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# THB Thermometer

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November 2021

# Foreign Exchange Market Update

## Recap : October

The dollar firmed against the euro and yen but tanked versus commodity-linked high-beta currencies, driven by respective expectations of monetary policy paths amid growing anxiety over protracted inflation. Markets appear to have gone ahead of themselves in pricing interest rate increases particularly in the UK, Australia, and Canada, leaving scope for a pullback.

### € Performance

### Slight Depreciation

- The European Central Bank on Oct. 28 said the EUR1.85 trillion Pandemic Emergency Purchase Program is likely to end as scheduled in March, while leaving its benchmark rate at minus 0.50%. President Lagarde, as widely expected, acknowledged that inflation will be high for longer but pushed back against market anticipations of a 2022 rate liftoff.

### € Outlook

### Near-term Depreciation

- While markets remained reluctant in buying Lagarde's dovish communication, the Fed's normalization will still take place well in advance of the ECB. Hence, the euro is poised to underperform heading into the early part of 2022. Once the Fed's tightening expectations somewhat settle, we project diminishing dollar support over the medium term.

### ¥ Performance

### Sharp Depreciation

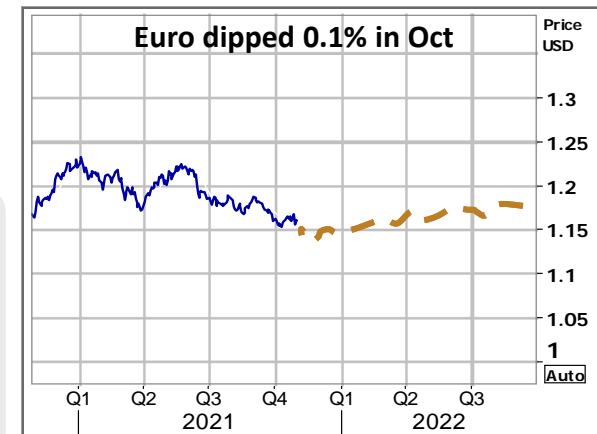
- The yen tumbled to the lowest level in almost four years as the broader risk appetite proved resilient despite hawkish Federal Reserve expectations, rising energy prices and overseas yields. The Bank of Japan on Oct. 28 left policy unchanged.

### ¥ Outlook

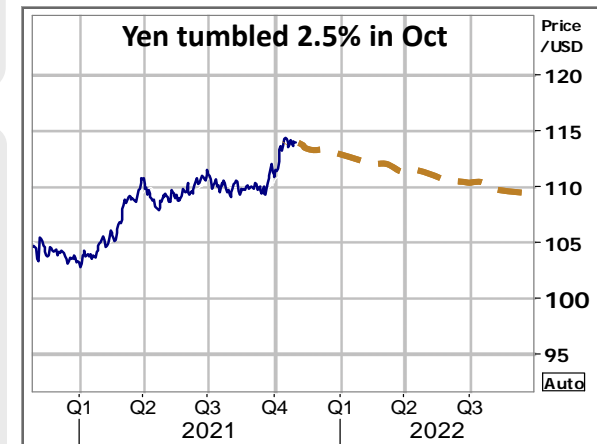
### Modest Appreciation

- We maintain our view of gradual yen recovery due to the potential reversal in risk appetite and a pick up in market volatility as more global central banks tighten. While the ruling party's victory in the latest national elections indicates policy continuity in Japan, the yen will be driven more by evolving global market landscape still.

