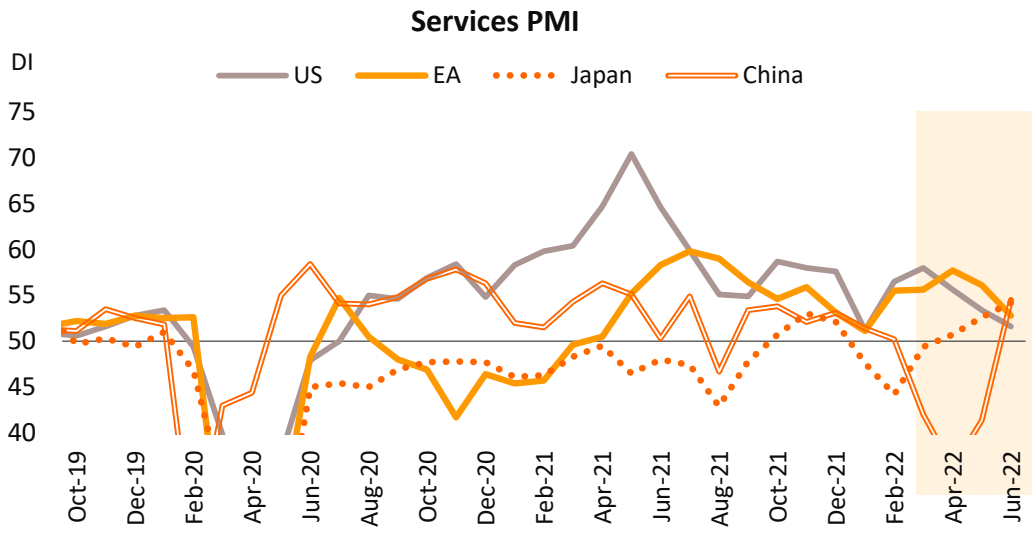
Japan

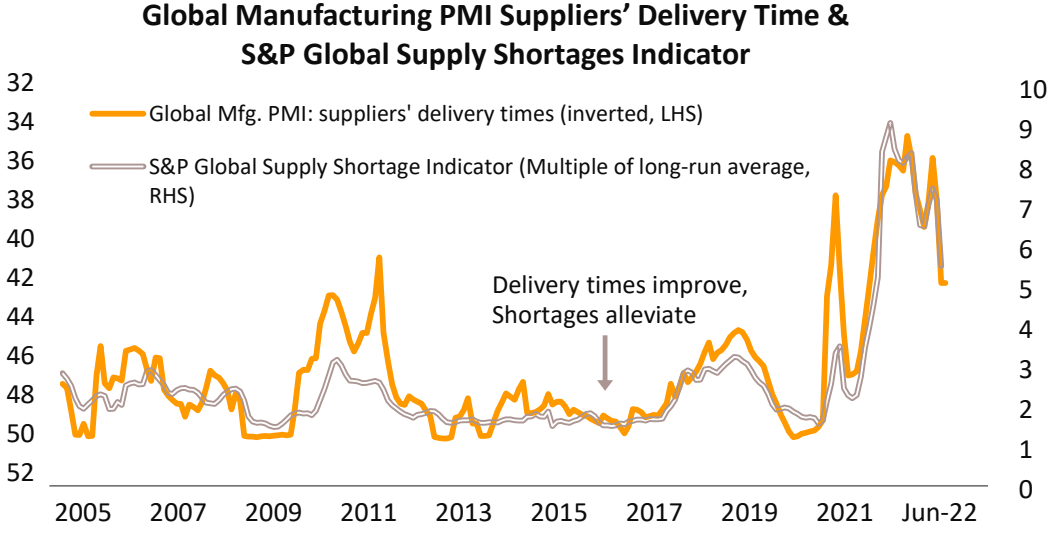
- In early phase of economic recovery, challenged by new wave of covid cases, global uncertainty, supply disruption, and rising prices & costs.
- Despite higher inflation and a weakening yen, BOJ is likely to maintain ultra-loose monetary policy to help nurture Japan's economic recovery.

Major economies continue to slow down despite recovering economic activity in China, improving delivery times, and better supply situation









Source: IHS Markit, Capital Economics, Bloomberg, Krungsri Research

Survey suggests Ukraine war will continue to disrupt supply, moderate response; inflation could threaten economies more than geopolitical risks; sentiment is worsening

Potential scenarios and responses resulting from invasion of Ukraine

Government policy, consumer and business response

1 Contained
Disruption contained in duration and scale, with no escalation in sanctions; refugee situation and energy, food, and commodity markets stabilize

2 Extended
Disruption grows in duration and scale; refugee situation and sanctions escalate moderately; energy, food, and commodity markets adapt and then stabilize

3 Severe and escalating
Pronounced disruption in duration and scale; refugee situation and sanctions escalate; energy, food, and commodity markets severely disrupted

1C	1B	1A
2C	**2B** Scenario selected most often by respondents	2A
3C	3B	3A

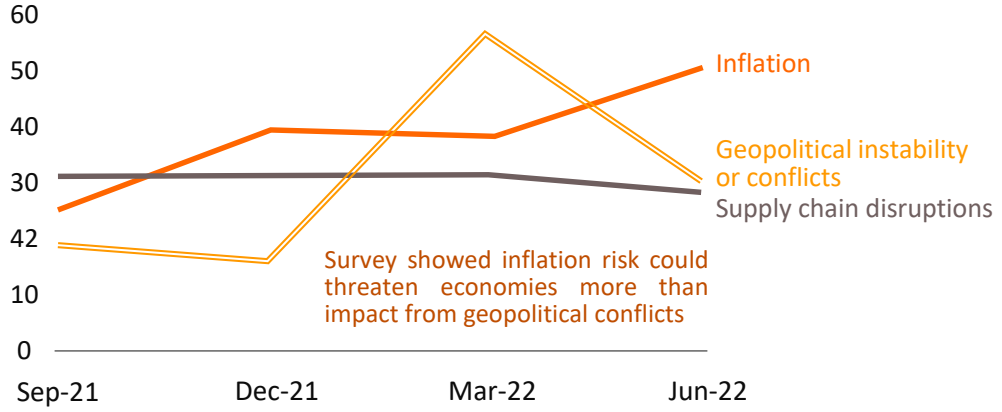
Duration and scale of disruption

C Restrained
Accelerated pace of monetary measures to limit inflation; lower long-term global growth prospects

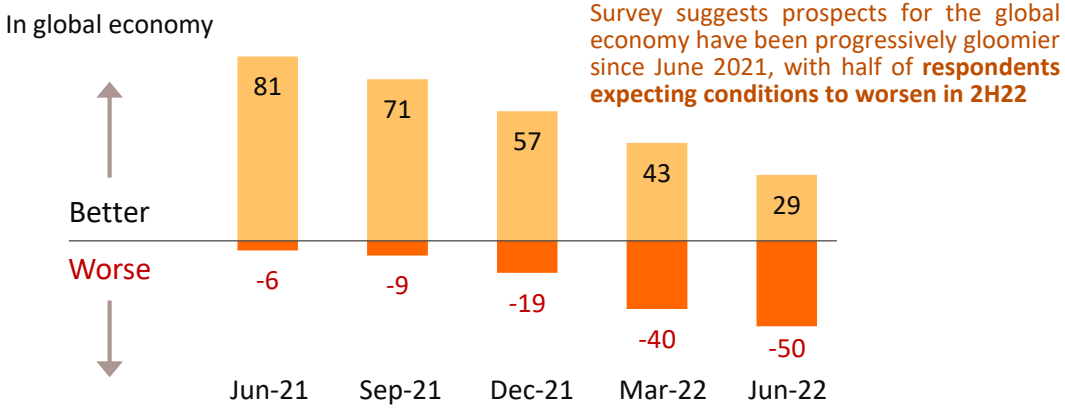
B Moderate
Exit from current stimulus policies continues; decar-bonization goals reduced; investment in fossil fuels restarts

A Robust
Exit from current stimulus policies slows; new fiscal support for energy and food costs and for investments in energy infrastructure

Potential risk to global economic growth, next 12 months, % of respondents



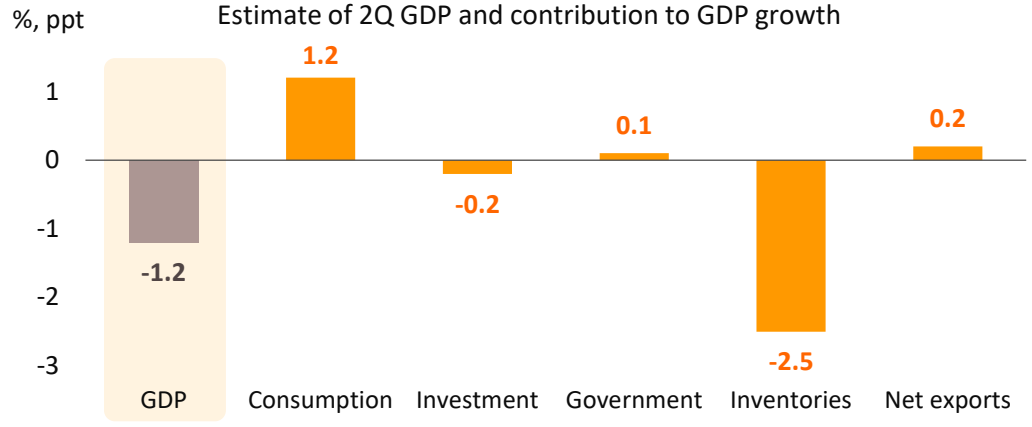
Expected economic condition, next 6 months, % of respondents



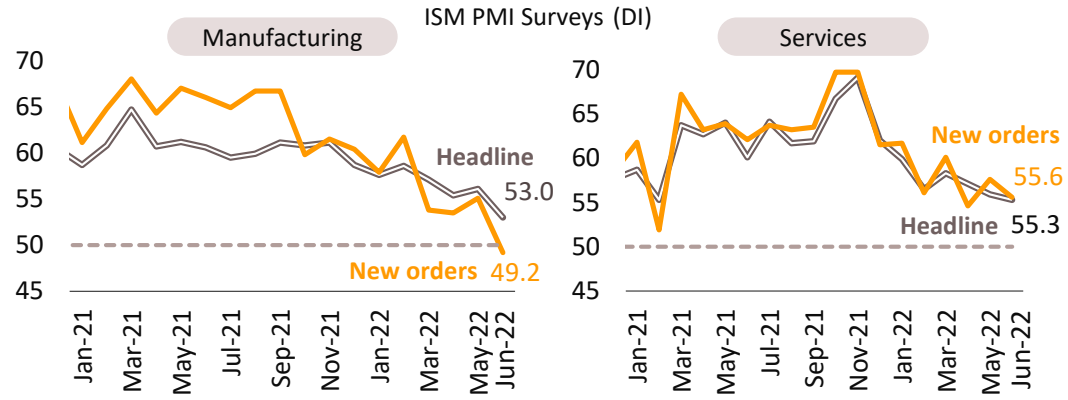
Source: McKinsey (June 2022), Krungsri Research

US: Economic data suggest moderate growth but activity is above pre-Covid levels; strong consumption, robust hiring, and rising wages are building up inflationary pressure

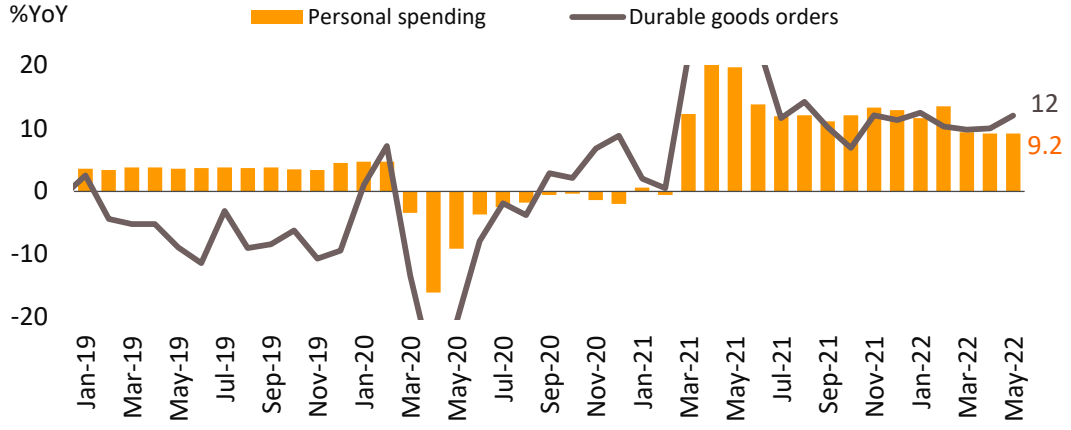
The Atlanta Fed estimates 2Q22 GDP would contract by 1.2% largely due to falling inventories, but consumption growth would remain strong



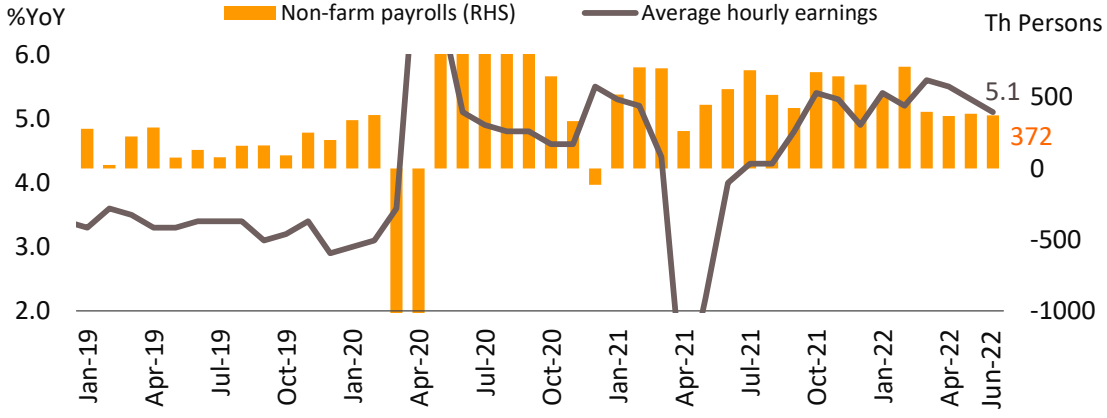
Manufacturing growth hit a 2-year low in June, suggesting a shift in spending from goods back to services; services sector is more stable



Despite weaker manufacturing activity, business investment remained firm; both investment and consumption growth is stronger than pre-Covid levels



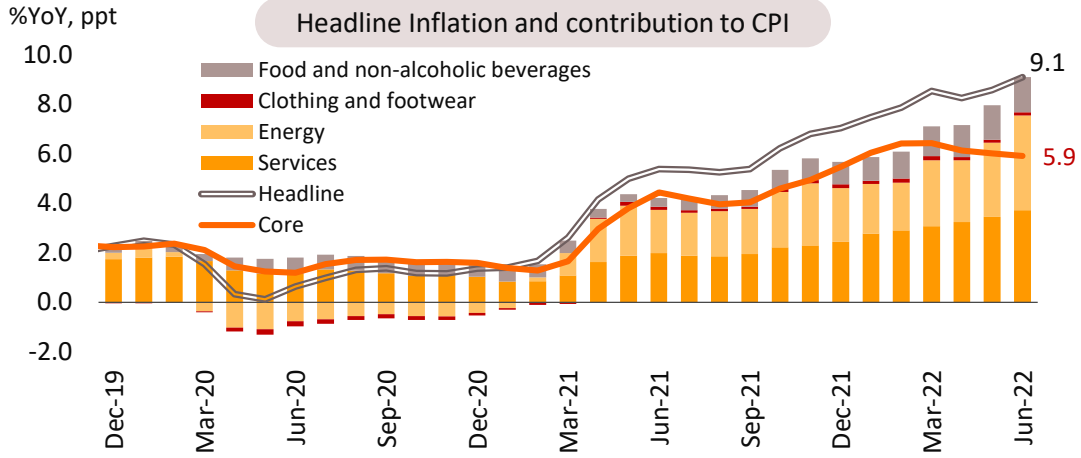
Despite a slowdown, jobs and wage growth are stronger than market expectations, reflecting a tight labor market and signs of rising inflation



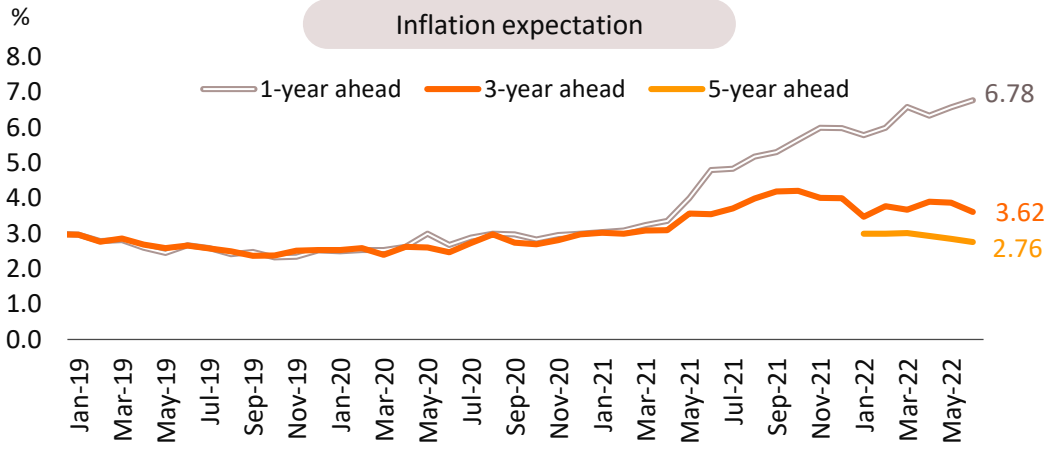
Source: Atlanta Fed, ISM, Bureau of Labor Statistics (BLS), Bloomberg, Krungsri Research

