

THAILAND ECONOMIC UPDATE

NOVEMBER 2017



THAI ECONOMY IN 3Q17 IS SET TO RISE 3.8% DRIVEN BY EXTERNAL FACTORS, WHILE DOMESTIC DEMAND SHOWS SIGNS OF BROAD-BASED RECOVERY

Key Points

- ▶ **The Thai economy in 3Q17 managed to carry on the growth momentum from the first two quarters**, fuelled mainly by external factors (exports and tourism). Domestic demand began showing signs of broad-based recovery in the midst of farm income contraction.
- ▶ **The global manufacturing sector in October 2017 accelerated MoM to a 78-month high**, buoyed by an expansion of manufacturing sectors in the US and Eurozone, following a rise of new purchasing orders. The sentiment is in agreement with projections by the International Monetary Fund (IMF), which revised up its global economic growth forecast to 3.6% and 3.7% in 2017 and 2018, respectively.
- ▶ **KBank expects the Thai Baht to weaken to THB33.50 Baht/USD around the end of 2017 due to a strengthening greenback**, as investors anticipate another policy rate hike by the Fed in 4Q17.
- ▶ **KResearch views that the Thai economy in 2H17 will advance 3.8%, higher than the average of 3.5% in 1H17**, buoyed mainly by an export expansion and a solid recovery in the tourism. At the same time, public investment is likely to pick up speed in 2H17 amid the gradual disbursement of the mid-year budget.

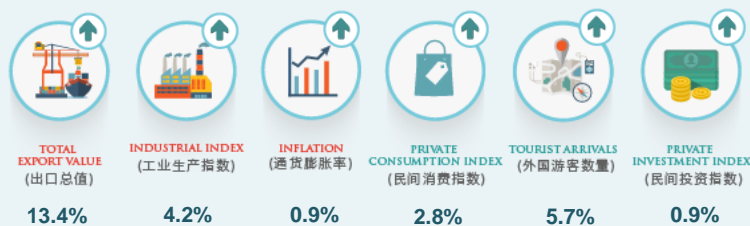
2017 Thai Economy Outlook

International sector remains main economic force, with more expansive recovery signals

The international sector remained Thailand's main economic force in 3Q17, affirmed by high export growth of 13.4% YoY in September, mainly supported by:

- (1) Growth of exports with prices tied to crude oil prices, for example, rubber, rubber products and petroleum products
- (2) Growth of agricultural and agro-processed exports, such as rice and sugar
- (3) Trend of up-cycle electronics and the Internet of Things (IoT), benefiting electronics exports including computers, parts and components, and integrated circuit boards
- (4) Continued recovery of global economy and trade, buoying both regional and Thai exports.

SEPTEMBER 2017 ECONOMIC INDICATOR UPDATE (Y-O-Y CHANGE)



KResearch anticipates that merchandise exports in 4Q17 may slow from the pace seen over 3Q17 due to subsiding price effects as commodity prices in the last quarter may remain close to last year's levels.

Tourism has returned to normalcy and will serve as another key driver of the Thai economy. The number of foreign tourists increased 5.7% YoY in September, mainly in the groups of Asian travelers. In addition, **the International Civil Aviation Organization (ICAO) has now removed its "red flag" for Thailand on its website**, which is an important factor in supporting the positive image of Thai aviation safety standards and encouraging foreign tourists to choose Thai airlines for making their trips here.

Private consumption started to show more expansive recovery signals at the end of 3Q17. The Private Consumption Index stepped up 2.8% in September, with increases mostly in durable goods, especially automobiles, and services such as hotels, restaurants and passenger transport. Expenditures in the non-durable segment were also in positive territory, reflecting household purchasing power that improved more evenly. The government is now launching a tax break for year-end shopping for a longer period than in 2016 in order to stimulate domestic consumption and add cash flow to the economic system at the end of the year. However, **close attention should be paid to farm income, which contracted 2.6% YoY in 3Q17 after faring well during the first two quarters.** The contraction was attributed to declining farm goods prices.

September headline inflation rose 0.9% YoY, which was on par with the rate of the preceding month. The higher inflation came mainly from rising vegetable prices due to soaring demand during the *Kin Jae* festival amid dwindling output hit by heavy downpours, as well as hikes in prices of tobacco and alcoholic beverages over the same period of last year following the enforcement of the new excise tax structure. **Headline inflation over the final two months of 2017 (Nov-Dec) is poised to edge slightly higher over October** (on a YoY basis). The rise would be derived from the end of the government's free bus and train ride scheme on November 1, 2017, which was

replaced with a welfare card scheme for low-income earners, as well as the expiry of promotional rates of MRT Purple Line at THB14-29 on weekdays and THB15 on weekends and public holidays, thus resulting in the fares returning to the range of THB14-42 from November 1 onwards. Hikes in public fares thus pushed headline inflation higher in tandem.

KResearch holds the view that the Thai economy in 2H17 may grow 3.8 % on average, outperforming the average growth of 3.5% in 1H17, and buoyed by robust exports and the strong recovery of tourism. Meanwhile, public sector investment is expected to accelerate in the latter half of this year thanks to gradual disbursement of the mid-year budget.

Global Economy

Manufacturing PMI	2Q-17	1Q-17
WORLD	52.7	52.9

Manufacturing PMI	Oct-17	Sep-17	Aug-17
WORLD	53.5	53.3	53.2
US	54.5	53.1	52.8
Japan	52.8	52.9	52.2
Eurozone	58.5	58.1	57.4
China	51.0	51.0	51.5
ASEAN	50.4	50.3	50.4

Sources: IHS Markit, Caixin, Nikkei.

