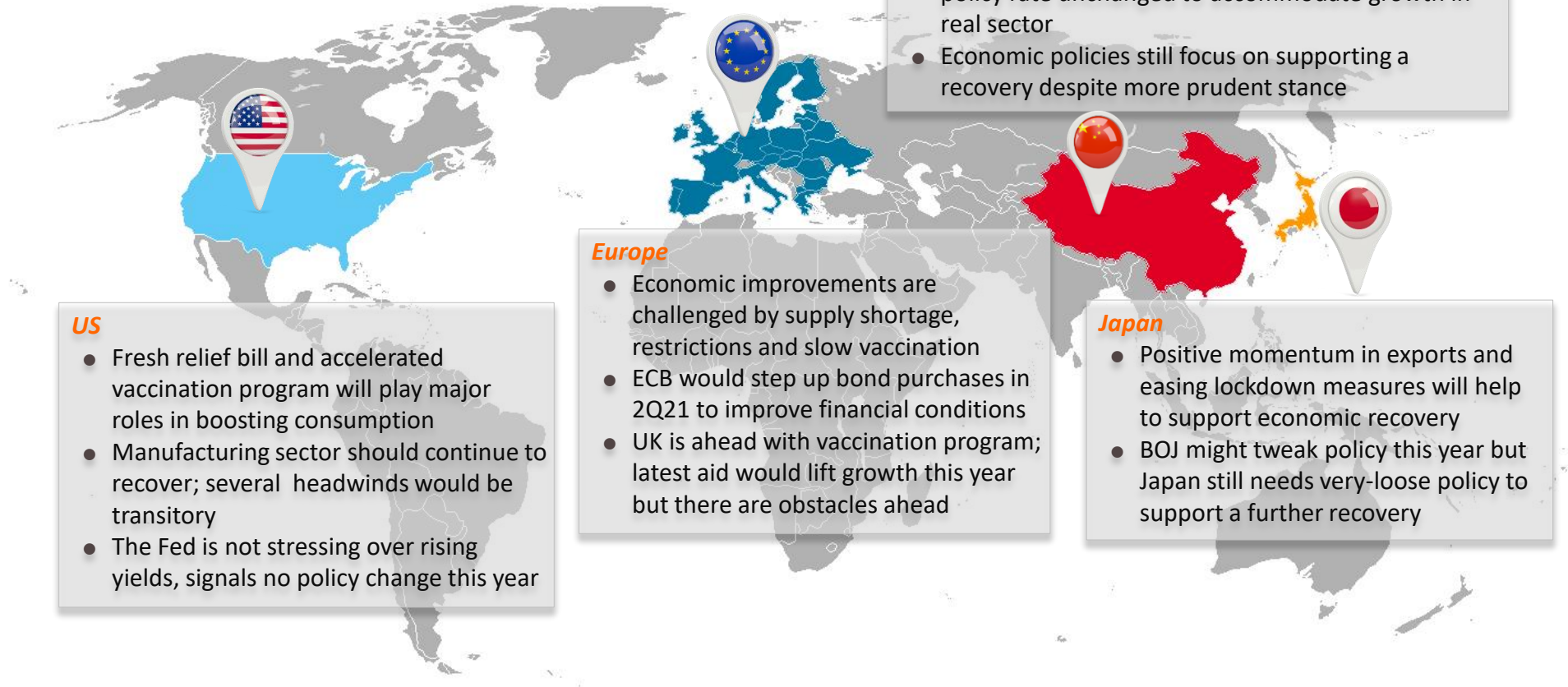

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March 2021
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Global: Reflation concern, recovery hope



China

- Still needs stimulus although impacts of latest outbreak have been limited
- Despite rising bond yields, PBOC likely to keep policy rate unchanged to accommodate growth in real sector
- Economic policies still focus on supporting a recovery despite more prudent stance

US

- Fresh relief bill and accelerated vaccination program will play major roles in boosting consumption
- Manufacturing sector should continue to recover; several headwinds would be transitory
- The Fed is not stressing over rising yields, signals no policy change this year

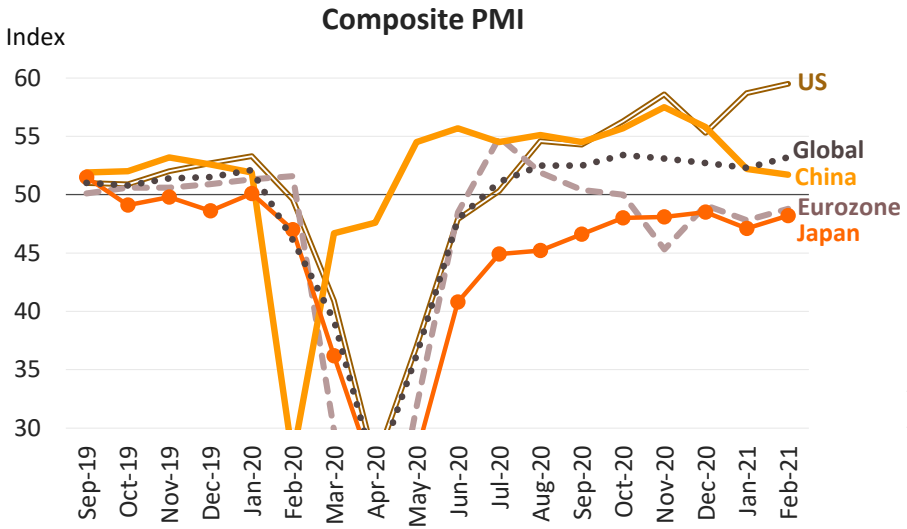
Europe

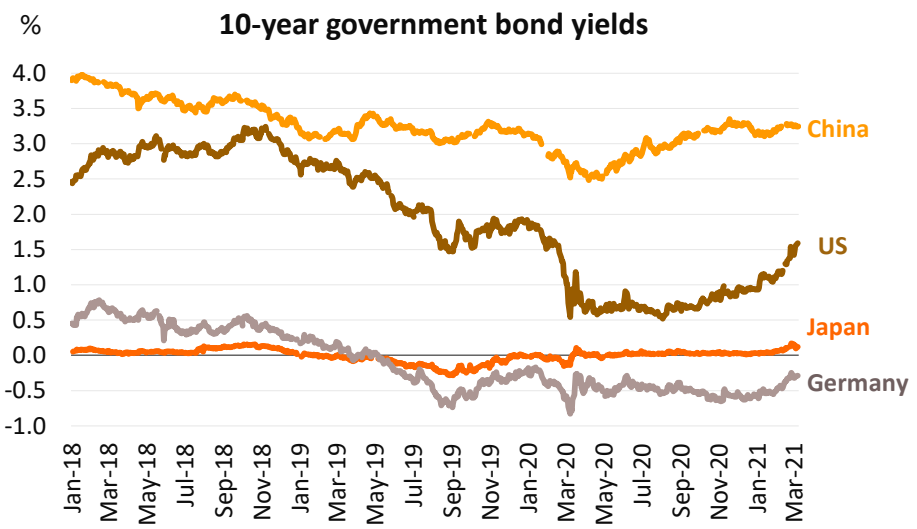
- Economic improvements are challenged by supply shortage, restrictions and slow vaccination
- ECB would step up bond purchases in 2Q21 to improve financial conditions
- UK is ahead with vaccination program; latest aid would lift growth this year but there are obstacles ahead

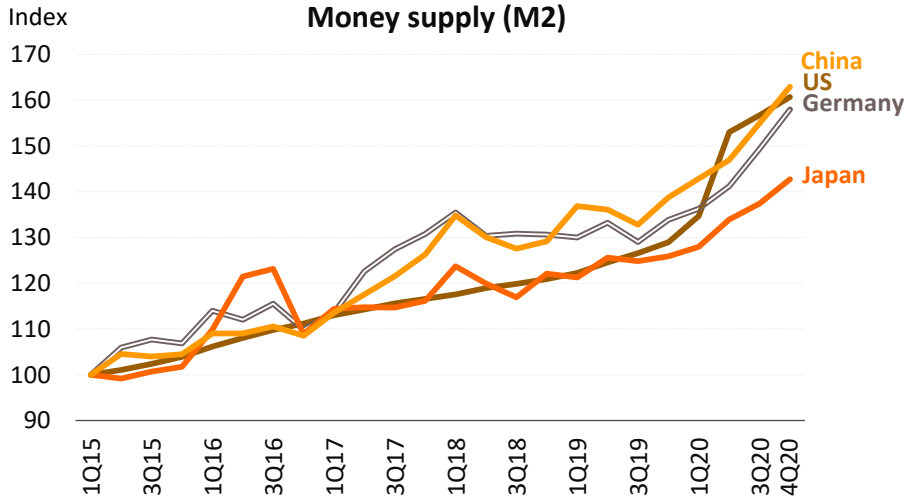
Japan

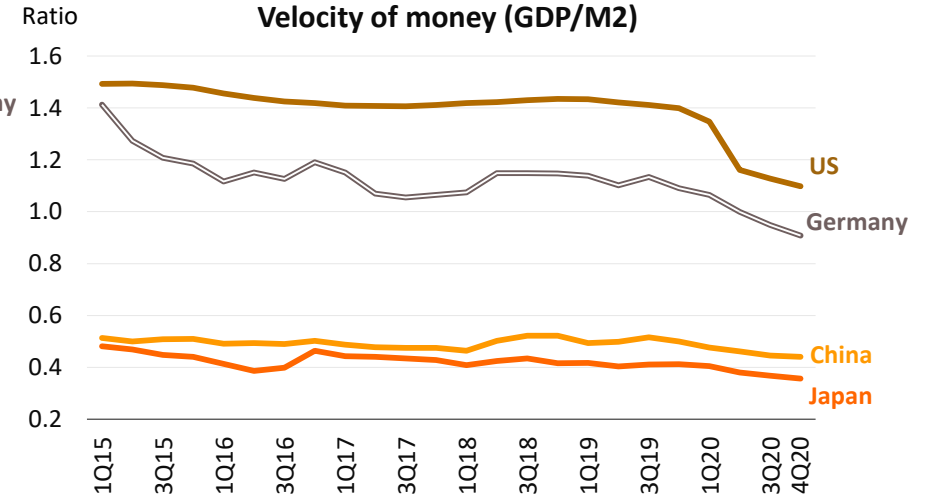
- Positive momentum in exports and easing lockdown measures will help to support economic recovery
- BOJ might tweak policy this year but Japan still needs very-loose policy to support a further recovery

Economic recovery has pushed up bond yields, but low velocity of money should sooth reflation concerns





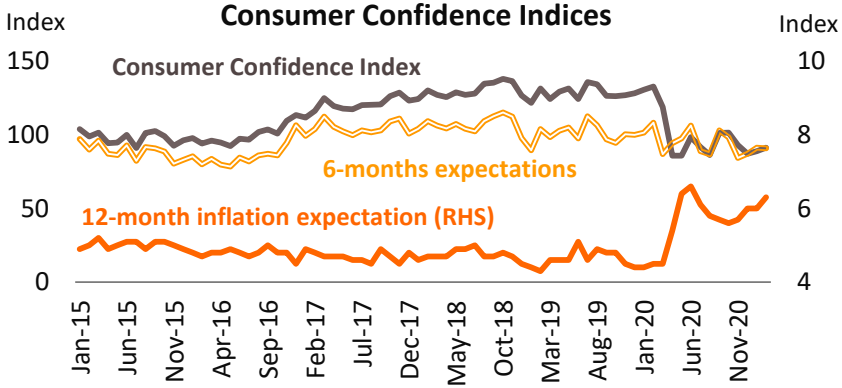


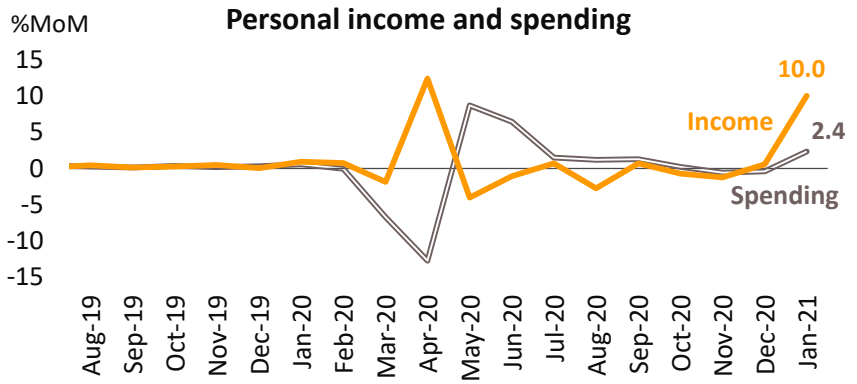


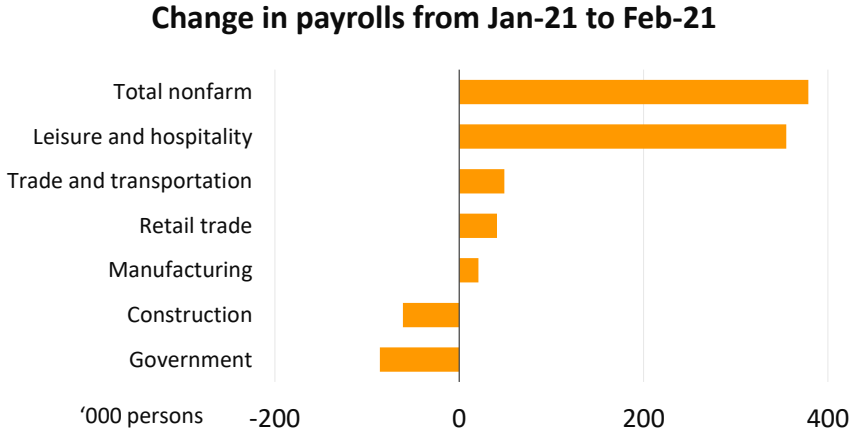
Source: Markit, Central Banks, Bloomberg, Krungsri Research

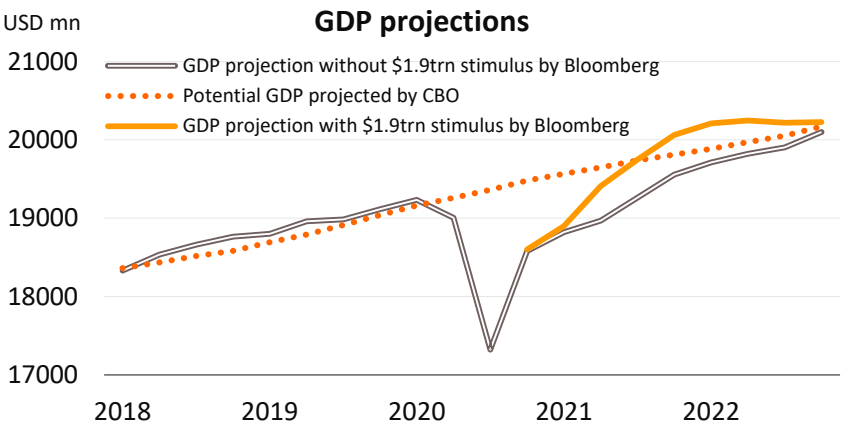
US: Fresh COVID-19 relief bill and remarkable progress in vaccination program to boost consumption

Households are more upbeat about recovery following the approval of additional government aid and fewer COVID-19 new cases. The Consumer Confidence Index improved to 91.3 in February from 88.9 in January as more Americans are vaccinated. Consumer inflation expectation has risen to the highest since June last year, as consumers hope demand for services would return. Personal income rose by 10% MoM in January as the cash aid to eligible recipients supported a 2.4% increase in spending. This suggests consumption, which accounts for 70% of the economy, would be the major driver of recovery. Looking at the labor market, services sectors improved substantially with leisure and hospitality payrolls rising by 355k jobs in February. **The latest USD1.9trn relief bill is expected to push the US GDP level back to pre-virus level by mid-year and the legislation could have a positive impact up to end-2022**. Moreover, Biden hoped that America can "mark independence" from COVID-19 on 4 July if people get vaccinated. **The upcoming fiscal relief and faster-than-peers' inoculation program will lift sentiment further and accelerate economic recovery for the rest of the year.**



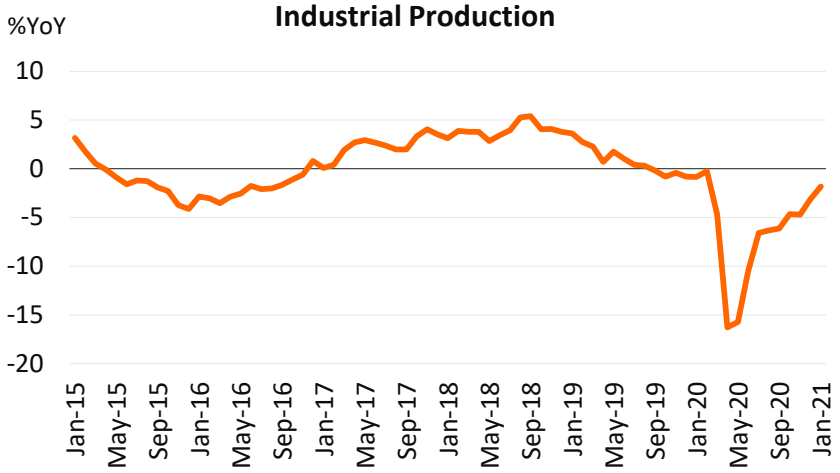


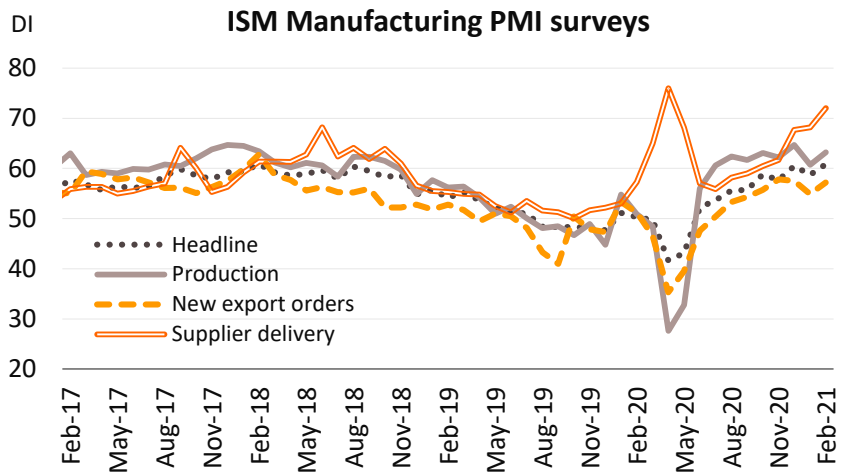


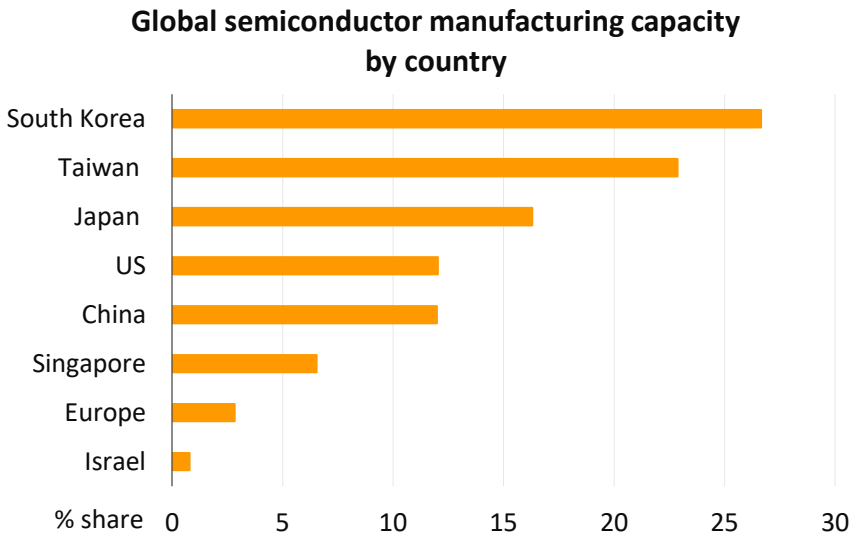


Source: Conference Board, Bureau of Economic Analysis (BEA), Bureau of Labor Statistics (BLS), Congressional Budget Office (CBO), Bloomberg, Krungsri Research

