Thailand Economics

Cuts not deep

PIMPAKA NICHGAROON, CFA
Head of Research
662 – 617 4900
pimpaka.nic@thanachartsec.co.th

We cut our 2018-20F GDP growth estimates by 0.3-0.6pp as we assume weaker exports and tourists given a potential global growth slowdown. Against the negatives are pump priming, higher-quality growth, tamed oil prices and an unimpeded domestic-driven structural growth story.

Thanachart Securities

GDP cuts but growth path more sustainable

We revise down our GDP growth estimates for Thailand by 0.3-0.6pp to 4.1% in 2018F, 3.9% in 2019F and 4.0% in 2020F, mainly on the back of our more conservative assumptions for exports and tourism as a result of a growing global slowdown risk. Domestically, however, we believe things are looking better with above-trend consumption growth that looks set to sustain past the planned election next year, with kick starting of government spending. Despite our GDP growth cuts, we foresee no changes to the structural trend of a rising domestic engine proportion, which normally provides a more sustainable growth path. From 23.8% investment to GDP in 2017, we estimate it at 30.1% in 2022F.

Above-trend consumption

Consumption growth has continued to beat market expectations since early this year and it grew by 5.0% y-y in 3Q18. Average growth was at 2.0% p.a. during the past five years and 2.6% over the past 10 years. In the good old pre-Asian crisis days, consumption tracked GDP with a similar growth rate. The current above-trend growth has continued to be without much of the underlying rural growth but we still expect the momentum to continue into next year, driven by both populism and the first full year of heavy construction activity from mega-projects. More government pump priming here and there looks to be on its way, including recent VAT refunds in the election month of February 2019.

Falling oil prices vs. weaker tourism

In the context of the current account balance, we do not expect a sharp drop in oil prices to help much in countering the impact of weaker tourist arrival flows. This is because Thailand also has a large base of petrochemical exports, the prices of which come down when the price of oil falls. Therefore, when the capex cycle arrives (reducing the trade surplus) during a period of weaker tourism growth, the current account could come down faster. That said, our falling trend estimates still show the current account surplus continuing into 2022F.

Fewer rate hikes

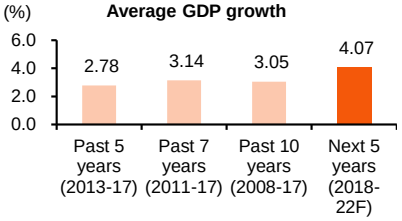
Due to the growing threat of a global slowdown, a more dovish tone from the US Fed, tamed oil prices and stabilizing inflation, we revise down our policy rate hike assumptions. We maintain our view of a 25pp hike this month to 1.75% but now assume only a one-time 25pp increase to 2.00% in 2019F rather than 50pp. We believe that because of the substantial excess liquidity of Bt3tr worth of Bank of Thailand bonds, the current account surplus, the country's capex spending cycle not yet being at full steam, and a still weak rural economy, Thai rates could remain below those in the US for at least the next two years. With lower oil prices, inflation softened to only 1.2% in October this year.

GDP Forecasts

(% growth)	2018F	2019F	2020F
GDP growth	**4.1**	**3.9**	**4.0**
Consumption	4.6	4.2	4.0
Private inv.	3.7	5.3	9.8
Govt inv	4.6	10.5	15.0
Export – US$	7.0	3.8	3.1
Import - US$	15.0	4.9	6.6
Current account to GDF	8.0	7.1	5.3
Bt/US$ - avg	32.3	33.3	33.5

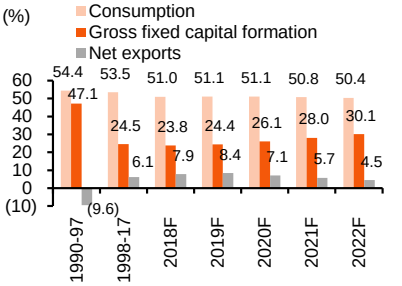
Sources: NESDB, BOT, Thanachart estimates

