

Economic and Financial Outlook

Sep 2021

ttb analytics

Global Economy

- **PMI data in August showed impacts of the Delta variant as Asian manufacturing outlook dropped further.** Service sector in China and Japan dropped significantly into a contraction zone due to strict government measures.
- **Global export growth tapered off in the second half of the year** Both global trade volume and industrial production dropped in June, signaling smaller growth in 2H21. Export growths declined across all major markets.
- **U.S. labor market displayed abysmal number as Delta variant hit in August**, adding only new 235,000 jobs. It is the lowest number since January 2021. The unemployment rate decreased slightly to 5.2%, still the lowest level since the pandemic started in 2020.
- **U.S. retail sales data surprise market** as it remained high due to online sales growth, partially supported by Delta variant. Inflation plateaued as transport price contracted.
- **Chinese economic activities dropped further in August.** Inflation slowed down slightly in July due to falling food price. Japan's service outlook dropped significantly in August to the lowest point since June 2020.

Domestic Economy

- **As of Jul 2021, Thai economy considerably declined** after imposition of restrictions to curb the 3rd wave of domestic covid19 spreading.
- **Merchandise exports recovered with softer momentum** due to outbreak in several Thailand's trading partners. Supply shortages and temporary factory shutdown owing to cluster outbreak could weigh on upcoming export momentum. Meantime imports became softened in line with domestic activities. Foreign inbounds came with greater figures after inaugurating the Phuket sandbox.
- **Domestic activities were fragile:** Consumption dropped significantly after the impact prevalent with only online shopping channel encountering growth. Thai tourists faded away. These came with worsened purchasing power, consumer confidence and slowly improved labor market. Private investment declined according to deteriorated business sentiment. Construction and real estate were also at low level. Public Investment and SOE projects were accelerated for sustaining economy.
- **Inflation in July 2021 declined due to contracted raw food price and softened core inflation**

Financial Market

- Fed is likely to announce tapering plan in Sep or Nov meeting but the outcome will not be much different as the Fed may end up with only a month more or less of gradual reduction of asset purchase. At the Jackson Hole symposium last month, Powell said the inflation threshold had already been met, and there had been clear progress on the labor market front. Though, August's weak payrolls report, we still see Fed first hike in Q4/2022.
- 10Y UST has moderately moved up from 1.25% in Aug-21 to around 1.37%. We will continue to see more steep UST yield curve at the year end.
- **THB fundamental hasn't changed much since few months ago. Compared to USD, THB might continue to be weakening through 2021** as weaker economic recovery than global peers, negative current account, and covid-19 situation. However, passing 33.5 level will be a little bit challenge.
- Short term TGB will stick to policy rate at 0.50% at least through Q1/2023. **Long term TGB yield should be raised in the medium term** as 10Y UST yield on the way to recover.

PART 1

Global Economy



Manufacturing PMI

	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21
Australia	57.2	56.9	56.8	59.7	60.4	58.6	56.9	52.0
China	51.5	50.9	50.6	51.9	52.0	51.3	50.3	49.2
India	57.7	57.5	55.4	55.5	50.8	48.1	55.3	52.3
Indonesia	52.2	50.9	53.2	54.6	55.3	53.5	40.1	43.7
Japan	49.8	51.4	52.7	53.6	53.0	52.4	53.0	52.7
South Korea	53.2	55.3	55.3	54.6	53.7	53.9	53.0	51.2
Thailand	49.0	47.2	48.8	50.7	47.8	49.5	48.7	48.3
Canada	54.4	54.8	58.5	57.2	57.0	56.0	56.2	57.2
United States	59.2	58.6	59.1	60.5	62.1	62.1	63.4	61.1
Germany	57.1	60.7	66.6	66.2	64.4	65.1	65.9	62.6
France	51.6	56.1	59.3	58.9	59.4	59.0	58.0	57.5
Italy	55.1	56.9	59.8	60.7	62.3	62.2	60.3	60.9
United Kingdom	54.1	55.1	58.9	60.9	65.6	63.9	60.4	60.3
Spain	49.3	52.9	56.9	57.7	59.4	60.4	59.0	59.5

Service PMI

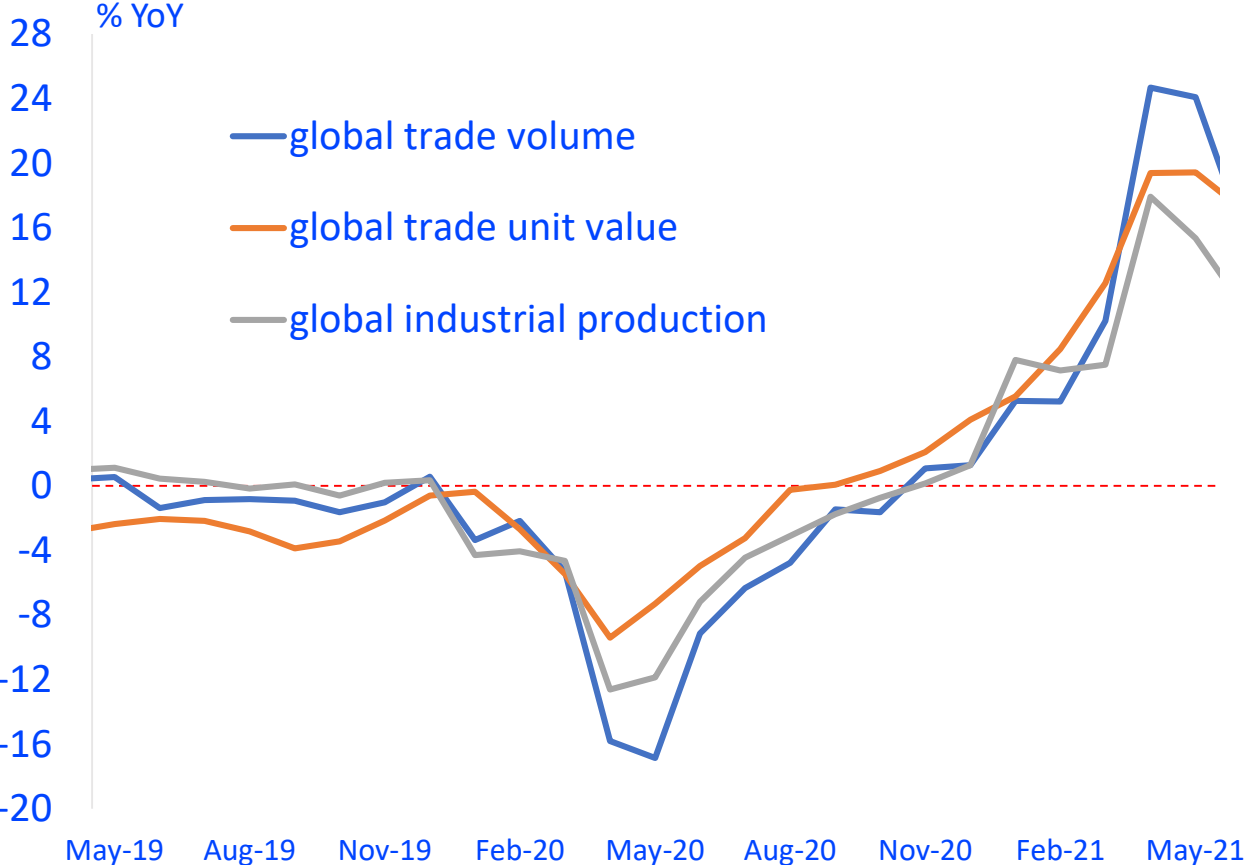
	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21
Australia	55.6	53.4	55.5	58.8	58.0	56.8	44.2	42.9
China	52.0	51.5	54.3	56.3	55.1	50.3	54.9	46.7
Japan	46.1	46.3	48.3	49.5	46.5	48.0	47.4	42.9
India	52.8	55.3	54.6	54.0	46.4	41.2	45.4	56.7
United States	58.3	59.8	60.4	64.7	70.4	64.6	59.9	55.1
Germany	46.7	45.7	51.5	49.9	52.8	57.5	61.8	60.8
France	47.3	45.6	48.2	50.3	56.6	57.8	56.8	56.3
Italy	44.7	48.8	48.6	47.3	53.1	56.7	58.0	58.0
United Kingdom	39.5	49.5	56.3	61.0	62.9	62.4	59.6	55.0
Spain	41.7	43.1	48.1	54.6	59.4	62.5	61.9	60.1

- PMIs which are early indicators for economic activities suggested that most countries have positive outlooks toward manufacturing and service sector in the expansion zone (above 50).
- August PMIs data showed continuing impacts of Delta variant in mostly Asian countries. Manufacturing PMIs in Asia continued to drop due to strict government measures in response to new Delta variants. Service sector in China and Japan dropped significantly into a contraction zone

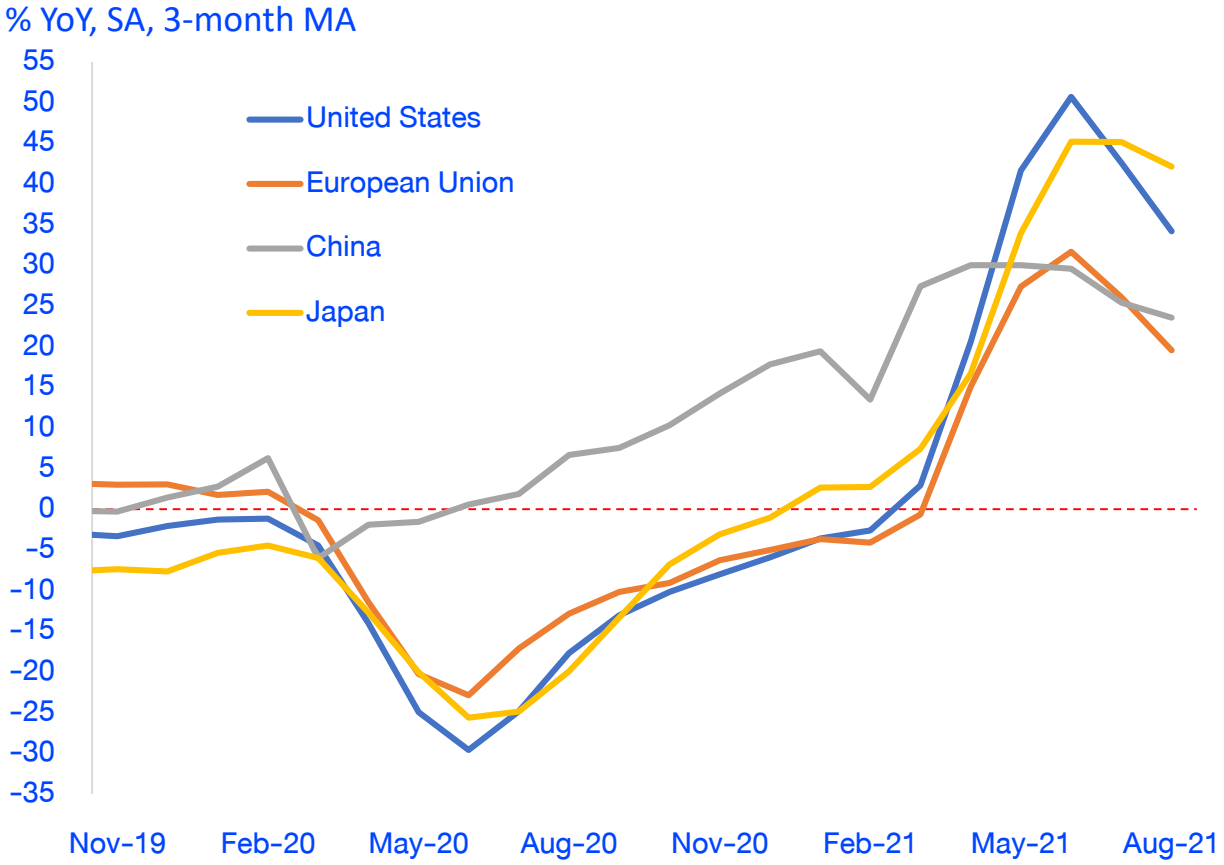
Global trade and industrial production slowed down from rising base effect



Global trade and industrial production rose



Exports from Asia posted stronger recovery trends



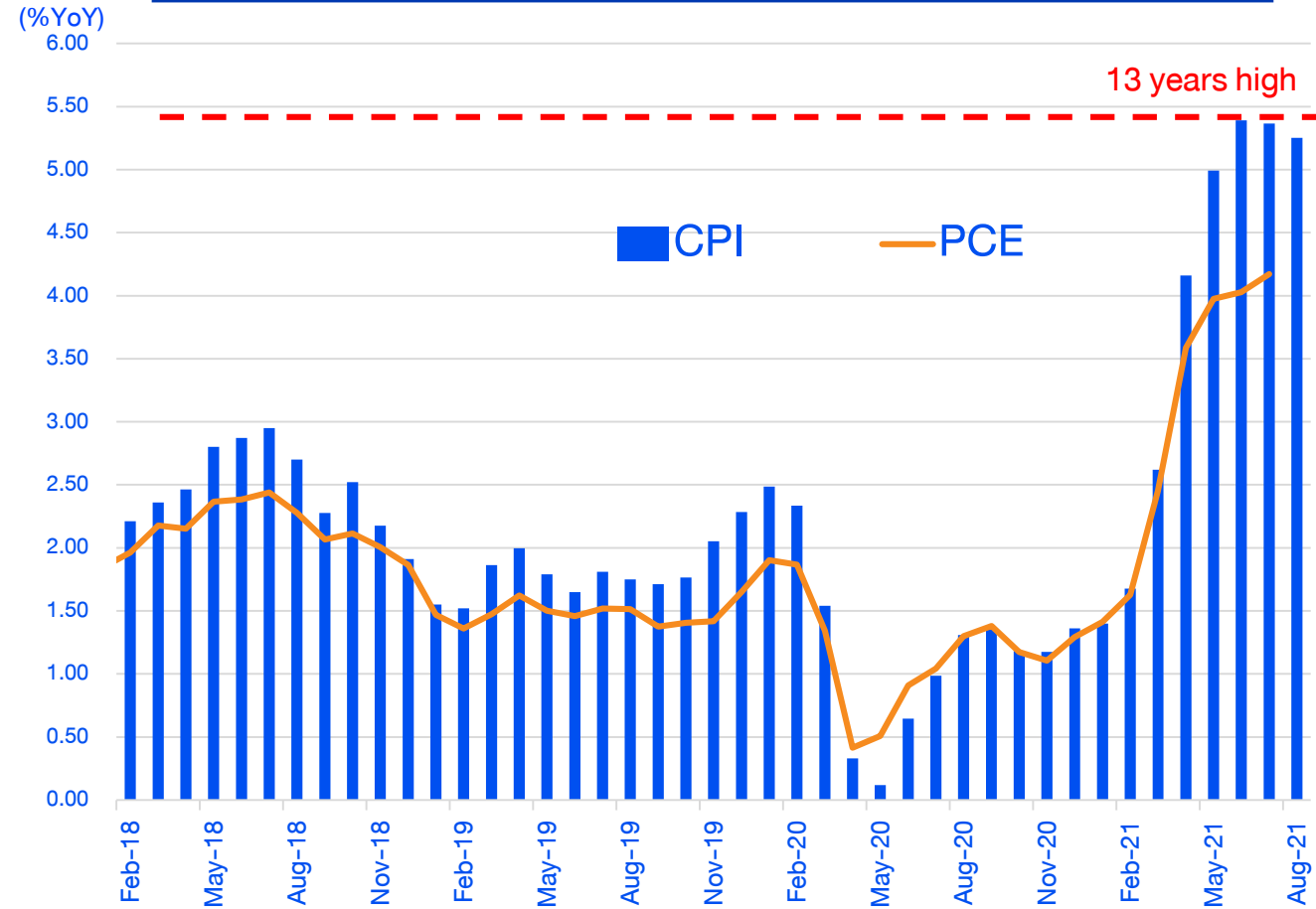
■ Global trade and industrial production growth slowed down due to the effect of rising bases from last year.

■ Exports contracted across the board as demands shifted from goods to service. US exports growth slowed down from rising base in Q3.

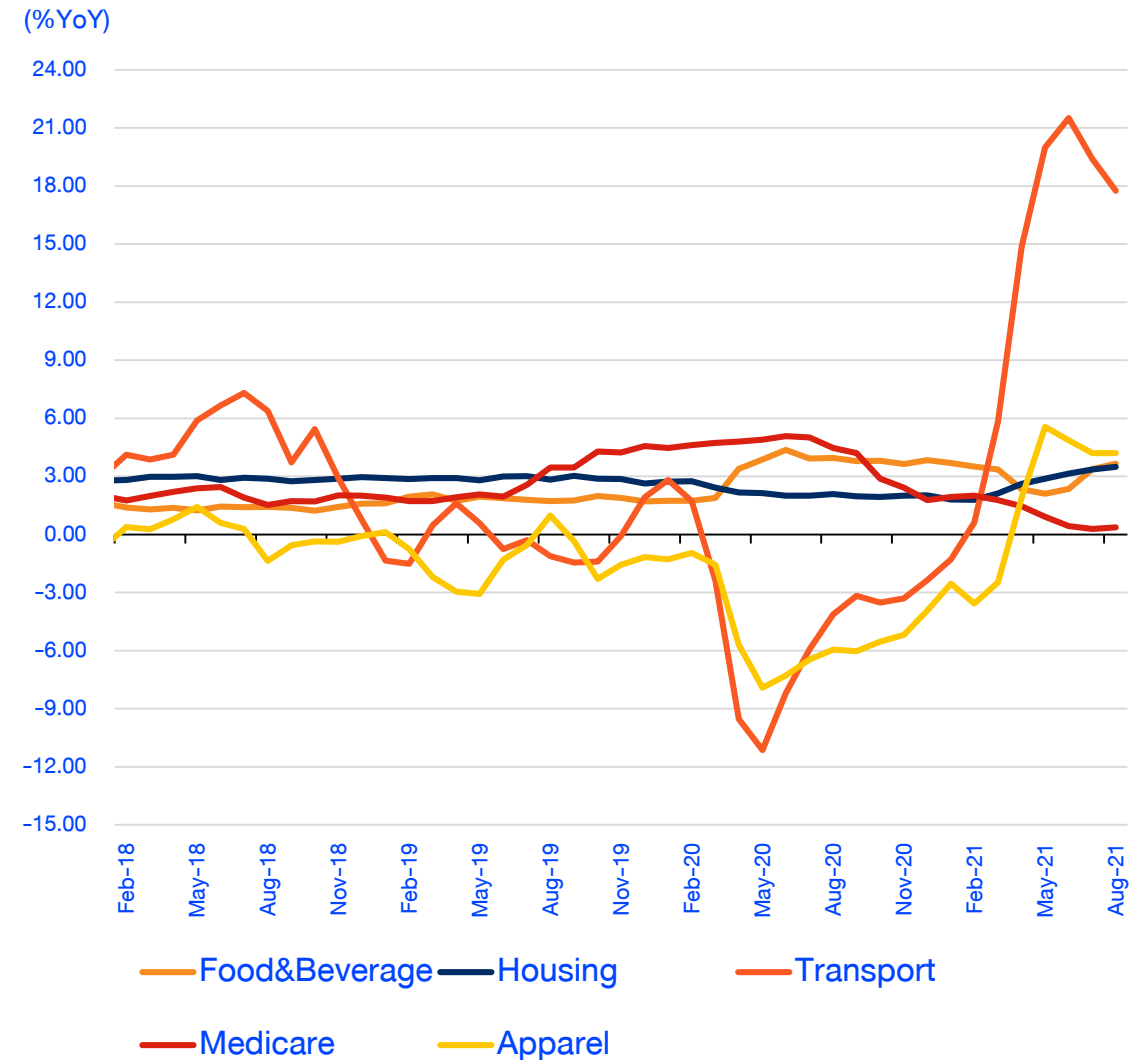
U.S. inflation growth slowed down further in August, due to weaker transport price