Manufacturing sector should continue to recover; several headwinds would be transitory







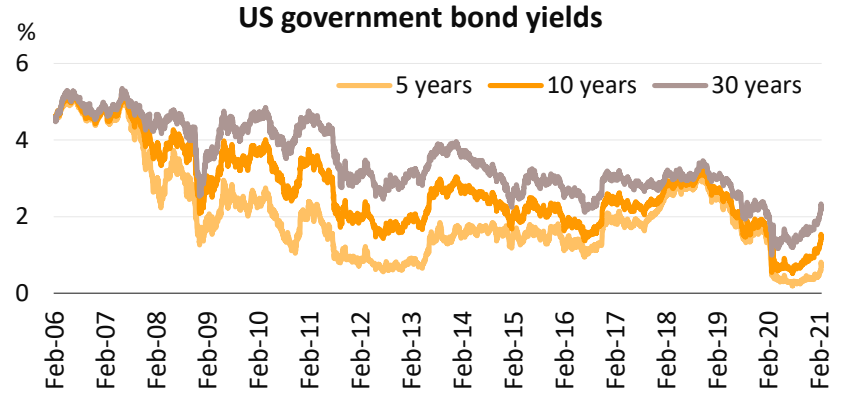
Source: Institute for Supply Management (ISM), BEA, Semiconductor Industry Association

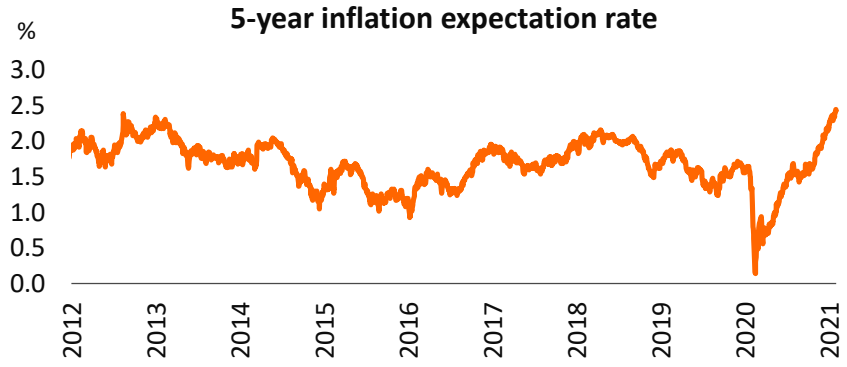
Krungsri Research's view

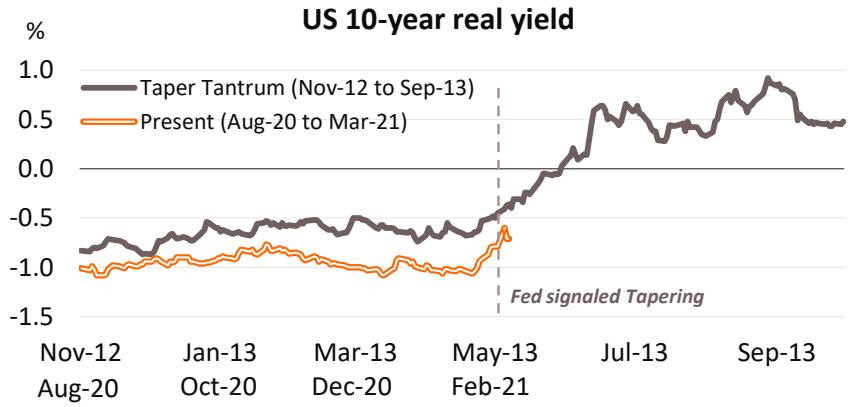
- **The manufacturing sector has been improving since the beginning of the year.** Industrial production fell at slower pace, at -1.8% YoY in January, and is closer to pre-crisis level led by higher output of electrical appliances and food & beverages. Manufacturing PMI data has recovered to a 2-year high in February.
- **However, manufacturing is facing headwinds,** including **(i) the winter storm** that hit oil production, **(ii) supply disruption** caused by temporary factory closures and rising pent-up demand, **(iii) global semiconductor shortage** as the pandemic fueled new microchip applications in computer displays and work-from-home devices.
- The government tried to resolve the problem by reviewing the supply chain for semiconductor production and funding USD37bn to increase domestic production capacity which lags behind South Korea, Taiwan and Japan. Hence, we expect **the headwinds to be temporary as the supply would improve gradually when global production resume and oil production returns after winter ends.**

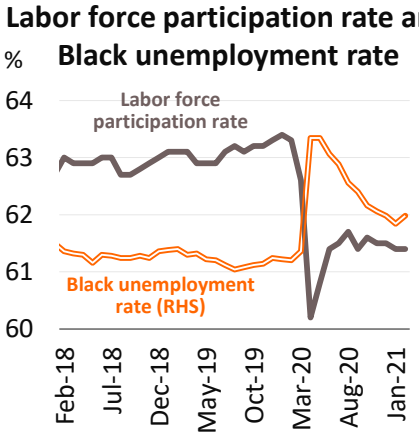
The Fed is not stressing over rising yields, signals no policy change this year

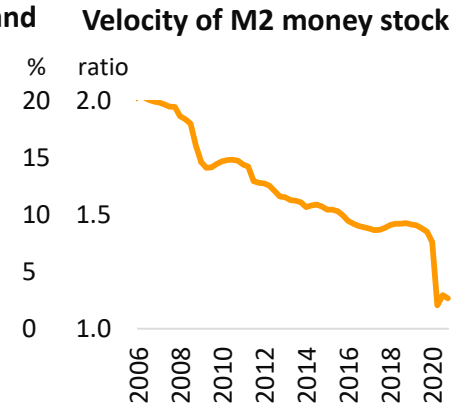
The promising economic outlook and rising inflation have pushed up bond yields recently. 5-year inflation expectation has risen to the highest level since 2008, at 2.35%. Government 10-year bond yield rose to 1.6% in late-February, the highest in more than a year, raising concerns the Fed might hike rates. However**, inflation could have risen due to the low-base effect and additional stimulus measures, rather than an overheating economy.** Although the current path of 10-year real yield looks similar to that during the 2013-Taper Tantrum period, **the latest real yield remains very low and had edged down in the beginning of March. In addition, the recovery in the labor market is far from complete** as labor force participation rate remains low at 61.4% compared to 63% in 2019, while Black unemployment is still elevated at 9.9%, suggesting a long way towards inclusive labor market goals. More importantly, money velocity remains at a historical low, implying the economic transactions are very low. Moreover, Powell claimed the rising yields reflect 'the statement of confidence on recovery' and stated inflation is still 'soft'. **Thus, the Fed is not stressing over rising yields. We expect the Fed to commit to keep the current size of asset purchases this year and maintain record-low interest rates until the end of 2023.**







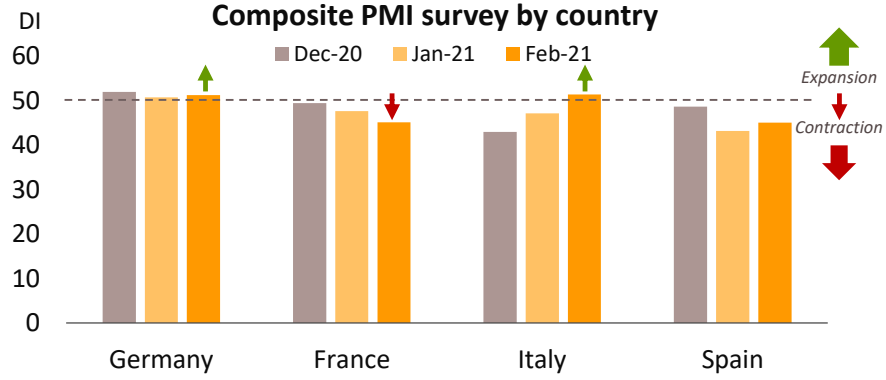


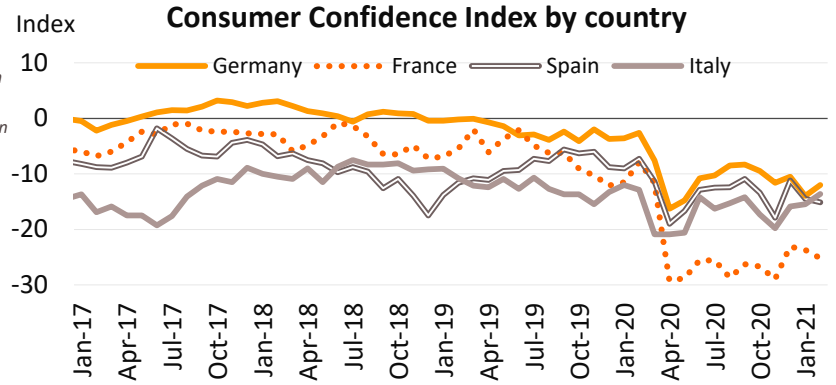


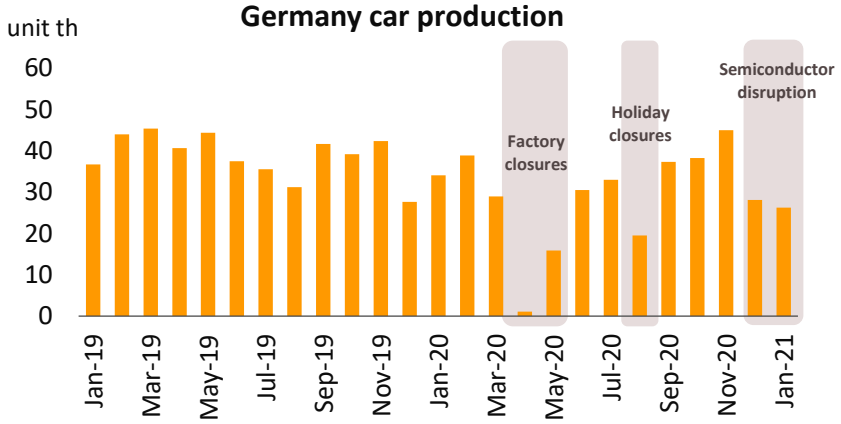
Source: Federal Reserve Board, Bureau of Labor Statistics (BLS), Federal Reserve Bank of St.Louis, Bloomberg, Krungsri Research

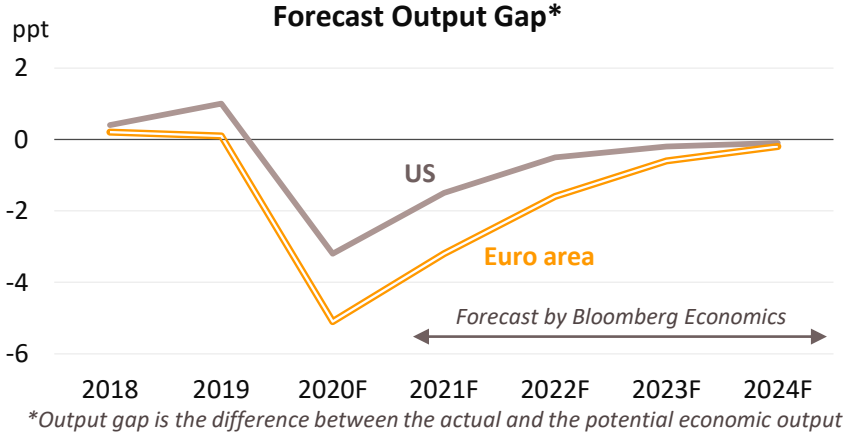
Europe: Economic improvements are challenged by supply shortage, restrictions and slow vaccination

Eurozone economy has improved slightly since mid-February, but several headwinds could send the eurozone economy into contraction territory in 1Q21. The Composite PMI data has inched-up in major countries, especially Italy where it has risen to 51.4 in February from 47.2 in January. **The Consumer Confidence Index improved in Germany and Italy**. The improving confidence in Italy reflects optimism towards the new Draghi-led government. By contrast, there was broad-based deterioration in France and Spain due to tighter restrictions as well as concerns over another lost summer tourism season. **Manufacturing sector has been attacked by the global semiconductor shortages**, leading to lower car production since December, especially in Germany. On the pandemic situation, lockdowns have been extended in many economies while vaccination progress has been slow in 1H21 because of smaller-than-expected vaccine deliveries. Coupled with the absence of additional fiscal supports in 1H21, they are holding back economic recovery. **Hence, we expect the Eurozone economy to shrink in the first quarter and the output gap is unlikely to be closed until 2024, one year behind the US.**







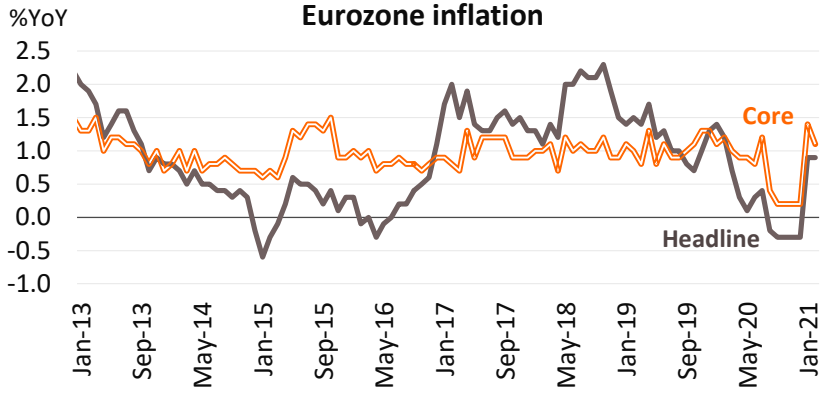


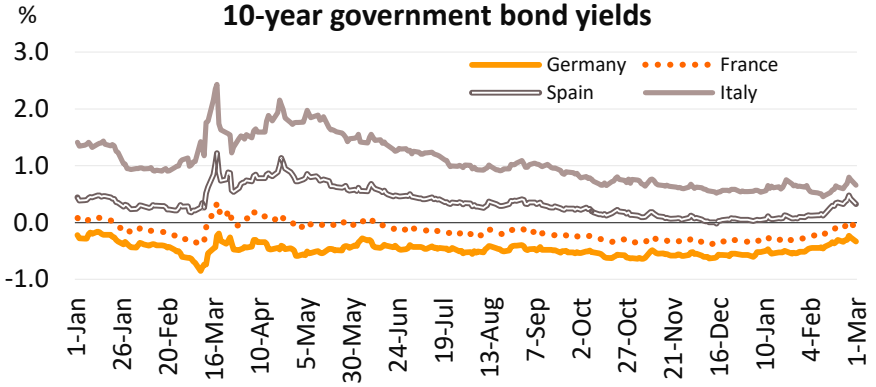
*Output gap is the difference between the actual and the potential economic output

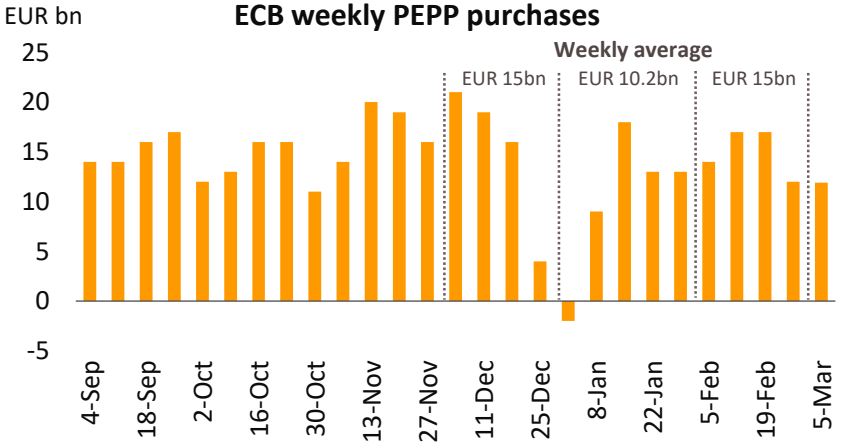
Source: IHS Markit, Eurostat, German Association of the Automotive Industry (VDA), Bloomberg, Krungsri Research

ECB would step up bond purchases in 2Q21 to improve financial conditions

A temporary surge in inflation and spillover-effect from US financial markets have pushed up Eurozone bond yields. Headline inflation continued to register a one-year high of 0.9% YoY in February, while core inflation remained high at 1.1% YoY due to the cancelled winter sales. Looking ahead, higher inflation would be temporary because of the change in inflation component weightings this year and the expiration of Germany VAT cut which impact could disappear by end-1H21. In the bond market, **the increment in 10-year yield in the eurozone is smaller than in the US and still below historical level.** The ECB board also stated optimism over economic developments have led to the rising yields. However, the ECB promised to 'closely monitor' the situation and pledged to ramp up bond purchases in 2Q21. We expect **the ECB to speed up weekly bond purchases from the current EUR15bn to up to EUR20bn in the next quarter, close to the level in July last year, and maintain an accommodative policy throughout the year.** But, they are unlikely to adjust the purchase ceiling because assuming purchases at current pace, the ECB would reach EUR1.85trn of PEPP envelope by April 2022.







