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UOB Economics Projections	2007	2008	2009F	2010F
GDP	4.9	2.6	-3.2	4.3
CPI (average, y/y)	2.2	5.5	0.3	6.5
Unemployment Rate (end-4Q)	1.4	1.4	2.8	2.5
Current account (% of GDP)	5.7	-0.1	4.1	0.8
Fiscal balance (% of GDP)	-1.7	-1.8	-3.5	-2.2

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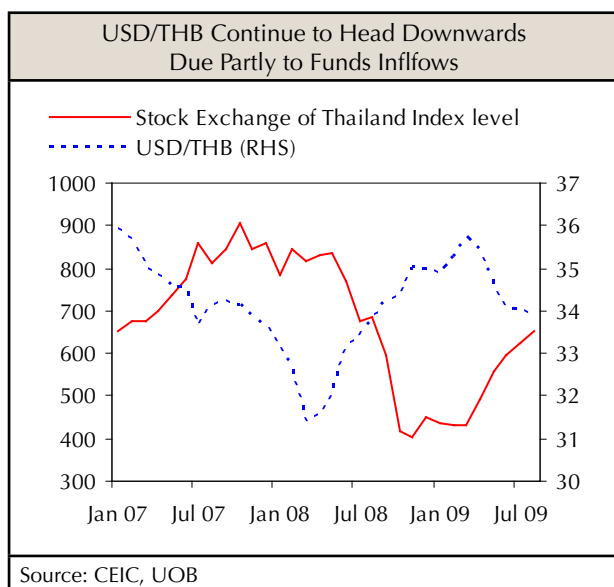
Overall, we think Thailand's economy, like the rest of the global economy, looks to be on the recovery path. But the sustainability of the recovery pattern largely depends on whether the economy can stand on its own when the fiscal stimulus package runs out.

Thailand's central bank kept the benchmark one-day bond repurchase rate unchanged at 1.25%. We expect the BoT to raise rates in the 3Q of 2010, when the growth of the economy is on a more sustained path.

USD/THB to be on Downward Trend

The THB, along with the rest of the Asian currencies has gained from the return of risk appetite, especially now that investor are more assured of a global recovery. Foreign fund inflows are back with a vengeance, pouring money into Thailand's stock market, which has swelled the SET by 58% YTD. Cumulative net inflows of US\$895.49 mn were recorded from the Jul 09-17 Sep 09 period, more

than the US\$ 819.74 mn amount from Mar 09 to Jun 09, a far cry from the US\$ 4.6 bn of net outflows during the Jun 08-Feb 09 period. This has resulted in the THB strengthening 3.5% since the start of the year to 33.75. Some factors remain on the horizon, that could dampen the THB's rise. One is central bank intervention- where the BoT enter the market to stem the baht's rise, so as to keep exports competitive. Secondly, Thailand's political issues at home have not abated and continuing tensions could continue to weigh on the THB. For now, the USD/THB pair looks to be trending upwards. We are keeping to our projection for the THB at 33.7 by year end.

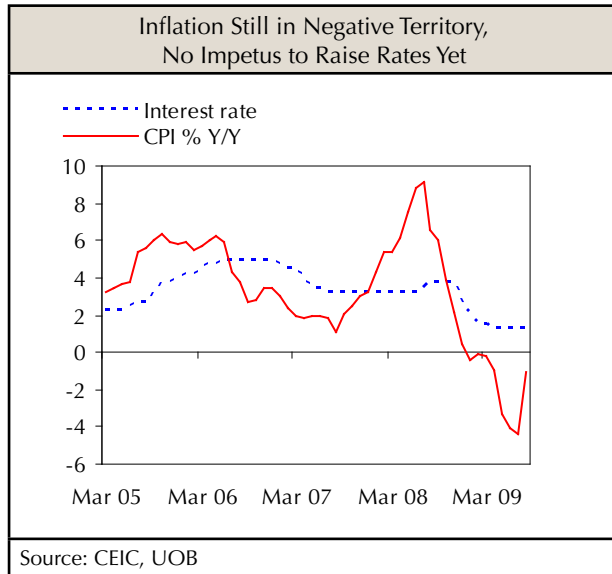


Interest Rates to Only be Raised in the 2H2010

Thailand's central bank has kept the benchmark one-day bond repurchase rate unchanged at 1.25%, in line with market estimates. The Bank of Thailand said the "current level of policy interest rate is appropriate and supportive of the economic recovery without generating any inflationary pressure". It did however caution that although the Thai economy had improved, there is still a "high degree of uncertainty about the sustainability of global economic recovery". With Thailand's CPI still in a deflationary environment, there does not seem to be any impetus for the BoT to raise rates anytime this year. Indeed, even as Thailand climbed out of a technical recession in

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the 2Q, its recovery, which hinges on demand for exports coming back and whether it is able to wean off fiscal stimulus, still seems wobbly. Add to this, the domestic political issues which also continue to weigh on recovery prospects. The government would thus be wary of striking too prematurely and disrupting the fragile recovery process. Our expectation is for them to raise rates in the 2H of 2010, when the growth of the economy is on a more sustained path.



