

Economic and Financial Outlook

Oct 2021

ttb analytics

Global Economy

- **PMI data in September showed impacts of supply shock that pressured manufacturing outlook.** Service sector in China and Japan advanced as strict government measures were lifted.
- **Global energy and non-energy prices are rising due to supply-demand mismatch** Oil price rose to 7 years high while gas and coal also rose due to new energy restriction rules in China
- **U.S. labor market displayed another month of abysmal number**, adding only new 198,000 jobs. It is the lowest number since January 2021. However, the unemployment rate decreased slightly to 4.8% due to people leave the labor force. It was still the lowest level since the pandemic started in 2020.
- **European inflation spiked due to rising energy price** following the inflation trend in the United States. Shortage in transport and energy boosted prices.
- **Chinese economic growth dropped in the third quarter.** Both industrial production and retail sales fell flat in September. Inflation remained in producer side.

Domestic Economy

- **As of Aug 2021, Thai economy was apparently impacted by the heightened third wave outbreak.**
- **Merchandise exports** recovered with softer momentum due to outbreak in several Thailand's trading partners, while imports also dropped due to weaker domestic demands and some halted production activities, arising from temporary factory shutdown. Foreign inbounds and Thai tourists also slightly declined due to such outbreak situation and strict covid19 prevention measures.
- **Domestic activities were fragile:** Consumption dropped significantly in all categories with vulnerable retail sales due to softened purchasing power, worsened consumer confidence and labor market. Private investment marginally declined in accordance with deteriorated business sentiment. Construction was at low level but started to show positive signal, real estate is about to rebound in Q4 in line with overall economic activities. Public Investment and SOE projects were accelerated their budget disbursements.
- **Inflation in Aug 2021** contracted due to declined raw food price and softened core inflation

Financial Market

- We now have a more concrete picture about **FED's tapering plan which should begin in November and last until mid 2022.** Also, markets improve their views on interest rate increase as the dot plot shows higher probability of increasing policy rate in 2022. It is expected Fed to first hike its policy rate in H2/2022.
- **10Y UST has aggressively moved up from 1.31% in mid of Sep-21 to around 1.65%.** The steepening trend of US yield curve is very obvious and we will continue to see more steep UST yield curve at the year end as 10Y – 2Y UST is still not very too high.
- Short term TGB will stick to policy rate at 0.50% at least through Q1/2023. **Long term TGB yield might be raised in the medium term** with more limited upside compared to Long term UST.
- **THB fundamental hasn't changed much since few months ago. Compared to USD, THB might continue to be weakening through 2021 and H1/2022** as weaker economic recovery than global peers, negative current account. The reopening scheme should not impact the weakness of THB due to expected low volume of tourists.

PART 1

Global Economy



Supply tensions and rising prices caused manufacturing outlook to drop further



Manufacturing PMI

	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21
Australia	56.9	56.8	59.7	60.4	58.6	56.9	52.0	56.8
China	50.9	50.6	51.9	52.0	51.3	50.3	49.2	50.0
India	57.5	55.4	55.5	50.8	48.1	55.3	52.3	53.7
Indonesia	50.9	53.2	54.6	55.3	53.5	40.1	43.7	52.2
Japan	51.4	52.7	53.6	53.0	52.4	53.0	52.7	51.5
South Korea	55.3	55.3	54.6	53.7	53.9	53.0	51.2	52.4
Thailand	47.2	48.8	50.7	47.8	49.5	48.7	48.3	48.9
Canada	54.8	58.5	57.2	57.0	56.0	56.2	57.2	57.0
United States	58.6	59.1	60.5	62.1	62.1	63.4	61.1	60.7
Germany	60.7	66.6	66.2	64.4	65.1	65.9	62.6	58.4
France	56.1	59.3	58.9	59.4	59.0	58.0	57.5	55.0
Italy	56.9	59.8	60.7	62.3	62.2	60.3	60.9	59.7
United Kingdom	55.1	58.9	60.9	65.6	63.9	60.4	60.3	57.1
Spain	52.9	56.9	57.7	59.4	60.4	59.0	59.5	58.1

Service PMI

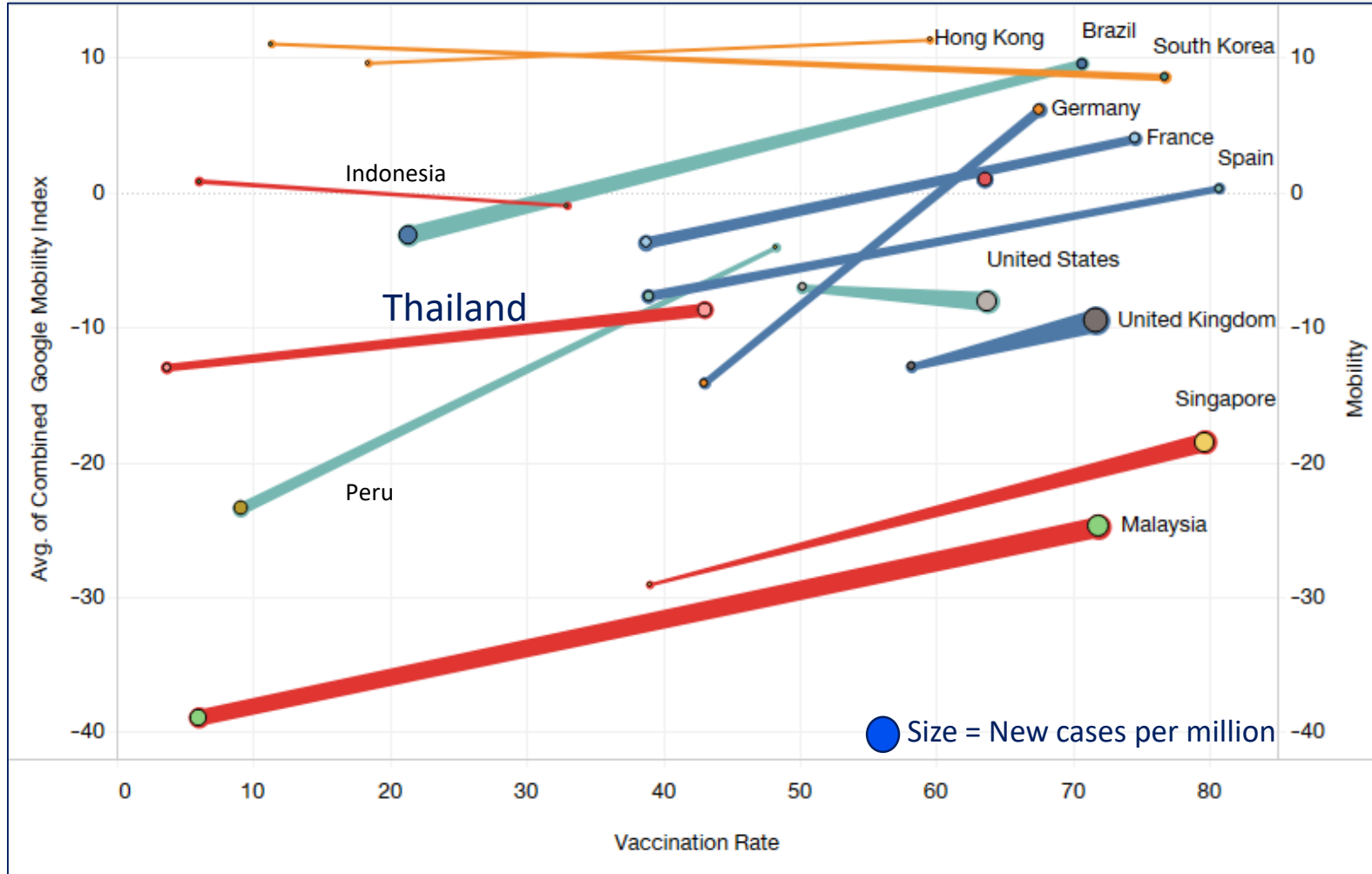
	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21
Australia	53.4	55.5	58.8	58.0	56.8	44.2	42.9	45.5
China	51.5	54.3	56.3	55.1	50.3	54.9	46.7	53.4
Japan	46.3	48.3	49.5	46.5	48.0	47.4	42.9	47.8
India	55.3	54.6	54.0	46.4	41.2	45.4	56.7	55.2
United States	59.8	60.4	64.7	70.4	64.6	59.9	55.1	54.9
Germany	45.7	51.5	49.9	52.8	57.5	61.8	60.8	56.2
France	45.6	48.2	50.3	56.6	57.8	56.8	56.3	56.2
Italy	48.8	48.6	47.3	53.1	56.7	58.0	58.0	55.5
United Kingdom	49.5	56.3	61.0	62.9	62.4	59.6	55.0	55.4
Spain	43.1	48.1	54.6	59.4	62.5	61.9	60.1	56.9

- 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).
- September PMIs data showed impact of supply crunches which caused slowdown in most countries. Also, business faced higher production costs. Manufacturing PMIs globally continued to drop. Service sector in China and Japan improved significantly due to lifting of government measures.

Global mobilities improved, despite of Delta variant, due to fast progress of vaccination



Google Mobility Index vs Vaccination rate

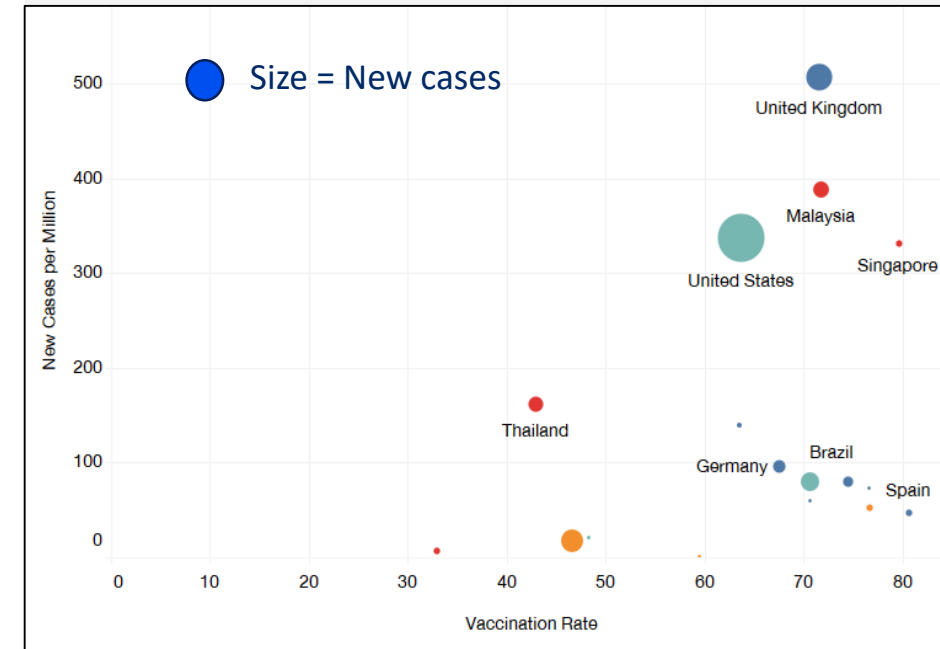


Before Delta variant (May 2021)



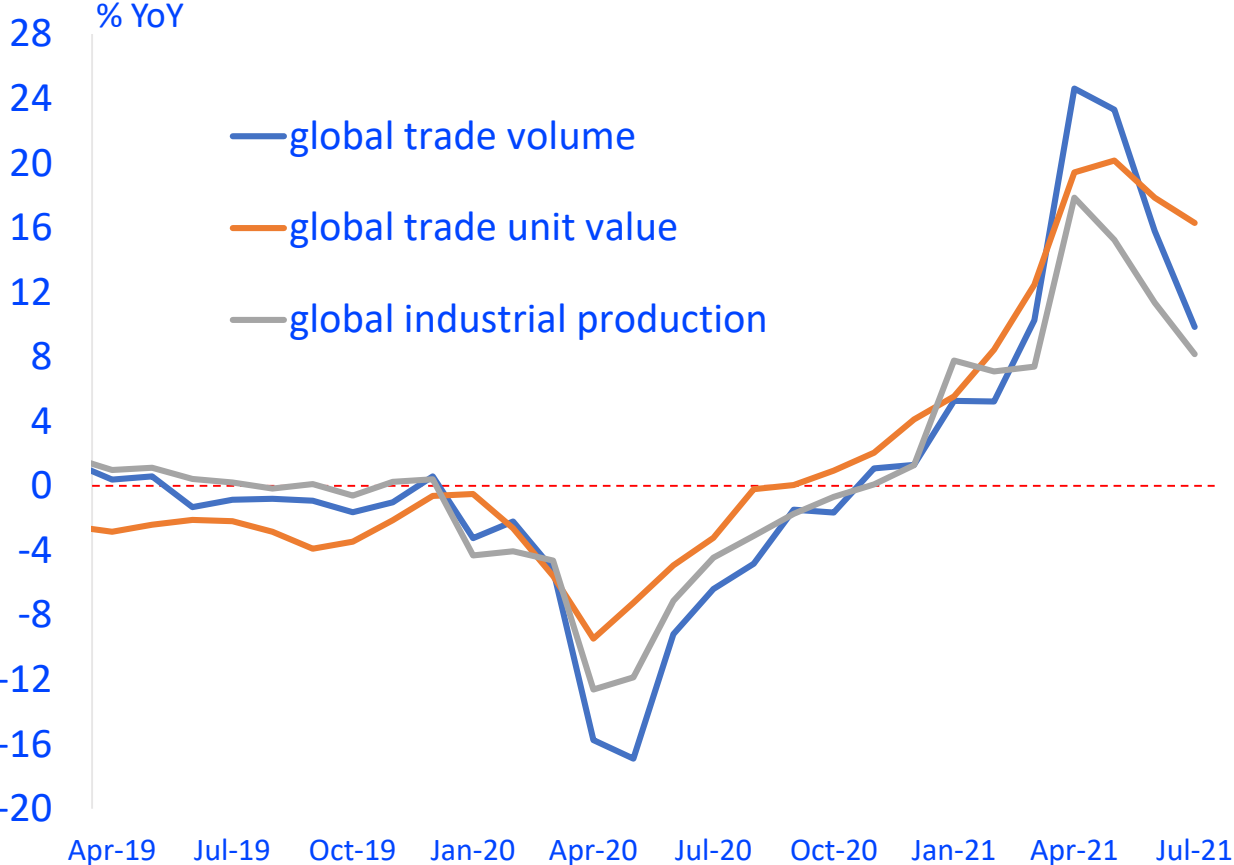
After Delta variant (Sep 2021)

New cases & Vaccination rate (Oct21)

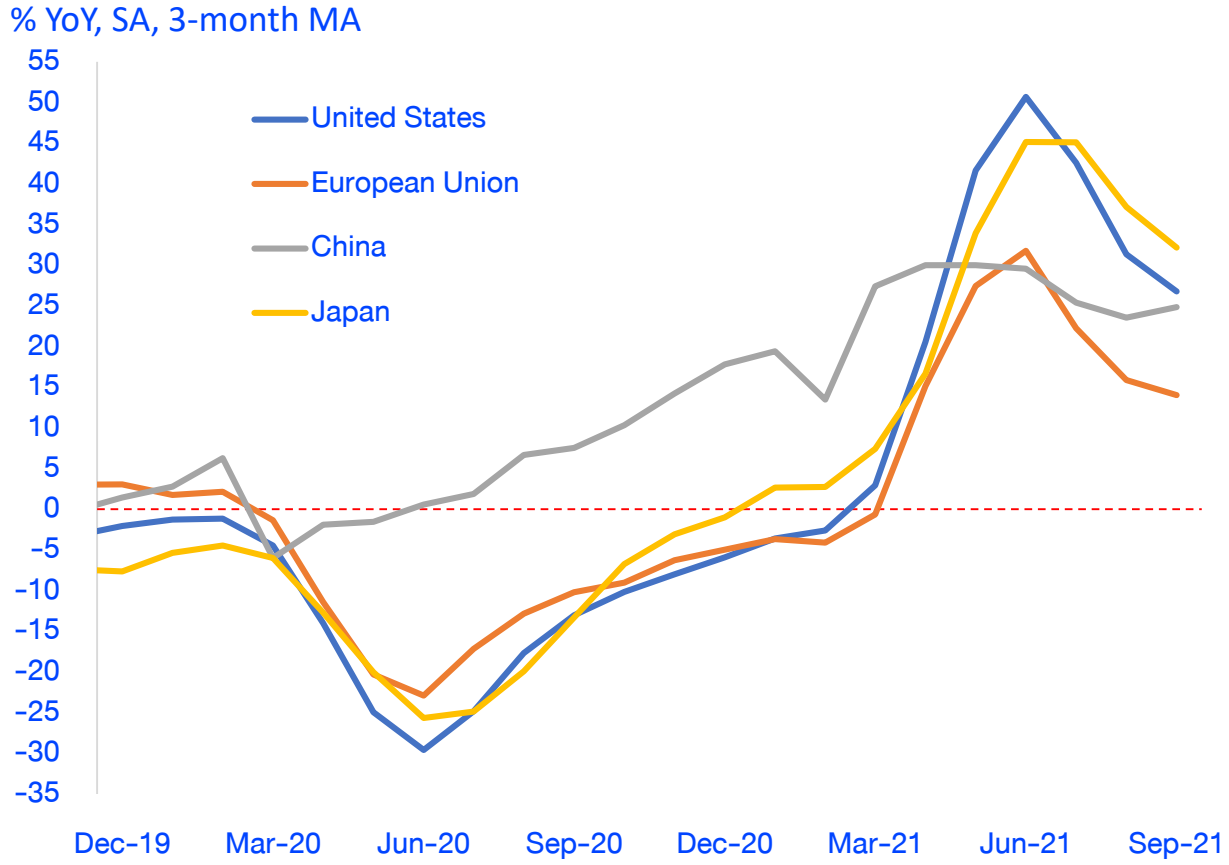


- ASEAN
- Asia
- Europe
- North & South America

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.

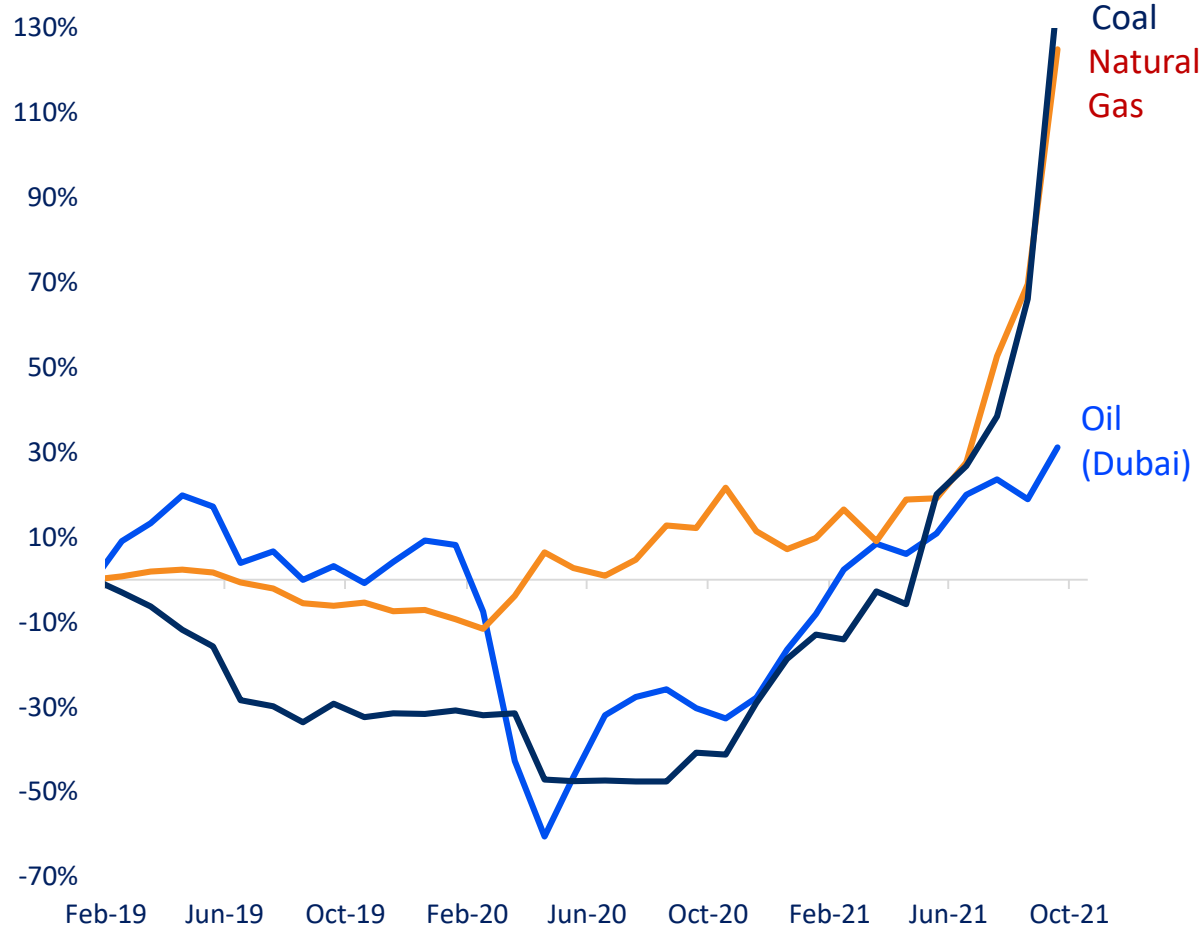
■ Exports contracted across the board as demands shifted from goods to service. US exports growth slowed down from rising base in Q3.

