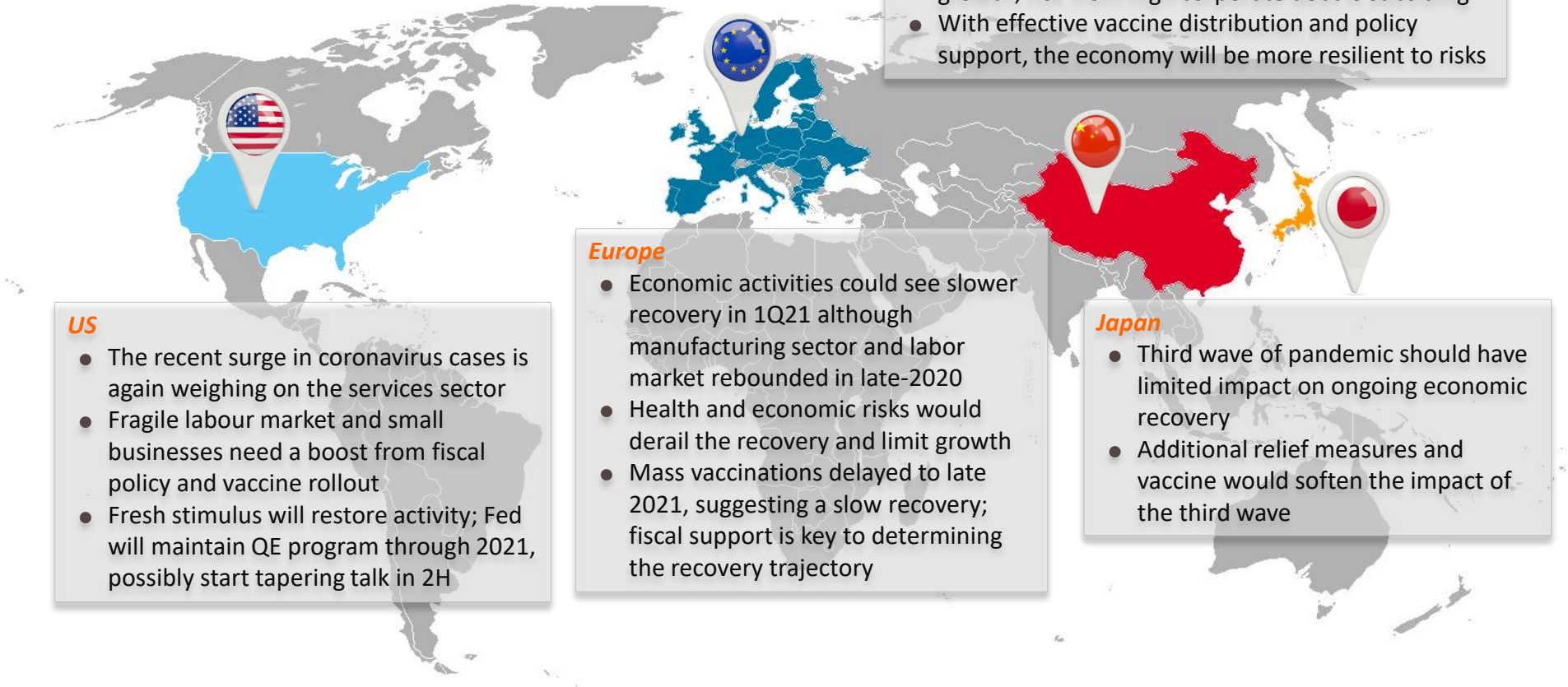

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MONTHLY ECONOMIC
BULLETIN
January 2021
Krungsri Research

Global: Risk & resilience amid a resurgence in COVID-19



China

- Robust investment and production (manufacturing and services) will support recovery
- Container shortage could temporarily cap export growth; risk from high corporate debt is subsiding
- With effective vaccine distribution and policy support, the economy will be more resilient to risks

US

- The recent surge in coronavirus cases is again weighing on the services sector
- Fragile labour market and small businesses need a boost from fiscal policy and vaccine rollout
- Fresh stimulus will restore activity; Fed will maintain QE program through 2021, possibly start tapering talk in 2H

Europe

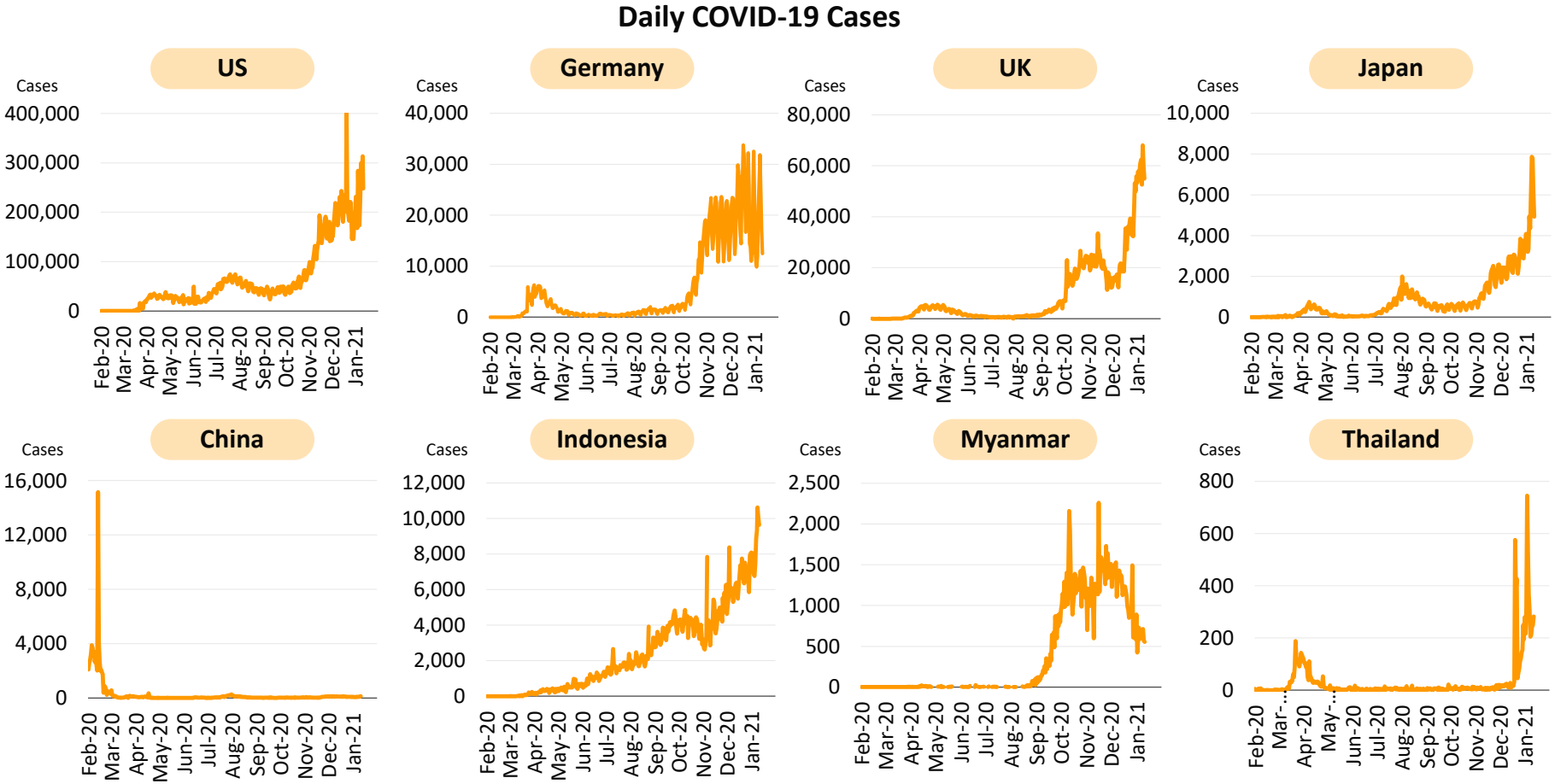
- Economic activities could see slower recovery in 1Q21 although manufacturing sector and labor market rebounded in late-2020
- Health and economic risks would derail the recovery and limit growth
- Mass vaccinations delayed to late 2021, suggesting a slow recovery; fiscal support is key to determining the recovery trajectory

Japan

- Third wave of pandemic should have limited impact on ongoing economic recovery
- Additional relief measures and vaccine would soften the impact of the third wave

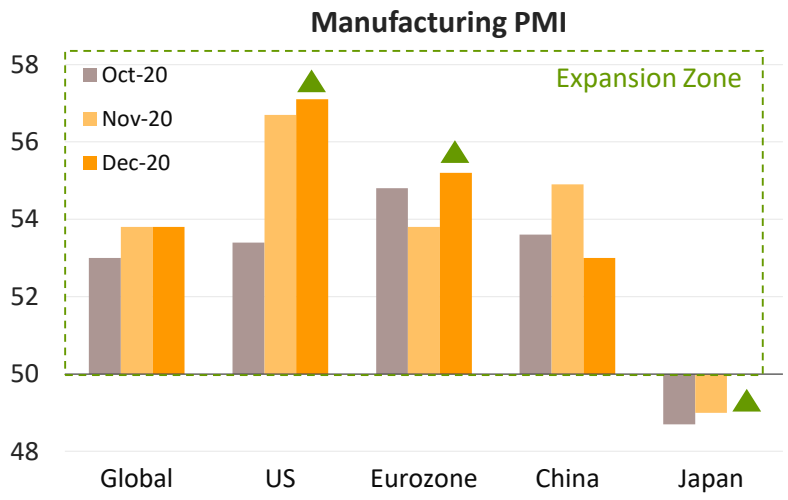
Global daily COVID-19 cases have been rising again since late 2020, delaying the global economic recovery

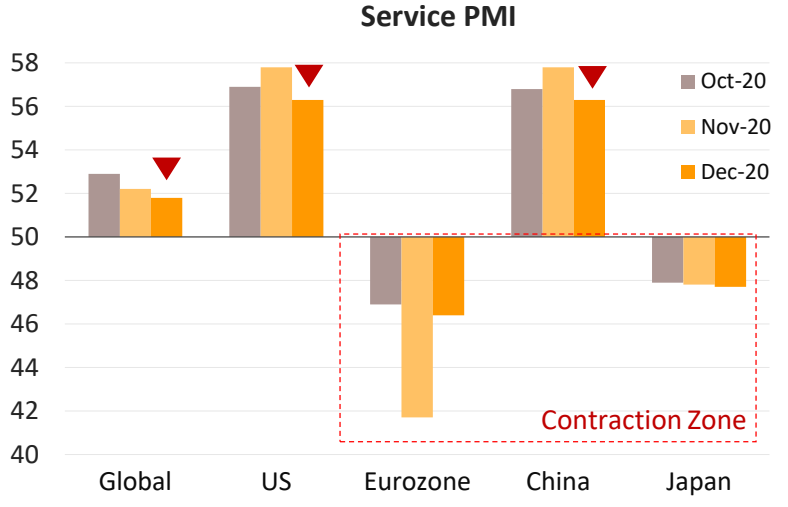
Daily COVID-19 cases in major economies and several other countries have been rising again since late December. New cases have skyrocketed to more than 200,000 in the US, 50,000 in the UK, 30,000 in Germany, and 6,000 in Japan. China also saw the biggest COVID-19 spike in over 10 months, although the number is low relative to most countries. Several Asian countries also experienced a sharp rise in cases. The resurgence of COVID-19 infections has forced governments to impose more restrictions and measures to control the pandemic, which will disrupt economic recovery at least in the first quarter of this year.

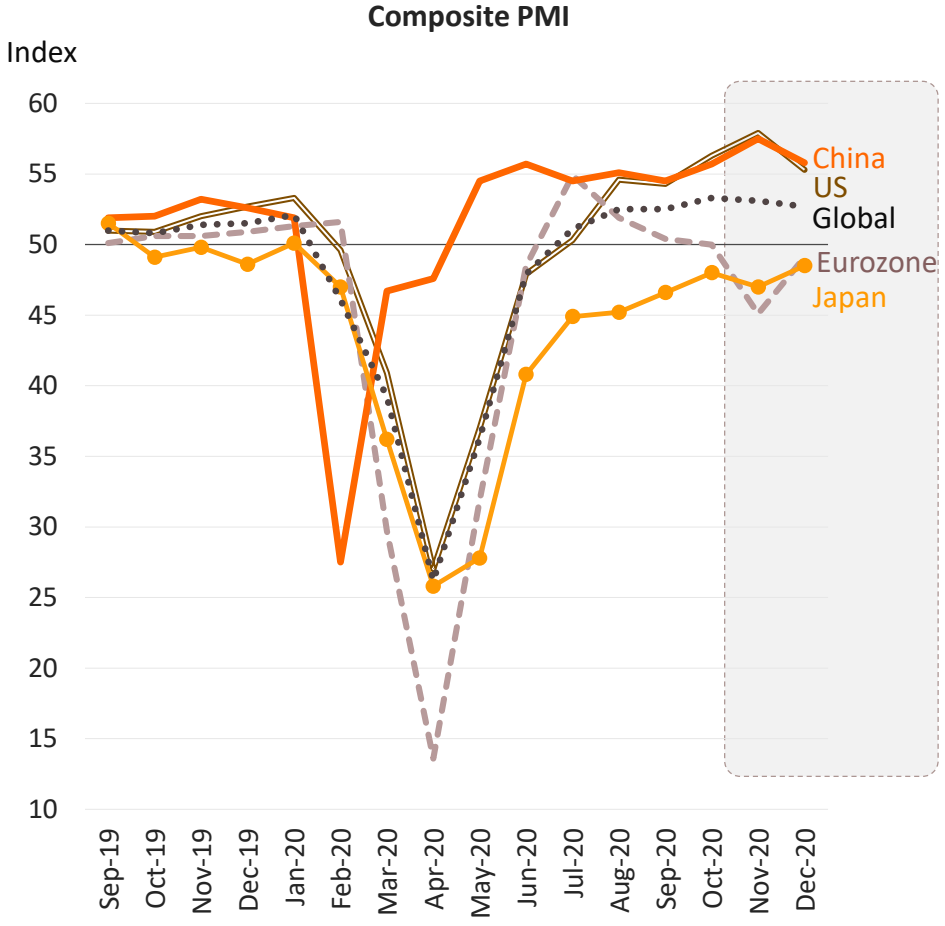


Source: WHO, CEIC, Krungsri Research

Resurgence heightens risks to services sector, but resilient manufacturing sector will support global growth





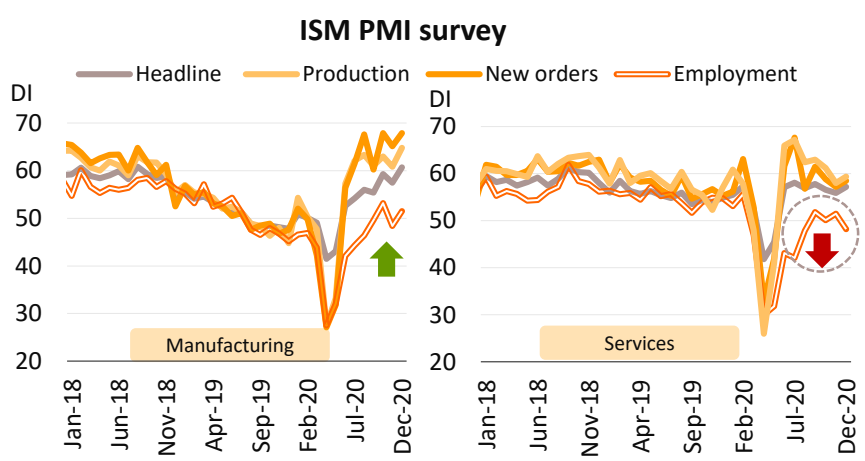


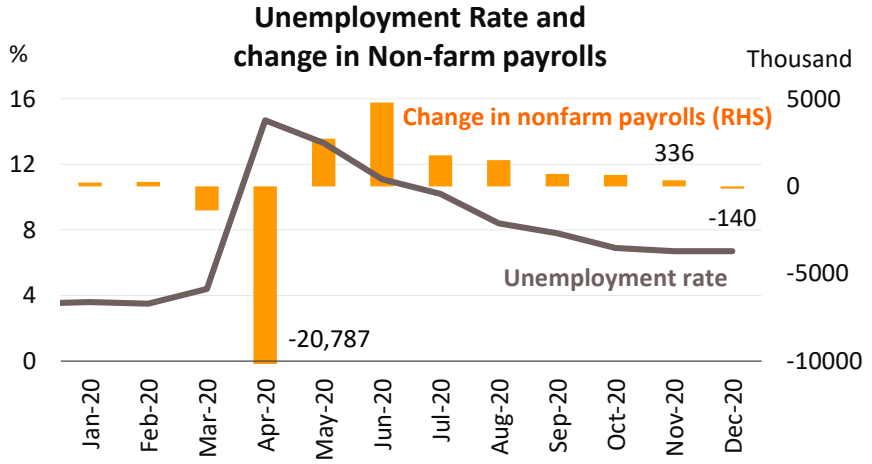
J.P.Morgan Composit PMI: *"**The global economic recovery remained resilient based on the all-industry December PMI.** The PMI ticked down a touch for a second month in a row though the level remained solid at 52.7. European economies where the PMI fell hard in October and November rebounded in December against declines in the US and China."*

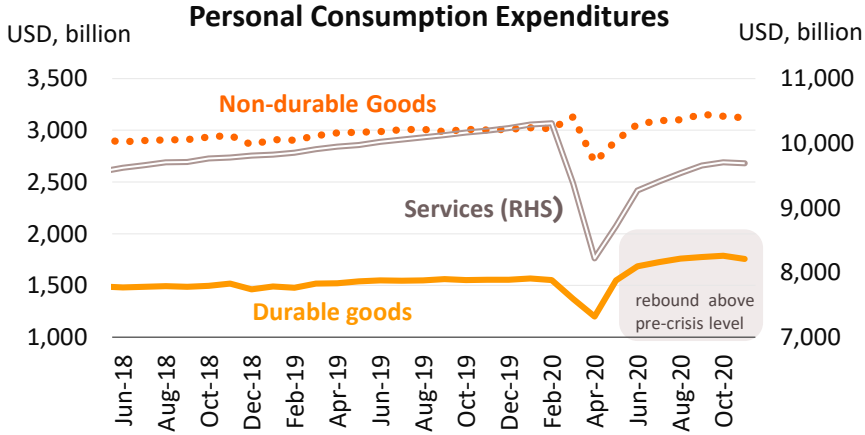
Source: Markit, Bloomberg, Krungsri Research

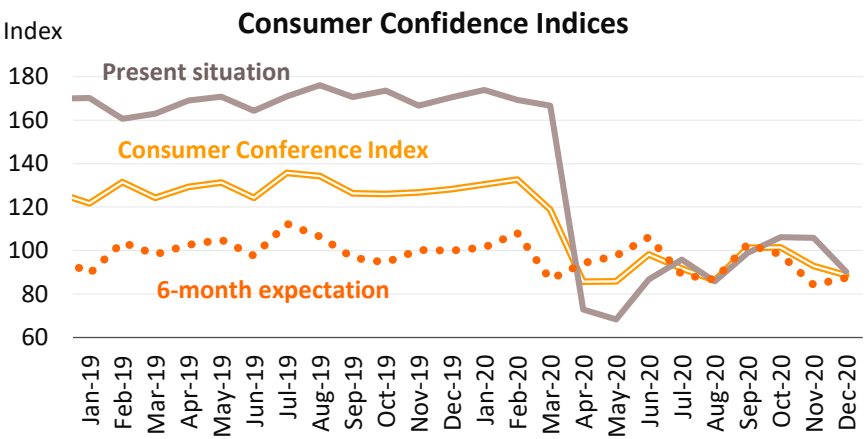
US: Resurgence of COVID-19 cases is weighing on services sector again

Renewed lockdown in some states revealed visible impact on the services sector but manufacturing and spending continued to rebound. Manufacturing PMI inched up to 60.7 in December 2020 from 57.5 in the previous month, and all sub-indices improved. Services PMI also inched up from 55.9 in November to 57.2 in December, but the Employment Index slid to contraction territory at 48.2. The raging cases also restrained the labour market in December. Non-farm payrolls fell by 140,000 jobs, the first loss since April 2020. Durable goods expenditure has rebounded to pre-crisis path, suggesting consumer demand is recovering. Looking at consumer sentiment, the Present Situation Index dropped to 90.3 due to fears of contracting the virus, while 6-month expectation rose slightly to 87.5 in December following reports of approvals for and distribution of vaccines. **Hiring and consumer confidence would be suppressed until the mass population is vaccinated.**