To quell inflation, Fed might continue with aggressive tightening and hike rate by 75 bps in July; slower rate hikes in Q4 and some buffers could help US to avert a recession

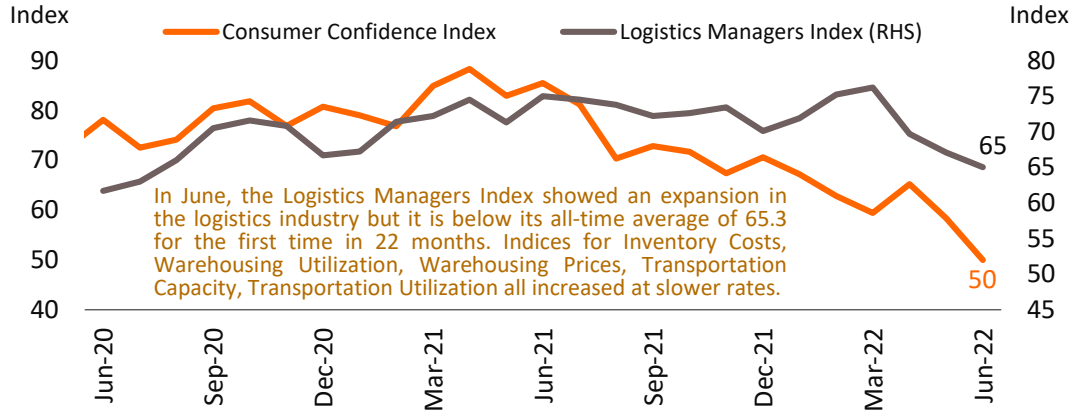
Rising expectations of aggressive rate hikes fueled by 4-decade high headline inflation, at 9.1% in June, and stable core rate (5.9% in Jun vs 6.0% in May)



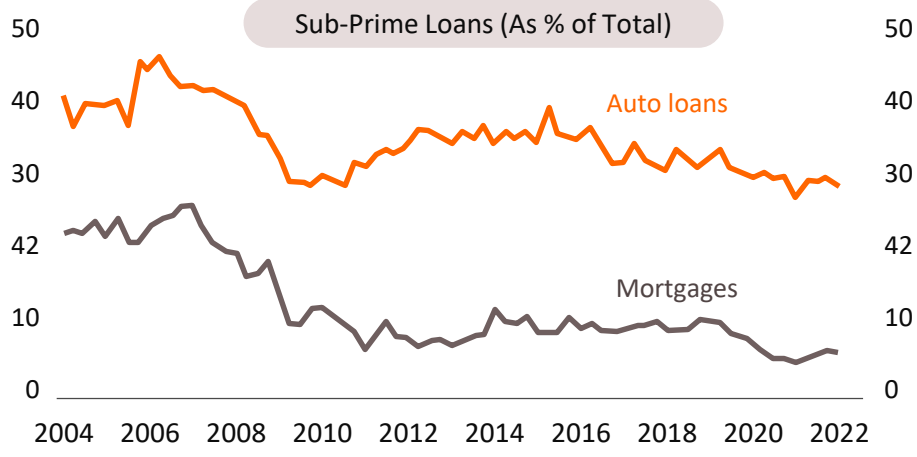
1-year forward inflation expectation is at a record high, but the drop in 3- and 5-year forward expectations could ease concerns



Fed's policy might be less restrictive in Q4 given signs of easing supply disruption, slowing consumer demand, and tightening financial conditions



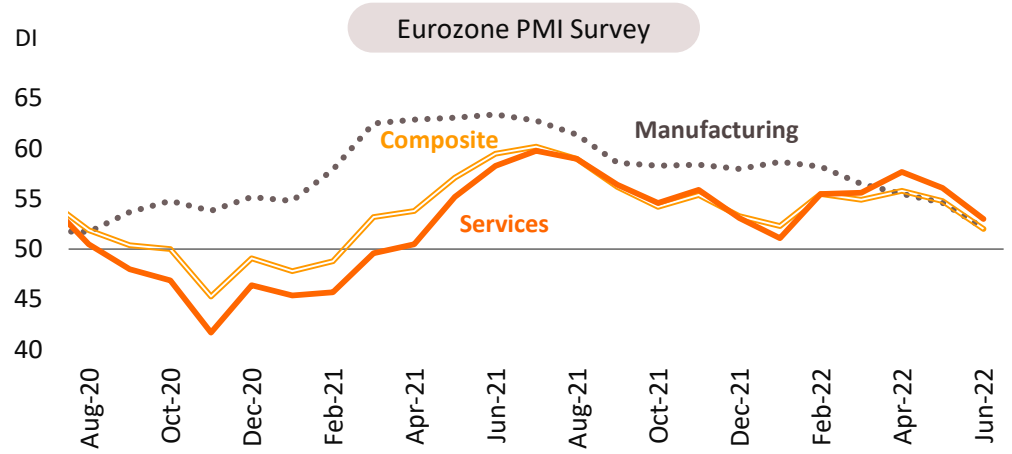
Recession risk could be cushioned by buffers such as high savings, low sub-prime loans, and favorable financial health after Fed's stress test



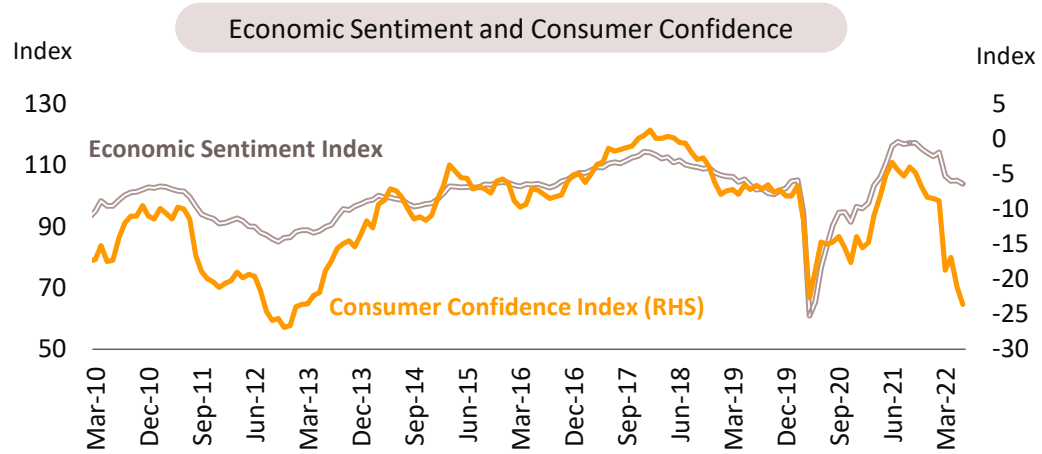
Source: BLS, New York Fed, University of Michigan, Logistics Managers Index, Capital Economics, Bloomberg, Krungsri Research

Eurozone: Economy is heading towards stagflation; weaker sentiment and spending amid fears of higher inflation and interest rates; EU has cut economic growth forecasts

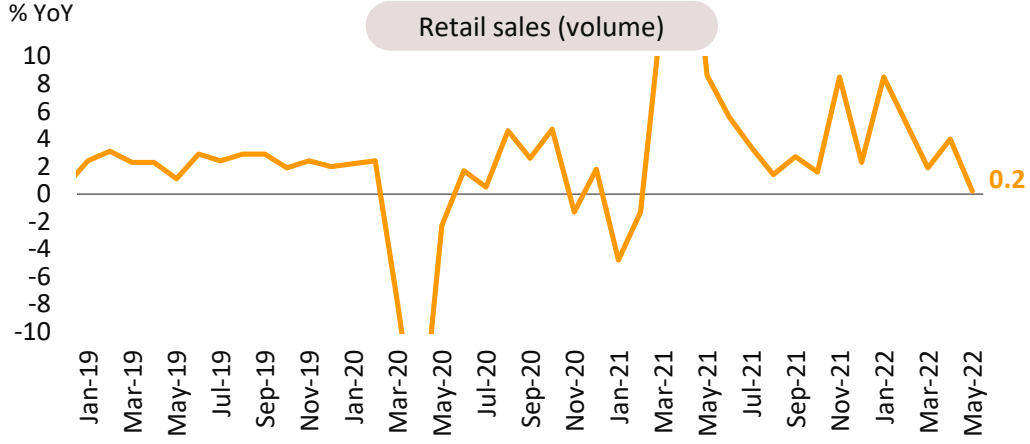
June business activity grew at slowest pace since the contraction in February 2021; manufacturing at weakest in almost two years, services slowed



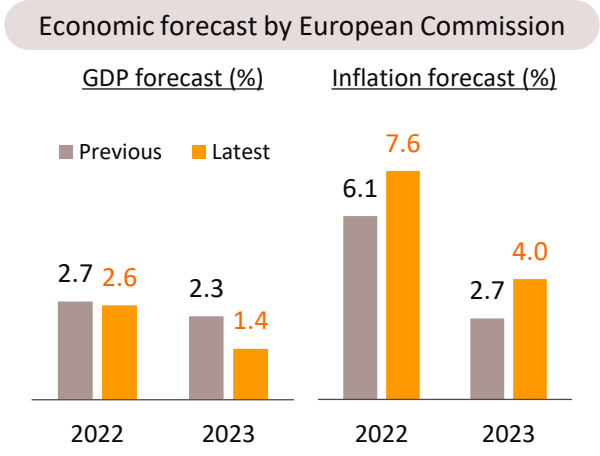
Economic sentiment dropped to a 15-month low in June; consumer confidence is at its worst since the pandemic, on fears of higher inflation and interest rates

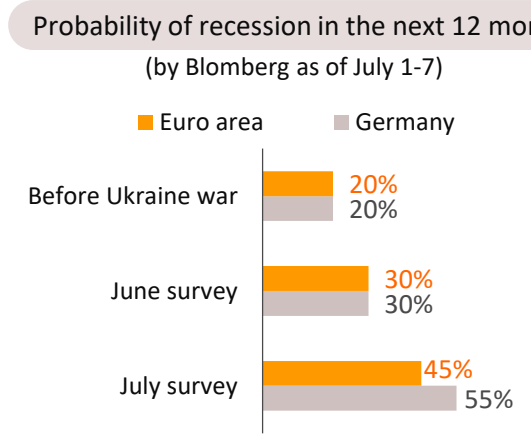


Retail sales in Euro Area rose only 0.2% in May, the weakest gain since Feb 2021, as rising price pressure dampened consumers' affordability



EU has cut growth forecast and raised inflation projection amid surging prices, supply disruption, and geopolitical risks; recession probability rises to 45%

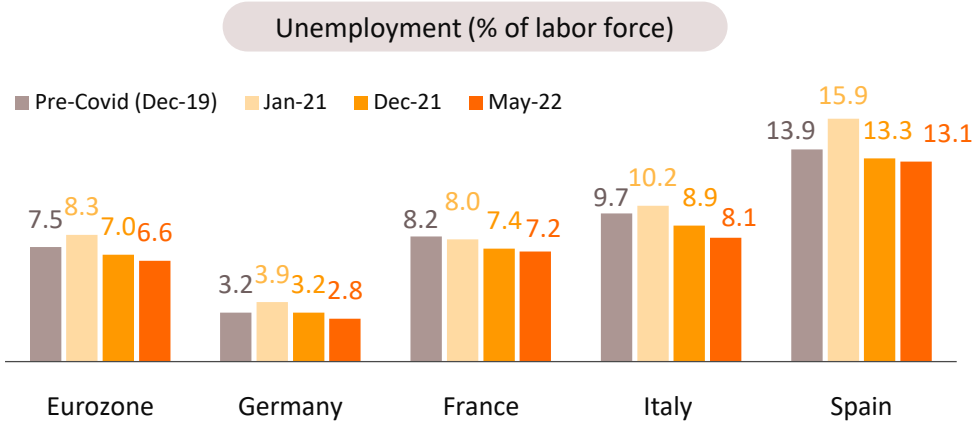




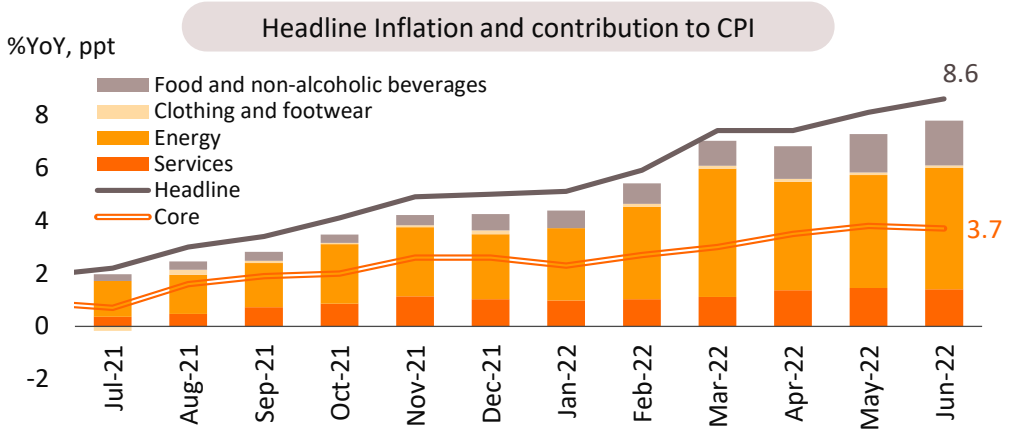
Source: Markit Economics, European Commission, Bloomberg, Krungsri Research

Despite recession risk, ECB might continue to raise rates given tight labor market, high inflation, and EUR parity with USD; need to step up efforts to ease fragmentation risk

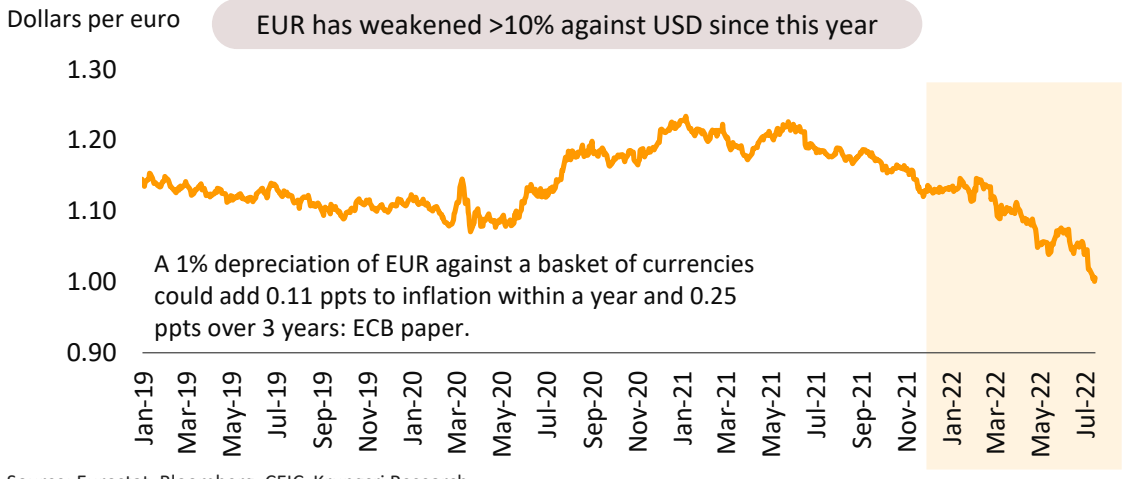
Eurozone unemployment rate has hit a new low, will cushion negative impact of Ukraine war and high inflation and allow policy tightening



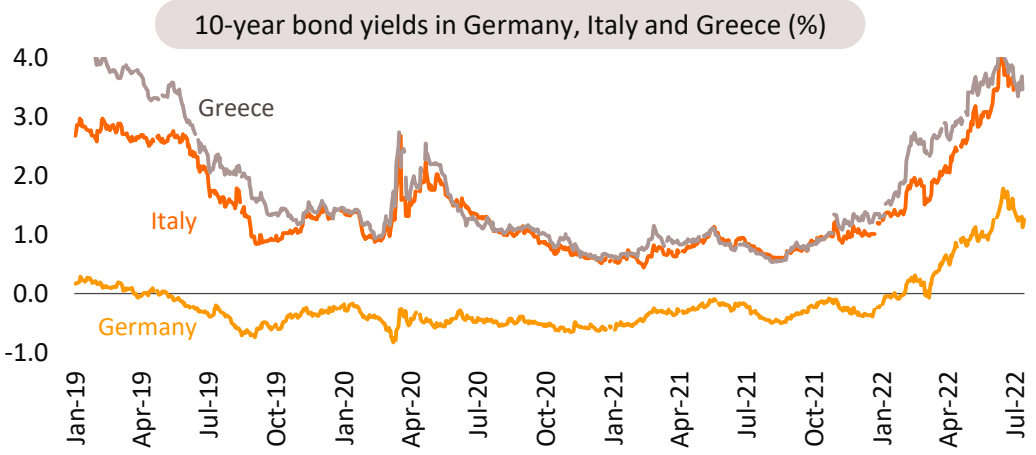
Expectations of rate hikes fueled by 4-year high headline inflation at 8.6% in June and stable core rate (June 3.7% vs May 3.8%)



