Thailand

UOB Economics Projections	2008	2009	2010 (F)	2011 (F)
GDP	2.5	-2.3	5.5	4.7
CPI (average, y/y)	5.5	-0.9	3.7	3.5
Unemployment Rate (%)	1.4	0.9	1.2	1.5
Current account (% of GDP)	0.5	7.7	8.0	6.6

- *Even as China announced a more flexible RMB exchange rate regime, we think it's unlikely that the THB will strengthen much, due to the RMB probably only moving in small steps for the rest of this year. The current semblance of normalcy in Thailand might also provide support for the THB. But with the Eurozone problems still continuing to unfold, we think risk aversion will remain very much on the cards, resulting in investors seeking safe haven in the USD, lifting the greenback. But this should start to ebb slightly towards the end of the year, as Asia's relatively stronger economic fundamentals come to the fore again. We are projecting the THB to remain flat, with periods of volatility and choppiness in between. USD/THB could reach around 32.20 by the end of 3Q, before going to around 31.90 at the end of the year..*

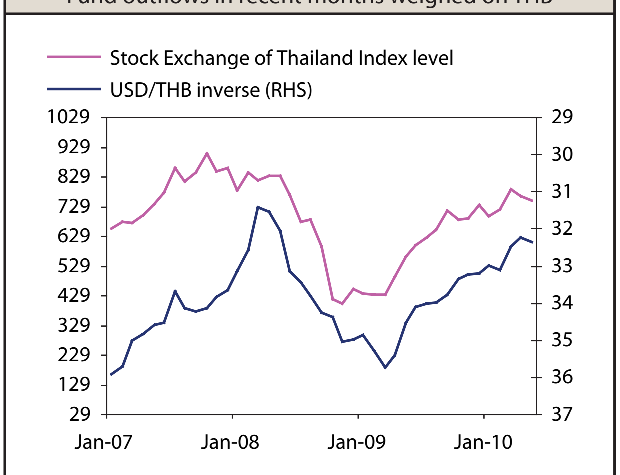
- *With the cessation of the protests, the central bank can start to resume its policy interest rate normalization, which was put on hold when the protests escalated. We think it's likely that the Thai central bank will start to hike rates on Jul 14, when the monetary policy committee meets.*

- *Protests notwithstanding, we think the GDP looks likely to head to 5.5% for 2010, up from our original forecast of 4.3%. This is on account of the strong 1Q numbers, which will boost headline numbers, and given that private investment and consumer confidence will start to return now that the protests have ceased.*

THB to remain volatile as uncertainty still surrounds Europe

Even as China announced a more flexible RMB exchange rate regime, we think it's unlikely that the THB will strengthen much. The RMB will probably not see large moves for this year, as there has been no one-off revaluation announced, and details have been vague. Though initially, the knee jerk reaction was one of strength in the Asian currencies, we expect limited gains in the coming months for currencies like the THB. Also, political issues there remain. The past few tumultuous weeks in Thailand had seen outflows of capital from the kingdom, but the THB was resilient. Foreigners were net sellers of Thai equities from Apr to early Jun, with outflows totaling THB62 bn. From Apr to May, as the protests continued, the THB however, even managed to gain against the USD, by 0.8% to 32.23. The greenback then managed to eke some gains in May against the THB, to 32.34, more so on the back of risk aversion following the deterioration in the debt situation in Eurozone, rather than the domestic political crisis. The THB's resilience could be partly explained by the continually improving economic indicators, save for the recent protests. 1Q GDP growth turned in a 15-year high of 12.0% y/y. The current semblance of normalcy in Thailand, might provide support for the THB, although the currency is not expected to strengthen by a large magnitude. As the Eurozone problems still continue to unfold, we think risk aversion will remain very much on the cards, resulting in investors seeking safe haven in the USD, lifting the USD. But this should start to ebb slightly towards the end of the year, as Asia's relatively stronger economic fundamentals come to the fore again. We are projecting the THB to remain flat, with periods of volatility and choppiness in between. USD/THB could reach around 32.20 by the end of 3Q, before going to around 31.90 at the end of the year.