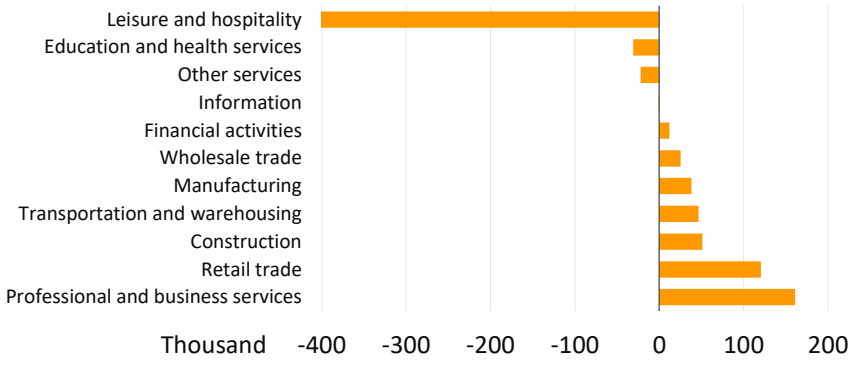


Source: Institute for Supply Management (ISM), Bureau of Labor Statistics (BLS), Bureau of Economic Analysis (BEA), Conference Board, Bloomberg, Krungsri Research

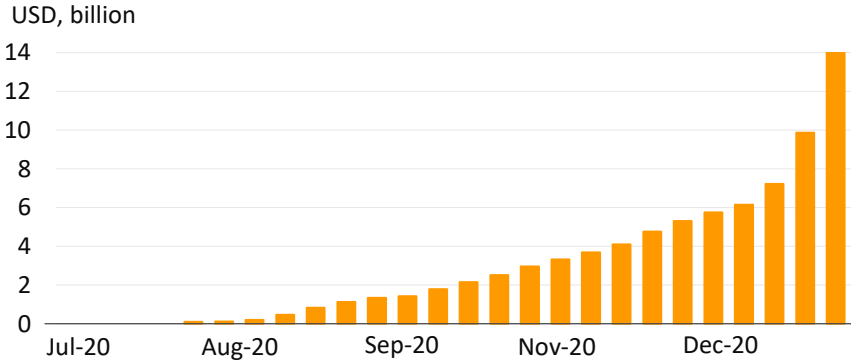
Fragile labour market and small businesses need a boost from fiscal policy and vaccine rollout

The economy is facing downside risks as the labour market is hit again by extended restrictions on bar and restaurants. Leisure and hospitality payrolls fell by 498k jobs in December. Some of the unemployed are shifting to gig work such as driver and delivery, putting pressure on income and employee benefits. Similarly, firms still need liquidity to survive the pandemic. Applications for the Main Street Lending Program had risen sharply ahead of its expiry on December 31 last year. There were more applications from medium-size firms than small firms, because the former have better ability to repay debt. This implies small businesses, which make up 76% of US businesses (in terms of annual sales) and employ 47.5% of Americans, will continue to struggle to access liquidity and require more policy support. **Aside from policy, the rollout of vaccines under "Operation Warp Speed" would also help the economy.** The US has signed vaccine supply contracts to cover more than 100% of the national population. US President-elect Joe Biden targets to vaccinate 100 million Americans in his first 100 days in office. At this pace, **75%-85% of Americans would be vaccinated by 3Q21, the number required to achieve herd immunity in order to resume normal activities.**

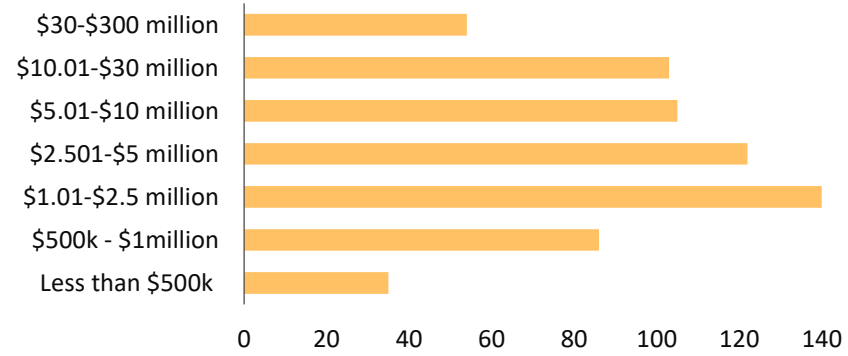
Change in employment (December 2020)



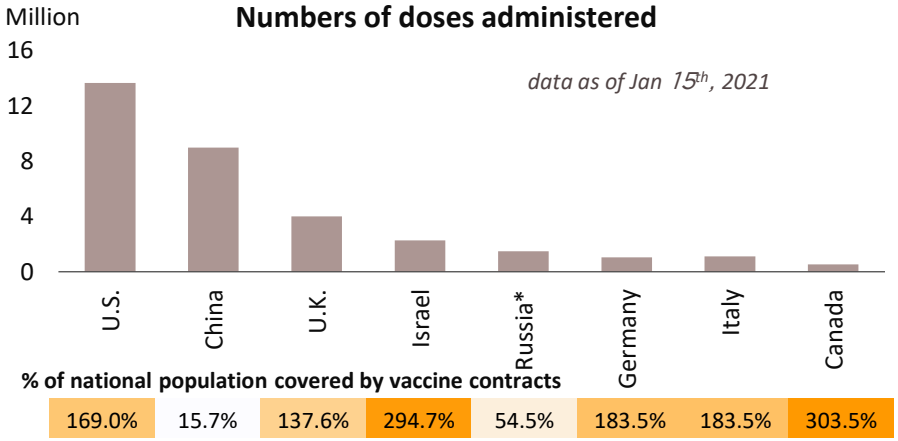
Main Street Lending Program asset purchases



Loans by size under Main Street Lending Program



Numbers of doses administered



Source: Bureau of Labor Statistics (BLS), Federal Reserve Board, Centers for Disease Control and Prevention (CDC), Bloomberg, Krungsri Research

Fresh stimulus will restore activity; Fed will maintain QE program through 2021, possibly start tapering talks in 2H

American Rescue Plan (USD 1.9 trillion stimulus package)

Target	Details
Most Americans	Raised direct aid for individuals to USD2,000 from USD600 (which Trump had signed on December 28, 2020)
Labor	Provide USD400 weekly unemployment benefit up to end-September and extend the PUA and PEUC to support labor market
Small businesses	USD15bn total grant to help more than 1 million severely-affected small businesses
State and local governments	Push for USD350 bn funding assistance for state, local and territory governments
Vaccination	Set USD160 bn for vaccination, testing and tracing of COVID-19
Eviction moratorium	USD30 bn to support rental & small landlords, and extend the federal eviction moratorium through to September 2021

Monetary policy conditions

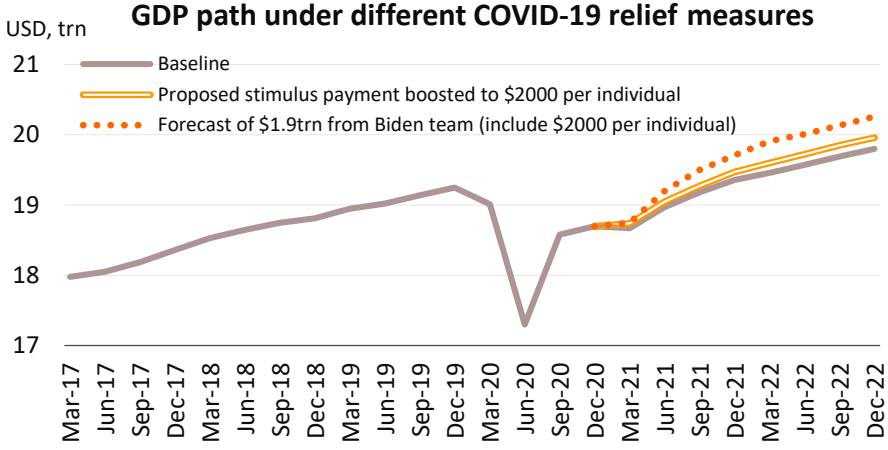
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
5Y forward inflation expectation rate (%)	1.7	1.6	1.3	1.4	1.4	1.4	1.5	1.6	1.7	1.8	1.8	1.9
Core PCE (%YoY)	1.8	1.9	1.7	0.9	1.0	1.1	1.3	1.5	1.6	1.4		
Financial Conditions Index	0.7	0.6	-4.0	-3.3	-1.1	-0.5	-0.1	0.2	0.0	0.0	0.4	0.6
10Y-2Y treasury yield spread	0.2	0.2	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.6	0.7	0.8
S&P 500 Index												
Fed Funds Upper-bound (%)	1.75		0.25									

Tighter ⟷ Looser

*PEUC is Pandemic Emergency Unemployment Compensation providing extra 13 weeks of benefits to workers who had exhausted regular payments.
PUA is Pandemic Unemployment Assistance providing benefits for self-employed, part time and gig workers.

Source: Committee for a Responsible Federal Budget, CEIC, Bloomberg, Krungsri Research

GDP path under different COVID-19 relief measures

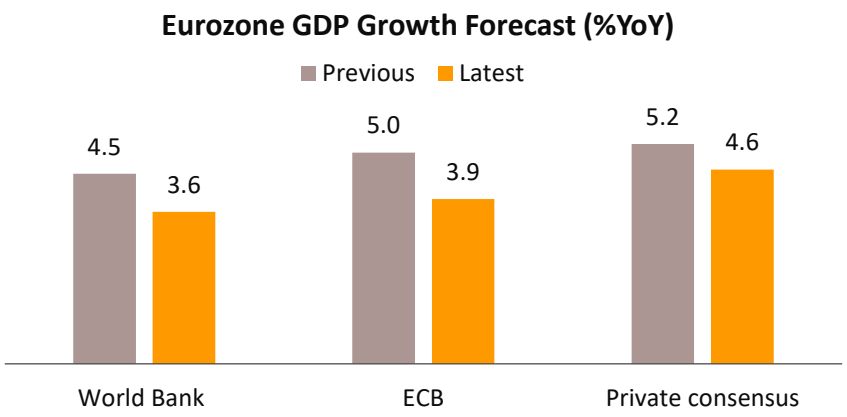


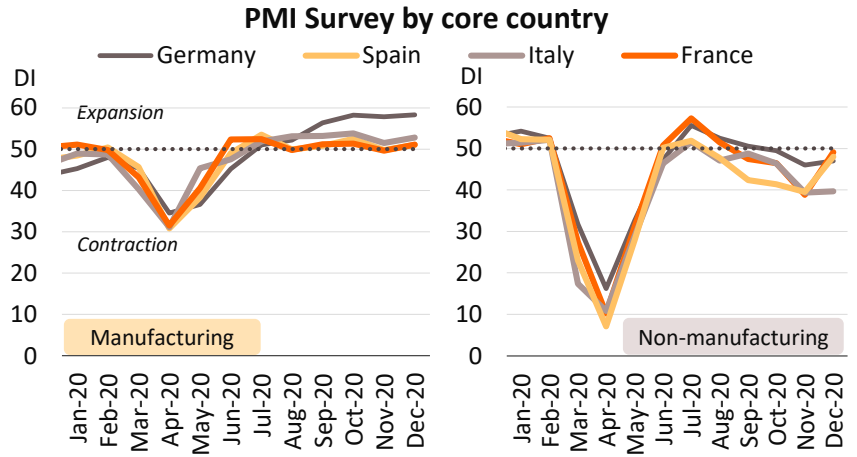
Krungsri Research's view

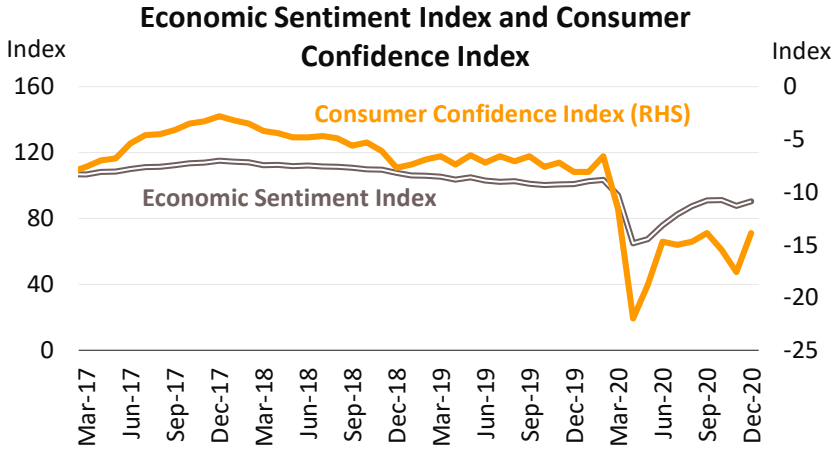
- In late-2020, President Trump had signed a USD900 billion stimulus package and USD1.4 trillion relief package to bolster the economy and avoid a government shutdown. They included USD284 billion for the *Paycheck Protection Program* to help small businesses and extension of labour market assistance.
- The January election victory in Georgia gave **Democrat control of the Senate. This has raised optimism towards the economy. Biden has unveiled additional USD1.9 trillion relief** (9.7% of GDP). The proposal includes higher direct aid of USD2,000 per person, USD400 weekly unemployment benefit, raising minimum hourly wage to USD15, and increasing state and local aids. If the new bill is approved, **the combined relief measures could be sufficient to cover pandemic losses and help the economy return to the growth path.**
- On monetary policy, overall conditions are looser than when the pandemic peaked last year, and would continue to improve. However, **the Fed is unlikely to scale back asset purchases this year** until they achieve inclusive and full employment. **They might set the stage for tapering discussion in 2H21, start to communicate and start tapering in 2022, and maintain ultra-low rates at least until 2023.**

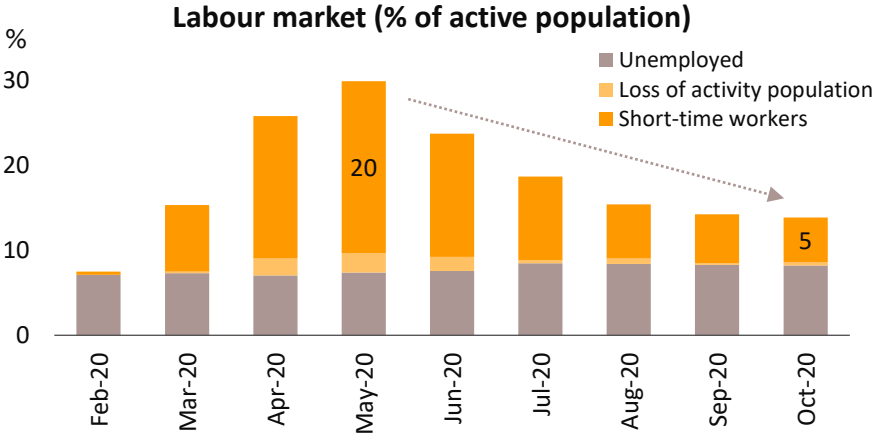
Europe: Slower recovery in 1Q21, although manufacturing sector and labour market rebounded in late-2020

Eurozone economy will experience a slower-than-expected recovery in 2021. The World Bank estimates Eurozone GDP would expand by 3.6% this year instead of 4.5%, due to the resurgence of coronavirus and the overwhelming risks. **The severity of lockdown illustrate a different pace of recovery between manufacturing and services sectors.** Manufacturing PMI expanded across the region in December 2020, led by Germany, where activity rose to 58.3, the highest since March 2018. In contrast, Services PMI continued to contract, especially in Spain (39.7). The Economic Sentiment Index rose 2.7 points to 90.4 in December. This was driven by higher confidence in the industry sector. Consumer Confidence Index improved from -17.6 in November to -13.9 December, but remained below the pre-crisis path. In the labour market, **unemployment rate slightly changed** from 7.3% in Feb-20 to 8.3% in Nov-20. In addition**, the number of short-time workers fell in 4Q20. These show government support has been able to keep the labour market stable during the pandemic.**





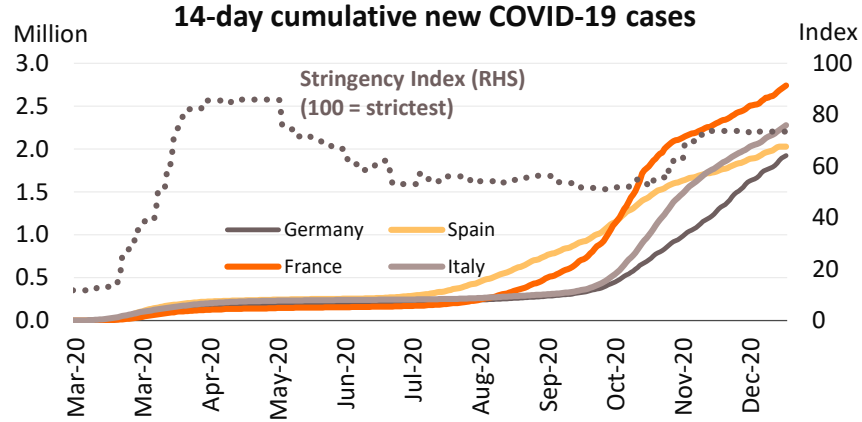


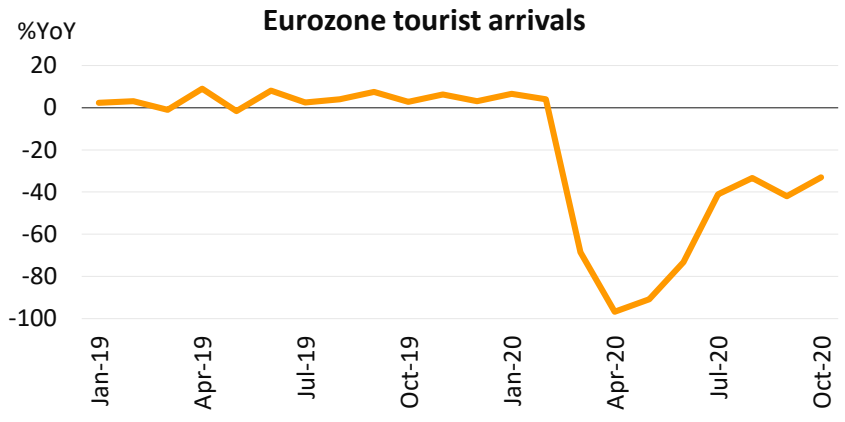


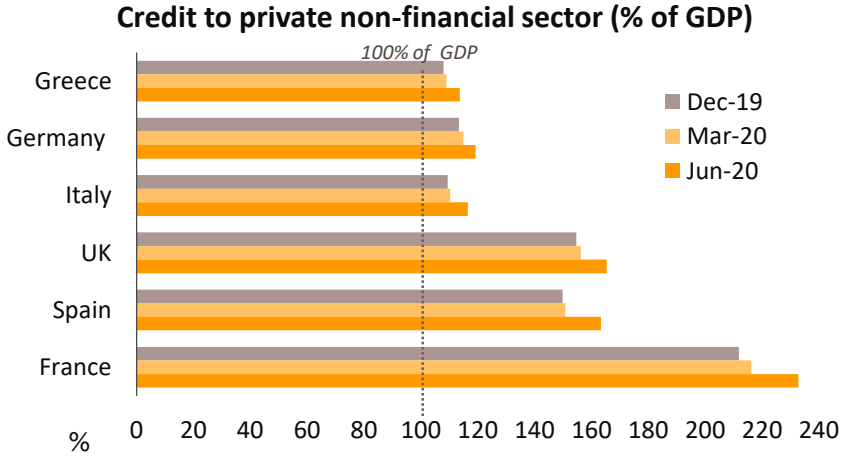
Source: World Bank, European Central Bank (ECB), IHS Markit, Eurostat, Bloomberg, Krungsri Research