## EUR/USD



## USD/JPY



Refinitiv

# Foreign Exchange Market Update

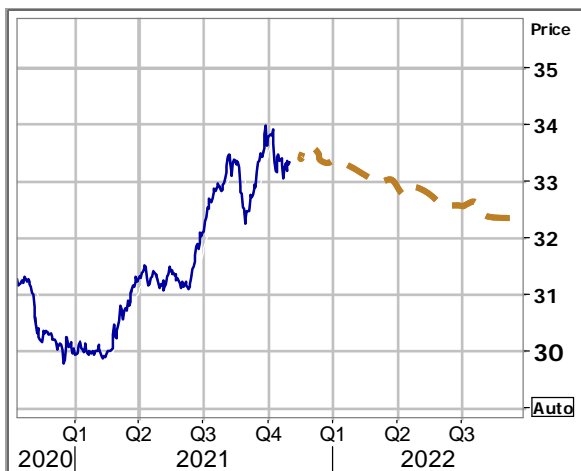
## Recap : October

### Baht Appreciation

- The Thai baht outperformed, bolstered by equity-linked portfolio inflows as markets welcomed the re-opening plans aimed at reviving the devastated tourism sector. The government announced a list of 63 low-risk countries and territories which fully vaccinated visitors can enter Thailand without quarantine requirements from November, while lifting curfews in tourist spots. The stronger yuan also helped underpin Thai baht sentiment. Multi-year high crude oil prices, however, limited gains in the local currency. Meanwhile, the BoT said the baht's volatility was in line with regional peers and the central bank had acted to ensure it would not hinder economic recovery.
- USD1.4 billion current account deficit in September, the 11<sup>th</sup> consecutive month of shortfall. The drop in global gold prices proved enough to attract Thai demand, with gold imports up 59% y-o-y during the month.
- THB15.9 billion net foreign buying of SET-listed shares in October, biggest since the vaccine breakthrough and President Biden's victory back in November 2020
- THB9.3 billion net foreign buying of Thai government bonds in October

\* Based on outright trading value. The accumulated net buying value may double count the trading value of rollovers.

### USD/THB



Refinitiv

### Historical Performance

	THB vs USD	THB vs JPY
1 month	1.86%	4.23%
3 months	-1.05%	2.80%
12 months	-6.39%	2.34%

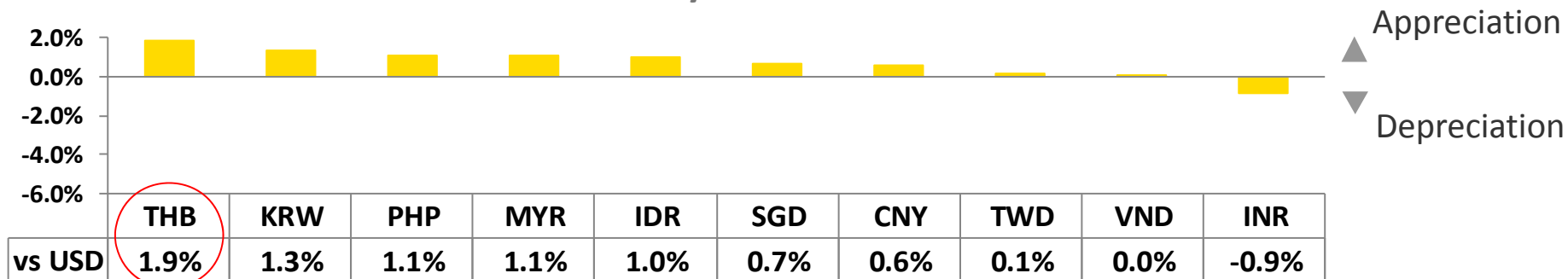
As of October 29, 2021, "-" indicates THB depreciation

### Outlook: Near-term Price Swing

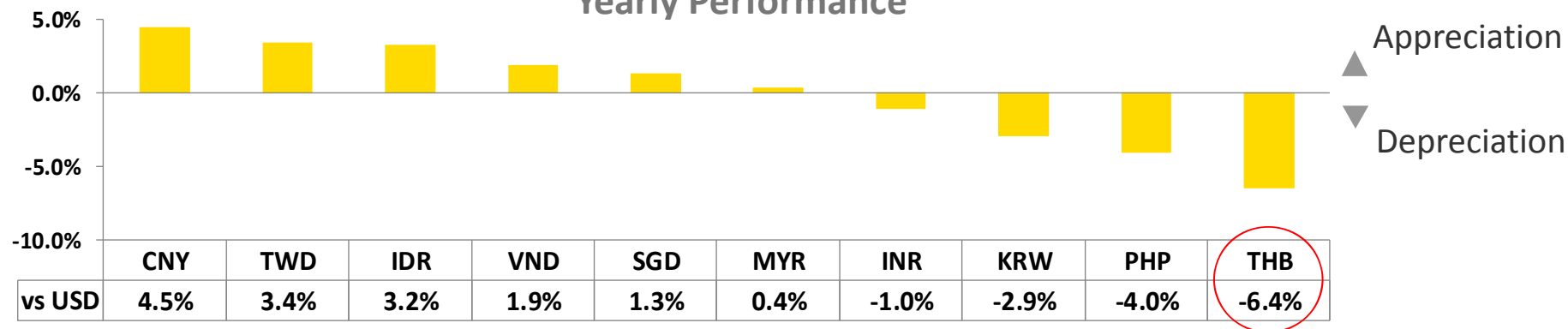
We continue to reserve our caution with regards to the timing of Thai baht recovery given pockets of uncertainty. Hence, volatility looks set to stay elevated due to the risks that U.S. monetary policy expectations might turn even more hawkish in the near term. While the BoT is likely to become one of the last to withdraw ultra-loose policy, the already hefty baht weakness this year should point to limited downside as well.

