

Economic and Financial Outlook

ttb analytics

March 2022

Global Economy

- **February PMIs data showed improving situation in the manufacturing sector in U.S. and European countries.** However, recent increases in energy and raw material prices may pressure the outlook in the future. Service sector slightly improved in Europe as many countries lifted restriction after Omicron cases.
- **Central banks began to combat high inflation with rate increase.** Federal Reserves began its highly expected rate hike by increasing the target fed funds rate by 25 bps. ECB also shift towards hawkish tone, suggesting faster ending of the stimulus and opening a room for rate increase in 2022
- **Ukraine-Russia conflict caused energy price to spike.** Global inflation should continue to increase in march from increases in raw materials and energy prices.
- **Chinese economy rebounded in the first two months.** However, rising Covid-19 cases posted new risk to global supply chain. Retail sales, industrial production, and investment all rose in Jan-Feb, partially due to accommodative monetary policies from PBoC

Domestic Economy

- **As of Jan2022, Thai economy was recovering but the momentum slightly declined from last month due to intensifying Omicron outbreak.**
- **Supply side:** Manufacturing production declined from last month. But supply side activities overall continuously improved from last year.
- **Demand side:** external sector slowed down in line with foreign tourists., domestic sector also declined slightly after Omicron outbreak.
- **Merchandise exports** were in a recovery path. However, geopolitical risk and Omicron could weigh on its recovery in period ahead. **Foreign tourists** dropped after a break in Test & Go procedure.
- **Consumption** declined from last month due to the resurgence of variant outbreak. Employment and incomes improved but overall remained fragile.
- **Private investment** declined from last period, mainly attributed to the drops in construction activities. Investments in machinery and equipment were stable. **Government** accelerated disbursement of its capital and current budget as well as the stimulus package to accommodate economic recovery
- **Inflation in Jan 2022** accelerated from last period due to energy prices and raw food.

Financial Market

- **USDTHB has rebounded from 32.60 to 33.50 as USD index continued its long bullish trend.** Dollar gained market attention due to its safe haven status. Thai current account remained in negative territory due to larger net service. Despite high inflation above MPC's target, we still see the Bank of Thailand to continue support the economy by maintaining MPC rate throughout 2022. We expect Thai baht to weaken most in Q2/22 before strengthening from foreign inflows in Q3/22
- **The FOMC raised U.S. policy rate by 25 bps. in March, following market expectation.** It also projected poorer U.S. growth outlook under high inflation from rising energy prices. The FOMC also suggested that there will be six more hikes in this year, setting market expectation to focus on stronger dollar.
- **TGB curve may follow bullish UST, especially longer term like 5Y and 10Y.** The concerns from recent conflict in Ukraine may pressure bond yield briefly. However, longer bond yield continued its upward trend in late March. The recent hawkish comment from FED's chair rose market expectation for faster rate hike timeline.

PART 1

Global Economy

Manufacturing and Service outlook improved in Feb in U.S. and Europe



Manufacturing PMI

	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22
Australia	56.9	52.0	56.8	58.2	59.2	57.7	55.1	57.0
China	50.3	49.2	50.0	50.6	49.9	50.9	49.1	50.4
India	55.3	52.3	53.7	55.9	57.6	55.5	54.0	54.9
Indonesia	40.1	43.7	52.2	57.2	53.9	53.5	53.7	51.2
Japan	53.0	52.7	51.5	53.2	54.5	54.3	55.4	52.7
South Korea	53.0	51.2	52.4	50.2	50.9	51.9	52.8	53.8
Thailand	48.7	48.3	48.9	50.9	50.6	49.5	51.7	52.5
Canada	56.2	57.2	57.0	57.7	57.2	56.5	56.2	56.6
United States	63.4	61.1	60.7	58.4	58.3	57.7	55.5	57.3
Germany	65.9	62.6	58.4	57.8	57.4	57.4	59.8	58.4
France	58.0	57.5	55.0	53.6	55.9	55.6	55.5	57.2
Italy	60.3	60.9	59.7	61.1	62.8	62.0	58.3	58.3
United Kingdom	60.4	60.3	57.1	57.8	58.1	57.9	57.3	58.0
Spain	59.0	59.5	58.1	57.4	57.1	56.2	56.2	56.9

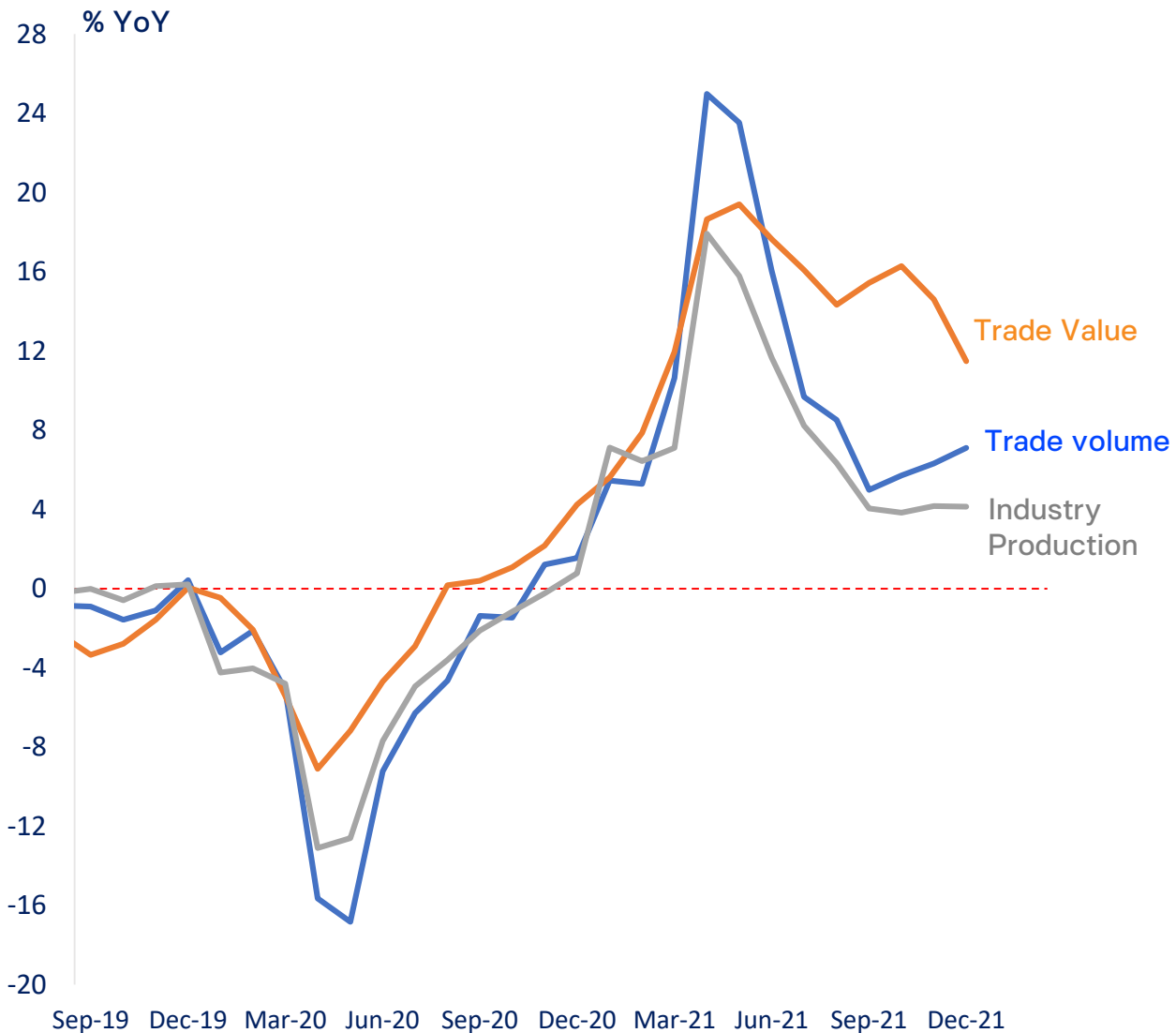
Service PMI

	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22
Australia	44.2	42.9	45.5	51.8	55.7	55.1	46.6	57.4
China	54.9	46.7	53.4	53.8	52.1	53.1	51.4	50.2
Japan	47.4	42.9	47.8	50.7	53.0	52.1	47.6	44.2
India	45.4	56.7	55.2	58.4	58.1	55.5	51.5	51.8
United States	59.9	55.1	54.9	58.7	58.0	57.6	51.2	56.5
Germany	61.8	60.8	56.2	52.4	52.7	48.7	52.2	55.8
France	56.8	56.3	56.2	56.6	57.4	57.0	53.1	55.5
Italy	58.0	58.0	55.5	52.4	55.9	53.0	48.5	52.8
United Kingdom	59.6	55.0	55.4	59.1	58.5	53.6	54.1	60.5
Spain	61.9	60.1	56.9	56.6	59.8	55.8	46.6	56.6

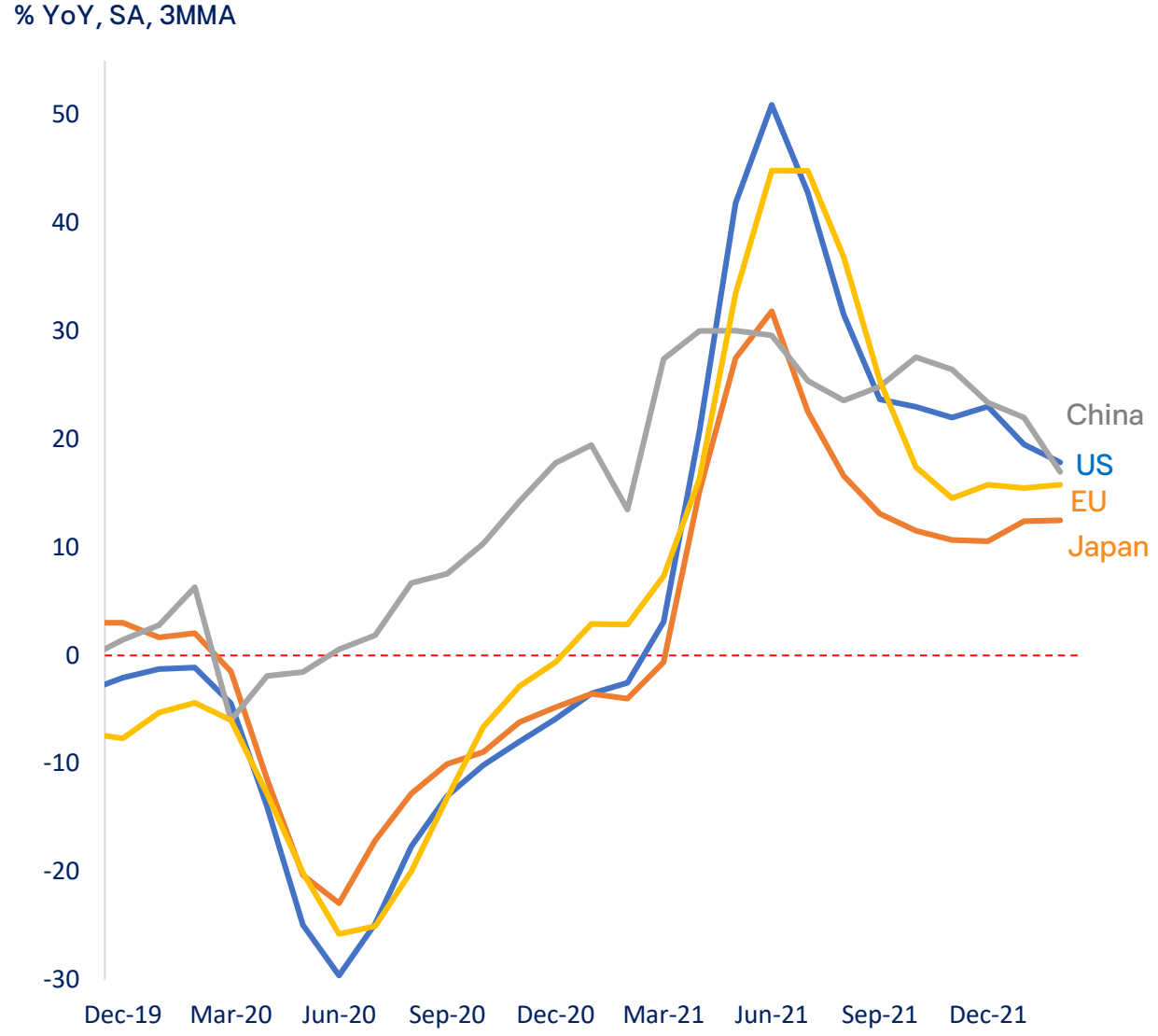
- PMIs which are early indicators for economic activities suggested that most countries have positive outlooks toward manufacturing and service sector in the expansion zone (above 50).
- February PMIs data showed improving situation in the manufacturing sector in U.S. and European countries. However, recent increases in energy and raw material prices may pressure the outlook in the future. Service sector slightly improved in Europe as many countries lifted restriction after Omicron cases.

