



krungsri  
กรุงศรี

A member of  MUFG  
a global financial group

---

# THB Thermometer

---

January 2020

# Foreign Exchange Market Update

## Recap : 2019

The dollar ended 2019 firmer as concerns mounted over global growth slowdown during the first three quarters of the year against the backdrop of escalating U.S-China trade war and Brexit uncertainty. The Federal Reserve delivered three back-to-back interest rate cuts, taking the funds rate down by 75 bps yet other central banks also eased monetary policy.

## € Performance

▪ The euro weakened as Eurozone economic indicators pointed to a protracted slowdown which prompted the European Central Bank to introduce more stimulus. The ECB cut rates by 10 bps and launched an open-ended asset-buying program. Still, the euro pared losses thanks to recent signs of economic stabilization and as markets shifted focus to fiscal stimulus while risks of a no-deal Brexit have diminished for now.

## Depreciation

## € Outlook

▪ We expect the euro to grind gradually stronger assuming recent stabilization in the economy manages to carry on albeit from a depressed level. Developments over the Brexit transition period could bring about fluctuations along the way still.

## Moderate Appreciation

## ¥ Performance

▪ The yen remained supported despite the relatively low volatility during the year. But the less volatile trading environment in Q4/19 only followed the collapse in global yields as central banks around the world concurrently eased policy. Recent optimism over global growth after trade war concerns eased somewhat and Wall Street equity indexes hit record highs helped cap safe-haven yen demand toward the end of the year.

## Moderate Appreciation

## ¥ Outlook

▪ We maintain our bullish yen view given the limited room for the Bank of Japan to ease further and as volatility looks set to pick up in the U.S. presidential election year.

## Appreciation

## EUR/USD



## USD/JPY



Refinitiv

# Foreign Exchange Market Update

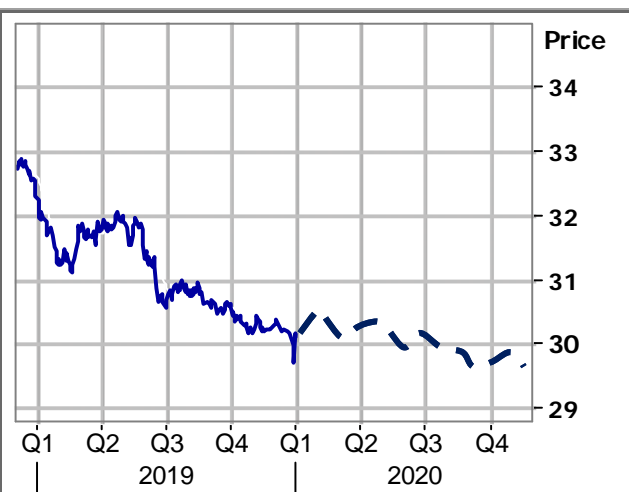
## Recap : 2019

### The Super Baht

- The baht was the best performer in the region in 2019 due to excessive current account surplus in reflection of severe import collapse. Year-end illiquid trading conditions exacerbated the moves of the already very strong currency. Portfolio outflows, two unexpected interest rate cuts as well as the Bank of Thailand's measures to slow the baht's gains proved rather insufficient to prevent the baht from hitting the highest level since May 2013. The BoT indeed reiterated that the baht's strength is beyond Thailand's fundamentals.
- USD3.4 billion current account surplus in November
- THB24.5 billion net foreign selling in SET-listed shares in December, bringing annual net sales to THB45.2 billion.
- THB1.4 billion\* net foreign buying in Thai government bonds in December, while annual offshore sales amounted to THB79.3 billion.

\* 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	+0.7%	+0.9%
3 months	+1.8%	+3.2%
12 months	+7.9%	+7.1%

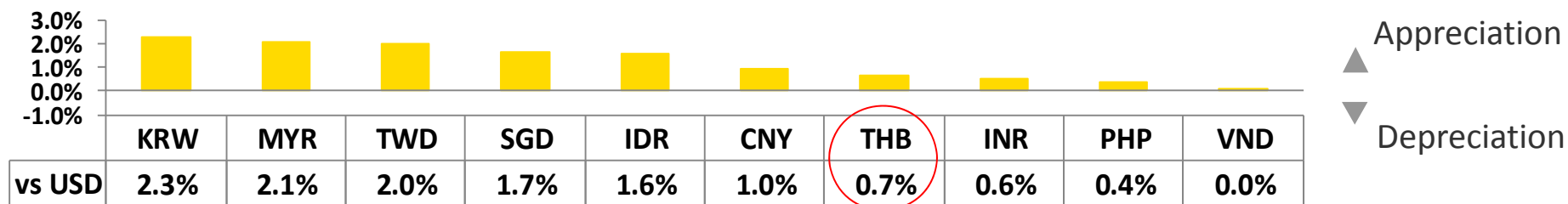
As of December 30, 2019, "-" indicates THB depreciation

