Macro Note

Thailand Monthly: China's Reopening Bode Well For Services Exports And THB

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- Following stronger than expected 3Q22 GDP growth of 4.5% y/y, there are reasons to be optimistic in the few quarters to follow amidst consistently higher tourist arrivals that spur domestic consumption and spending.

- More recently, earlier than expected China's reopening has brewed more optimism ahead for the tourism-reliant Thai economy. In particular, we are likely to see continuous improvement in its services exports and consequently a stronger THB this year.

- We expect a better and stronger recovery of the Thai economy in 4Q 22 (expecting growth circa 3.5-4.2% y/y range). Coupled with less aggressive BOT tightening of monetary policy compared to the other regional central banks to continue lending support towards growth recovery, we believe that the Thai economy is likely to be on the sweet spot of experiencing strong growth recovery and appreciating THB without slowing the pace of growth materially. Our 2022 GDP growth forecast remains at 3.2% and we forecast for it to accelerate to 3.7% this year and nearing 4% in 2024.

The One Reopening Thailand Has Been Waiting For

Earlier this week, China finally opened its border for international visitors for the first time since it imposed travel restrictions back in Mar 2020. Thailand should undoubtedly benefit from such easing of travel restrictions, but this may not immediately translate into a massive surge of incoming tourists from China. This is because many of the travels will still take place within China ahead of the lunar New Year homecoming that will also see overseas Chinese coming home to the mainland. We reckon that tourists from China will potentially start their outbound travel including to Thailand at the later part of 1Q23 onwards. Nevertheless, the reopening of the Chinese economy should benefit Thai services exports and one has seen continued strong tourism-related sectors growth such as hotels and F&B sectors (Figures 1 and 2). Chinese tourists into Thailand averaged 3.5-4mn prior to the pandemic and without the return of them, and as evidenced from 2022 data, it is almost inconceivable for the number of tourist arrivals and associated revenue to gather back to its pre-pandemic levels (Figure 3).

As motor vehicles purchases normalized in Oct (latest available data), non-durables purchases continue its uptick as many businesses geared up to welcome more inbound tourists while manufacturers were cited in saying they saw higher demand for tourism-related goods such as clothing, bags, shoes, jewelry as well as food and beverages. Domestic trade indicators remain to set on a steadier footing of recovery. Tourist arrivals continue to edge higher reaching almost 9 million per Nov 2022 and by the momentum recorded, it is likely to surpass the 10 million mark once Dec data is reported in due time (Figure 1). Higher inbound statistics also brought about increasing tourism revenue. We expect a better and stronger recovery of the Thai economy in 4Q 22 (expecting growth circa 3.5-4.2% y/y range). Our 2022 GDP growth forecast remains at 3.2% and we forecast for it to accelerate to 3.7% this year and nearing 4% in 2024 (Figure 4).

Figure 1. Inbound Tourists Coming Into Thailand Might Double to 20 million This Year

Source: Macrobond, UOB Global Economics & Markets Research

	Latest YTD (Persons, million)	% chg y/y	2019	2010
Thailand	8.91	1982.8	39.9	15.9
Singapore	5.37	1528.2	19.1	11.6
Indonesia	4.58	193.8	16.1	7.0
Vietnam	3.66	2228.0	18.0	5.1
South Korea	2.66	174.9	17.5	8.8
Japan	2.46	901.3	31.9	8.6
Hong Kong	0.44	385.8	55.9	36.0
Taiwan	0.42	199.5	11.9	5.6

