06 October 2020

Thailand

Explaining The THB Roller Coaster

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- **Among some of the key drivers for the THB's movements include the huge current account surplus, record FX reserves, political stability, a prolonged pandemic, gold prices, and the USD's movements.**
- **Our FX expert believes the THB will strengthen further to THB29.75 at end 2021 from the expected THB30.75/USD at the end of this year, mainly due to the recovery expected for the tourism industry – this could lead to the current account surplus widening in 2021. The THB's strength is also helped by the expected weakness in the USD.**

Economist

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While the recent weakness of the THB has calmed some of Bank of Thailand's (BoT) concerns over the "hot" money that has fuelled the currency's strength, a surge in the THB could derail the expected economic recovery in 2021 – especially for those in the export markets.

Among some of the key drivers for the THB's movements include the huge current account surplus, record FX reserves, political stability, a prolonged pandemic, gold prices, and the USD's movements.

The diminished current account surplus is likely to weigh on the THB going forward, but Thailand remains as one of the few countries in the region with a huge current account surplus. The THB has been viewed as a "safe haven" asset by most investors during 2019, mainly due to the kingdom's aforementioned huge surplus.

Thailand's generous international reserves have calmed investors over its sovereign debt risk, despite the kingdom's grim near-term growth outlook. This is likely to provide support for the THB despite the severe economic impact from COVID-19.

The rise in the number of protests against the Government is causing a political divide at a time when Thailand is facing its worst economic crisis. This could cause a further weakness in the THB going forward, as the negative escalation in the political scene should unnerve foreign investors.

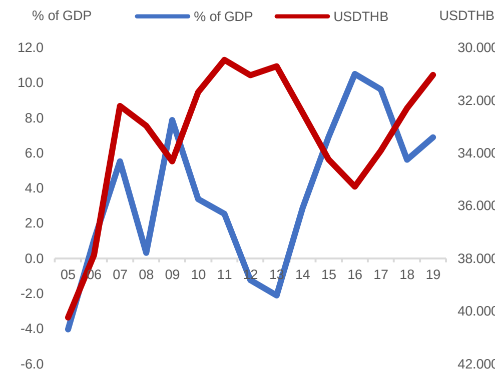
A prolonged pandemic is likely to further dampen Thailand's economic outlook, given its reliance on the tourism industry. This should affect both consumer and business sentiment, and could further dent the THB, which has already suffered so far this year due to the pandemic.

As a bullion hub, Thailand could benefit from the surge in gold prices, leading to a stronger THB towards the end of 2020.

The US Federal Reserve's indication that it will "do what we can and for as long as it takes" to limit damage and boost growth is a clear signal that the US monetary policy outlook is on an easing mode – for as long as it takes to revive the economy. This puts the USD on a weaker footing, which is already reflected by the USD Index's 8.7% decline from its 3-year high of 102.8 that was recorded at the end of March. It was also down by about 2.6% vis-à-vis the USD96.40 recorded at the end of 2019. This should benefit the THB if the USD continues to weaken.

Our FX expert believes the THB will strengthen further to THB29.75 at end 2021 from the expected THB30.75/USD at the end of this year. This will mainly be due, in our view, to the recovery expected for the tourism industry, which could lead to the current account surplus widening in 2021. The THB's strength is also helped by the expected weakness in the US currency.

THB has strengthened in 2019 as it is deemed as a "safe haven" by foreign investors