Global trade volume advanced while value dropped, production returned to normal

Global trade and industrial production dropped

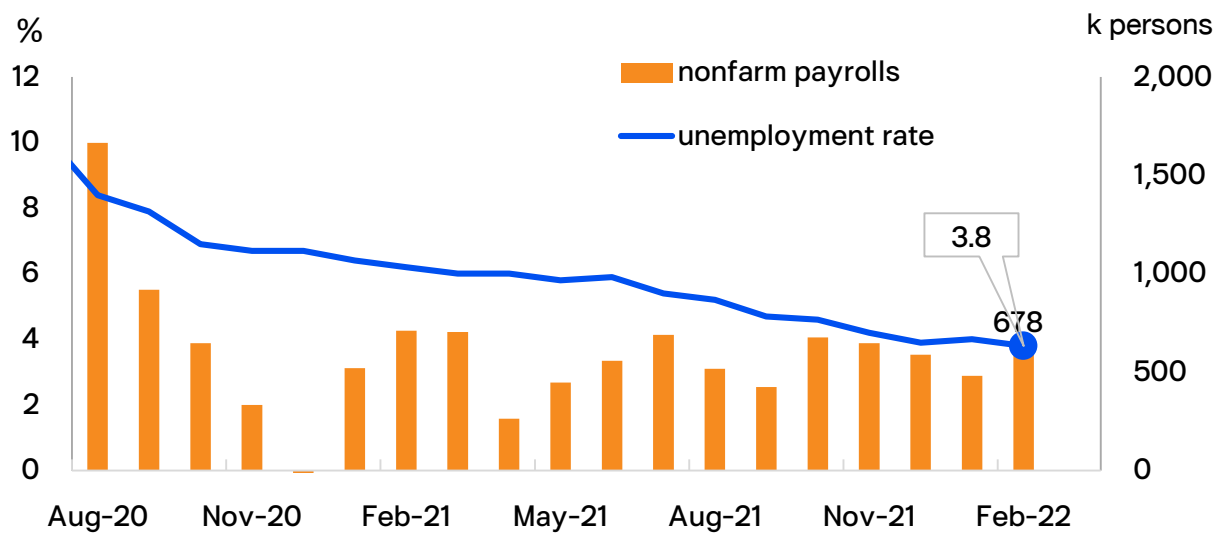


Exports posted the return to normal trends

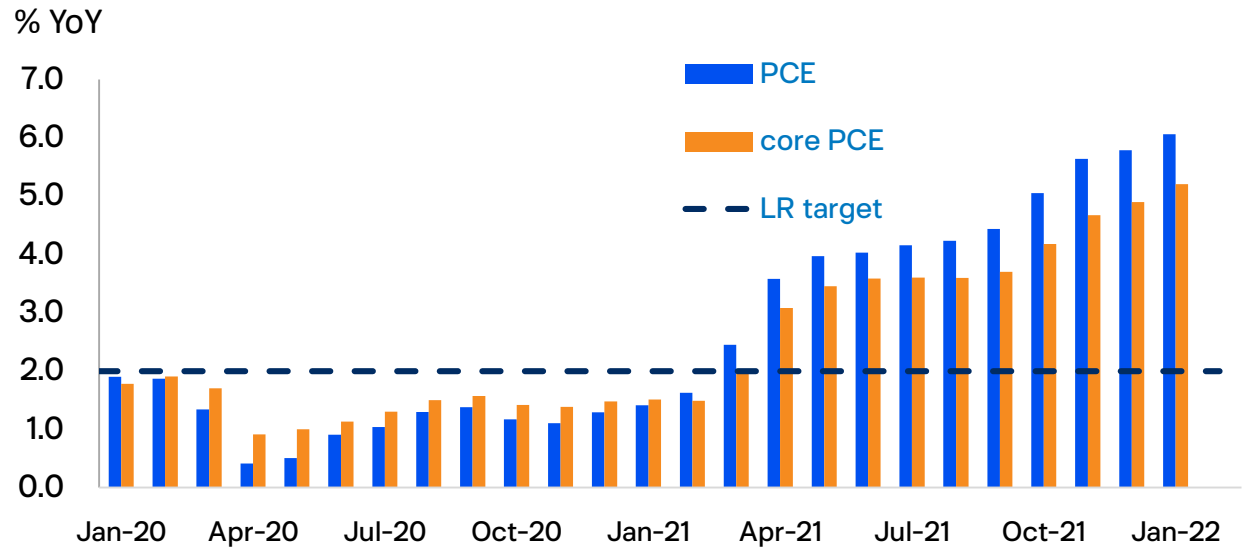


Source: CEIC and ttb analytics

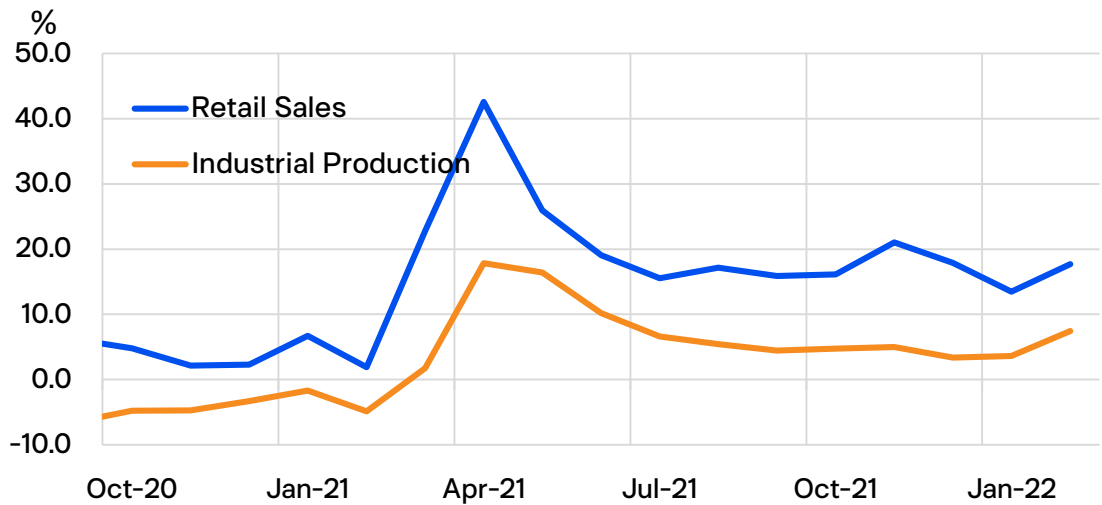
Unemployment rate continued to drop



Inflation climbed due to rising prices of various goods



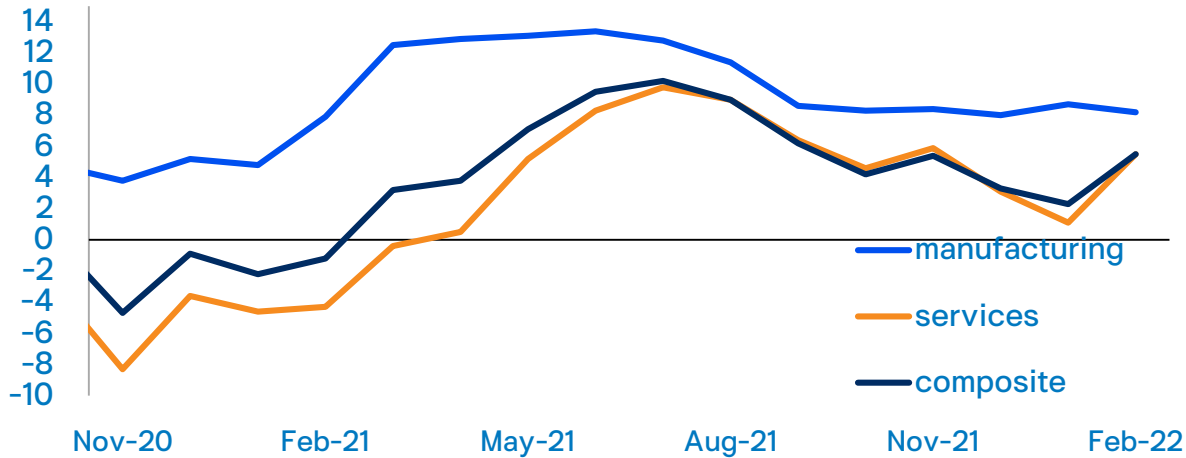
Retail sales growth remained solid despite higher costs



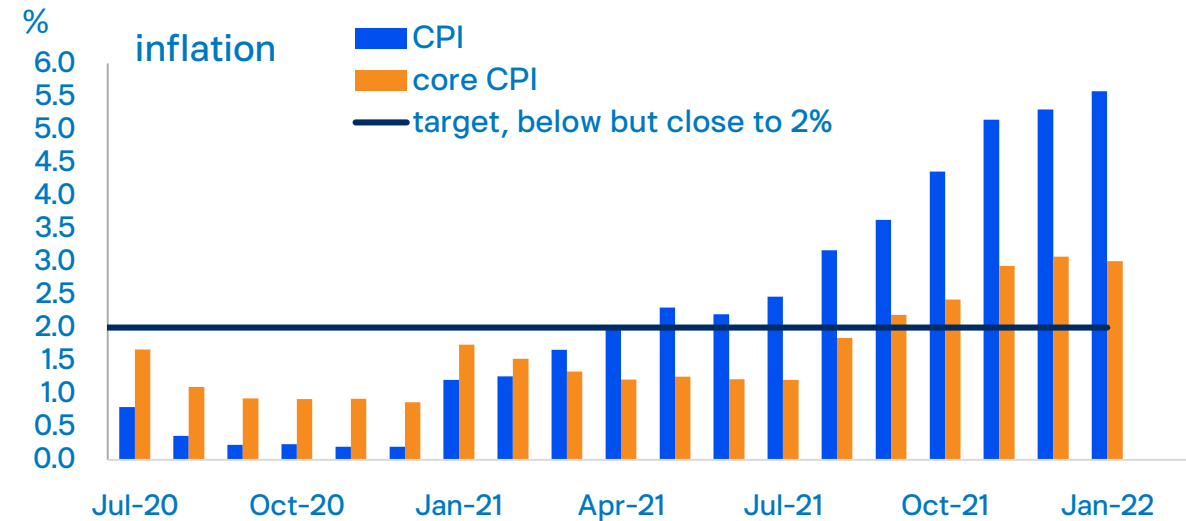
- In February, nonfarm payroll increased by 678,000 new jobs and with higher adjustment to payrolls in previous months. The numbers clearly showed strong improvement in U.S. labor market. The unemployment rate decreased to 3.8%
- Retail sales growth rebounded in February. Retail sales grew 17.7% (seasonally adjusted) in comparison to 2% growth last year despite pressure from higher prices. Industrial production growth also advanced to 7.5%.
- In January, price continued to rise from both goods and service sector as energy price spiked from limited supply. PCE rose 6.1% yoy while core PCE rose 5.2%.

Service outlook returned as Omicron cases dropped

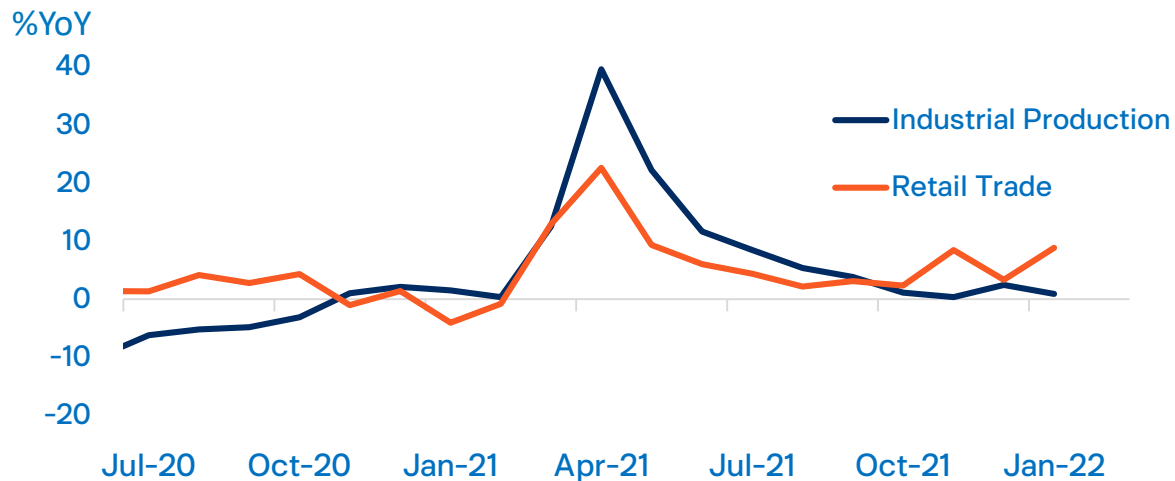
%MoM, deviations from 50, + expansion - contraction