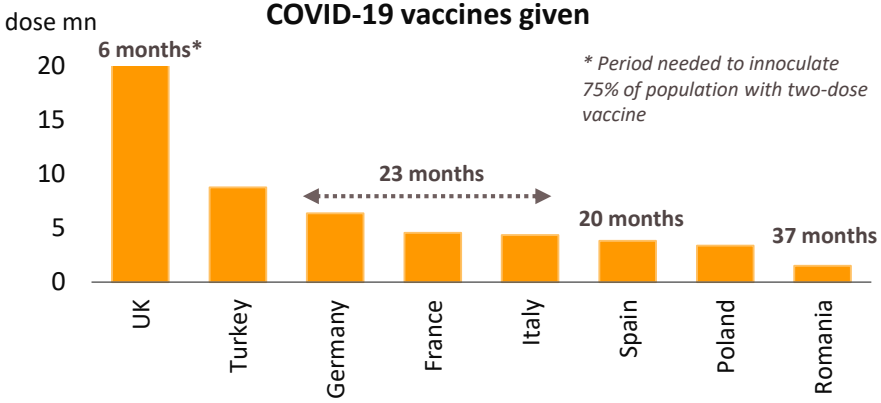
ECB members' comments on rising bond yields

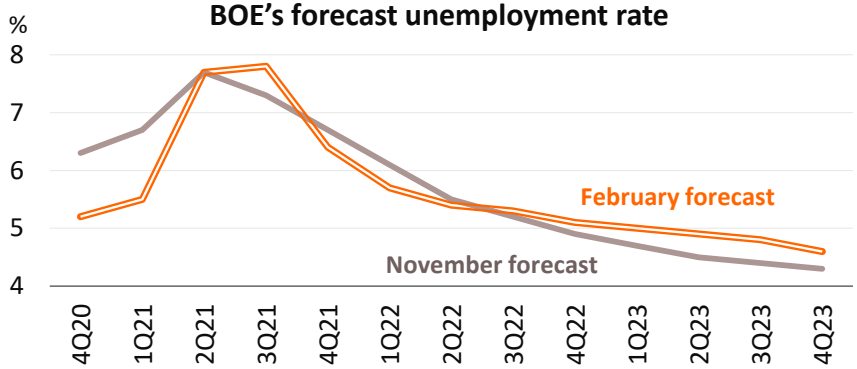
Christine Lagarde	• "The ECB is closely monitoring the evolution of longer-term nominal bond yields."
Isabel Schnabel	• "An abrupt increase in real interest rates on the back of improving global growth prospects could jeopardize the economic recovery,"
Jens Weidmann	• "…the size of the movement is not such that it is a particularly worrisome development," • "But we have to look at it and we are ready to adjust the volume of PEPP purchases."
Klaas Knot	• "What the market is actually doing is pricing-in that optimism."

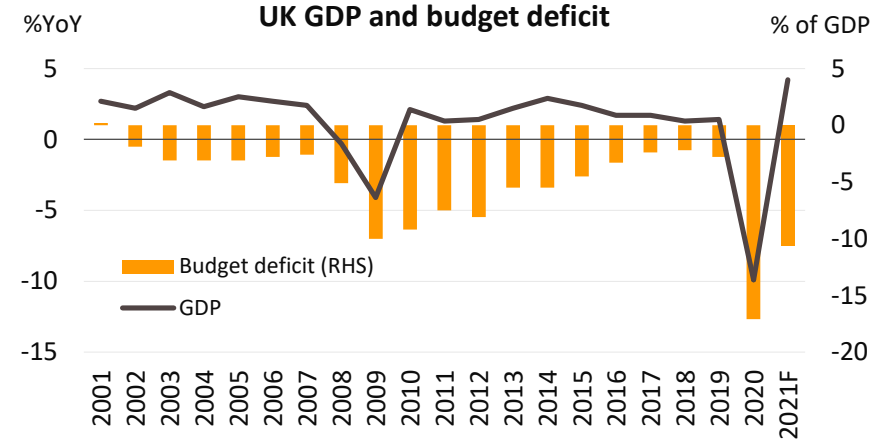
Source: CNN, Eurostat, European Central Bank (ECB), Bloomberg, Krungsri Research

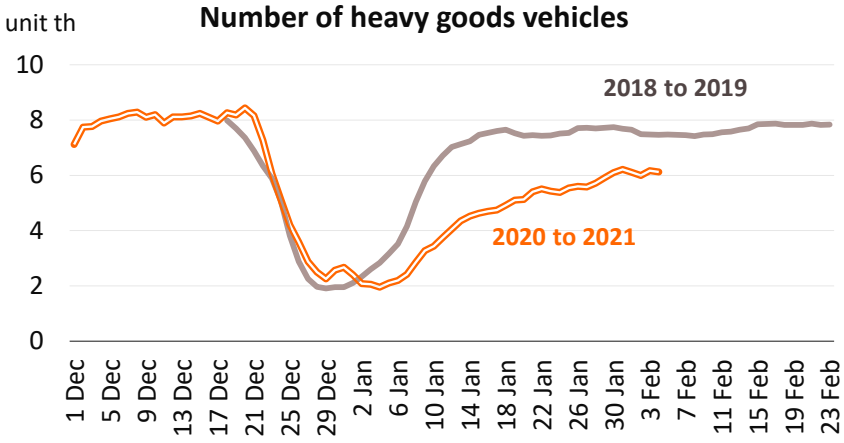
UK: Progress in vaccination program; latest aid would lift growth this year but there are obstacles ahead

The significant progress in vaccine rollout relative to other EU countries suggests the UK would reach herd immunity within 6 months. This optimism allowed Boris Johnson to unveil the road map for lifting lockdowns from March to June. In addition, the **UK has extended fiscal aid period to 3Q21, including business tax holiday, VAT reduction, and furlough programs** which could reduce unemployment rate in 1H21 compared to the previous forecast. **These imply the UK outlook would be preferable this year.** However, **economic recovery might face big hurdles ahead** as the largest GDP slump in its history and much-wider budget deficit would prompt the government to raise corporate income tax from 19% to 25% in 2023 and probably raise personal income tax to tackle the balance sheet, but this would affect company revenues and household income. Additionally, vehicles traffic at port of Dover in late-January fell 19% compared to the same period in 2019, indicating Brexit has pointed partial impact on trade. Manufacturers also reported several difficulties relating to custom checks could delay exports and permanently reduce the EU-UK trade volumes.







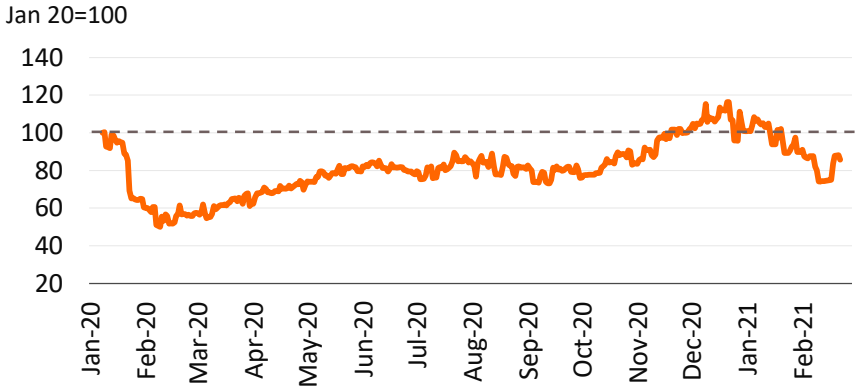


Source: GOV.UK, Office of Narional Statistics (ONS), Office of Budget Responsibility (OBR), Krungsri Research

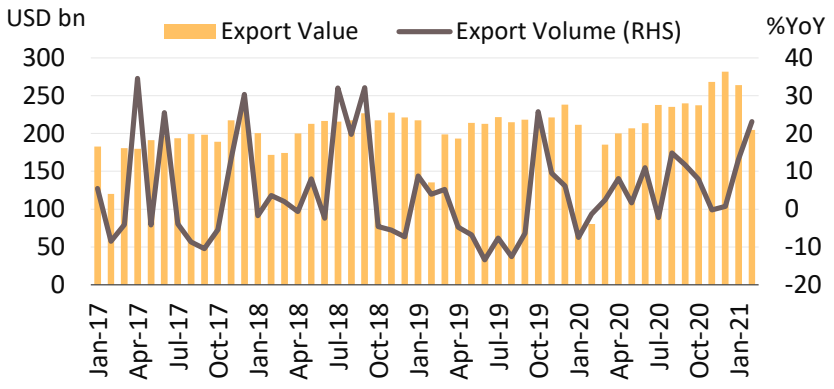
China: Still needs stimulus although impacts of latest outbreak have been limited

At the beginning of 2021, the Chinese economy was affected by a new wave of infections and restrictions during the Lunar New Year, although exports grew favorably during January-February. Recent high-frequency data suggest economic activities are still below pre-pandemic levels despite signs of improvement after the seasonal holidays. In terms of travel, the number of domestic trips and tourism revenues during the spring festival this year were below pre-pandemic levels. Both Manufacturing and Non-manufacturing PMI data for February have dropped to the lowest in 9 and 12 months, respectively, although the notable increase in business expectations (for sub-indices) indicates production will continue to expand. **The weaker economic activity underscores the need to continue with fiscal and monetary policy supports to broaden recovery.**

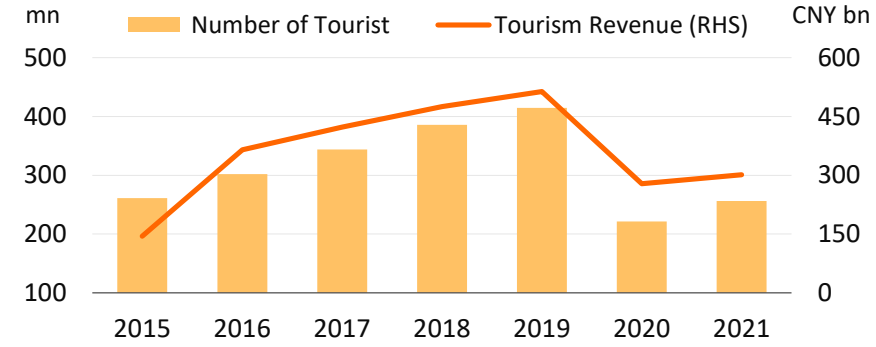
Daily activity indicator



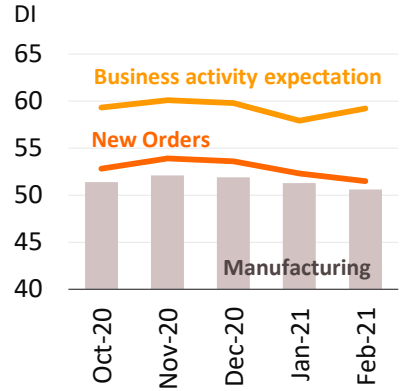
Export value & growth in volume



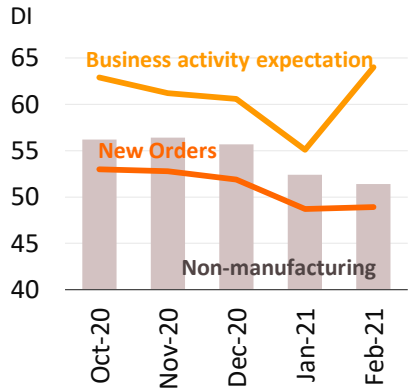
Tourism activity during Lunar New Year holidays



Manufacturing PMI



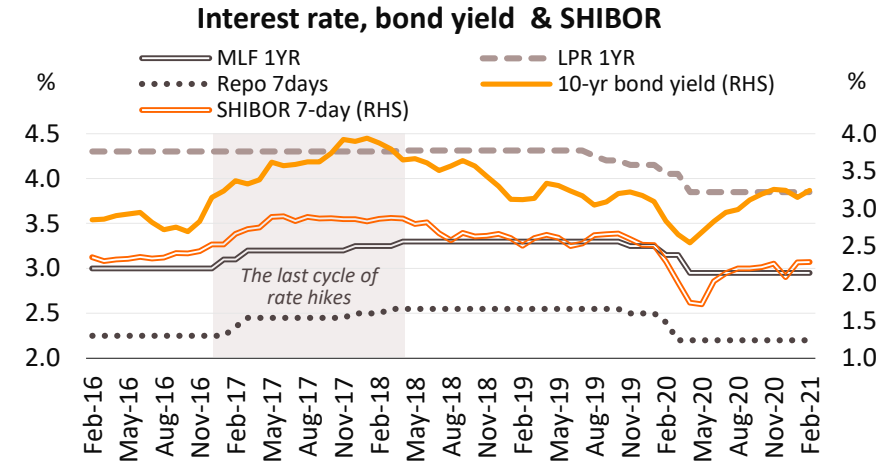
Non-Manufacturing PMI

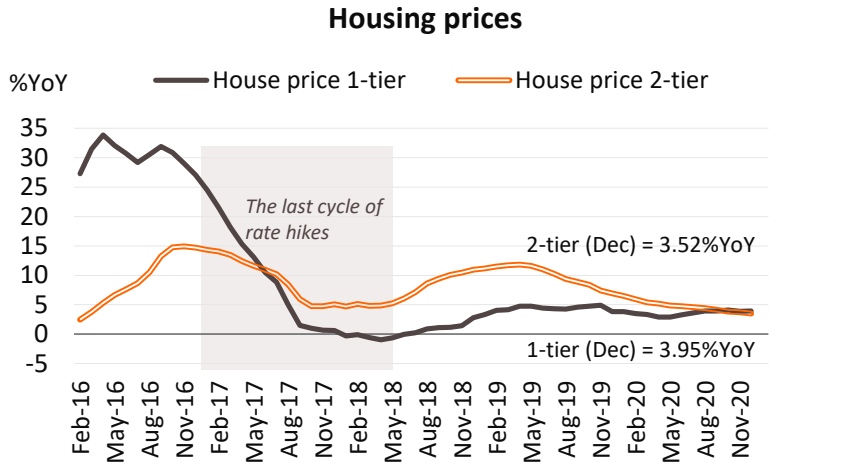


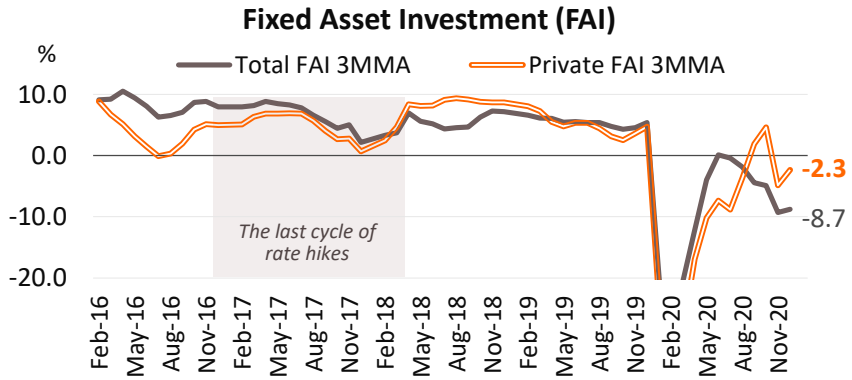
Source: Bloomberg, CEIC, National Statistics Office, Capital Economics, Krungsri Research

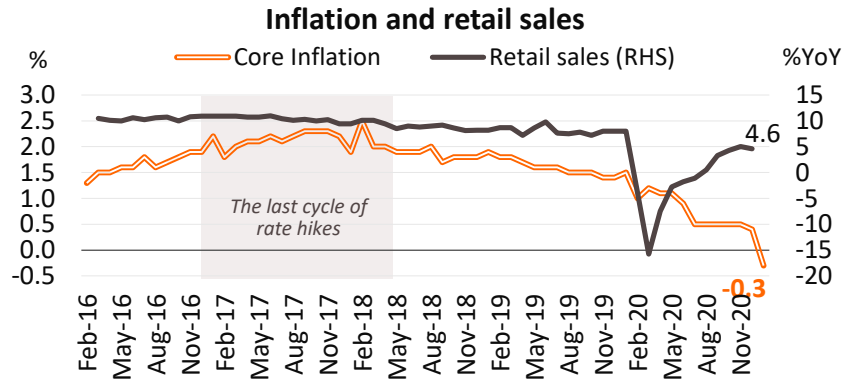
Despite rising bond yields, PBOC likely to keep policy rate unchanged to accommodate growth in real sector

Recently, markets have been concerned the central bank (PBOC) will tighten monetary policy to curb bubble risks, reflected in higher 7-day SHIBOR and 10-year government bond yields. However, data for the real estate sector indicate it is not overheating like in 2016, and the PBOC has implemented targeted measures to mitigate bubble risks, which subsequently reined-in housing prices in first and second tier cities. Meanwhile, the adverse impact of the pandemic continues to dampen the real sectors, reflected in still-weak private investment. Likewise, retail sales growth is still below pre-outbreak level, which means limited inflationary pressure. **Hence, we expect the PBOC to maintain policy interest rate throughout 2021 to accelerate recovery in private consumption and private investment.**









Source: PBOC, National Statistics Office, CEIC, Capital Economics, Bloomberg, Krungsri Research

Economic policies still focus on supporting a recovery despite more prudent stance

Economic targets for 2021 set by the National People's Congress (NPC) imply a more prudent policy stance after the economy shows signs of recovery. However, **the NPC's main goals suggest policies would still focus on boosting economic growth to support a further recovery**, as evidenced by (i) allowing inflation this year to rise above 2020 level; (ii) setting 2021 fiscal deficit beyond pre-COVID level; and (iii) plans to increase off-budget spending by increasing quota for special bond issuance to above 2020 actual level and much larger than pre-pandemic target.