Source: Bank of Thailand (BoT), CEIC, RHB

Explaining The Roller Coaster Ride Of The THB

The currency saw a reversal from its strength on a leadership void

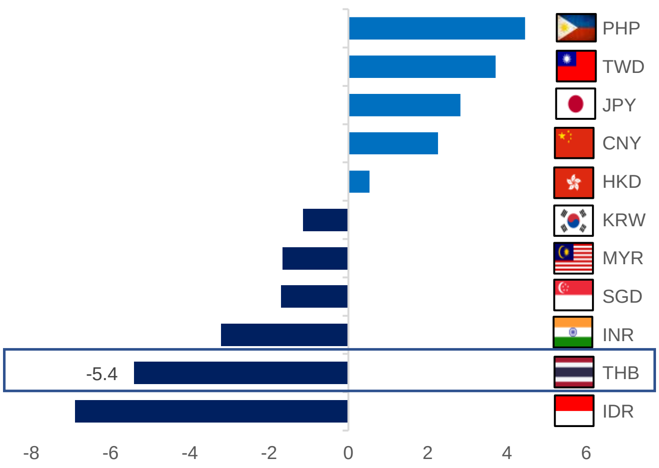
The THB is one of the most volatile currencies in the region, having been the second-worst performer in 1Q20 with an 8.6% decline before staging a strong of 5.5% recovery in 2Q20 to become the second-best performing regional currency after the IDR. However, the THB was brought back down to earth during 3Q, as it fell by 2.5% during the quarter. This was mainly due to the leadership void at a time when Thailand faced its worst recession.

Arkhom Termpittayapaisith has to fill the Finance Minister seat after Predee Daochai, a former president of Kasikornbank, resigned unexpectedly from this role after less than a month in the job. Daochai was previously appointed to the job after a Cabinet reshuffle that saw the resignation of Finance Minister Uttama Savanayana and other ministers like Deputy Prime Minister Somkid Jatusripitak, who was heading the Government's economic team.

At the same time, BoT also saw some changes, with Veerathai Santiprabhob opting not to seek a second term as governor on personal grounds. The Cabinet has approved the appointment of Sethaput Suthiwart-Narueput as BoT's new governor for the central bank for five years from 1 Oct.

YTD, the THB was the second-worst performing currency in the region, with only the IDR being worse off.

Figure 1: The THB was the second-worst performing currency in the region during 9M20



Note: As at 30 Sep 2020
Source: CEIC, RHB

Figure 2: The THB saw a volatile year amidst the pandemic and uncertainties over the country's leadership

Note: As at 30 Sep 2020
Source: CEIC, RHB

While the recent weakness of the THB has calmed some of the central bank's concerns over the "hot" money that has fuelled the currency's strength, BoT's Monetary Policy Committee said, in a statement, that it will closely monitor the developments in the FX market and implement additional appropriate measures in the event that the THB appreciates rapidly. This is because a strong currency could derail the expected economic recovery in 2H20 onwards, especially for those in the exports market.

Given the importance of the THB, we have looked into some of the factors that could drive the currency's movement ahead:

i. Huge current account surplus;

ii. Record FX reserves;

iii. Political stability;

iv. A prolonged COVID-19 pandemic;

v. Gold prices;

vi. USD movements.

Huge current account surplus

As international tourism has come to a grinding halt amidst the ban on international travel to contain the spread of COVID-19, this has caused a deterioration in the balance of trade in services, which has led to a lower current account surplus so far this year. During 7M20, the current account surplus narrowed to USD9.9bn vs a USD19.7bn surplus in 2019's corresponding period – this reflects the impact of an absence of international tourists. Services, and primary and secondary income have slipped into a contraction since February following the spread of COVID-19 in China at that time.

With the international travel ban likely to remain in place for the rest of 2020, the tourism and services industries are expected to remain weak for the rest of this year. Against this backdrop, we think the current account surplus is likely to narrow to USD18bn (3.5% of GDP) from USD37.4bn (6.9% of GDP) in 2019. This is likely to be the lowest current account surplus recorded since 2014, where it recorded USD11.6bn, or 2.9% of GDP.