EUR has tumbled to parity against USD for the first time in 20 years, helping exports but pushing up inflation; this could pressure the ECB to raise rates further



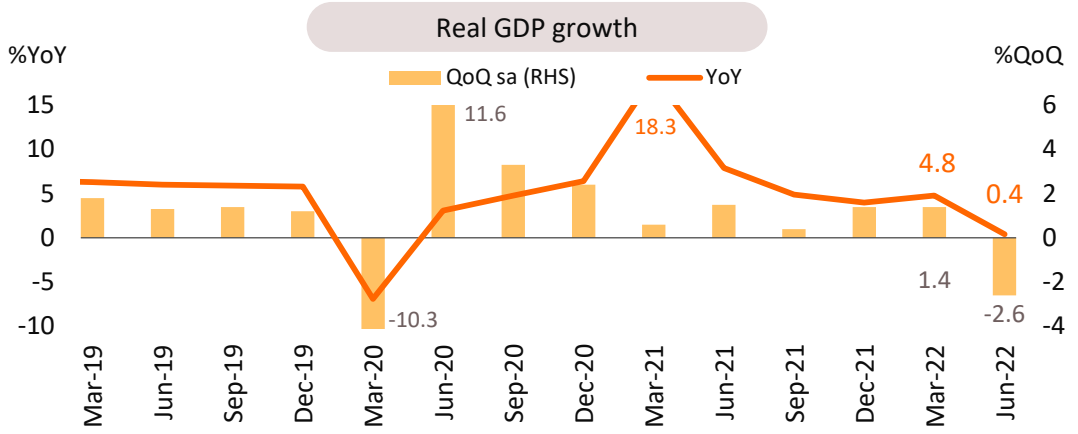
Yields have surged across southern Europe amid political concerns, complicating ECB's policy implementation to tame fragmentation risk



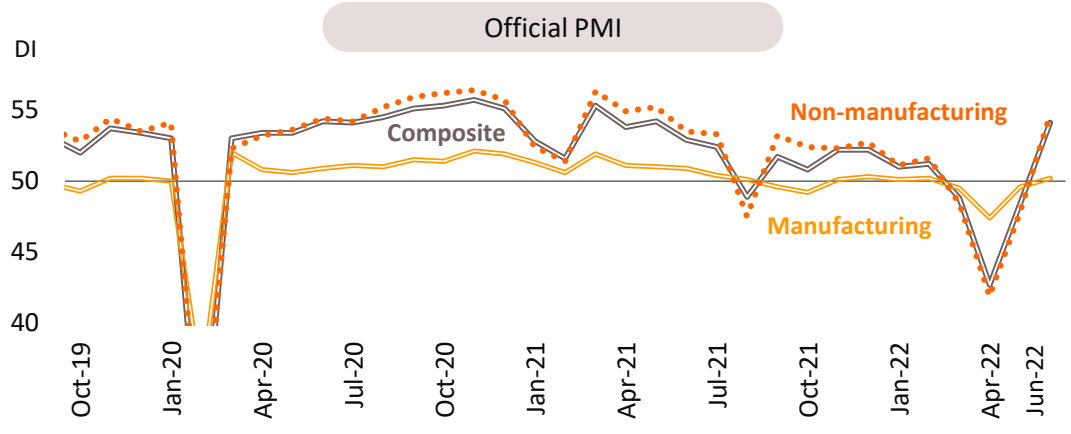
Source: Eurostat, Bloomberg, CEIC, Krungsri Research

China: Despite recovering since reopening, economic growth could be far below official target of 5.5% for this year amid a gloomier global outlook and the zero-covid strategy

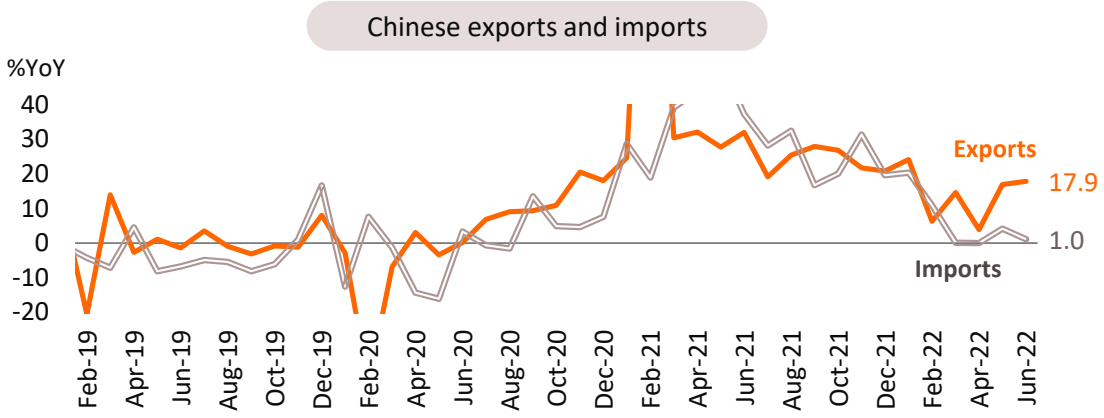
Covid lockdowns caused 2Q22 GDP to grow only 0.4% YoY, the second weakest ever recorded in China; might miss 2022 growth target substantially



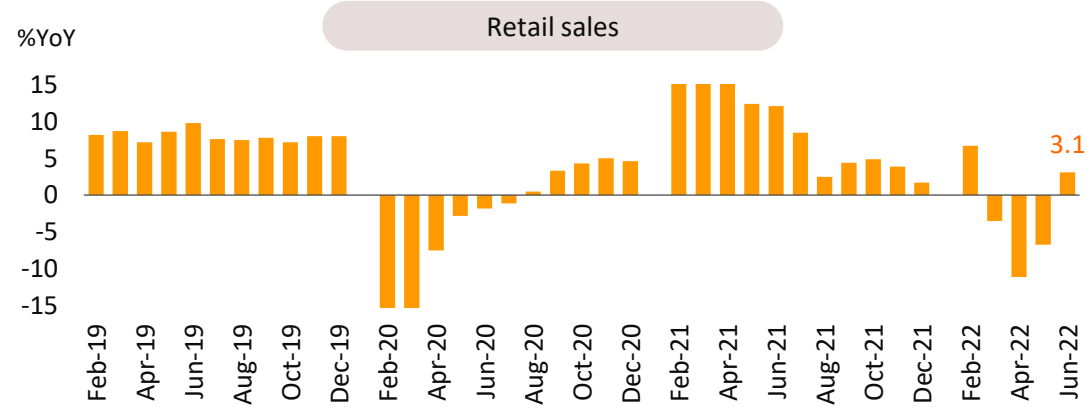
June factory activity and services sector expanded for the first time in four months; the rebound could be a one-off boost from reopening



The sharp rebound in June exports reflect easing supply disruption but decelerating imports suggest weak recovery in demand



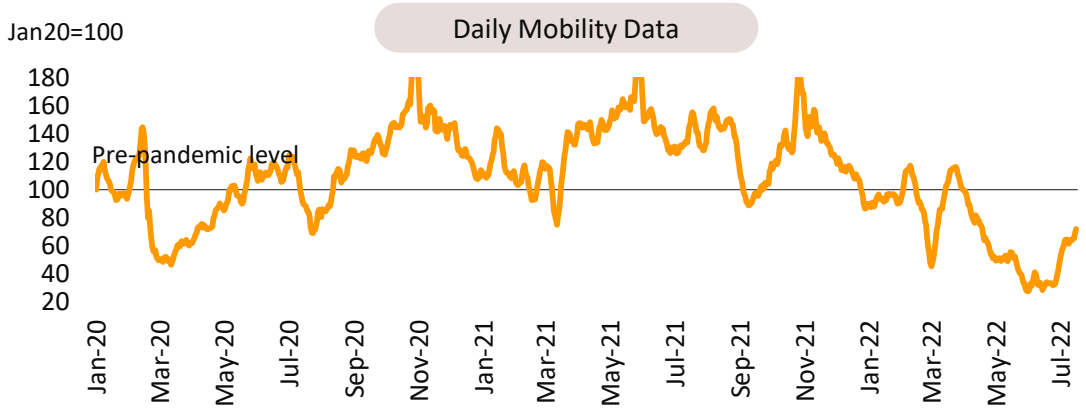
Consumer spending remains weak although June retail sales posted the first increase since February; in 1H22, retail sales fell 0.7% YoY



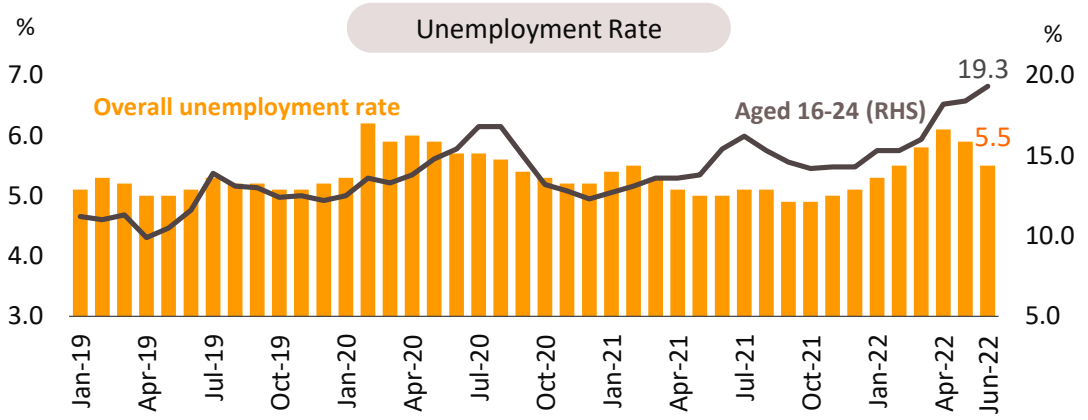
Source: National Bureau of Statistics, General Administration of Customs, CEIC, Bloomberg, Krungsri Research

Emerging Covid-19 cases, weak labor market and risk in property sector suggest more stimulus ahead; low inflation allows monetary easing but policy space is limited

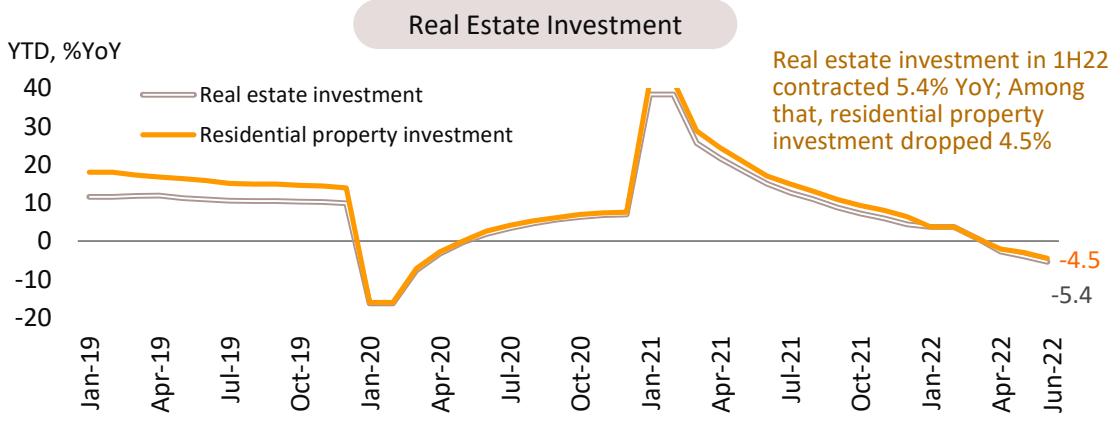
Recovery remains fragile as Zero-Covid strategy coupled with rising number of new cases dominated by BA.5 sub-variant threatens another lockdown



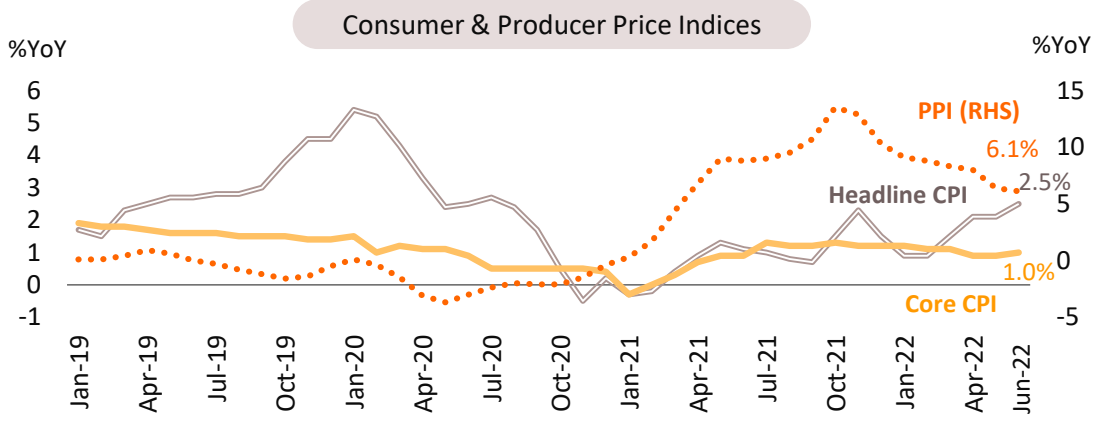
Worst is yet to come; although June jobless rate has dropped to its lowest since February, at 5.5%, youth jobless rate is at a record high of 19.3%



Property market remains risky with lingering default risk; homebuyers of 35 projects in 22 cities have refused to pay mortgage because of project delays



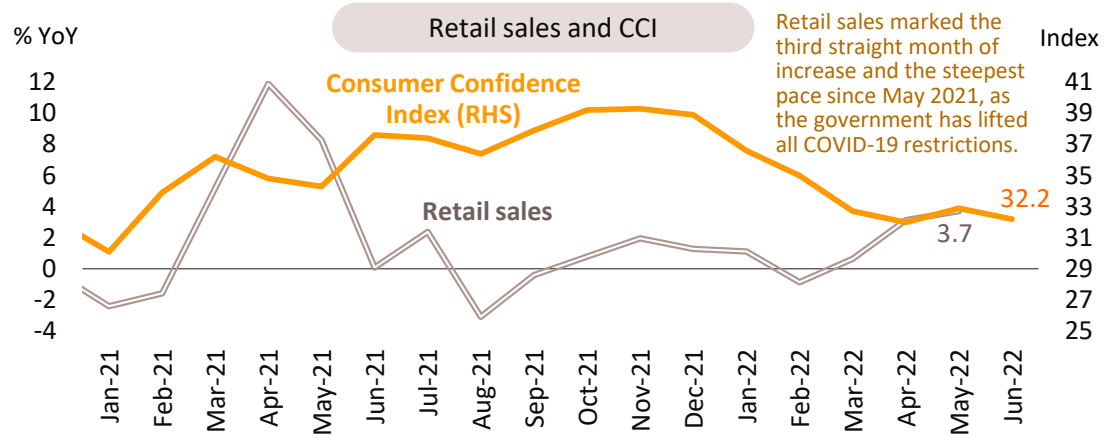
Inflation remains mild at 2.5% and core rate is stable at 1%, allowing monetary easing to continue, but rising global interest rates will limit further easing



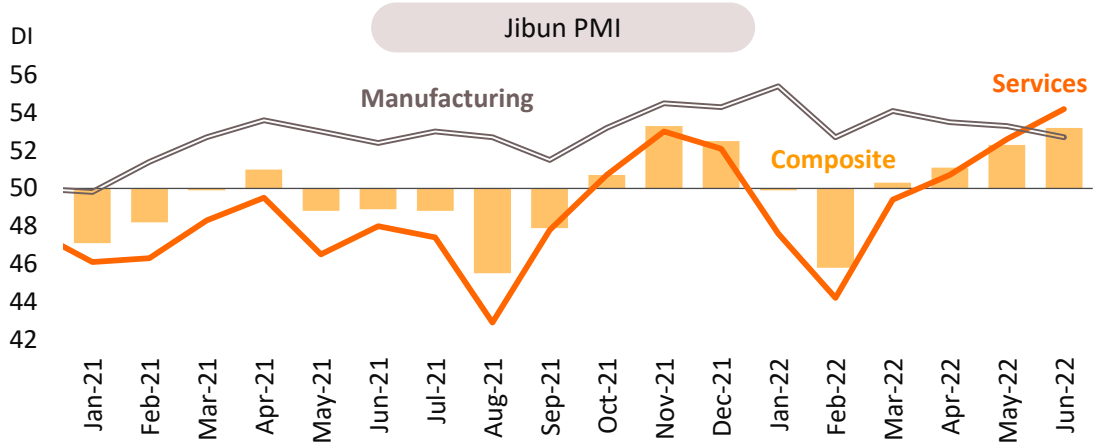
Source: National Bureau of Statistics, CEIC, Bloomberg, Krungsri Research