## Outlook: Near-Term Baht Consolidation

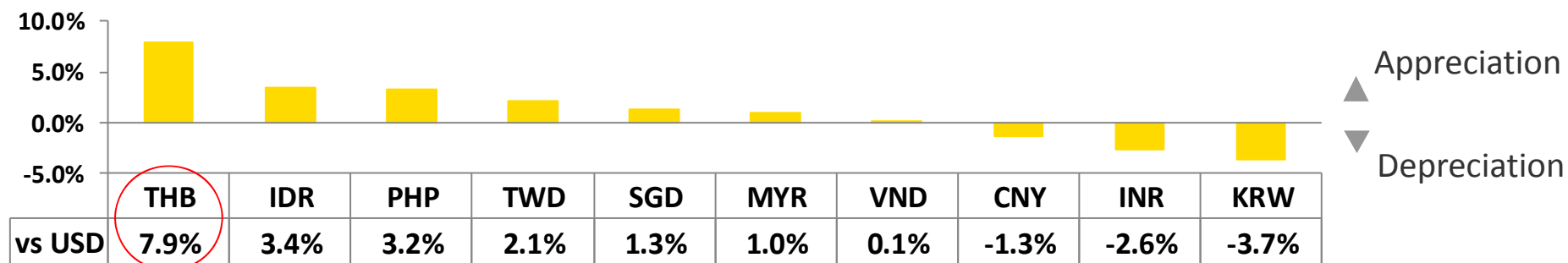
Following the outsized gains in 2019, we expect the baht to trend stronger only in a modest manner this year. This is based on our bearish USD view, more generally. The prospects of import recovery, nonetheless, appear bleak at the current juncture given sluggish domestic demand as well as export-oriented investment slump.

# Foreign Exchange Market Update

## Monthly Performance



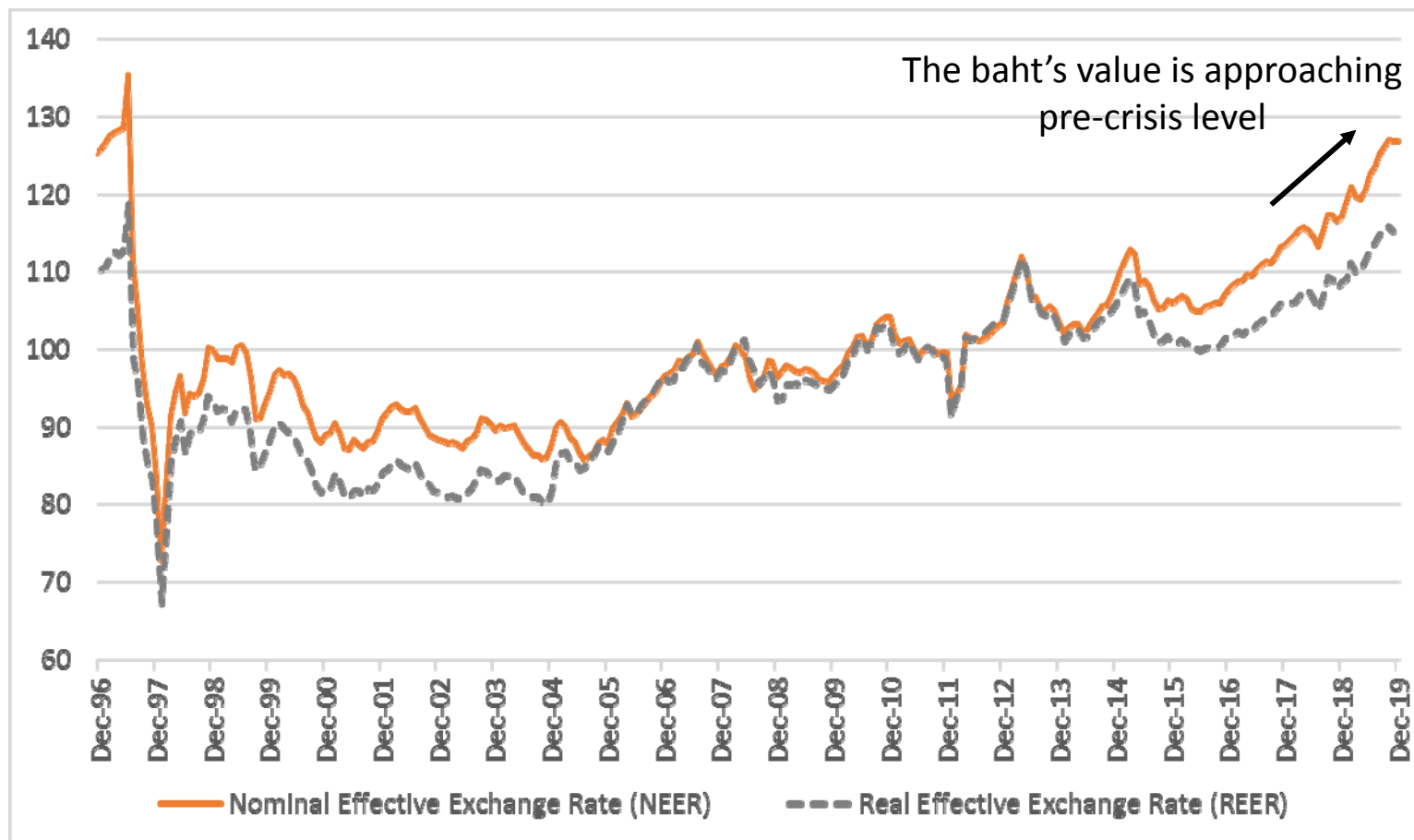
## Yearly Performance



Refinitiv, data as of last trading day of 2019, "-" indicates currency depreciation against USD

