

Thailand Economics

Lift 2Q16F GDP growth to 3.5%

The MPC stood pat again as widely expected and it foresees a gradual economic recovery continuing. With a faster-than-expected farm income rebound and continued strong tourism and public investment, we lift 2Q16F GDP growth to 3.5% y-y (0.7% q-q sa). We see the charter vote passing; if not sluggish private investment will likely worsen.



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As widely expected, MPC keeps rate unchanged

The Bank of Thailand's (BoT) Monetary Policy Committee (MPC) maintained the policy rate at 1.5% with a unanimous vote. According to the MPC statement, the Thai economy continues to recover at a gradual pace, mainly driven by public spending and tourism. Private consumption expanded on the back of improving farm income. However, private investment remained slow. On price stability, the committee expects headline inflation to rise gradually. However, the timing of the MPC's return to its target band (1-4%) might be delayed depending on global oil price fluctuations.

Thai baht under pressure

Like other Asian currencies, with strong capital inflows into the region, the Thai baht has appreciated over the past one month. With an economic recovery and a potential catalyst from politics, we expect strengthening pressure on the baht to continue in the coming months. In its media briefing, the MPC secretary also acknowledged this pressure. However, we believe the BoT will likely maintain its policy to only reduce the volatility, and not change the direction of the currency.

We expect 2Q16F GDP growth at 3.5% y-y

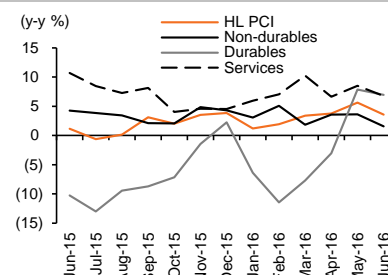
We revise up our 2Q16 GDP growth forecast to 3.5% y-y (vs. 3.2% in 1Q16) on the back of a stronger- and faster-than-expected consumption recovery, robust tourism and accelerating public investment. We therefore see upside to our full-year 2016 GDP forecast of 3.3%, which is already at the upper range of the Bloomberg consensus estimate. With a more material recovery and a lower base from last year, economic data in 2H16F should surprise the consensus positively.

Private investment at risk if referendum fails

All eyes are now on the referendum this Sunday (7 August). We maintain our view that the draft charter will likely pass in the referendum and the country should move forward to have a general election in 2H17F. If the draft constitution is rejected, we expect already sluggish private investment to likely suffer the most on the back of the bleak foreign direct investment (FDI) outlook. The consumption recovery should have a very limited impact as farm income is mainly being driven by a rebound in global rubber and rice prices. Strong tourism should continue. Infrastructure project approvals, biddings and construction look set to carry on as some backlog has been secured. With at least one year left in power, we see rising incentives for the current government to tender more projects in order to boost its popularity.

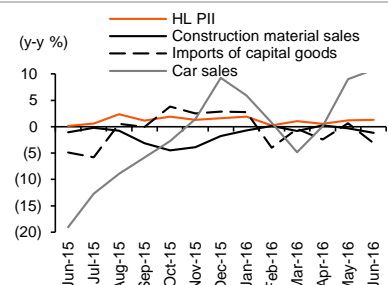
ECONOMIC MONITOR

Private Consumption Index (PCI)



Source: Bank of Thailand

Private Investment Index (PII)



Source: Bank of Thailand

Note: Car sales includes sales of passenger and commercial car sales

External Performance

	Apr-16	May-16	Jun-16
Tourist arrivals (y-y %)	9.8	7.6	7.2
Exports (y-y %)	(7.6)	(3.7)	1.9
Imports (y-y %)	(13.4)	(0.2)	(9.3)
Trade balance (US\$ bn)	2.4	3.5	3.8
Current account (US\$ bn)	3.2	2.2	3.0

Source: Bank of Thailand

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For sectors, we look at two areas, ie, the sector outlook and the sector weighting. For the sector outlook, an arrow pointing up, or the word "Positive", is used when we see the industry trend improving. An arrow pointing down, or the word "Negative", is used when we see the industry trend deteriorating. A double-tipped horizontal arrow, or the word "Unchanged", is used when the industry trend does not look as if it will alter. The industry trend view is our top-down perspective on the industry rather than a bottom-up interpretation from the stocks we cover. An "Overweight" sector weighting is used when we have BUYs on majority of the stocks under our coverage by market cap. "Underweight" is used when we have SELLs on majority of the stocks we cover by market cap. "Neutral" is used when there are relatively equal weightings of BUYs and SELLs.

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