Global energy and non-energy prices are rising due to supply-demand mismatch



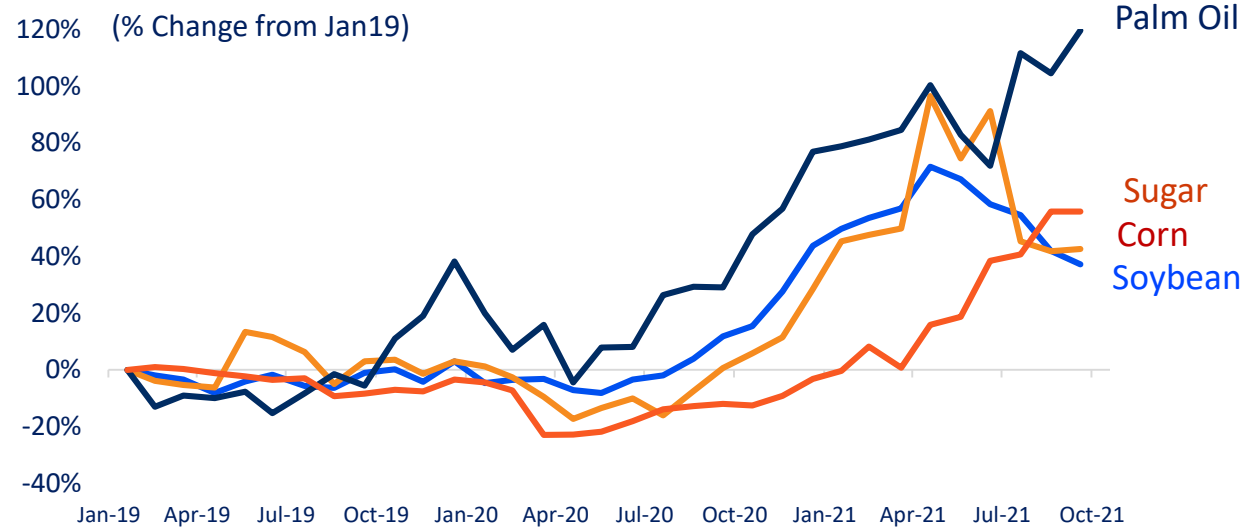
Energy

(% Change from Jan19)



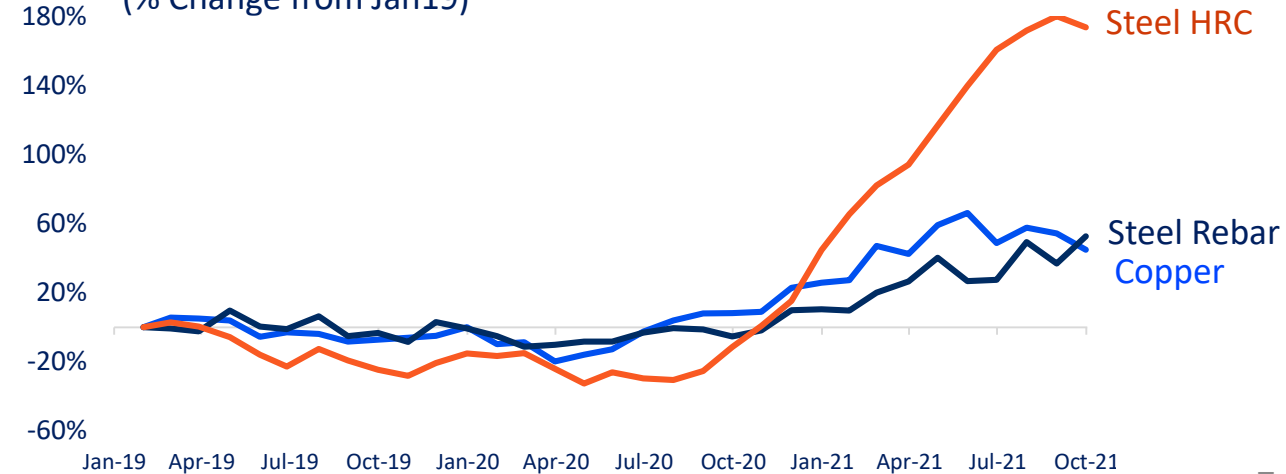
Agricultural Products

(% Change from Jan19)



Manufacturing and Construction Materials

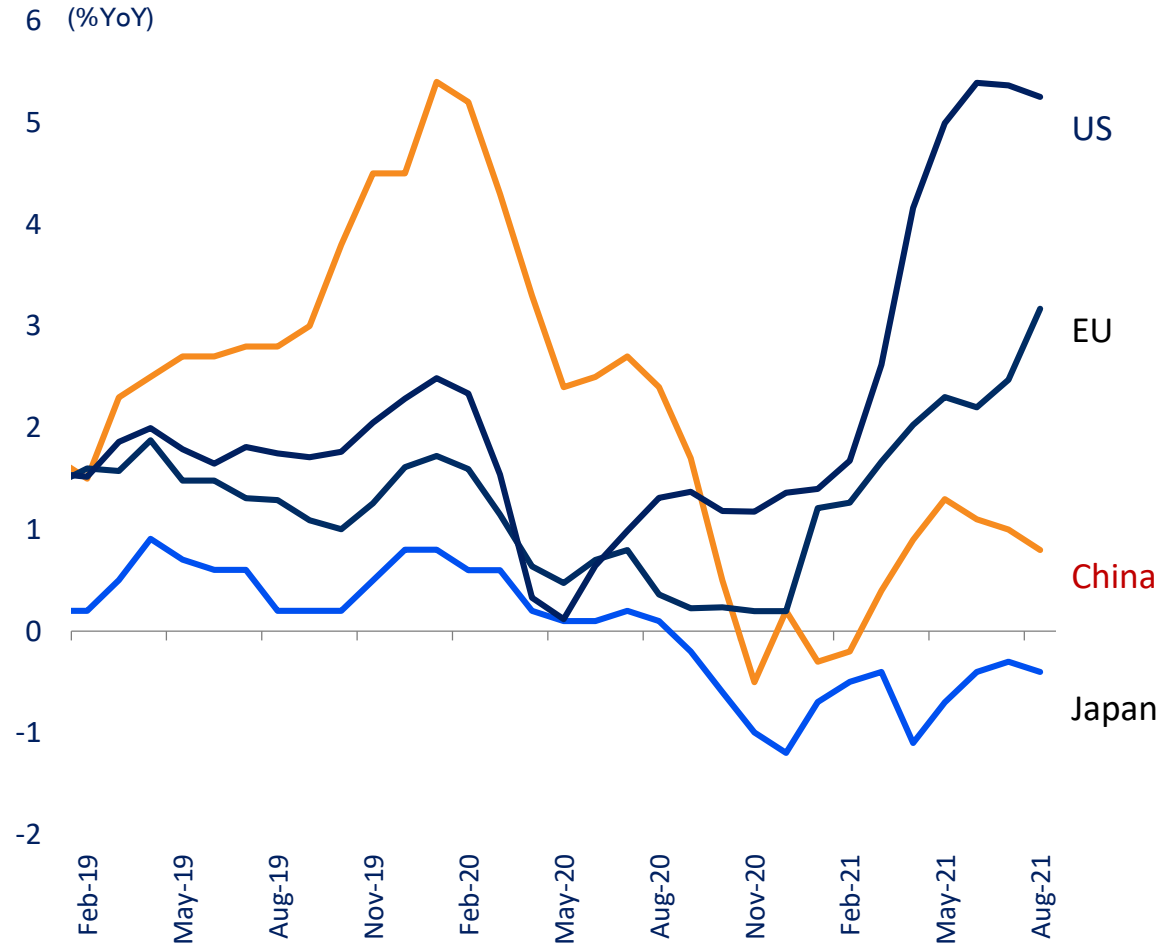
(% Change from Jan19)



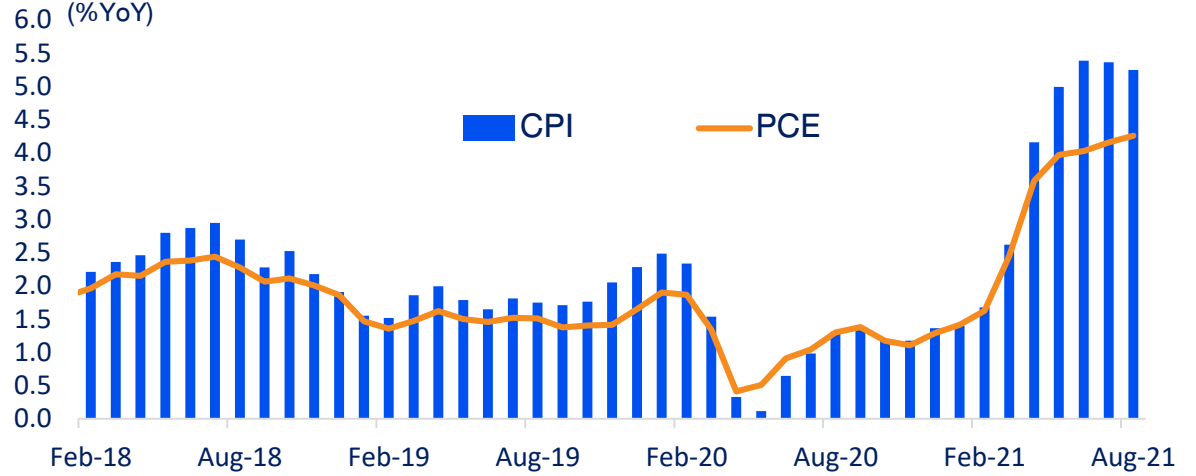
Global inflations and inflation expectation were impacted by jumping in energy costs



Global Inflation (%)



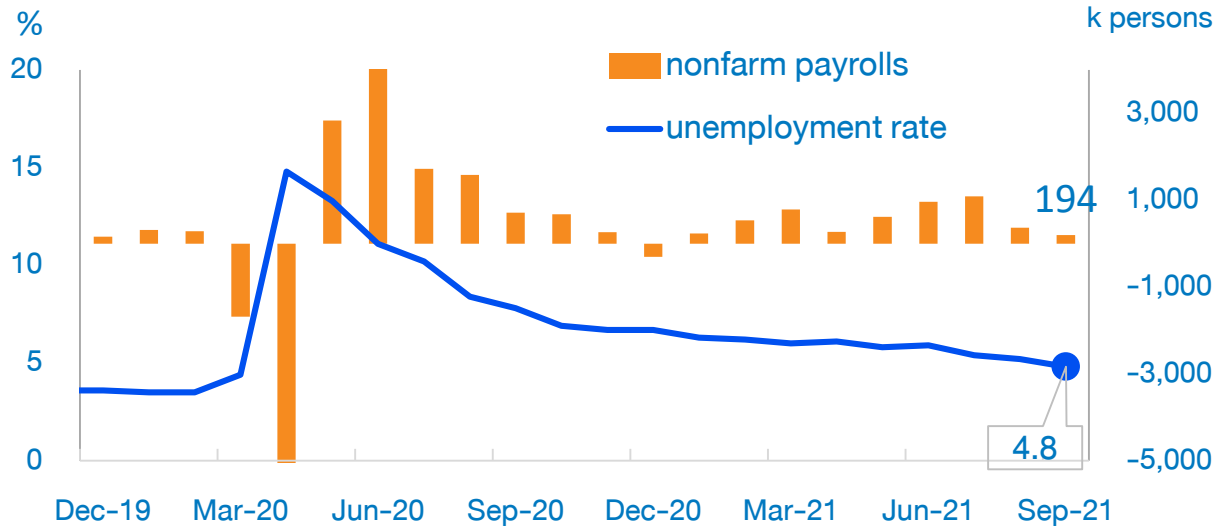
US Inflation (%)



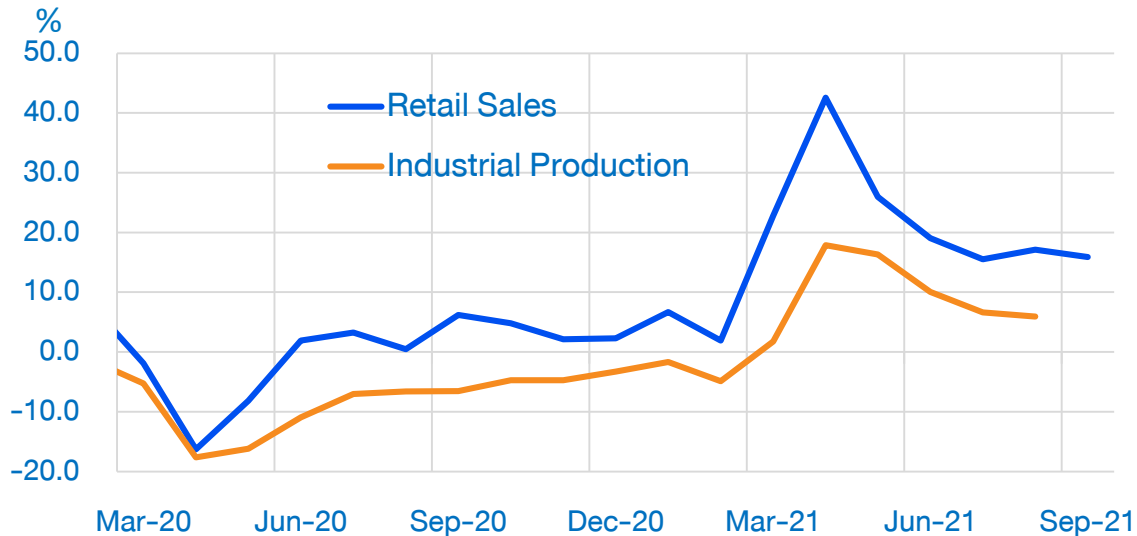
US Inflation expectation reached 8-year high



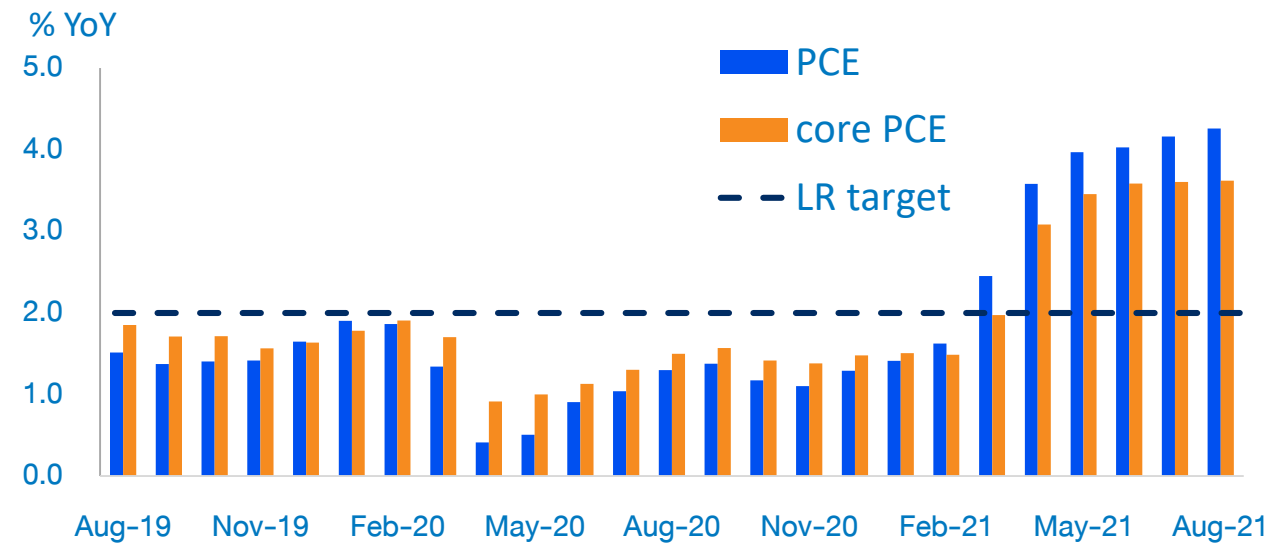
New jobs number remained weak for the second month



Retail sales growth began to taper from rising base impact



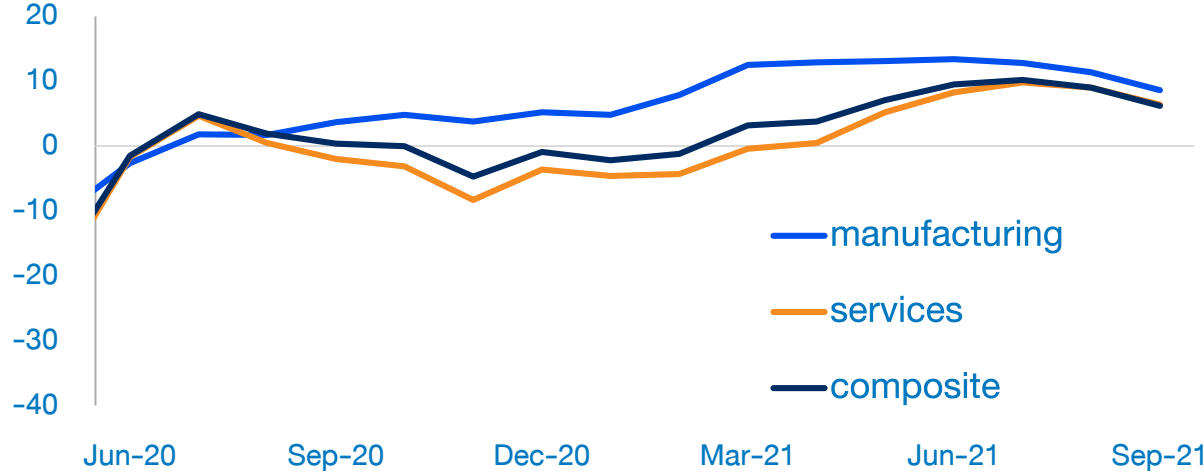
Inflation maintained its high level in August



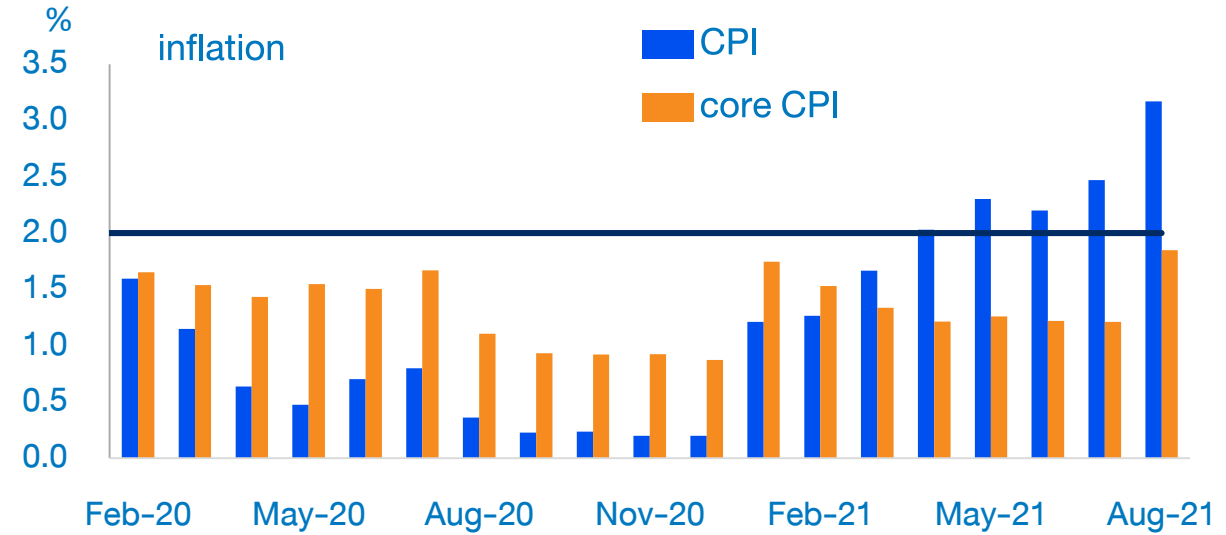
- In September, nonfarm payroll dropped below expectation with only new 194,000 jobs. It is the lowest number since January 2021. The unemployment rate decreased slightly to 4.8%, due to people leaving labor force. It was still the lowest level since the pandemic started in 2020. This data may suggest challenges in improving labor markets.
- Retail sales growth surprisingly remained high despite rising base of 2020. In September, retail sales grew 16% (seasonally adjusted) in comparison to 6% growth last year. Industrial production slightly contracted from last month to 6%.
- In August, price continued to rise from goods and service sector while transportation price began to taper. PCE rose 4.3% yoy while core PCE rose 3.6%.

