

UOB Economics Projections	2008	2009	2010F	2011F
GDP	2.5	-2.3	4.3	4.7
CPI (average, y/y)	5.5	-0.8	3.0	3.5
Unemployment rate (%)	1.4	0.9	1.2	1.5
Current account (% of GDP)	0.5	7.7	2.8	1.7
Fiscal balance (% of GDP)	-1.8	-3.5	-2.2	-2.2

- Thailand's economic indicators continue to show recovery, and with some risk appetite in the market, the THB should benefit. However, concerns in the form of debt problems in the Eurozone, still linger. Choppiness and volatility in the Asian currencies, including the THB should persist.
- Liquidity continues to be supportive of the THB, with aggressive buying in Mar alone, totaling USD1.08 bn of net inflow, and continues to support the THB.
- Our expectation is for the BoT to only hike rates in the 3Q, when the recovery process stabilizes and where consumption and fixed asset investment show more concrete recovery. The political instability has yet to be resolved and this could still hamper growth if rates are raised too soon.
- The economy continues to strengthen, reflecting the strength of the recovery. The 4Q showed the economy strengthening to 5.8% from a 2.8% contraction in the 3Q. The Thai economy grew 3.6% q/q on a seasonally adjusted basis, the highest growth rate in the year. The rebound was led by manufacturing, which expanded 9.9%, from -5.9% in 3Q.
- Despite the rather rosy numbers that come out of Thailand, risks to the Thai economy still remain. Aside from the obvious unstable political situation, another factor to watch out for is whether fixed asset investment and personal consumption can sustain the recovery.

Some Strength in THB, But Mostly Range-bound, Marked by Choppiness

Thailand's economic indicators continue to show recovery, and with some risk appetite in the market, the THB should benefit. However, concerns in the form of debt problems in the Eurozone, still linger. The resulting waxing and waning of risk appetite will thus ensure choppiness and volatility in the Asian currencies, including the THB. However, in the mid to long term, we see weakness in the USD vis a vis the THB, as underlying fundamentals for Thailand look intact, with economic growth continuing to improve, barring any major political upheaval. The current political tensions could put a dampener on the baht. For now though, the USD/THB pair looks to be trending upwards, and we are projecting the THB to reach 31.3 at end 4Q10. The recovery in the economy will provide support for the THB, although the currency is not expected to strengthen by much.

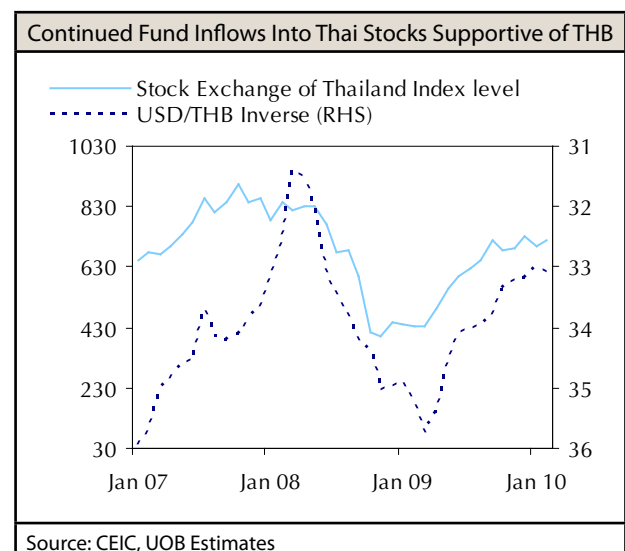
Liquidity Continues to be Supportive of the THB

After suffering net outflows of USD63.5mn in the first 2 months of the year, foreign institutional investors started buying USD1.1bn worth of Thai equities in Mar. The aggressive buying in Mar alone, totaled USD1.08bn of net

inflow, and continues to support the THB.

Interest Rate Hike Likely in 3Q

Expectations that the central bank would raise rates soon were stoked when Thai finance minister Korn Chatikavanij