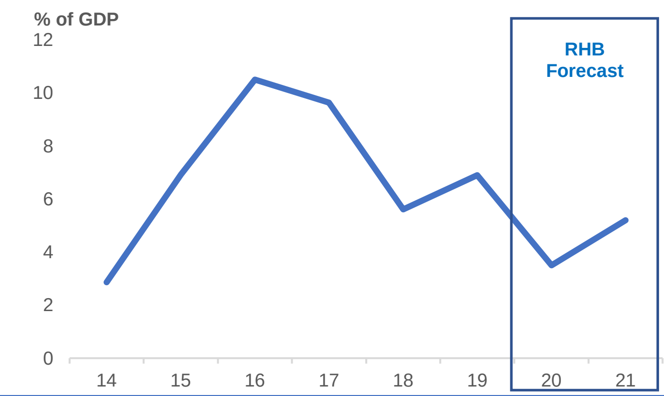
Even with the recovery of the tourism sector anticipated for 2021 – particularly during 2H21, where we expect to see a mass deployment of COVID-19 vaccines – the current account surplus is expected to widen to USD24bn, or 5.2% of GDP, which is still the lowest surplus since 2014.

Figure 3: Balance of payments

USDbn	2016	2017	2018	2019	7M20	2020E	2021F
Exports	213.5	233.7	251.1	243.0	129.2	226	233
Imports	177.7	201.1	228.7	216.4	108.9	205	210
Trade balance	35.8	32.6	22.4	26.6	20.2	21	23
Services, primary & secondary income	7.7	11.4	6.1	10.8	-10.3	-3.0	1.0
Current account balance	**43.4**	**44.0**	**28.5**	**37.4**	**9.9**	**18.0**	**24.0**
(% of GDP)	10.5	9.6	5.6	6.9	1.7	3.5	5.2
Capital account	0.0	-0.1	-0.6	0.0	0.0	0.0	0.0
Financial account	-20.8	-12.5	-14.9	-12.7	4.6	6.0	-2.0
Direct investment	-10.5	-10.3	-8.0	-7.9	-4.8	-	-
Portfolio investment	-2.8	-2.1	-5.9	-8.7	-5.8	-	-
Other investment	-7.5	-0.0	-1.0	3.4	15.3	-	-
Net errors & omissions	-9.8	-5.4	-5.6	-11.2	3.6	-	-
Overall balance	**12.8**	**26.0**	**7.3**	**13.6**	**18.2**	**24.0**	**22.0**

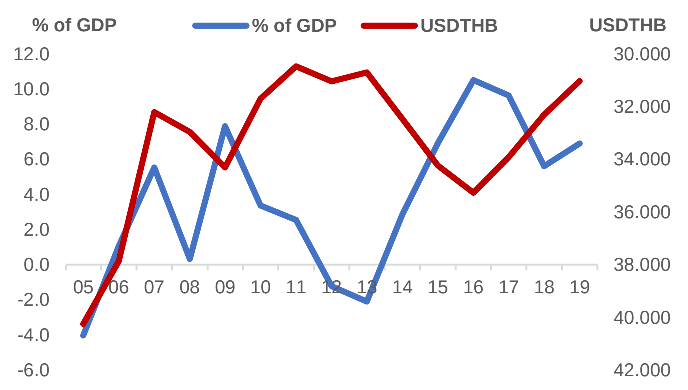
Note: F = RHB forecasts, E = RHB estimates
Source: BoT

Figure 4: Thailand's current account surplus-to-GDP could fall to its lowest level since 2014



Source: BoT, CEIC, NESDB, RHB

Figure 5: The THB strengthens during uncertain times, as it is considered a "safe haven"



Source: BoT, CEIC, RHB

Recall that the THB was viewed as a safe haven asset by most investors during 2019, mainly due to the country's huge current account surplus. The diminished current account surplus is likely to weigh on the currency going forward, but Thailand remains one of the few countries in the region with a huge current account surplus.

In fact, the kingdom is expected to have the largest current account surplus-to-GDP in the region at 3.5% in 2020 after Singapore's 15.5%. Other countries that are expected to have a current account surplus by the end of the year includes the Philippines (2%), Vietnam (1.9%), and Malaysia (1.5%).