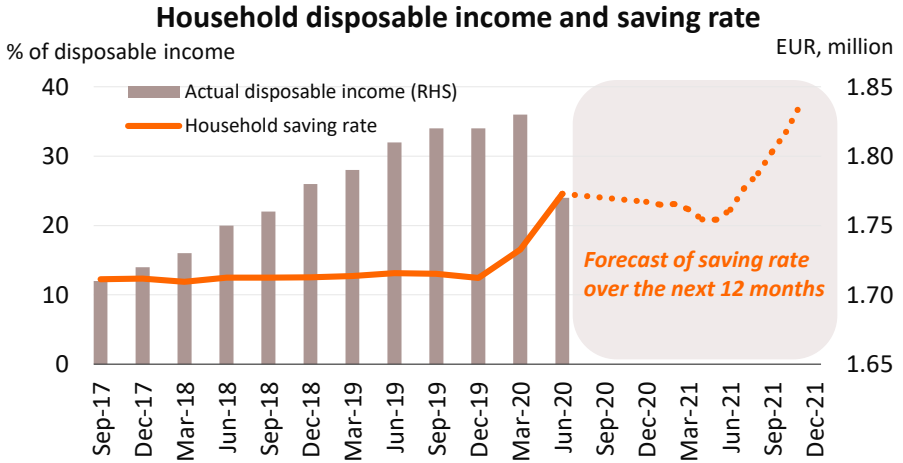
Health and economic risks could derail recovery and cap growth

Surging COVID-19 cases and discovery of mutant strains are weighing heavily on the economy. The Stringency Index rose to 73 in December from 54 in November, reflecting the renewed national lockdown to contain the latest outbreak; the lockdown is expected to remain in place at least through January. **The restrictions continue to dampen the tourism sector.** Although the eurozone is open to international tourists, arrivals fell by 33% YoY in 4Q20, suggesting the sector continues to lose revenues, especially in southern Europe. **There are also economic risks, including sharply higher debt in the private non-financial sector in 2Q20** led by France (+16.6% of GDP) and Spain (+12.5%). **Rising household saving rate also post challenges to the economy.** In early 2020, saving rate rose along with higher disposable income, which could help drive the economy after the outbreak, but latest surveys show household permanent savings is likely to rise. **The combined risks could derail recovery and continue to cap economic growth even after the pandemic is under control.**



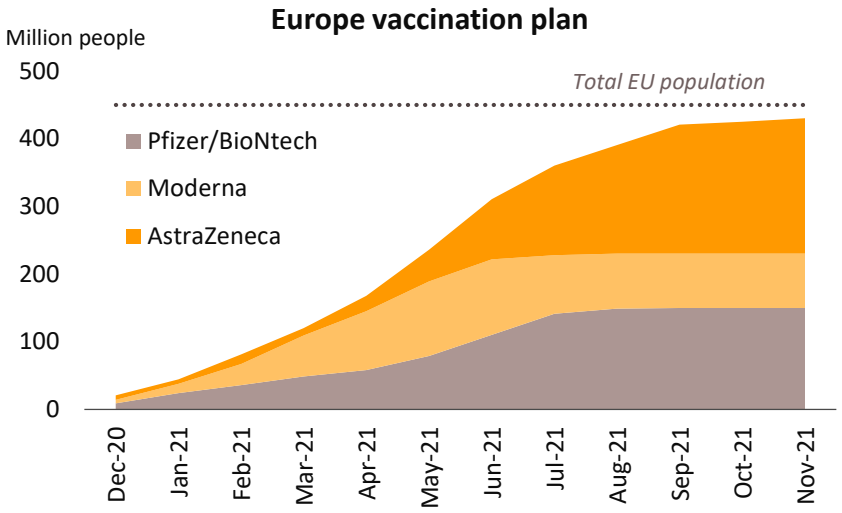


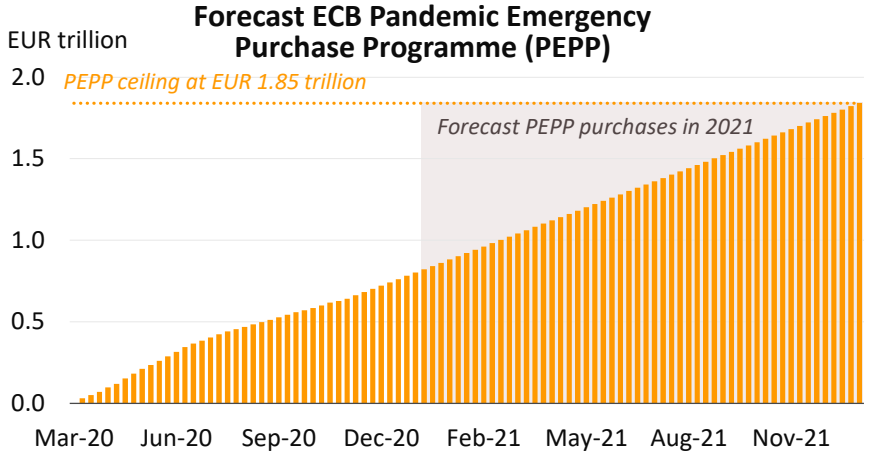


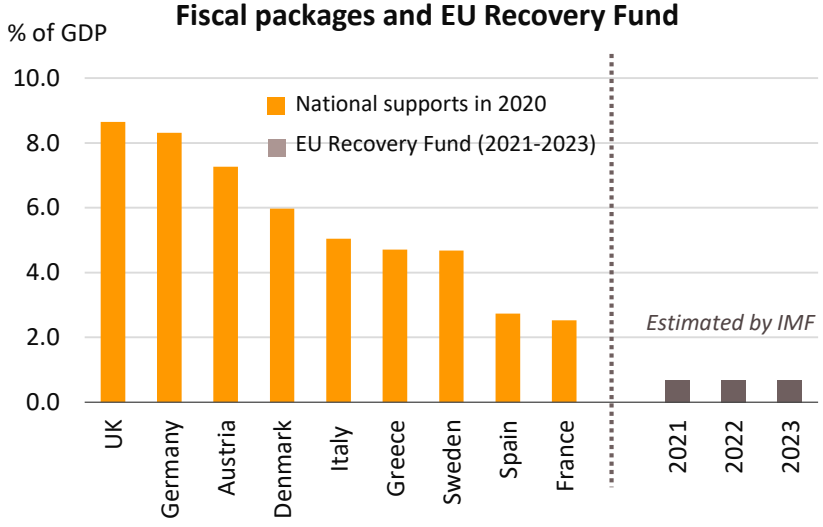


Source: World Health Organization (WHO), CEIC, Bank of International Settlements (BIS), European Commission, Eurostat, Krungsri Research

Mass vaccination delayed to late 2021, suggesting slow recovery; fiscal support is key to determine recovery path







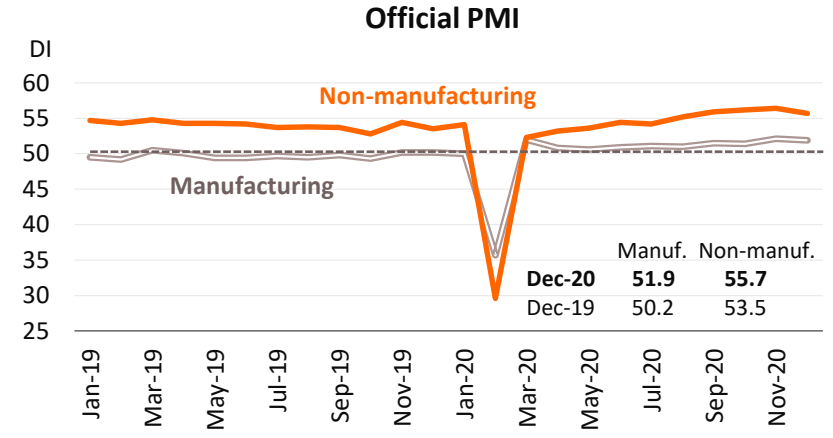
Source: European Central Bank (ECB), Capital Economics, IMF, Bloomberg, Krungsri Research

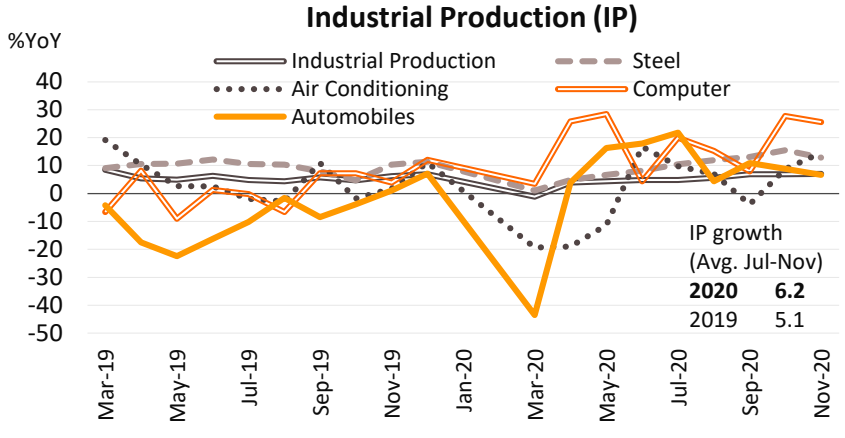
Krungsri Research's view

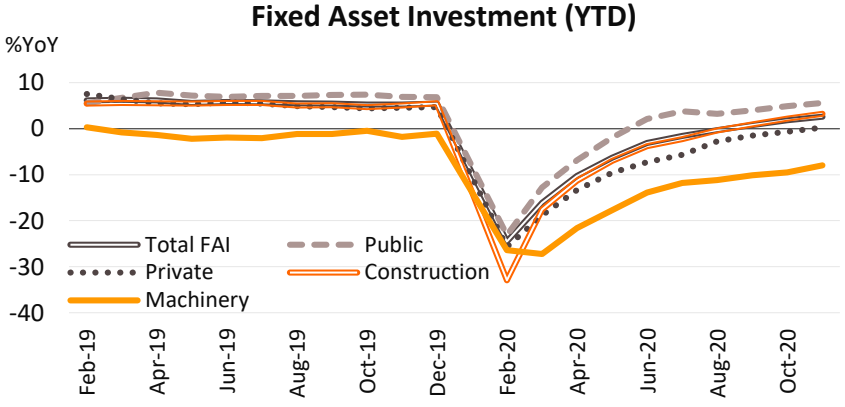
- The speed and success of vaccination programs, including vaccine distribution, will determine when the economy will rebound. Europe plans to vaccinate most of its population this year, starting with healthcare workers and the elderly. About 70% of the population is expected to be vaccinated by 3Q21, but the pace would differ for each country. After that, the government would ease restrictions and the economy would see a sharp rebound.
- At the December meeting, the ECB increased PEPP by EUR500 billion to EUR1.85 trillion and extended purchase period to March 2022. The ECB also extended favorable terms for TLTRO-III bank lending program by 12 months to June 2022, reflecting commitment to maintain loose financial conditions throughout 2021, and to help the market until it can function normally.
- Fiscal policy is the most critical factor to restore the economy this year. However, they seem insufficient to offset additional costs and risks in the economy, especially in countries with less support such as Italy, Spain and France. Although EU nations would receive recovery funds in 2H21, they will also need stimulus from their own governments to avoid a double-dip recession and smooth the path of recovery with measures to boost demand.

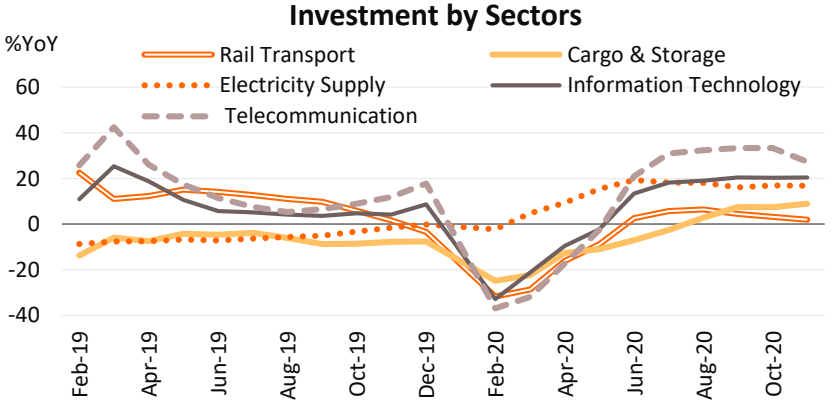
China: Robust investment and production (manufacturing and services) will accelerate recovery

The Chinese economy continues to recover, driven by robust improvements in production activities. In December, both the official Manufacturing and Non-manufacturing PMI remained above-50 for the 10th straight month. Industrial production rose at a faster pace than pre-COVID level. The cyclical recovery in China and major economies could push growth higher. **On the demand side, private investment turned positive for the first time in 10 months,** which could induce investment in machinery ahead. Recovery was more notable in "new infrastructure", in line with the digital transformation. **Looking forward, recovery in the non-manufacturing sectors, which are more resilient than in other countries, will boost economic activities going forward. Coupled with mass vaccination programs in China and worldwide to end the pandemic, we will see stronger broad-based recovery in China's economy.**





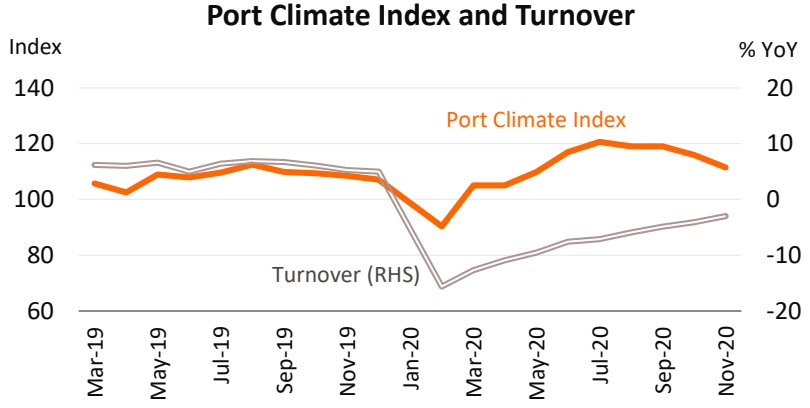


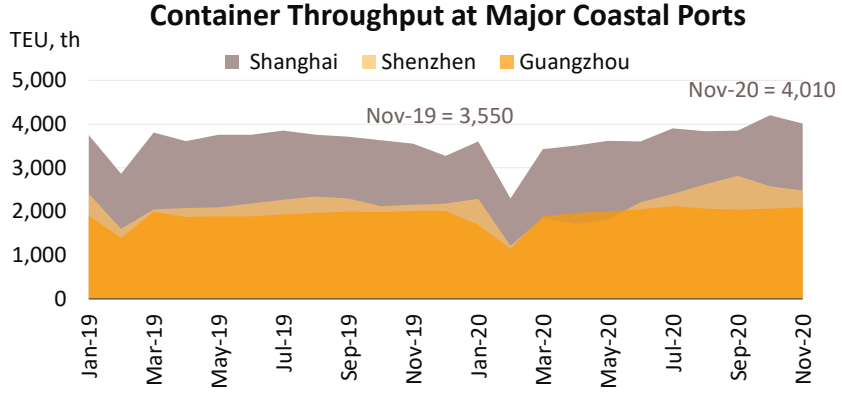


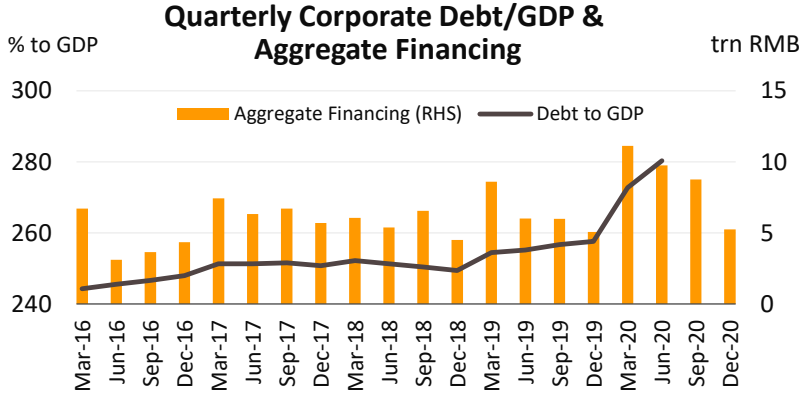
Source: National Bureau of Statistics, CEIC, Capital Economics, Bloomberg, PBOC, Xinhua, Reuters, Krungsri Research

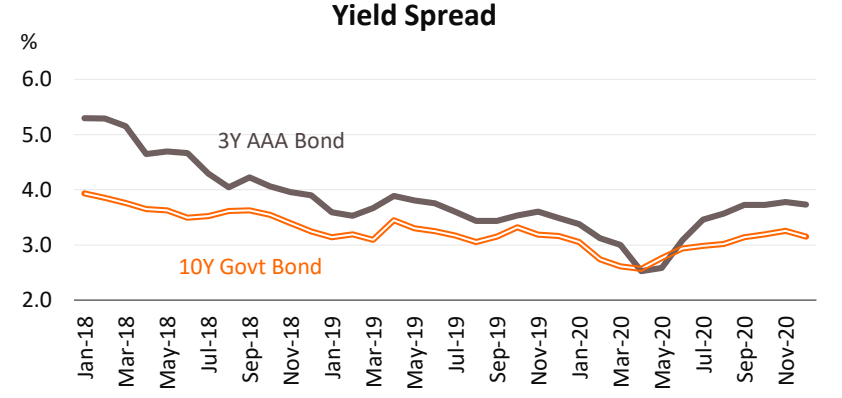
Container shortage could temporarily cap export growth; risk from high corporate debt is subsiding

The ongoing recovery in exports might see a mild hiccup because of container shortage, following a spike in demand for Chinese exports. The shortage has pulled down the Port Climate Index for major coastal ports. Container shipping costs from China to major destinations have surged to record highs. The bottleneck worsened recently as exporters front-load shipments ahead of Chinese New Year festivities. However, container manufacturers in China, which account for 96% of global output, have increased capacity to cope with the spike in demand. Indeed, port turnover has been rising along with higher container throughput. In December, exports grew 18.1%, rising for the seventh straight month. **The shortage is expected to be temporary, after the Chinese New Year rush tapers off. Another risk to the economy is corporate sector debt which had reached 272.7% of GDP in 1H20. However, that risk has been subsiding since PBOC introduced more prudent measures, which reined-in broad credit. Co**rporate credit spread over benchmark government bond yield is stable. Defaults in corporate bonds remain small relative to the total market size. The PBOC is also monitoring the real estate sector to prevent a bubble.