# Foreign Exchange Market Update

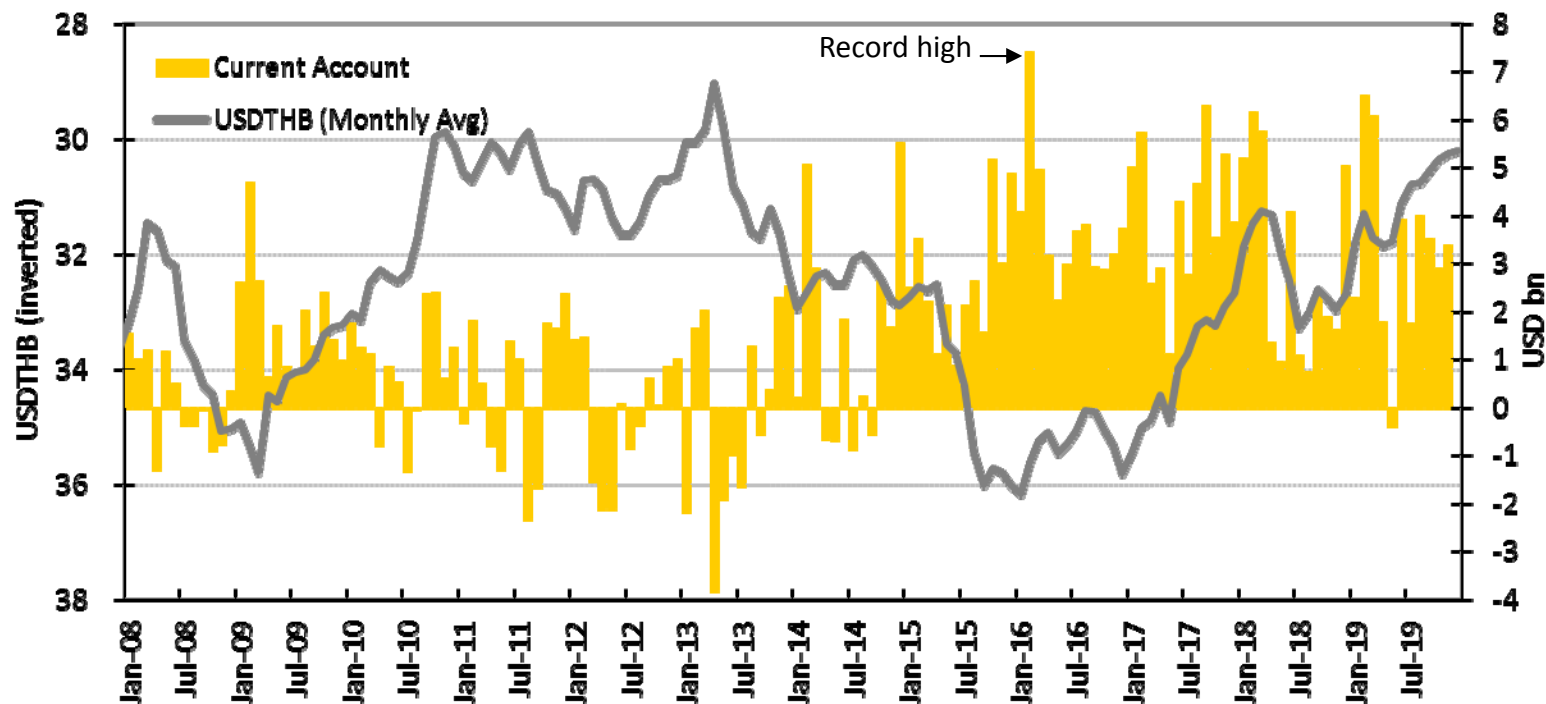
## Trade-weighted Thai Baht Index



Bank of Thailand

# Thailand: External Accounts

## Current Account & USD/THB



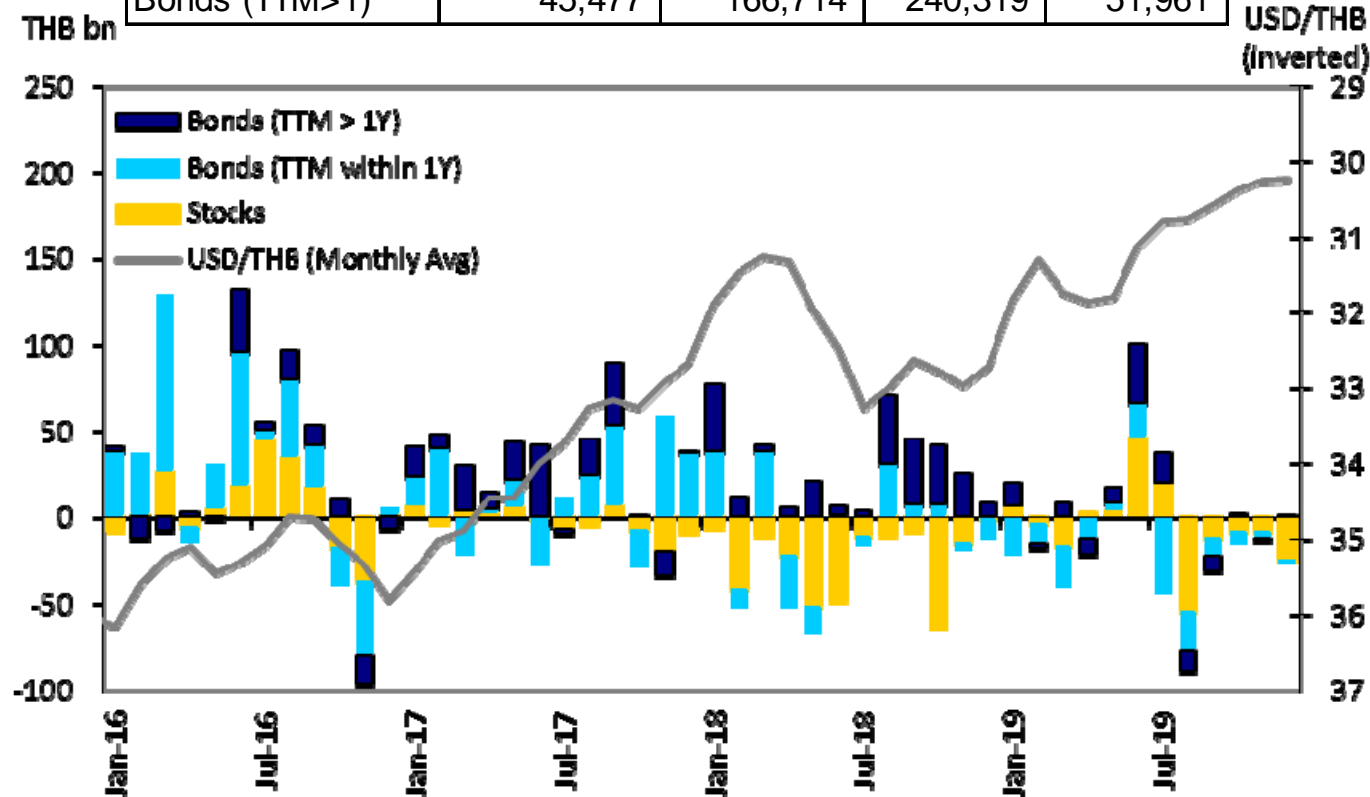
	Exports % y-o-y	Imports % y-o-y	Trade Balance USD bn	Current Account USD bn	Reserves* USD bn
Nov-19	-7.7	-13.9	1.97	3.38	254.31 ▼
Oct-19	-5.0	-9.2	2.09	2.91	257.21 ▲