Figure 6: Thailand’s current account surplus-to-GDP is among the highest in the region

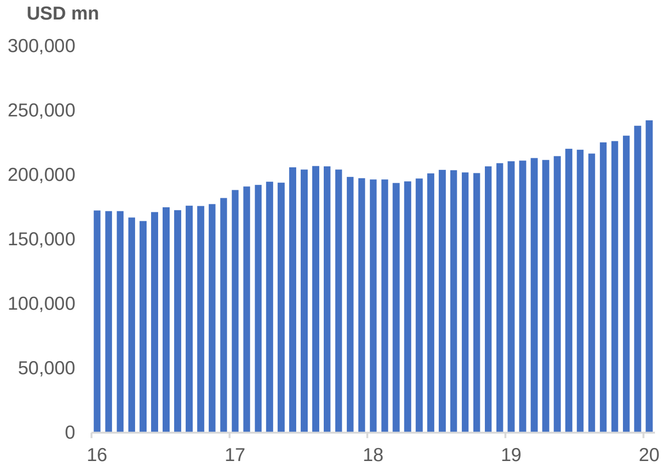
Country	Current account (% of GDP)			
	2018	2019	2020E	2021F
Indonesia	-2.9	-2.7	-1.5	-2.5
Malaysia	2.1	3.3	1.5	2.0
Philippines	-2.6	-0.7	2.0	-0.2
Singapore	17.9	17.0	15.0	16.5
Thailand	5.6	6.9	3.5	5.2
Vietnam	2.5	5.0	1.9	2.7

Source: CEIC, RHB

Record FX reserves

Aside from the huge current account surplus, Thailand recently recorded its highest FX reserves level in August at USD242.3bn, which was about 15.1% higher than the same period a year ago. In line with this, the country’s international reserves grew 15.6% YoY to USD254.5bn – its record high in August.

Figure 7: Thailand recorded its highest FX reserves in August



Source: BoT, CEIC, RHB

Figure 8: Gross reserves remain more than 4x and 12x higher than short-term debt and monthly imports

External Stability Indicators

	Criteria	2019[P]	2019[P]		2020[P]				
			H1	H2	H1	Q1	Q2	Jul	Aug[E]
Solvency Indicators									
Current Account / GDP (%)	> -2	6.8	6.3	7.3	3.9	6.6	0.6		
Debt / GDP (%)	< 80[3/]	34.2	34.8	34.2	33.7	32.4	33.7		
Debt / XGS[1/] (%)	< 220[3/]	53.8	53.7	53.8	54.7	51.7	54.7	54.9	55.5
Debt Service Ratio (%)	< 20	6.9	6.9	6.8	6.4	5.9	6.9		
Liquidity Indicators									
Gross Reserves / ST Debt	> 1 time	3.8	3.5	3.8	3.9	3.8	3.9	4.1	4.2
Gross Reserves / Imports[2/]	> 3 times	9.8	9.2	9.8	11.4	10.0	11.4	12.1	12.6
ST Debt / Total Debt (%)		34.8	37.2	34.8	36.0	35.9	36.0	35.3	35.3

Note: [1/] XGS – Export of Goods and Services (3-year average)
[2/] Monthly Import of Goods and Services (1-year average)
[3/] Severely indebted countries

Note: P = preliminary data, E= estimated data
Source: BoT, RHB

The country’s generous international reserves have calmed investors over Thailand’s sovereign debt risk despite the kingdom’s awful growth outlook in the near term.

According to BoT’s economic and monetary conditions in August, gross reserves were more than 4x the country’s short-term debt and more than 12x its monthly imports, which is higher than the required 1x and 3x.

Political stability

Lately, we have seen a rise in the number of protests calling for democratic reforms, especially among the youth and students. The protests, which began with demands for Prime Minister Prayuth Chan-Ocha’s government to resign, have seen an escalation that called for limits to the power of King Maha Vajiralongkorn. Calls for royal reform are particularly sensitive in Thailand, and is likely to stir unease and contempt among hard-line royalists and conservatives.