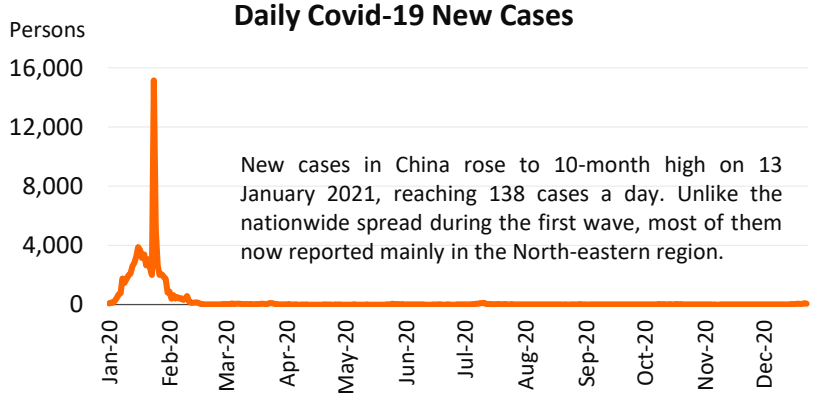


Source: CEIC, Capital Economics, Xinhua, Reuters, Bloomberg, Krungsri Research

With effective vaccine distribution and policy support, the economy will be more resilient to risks

China is leading ahead of major economies in mass vaccination, on expectations that would end the pandemic soon. China plans to inoculate 50 million citizens by the Lunar New Year in mid-February and increase national vaccine production capacity to 3 billion doses per year and vaccinate at least 700 million Chinese residents, about half the national population, by end-2021. **In terms of supporting measures to support ongoing economic recovery, China will maintain policy direction to sustain growth through a proactive fiscal policy and accommodative but prudent monetary policy.** The priority for fiscal measures is to boost domestic demand by stimulating infrastructure investment and household consumption. The government also supports SMEs with measures to ease tax and loan repayment burden, which could allow small firms to upgrade to innovative production technology. Meanwhile, the PBOC will continue with monetary easing to support demand-side recovery, especially by providing liquidity to help SMEs and local firms. On long-term economic reform, the Central Economic Work Conference (CEWC) recently identified new infrastructure investment as well as supply-side structural reform that could strengthen the domestic economy under the "dual circulation" strategy. **Looking forward, China can accelerate economic recovery given larger fiscal stimulus, still-accommodative monetary policy, and an effective national immunization program to restore confidence and boost overall economic activities.**

Daily Covid-19 New Cases



National Immunization Program

Main Producer	**Sinopharm**	**Capacity:** 1 billion doses a year **Vaccine type:** Inactivated vaccine, 79.3% efficacy
	Sinovac Biotech	**Capacity:** 2 billion doses a year **Vaccine type:** Inactivated vaccine, 78% efficacy
Vaccine Inoculation Plan	**Phase 1:** Target high-risk group, including medical personnel at quarantine sites and workers at ports & airports, customs and multiple-trip drivers. **Phase 2:** Inoculate vulnerable groups (elderly and those with chronic ailments) **Phase 3:** Vaccinate at least 700 million Chinese residents by end-2021	

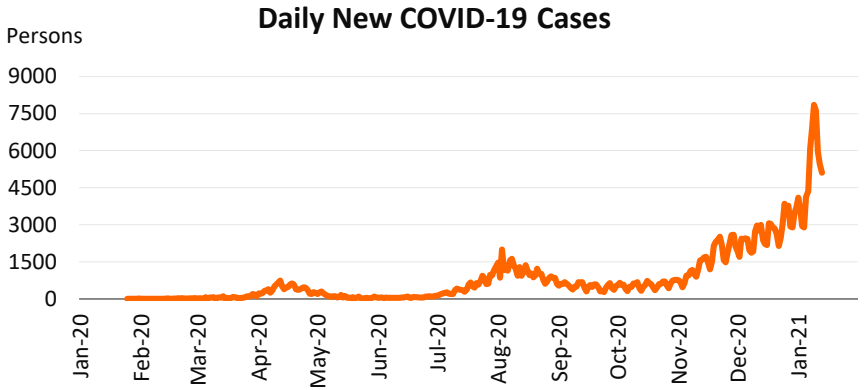
China's Economic Policy: Priorities in 2021

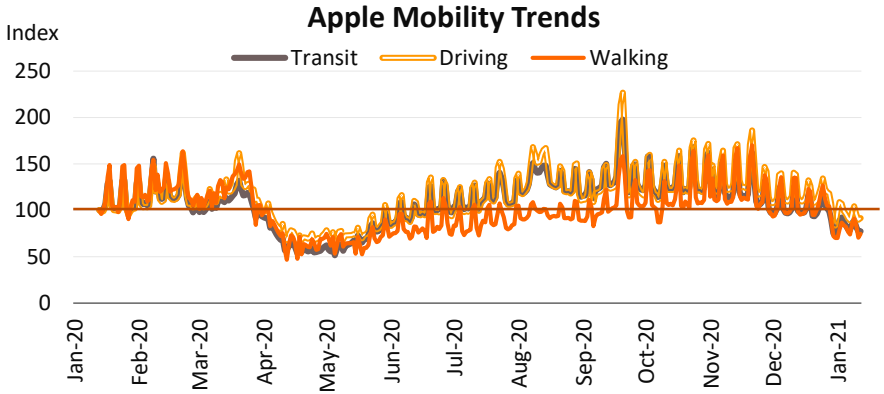
Key Pillars	Measures
Domestic circulation	**Short-term measures** to boost domestic demand - Induce new infrastructure related to the digital economy - Provide cash transfers and subsidies to low-income households for consumption of public services - Value-added tax reform to ease tax burden on manufacturing entrepreneurs and smaller businesses, - Extend loan repayment moratorium beyond the current deadline of end-March 2021, as well as re-lending and rediscounting facilities & repayment of principal and interest for SMEs beyond the current deadline of June 2021 (not yet specified)
	Longer-term measures Spur a structural shift in household consumption towards higher value-added products and services
Supply-side structural reform	**Innovation-driven** Encourage enterprises to invest more in research and development

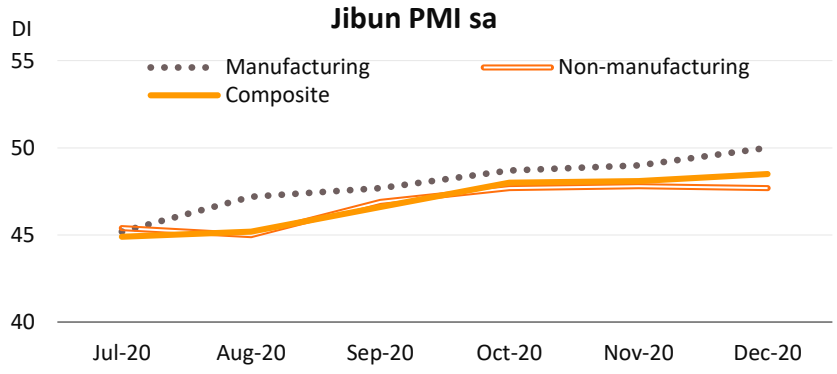
Source: CEIC, Capital Economics, Xinhua, Reuters, Bloomberg, Krungsri Research

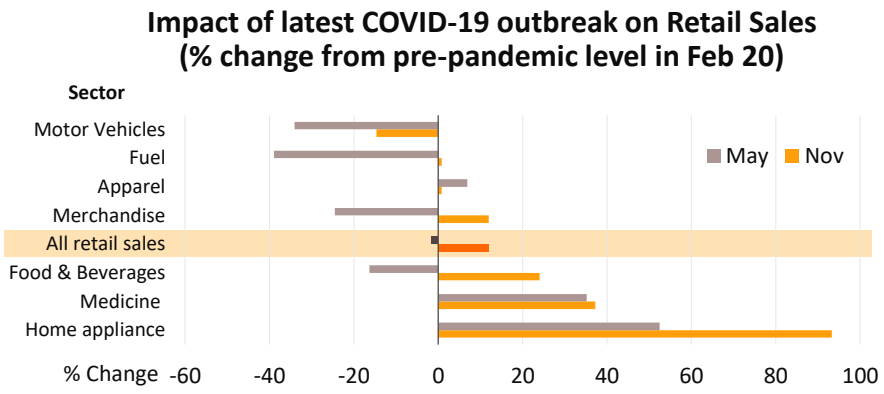
Japan: Third wave of pandemic should have limited impact on ongoing economic recovery

The third wave of COVID-19 infections has prompted the government to declare a state of emergency for the third time. Daily COVID-19 cases have hit a new-high of over 7,800, almost four times higher than the peak during the second wave in July-August. **The government re-imposed a one-month state of emergency, starting from 7th January. The order covers Tokyo, Osaka and 9 other prefectures, which together account for 60% of GDP.** However, the latest containment measures are less stringent, such as reducing restaurant & bar opening hours, instead of ordering businesses to close nationwide and restricting domestic travel. To address concerns, Yasutoshi Nishimura, minister in charge of Japan's coronavirus response, has said "there was no immediate plan to expand the state of emergency nationwide". Based on indicators before the latest wave of infections, Japan's economy had been recovering. High-frequency data up to early-January indicated economic activity had almost returned to pre-pandemic level. In December, the Composite PMI reached a 10-month high, while Manufacturing PMI returned to expansion territory for the first time since January 2019. Retail sales of merchandise, fuel and apparel had picked up, after contracting during the first state of emergency. **Given stronger growth prior to the latest outbreak and less stringent lockdown measures, the resurgence of COVID-19 would have limited impact on the pace of recovery.**









Source: CEIC, Bloomberg, Capital Economics, Asia Nikkei, Japantimes, Kyodonews, Asahi Shimbun, Reuters, Krungsri Research

Additional relief measures and vaccine would soften the impact of the third wave

Although economic recovery is likely to stumble because of the third wave, the impact would be moderate in 1H21 as policy makers have pledged additional support. The government has launched the third supplementary budget for FY2020, valued at JPY21.835trn (3.9% of GDP) to help severely-hit businesses, particularly restaurant and related businesses, as well as to stimulate domestic demand. Meanwhile, the BOJ governor has pledged to expand monetary stimulus if the pandemic threatens ongoing recovery. **Moreover, the latest outbreak would have limited impact** because of the following: (i) restrictions are milder than before, i.e., only reduce operating hours for restaurants & bars, instead of forced closure, (ii) exports would improve led by by resilient growth of the Chinese economy, the second largest market for Japan at 19.9% to total exports, and (iii) gradual improvement of the labor market - regular wage-earning growth reached the a 9-month high in November. **In 2H21, the Japanese economy would see a stronger recovery, premised on plans to immunize half the national population by June 2021, one of the most ambitious plans in the world.**

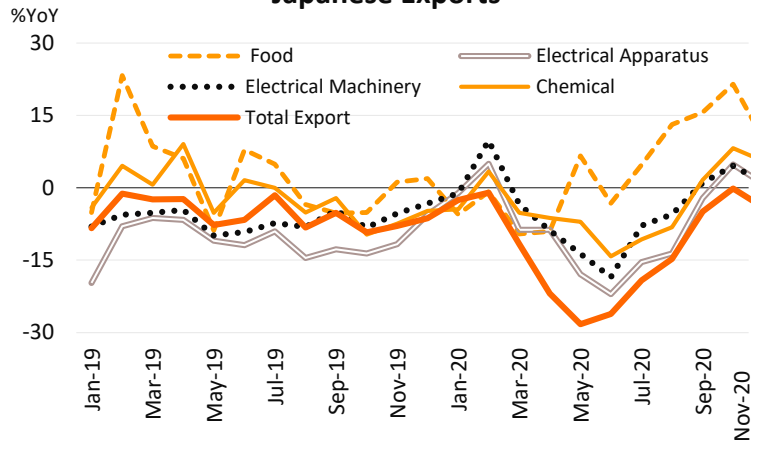
Japanese COVID-19 Vaccination Plan

Producer	Pfizer, Moderna and AstraZeneca
Vaccination Timeline	**Phase 1:** Inoculate about 4 million medical workers and public health center officials by late-February **Phase 2:** Inoculate up to 36 million elderly citizens (aged 65+) by late March **Phase 3:** Inoculate 8.2 million citizens with underlying conditions and chronic ailments (aged 20 to 64) and 7.5 million aged 60 to 64 without underlying conditions
Target	Inoculate 60 million citizens (50.7% of national population) by the end of June, 2021

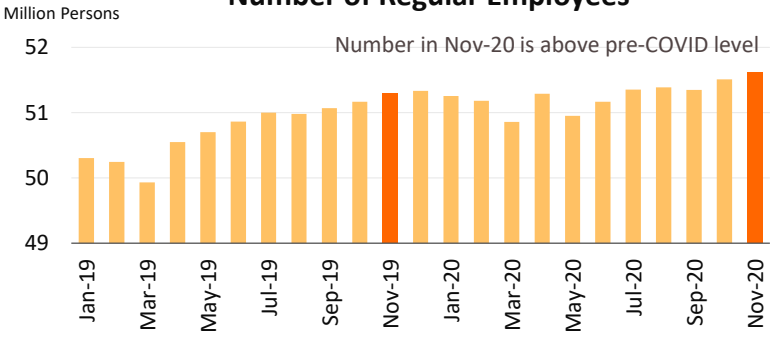
Relief Measures (worth JPY741.8bn) from FY2020 Reserve Fund

Target	Measures
Restaurant Operators	JPY60,000 per day subsidy
Suppliers to restaurants	Up to JPY400,000 one-off financial aid if sales fall by at least 50% from the previous year
Self-employed	Maximum of JPY200,000 subsidy

Japanese Exports



Number of Regular Employees



Source: CEIC, Bloomberg, Capital Economics, Asia Nikkei, Japantimes, Kyodonews, Asahi Simbun, Reuters, Krungsri Research

Thailand: Krungsri Research revises down 2021 GDP growth forecast to +2.5% from +3.3%

Data for late-2020 point to a positive trend but recovery is stumbling following latest COVID-19 outbreak

- Domestic spending improved in November, thanks to the extended holidays and government stimulus measures. Private Consumption Index rose by 1.0% YoY (vs -0.3% in October). Likewise, Private Investment Index rose for the first time in 16 months (+1.4% vs -3.6%). In addition, the recovery of demand in trading partners' economies eased the contraction in Thai goods exports. However, there are signs recovery is stumbling following the resurgence in COVID-19 cases since mid-December, with the Consumer Confidence Index and Business Sentiment Index falling in December.

Our model suggests the latest wave would peak in early February

- After a half year of calm, the total number of COVID-19 cases in Thailand have skyrocketed by more than 5,000 since mid-December to over 10,000 in early January. The virus has been spreading much faster than during the initial outbreak in March-April last year. Based on latest coronavirus data, Krungsri Research's model suggests the median forecast for domestic infections would peak in early February and the curve would flatten in the second half of the month. Hence, the partial lockdown in red-zone provinces could be extended to end-February.

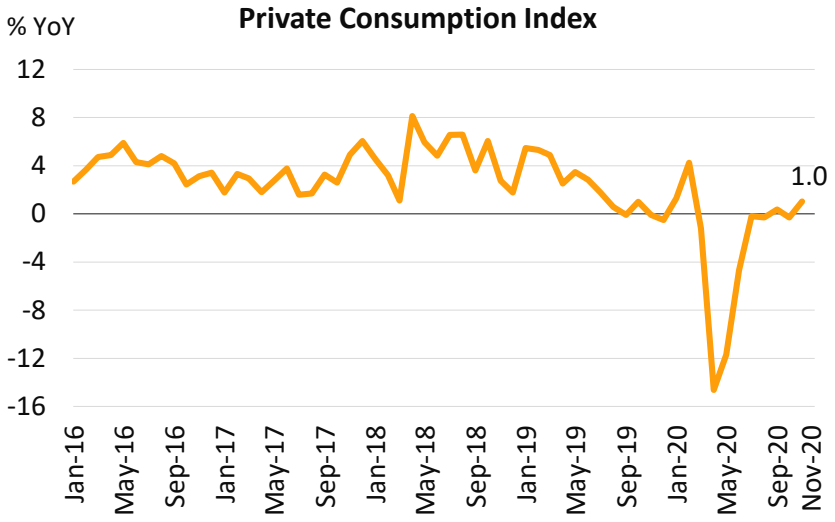
After imputing two-month partial lockdown and more stimulus, we reduced 2021 GDP growth forecast by 0.8 ppt to +2.5%

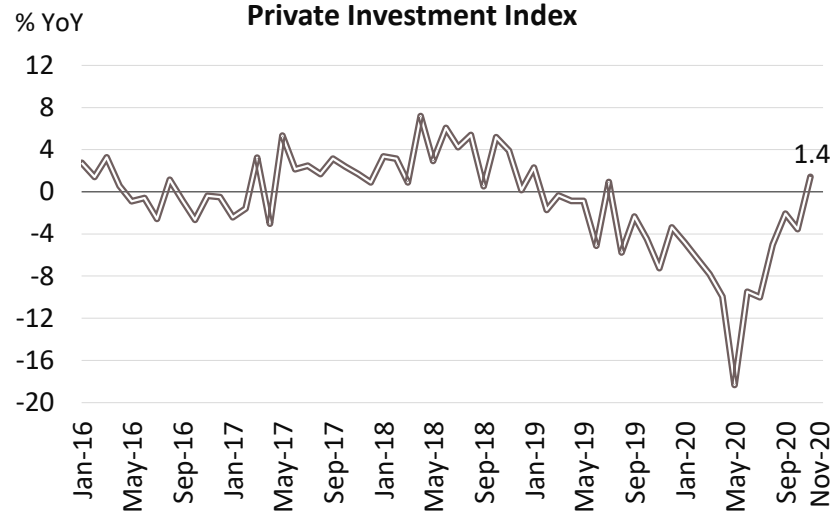
- Krungsri Research has revised down Thailand's 2021 GDP growth forecast by 0.8 percentage points (ppt) net, as the pandemic impact is expected to reduce growth by 2.0 ppt but more stimulus measures would add 1.2 ppt to growth. Our latest projection is based on the following assumptions: (i) the curve of new infections would be flattened by the second half of February under a two-month partial lockdown with prevailing restrictions/measures; (ii) the government would provide extra THB200bn to boost economic activities; and (iii) Thailand would vaccinate nearly half of Thai citizens by the end of this year, as planned.

To support the sporadic recovery, fiscal measures and targeted monetary easing would be more appropriate than rate cuts

- The MPC is likely to maintain policy rate at a record low of 0.50% for the following reasons. First, further rate cuts are unlikely to help several affected groups such as small businesses, the self-employed, and low-income earners. Second, since the economic recovery would be uneven and sporadic across economic sectors and areas, fiscal stimulus and targeted monetary easing would be more appropriate to support the recovery than policy rate cuts. This is based on our median forecast for domestic infections. Yet, the distribution in our infection forecast reflects extreme uncertainties surrounding the COVID-19 pandemic and exhibits an upward skew in cases. Hence, we do not rule out rate cuts if the latest outbreak is not contained quickly.

In late 2020, domestic consumption and investment rose year-on-year, before the resurgence of COVID-19





Private spending by category

Private spending indicators % YoY*	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
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																							

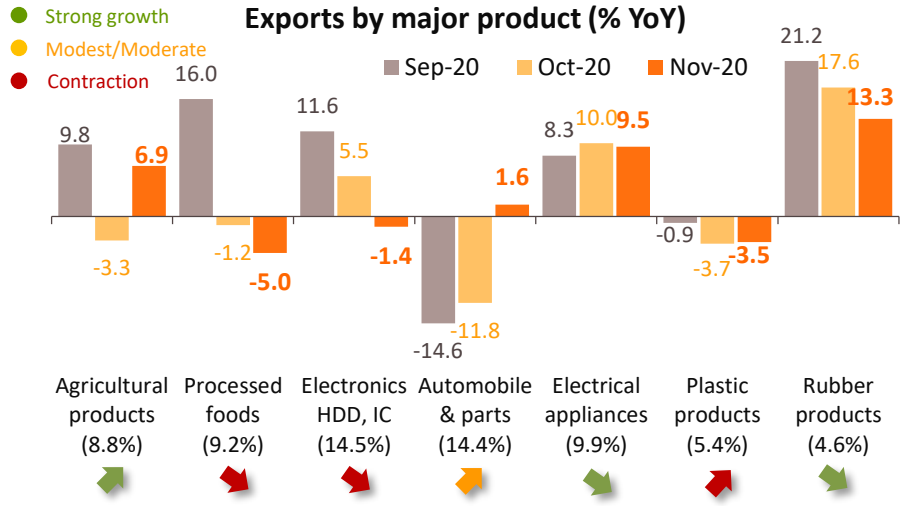
**Green > 0%, Red < 0% / Darker green (red) indicates stronger (weaker) momentum*

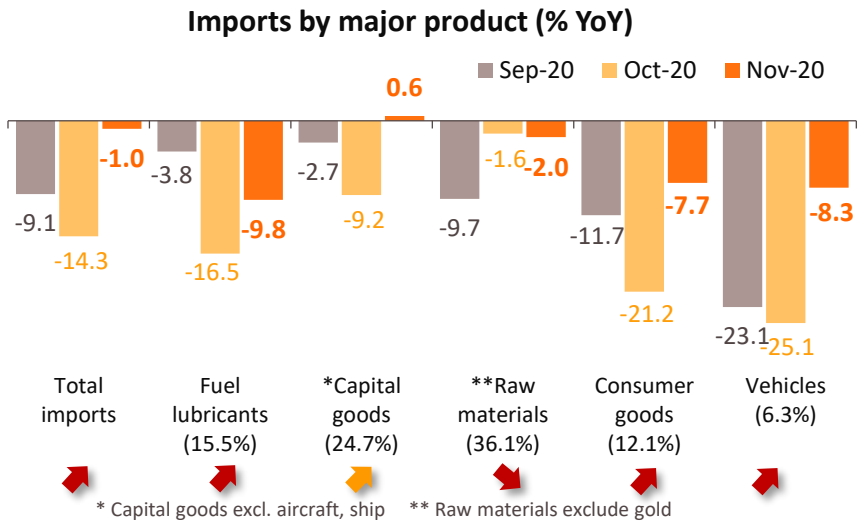
Krungsri Research's view

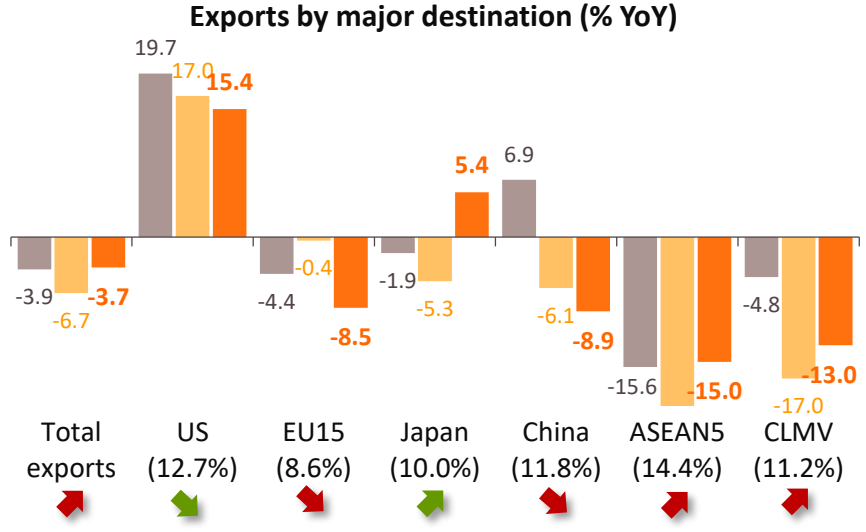
- Domestic spending showed signs of further improvement in November, thanks to the extended holidays and government stimulus measures. But this was before the resurgence of COVID-19 cases in Thailand.
- Private Consumption Index rose 1.0% YoY in November (vs -0.3% in October) with better performance in all categories.
- Likewise, Private Investment Index rose for the first time in 16 months, by 1.4% (vs -3.6%), largely due to higher spending on machinery and equipment.
- The surging infections since mid-December could delay a recovery in domestic spending, particularly private consumption.

