Thailand

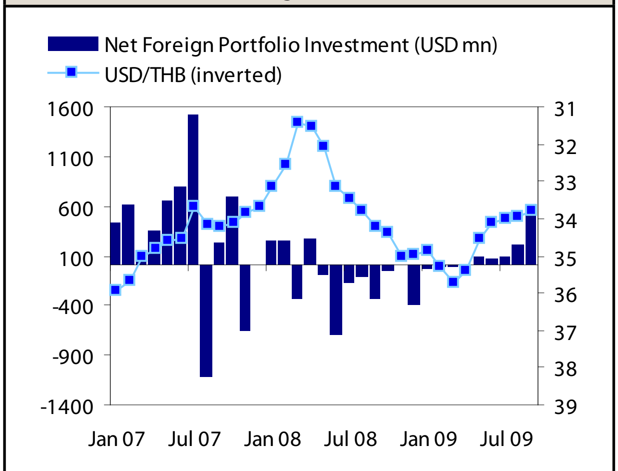
UOB Economics Projections	2007	2008	2009F	2010F
GDP	4.9	2.6	-3.2	4.3
CPI (average, y/y)	2.2	5.5	-0.8	3.9
Unemployment rate (%)	1.4	1.4	1.2	1.1
Current account (% of GDP)	6.3	0.6	6.4	4.8
Fiscal balance (% of GDP)	-1.7	-1.8	-3.5	-2.2

- *We think Asian currencies, including the THB, should still be on an appreciating trend over the next year. The magnitude of appreciation, however, is unlikely to be hefty, with the state of the global economic recovery still fraught with uncertainty, and investor sentiments remaining fickle.*
- *For now, the USD/THB pair looks to be trending upwards, and we are projecting the THB to reach 32.6 at the end of 1Q10.*
- *We are keeping our expectations of a rate hike in 3Q10, since we think the economy will probably start on a sustainable path to growth in the later half of next year.*
- *The Thai economy grew 1.3% q/q on a seasonally adjusted basis, less than 2Q's 2.2%. On year however, the economy turned in a better performance of -2.8%, compared to -4.9% in 2Q.*

THB Likely to Continue Strengthening

The overall bearish sentiment on the USD (barring recent events such as the Dubai debt woes and credit ratings downgrade on Greece) has continued to give a boost to the THB. Despite liquidity into Thailand abating somewhat- with net outflow of around US$443 mn during Oct 09 to 9 Dec 09, much lower than the US$1.03 bn during Jul 09 to Sep 09- the THB still managed to strengthen 2% in the past three months. Apart from the very choppy and volatile movements of the Asian currencies during the second week of December where the market turned skittish and piled into the USD, we think Asian currencies, including the THB, should still be on an appreciating trend over the next year. The magnitude of appreciation, however, is unlikely to be hefty, with the state of the global economic recovery still fraught with uncertainty, and investor sentiments remaining fickle. Any negative newsflows, such as the recent Dubai World debt crisis and the ratings downgrade on Greece could cause funds to quickly switch out of riskier Asian currencies into the seemingly safer USD. In between, we should also continue to see interventions by the Thai central bank, which is likely to favour a more controlled rate of THB strengthening, without undermining exports. On the domestic front, political tension still has the potential to drag the baht down. For now, the USD/THB pair looks to be trending upwards, and we are projecting the THB to reach 32.6 at the end of 1Q10.

THB Benefitting from Fund Inflows



Source: CEIC, UOB Estimates

Keeping Our Forecast of an Interest Rate Hike Only in the 2H2010

Bank of Thailand's latest decision on Dec 2, to maintain the policy interest rate at 1.25% came as no surprise. The economy is improving, with major sectors such as manufacturing and services showing lesser contractions. Economic indicators such as exports, private investment and personal consumption are also trending higher. But these improvements have not come in the form of a decisive rebound, rather, in small and incremental upticks, which would not warrant a rate hike. The domestic economy still continues to be driven largely by government spending, rather than sustainable factors such as private investment or domestic consumption. The December policy statement

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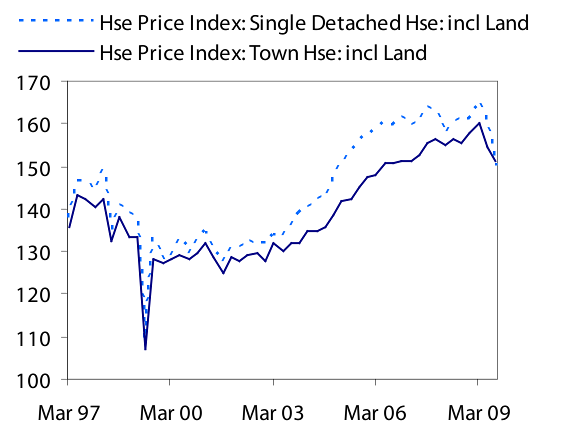
from BoT said, "The MPC judges that the economic recovery is likely to continue at a gradual pace and still requires sustained policy support," which suggests, to us, that the interest rate will be kept at 1.25%, for the next six months at least.