Sep-19	-1.5	-4.5	2.69	3.53	253.67 ▲

Bank of Thailand, \* including net forward position, last data points: November 2019

# Thailand: Foreign Portfolio Flows

## Net Foreign Position & USD/THB

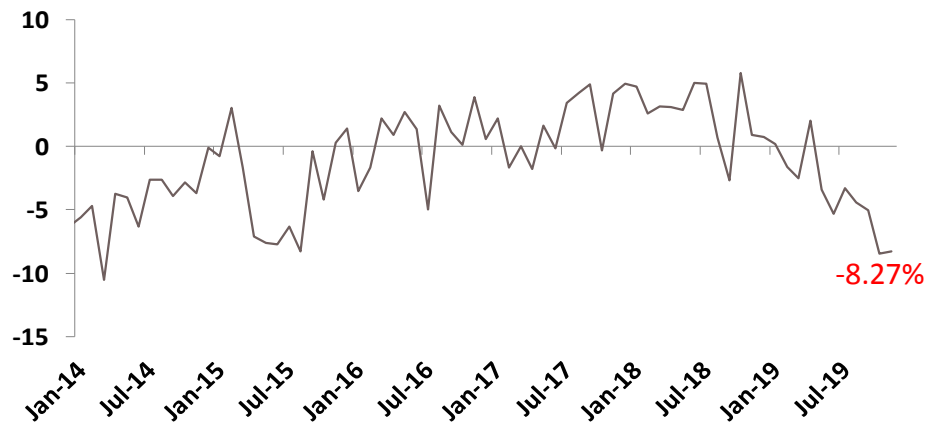
THB mn	2016	2017	2018	2019
Stocks	79,069	(25,752)	(287,740)	(45,243)
Bonds (Net Flows)*	61,377	216,140	122,120	(79,279)
Bonds (TTM>1)	45,477	166,714	240,319	51,961



