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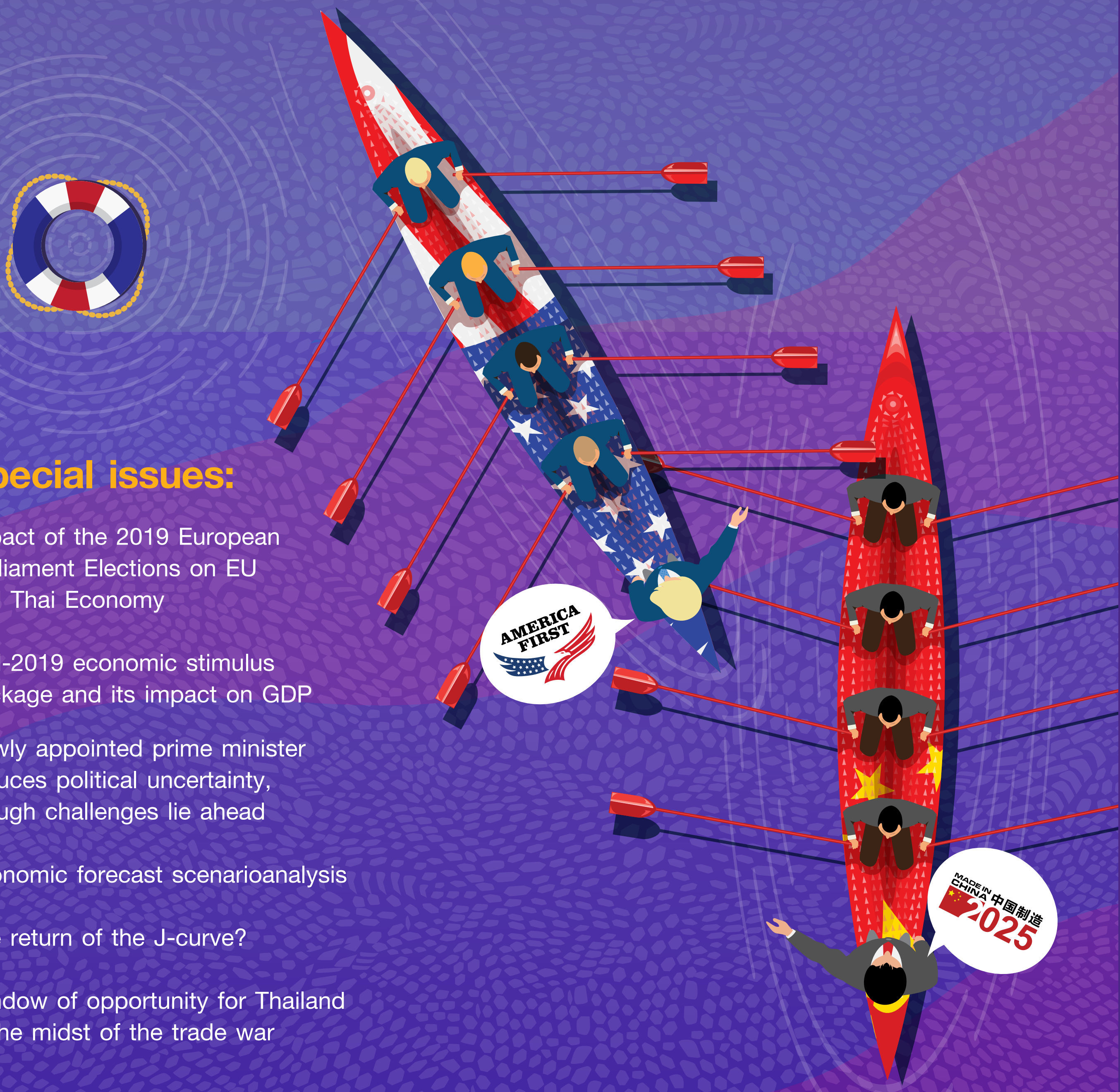
Outlook

Quarter 3
2019

In focus:

Game of Trade

Getting Thailand ready for the US-China trade war



Special issues:

Impact of the 2019 European Parliament Elections on EU and Thai Economy

Mid-2019 economic stimulus package and its impact on GDP

Newly appointed prime minister reduces political uncertainty, though challenges lie ahead

Economic forecast scenarioanalysis

The return of the J-curve?

Window of opportunity for Thailand in the midst of the trade war

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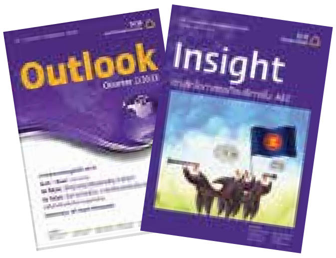

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In depth analysis of business issues and implications, with medium- to long-term perspectives

02 Outlook

Analysis of macroeconomic outlook, key indicators and business drivers.

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Published: July 2019

Q3/2019

Thai economy 2019

Decelerating follow sluggish global economic growth from trade dispute

EIC expects

the Thai economy in 2019 to grow decelerated by 3.1%

Supporting factors

- Public infrastructure investment
- Government stimulus measures
- Continued expansion in tourism sector

Risk factors

- US-China trade war that can be further escalated
- Slower-than-expected global economic growth
- Impact of LTV measure on real estate market
- Risk of the new gorverment's stability and ability to implement policies
- Impact of Thai baht appreciation on exports and toursim sectors
- Delay of FY2020 national budget process
- Geopolitical risks such as Brexit and conflicts between the US and Iran

Source: EIC analysis based on data from CEIC, NESBC, BOT and MOC

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EIC revises 2019F Thai GDP downward to 3.1%

on spreading trade war impacts and export contraction in slower-than-expected tourism and investments

EIC has revised 2019F Thai GDP growth downward to 3.1%, lower than its previous projection of 3.3%. The main reason is due to the trade war situation and global economic slowdown, which have negatively affected Thai exports. **Going forward, global economic slowdown is likely to continue** due to the global trade and investment slowdown, resulting from the recent escalation in US-China trade tensions in May 2019 when the US decided to lift its trade tariff from 10% to 25% on Chinese products worth USD 200 billion. China retaliated by hiking tariffs to 5-25% on US products worth USD 60 billion. While the G-20 meeting in late June resulted in a temporary trade truce with no further tariff hikes, uncertainty remains high over 2H19F. In response to continued trade tensions and gloomy global economic situations, major central banks have turned more dovish, sending signals on easing their monetary policies. However, EIC expects the impacts of those possible easing policies to be limited. **Consequently, EIC now expects 2019F Thai export growth to contract by 1.6% (vs +0.6% previously). Moreover, EIC has also revised the number of tourist arrivals downward to 40.1 million, or 4.8% growth,** and expect a slowdown in tourist spending per head due to the economic slowdown in several tourist countries and the effects of a strong Thai Baht.