Thailand

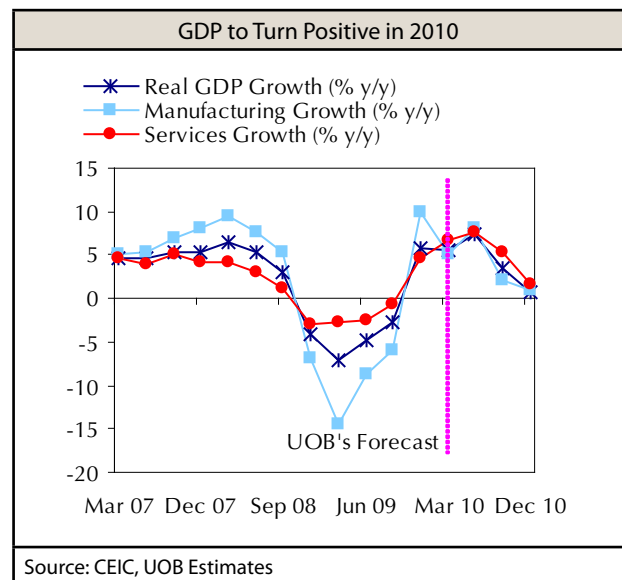
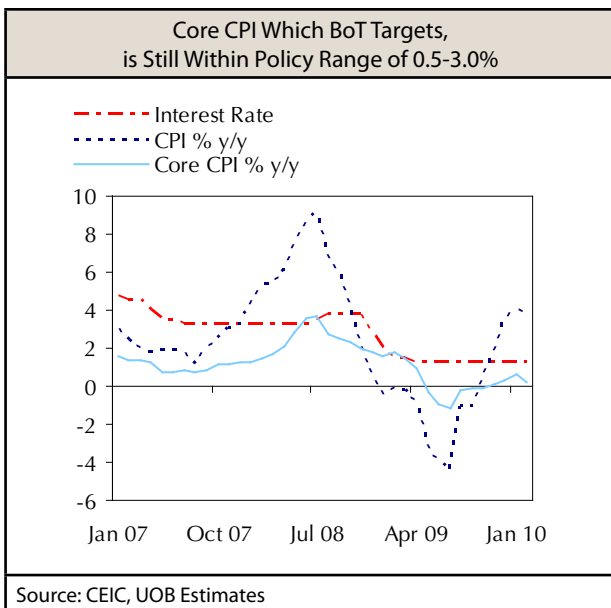
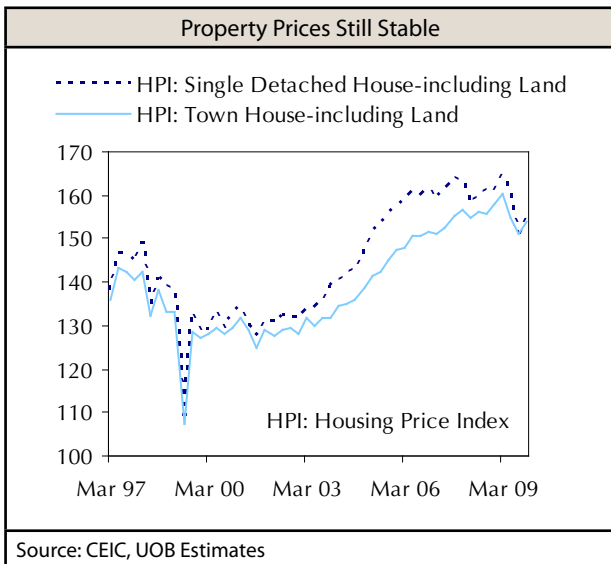
said that he “won’t be surprised” if the BoT decides to raise the benchmark interest rates at its policy meeting on April 21. Our expectation is for the BoT to only hike rates in the 3Q, when the recovery process stabilizes and where consumption and fixed asset investment show more concrete recovery. The political instability has yet to be resolved and this could still hamper growth if rates are raised too soon. For now, total consumption although growing, remains weak, and fixed asset investment is still shrinking, albeit at a smaller rate. Headline inflation looks to have taken a breather in Feb, at 3.7% from 4.1% in Jan, and still remains manageable. Core inflation (which the Thai central bank targets) currently stands at 0.2% in Feb, is still within the BoT’s target range of 0.5-3.0% pa. Bank of Thailand’s decision to maintain the policy interest rate at

1.25% during its monetary policy committee meeting on 10 Mar was expected, with the central bank waiting to see a strong rebound in the recovery. Also, risks of a property market bubble remain low, with real estate prices still remaining low, giving Thailand more room to hold off on hiking interest rates.

Stronger Economy

The economy continues to strengthen, reflecting the strength of the recovery. The 4Q showed the economy strengthening to 5.8% from a 2.8% contraction in the 3Q. The Thai economy grew 3.6% q/q on a seasonally adjusted basis, the highest growth rate in the year. The rebound was led by manufacturing, which expanded 9.9%, from -5.9% in 3Q. We see the manufacturing sector continuing to grow this year, turning in a nearly 4% growth rate for 2010. Capacity utilization rate shows demand is continuing to rise, having increased to 68% in Jan this year, which is around the 2008 level before the Lehman collapse. Exports are also coming back with a growth rate of 16% in Feb, and are now back to early 2008 level, although it must be noted that the double-digit expansion come from the low base in 2009.

The services sector has also swung to an expansion of 4.5% in 4Q from a slight contraction of 0.7% in 3Q, as tourism-related segments such as hotels and restaurants rebounded with a 13.5% expansion compared with the -2.5% in 3Q. Tourist arrivals have also bounced back, with the latest Jan data showing visitor arrivals grew 27% in Jan, although slower than the 45% in Dec last year. Services should also see a leap back to growth in the 4Q, as sentiment improves, and trade, transport and tourism-related sectors trend upwards. We project a growth rate of



Thailand

over 5% for this year.

The other indication of the improving economy is on the jobs front, which has seen the unemployment rate stay low at 1.4% in Jan, which is already higher than the 0.9% rate in Dec 09. A stimulus plan worth 1.43-trillion-baht or about US\$43 bn over the coming 3 years from 2009-2012 should add even more jobs. The government has said over a million jobs will be created over the 3 years.

Despite the rather rosy numbers that come out of Thailand,

risks to the Thai economy still remain. Aside from the obvious unstable political situation, another factor to watch out for is whether fixed asset investment and personal consumption can sustain the recovery. The government is supporting infrastructure investment via the 1.43-trillion-baht stimulus package next year through to 2012, so the economy should still see some growth momentum. But whether this can be self-sustaining is another matter. We are expecting 4.3% growth this year with improvements in the economy as well as benefits from the stimulus package.

Growth Rates of Selected Sectors of Real GDP (%)							
	<u>2008</u>	<u>2009</u>	<u>4Q08</u>	<u>1Q09</u>	<u>2Q09</u>	<u>3Q09</u>	<u>4Q09</u>
Agriculture	4.1	-0.6	0.0	2.7	-1.3	-1.5	-2.2
Manufacturing	3.8	-5.1	-6.8	-14.5	-8.7	-5.9	9.9
Services	1.3	-0.4	-2.9	-2.8	-2.6	-0.7	4.5
GDP (y/y %)	2.5	-2.3	-4.2	-7.1	-4.9	-2.8	5.8
GDP (q/q s/adj)	n/a	n/a	-4.8	-1.5	2.1	1.7	3.6
Source: Office of the National Economic and Social Development Board							