Manufacturing outlook faced pressure from supply shock

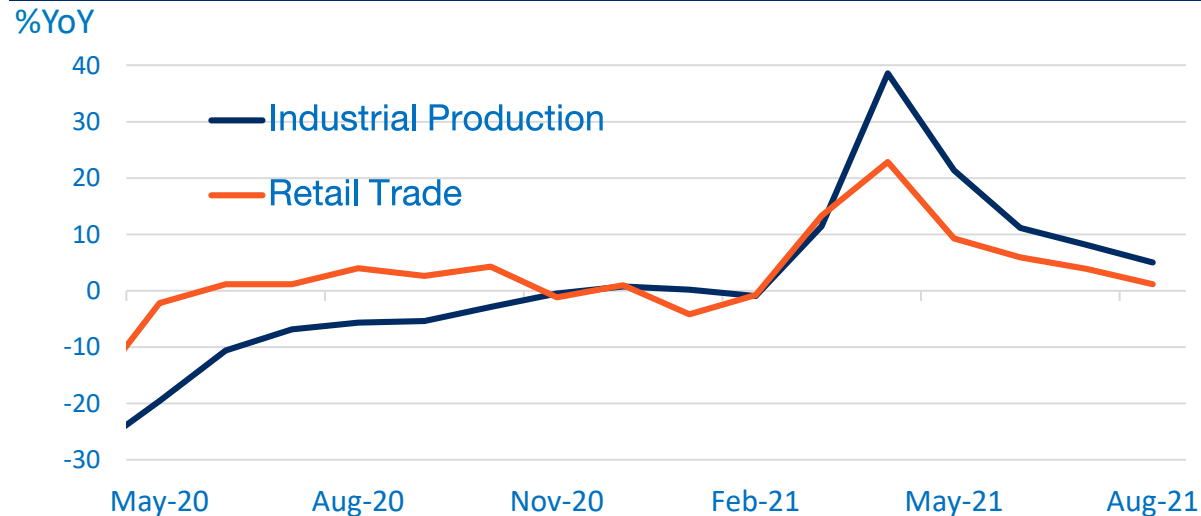
%MoM, deviations from 50, + expansion - contraction



Inflation spiked above ECB's target

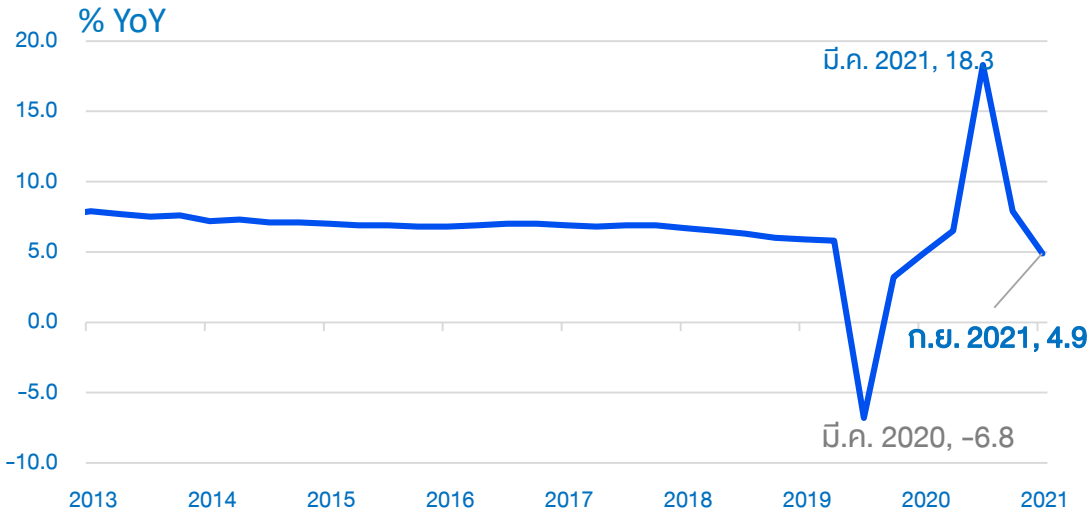


Retail and Industrial production returned to normal

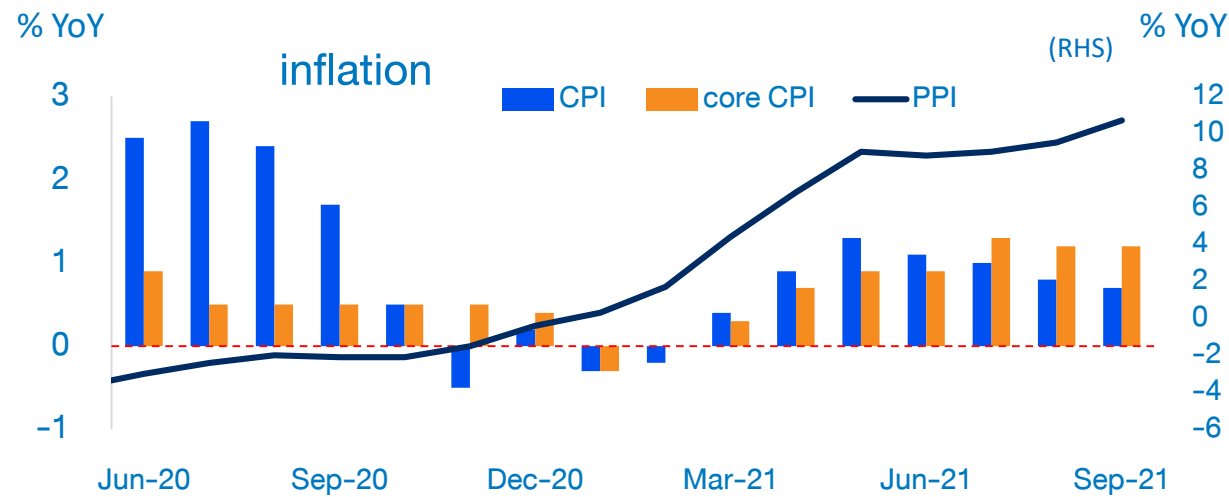


- In September, despite maintaining at high level, manufacturing sector outlook dropped from supply chain issues and rising production costs.
- European Union inflation continued to grow significantly 3.2% in August with support from food and energy price. Core inflation increased from last month to 1.8%, the highest level in the year.
- Retail trade and industrial production in August adjusted downward from last month due to base impact. Retail trade rose 1% in August while industrial production rose 5% in August

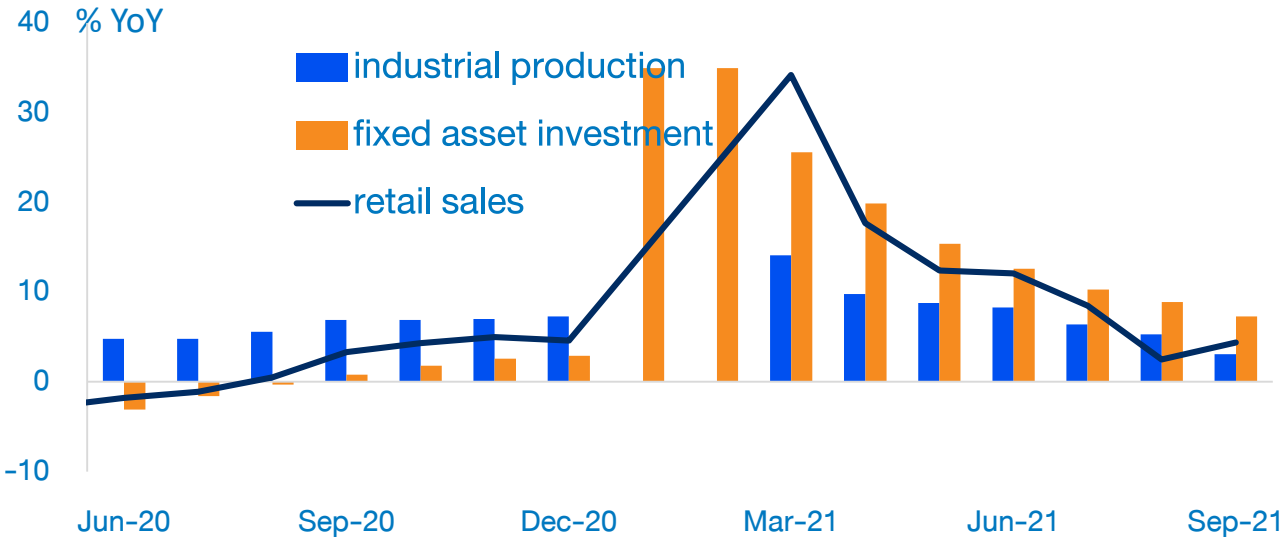
China growth in 3Q21 at 4.9% below expectation



CPI eased from falling food price, PPI remained high

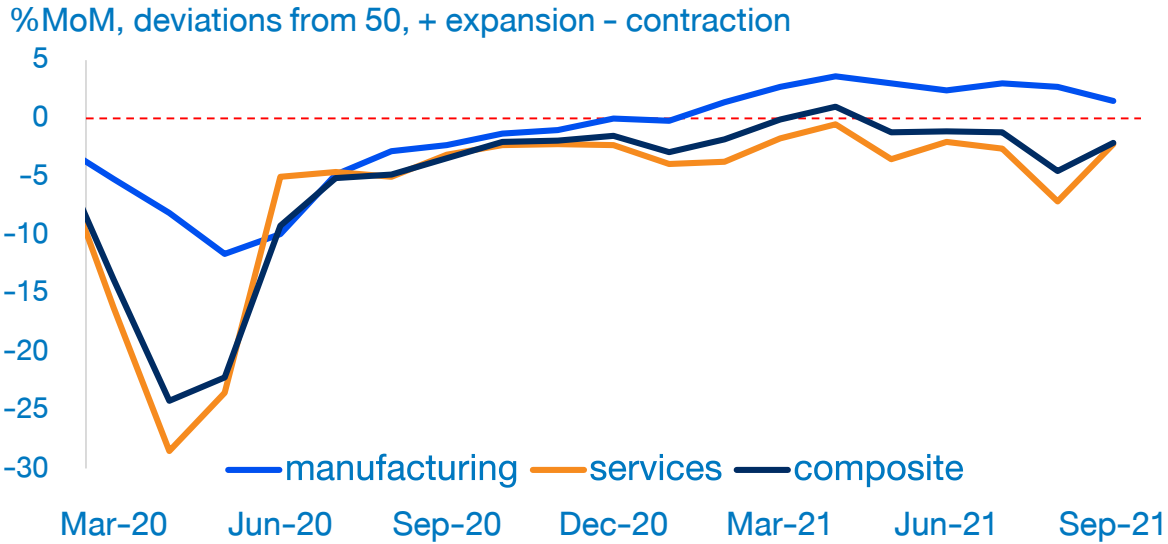


Growth slowed down in the third quarter

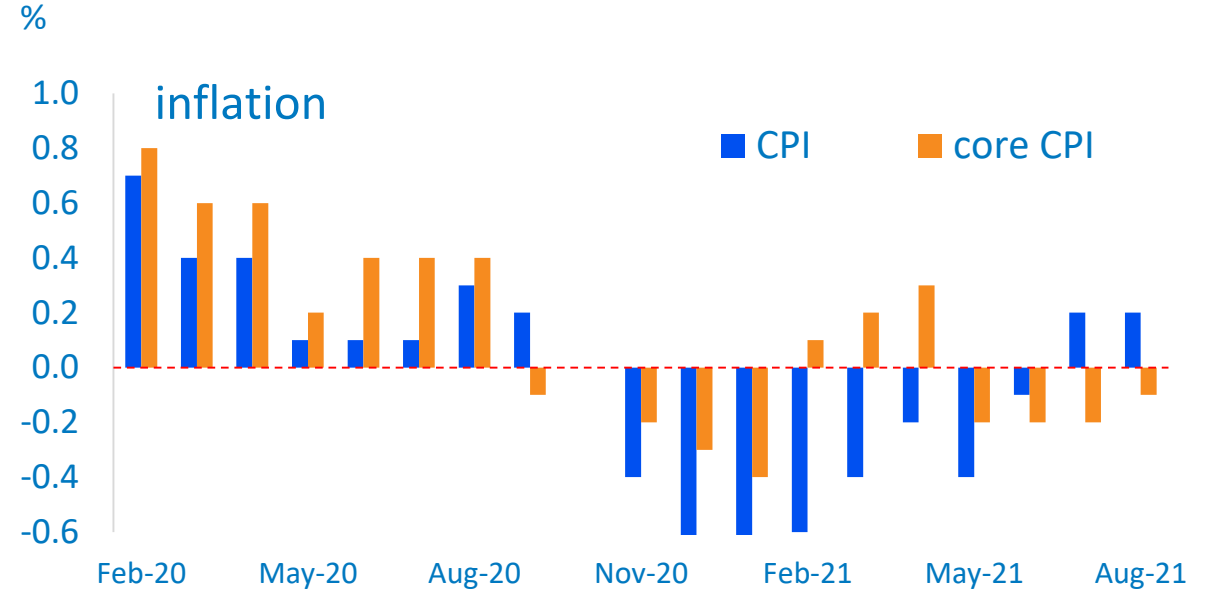


- Chinese economic growth in third quarter grew 4.9%, which was below market expectation. Supply shortages and rising energy costs affected growth in the third quarter.
- Economic activities significantly dropped in the third quarter. In September, industrial output rose 3.1%, the lowest level in a year. Retail sales slowed down to 4.4%. Fixed-asset investment grew 7.3%
- Inflation slowed down slightly in August due to falling food price. CPI grew 0.7% YoY. PPI growth remained high at 10.7% from rising commodities prices.

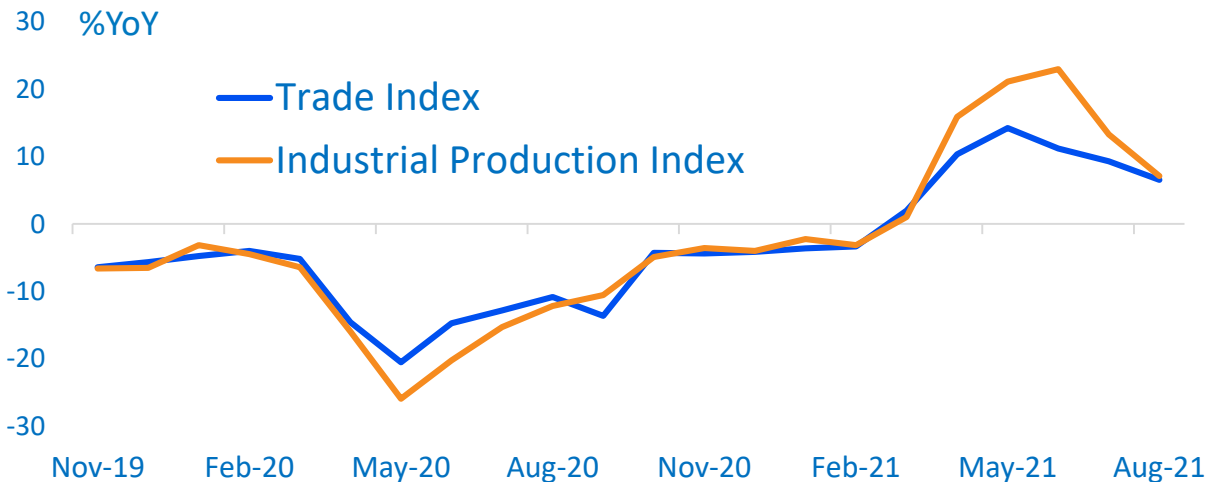
Service outlook improved from government policy



Japan's inflation rose from energy price in July



Trade and Production dropped near normal level



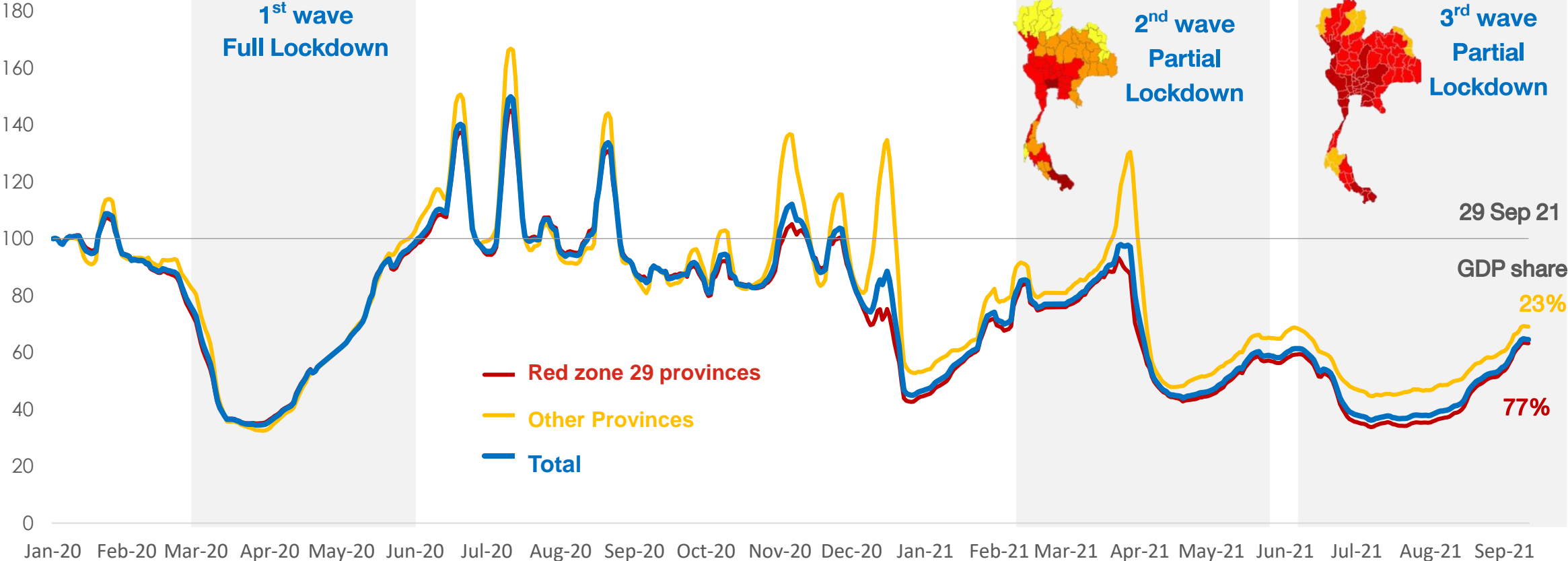
- Service outlook advanced in September but remained in a contraction. The recovery came from the lifting of government emergency protocols. Composite PMI remained in the contraction zone for the fifth month.
- Trade and industrial production began to taper as the effect from low bases last year disappeared.
- Core CPI still contracted, but CPI maintained its level from July due to high energy price. CPI expanded 0.2% while core CPI improved to -0.1%