Japan: Services activity has rebounded since lifting covid restrictions but overall recovery is capped by new cases, global uncertainty, supply disruption, and higher prices & costs

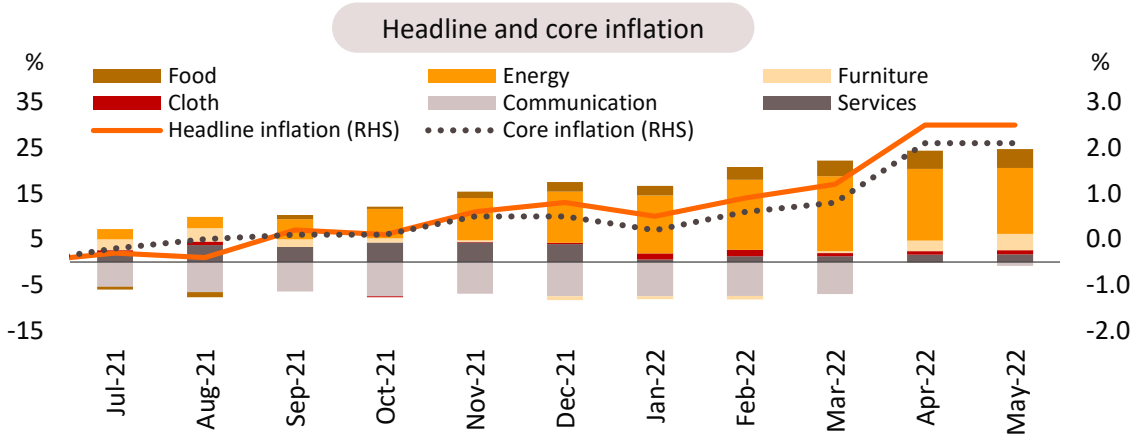
Recovery of consumption challenged by a new wave of covid cases in July and a drop in consumer confidence in June to an 18-month low amid global uncertainty



Services activity marked the third straight month of expansion in June since lifting covid curbs, but factory activity grew slower despite reopening in China



Inflation rate was 2.5% in May, unchanged from a 7-1/2-year high in April; Core rate was 2.1%, the highest since March 2015, above BOJ's target



Source: Cabinet Office, Ministry of Economy Trade & Industry (METI), Reuters, CEIC, Bloomberg, Krungsri Research

Despite higher inflation and a weakening yen, BOJ is likely to maintain ultra-loose monetary policy to nurture economic recovery in Japan

Factors pressuring the BOJ to normalize or tweak monetary easing	• There are **signs of economic recovery.** The BOJ upgraded its assessment for 7 of Japan's 9 regions citing diminishing Covid-19 impact. • **Core inflation exceeded the BOJ's 2% target** for two straight months. • **JPY fell to a new 24-year low** against USD on a wider divergence between the Fed's aggressive rate hike plan and BOJ's ultra-loose monetary policy.
BOJ's speech signaling to maintain ultra-loose monetary policy	• BOJ Governor Kuroda has shrugged off possibility of a near-term rate hike, citing cost-push inflation is temporary unless accompanied by higher wage growth. • He said ***"Uncertainty regarding Japan's economy is very high"*** given risks such as the pandemic impact, Ukraine crisis ,and rising commodity costs. • He added ***"We won't hesitate to take additional monetary easing steps as necessary"*** with an eye on risks. • Kuroda repeated the BOJ's policy guidance that the bank expects short- and long-term interest rate targets to ***"move at current or lower levels."***

Thailand: Choosing between managing inflation or stoking a sustainable recovery

- **Krungsri Research has fine-tuned 2022 GDP growth forecast to +3.1% to reflect better-than-expected growth in 1H22 and improving tourism activity, but overall, economic recovery remains fragile**.
- **The key economic growth drivers in 2H22** would be stronger tourism activity and rising pent-up demand, but growth would be capped by the global economic slowdown, unwinding of stimulus, and high inflation.
- **Exports could see double-digit growth in 1H22, at 11%, but might slow down to 4% in 2H** due to the global slowdown. Downside would be limited by price effect and trade diversion. Many industries in Thailand would gain from a weaker baht but the business sector would see limited benefits and it would not lead to a substantial growth in overall exports. This suggests authorities would not allow the baht to depreciate too much in their attempt to boost the economy; there should be a trade-off between the benefits and costs of a weaker baht.
- **Private investment could see a gradual recovery.** Despite improving business sentiment with reopening tailwinds, weak manufacturing production would cap investment growth. Foreign Direct Investment (FDI) has turned to register net inflows in many industries, including rubber products, chemical products and electrical equipment. However, external headwinds could limit gains.
- **Tourism activity would continue to improve**, encouraged by the relaxation of strict measures and border controls as well as government measures to boost domestic tourism. **Private consumption is also improving**, supported by reopening tailwinds, but growth would be moderate due to higher cost of living and several headwinds the rest of this year.
- **Inflation looks set to keep rising in Q3** and could exceed 8% in some months in the quarter.
- On policy rate outlook, **the first rate hike could happen in August.** The weaker baht and high inflation might pressure the MPC to hike rates but the pace would likely be gradual and slower than that in neighboring countries.

Krungsri Research Forecasts for 2022

Krungsri Research Forecast		2020	2021	2022F	
				Previous	Latest
GDP growth	YoY (%)	-6.2	1.5	2.8	3.1 ▲
Private Consumption Expenditure	YoY (%)	-1.0	0.3	3.0	3.8 ▲
Government Consumption Expenditure	YoY (%)	1.4	3.2	-0.5	-0.5 =
Private Investment	YoY (%)	-8.2	3.3	3.3	3.5 ▲
Public Investment	YoY (%)	5.1	3.8	3.0	3.0 =
Nominal Exports in USD (f.o.b.)	YoY (%)	-6.5	19.2	6.5	7.5 ▲
Nominal Imports in USD (f.o.b.)	YoY (%)	-13.8	23.9	10.5	17.0 ▲
Current Account Balance	USD, bn	20.3	-11.0	-5.1	-12.0 ▼
Tourist Arrivals	Mn, persons	6.7	0.4	5.5	8.0 ▲
Headline Inflation	YoY (%)	-0.8	1.2	6.0	6.6 ▲
Exchange rate (end of period)	THB/USD	30.0	33.4	33.5	34.0 ▲
Policy Interest rate (end of period)	(%)	0.50	0.50	0.75	1.00 ▲
Dubai crude price - period average	USD/bbl	41.5	69.0	102.5	102.5 =

Source: NESDC, BOT, MOC, MOTS, Bloomberg, Krungsri Research

We fine-tuned *2022 GDP growth forecast* to +3.1% to reflect better-than-expected growth in 1H22 and improving tourism activity, but overall economic recovery remains fragile

Factors supporting growth

- Surprise gains from tourism sector due to faster-than-expected reopening of borders
- Stronger-than-expected pent-up demand amid reopening tailwinds
- Higher-than-expected export revenues on the back of a weaker baht, high commodity prices, reopening of economic activity in ASEAN, and trade diversion (or substitution effects) triggered by the Russia-Ukraine crisis

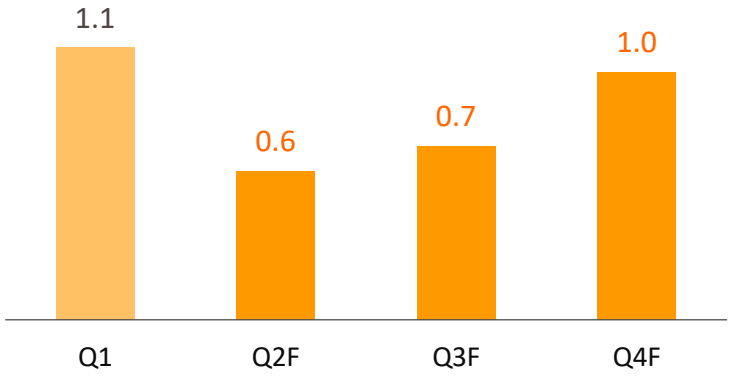
Factors limiting growth

- Weaker global growth as a result of extended Russia-Ukraine crisis, China's strict Covid policy, and more aggressive tightening by central banks
- Higher cost of living and lower purchasing power due to high inflation
- Cautious spending and weak confidence amid latest wave of Covid cases and a potential hike in domestic interest rates

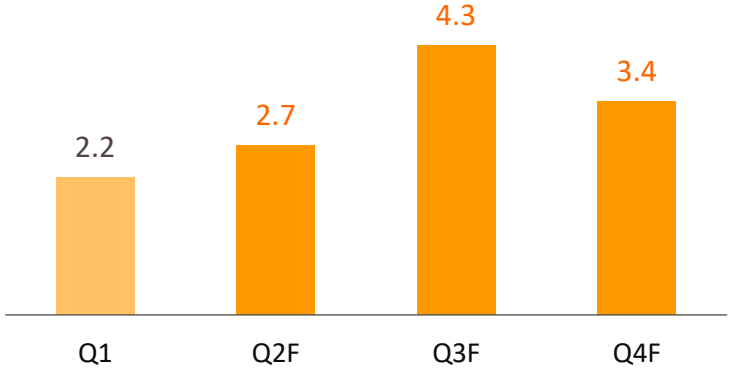
Source: Krungsri Research

Key growth drivers in 2H22: stronger tourism activity and rising pent-up demand, but global slowdown, unwinding stimulus, and high inflation would limit growth

2022 GDP Growth Forecast: % QoQ sa



2022 GDP Growth Forecast: % YoY



Key economic growth drivers (% YoY)	1H22	2H22
Economic growth	**+2.4**	**+3.8**
• Private consumption	+3.8	+3.8
• Private investment	+3.2	+3.8
• Public consumption	+0.7	-1.5
• Public investment	-0.7	+7.5
• Export value in USD	+11.0	+4.0
• Foreign tourists (m persons)	2.0	6.0
Headline inflation	5.6	7.6

Note: Forecast by Krungsri Research
Source: NESDC, Krungsri Research

Exports could see double-digit growth in 1H22, at 11%, but might slow down to 4% in 2H due to global slowdown; downside capped by price effect and trade diversion

Krungsri Research now projects 2022 exports would grow by 7.5% (instead of 6.5%) after adjusting for better-than-expected export growth in 1H22, rising commodity and food prices, and substitution effect triggered by the Russia-Ukraine crisis. In the first 6 months of this year, Thai exports are expected to jump 11%. **For the rest of the year, exports would expand at a slower rate of 4% in line with a slowing global economy** amid the Russia-Ukraine crisis, China's zero-Covid policy, and tightening monetary policies in major countries to curb accelerating inflation. However, **exports might expand to some markets and for selected products** given still-high commodity prices, trade diversion, and tailwinds from reopening of economic activity in ASEAN region.

Exports by major product and destination

Thailand: May export growth %YoY	World	US (15%)	EU (8%)	Janpan (9%)	China (14%)	ASEAN-5 (14%)	CLMV (10%)
Total	**+10**	**+29**	**+13**	**+6**	**+4**	**+8**	**+13**
Cars & parts (10.7%)	-3	+5	+27	-17	-82	+16	-18
Computer & parts (8.1%)	-18	-4	+2	-7	-29	-33	-7
Rubber products (5.3%)	+10	+19	-12	+5	+36	-0.5	-3
Plastic resin (4.2%)	+5	+72	+13	+18	-7	+5	+9
Chemical products (3.6%)	-0	+76	-2	-10	-45	+75	-8
Electronic IC (3.1%)	+6	+38	+3	+2	-12	+30	+7
Rubber (2.1%)	+4	+4	+41	+4	-18	-9	-4
Plastic products (1.7%)	+11	+39	+26	-2	-10	+8	+3
Electrical appliances (1.6%)	+27	+46	+11	+48	+18	+11	-7
Tapioca products (1.5%)	+81	+88	+159	+2	+96	+185	-41
Preserved fish, crustaceans (1.3%)	+32	+47	+26	+9	-55	-19	-15
Sugar (1.2%)	+171	-	-	-38	+47	+617	-13
Rice (1.3%)	+25	+69	-16	-67	+100	+20	-16

Substitution effects

Supply disruptions hurt production and exports

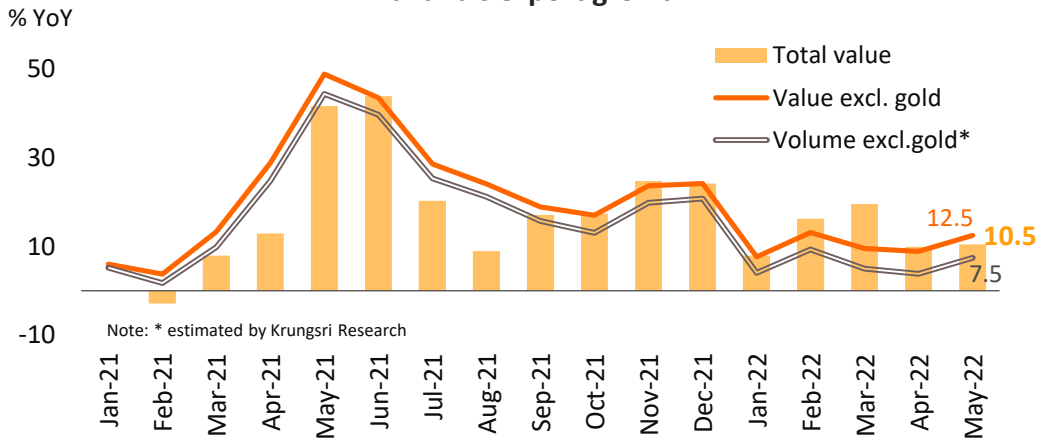
China's strict Covid policy

Reopening tailwinds

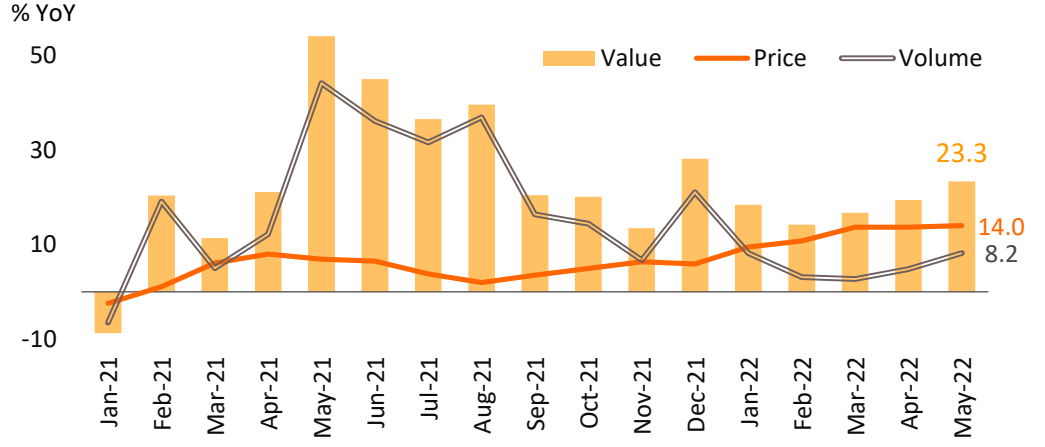
Note: (% share in 2021)

Source: MOC, BOT, CEIC, Krungsri Research

Thailand's export growth



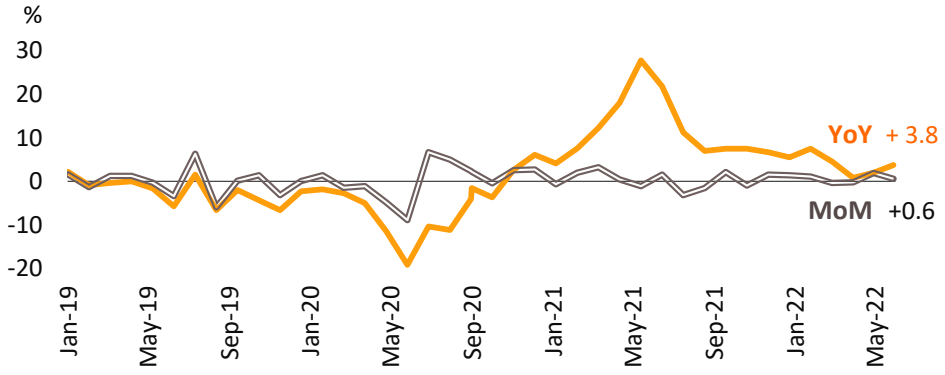
Import growth: value, price and volume



Private investment could see a gradual recovery; despite improving business sentiment with reopening tailwinds, weak manufacturing production will cap investment growth

Private investment is likely to recover gradually in 2H22, supported by (i) positive signal in the Business Sentiment Index which rose for the second consecutive month to above-50 for the first time in 3 months, (ii) better-than-expected export growth in some sectors; (iii) recovering domestic economic activity after lifting containment measures and border controls and reopening of economic activity. However, private investment growth would be limited as manufacturing production and capacity utilization rate are improving very slowly due to supply disruption in some industries which were hit by the Russia-Ukraine crisis and China's strict Covid measures.