Inflation spiked to historic high

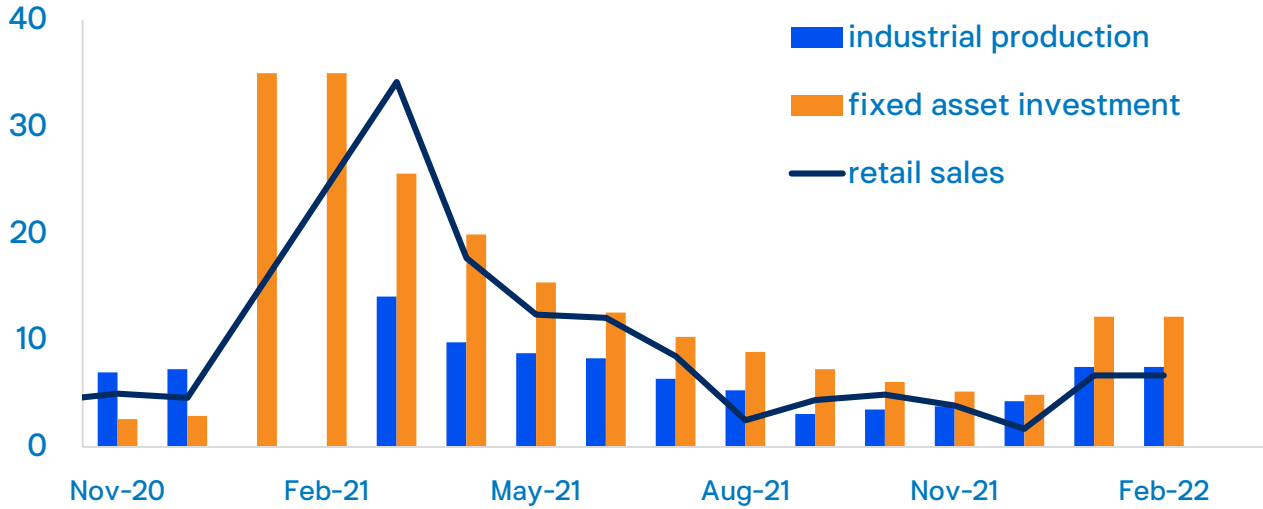


Retail rebounded in January

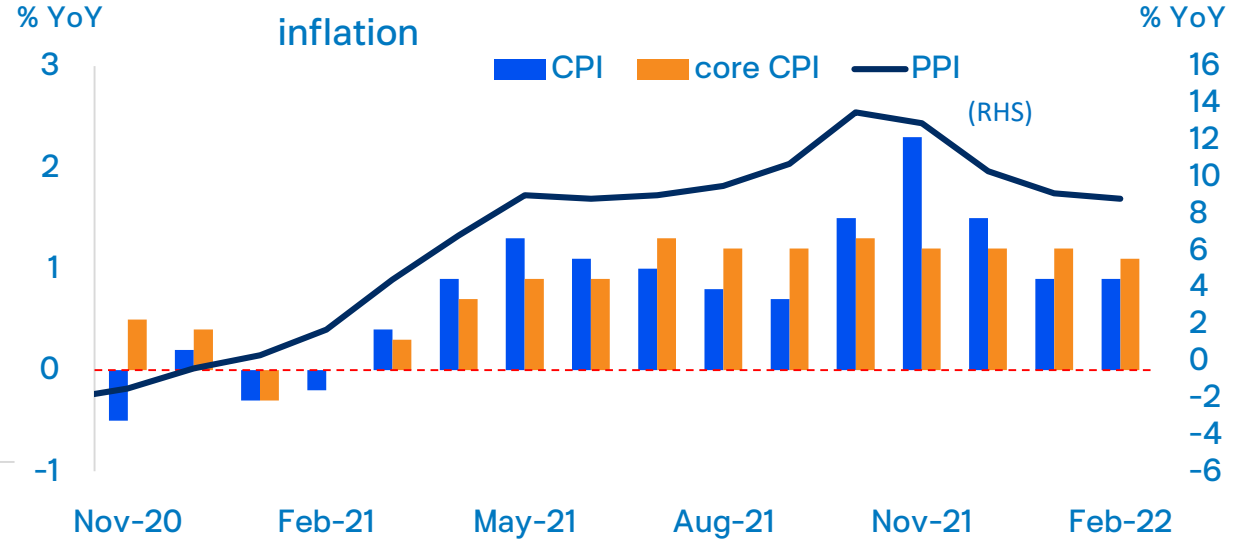


- In February, service and composite outlook rebounded after government measures were lifted after number of Omicron cases dropped.
- European Union inflation continued to grow significantly 5.6% in January due to food and energy price. Core inflation decreased from last month to 3.0%. Inflation became a major concern for ECB after oil and gas prices spiked after the crisis in Ukraine.
- Retail trade increased in January, rebounding as economic activities returned. Retail trade grew 9% in January while industrial production rose only 0.9%.

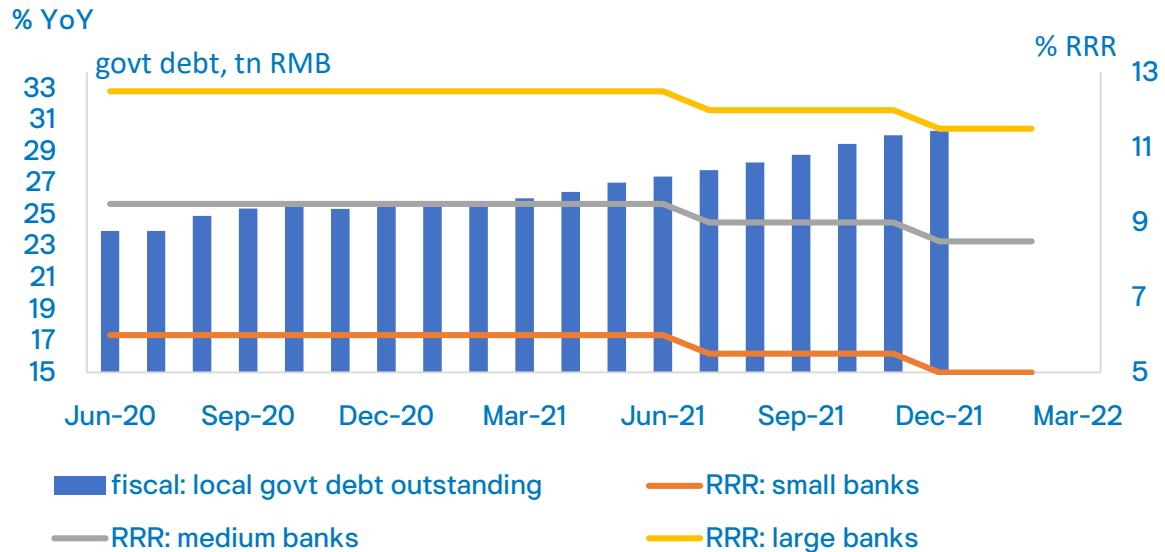
All engines improved in the first two months



Inflation remained stable in February



China lending rate stable in March

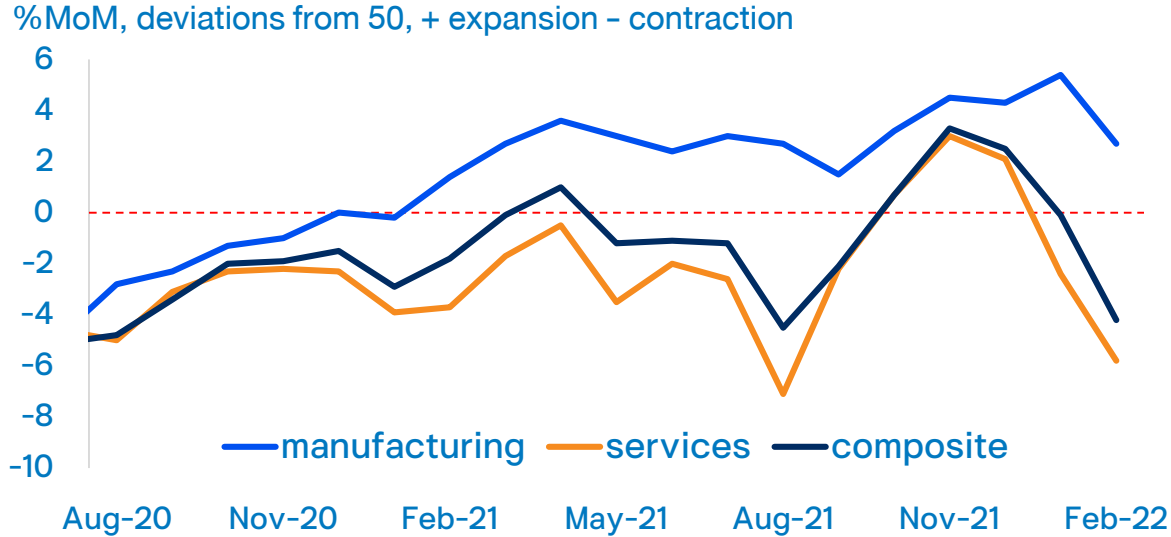


- In the first two months of the year, production and consumption rebounded from last quarter. Industrial production rose 7.5% while retail sales grew 6.7%. Furthermore, fixed asset investment rose highest in six months by 12.2%
- Surprising to the market, PBoC decided to hold its prime lending rate constant in March, after cutting the rate down in a prior quarter. PBoC possibly wait to see the impact of disrupted supply chain and rising material prices before making future changes.
- Inflation remained stable in February. Core inflation remained solid at 1.1%. Producer price dropped to 8.8% growth

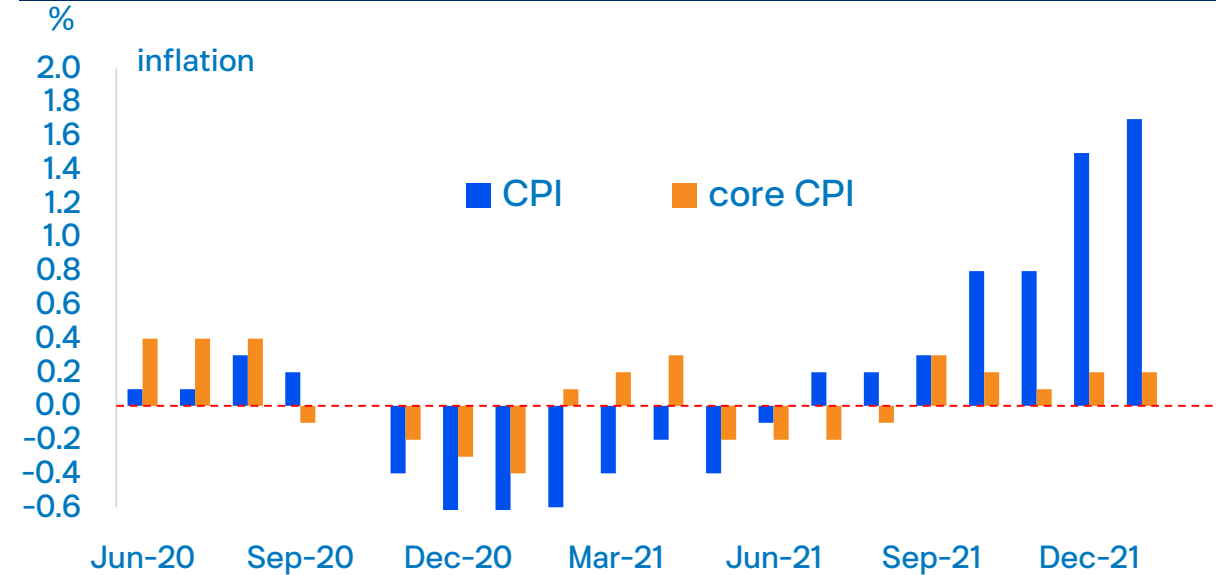
Sources: CEIC, Bloomberg, and ttb analytics

Japan's service outlook continued to drop, energy price pressured inflation

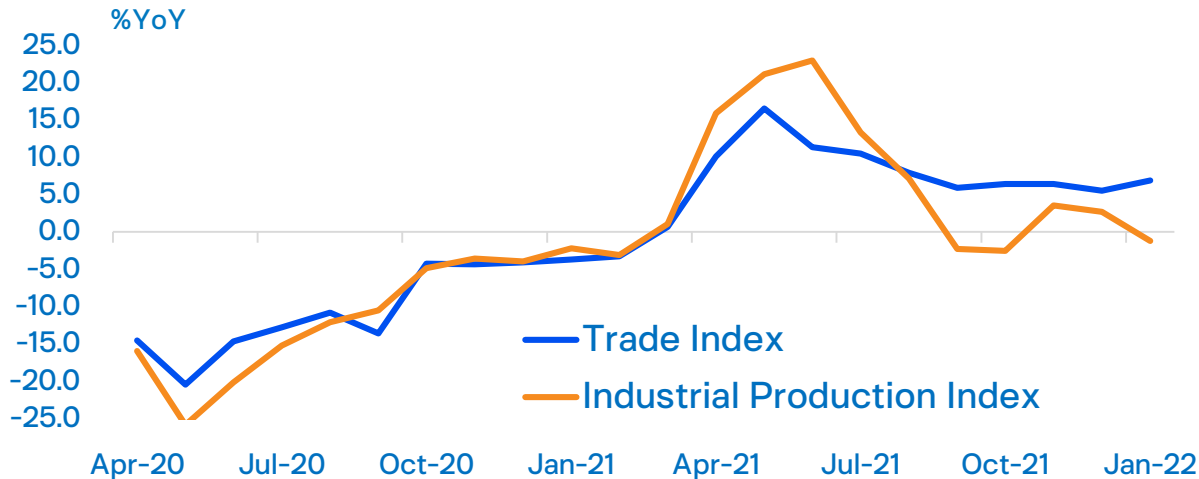
Service outlook took a hit from returning Covid-19 cases



Japan's inflation spiked from energy price



Trade remained stable while production expanded



- Service outlooks continued to drop again in February as Omicron cases rose in many cities which induced government measures to return. The composite PMI dropped lowest in 4 months.
- The Bank of Japan maintained its massive stimulus in March and warned of very high uncertainty over the economic fallout from the Ukraine crisis, signaling its resolve to keep monetary policy ultra-loose for the time being to manage 10-year JGB yields in a 0-0.25% range.
- 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%.

PART 2

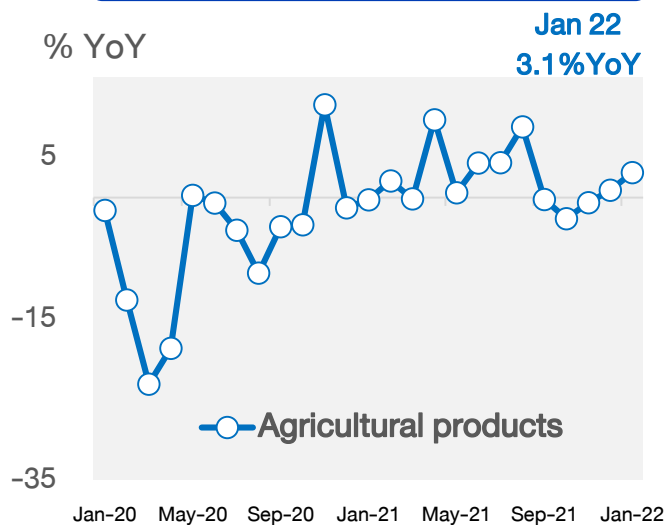
Thai Economy



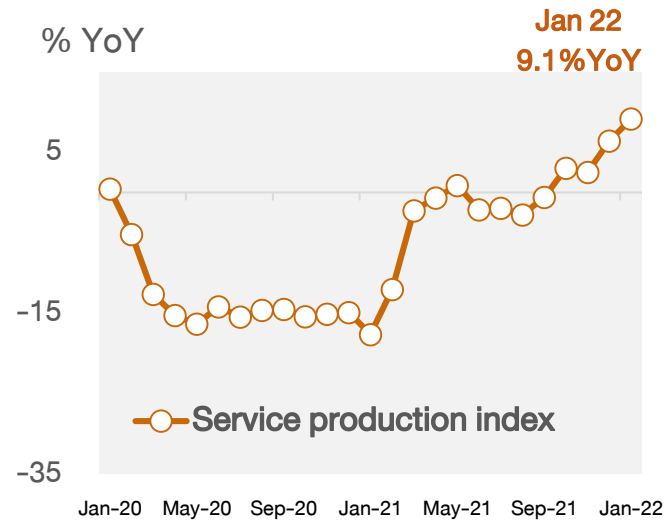
Coincident Economic Index (sa)