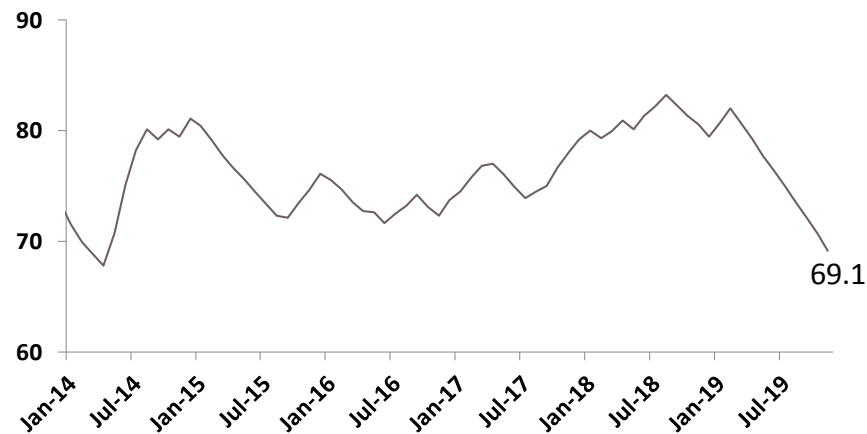
Thai Bond Market Association (\* based on outright trading value; the accumulated net buying value may double count the trading value of rollovers), Stock Exchange of Thailand, Bank of Thailand, last data points: December 2019