Private Investment Index

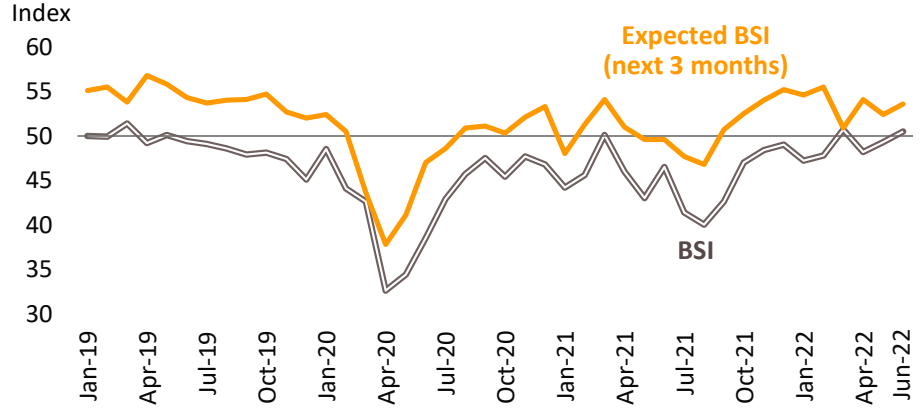


Private Investment by category

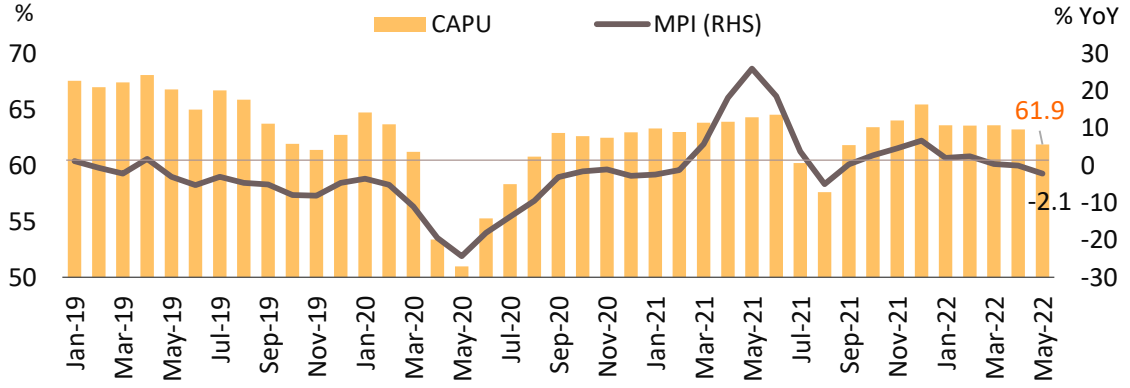
%YoY*	2020												2021												2022				
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M
Private investment																													
Construction area permitted																													
Construction material sales																													
Imports of capital goods																													
Machinery sales																													
Newly registered vehicles																													

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

Business Sentiment Index



Manufacturing Production Index and Capacity Utilization



Source: BOT, OIE, Krungsri Research

FDI turns to register net inflows in many industries, including rubber products, chemical products and electrical equipment; external headwinds could limit gains

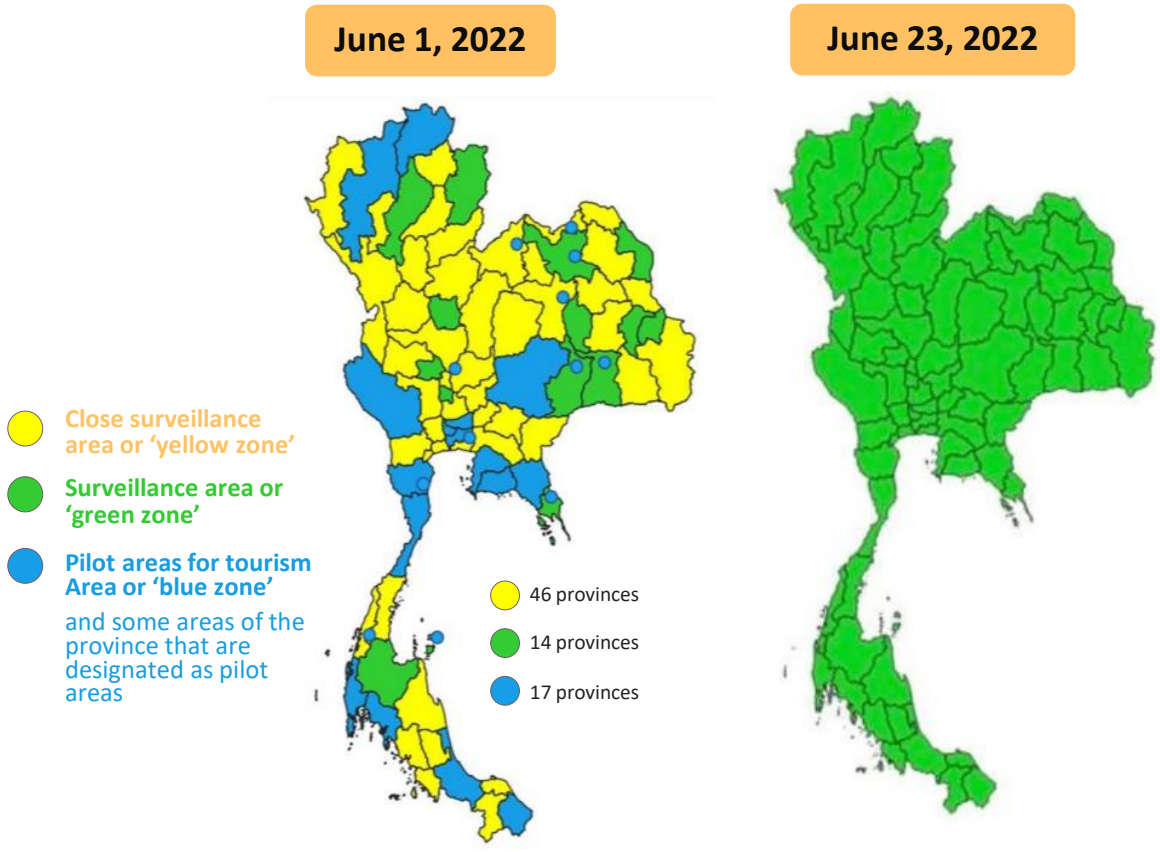
Foreign direct investment (4-quarter rolling)	2019				2020				2021				2022
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Total													
Agriculture, forestry and fishing (0.1%)													
Mining and quarrying (-2.0%)													
Manufacturing (42.5%)													
Food products (-1.2%)													
Beverages (-3.1%)													
Paper and paper products (-0.2%)													
Coke and refined petroleum products (2.2%)													
Chemicals and chemical products (6.0%)													
Basic pharmaceutical products (0.5%)													
Rubber and plastics products (6.6%)													
Computer, electronic & etc (11.3)													
Electrical equipment (8.9%)													
Machinery and equipment (0.5%)													
Motor vehicles, trailers (6.7%)													
Furniture (0.3%)													
Electricity, gas, steam (-1.0%)													
Construction (-0.01%)													
Wholesale and retail trade (8.7%)													
Transportation and storage (0.9%)													
Accommodation and food service activities (-0.02%)													
Financial and insurance activities (28.6%)													
Real estate activities (10.1%)													
Others (12.2%)													

Weaker ← → Stronger

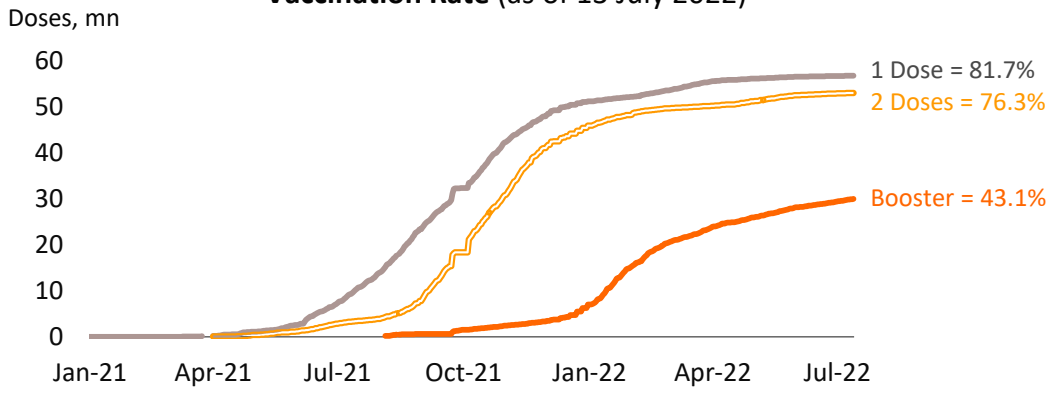
Note: (% share in 2021), net inflow (+), net outflow (-)
Source: BOT, Krungsri Research

Wider reopening: Thailand has relaxed nationwide covid controls, including removing Thailand pass requirement for foreign arrivals

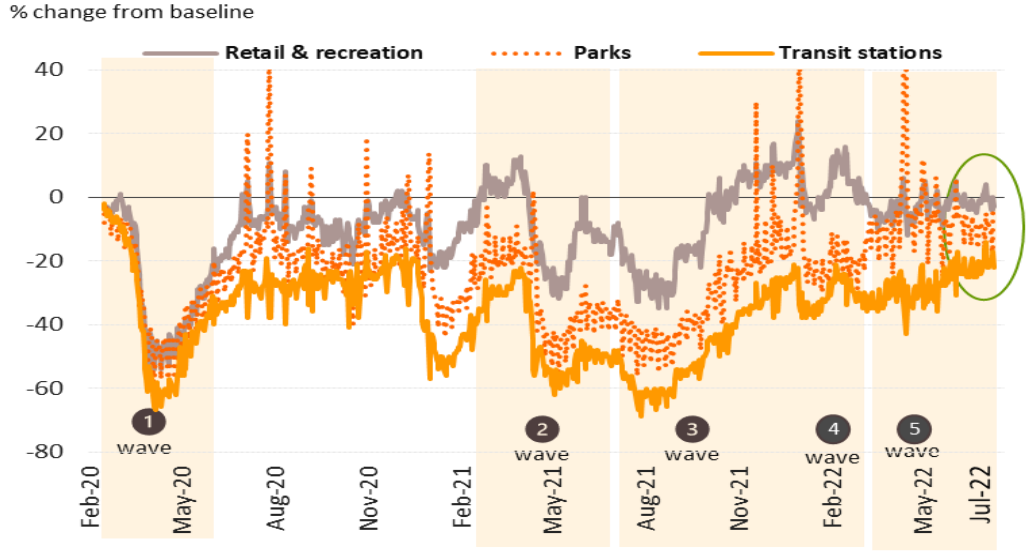
There are several tailwinds to support the resumption of normal daily and business activities including (i) higher vaccination rate with more than 40% of Thailand's population having received a booster shot, (ii) relaxation of containment measures, (iii) all regions in Thailand being declared green zones, and (iv) the reopening of entertainment venues effective June 23. In addition, dropping the requirement for Thailand Pass and health insurance for foreign tourists since 1 July 2022 would encourage more visits to Thailand.



Vaccination Rate (as of 13 July 2022)



Daily Activity Indicator (as of 11 July 2022)

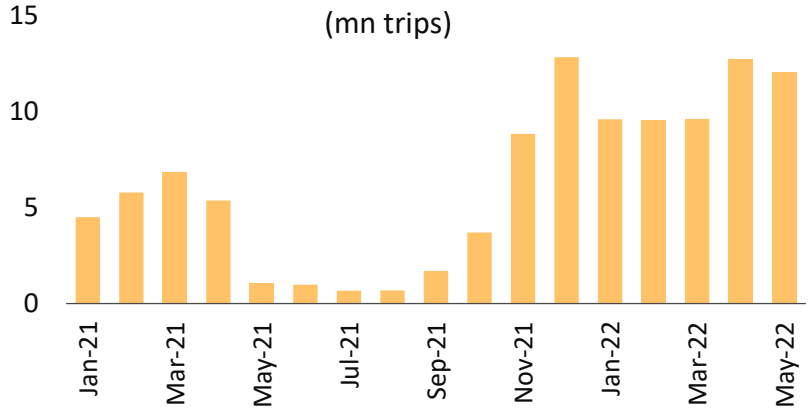


Source: MOICOVID, Krungsri Research

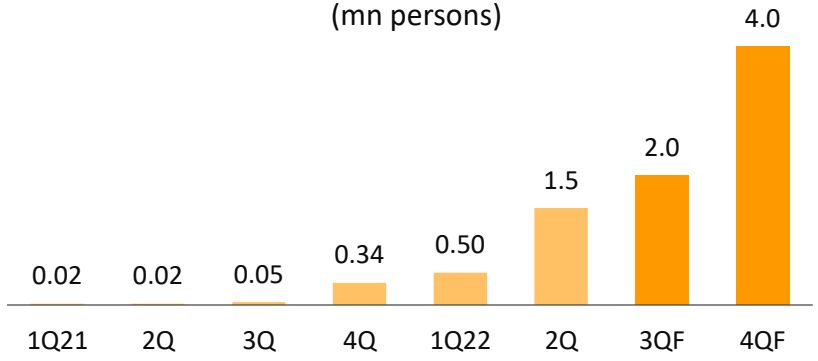
Tourism activity is recovering following relaxation of strict measures and border controls as well as introduction of measures to boost domestic tourism

Average occupancy rate rose to 41.8% in May compared to 35.6% in January and 5% in May 2021. This was encouraged by easing Covid-19 containment measures. In addition, domestic tourism would be supported by the extension of Phase 4 of *'We travel together'* program to October this year. **Domestic tourism activity reached 60 mn trips in 1H22 and is now projected to reach 125 mn trips in 2022** (instead of 105 mn trips in the previous forecast). In addition, Thailand Pass requirement has been halted since July 1. This would lure more foreign tourists to Thailand; we project daily arrivals would increase to 38,000-40,000 in July from 25,000-30,000 in June. In 2H22, foreign tourist arrivals are expected to increase to an average of one million persons per month, compared to a total of 2 million for 1H22. For the whole of 2022, **foreign tourist arrivals is projected to increase to 8 million** from previous forecast of 5.5 million.

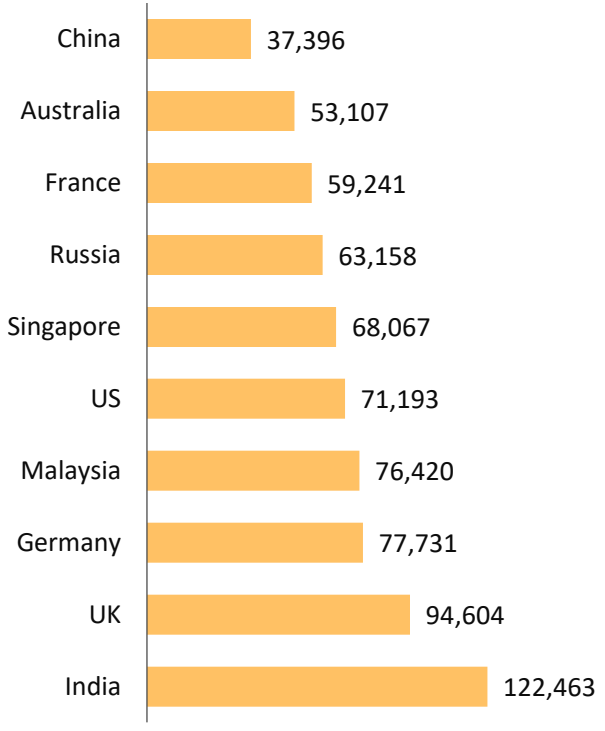
Domestic tourism
(mn trips)



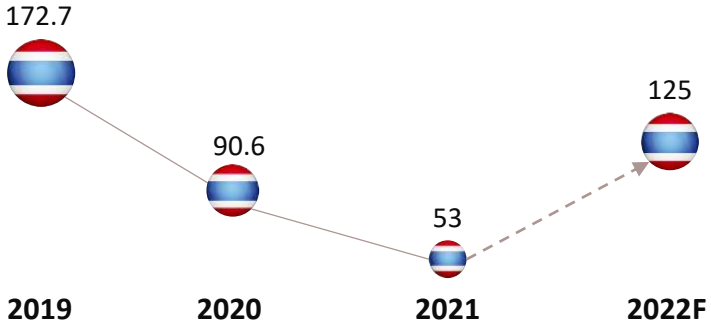
Foreign tourist arrivals
(mn persons)



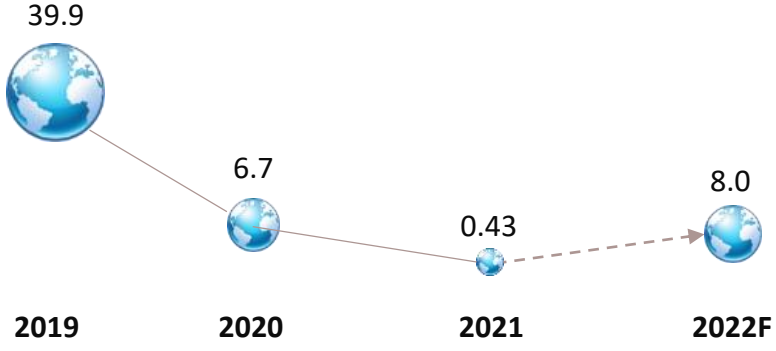
Top 10 Foreign Arrivals in Jan-May 2022
(persons)



Forecast for domestic tourism (mn trips)



Forecast for foreign tourist arrivals (mn persons)

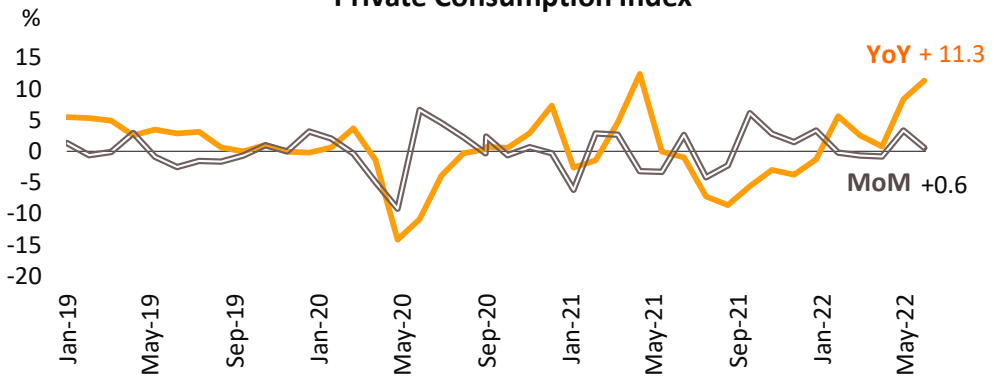


Sources: MOTS, Krungsri Research

Private consumption is improving amid reopening tailwinds but growth would be moderate due to higher cost of living and several headwinds the rest of this year

Krungsri Research projects private consumption would grow by 3.8% in 2022 (instead of 3.0%) and against 0.3% in 2021. We expect 2H private consumption growth to be similar to 1H. Tailwinds for consumer spending in 2H22 would include easing containment measures, improving employment numbers, rising farm income, and high excess savings (THB1,349 bn or 8.2% of GDP at end-April 2022). Nonetheless, consumption growth would be stable because upside would be capped by rising cost of living in the wake of higher energy prices and the pass-through effects on consumer prices. Although the government has extended relief measures by 3 months (ending in September), these would only help low-income earners and those holding social welfare cards. Other headwinds for consumption include possibly higher interest rates, unwinding of government subsidies, and very-low consumer confidence as well as high household debt.