# Foreign Exchange Market Update

## Monthly Performance



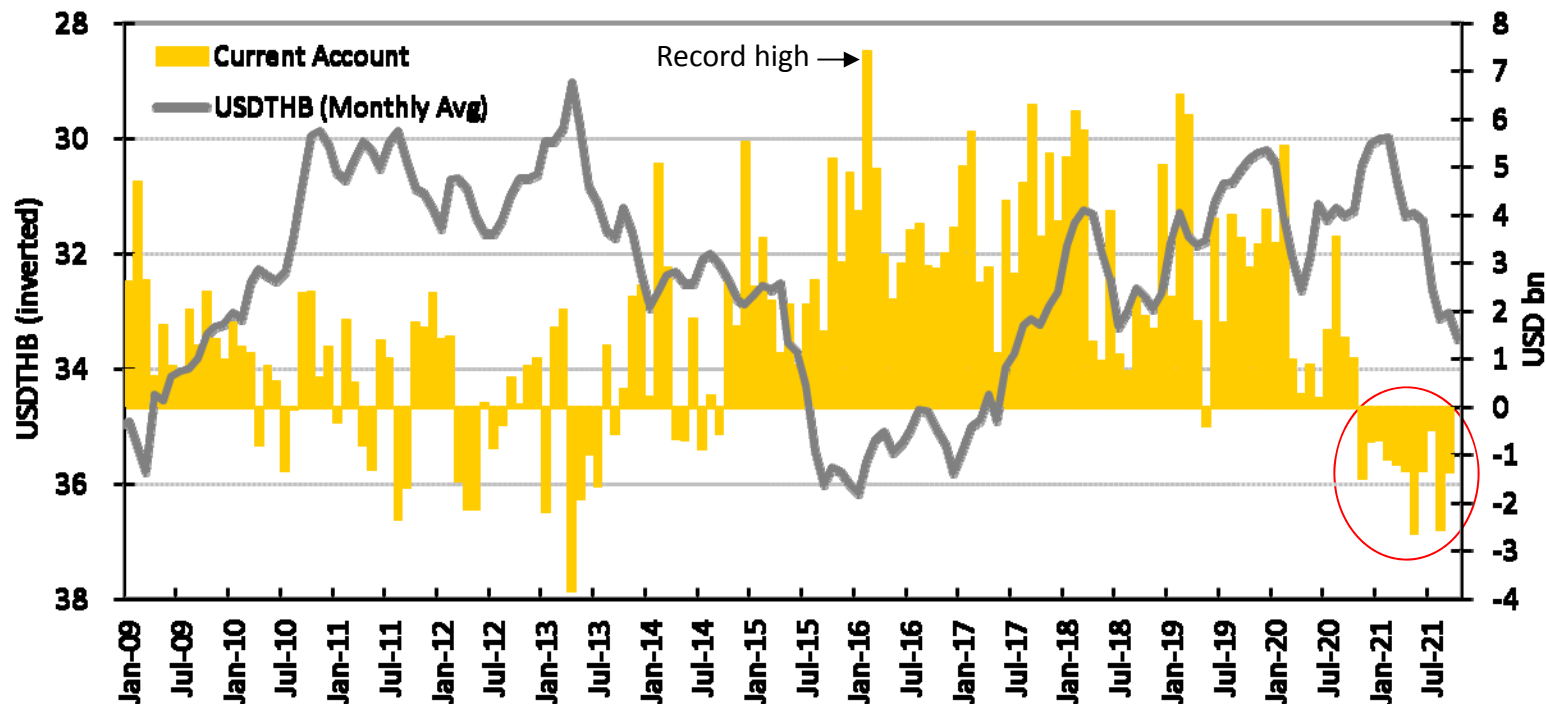
## Yearly Performance



Bloomberg, Refinitiv, data as of end-October 2021, yearly is past 12 months, "-" indicates currency depreciation against USD