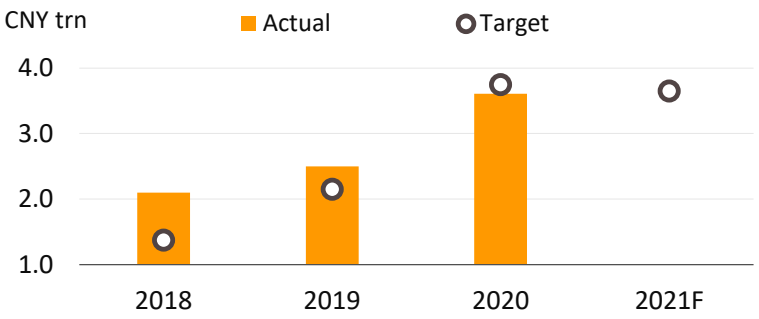
2021 economic targets and previous targets

Indicator	2019 Target	2020 Target	2020 Actual	2021 Target	Implications
GDP growth (% YoY)	6.0-6.5%	-	2.3	> 6%	The growth target is lower than market expectation, indicating a prudent recovery policy
CPI (% YoY)	3.0%	3.5%	2.5%	3.0%	Allowing inflation this year to rise above 2020 level suggests NPC would keep still-accommodative monetary policy
M2 (% YoY)	9.0-9.5%	> 9.0%	10.1%	>9.0%	Target is below 2020 actual M2 growth but the same as 2020 target, reflecting further but prudent liquidity injection
Fiscal deficit (% of GDP)	2.8%	≥ 3.6%	3.7%	3.2%	Despite a reduction in budget deficit target, it is above pre-pandemic levels, suggesting fiscal policy will remain proactive
Quota for special bond issuance (CNY trn)	2.15	3.75	3.60	3.65	Quota for special bond issuance is slightly below 2020 level but much large than 2019, indicating large infrastructure stimulus will continue
Urban job creation (mn)	11.0	9.0	11.8	11.0	Steering job creation towards pre-pandemic goal (i.e. 2019 levels)
Unemployment rate (%)	5%	6%	5.6%	5.5%	Lowering unemployment rate target to 5.5% to improve household spending

Key policy measures addressed in 2021 NPC meeting

- **Further implementing targeted easing to support SMEs** by increasing loans offered by banks to SMEs to at least 30% of total loans and adjust minimum revenue level for VAT payments to CNY150,000 from CNY100,000 in order to reduce tax burden.
- **Accelerating mass vaccination** program to innoculate 560 million by end-June and cover 890 million by end-2021 (64% of population).
- **Stepping up prudent measures to oversee house prices** to curb speculation and ensure they remain affordable to first-time buyers

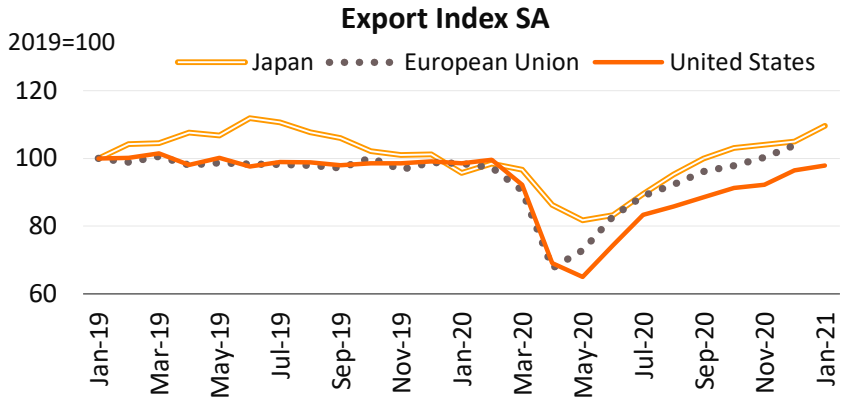
Target and actual special bond issuance

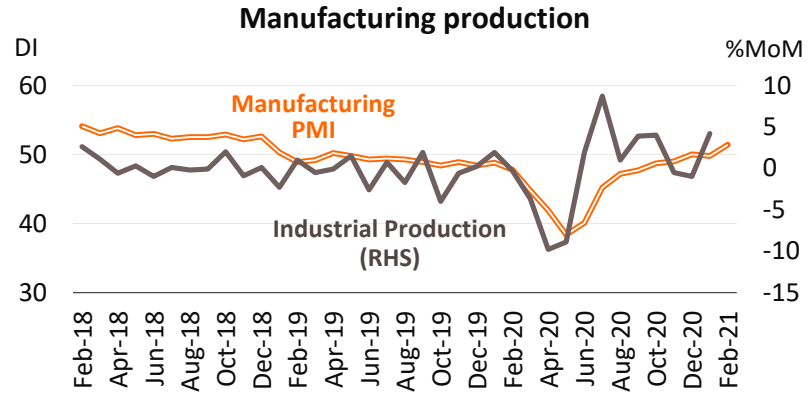


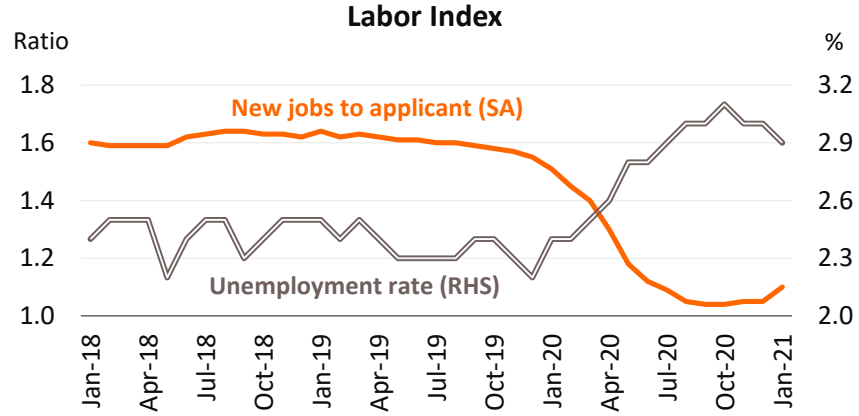
Source: The National People's Congress (NPC), Bloomberg, Capital Economics, Reuters, Krungsri Research

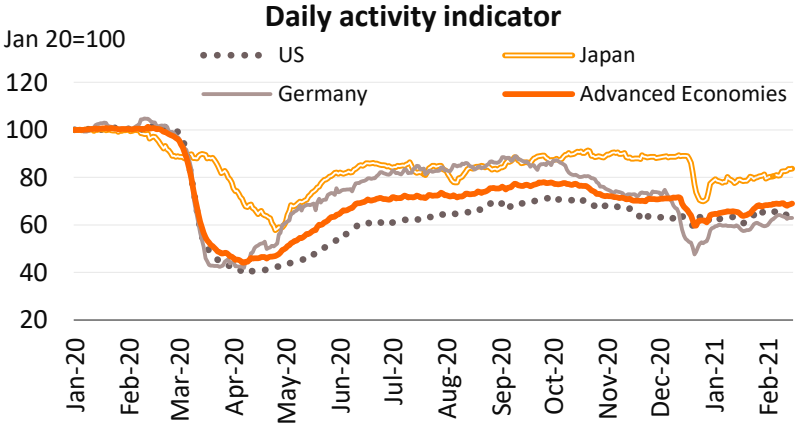
Japan: Positive momentum in exports and easing lockdown measures will help to support economic recovery

Japan's economy continues to improve as domestic infections remain low. This has prompted the government to lift the state of emergency in 6 of 10 prefectures, and in the remaining prefectures including Tokyo by March 21. The key economic driver is the rebound in Japan's exports, which have returned to pre-pandemic level and improved more than the US and the European Union. **The positive momentum in exports will continue to boost industrial production which reached a 6-month high in January.** Likewise, Manufacturing PMI data was positive, entering expansion territory for the first time since December 2018, partly driven by a recovery in the new export orders sub-index. Improving production also contributed to the recent recovery in the labor market, which would boost domestic spending**. Looking ahead, the economy should continue to recover following relaxation of lockdown measures and progress in the vaccination program which could revive services activities and domestic demand.**





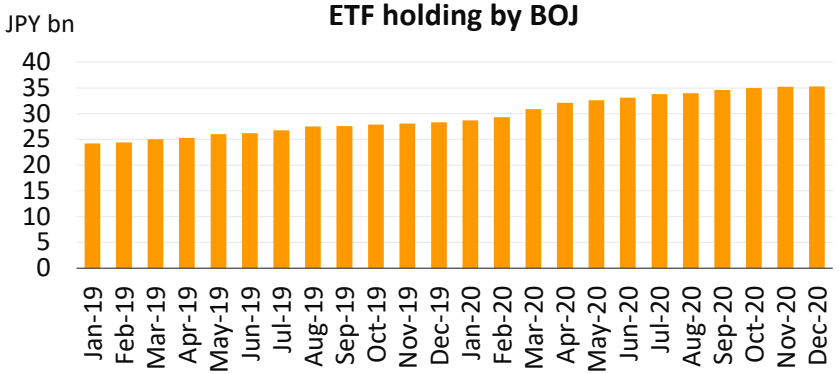


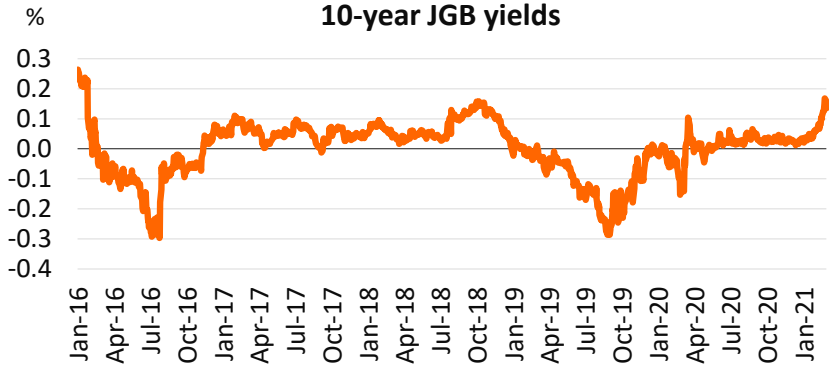


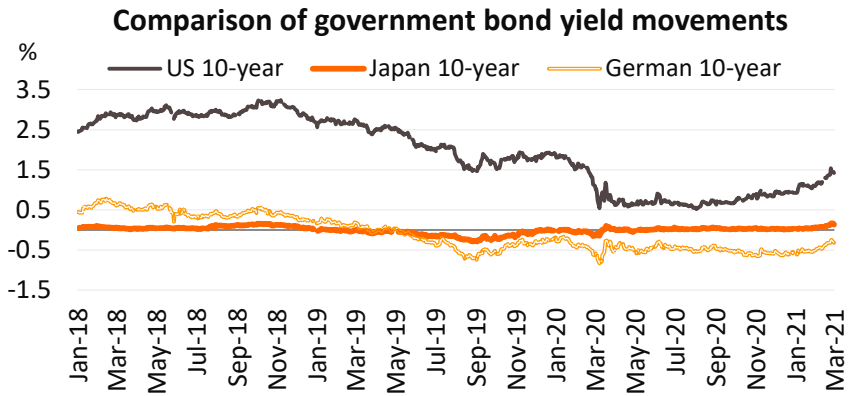
Source: CEIC, Bloomberg, Capital Economics, Krungsri Research

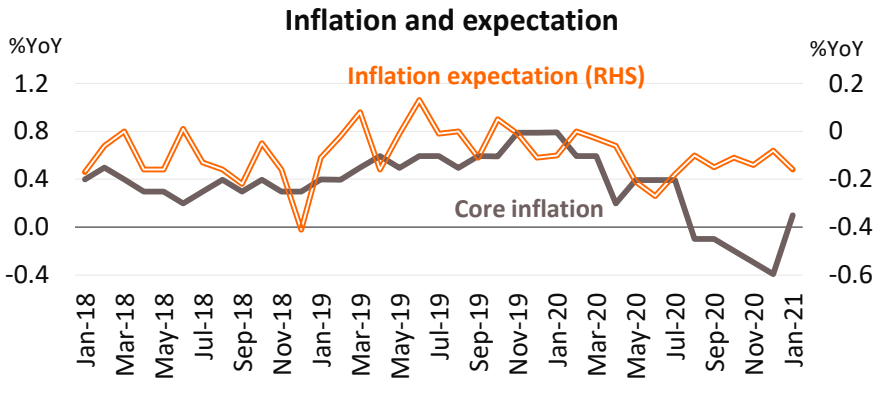
BOJ might tweak policy this year but Japan still needs very-loose policy to support a further recovery

Given the improving economic outlook, the Bank of Japan (BOJ) may tweak monetary policy this year, including widening the tolerance band for bond yields and reducing purchase volume of exchange-traded funds (ETF). This would allow markets to function more efficiently, improve banks' earnings, and mitigate market speculation. We expect the policy tweak to be gradual because the economic recovery is in the early stage and a sharp rise in bond yields would affect recovery. Although Japanese bond yields have been relatively flat compared to peers, 10-year JGB yield had recently risen to a two-year high, suggesting the BOJ needs not rush to adjust policy. **Krungsri Research views there would be a policy tweak instead of tightening, for the following reasons: (i) core inflation is improving but remains far below the BOJ's target of 2%. The BOJ forecasts core inflation would reach +0.5% in 2021 and +0.7% in 2022, and (ii) Governor Kuroda said, "*the BOJ now won't hit its goal before 2024*", implying the central bank would continue to pursue very-loose monetary policy for several years to support a sustainable economic recovery.**









Source: Bank of Japan, CEIC, Bloomberg, Reuters, Capital Economics, Krungsri Research

Thailand: Gradually turns a corner

Latest data point to early signs of economic rebound after recovery stumbled with the resurgence of COVID-19

- Exports will be a key driver of the Thai economy, with latest data showing positive momentum. Recovering external demand would help to cushion the COVID-19 impact on manufacturing production. By sector, exports and capacity utilization rates in several categories have recovered beyond pre-pandemic levels. Domestic tourism will recover following easing lockdown measures, although it was hit in January after Thailand experienced a second outbreak. Inbound tourism activity could see substantial improvements in 4Q with the relaxation of COVID-19 travel restrictions and quarantine requirements. Private consumption and investment show signs of picking up after slowing down due to the second outbreak at the beginning of this year.

Excess savings suggest large room for domestic spending when pandemic ends

- Excess savings has surged since the COVID-19 pandemic started last year, to THB926bn at the end of 2020, accounting for almost 6% of Thai GDP. This implies large room for spending after the pandemic ends. Excess savings of individuals has surged to THB647bn (or 4% of GDP) and that of businesses has also increased to THB167bn (1% of GDP). These will support growth of private consumption and investment in the periods ahead.

Low velocity of money indicates accommodative policy will continue, while signs of economic recovery suggest no need for more rate cuts

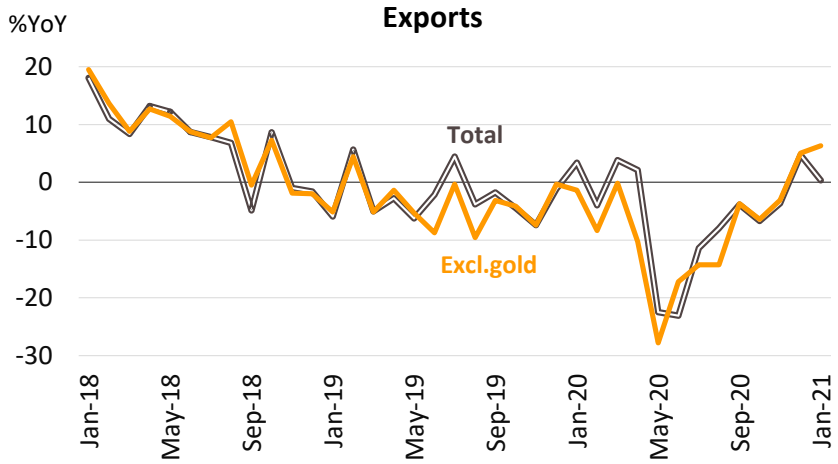
- Despite the recent spike in bond yields and reflation concerns amid rising money supply, there is no sign of tightening monetary policy because the economic recovery is in the early stage and the velocity of money remains near a historical low. Krungsri Research expects the Monetary Policy Committee (MPC) to maintain accommodative monetary policy by keeping policy rate at a record low of 0.50% throughout this year. Meanwhile, the MPC is unlikely to cut policy rate given signs of economic recovery amid further relaxation of lockdown measures.