# Thailand: Domestic Economy

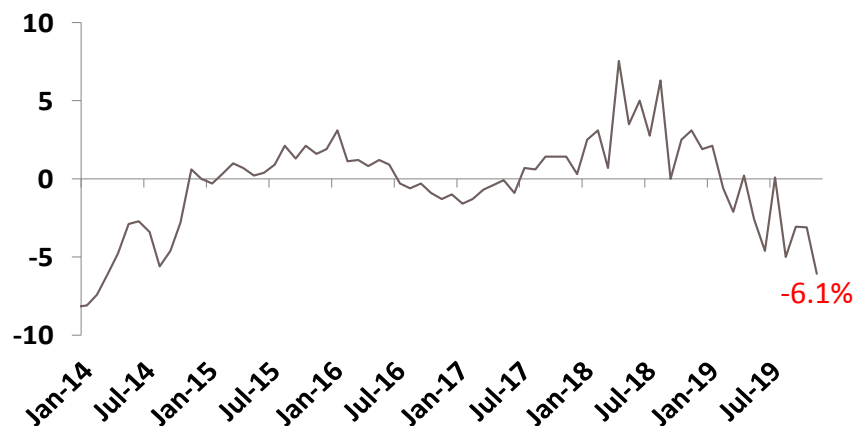
**Manufacturing Production (% y-o-y)**



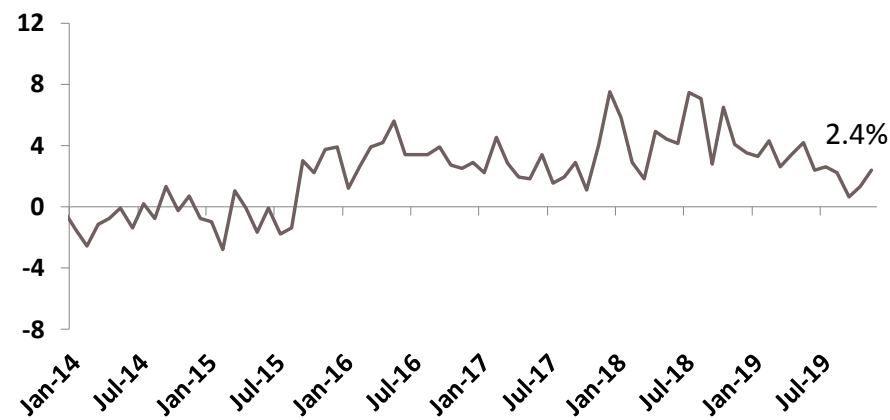
**Consumer Confidence**



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



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

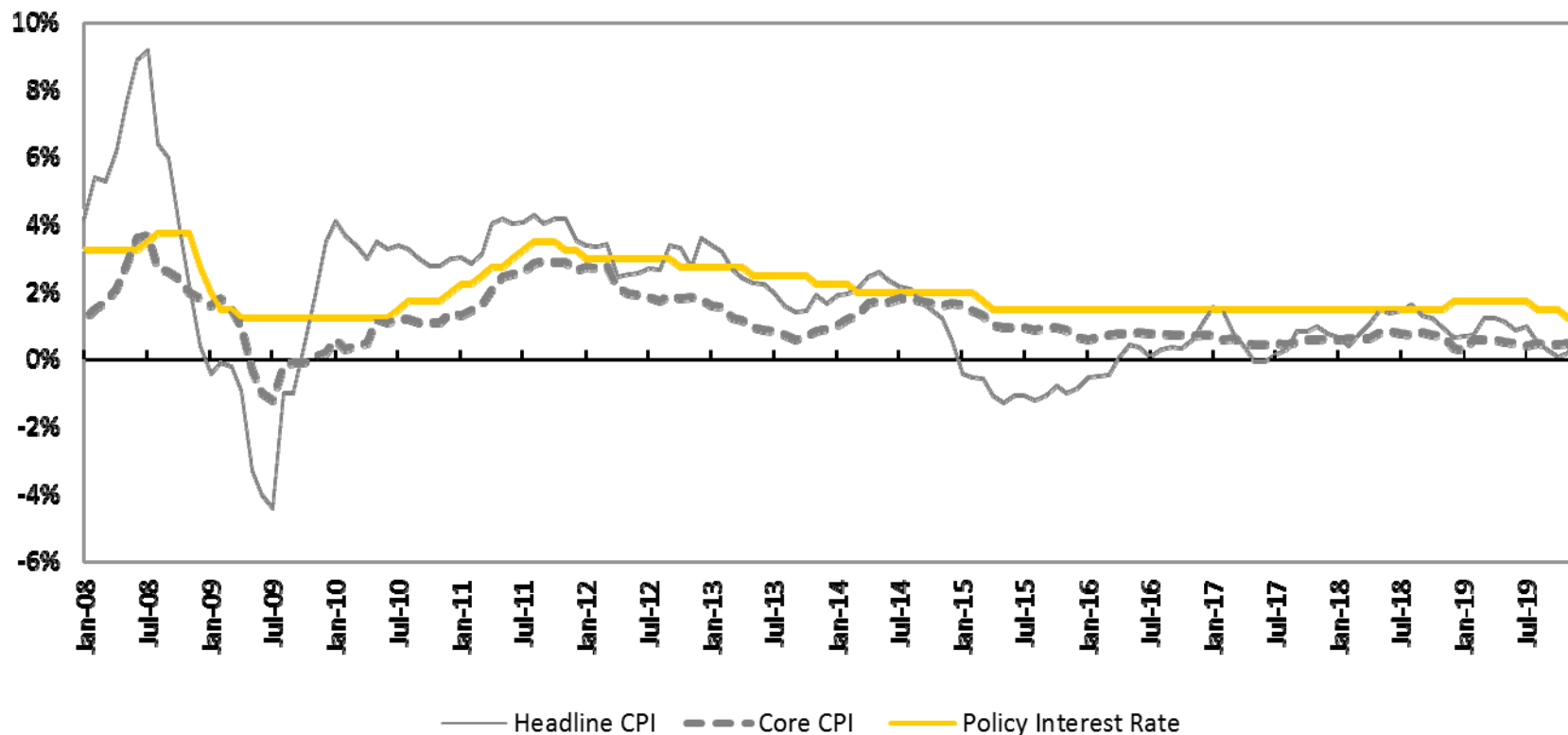


Bank of Thailand, UTCC, last data points: November 2019



# Thailand: Inflation

**Inflation and Policy Interest Rates**



year-on-year change	Headline CPI	CPI Excluding Raw Food & Energy
Dec-19	0.87 % ▲	0.49% ▲
Nov-19	0.21% ▲	0.47% ▲
Oct-19	0.11% ▼	0.44%

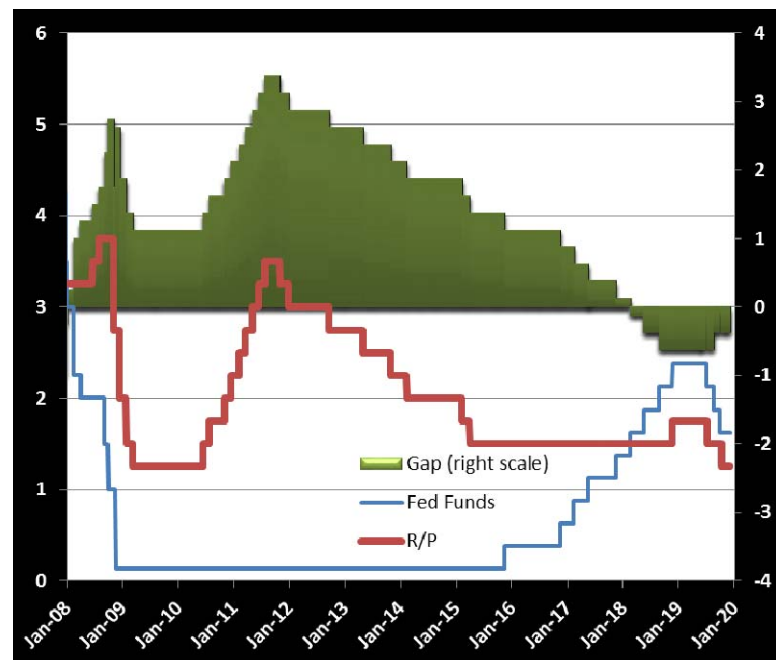
Ministry of Commerce, Bank of Thailand, last data points: December 2019

# Interest Rate Market Update

## FOMC: Do No Harm

- The Federal Reserve at the end of the Dec 10-11 meeting unanimously voted to keep the funds rate in the 1.50-1.75% range. The policymakers stated that current monetary policy is appropriate to support economic expansion while the Fed's own interest rate projections indicated that the FOMC would stand pat in 2020 before a potential rate increase in 2021.
- The U.S. Treasury yield curve flattened in December with the short end falling due partly to the Fed's liquidity injection operations. Minutes from the latest FOMC meeting revealed that some Fed officials remained wary over downside risks to growth mainly developments related to trade and weakness in the global economy. While the looming "phase one" trade agreement between the U.S. and China has lifted risk sentiment, a projected loss of U.S. economic growth momentum in 2020, a potential pick up in political risks in the presidential election year as well as the likes of geopolitical tensions should cap the upside on yields. We still keep our view of one rate cut by the Fed later this year, potentially in the final quarter.