# Thailand: External Accounts

## Current Account & USD/THB



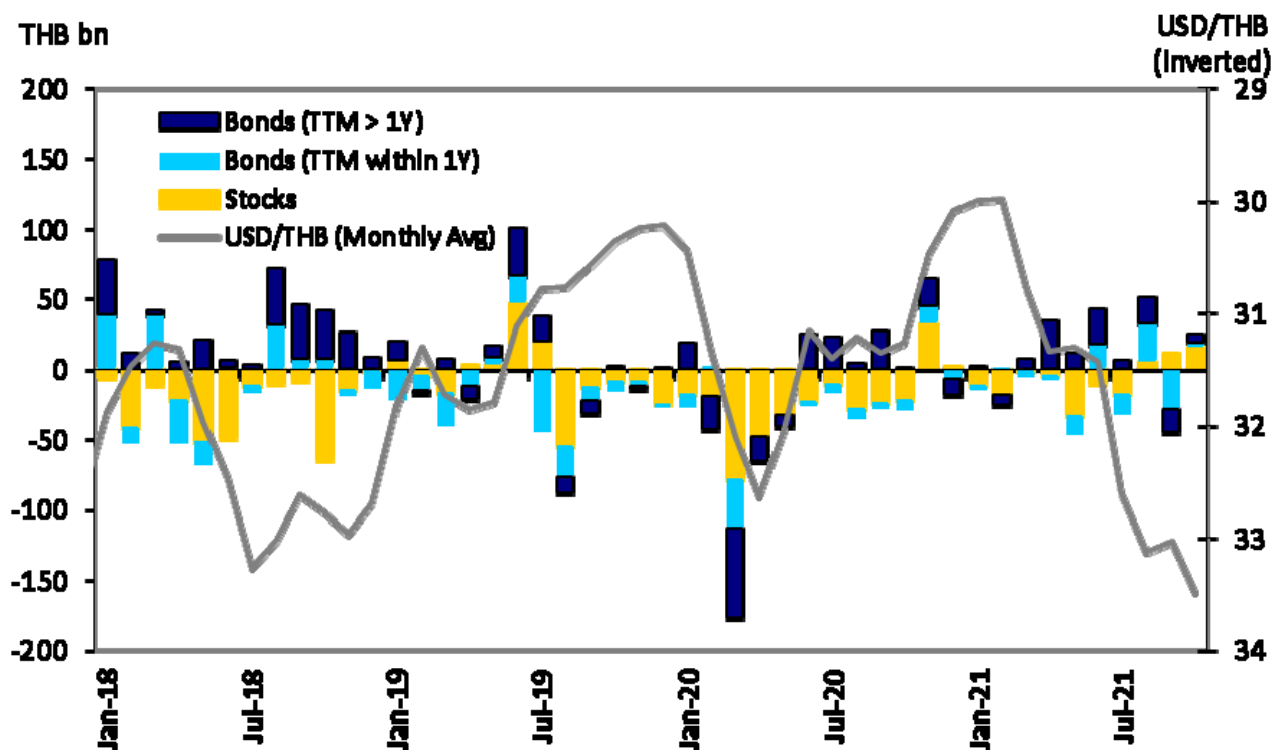
	Exports % y-o-y	Imports % y-o-y	Trade Balance USD bn	Current Account USD bn	Reserves* USD bn
Sep-21	17.8	20.4	4.0	-1.35	277.40 ▼
Aug-21	8.2	39.6	1.90	-2.54	282.17 ▲
Jul-21	21.7	36.6	3.36	-0.46	279.73 ▼

Bank of Thailand, \* including net forward position

# Thailand: Foreign Portfolio Flows

## Net Foreign Position & USD/THB

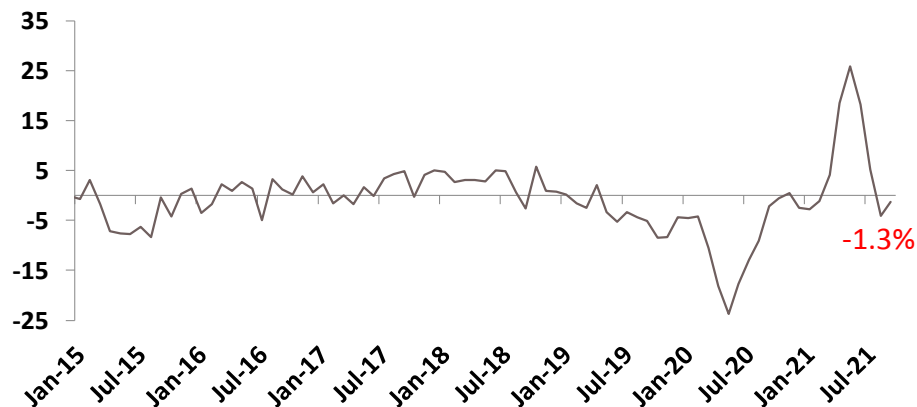
THB mn	2017	2018	2019	2020	10M21
Stocks	(25,752)	(287,740)	(45,243)	(264,384)	(60,820)
Bonds	357,633	286,555	(79,279)	(65,961)	73,719