	Jan-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	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	
Coincident Economic Index (sa)	100.0	97.2	98.2	98.5	98.7	98.8	98.8	98.2	99.7	99.9	99.1	99.7	99.7	98.8	98.0	98.9	99.8	100.2	100.9	101.1	
Product ion																					
Import Volume index (exclude Gold)	100.0	78.2	82.5	87.8	87.5	91.1	95.1	95.3	99.6	98.1	100.1	106.2	101.5	103.5	109.8	101.1	104.0	99.8	112.6	112.6	
Manufacturing Production Index	100.0	89.5	93.2	96.2	97.5	96.7	96.5	98.0	97.9	99.8	99.3	99.4	99.4	93.6	89.6	97.1	99.5	100.6	103.3	99.7	
Gross Value Added Tax at 2000 price (Million ba)	54,405.5	48,537	49,363	47,676	48,191	48,409	47,696	43,542	57,672	59,024	50,980	54,108	55,356	54,109	54,901	53,138	55,397	60,724	61,184	59,054	
C																					
Domestic Automobiles Sales (Unit)	81,118.7	64,567	72,152	77,484	73,002	71,681	75,291	64,942	64,433	66,435	65,760	62,902	64,334	57,975	43,508	56,914	63,818	63,447	62,248	78,369	
Sales Benzene, Gasohol & Diesel Index	100.0	111.0	103.2	109.2	100.3	100.2	99.2	82.1	97.4	104.3	87.6	80.8	86.5	74.0	69.7	79.5	86.1	91.4	102.1	97.6	
VAT Hotel & Restaurant Index	100.0	38.6	34.0	44.7	45.3	49.8	42.3	27.0	37.8	38.3	20.2	18.8	28.2	21.5	21.1	29.1	36.8	45.1	48.1	37.8	
-																					
Imports of Capital Goods at 2010 price (Million US\$)	3,848.0	3,317.7	3,377.5	3,579.3	3,413.6	3,770.0	4,006.2	3,843.7	4,167.1	4,147.1	4,071.6	3,982.9	4,144.5	4,172.1	4,227.6	4,161.3	4,061.0	4,034.6	4,155.7	
Domestic Machinery Sales at 2010 price (Million ba)	72,338.8	64,555	70,464	72,429	73,063	75,385	77,115	78,496	79,103	80,240	81,921	82,408	83,900	81,829	76,075	83,320	84,654	84,098	83,669	82,482	

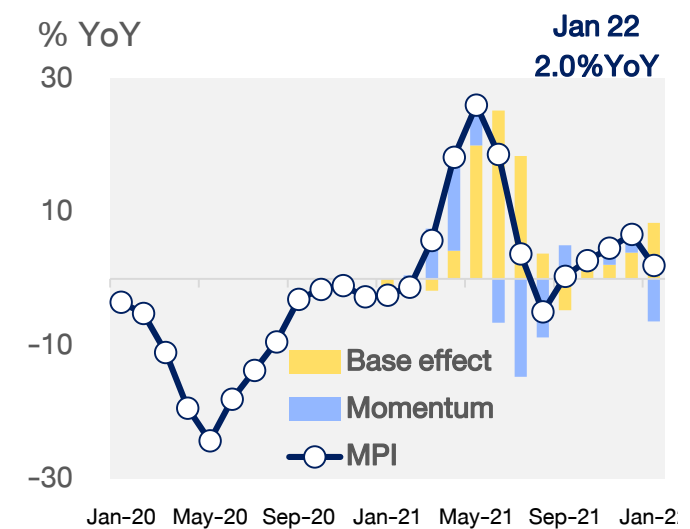
Agriculture



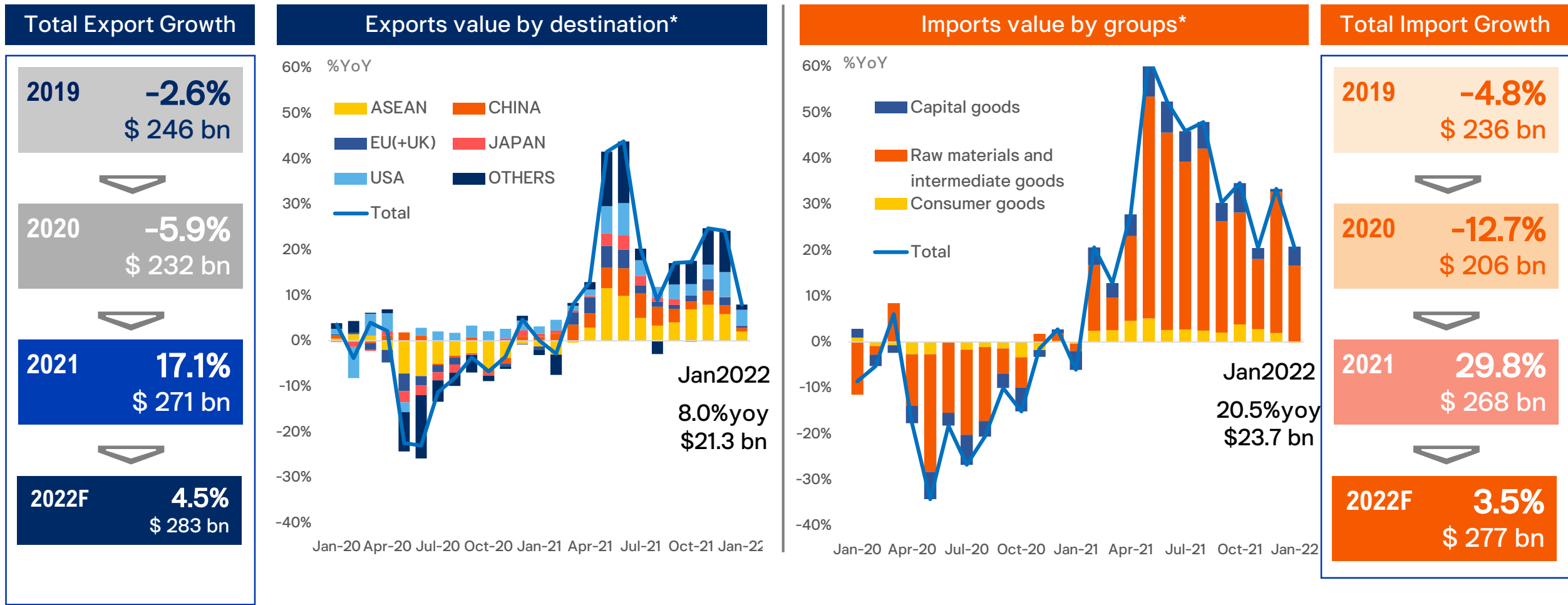
Services



Manufacturing



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



- Jan 2022, Thai exports was attributed to increased demand for Thai products in the United States, Indian, Russian, South Korean and the United Kingdom markets, global economic recovery, an easing of the shortage of cargo containers
- Thai Imports, the increased value of imports was largely due to the energy price increase and the importation of raw materials for conversion into finished products for reexport.

Total Export Jan 2022
(USD term)
8.0%
(Jan 2021 +0.4%)

Total Export 2022F
(USD term)
4.5%
(FY 2021 +17.1%)



Positive Factor

Global demand recovery



Recovery of global supply chain capacity



Baht Depreciation

Negative Factor



New Outbreak of Covid-19 Omicron

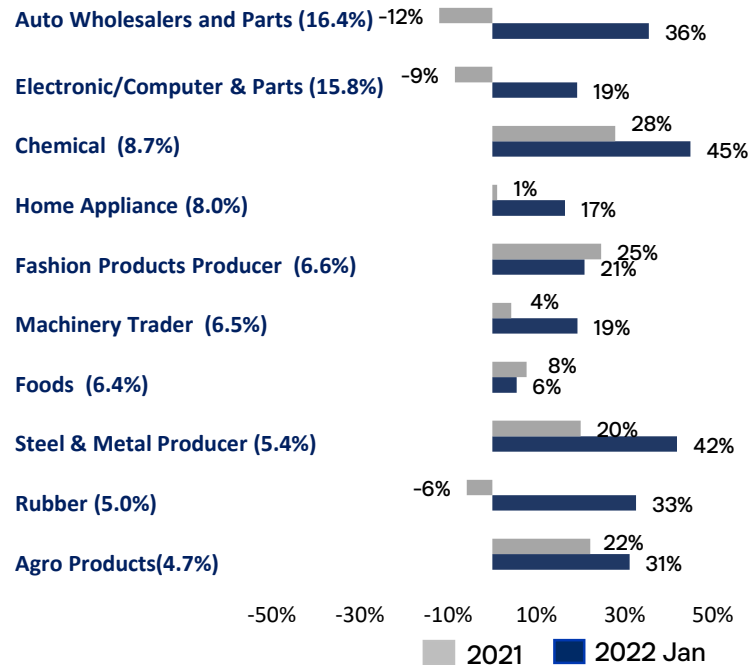


Geopolitics Risk

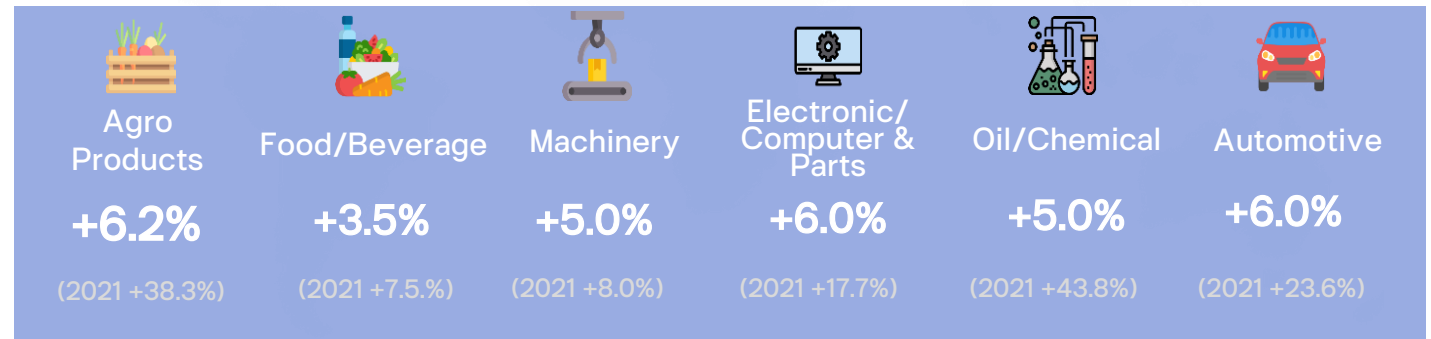


High commodity price & Rising Inflation

Top 10 Export by Sector*



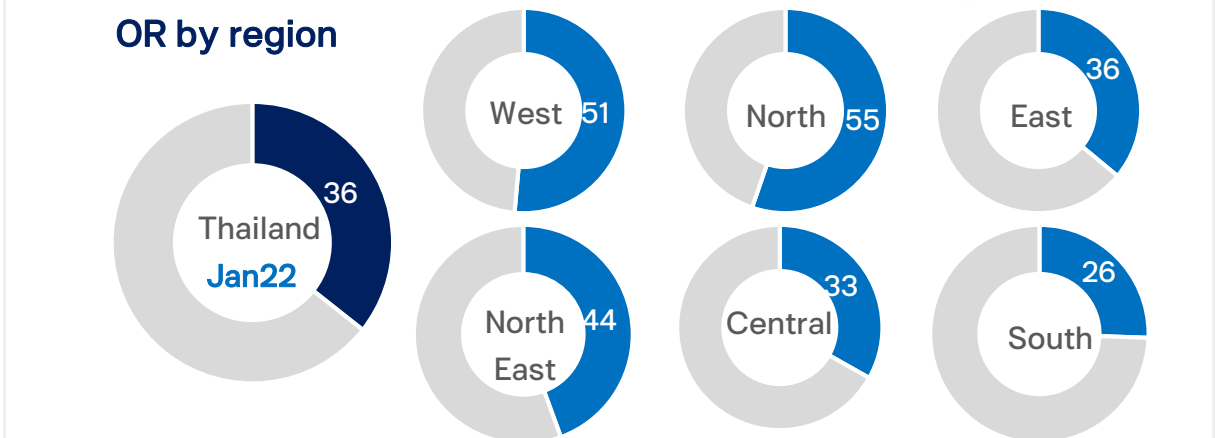
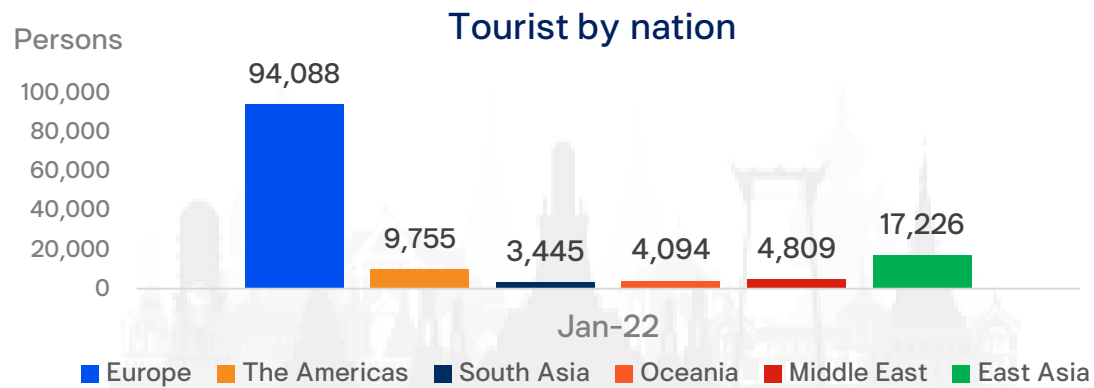
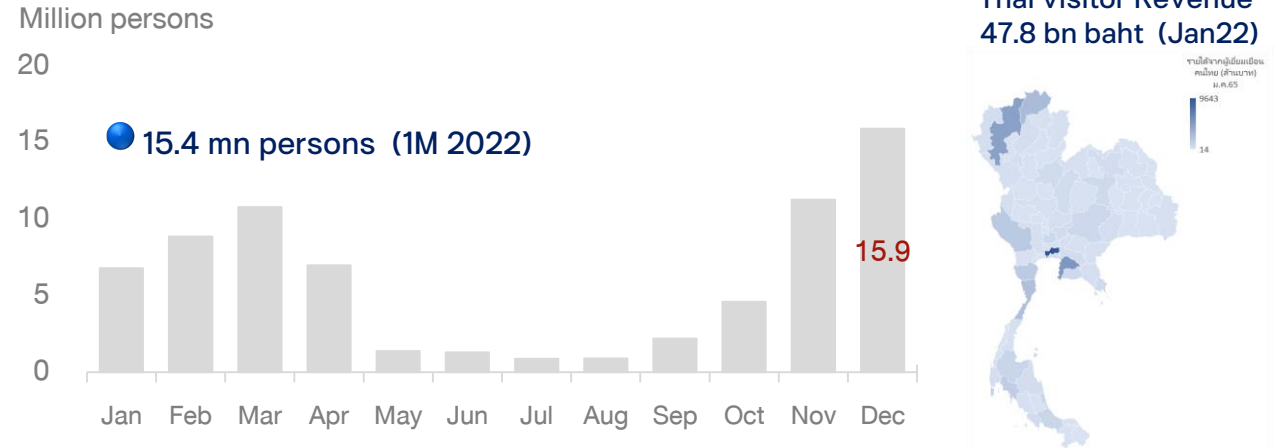
Export Growth by Industry Groups 2022F