US Federal Funds and Thai Policy Rates (%)



end of period	Jun-19	Sep-19	Nov-19	Dec-19
USD6MLIBOR	2.2005%	2.05563%	1.89688%	1.91213%
THBFX6M	1.47994%	1.35916%	1.13903%	1.15797%
Diff	0.72056%	0.69647%	0.75785%	0.75416%

Refenitiv

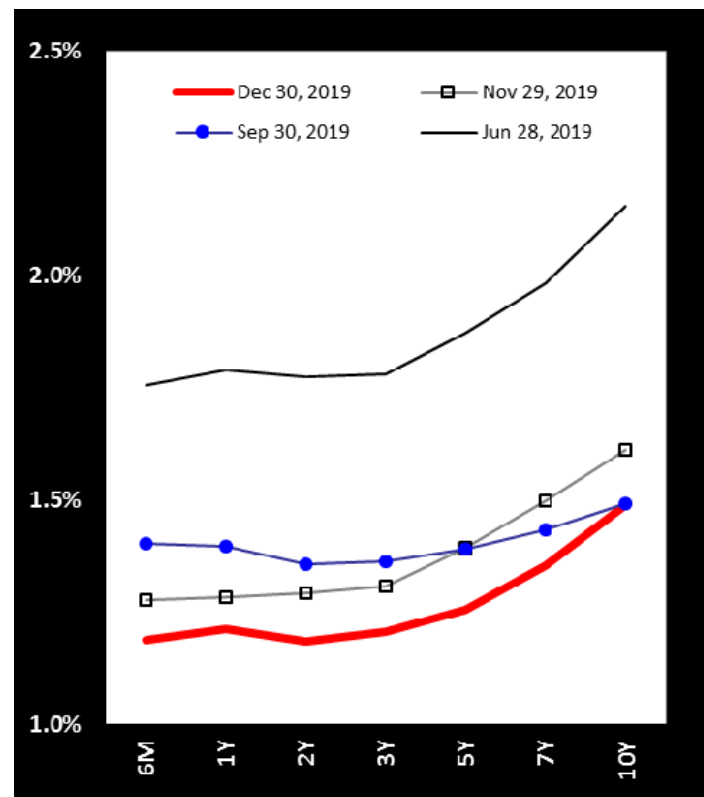
# Interest Rate Market Update

## How to Sync

- The Monetary Policy Committee, as universally expected, announced to maintain the one-day repurchase rate at 1.25% on Dec 18. The vote was unanimous. While the MPC reiterated concerns over sub-potential growth and low inflation, the policymakers also assessed that global economic outlook started to stabilize and would later support the prospects for Thai exports and economic growth in 2020. The MPC downgraded GDP projections to 2.5% from 2.8% for 2019, and to 2.8% from 3.0% for 2020 on the back of weak exports. The overall tone of the statement was fairly dovish but not surprising, reinforcing the view that the MPC may pause for now. However, minutes of the meeting somewhat toned down the optimism over external developments.

- Local government bond yields shifted lower across the curve in December with most tenors notching record lows into the new year as disappointing real trade data deepened growth concerns. We maintain our view that the MPC would keep rates on hold at 1.25% in 2020 given skepticism over effectiveness of monetary easing from the current level. However, there is a building risk that they might deliver one final rate cut to a fresh low of 1.00% in Q1/20, more of a symbolic move in our view, in case of further synchronized deterioration in economic outlook. While oil-led inflation might tick higher on the back of rising U.S.-Iran tensions, excessive demand for government bonds should still keep yields anchored in the foreseeable future.

Thai Govt Yield Curve



Refinitiv

# Forecast

## Factors in Focus

- **THB Consolidation.** We remain of the view that the baht will undergo a more two-way move in 2020 as caution lingers over the authorities' monitoring against excessive gains in the baht. External surplus could be narrowing but would stay ample, with real investment and private-sector confidence unlikely to recover anytime soon. The rally in gold prices and geopolitical risks offer a mixed bag for the baht. Meanwhile, the second and third readings of the government's budget on Jan 8-9 alongside other political developments will catch attention to some degree.
- **U.S.-China Trade Negotiation.** As phase one of the trade agreement is expected to be signed in January, attention will turn to evolving progress of further stages of the deal.
- **FOMC Meeting: Jan 28-29.** Investors are awaiting more clues from the Federal Reserve on policy outlook amid weakness in the manufacturing sector but resilient labor market.
- **Brexit Transition.** While the U.K. is leaving the European Union on Jan 31 with a deal, the focus is now on the pending trade relationship thereafter.