PART 2

Domestic Economy



Apple Mobility index



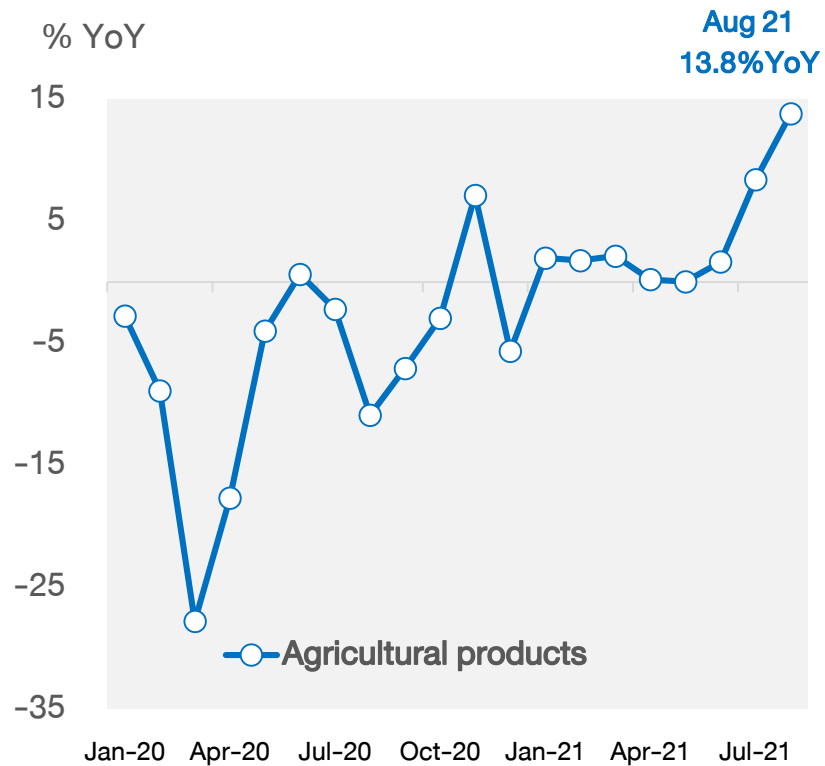
Coincident economic Index (Seasonally Adjusted)

	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	Aug-21	
Production	Coincident Economic Index (sa)	95.3	95.4	95.7	97.1	98.1	98.3	98.7	98.9	99.0	98.3	99.7	100.0	99.1	99.7	99.6	98.6	98.1
	Import Volume index (exclude Gold)	89.5	75.6	76.6	78.7	82.8	87.4	87.2	90.7	95.2	96.9	100.6	100.8	102.7	108.5	103.8	104.3	110.3
	Manufacturing Production Index	82.6	78.6	82.9	88.5	92.3	95.6	97.8	96.6	97.4	98.1	97.6	99.4	98.7	98.6	98.3	92.3	89.1
	Gross Value Added Tax at 2000 price (Million ba)	46,501.8	52,393.6	45,461.4	48,411.0	48,722.5	46,712.4	47,758.6	49,026.6	48,381.3	43,515.5	57,931.1	59,363.1	51,429.2	54,264.4	55,329.6	53,897.3	55,568.5
C	Domestic Automobiles Sales (Unit)	33,489.1	44,346.4	55,086.0	62,542.3	73,003.4	76,194.1	74,369.7	73,657.0	75,918.8	64,922.0	64,606.7	66,505.5	65,327.3	61,745.8	63,290.2	55,825.0	44,045.2
	Sales Benzene, Gasohol & Diesel Index	69.8	89.2	94.9	105.7	103.1	109.0	101.0	100.9	100.0	82.1	97.0	104.2	87.4	80.3	85.9	70.4	68.0
	VAT Hotel & Restaurant Index	14.4	22.7	38.6	38.6	34.0	44.7	45.3	49.8	25.0	20.0	34.7	38.3	20.2	18.9	28.2	21.4	19.5
I	Imports of Capital Goods at 2010 price (Million US\$)	3,391.1	3,087.9	3,278.6	3,352.9	3,409.0	3,544.7	3,424.9	3,733.8	3,971.3	3,871.7	4,189.4	4,150.6	4,091.5	3,940.8	4,156.9	4,183.2	4,228.9
	Domestic Machinery Sales at 2010 price (Million ba)	59,309.9	50,269.9	56,810.2	62,954.4	68,973.6	73,146.1	74,962.8	77,003.1	78,246.4	80,530.5	80,784.7	81,131.3	80,846.5	80,060.7	85,000.5	84,752.9	83,800.5

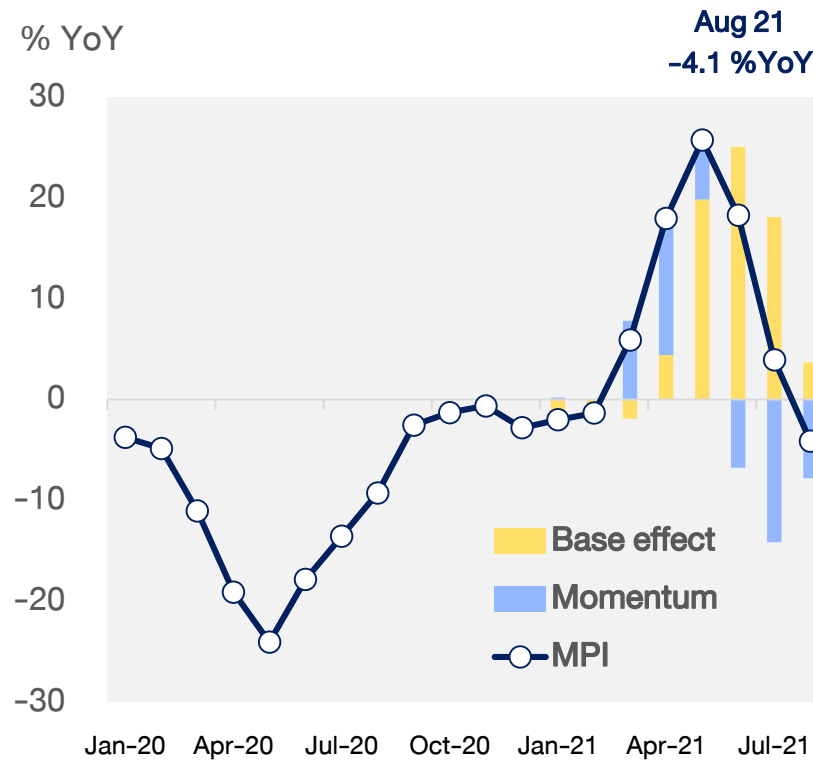
	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	
Services	Service Production Index	92.6	91.7	91.5	92.7	93.9	93.9	93.4	94.0	94.4	91.0	90.6	91.6	91.1	92.2	92.6	91.2	88.4
	Wholesale and retail trade; repair of motor vehicles	56.4	57.5	59.6	60.8	62.9	63.8	64.4	63.9	64.7	62.0	64.9	73.0	66.0	66.2	66.4	63.1	62.3
	Transportation and storage	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	1.7
	Accommodation and food service activities	90.8	91.5	98.9	95.4	94.7	97.6	90.1	98.3	112.6	101.9	90.7	117.8	102.1	111.1	105.3	99.0	106.2
	Information and communication	127.3	128.9	131.3	113.7	114.7	94.1	92.3	97.1	99.0	95.7	96.2	98.6	92.6	95.3	97.8	95.6	98.1
	Financial and insurance activities	82.4	87.4	93.9	95.2	97.4	120.9	94.5	96.9	106.0	104.9	101.2	101.9	93.4	97.3	99.2	120.1	117.4
	Real estate activities	80.9	75.9	83.7	93.8	88.5	97.0	97.7	93.4	109.7	97.5	94.6	113.6	102.1	101.5	106.9	103.0	98.1
	Professional, scientific and technical activities	68.8	62.8	68.7	66.4	72.6	74.6	72.4	74.6	80.1	72.6	72.3	83.8	76.2	75.8	79.1	87.3	90.3
	Administrative and support service activities	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	108.6
	Public administration and defence; compulsory social security	82.7	81.4	84.0	84.3	85.3	86.7	82.8	85.0	87.4	82.2	81.3	86.9	82.1	82.1	82.3	83.1	83.2

While manufacturing sector dropped due to weaker momentum and less base effects, Service sectors also got hit by the outbreak in retails, transportation, accommodation and financial services