Private Consumption Index

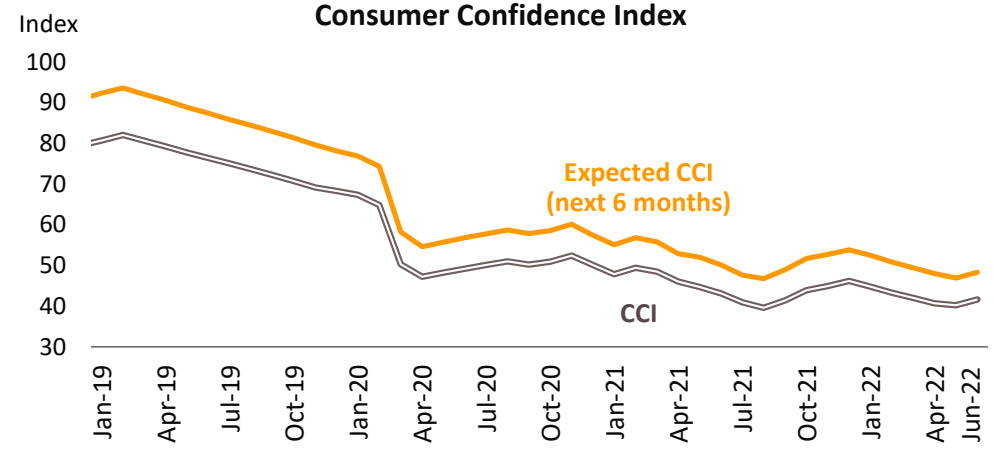


Private Consumption by category

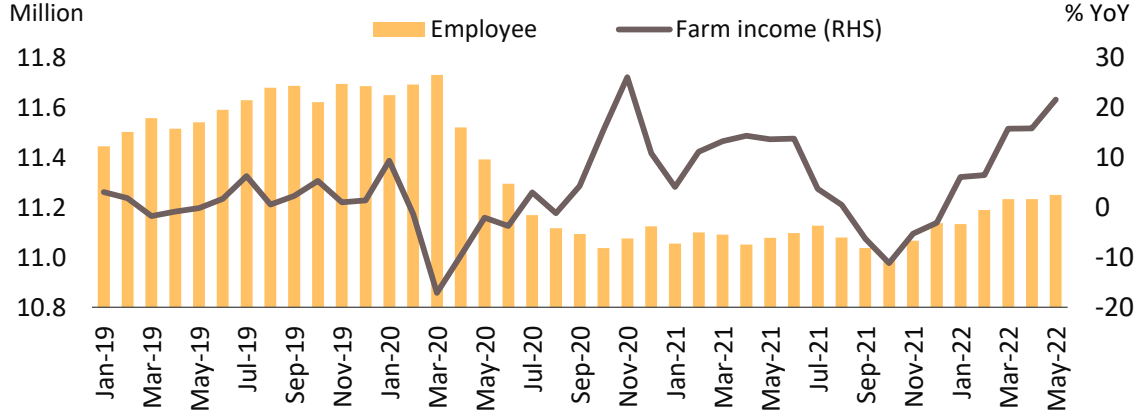
%YoY*	2020												2021												2022				
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M
Private consumption																													
Non-durables																													
Semi-durables																													
Durables																													
Services																													
Non-residents expenditure																													

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

Consumer Confidence Index



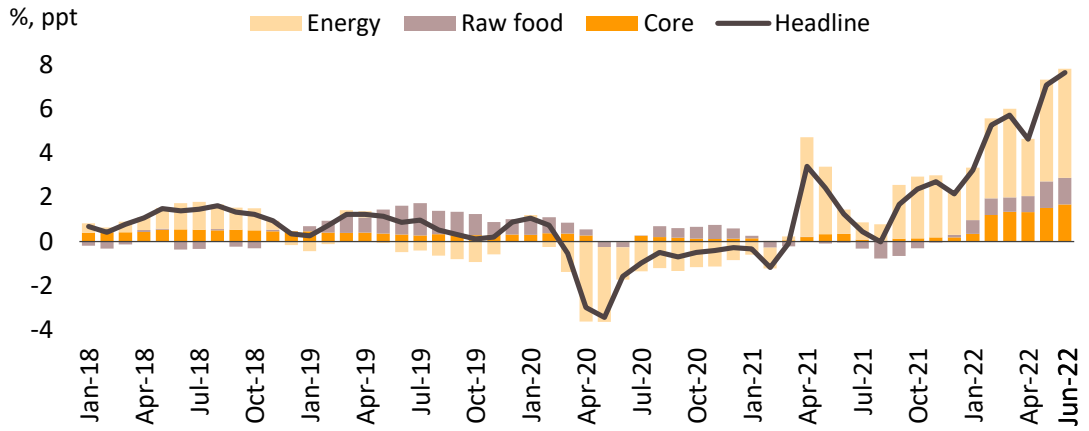
Employees under Social Security 33 and Farm Income



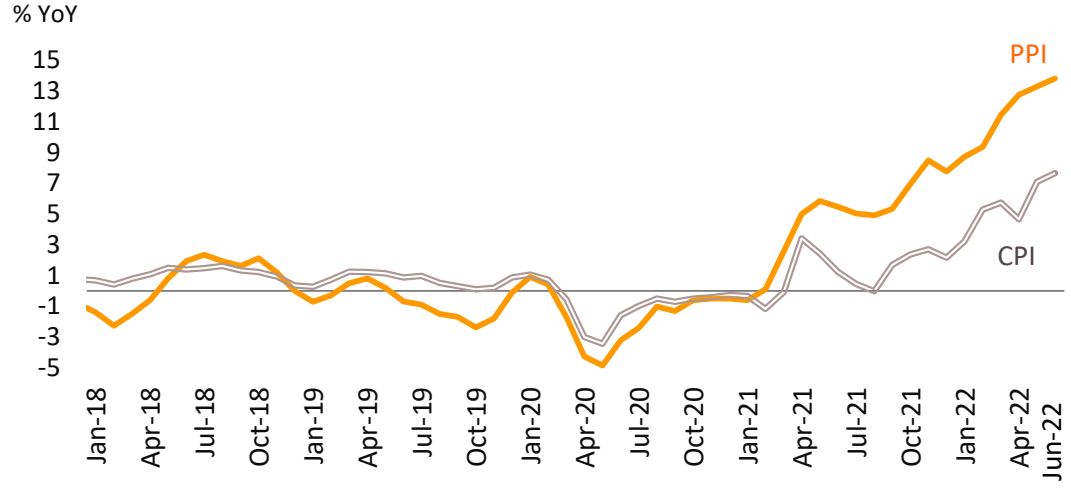
Source: BOT, UTCC, Krungsri Research

Inflation looks set to keep rising in Q3, could exceed 8% in some months

Contributors to inflation



Producer Price Index and Consumer Price Index



Consumer Price Index: Major categories

Consumer Price Index (% YoY)*	Weight	2020 J	F	M	A	M	J	J	A	S	O	N	D	2021 J	F	M	A	M	J	J	A	S	O	N	D	2022 J	F	M	A	M	J
Headline CPI	**100.00%**																														
Food & beverages	40.45%																														
Apparel & footwears	2.07%																														
Housing & furnishing	21.87%																														
Medical & personal care	5.35%																														
Transportation & communication	24.75%																														
Recreation & education	4.19%																														
Tobacco & alcoholic beverages	1.32%																														
Raw food	20.42%																														
Energy	15.41%																														
Core CPI	**64.16%**																														

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

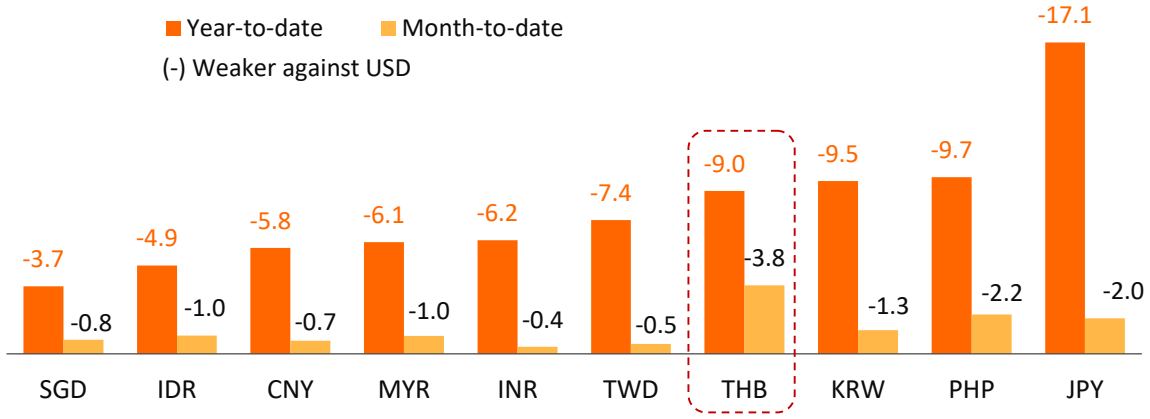
Krungsri Research's view

- **Headline inflation rose to a 14-year high of 7.66% YoY in June** from 7.10% in May**,** due to a combination of a low-base last year, a 39% jump in retail fuel prices, and higher prices for some food items (such as meat, duck and chicken). Smaller subsidy for cooking gas has allowed prices to rise gradually over April-Sep. **Core inflation** (excluding raw food and energy prices) **rose to 2.51% in Jun**e from 2.28% in May. For the first half of this year, headline and core inflation stood at 5.61% and 1.85%, respectively**.**
- **Looking ahead, headline inflation would remain high in 3Q22 and could exceed 8% in certain months** due to last year's low base and higher energy costs, especially diesel fuel prices which would push up transportation and production costs. Likewise, fuel tariff (Ft) on electricity bills will be higher in Sep-Dec, while higher overheads for inputs and raw materials will push up the price of consumer goods. In addition, the Producer Price Index (PPI) jumped 13.8% YoY in June, compared to a 7.66% rise in the Consumer Price Index (CPI). This implies high producer prices have yet to be passed on to retail prices, because of government and producers' efforts to keep cost of living down. When such action ends, **inflation would rise. Krungsri Research forecasts headline inflation would rise to 6.6% this year**.

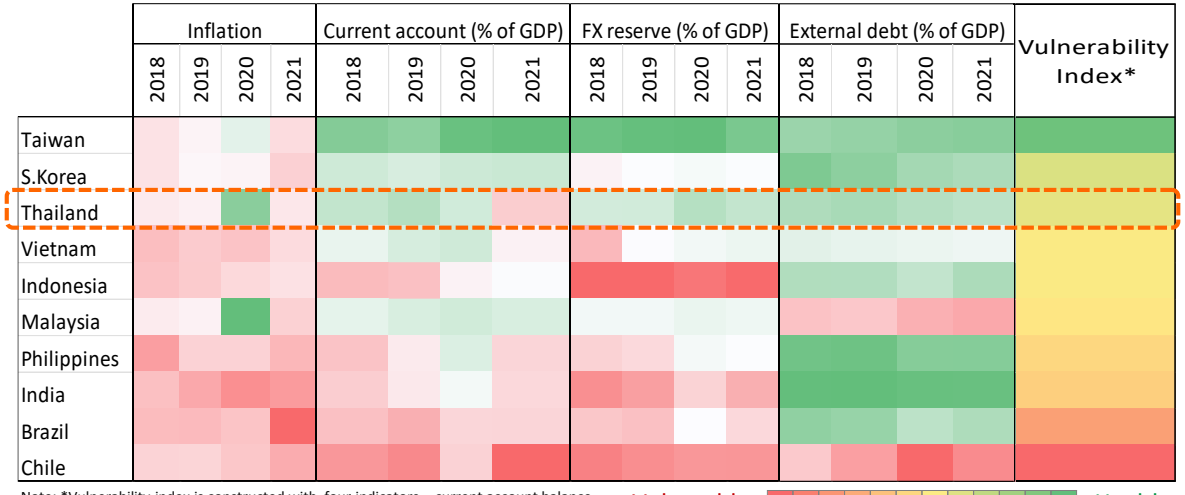
Source: MOC, Local press, Krungsri Research

MPC: First rate hike possible in August; weaker baht and high inflation will pressure the MPC to hike rates but pace would be gradual and slower than that in neighboring countries

Movement of Asian currencies against USD (as of July 15, 2022)



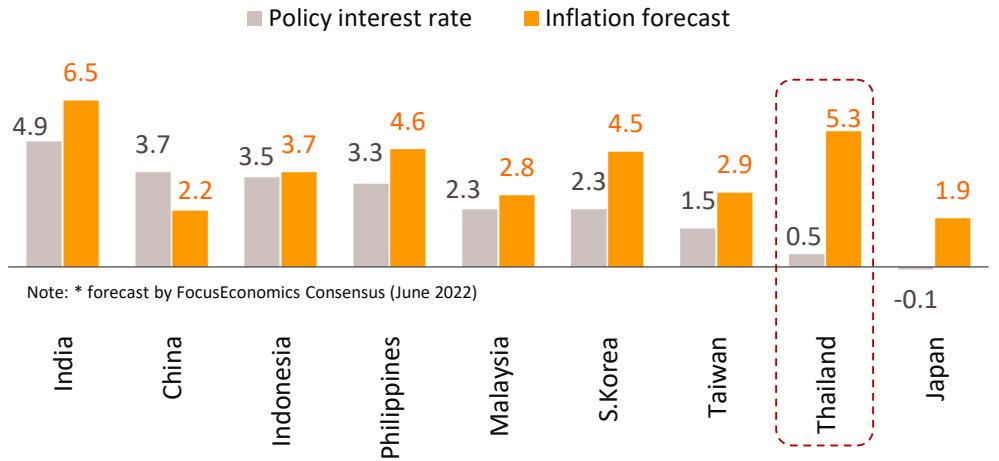
Vulnerability Index



Note: *Vulnerability index is constructed with four indicators – current account balance (% of GDP), foreign reserves (% of GDP), inflation (%YoY), and external debt (% of GDP) – which reflect financial health and resilience to external shocks.