FX	USD/THB	USD/JPY	JPY/THB
Dec 30, 2019	30.03	108.68	27.40
Q1/20F	30.30	107	28.32
	29.70-31.00	104.00-110.00	27.50-28.75
Q2/20F	30.20	106	28.49
	29.50-30.75	103.00-109.00	27.75-29.25
Q3/20F	30.00	105	28.57
	29.40-30.70	102.00-109.00	27.90-29.50
Q4/20F	29.85	104	28.70
	29.25-30.50	101.00-108.00	27.90-29.75

JPY/THB is per 100 yen, \* USD/THB based on Bangkok closing rate on Dec 30, USD/JPY, JPY/THB on New York close on Dec 31

Policy Interest Rates	Current	end-Q4/20F
USD Fed Funds	1.50-1.75%	1.30%
EUR Deposit Facility Rate	-0.50%	⇔
JPY O/N Call	-0.10%	⇔
THB 1-day R/P	1.25%	⇔

As of January 6, 2020





# Economic Projection

	2018A	2019F	2020F
Real GDP growth	4.1%	2.5%	2.8%
Private Consumption growth	4.6%	4.4%	3.0%
Private Investment growth	3.9%	2.5%	3.4%
Public Consumption growth	1.8%	2.2%	2.6%
Public Investment growth	3.3%	1.7%	6.3%
Export Value growth	7.5%	-3.3%	0.5%
Import Value growth	13.7%	-5.2%	1.4%
Current Account (USD bln)	28.5	35.2	30.0
Headline CPI Inflation	1.1%	0.7%	0.8%





*Bank of Thailand, as of December 18, 2019*

# Central Bank Diary

## 2019 Policy Interest Rate Movement

	 US FED	 EZ ECB	 JP BOJ	 TH BOT
Jan	Hold	Hold	Hold	
Feb				Hold
Mar	Hold	Hold	Hold	Hold
Apr		Hold	Hold	
May	Hold			Hold
Jun	Hold	Hold	Hold	Hold
Jul	Cut 0.25%	Hold	Hold	
Aug				Cut 0.25%
Sep	Cut 0.25%	Cut 0.10%	Hold	Hold
Oct	Cut 0.25%	Hold	Hold	
Nov				Cut 0.25%
Dec	Hold	Hold	Hold	Hold
End-2019	1.50-1.75%	-0.50%	-0.10%	1.25%

## 2020 Meeting Dates

	 US FED	 EZ ECB	 JP BOJ	 TH BOT
Jan	28-29	23	20-21	
Feb				5
Mar	17-18	12	18-19	25
Apr	28-29	30	27-28	
May				20
Jun	9-10	4	15-16	24
Jul	28-29	16	21-22	
Aug				5
Sep	15-16	10	16-17	23
Oct		29	28-29	
Nov	4-5			18
Dec	15-16	10	17-18	23

Official websites

## Contact Persons

Global Markets Research and Analysis Section

Roong Sanguanruang

[Roong.Sanguanruang@krungsri.com](mailto:Roong.Sanguanruang@krungsri.com)

Pote Siripoonsap

[Pote.Siripoonsap@krungsri.com](mailto:Pote.Siripoonsap@krungsri.com)

## Bank of Ayudhya Public Company Limited

(A member of MUFG, a global financial group)

<Head Office>

1222 Rama III Road, Bang Phongphang Yan Nawa, Bangkok 10120 Thailand

<Global Markets Group>

550 Ploenchit Road, Lumpini, Pathumwan, Bangkok 10330 Thailand

This report has been prepared by The Bank of Ayudhya Public Company Limited, (A member of MUFG, a global financial group), (the “Bank”), for general distribution. It is only available for distribution under such circumstances as may be permitted by applicable law and is not intended for use by any person in any jurisdiction which restricts the distribution of this report. The Bank and/or any person connected with it may make use of or may act upon the information contained in this report prior to the publication of this report to its customers.

Neither the information nor the opinion expressed herein constitute or are to be construed as an offer or solicitation to buy or sell deposits, securities, futures, options or any other financial products. This report has been prepared solely for informational purpose and does not attempt to address the specific needs, financial situation or investment objectives of any specific recipient. This report is based on information from sources deemed to be reliable but is not guaranteed to be accurate and should not be regarded as a substitute for the exercise of the recipient’s own judgment. This report is based upon the analysts’ own views, therefore does not reflect the Bank’s official views. Historical performance does not guarantee future performance. The Bank and/or its directors, officers, and employees, from time to time, may have interest and/or underwriting commitment in the relevant securities mentioned herein or related instruments and/or may have a position or holding in such securities or related instruments as a result of engaging in such transactions. Furthermore, the Bank may have or have had a relationship with or may provide or have provided corporate finance or other services to any company mentioned herein. All views herein (including any statements and forecasts) are subject to change without notice and none of the Bank, its head office, branches, subsidiaries and affiliates is under any obligation to update this report. The information contained herein has been obtained from sources the Bank believed to be reliable but the Bank does not make any representation or warranty nor accept any responsibility or liability as to its accuracy, timeliness, suitability, completeness or correctness. The Bank, its head office, branches, subsidiaries and affiliates and the information providers accept no liability whatsoever for any loss or damage of any kind arising out of the use of all or any part of this report.

The Bank retains copyright to this report and no part of this report may be reproduced or re-distributed without the written permission of the Bank. The Bank expressly prohibits the distribution or re-distribution of this report to Private Customers, via the Internet or otherwise and the Bank, its head office, branches, subsidiaries or affiliates accepts no liability whatsoever to any third parties resulting from such distribution or re-distribution.

---

# Thank you

---