Fund outflows in recent months weighed on THB



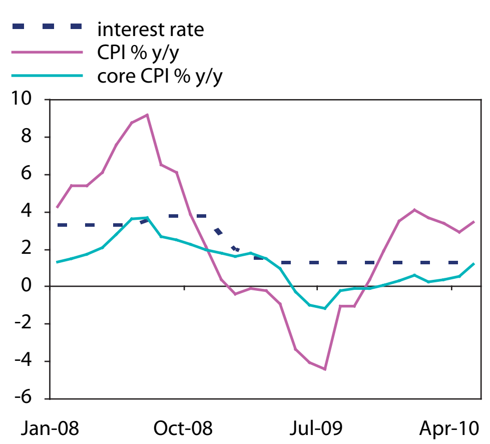
Source: CEIC, UOB forecast

Thailand

Interest rate hike likely in 3Q

With the cessation of the protests, the central bank can start to resume its policy interest rate normalization, which was put on hold when the protests escalated. Although now, the problems in the Eurozone may be a factor weighing on rate hikes. We think it's likely that the Thai central bank will start to hike rates on Jul 14, when the monetary policy committee meets. The economy has rebounded strongly and economic indicators had all showed increments every month, until Apr, when the political situation worsened. For the 1Q at least, the economy was unscathed by the political situation. GDP grew the fastest in nearly 15 years, surging 12.0% y/y from 5.9% in 4Q09. The Thai economy grew 3.8% q/q on a seasonally adjusted basis, slightly slower than the 4.0% in the previous quarter. The last time the economy saw such a robust growth pace was in 2Q 1995, when GDP strengthened 12.3%. Private consumption also strengthened in the 1Q to 4.0% from 1.5% in 4Q09, showing that the economy is not just relying fully on government consumption. Private investment is also making a comeback, with a robust increase of 12.6% y/y, compared to 3.4% in 4Q09. The case for policy normalization is strong in light of inflation coming back. Headline inflation is creeping back up to 3.4% in May, from 2.9% in Apr. Core inflation (which the Thai central bank targets) headed up to 1.2% in May, from 0.5% in Apr, the highest in 14 months, but still within the BoT's target range of 0.5-3.0% pa. There is also pressure on the BoT to start hiking rates, given other regional central banks' actions in Malaysia, Singapore and India.

CPI trending upwards, pressure on policy rate to increase



Source: CEIC, UOB forecast

Economy looks strong despite protests

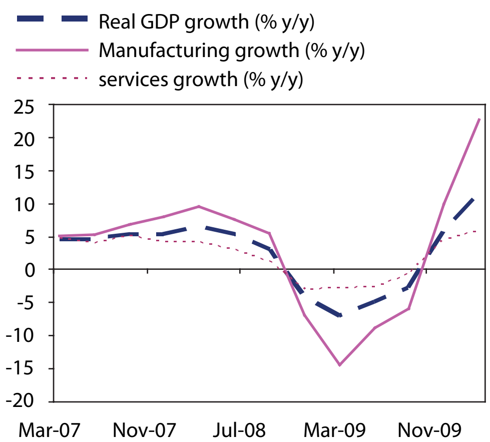
Thai finance Minister Korn Chatikavanij has said the protests could shave off 0.3-0.5 percentage points off growth this year. The BoT meanwhile said projections of economic growth could have been 0.9 percentage points higher if there had been no political turmoil. The impact of the weeks-long protests will show up, however, in the 2Q. Protests notwithstanding, we think the GDP looks likely to head to 5.5% for 2010, up from our original forecast of 4.3%. This is on account of the strong 1Q numbers, which will boost headline numbers, and given that private investment and consumer confidence will start to return now that the protests have ceased. For the 1Q at least, manufacturing accounted for the bulk of the expansion, at 22.8% y/y, with manufacturing growth rate the highest on record. Exports are still thriving, increasing by 16.2% y/y in the 1Q, as demand for electronic products such as computers, integrated circuits, electrical appliances and vehicles went up, partly due to restocking. We might see some slowdown in the next few quarters as manufacturing output eases following the Eurozone problems, nevertheless, a double digit growth in manufacturing might even be possible.

The services sector also rebounded as the hotels and restaurant sector grew 15.5%, as the National Economic and Social Development Board said that tourist arrivals in the first quarter had reached an unprecedented high of 4.7 million, on track to reach a revised target of 13 million tourist arrivals for the full year. The hotels and restaurants sector should consequently see improvement since the protests have subsided. However, with the spectre of a major slowdown in Europe, the key engine of the economy, manufacturing, might be hit. Indicators such as the manufacturing production index and capacity utilization rate all moderated in Apr to 196.5 and 62.32 respectively, after reaching 235.93 and 74.98, respectively in Mar. This to a large extent was marred by the protests, but could also be a sign of the start of a slowing down. Businesses were also worried about the state of Thai politics, with business sentiment taking a hit, with both indices taking a hit in Apr to a reading of 46, after surging to a strong reading of 55.7 in Mar.

The sterling 1Q headline numbers have partly come from the low base last year and partly benefited from the restocking process. How sustained this could be, especially now that final demand in Europe might be affected, is a risk to the Thai economy. The unstable political situation is clearly another event to watch out for, as things are far from resolved. But for now, even factoring in the potential weakness, the economy should still see higher growth rates. We are upgrading our forecast for the full year to 5.5% from our original projection of 4.3% growth, and also looking at a 4.7% growth next year.

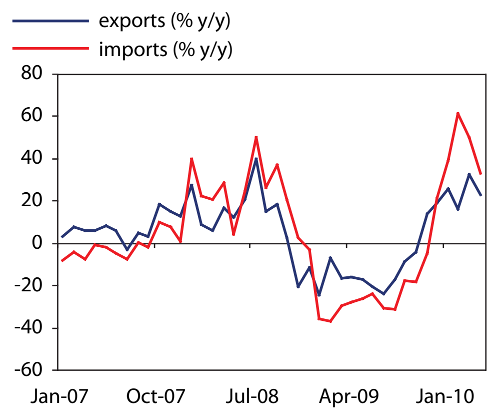
Thailand

Sharp Rebound in GDP led by manufacturing



Source: CEIC, UOB forecast

After sharp growth, exports and imports might be moderating



Source: CEIC, UOB forecast

Growth rates of selected sectors of Real GDP (%)

	2008	2009	1Q09	2Q09	3Q09	4Q09	1Q10
Agriculture	4.1	-0.5	2.7	-1.3	-1.5	-2.0	0.2
Manufacturing	3.8	-5.1	-14.5	-8.7	-5.9	9.9	22.8
Services	1.3	-0.4	-2.8	-2.6	-0.7	4.6	5.8
GDP y/y	2.5	-2.2	-7.1	-4.9	-2.8	5.9	12.0
GDP q/q s/adj	N.A	N.A	-1.7	2.4	1.4	4.0	3.8

Source: Office of the National Economic and Social Development Board