

Economic and Financial Outlook

ttb analytics

February 2022

Global Economy

- **Service sector took major hit in Europe as Omicron deterred economic activities.** Furthermore, as global inflation rose, lower consumption also affected service sector across the globe.
- **Rising inflation became a global concern for central banks.** Oil price continued to rise higher after Ukraine-Russia conflict escalated. Inflation trends in the United States, European countries continued to increase from broad-based changes in prices.
- **U.S. labor market tight while inflation rose highest since 1982.** U.S. economy added 467,000 jobs in January, with greater payroll number in previous months after adjustment. The unemployment rate increased slightly to 4.0%. Inflation rose to 7.5%
- **Chinese economy received support from PBOC via rate cuts and liquidity injection.** In order to boost the economy which suffered from Covid-19 measure and rising prices, Chinese central bank eased policies. Retail sales dropped low in December.

Domestic Economy

- **As of Dec2021, Thai economy continuously rebounded** in all sectors due to improvement in outbreak situation and easing of restriction, while Omicron variant outbreak was found in Dec-21.
- **Supply side :** Manufacturing and services improved in line with exports and domestic activities. Agricultural products turned to positive territory
- **Demand side :** merchandise exports continues to recover. Foreign tourists and Thai tourists hit a record high.
- **Consumption** steadily rebounded from last month and has reached pre-pandemic level due to improvement in employment conditions, easing domestic restriction measure and positive spillover from government's stimulus program.
- **Private investment** showed continuous improvement both in equipment and equipment categories as well as construction category,
- **Government** accelerated disbursement of its capital and current budget as well as the stimulus package to support economic recovery
- **Inflation in Dec 2021** jumped higher than last month mainly due to energy prices.

Financial Market

- **USDTHB has dropped from 33.40 to 32.40 as USD index set down from 97.30 to 96.00.** Moreover, there are constantly large foreign inflow into Thailand's bond and stock markets. Thai current account has turned to be negative again in Dec. For now, USDTHB is likely to advance as Russia-Ukraine tension may drive risk off sentiment.
- **Global banks expect that Fed may hike as much as 5 - 7 quarter-percentage-point interest rate hikes by the end of 2022** up from 4 - 5 hikes in previous month. Russia-Ukraine tension that lately escalated might have an impact on inflation as an attribution to continuously support high oil price. The ECB is under market pressure to raise rates on bank deposits, currently at minus 0.5%, in the face of stubbornly high euro zone inflation which hit 5.1% on Jan. ECB President Christine Lagarde has just opened the door to an interest rate increase in 2022. The Bank of England raised interest rates to 0.5% from 0.25% with nearly half its policymakers voted for a 50 bps hike.
- **For Thai bond market, it is expected TGB curve may continue to be steepen in H1/2022.**

PART 1

Global Economy

Service outlook in U.S. and Europe suffered from rising prices, manufacturing has not improved



Manufacturing PMI

	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22
Australia	58.6	56.9	52.0	56.8	58.2	59.2	57.7	55.1
China	51.3	50.3	49.2	50.0	50.6	49.9	50.9	49.1
India	48.1	55.3	52.3	53.7	55.9	57.6	55.5	54.0
Indonesia	53.5	40.1	43.7	52.2	57.2	53.9	53.5	53.7
Japan	52.4	53.0	52.7	51.5	53.2	54.5	54.3	55.4
South Korea	53.9	53.0	51.2	52.4	50.2	50.9	51.9	52.8
Thailand	49.5	48.7	48.3	48.9	50.9	50.6	49.5	51.7
Canada	56.0	56.2	57.2	57.0	57.7	57.2	56.5	56.2
United States	62.1	63.4	61.1	60.7	58.4	58.3	57.7	55.5
Germany	65.1	65.9	62.6	58.4	57.8	57.4	57.4	59.8
France	59.0	58.0	57.5	55.0	53.6	55.9	55.6	55.5
Italy	62.2	60.3	60.9	59.7	61.1	62.8	62.0	58.3
United Kingdom	63.9	60.4	60.3	57.1	57.8	58.1	57.9	57.3
Spain	60.4	59.0	59.5	58.1	57.4	57.1	56.2	56.2

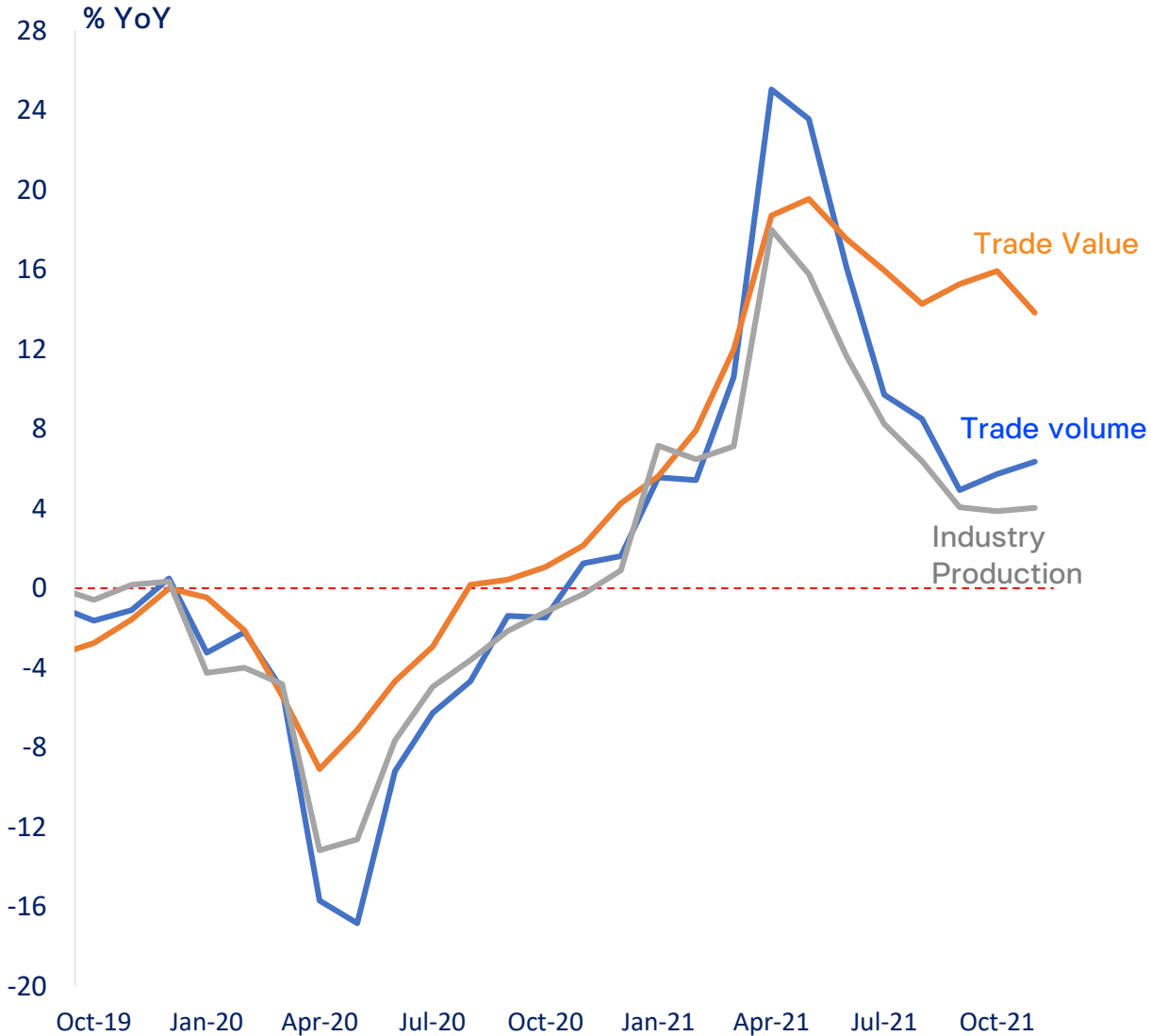
Service PMI

	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22
Australia	56.8	44.2	42.9	45.5	51.8	55.7	55.1	46.6
China	50.3	54.9	46.7	53.4	53.8	52.1	53.1	51.4
Japan	48.0	47.4	42.9	47.8	50.7	53.0	52.1	47.6
India	41.2	45.4	56.7	55.2	58.4	58.1	55.5	51.5
United States	64.6	59.9	55.1	54.9	58.7	58.0	57.6	51.2
Germany	57.5	61.8	60.8	56.2	52.4	52.7	48.7	52.2
France	57.8	56.8	56.3	56.2	56.6	57.4	57.0	53.1
Italy	56.7	58.0	58.0	55.5	52.4	55.9	53.0	48.5
United Kingdom	62.4	59.6	55.0	55.4	59.1	58.5	53.6	54.1
Spain	62.5	61.9	60.1	56.9	56.6	59.8	55.8	46.6

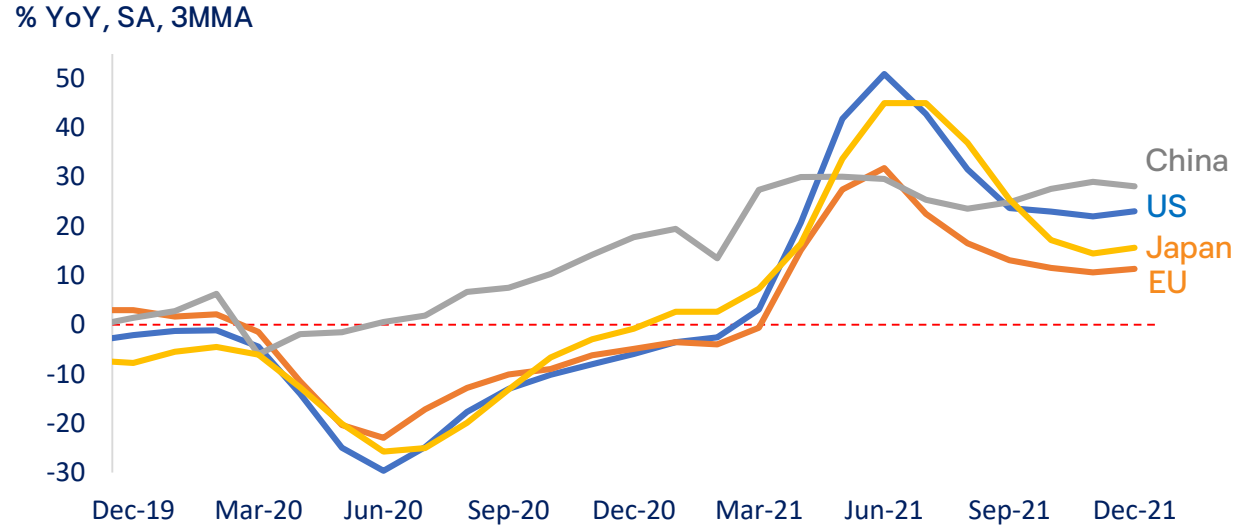
- PMIs which are early indicators for economic activities suggested that most countries have positive outlooks toward manufacturing and service sector in the expansion zone (above 50).
- January PMIs data showed continuing issues in the manufacturing sector in U.S. and European countries as the impact of supply crunches still existed in developed countries. Service sector took major hit in Europe as Omicron deterred economic activities. Furthermore, as global inflation rose, lower consumption also affected service sector across the globe.

Global trade volume and production returned to normal, Asian exports growth continued

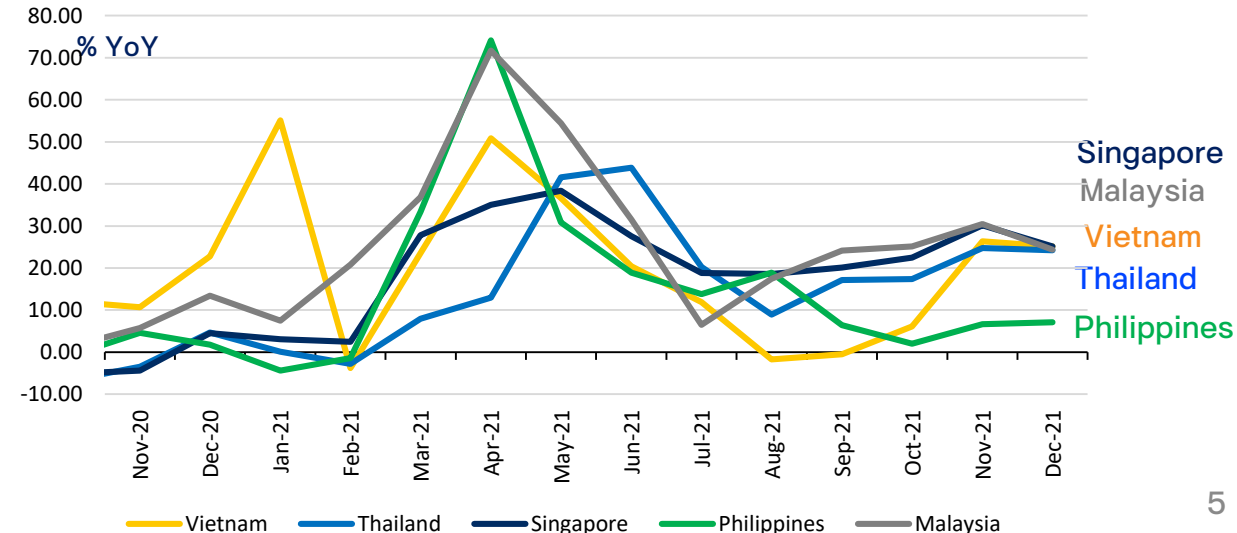
Global trade and industrial production dropped



Exports posted the return to normal trends



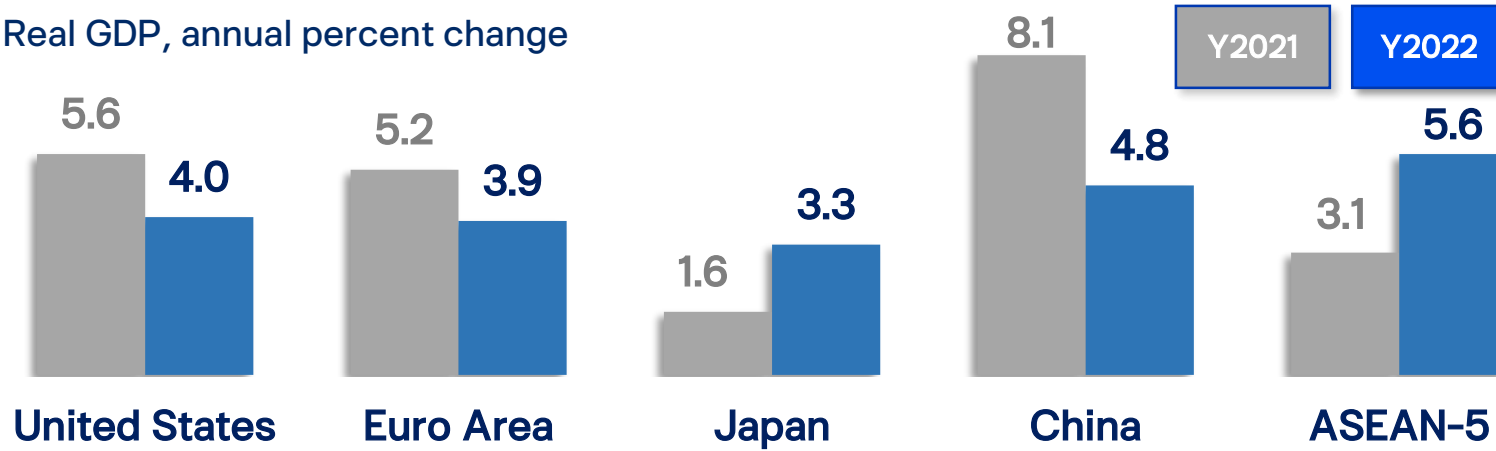
ASEAN exports affected by Covid-19 outbreak



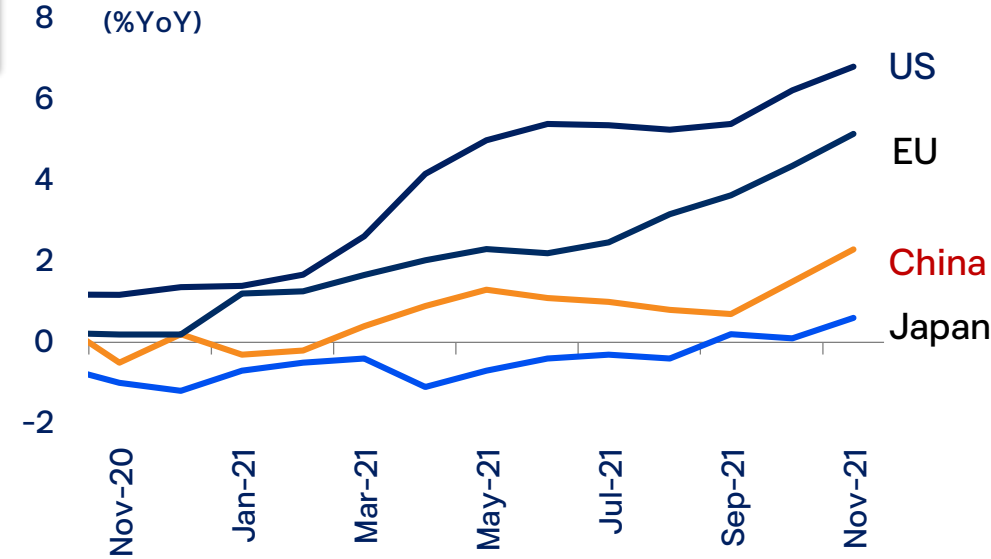
2022 Global trends: Slower growth under higher costs and smaller monetary supports