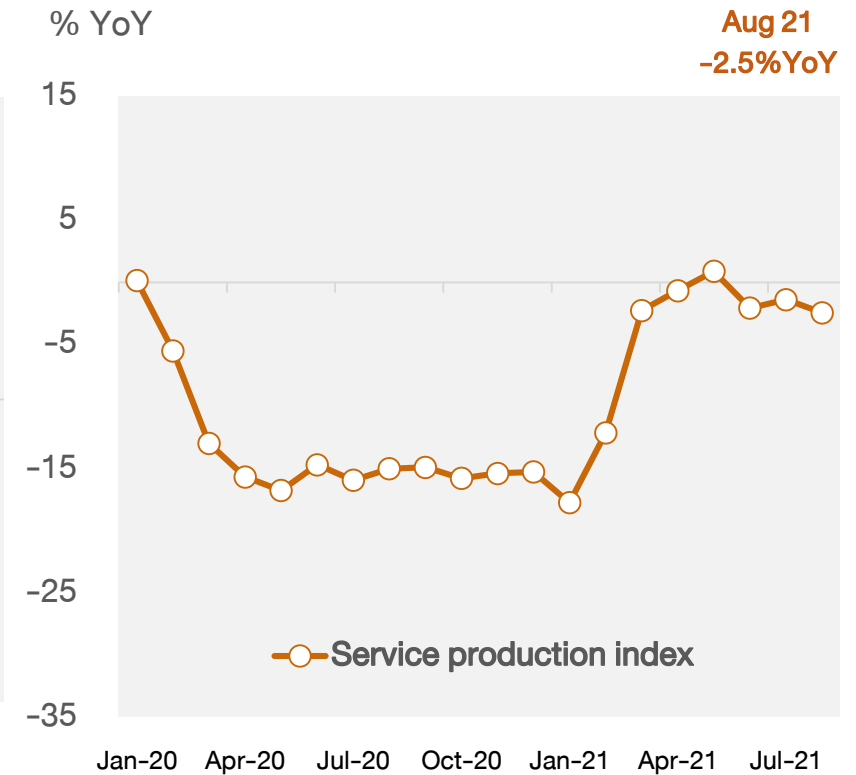
Agricultural Production



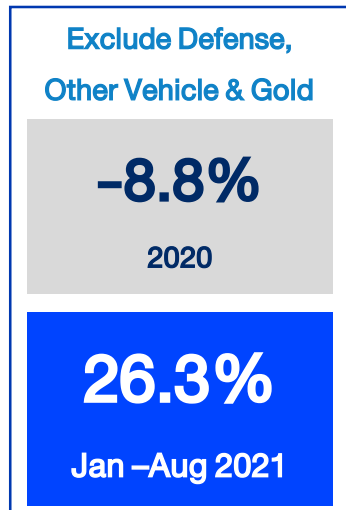
Manufacturing Production



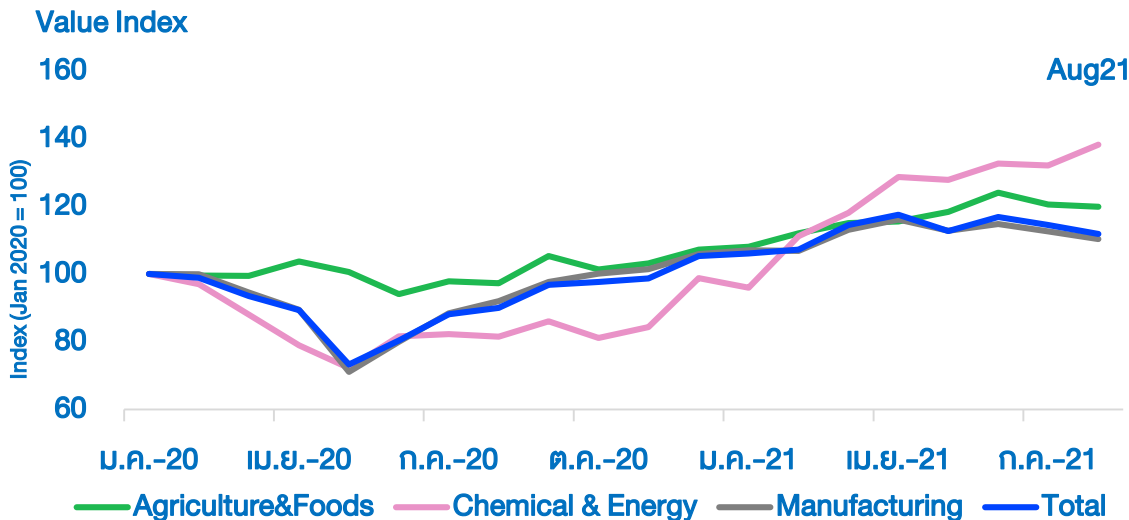
Services Providing



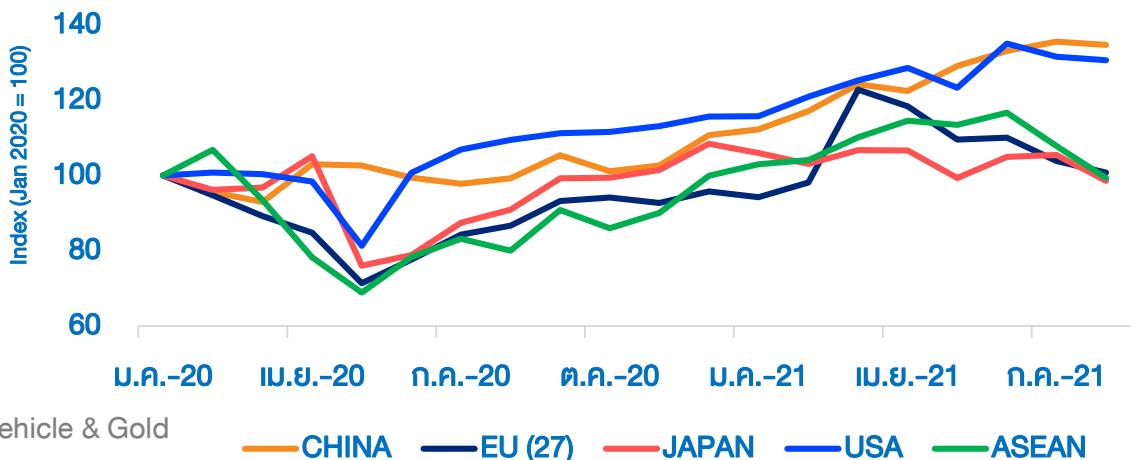
Total Export Growth



Exports value by groups (sa)*

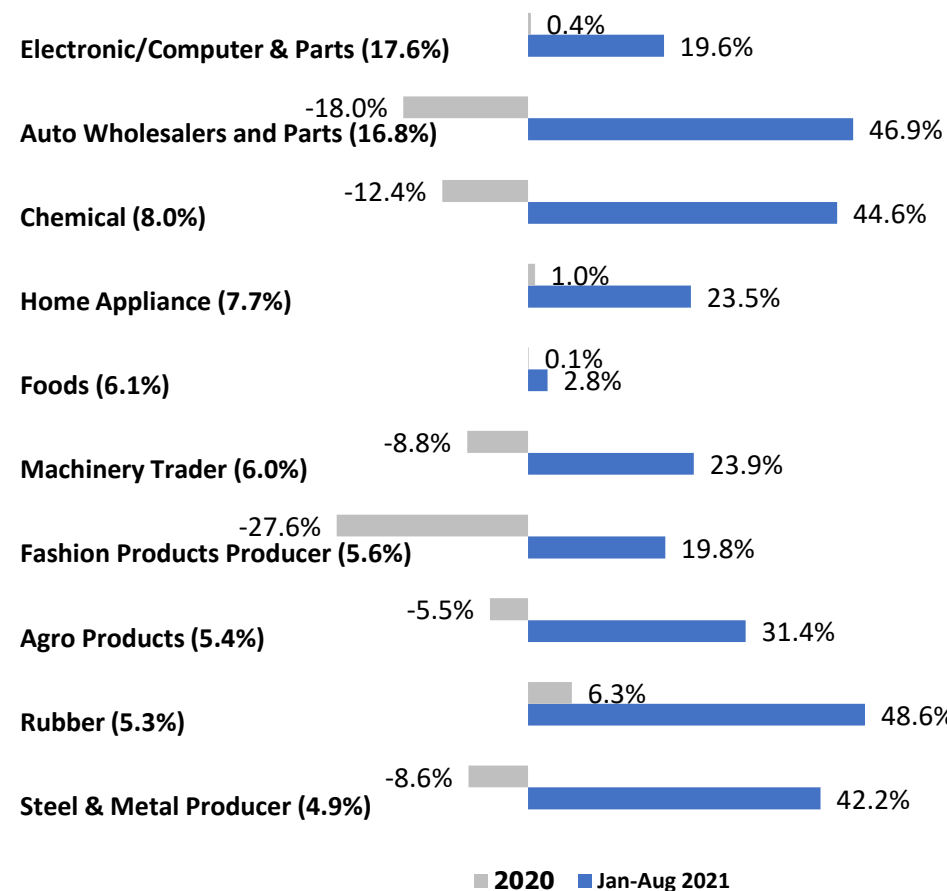


Exports value by destination (sa)*



Top 10 Export by Sector*

%yoy growth in USD



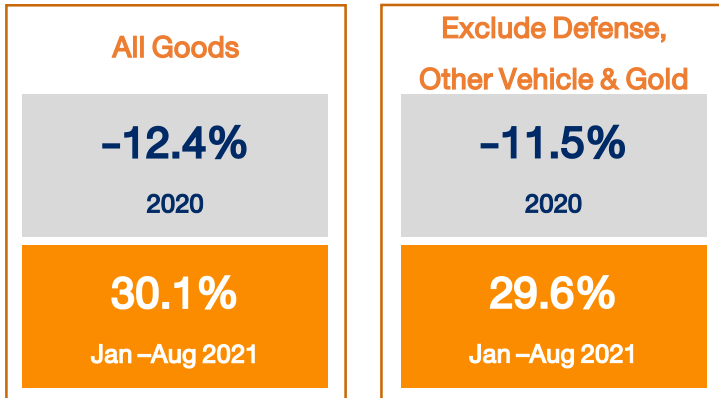
Risk to exports

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

Note: *Exclude Defense, Other Vehicle & Gold

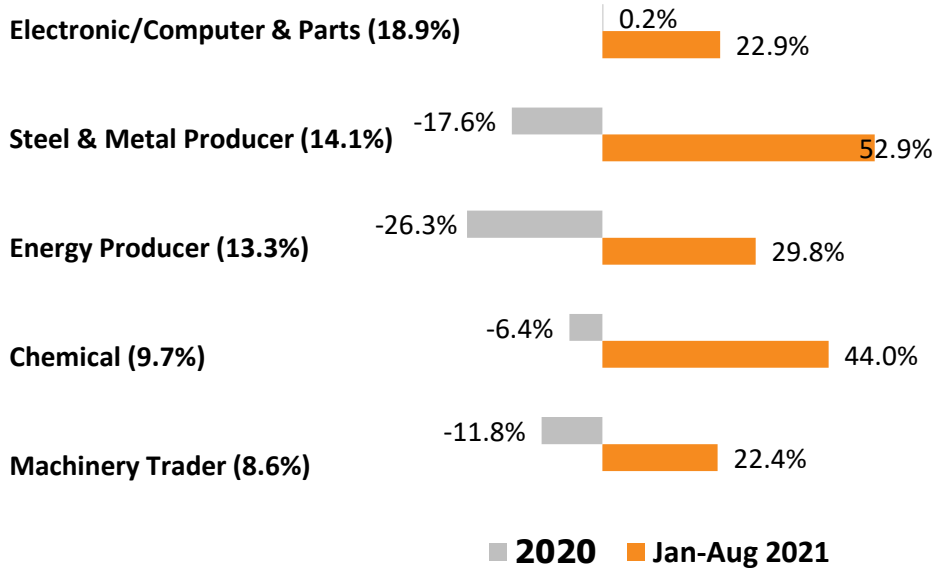
Source: MOC and ttb analytics

Total Import Growth



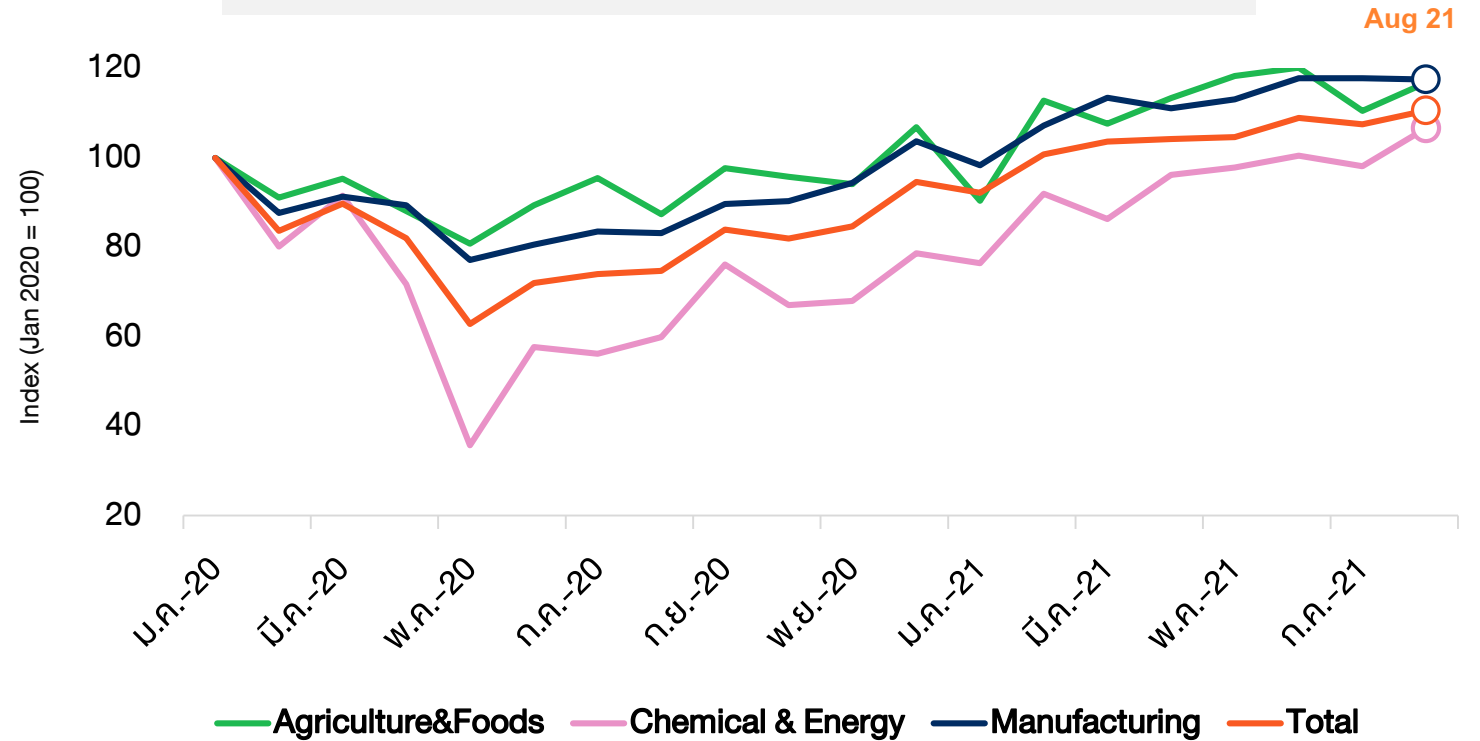
Top 5 Import by Sector

%yoy growth in USD



*share of import

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

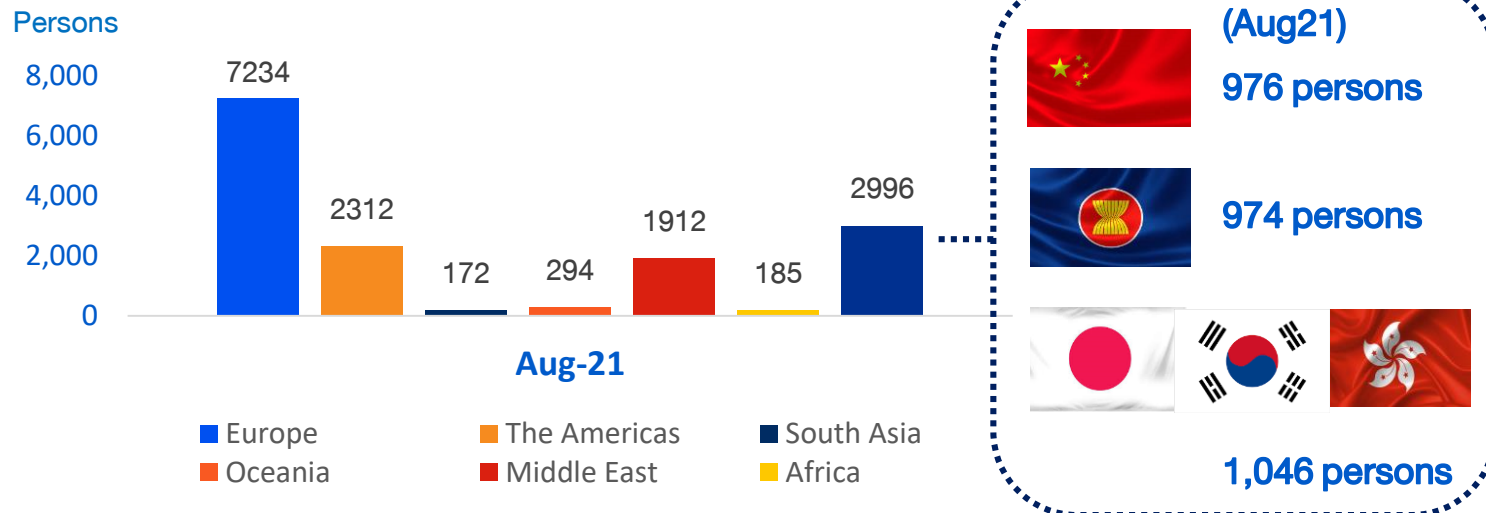
Total foreign tourist inbound



- As of Aug2021, foreign tourist inbounds slightly dropped due to outbreak situation and prevention measures. (Spending per trip is 60,000–70,000 baht per a tourist)
- The First phase of reopening border will start on 1 November 2021:

All areas of Bangkok, Krabi and Phang-Nga and Designated areas in Buri Ram (Mueang), Chiang Mai (Mueang, Mae Rim, Mae Taeng, and Doi Tao), Chon Buri (Pattaya, Bang Lamung, Na Jomtien, and Sattahip), Loei (Chiang Khan), Phetchaburi (Cha-Am), Prachuap Khiri Khan (Hua Hin), and Ranong (Ko Phayam).

Number of Foreign Tourist



Pilot phase (1 Oct 2021) : continue with 4 beaches and reopening of new designated areas in Krabi – Khlong Muang and Thap Khaek

First phase (1 Nov 2021) : extend to Bangkok, Krabi, Phang-Nga as well as other 10 designated areas

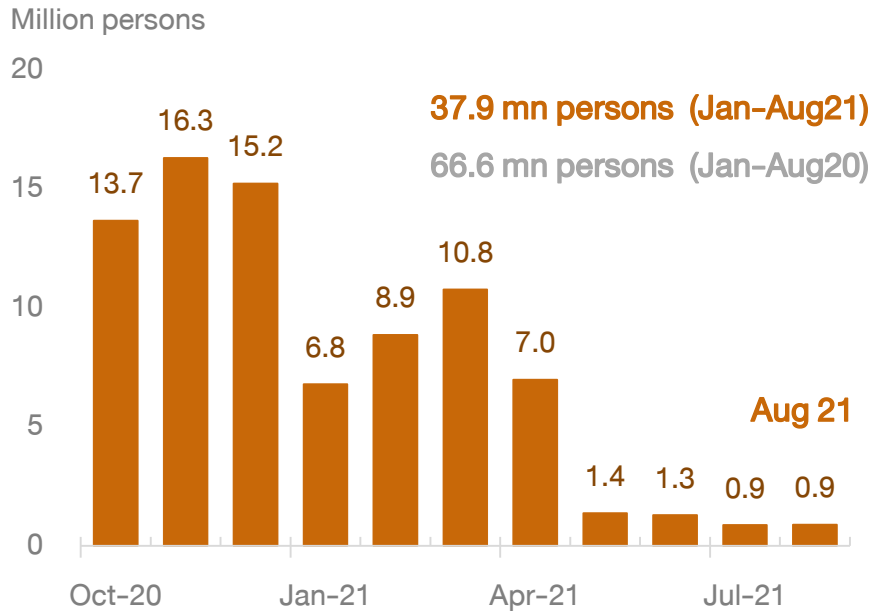
Second phase (1 Dec 2021) : reopen another 20 provinces

Third phase (1–15 Jan 2022) : reopen another 13 provinces

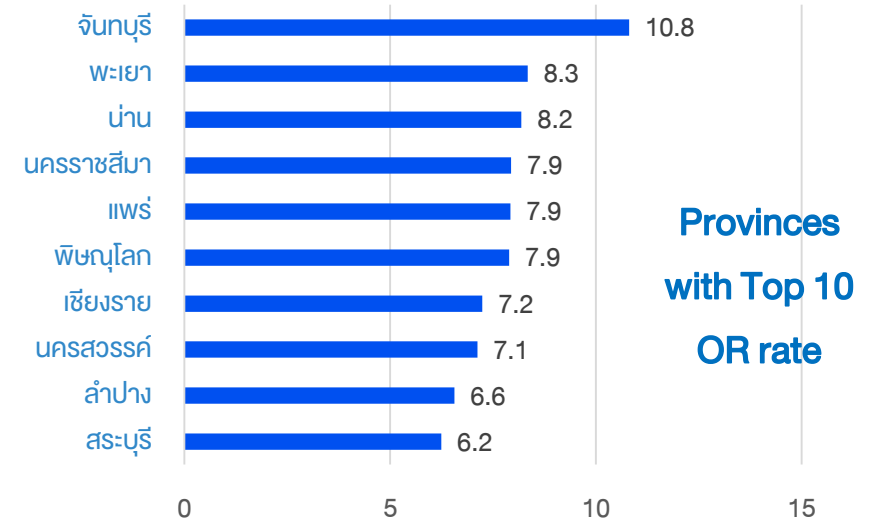
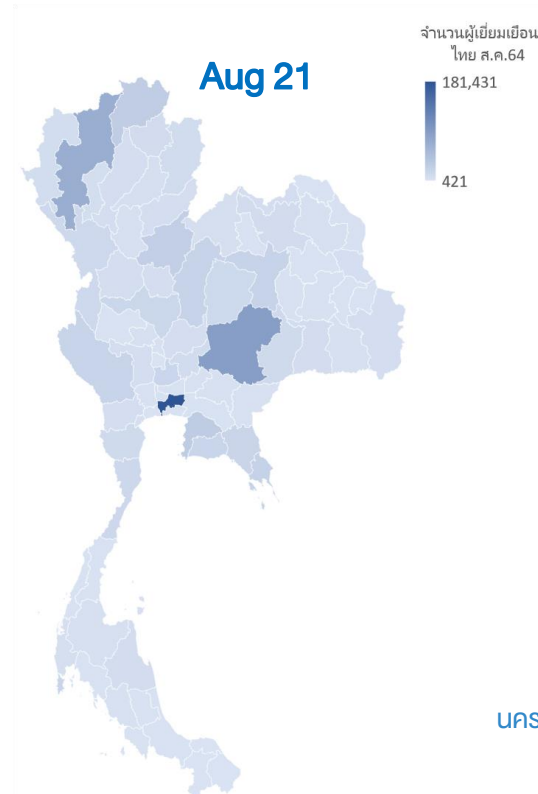
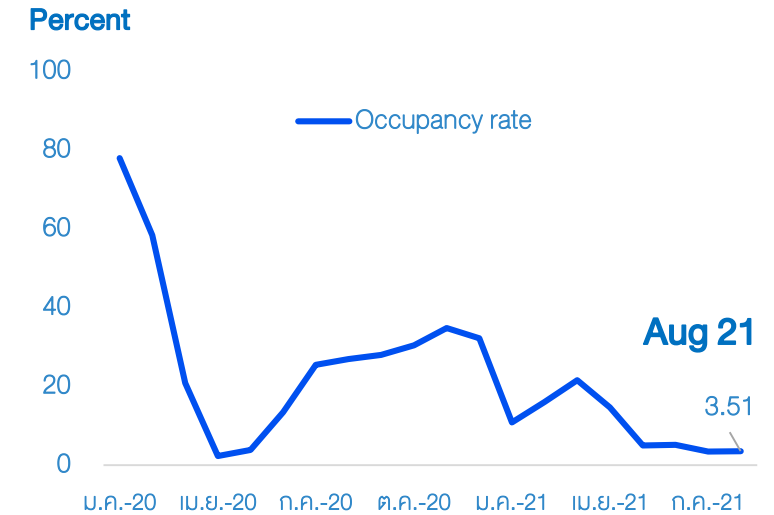
Note: Phuket Sandbox started on 1 July 2021 and its Extension started on 6 Aug 2021 for 7 days on Phuket and then travel on a sealed route to Surat Thani, Phang nga and Krabi.

Thai tourism dropped considerable due to the third wave of domestic outbreak

Number of Thai visitors

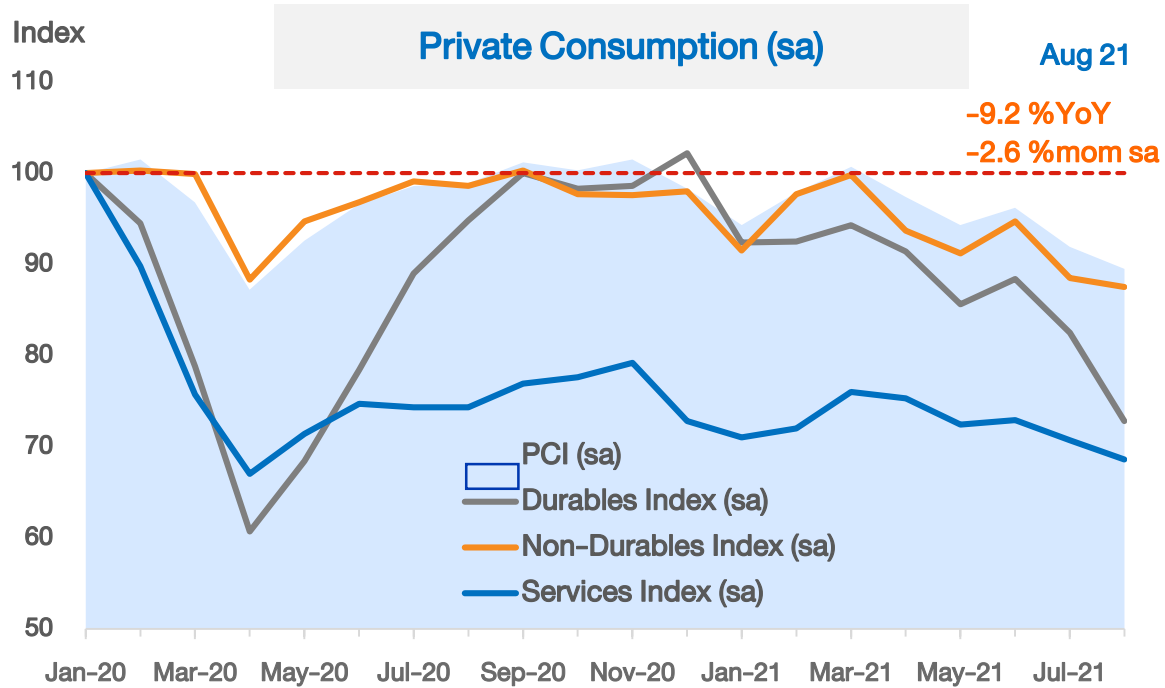


National occupancy rate

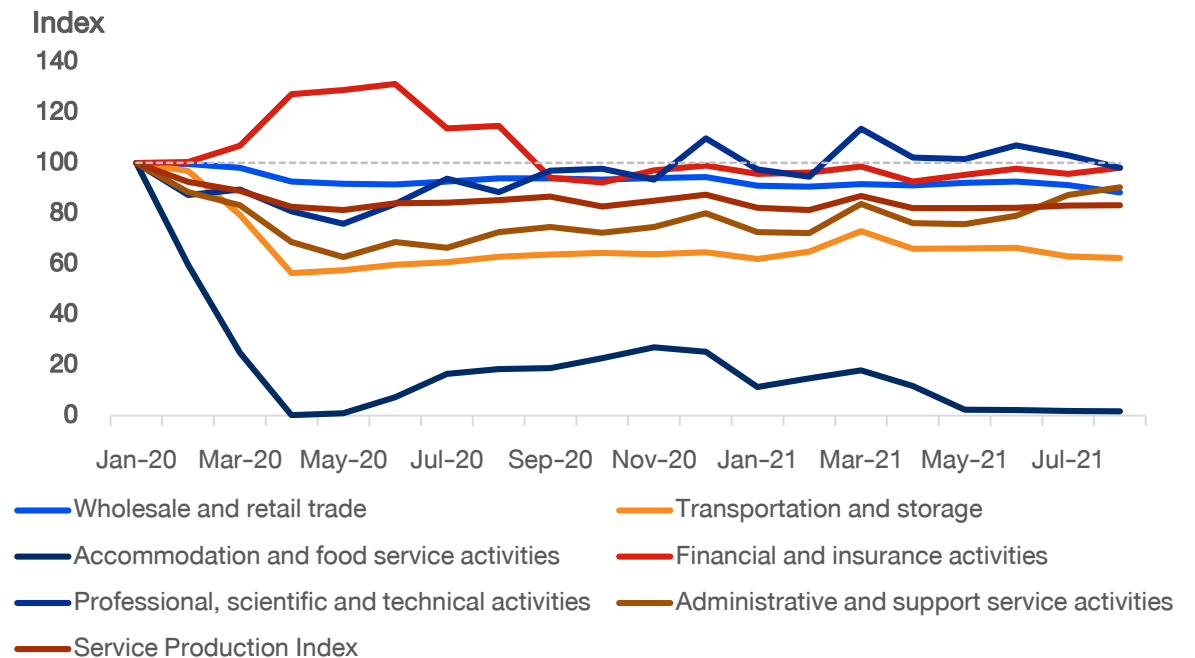
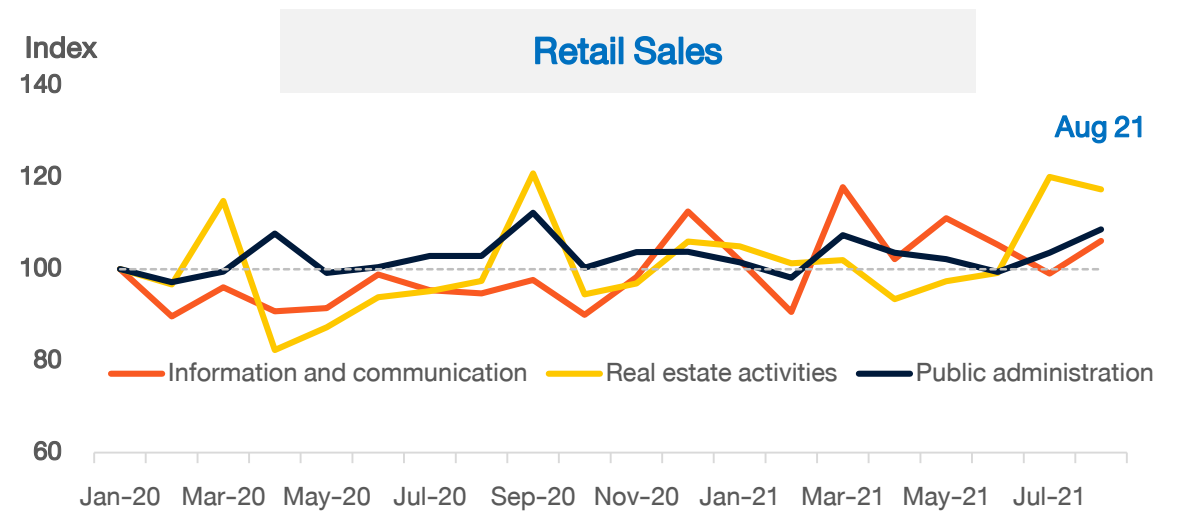


- Number of Thai tourists were persistently at low level due to domestic outbreak situation and restriction measures. Only main tourism provinces could see Thai visitors. OR rate was at very low level with Chantaburi with the highest OR rate.
- Looking ahead, domestic tourism will gradually recover in Q4/21 after the numbers of domestic new infections dropped to certain level and domestic travelling stimulus measure.