Higher GDP Growth Rate



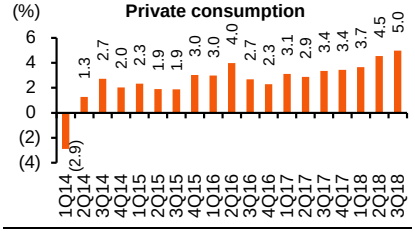
Sources: NESDB, Thanachart estimates

Sustainable Domestic Drivers



Sources: NESDB, Thanachart estimates

Above-trend Consumption Growth



Source: NESDB

This report is prepared by Thanachart Securities. Please contact our salesperson for authorisation. Please see the important notice on the back page

Not deep cuts

Cutting our estimates but we believe GDP quality is healthier

We lower our GDP growth forecasts for Thailand as shown in Exhibit 1 below. The rationale for these cuts is concentrated on the external factors of exports and tourism. The domestic economy is actually doing better than we'd expected earlier, led by private consumption and gradually improving investments. Our economic view is updated as follows:

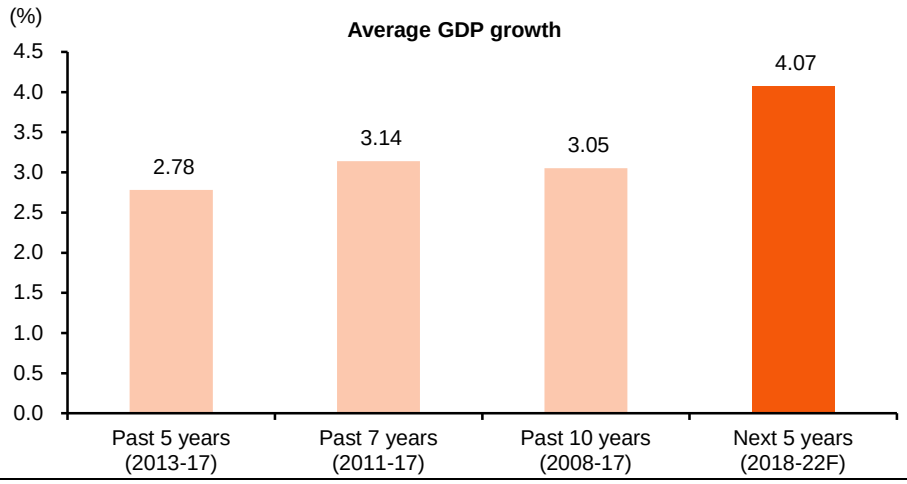
- Our GDP growth expectations are lowered by 0.3-0.6% in 2018-20F but the growth should still hover around the country's 4% potential growth rate.
- We expect the growth rate over the next five years from 2018-22F to average 4.1% p.a., still far above the 2.8% p.a. experienced during the past five years from 2013-17.
- We believe Thailand's GDP quality, despite our cuts, is getting healthier, driven by the domestic engines of both consumption and investment. We see these engines being of higher quality as they are much less cyclical than exports in general.
- We believe the increasingly domestic-driven economy is being driven by government infrastructure spending in the first phase and we expect spending in the Eastern Economic Corridor (EEC) area to materialize in the second phase from 2020F onward. We believe this means Thailand has already started its new structural economic cycle, which we expect to last several years given the long horizon of the construction period of both mega-infrastructure projects and private investments in the EEC.
- Given the growing threat of a global slowdown, a more dovish tone by the US Federal Reserve, tamer oil prices and thus inflation, and a still lagging underlying rural economy, we revise down our policy rate assumptions as shown in Exhibit 1. The implication is that Thai rates will remain extremely low well into next year.