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

Thai export contraction has been easing, and imports of capital goods rose for first time in several months







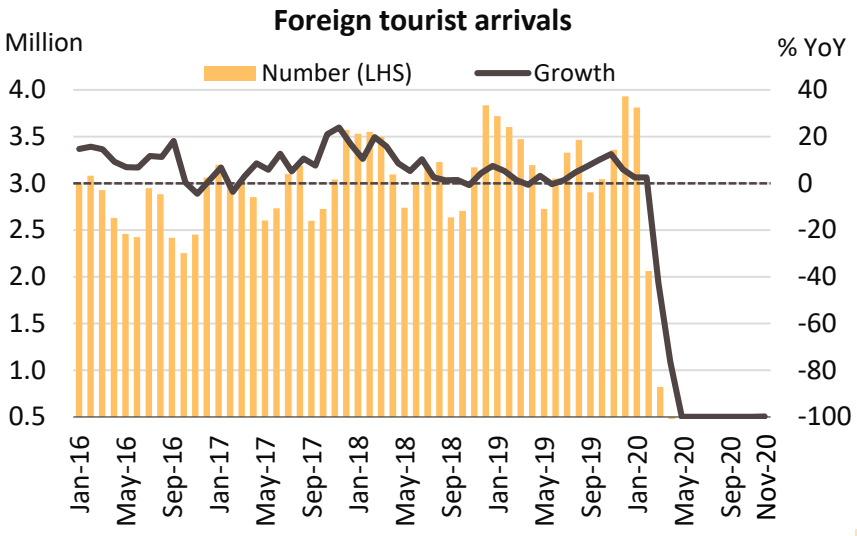
Note: ( ) share in 2019

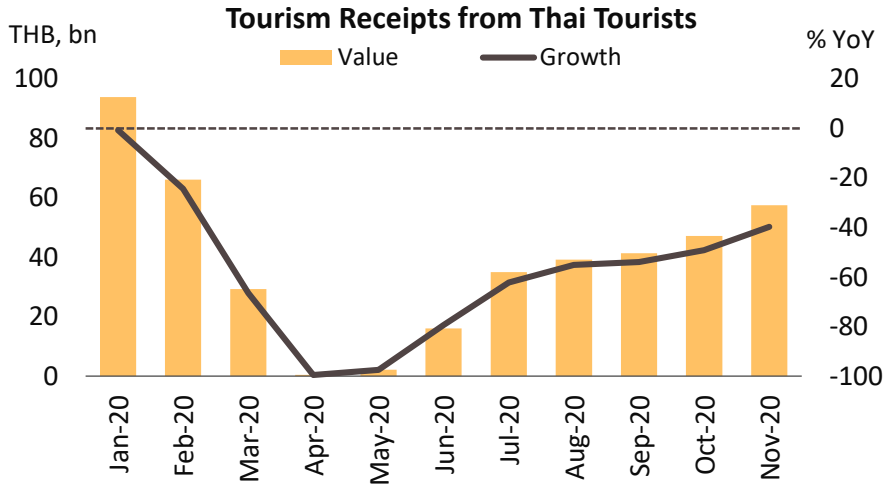
Source: MOC, Krungsri Research

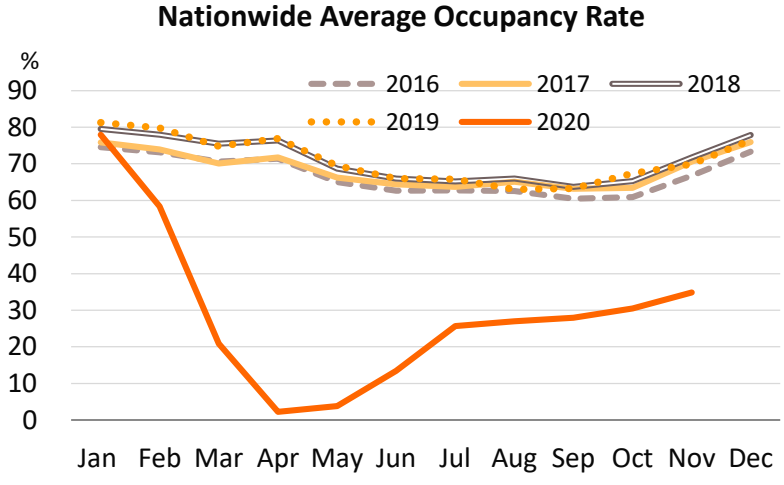
Krungsri Research's view

- **Merchandise exports fell 3.7% YoY in November** compared to -6.7% in October. Excluding gold, exports fell by 3.1% (vs -6.4% in October). Shipments of major items (such as automobile & parts and agriculture products) have picked up in line with recovering demand from trading partners. By destination, exports to the US continued to grow for the 6th consecutive month and rebounded to other markets including to Japan and Africa. Exports to other markets also showed positive signs.
- **November imports fell only 1% YoY,** compared to -14.3% in October, led by stronger imports of capital goods.
- **However, we expect 2021 exports to recover gradually to register positive growth,** supported by demand from trading partners. In the near-term, that could be temporarily affected by a shortage of containers worldwide.

Foreign tourist arrivals still near-zero despite more applications for Special Tourist Visa (STV)







Source: MOTS, Krungsri Research

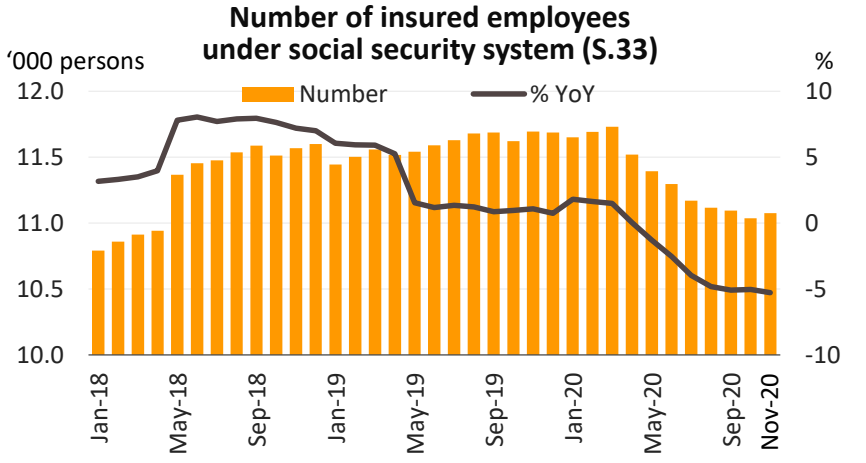
Krungsri Research's view

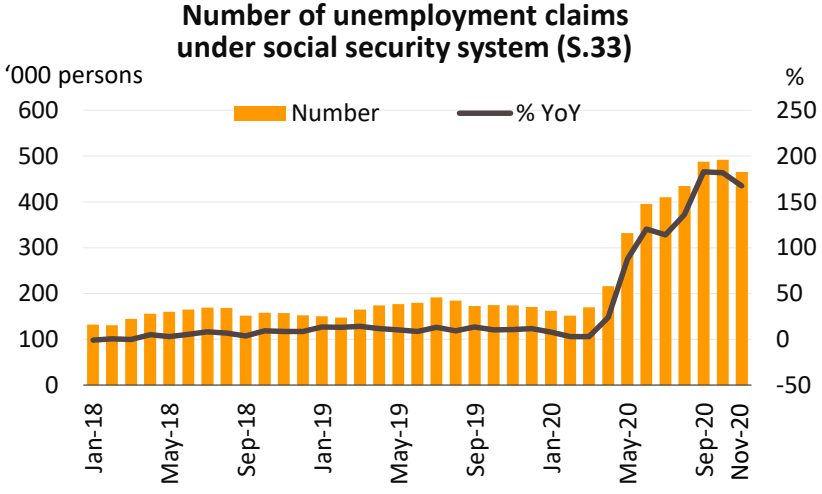
- **Foreign tourist arrivals tumbled 99.93% to 3,065 in November,** but that is more than 1,201 in October and has been rising for the second straight month. There were no tourist arrivals for 6 consecutive months since April. The increase was supported by the Special Tourist Visa (STV) program introduced to allow long-stay tourists to visit Thailand. In 11M20, foreign tourist arrivals contracted by 81.4% to 6.7 mn.
- In November, **positive signs in domestic tourism activity** lifted tourism revenue for the 6th consecutive month to THB57.7bn (-39.8% YoY), compared to THB47.2bn (-49.2%) in the previous month. This was encouraged by government programs to boost domestic tourism. It lifted nationwide average occupancy rate for the 5th straight month, from 30.5% in October to 34.8% in November. But that is still well below the 69.9% recorded in the same period in 2019.
- **The surge in COVID-19 cases in several provinces since mid-December will impede the recovery in domestic tourism in the first quarter of 2021.**

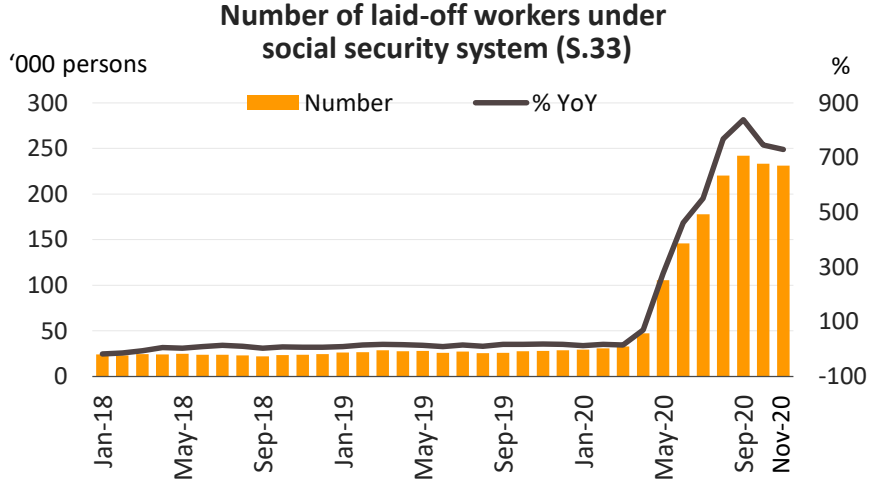
Labor market has been stable since late-2020 but is at risk again following latest outbreak

The National Statistic Office reported that unemployment rate had stabilized at 2.0% in November (vs 2.1% in October) but remained higher than 1.0% in 2019. The number of employees insured under Section 33 contracted for the 7th straight month, by 5.3% YoY to 11.1 mn in November. The number of lay-offs remained high at 231,370 (+730% YoY), as well as jobless claims at 465,465 (+168% YoY). Although the labor market seemed stable in 4Q20, the latest outbreak could rein in the recovery in the labor market.









Note:The insured persons (Section 33) under Social Security System account for 31% of total number of employed persons.
Source: Social Security Office, Ministry of Labor and Social Welfare, National Statistical Office (NSO), Krungsri Research

BOT sees downside risk to its forecasts following latest outbreak

BOT Forecasts		2020F		2021F	
		Previous	Latest	Previous	Latest
GDP growth	YoY (%)	-7.8	-6.6	3.6	3.2
Private Consumption Expenditure	YoY (%)	-3.5	-1.4	2.0	2.8
Government Consumption Expenditure	YoY (%)	3.4	2.5	5.1	5.1
Private Investment	YoY (%)	-11.4	-9.9	4.2	4.9
Public Investment	YoY (%)	8.8	10.0	11.4	7.9
Nominal Exports in USD (f.o.b.)	YoY (%)	-8.2	-7.4	4.5	5.7
Nominal Imports in USD (f.o.b.)	YoY (%)	-13.7	-14.1	4.4	7.7
Current Account Balance	USD, bn	14.0	16.2	14.6	11.6
Tourist Arrivals	persons, m	6.7	6.7	9.0	5.5
Headline Inflation	YoY (%)	-0.9	-0.9	1.0	1.0
Core Inflation	YoY (%)	0.3	0.3	0.2	0.3
Dubai crude price - period average	USD/bbl	62.5	50.9	54.8	52.8

Krungsri Research's view

MPC has voted unanimously to leave policy rate unchanged

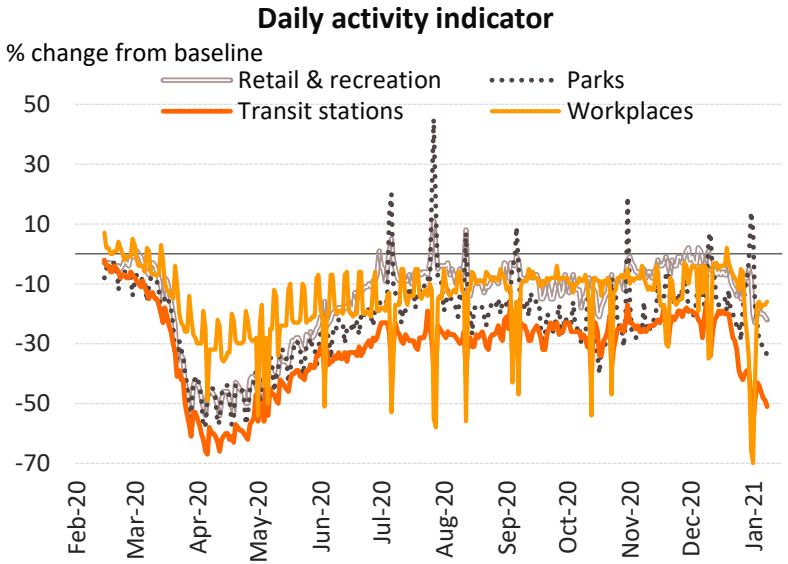
- At the last meeting on 23 December 2020, the BOT's Monetary Policy Committee (MPC) voted unanimously to keep policy rate at a record low of 0.50%, The decision is aimed "to support economic recovery" as well as "to preserve limited policy space in order to act at the appropriate and most effective timing".

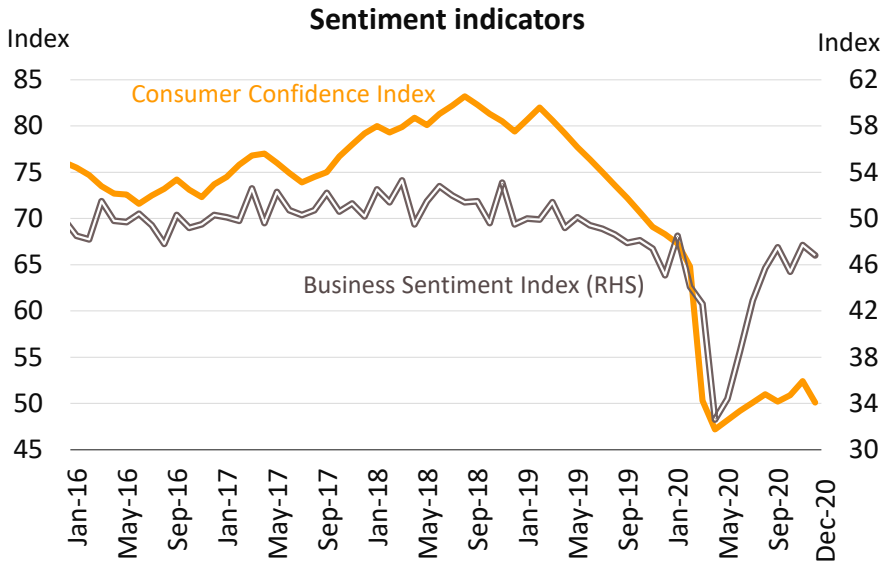
BOT sees near-zero QoQ growth in the last quarter of 2020 and expresses more pessimistic outlook for 2021

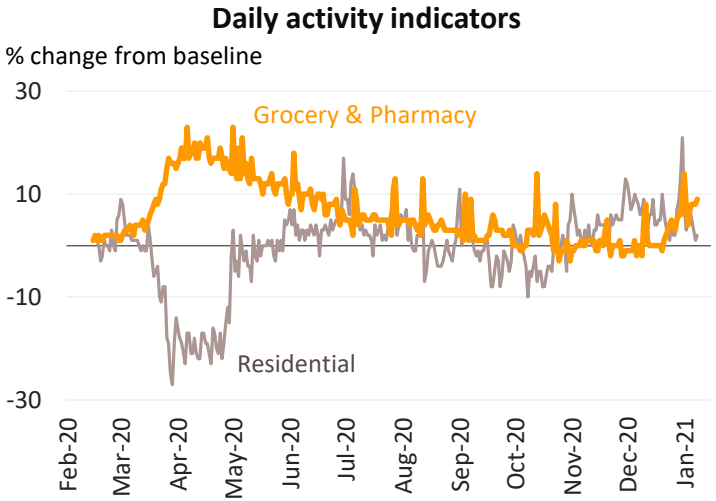
- BOT raised 2020 economic growth forecast to -6.6% from -7.8%, due mainly to better-than-expected private consumption and merchandise exports. Notably, the revision might include the negative impact of the latest domestic outbreak which started in December because their latest 2020 GDP growth projection implies 4Q20 growth would be close to 0% QoQ. For 2021, the BOT expects the Thai economy to continue to recover despite downgrading its GDP growth forecast from +3.6% to +3.2%. That is mainly explained by the downward revision of foreign tourist arrivals to 5.5 mn (from 9.0 mn) given rising risks from COVID-19.
- **However, the BOT recently said the wider-than-expected spread of COVID-19 has increased downside risks to its economic growth forecast for 2021, as its projection was based on the outbreak being contained within Samut Sakhon and neighboring provinces.**

Source: BOT, Krungsri Research

Latest domestic outbreak which started in mid-December will hurt confidence and some economic activities







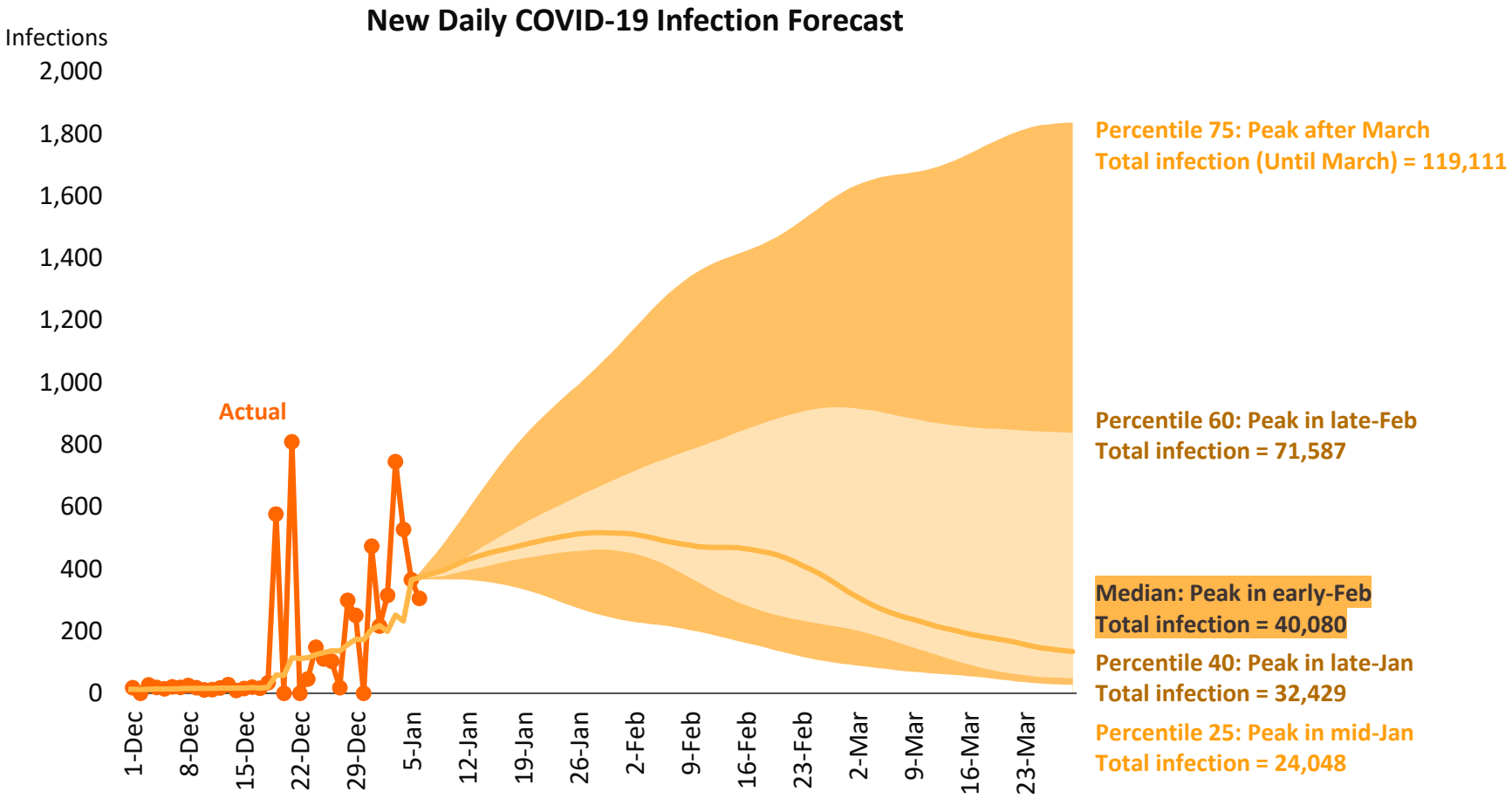
Source: Google, UTCC, BOT, Krungsri Research

Krungsri Research's view

- In December, the Consumer Confidence Index (CCI) fell for the first time in 3 months to to a 5-month low. The Business Sentiment Index (BSI) also fell in response to concerns over the latest outbreak.
- Daily activity indicators from Google Mobility Reports reveal the effects of the reimplementation of work-from-home policy. However, it is only a partial lockdown with fewer restrictions than the first round, and there is no curfew, some economic activities (such as in the grocery stores and pharmacies) could continue. Hence, there would be smaller impact than during the initial outbreak in March-April last year.