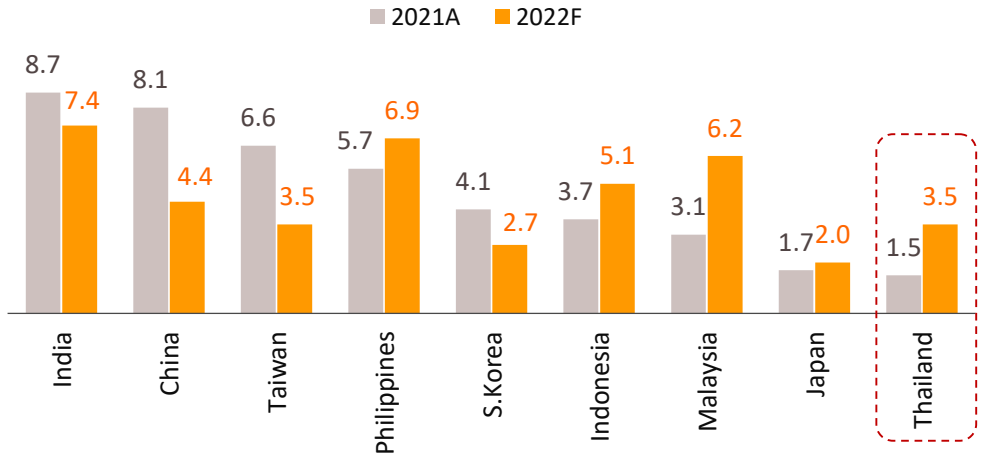
Source: IMF, CEIC, FocusEconomics Consensus, Krungsri Research

Current policy rates and consensus estimate for 2022 inflation*



Note: * forecast by FocusEconomics Consensus (June 2022)

Economic growth in 2021 and consensus forecast for 2022* (%)



Note: * forecast by FocusEconomics Consensus (June 2022)

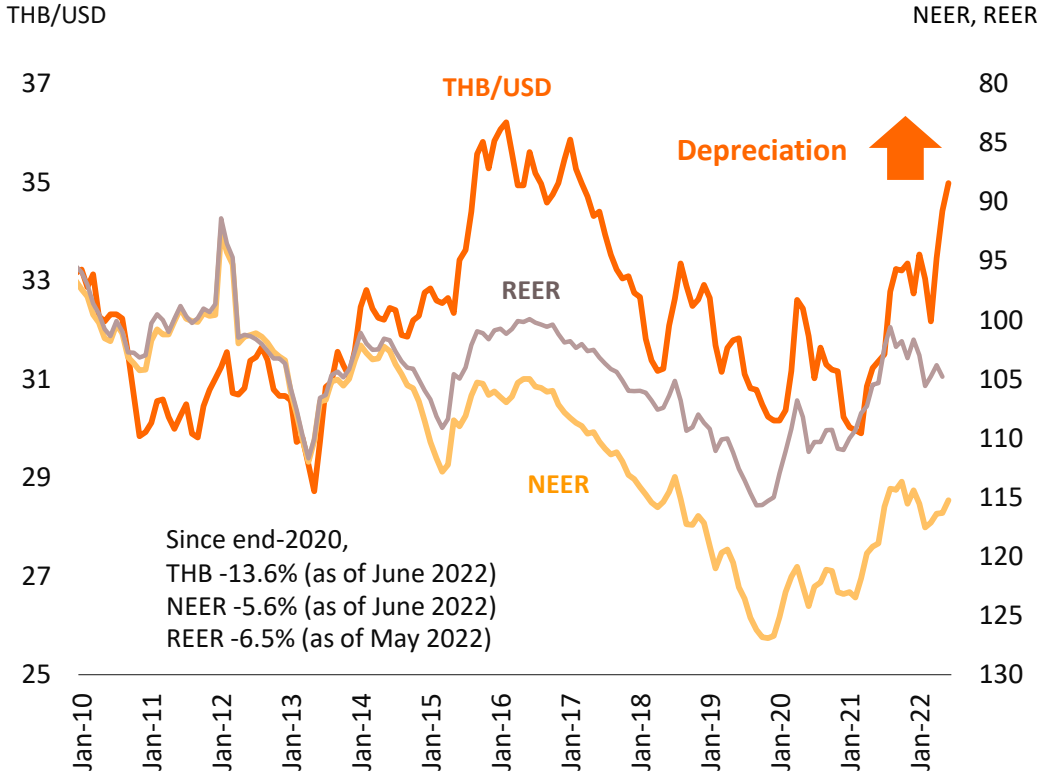
Weaker Thai baht: Impact on exports and business sectors

- **Thai baht movement:** The baht has depreciated to a multi-year low against the USD. There are concerns whether a weaker baht would benefit exporters or hurt them through higher import costs.
- **Determinants of exports:** Historical data show a weak relationship between a softer baht and exports, and that exports are influenced more by the economic health of Thailand's trading partners.
- **Sector-wise, it tells a different story. FX impact depends on natural hedging and size of imports and exports.**
  - **Business sectors who are net importers may be hurt by a weaker baht.** This group's output accounts for 20.2% of total Thai exports and 25% of GDP. These include machinery production, electrical equipment, fabricated metal, basic metal, agriculture and fishing, other transport equipment, publishing and broadcasting, paper products, telecommunication, financial services, pharmaceuticals, warehousing, electricity and gas, and IT services.
  - **Net exporters could benefit from a weaker baht but gains would depend on the size of external and domestic markets.**
    - Mild gains (19.2% share of Thai exports): Export sectors that depend strongly on the domestic market include trade, textiles, petroleum, and non-metallic products.
    - Moderate gains (30.6% share of Thai exports): Export sectors that rely on both domestic and export markets include wood products, electronics, other manufacturing, and food & beverage.
    - Large gains (24.0% share of Thai exports): Export sectors that depend mostly on export markets include motor vehicle, rubber & plastic, and chemical.
- **To conclude, many industries in Thailand would gain from a weaker baht but the business sector would see limited benefits and it would not lead to a substantial growth in overall exports. However, this suggests authorities would not allow the baht to depreciate too much in their attempt to boost the economy; there should be a trade-off between the benefits and costs of a weaker baht.**

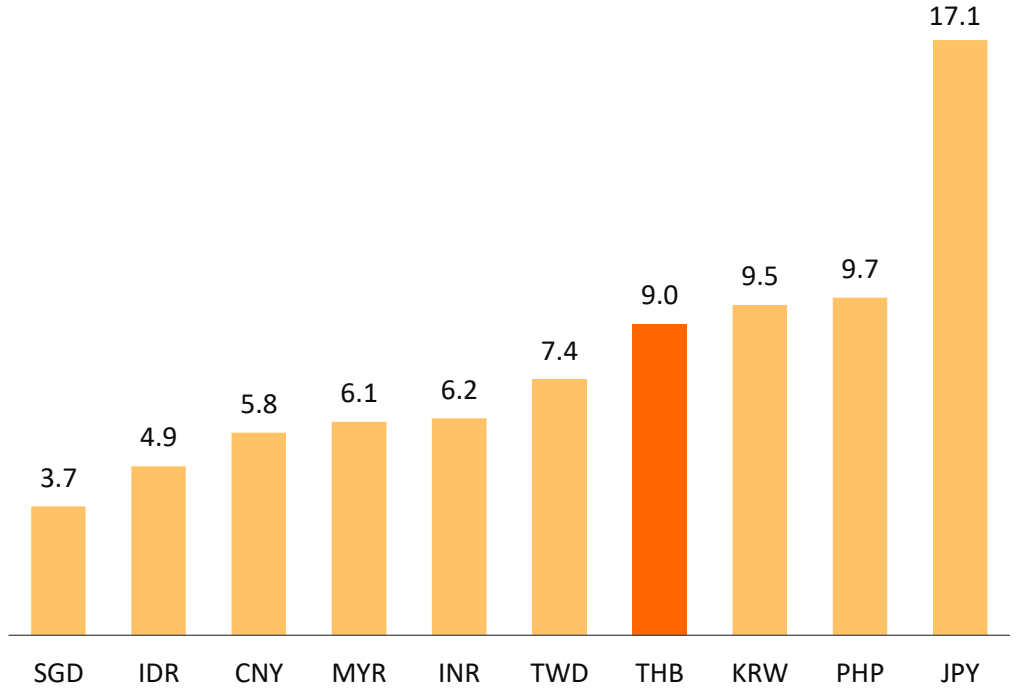
Thai baht has depreciated against the USD since last year to a multi-year low; baht has weakened 9% this year, in line with other Asian currencies

So far this year (as of July 15, 2022), the Thai baht has weakened by 9.0% against the USD to a 16-year low, in line with several of other currencies in the region such as the PHP (-9.7%), KRW (-9.5%), and TWD (-7.4%). The weaker baht could increase export revenues but could also hurt businesses through higher import costs.

THB Exchange Rate



Asian currencies have depreciated against USD
(Year-to-date, as of July 15, 2022)



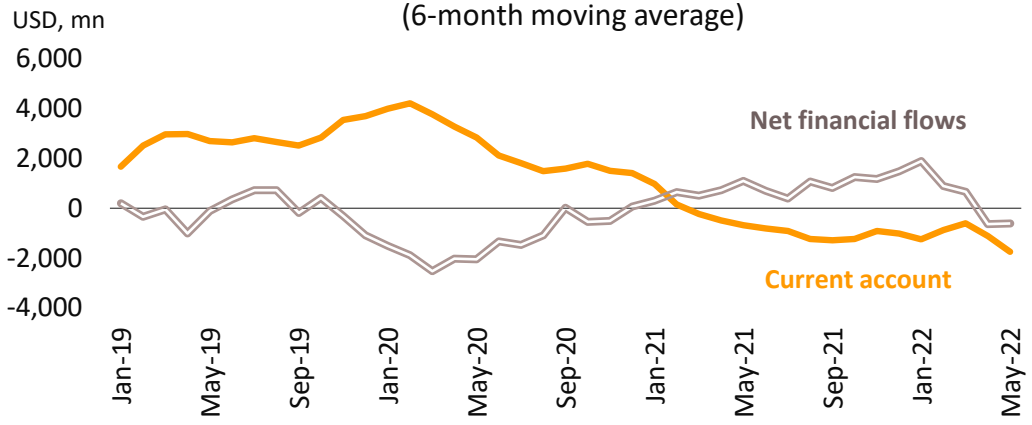
Note: USD Index has strengthened by 13.0% year-to-day

NEER or Nominal Effective Exchange Rate is the trade-weighted currency index.
REER or Real Effective Exchange Rate is the NEER adjusted for the effects of inflation
Source: BOT, CEIC, Krungsri Research

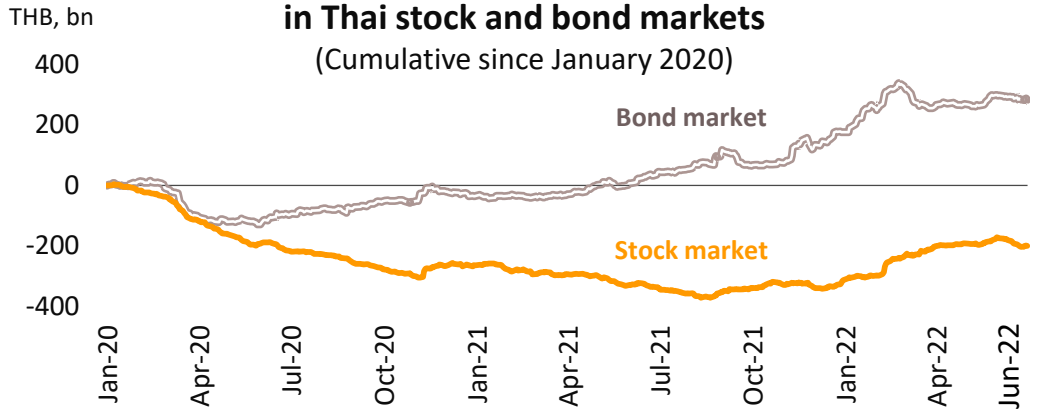
Major causes of a weaker baht include a stronger USD as well as the country's current account deficit and net fund outflows

The US dollar index has risen 13.0% year-to-date. In the first 5 months of this year, Thailand's current account posted a deficit of USD8.9bn and registered USD7.9bn net outflows. All these factors had exerted downward pressure on the baht.

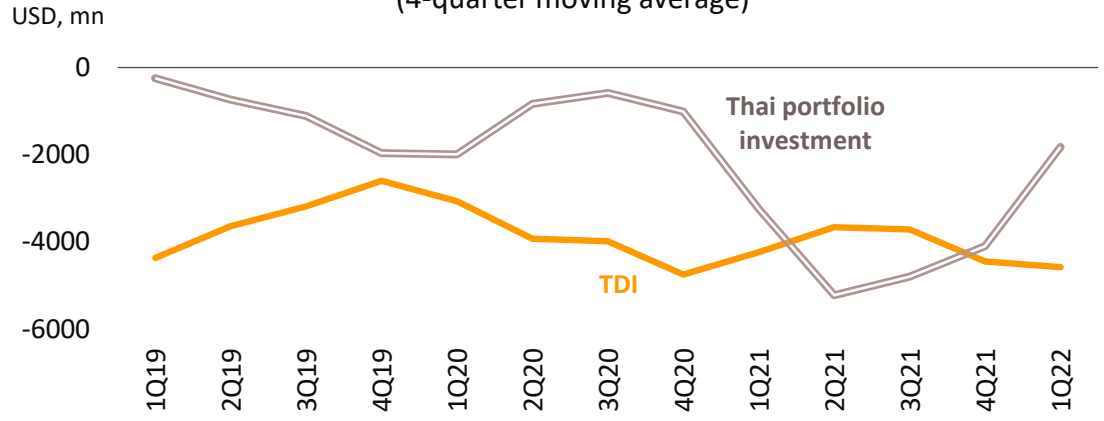
Trade and current account balance
(6-month moving average)



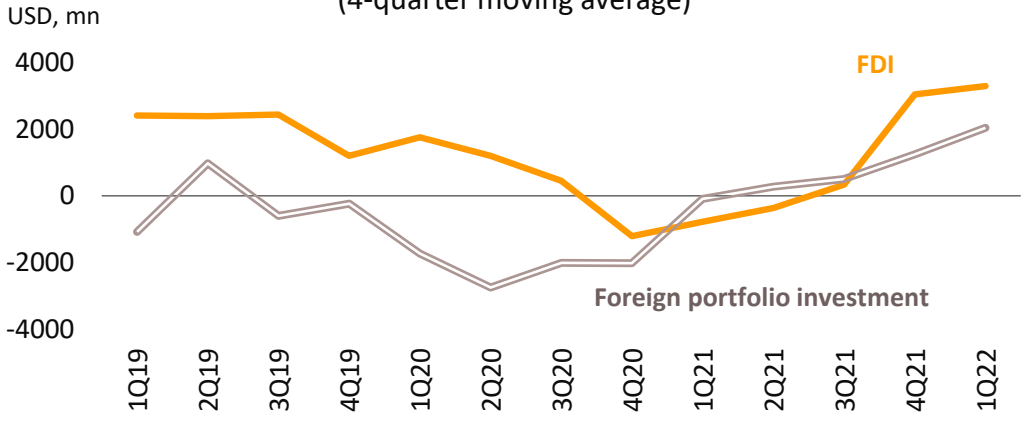
Net position of foreign buying (+)/selling (-) in Thai stock and bond markets
(Cumulative since January 2020)



Thai direct investment (TDI) and Thai portfolio investment
(4-quarter moving average)



Foreign direct investment (FDI) and foreign portfolio investment
(4-quarter moving average)



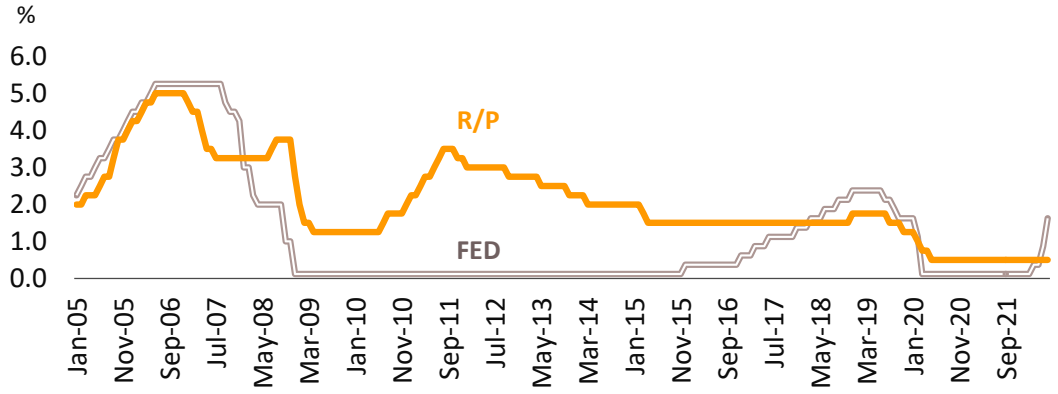
Source: BOT, CEIC Krungsri Research

Baht could weaken further as the interest rate gap between US and Thailand widens but would be limited by FDI and gains in tourism sectors

In 1Q22, total applications by foreign investors for BOI privileges rose 29.1% YoY, following 169% growth in 2021. This was driven by industrial transformation and reopening of borders and the economy. Foreign tourist arrivals are expected to surge in 4Q22 and improve the country's current account balance. Thailand's foreign reserves remain relatively high, reflecting sound external stability which should help to cushion against external stocks. All these factors should help limit the baht's weakness.