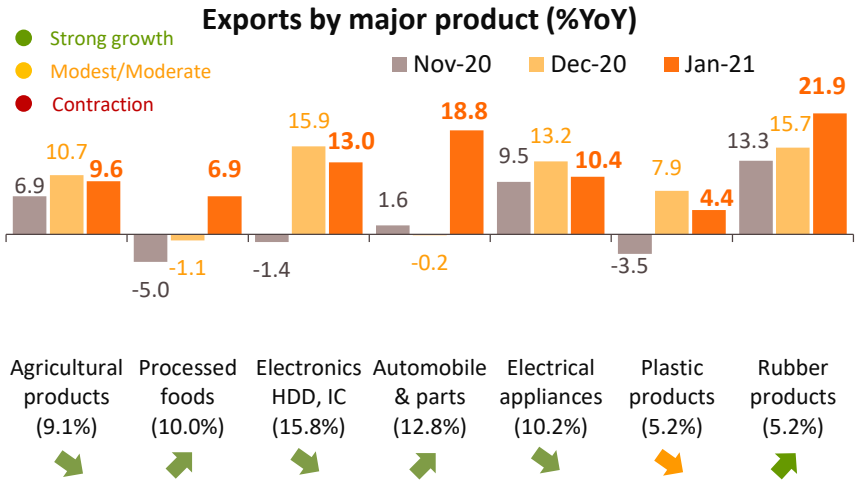
Thailand Economic Outlook 2021

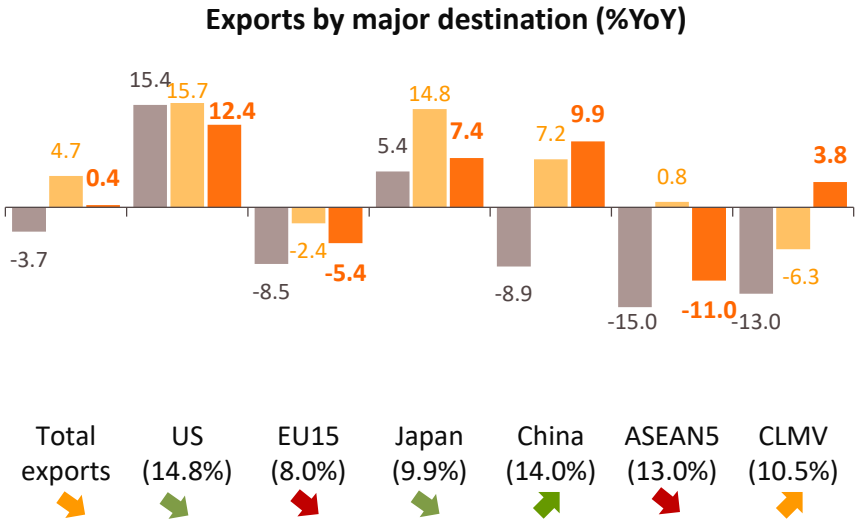
Krungsri Research Forecast		2019	2020	2021F
GDP growth	YoY (%)	2.3	-6.1	2.5
Private Consumption Expenditure	YoY (%)	4.0	-1.0	1.8
Government Consumption Expenditure	YoY (%)	1.7	0.8	4.3
Private Investment	YoY (%)	2.7	-8.4	2.9
Public Investment	YoY (%)	0.1	5.7	10.5
Nominal Exports in USD (f.o.b.)	YoY (%)	-3.3	-6.6	3.8
Nominal Imports in USD (f.o.b.)	YoY (%)	-5.6	-13.5	5.2
Current Account Balance	USD, bn	38.2	16.5	19.6
Tourist Arrivals	Mn, persons	39.8	6.7	4.0
Headline Inflation	YoY (%)	0.7	-0.8	1.1
Exchange rate (end of period)	THB/USD	30.1	30.0	29.3
Policy Interest rate (end of period)	(%)	1.25	0.50	0.50
Dubai crude price (period average)	USD/bbl	63	42	62

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

Export sector will be key driver of the Thai economy; latest data show positive momentum







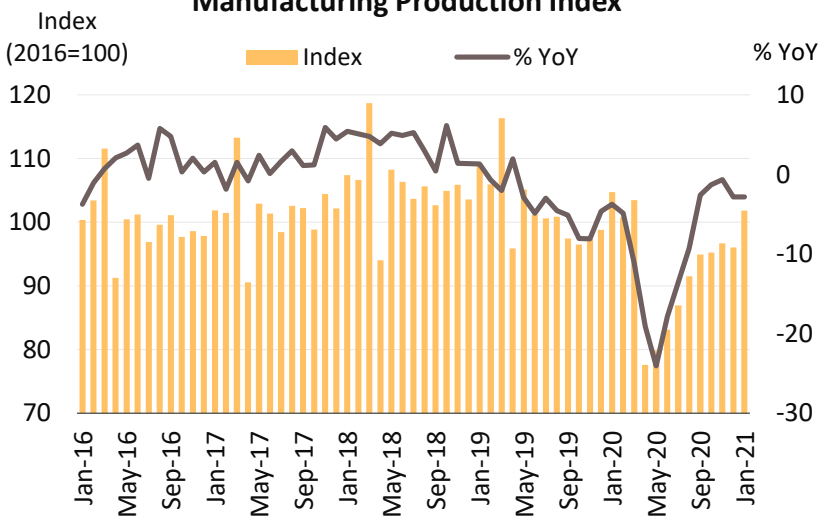
Note: ( ) share in 2020
Source: MOC, Krungsri Research

Krungsri Research's view

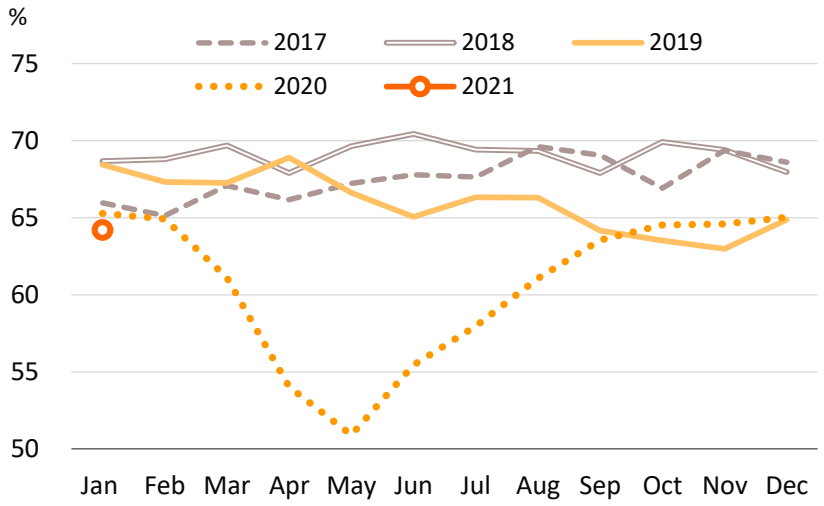
- **Merchandise exports rose for the 2nd straight month, by 0.4% YoY in January** (vs +4.7% in December)**. Excluding gold, exports grew by 6.3% YoY** (vs +5.0%), reflecting the positive momentum. Shipments of major export items have picked up in line with recovering demand from trading partners. By destination, exports to the US grew for the 8th consecutive month, and those to other major markets, including Japan and China, continued to grow.
- **There are factors supporting exports. Pandemic fears are easing** and vaccination programs are moving forward, which would allow most of the world to exit from lockdown in the near future. This will improve economic activities worldwide. **Global trade is also gaining momentum with a cyclical recovery.** February Manufacturing PMI data for major countries remain in expansionary phase (over-50 points). **The Thai economy will also benefit from greater regional economic ties** and generally increasing regionalization. That would drive the export sector in the coming period.

Rising external demand helps to cushion negative impact of COVID-19 on domestic manufacturing production

Manufacturing Production Index



Capacity utilization of manufacturing production (sa)



Manufacturing production by industry

Manufacturing Production (% YoY)*	Weight	2019 J	F	M	A	M	J	J	A	S	O	N	D	2020 J	F	M	A	M	J	J	A	S	O	N	D	2021 J
All industry	100.0%																									
Food & Beverages	20.3%																									
Automotive	13.8%																									
Petroleum	9.5%																									
Chemicals	9.1%																									
Rubbers & Plastics	8.8%																									
Cement & Construction	5.5%																									
IC & Semiconductors	5.5%																									
Electrical Appliances	3.8%																									
Textiles & Apparels	3.5%																									
HDD	3.4%																									

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

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

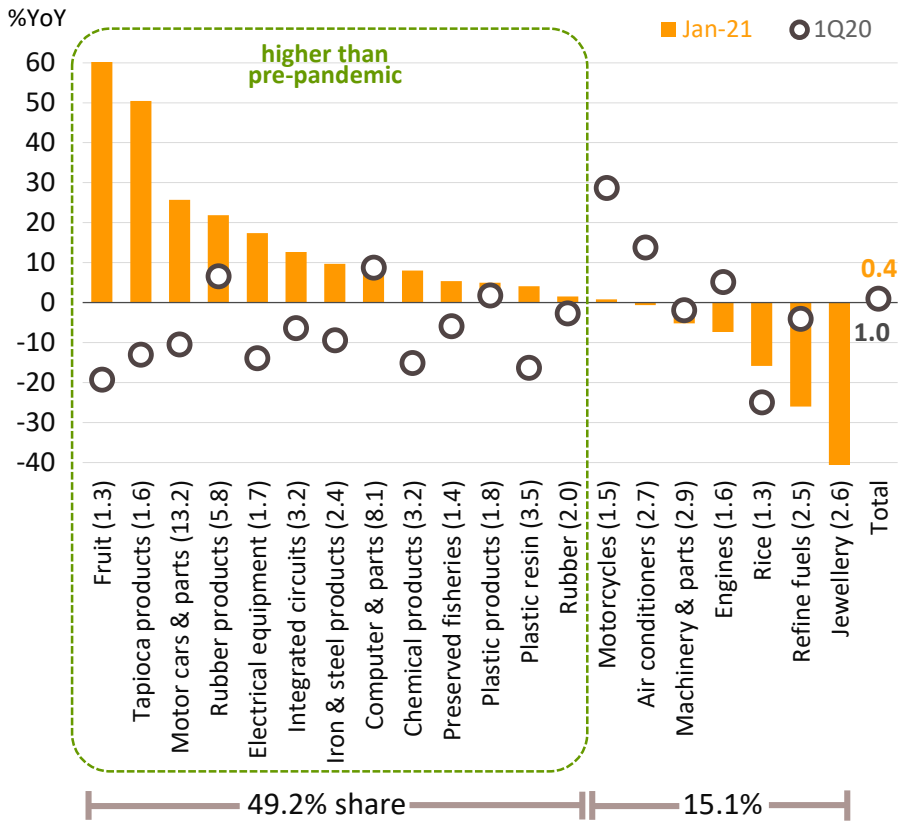
Krungsri Research's view

- **The Manufacturing Production Index fell 2.8% YoY in January, similar to December,** due to weak demand in the following sectors: (i) jet fuel as air travel remains sluggish; (ii) food & beverage as authorities had banned the sale of alcohol beverages in restaurants during lockdown; (iii) automotive as a result of weak domestic demand. However, production of goods that facilitate work-from-home policy grew due to rising external demand, e.g., HDD, IC & semiconductors.
- **Capacity Utilization fell to 64.2% in January** from 65.0% in December, but it is close to pre-pandemic level.

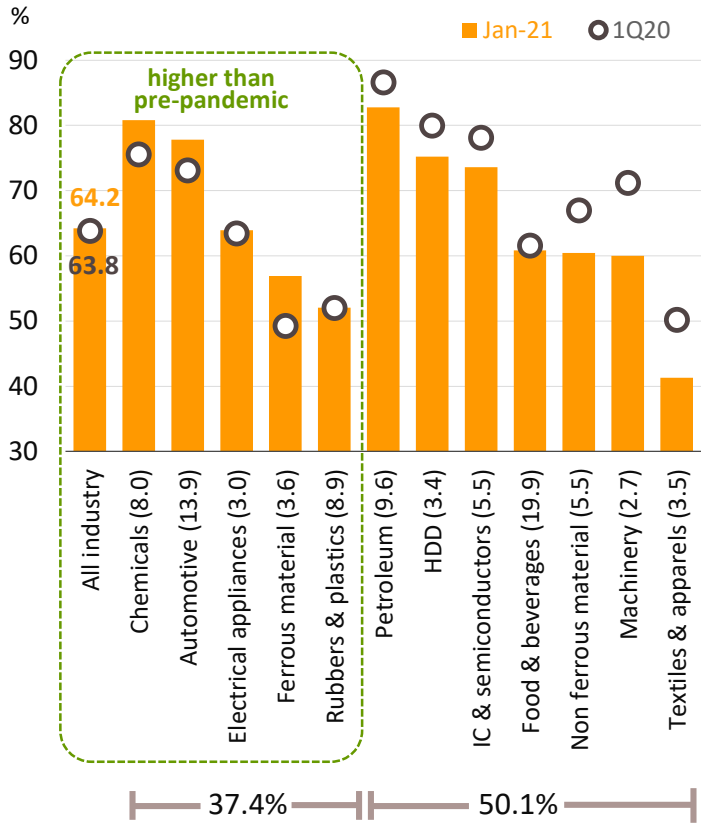
By sector, exports and capacity utilization in many categories are recovering beyond pre-pandemic levels

In January, exports in several sectors had expanded faster than pre-pandemic levels (in 1Q20), led by products to facilitate work-from-home policy and to contain the pandemic. 13 out of the top-20 export items saw stronger growth than in 1Q20, led by fruit, tapioca products, cars & parts, rubber products, electrical equipment, and integrated circuits. The stronger exports have had positive spillover effects on domestic production. Capacity utilization rates in several sectors have also risen above pre-COVID-19 levels although domestic demand remained weak and suffered from the second outbreak at the beginning of this year.

20 Top Thailand Exports in January 2021



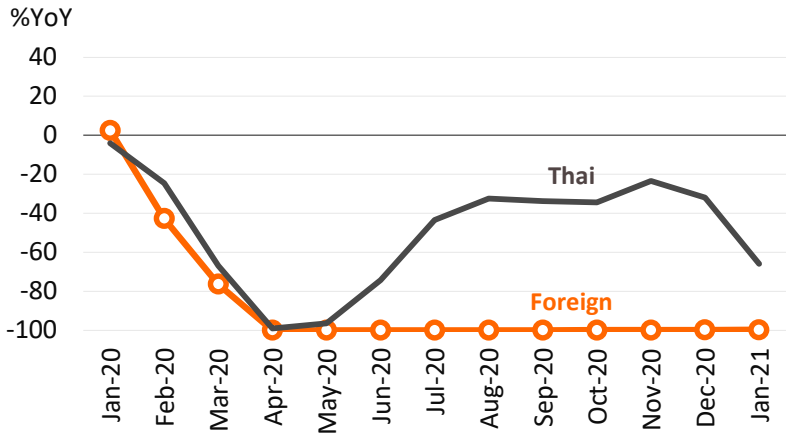
Capacity Utilization



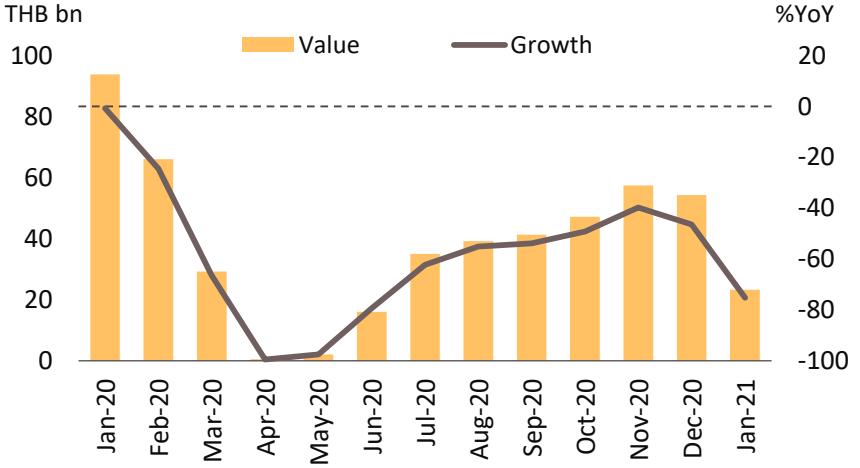
Note: ( ) = % share of total exports, and % share in all industry
Source: MOC, OIE, Krungsri Research

Domestic tourism will recover with easing lockdown measures, through it was hit in January by the second outbreak

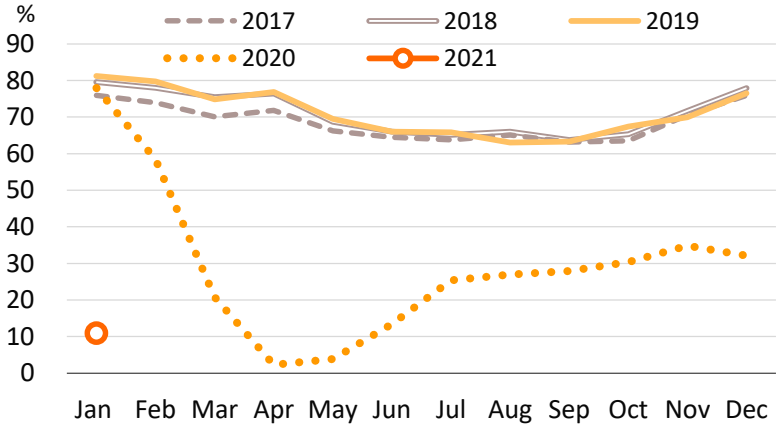
Foreign tourist arrivals in Thailand and Thai tourists



Tourism receipts from Thai tourists



Nationwide average occupancy rate



Source: MOTS, Krungsri Research

Krungsri Research's view

- **Foreign tourist arrivals dropped by 99.8% YoY to 7,649 tourists in January,** close to 6,556 in December. Arrivals under the Special Tourist Visa (STV) program, Thailand Privilege Card and business visa were mostly from Europe, especially Finland, Switzerland, and Denmark.
- **Domestic tourism shrank by 65.9% YoY to 6.79 mn trips in January** (vs -31.9% or 15.2 mn trips in December) following the second outbreak which started in December. That had prompted the government to ban inter-province travel. Tourism receipts also plunged 75.3% to THB23.2 mn (vs -46.4% or THB54.4 bn).
- Given the steep contraction in foreign and Thai tourists, **national occupancy rate collapsed to 10.9%, the lowest since June 2020.**
- **Looking ahead, domestic tourism is expected to recover, spurred by easing pandemic fears, relaxation of lockdown measures, nationwide COVID-19 vaccination program, and stimulus measures to boost domestic spending.**

Inbound tourism could recover substantially in 4Q; relaxation of COVID-19 restrictions will revive activity

The vaccination programs and easing COVID-19 fears in Thailand and other countries will pave the way for the government to ease inbound travel restrictions. That will be implemented in three phases (see chart). One proposal is to reduce the mandatory quarantine period for incoming travelers. The new quarantine requirement is tentatively scheduled to start on April 1, and would be 7-10 days (instead of 14 days currently) on a case-by-case basis (details in the table), according to the Department of Disease Control. The proposal is pending official approval on March 19. The most important is the proposal to reopen the border to most tourists from October 1, which will improve inbound tourism. Krungsri Research is maintaining forecast for foreign tourist arrivals to recover significantly to 3.2 mn in 4Q21.

Proposal to relax COVID-19 restrictions

Phase I
- Starting **April 1, 2021,** (i) assign color codes and level for each area based on vaccination rate, (ii) reduce mandatory quarantine period, and (iii) end emergency decree on May 31, 2021.

Phase II
- Starting **Jun 1, 2021,** shorter quarantine period for Thai and non-Thai citizens who are vaccinated

Phase III
- Starting **Oct 1, 2021,** mandatory quarantine may be lifted for vaccinated travellers if Thailand inoculates 70% of medical personnel and at-risk groups, according to the Health Minister.