COVID-19 situation: Our model suggests latest outbreak would peak in early February

After a half year of calm, the total number of COVID-19 cases in Thailand have skyrocketed by more than 5,000 since mid-December to over 10,000 in early January. The virus has been spreading much faster than during the initial outbreak in March-April last year. Based on the latest coronavirus data, Krungsri Research's model suggests the median forecast for domestic infections would peak in early February and the curve would flatten in the second half of the month. Hence, the partial lockdown in red-zone provinces could be extended to end-February.



Source: WHO, forecast by Krungsri Research

We trim 2021 GDP growth forecast by 0.8 ppt to +2.5%, based on two-month partial lockdown and more stimulus

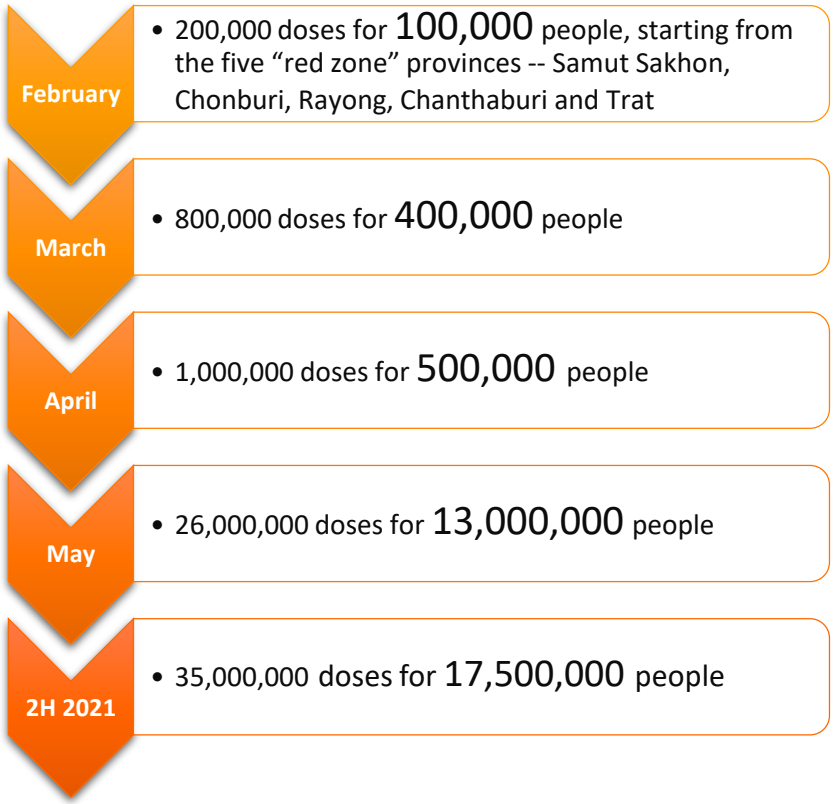
Krungsri Research has revised down Thailand's 2021 GDP growth forecast by 0.8 percentage points (ppt) net, as the pandemic impact is expected to reduce growth by 2.0 ppt but more stimulus measures would add 1.2 ppt to growth. Our latest projection is based on the following assumptions: (i) the curve of new infections would be flattened by the second half of February under a two-month partial lockdown with prevailing restrictions/measures; (ii) the government would provide extra THB200bn to boost economic activities; and (iii) Thailand would vaccinate nearly half of Thai citizens by the end of this year, as planned. The government expects to inoculate 14mn residents during February-May and another 17.5mn in 2H21.

Measures to alleviate impact of latest outbreak

- **Cash handouts (THB210 bn)**
  THB3,500 monthly for two months for farmer, laborers and casual workers who are not covered by the Social Security Scheme (30 mn people)
- **Relief cost of living**
  Reduce water and electricity bills for two months.
  Boost internet speeds to support WFH policy and consider reducing internet and telephone services fee
- **Loans for households and businesses (THB638 bn)**
  - **THB268 bn** soft loans by special financial institutes (SFIs) for entrepreneurs
  - **THB370 bn**, the rest of BOT soft loans (totaling THB500bn) for business sectors
- **Subsidy for essential goods**
  Reopen registrations for co-payment subsidy scheme to 1 million people
- **Support property sector**
  Extend the 90% reduction in land and building taxes and the 0.01% fee for property transfers for 1 year

BOT Measures
Extend Covid-19 Relief Package for retail borrowers and SME businesses from end-2020 to June 2021

Thailand orders 63 million doses of COVID-19 vaccines



Source: The Cabinet, Prime Minister Operation Center (PMOC), BOT, Krungsri Research

Thailand Economic Outlook 2021

Krungsri Research Forecast		2019	2020F	2021F	
				Previous	Latest
GDP growth	YoY (%)	2.4	-6.4	3.3	2.5
Private Consumption Expenditure	YoY (%)	4.5	-1.1	2.5	1.8
Government Consumption Expenditure	YoY (%)	1.4	3.0	3.8	4.3
Private Investment	YoY (%)	2.8	-11.0	3.2	2.9
Public Investment	YoY (%)	0.2	12.5	10.5	10.5
Nominal Exports in USD (f.o.b.)	YoY (%)	-3.3	-7.5	4.5	3.8
Nominal Imports in USD (f.o.b.)	YoY (%)	-5.6	-14.0	6.5	5.2
Current Account Balance	USD, bn	38.2	20.3	18.8	19.6
Tourist Arrivals	Mn, persons	39.8	6.7	4.0	4.0
Headline Inflation	YoY (%)	0.7	-0.9	0.8	0.8
Exchange rate (end of period)	THB/USD	30.1	30.0	29.3	29.3
Policy Interest rate (end of period)	(%)	1.25	0.50	0.50	0.50
Dubai crude price (period average)	USD/bbl	63	42	48	48

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

Key revision

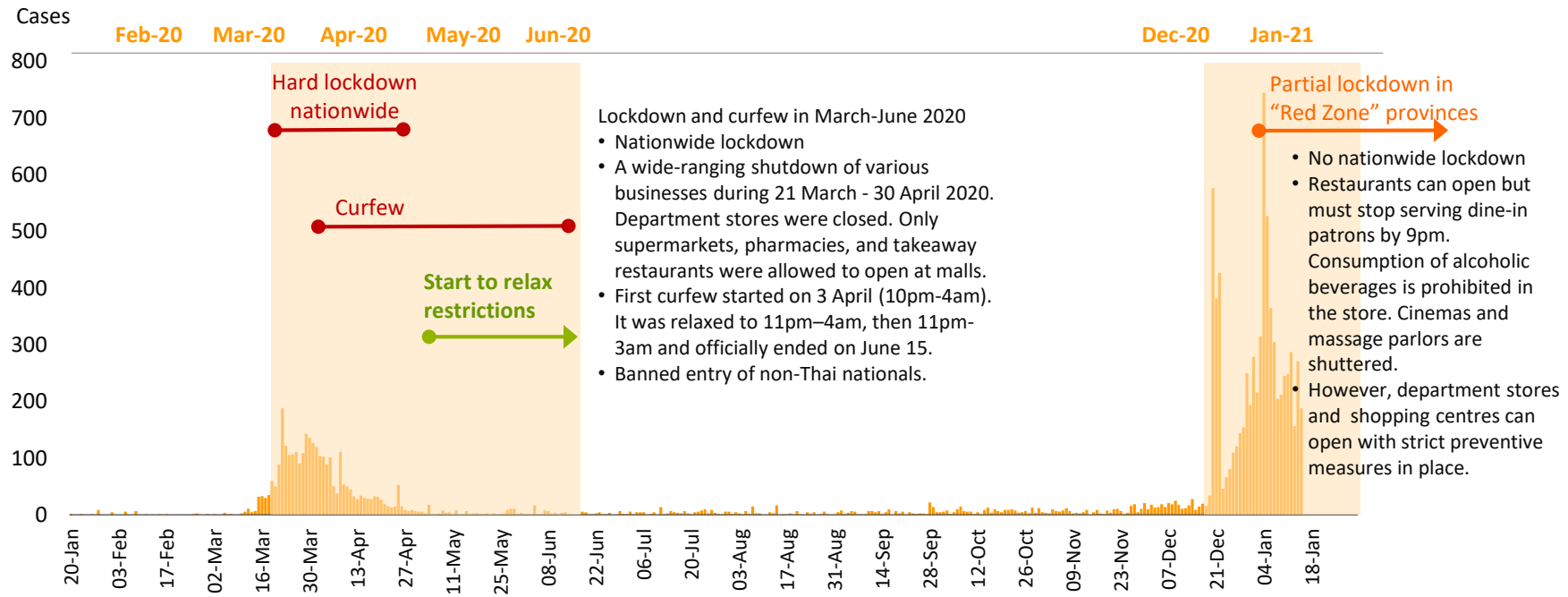
Theme	Narrative
• **Revised down 2021 GDP growth forecast to +2.5% from +3.3%**	Krungsri Research has revised down Thailand's 2021 GDP growth forecast by 0.8 percentage points (ppt) net, as the pandemic impact is expected to reduce growth by 2.0 ppt but more stimulus measures would add 1.2 ppt to growth. Our latest projection is based on the following assumptions: (i) the curve of new infections would be flattened by the second half of February under a two-month partial lockdown with prevailing restrictions/measures; (ii) the government would provide extra THB200bn to boost economic activities; and (iii) Thailand would vaccinate nearly half of Thai citizens by the end of this year, as planned. The government expects to inoculate 14mn residents during February-May and another 17.5mn in 2H21.
• **Revised down 2021 private consumption growth to +1.8% from +2.5%.**	We revised down 2021 private consumption growth forecast to +1.8% from+ 2.5%. **Consumer spending would contract sharply in 1Q21 following the partial lockdown, work-from-home policy and voluntary lockdown behavior.** High unemployment and rising debt would limit consumer spending growth but full-year consumption growth for 2021 could improve from last year because (i) the government will introduce more measures to boost spending; (ii) purchasing power of middle- and upper-income groups should continue to support domestic consumption; and (iii) COVID-19 vaccination program and signs that the pandemic is under control would lift consumer confidence later this year.
• **Trimmed export growth to 3.8% from 4.5%**	We trimmed 2021 export growth forecast to +3.8% from +4.5% **to reflect limited supply disruption given the softer lockdown and temporary container shortage.** The export sector should remain the main driver of the Thai economy this year, premised on (i) rising demand for products related to COVID-19 prevention, medical supplies and work-from-home policy; (ii) signs of cyclical recovery in the global manufacturing sector, led by growth in major economies amid massive stimulus measures; and (iii) opportunity to increase exports in the medium term as ASEAN is expanding economic ties and shifting to greater regionalization**.**
• **Trimmed 2021 private investment to 2.9% from 3.2%**	We trimmed 2021 private investment growth forecast to +2.9% from +3.2%, **in response to a contraction in 1Q21 private consumption, slightly softer-than-expected growth in exports, and limited supply disruption in some areas assuming a two-month partial lockdown.** However, there are signs of a gradual recovery in private investment that is related to export sectors and government infrastructure projects.
• **Maintained foreign tourist arrivals at 4.0m**	Our forecast for foreign tourist arrivals is unchanged at 4.0m in 2021 vs 6.7m in 2020, given pandemic concerns and travel restriction worldwide following the resurgence of COVID-19 cases in many countries. **We maintain that Thailand would see a sharp rise in foreign tourist arrivals in the fourth quarter of this year** following mass vaccination programs worldwide.

Source: Krungsri Research

2021 supply disruption and demand shock would be less severe than during the initial outbreak last year

The latest COVID-19 outbreak will delay Thailand's economic recovery. 1Q21 GDP is projected to contract by 4.0% YoY instead of -2.2% YoY. But despite higher numbers this round, the economic impact would be smaller than during the first wave (2Q20 GDP -12.1% YoY) for the following reasons: (i) the government is expected to impose only partial lockdown in certain provinces and no curfew, compared to the hard lockdown with curfews during April to mid-June last year. This suggests less severe disruption to domestic supply chains and demand shock this year; (ii) there is also less severe disruption to worldwide supply chains than last year; and (iii) given the above reasons, the negative income effect (or multiplier effect) should be smaller than last year.

Number of new infections in Thailand and lockdown measures



Lockdown and curfew in March-June 2020

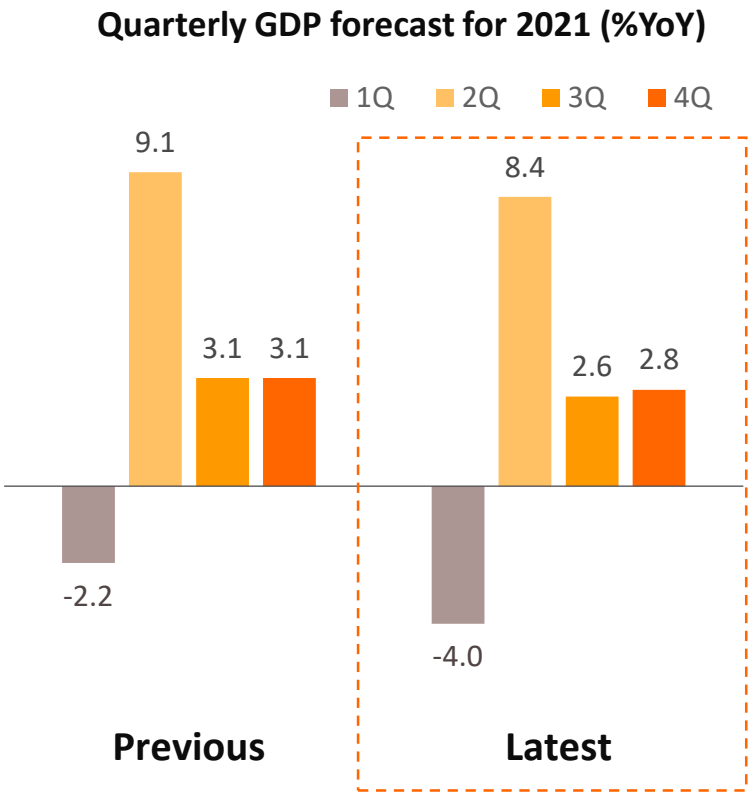
- Nationwide lockdown
- A wide-ranging shutdown of various businesses during 21 March - 30 April 2020. Department stores were closed. Only supermarkets, pharmacies, and takeaway restaurants were allowed to open at malls.
- First curfew started on 3 April (10pm-4am). It was relaxed to 11pm–4am, then 11pm-3am and officially ended on June 15.
- Banned entry of non-Thai nationals.

- No nationwide lockdown
- Restaurants can open but must stop serving dine-in patrons by 9pm. Consumption of alcoholic beverages is prohibited in the store. Cinemas and massage parlors are shuttered.
- However, department stores and shopping centres can open with strict preventive measures in place.

Source: CEIC, Local press, Krungsri Research

Economic recovery will be patchy this year given challenges ahead

Looking forward, Thailand's economic growth (year-on-year basis) is expected to turn positive from 2Q21, and would be slightly slower than our previous forecast. This would be supported by not only the low-base effect last year but also more stimulus measures, rising pent-up demand, COVID-19 vaccination program, improving domestic tourism, and a cyclical rebound in external demand. However, economic recovery will be patchy given challenges ahead, including uncertainties over the pandemic and vaccination, weak inbound tourism, high unemployment and rising debt, as well as domestic political uncertainties.



