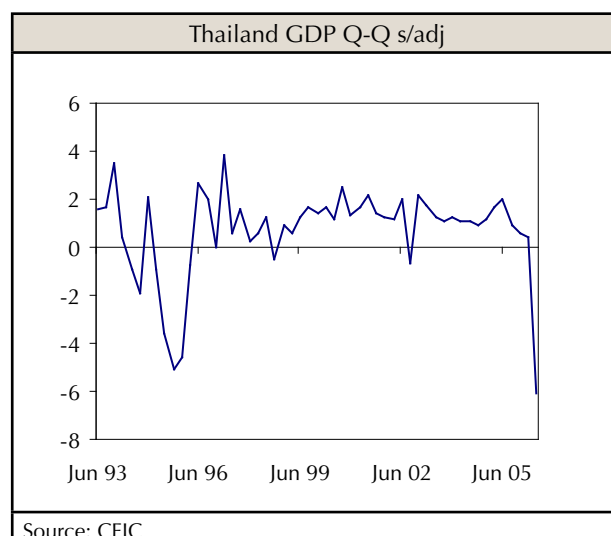
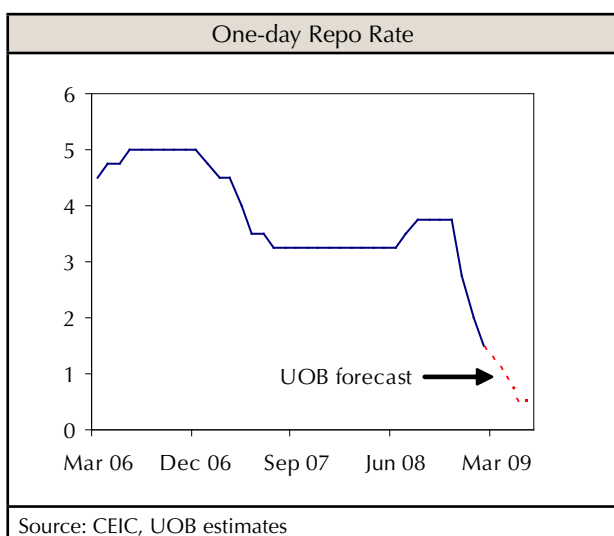


Thailand: Disappointing GDP Called For a 50bps Rate Cut

- Thai central bank today cut its benchmark one-day bond repurchase rate to 1.5%
- We project a further rate cut of 50 bps, bringing the rate down to 1% in April.
- Thailand's 4Q08 GDP, at -4.3% y/y is the sharpest decline in 10 years, and full year 2008 GDP came in at 2.6%, the lowest in 7 years
- We forecast manufacturing to shrink 8.7% for the full year, with double digit contractions in the first half of this year, and a slow recovery in the last quarter of the year.
- Our estimation is for a -1.6% for Thailand's GDP in 2009, with the first 3 quarters of the year registering y/y declines and the 4Q seeing a slight upturn.

On the back of a sombre economic outlook for Thailand, the Thai central bank today cut its benchmark one-day bond repurchase rate to 1.5%, the lowest in 4 years. The rate cut was in-line with market estimates and comes just 2 days after Thailand announced the worst quarter (in y/y terms), in almost 10 years. 4Q08 GDP, at -4.3% y/y was the steepest decline since Dec 1998, and full year 2008 GDP came in at 2.6%, the lowest in 7 years .

With interest rate at the 1.5% level, the Bank of Thailand does not have much room to cut further. Nevertheless, with the GDP slated to shrink further in the first half of this year, rate reductions will be at least 50 bps, following the 100 bps decrease in Dec, and 75 bps in Jan. We are projecting a further rate cut of 50 bps, bringing the rate down to 1%, when the central bank next meets in April.



Thailand GDP: Manufacturing Led Contraction

4Q08 GDP for Thailand- like most Asian countries- fell more sharply than expected. The 4.3% contraction compares to an expansion of 3.9% in 3Q08. Full-year 2008 GDP of 2.6%, was also much slower than the 4.9% recorded in 2007. Seasonally-adjusted GDP dropped by 6.1%, compared to a rise of 0.4% in 3Q08.

Manufacturing, which accounts for about 40% of the GDP, was the main drag on growth, with a 6.8% contraction in the 4Q, versus a 6.1% growth in the 3Q. Global trade has declined in a big way, and a fall in exports affected the country's agricultural, fishery and manufacturing products particularly in high-technology products – the main export goods. Export of computers, integrated circuit, electrical appliances and petroleum products all declined. Meanwhile, motor vehicles and auto parts, and basic metal products also slowed down. The export volume in major markets such as Japan, United States, European Union, China, and ASEAN countries had worsened.

With exports continuing to fall, we forecast manufacturing to drop further this year, registering a 8.7% contraction for the full year, with double digit contractions in the first half of this year, and a slow recovery in the last quarter of the year.

The services sector such hotels and restaurants, and transportation also felt the impact of the slowdown, exacerbated by the airport closures and consequent fall-off in tourist arrivals. The hotels and restaurants segment declined 8.3% in 4Q08, compared to a 0.3% growth in 3Q, while the transportation sector fell 10.7% versus a rise of 1.5% in the previous quarter. Air transportation plunged by a third as a result of passenger contraction and airport seizures, while hotel occupancy rates plummeted 50%. With tourist arrivals slowing rapidly, the services sector will continue to be hard-hit. Already, there has been a decrease in foreign tourists by 19%.

Overall, we think the country's GDP could contract 1.6% in 2009, with the first 3 quarters of the year registering year on year declines and the 4Q seeing a slight upturn.

Growth Rates of Selected Sectors of Real GDP						
%	2007	2008	1Q08	2Q08	3Q08	4Q08
Agriculture	1.7	5.7	0.8	5.9	0.1	-4.4
Manufacturing	6.2	3.9	1.7	-0.1	0.8	-9.0
Services	4.7	1.5	0.4	0.4	0.2	-3.9
Total GDP	4.9	2.7	0.9	0.6	0.4	-6.1
Source: Office of the National Economic and Social Development Board						

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