Slower growth as economies return to norm

Real GDP, annual percent change

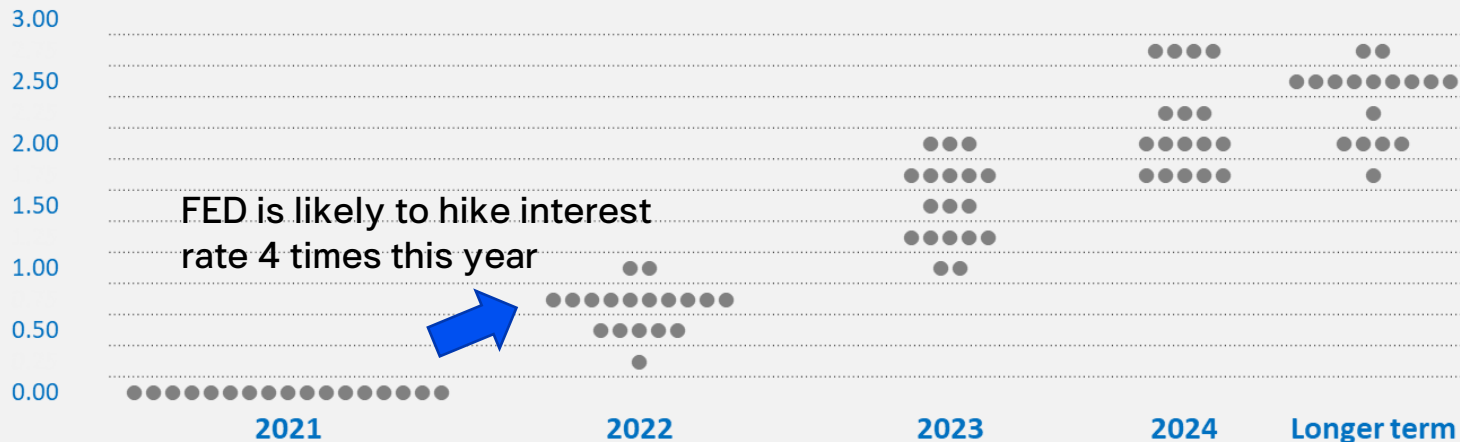


High inflation remains a major issue

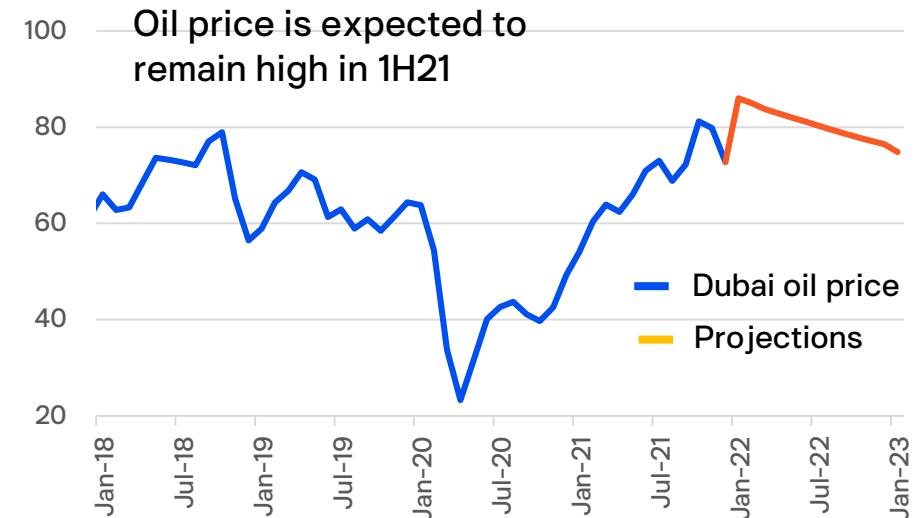


Rising Interest rate environment

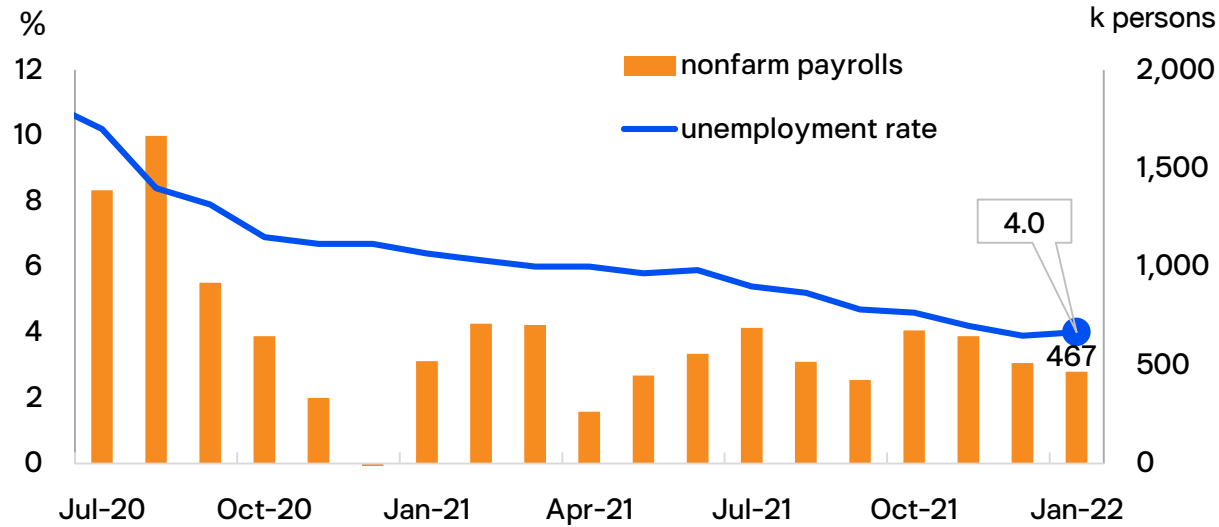
FOMC member's dot plots projection (Dec 2021)



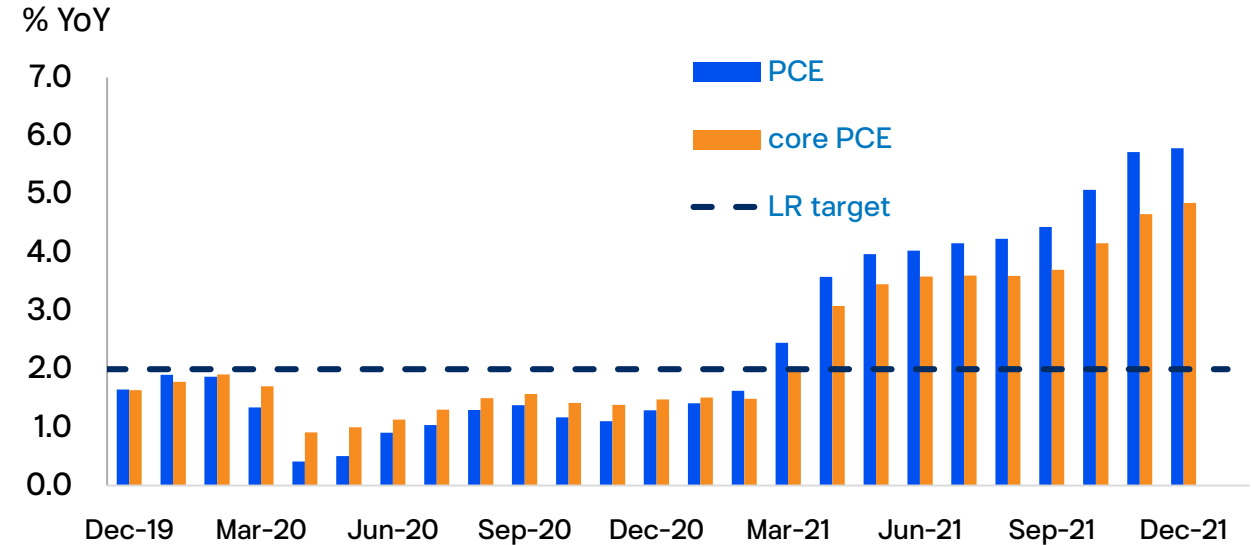
Oil price is expected to remain high in 1H21



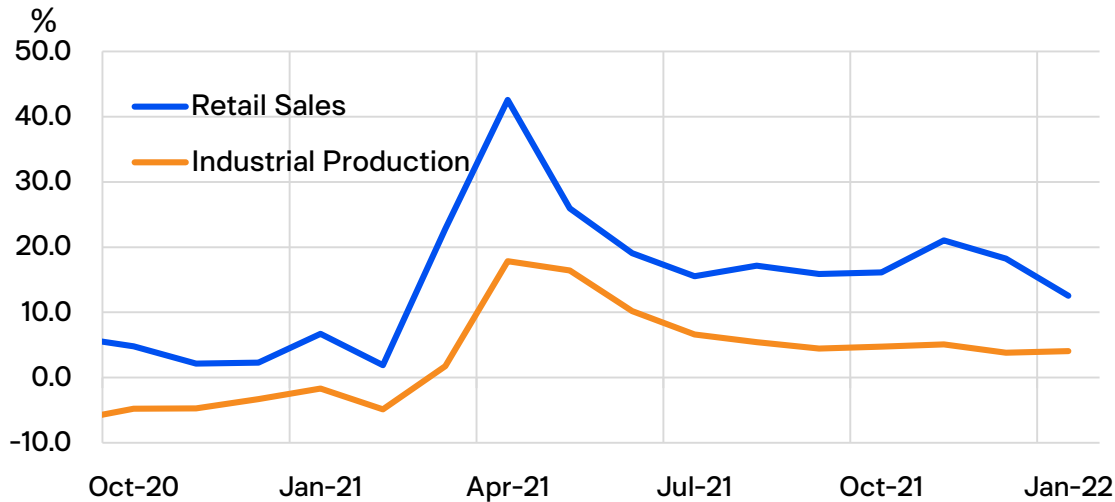
Unemployment rate continued to drop



Inflation climbed due to rising prices of various goods



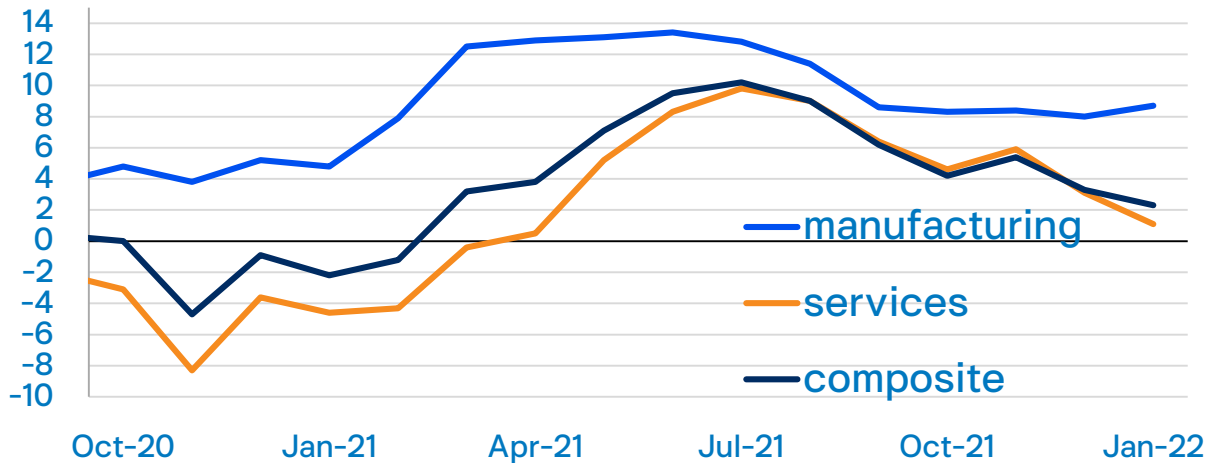
Retail sales growth remained solid despite higher costs



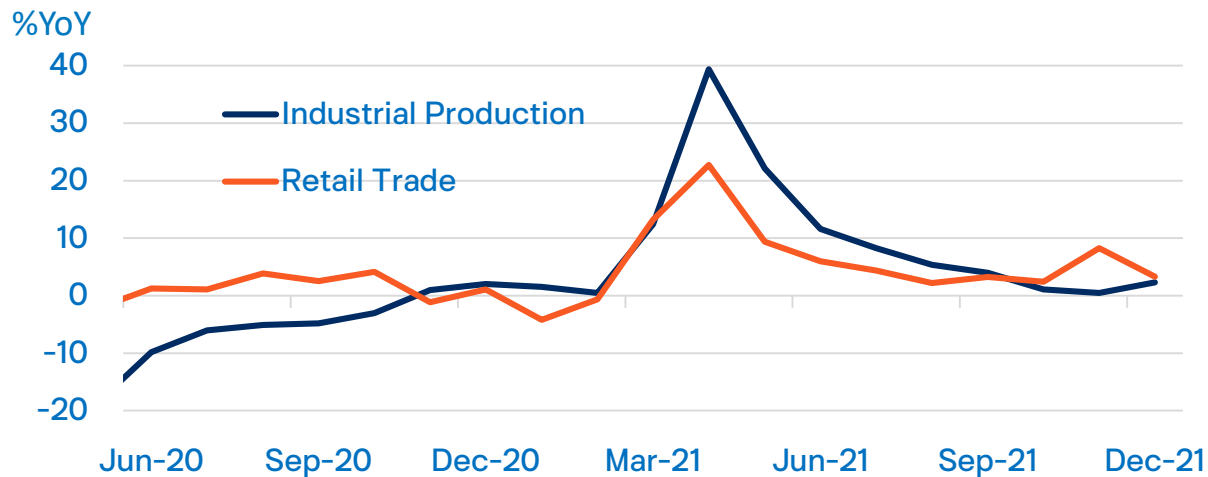
- In January, nonfarm payroll increased by 467,000 new jobs and with higher adjustment to payrolls in previous months. The numbers clearly showed strong improvement in U.S. labor market. The unemployment rate increased slightly to 4.0%, as labor participation rose.
- Retail sales growth slowed down in January due to rising prices. Retail sales still grew 13% (seasonally adjusted) in comparison to 7% growth last year. Industrial production remained moderate at 4%
- In December, price continued to rise from both goods and service sector as energy price spiked from limited supply. PCE rose 5.8% yoy while core PCE rose 4.9%.

Service outlook dropped as Omicron spread

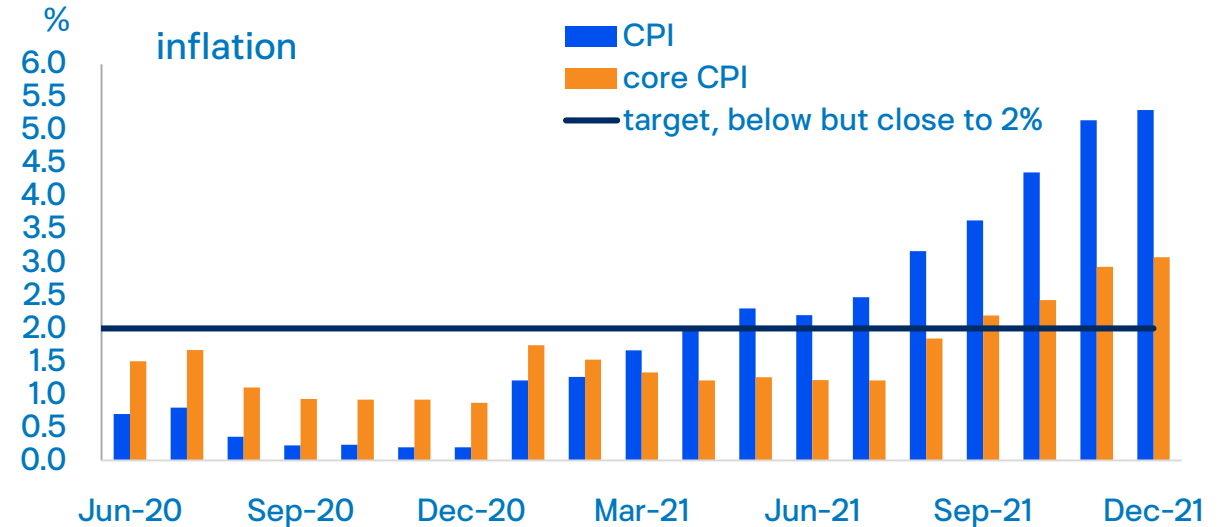
%MoM, deviations from 50, + expansion - contraction



Retail increased from early shopping



Inflation spiked to historic high

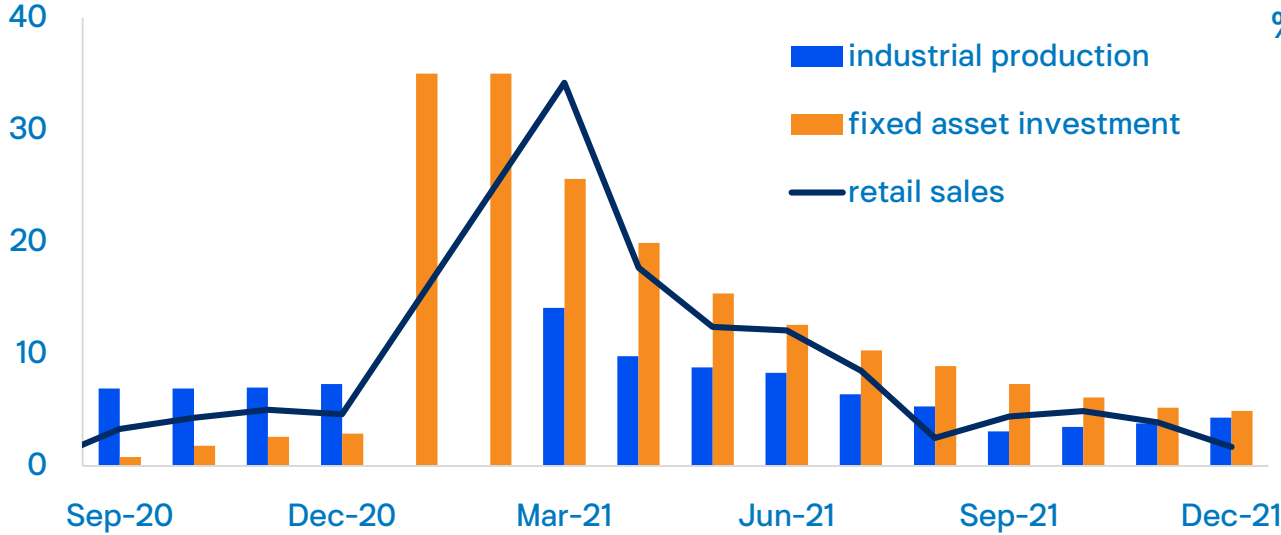


- In January, service and composite outlook tumbled further due to effects of Omicron outbreak and inflation in Europe. Manufacturing sector outlook increased slightly from resolving supply chain issues.
- European Union inflation continued to grow significantly 5.3% in December with support from food and energy price. Core inflation increased from last month to 3.1%, the highest level in the year.
- Retail trade decreased significantly due to Omicron and rising prices while industrial production remained flat from last month. Retail trade grew 3% in December while industrial production rose only 1.3%.