Latest YTD

Figure 2. Continued Strong Tourism-Related Sectors Growth

Source: Macrobond, UOB Global Economics & Markets Research

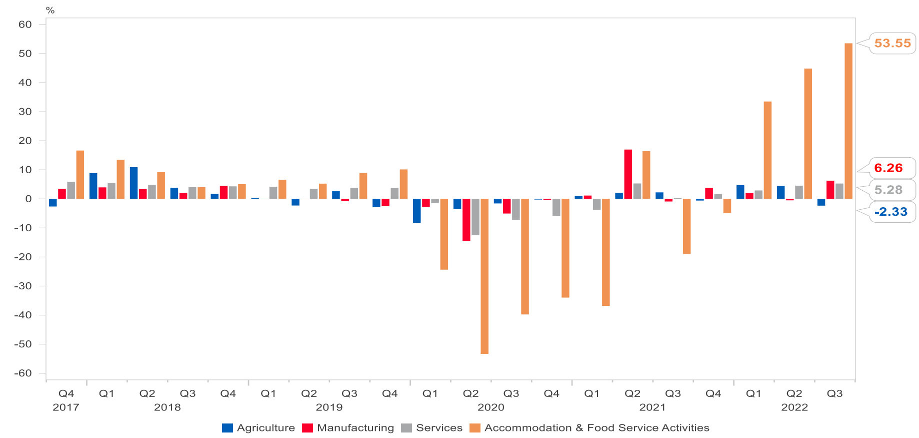
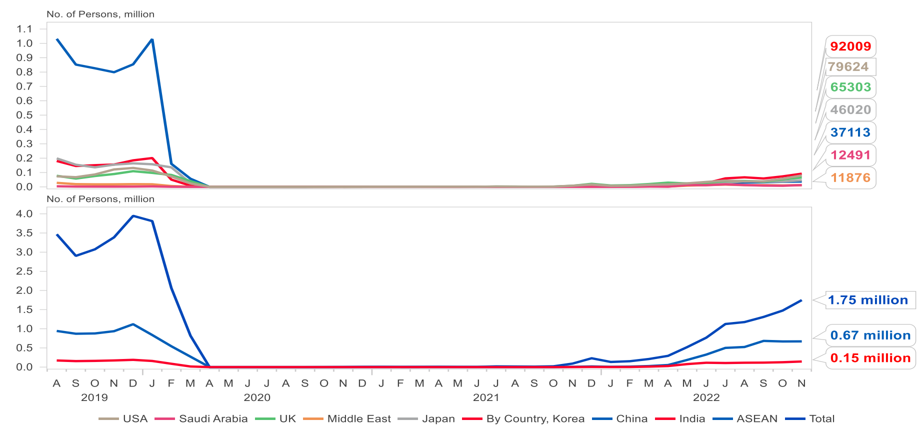


Figure 3. Current Trend of Incoming Tourist Arrivals Unlikely to Plug the Chinese Gap!

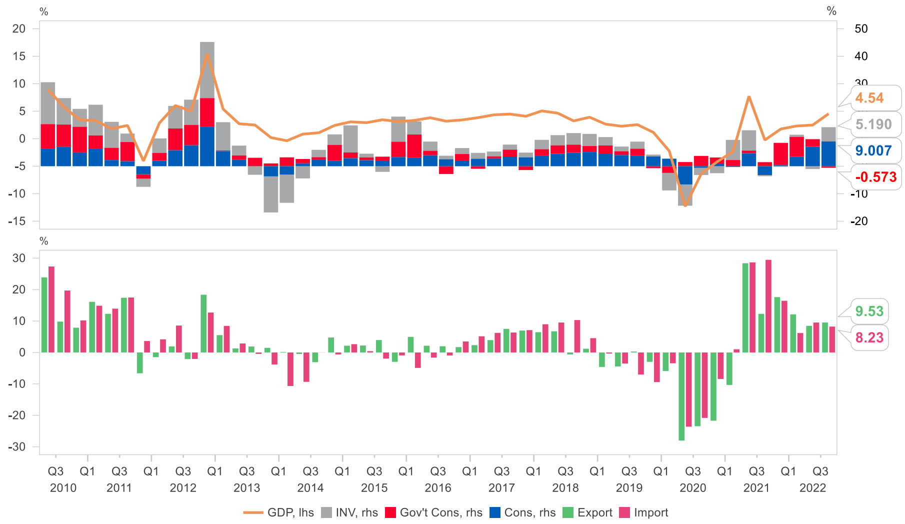
Source: Macrobond, UOB Global Economics & Markets Research



Right By You

Figure 4. Very Strong 3Q22 GDP Growth!

Source: Macrobond, UOB Global Economics & Markets Research



PPI Continue To Ease Off And Lower Energy Prices May See Inflation Falling

Thai inflation averaged 6.1% in 2022 and we forecast headline inflation to average much lower at around 2.7% this year on the assumption that the producer price index (PPI) will continue to show a falling trend and given a more moderate global energy and food prices amid milder winter (in the Northern hemisphere) and a more subdued demand as well as the improvement in the global food supply chain. On year basis, Thai PPI slowed to sub 5% y/y in Dec, significantly down from around 14% in Jun this year. With about 2 months lag between PPI and CPI, we expect inflation to ease off to below 5% range consistently in the months to come, and we expect headline inflation to average 3.9% in the first half of 2023. In the latter half of this year, we forecast inflation to average only 1.5%, partly due to base effects and on assumption of continued lowering of PPI and a more anchored energy and food prices. For 2023 as a whole, we expect inflation of 2.7%, within the 1-3% BOT inflation target range.