Ex 1: Revisions To Our GDP Growth Forecasts

% growth	2014	2015	2016	2017	2018F		2019F		2020F	
					New	Old	New	Old	New	Old
	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Real GDP growth	**1.0**	**3.0**	**3.3**	**3.9**	**4.1**	**4.4**	**3.9**	**4.5**	**4.0**	**4.5**
Private consumption	0.8	2.3	3.0	3.2	4.6	3.7	4.2	3.6	4.0	3.8
Private investment	(1.1)	(2.3)	0.5	1.7	3.7	4.8	5.3	6.8	9.8	10.0
Government investment	(7.0)	29.0	9.5	(1.5)	4.6	9.4	10.5	12.2	15.0	15.0
Export (nominal US$ growth)	(0.4)	(5.6)	0.1	9.8	7.0	8.1	3.8	5.3	3.1	5.0
Import (nominal US$ growth)	(7.9)	(10.6)	(5.1)	13.2	15.0	11.9	4.9	6.8	6.6	6.4
Current account (% to GDP)	3.7	8.0	11.8	10.8	8.0	8.2	7.1	7.0	5.3	6.0
Headline CPI	1.9	(0.9)	0.2	0.7	1.2	1.2	1.4	1.6	1.7	1.8
Bt/US$ - average	32.5	34.3	35.4	33.9	32.3	32.0	33.3	32.8	33.5	33.8
Policy rate	2.00	1.50	1.50	1.50	1.75	1.75	2.00	2.25	na	na

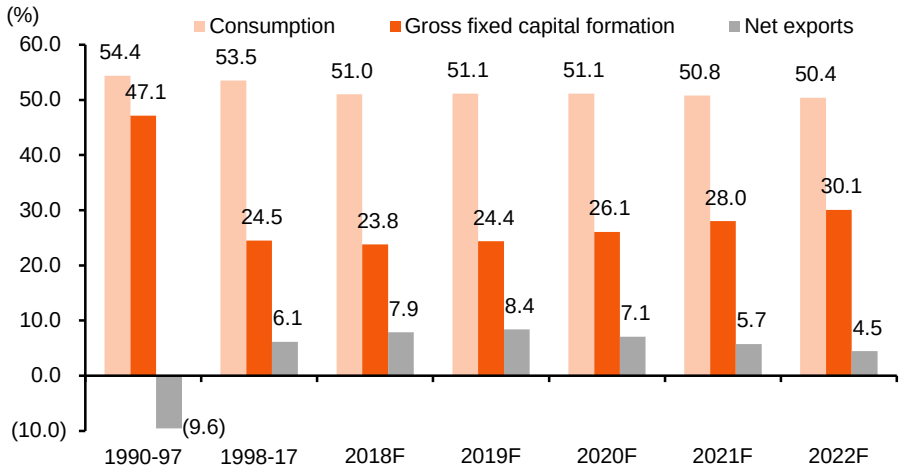
Sources: NESDB, Bank of Thailand, Ministry of Commerce, Thanachart estimates