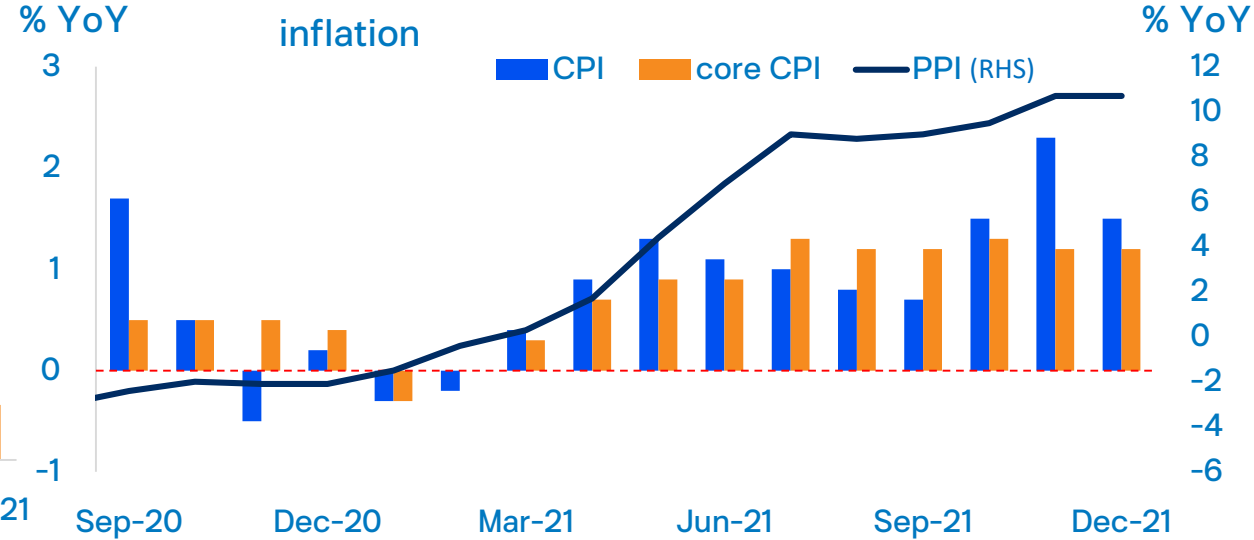
PBOC cut rates to support China's economy, inflation slowed down



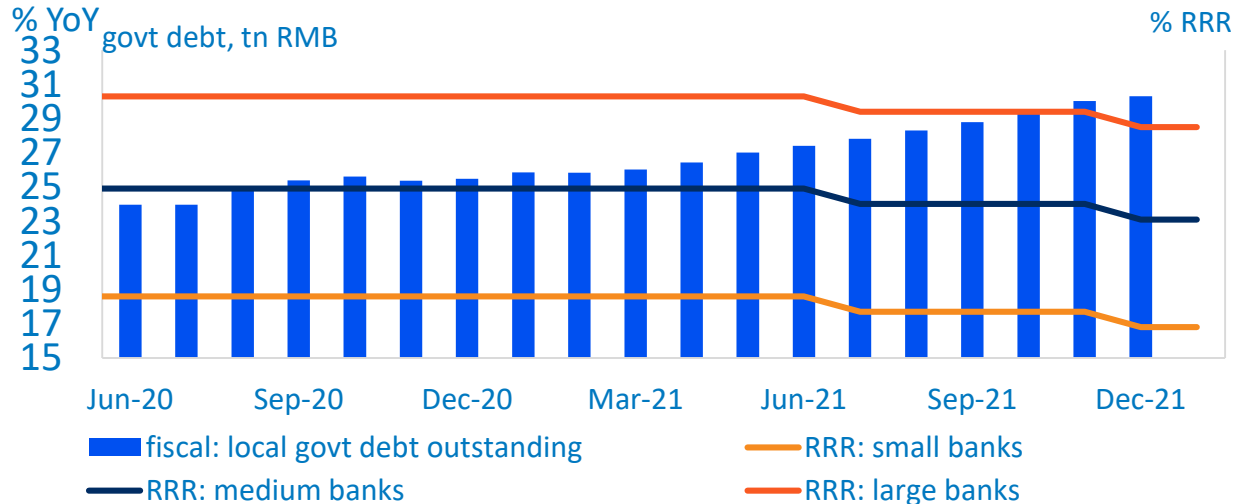
Retail sales dropped low while production increased slightly



Inflation slightly dropped in December



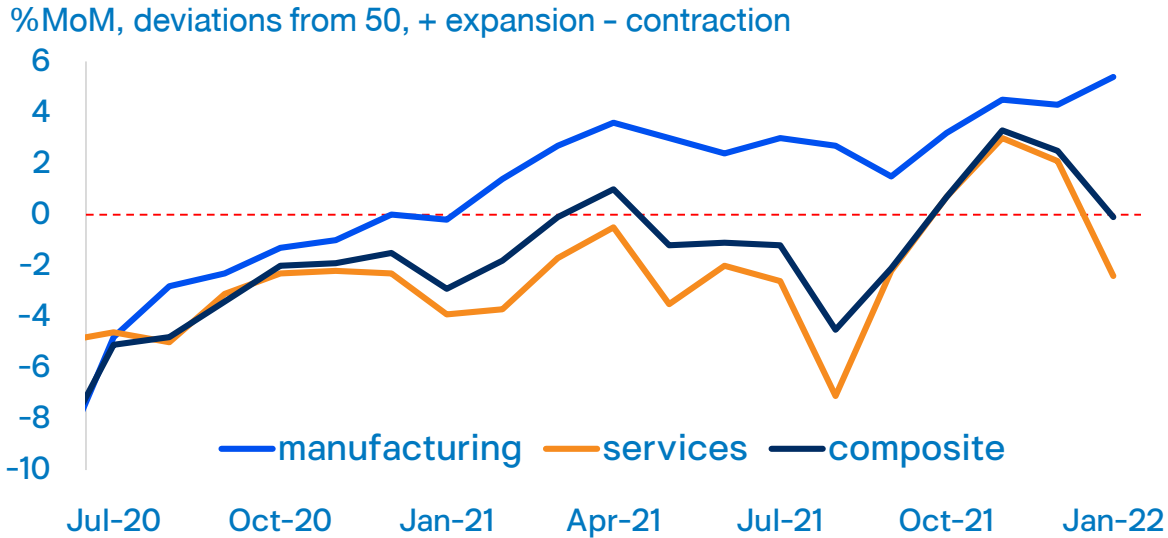
China lending rate cut in December to boost demands



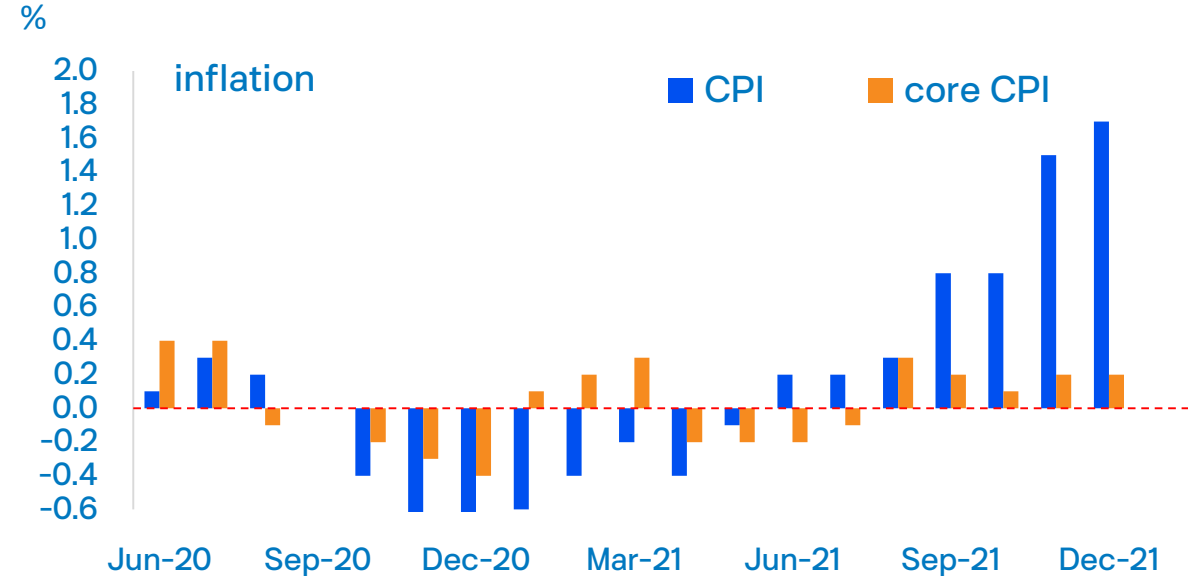
- In December, industrial output increased from a previous month with 4.3% growth. However, retail sales dropped to one-year low at 1.7% growth. Fixed-asset investment remained weak at 4.9%
- PBOC decided to inject short-term liquidity and cut several lending rates in order to provide economic support to help boost the economy which suffered from rising prices and zero-Covid policy.
- Inflation dropped in December after peaked in the previous month due to rising prices of energy and energy-related goods. CPI grew 1.5% YoY. PPI growth also grew at slower pace but remained high at 10.3% from rising commodities prices.

Japan's inflation spiked in December, industrial production expanded

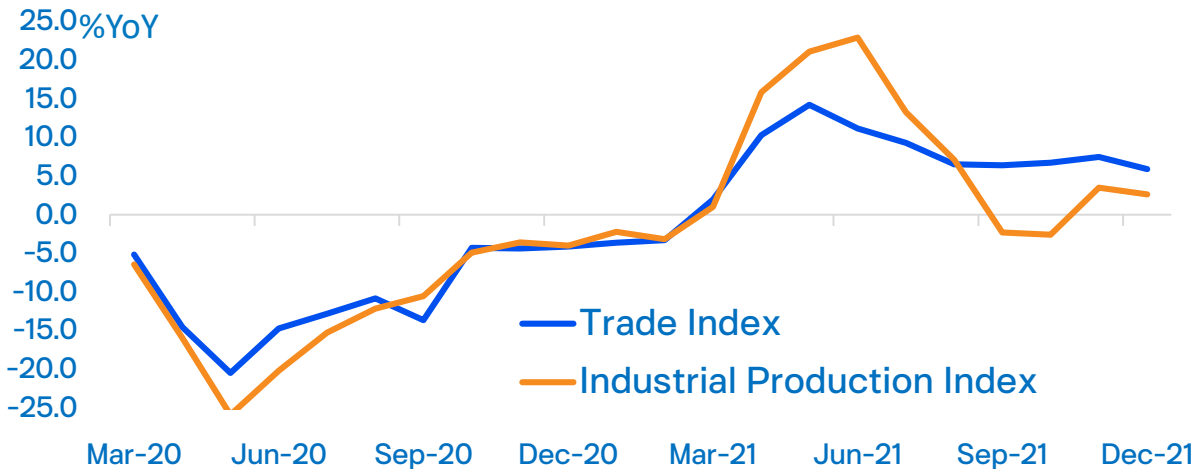
Service outlook took a hit from returning Covid-19 cases



Japan's inflation spiked from energy price

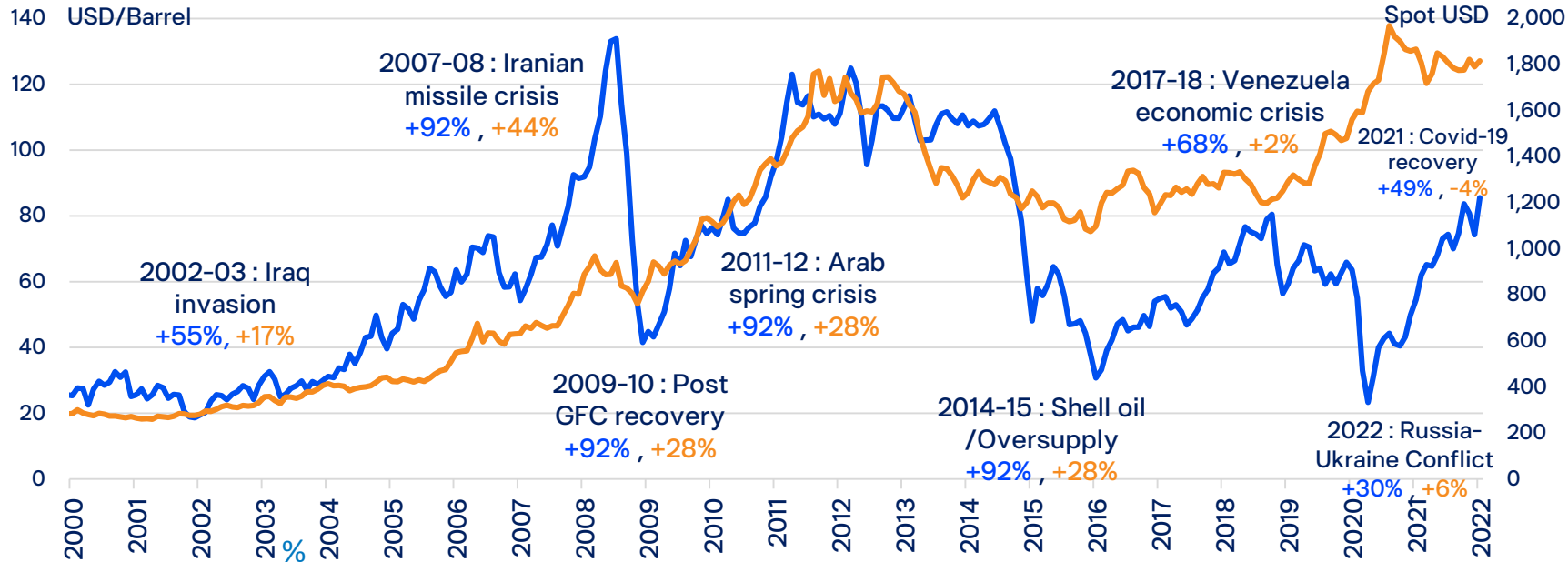


Trade remained stable while production expanded

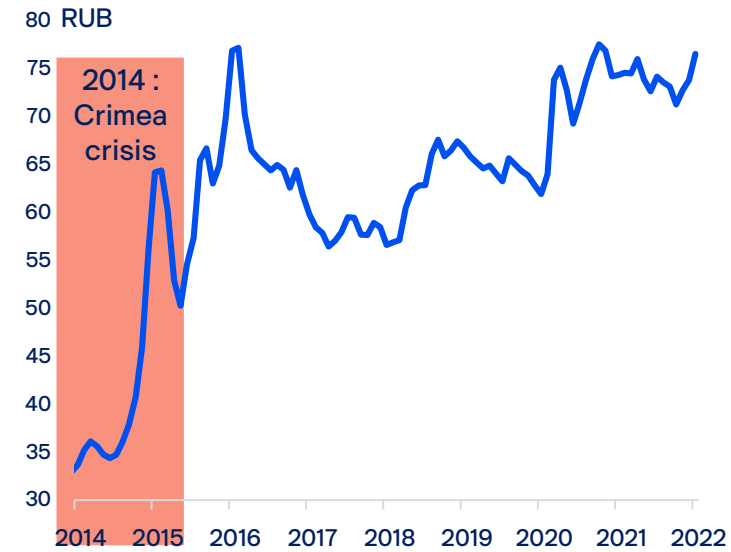


- Service outlooks dropped again in January as Omicron cases rose in cities which induced government measures to return. The composite PMI dropped lowest in 3 months.
- Trade and production gain solid growths in December. Car and machine productions resume despite shortage issue in semi-conductors continued.
- Inflation remained high in December due to high energy price. CPI expanded highest in a year at 1.5% while core CPI expanded 0.2%.