The impact of falling exports spread to domestic demand. We foresee slower-than-expected private investment due to falling exports, a slowdown in residential construction activities (following stricter LTV measures), and increased investor concern about the ability of the new coalition government to combine and implement economic policies. **On public investment, expanding public construction activities are likely to continue (7.0% growth projected), but purchases of equipment are likely to be slow, with a sharp decrease in the first quarter (-11.7%YOY).** In addition, the expected 3-month delay in the national budget process would be another risk factor affecting disbursement performance in projects yet to be initiated (no contingent debt) before the last quarter of this year. **EIC expects private consumption to grow by 3.9%.** Even though private consumption is supported by expanded employment and government stimulus measures already implemented in the second quarter and further possible measures after the new government in place, the projected 3.9% growth rate is slower than the previous year. The main factors for lower growth are from an anticipated deceleration in durable goods (especially from the strong vehicle sales over the last 2 years), high levels of household debt, and employment risk in the manufacturing sector that would possibly be affected by export contraction.

Regarding monetary policy, EIC expects a flat policy rate at 1.75% throughout 2019F. However, given high uncertainty from trade tensions, we foresee a downside risk on a rate cut by 25 bps if the economy slips to below 3% growth in 2019F. The MPC efforts to normalize the policy rate and create a policy space are likely to be delayed by the economic deceleration and heightened downside risks as well as the below target inflation rates. Nonetheless, at its last meeting the MPC still signaled a hawkish stance by communicating that the Thai economy will likely bounce back next year and continuing to show concerns on some financial stability issues over the low interest rate period, such as accelerated household debt and risk underpricing. Accordingly, EIC expects in the base case scenario the MPC is likely to hold its policy rate unchanged at 1.75% for the rest of the year, together with macroprudential measures for taking care of financial stability issues. However, if 2019 economic growth falls under 3%, EIC anticipates a 25 bps policy rate cut to shore up the economy. For Thai Baht direction, EIC sees the Baht continually appreciating compared to other regional currencies on the back of more dovish stances by other major and regional central banks, Thailand's massive current account surplus, and hence further capital inflows. Due to the abovementioned factors, EIC expects Baht tends to move between the range of 30-31 Baht/USD for the rest of the year.

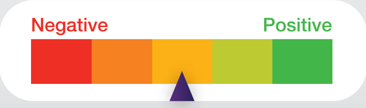
Upcoming risks stem from internal and external factors. Though US-China trade war sentiment was slightly better after the G-20 meeting as there were no further tariff hikes from both sides, trade disputes remain a key risk factor that could resume with a further tariff escalation in the future. From EIC scenario analysis, in a worst-case scenario (trade war is intensified), 2019F Thai exports could contract by 3.1% and GDP growth would be likely to grow by only 2.7%. Furthermore, other external risks that should be focused on are geopolitical risks such as Brexit and the dispute between Iran and US that could generate fluctuations in global financial and commodity markets. **On internal risk, political uncertainty remains a key factor.** Although the prime minister was appointed by the parliament, the new coalition government still has many challenges. For example, a slim majority of MP seats on the government side could cast doubts on the stability and ability on policy implementation. Moreover, compromising policies in the dimensions of both policy methodologies and objectives across coalition parties would be another challenge that might reduce investor confidence. A wait and see strategy can therefore be seen from businesses and households that could slow investment going forward.

Q3/2019

Global Economy 2019

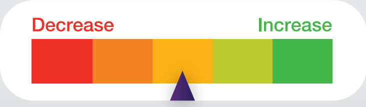
Trade war re-escalates, major central banks shift to ease monetary policy

Economic Growth



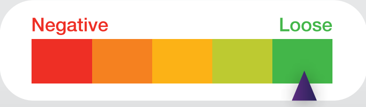
- Growth of major economies likely to slow following late expansion cycle and effects from trade war.
- Manufacturing sector and exports are severely hit by trade slowdown but service sector growth continues.
- Labor markets remain strong in major economies, backed by low unemployment rates.

Inflation Rate



- Inflation gradually improves thanks to tightening labor markets in major economies.
- Global growth slowdown pressuring on oil price, despite OPEC's decision to extend oil production cut to March 2020.

Monetary Policy Direction

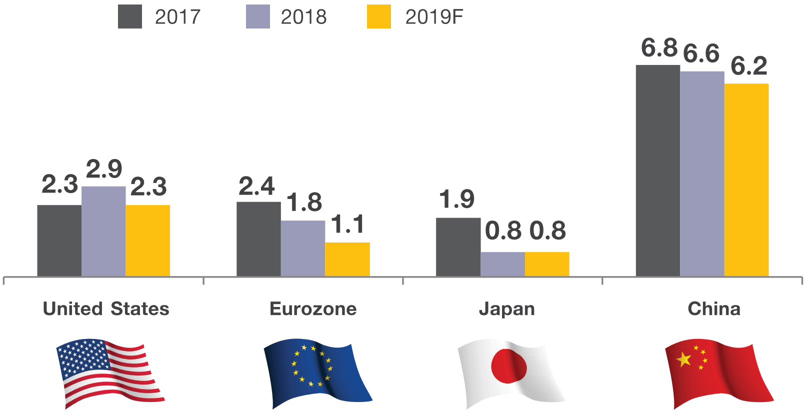


- Fed – two potential rate cuts in 2019 and end of balance sheet normalization in response to an economic slowdown.
- ECB – likely to cut policy rate by 10-20 bps in 2H19 and introduce tier deposit rate or the return of APP.
- BOJ - keep ultra-low policy rate at least until Spring 2020 and open for further easing option if economic growth weakens more than expected.

Remark: Gauge indicates direction for the rest of year

Economy Growth Forecast for years 2017, 2018, 2019

Unit : %YOY



Risks

United States
Trade war, economic slowdown, and risk of debt-ceiling crisis.

Eurozone
Brexit negotiation outcome, Eurozone politics, and US tariffs on auto and parts.

Japan
US auto tariffs and trade disputes with South Korea.

China
Escalating trade & technology wars with the US and sharper-than-expected economic slowdown.