Increasing criticism against the junta-allied government comes as Thailand struggles to cushion the economic impact from COVID-19. With the country still facing the pandemic crisis and some reshuffling within the Cabinet – which saw three different people taking on the finance minister role in less than six months – a further escalation in protests could cause a further deterioration in business confidence.

The protesting students are expected to have at least one more mass action – a general strike in October. This has unnerved some investors in Thailand, as seen by the outflow from the stock exchange and bond market. There was about USD7.8bn in fund outflows from the SET, while the bond market saw a USD2.3bn outflow.

The political divide – at a time when the country is facing its worst economic crisis – could cause a further weakness in the THB. While we do not expect to see a further escalation in the political scene, Thailand has a long history of military coups – the latest being back in 2014, which saw Chan-Ocha rising to power. The uncertainties on this front and potential escalation of COVID-19 infections from protests and rallies could pose downsides to the THB, going forward.

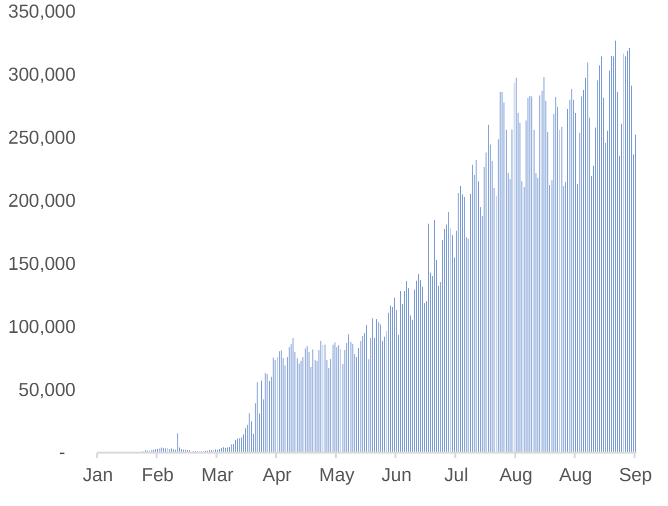
Prolonged COVID-19 pandemic

Thailand was one of the worst-hit economies in the region as a result of COVID-19, mainly due to its reliance on the tourism sector. While we expect a vaccine being discovered by 1H21 – as well as a mass deployment of such a vaccine during 2H21 (potentially during 3Q21) – any delays in its discovery or a worsening spread could cause further weakness to the kingdom's economy. In turn, this could drive the THB lower.

A look at the recent number of new daily COVID-19 cases observed in some regional countries – including Malaysia, Indonesia, and the Philippines – point towards in a spike in case numbers recently. Similarly, we have seen a similar trend in Europe and the US, where a new wave of infections have emerged. This includes US President Donald Trump and a minister in Malaysia coming down with COVID-19.

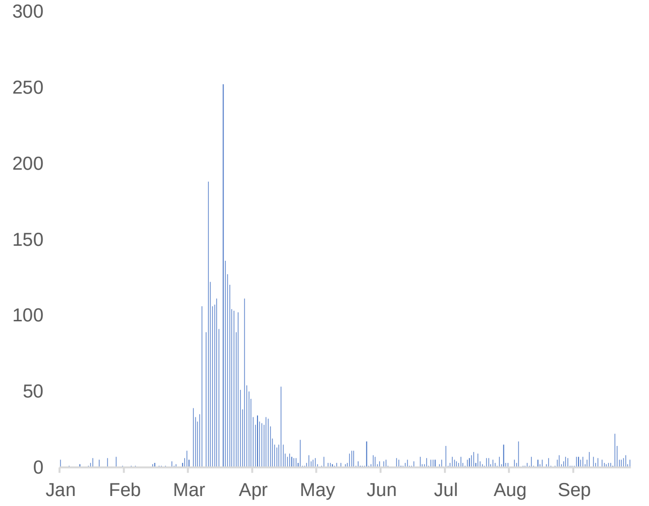
While we think that social distancing measures, hand-sanitising practices, and some form of movement restrictions should help to prevent such infections from escalating further, there will be concerns over the economic outlook, in our view, if the pandemic is prolonged further.