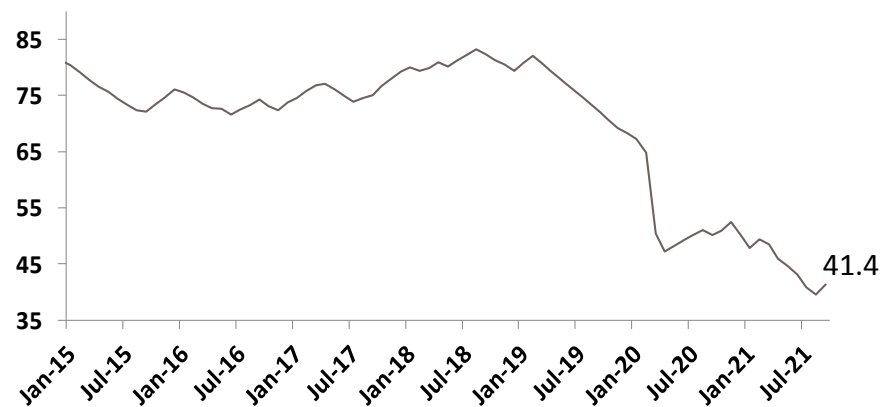
Thai Bond Market Association (\* based on outright trading value; the accumulated net buying value may double count the trading value of rollovers), Stock Exchange of Thailand, Bank of Thailand, last data points: October 2021