Economy on Sounder Footing

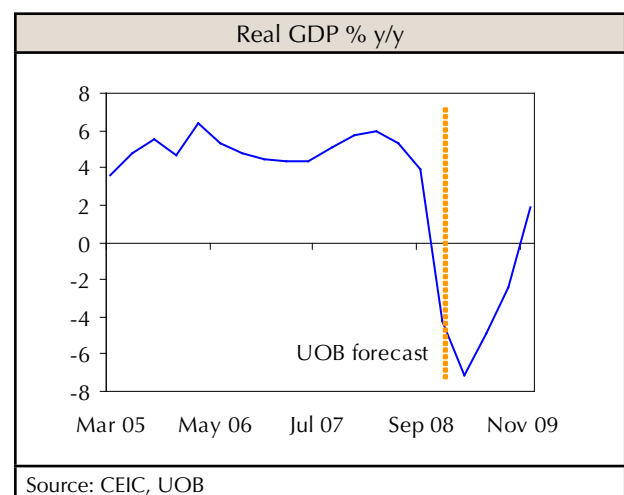
Growing 2.3% q/q on a seasonally adjusted basis, the technical recession which began in the last quarter of 2008, has ended, following in the footsteps of many other Asian countries. On year, the economy contracted 4.9%, less than the 7.1% decline in the 1Q. Headline numbers show the economy to have passed the worst of its declines, helped largely by government spending which increased 5.9% from 3.6% in 1Q. Private consumption also seems to fairly resilient, only dropping 2.3% from -2.5% in 1Q.

A look at the key industries of the economy, however, still show weakness persisting. Manufacturing - which made up about 40% of GDP last year, shrank 8.4% y/y, less than the -14.4% in 1Q. On a seasonally adjusted basis, the sector expanded 6.2%, after a 6.6% contraction in 1Q09. Similar to the previous quarter, the capital and technology industry (which includes machinery and motor vehicles manufacturing) saw the steepest drop of 34.9% y/y, but was still better than the previous quarter's -42.4%.

Although it looks likely that the manufacturing sector is past the worst of its slowdown, the quarters ahead may prove to be a tough and slow climb upwards. There does not seem to be a decisive uplift, since Thai exports are still shrinking. In fact, 2Q saw exports contracting more steeply, at -22.8%, compared to -17.9% in 1Q, with a decline in the export of electronics, vehicles and agricultural products. Exports, which make up more than 60% of GDP, also seem to be falling further, with no sign of recovery, with July's exports down 23.9% y/y, from -20.5% in Jun. With this in mind, our projection is for a slow improvement in the manufacturing sector. The 3Q could decline by around 6% y/y, before reversing to a marginal expansion in the 4Q at +1% y/y.

The other major component of GDP-services - which account for about 40% of GDP continue to decline on a whole- declined 2.6% y/y, similar to the previous quarter's 2.9% contraction. The sector was dampened somewhat by the slow recovery in the sales and repair of motor vehicles (2Q: -3.3% y/y, 1Q: -4% y/y) as well as hotels and restaurants, which were first hit by the closure of the airports last Dec, and now the H1N1 pandemic (2Q: -5.6% y/y, 1Q: -6% y/y). Tourists arrivals are also on the wane, declining more steeply in 2Q, at -16.5% y/y, compared to -15.8% in 1Q. As political issues in Thailand continuing to brew and dominate, tourism is bound to be affected.

Overall, we think Thailand's economy, like the rest of the global economy, looks to be on the recovery path. But the sustainability of the recovery pattern largely depends on whether the economy can stand on its own when the fiscal stimulus package runs out. We are still pro-



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jecting 3Q to shrink over 3% before heading into some expansion of over 2% in the 4Q. For the full year, we are maintaining our forecast of -3.2%. The Thai state planning agency predicts that the economy would contract between 3.0% to 3.5% in 2009, revising its May forecast of a 2.5% to 3.5% contraction.

Unemployment to Worsen, But Not Reach its Peak

Other Asian countries are seeing their unemployment rate stabilize, but Thailand has in fact seen unemployment recede. After climbing to 2.1% in Apr, the unemployment rate has been steadily trending down. In May, the rate was down to 1.7%, and the latest Jul figures show the rate decreasing to 1.2%, from 1.4% in Jun. 475,700

people were unemployed, out of a total labour force of 39.3 mn people. The dip in the unemployment rate could be due to more people giving up looking for work, but also a function of the fiscal measures. Part of the 115 billion baht (US\$3.3 billion) stimulus program in Jan this year went towards promoting tourism and helping low-income Thais cope with the economic downturn. A second stimulus plan for 3 years from 2009-2012 worth 1.43-trillion-baht known as "Strong Thailand 2012". The government has said over a million jobs will be created over the 3 years. With the economic situation improving, and the economy likely to benefit from the increased stimulus measures, we are revising our forecast for the unemployment rate to reach 2.8% at year end, and trend downwards next year to 2.5%.

Growth Rates of Selected Sectors of Real GDP							
	2008	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09
Agriculture	5.0	3.1	8.6	9.6	1.6	3.4	-2.7
Manufacturing	3.9	9.5	7.7	6.1	-6.7	-14.4	-8.4
Services	1.2	3.9	2.9	1.6	-3.6	-2.9	-2.6
GDP (y/y %)	2.6	6.0	5.3	3.9	-4.2	-7.1	-4.9
GDP (q/q s/adj)	2.6	1.1	0.3	0.5	-6.1	-1.8	2.3

Source: Office of the National Economic and Social Development Board