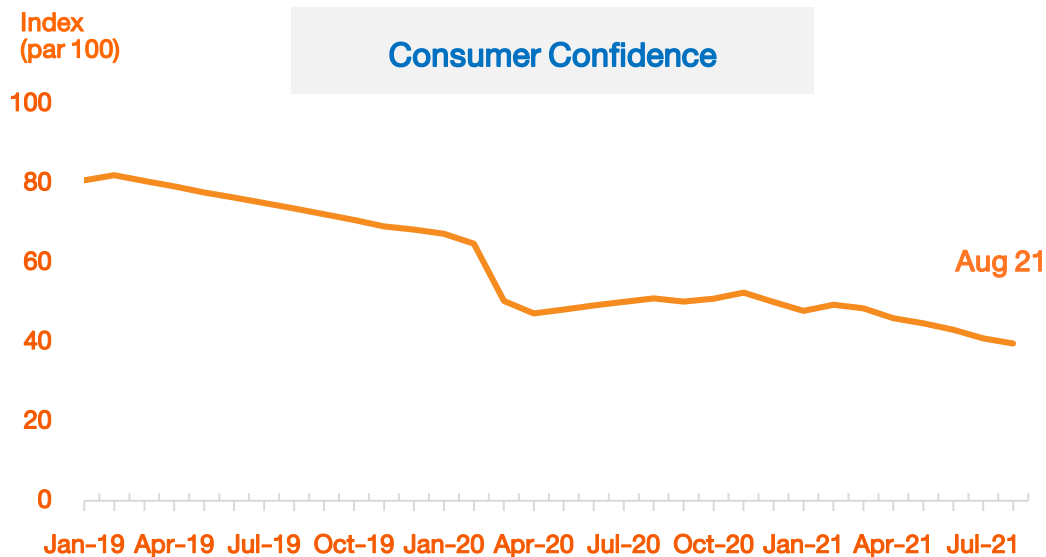
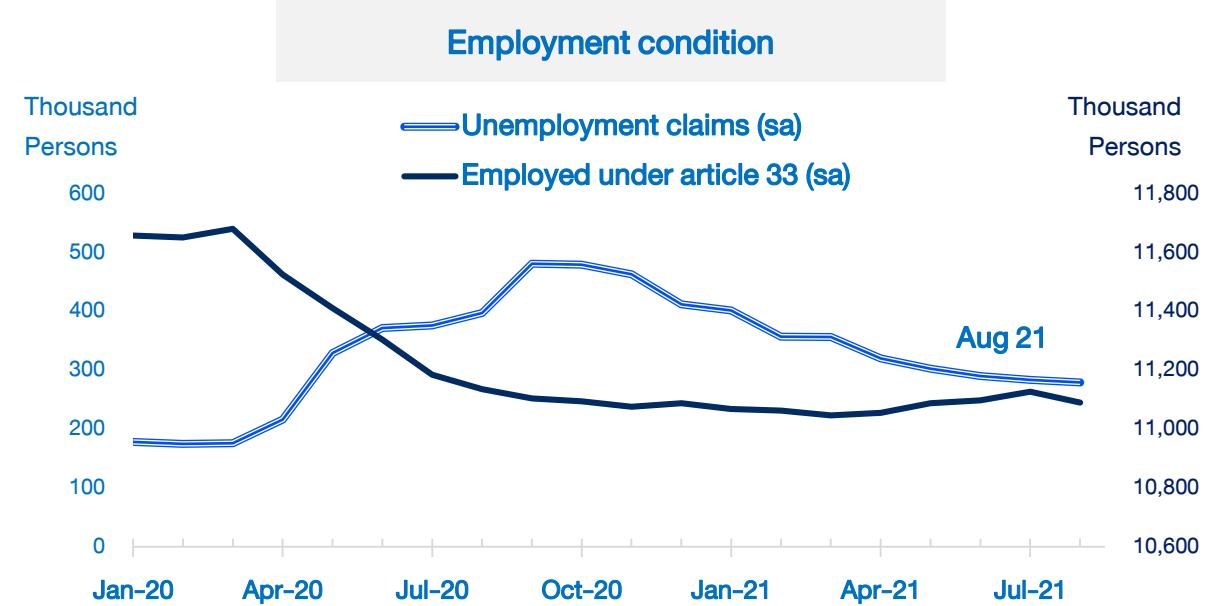
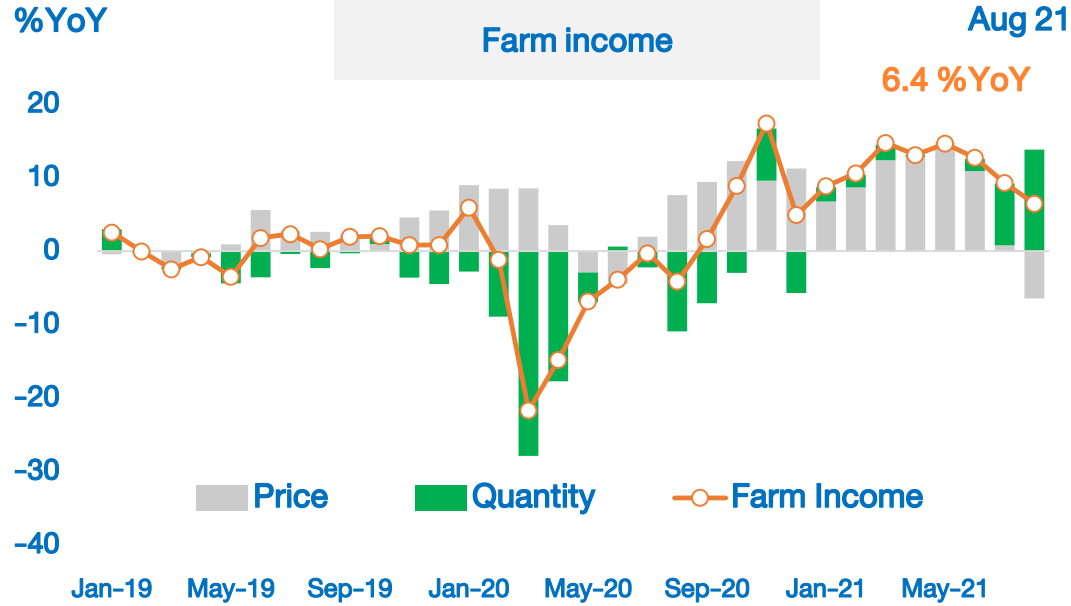
Consumption turned worsened in all categories especially durables, with vulnerable retail sales



- **Private consumption** turned weaker in all categories (durables, non-durables and services) in line with the ongoing worst pandemic situation in Aug 2021.
- However, the consumption would start slightly rebound in September after government relaxing the outbreak controlling measure.
- **Most categories of retail sales** were below pre-pandemic period, only IT, real estates and public admin above 100



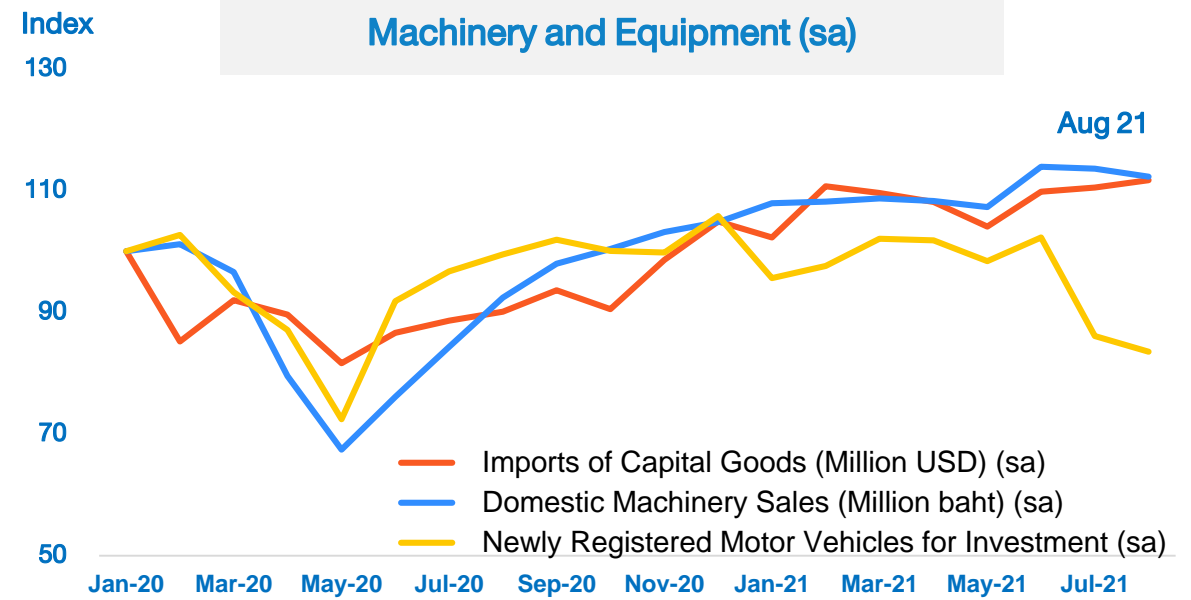
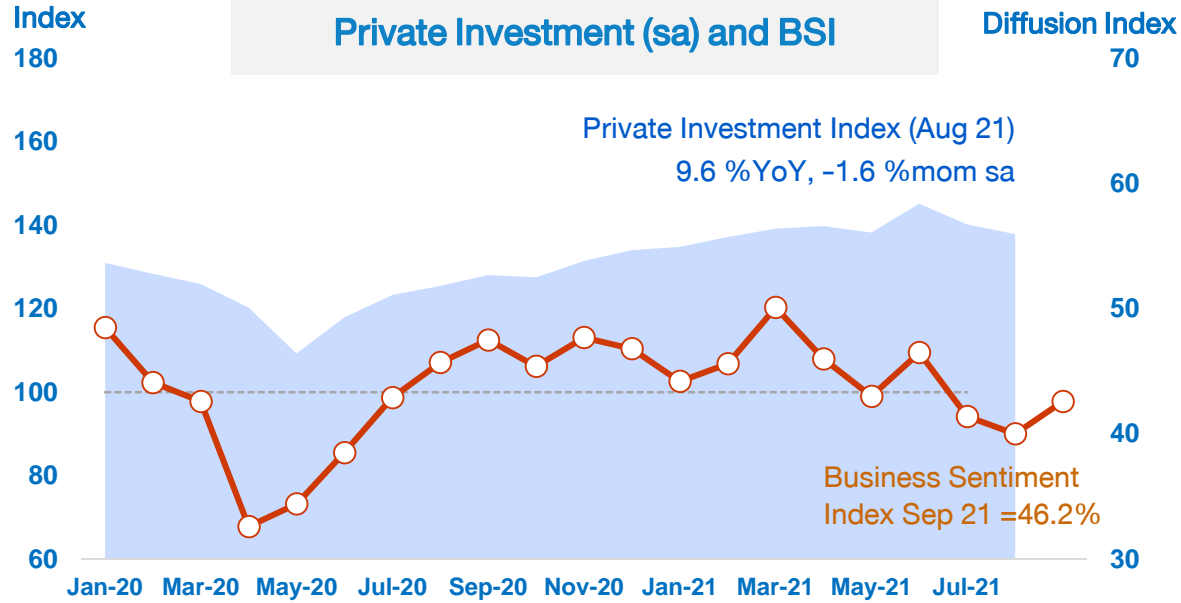
Persisting consumption supportive factors amid ongoing outbreak



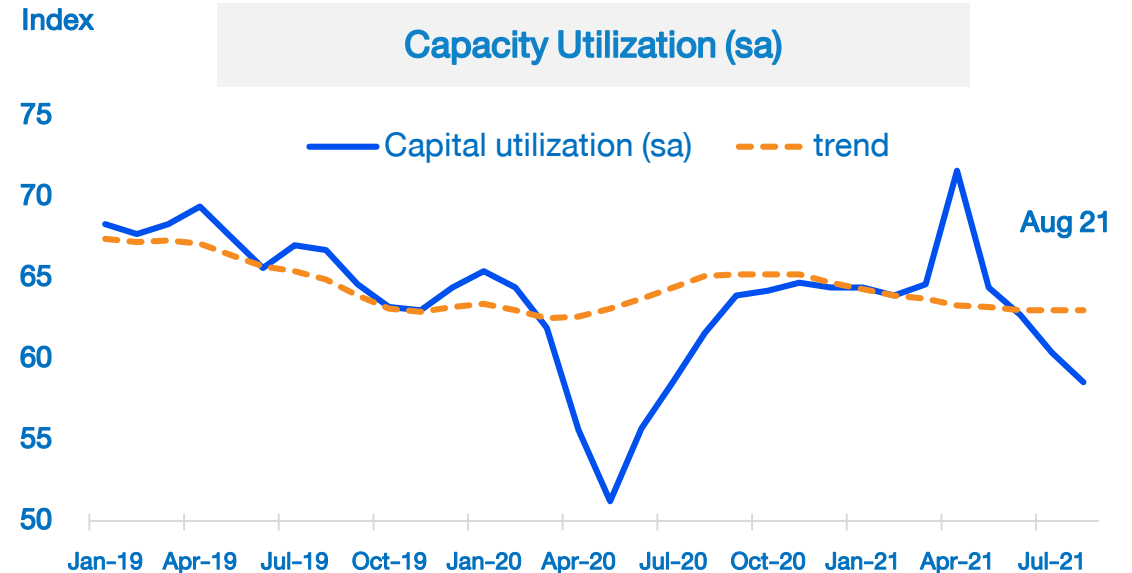
Most of supportive factors remained fragile

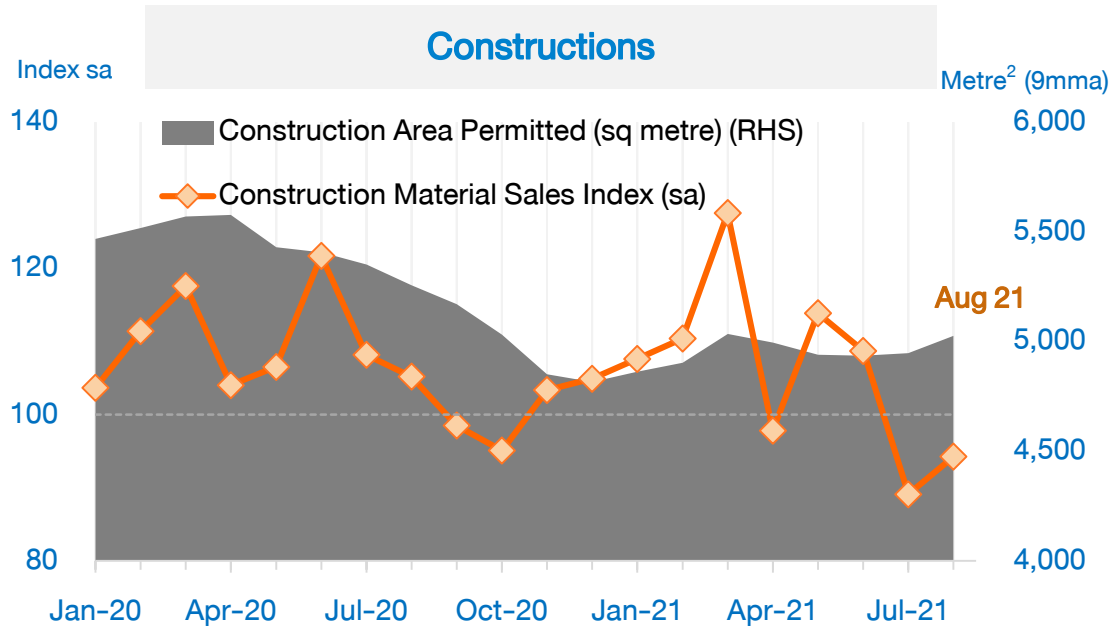
- Employment situation has overall creepily improved, represented by a slow increase in employment under article 33 and a gradual decline in unemployed. Meantime, farm incomes growth dropped significantly due to agricultural prices, but productions help sustaining farmers' incomes. These show that incomes are generally in fragile condition
- Consumer confidence continuously declined since the beginning of outbreak last year, together with feeble incomes, resulting in cautious behavior in spendings.

Private investment declined due to weak domestic demand and business sentiment

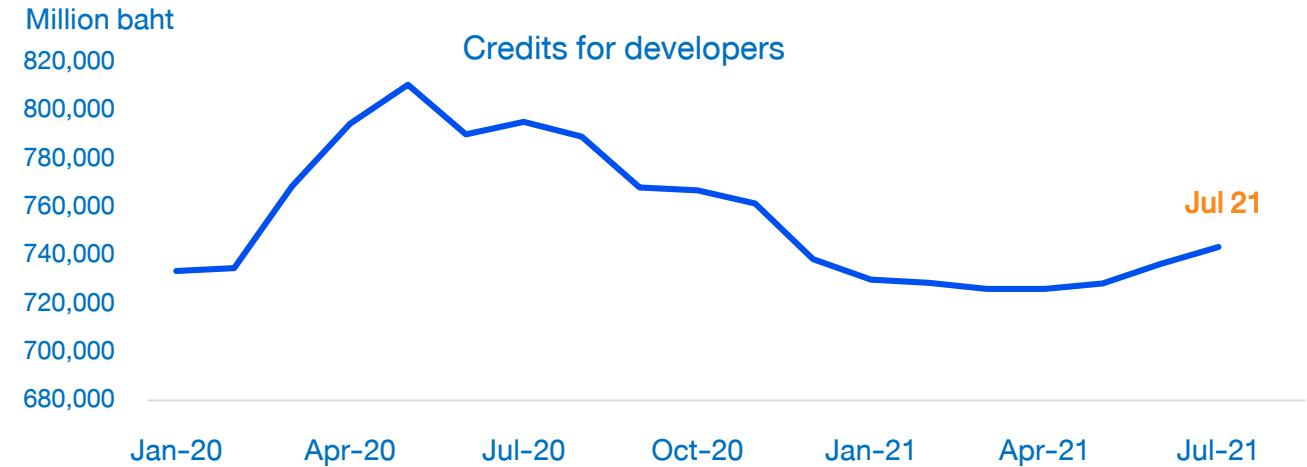


- **Private investment** marginally declined due to weaker domestic demands and business sentiment. Investments relating to exports could maintain their recovery trends.
- Capacity utilization dropped to be further below the trend, signaling the investment was about to rebound when the outbreak situation domestically contained.
- Looking forward, the intensification of Delta variant outbreak in several Thai trading partners would probably weigh more on the speed of investment uptick in coming period.