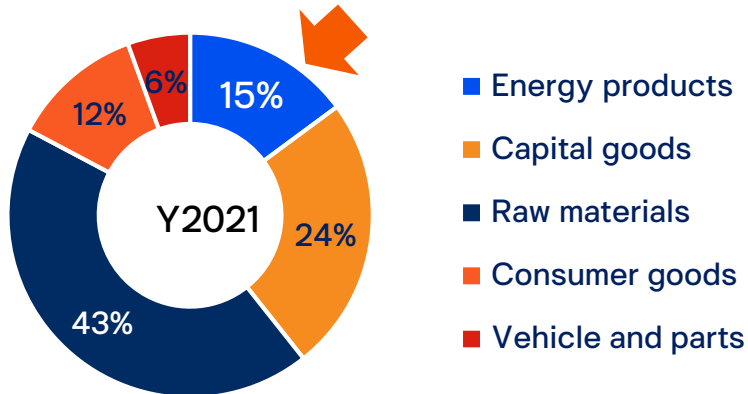
Historical Oil & Gold prices during major events



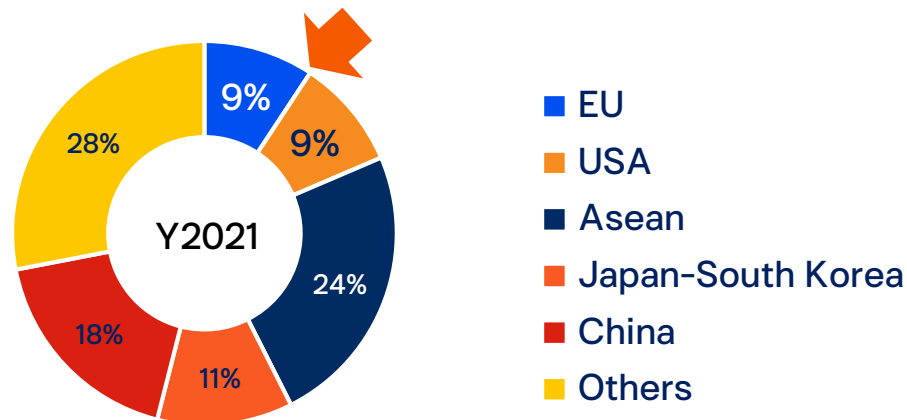
Ruble/U.S. Dollar



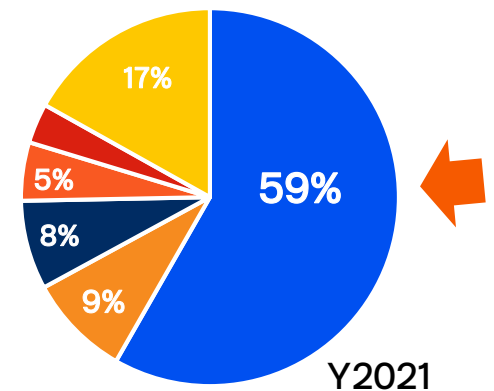
% Thai imports share



% Thai exports share by destination



% Share of Tourist to Thailand



PART 2

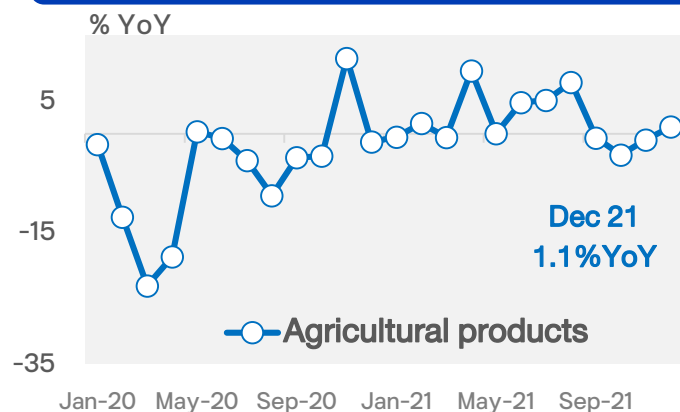
Thai Economy



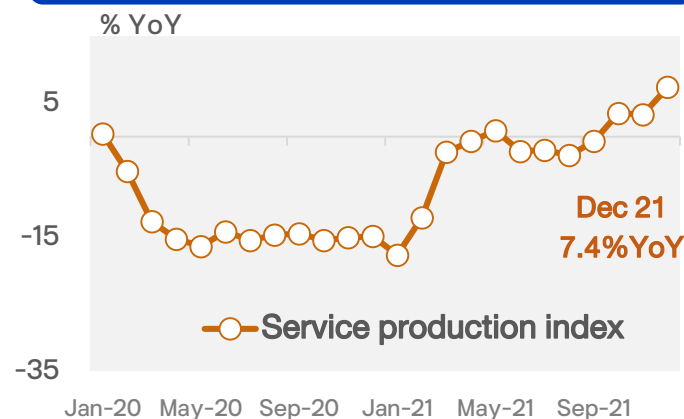
Coincident Economic Index (sa)

	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21
Production												
Coincident Economic Index (sa)	98.2	99.7	99.9	99.1	99.7	99.7	98.8	98.0	98.9	99.8	100.2	100.9
Import Volume index (exclude Gold)	95.3	99.6	98.1	100.1	106.2	101.5	103.5	109.8	101.1	104.0	99.8	112.6
Manufacturing Production Index	98.0	97.9	99.8	99.3	99.4	99.4	93.6	89.6	97.1	99.5	100.6	103.3
Gross Value Added Tax at 2000 price (Million ba)	43,542	57,672	59,024	50,980	54,108	55,356	54,109	54,901	53,138	55,397	60,724	61,184
C												
Domestic Automobiles Sales (Unit)	64,942	64,433	66,435	65,760	62,902	64,334	57,975	43,508	56,914	63,818	63,447	62,248
Sales Benzene, Gasohol & Diesel Index	82.0	97.6	104.8	87.9	81.1	86.9	74.5	70.0	80.0	86.6	91.7	100.8
VAT Hotel & Restaurant Index	20.0	34.7	38.3	20.2	18.9	28.2	21.5	21.1	29.2	36.9	45.2	47.0
I												
Imports of Capital Goods at 2010 price (Million US\$)	3,880.0	4,176.0	4,153.4	4,074.2	3,985.8	4,144.2	4,171.3	4,226.5	4,152.9	4,049.1	4,018.8	4,142.5
Domestic Machinery Sales at 2010 price (Million Ba)	78,242	78,928	80,103	81,757	82,275	83,744	81,822	76,290	83,409	84,047	83,360	84,495

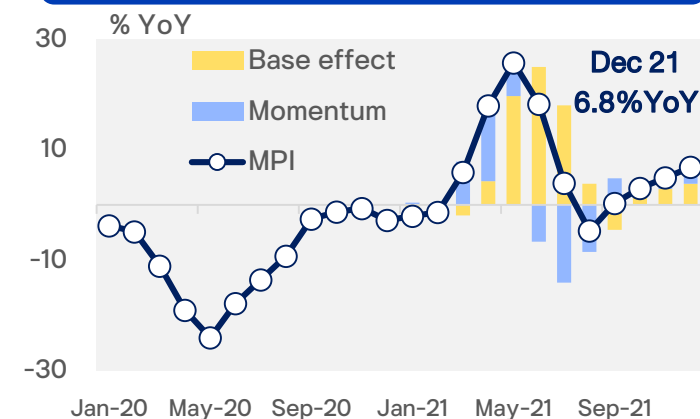
Agriculture



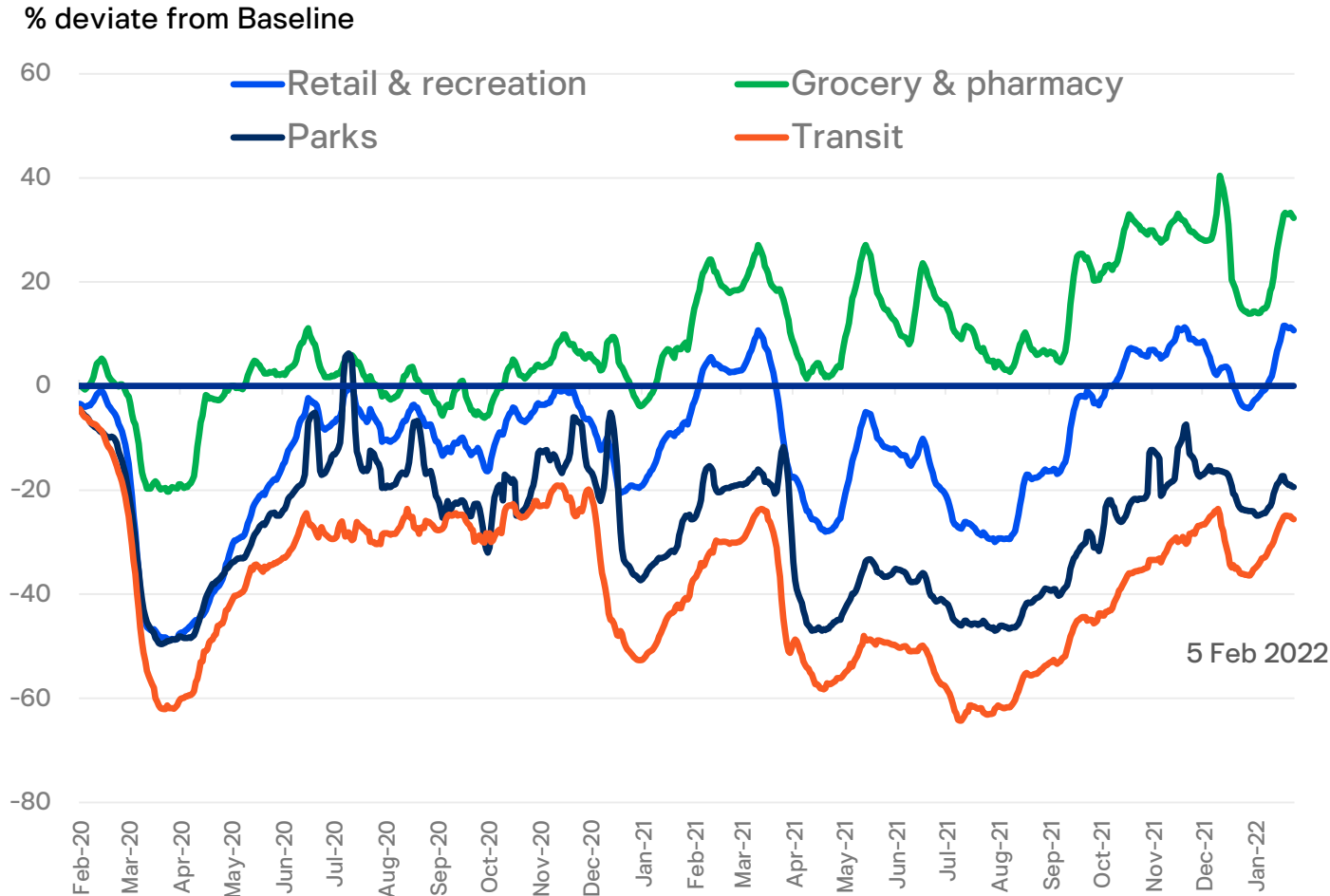
Services



Production

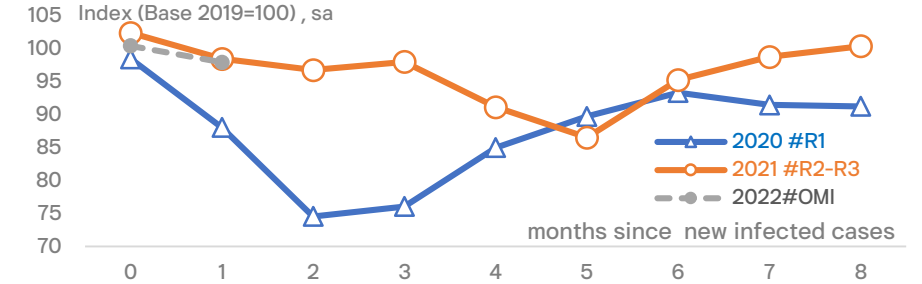


Google Mobility Report

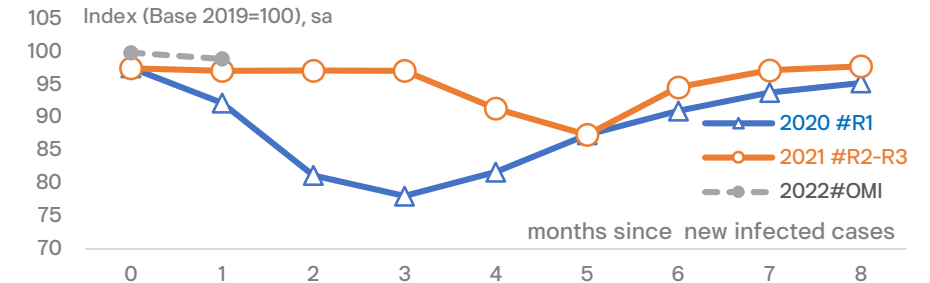


Covid-19 Impact

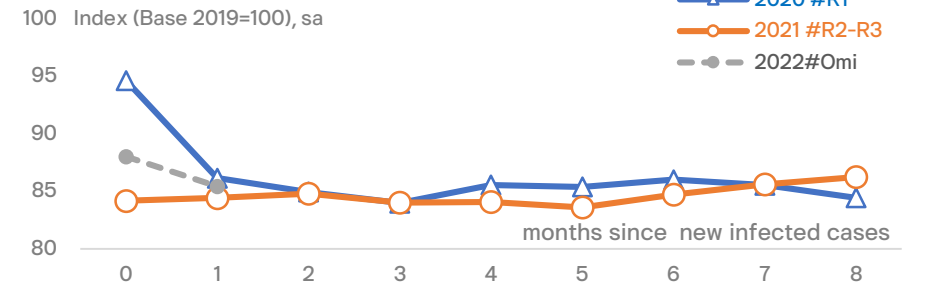
Trade Sector



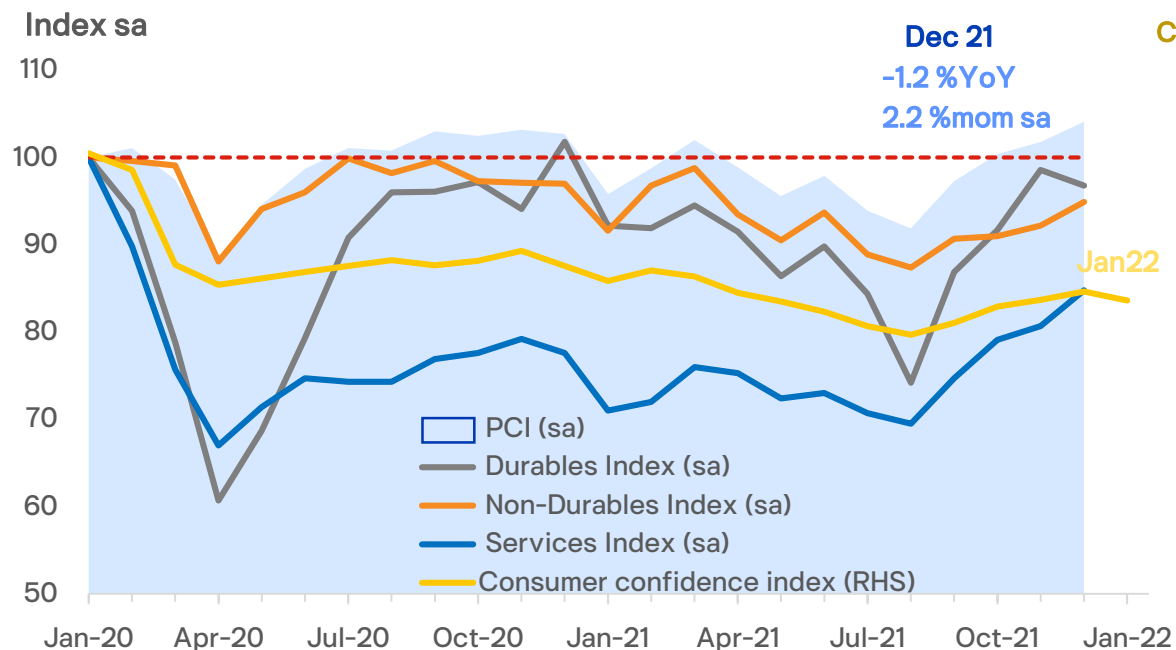
Manufacturing Sector



Services Sector

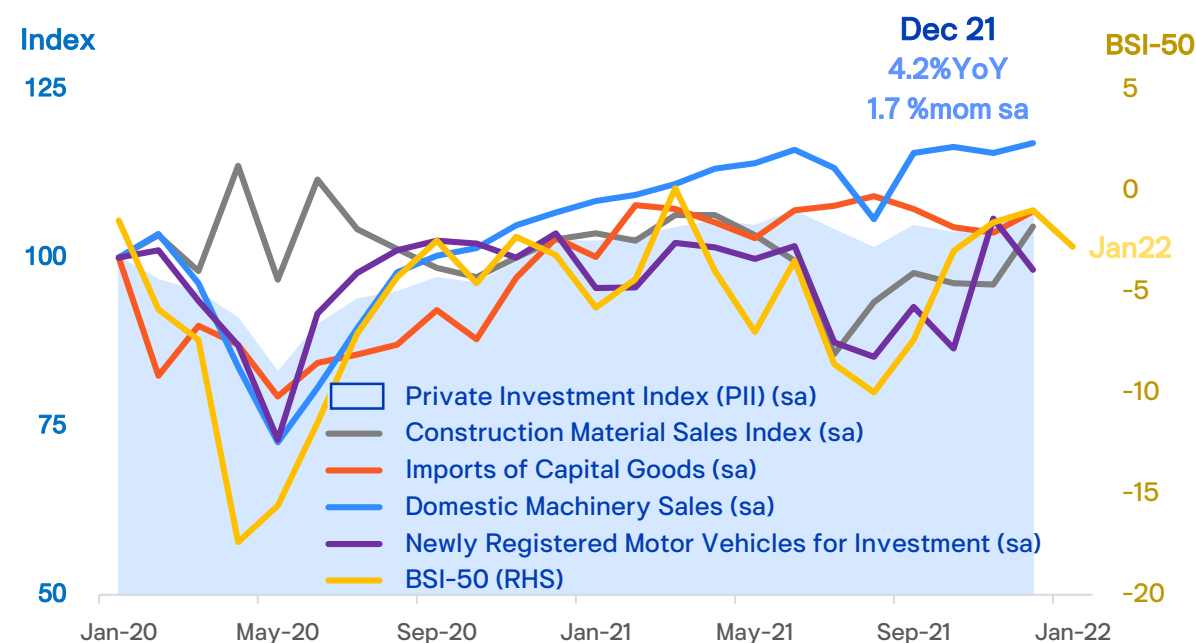


Private Consumption (sa)