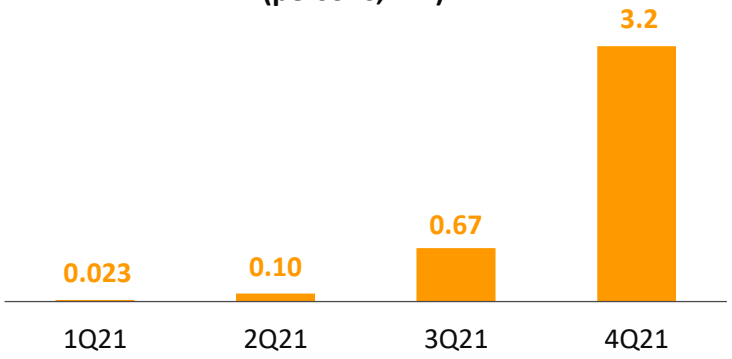
Opportunity for inbound tourism to recover in 4Q21

Plans to reduce mandatory quarantine period

Thai nationals	Vaccine passport	COVID-19 safety certificate	Mandatory quarantine (days)
✗	✓	✓	7
✓	✓	✗	7
✗	✗	✓	10

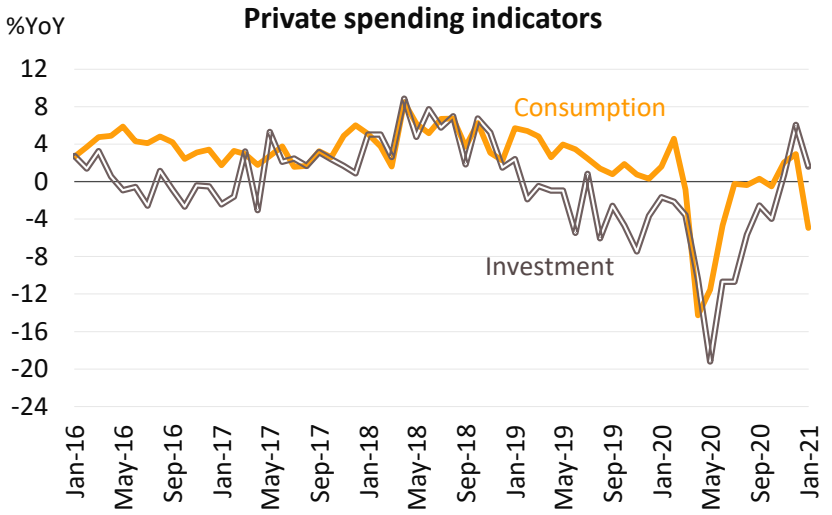
Note: Excluding travelers from Africa (must be quarantined for 14 days)

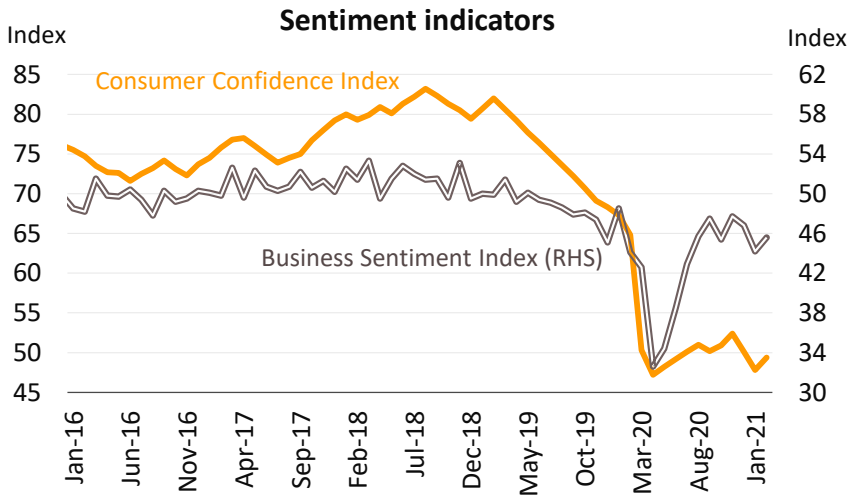
Projected foreign tourist arrivals in 2021 (persons, mn)



Source: Local press, Krungsri Research

Domestic spending show signs of picking up after slowing down early this year following the second outbreak





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

Private spending by category

Private spending indicators % YoY*	2019 J	A	S	O	N	D	2020 J	F	M	A	M	J	J	A	S	O	N	D	2021 J
Private consumption																			
Non-durables																			
Semi-durables																			
Durables																			
Services																			
Non-residents expenditure																			
Private investment																			
Construction area permitted																			
Construction material sales																			
Imports of capital goods																			
Machinery sales																			
Newly registered vehicles																			

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

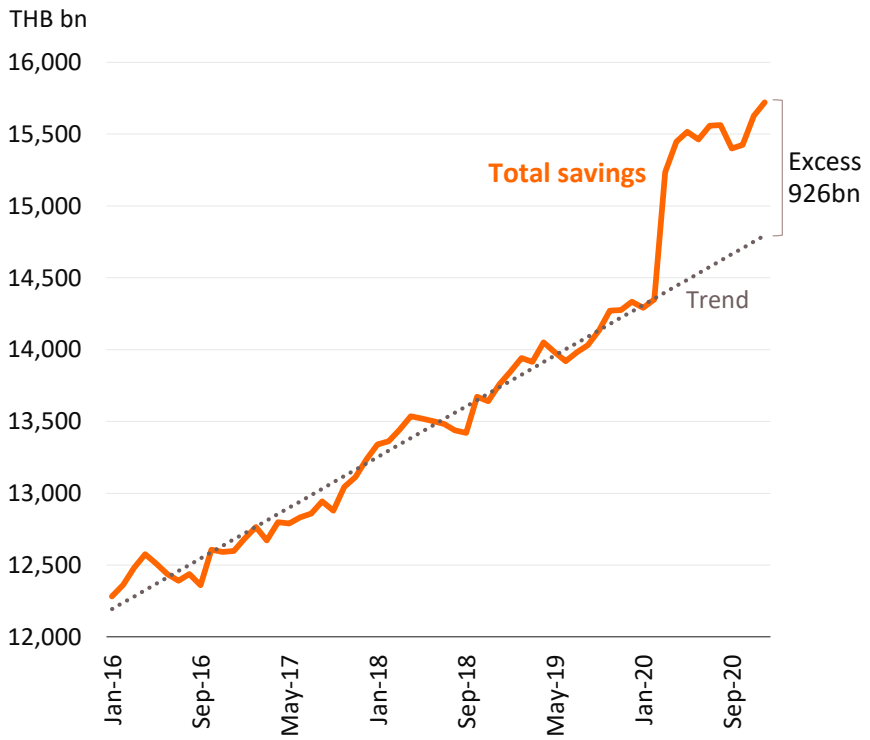
Krungsri Research's view

- **February confidence indices show positive signs.** The Consumer Confidence Index (CCI) and Business Sentiment Index (BSI) turned around in February and rose for the first time in 3 months, on the back of the improving pandemic situation, easing lockdown measures, and government measures that would support domestic spending going forward.
- **In January, Private Consumption Index fell by 4.9% YoY** (vs +2.9% in December). All spending categories fell due to the resurgence of COVID-19, partial lockdown, limited activities, and ban on inter-province travel.
- **Private investment grew at a slower pace of 1.6%** (vs +6.1%) following a slowdown in investment in machinery and equipment and continued contraction in construction spending. However, growing exports limited the drop in investment..

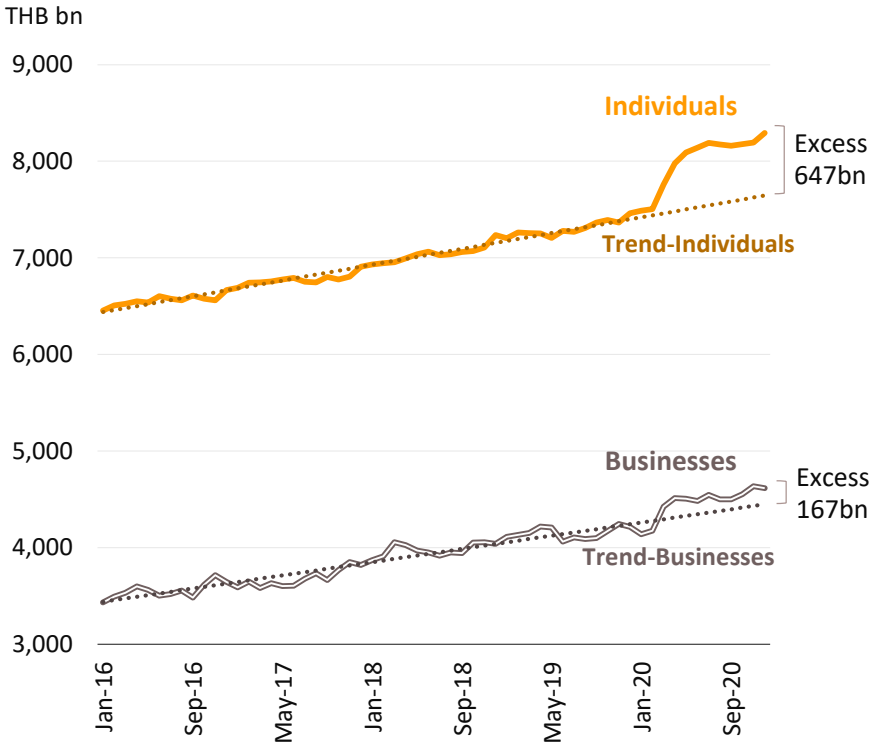
Excess savings suggest domestic spending would expand when the pandemic ends

Excess savings (defined as the differential between actual savings and its trend) has surged since the pandemic started, to THB926bn at the end of 2020, accounting for almost 6% of Thai GDP. This implies large room for spending after the pandemic ends. Excess savings of individuals has surged to THB647bn (or c.4% of GDP) and that of businesses has increased to THB167bn (c.1% of GDP). These will support growth of private consumption and investment in the periods ahead.

Total savings (deposits at commercial banks*)



Savings of businesses and individuals



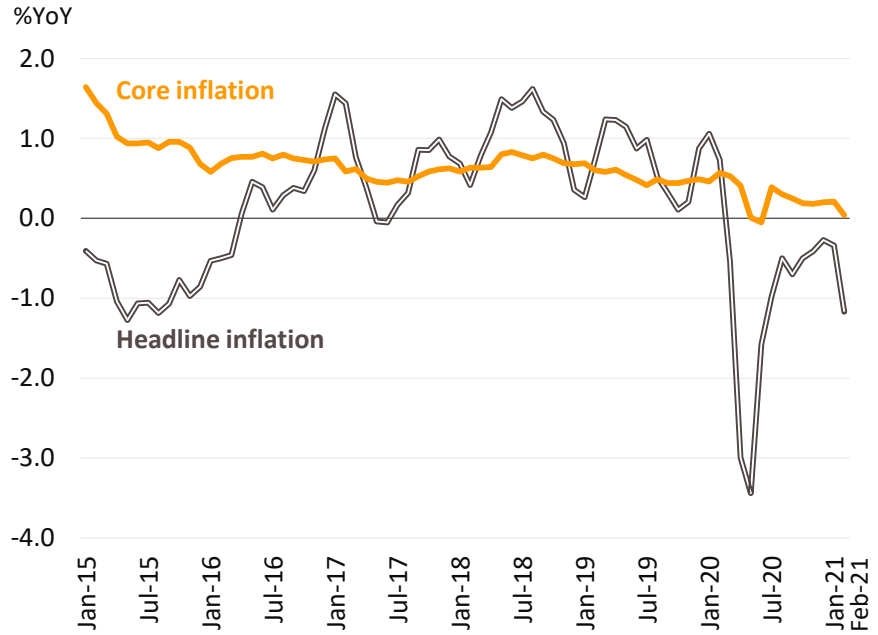
Note: Depositors include Individuals, Businesses, Government, State Enterprises & Government Agencies, Funds, Local Financial Institutions, Non-profit Organizations, Banks and Other Financial Institutions Oversea and Non-residents

Source: BOT, Bloomberg, Krungsri Research

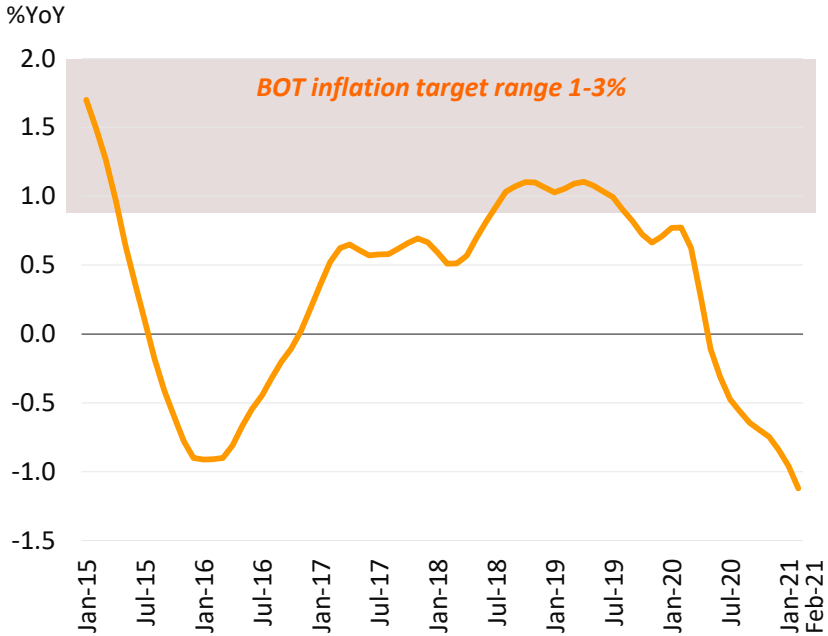
Inflation temporarily slipped into negative territory in February; expect to turn positive in 2Q21

February headline inflation fell to an 8-month low of -1.17% YoY from -0.34% in January, the 12th month in negative territory. This was partly driven by government measures to reduce water and electricity bills in February and March, coupled with lower prices of raw food (-1.38%). Price indices for other goods and services were mostly unchanged, in line with production and consumer demand, except retail gasoline prices which rose for the first time in 13 months following higher global oil prices. **Core inflation** (excluding volatile raw food and energy components) **stood at 0.04% in February, down from 0.21% in January.** For 2M21, average headline and core inflation came in at -0.75% and 0.12%, respectively. **We expect headline inflation to return to positive territory in 2Q21** as the pandemic situation is improving, lockdowns are being eased, and the vaccination program is moving forward. In addition, government measures to support purchasing power would boost domestic spending, which would slowly push up consumer prices.

Inflation data



12-month moving average for headline inflation



Source: MOC, Krungsri Research

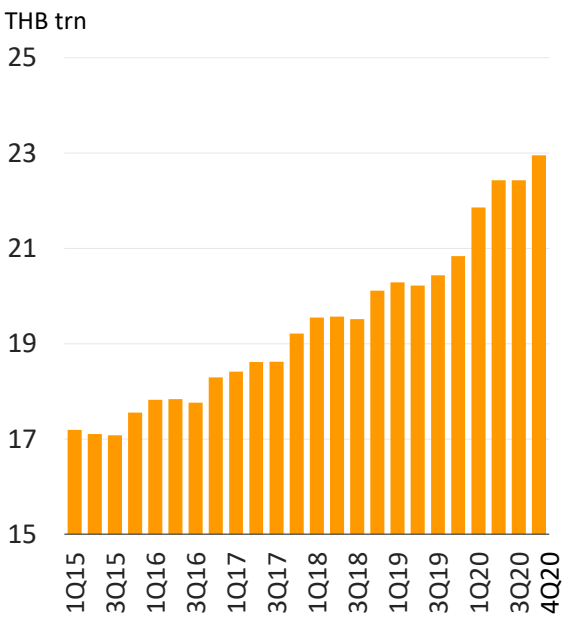
Despite rising bond yields and reflation concerns, MPC will maintain dovish stance given low velocity of money

Despite the recent spike in bond yields (to the highest since July 2019) **and growing concerns over reflation amid rising money supply, there is no sign of tightening monetary policy** because the economic recovery is in the early stage, and the velocity of money, which indicates frequency of transactions, remains at a historical low (at 0.68 vs a 5-year average of 0.80). Krungsri Research expects that the Monetary Policy Committee (MPC) will maintain accommodative monetary policy by keeping policy rate at a record low of 0.50% throughout this year**. Meanwhile, the MPC is unlikely to cut policy rate** given signs of economic recovery amid further relaxation of lockdown measures. At its last meeting, the MPC said that since the recovery remained uneven**, it would be necessary to implement targeted measures aimed at specific groups.** Officials are currently working on a new aid under the 'asset warehouse scheme', expected to start in 2Q21. This will be targeted at the hard-hit tourism industry, including hotels and related businesses who are debtors of commercial banks and SFIs. This implies no need of more rate cuts.