U.S. Inflation (%YoY)



Breakdown of Inflation (CPI) by categories

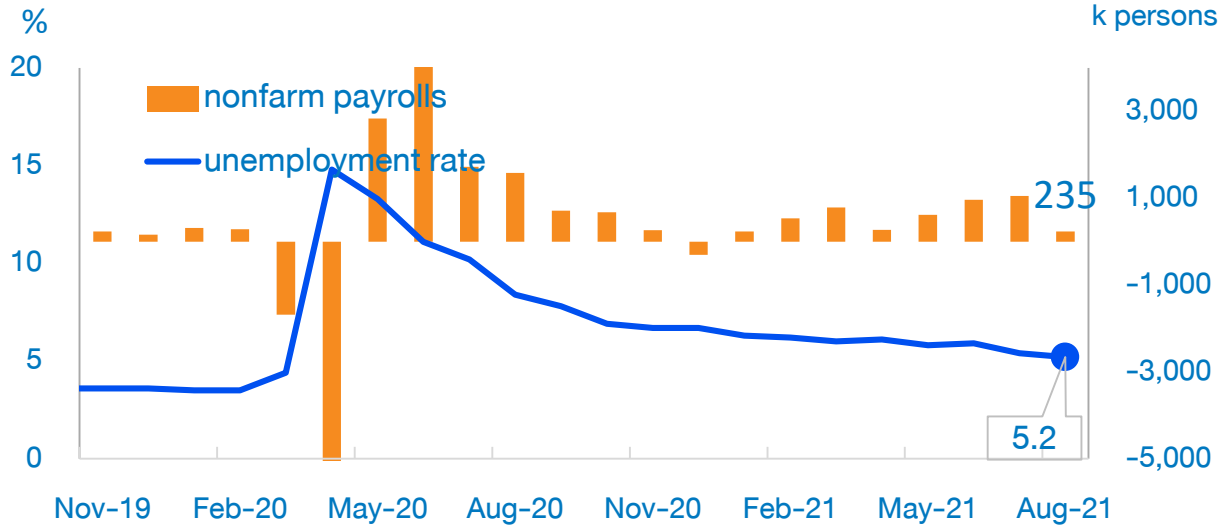


Source: CEIC and ttb analytics

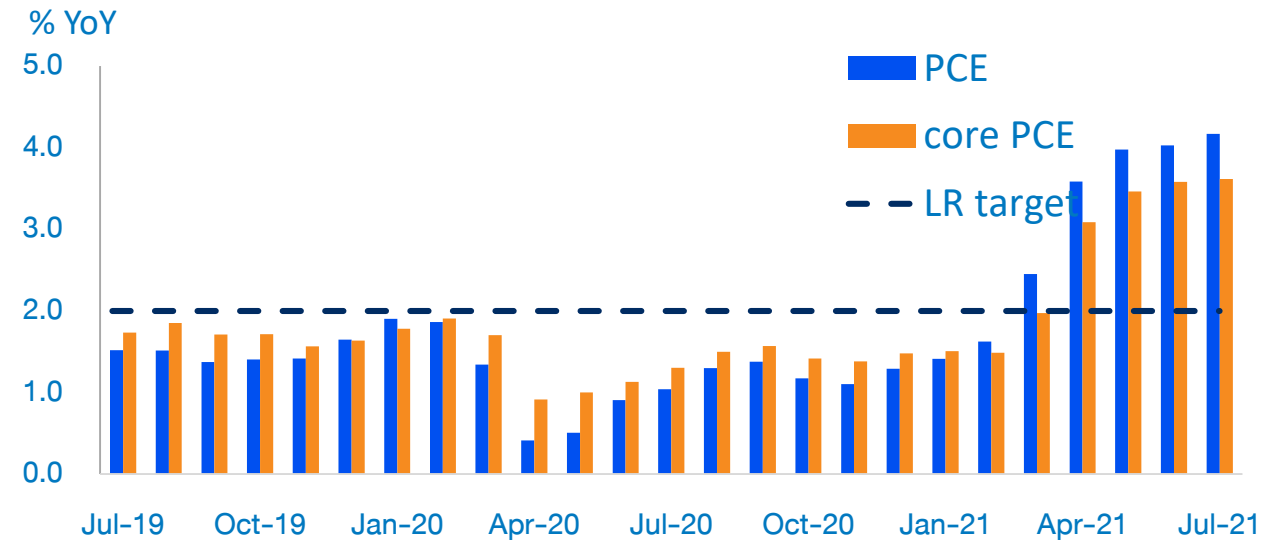
Delta variant affected service hiring, causing nonfarm payroll to drop to 6-month low



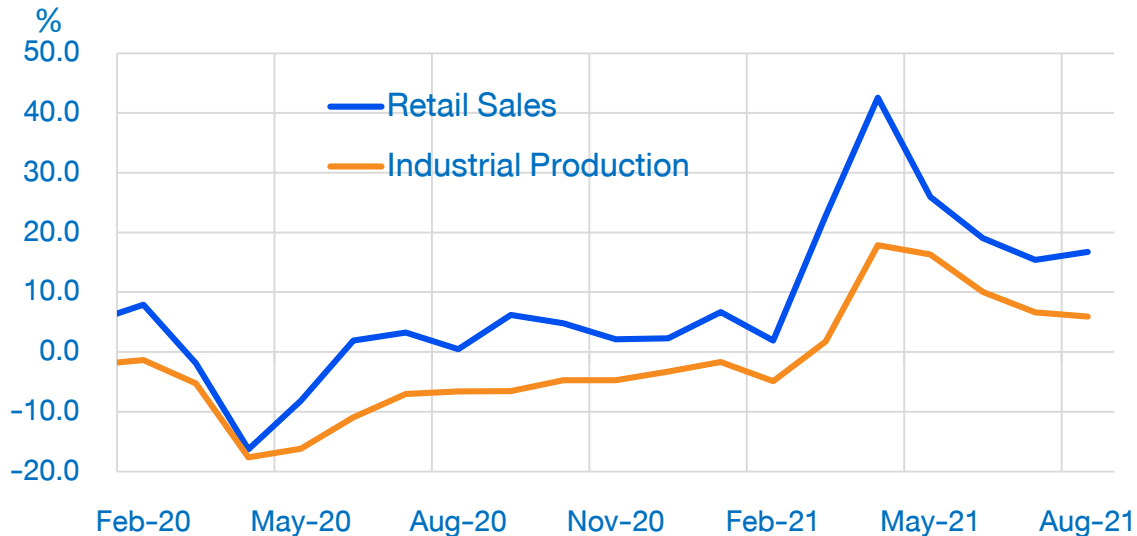
U.S. created only new 235,000 jobs in August



Inflation maintained its high level in July



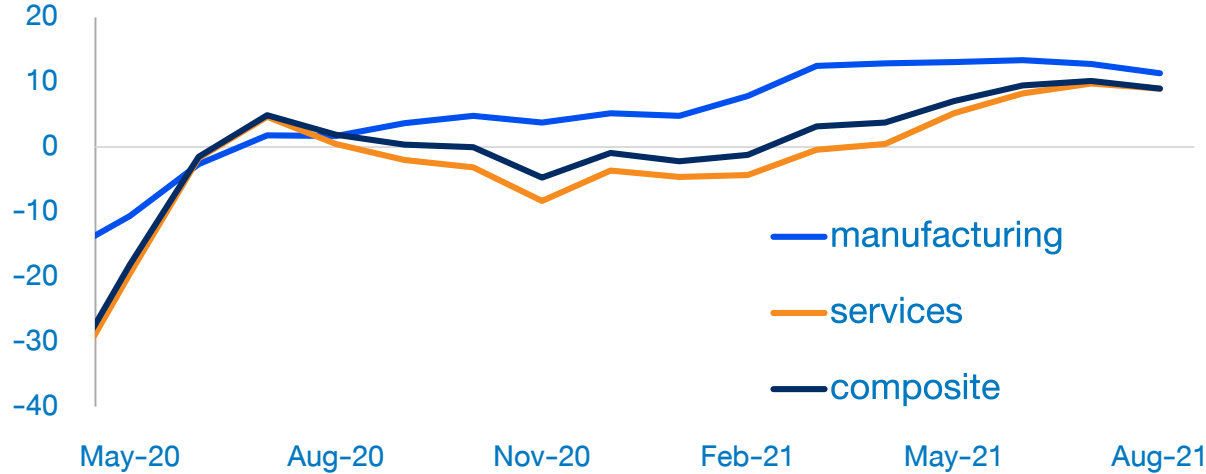
Retail sales growth began to taper from rising base impact



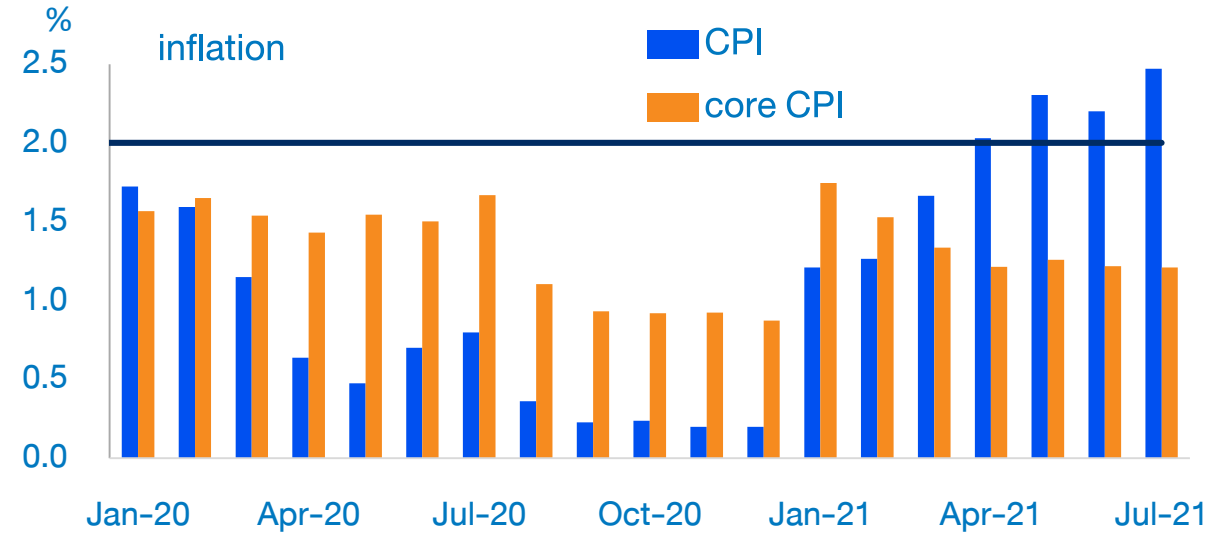
- In August, nonfarm payroll dropped below expectation with only new 235,000 jobs. It is the lowest number since January 2021. The unemployment rate decreased slightly to 5.2%, still the lowest level since the pandemic started in 2020. This displayed the effect of rising number of Covid-19 cases to the job market.
- Retail sales growth surprisingly remained high despite rising base of 2020. In August, retail sales grew 17% (seasonally adjusted) in comparison to 0.5% growth last year. Industrial production slightly contracted from last month to 6%.
- In July, price continued to rise from service sector while transportation price began to taper. PCE rose 4.2% yoy while core PCE rose 3.6%.

Positive outlook continued, mainly from service

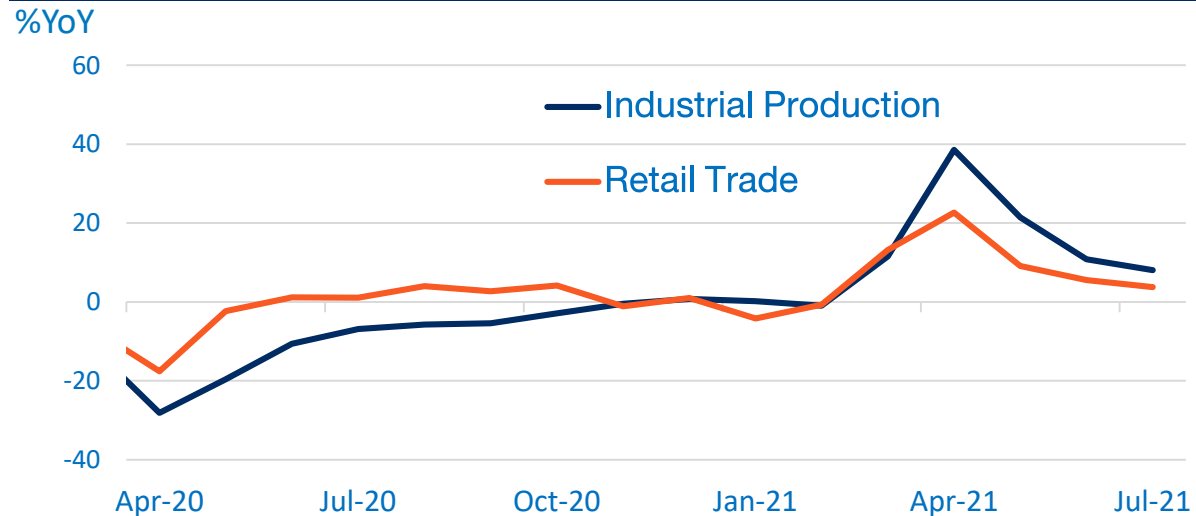
%MoM, deviations from 50, + expansion - contraction



Inflation remained high above ECB's target



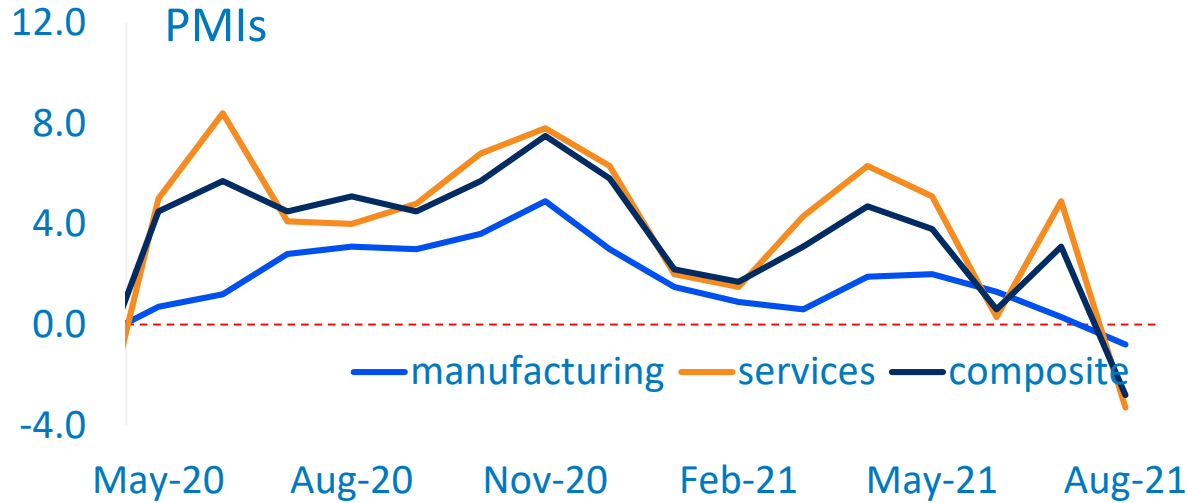
Retail and Industrial production returned to normal



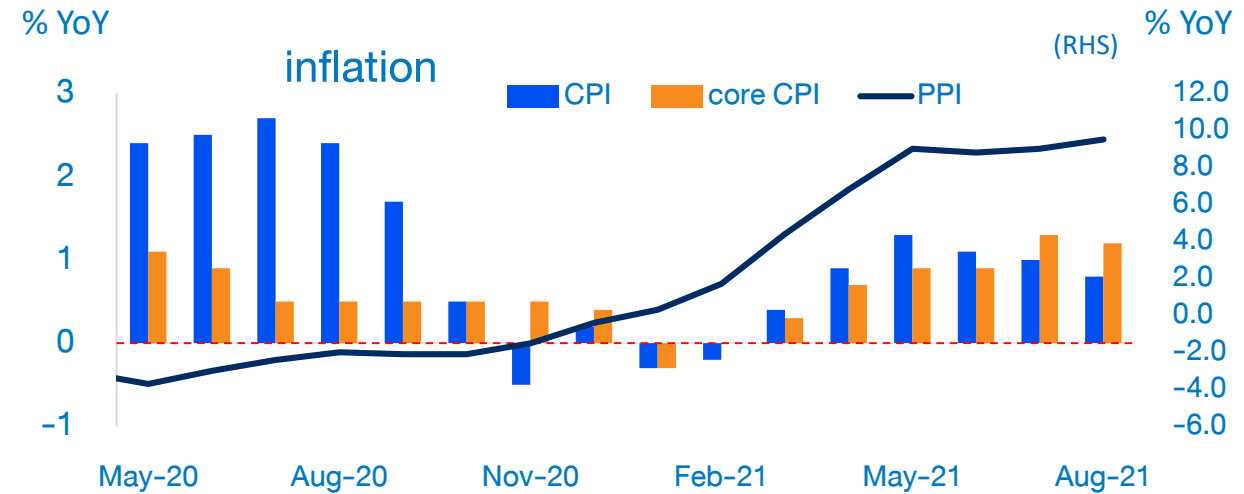
- In August, service outlook continued to support positive economic outlook as many European countries resumed operations, despite rising number of Covid-19 cases. Manufacturing sector outlook maintained at high level.
- European Union inflation continued to grow at 2.5% in July with support from food and energy price. Core inflation decreased slightly from last month to 1.2%.
- Retail trade and industrial production in June adjusted downward from last month due to base impact. Retail trade rose 4% in July while industrial production rose 11% in June