Total foreign tourist inbound



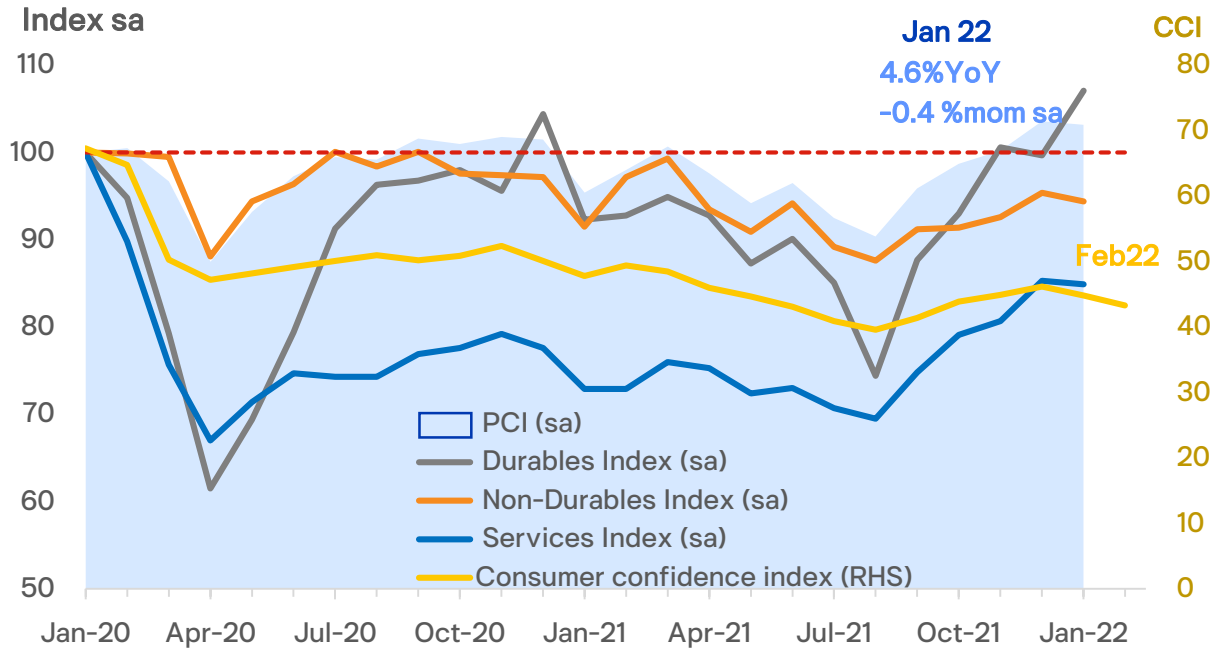
Number of Thai visitors



- As of Jan22, foreign tourist inbounds declined due to temporarily break in Test & Go procedure for inbound tourists since 21 December 2021. A drop appeared in all groups, especially European tourists.
- Test&GO program will be reintroduced on 1st February 2022

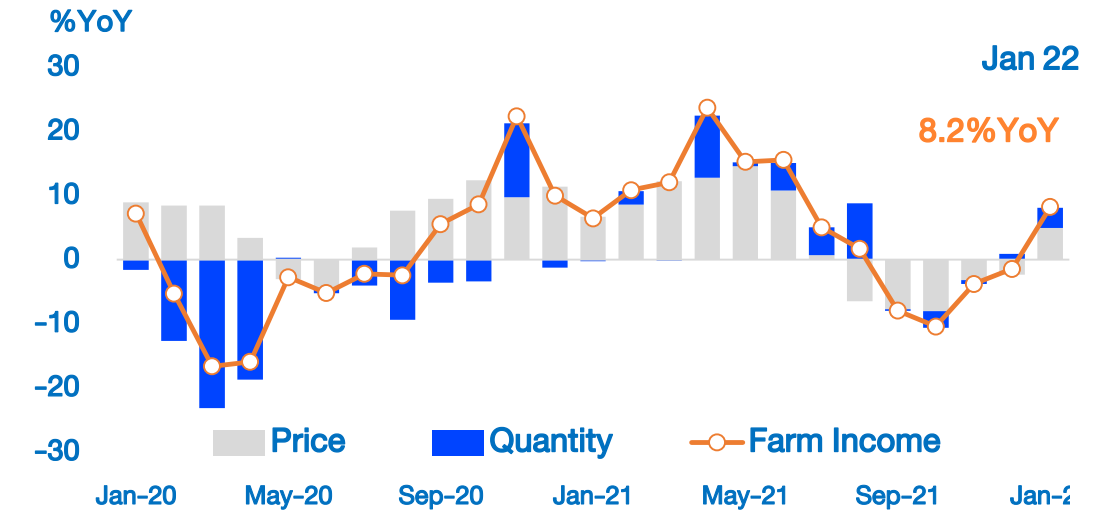
- The number of Thai tourists in Jan 22 sustained at the same level as last month due to higher vaccination rate among Thai tourists and supports from government's domestic tourism stimulus package (We travel together Tour Tiew Thai co-payment scheme). Northern region and western region were with highest OR.

Private Consumption (sa)

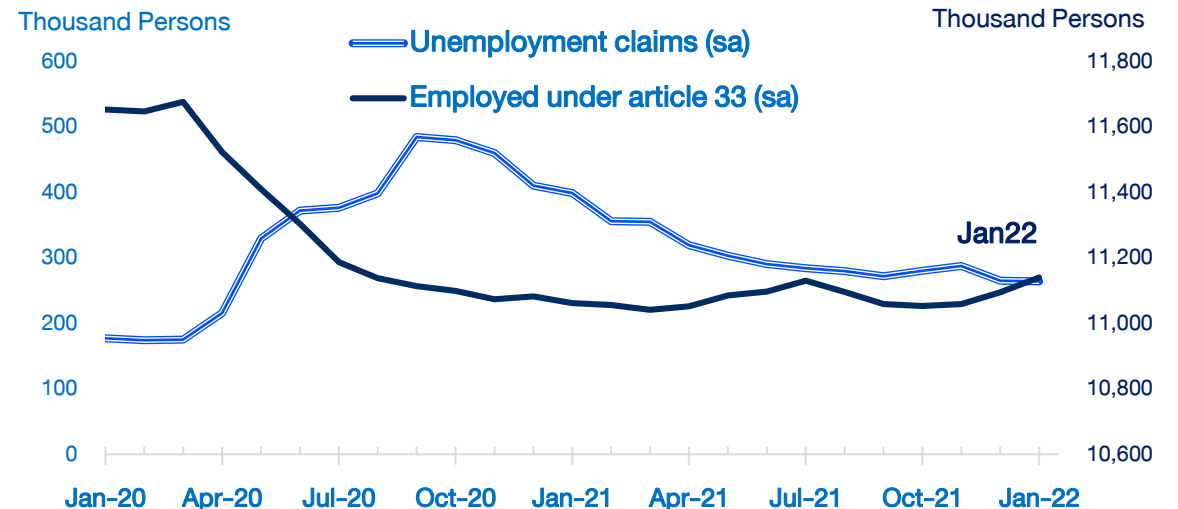


- Private consumption in Jan 22 slightly declined from last month and dropped in all categories after Omicron outbreak began. It is noticeable that a rise in Durable consumption helped sustain overall domestic consumption.
- Regarding supporting factors, they slightly improved but remained in fragile condition. Farm incomes rose due to higher farm productions and prices. Non-farm Employment improved but was relatively at very low level. Consumer confidence however declined after the onset of Omicron outbreak.

Farm income

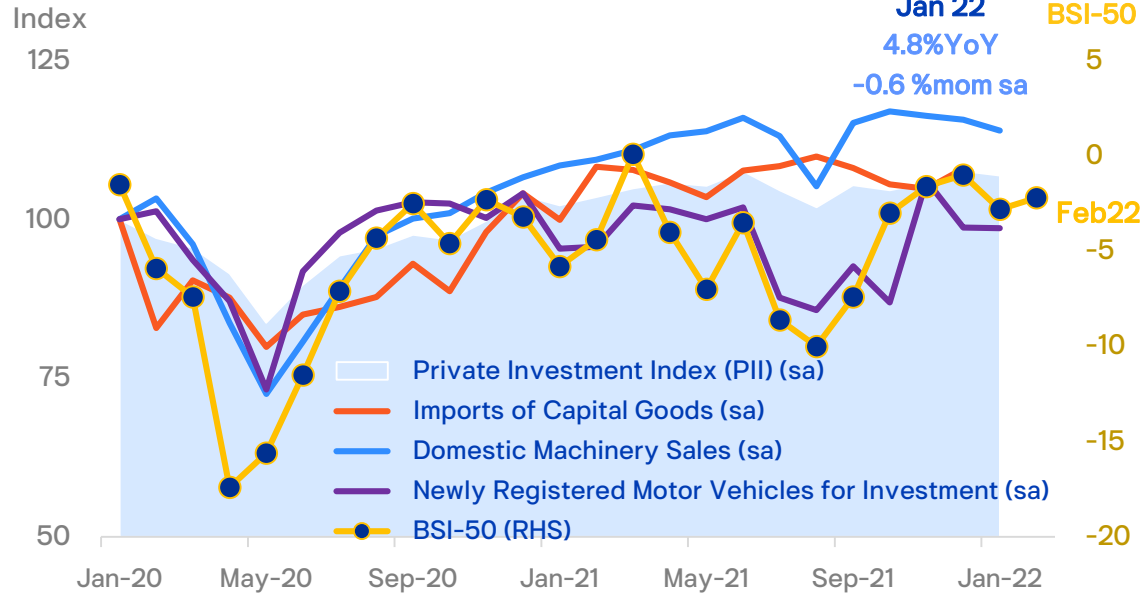


Employment condition



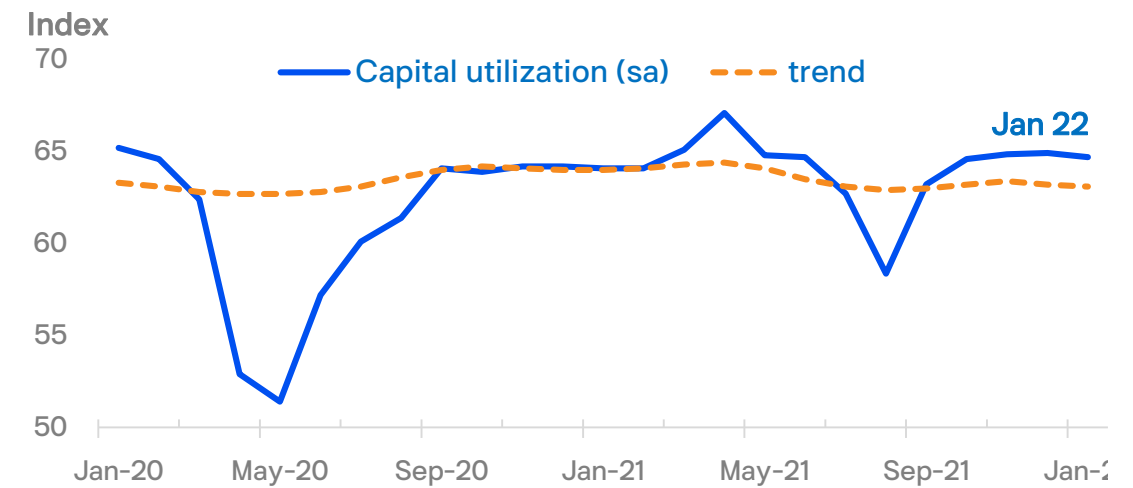
Private investment marginally dropped, mainly due to less activities in construction sector

Private Investment (sa)

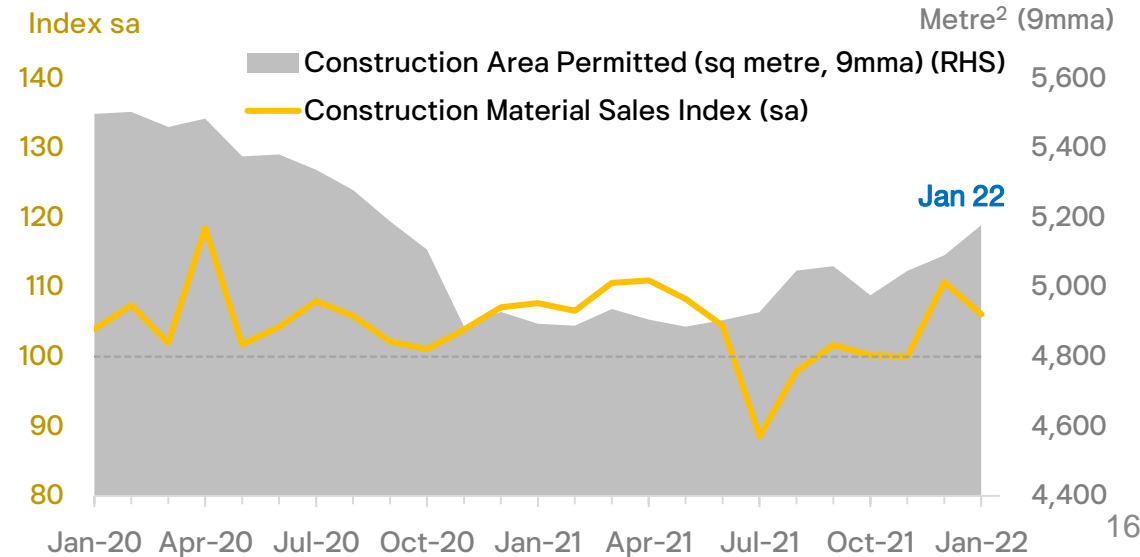


- **Private investment** slightly declined from last month partly due to construction category, whereas investment in machinery and equipment categories remained relatively the same as previous period.
- Construction activities marginally dropped from last month, expressed by declines in sales of sanitary wares and concrete. This was due to labor shortage and rising material costs. However, the rise of permitted construction area attributed to the growing activities in EEC areas.
- BSI showed an improved sentiment in the coming month.