# Thailand: Domestic Economy

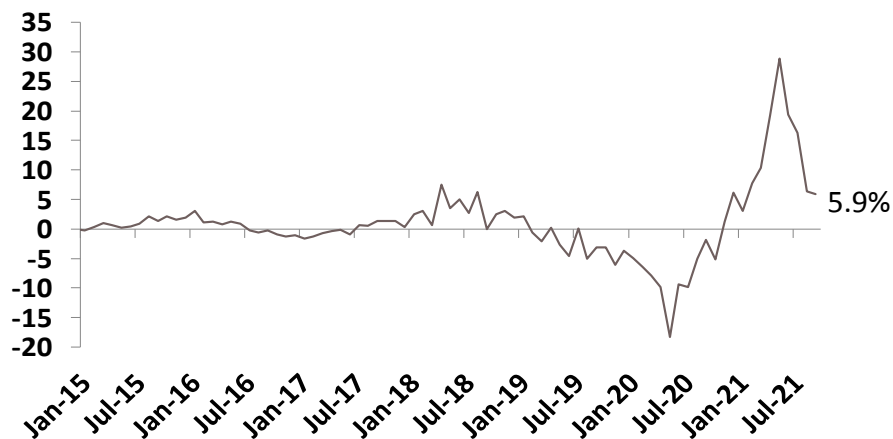
**Manufacturing Production (% y-o-y)**



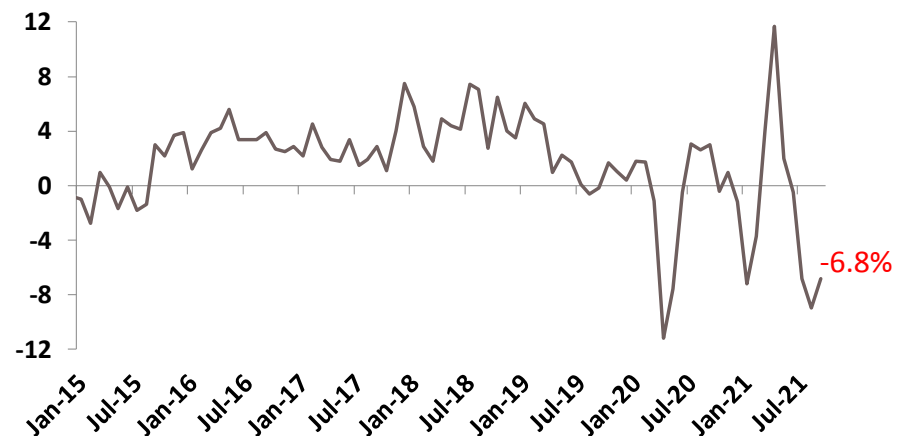
**Consumer Confidence**



**Private Investment (% y-o-y)**



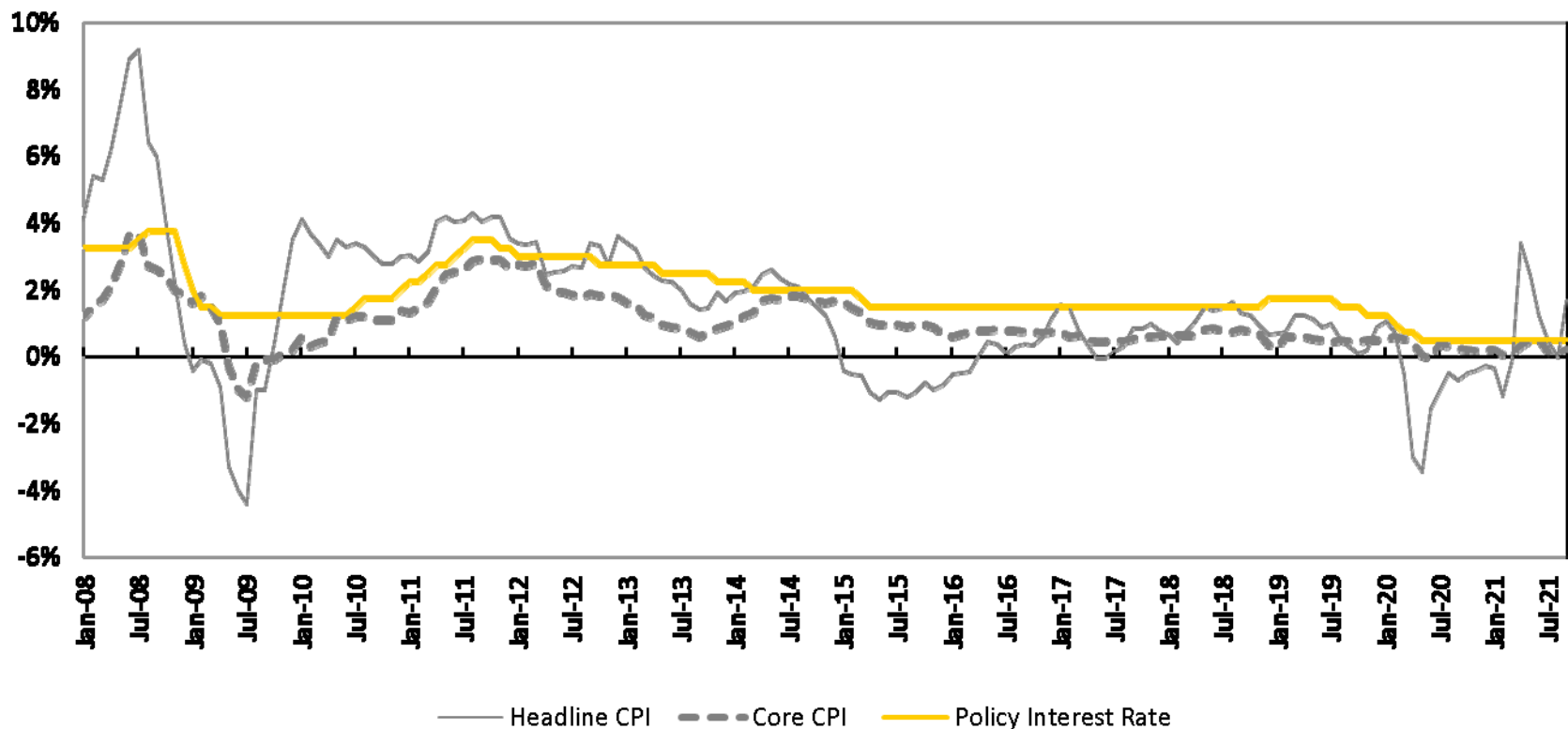
**Private Consumption (% y-o-y)**



Bank of Thailand, UTCC, last data points: September 2021

# Thailand: Inflation

**Inflation and Policy Interest Rates**



year-on-year change	Headline CPI	CPI Excluding Raw Food & Energy
Sep-21	1.68% ▲	0.19% ▲
Aug-21	-0.02% ▼	0.07% ▼
Jul-21	0.45% ▼	0.14% ▼