China's growth slowed down in third quarter, August outlook fell from lockdown

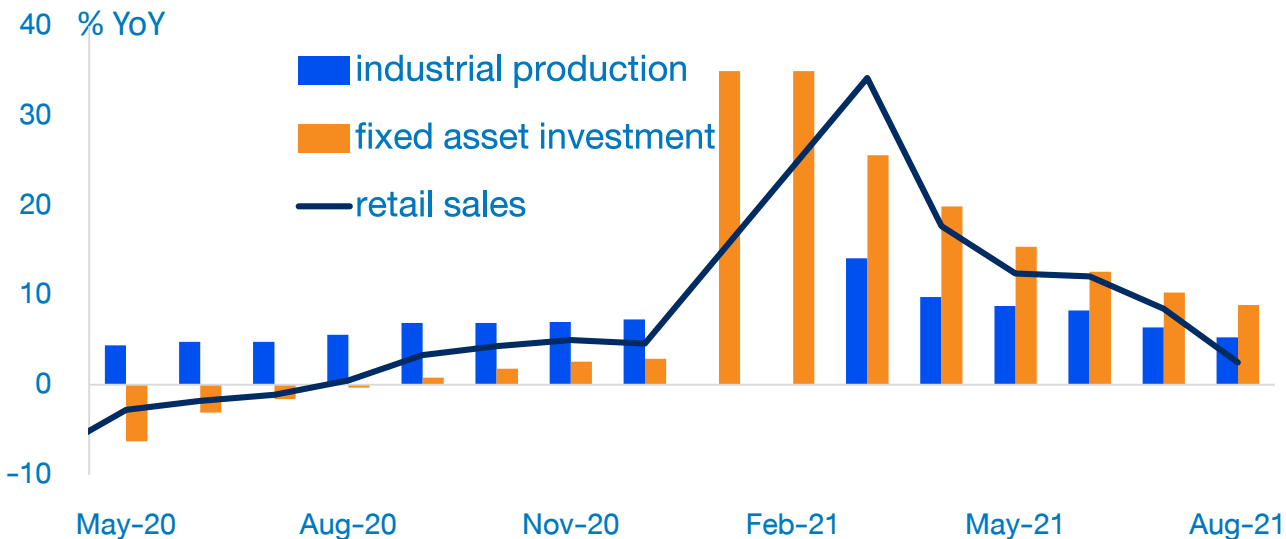
Economic outlook dropped to contraction zone in August



CPI eased from falling food price, PPI remained high

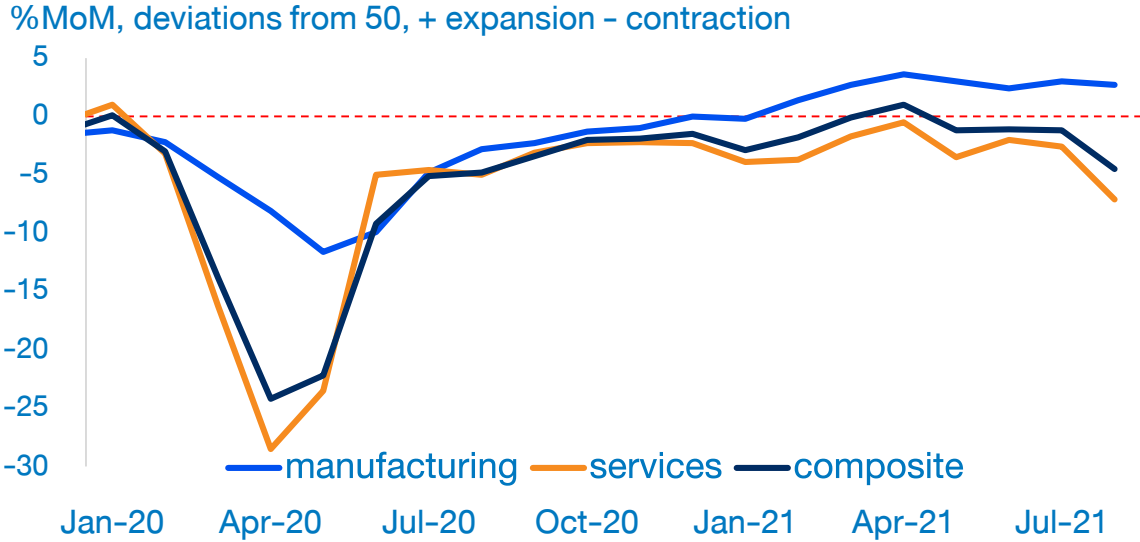


Growth slowed down in the third quarter

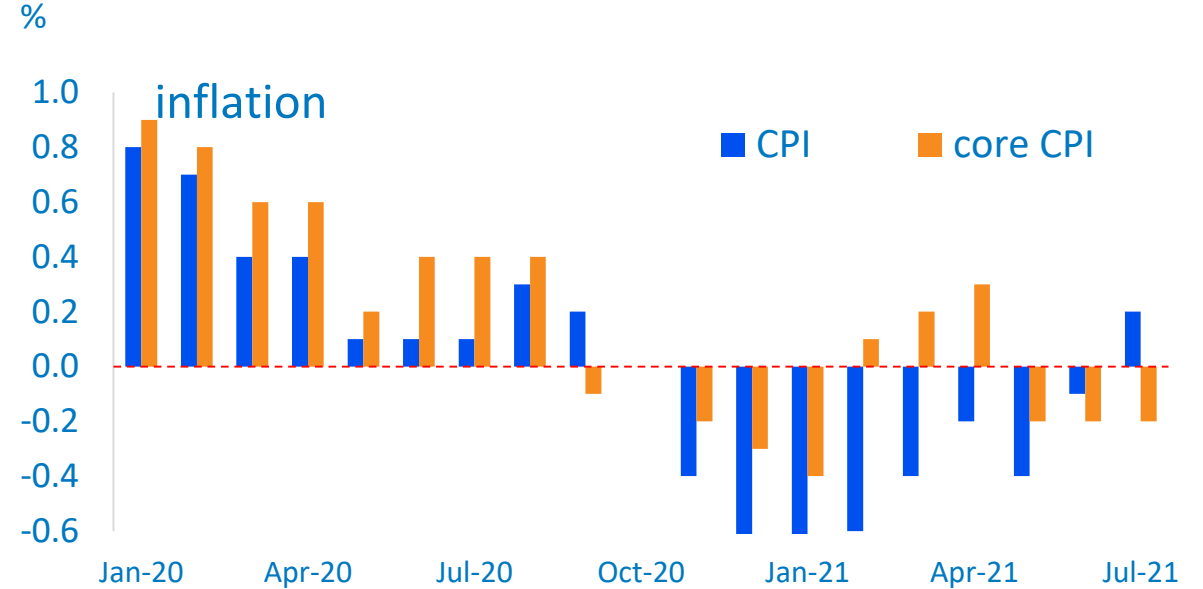


- Chinese economic growth in second quarter grew 7.9%. PMI in August contracted in both manufacturing and service sectors as some part of the country went through strict lockdown in combating with Delta variant last month.
- Economic activities significantly dropped in the third quarter. Industrial output rose 6.4% in July. Retail sales slowed down to 8.5%. Fixed-asset investment grew 10.3%
- Inflation slowed down slightly in July due to falling food price. CPI grew 1.0% YoY. PPI growth remained high at 9.0% from stable commodities prices.

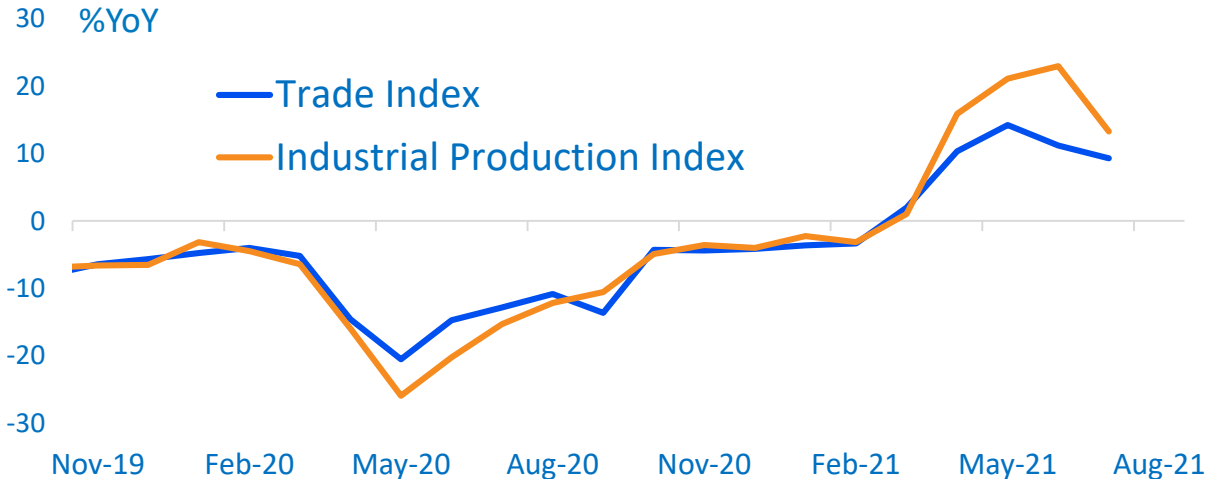
Service outlook remained in a contraction zone



Japan's inflation rose from energy price in July



Trade and Production remained spiked in April from low bases



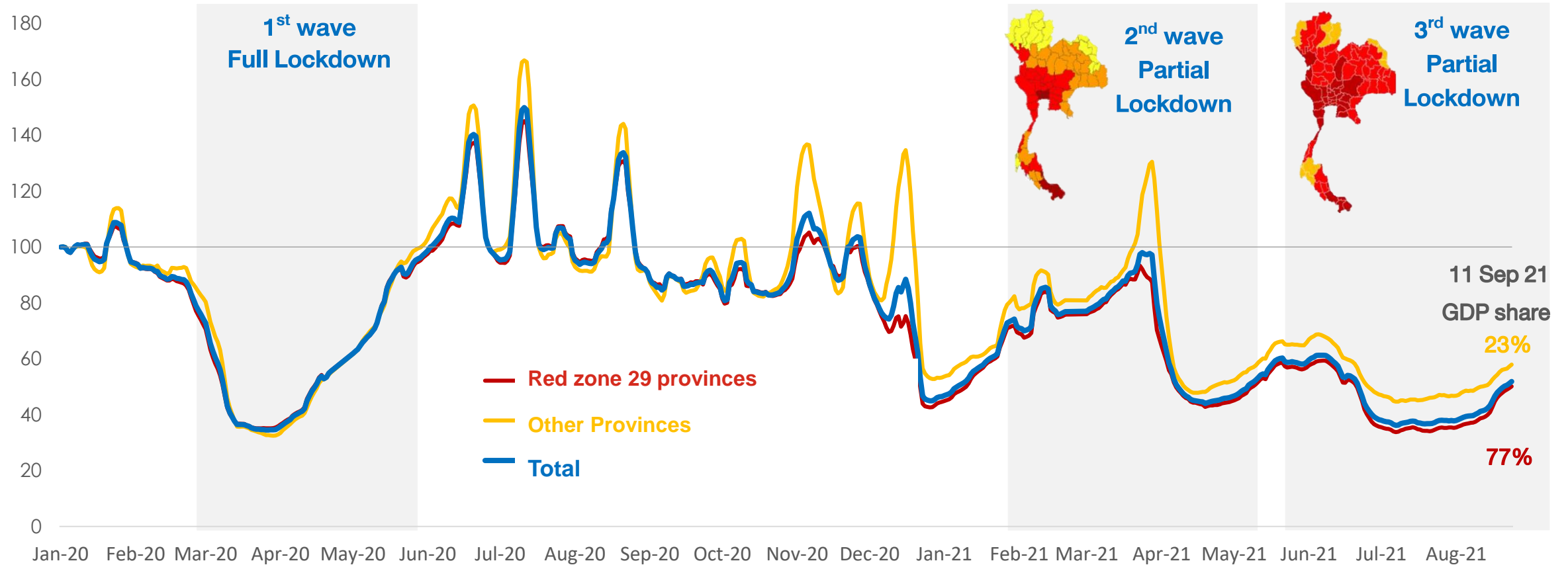
- Service outlook dropped significantly in August to the lowest point since June 2020. Declaring emergency state caused service sector to slowdown. Composite PMI remained in the contraction zone for the fourth month.
- Trade and industrial production began to taper as the effect from low bases last year disappeared.
- Core CPI still contracted, but CPI rose in July from rising energy price. CPI expanded 0.2% while core CPI still remained at -0.2%

PART 2

Domestic Economy



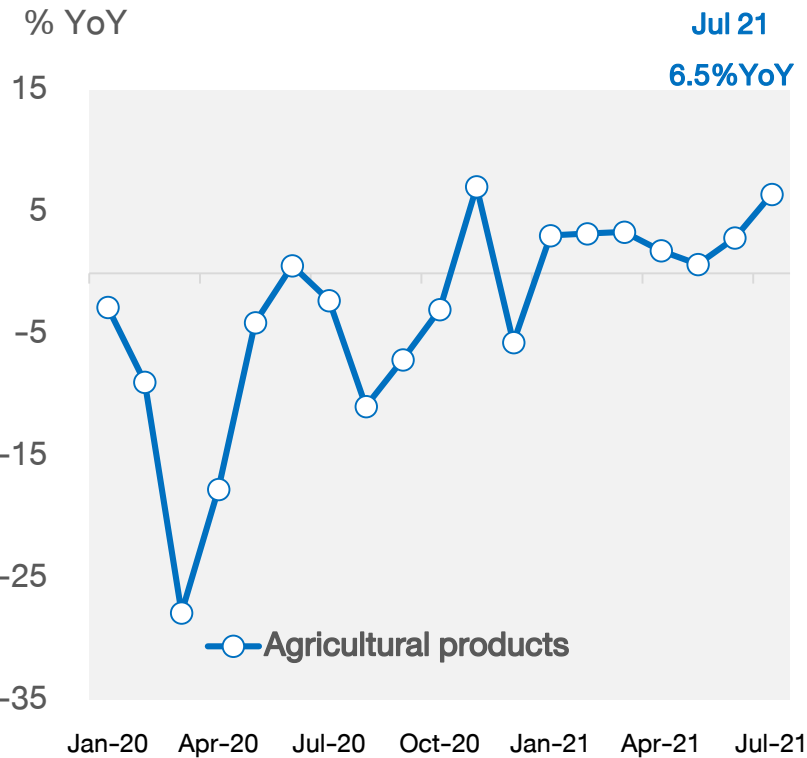
Apple Mobility index



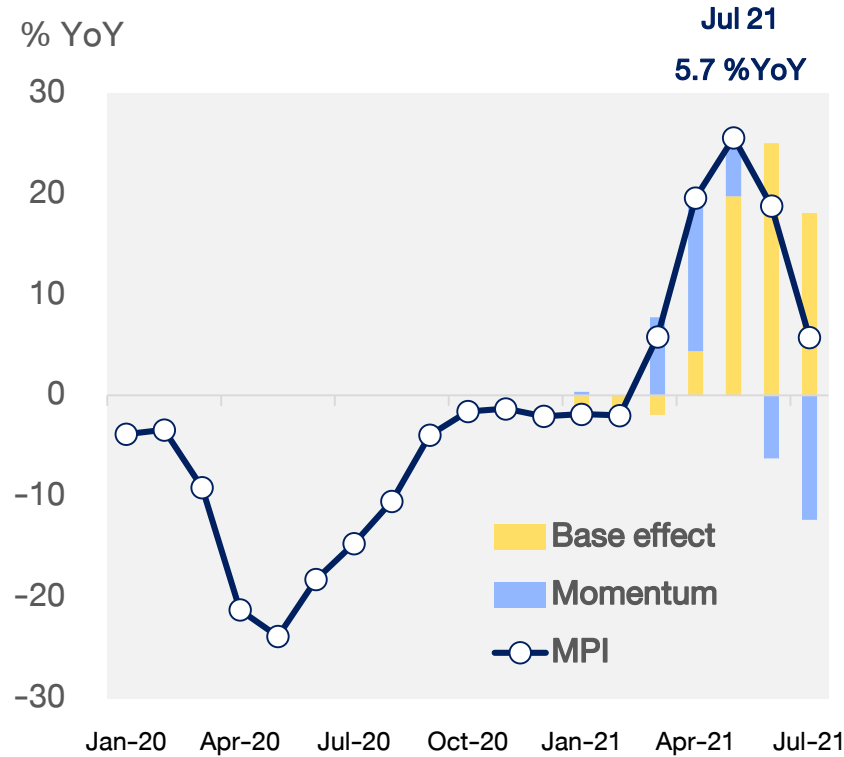
Coincident economic Index (sa)

	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	
Production	Coincident Economic Index (sa)	100.0	98.5	96.4	95.3	95.5	95.7	97.1	98.0	98.2	98.7	98.9	98.9	98.3	99.8	100.1	99.2	99.8	99.7	98.5
	Import Volume index (exclude Gold)	100.0	84.6	100.4	89.4	75.5	76.5	78.5	82.9	87.3	87.1	90.7	95.2	96.9	100.3	100.8	102.6	108.4	103.6	104.0
	Manufacturing Production Index	100.0	99.8	94.2	82.8	78.8	83.1	88.5	91.6	95.1	97.5	96.4	97.4	98.1	97.8	99.7	99.0	99.0	98.7	93.6
	Gross Value Added Tax at 2000 price (Million ba)	54,393.6	47,668.5	35,232.5	46,479.1	52,404.8	45,198.0	48,338.5	48,946.3	46,741.1	47,776.6	49,078.2	48,418.6	43,556.9	57,938.2	59,320.8	51,390.9	54,254.1	54,911.6	50,336.2
C	Domestic Automobiles Sales (Unit)	80,566.7	72,975.6	53,651.2	34,076.5	45,592.3	56,269.2	63,282.2	71,546.7	73,811.7	73,088.9	72,750.8	75,407.9	64,832.8	65,001.3	67,150.6	66,870.4	63,978.5	64,198.3	57,416.7
	Sales Benzene, Gasohol & Diesel Index	100.0	99.2	89.8	69.8	89.1	94.0	108.6	104.7	110.4	101.5	101.3	100.1	82.0	96.4	103.8	87.3	80.0	83.6	72.8
	VAT Hotel & Restaurant Index	100.0	77.9	38.8	14.4	22.7	38.5	38.6	34.0	44.7	45.4	49.8	25.0	20.0	34.7	38.3	20.2	18.8	28.2	20.5
I	Imports of Capital Goods at 2010 price (Million US\$)	104.5	108.1	102.8	119.7	102.7	104.5	108.1	104.4	102.8	100.2	103.8	107.2	108.4	107.3	111.5	112.2	109.9	105.0	95.1
	Domestic Machinery Sales at 2010 price (Million ba)	3,785.8	3,222.1	3,488.1	3,412.2	3,078.1	3,285.7	3,364.6	3,406.5	3,538.5	3,415.6	3,729.2	3,958.6	3,871.9	4,186.4	4,156.2	4,124.1	3,922.8	4,167.5	4,200.3
Services	Service Production Index	100.0	92.6	89.0	82.7	81.4	84.0	84.3	85.3	86.7	82.8	85.1	87.4	82.3	81.4	87.0	82.7	82.8	82.6	82.4
	Wholesale and retail trade; repair of motor vehicles	100.0	99.6	98.1	92.6	91.8	91.5	92.7	93.9	93.9	93.4	94.0	94.4	91.0	90.6	91.6	91.1	92.1	93.0	89.3
	Transportation and storage	100.0	96.8	79.4	56.4	57.5	59.6	60.8	62.9	63.8	64.4	63.9	64.7	62.0	64.9	73.0	66.2	66.4	66.5	63.3
	Accommodation and food service activities	100.0	59.7	24.8	0.2	0.9	7.3	16.5	18.4	18.8	22.7	27.0	25.3	11.4	14.8	17.9	11.7	2.4	2.2	1.8
	Information and communication	100.0	89.6	96.0	90.8	91.5	98.9	95.4	94.7	97.6	90.1	98.3	112.6	101.9	90.6	117.8	107.3	118.5	96.1	101.3
	Financial and insurance activities	100.0	100.4	106.8	127.3	128.9	131.3	113.7	114.7	94.1	92.3	97.1	99.0	95.7	96.2	98.6	95.0	97.9	100.8	98.5
	Real estate activities	100.0	96.7	115.0	82.4	87.4	94.0	95.3	97.5	121.0	94.7	97.0	106.3	105.1	101.4	102.1	93.6	97.4	97.9	93.8
	Professional, scientific and technical activities	100.0	87.3	89.5	80.9	75.9	83.7	93.8	88.5	97.0	97.7	93.4	109.7	97.5	94.6	113.6	101.9	101.4	112.8	134.3
	Administrative and support service activities	100.0	88.4	83.2	68.8	62.8	68.7	66.4	72.6	74.6	72.3	74.6	80.0	72.6	72.2	83.8	76.2	75.6	82.3	84.4
	Public administration and defence; compulsory social security	100.0	97.1	99.5	107.8	99.2	100.4	102.9	102.9	112.3	100.3	103.7	103.8	101.5	98.2	107.4	103.6	102.2	99.4	103.5