Source: EIC analysis based on data from foreign research institutes (Goldman Sachs, J.P.Morgan, Deutsche Bank and Bank of America)

The overall global economic outlook in 2019

In 2019, the global economy is heading toward a decelerating trend, particularly in the manufacturing and exports sectors due to great uncertainty around the ongoing trade war. The central banks of Developed Market (DM) economies hint at the possibility of monetary policy easing to cope with economic slowdown. The overall global economic outlook in 2019 remains on a decelerating trend as DM economies approach the end of an up cycle. Global financial markets have jittered over the heightened possibility of recession after another round of the US-China trade war burst out in May, with the US announcing a hike in tariffs from 10% to 25% for USD 200 billion worth of imports from China. In response, China retaliated by announcing an increase in tariffs on USD 60 billion worth of US imports in the 5-25% range. At the G20 meeting during 28-29 May, the US and China were able to reach an agreement to continue trade negotiations, with the US postponing an impending increase in tariffs on the remaining Chinese imports worth USD 300 billion and allowing US companies to temporarily resume their businesses with Huawei and all other previously banned Chinese companies. Nevertheless, negotiations to end the trade war remain a great challenge amid the US's tendency to continue imposing tariff measures on China, posing sizeable uncertainty on trade negotiations. Meanwhile, DM central banks posted clear signal of providing further stimuli if economic conditions turn out to be worse than expected. EIC projects that in addition to the Fed's plan to halt balance-sheet size reductions in September, the Fed is likely to cut the interest rate in two rounds to provide a cushion against the risk of economic slowdown and in response to the recent lower-than-expected inflation expectations. According to the ECB, apart from the new round of low interest-rate credit provision to commercial banks that would begin in September (TLTRO3), the ECB is likely to cut policy rate by 10-20 basis points in the second half of the year if the economy slows more than expected. The BOJ's interest-rate policy will likely stay put this year. Overall, the Fed, ECB and BOJ are poised to ease monetary policy if warranted by economic slowdown. The PBOC is also prepared to reduce the Reserve Requirement Ratio (RRR) in the latter half of this year to mitigate adverse impacts from the ongoing trade-war. However, although all the major economies, including the US, Eurozone, Japan and China, are subject to risks of slowdown in the manufacturing sector, service sectors such as the retail and real-estate sectors should retain steady growth rates. The labor market also remains robust thanks to low unemployment rates.

In EIC's assessment, the main risks to the global economy in 2019 include (1) the current trade war (2) a slowdown of DM economies and (3) geopolitical problems, particularly Brexit. The risks from the trade war remain heightened since there exists a list of remaining Chinese imports that the US could impose tariffs upon (section 301 of the US Trade Act) as well as the tariff the US eyes imposing on the EU in response to the US-EU disputes over Boeing and Airbus subsidies. All the items on which the US could impose tariffs are worth USD 25 billion in total. Furthermore, the deadline for the US to decide whether to increase tariffs on automobiles and parts (section 232) is approaching in November, posing risks to exporters of these goods from Europe, Japan, and nearly all countries around the world. Meanwhile, signs of a slowdown in major economies have been more evident, as reflected by weakened economic figures, including those related to trade and investment, as well as a downward shift in yield curves globally reflecting investors' mounting worries that the global economy would head towards recession. Lastly, Brexit will likely trigger a new bout of volatility before the deadline of Article 50 extension if the new UK prime minister is unable to reach an exit agreement with the EU. Therefore, the possibility of a no-deal Brexit remains. If that takes place it would have large negative repercussions on the UK and Eurozone economies going forward.

Risk Global Economic Risk Map 2019

1
Trade war from the US

2
Growth slowdown of major economies

3
🔍 Eurozone politics esp. Brexit conclusion

Financial crisis of the banking sector in the Eurozone

Economic risk from China's economic slowdown

Economic risk from US corporate debts

US debt-ceiling crisis

Negotiations to denuclearize North Korea

Conflict in the Middle East (Qatar) and U.S. sanctions on Iran

Risk categories of 2019 global economy

🟧 Economy and finance

🟥 War, military

🟪 Politics, geopolitics

Remarks

1 **2** **3**

are 3 major risks of the world's economy with high probability and high impact within 2019

🔍

is an economic issue and/or risk that EIC analyzes further. Read more in BOX: Eurozone Economy

Source: EIC analysis based on data from foreign research institutes (Goldman Sachs, J.P.Morgan, Deutsche Bank and Bank of America)

List Major Events of Global Economy 2019

Jul	21	**2019 Japanese House of Councillors election**	Upper House election results and implications on Abe's policy
Jul	24	**New UK prime minister to replace Theresa May**	Brexit decision of the new UK PM, following Theresa May resignation on May 24
Aug	22-24	**Jackson Hole economic symposium**	The annual Fed-sponsored forum joined by major central bankers and finance ministers around the world
Aug - Sep		**US federal debt ceiling deadline**	US debt ceiling extension deadline and risks of sovereign credit downgrade
Oct	1	**Japan's consumption tax hike**	Japan's consumption tax increase from 8% to 10%
Oct	1	**70th founding anniversary of PRC**	China celebrates the nation's 70th founding anniversary
Oct	31	**End of ECB President Draghi**	ECB's current president Mario Draghi ends his term. Christine Lagarde is nominated as the new ECB president.
Oct	31	**Brexit Article 50 extension deadline**	Deadline of the UK's departure which was delayed from March 2019 to avoid a no-deal outcome
Nov	14	**Deadline for decision on US auto tariff**	Deadline for Trump's decision on auto tariffs, after postponed for 180 days
Nov	30	**End of term European Council President Tusk**	The end of Donald Tusk's second-term presidency at the European Council

Theme Global Economy 2nd Quarter Key Factors (Bubble)

- **Trade war ceasefire**
- **Global central banks turn dovish**
- **Brexit with deal or no-deal Brexit**
- **G3+China growth concerns**
- **Geopolitical tensions (e.g. US-Iran)**

US economy

Fed signaled easing of monetary policy amid trade war uncertainty

The US economy recorded higher-than-expected growth 3.1% QOQ SAAR[1] in the first quarter of 2019 or 3.2%YOY, which helped ease concerns over the possibility of economic recession this year. However, temporary factors were the sources of growth in the first quarter. Given a sizeable increase in inventory accumulation and the growth of net exports driven by a fall in imports in the first quarter, the economy might register slower growth in the second quarter as inventory accumulation begins to drop. The latest episode of the trade war in May 2019, in which China decided to raise tariffs from 5-10% to 5-25% on USD 60 billion of US goods in response to US tariff measures might also have an adverse impact on US exports going forward.

The prolonged trade war fueled constant uncertainty for the manufacturing sector. The manufacturing PMI stood at 50.1 in June, having continuously slipping since the start of the tariff measures. Manufacturing, especially exports, is therefore projected to slow. Nevertheless, US employment remains generally strong because 79% of total employment is in services sector, which has limited direct effects from the trade war. The unemployment rate of 3.6% in May, the lowest in 50 years, drove wage growth up by 3.4%YOY, which in turn made private consumption a main growth driver. EIC forecasts an annual growth of 2019 at 2.3%.