We expect that BOT may soon reach the peak of its current rate-hiking cycle, with our forecast of another 25bps rate hike at the upcoming Jan 25 MPC meeting to 1.50% and then for another final 25bps hike to 1.75% at its scheduled MPC meeting on 29 Mar. Overall, despite its 1.75% terminal rate, we expect negative real interest rates will continue to favor Thai economic recovery as it diverges away from an ultra-tight monetary policy elsewhere in the world, most notably in the US and Europe. However, a combination of expectation of significantly higher tourist arrivals this year and its associated improvement in Thai's current account position altogether with a relatively less tight monetary policy environment to support growth recovery, the Thai economy is likely to find itself in a "sweet-spot" of having consistently higher GDP growth and an appreciating currency that is unlikely to unwarrantedly hurt the recovery trajectory.

Figure 5. Easing PPI Could Result In Further Deceleration Of Headline Inflation

Source: Macrobond, UOB Global Economics & Markets Research

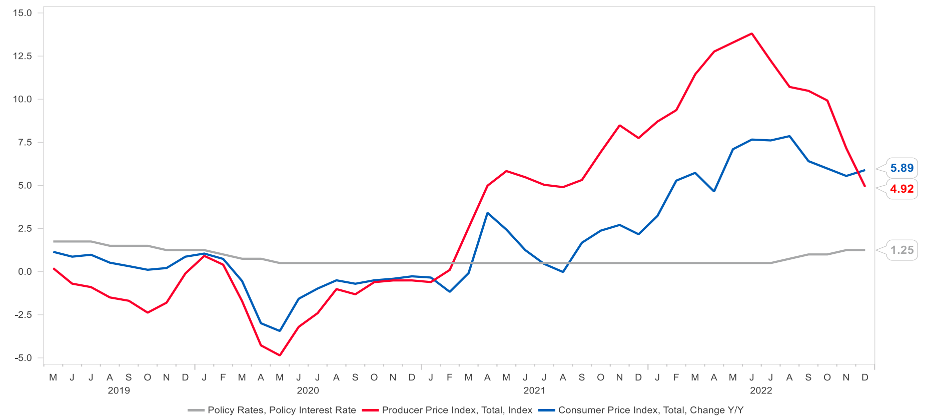
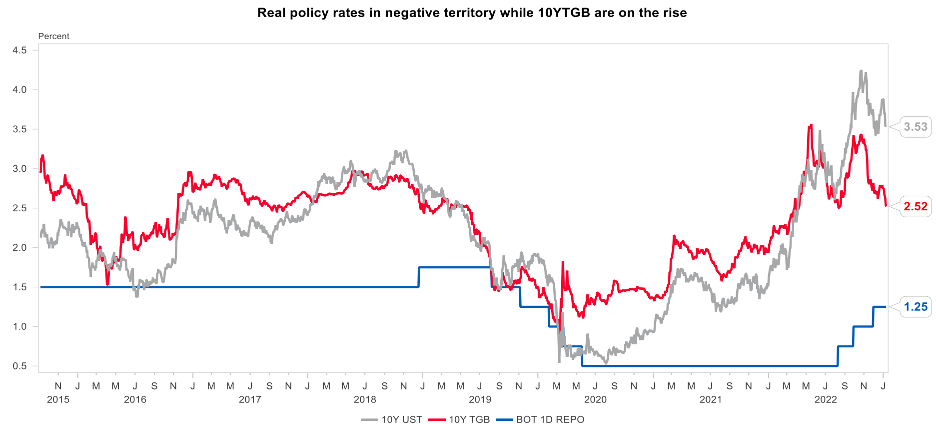


Figure 6. BOT Will Soon Reach Its Terminal Point Of 1.75%

Source: Macrobond, UOB Global Economics & Markets Research



Capital Inflows To Continue Amid Stronger Forecast Of THB

Our FX team is of the view that THB looks set to outperform other Asian FX in 2023 following its lackluster performance over the past two years as it receives a further bump in tourist arrivals due to reopening of China's borders. The expected return to a current account surplus of 2.8% (of GDP) this year is another added boost to the THB. Taken together, we see a limited pullback in THB to 35/USD in 1H23 despite a challenging global macro backdrop before a stronger recovery to 34/USD in 3Q23 and 33/USD in 4Q23.

Despite expectations of stronger THB ahead, we continue to expect healthy portfolio capital inflows into the Thai markets amidst a relatively less hawkish BOT viz. many other central banks in the region while expectations of much higher inbound tourists and its associated revenue may bode well for its equity market. Both the bond and equity inflows into Thailand ended on record note last year at USD6.3bn for bonds and USD6bn for equities, totaling well above USD12bn for the overall portfolio capital inflows. For 2023-year-to-date, bond inflows kept its strong uptrend at USD1.8bn thus far this year and equity inflows of almost USD0.5bn to-date, totaling USD2.3bn so far in early Jan.