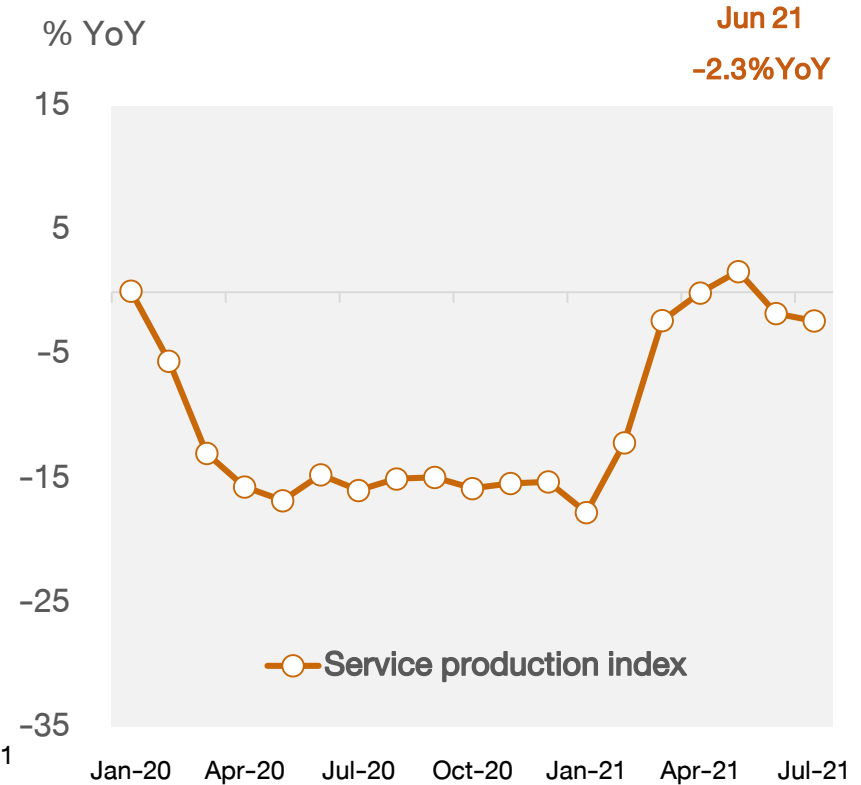
Agricultural Production



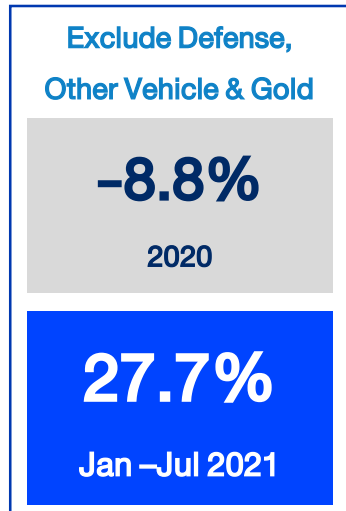
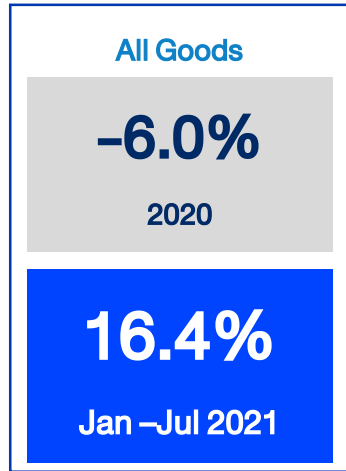
Manufacturing Production



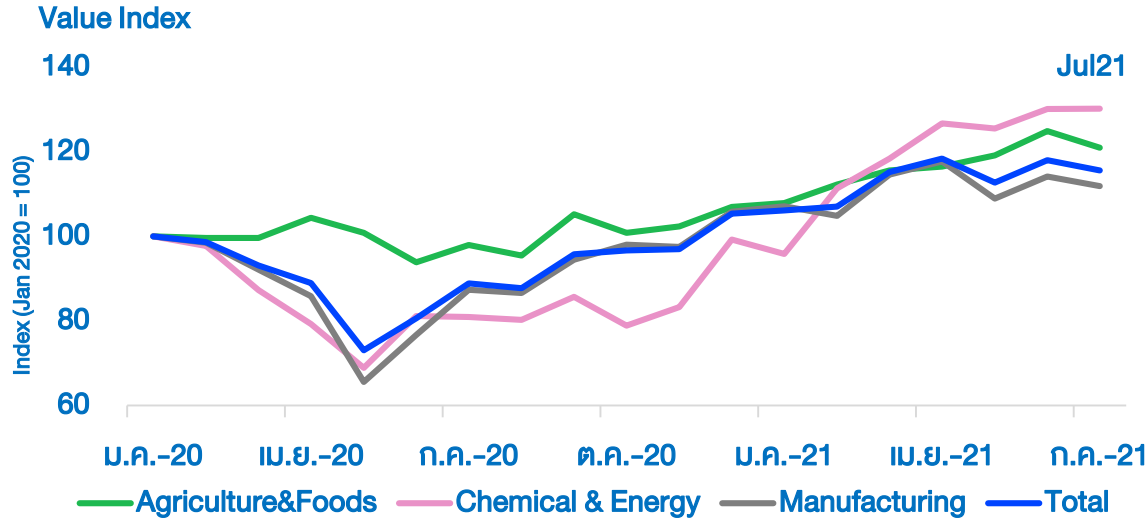
Services Providing



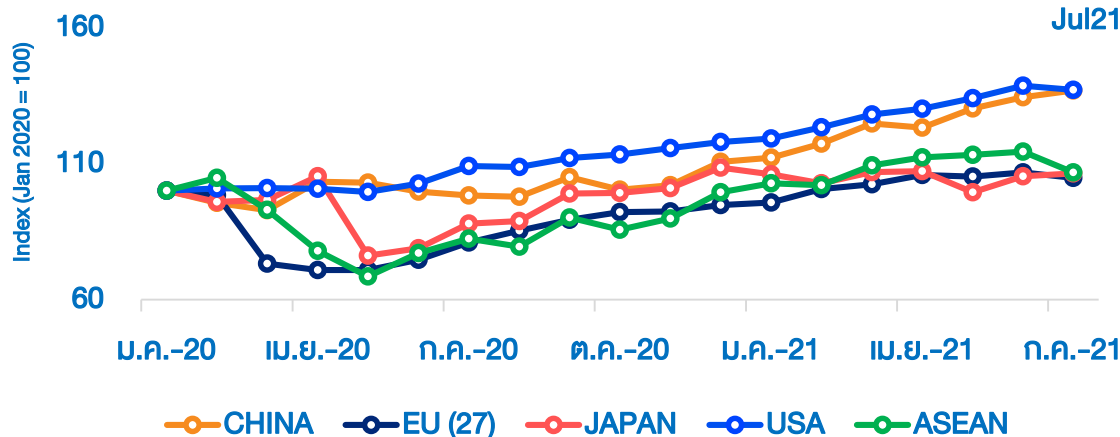
Total Export Growth



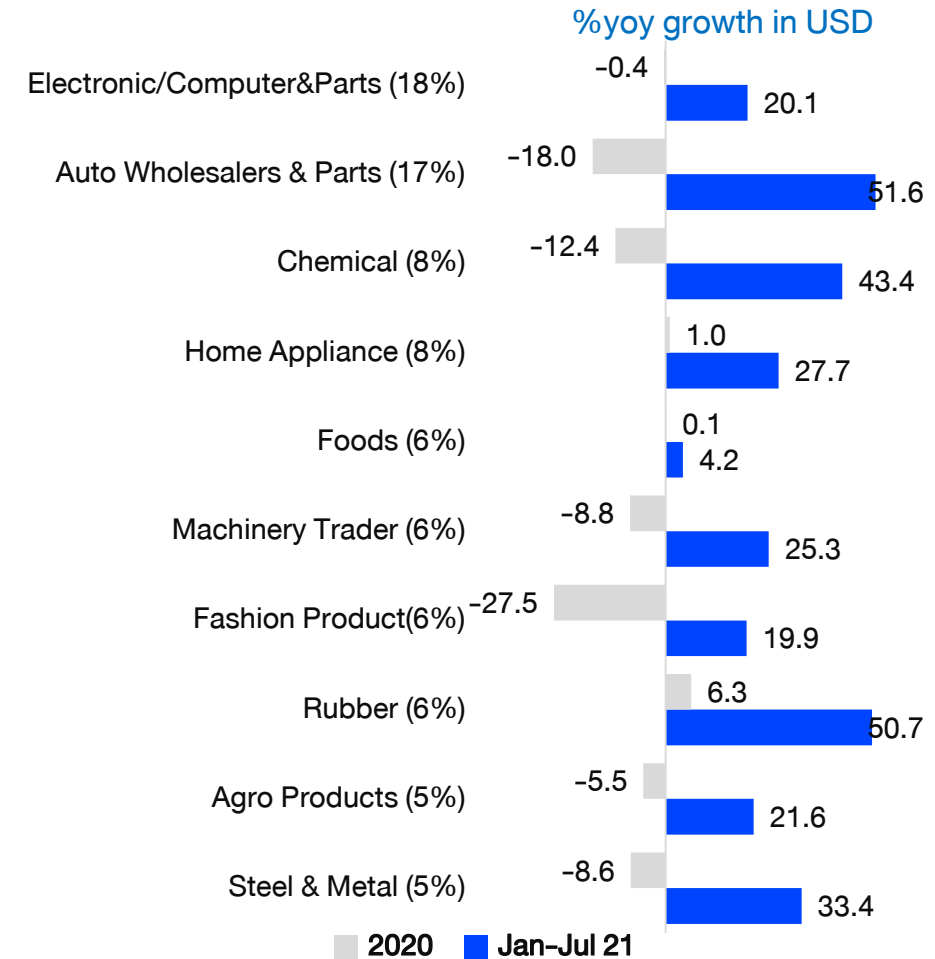
Exports value by groups (sa)*



Exports value by destination (sa)*



Top 10 Export by Sector*

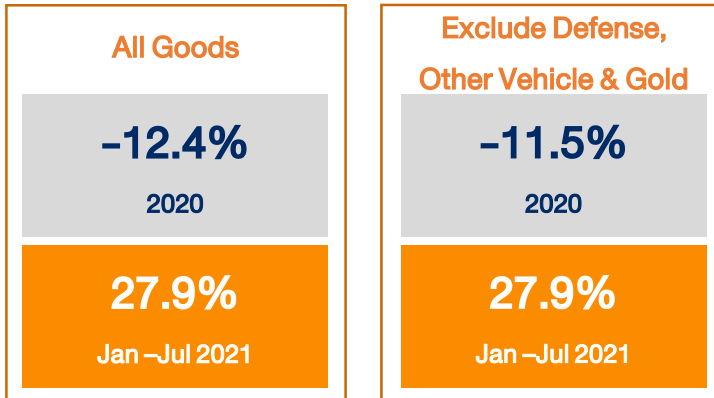


*Exclude Defense, Other Vehicle & Gold

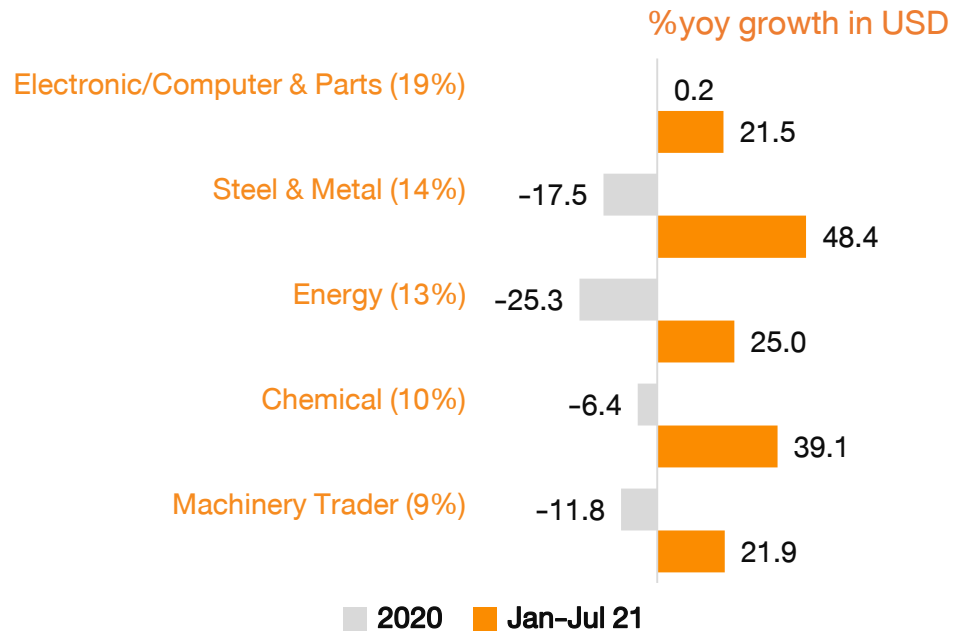
Risk to exports

1. Supply Shortage : Container , Semi-conductor and Steel
2. Operation halt due to cluster outbreak

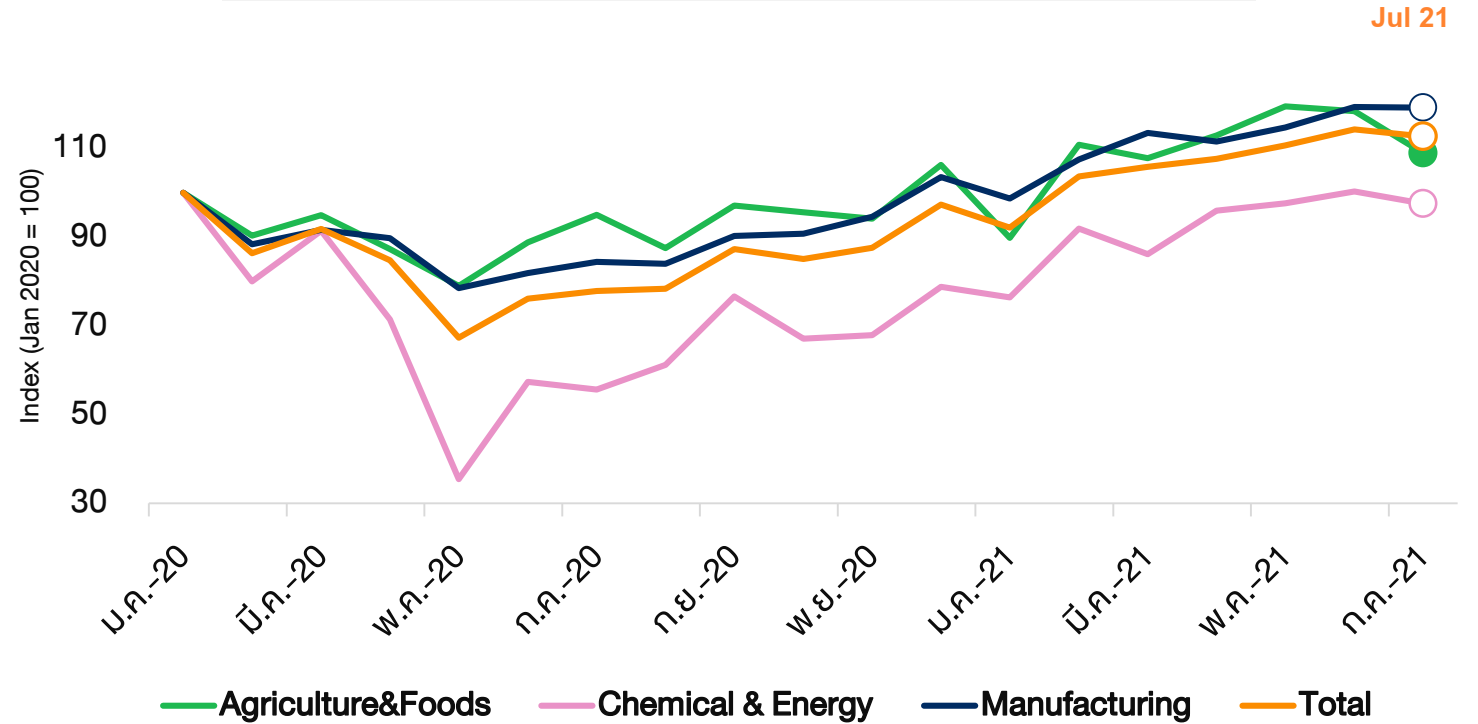
Total Import Growth



Top 5 Import by Sector



Imports value by groups (sa)*

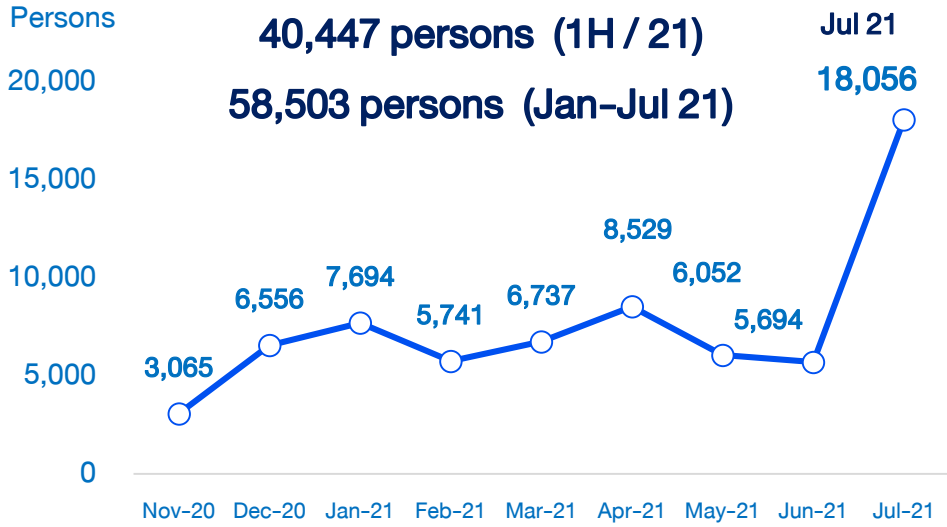


*Exclude Defense, Other Vehicle & Gold

- Imports expanded by 27.9% YoY in Jan-Jul 2021. Most products have recovery sign due to import growth shrink in 2020
- However, import in July slightly drops from June due to decreasing domestic demand

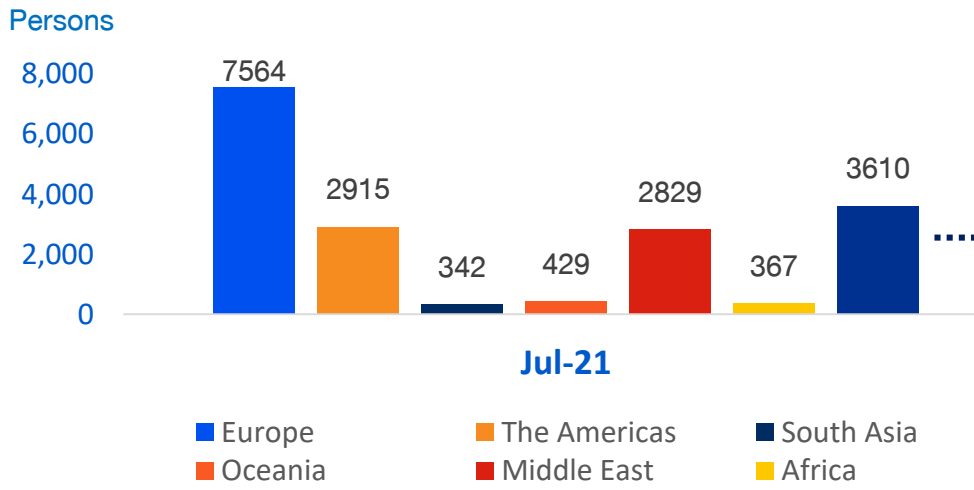
Tourists to increase due to partially reopening Bangkok and other 5 key cities in mid-Oct 21

Total foreign tourist inbound



Phuket Sandbox (1 July 2021)

Phuket Sandbox Extension (16 Aug 2021) 7 days on Phuket and then travel on a sealed route to some specified destinations in Surat Thani, Phang nga and Krabi.