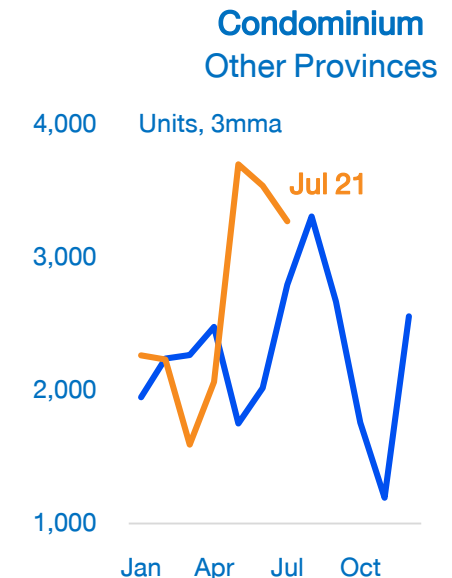
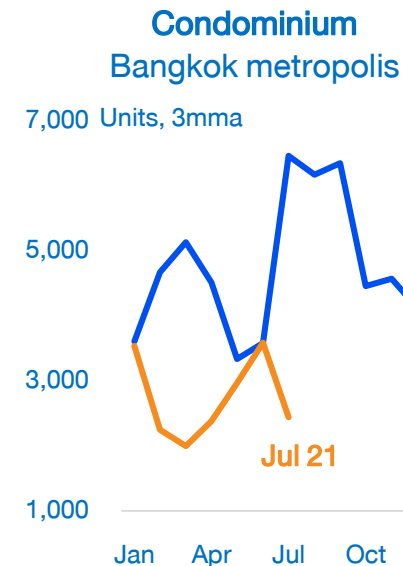
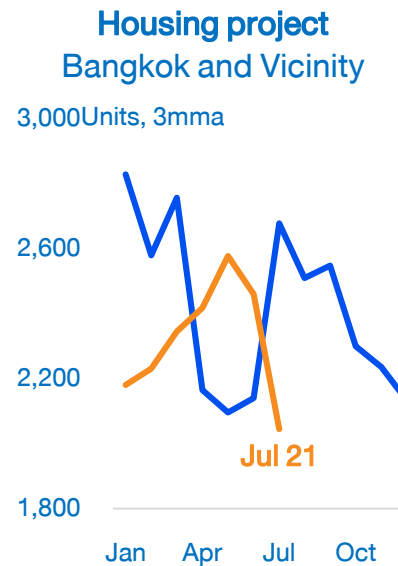




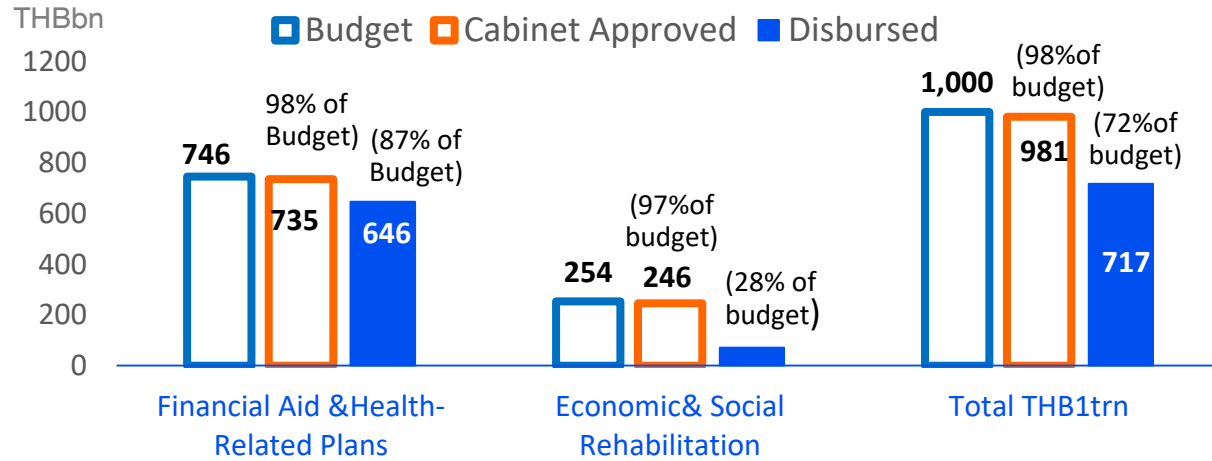
Real estates activities and credits



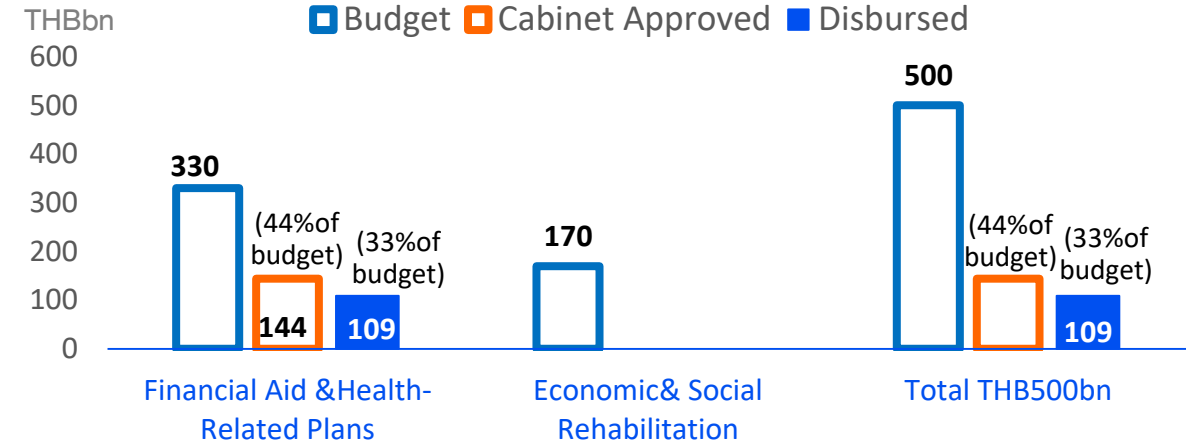
- **Construction activities** started to rebound after government relaxing outbreak containment measure in construction camp, representing by the slight rebound in construction material sales.
- **Real estate activities** were weak in all categories, especially condominium projects in Bangkok and vicinities which were below last year through 2021.
- Looking ahead, real estates are about to rebound in Q4/2021 in line with economic recovery, represented by a slight rebound in credits for real estate developers recently.



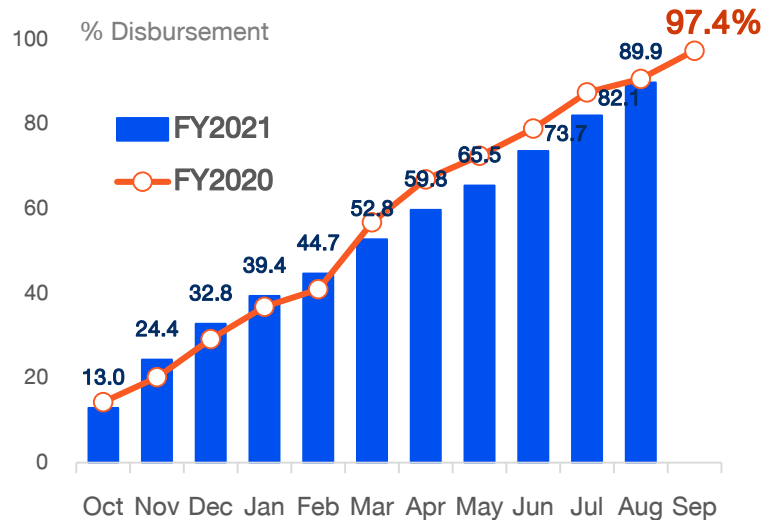
Progress on 1-trillion Stimulus Package (as of Oct2021)



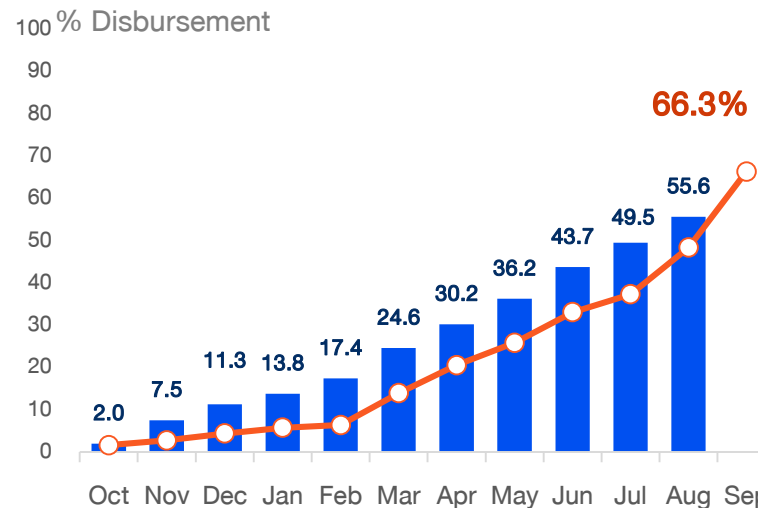
Progress on 500bn Stimulus Package (as of Oct 2021)



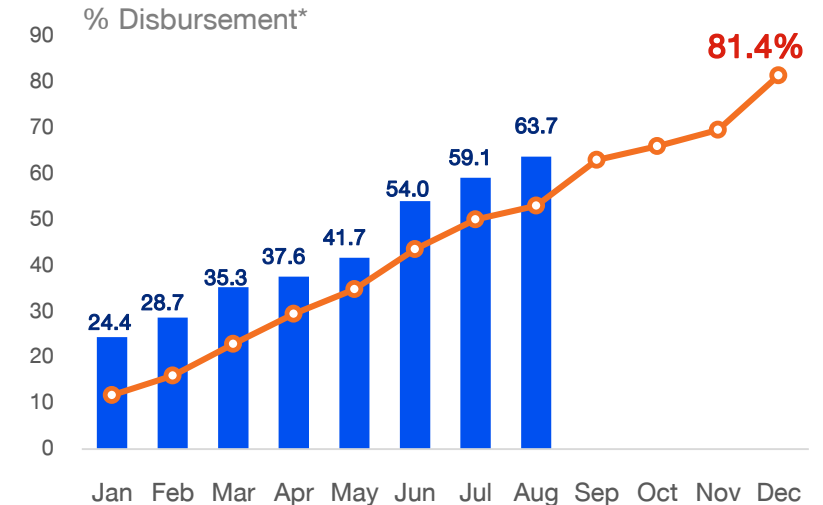
Current Expenditures : 2,372bn



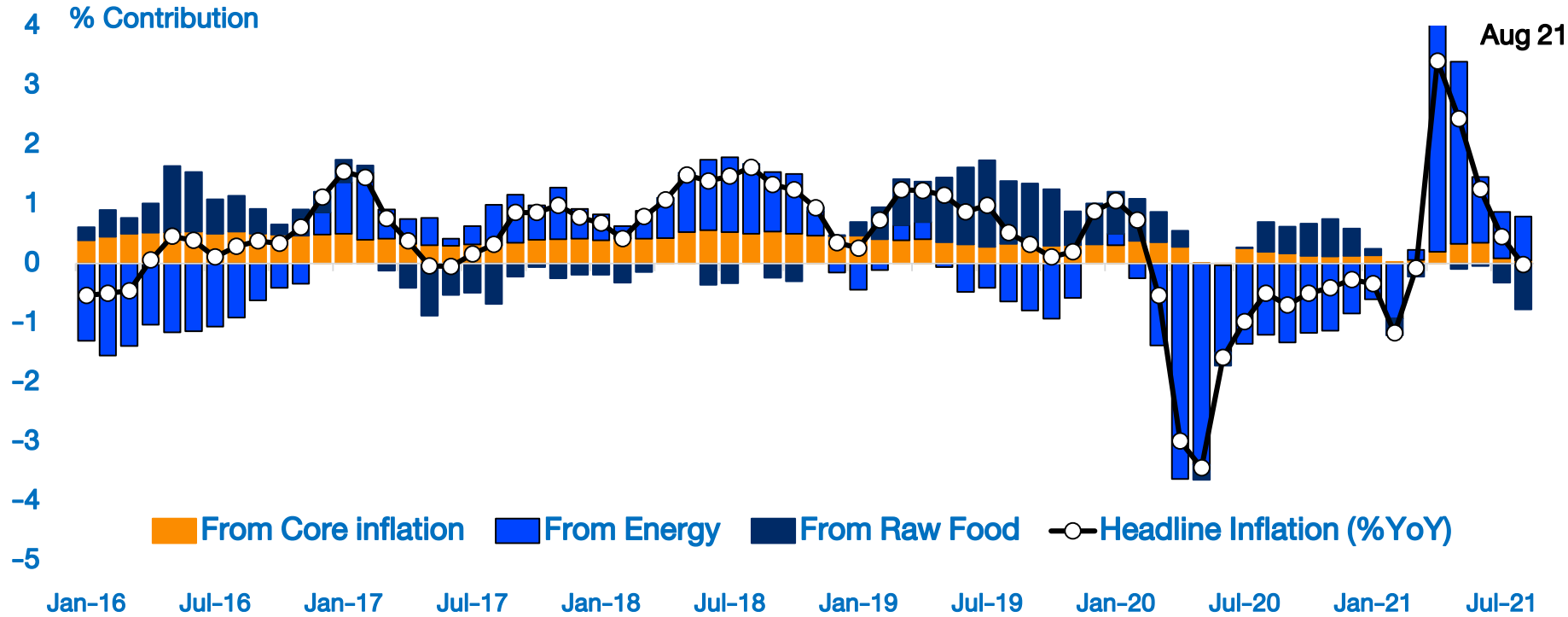
Public Investment Expenditures : 360bn



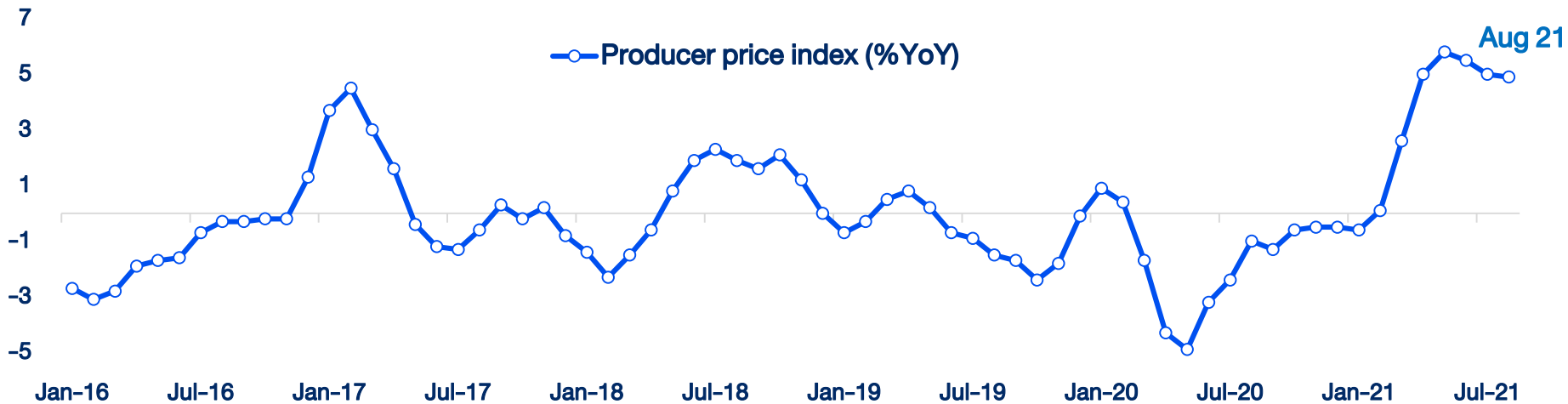
State Owned Enterprise Investment : 228bn



Headline inflation turned contract due raw food price and feeble core inflation



(%YoY)	Aug-21
Headline inflation	-0.02
Core (67.1%)	0.07
Raw Food (20.6%)	-3.73
Energy (12.4%)	5.99