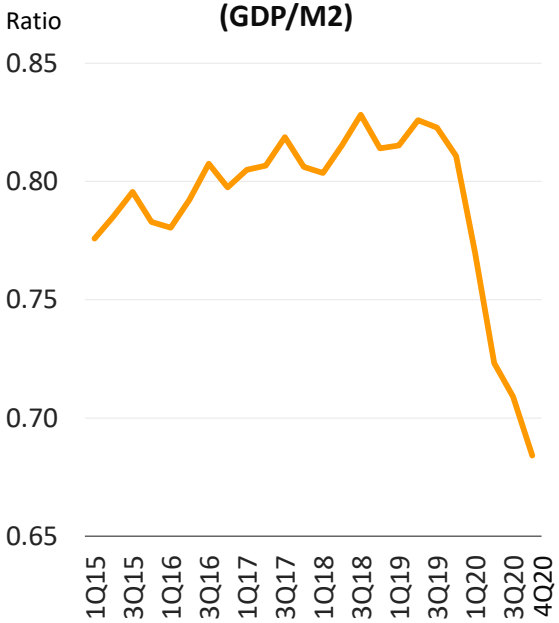
10-year government bond yields



Money supply (M2)*



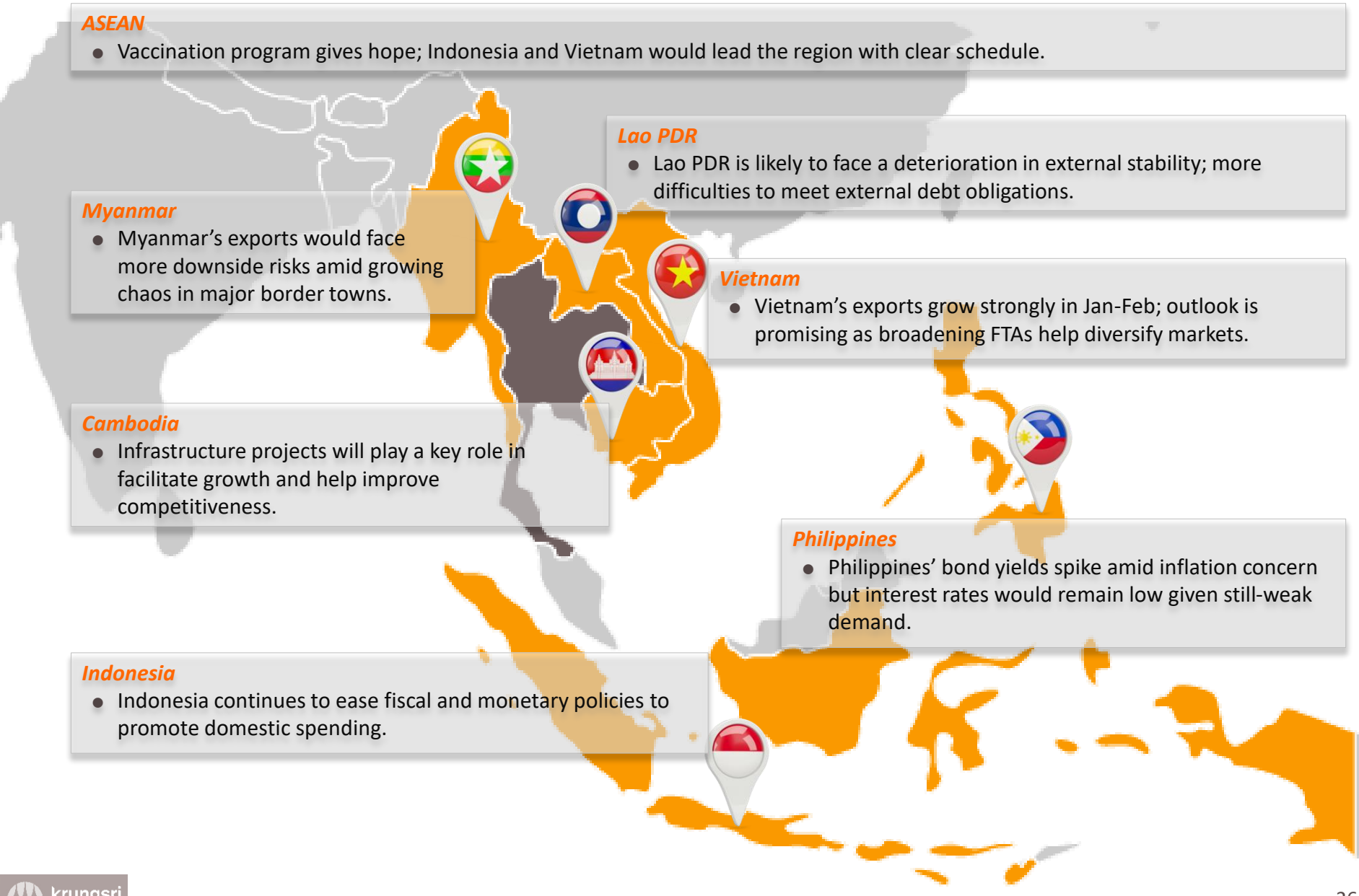
Velocity of money (GDP/M2)



Note: Money supply or M2 comprises narrow money (M1) and quasi-money, i.e. deposits with near-money liquidity such as savings, fixed, or other deposits of money holders.
Narrow Money comprises (i) Currency outside Depository Corp. (DCs) & Central Gov. (ii) Demand Deposits at DCs.
Quasi-money comprises (i) Foreign Currency Deposits placed at DCs (ii) Other Deposits at DCs comprises savings, time, and other deposits in national currency, net asset value of money market mutual fund of money holders placed at DCs, as well as promissory notes (P/Ns) issued by finance companies inclusive of accrued interests.

Source: BOT, CEIC, Krungsri Research

Regional Economic and Policy Developments in March



ASEAN

- Vaccination program gives hope; Indonesia and Vietnam would lead the region with clear schedule.

Lao PDR

- Lao PDR is likely to face a deterioration in external stability; more difficulties to meet external debt obligations.

Myanmar

- Myanmar's exports would face more downside risks amid growing chaos in major border towns.

Vietnam

- Vietnam's exports grow strongly in Jan-Feb; outlook is promising as broadening FTAs help diversify markets.

Cambodia

- Infrastructure projects will play a key role in facilitate growth and help improve competitiveness.

Philippines

- Philippines' bond yields spike amid inflation concern but interest rates would remain low given still-weak demand.

Indonesia

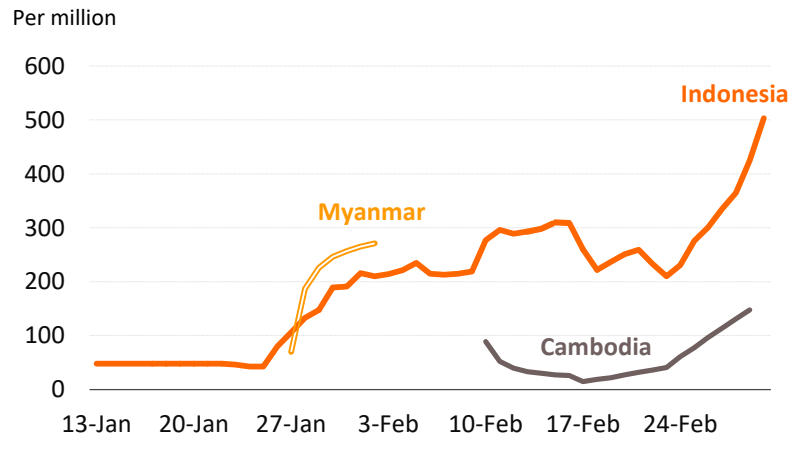
- Indonesia continues to ease fiscal and monetary policies to promote domestic spending.

ASEAN's vaccination program gives hope; Indonesia and Vietnam would lead the region with clear schedule

Krungsri Research's view

- All Southeast Asia nations have already received COVID-19 vaccines and most of them have started public rollout, led by Indonesia since 13 January 2021. Though the massive vaccination to create herd immunity is key factor of economic recovery that all countries aim, **there are uneven in progress and vaccination targets across the region**. The clearer and more progress in vaccination would support a stronger recovery this year.
- **According to each government's plans, vaccination sourcing, and latest progress, we view that Indonesia and Vietnam have the most impressive progress in vaccination program.** Not only being the first country in CLMVIP that started vaccine rollout, **Indonesia** also has actively and continuously vaccinated with clear plan to vaccinate monthly 16 million doses to meet target of 63% of total population by end-2021. Its government has increased budget by 20% for vaccines this year and also uses several tools to speed up vaccination, including allowing private companies to pay to independently inoculate their staff. **Vietnam** has been another country with high vaccinated target of 70% of total population this year. In addition, it is also set to receive vaccines from AstraZeneca for up to 30 million doses (c.16% of total population) in 1H21, and is developing vaccines locally – which are on progress of trials.
- **Philippines would be the next country who has progress with planned vaccination of 65% of population by this year.** However, the vaccination would be slower than the target because (i) a delay in sourcing, which leads to a laggard in delivery and (ii) low public confidence in vaccines.
- **Cambodia, Laos, and Myanmar are likely to see slow progress on vaccination program** because they have relatively limited budget to purchase vaccines and are highly depending on supports from China and COVAX. That leads to very low vaccination targets for these countries, i.e. Myanmar 40%, and Cambodia and Laos 20% by end-2021.

Daily COVID-19 vaccination



Vaccination program by country*

Country	Target (% of country's population)			Latest vaccinated (% of population)	Vaccine sourcing	
	2021	2022	2023		Government procurement	Supports
Indonesia	63%	79%	n.a.	0.8%	Sinovac, Sinopharm, AstraZeneca, Novavax, Pfizer	COVAX
Vietnam	70%	n.a.	n.a.	-	AstraZeneca, Moderna, Sputnik V	COVAX
Philippines	65%	n.a.	n.a.	-	(Under negotiation with Moderna, AstraZeneca)	Sinovac (donated by China), COVAX
Myanmar	40%	n.a.	n.a.	0.2%	n.a.	Sinopharm (donated by China), COVISHEILD (supported by India)
Cambodia	20%	n.a.	n.a.	0.2%	n.a.	Sinopharm (donated by China), COVAX
Laos	20%	n.a.	n.a.	-	n.a.	Sinopharm (donated by China), COVAX

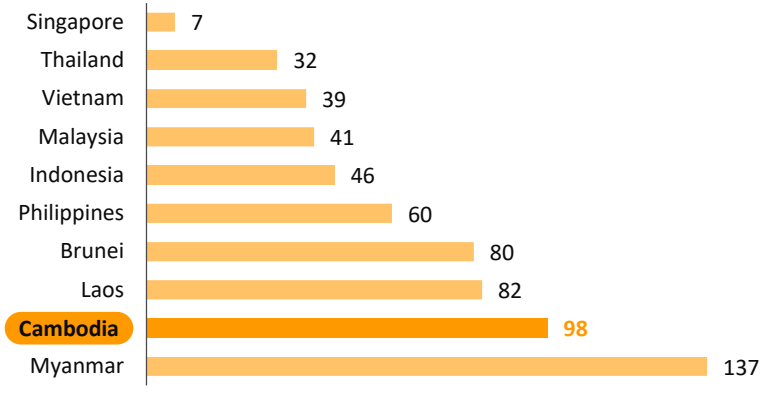
Note: * compiled by Krungsri Research, as of 3 March 2021.
Source: WHO, Our World in Data, CEIC, Krungsri Research

Cambodia: Infrastructure projects will play a key role in facilitate growth and help improve competitiveness

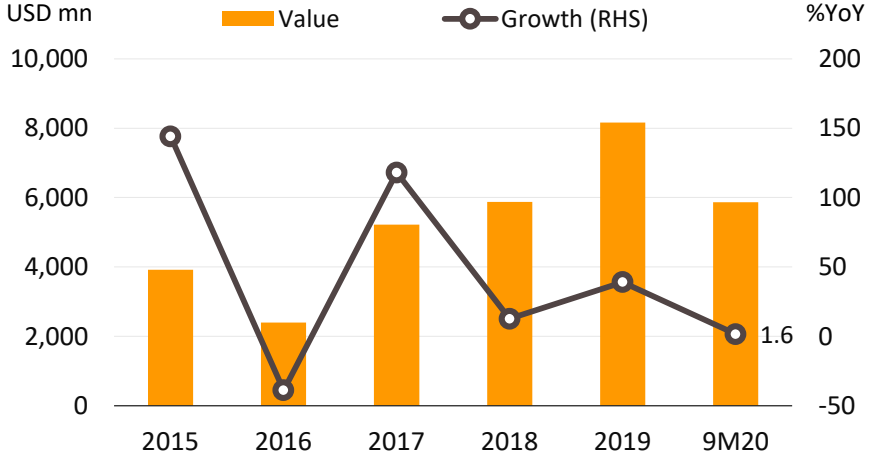
Cambodia's major infrastructure projects

Projects	Location	Investment (USD mn)	Expected completion	Progress
The Phnom Penh - Sihanoukville Expressway	Phnom Penh - Sihanoukville province	2,000	2022	32%
The new Phnom Penh International Airport	Kandal province	1,500	2023	n.a.
New Siem Reap Airport	Siem Reap province	900	2023	15%
The Cambodia-China Friendship Bridge	Linking Kampong Cham and Tboung Khmum provinces	57	Apr-21	96%

Rank of 2018 Logistics Performance Index (LPI)



Cambodia's approved fixed asset investment



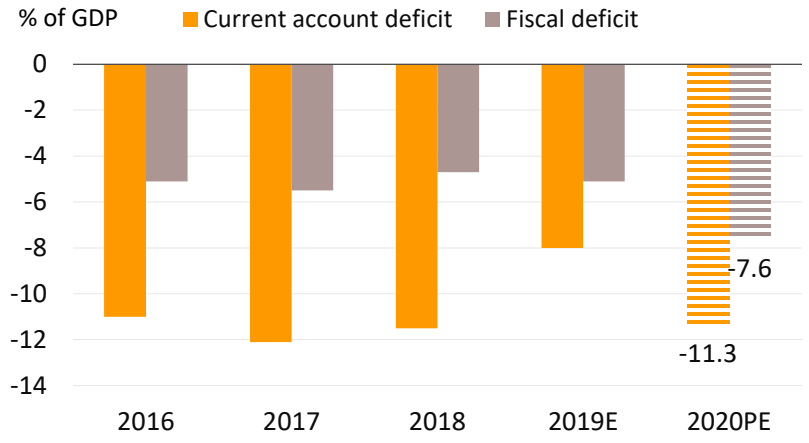
Krungsri Research's view

- The Cambodia officials have recently updated progress of the country's major mega-infrastructure projects worth a total of USD4.5bn, which account for 16.7% of GDP. (see table for key projects)
- We anticipate that **investment would be a key growth driver in Cambodia, led by infrastructure projects and foreign direct investment.** Given several key infrastructure projects planned to finish over the next few years, these would help improve the country's competitiveness, especially in terms of logistics, of which its Performance Index remains low among ASEAN. An expected improving infrastructure would consequently be a more positive factor in attracting new FDI into the countries.
- In addition, **we also expect that outlook of investment in Cambodia remains positive,** supported by (i) better improvement in infrastructure, (ii) the ongoing revised investment law which is expected to be effective in coming months, as well as (iii) advantages of several new bilateral and regional free trade agreements, including the Cambodia-China Free Trade Agreement (CCFTA), the Cambodia-Korea Free Trade Agreement (CKFTA), and the recently signed Regional Comprehensive Economic Partnership (RCEP).

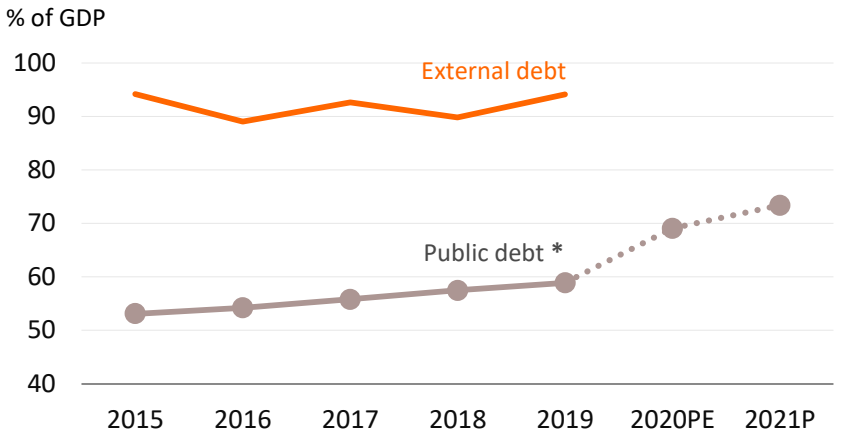
Source: The Council for the Development of Cambodia, World Bank, news media, CEIC, Krungsri Research

Lao PDR is likely to face a deterioration in external stability; more difficulties to meet external debt obligations

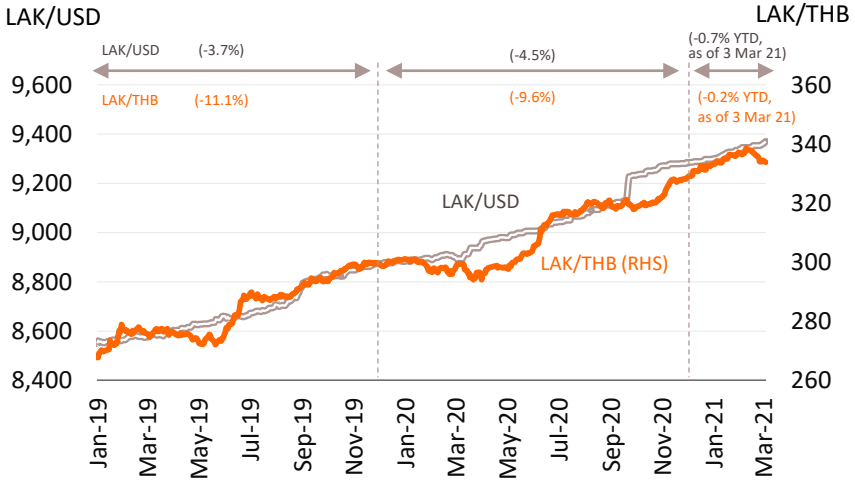
Laos' twin deficits



Laos' public debt and external debt



Laos's foreign exchange rate



Note: * Data from World Bank; PE: primary estimated by World Bank; P: projection

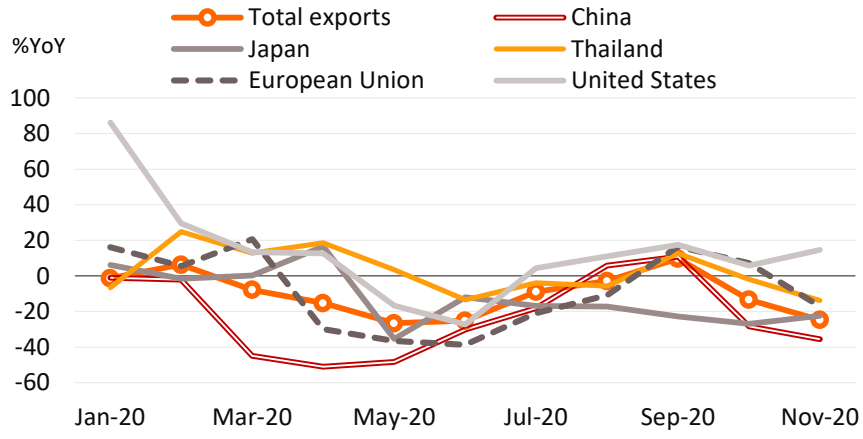
Source: IMF, World Bank, Euromoney, news media, CEIC, Krungsri Research

Krungsri Research's view

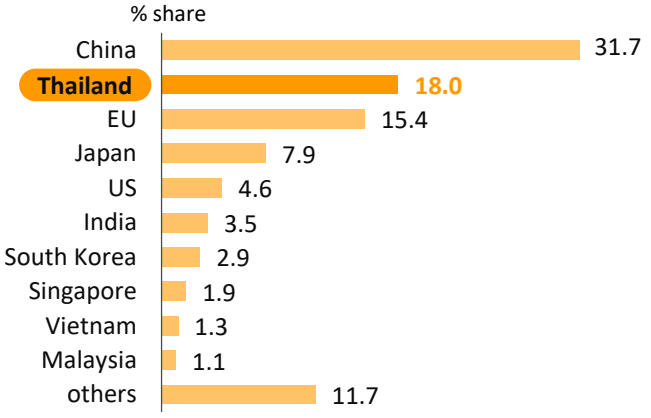
- Laos is expected to face further weakening external stability, which is dampened by the impact of COVID-19 on its major sources of revenues – mainly tourism (c.12% of GDP). Furthermore, it also has limited financing opportunities following sovereign rating downgrades by Moody's in August 2020 and by Fitch Ratings in September 2020. These would lead the country to face higher risks of debt servicing.
- **The country's current account deficit (CAD) is expected to widen in 2020 and would remain large in 2021**, driven by a sharp drop in tourist arrivals. This would hit FX reserves – currently around 2.5 months of imports which is less than 3 months international standard – putting more pressures on the LAK stability.
- **With still-low foreign exchange reserves, large twin deficits (CAD and fiscal deficit), and high public and external debts, the country is facing difficulties in meeting external debt obligations**. In 2021, Laos' total debt service payments are estimated USD1.1bn. Of which, about a half are held by the Electricité du Laos (EDL) – Laos' large state-own enterprise in electricity generation. It has been observed that the EDL has recently made requests to delay and change details of payments with Thai electricity exporters, including change to pay in terms of LAK currency instead of USD.