(Jul21)

- 1,032 persons**
- 1,328 persons**
- 1,250 persons**

- **As of Jul2021, foreign tourist inbounds rose significantly after starting Phuket sandbox .** Spending per trip is 60,000–70,000 baht per a tourist and brought accumulated revenues of 1,634 million baht to local areas since the project commencement.
- **Currently Sep21, the resurgence of covid19 outbreak would not delay Thailand’s border reopening of Phase 2.**

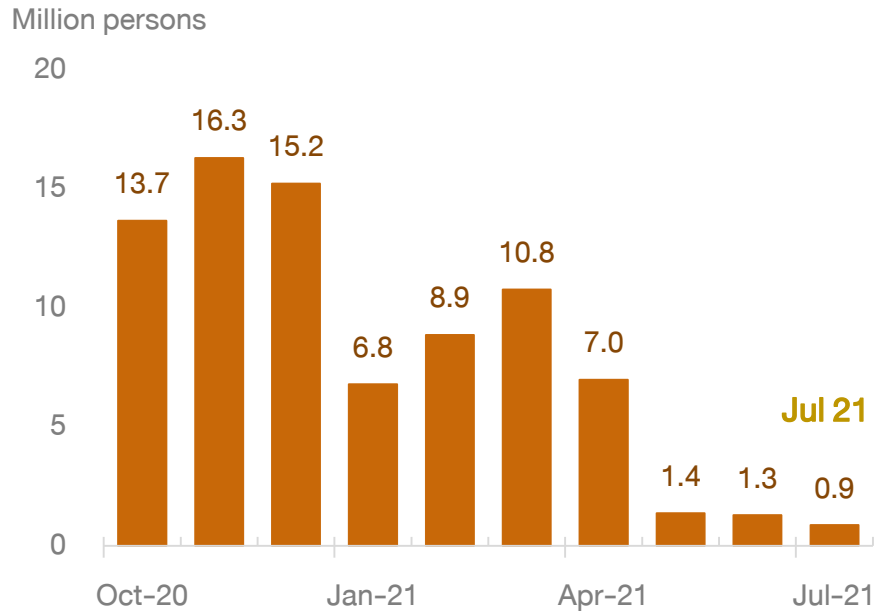


Phase 2 (1Oct 2021) Bangkok , Hua Hin Prachuap Khiri Khan, Cha-am Phetchaburi, Pattaya and Chiang Mai

Phase3 (15Oct 2021) reopen 21 provinces

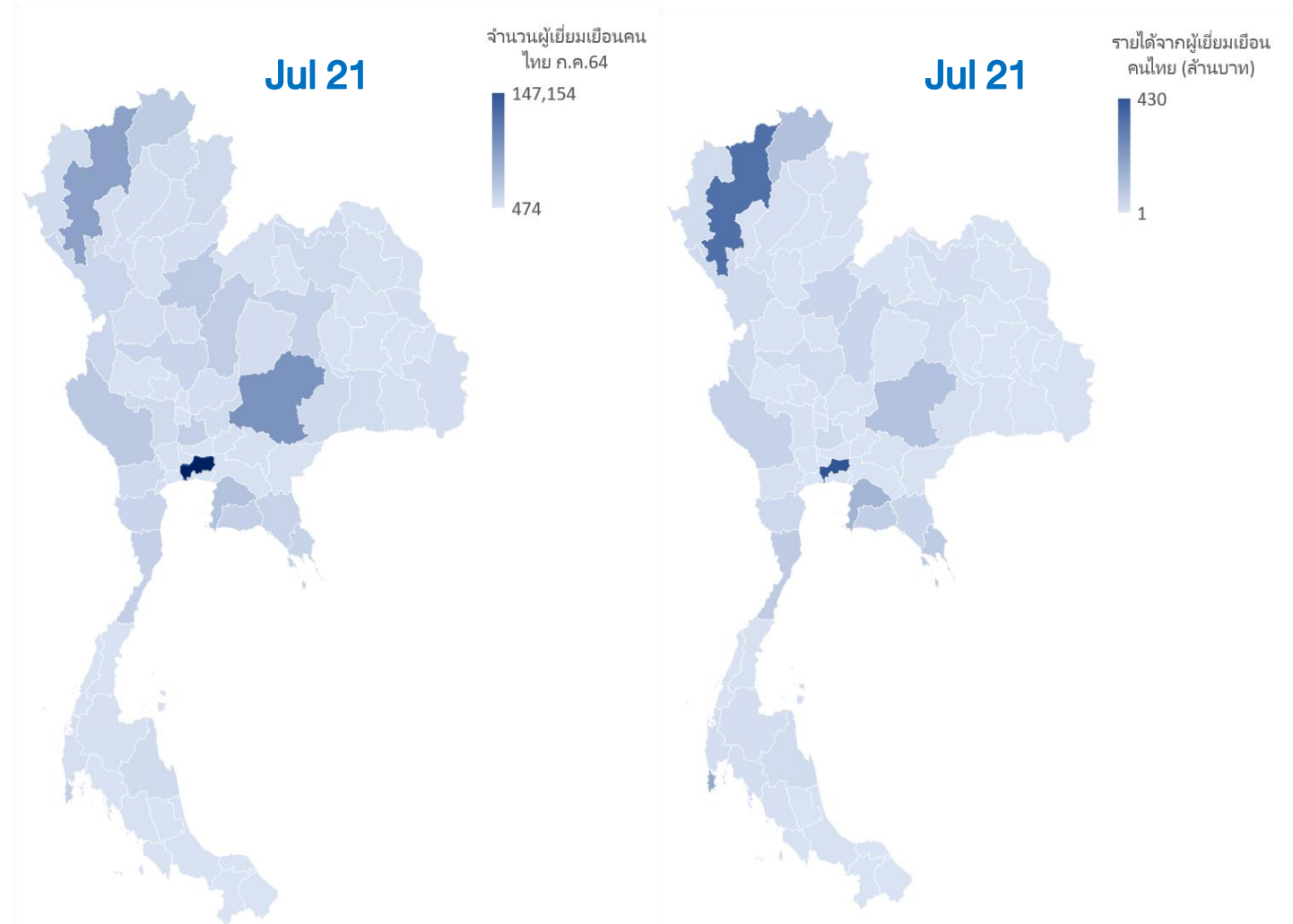
Phase 4 (1–15 Jan 2022) bubble with neighbouring countries

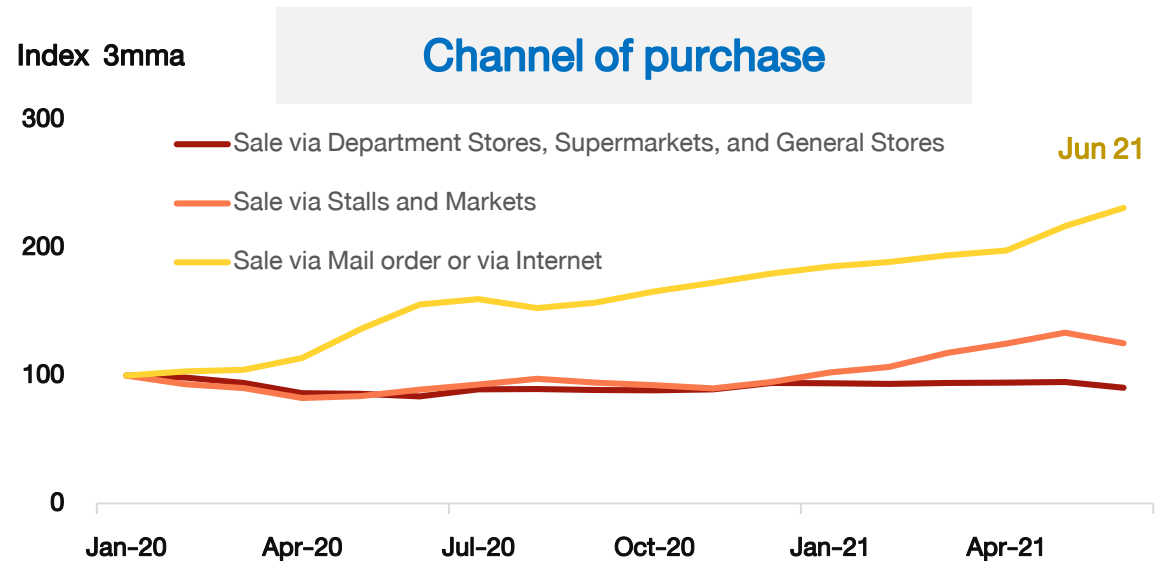
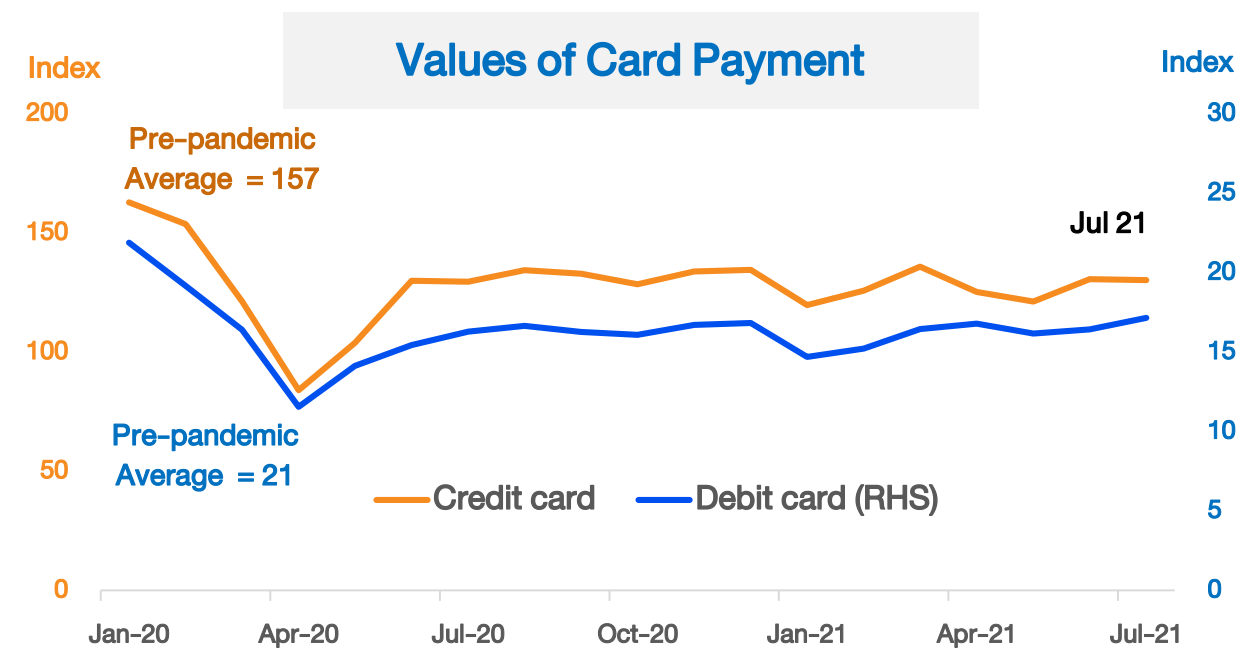
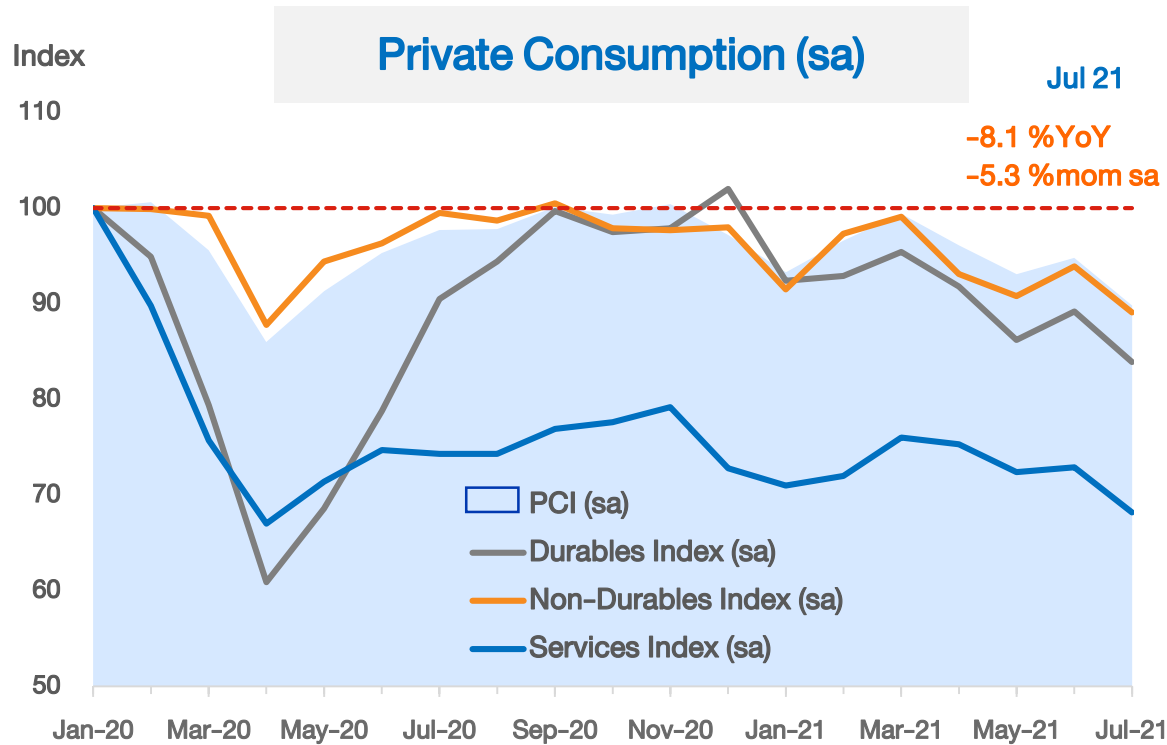
Number of Thai visitors



- Number of Thai tourists declined due to the intensification of the third wave outbreak. Only main tourism provinces, particularly Bangkok and Chiang Mai and Nakhon Ratchasima could see Thai visitors.
- Looking ahead, domestic tourism will gradually recover in Q4/21 after the numbers of domestic new infections dropped to certain level.