Ex 2: A Higher Base Of Growth Compared To The Past Decade



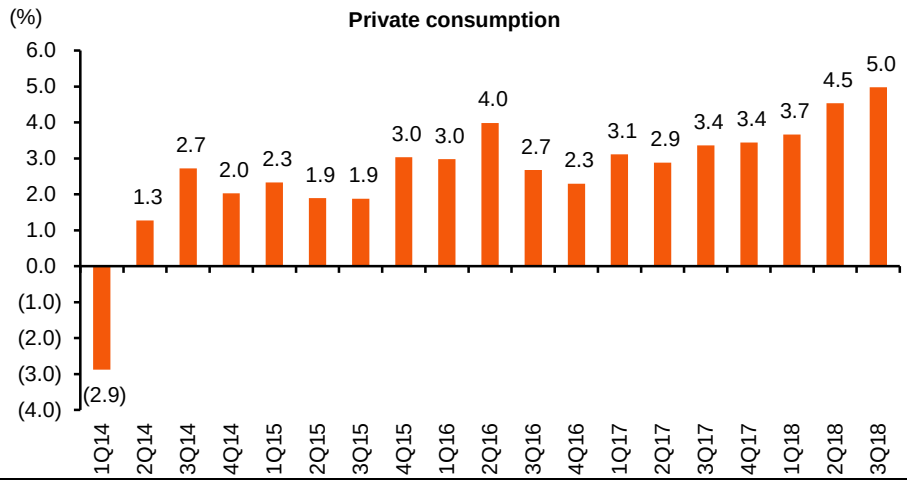
Sources: NESDB, Thanachart estimates

Ex 3: More Sustainable Domestic-driven Drivers



Sources: NESDB, Thanachart estimates

Ex 4: Consumption Rebuilding Its Growth Path



Source: NESDB

Ex 5: Monthly Economic Data

	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
The real sector (y-y %)							
Manufacturing Production Index, seasonally adjusted (level)	112.9	114.6	116.9	116.6	117.2	116.1	118.6
Manufacturing Production Index, non-seasonal adjusted (level)	102.4	117.5	116.2	112.9	113.2	111.1	112.8
Manufacturing Production Index, non-seasonal adjustment	3.1	2.9	5.0	4.9	0.8	(2.7)	4.1
Industrial capacity utilization (%)	60.9	69.8	69.1	66.9	66.3	66.1	67.8
Private consumption indicators							
- Non-durable Index	1.1	0.8	0.9	1.2	0.4	(2.1)	2.1
- Semi-durables Index	3.3	2.3	2.0	3.1	1.9	3.0	5.4
- Durables Index	11.2	9.5	10.7	11.5	14.5	6.1	10.8
- Service Index	7.3	6.2	6.0	6.3	5.0	2.9	4.7
Private investment indicators							
- Car sales for investment purpose	12.1	4.4	5.3	13.8	19.7	(11.5)	7.5
- Imports of capital goods (at 2010 prices)	10.3	1.6	8.8	(2.5)	2.2	(1.7)	2.4
- Construction material sales Index	(1.5)	3.6	(0.9)	8.6	6.2	(0.6)	12.6
Government cash balance (Bt bn)	(20.6)	16.5	84.9	(27.2)	(35.0)	57.2	(247.9)
Consumer Price Index	1.07	1.49	1.38	1.46	1.62	1.33	1.23
- Food	0.68	0.74	(0.03)	0.02	0.77	0.35	0.26
- Non-food	1.31	1.93	2.20	2.29	2.10	1.90	1.79
Core inflation (excluding raw food and energy)	0.64	0.80	0.83	0.79	0.75	0.80	0.75
External accounts (US$ m)							
Exports	18,948	22,311	21,755	20,301	22,380	20,705	21,685
Change (%)	*14.2*	*13.1*	*10.0*	*8.3*	*5.8*	*(5.5)*	*8.4*
Imports	18,714	19,616	18,880	19,444	21,776	18,743	20,429
Change (%)	*25.8*	*12.7*	*12.9*	*12.4*	*24.2*	*14.3*	*13.3*