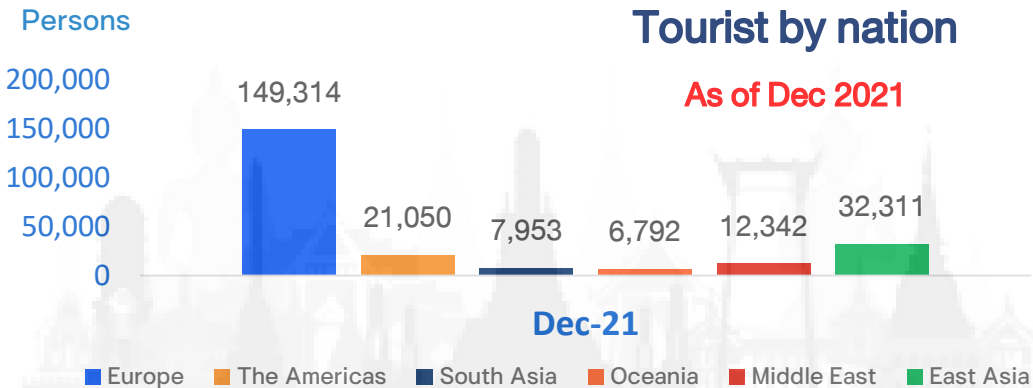
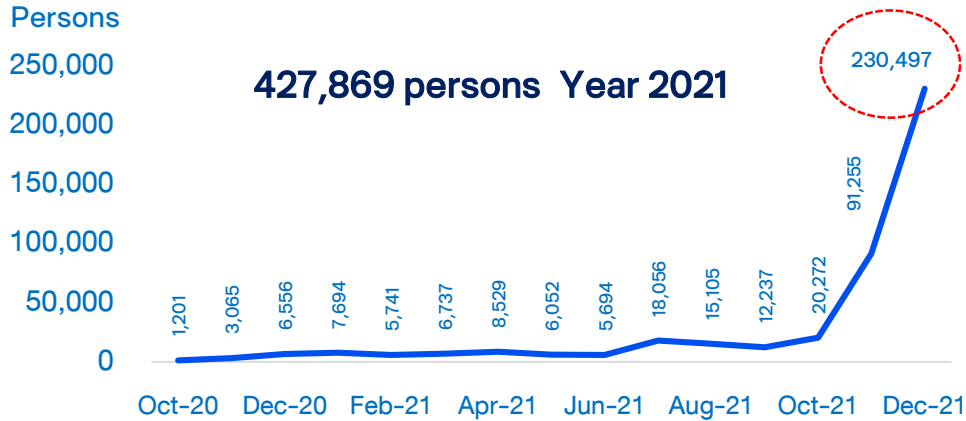
- **Private consumption in dec-21** steadily rebounded from last month and has reached pre-pandemic level. While non-durables and services continuously improved, durables showed sign of deceleration after much accelerating in previous month.
- These improvements were due to slowly improvement in employment conditions both in agriculture and non-agricultural sector, easing restriction measure and spillover from government's stimulus program (Half-half scheme etc.)

Private Investment (sa)



- **Private investment** showed continuous improvement both in equipment and equipment categories and construction category, in line with better business sentiment and improved overall economic situation.
- While imports of capital goods and domestic machinery sales recovered, Motor vehicles for investment drop after a peak in last month.
- Construction activities improved, but labor shortage and rising material cost would weigh on construction rebound.

Total foreign tourist inbound



- As of Dec21, foreign tourist inbounds hit the record high of the year due to that Thailand reopening its border without restricted quarantine since Nov21. European was majority of inbound foreigners.

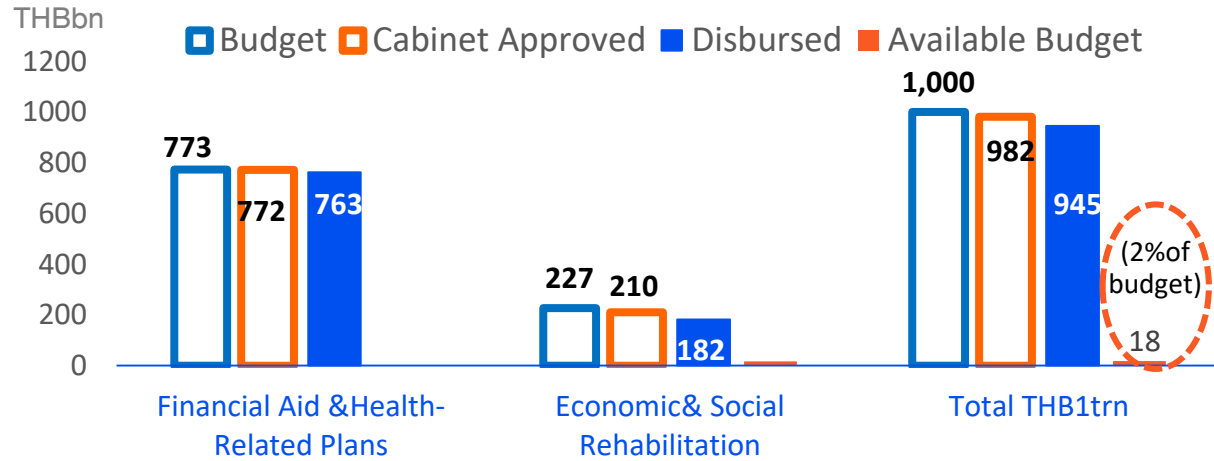
Number of Thai visitors



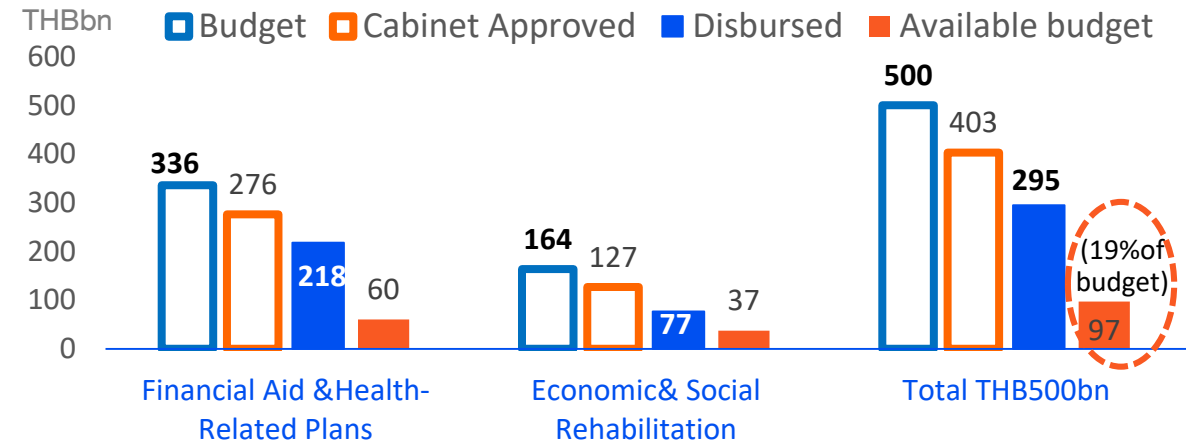
- The number of Thai tourists continuously rose in Dec21 in line with the improvement in domestic situation, higher vaccination rate and easing domestic containment measures, accompanied with spillover from government's domestic tourism stimulus package.
- Totally, there was 71.9 million Thai tourists in 2021, much greater than 15.2 million persons last year.

Only THB115bn available liquidity from the loan decrees to support economy for the remaining of Y2022

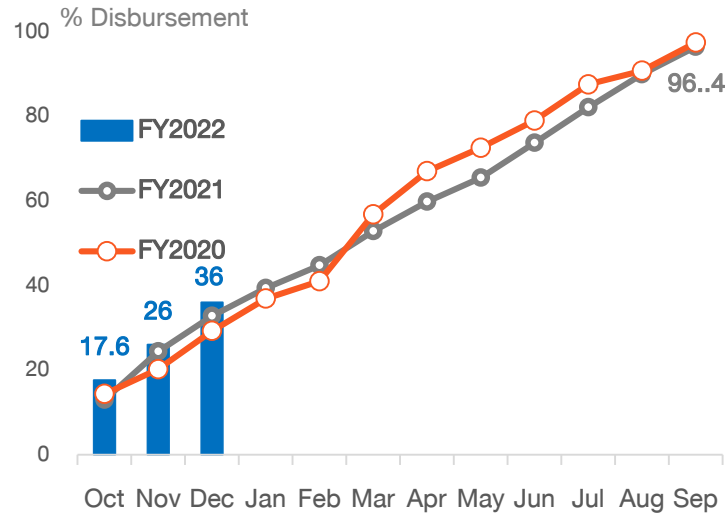
Progress on 1-trillion Stimulus Package (as of Feb2022)



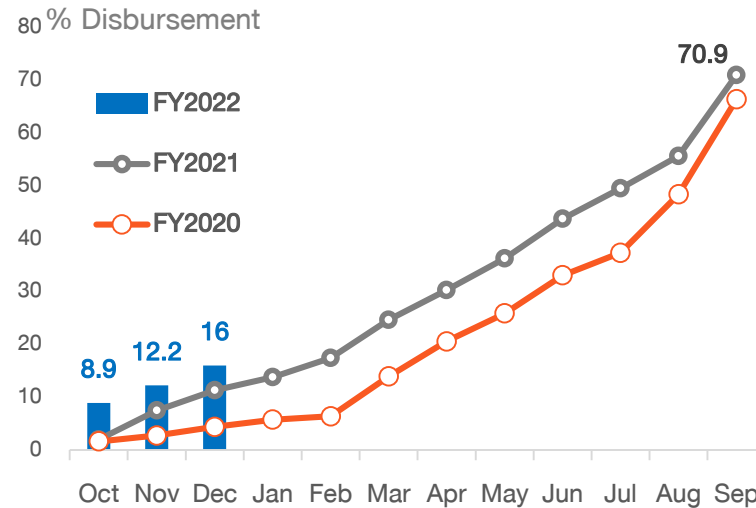
Progress on 500bn Stimulus Package (as of Feb2022)



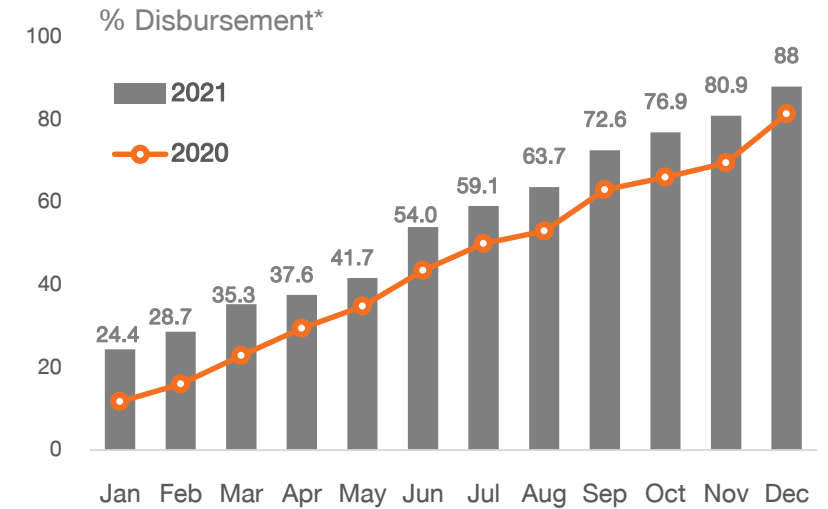
Current Expenditures(FY2022) : 887bn



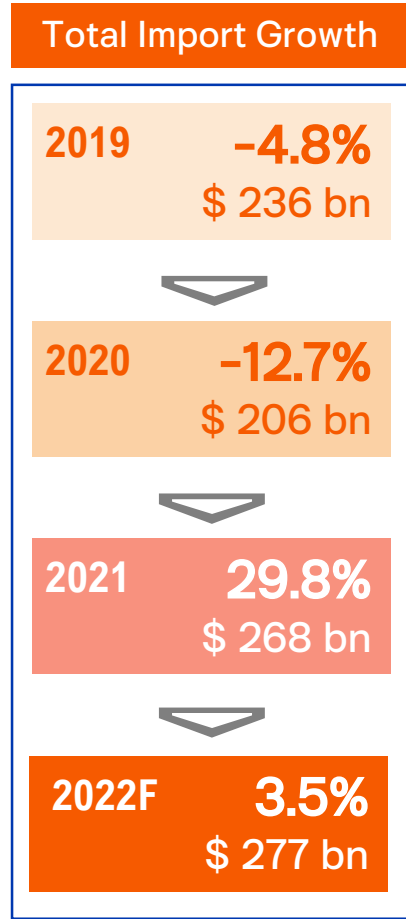
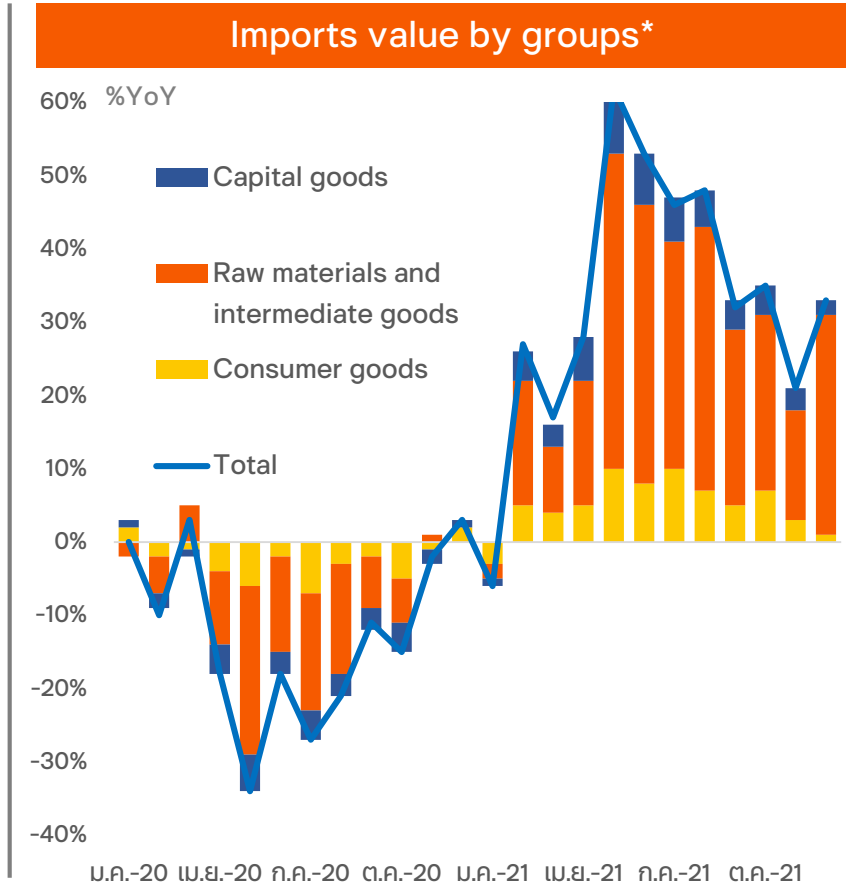
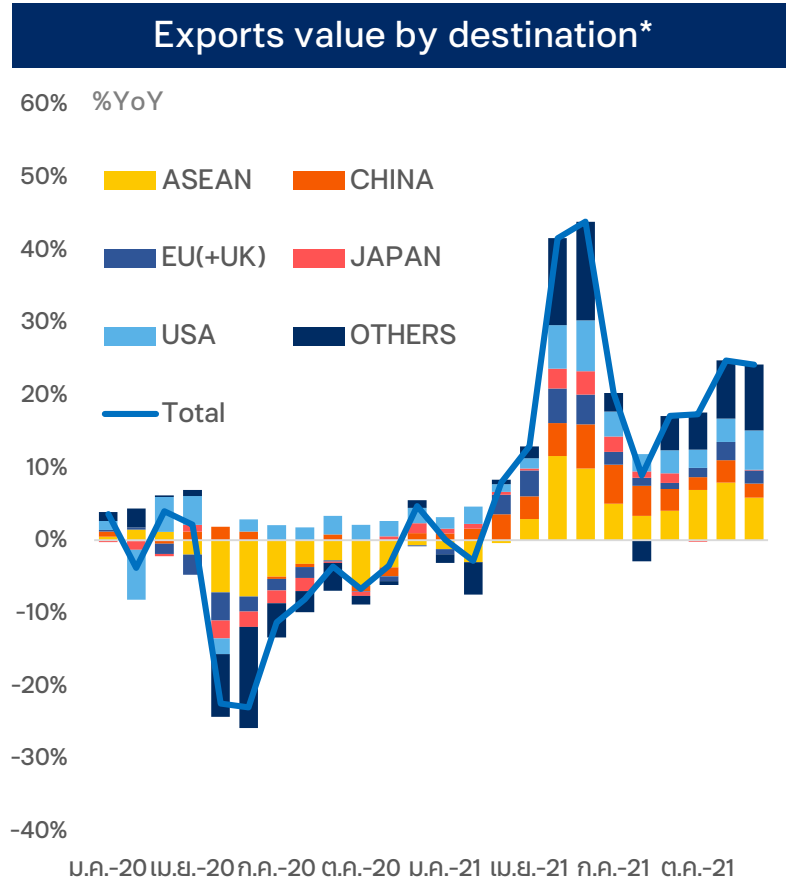
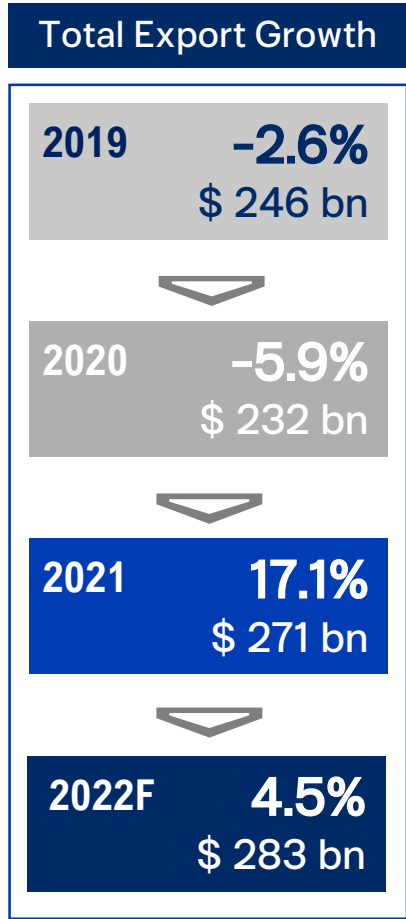
Public Investment Expenditures(FY2022) : 97bn