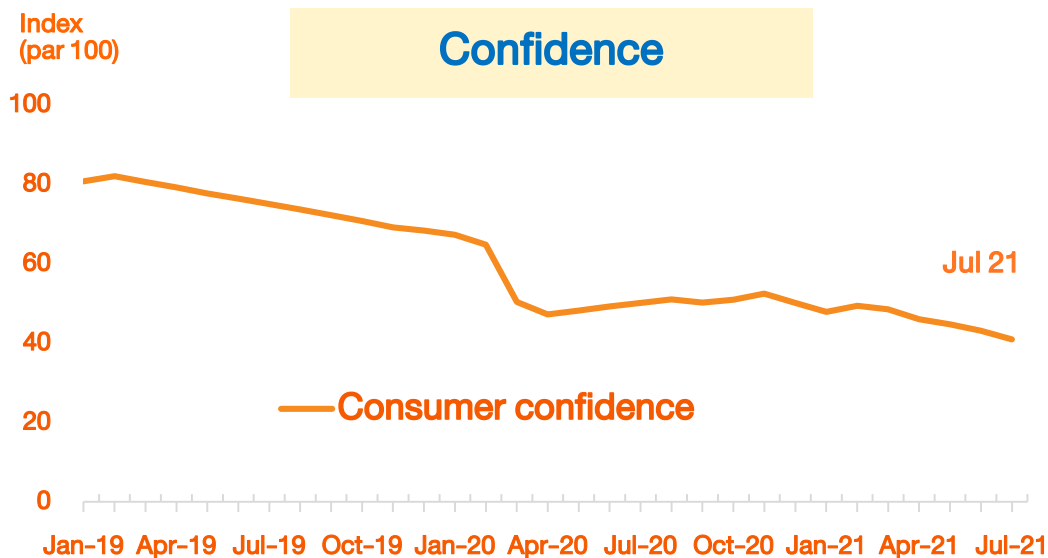
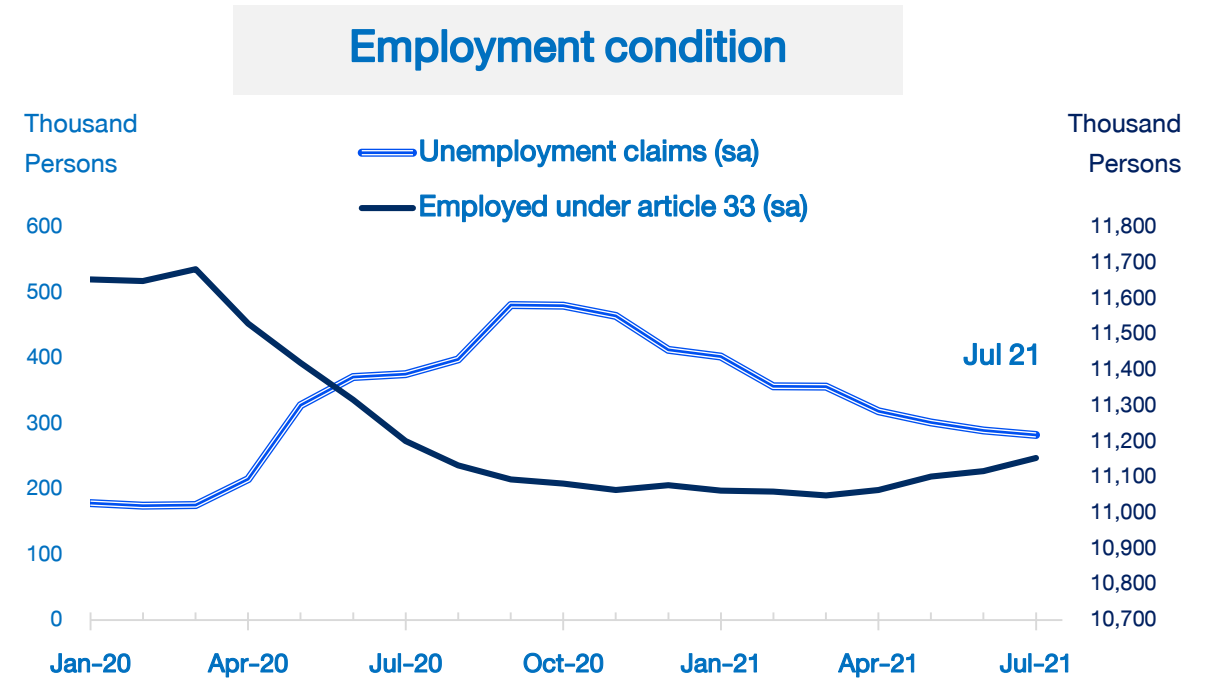
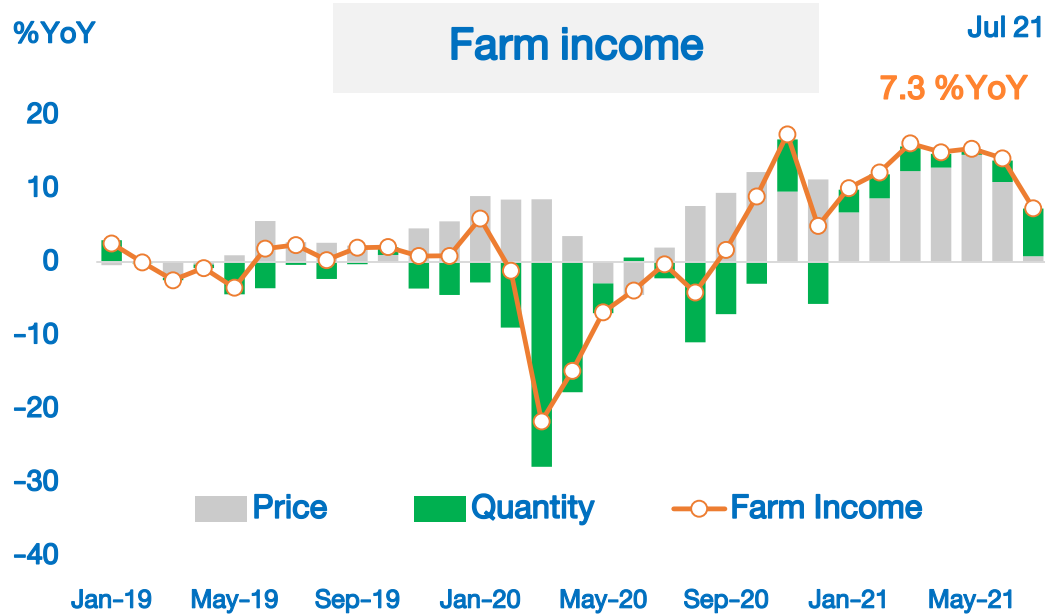
Incomes from Thai visitors





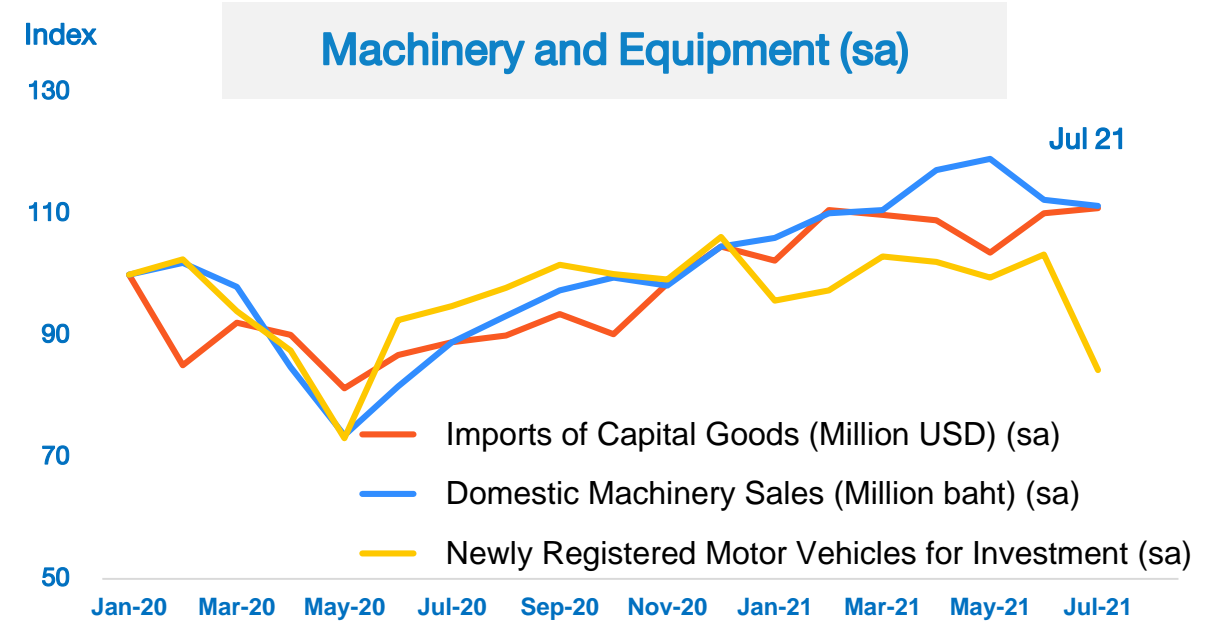
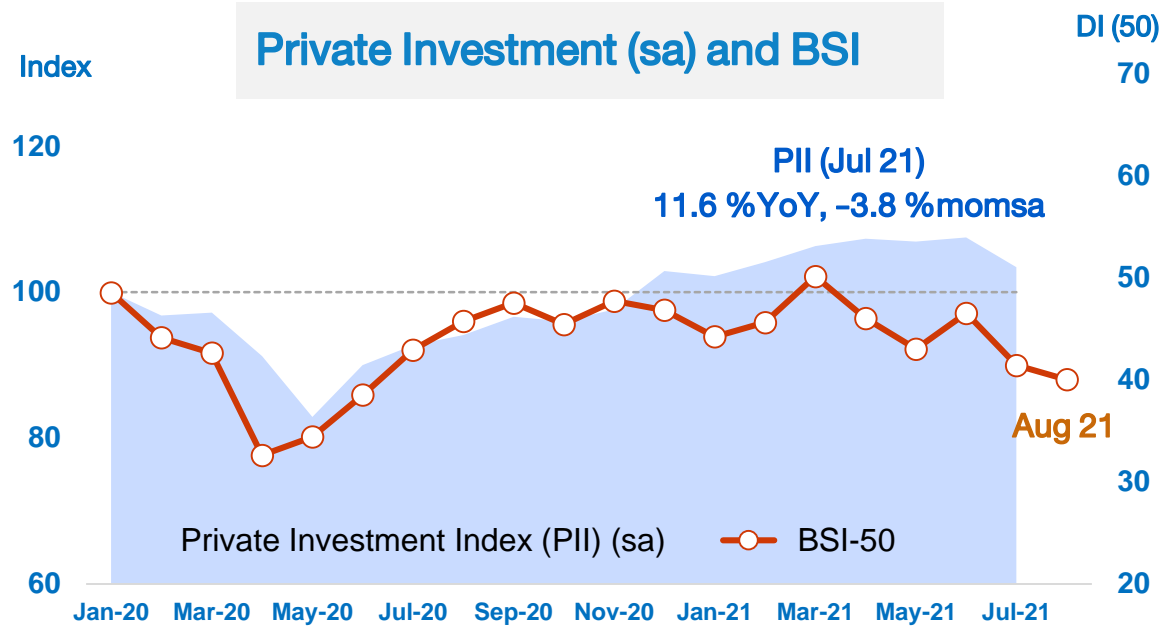
- **Private consumption** dropped significantly in all categories (durables, non-durables and services) after the imposition of restriction measure amid worsened ongoing outbreak.
- **Spending weak with only online channel** : Spending overall was weak, represented by the below pre-crisis card payment values and only sales via internet or mail encountered monthly growth during lockdown.

Fragile supportive factors for consumption amid ongoing outbreak

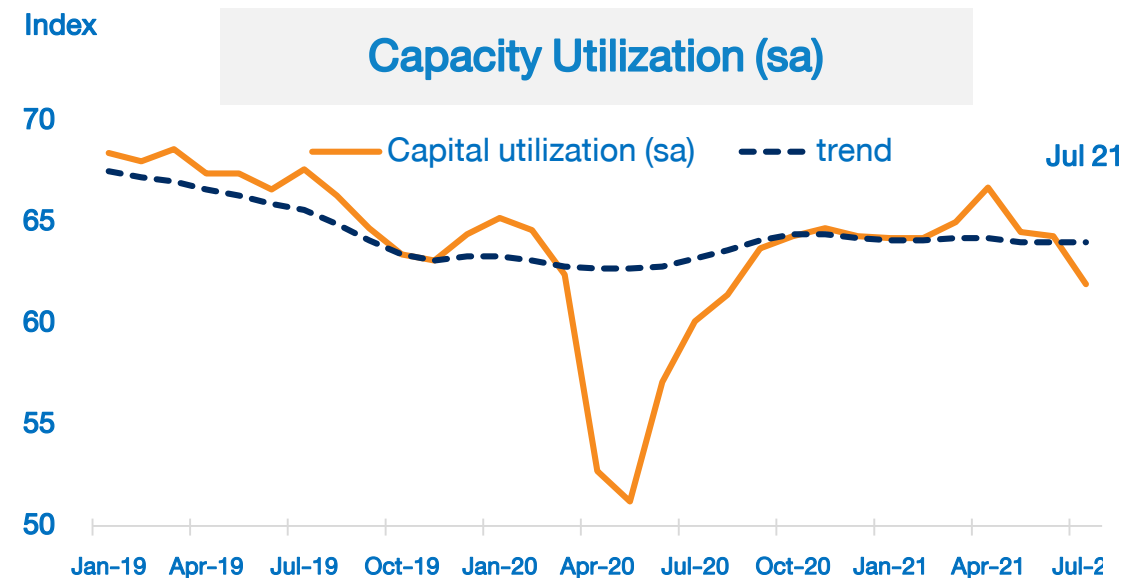


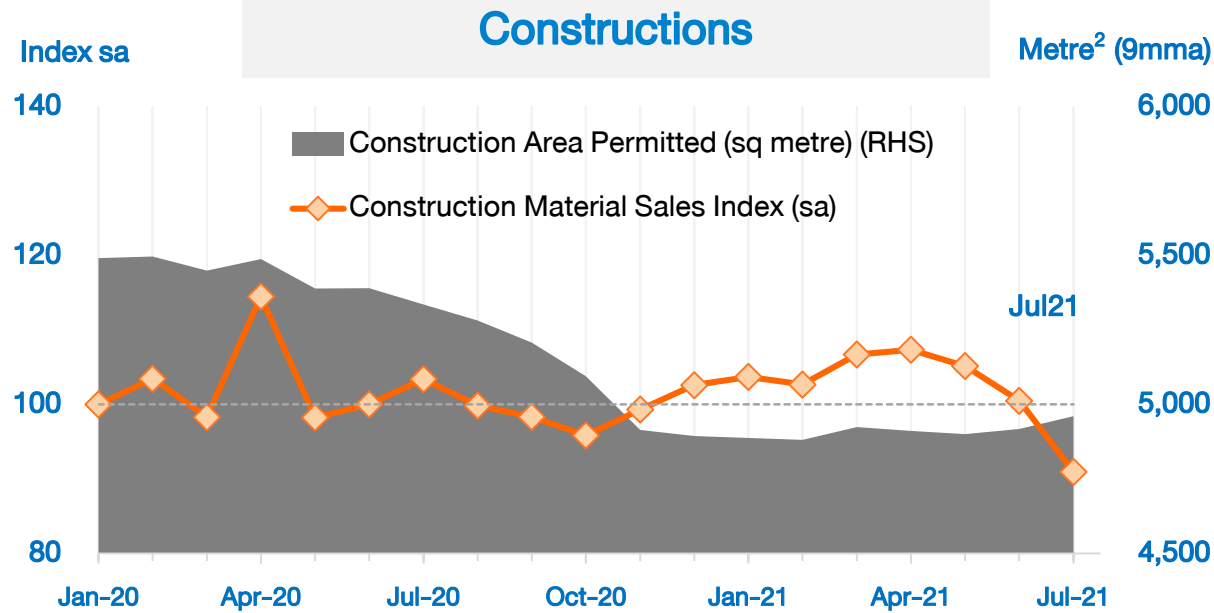
- Most of supportive factors remained fragile
- Overall employment situation encountered gradual improvement but still in weak condition, representing by a slow increase in employment under article 33 and a gradual decline in unemployed. Farm incomes growth dropped significantly due to agricultural price.
- Consumer confidence continuously declined since the beginning of outbreak last year, partly resulting in cautious in spending.

Private investment turned weak mainly due to intensified domestic outbreak

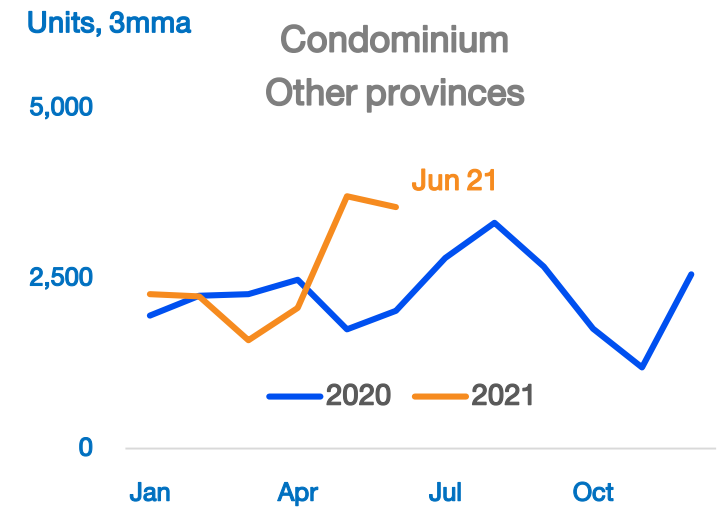
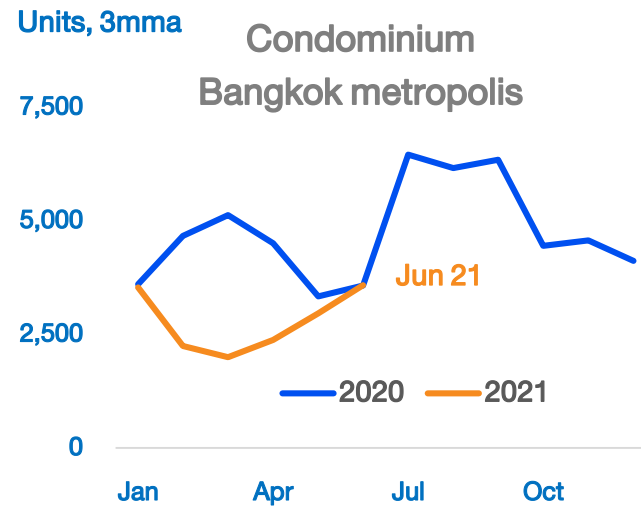
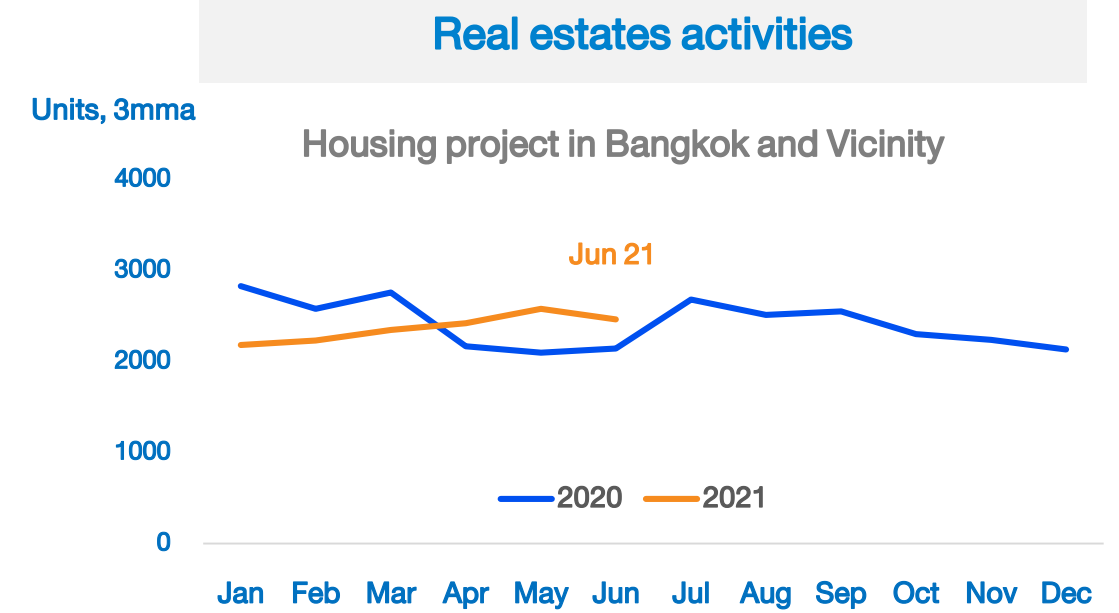


- **Private investment** turned weak after domestic outbreak became intensified, in line with worsened business sentiment but the continuous export's recovery remained the main driver.
- Capacity utilization dropped to be below the normal trend, signaling the expected “temporary” weakness in investment, while production temporarily declined due to cluster outbreak .
- Looking forward, the intensifying Delta variant outbreak in ASIA and the US would pose some negative risk on production activities and trade recovery, thus probable weighing more on the speed of investment uptick in coming period.