The Fed signaled the easing of monetary policy amid concerns over the trade war uncertainty and its impact on the US economy. The Fed believes that the US economy will begin to face higher risks due to weakened business confidence. At the same time, PCE inflation was below the Fed's 2% target of 1.5% in April. Although the rise in tariffs led to higher costs for some products, the share of these goods in the consumer's basket was only 3.9%[2]. As a result, the overall impact of the trade war on inflation has been limited. The EIC forecasts that Fed could cut the policy rate twice in 2019 if economic indicators will signal deterioration in the latter half of the year. In Fed's June dot plot, 7 out of 17 members of the Federal Open Market Committee (FOMC) projected two rate-cuts.

Looking ahead, the following U.S. trade policy issues must be closely monitored: (1) Risks stemming from a possible increase in tariffs on USD 300 billion worth of the remaining Chinese goods, if the new round of U.S.-China trade talks does not lead to a breakthrough on China's commitment to restructure its economy; and (2) Negotiations on the US free trade agreements with the EU and Japan, which could prevent the imposition of tariffs on imported auto and parts, following the US President's decision to delay the tariffs for 180 days.

Implication for Thai Economy

- The US dollar gained 0.27%YTD on July 1, 2019. Fed's signal of monetary policy easing contributed to the depreciation outlook of the US dollar. The US-China trade war uncertainty put constant pressure on the baht to appreciate. EIC expects the Thai baht moving to around 30-31 THB/USD by the end of 2019.
- Thai exports to the US, excluding military arms and weapons shipment, expanded by 4.8%YOY in the first 5 months. However, if US-China trade talks do not produce a breakthrough and if the US starts a trade war with other countries, Thai exports could see slower growth in the second half of the year amid a global trade slowdown.
- The US direct investment in Thailand continued to grow by 28.6%YOY in the first quarter of 2019. The US also topped the chart, ahead of Japan, with a total investment value of BOI promotion applications amounting to THB 330 billion in 2018. This was due to Exxon Mobil's interest in large petrochemical investment projects, worth about THB 160-200 billion, in the Eastern Economic Corridor (EEC), which would make Thailand the center of the petrochemical industry in ASEAN.

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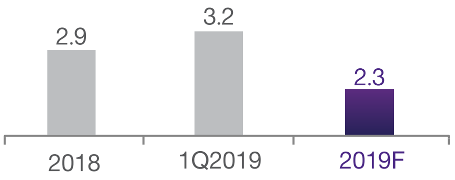
[1] Quarter-on-quarter, seasonally adjusted and annualized rate

[2] The five categories of consumer goods that are affected by the tariffs (accounting for 3.9% share of the consumer's basket goods and services) are: (1) auto parts (2) furniture (3) household appliances (washing machines) (4) household items and (5) motorcycles.

US economy

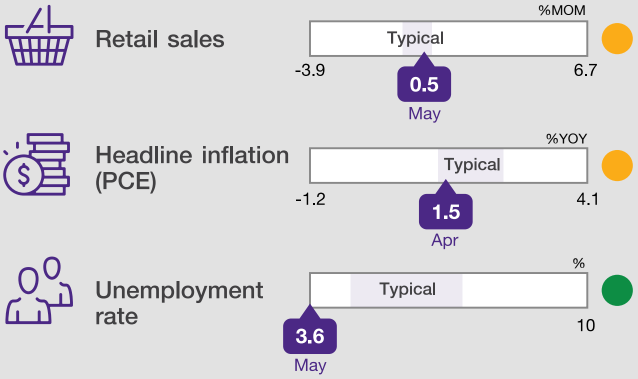
Fed signaled easing of monetary policy amid trade war uncertainty

Forecast GDP (%YOY)



Business

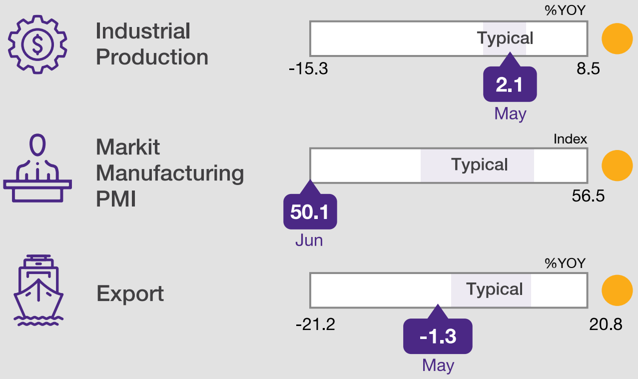
Strong labor market boosts from service sector



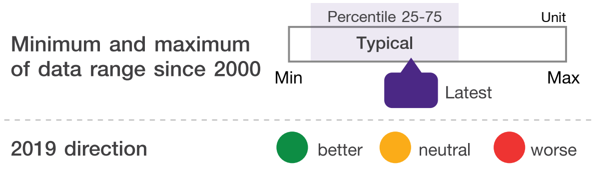
Retail sales	%MOM	-3.9	6.7	0.5	May
Headline inflation (PCE)	%YOY	-1.2	4.1	1.5	Apr
Unemployment rate	%		10	3.6	May

Business

Manufacturing sector also worry about the uncertainty caused by trade war



Industrial Production	%YOY	-15.3	8.5	2.1	May
Markit Manufacturing PMI	Index		56.5	50.1	Jun
Export	%YOY	-21.2	20.8	-1.3	May



Minimum and maximum of data range since 2000

2019 direction ● better ● neutral ● worse

Link with Thai economy

Tourist arrivals	**+4.6**	%YOY (Jan19-May19)
FDI	**+28.6**	%YOY (1Q18-1Q19)
Export	**+21.8**	%YOY (Jan19-May19)
Import	**+33.7**	%YOY (Jan19-May19)

Monetary & fiscal policy

Fed signaled a possible rate cut in 2019

The debt ceiling negotiations which has implications on volatility in financial market

Watch list

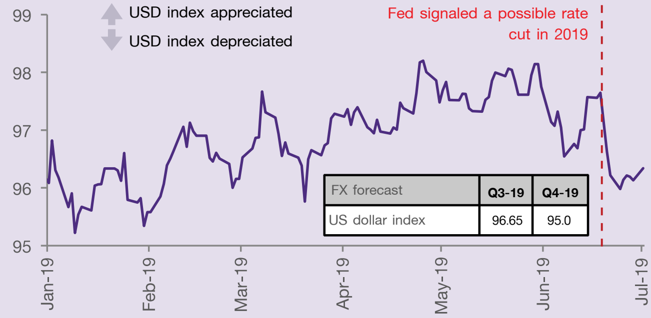
A decision of US president to impose tariffs on automotive products under section 232