Figure 9: New daily COVID-19 cases remain high – at more than 250,000 per day – towards the end of Sep 2020



Source: World Health Organization (WHO), CEIC, RHB

Figure 10: Daily new COVID-19 cases in Thailand have been brought under containment



Source: WHO, CEIC, RHB

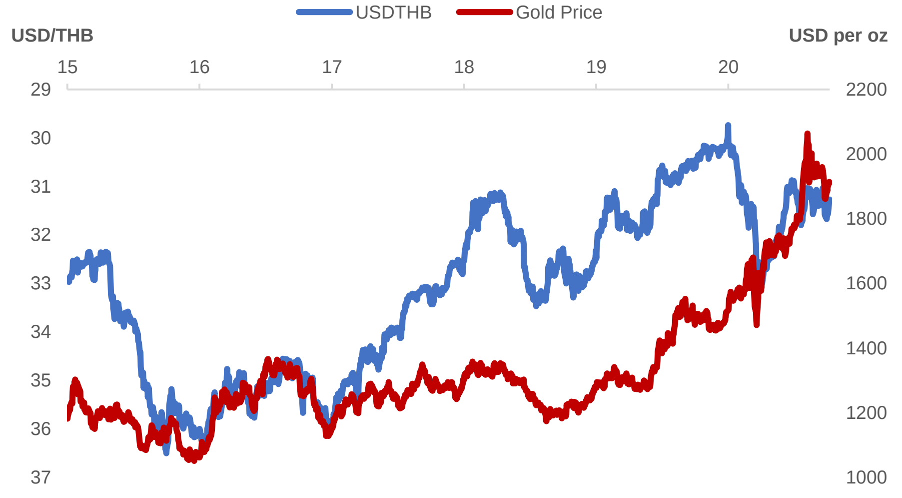
Thailand is already in the midst of partially opening its international borders with the introduction of its "Special Tourist Visa" scheme, which targets international tourists that intend to stay for long periods in the kingdom. While this might only help cushion the impact of the pandemic on the tourism industry, it should – at least – help a sector that was severely affected by the pandemic to kick-start its normalisation.

In the event that a second wave of infections were to hit Thailand, this should dampen any efforts to jump-start the local tourism industry. This, in our view, will affect both consumer and business sentiment, and could further dent the THB, which has already suffered from the pandemic so far this year.

Gold prices

The movement of gold prices has a strong correlation with the THB, as seen in recent years. In fact, the currency's strength in 2019 was largely driven by the strong surge in demand for gold. As a hub for bullion trading, Thailand has benefitted from the uncertainties over the US-China trade war last year. In turn, this has led to the THB to be crowned the strongest currency in the region in 2019.

Figure 11: The THB saw a strong surge in 2019, driven by the spike in gold demand



Source: Bloomberg, RHB

In mid-July and early August this year, we have seen a recovery in the THB as gold rallied to a new record high above the USD2,000 per ounce level. The correlation between gold and the local currency has led BoT to announce new mechanism for gold investing in the country.

A former central bank governor called for an adjustment to the ecosystem of gold investments and a few banks had been working towards allowing gold investors to place their money in foreign currency deposits. In turn, such deposits could be used as a mechanism to trade between individual investors and gold brokers.

While we think that the correlation between gold and the THB could weaken in the longer term with this adjustment, it is unlikely to be significant in the near term. With gold moderating after it breached the USD2,000 per ounce level, this should not be a major concern for BoT.

Prices for gold, however, remain supported at above the USD1,800 level and could see a pick-up in the event of a risk-off environment. This remains likely, given the uncertainties over COVID-19 and US presidential election.