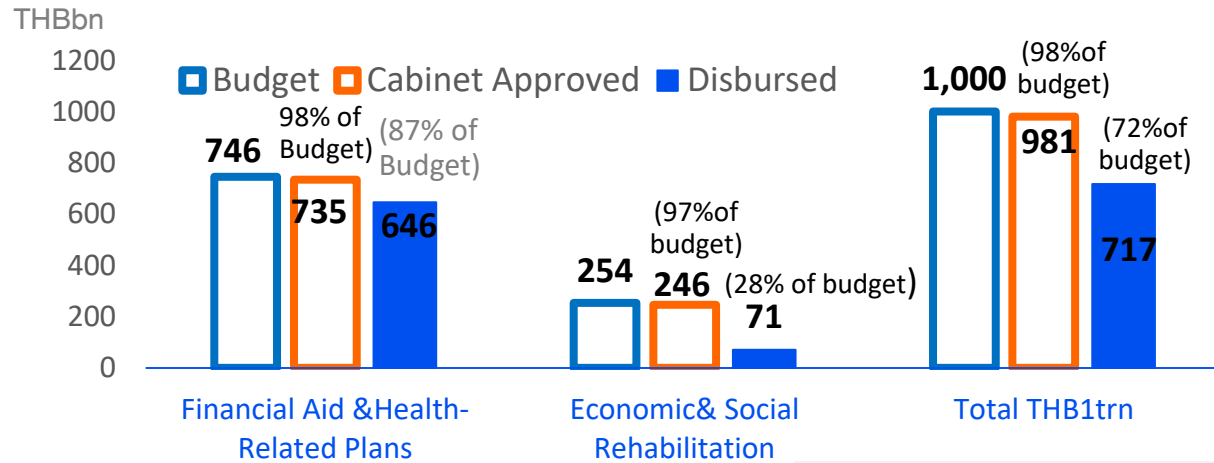




- **Construction activities dropped significantly**, reflected by a plummet in material sales in line with the intensified cluster outbreak in construction camp.
- **Real estate sectors** were in weak condition, ranging from high-rising and low-rising projects. Only high-rising accommodation outside Bangkok experienced a growth compared to last year.
- **Credit conditions:** Credits for developers at low level due to bank's tightened credit standard.



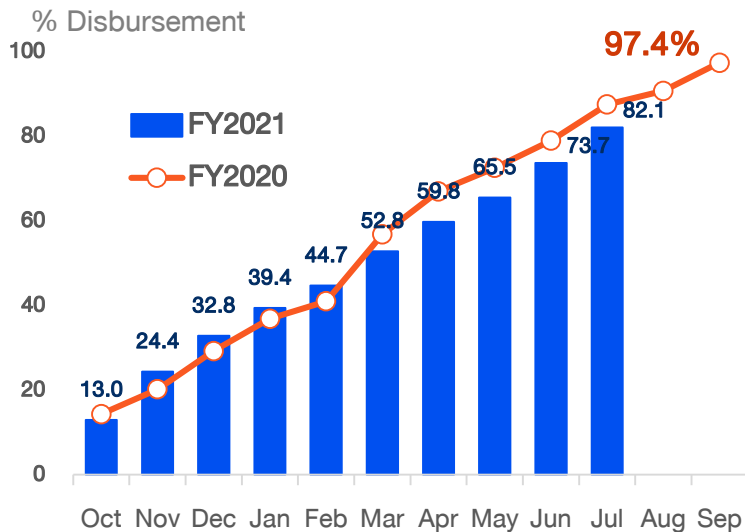
Progress on 1-trillion Stimulus Package (as of Aug 2021)



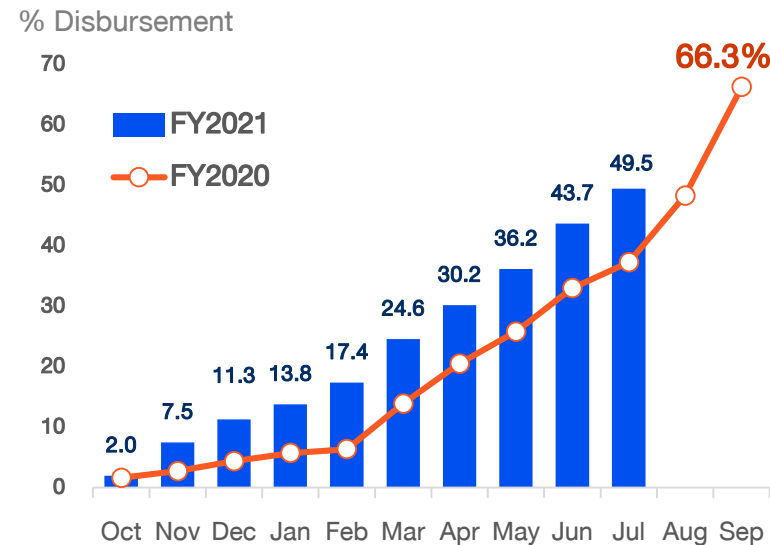
Measures to alleviate the impact from the strict lockdown

Measure	THBbn
Relief employers and employees in specific 9 sectors in the “Dark-Red-Zone” 29 provinces in section 33 under social security	17.9
Relief employers in the “Dark-Red-Zone” 29 provinces in section 39 and 40 under social security	77.8
Educational and Tuition Fee Reductions	33
Tap Water and Electricity Charge Reduction	12

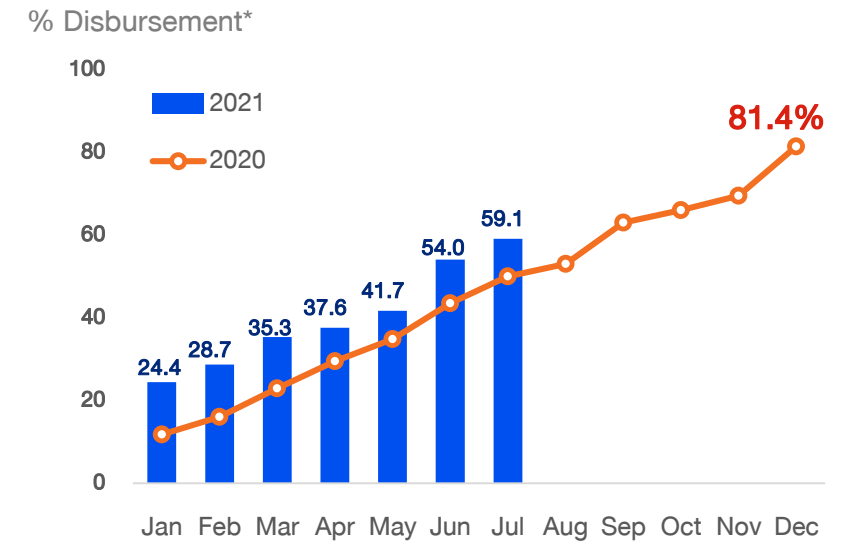
Current Expenditures : 2,169bn



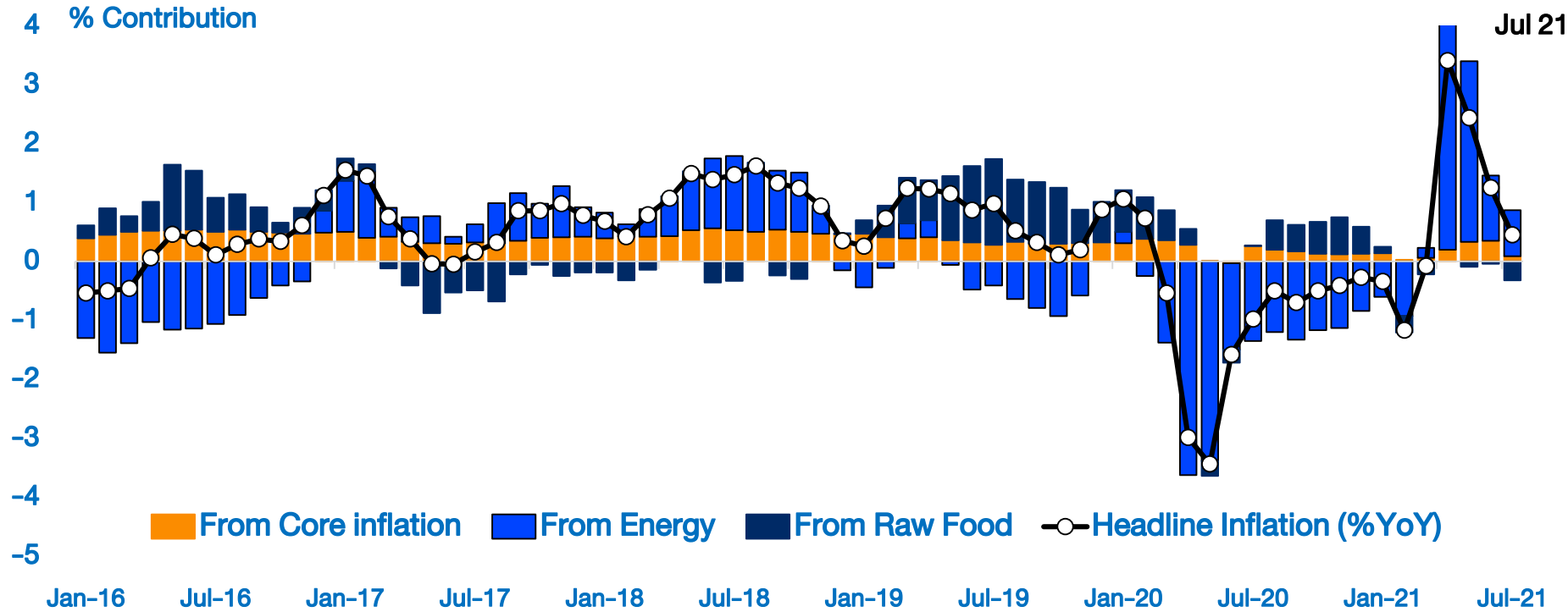
Public Investment Expenditures : 320bn



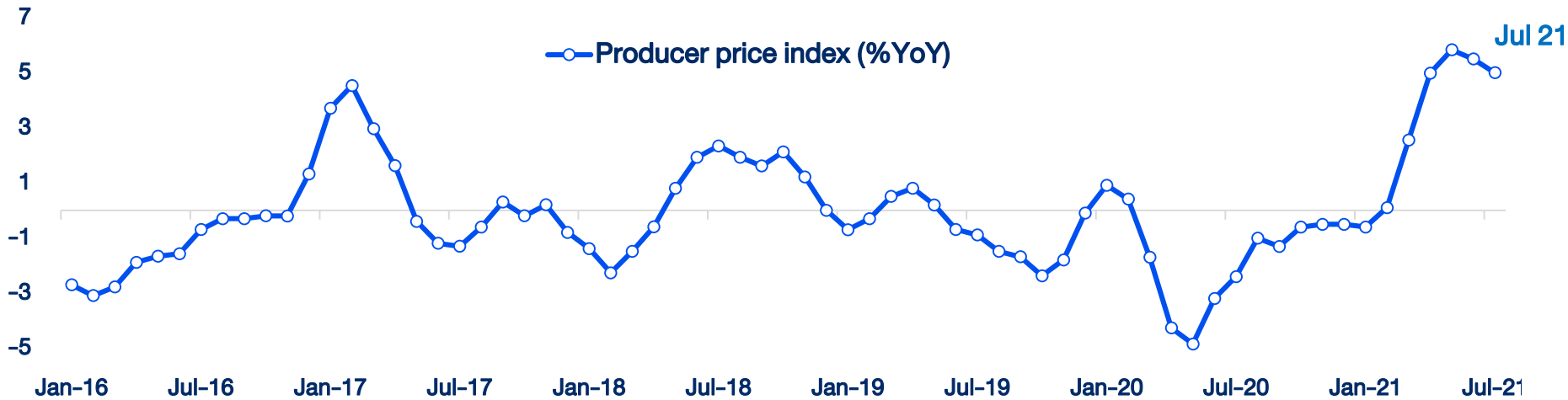
State Owned Enterprise Investment : 210bn



Inflation declined due to contracted raw food price and softened core inflation



(%YoY)	Jul-21
Headline inflation	0.45
Core (67.1%)	0.14
Raw Food (20.6%)	-1.58
Energy (12.4%)	6.30

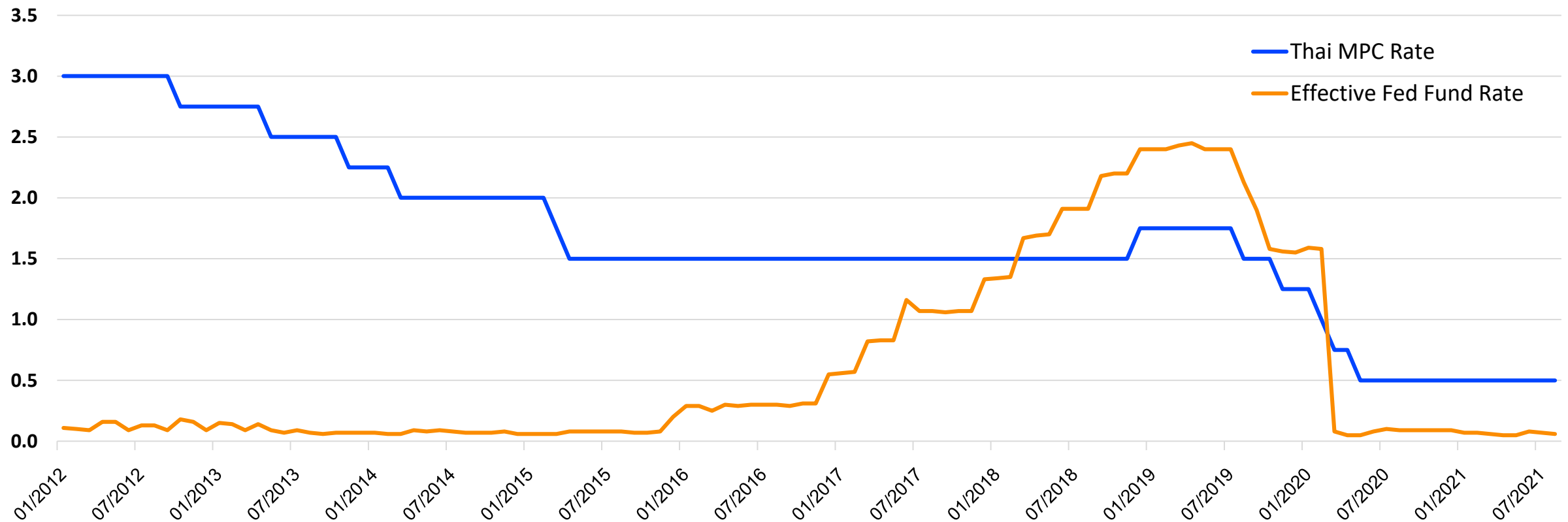


PART 3

Financial Market



Fed to announce tapering in Sep or Nov meeting but outcome will not differ

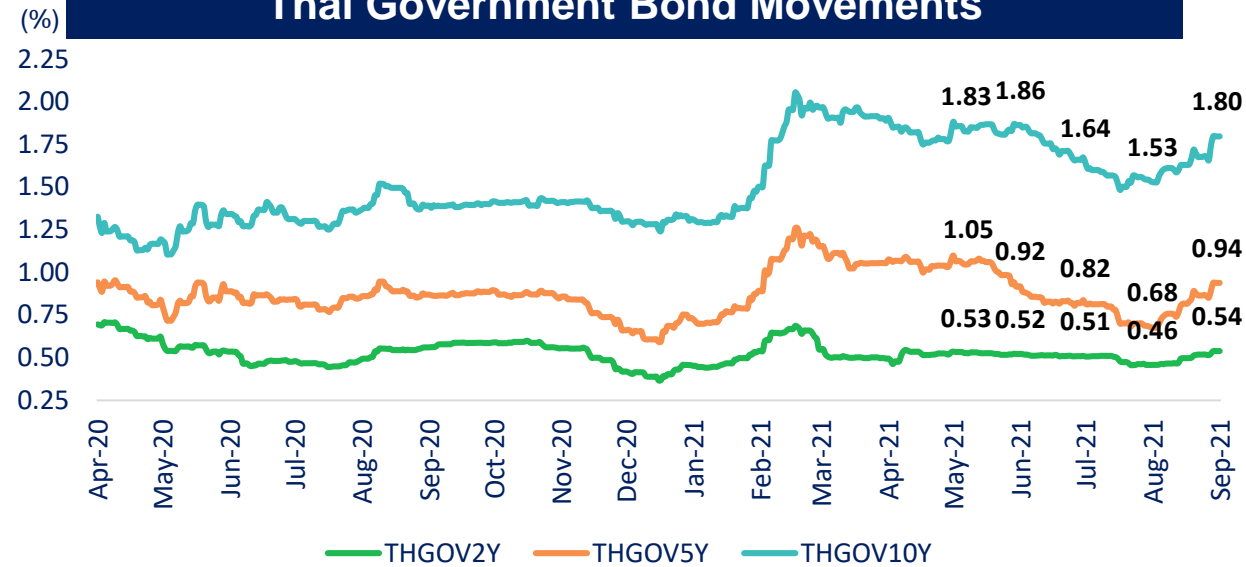


- Fed is likely to announce tapering plan in Sep or Nov meeting but the outcome will not be much different as the Fed may end up with only a month more or less of gradual reduction of asset purchase. At the Jackson Hole symposium last month, Powell said the inflation threshold had already been met, and there had been clear progress on the labor market front. Though, August's weak payrolls report, which showed just 235,000 jobs created, compared to 1.1m posted in July, We still see Fed first hike in Q4/2022.
- For Thai MPC, as covid-19 situation has been unfolding, there's little to no chance of MPC rate cut in this year, even though 2021 GDP growth might be near 0%.