State Owned Enterprise Investment (as of Dec 2021) : 307bn



In 2021, Thai exports remain in a recovery path despite new Omicron Variant outbreak



- In 2021, Thai exports remained in a recovery trend. Demand from most key exports markets was higher in manufactured products (China +24.8%yoy, US +21.5%yoy, ASEAN +17.2%yoy).
- Thai Imports, consumer goods and raw material grew in line with the recovery in domestic demand and manufacturing production.

In 2022, Thailand export will grow 4.5% due to global demand recovery with inflation

Total Export
(USD term)
4.5%
(2021 +17.1%)



Positive Factor
Global demand recovery



Recovery of global supply chain capacity



Baht Appreciation

Negative Factor



New Outbreak of Covid-19 Omicron



Geopolitics Risk



High commodity price & Rising Inflation

Market Growth and Top Products

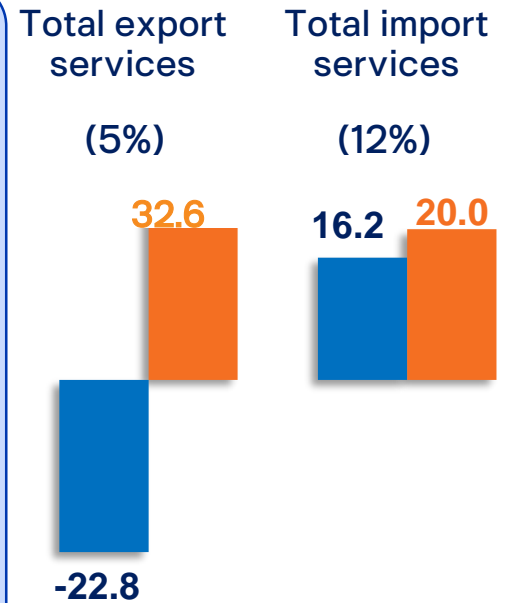
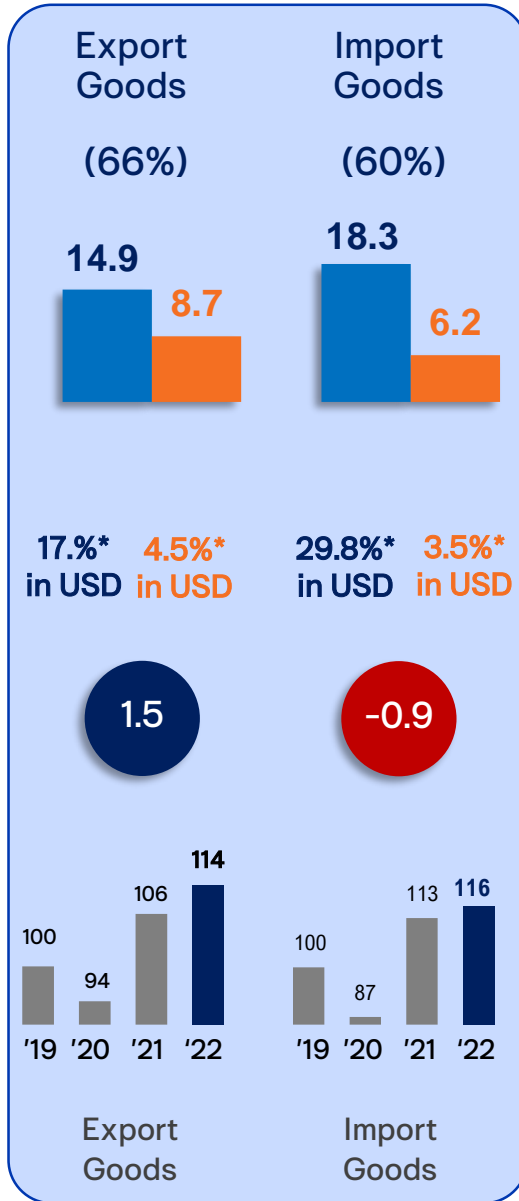
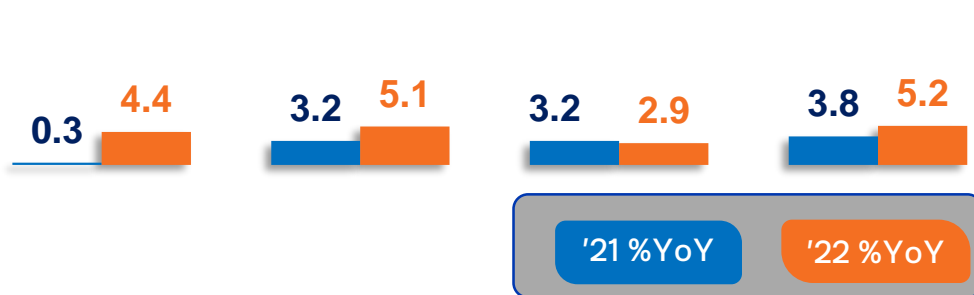
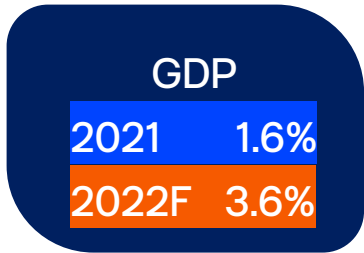
USA	EU+UK	China	ASEAN	Japan
5.0% (2021 +21.5%)	2.1% (2021 +21.2%)	7.7% (2021 +24.8%)	2.6% (2021 +17.2%)	2.5% (2021 +9.5%)
Top 3 Exports	Top 3 Exports	Top 3 Exports	Top 3 Exports	Top 3 Exports
<ul style="list-style-type: none"> • Elec./Computer & Parts • Elec. Home Appliance • Automotive & Parts 	<ul style="list-style-type: none"> • Elec./Computer & Parts • Automotive & Parts • Fashion Products 	<ul style="list-style-type: none"> • Agro Products • Elec/Computer & Parts • Chemical 	<ul style="list-style-type: none"> • Automotive & Parts • Elec./Computer & Parts • Chemical 	<ul style="list-style-type: none"> • Elec./Computer & Parts • Automotive & Parts • Foods

Agro Products	Food/Beverage	Machinery	Electronic/Computer & Parts	Oil/Chemical	Automotive
+6.2% (2021 +38.3%)	+3.5% (2021 +7.5%)	+5.0% (2021 +8.0%)	+6.0% (2021 +17.7%)	+5.0% (2021 +43.8%)	+6.0% (2021 +23.6%)

Export Growth by Industry Groups

GDP 2022: Forecast and Contribution

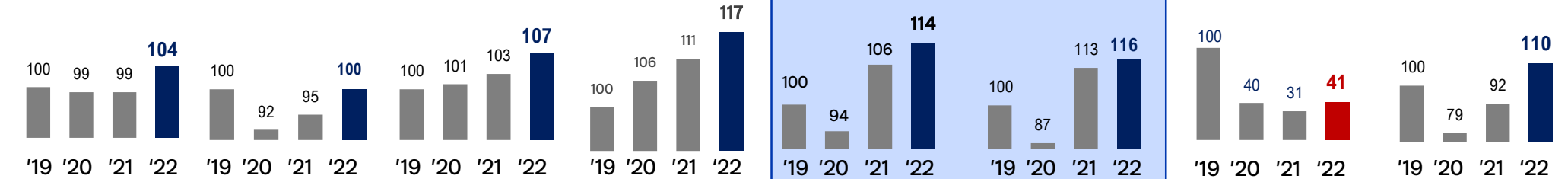
Private Consumption	Private Investment	Government Consumption	Government Investment	Export Goods	Import Goods	Total export services	Total import services
share (55%)	(16%)	(18%)	(8%)	(66%)	(60%)	(5%)	(12%)



Contribution 2022



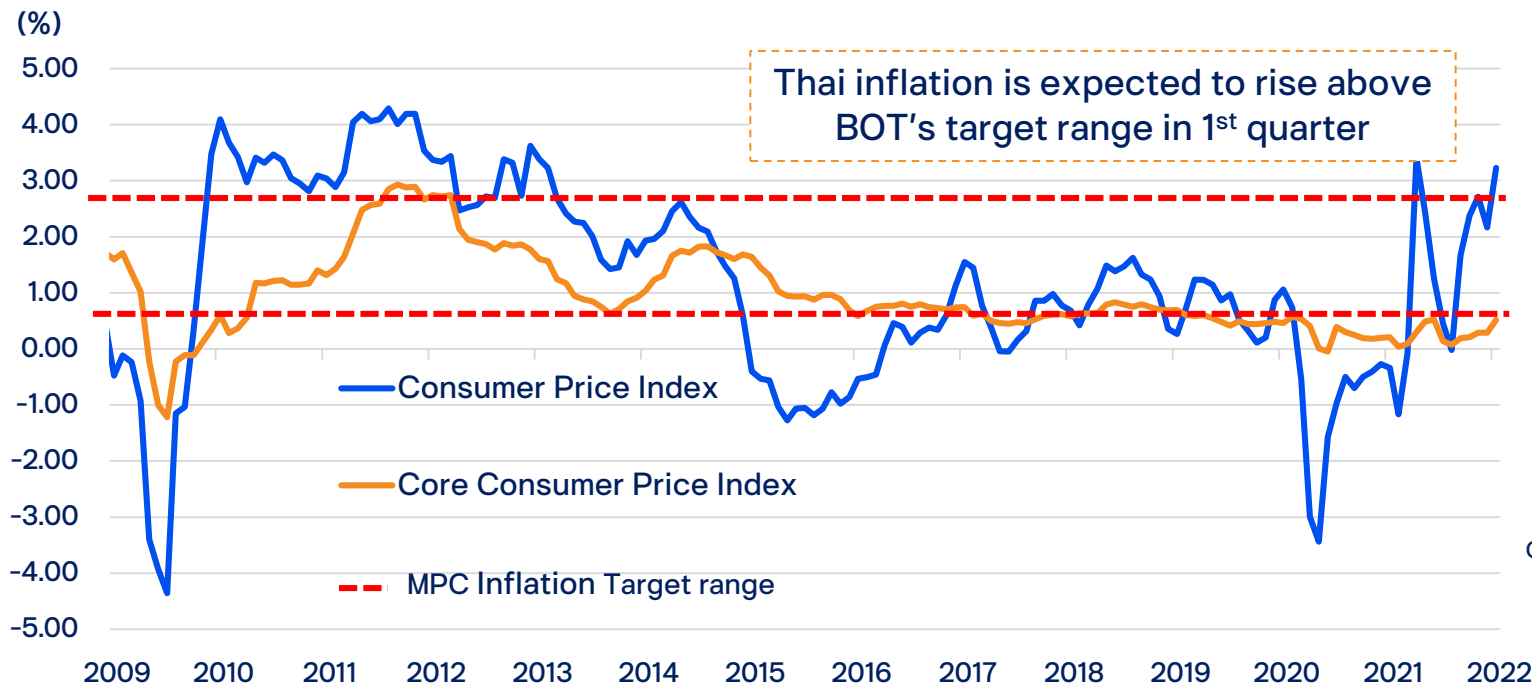
Comparison to Pre-Covid level



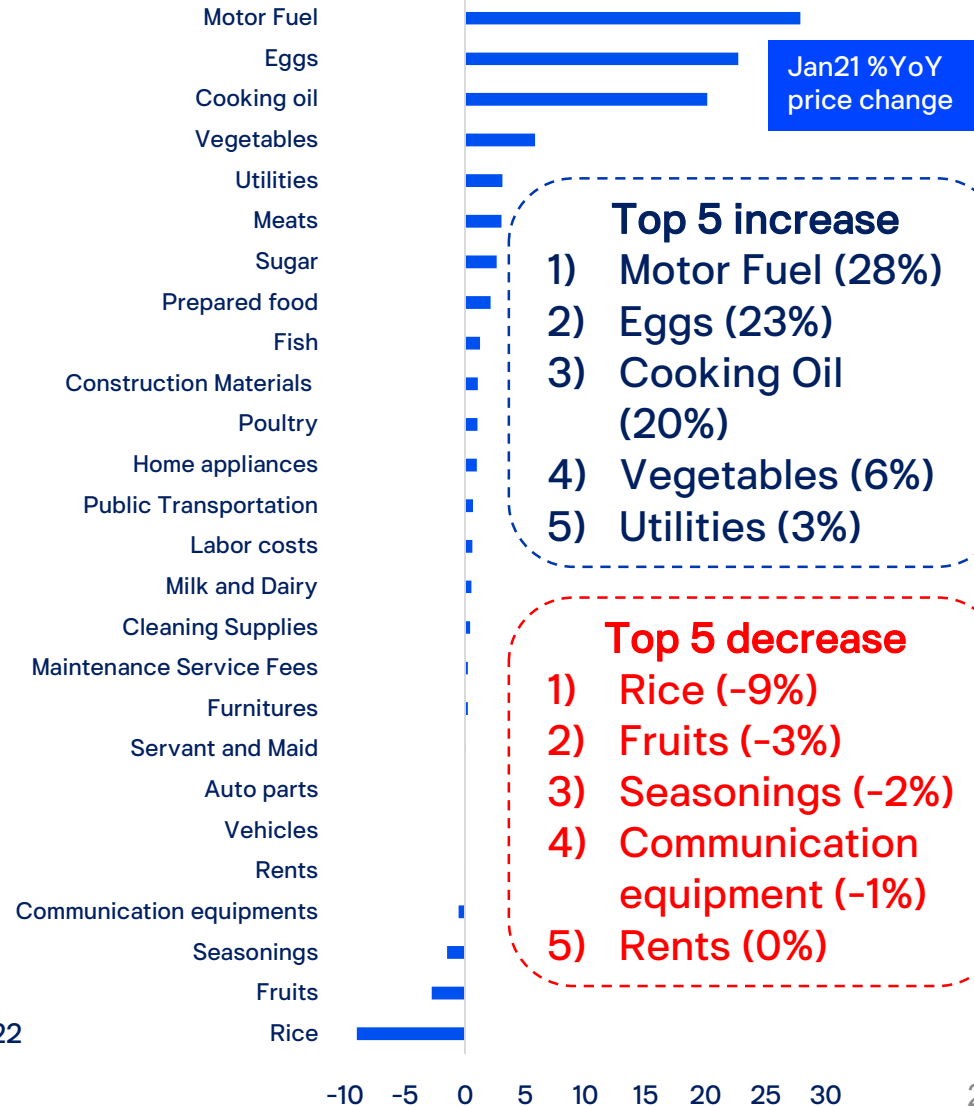
(**GDP constant Price 2002**)

In Jan 2021, Thai inflation rose from food and transportation

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
CPI	-0.83	3.30	3.81	3.01	2.19	1.90	-0.90	0.19	0.67	1.07	0.71	-0.84	1.24	3.23
Food	4.54	5.43	7.94	4.89	3.41	3.94	1.14	1.60	0.01	0.41	2.32	1.23	-0.12	2.39
Housing	-1.55	2.03	1.31	2.73	1.90	1.41	0.59	-0.99	0.17	1.03	0.42	-1.02	-1.69	0.74
Transport	-9.41	3.81	1.73	1.58	1.34	0.09	-6.52	-1.75	2.37	2.31	-1.14	-4.53	7.81	9.44