Figure 7. Stronger External Balance Likely Underpin Consistent THB Appreciation viz. USD

Source: Macrobond, UOB Global Economics & Markets Research

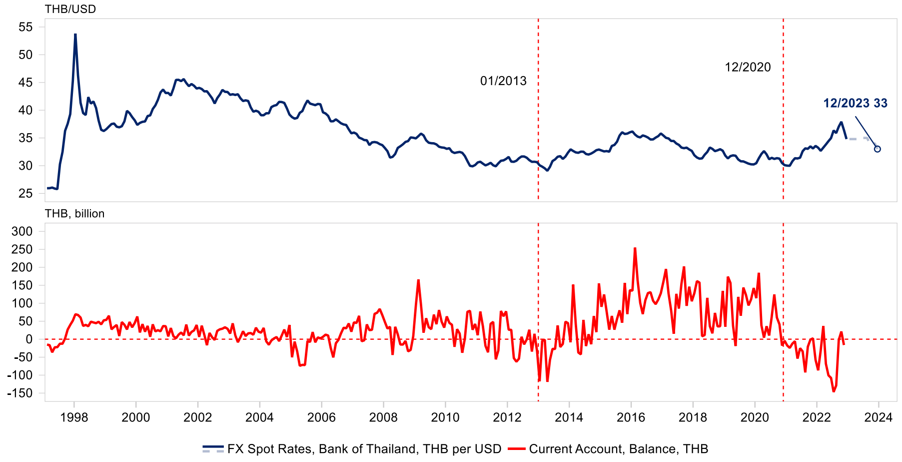


Figure 8. Bond Inflows Ended On A Strong Note In 2022

Source: Bloomberg, UOB Global Economics & Markets Research

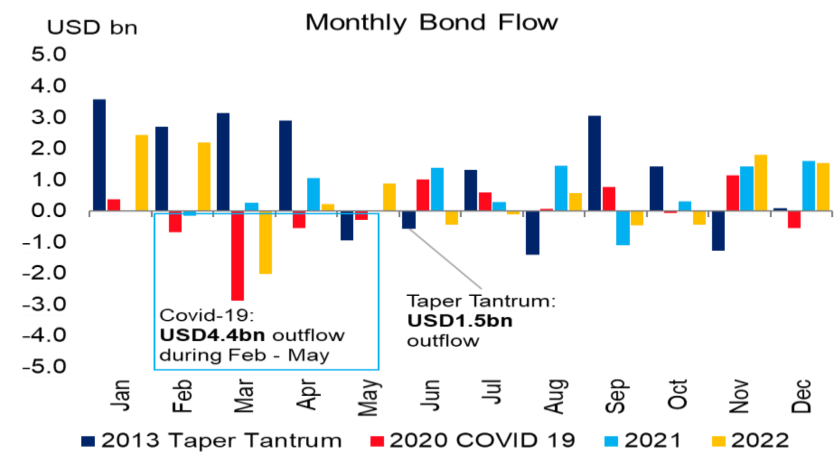
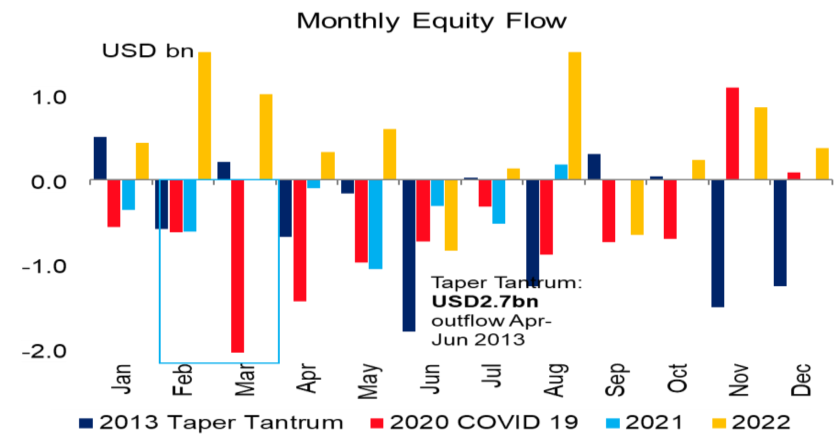


Figure 9. Similarly For Equity Inflows Ended On A Strong Note In 2022

Source: Bloomberg, UOB Global Economics & Markets Research



Our Forecast

%	As of 11 Jan	1Q23	2Q23	3Q23	Q23
BOT 1-D Repo Rate	1.25	1.75	1.75	1.75	1.75

Source: Global Economics & Markets Research (as of 11 Jan 2023)

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