Trade balance	234	2,695	2,875	858	604	1,963	1,255
Current account balance	1,445	1,040	4,165	1,086	753	2,369	1,888
Capital account	0	0	0	0	0	0	0
Financial accounts	1,267	908	(7,234)	(383)	(1,207)	183	(1,942)
- Central bank	(1,201)	(467)	(442)	(705)	824	205	(143)
- Government	451	296	87	232	493	206	866
- Other depository corporations (ODC)	834	(641)	(1,659)	657	1,111	590	(1,279)
- Others	1,183	1,720	(5,220)	(567)	(3,635)	(818)	(1,386)
Balance of payments	888	54	(5,285)	(905)	189	1,042	(899)
Official reserves (US$ bn)	215.2	213	207	206	205	204	202.0
Monetary statistics – end of period (Bt bn)							
Monetary base	1,880.4	1,798.5	1,805.3	1,996.3	1,829.8	1,805.4	1,792.3
Change (%)	*6.5*	*4.3*	*5.9*	*13.2*	*4.0*	*1.7*	*2.2*
Narrow money	2,003.1	2,009.6	1,970.4	1,986.9	1,942.6	1,960.0	1,977.5
Change (%)	*5.3*	*7.7*	*5.3*	*8.0*	*4.8*	*3.7*	*4.6*
Broad money	19,562.2	19,563.2	19,571.1	19,515.7	19,457.5	19,518.4	19,737.6
Change (%)	*5.5*	*5.3*	*5.1*	*5.0*	*4.6*	*4.8*	*5.3*
Other depository corporations credits	**19,235.0**	**19,237.0**	**19,217.1**	**19,211.1**	**19,167.8**	**19,172.8**	**19,433.9**
Change (%)	*5.6*	*5.4*	*5.0*	*5.1*	*4.8*	*5.0*	*5.0*
Other depository corporations private credits	**17,697.9**	**17,798.8**	**17,924.5**	**17,957.0**	**18,007.3**	**18,105.0**	**18,187.3**
Change (%)	*5.0*	*5.1*	*5.4*	*5.9*	*6.0*	*6.0*	*6.3*
Interest rates (% pa)							
- Repurchase rate, 1 day (closing rate daily average)	1.50	1.50	1.50	1.50	1.50	1.50	1.50
- Overnight interbank rate (mid-point daily average)	1.40	1.40	1.40	1.40	1.40	1.40	1.40
- Fixed deposit rate (1 year)	1.37	1.37	1.37	1.37	1.37	1.37	1.37
- Prime rate (MLR)	6.28	6.28	6.28	6.28	6.28	6.28	6.28
Exchange rate (Bt/US$)	**31.55**	**32.00**	**33.12**	**33.26**	**32.73**	**32.34**	**33.14**