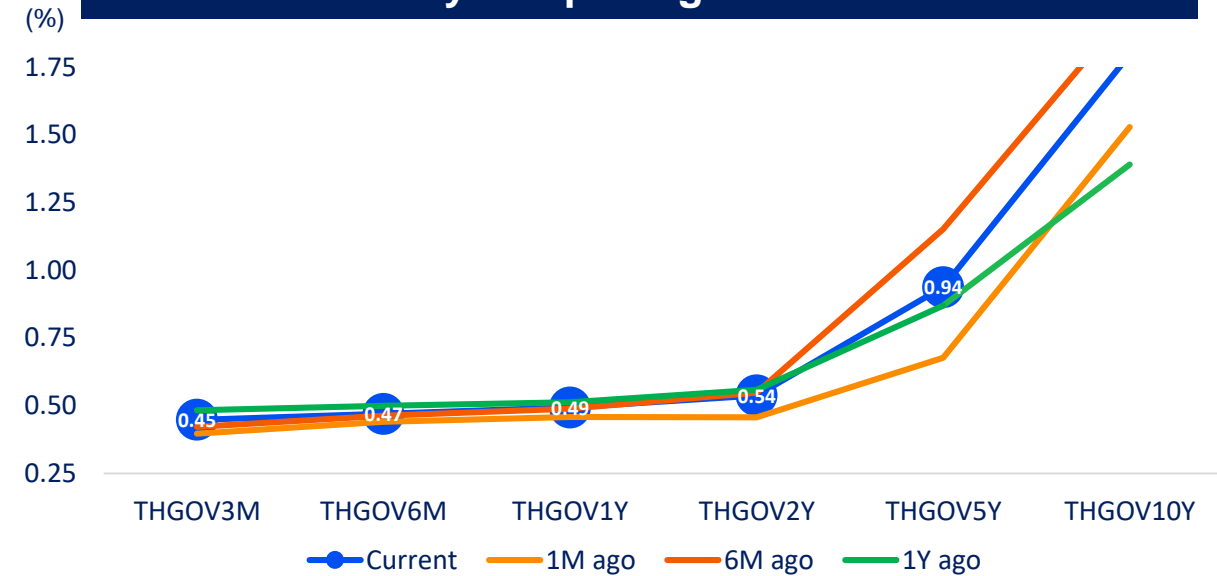
TGB curve slowly steepen as covid-19 peak but still on uptrend



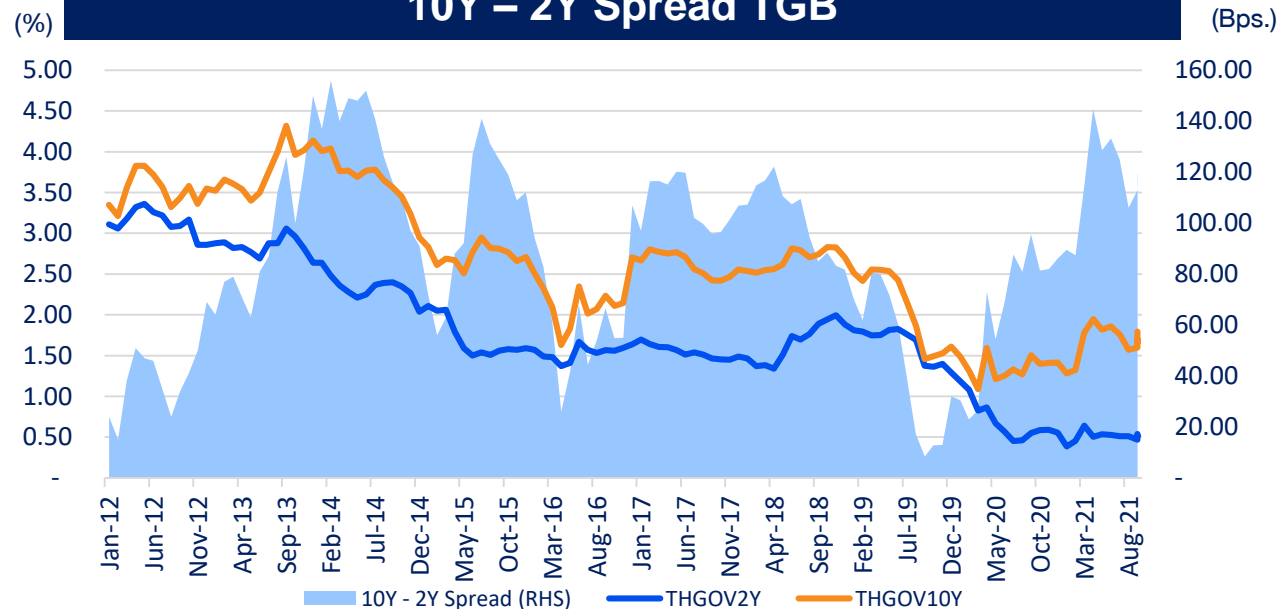
Thai Government Bond Movements



Slowly steepening Yield Curve



10Y - 2Y Spread TGB

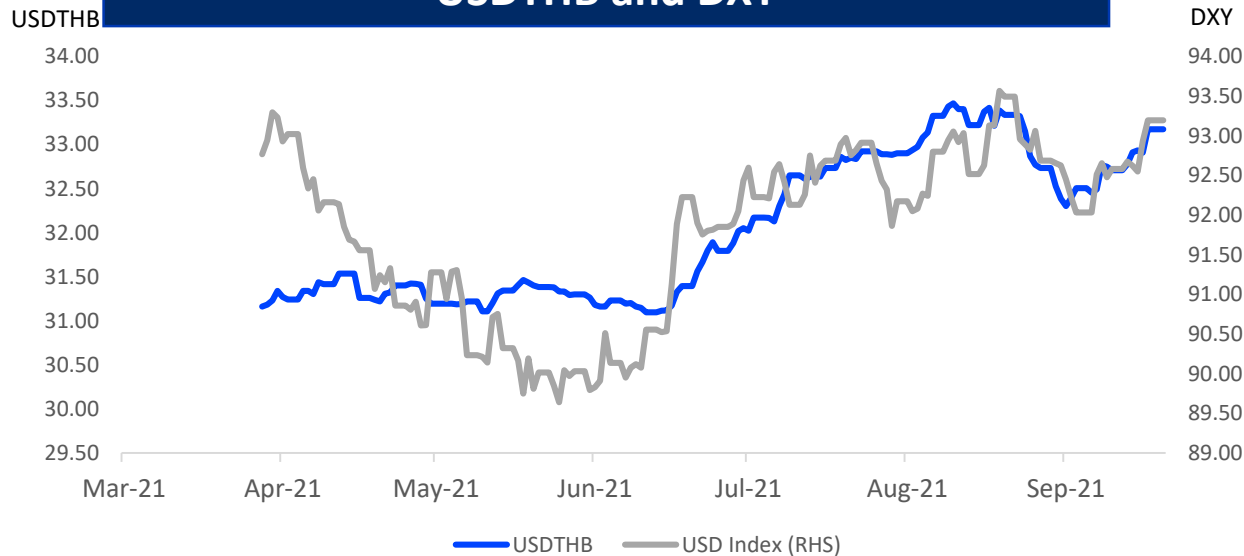


- Short term TGB will be mounted to policy rate at 0.50% at least through late 2022 as MCP may revise its policy rate at the beginning of 2023. It will be fluctuated in small range of 0.40-0.45%.
- Long term TGB and UST uptrend has been started again as unfolding covid-19 situation in Thailand and Fed policy stance which clearly signals tapering of asset purchase at the end of year.

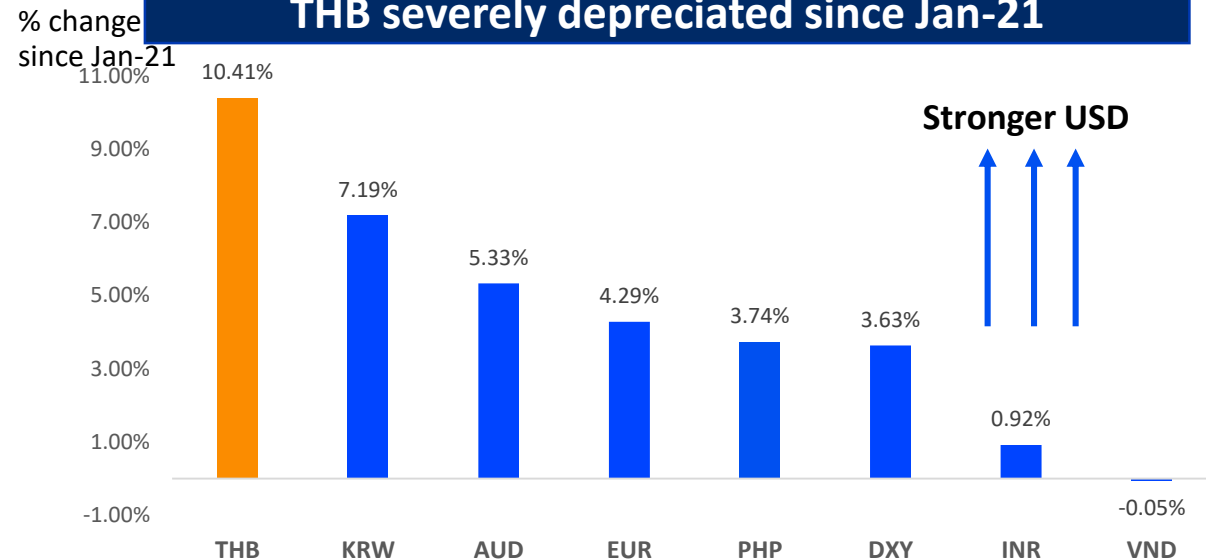
THB and Asian currencies largely depreciated against USD



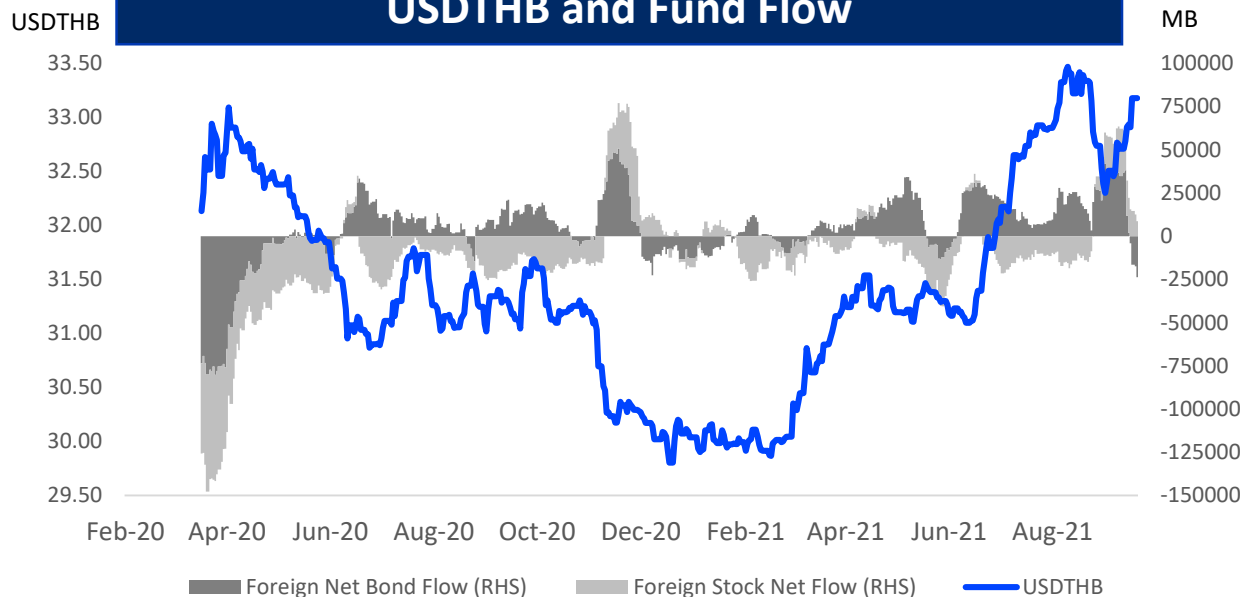
USDTHB and DXY



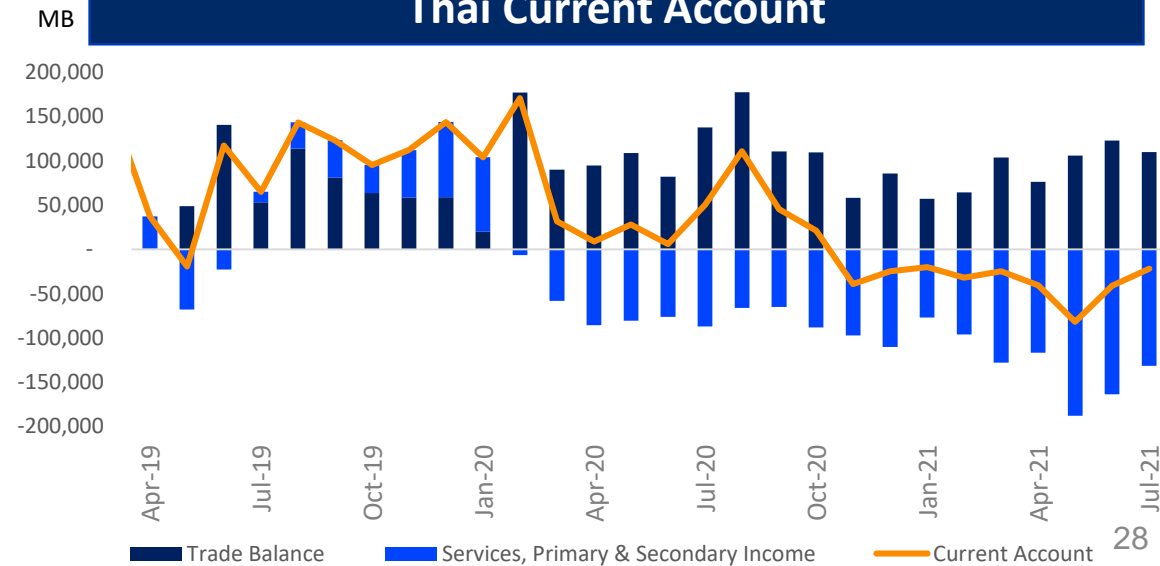
THB severely depreciated since Jan-21



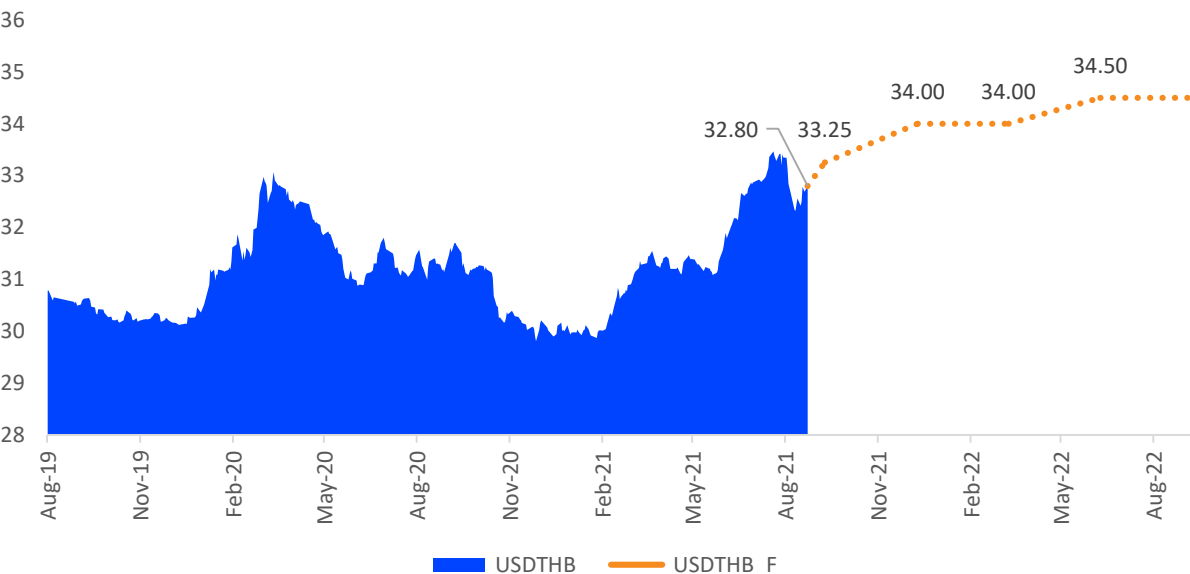
USDTHB and Fund Flow



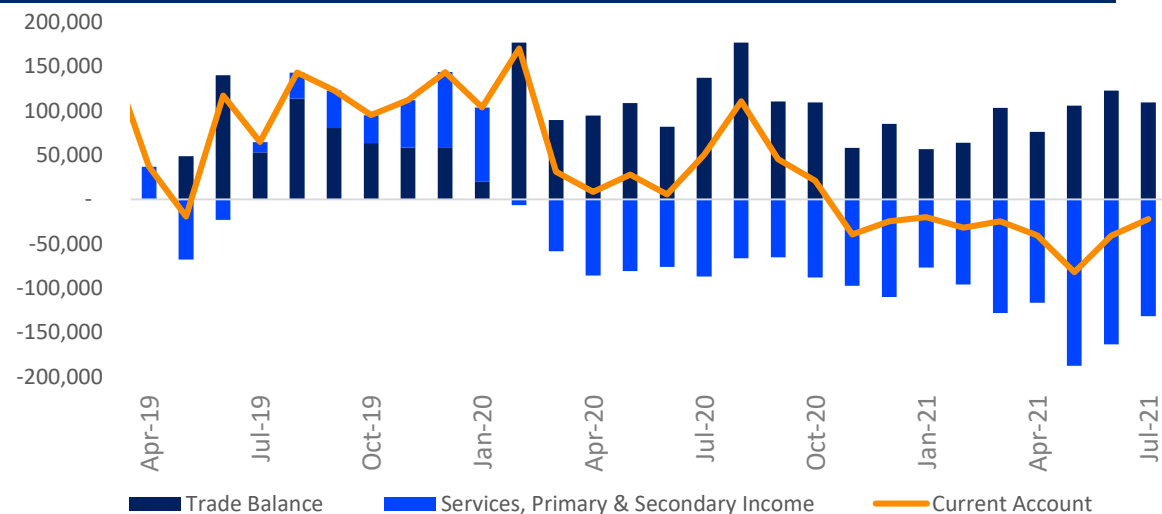
Thai Current Account



USDTHB continue to rebound



Negative current account will remain for a while



Factors affecting USDTHB

- In short term, Improved covid-19 situation in Thailand has reduced a chance of Thai MPC cut in this year. Fed Powell speech at Jackson Hole soften the weakening trend of THB against USD. The Fed chair underscored that inflation was temporary and there was no connection between QE withdrawal and the beginning of a federal funds rate hike. USDTHB may rebound to around 33.50 in short term.
- In the medium term, chance of THB weakening against USD is still base scenario as the gap in economic recovery and monetary policy stance. Negative factors for THB such as slower path of recovery compared to major currencies, negative current account and lower vaccination rate still did not change.
- Fed is likely to announce tapering plan in Sep or Nov meeting but the outcome will not be much different as the Fed may end up with only a month more or less of gradual reduction of asset purchase. Fed Tapering will eventually continue to put pressure on THB against USD and steepen both UST and TGB yield curve.

EURUSD likely to rise before Fed tapering



EURTHB will be slight up as THB weakening



Factors affecting EURUSD

- The ECB has just secured a taper without a tantrum as it will trim emergency bond purchases under the PEPP programme over the coming quarter.
- Overall, The risks remain broadly balanced and the euro area economic rebound is seen as broadly advanced. Output is expected to exceed pre-pandemic levels by the end of 2021 and current inflation is still seen as temporary. Inflation targets are still seen as below target for the medium term. ECB are not wanting to move on interest rates without being convinced that inflation is rising in a meaningful and significant way that it can only be managed by central bank action.
- In short term, Fed dovish tone compared to ECB may lead to rise in EURUSD but this might be temporary effect as the Fed will start QE tapering around year end.

Thank you



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