Supportive factors

- More stimulus measures
- Cyclical rebound of external demand
- Pent-up demand
- COVID-19 vaccination

Challenges and risks

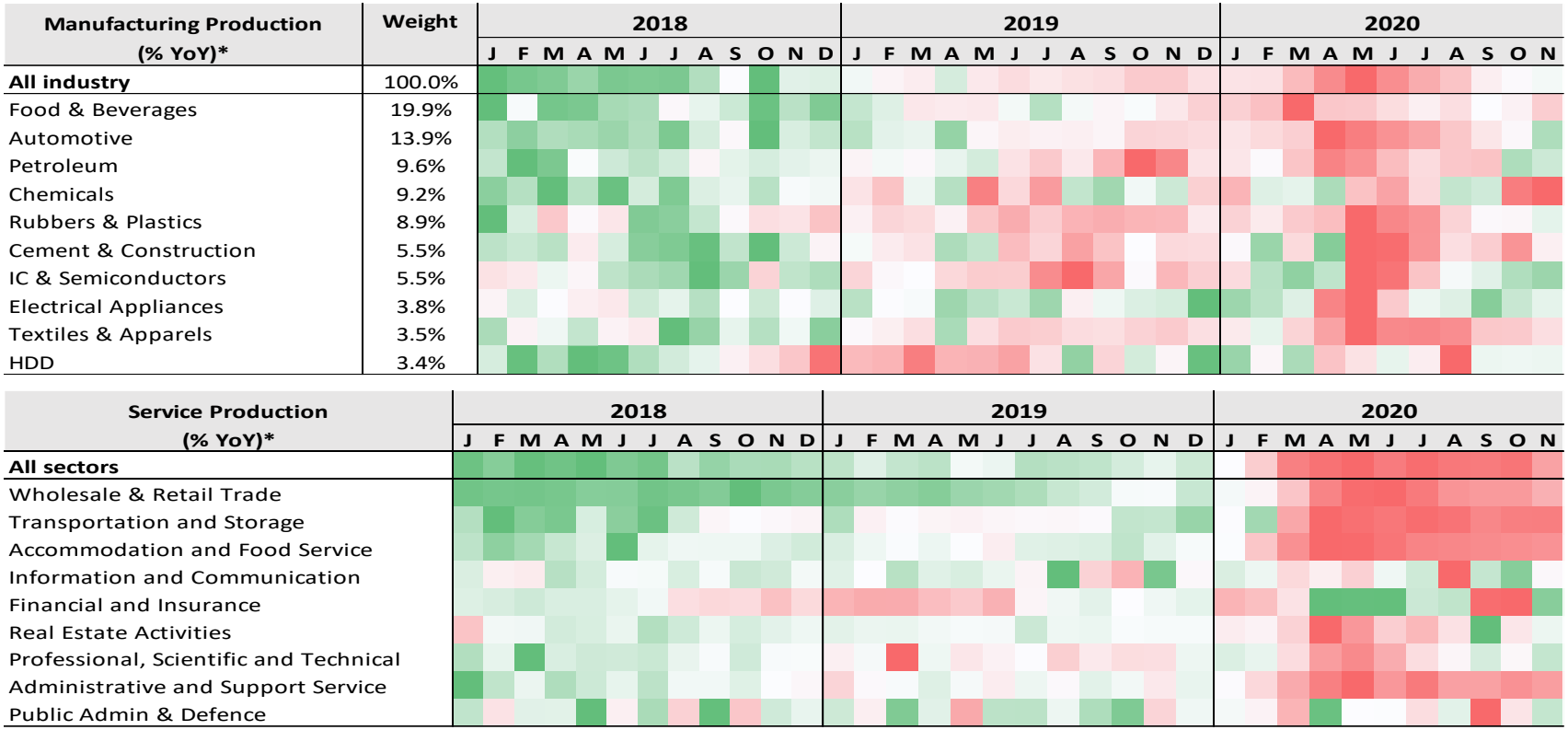
- Uncertainties over pandemic and vaccination
- Sluggish foreign tourism
- Crisis legacies (unemployment and debt)
- Domestic political uncertainties

Source: Krungsri Research

Fiscal measures and targeted monetary easing are more appropriate than rate cuts, to support sporadic recovery

Although we have revised down our economic growth forecast for this year, **the MPC is likely to keep policy rate at a record low of 0.50%** for the following reasons. **First,** as parts of the Thai economy continue to recover, there would be no need for broad-based monetary easing (or further rate cuts). Rate cuts are unlikely to help several affected groups such as small businesses, the self-employed, and low-income earners. **Second,** since the economic recovery would be uneven and sporadic across economic sectors and areas, fiscal stimulus and targeted monetary easing would be more appropriate to support the recovery than policy rate cuts**. Our latest view is based on the median forecast for domestic infections. Yet, the distribution in our infection forecast reflects extreme uncertainties surrounding the COVID-19 pandemic and exhibits an upward skew in cases.** Hence, we do not rule out rate cuts if the latest outbreak is not contained quickly; that would generate "broad" negative impact on the overall economy via severe supply disruption and demand shock nationwide.

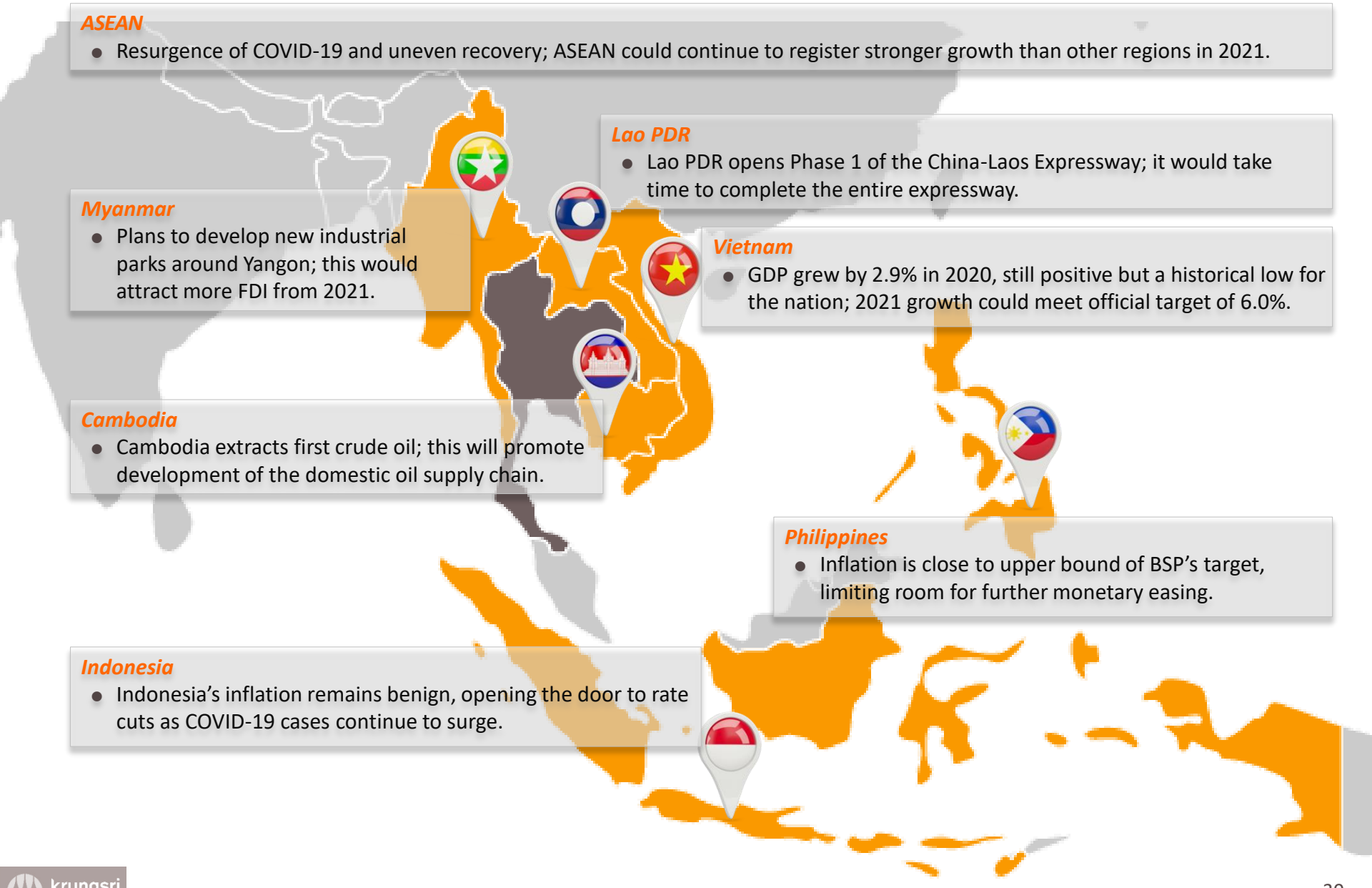
Signs of sporadic and uneven economic recovery



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

Source: OIE, BOT, Krungsri Research

Regional Economic and Policy Developments in January



ASEAN

- Resurgence of COVID-19 and uneven recovery; ASEAN could continue to register stronger growth than other regions in 2021.

Lao PDR

- Lao PDR opens Phase 1 of the China-Laos Expressway; it would take time to complete the entire expressway.

Myanmar

- Plans to develop new industrial parks around Yangon; this would attract more FDI from 2021.

Vietnam

- GDP grew by 2.9% in 2020, still positive but a historical low for the nation; 2021 growth could meet official target of 6.0%.

Cambodia

- Cambodia extracts first crude oil; this will promote development of the domestic oil supply chain.

Philippines

- Inflation is close to upper bound of BSP's target, limiting room for further monetary easing.

Indonesia

- Indonesia's inflation remains benign, opening the door to rate cuts as COVID-19 cases continue to surge.

ASEAN: Resurgence of COVID-19 and uneven recovery; continue to see stronger growth than other regions in 2021

Krungsri Research's view

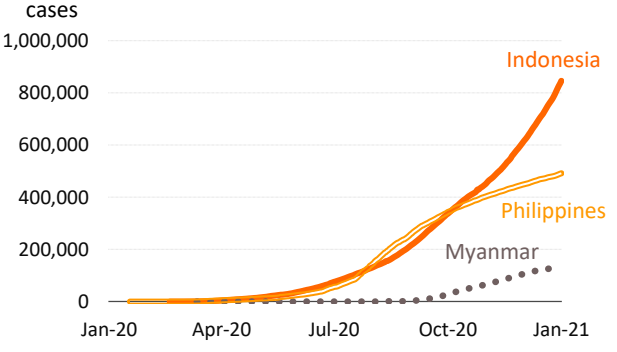
- In 2021, most ASEAN economies are expected to recover from the pandemic crisis with over 6% YoY GDP growth, according to the IMF report in October 2020. However, **the second outbreak that started in 4Q20 in several ASEAN countries, specifically Indonesia, Philippines, and Myanmar, could derail growth forecasts of these economies. Looking ahead, we anticipate an uneven recovery in the CLMVIP economies, though the pace of growth could be stronger than other regions in the world. In addition, even as these countries are starting to distribute vaccines, they would only be able to vaccinate the majority of the population by mid-2022.**
  - **Given relatively fewer COVID-19 cases and effective containment measures, Vietnam is likely to register the strongest recovery among ASEAN nations, supported by quick recovery of cyclical factors and sound structural factors.** Major drivers would be resilient domestic consumption, impressive export growth on the back of several FTAs including the EVFTA, UKVFTA, and RCEP (seeking ratification), and an expected acceleration in public investment.
  - **Next, we expect Indonesia and Cambodia to be on path to recovery, albeit in a more gradual manner. Indonesia** has the most COVID-19 cases in ASEAN region and its economy is hurt by the extended lockdown. The country has started distributing vaccines, but it would take time to cover most of the 260 million population. However, the economy would also be driven by a recovery in exports – especially to China and US (its two largest export markets, accounting for 30% of total exports) – and the extension of large stimulus measures. **Cambodia**'s economic recovery would be supported by relatively resilient exports to specific markets, led by US and China, which could mitigate the impact of partial suspension of its EBA benefits by the EU. We are also optimistic there will be more FDI inflows driven by its ongoing reform of investment policies, the China-Cambodia FTA, and RCEP.
  - **Recovery in Philippines, Myanmar and Laos would be slower than expected, for country-specific reasons**. The **Philippines** has the second highest number of COVID-19 cases in ASEAN region, but it is seeking to acquire vaccines. Domestic consumption – its largest GDP component at 73% of GDP – would continue to be derailed by high unemployment rate of 8.7% and the extended lockdown. Delays in the disbursement of stimulus measure and conservative stimulus stance would also contribute to a slow recovery. **Myanmar** is likely to be hit harder by the second COVID-19 outbreak, which has lasted longer than the first. We expect economic activities, including consumption and manufacturing sector, to remain subdued given rising cases and limited national healthcare resources. However, economic and investment reforms would continue to attract FDI into the country. **Laos** would continue to be pressured by weak structural problems.

Indicators	Cambodia	Laos	Myanmar	Vietnam	Indonesia	Philippines
Cumulative number of COVID-19 cases*	411.0	41	132,260.0	1,521.0	858,043	492,700.0
IHS Markit Manufacturing PMI (Index)	n.a.	n.a.	44.7	51.7	51.3	49.2
Retail sales** (Growth, % YoY)	n.a.	n.a.	n.a.	5.4	-10.5	-15.8
Tourist arrivals** (Growth, % YoY)	-77.4	n.a.	-67.6	-72.2	-70.9	n.a.
Exports** (Growth, % YoY)	-0.9	0.1	-2.9	5.7	-5.4	-13.4
Imports** (Growth, % YoY)	-1.3	-9.2	5.6	0.5	-17.6	-25.6
Current account balance*** (% of GDP)	-25.4	-8.7	-3.5	1.2	-1.3	1.6
International reserves****(months of imports)	9.3	1.4	3.5	3.3	8.6	8.7
Fiscal balance*** (% of GDP)	-2.4	-6.4	-6.0	-6.0	-6.3	-8.1
Public debt*** (% of GDP)	31.5	70.9	42.4	46.6	38.5	48.9
Total external debt**** (% of GDP)	57.0	90.0	22.0	47.1	38.0	24.0
Stimulus package in 2020 (% of GDP)	3.3	0.0	0.6	4.4	4.5	2.3
IMF's projection of real GDP growth in 2020*****	-2.8	0.2	2.0	2.9	-1.5	-8.3
IMF's projection of real GDP growth in 2021	6.8	4.8	5.7	6.7	6.1	7.4

Contraction or negative number or below international standards

Expansion or positive number or above international standards

COVID-19 cases in Indonesia, Philippines and Myanmar



Note: * as of 14 January 2021; ** Average Jan-Sep 2020; *** IMF's projection for 2020; **** Data in 2019; ***** Data for Vietnam is actual.

Source: IMF, CEIC, Krungsri Research

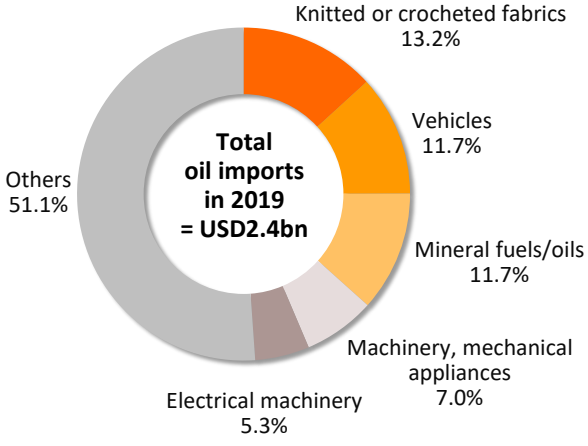
Cambodia extracts first crude; this will promote development of the domestic oil supply chain

Map of Cambodia's first crude oil field "Block A"

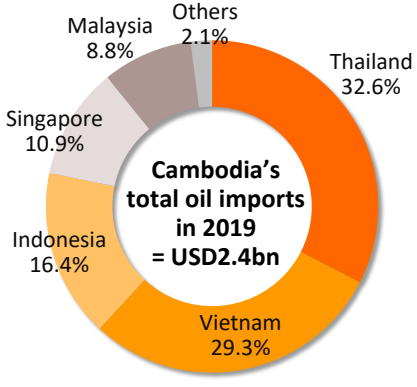


List	Detail
Location	The Apsara area in the Khmer Basin in the Gulf of Thailand, in water depths of 50 meters to 80 meters
Area	3,083 sq. km
Production	The first platform "A" to commence at gross production rate of c.8,000 barrels of oil per day
Output	Crude oil

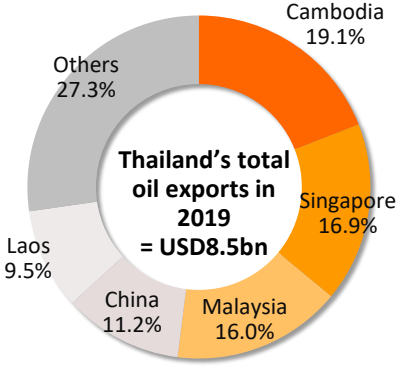
Cambodia: Top 5 major import products in 2019



Cambodia's top 5 sources of oil imports in 2019



Thailand's top 5 oil export markets in 2019



Source: KrisEnergy, Trademap, CEIC, Krungsri Research

Krungsri Research's view

- **On 29 December 2020, Cambodia started its first crude oil extraction** in an offshore field called "*Block A*", in the Gulf of Thailand. It is about 150 kilometers off the southwestern coast of Sihanoukville. It is a joint-venture between the Cambodian government (5% stake) and Singapore-based KrisEnergy Ltd. (95% stake). (Further details in Table 1)
- **The country does not currently have an oil refinery. One is under construction and was originally scheduled to be completed by 2022**, but it has been temporarily suspended because of financial issues. It is expected to produce 5 million tonnes of oil per year. This project is in Preah Sihanouk province, adjacent to Kampot province. This project is a joint-venture between locally-owned Cambodian Petrochemical Company (CPC) and China's Sinomach China Perfect Machinery Industry Corp.
- **These are significant projects that will pave the way for Cambodia to develop a domestic supply chain for the oil industry.** Looking ahead, this would help the country to (i) reduce dependence on imported oil; currently, it imports all its oil requirement; (ii) gain taxes & royalty revenues from those resource-based projects, (iii) receive revenues from crude oil exports later, and (iv) secure domestic energy requirements. Given that these projects would take time to complete, they would also offer minimal support to recover from the pandemic crisis.
- In addition, the development of Cambodia's oil industry could reduce Thailand's revenue from oil exports. This is because Cambodia is currently Thailand's largest oil export market at up to one-fifth of national oil exports, and Thailand is Cambodia's largest source of oil imports at up to a third of Cambodia's total oil imports. However, **the impact would be limited in the short- to medium-term because the 'Block A' project would equate only 17% of its annual total oil imports from Thailand.**

Lao PDR opens Phase 1 of the China-Laos Expressway, but it will take time to complete entire expressway

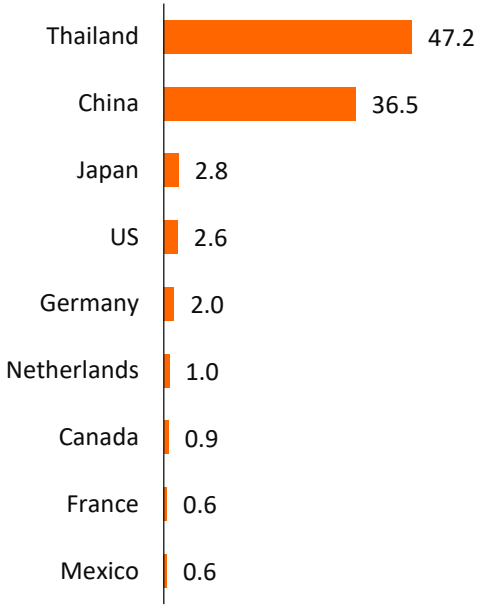
- On 20 December 2020, Laos opened the Vientiane-Vang Vieng Expressway, linking Vientiane – the country's capital – and Vang Vieng – one of its most famous tourist destination. The project would reduce land travel time from 3.5 hours to about 1 hour. This is part of the China-Laos Expressway that will start from Vientiane and end at the Laos-China border town of Boten, a 440 km journey that would take about 5 hours. The expressway will operate under the Build-Operate-Transfer (BOT) contract with a 50-year concession.
- **We estimate this would help Laos to transition from a land-locked to land-linked country.** The expressway would not only expand its road network but also shorten travel time. It will further improve efficiency and competitiveness in the country's transportation infrastructure. Specifically, it would promote its bilateral trade with China – its second largest export market – through the northern region. Target items include agriculture products, wood & wooden products, and other resources. **However, it would be at least 3 years before Laos can enjoy the full benefits, because other sections of the expressway have yet to be constructed.**

Map of major connecting point of Laos – China Expressway



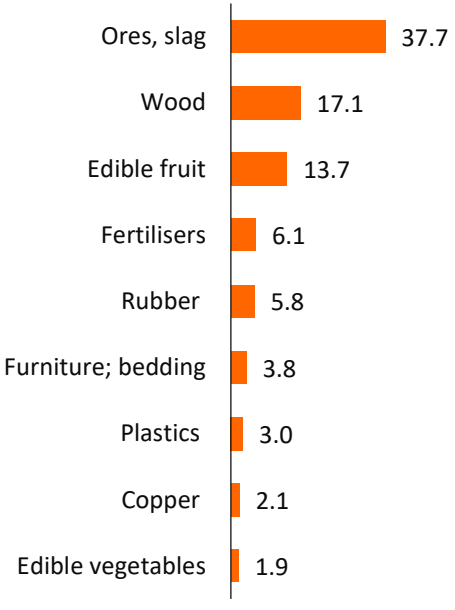
Laos: Top 10 export markets (2019)

Unit: % of total exports



Laos: Top 10 export products (2019)