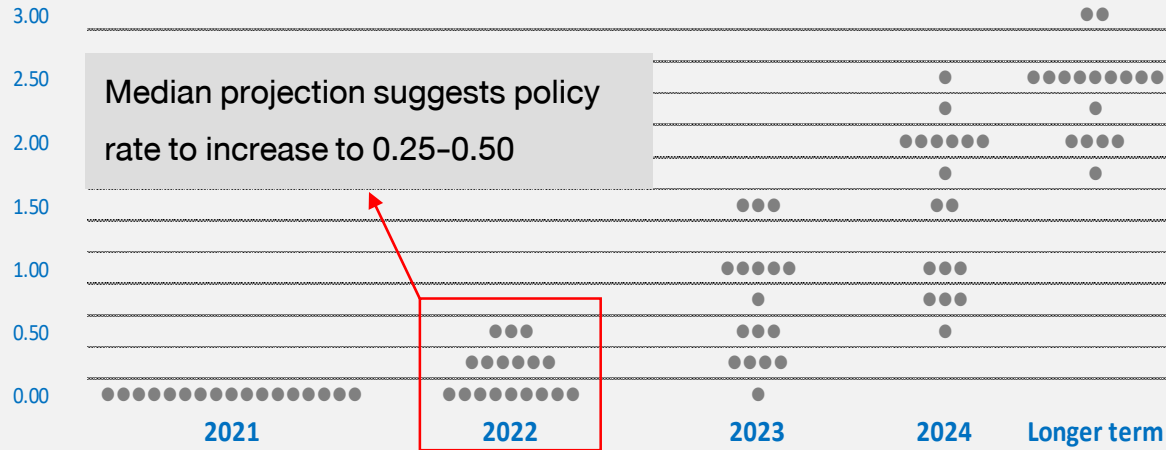
PART 3

Financial Market

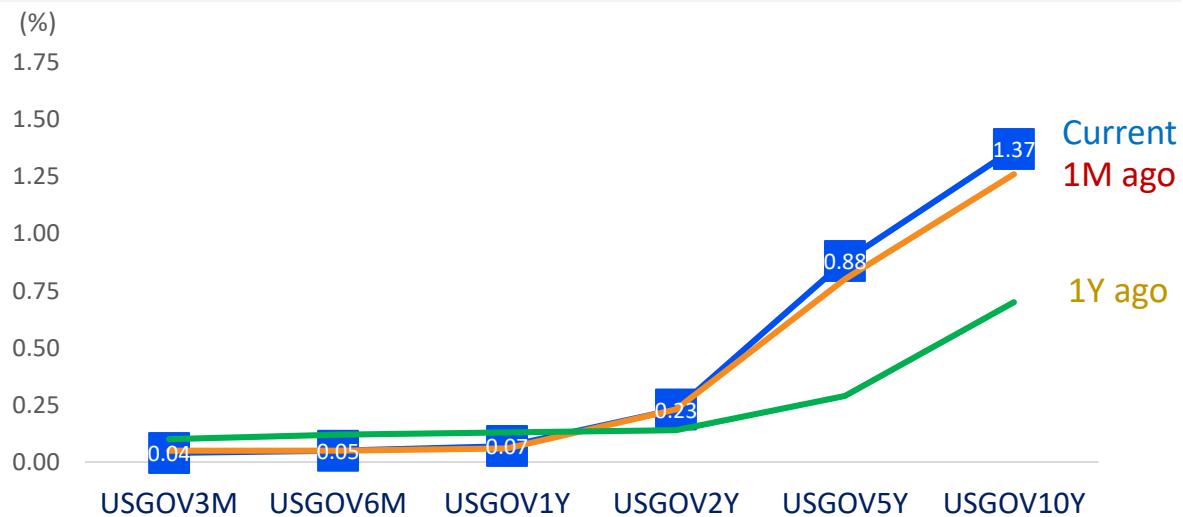


Dot plot projection suggests rate increase in 2022

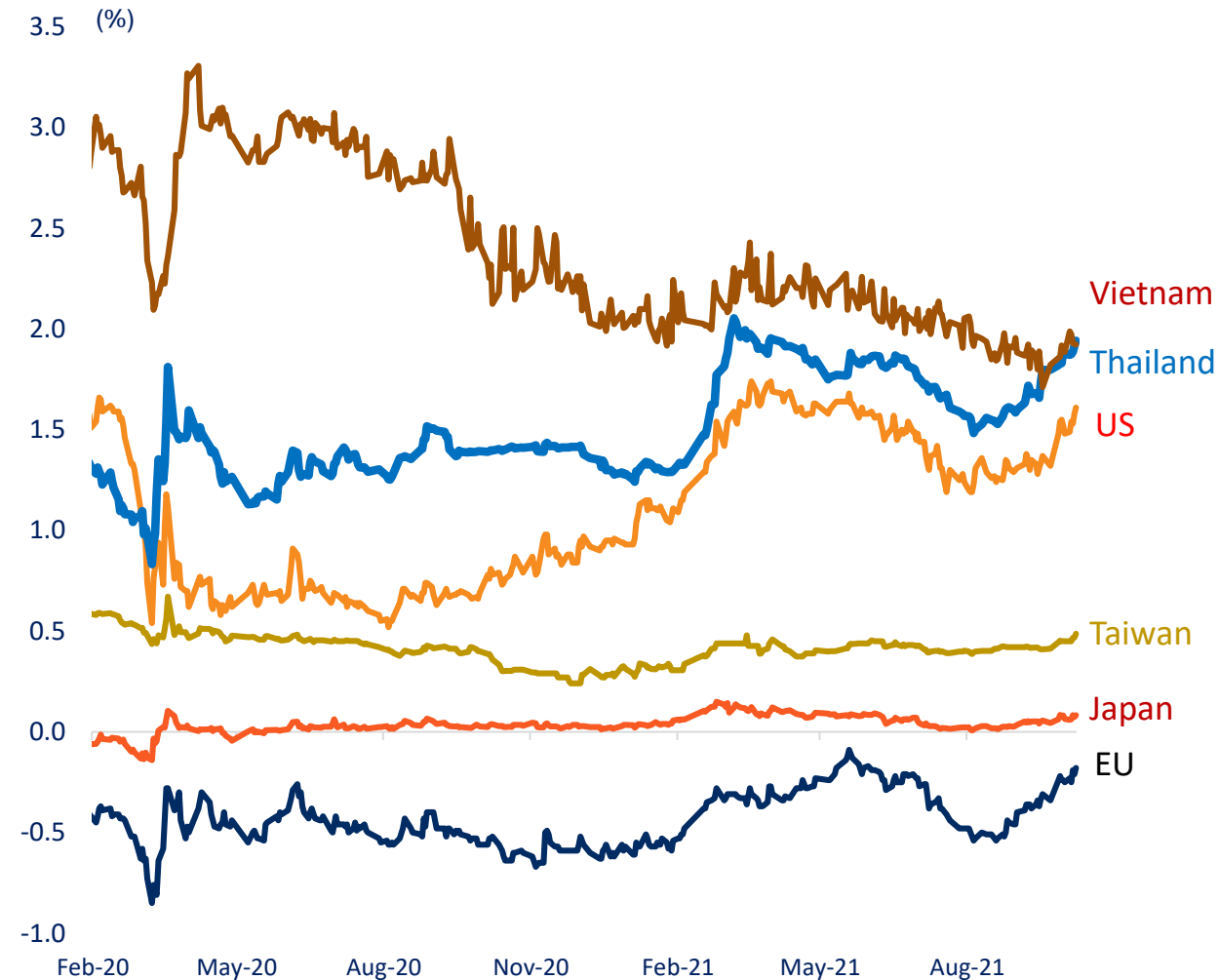
FOMC member's dot plots projection (Sep 2021)



US yield curve

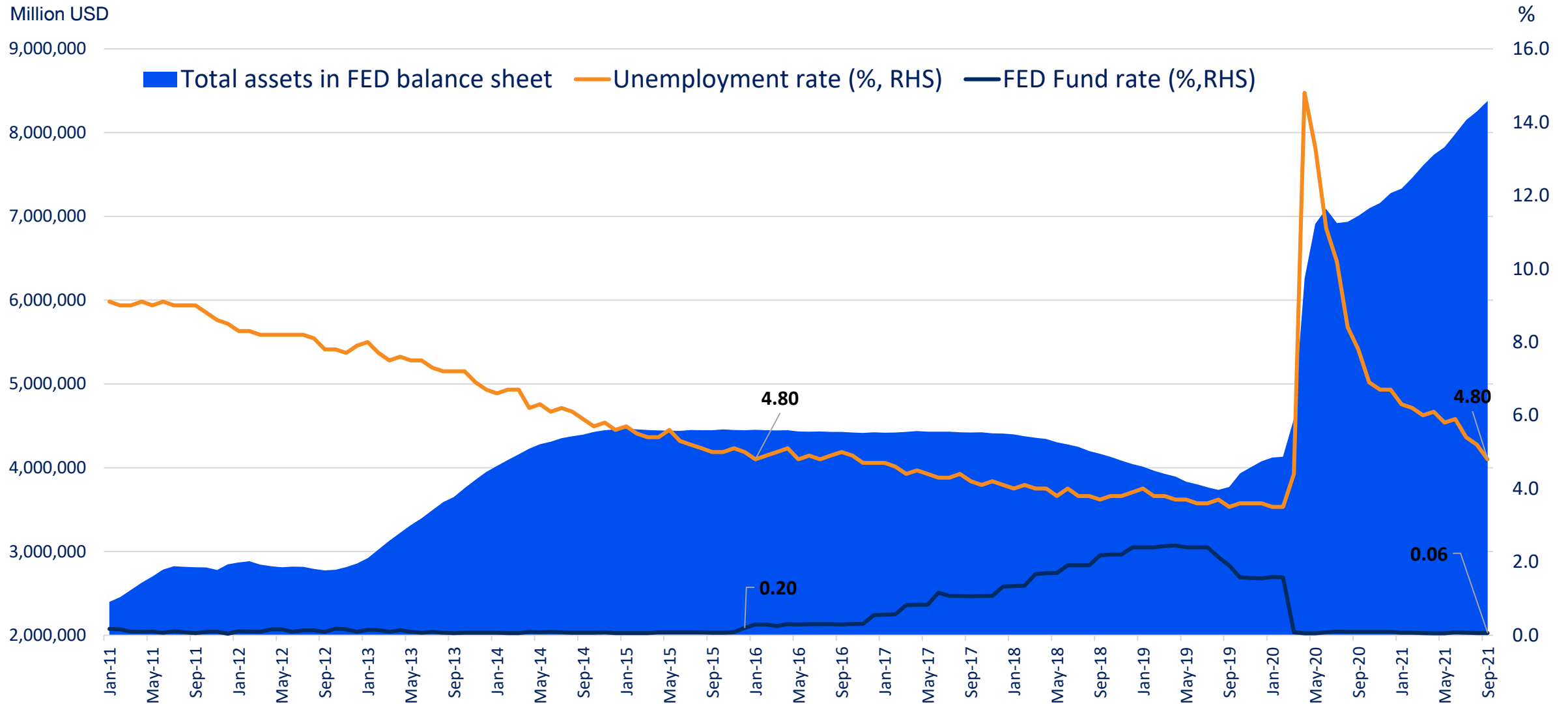


Global 10Y gov yield

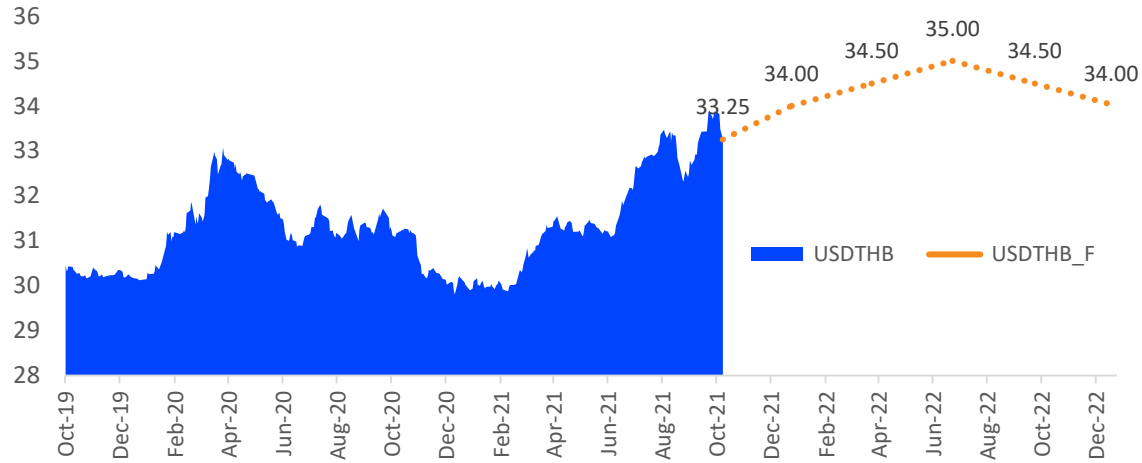


Source: Bloomberg, CEIC, and ttb analytics

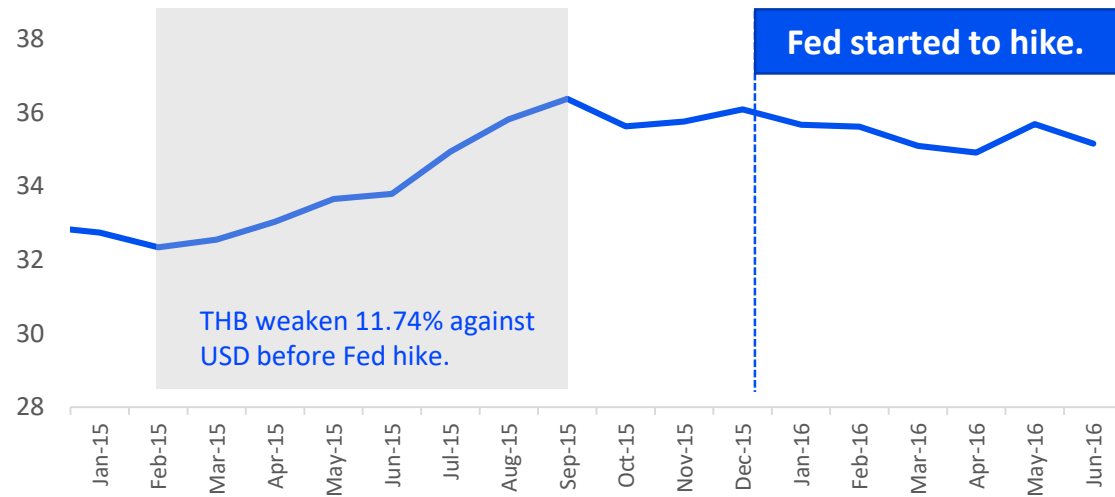
QE tapering to come in November 2021 as U.S. labor market improves



USDTHB may continue to be bullish



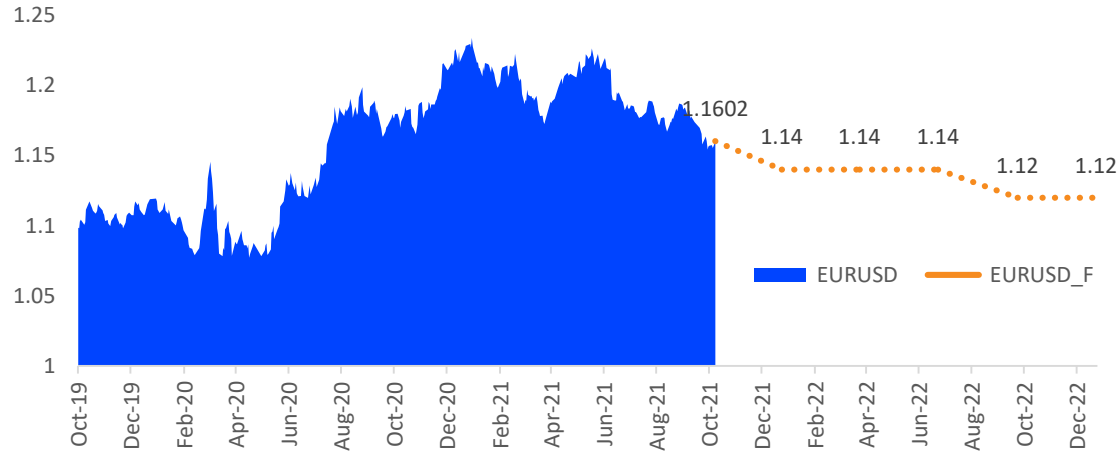
In 2015, THB lost its strength against USD



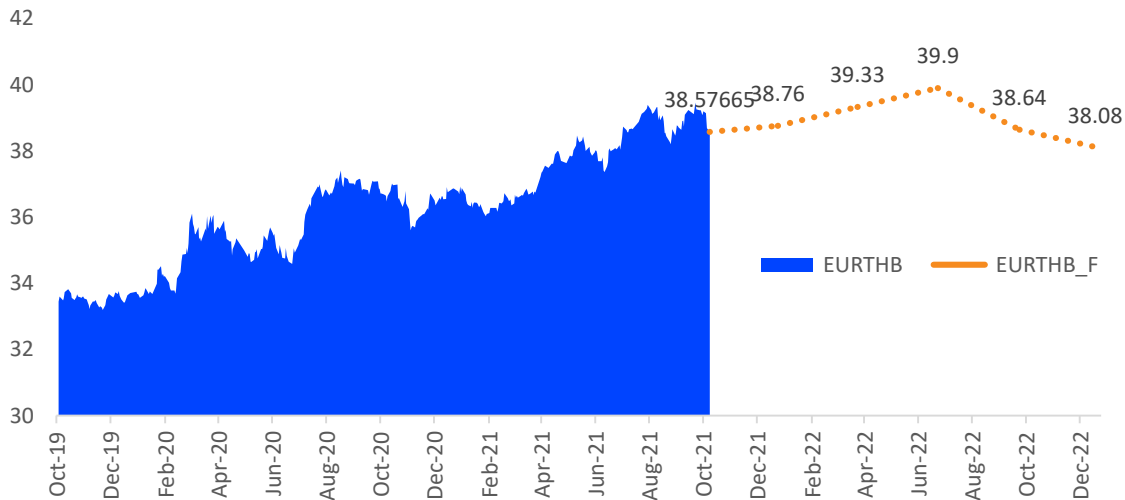
Factors affecting USDTHB

- USDTHB which slightly pulled back from 33.9 to 33.2 level in the beginning of Oct-21 may last only in short term. One reason behind the pullback is the weakened USD after its long bullish run since Fed last meeting. Another reason is that Thailand will reopen to foreign tourists from low-risk countries faster than expected.
- However, USD fundamental is still better than THB. 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 still doesn't change.
- Thus, we see current level of USDTHB as a opportunity to buy USD before another bullish run of USDTHB.

EUR likely to drop as weaker fundamental than USD



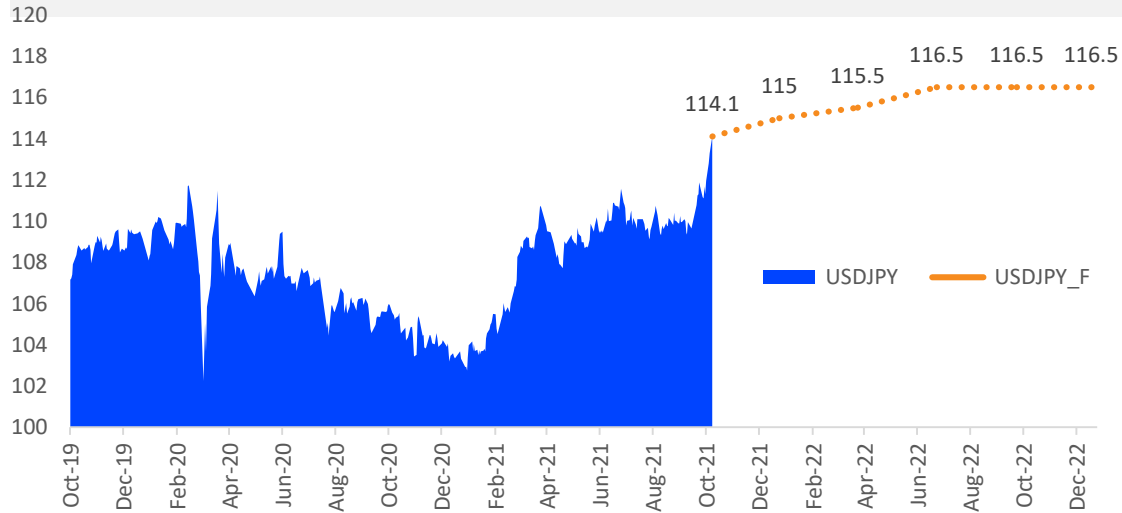
EURTHB will be slight up as THB weakening



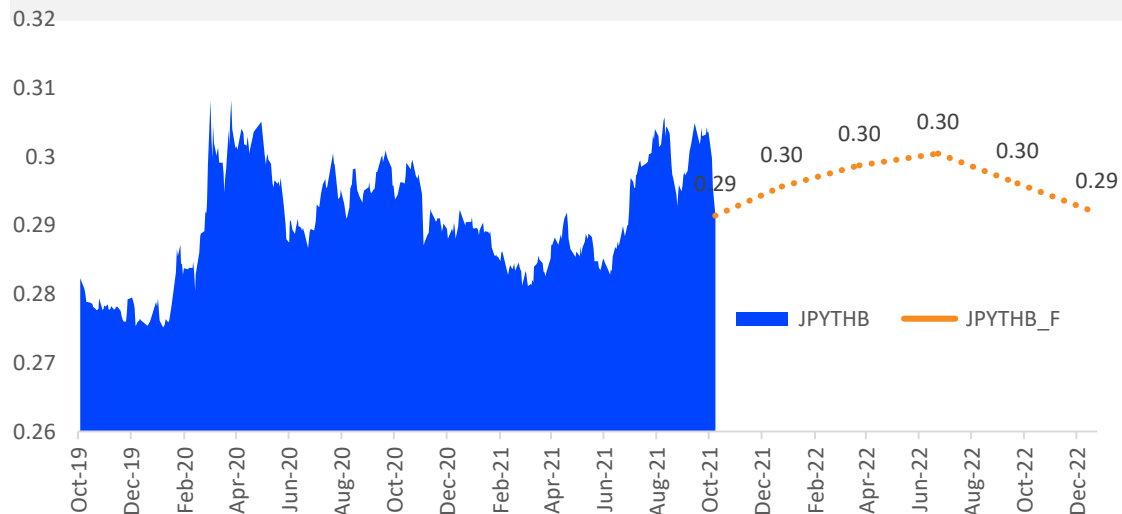
Factors affecting EURUSD

- The dollar is currently on its highs of the year and it is expected to continue its bullishness over coming months as high US inflation and a very hawkish Fed dot plots presented in late September -- the median Fed expectation is for the policy rate to be at 1.8% in 2024. Fed will announce and start tapering in Nov or Dec this year.
- Though, the ECB tone is far from being dovish as interest rates in the euro area may start to edge up after central banks begin unwinding stimulus programs in the first half of 2022. the high inflation rate in the euro area seems to impact on eurozone than US. The eurozone unemployment rate is still around 7.5%. Thus, overall fundamental factors of eurozone are lagging behind US.
- According to factors, we expected EUR to depreciate against USD in coming months.

USDJPY continue to appreciate



JPYTHB not to deviate much from current level



Factors affecting USDJPY

- IMF has just cut forecast of Japan's economic growth to be 2.4% in 2021, down 0.4 percentage points from its July estimate as the most recent wave of coronavirus infections further curtailed business activities. This emphasizes that Japan's recovery remains much slower than has been seen in other advanced economies like the US and EU.
- While global peers talk about normalization amid accelerating inflation, and the Fed begins to discuss the QE tapering, the Bank of Japan will continue to regulate monetary policy. The Bank of Japan, using yield curve targeting, keeps rates on local bonds at zero level, while the interest rate differential on the 10-year US and Japanese securities has been increased. This means the flow of capital from Japan to US and the yen's weakening against the greenback.
- Thus, it is expected JPY to depreciate against USD in coming months.

Thank you

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