A decision to impose tariffs on remaining Chinese imports under Section 301

The US dollar is projected to weaken due to the Fed's easing of monetary policy

US dollar index

Unit : Index



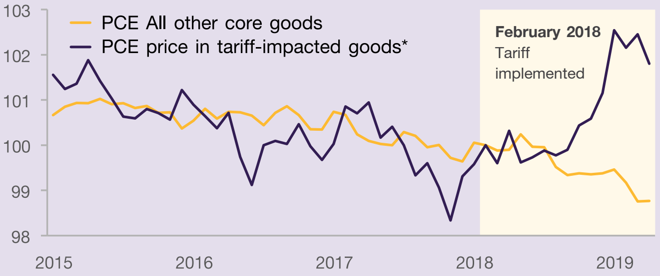
FX forecast	Q3-19	Q4-19
US dollar index	96.65	95.0

Note: FX forecast 2019 as of the end of quarter based on Bloomberg Consensus as of July 1, 2019

The Trade war's impact on inflation remains limited

PCE price index by Tariff-impacted goods

Unit : Index (February 2018 = 100)

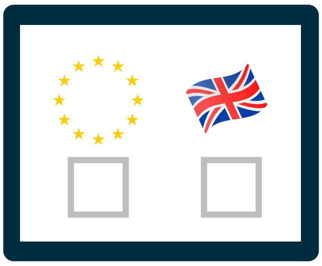


* The five categories of consumer goods that are affected by the tariffs (accounting for 3.9% share of the consumer's basket goods and services) are: (1) auto parts (2) furniture (3) household appliances (washing machines) (4) household items and (5) motorcycles.

Source : EIC analysis as of July 2019 based on data from Bloomberg and CEIC

Eurozone economy

Growth revival driven by consumption, but political and trade war risks remain high



Eurozone economy expanded by 1.2%YOY in the first quarter of 2019, or 0.4% QOQ SA. The Italian economy picked up from a technical recession, thanks to a rise in exports. The German and French economies expanded, primarily due to private consumption growth, while the Spanish economy expanded mainly from investment. External demand remained weak, a particular concern for the German economy highly entwined with global trade. Eurozone exports grew by 3.9%YOY in the first quarter, but in the coming period global trade was projected to slow should the US-China trade war reignite, and the possibility of the US tariffs on auto and parts imports remains. These factors continued to hamper the manufacturing sector, with the PMI coming in at 47.8, below the 50 expansion benchmark. Weak exports and investment outlook were thus expected to be the main downside risks in the next period.

Labor markets and fiscal stimulus helped support domestic consumption. Unemployment rate was 7.6% in April, the lowest in ten years, which drove up wages by 2.2%YOY. Accommodative monetary conditions also encouraged private consumption. Moreover, several countries introduced additional fiscal stimulus, such as through infrastructure investment in Germany and the reduction of fuel taxes in France, which shored up economic growth. EIC expects the Eurozone economy to expand by 1.1% in 2019.

ECB announced plans to cope with the economic slowdown. The ECB also communicated the new direction of monetary policy, i.e. to maintain the interest rate at least until mid-2020, and prepared to provide subsidized loans to commercial banks (TLTRO3) this September to sustain favorable liquidity conditions in the banking system. In the periods ahead, the ECB would consider using the Tier rate to alleviate bank profitability in a negative interest rate environment. With headline inflation recorded at 1.2% in May, lower than the ECB's 2% target, EIC expects that ECB might decide to have a more accommodative monetary policy and cut the interest rate by 10-20 bps, if the downside risks to the Eurozone economy intensifies and the economic revival turns out to be slower than expected.

The following risk factors must be closely monitored: 1) Whether negotiations on the EU-US trade agreement can be concluded successfully, which would reduce the uncertainty over the global trade outlook, particularly by ending the risk of the imposition of the US tariffs on auto and parts; 2) Following the extension of the Brexit deadline to October 31, the risk of a No-deal Brexit remained and might affect business confidence; and 3) The result of the 2019 European Parliament election, which could have a bearing on the future of the EU (Read more in Box:Impact of the 2019 European Parliament Elections on EU and Thai Economy).

Implication for Thai Economy

- As of July 1, 2019, the Euro depreciated by 1%YTD against the US dollar. Should global trade recover in the latter half of 2019 and should there be clarity over the Brexit outcome, the EIC projects the euro to be valued at 1.15 USD/EUR toward the end of 2019.

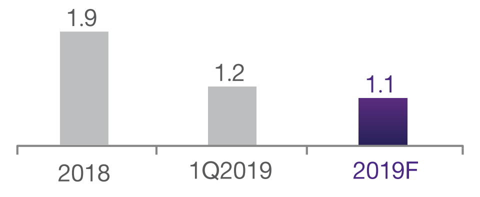
- Thai exports to the Eurozone contracted by 7.7%YOY in the first 5 months of 2019, mainly due to a fall in exports of computer equipment and parts (-22.7%YOY) and integrated circuits. (-2.9%YOY). Following the formation of a new government in Thailand, negotiations on a Thailand-EU free trade agreement could resume, the conclusion of which would boost Thailand's export competitiveness and could lead to a rise in Thai exports to the Eurozone.

- The Eurozone direct investment in Thailand fell by 57.8%YOY. However, the value of investment projects that received BOI promotion approval was THB 13 billion in the first quarter of 2019, higher than the THB 4 billion value in the first quarter in 2018. Most of this investment was in metal products, machinery, and transport equipment, which totaled about THB 8 billion. There could be greater interest from businesses from the Eurozone if Thailand and the EU develop closer relations going forward.

Eurozone economy

Growth revival driven by consumption, but political and trade war risks remain high

Forecast GDP (%YOY)



Household

Accelerating wage growth supporting consumption.

Unemployment rate — % — Typical — Min 7.3 — Max 12.1 — Latest 7.6 (May) — ●

Headline inflation — %YOY — Typical — Min -0.6 — Max 4.1 — Latest 1.2 (Jun) — ●

Retail sales — %YOY — Typical — Min -4.7 — Max 6.0 — Latest 1.5 (Apr) — ●

Business

Exports are on a decline due to global trade slowdown

Export — %YOY — Typical — Min -25.3 — Max 24.3 — Latest 2.5 (Apr) — ●

Industrial Production — %YOY — Typical — Min -21.4 — Max 9.7 — Latest -0.4 (Apr) — ●

Manufacturing PMI — Index — Typical — Min 47.5 — Max 60.6 — Latest 47.6 (Jun) — ●

Minimum and maximum of data range since 2000 — Percentile 25-75 — Typical — Unit — Min — Latest — Max

2019 direction: 🟢 better 🟠 neutral 🔴 worse

Link with Thai economy

Tourist arrivals	-2.2	%YOY (Jan19-May19)
FDI	-57.8	%YOY (1Q18-1Q19)
Export	-7.9	%YOY (Jan19-May19)
Import	-17.1	%YOY (Jan19-May19)

Monetary & fiscal policy

ECB signals a further easing if ecnomic growth remains sluggish

To launch a new TLTRO to support bank liquidity

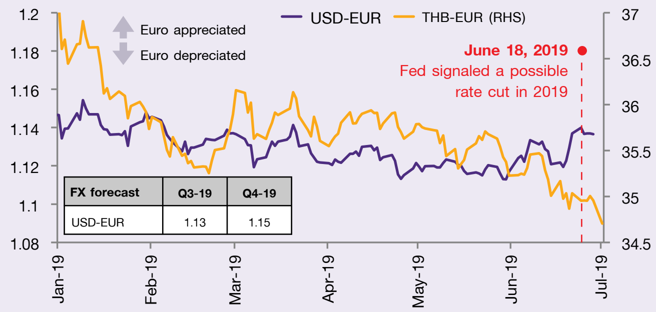
Watch list

Impact on trade and investment from Brexit uncertainty.