Ministry of Commerce, Bank of Thailand, last data points: September 2021



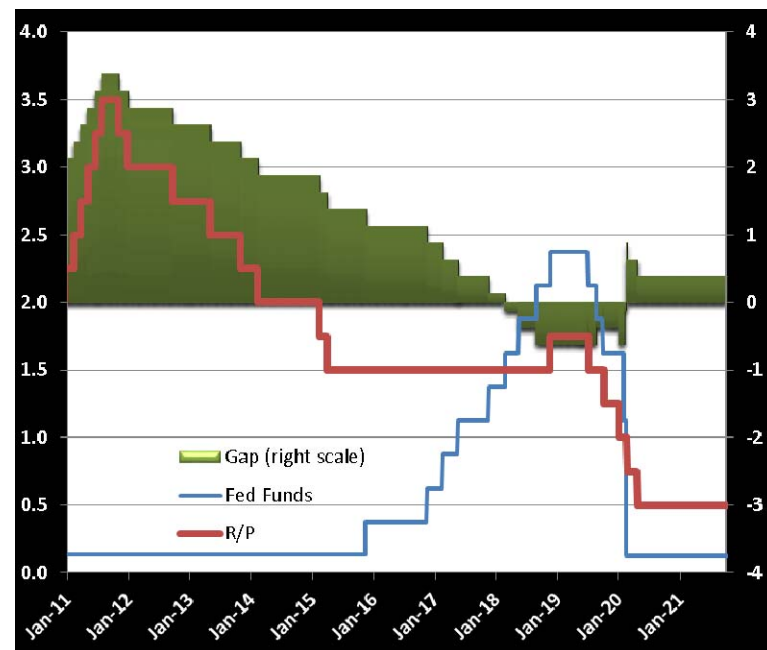
# Interest Rate Market Update

## Mind the Central Bank- Market Gap

- Federal Reserve Chair Powell on Oct. 22 said that the Fed was "on track" to start QE tapering. He also reiterated his view that high inflation will likely subside next year and that premature rate hikes would not tackle supply-side price pressures. Data-wise, headline non-farm payrolls in September missed estimates, up by 194k, the smallest in nine months amid a decline in hiring at schools and worker shortages. However, the unemployment rate dropped more than forecasts to an 18-month trough of 4.8%. Indeed, average hourly earnings advanced by a stronger-than-expected 0.6%. More pronounced signs of labor market tightness and surging oil prices widened the Fed-market gap in the aspect of rate liftoff timing.

- The UST curve flattened dramatically, with two-year yields jumping 22 bps to 0.50%, and ten-year yields up 7 bps. Notably, Wall Street shares proved resilient, with major indexes ending October at record closing peaks. It seems a foregone conclusion that the Fed will taper its monthly USD120 billion bond buying program this month by USD15 billion per month. Meanwhile, the futures market priced in a 25bp Fed rate rise by July 2022 and another 25bp move by December. The recent inflation prints will make it tougher for Fed Chair Powell to maintain his "transitory inflation" assumption. MUFG expects 10Y UST yields at 1.88% in Q3/22.

US Federal Funds and Thai Policy Rates (%)



end of period	Apr-21	Jul-21	Sep-21	Oct-21
USD6MLIBOR	0.20488%	0.15313%	0.15850%	0.20100%
THBFX6M	0.36199%	0.29409%	0.32793%	0.37034%
Diff	-0.15711%	-0.14096% ▲	-0.16943% ▼	-0.16934% ▲