Source: Bank of Thailand

Ex 6: Quarterly Economic Data

	2Q17	3Q17	4Q17	2017	1Q18	2Q18	3Q18
The real sector (y-y %)							
Manufacturing Production Index, seasonally adjusted (level)	110.7	113.8	113.8	na	114.0	114.8	116.3
Manufacturing Production Index, non-seasonal adjusted (level)	108.1	111.3	111.8	111.9	121.3	112.0	112.4
Manufacturing Production Index, non-seasonal adjustment	0.8	5.0	4.4	2.5	4.1	3.7	1.0
Industrial capacity utilization (%)	64.5	67.1	67.4	67.1	72.5	66.6	66.5
Private consumption indicators							
- Non-durable Index	1.0	2.5	0.7	1.2	1.2	0.9	0.0
- Semi-durables Index	0.6	1.0	0.6	0.7	2.4	2.5	3.0
- Durables Index	5.4	4.9	12.8	8.0	6.3	10.4	10.6
- Service Index	6.3	5.4	11.6	7.1	7.2	6.6	6.0
Private investment indicators							
- Car sales for investment purpose	10.3	6.5	11.8	5.7	3.0	6.8	6.3
- Imports of capital goods (at 2010 prices)	5.2	4.1	3.9	2.8	2.8	6.6	(0.6)
- Construction material sales Index	0.0	2.2	(2.3)	(0.9)	(1.8)	0.5	5.0
Government cash balance (Bt bn)	75.5	67.6	(430.8)	(465.6)	(40.9)	80.8	(5.1)
Consumer Price Index	0.10	0.45	0.88	0.66	0.64	1.31	1.47
- Food	(0.78)	(0.47)	0.22	0.00	0.04	0.46	0.38
- Non-food	0.60	0.98	1.25	1.05	0.97	1.81	2.10
Core inflation (excluding raw food and energy)	0.47	0.49	0.61	0.56	0.61	0.76	0.78
External accounts (US$ m)							
Exports	56,101	61,802	61,131	235,267	61,788	63,014	63,387
Change (%)	*7.9*	*12.5*	*11.6*	*9.8*	*9.9*	*12.3*	*2.6*
Imports	49,001	51,237	54,098	201,107	55,153	57,210	59,963
Change (%)	*12.6*	*12.4*	*13.4*	13.2	*17.9*	*16.8*	*17.0*
Trade balance	7,100	10,565	7,033	34,161	6,635	5,804	3,424
Current account balance	7,763	14,868	12,359	50,211	14,959	6,651	4,208
Capital account	0	0	(141)	(141)	(611)	0	0
Financial accounts	(4,814)	2,748	(5,310)	(12,429)	(2,774)	(5,059)	(1,407)
- Central bank	(367)	1,808	1,341	3,151	1,103	(2,109)	324
- Government	1,851	908	(556)	3,162	(309)	830	931
- Other depository corporations (ODC)	(1,004)	3,244	2,049	4,220	(2,214)	(2,254)	2,359
- Others	(5,294)	(3,211)	(8,144)	(22,962)	(1,354)	(3,546)	(5,020)
Balance of payments	1,995	12,577	3,197	25,957	11,981	(4,344)	327
Official reserves (US$ bn)	185.6	199.3	202.6	202.6	215.6	206.8	204.5
Monetary statistics – end of period (Bt bn)							
Monetary base	1,705.0	1,775.3	1,937.2	1,937.2	1,919.6	1,805.3	1,805.4
Change (%)	*4.0*	*8.4*	*6.7*	*6.7*	*9.7*	*5.9*	*1.7*
Narrow money	1,870.9	1,889.7	2,038.9	2,038.9	2,012.8	1,970.4	1,960.1
Change (%)	*7.4*	*9.8*	*9.4*	*9.4*	*7.6*	*5.3*	*3.7*
Broad money	18,617.8	18,622.2	19,212.9	19,212.9	19,542.4	19,571.1	19,519.2
Change (%)	*4.4*	*4.8*	*5.0*	*5.0*	*6.2*	*5.0*	*4.8*
Other depository corporations credits	**18,307.5**	**18,267.4**	**18,825.6**	**18,825.6**	**19,160.0**	**19,217.1**	**19,174.1**
Change (%)	*4.1*	*4.7*	*4.9*	*4.9*	*6.0*	*5.0*	*5.0*
Other depository corporations private credits	**17,005.7**	**17,072.8**	**17,520.4**	**17,476.9**	**17,590.7**	**17,924.5**	**18,099.2**
Change (%)	*3.7*	*3.5*	*4.2*	*4.3*	*4.7*	*5.4*	*6.0*
Interest rates (% pa)							
- Repurchase rate, 1 day (closing rate daily average)	1.50	1.50	1.50	1.50	1.50	1.50	1.50
- Overnight interbank rate (mid-point daily average)	1.40	1.40	1.40	1.40	1.48	1.40	1.40
- Fixed deposit rate (1 year)	1.37	1.37	1.37	1.37	1.37	1.37	1.37
- Prime rate (MLR)	6.28	6.28	6.28	6.28	6.28	6.28	6.28
Exchange rate (Bt/US$)	**33.96**	**33.33**	**32.57**	**32.57**	**31.19**	**33.12**	**32.34**

Source: Bank of Thailand

General Disclaimers And Disclosures:

This report is prepared and issued by Thanachart Securities Public Company Limited (TNS) as a resource only for clients of TNS, Thanachart Capital Public Company Limited (TCAP) and its group companies. Copyright © Thanachart Securities Public Company Limited. All rights reserved. The report may not be reproduced in whole or in part or delivered to other persons without our written consent.

This report is prepared by analysts who are employed by the research department of TNS. While the information is from sources believed to be reliable, neither the information nor the forecasts shall be taken as a representation or warranty for which TNS or TCAP or its group companies or any of their employees incur any responsibility. This report is provided to you for informational purposes only and it is not, and is not to be construed as, an offer or an invitation to make an offer to sell or buy any securities. Neither TNS, TCAP nor its group companies accept any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

The information and opinions contained herein have been compiled or arrived at from sources believed reliable. However, TNS, TCAP and its group companies make no representation or warranty, express or implied, as to their accuracy or completeness. Expressions of opinion herein are subject to change without notice. The use of any information, forecasts and opinions contained in this report shall be at the sole discretion and risk of the user.