A surge in gold prices is likely to cause the THB to strengthen as well.

USD movement

In the US, the Federal Open Market Committee has lowered the target range for the federal funds rate to 0-0.25% from a previous target range of 1-1.25% during the two meetings in March. Aside from that, the US Fed also provided more liquidity through massive purchases of treasury and mortgage-backed securities.

The US central banking system also coordinated with other central banks to enhance the provision of liquidity via the standing USD liquidity swap line arrangements. It also announced the establishment of temporary USD liquidity arrangements (swap lines) with additional central banks. In addition, the US Fed also established a temporary repurchase agreement facility for foreign and international monetary authorities.

The US central banking system's indication that it would "do what we can and for as long as it takes" to limit damage and boost growth is a clear signal that the US monetary policy outlook is on an easing mode – for as long as it takes to revive the economy.

We think that this puts the US currency on a weaker footing, which is already reflected by the USD Index's decline of 8.7% from its 3-year high of 102.8 recorded at the end of March. It was also down by about 2.6% vs the USD96.40 recorded at the end of 2019.

The weaker USD should cause a stronger THB against the US currency.

Figure 12: USD Index has fallen from its 3-year high of 102.8 recorded at the end of March

Source: Bloomberg, RHB

Our FX expert believes the THB will strengthen further to THB29.75 at end 2021 from the expected THB30.75/USD at the end of this year. This would mainly be due to the recovery expected for the tourism industry, which could lead to the current account surplus widening in 2021.

The THB's strength is also helped by the expected weakness in the USD.

Figure 13: Regional economic indicators

ASEAN & CHINA ECONOMIC INDICATORS

Country	GDP growth (%)				Inflation (%)				Policy rate (end period,%)				Exchange rate (end period, vs. USD)			
	2018	2019	2020F	2021F	2018	2019	2020F	2021F	2018	2019	2020E	2021F	2018	2019	2020E	2021F
Indonesia	5.2	5.0	-1.0	5.5	3.2	2.8	2.0	3.0	6.00	5.00	3.75	5.00	14417	13866	14200	13400
Malaysia	4.7	4.3	-4.0	7.0	1.0	0.7	-1.0	2.0	3.25	3.00	1.75	2.00	4.14	4.09	4.15	3.95
Philippines	6.2	6.0	-8.3	7.9	5.2	2.5	2.5	3.0	4.75	4.00	2.00	2.25	52.38	50.66	48.90	49.50
Singapore	3.5	0.7	-5.3	5.9	0.4	0.5	-0.5	1.2	-	-	-	-	1.36	1.39	1.36	1.32
Thailand	4.2	2.4	-7.6	5.0	1.2	0.7	-1.0	0.9	1.75	1.25	0.50	0.75	33.4	29.7	30.75	29.75
Vietnam*	7.1	7.0	2.7	6.8	3.5	2.8	3.5	3.5	6.25	6.00	4.00	5.00	23210	23173	23000	22000
China**	6.7	6.1	2.0	8.0	2.1	2.9	2.8	2.2	4.35	4.35	4.30	4.30	6.88	6.96	6.96	6.76