Trade negotiations between EU and US to avoid auto tariffs threat.

EUR could appreciate against the US dollar as the Fed sent a signal to ease monetary policy

Euro

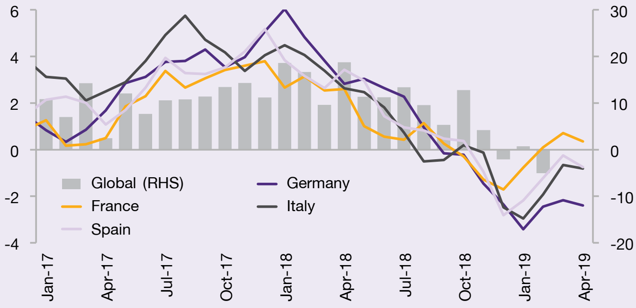


FX forecast	Q3-19	Q4-19
USD-EUR	1.13	1.15

Note: FX forecast 2019 as of the end of quarter based on Bloomberg Consensus as of July 1, 2019

Manufacturing output in the Eurozone weakened in line with the global trade slowdown

Industrial production



Source : EIC analysis as of July 2019 based on data from Bloomberg and IMF

BOX

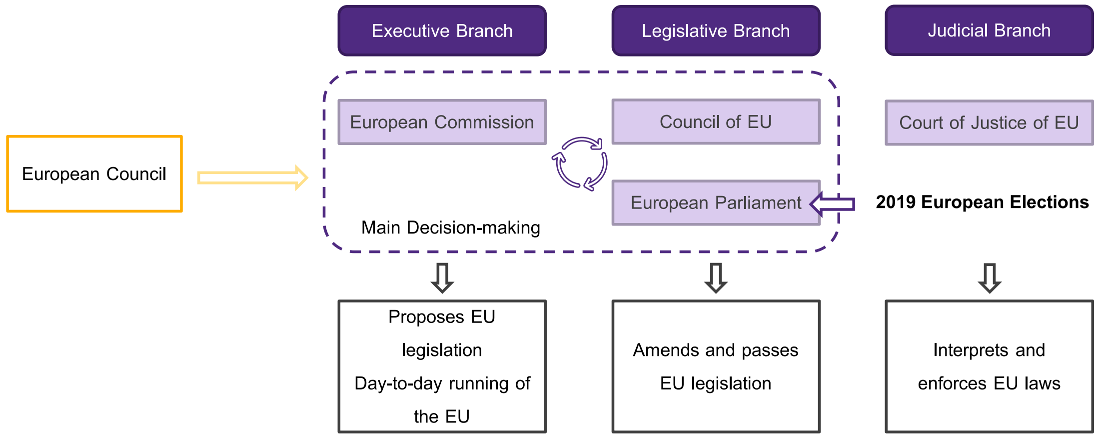
Impact of the 2019 European Parliament Elections on EU and Thai Economy

Amidst the Brexit turmoil which have yet to reach any conclusions, the European Parliamentary elections between the 23rd and the 26th of May was a key event with a profound impact on the EU's future. The voter turnout reflected the election's importance, reaching a 20-year high at 51%, compared to 43% in the previous 2014 election. The election may also have indirect implications on the Thai economy. Below is a summary of the key points of the event.

European Parliament Fundamentals and Electoral Significance

The European Parliament (EP) has the legislative power of the European Union (EU) to adopt and amend legislation proposed by the European Commission and decides on the annual EU budget in conjunction with the Council of the EU (Figure 1). There are 751 members of parliament (MEP), with seats assigned to each member country in relation to their population.

Figure 1 Political structure of the EU



Source: EIC analysis based on data from the European Parliament

The European Parliament election is where EU citizens elect MEPs for 5-year appointments. The elected MEPs, despite coming from different parties and different countries, typically share common values, such as conservatism and socialism, and thus would then form new parliamentary groups.

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[3] The European Commission acts as the executive of the EU, consisting of one representative from each member country. Its role is to propose and enforce legislation in the EU.

[4] The Council of the European Union (Council of EU) is the institution representing member countries, each represented by a government minister. In the council, government ministers meet to coordinate policymaking in various policy spheres, such as the economy, foreign relations, and stability. Furthermore, the Council of the EU meets with the EP to decide on the annual budget and amend legislature.

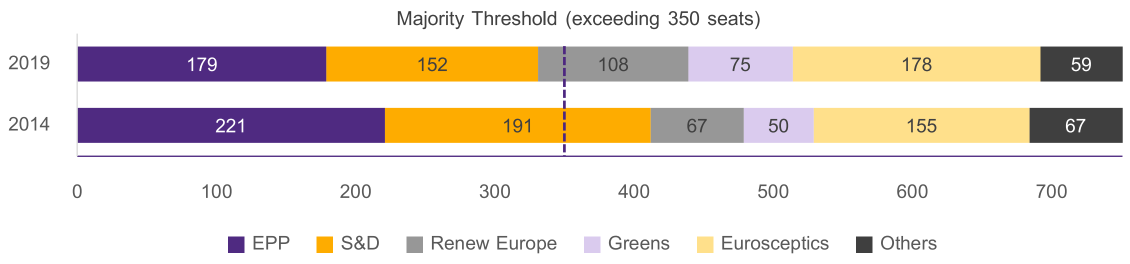
This European Parliament election would implicate several significant new appointments, such as the European Parliament President, the President of the European Commission and its commissioners. The Spitzenkandidat convention, traditionally adopted since 2014, requires the European Council to nominate the lead candidate of the party group with the most seats as the next President of the European Commission. With this convention, Jean-Claude Juncker, who received majority support in Parliament, was appointed President in the last election in 2014. In the current election, however, the European Council has nominated German Defence Minister Ursula von der Leyen, a member of the EPP, as Juncker's successor. As von der Leyen was not the lead candidate of the joint coalition, this nomination was a break from tradition. If she is unable to garner sufficient votes to secure her nomination, the European Council may need to nominate another candidate.