Refenitiv

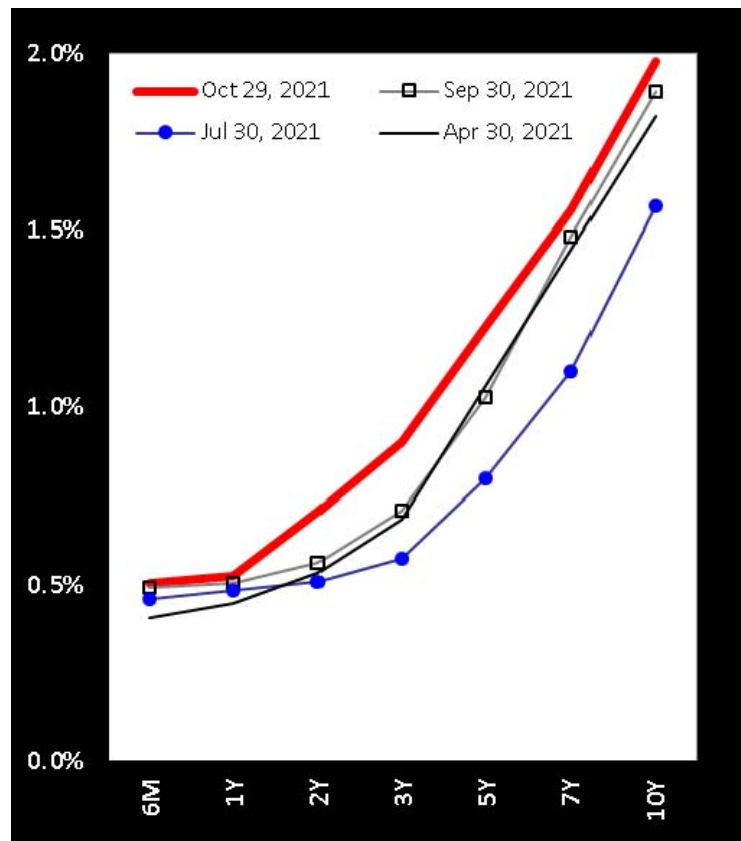
# Interest Rate Market Update

## Yes, We're Open

- There was no policy rate review in October and markets continued to take trading cues from the improved domestic COVID situation, re-opening optimism, global inflationary backdrop, and the prospects of more government borrowing. Consumer confidence in September managed a bounce for the first time in seven months, thanks to the easing of restriction measures. Domestic diesel prices will be capped at THB30 per litre, with the support to be financed by the oil fund and planned THB20 billion loan. The BoT said inflation is not high and economic risks are tilted to the downside. Meanwhile, the government plans more stimulus measures in an attempt to achieve 2021 GDP growth above 1%. The MoF expects the economy to have contracted by 3.5% y-o-y in Q3/21, before rebounding by 3% in the current quarter. Growth in 2022 is projected at 4%, boosted by exports and a recovery in tourism, with 7 million tourists and spending of THB380 billion expected, according to the Ministry's Fiscal Policy Office. In the interim, S&P affirmed Thailand's sovereign rating at BBB+ with Stable outlook.

- Yields at the belly of curve surged alongside the rally in energy-led commodity prices, and mounting expectations of early global monetary tightening. Thai 10Y yields briefly topped 2% for the first time since March. While yields are on an uptrend, Thailand's sluggish and lagging economic recovery should leave the front-end of the curve relatively anchored. We remain of the view that the MPC will keep the policy rate unchanged through to at least the end of 2022.

Thai Govt Yield Curve



Refinitiv

# Forecast

FX	USD/THB	USD/JPY	JPY/THB
Oct 2021*	33.20	114.03	29.12
Q4/21F	33.25	112.5	29.56
	32.50-34.00	110.00-115.00	28.50-30.50
Q1/22F	33.25	111	29.95
	32.25-34.25	108.00-113.00	28.75-30.75
Q2/22F	32.75	110	29.77
	31.75-33.75	107.00-112.00	28.75-30.75
Q3/22F	32.25	109	29.59
	31.25-33.25	106.00-111.00	28.50-30.50

JPY/THB is per 100 yen, \* USD/THB based on Bangkok closing rate,  
USD/JPY, JPY/THB based on New York close

Policy Interest Rates	Current	end-Q3/22F
USD Fed Funds	0-0.25%	0.38%
EUR Deposit Facility Rate	-0.50%	-0.50%
JPY O/N Call	-0.10%	-0.10%
THB 1-day R/P	0.50%	0.50%

As of November 2, 2021

# MoF Economic Projection

	2020A	2021F	2022F
Real GDP growth	-6.1%	1.0%	4.0%
Private Consumption growth	-1.0%	0.8%	4.2%
Private Investment growth	-8.4%	4.0%	5.0%
Public Consumption growth	0.9%	3.8%	1.1%
Public Investment growth	5.7%	8.1%	5.0%
Export Value growth	-6.5%	16.3%	3.8%
Import Value growth	-13.8%	29.2%	5.4%
Current Account (USD bn)	17.6	-18.3	0.3
Headline CPI Inflation	-0.8%	1.0%	1.4%

*Fiscal Policy Office, as of October 28, 2021*

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