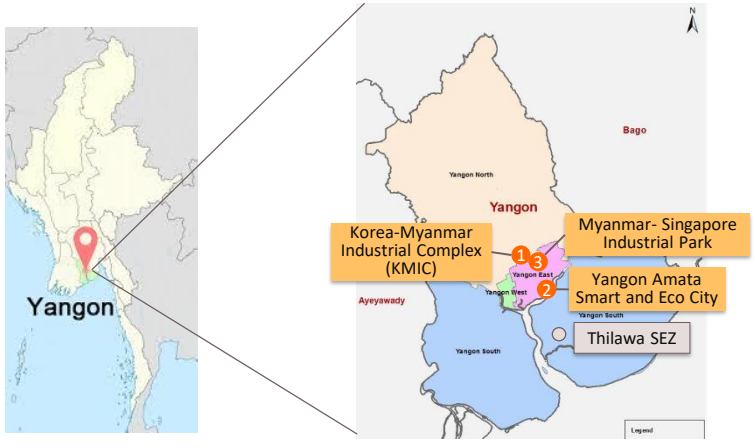
Unit: % of total exports



Source: Local news media, CEIC, Trademap, Krungsri Research

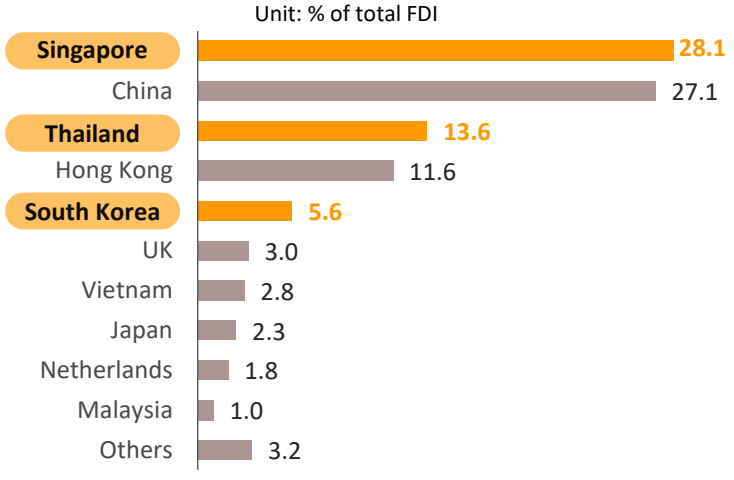
Myanmar plans to develop new industrial parks around Yangon; this would attract more FDI from 2021

Plans to develop more industrial parks around Yangon



Name	Investment (USD m)	Share holders	Details
1) Korea-Myanmar Industrial Complex (KMIC)	110	• South Korea's Land and Housing Corp.: 40% • South Korea's Global SAE-A: 20% • Myanmar's Ministry of Construction: 40%	• 122 hectares In Hlegu, north of the city • To open around half of the zone in the first phase in 2023
2) Yangon Amata Smart and Eco City	1,000	• Thailand's Amata Corp: 80% • Myanmar's Ministry of Construction: 20%	• 2,000 hectare in Dagon Township • To open the first phase of 80 hectares in 2021
3) Myanmar-Singapore Industrial Park	230	• Singapore's Sembcorp: 67% • Myanmar's Pahtama Group: 18% • Myanmar Agribusiness: 15%	• 436 hectares • Not yet to set launch date

Myanmar: Cumulative FDI (2004-11M20)



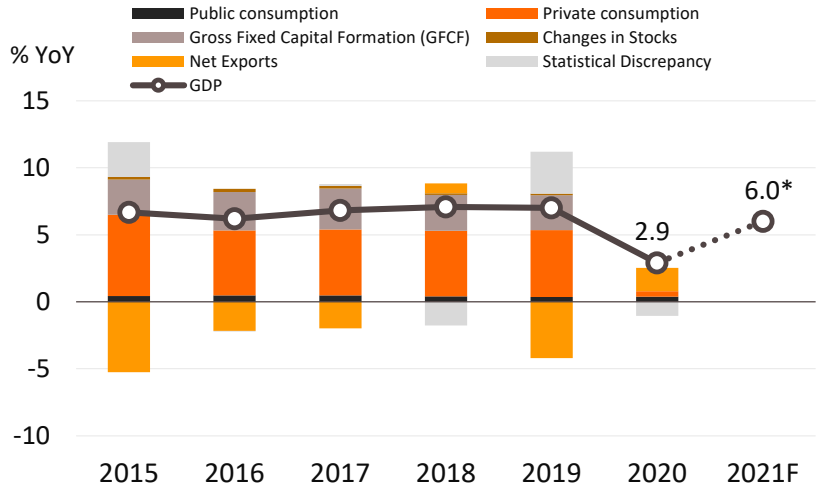
Source: Local news media, Nikkei Asia Review, CEIC, Krungsri Research

Krungsri Research's view

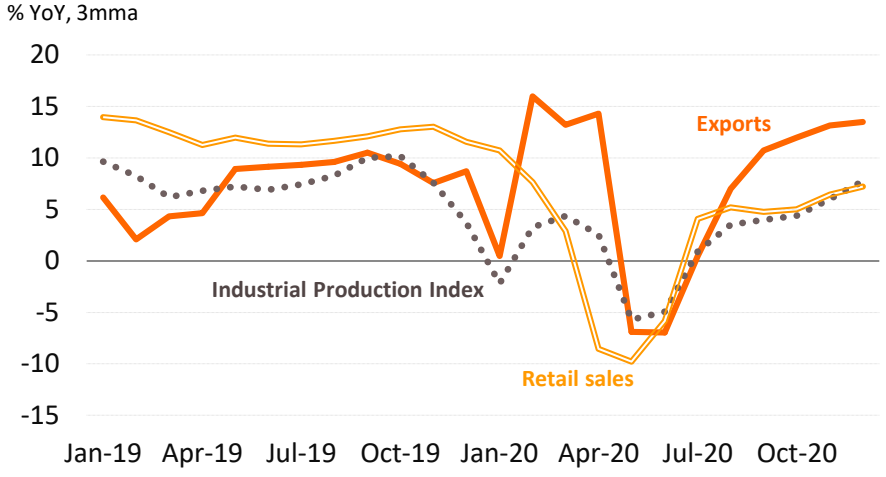
- **In late 2020, three industrial park projects are set to develop around Yangon. These are (i) Korea-Myanmar Industrial Complex (KMIC)**, Phase 1 to open in 2023; **(ii) Yangon Amata Smart and Eco City** (Phase 1 to open in 2021); **and (iii) Myanmar- Singapore Industrial Park** (no launch date)**.** Details are listed above.
- We expect these industrial estates to **promote Myanmar as a promising FDI destination** in the post-COVID era. Currently, Myanmar has only one modern industrial facility - the Thilawa SEZ - in south-east Yangon. Additional modern industrial facilities would attract more investment, especially FDIs to **the food- and agro-processing and other export manufacturing industries, the major FDI targets.** Their strategic location - in Yangon, Myanmar's key economic area and transportation hub - would also make them competitive to draw investment to meet rising domestic demand from a growing middle-income class and abundant labor force.
- We also expect each estate to play an important role as an **industrial hub for foreign investors – especially from their home country –** to conduct more businesses in Myanmar. Currently, Singapore, Thailand, and South Korea are among Myanmar's top 5 sources of FDI.

Vietnam's GDP grew 2.9% in 2020, still positive but a new low; 2021 growth could reach official target of 6.0%

Vietnam: Contribution to GDP: Expenditure side



Vietnam: Retail sales, exports, and Industrial Production Index



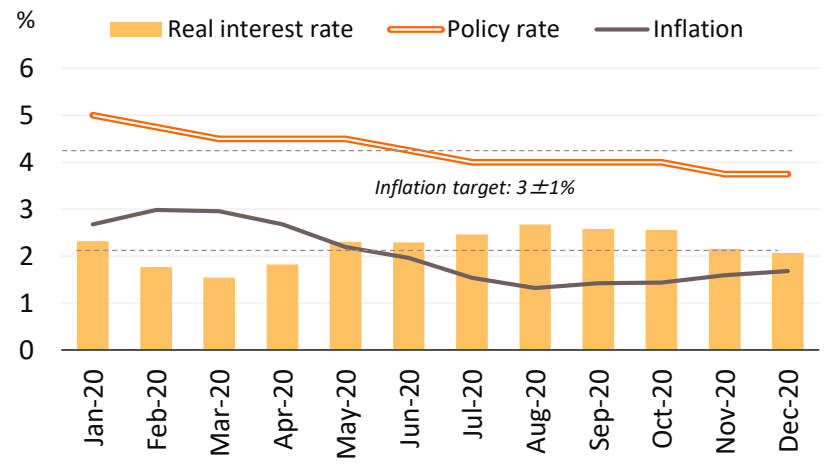
Krungsri Research's view

- **In 2020, Vietnam's economy grew 2.9%**, slower than the +7.0% registered in 2019 and the slowest since 1986. However, it was still positive growth despite the pandemic impact, and Vietnam is expected to register the strongest growth in ASEAN and among the strongest in the world. **We expect the country to meet its 6.0% growth target for 2021, driven by exports, private consumption, and investment.**
- **Vietnam's exports – largest GDP component at 102% of GDP – grew 6.5% in 2020, it is the lowest since 2008. However, that is still stronger than overall global growth.** In Jan-Sep 2020, its exports grew 4.0% YoY while exports from Emerging & Developing economies and global exports contracted by 10.2% and 10.6% YoY, respectively. **We see promising prospects for the country's exports in 2021,** supported by (i) major export items - computer and electronic products – benefit from work-from-home trend; (ii) relatively lower production costs, especially labor costs; and (iii) privileges under several FTAs, including the EVFTA, UKVFTA, and CPTPP, which make their product prices more competitiveness than other imports.
- **Private consumption – accounting for 68% of GDP – is expected to accelerate in 2021**, supported by less restrictive lockdown measures, a recovery of the labor market, and its vaccination program in 2021. National retail sales have been rising since late 3Q20. Unemployment rate has dropped from its 9-year high of 2.7% in 2Q20 to 2.3% in 4Q20, and is expected to improve further on the back of growing industrial production and exports.
- **Investment – accounting for 26% of GDP – would rebound after the suspension of new/expansion investment projects in 2020.** Optimism over Vietnam's exports and consumption would lead to higher private investment. Several new FTAs would also attract foreign investment to Vietnam, which would in-turn boost domestic investment through opportunities for joint ventures or mergers with foreign enterprises. In addition, authorities have recently announced they would accelerate public investment in infrastructure in 2021 – led by transport infrastructure - to support growth and enhance the country's competitiveness.

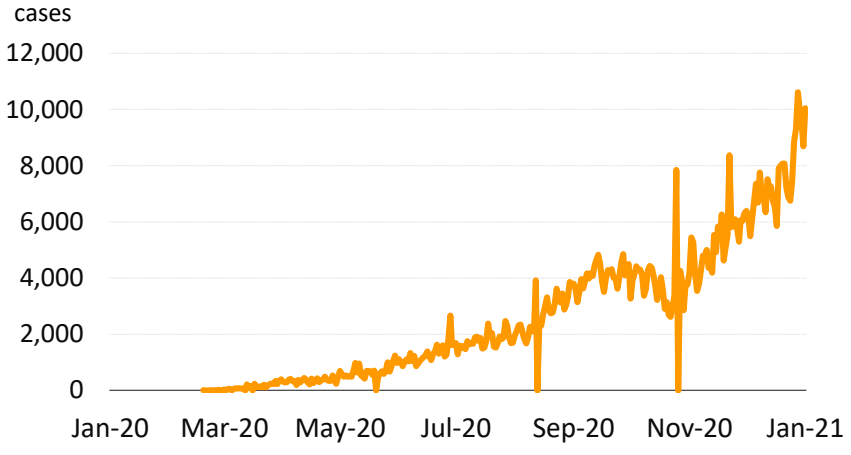
Note: * Vietnam's official target.
Source: IMF, General Statistics Office, CEIC, Krungsri Research

Indonesia's inflation remains benign, opening the door to rate cuts amid surging COVID-19 cases

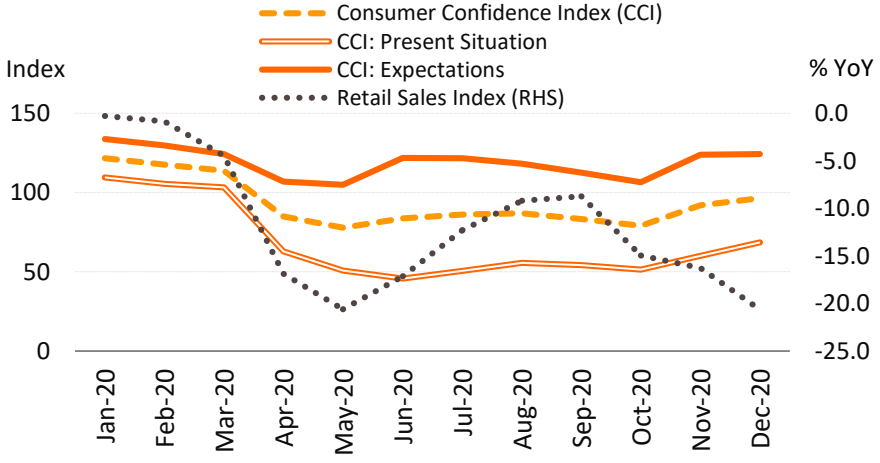
Indonesia: inflation and interest rate



Indonesia: New daily COVID-19 cases



Indonesia: Consumer Confidence Index* and Retail Sales Index



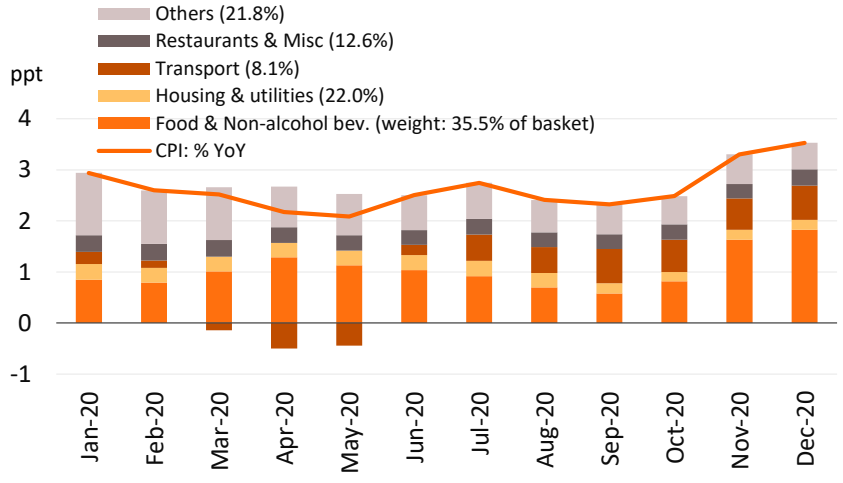
Note: * +100 = net balance, above 100 indicates an optimism (positive response), and vice versa.
Source: Bank Indonesia, Association of Indonesian Automotive Industries, CEIC, Krungsri Research

Krungsri Research's view

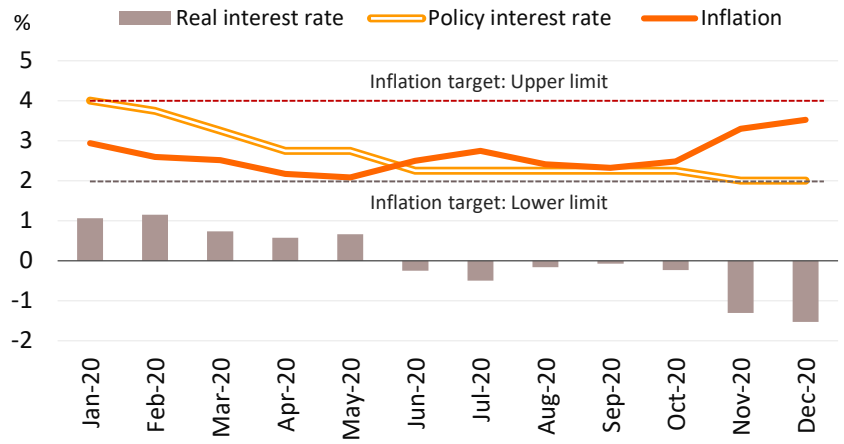
- Indonesia's inflation rose 1.7% YoY in December following a 1.6% rise in November. It marked the highest annual inflation since June, but remains below the BI's target range of 3±1%. Full-year inflation registered 2.0%.
- The benign inflation in 2020 was supported by weak domestic demand as a result of extended restrictions to contain the pandemic. **In 2021, we expect inflation to remain at the lower bound of its target** given still-weak domestic demand. Domestic consumption would contract further in 1H21 but is expected to improve gradually when they start to distribute the vaccines to the majority of population, possibly by 2H21.
- **Given benign price pressures as well as subdued economic growth - derailed by a resurgence of COVID-19 - we maintain that Indonesia can ease monetary policy further, with room for up to another 50 bps rate cut in 1H21. This is also supported by less outflows and a more stable currency.**

Philippines' inflation is close to upper bound of BSP's target, limiting room for more monetary easing

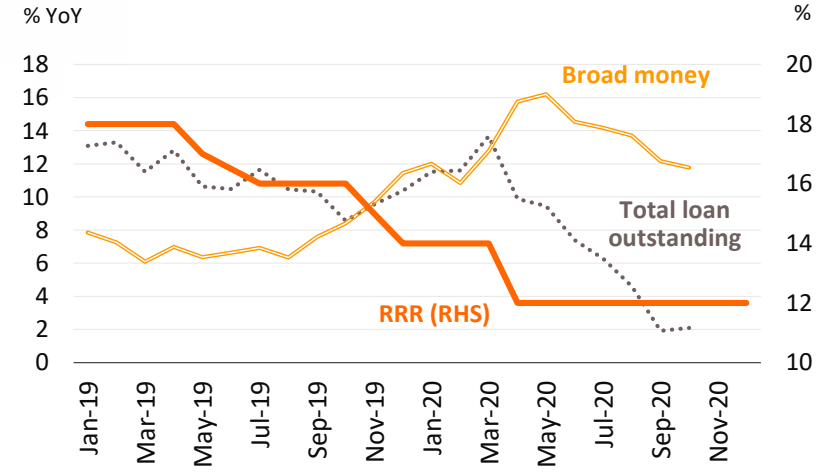
Philippines: Headline inflation



Philippines: Inflation and policy interest rate



Liquidity in Philippines' banking system



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

Krungsri Research's view

- **Philippines' inflation surged to 3.5% in December,** rising for the second straight month to close to the upper bounds of its inflation target. This was **driven by food prices which rose temporarily** after several storms destroyed some agricultural areas. 2020 full-year inflation settled at 2.6%, around the mid-point of its target. At its latest meeting, the Bangko Sentral ng Pilipinas (BSP) kept 2021 and 2022 inflation targets at 3±1%.
- Given higher inflation, negative interest rate has continued to widen. However, **risks to the inflation outlook will remain on the downside given (i) weak demand, and (ii) softer food prices after a temporary rise last year.** We expect inflation to remain around the mid-point of target for 2021.
- In addition, **we maintain that there is room, albeit limited, for authorities to cut interest rates by another 25 bps in 1H21**. This is supported by a fragile economic recovery and surging COVID-19 cases in the country. In addition, the BSP would further ease monetary policy by **cutting RRR** as liquidity has been dropping in recent months. In the meantime, it needs more measures, especially more direct and quickly-implemented fiscal measures to accelerate lending, which would help to cushion the economy from sluggish demand.

KRUNGSRI RESEARCH

Somprawin Manprasert, Ph.D.	**Head of Research Division and Chief Economist**
Phornphan Phoksuphat	Head of Macroeconomic and Industry Research

Macroeconomic Team

Sujit Chaivichayachat	Head of Macroeconomic Research
Chamadanai Marknual, Ph.D.	Senior Economist
Churailuk Pholsri	Senior Economist (Forecasting)
Soison Lohsuwannakul	Senior Economist (Regional Economy)
Sathit Talaengsatya	Senior Economist (Regional Economy)

Industry Team

Sarun Sunansathaporn	Head of Industry Research
Taned Mahattanalai	Senior Analyst (Construction Contractors)
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 Materials, Industrial Estate)
Patchara Klinchuanchun	Analyst (Real Estate)
Wanna Yongpisanphob	Analyst (Automobile, Electronics & Electrical Appliances, Food & Beverages)
Chaiwat Sowcharoensuk	Analyst (Agriculture)
Aphinya Khanunthong	Analyst (Energy, Petrochemicals)

Intelligence Team

Pimnara Hirankasi, Ph.D.	Head of Intelligence Team
Punjaphut Prasitdechsakul	Senior Analyst
Rachot Leingchan	Analyst
Arpakorn Nopparattayaporn	Analyst
Chutipha Klungjaturavet	Analyst

MIS and Reporting Team

Suratchanee Somprasong	Administrator
Thamon Sernsuksakul	Administrator
Chirdsak Srichaiton	MIS Officer
Wongsagon Keawuttung	MIS Officer

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For research subscription, contact

krungsri.research@krungsri.com

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