**prime rate; **1-yr loan prime rate*

Country	Real exports growth (%)				Real imports growth (%)				Industrial Production growth (%)				Unemployment rate (% labour force)			
	2018	2019	2020F	2021F	2018	2019	2020F	2021F	2018	2019	2020F	2021F	2018	2019	2020F	2021F
Indonesia	6.6	-0.9	-5.7	4.0	12.1	-7.7	-6.7	1.2	4.4	4.1	-8.0	5.0	5.3	5.3	8.0	6.0
Malaysia	1.9	-1.2	-7.4	9.6	1.5	-2.5	-6.2	11.3	3.0	2.4	-6.0	5.4	3.3	3.3	4.5	4.0
Philippines	11.8	2.4	-17.0	12.5	14.6	1.8	-20.9	12.8	8.7	-7.0	-10.0	8.5	5.3	5.1	8.5	5.5
Singapore	8.2	-1.5	-5.0	8.2	7.4	-1.7	-5.1	8.6	7.2	1.4	- 10.0	-3.0	2.0	2.1	3.0	2.3
Thailand	3.4	-2.6	-18.3	8.3	8.3	-4.4	-12.9	7.8	3.7	-3.6	-9.5	6.5	0.9	0.9	3.5	2.0
Vietnam	13.3	8.4	-3.7	16.7	11.1	8.3	-2.5	17.1	11.0	9.1	4.8	8.6	2.0	2.2	3.2	2.4
China	4.3	0.0	-3.0	7.3	6.5	-4.0	-2.7	5.1	6.1	5.5	2.0	7.8	3.8	3.6	4.3	4.0

Country	Fiscal Balance (% GDP)				Current Acc. (% GDP)				FX Reserves (USD bn)				External Debt (USD bn)			
	2018	2019E	2020F	2021F	2018	2019E	2020F	2021F	2018	2019	2020F	2021F	2018	2019E	2020F	2021F
Indonesia	-1.8	-2.0	-7.0	-5.0	-2.9	-2.7	-1.5	-2.5	121	129	143	148	360	380	404	420
Malaysia	-3.7	-3.4	-6.5	-5.0	2.1	3.3	2.2	2.3	101	104	108	112	220	227	234	228
Philippines	-3.2	-3.1	-8.0	-7.3	-2.6	-0.7	2.0	-0.2	79	87	95	100	79	83	93	90
Singapore	0.4	-0.3	-15.4	0.4	17.9	17.0	15.5	16.5	288	278	305	320	-	-	-	-
Thailand	-2.9	-2.8	-6.0	-2.7	5.6	6.9	3.5	5.2	206	224	230	245	162	164	180	175
Vietnam	-3.5	-3.4	-5.7	-4.1	2.5	5.0	1.9	2.7	56	78	90	95	108	114	121	130
China	-4.1	-4.9	-6.7	-5.9	0.2	1.2	0.8	0.8	3073	3108	3145	3180	1965	2065	2115	2165

Country	Deposit Growth (%)				Loan Growth (%)				L/D Ratio (%)				Money Supply (%)			
	2018	2019	2020F	2021F	2018	2019	2020F	2021F	2018	2019	2020F	2021F	2018	2019	2020F	2021F
Indonesia	6.9	6.7	5.5	5.0	11.7	5.6	4.0	6.5	97.5	97.0	95.0	97.0	6.3	6.5	8.0	7.0
Malaysia	7.5	2.9	4.1	3.5	7.7	3.9	3.0	3.5	89.0	88.0	88.0	89.0	9.1	3.5	5.0	4.0
Philippines	8.8	9.0	7.0	10.5	14.8	10.5	8.0	14.0	65.1	66.0	67.0	70.0	9.5	11.4	12.0	10.0
Singapore	3.5	8.9	1.0	0.0	5.3	4.2	-2.0	-1.0	107.0	101.3	101.0	100.0	5.1	4.5	11.0	7.0
Thailand	3.9	4.2	1.0	3.5	6.0	2.0	0.5	4.0	98.2	96.2	95.0	95.3	4.7	3.6	3.0	5.5
Vietnam	9.2	12.5	3.2	5.2	14.0	13.5	7.0	14.0	87.4	87.3	89.0	87.0	12.7	13.6	5.5	9.2
China	8.2	8.7	6.4	9.0	13.5	12.3	8.9	12.2	76.8	79.4	81.9	84.3	8.1	8.7	7.3	8.8

Note: As at 06 Oct 2020
Note 2: For money supply, M2 is used for all countries except for Thailand (M1), the Philippines (M3), and Singapore (M3)
Source: International Monetary Fund, Oxford Economics, various central banks, FocusEconomics consensus, RHB

RHB Guide to Investment Ratings

Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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