Election Results Summary: Stances of Major Party Groups in the European Parliament and Implications for the European Union

1) Election results show that the party groups in Parliament were more evenly spread out than in the previous election and that the Centrist, pro-EU party groups, namely the EPP and S&D, have lost majority control. (1) A comparison with the previous election in 2014 (Figure 2) illustrates that the European People's Party (EPP) and Progressive Alliance of Socialists and Democrats (S&D), the joint coalition withholding the majority since the first election in 1979, have lost their majority in Parliament as their combined seats stood below 350. The two parties will need to seek support from the other pro-EU party groups: Renew Europe, which upholds liberal democracy, and/or the Green Party to reclaim control of the Parliament.

Figure 2: Seats were spread out among party groups. Yet pro-EU party groups could still form a majority.

Seats in the European Parliament by group in 2014's and 2019's Elections



Source: EIC analysis based on data from the European Parliament

(2) The Eurosceptic party groups has gained more seats in the European Parliament, but not enough to make them the majority. Hence, it is likely that the Eurosceptic alliance will focus on their common stance in resisting the EU and avoid bringing up policy differences to consolidate their votes in Parliament. Nevertheless, finding common ground in concrete policy is challenging due to the members' broad spectrum of policy preferences despite sharing the same ideology vis--vis the EU. For instance, on economic policy, there exists both left wing parties, which advocates more responsibilities for the government, and the right wing parties, which strives to give the private sector greater economic freedom and reduce the role of government. Overall, although the Eurosceptic movement has becoming increasingly more popular during the past five years, it is yet not enough to disrupt stability of the union in the near future. In EIC's view, the alliance's weaker-than-expected political momentum, reflected by the election results, is in part due to the ongoing Brexit negotiations which have taken longer to complete than the alliance expected, resulting in a series of deadline extensions since the 2016 referendum. Hence, despite the Brexit and Eurosceptic movements' expanding electoral base in the EU, the Pro-EU alliance still hold their ground in Parliament.

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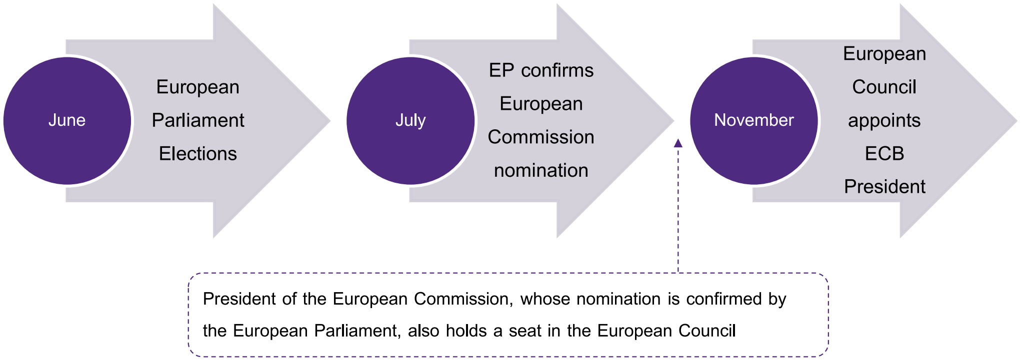
[5] The European Council is a meeting of Heads of States or Government, the European Council, and the President of the European Commission to dene EU's overall political direction. The European Council is also responsible for appointments to important positions, such as the appointment of the President of the ECB. Although it holds no legislative power, the European Council can request the European Commission draft proposals to be considered in the European Parliament, or to assign various duties to the Council of the EU.

3) The Greens has picked up more seats than expected. The said party aims to alter the EU's course towards greater sustainability. As the EPP and the S&D need additional seats from the Greens to secure a majority, the Greens now play a vital role in this election and are ready to endorse candidates for the European Commission's President who support their environmental policies.

(4) Overall, most pro-EU party groups have centrist views, making it easier for them to find common ground than the Eurosceptics. Nevertheless, the Pro-EU alliance still face certain political obstacles. Despite party groups sharing the same ideological stance in supporting the EU, tension arises from negotiating critical leadership positions in the EU: the European Council President, the European Commission President, and the European Parliament President. David-Maria Sassoli, an S&D MEP, was voted President of the European Parliament by majority consolidated by the Pro-EU alliance. The EIC anticipates the remaining top positions be allocated to the remaining three party groups within the Pro-EU alliance: the EPP, Renew Europe, and the Greens. The outcome will depend on the negotiation process within the alliance. The next European Commission President and the European Council President will be the key figures determining the EU's future policy and direction. On top of that, the appointment of the President of the European Central Bank (ECB), in which the current term ends this October, would shape the ECB's monetary policy going forward (Figure 3). Therefore, the negotiation process for these leadership posts should be closely monitored.

Figure 3: The sequence of political events in the second half of 2019 after the European Parliament elections

Timeline: Beyond the European Parliament Elections



President of the European Commission, whose nomination is confirmed by the European Parliament, also holds a seat in the European Council

Source: EIC analysis based on data from the European Parliament

(5) The impact of Brexit is negligible: not affecting each party group's share of seats in the Parliament. The election, which resulted in 73 newly elected MEPs from the UK, was conducted in May in which the UK remained unable to strike a Brexit deal. If the new UK Prime Minister could finalize a deal, the European Parliament would revoke the membership of these newly elected MEPs and replace them by appointing 27 MEPs from other EU countries. In effect, Brexit would lead to a decrease in the total MEP figure from 751 to 705 . Nevertheless, such a change would not affect the seat proportion of each party group, with the majority still in the hands of the Pro-EU alliance.

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[6] The number of members of the European Parliament after Brexit would be 705. The current 751 members would be reduced by the 73 newly elected members from UK, whose membership would end, and increased by 27 replacement members from other EU countries (751 - 73 + 27 = 705 seats).

Impact on the Thai economy

The EU has been focusing on bilateral Free-Trade Agreements (FTA) with individual ASEAN countries to pave way for regional agreements between the EU and ASEAN. In 2013, the EU, led by Jean-Claude Juncker, the current European Commission president leaving office this October, had initiated bilateral talks with Thailand before the 2014 military coup led to a temporary negotiation suspension. The Council of the European Union noted in 2014 that talks would resume after Thailand's general election. Given the European Parliament's election results, the pro-EU alliance is likely able to consolidate enough support to appoint its own European Commission President. After Thailand forms its own elected government, the EU, under the new Commission President, will potentially continue promoting trade between the EU and ASEAN, and resume bilateral talks with Thailand.