TNS, TCAP and its group companies perform and seek to perform business with companies covered in this report. TNS, TCAP, its group companies, their employees and directors may have positions and financial interest in securities mentioned in this report. TNS, TCAP or its group companies may from time to time perform investment banking or other services for, or solicit investment banking or other business from, any entity mentioned in this report. Therefore, investors should be aware of conflict of interest that may affect the objectivity of this report.

Note: Thanachart Securities Public Company Limited act as a Market Maker and Derivative Warrants Issuer. At present, TNS has issued 14 Derivative Warrants which are ADVA16C1812A, ADVA16C1912A, AOT16C1912A, BANP16C1812A, BANP16C1912A, BDMS16C1812A, BDMS16C1912A, CBG16C1912A, CK16C1812A, CK16C1912A, CPAL16C1912A, PTT16C1912A, TRUE16C1812A, TRUE16C1912A (underlying securities are ADVANC, AOT, BANPU, BDMS, CBG, CK, CPALL, PTT, TRUE). Since TNS covers those underlying securities in research report, consequently TNS incurs conflicts of interest. Moreover, Investors are advised to carefully review the details and information in the prospectus before making investment decisions.

Note: Our major shareholder TCAP (Thanachart Capital Pcl) which holding 100% of Thanachart Securities, TCAP has stake in THANI for more than 65% and being the major shareholder of THANI.

Thanachart Capital Public Company Limited (TCAP), Ratchthani Leasing Public Company Limited (THANI), MBK PUBLIC COMPANY LIMITED (MBK) and PATUM RICE MILL AND GRANARY PUBLIC COMPANY LIMTED (PRG) are related companies to Thanachart Securities Public Company Limited (TNS) . Since TNS covers those securities in research report, consequently TNS incurs conflicts of interest.

Recommendation Structure:

Recommendations are based on absolute upside or downside, which is the difference between the target price and the current market price. If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is SELL. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on the market price and the formal recommendation.

For sectors, 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.

Thanachart Securities Pcl.
Research Team
19 Floor, MBK Tower
444 Phayathai Road, Pathumwan Road, Bangkok 10330
Tel: 662 - 617 4900
Email: thanachart.res@thanachartsec.co.th

Pimpaka Nichgaroon, CFA
Head of Research
pimpaka.nic@thanachartsec.co.th

Kalvalee Thongsomaung
Food, Hotel, Media
kalvalee.tho@thanachartsec.co.th

Phannarai Tiyapittayarut
Property, Retail
phannarai.von@thanachartsec.co.th

Siriporn Arunothai
Small Cap Research, Healthcare
siriporn.aru@thanachartsec.co.th

Wichaya Wongpanuwich, CFA, FRM
Analyst, Retail Market
wichaya.won@thanachartsec.co.th

Pattadol Bunnak
Assistant Analyst
pattadol.bun@thanachartsec.co.th

Adisak Phupiphathirungul, CFA
Retail Market Strategy
adisak.phu@thanachartsec.co.th

Pattarawan Wangmingmat
Senior Technical Analyst
pattarawan.wan@thanachartsec.co.th

Saksid Phadthananarak
Construction, Transportation
saksid.pha@thanachartsec.co.th

Supanna Suwankird
Energy, Utilities
supanna.suw@thanachartsec.co.th

Witchanan Tambamroong
Technical Analyst
witchanan.tam@thanachartsec.co.th

Sittichet Rungrassameephat
Assistant Analyst, Quantitative
sittichet.run@thanachartsec.co.th

Chak Reungsinpinya
Energy, Petrochemical
chak.reu@thanachartsec.co.th

Nuttapop Prasitsuksant
Electronics, Telecom
nuttapop.pra@thanachartsec.co.th

Sarachada Sornsong
Bank, Financial
sarachada.sor@thanachartsec.co.th

Thaloengsak Kucharoenpaisan , AFPT™
Analyst, Retail Market
thaloengsak.kuc@thanachartsec.co.th