Capacity Utilization (sa)



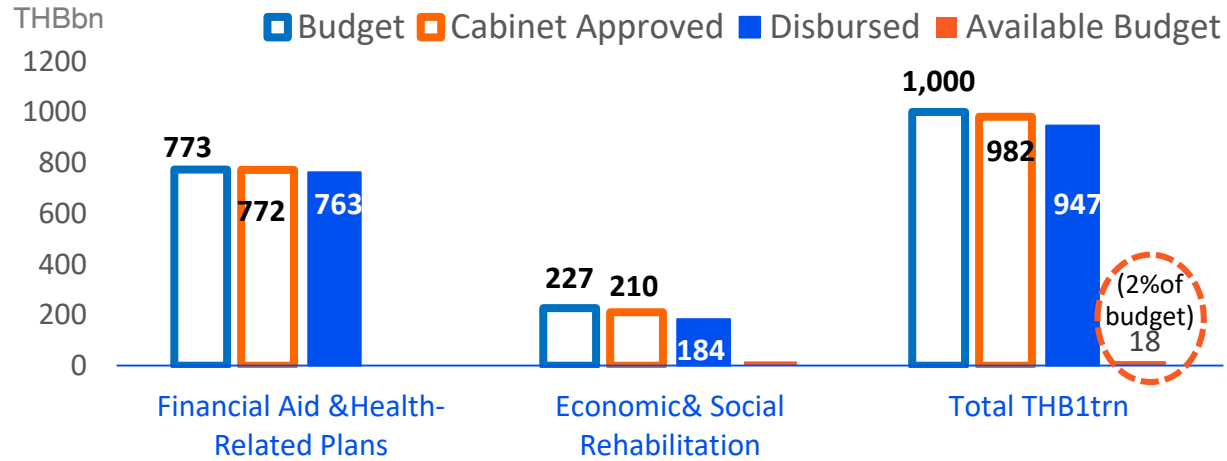
Constructions



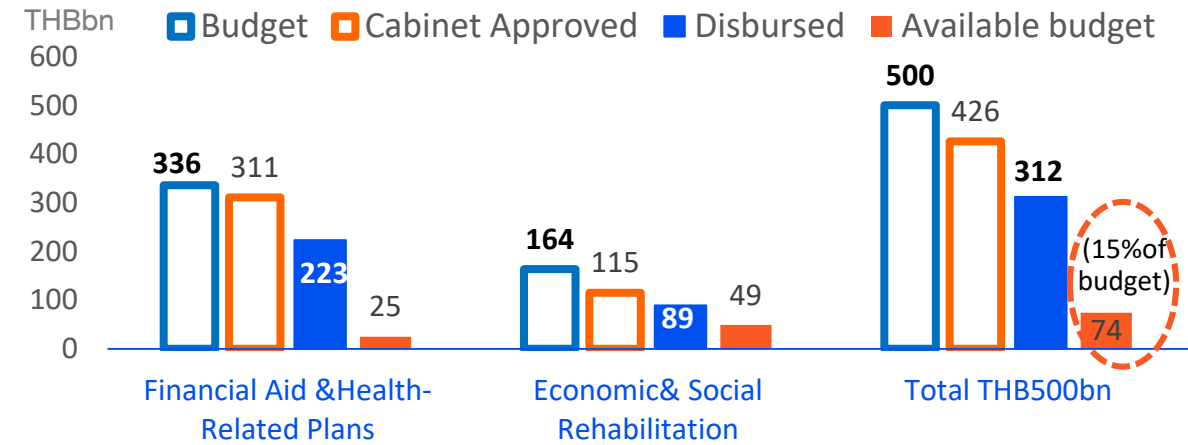
THB53bn is the leftover liquidity from the two emergency loan decree to support economy in 2022



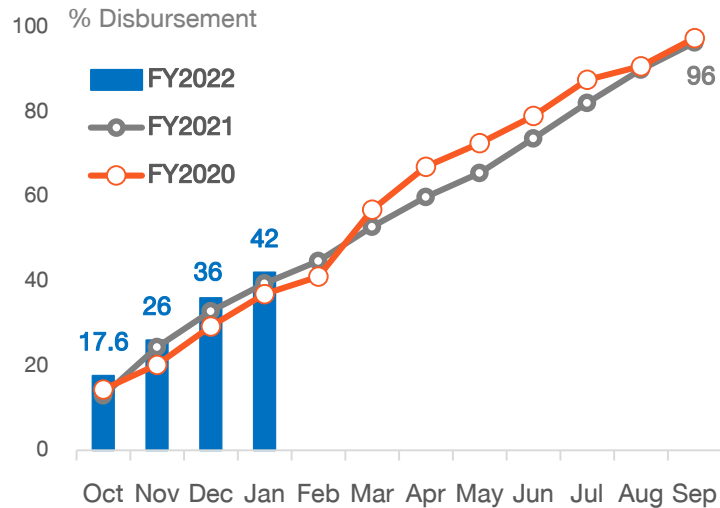
Progress on 1-trillion Stimulus Package (as of Mar2022)



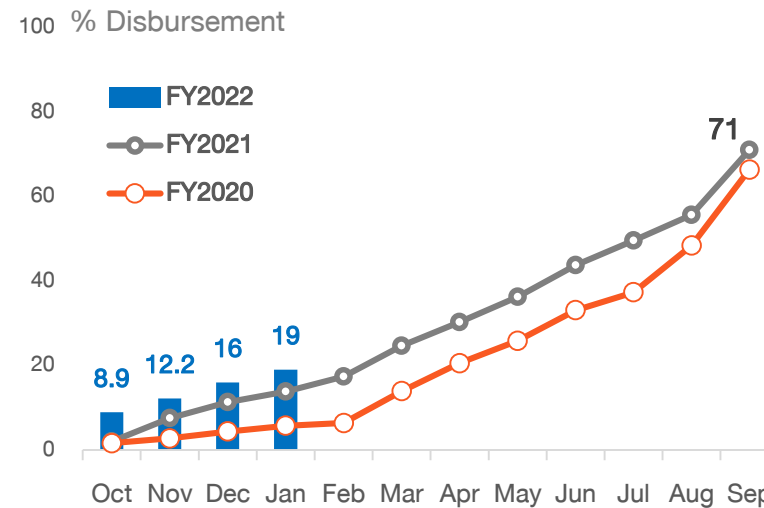
Progress on 500bn Stimulus Package (as of Mar2022)



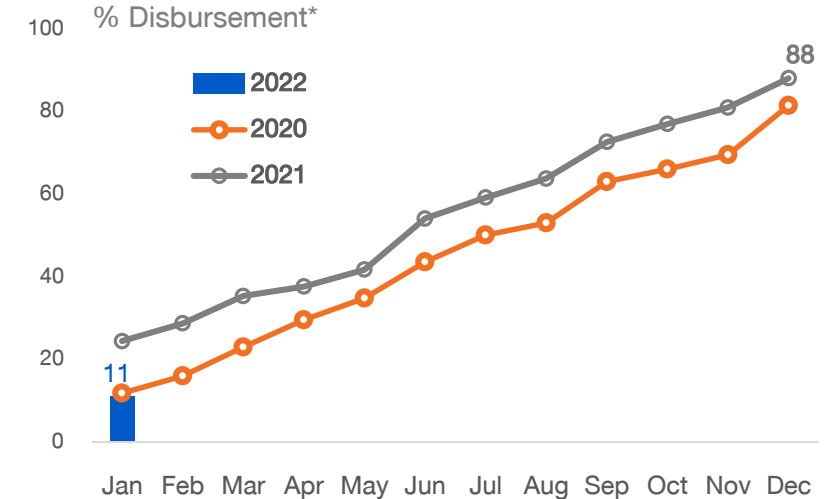
Current Expenditures (FY22) : 1,049bn



Public Investment Expenditures (FY22) : 117bn



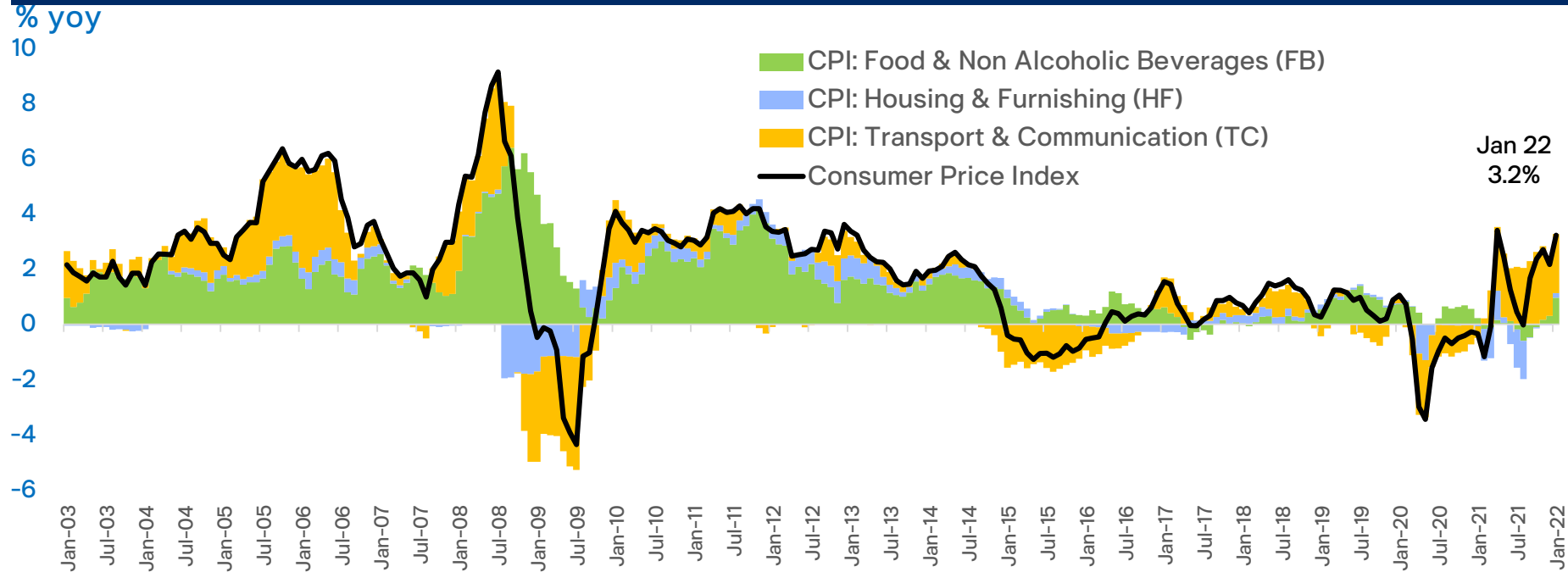
State Owned Enterprise Investment (as of Jan2022) : 35bn



As of Jan 22, Thai inflation reach 3.23%, accelerating from last month



Thailand's inflation 2022

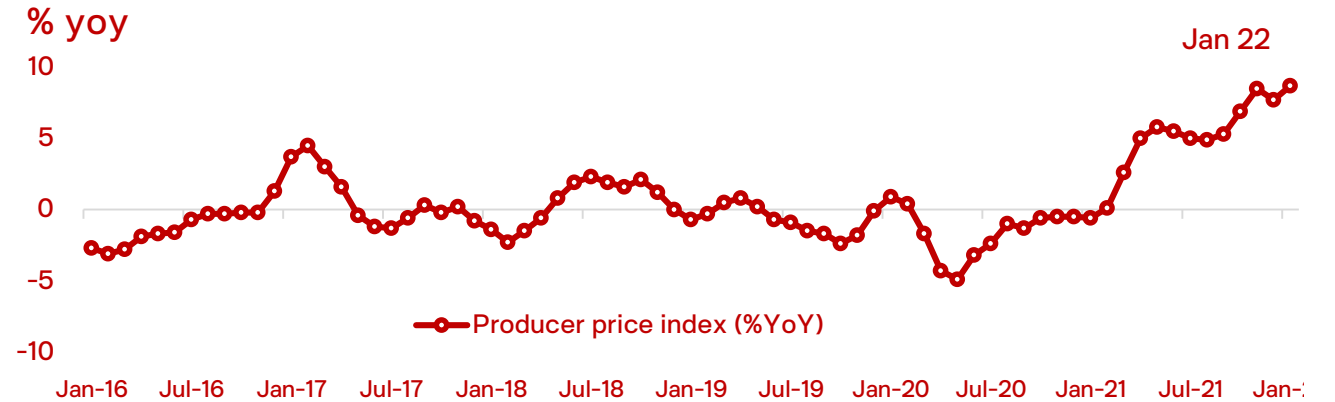


(%YoY)	Jan-22
Headline inflation	3.23
Core (67.1%)	0.5
Raw Food (20.6%)	3.1
Energy (12.4%)	19.2