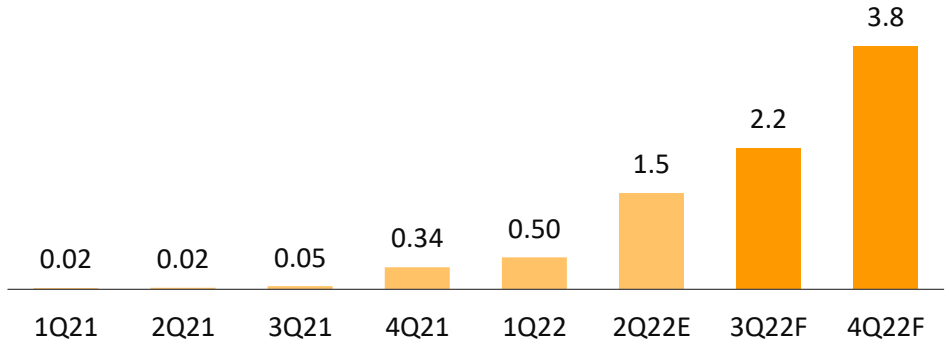
Interest rate shock

(interest rate differential between US and Thailand)

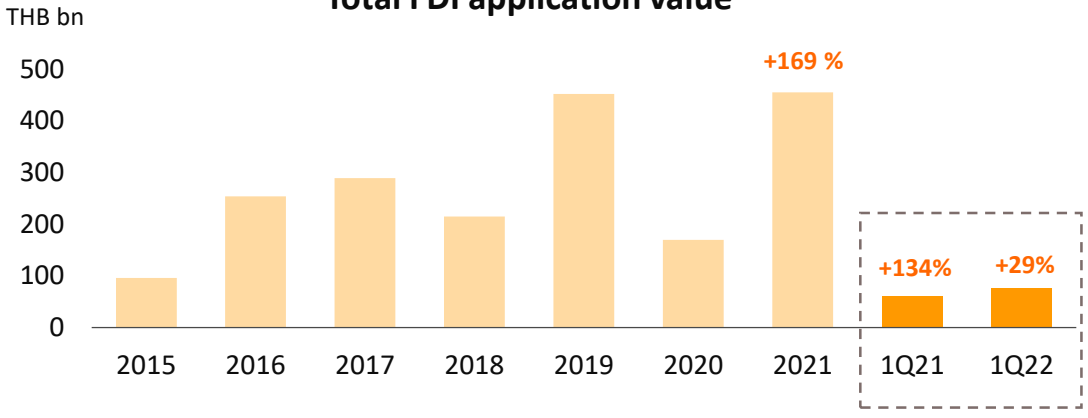


Expected number of foreign tourists*

(Million Persons)



Total FDI application value



FX reserves: months of import, 2021



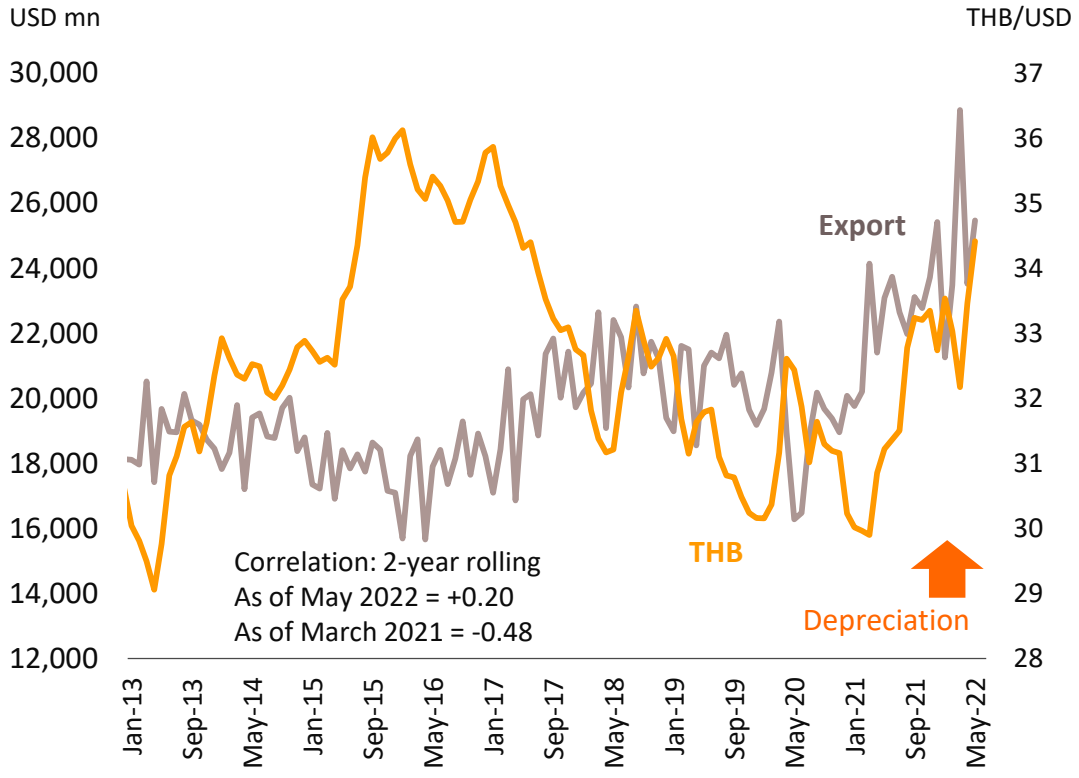
Note: * forecast by Krungsri Research

Source: IMF, FED, BOT, BOI, MOTS, CEIC, Krungsri Research

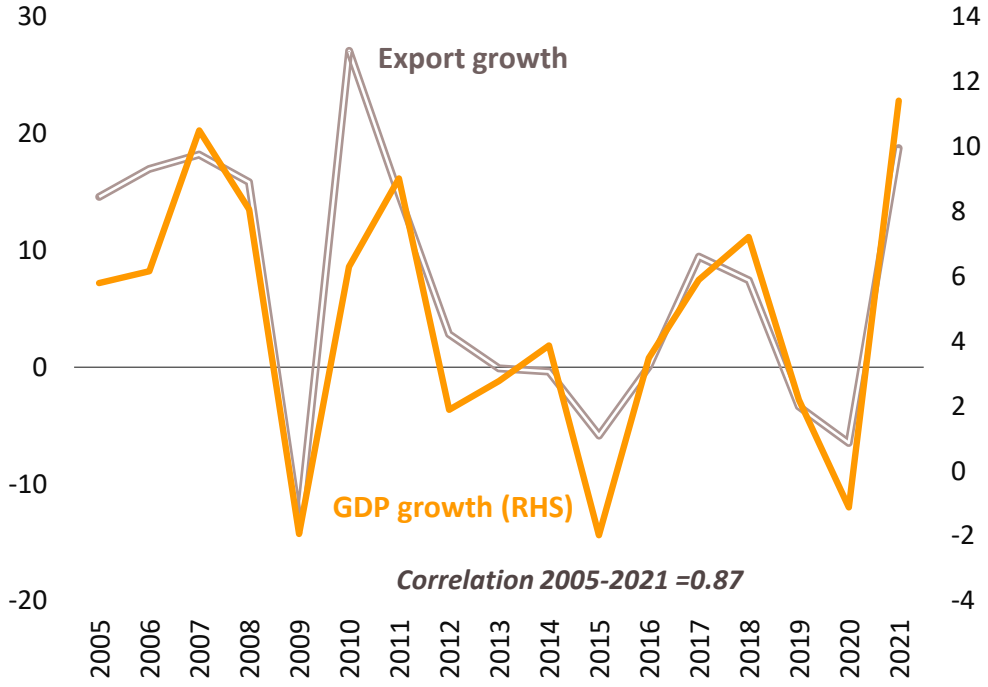
Relationship between weaker baht and overall exports is fuzzy, while Thai exports are influenced by growth at trading partners' economies

In the past 2 years, correlation between baht movement and export value was weak at only 0.20, suggesting the weaker baht would not lead to a sharp increase in Thai exports. However, there is strong correlation between Thai export growth and trading partners' GDP growth, implying that export performance would depend on external demand rather than exchange rates.

Thailand export value and exchange rate*



Thai exports and trade partners' GDP growth* (%)



Note: * THB/USD, **weighted average of trading partners' GDP (China, US, Japan, Eurozone, Hong Kong, Vietnam, Malaysia, Indonesia, Singapore, Philippines, India, S. Korea and Taiwan)
Source: BOT, IMF, Krungsri Research

Sector-wise, natural hedging dictates the weaker baht would hurt sectors which are net importers but benefit sectors with large exposure to exports

Impact of weaker baht on business sectors:

Balanced exposure — Export revenue = Import cost → **Natural Hedging**

(Incremental export revenue is **equal to** the rise in import cost)

Net importer — Export revenue < Import cost → **Loser**

(Export revenue rise **less than** import costs)

Net exporter — Export revenue > Import cost → **Gainer**

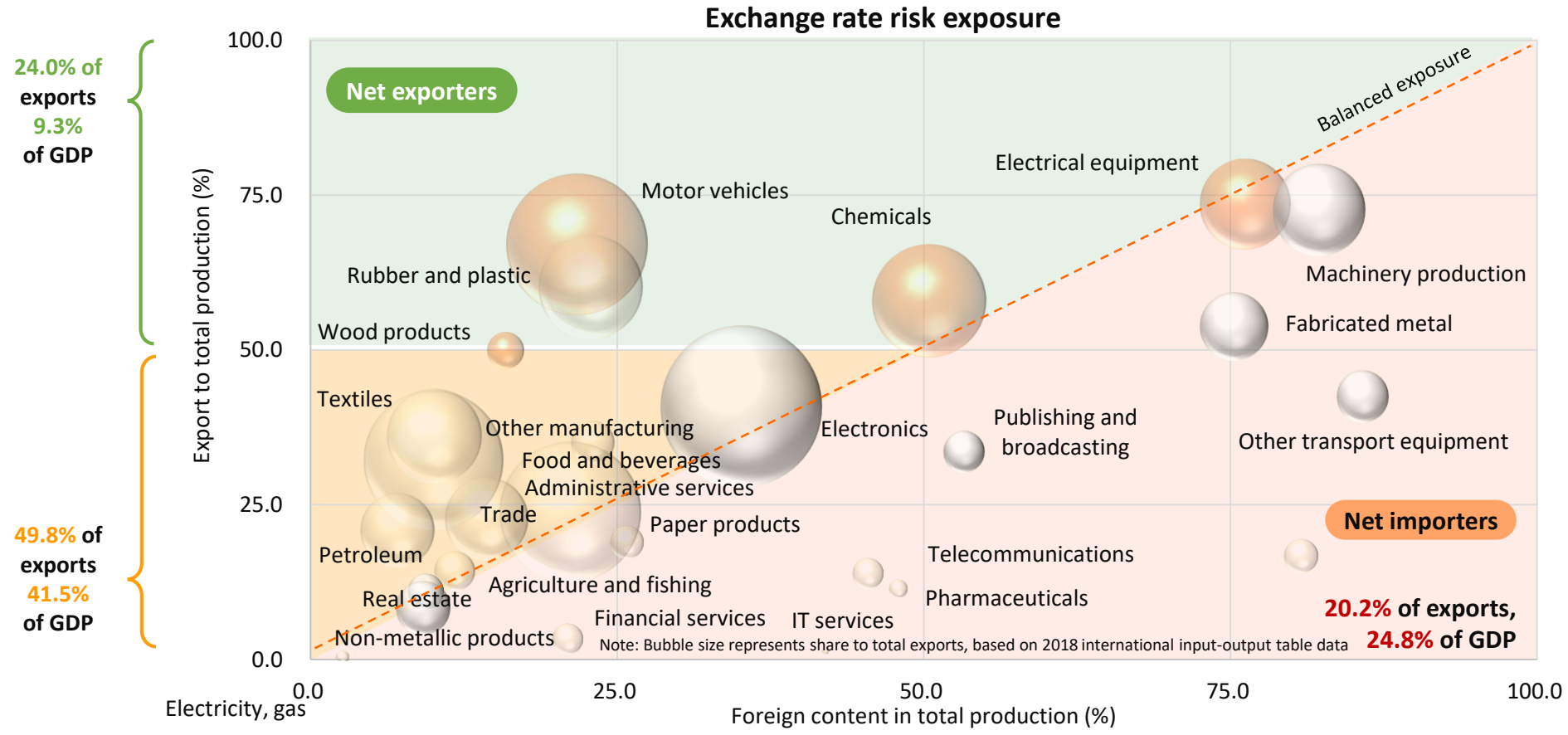
(An increase in export revenue is **more than** a rise in import cost)

Higher reliance on exports implies higher gain from weaker baht

Sectors that depend on the domestic market (exports < 25% of total production)	→	**Mild gains**
Sectors that depend on both domestic and export markets (exports > 25 to 50% of total production)	→	**Moderate gains**
Sectors that depend on export markets (exports > 50% of total production)	→	**Large gains**

Source: Krungsri Research

Net importers are losers of a weaker baht but their output account for only 20% of Thai exports and 25% of GDP



Impact of weaker baht on business sectors:

- **Negative impact:** Machinery production, electrical equipment, fabricated metal, basic metal, agriculture and fishing, other transport equipment, publishing and broadcasting. paper products, telecommunication, financial services, pharmaceuticals, warehousing, electricity and gas, and IT services
- **Mild gains:** Trade, textiles, petroleum, and non-metallic products
- **Moderate gains:** Wood products, electronics, other manufacturing, business services, other manufacturing, food and beverage
- **Large gains:** Motor vehicle, rubber and plastic, and chemicals

Source: OECD (Input-output table), compiled by Krungsri Research

Net importers are led by machinery production, electrical equipment, fabricated metal and basic metal

Net importers which could be hurt by a weaker baht account for a combined 20.2% of Thai exports. These include machinery production, electrical equipment, fabricated metal, basic metal, agriculture and fishing, other transport equipment, publishing and broadcasting. paper products, telecommunication, financial services, pharmaceuticals, warehousing, electricity and gas, and IT services

Net Importer	Export to total production (%)	Import content (%)	Share to Export (%)	Share to GDP (%)
Machinery production	72.6	82.2	4.6	1.5
Electrical equipment	73.6	76.2	4.5	1.5
Fabricated metal	53.8	75.3	2.5	1.1
Basic metal	36.6	204.2	1.6	1.1
Agriculture and fishing	8.3	9.2	1.6	6.1
Other transport equipment	42.5	85.8	1.5	0.8
Administrative services	23.0	35.1	1.0	1.1
Publishing and broadcasting	33.5	53.3	0.9	0.7
Paper products	18.9	25.8	0.6	0.8
Telecommunication	14.0	45.4	0.5	0.9
Financial services	3.3	20.9	0.5	3.6
Pharmaceuticals	11.5	47.9	0.2	0.4
Warehousing	39.5	380.2	0.1	0.1
Electricity, gas	0.4	2.6	0.1	4.7
It services	1.5	41.9	0.03	0.4

Note: Based on 2018 international input-output table data
Source: OECD (Input-output table), compiled by Krungsri Research

However, sectors that registered large gains from a weaker baht account for only 24% of total Thai exports and 9% of GDP

Slight gains (19.2% share of Thai exports): Sectors that mostly depend on the domestic market include trade, textiles, petroleum, and non-metallic products

Export share to total production: 0-25%	Export to total production (%)	Import content (%)	Share to Export (%)	Share to GDP (%)
Trade	23.9	21.2	10.9	11.0
Textiles	22.7	14.4	3.8	4.0
Petroleum	20.9	7.1	3.0	3.4
Non-metallic products	14.3	11.7	0.9	1.5
Real estate	11.0	9.4	0.7	1.5

Moderate gains (30.6% share of Thai exports): Sectors that depend on both domestic and export markets include wood products, electronics, other manufacturing and food & beverages

Export share to total production: 25-50%	Export to total production (%)	Import content (%)	Share to Export (%)	Share to GDP (%)
Wood products	49.9	15.9	0.7	0.4
Electronics	40.9	35.1	14.3	8.5
Other manufacturing	36.1	10.1	4.9	3.3
Food and beverages	32.3	10.0	10.7	8.0

Large gains (24.0% share of Thai exports): Sectors that depend mostly on export markets include motor vehicle, rubber and plastic, and chemicals

Export share to total production above 50%	Export to total production (%)	Import content (%)	Share to Export (%)	Share to GDP (%)
Motor vehicles	67.1	21.7	11.0	4.0
Rubber and plastic	60.1	22.8	5.9	2.4
Chemicals	58.0	50.4	7.0	2.9

Note: Based on 2018 international input-output table data
Source: OECD (Input-output table), compiled by Krungsri Research

KRUNGSRI RESEARCH

Macroeconomic Team

Sujit Chaivichayachat	Head of Macroeconomic Research Department
Churailuk Pholsri	Senior Economist (Forecasting)
Sathit Talaengsatya	Senior Economist (Regional Economy)

Industry Team

Pimnara Hirankasi, Ph.D.	Head of Industry Research Department
Taned Mahattanalai	Senior Analyst (Digital)
Poonsuk Ninkitsaranont	Senior Analyst (Healthcare, Mobile Operators)
Piyanuch Sathapongpakdee	Senior Analyst (Transport & Logistics)
Narin Tunpaiboon	Senior Analyst (Power Generation, Modern Trade, Chemicals, Medical Devices)
Puttachard Lunkam	Analyst (Hotels, Construction Contractors, Construction Materials, Industrial Estate)
Patchara Klinchuanchun	Analyst (Real Estate)
Chaiwat Sowcharoensuk	Analyst (Agriculture)
Wanna Yongpisanphob	Analyst (Automobile, Electronics & Electrical Appliances, Food & Beverages)

Intelligence Team

Pimnara Hirankasi, Ph.D.	Acting Head of Analytics and Intelligence Research Department
Chinnakrit Ampornpannawat	Analyst

MIS and Reporting Team

Thamon Sernsuksakul	Administrator
Chirdsak Srichaiton	MIS Officer
Wongsagon Keawuttung	MIS Officer



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