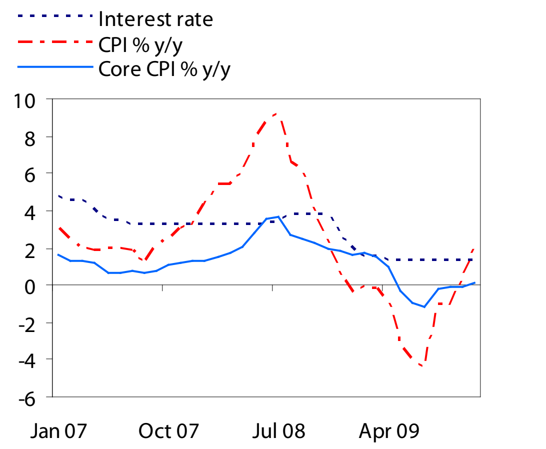
We are keeping our expectations of a rate hike in 3Q10, since we think the economy will probably start on a sustainable path to growth in the later half of next year. Core inflation, which the Thai monetary policy committee targets, is also not likely to trigger any policy normalization in the form of tightening. Latest Nov figures show that inflation went up just 0.1% y/y, and will likely stay well within the 0-3.5% quarterly average range the BoT aims for. Also, in its latest inflation report for Oct 2009, the Thai central bank said that, "risks of a property market bubble remained low."

Property Prices Still on the Wane



Source: CEIC, UOB Estimates

Core CPI which BoT Targets,
is Still Within Policy Range of 0-3.5%



Source: CEIC, UOB Estimates

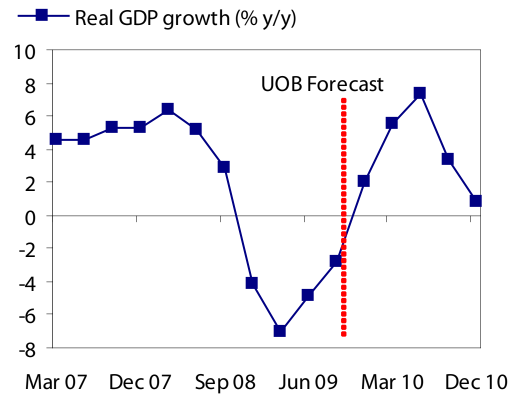
Unlike in other Asian regions such as South Korea, China and Hong Kong where their respective governments have concerns about asset price bubbles, and may have to move on monetary policy, for now, Thailand does not seem to have any immediate impetus for a monetary policy normalization.

Economy Stronger, but Bumpy Road to Recovery

The Thai economy grew 1.3% q/q on a seasonally adjusted basis, less than 2Q's 2.2%. On year however, the economy turned in a better performance of -2.8%, compared to -4.9% in 2Q. The improvement continued to be driven by the government's fiscal stimulus, while investment in fixed capital look to be slowly on the mend, with contractions lessening to 6.3% from -10.2% in 2Q. Sector-wise, manufacturing, a key component of GDP still contracted by 5.9%, slightly better than -8.7% in 2Q. And manufacturing could be headed up from here, with exports shrinking much less than in prior months. The latest figures for Oct show exports down 4.1% compared to -8.4% in Sep, and significantly better than Jan's -24.6% trough. The manufacturing sector also continues to rev up, as capacity utilization rate shows demand is also on the rise, having increased to above 60% from about 55% in prior months. We see the manufacturing sector returning to growth in the 4Q, due to the low base effect and also increasing demand. But expansion will still be slow, around the 2% range.

The other major component of GDP-services - which account for over 40% of GDP- also rebounded, with a mild contraction of -0.6%, compared to -2.6% in the previous quarter. The sector continued, however, to see weakness in wholesale and retail trade as well as in repairing of autos. Hotels and restaurants, which were hit first by the closure of the airports last Dec, and then the H1N1 pandemic, have

GDP to Turn Positive in 2010



Source: CEIC, UOB Estimates

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picked up slightly, lessening its contraction to 2.8% from -5.7%. Tourists arrivals look to be coming back, with the latest Sep figures bouncing to a 16.9% growth rate, from -5.4% in Aug. 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 over 3%.

Along with the rest of the Asian countries, Thailand's economy, is slowly improving. This is also reflected in the latest Nov consumer confidence index, where consumer confidence reached a 13 month high, to 76.5, from 75.4 in Oct, on optimism surrounding the recovery, and government spending on infrastructure projects. But growth centres on whether personal consumption and private investment will come back to take the place of fiscal stimulus, as well as whether political instability will take centrestage. With the government rolling out another 1.43-trillion-baht stimulus package next year through to 2012 in infrastructure investment, the economy is set to grow relatively strongly next year. We are keeping to our full year 2009 projection of -3.2%, with a return to growth in the 4Q of over 3%. Next year, we are expecting 4.3% on the back of benefits from the stimulus package. The jobs front has also seen the benefits of government stimulus programs. After receding to 1.2% in Jul, from 1.4% in Jun, the unemployment rate in Thailand has stabilized at 1.2% in Sep. The peak reached in this crisis was a moderate 2.4% in Jan, far less than the 5.7% in Jan 2001- during the tech bubble bust, and 3.7% in Jan 2004, post-SARS. The latest Sep figures show 458,100 people unemployed, out of a total labour force of about 38.4 mn people. 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.

Growth Rates of Selected Sectors of Real GDP

	2008	3Q08	4Q08	1Q09	2Q09	3Q09
Agriculture	3.5	3.3	0.0	2.7	-1.3	-2.5
Manufacturing	3.9	5.4	-6.8	-14.4	-8.7	-5.9
Services	1.2	1.3	-2.9	-2.8	-2.5	-0.6
GDP (y/y %)	2.5	2.9	-4.2	-7.1	-4.9	-2.8
GDP (q/q s/adj)	-	-0.6	-4.8	-1.5	2.2	1.3

Source: Office of the National Economic and Social Development Board