Dubai oil price 2022

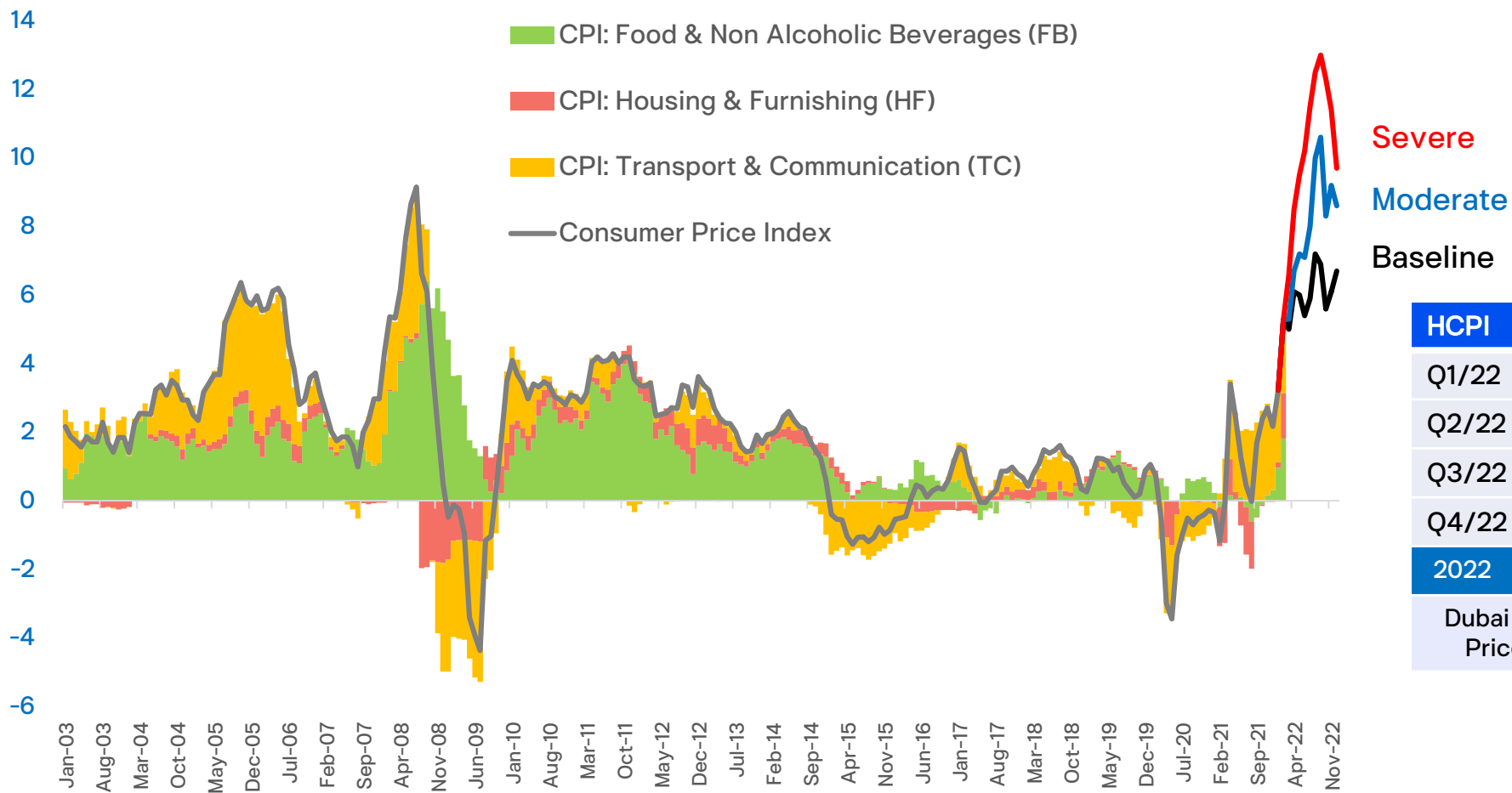


Producer price index



Thailand's inflation : Baseline and Severe case 2022

% yoy, contribution



Severe
Moderate
Baseline

Forecast HCPI 2022

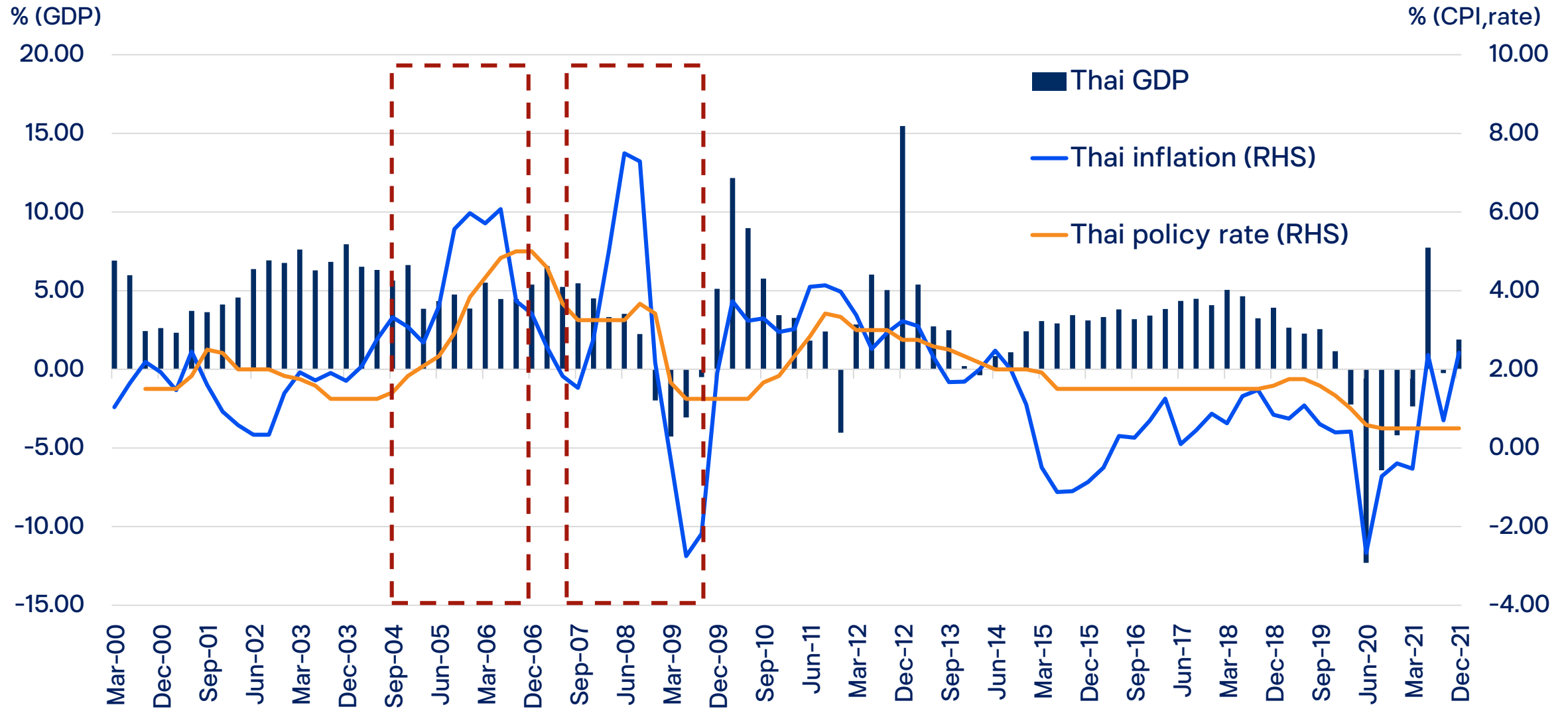
HCPI	Base New	Moderate	Severe
Q1/22	5.0%	5.0%	5.0%
Q2/22	5.8%	7.0%	9.4%
Q3/22	6.7%	9.5%	12.3%
Q4/22	6.1%	8.7%	11.1%
2022	5.8%	7.5%	10.0%
Dubai Oil Price	90-140\$	110-170\$	140-200\$

PART 3

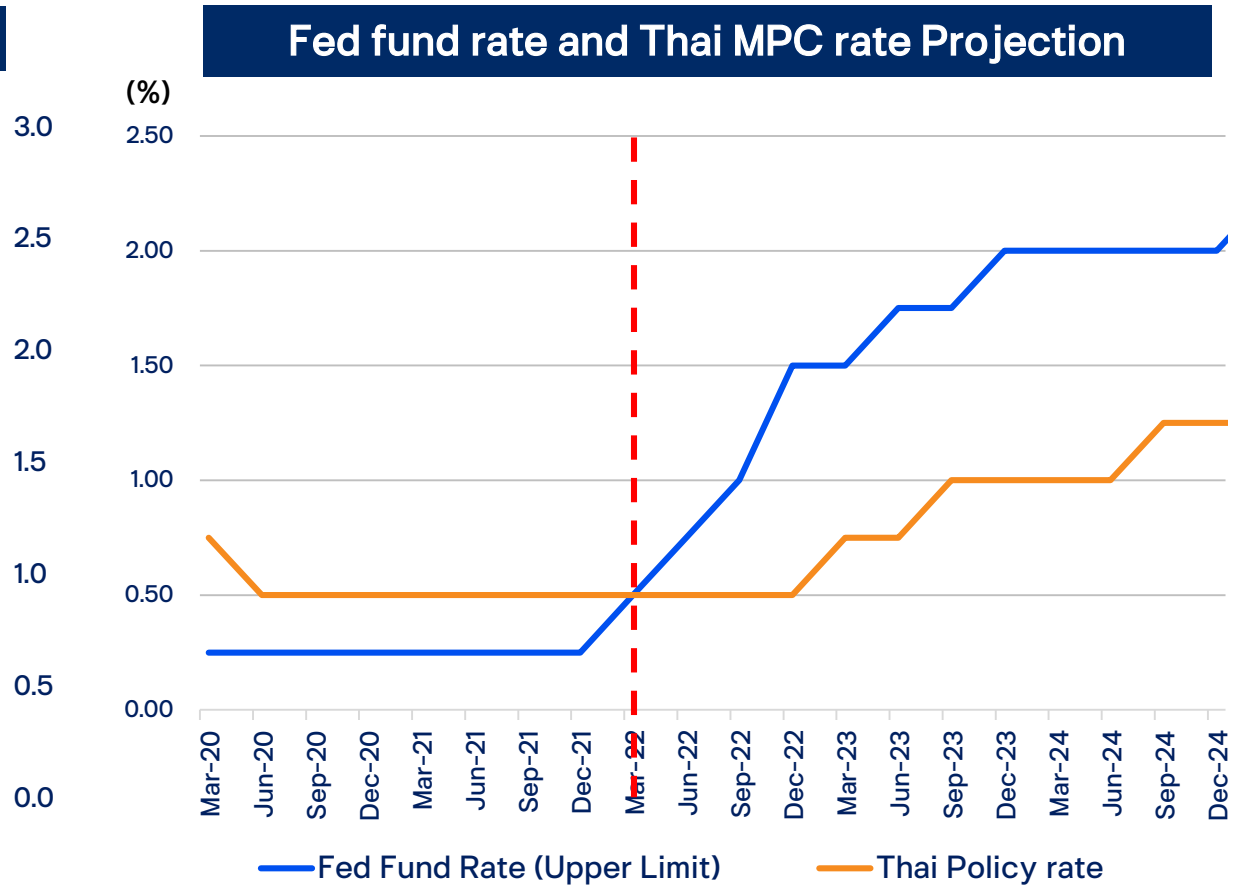
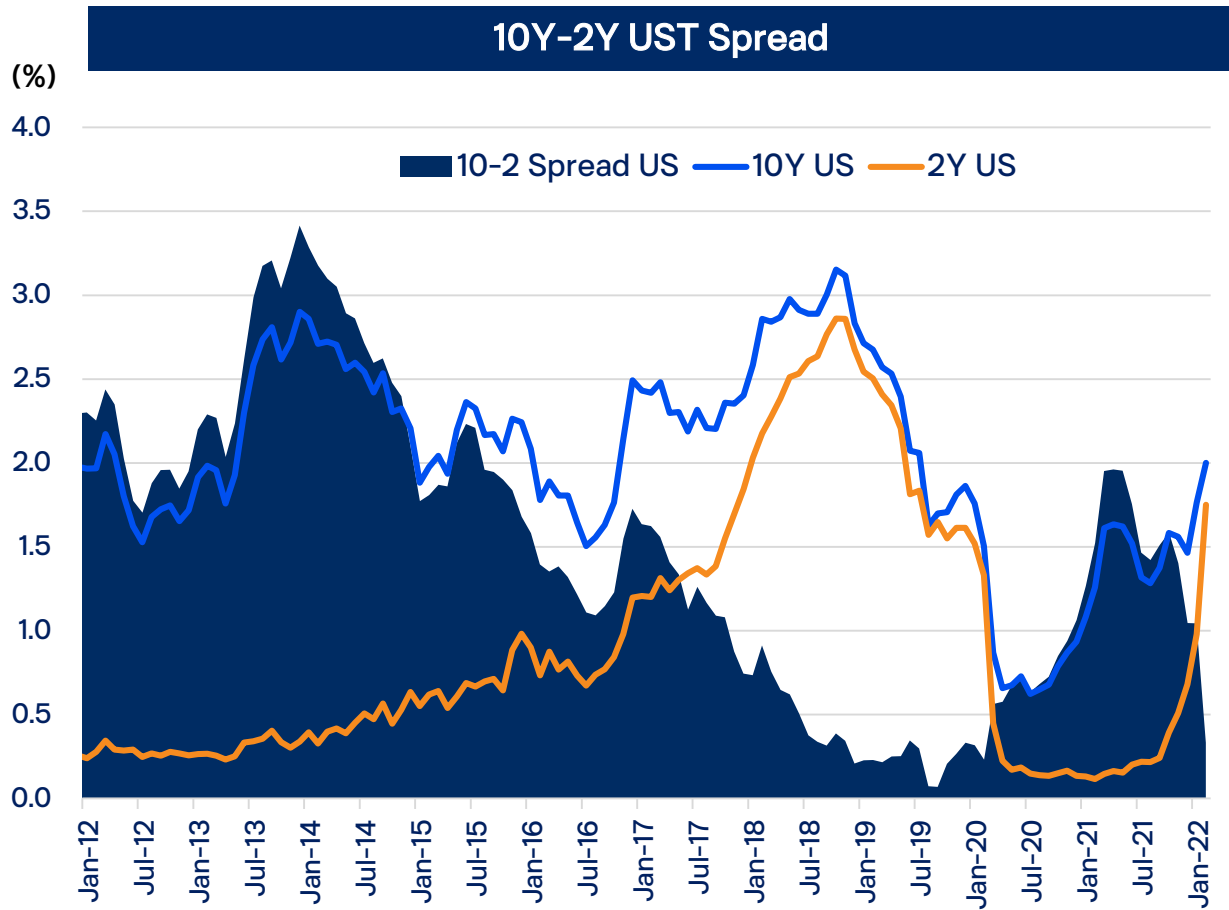
Financial Market