There has not been a broad-based price increase

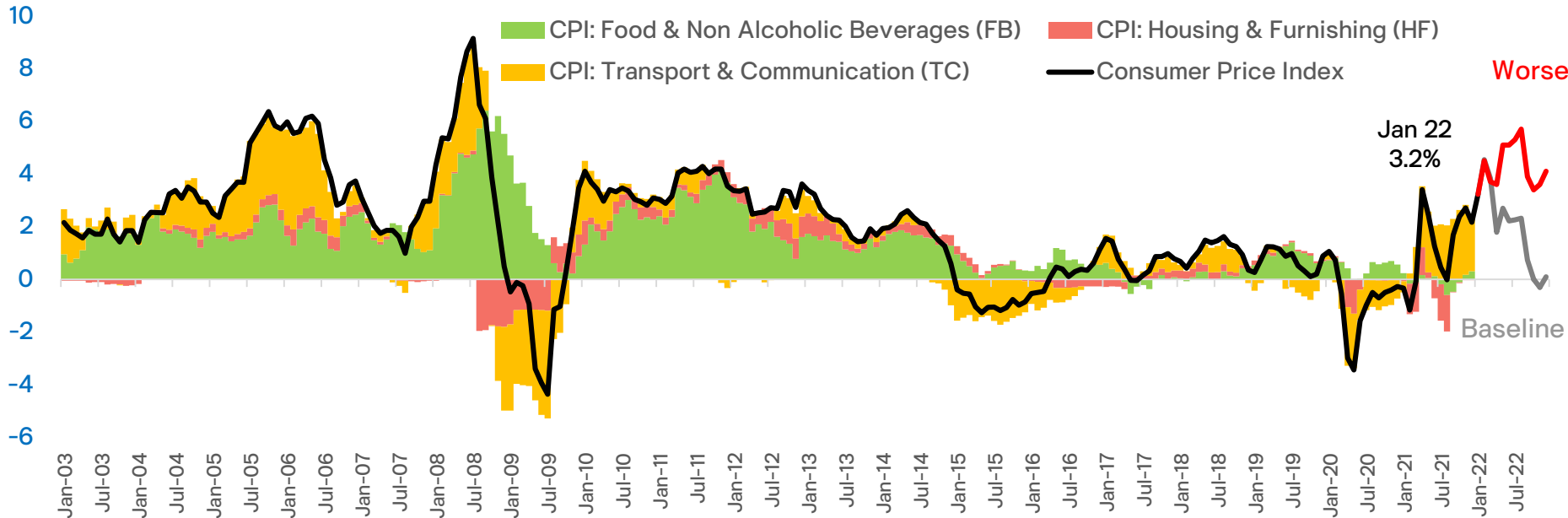


Throughout 2022, Thai inflation can reach 2.0% for baseline and 4.3% for worse case



Thailand's inflation : Baseline and Severe case 2022

% yoy, contribution

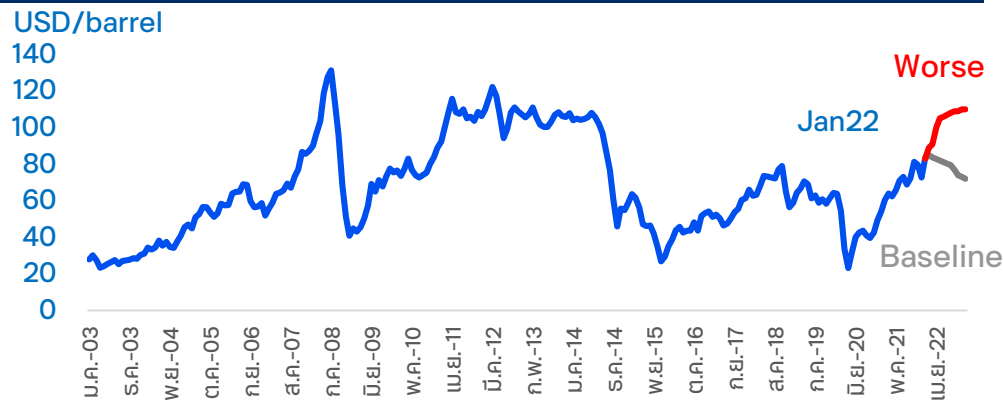


Forecast 2022

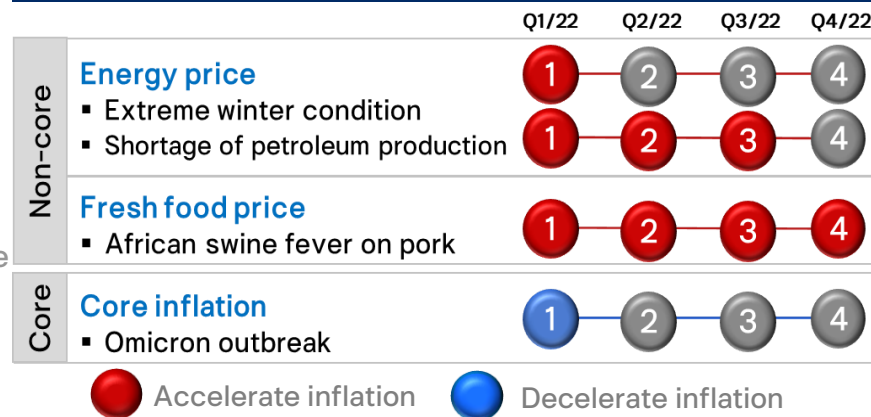
HCPI	Base	Worse
Q1/22	4.0%	4.0%
Q2/22	2.2%	4.6%
Q3/22	1.8%	5.0%
Q4/22	-0.1%	3.7%
2022	2.0%	4.3%
Dubai	72-85\$	90-110\$

Note: **Worse case** would be applied if energy sanction is lifted against Russian over geopolitical dispute such that Dubai will reach 90-110\$/barrel, Thai HCPI could reach 4.3%

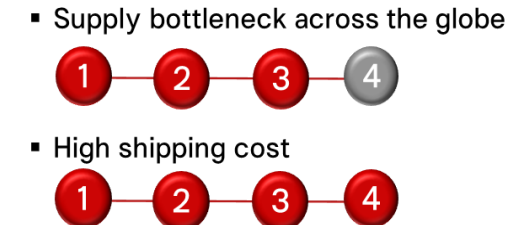
Dubai oil price : Baseline and Severe case 2022



Baseline Inflation factors 2022

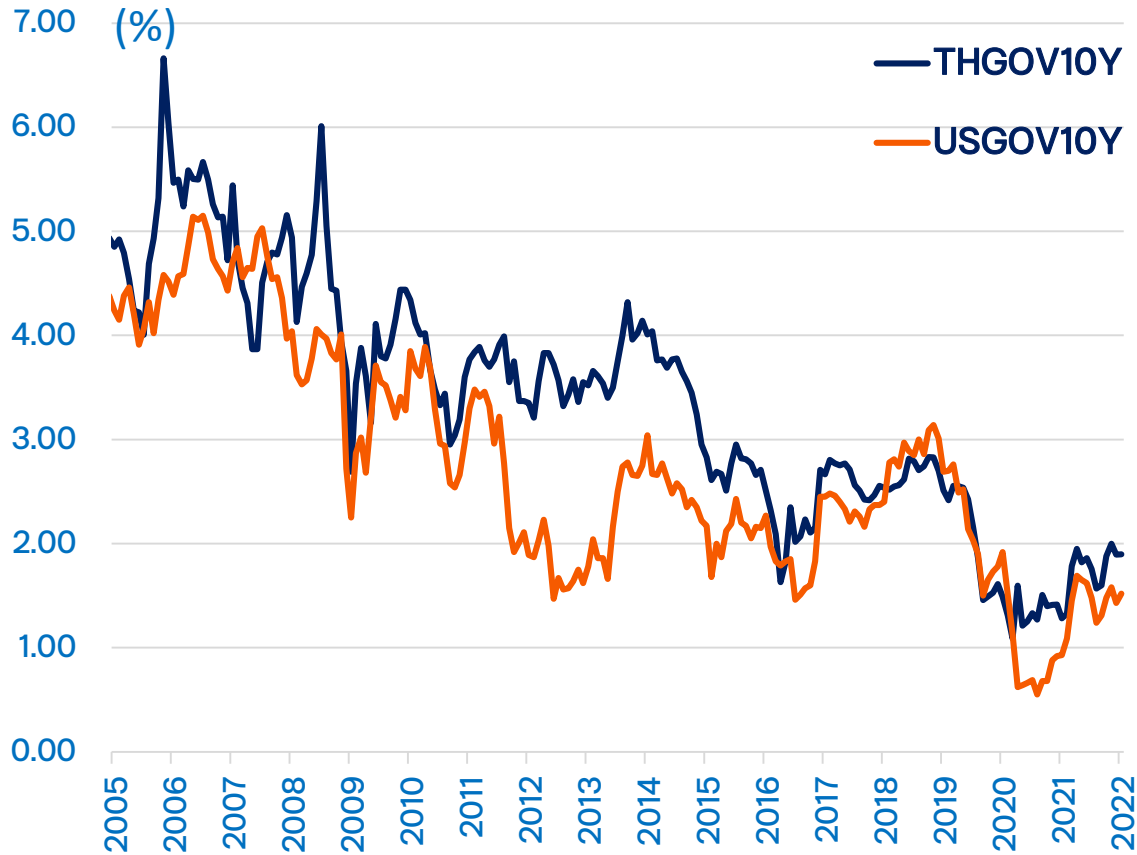


Core and Non-Core Components



MPC rate to hold throughout 2022, FED likely to hike in March

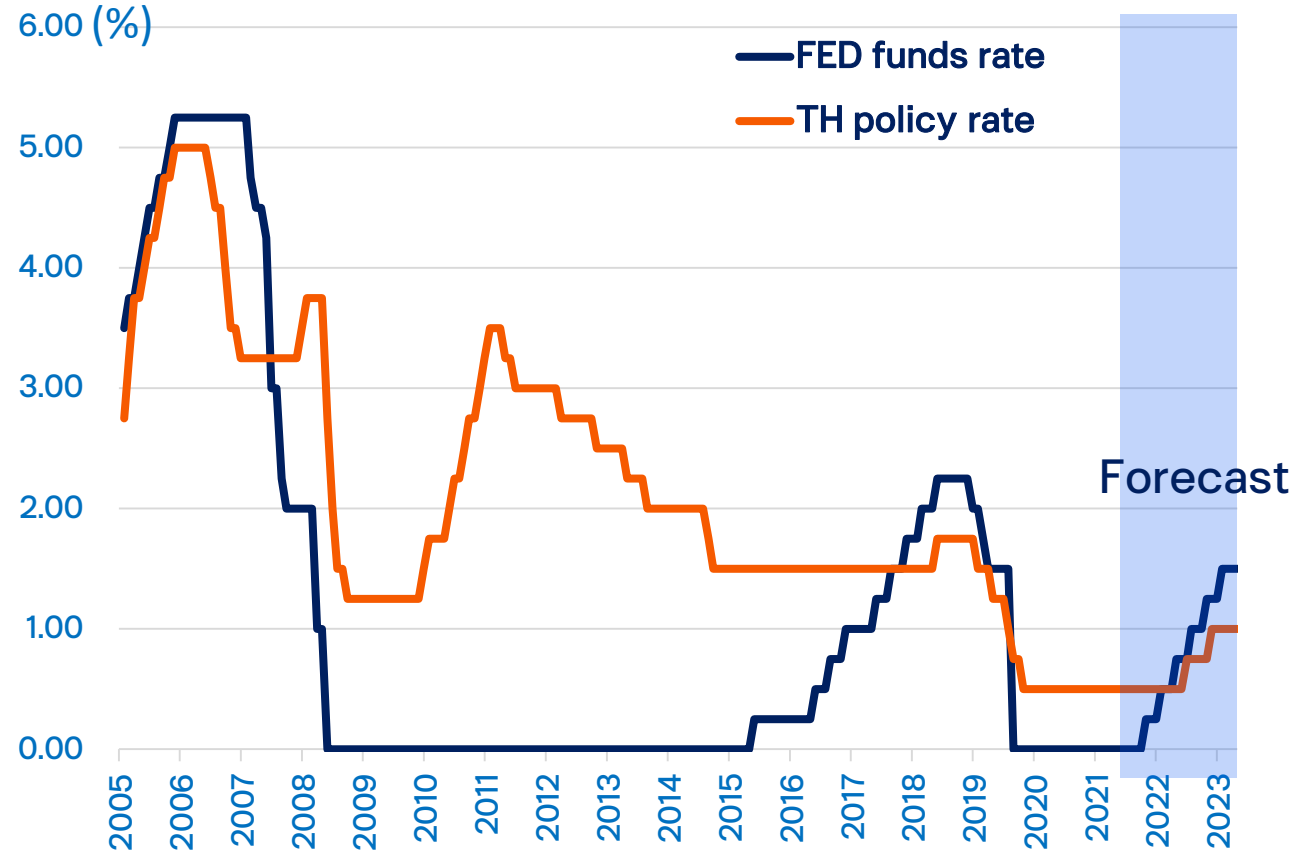
High correlation of long term 10Y TGB and UST



Factor that would affect FOMC's decision

- Broad-based improvement in labor markets
- Persistent long-term inflationary pressure