Global manufacturing in October grew at a faster pace than the previous month, as evidenced in the J.P. Morgan Global Manufacturing PMI in October, which rose to 53.5 from 53.3 – the highest level in 78 months (since March 2011). The surge came mainly from more upbeat manufacturing sectors in core economies, especially the Eurozone and the US, in light of a marked increase in new orders. According to the World Economic Outlook (WEO) report released by the International Monetary Fund (IMF) in October, IMF has raised its global economic projections for 2017 and 2018 to 3.6 and 3.7% from the previous 3.5 and 3.5%, respectively. The brighter outlook comes mainly from growth in advanced

economies, which are expected to fare better than the IMF's previous forecast in July. The latest estimation showed that the US, Eurozone and Japan will see higher growth of 2.2, 2.1 and 1.5%, respectively (compared to 2.1, 1.9 and 1.3%, respectively, in the July WEO update).

Core economies in 3Q17 gained traction from the preceding quarter, led by the US economy which grew 3.0%, QoQ, SAAR, based on the first estimate.

The figure outperformed the consensus forecast of 2.5%. The improvement was driven largely by rising inventory and a dwindling trade deficit, which helped offset ebbing domestic consumption which had been hampered by hurricanes Harvey and Irma. These natural disaster had wreaked havoc on US employment, as seen from September non-farm payroll, which fell by 33,000 (though analysts had expected an increase of 90,000). This was the first decline in job data in seven years, despite a drop in the jobless rate to 4.2%.

as Fed Chair when her term ends in February 2018. Jerome Powell's monetary easing stance signals that the Fed's recent approach towards policy rate normalization will likely not change drastically.

Meanwhile, in China and Japan, the focus has been on their respective political issues. In China, the 9th National Congress of the Chinese Communist Party, October 18-24, granted Xi Jinping a second five-year term as China's President and the Communist Party's General Secretary, though the meeting did not include details of various policies. Nevertheless, it is expected that concrete policy reform will be seen by 2018. In Japan, Shinzo Abe announced the dissolution of parliament and called a snap election for October 22. His Liberal Democratic Party (LDP) secured a majority mandate in Japan's general elections for the fourth consecutive time. Nevertheless, close attention must be paid to his economic policies, as well as economic and social restructuring plans, which will be officially announced later on.

Percent Change	2015	2016	Projections		Difference from July 2017 WEO Projection	
			2017	2018	2017	2018
World Output	3.4	3.2	3.6	3.7	0.1	0.1
Advanced Economies	2.2	1.7	2.2	2.0	0.2	0.1
United States	2.9	1.5	2.2	2.3	0.1	0.2
Euro Area	2.0	1.8	2.1	1.9	0.2	0.2
Japan	1.1	1.0	1.5	0.7	0.2	0.1
United Kingdom	2.2	1.8	1.7	1.5	0.0	0.0
Emerging Market and Developing Economies	4.3	4.3	4.6	4.9	0.0	0.1
China	6.9	6.7	6.8	6.5	0.1	0.1
India	8.0	7.1	6.7	7.4	-0.5	-0.3
ASEAN-5	4.9	4.9	5.2	5.2	0.1	0.0
Brazil	-3.8	-3.6	0.7	1.5	0.4	0.2

Sources: WEO, as of October, 2017.

With regard to monetary policy, the Federal Reserve (Fed), as expected, maintained the Fed Funds rate at 1.00-1.25% at its seventh meeting of 2017, October 31-November 1, though markets are placing more weight on the likelihood of a policy rate hike during the final FOMC meeting of 2017. Interesting issues in November meeting include President Trump's nomination of Jerome Powell to replace Janet Yellen

In October, Brent crude oil prices climbed above USD60/barrel for the first time in 27 months (since July 2017), driven by Saudi Arabia's announcement of support for the extension of production cuts and heightened geopolitical tensions after the Iraqi central government took control of oil fields in the disputed Kurdish area, inhibiting crude oil suppliers from northern Iraq.

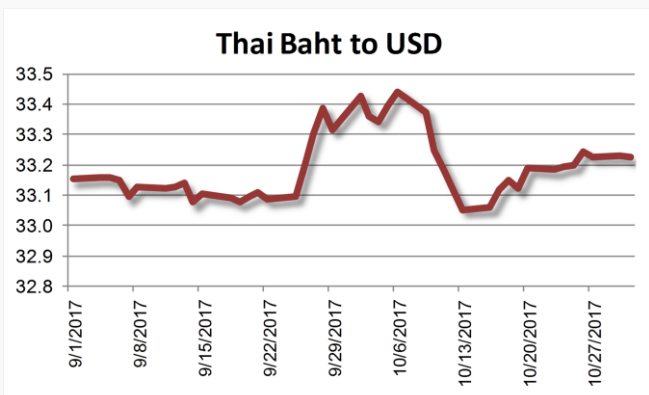
Exchange Rate

'The Thai Baht remained volatile in October, in line with other regional currencies'

The **Thai Baht** remained volatile against the US Dollar in October in line with other regional currencies. KBank has projected that the Baht will weaken to THB33.50/USD by year-end 2017, because markets continue to put more weight on the likelihood of a Fed Funds rate hike at the final FOMC meeting of 2017, a move which would strengthen the US Dollar.

THB/USD Exchange Rate (2017)*		
Month	THB/USD	Change
May	34.04	-1.59%
June	33.93	-0.31%
July	33.30	-1.87%
August	33.18	-0.35%
September	33.31	+0.39%
October	33.22	-0.28%

Source: Bloomberg, CEIC and BOT
Note: Exchange rate on the last day of each month



Source: Bloomberg

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