Despite higher inflation, policy rate should remain at 0.50% due to slower growth

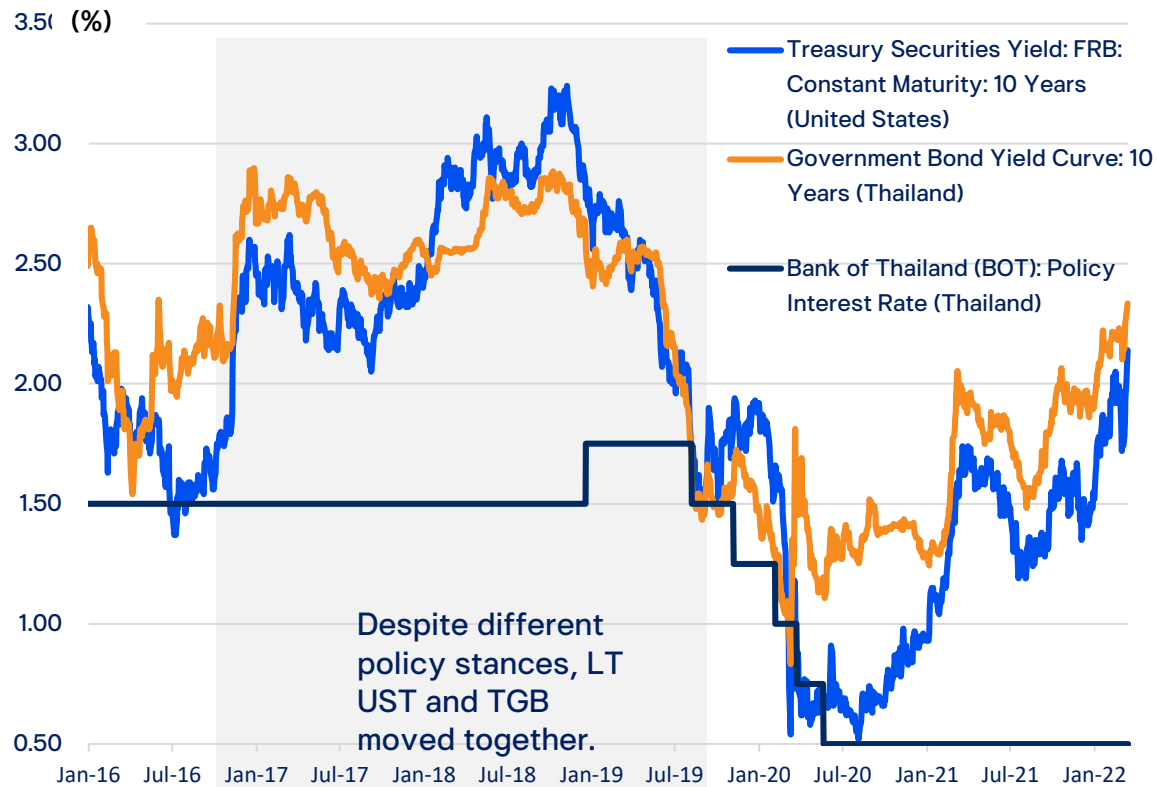


FED hiked rate to combat inflation, Thai MPC rate should remain unchanged



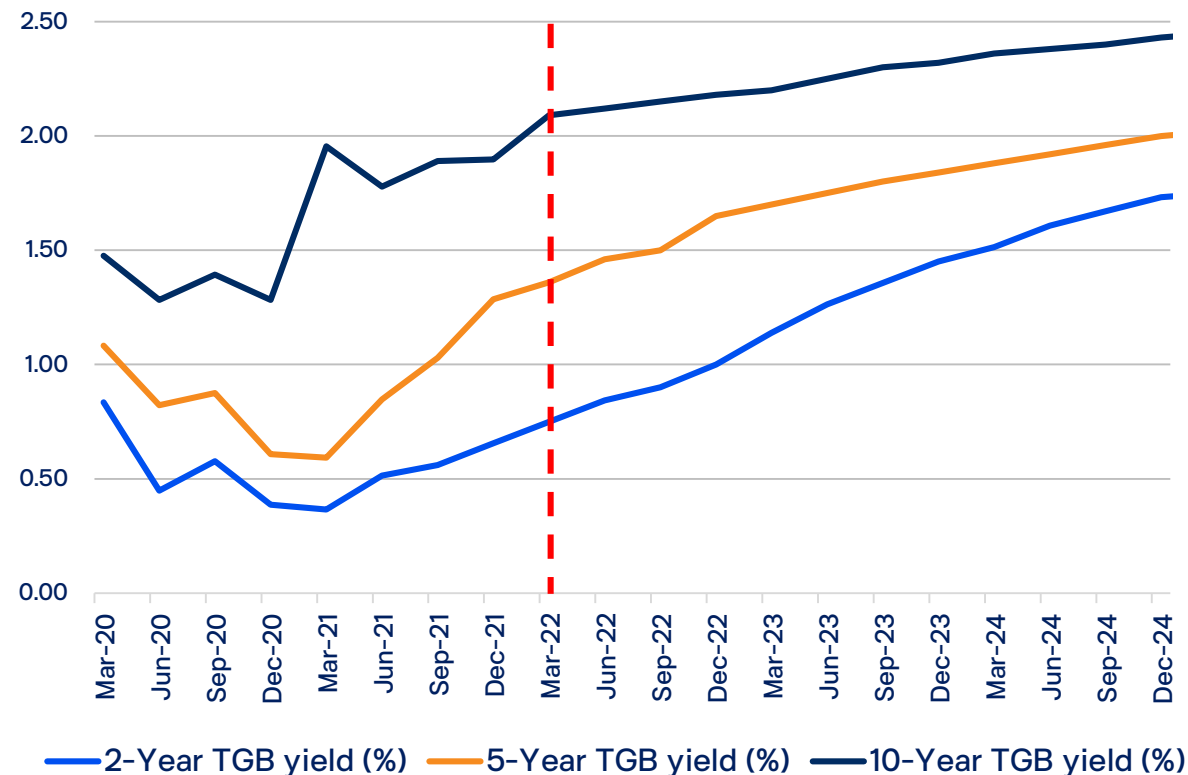
- The Federal Reserve in March raised interest rates for the first time since 2018 and laid out an aggressive plan to push borrowing costs to restrictive levels next year in a pivot from battling the coronavirus pandemic to countering the economic risks posed by excessive inflation and the war in Ukraine. Most policymakers now see the federal funds rate rising to a range between 1.75% and 2% by the end of 2022.
- For Thai MPC, though Omicron may even more put pressure to economy, we expect neither rate cut nor rate hike in 2022. TGB curve will continue to be steepen at slower path as limited 10Y-2Y spread of TGB in Q1/2022.

High correlation of long term TGB and UST



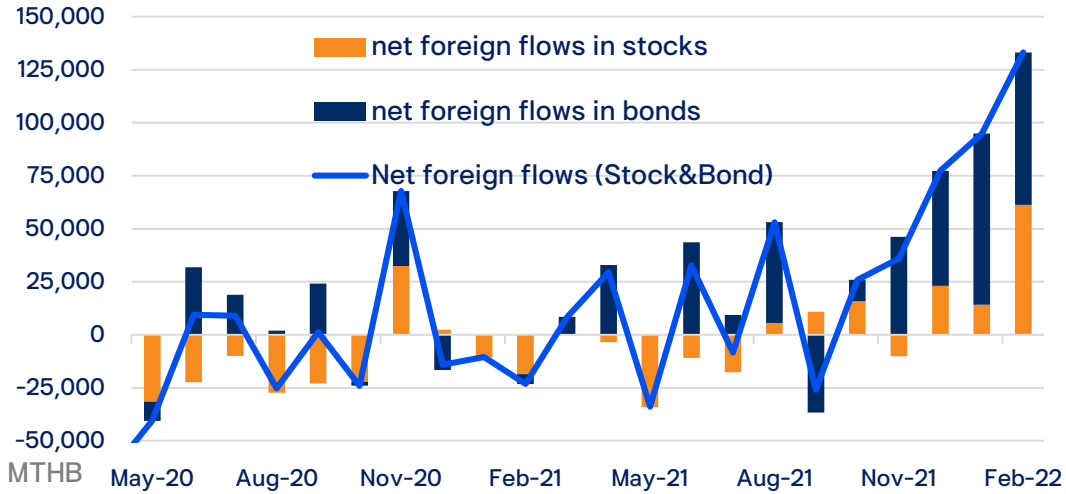
TGB yield projection; TGB10Y to follow UST10Y

(%)

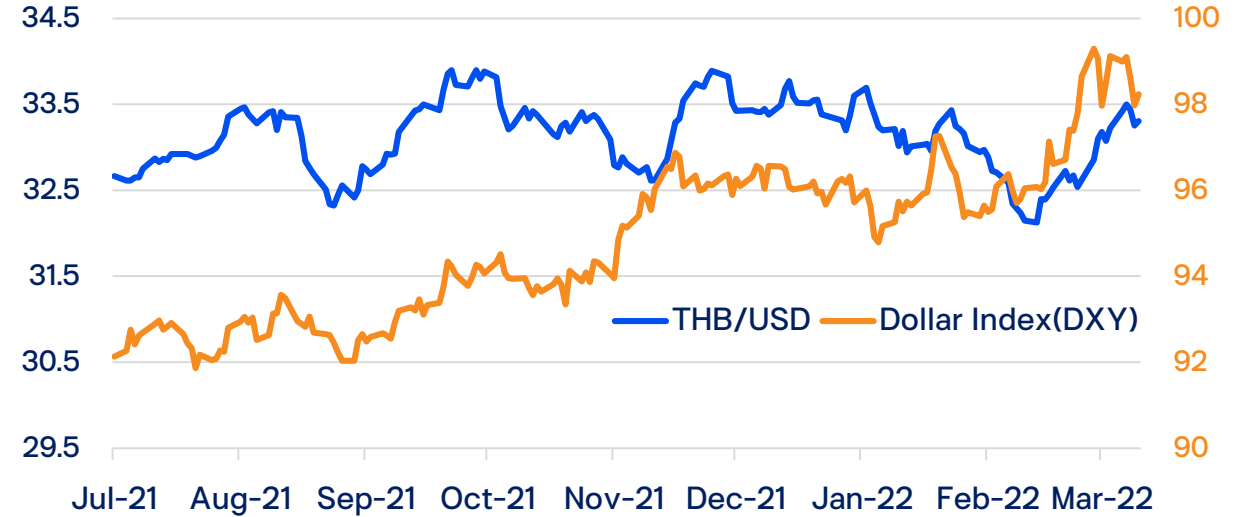


- The concerns from recent conflict in Ukraine may pressure bond yield briefly. However, longer bond yields continued its upward trend in late March. The recent hawkish comment from FED's chair rose market expectation for faster rate hike timeline. We still expect that TGB curve will continue to be steepen in the first half of 2022. Along with Thai economic recovery and improve policy stance from Bank of Thailand from H2/2022, TGB curve may shift to flattening theme as we expect more improvement in TGB2Y yield before Bank of Thailand hike in H1/2023.

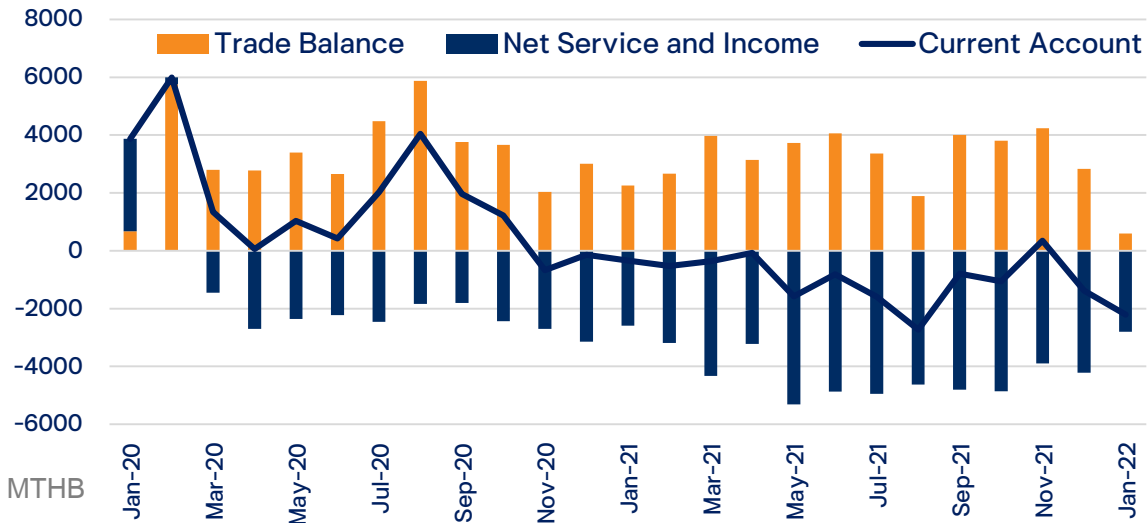
Positive Fund Flow affected USDTHB in February



USDTHB and DXY



Thai Current Account remained in negative



Projection

June-22

33.60

September-22

33.20

December-22

32.80

- USDTHB is highly volatile, pulled back from 32.50 to 33.50 level in Mar-21. Despite there were foreign fund flows into stock and bond markets in February, dollar strengthened due to Ukraine-Russia conflict. We expect fund flow to be a short term speculation, which might return in the second half of the year after the crisis is resolved.
- DXY continued its long bullish run. After the hike in March, market still see 5-6 additional hikes this year.

The logo features the lowercase letters 'ttb' in a bold, sans-serif font. The first 't' is blue, the second 't' is orange, and the 'b' is dark blue. To the right of the 'ttb' is a vertical line, followed by the word 'a.n.a.l.y.t.i.c.s' in a dark blue, lowercase, sans-serif font with dots between each letter.