Fed will hike 4 times this year while BOT rate staying flat



Factor that would affect MPC's decision

- Long term economic impact in domestic consumption
- Tourism recovery in 2022

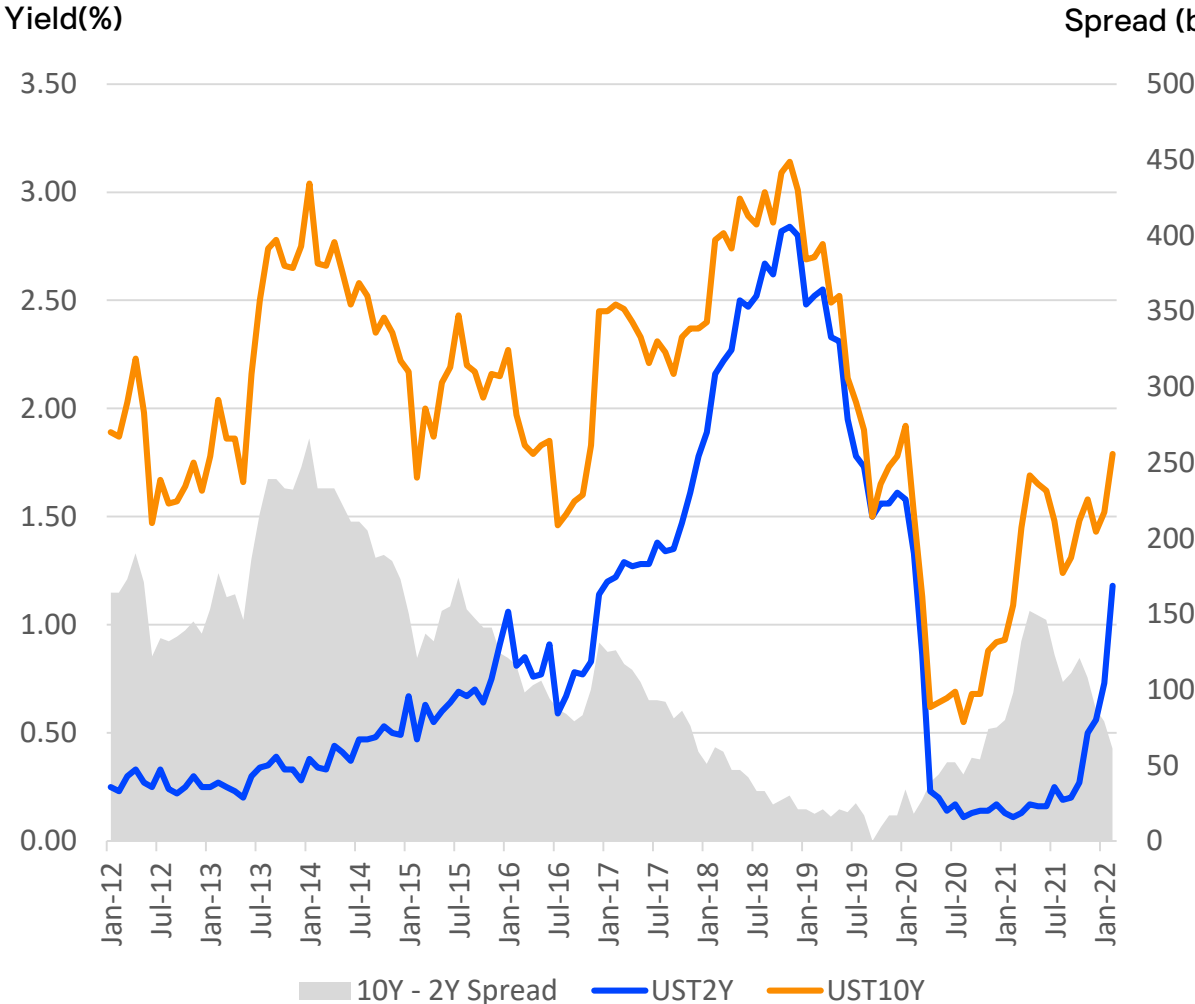
PART 3

Financial Market

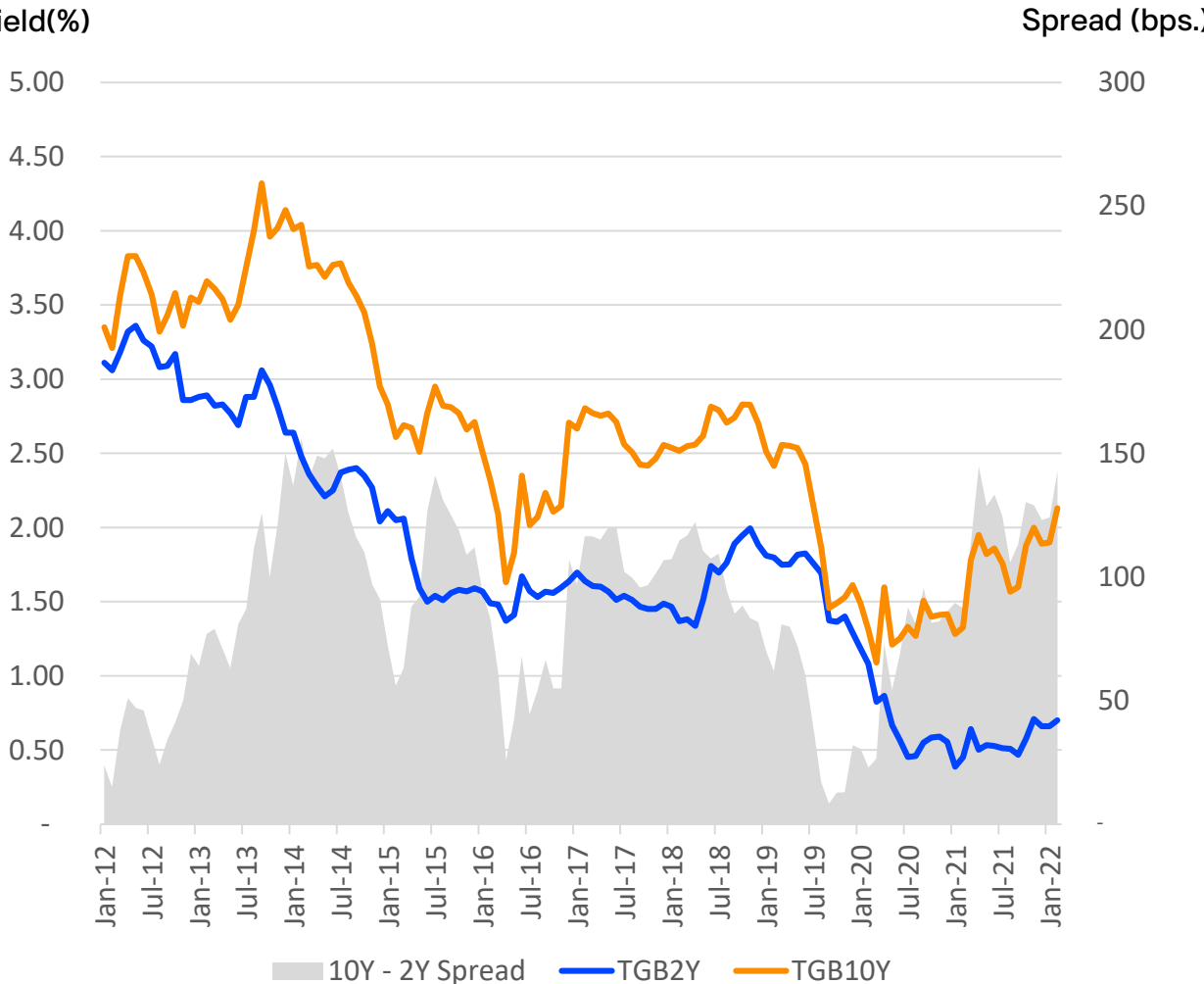
TGB curve continues to be steepen while UST curve starts to flatten



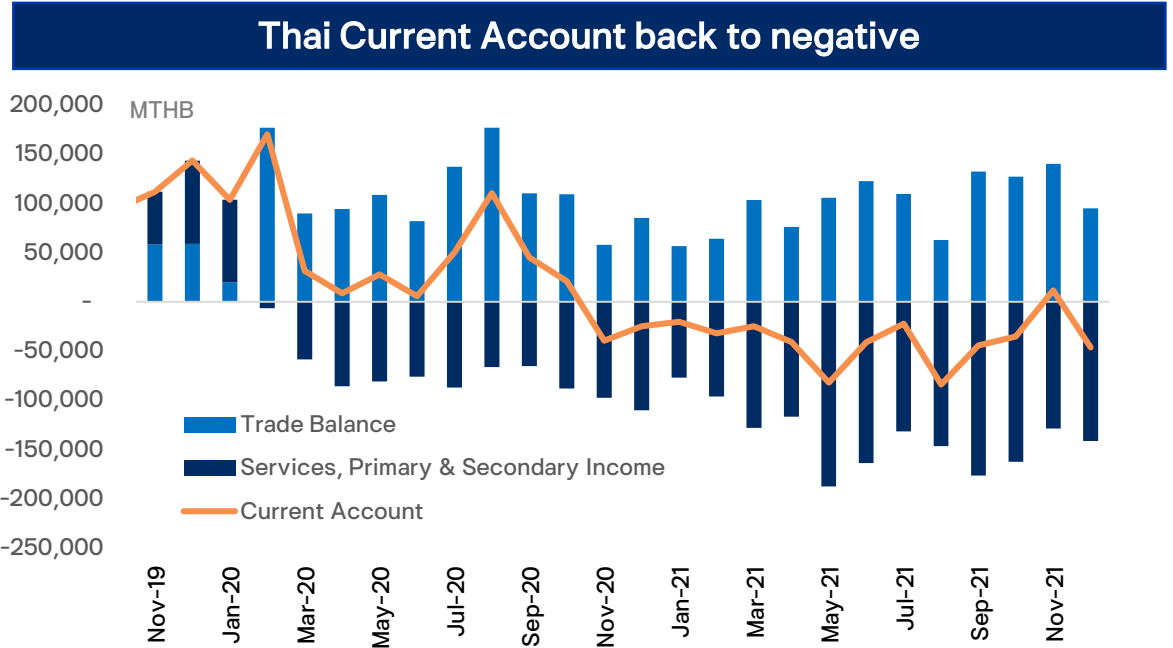
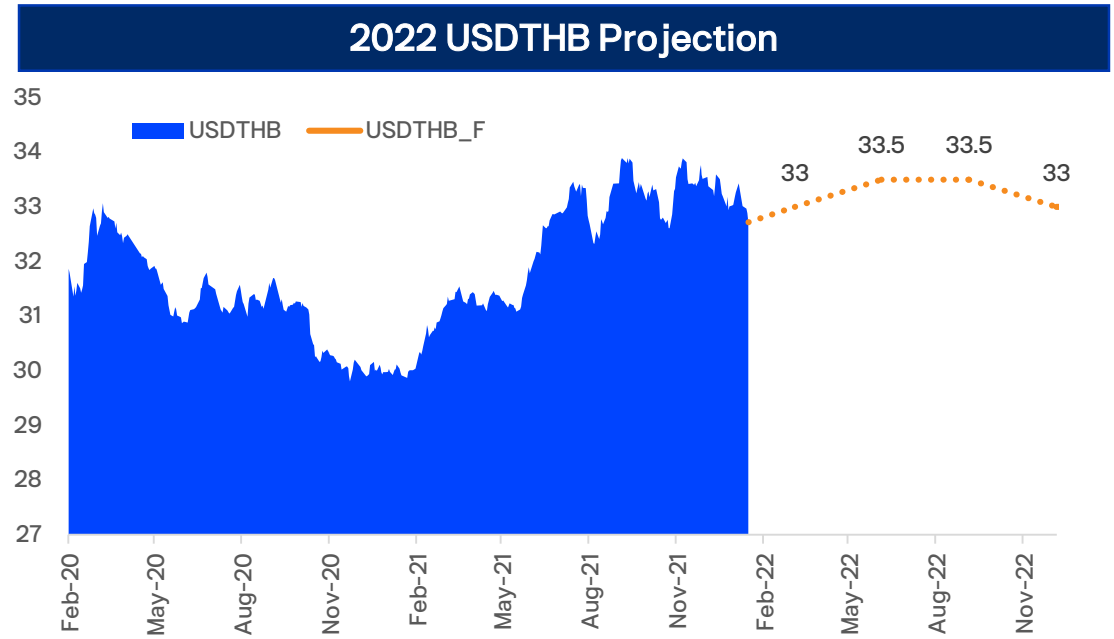
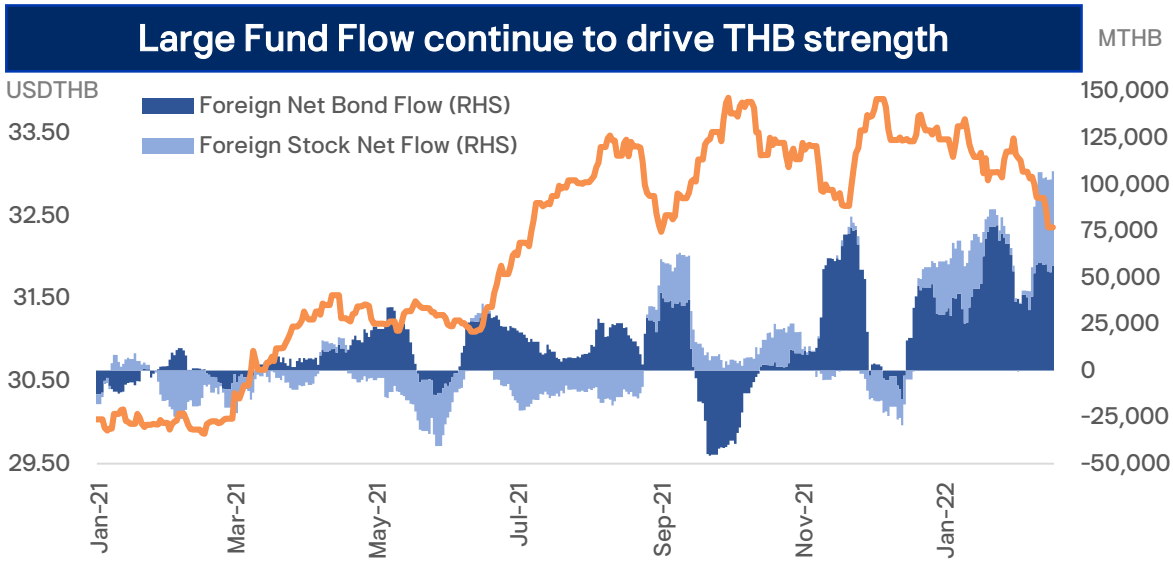
10 – 2Y UST Yield and Spread



10 – 2Y TGB Yield and Spread



Source: Bloomberg, CEIC, and ttb analytics



- USDTHB is very volatile, pulled back even more from 33.40 to 32.30 level in Feb-21 as there is large foreign fund flow into stock and bond markets with weakness of DXY as Fed hawkish has not reached market expectation.
- For Thai economy, we expect more incoming down-side risk as Thai CPI in January rose by 3.23%, up from 2.17% a month earlier. Moreover, Thai producer prices jumped 8.7% while the economic recovery is at risk to be slow down.
- January's US CPI was strong again with headline and core inflation at 40-year highs of 7.5% and 6.0% respectively pressured Fed to lift rates at least 5 times in 2022.

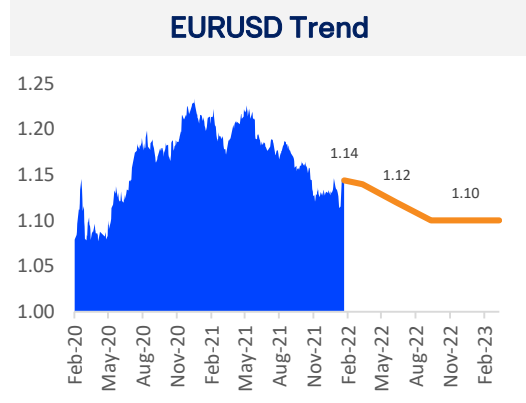
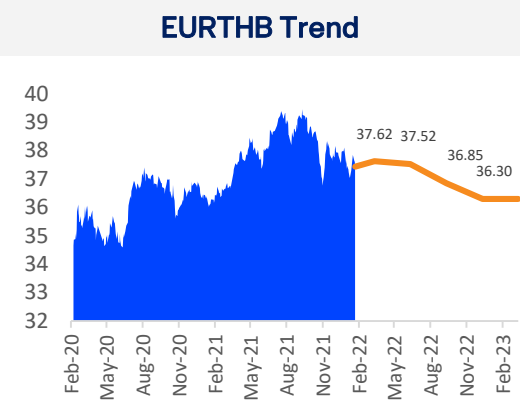
Source: Bloomberg, CEIC, and ttb analytics

Other projections : Dollar down for a while as Fed hawkish has not reached market expectation



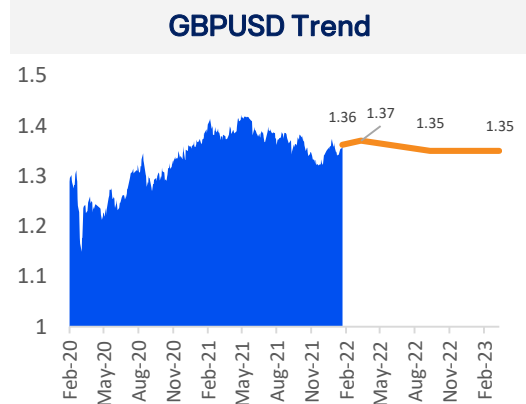
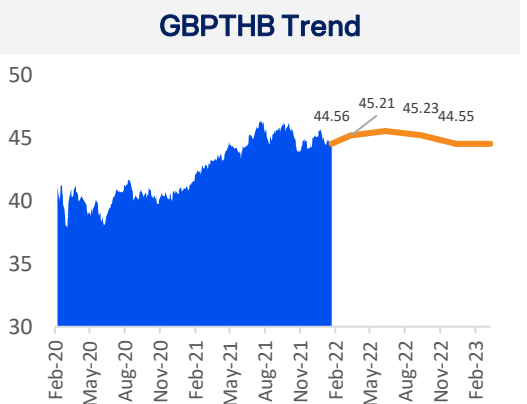
EURUSD : ECB facing spike inflation but not rush to hike

- The euro area unemployment rate in December fell to 7.0%, the lowest since the formation of the single currency while inflation at 5.1% YoY in January is a record high.
- We expect the ECB to decide at its next meeting in March that it will end all its Quantitative Easing (QE) programmes this year, enabling the ECB to make its first 25bps rate hike in December, rather than wait until 2023.
- Despite a more hawkish ECB, we expect that monetary policies will still diverge in favour of the Fed as there will more monetary policy gap. Thus, a more hawkish ECB is also not obviously positive for the EURUSD.



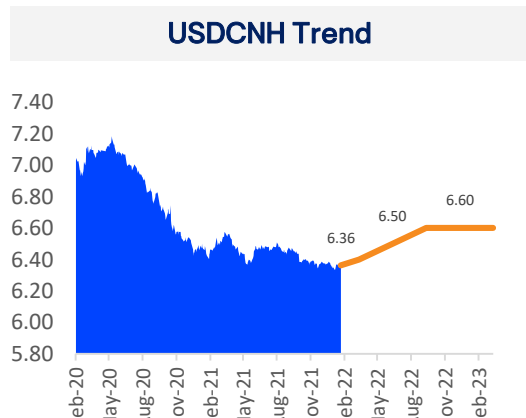
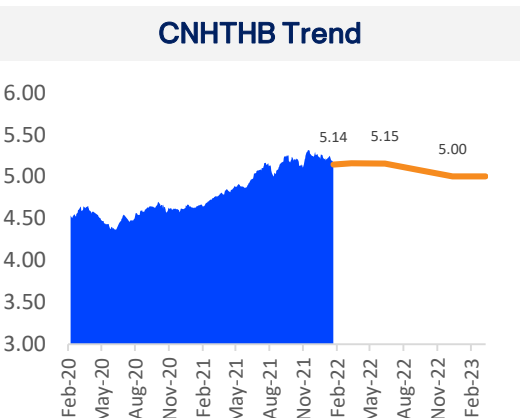
GBPUSD : Eventually Fed hawkish stance will outpace BoE

- Faced with three-decade high inflation at 5.4% as the first chart shows, the BoE lifted its Bank Rate for the second meeting in a row, this time by 25bps to 0.50%. This was in line with expectations while four of the nine Monetary Policy Committee members surprisingly voted for a 50bps hike.
- The BoE also said it would start shrinking its balance sheet to reduce inflationary pressures.
- It is expected the BoE will now raise its Bank Rate three times more in 2022 in March, May and August to 1.25%. This will provide more support to the GBP when upcoming Federal Reserve rate hikes are set to boost the USD.



USDCNY : PBoC to focus on domestic growth and support economy

- PBoC has just cut medium-term lending facility (MLF) loans by 10 basis points to 2.85% from 2.95% as China's economy still faces downward pressures especially in property sector accounted for 25% of GDP if including its supply chain so that China's central bank will likely move cautiously on loosening monetary policy to support the economy.
- Though China GDP grew 8.1% in 2022, economic growth is slow down in the fourth quarter with only 4.0% growth from year earlier.
- Overall, we still believe that PBoC will focus on supporting domestic growth as 6.0% GDP growth likely to be their target. Moreover, DXY seems to be undervalued now, so we expect USDCNH to be bullish soon.



Source: Bloomberg, CEIC, and ttb analytics

Thank you

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