Myanmar's exports would face more downside risks amid growing chaos in major border towns

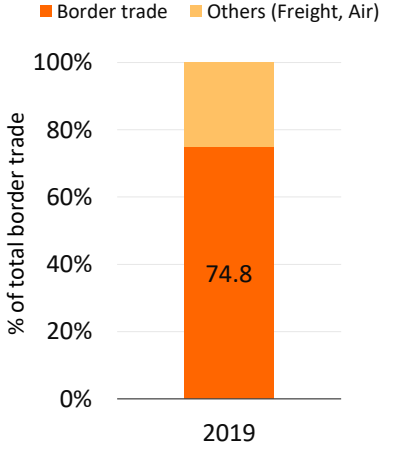
Myanmar's export growth



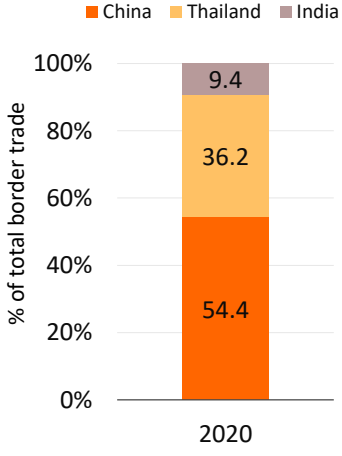
Myanmar's top 10 export markets



Myanmar's border trade



Myanmar's border trade by country



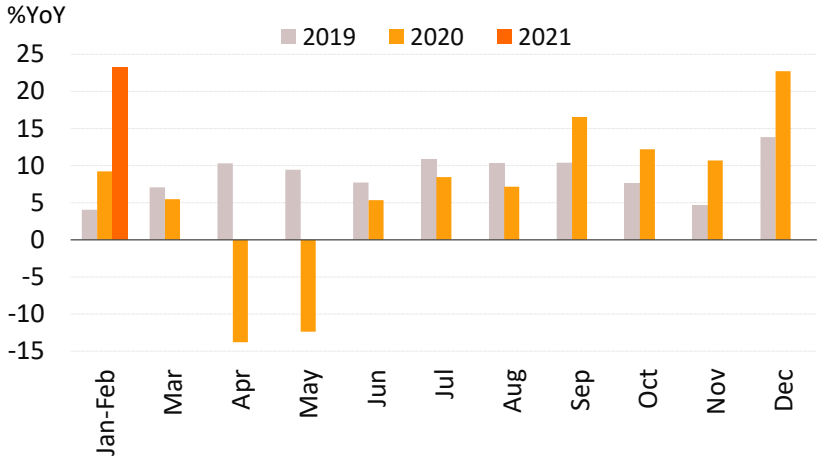
Source: Ministry of Commerce, IMF, CEIC, Krungsri Research

Krungsri Research's view

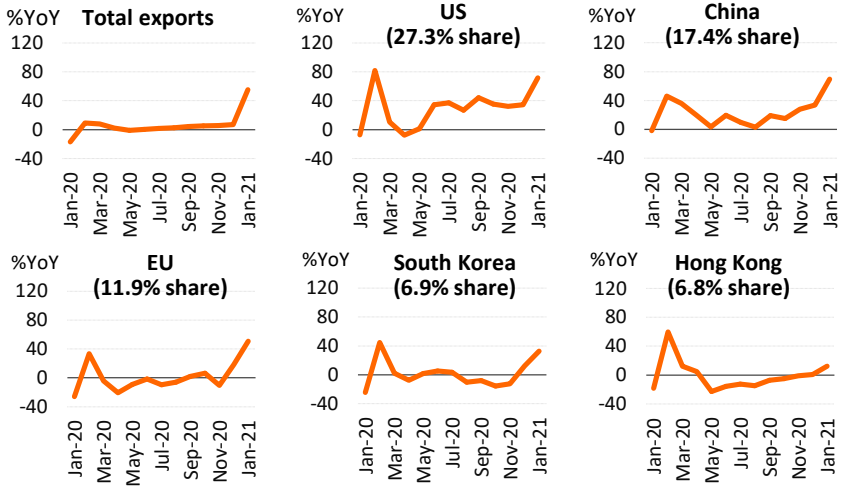
- Massive protests have continued across Myanmar, especially in major economic towns such as Yangon, Mandalay, and a number of its border economic areas. There were reported more than 50 deaths in early March 2021. An increasing and escalating violence could hurt Myanmar's exports, including via its border towns.
- **Myanmar' exports are expected to be hit**, supported by (i) a limited production activities due to a work suspension in several economic areas, (ii) the latest central bank's measures setting more limited amount of cash withdrawal for individuals and enterprises by a half of pre-coup level, and (iii) violence expanding to its major border economic areas.
- **In the short term, we anticipate Myanmar would continue to import necessary goods, especially consumer goods, to meet domestic demand as it has very limited domestic production. However, several potential risks (trade, investment, financial transactions, operation) are looming**. A prolonged and growing chaos across the country – including border areas – would cause international trade more vulnerable. Specifically, Myanmar has relied heavily on China, Thailand, and India (totally account for 54% of its total exports) and most (up to 75%) of Myanmar's total trade are made through border trade.

Vietnam's exports grow strongly in Jan-Feb; outlook is promising as broadening FTAs help diversify markets

Vietnam's exports growth



Growth of Vietnam's exports to top 5 destinations



Vietnam's major FTAs

FTAs	Members	Effective	Share of Vietnam's exports	Growth (% YoY)	
				2020	Jan-21
EU-Vietnam FTA (EVFTA)	28 countries: EU27, Vietnam	1 August 2020	11.9	-3.6	50.8
United Kingdom - Vietnam FTA (UKVFTA)	2 countries: UK, Vietnam	31 December 2020	1.8	-13.9	84.6
The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)	11 countries: Australia, Canada, Japan, Mexico, New Zealand, Singapore, Brunei Darussalam, Chile, Malaysia, Peru and Vietnam	30 December 2018	13.7	-1.7	29.1
The Regional Comprehensive Economic Partnership (RCEP)	15 countries: ASEAN 10 countries, China, Japan, South Korea, Australia, New Zealand	Expected by 2022	40.7	3.8	78.7

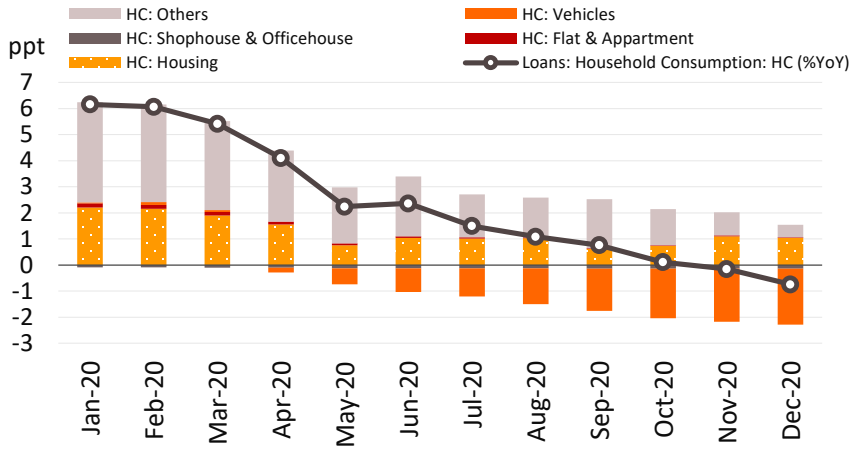
Krungsri Research's view

- Vietnam started the year with still-strong export growth of 23.2% YoY in the first two months of 2021, led by its top 5 export markets – US, China, EU, South Korea and Hong Kong.
- **We anticipate Vietnam's exports to continue expanding firmly in 2021.** Major supportive factors include (i) further recovery of global economy – especially US and China, (ii) a number of trade deals, namely EVFTA, UKVFTA, CPTPP and the awaiting effective RCEP. Vietnam's exports to these member countries account for 40% of its total exports. This would provide comparative advantages to the country's various export products in the more diversified markets under FTAs. In the meanwhile, given highly reliant on external trade, Vietnam is vulnerable to trade tensions, including that US has recently labeled Vietnam currency manipulator.
- In the longer term, we also view that **an ongoing investment relocation from regional countries – including China and expected from Myanmar following rising political instability – would also help promote Vietnam's participation in global supply chains with more diversified products, which would further support export growth**.

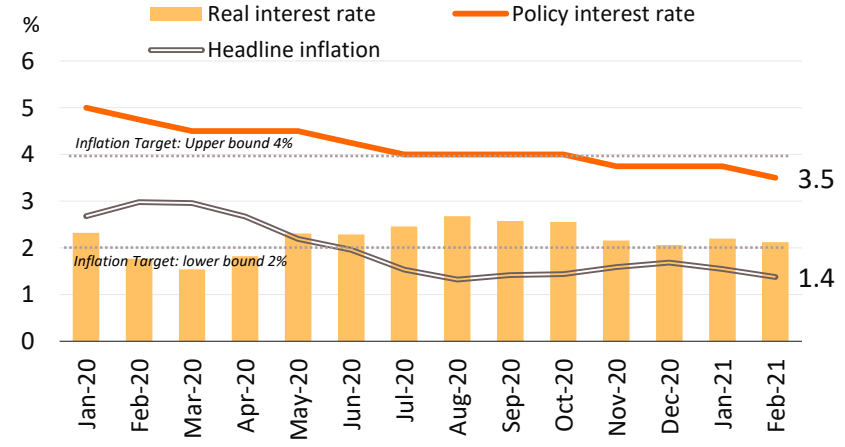
Source: IHS, General Statistics Office, CEIC, Krungsri Research

Indonesia continues to ease fiscal and monetary policies to promote domestic spending

Indonesia's loans for household consumption



Indonesia: Policy interest rate and inflation



Source: Bank Indonesia, CEIC, Krungsri Research

Indonesia: Monetary and fiscal policies on housing and automotive sectors

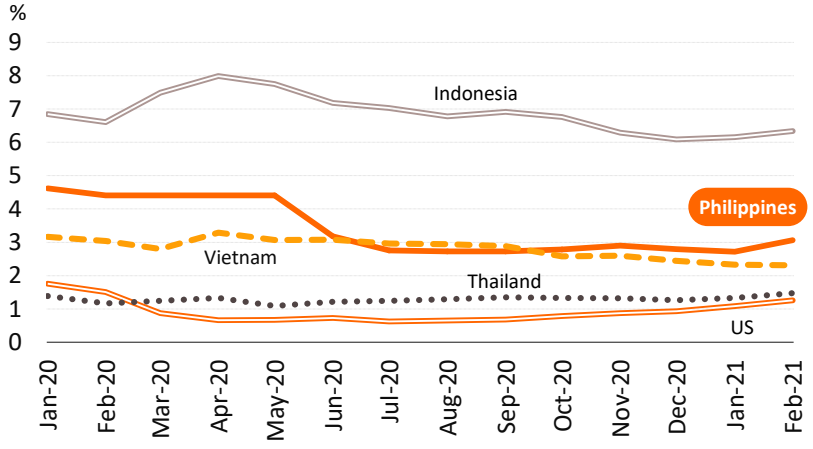
Monetary policy	Fiscal policy
• **Cut the down payment (DP)** requirement for purchases of property and automotive vehicles (cars and motorcycles) to zero percent. • **Relax the loan-to-value (LTV)** and financing-to-value (FTV) ratios to 100 percent, from the previous 85 to 95 percent depending on property type.	• **Waive VAT** on new landed houses and apartments priced below IDR2bn (USD140,300), while VAT will be reduced by half for properties costing IDR2bn to IDR5bn. The policy will be effective from March to August 2021.

Krungsri Research's view

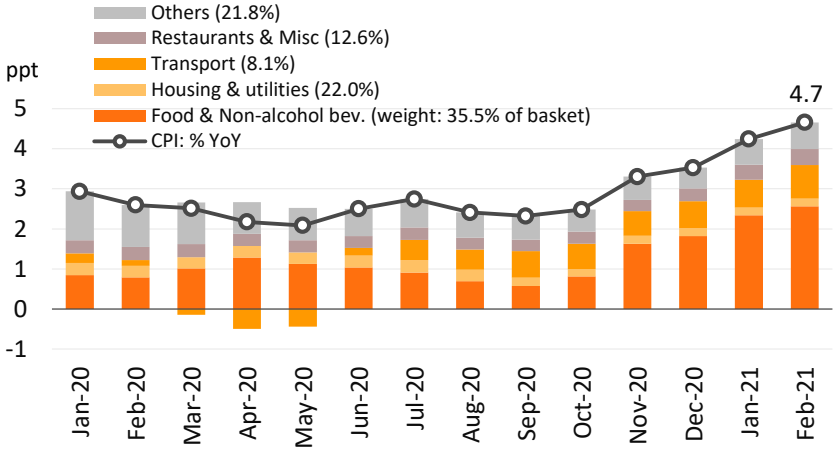
- Indonesian officials have continued to actively stimulate domestic spending to support economic recovery supportive measures for property and automotive sectors, effective from March 2021. (see table for details)
- Since March 2020, loan growth has dropped sharply, led by property and automotive loans, which totally account for roughly 40% of total household consumption loans. This reflects a still-weak consumption demand.
- **We welcome the recent moves of Indonesia officials. To stimulate the economy to meet the government's growth target of 4.5%-5.5% in 2021, it is seriously to quickly support growth of consumption, accounting for c.57% of GDP. We anticipate that the country's consumption would gradually improve, though remain weak,** supported by further relaxing lockdown measures following progress of vaccination program coupled with an extension of government stimulus measures. The latter has been scaled up to c.4.5% of GDP. In addition, **accommodative monetary policy would be seen including a possible rate cut by another 25bps in 1H21 after a cut of 25bps in February given still-benign inflation and more stabilized FX market.**

Philippines' bond yields spike amid inflation concern but interest rates would remain low given still-weak demand

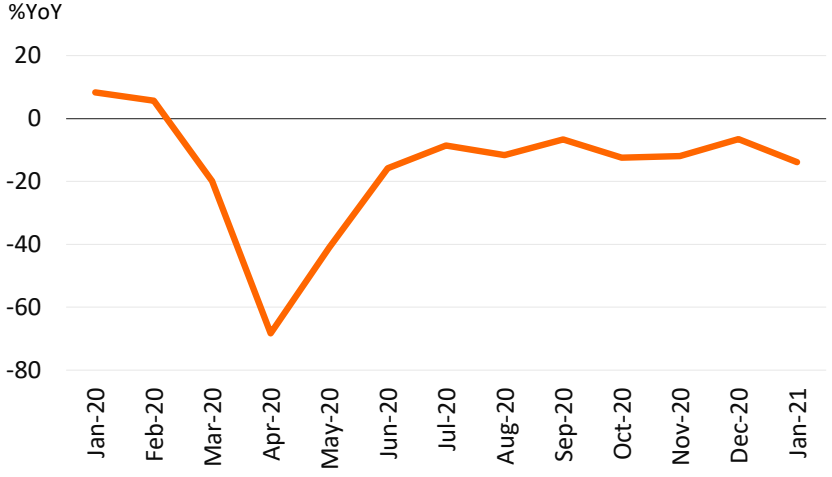
10-year government bond yields



Philippines: Headline inflation



Philippines' Net Sale Index (NSI)



Krungsri Research's view

- Philippines's bond yields spiked in February 2021, relatively faster than several countries. The bond yield hike in Philippines comes from 2 key reasons behind. First is a concern on increasing yields in major economies and second is a higher inflation expectation.
- **Philippines' inflation has continued to increase for the fifth straight month and is likely to increase further for months ahead due to temporary cost-push factors** as a result of natural disasters in late 2020 and a spread of African Swine Fever (ASF) that swiped out a third of the country's pig stocks. Meanwhile, **demand-pull inflation remains weak**, reflected by *Net Sale Index (NSI)* growth which is still far below pre-virus level.
- **Given that inflation is driven by temporary factors, we anticipate monetary policy would remain accommodative with still-low interest rates to support economic recovery** amid lack of additional fiscal stimulus measures. In the statement of Bangko Sentral ng Pilipinas (BSP), it expects the inflation would taper off in 2H21 and average inflation would remain within the BSP's inflation target of 2-4% in 2021.

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

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