In EIC's assessment, the EU-Thailand agreement would resemble the EU's deal with Vietnam and Singapore, which have been approved by the European Parliament and now awaiting official commencement. The potential agreement with Thailand could include reductions in tariffs and technical barriers to trade, such as implementing international standards on goods to facilitate exports-imports and hence boost Thailand's export sector. The EU is one of Thailand's main export destinations in 2018, making up 10% of total export value, led by machinery and parts, automobiles and parts, and food. Further to trade promotion, the agreement might encompass granting equal rights to EU companies when participating in procurement tenders and the Investment Protection Agreement (IPA), buoying foreign investors' confidence. In 2018, investment from the EU in Thailand was worth THB 227 billion, ranking third after China and Japan. Therefore, Thailand might become the third country in ASEAN to reach a bilateral agreement with the EU after Singapore and Vietnam. Other ASEAN countries with ongoing bilateral talks with the EU include Indonesia, Myanmar, and the Philippines.

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[7] Based on data from the Bank of Thailand

Japan economy

Exports plunged but investment and household consumption will provide thrust

The Japanese economy expanded by 0.9%YOY in the first quarter of 2019 or 2.2%QOQ SAAR, underpinned by public and private investment. Exports were dented by the trade war, the slowdown of the Chinese economy, and the decline in world demand for electronics. Japanese exports to the world and to China fell by 4.3%YOY and 7.7%YOY respectively in the first 5 months of 2019, which hurt the Japanese manufacturing sector. Manufacturing output dropped by 1.1% in April and the manufacturing PMI remained below 50 in June, in line with a falling confidence among large Japanese manufacturers.

In Q2 and Q3 2019, the Japanese economy will gain impetus from private investment and accelerated household consumption ahead of the consumption tax hike in October. Japanese private investment is projected to continue to grow, led by investment in labor-saving technology and the growing profitability of non-manufacturing investment. Household spending remained strong, expanding by 1.3%YOY in April. Labor markets remained tight, helping to sustain wages in the next period. Nonetheless, the main downside risks to the Japanese economy stemmed from ongoing yen appreciation, driven by the US-China trade war and concerns over the global recession. Rapid yen appreciation could stifle Japanese exports in the next period. EIC expects Japanese economic growth of 0.8% in 2019.

The Bank of Japan (BOJ) announced that it would maintain an ultra-low policy rate at least until Spring 2020 to support Japanese economic growth in the context of the volatility in the world economy and the imminent impact of the consumption tax hike. The BOJ also revised down its core inflation forecasts to 1.1%, 1.4% and 1.6% in fiscal year 2019, 2020 and 2021, respectively. All forecasted figures remain below the BOJ's 2% target, while the latest core inflation came at 0.8%YOY in May. Moreover, if economic data point to a lower-than-expected growth, EIC views that the BOJ might opt for additional easing of monetary policy by adjusting the long-term interest rate framework or by raising the limit of its ETF buying.

Eyes on the US-Japan bilateral trade negotiations. The US called for greater opening of the Japanese market for US agricultural products and automobiles in order to reduce trade deficits. In return, Japan requested the US to cancel its plan of automobile tariff hike and withdraw the currency clause from the agreement because this could hinder the BOJ's policy independence.

Implication for Thai Economy

- As of July 1, the yen gained 1.3%YTD vis a vis the US dollar and is expected to continue to appreciate for the remaining of 2019. This was due to rising uncertainties in the world economy, which prompted investors to turn to the yen as a safe haven.
- Thai exports to Japan in the first 5 months of 2019 fell by 4.4%YOY. Since April 2019, Japan had removed GSP for Thai exports, including farm, fishery and industrial products. However, all of the products that had previously been GSP-eligible, will continue to receive privileges under the JTEPA and AJCEP, except for sorbitol.
- Japanese investment in Thailand continued to expand. Based on JETRO's report in April 2019, Japanese investors still had confidence in investing in Thailand despite the high levels of uncertainty. They also continued to have great interest in investment in the services, such as restaurant, hotel, and tourism.

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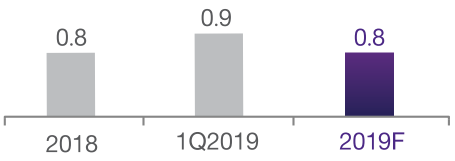
[8] Japan–Thailand Economic Partnership Agreement (JTEPA)

[9] ASEAN-Japan Comprehensive Economic Partnership (AJCEP)

Japan economy

Exports plunged but investment and household consumption will provide thrust

Forecast GDP (%YOY)



Household

Inflation remained sluggish

Inflation
%YOY
Typical
-2.5 3.7
0.7
May
🟡

Retail Sales
%YOY
Typical
-9.7 11.0
1.2
May
🟢

Job-to-applicant ratio
%SA
Typical
0.42
1.6
Apr
🟡

Business

Export slowdown hindered manufacturing growth

Manufacturing PMI
Index
Typical
48.9 54.8
49.3
Jun
🟡

Industrial Production
%YOY
Typical
-37.2 29.3
-1.8
May
🟡

Merchandized Exports
%YOY
Typical
-49.4 45.3
-7.8
May
🟡

Minimum and maximum of data range since 2000
Percentile 25-75
Unit
Typical
Min
Max
Latest

2019 direction 🟢 better 🟡 neutral 🔴 worse

Link with Thai economy

+12.0
Tourist arrivals
%YOY
(Jan19-May19)

-48.0
FDI
%YOY
1Q18-1Q19

-1.9
Export
%YOY
(Jan19-May19)

-2.8
Import
%YOY
(Jan19-May19)

Monetary & fiscal policy

Monetary policy towards more easing stance, keeping an ultra-low policy rate at least until Spring 2020

Fiscal supports to cope with possible adverse effects on household spending from consumption tax hike in October 2019

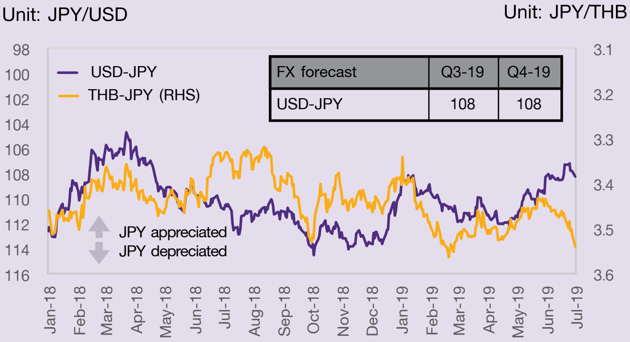
Watch list

Upper House election on July 21, 2019

Curbs on exports of high-tech materials to South Korea, effective from July 9, may waver trade ties between both countries

Uncertain global economic conditions result in yen appreciation

Yen

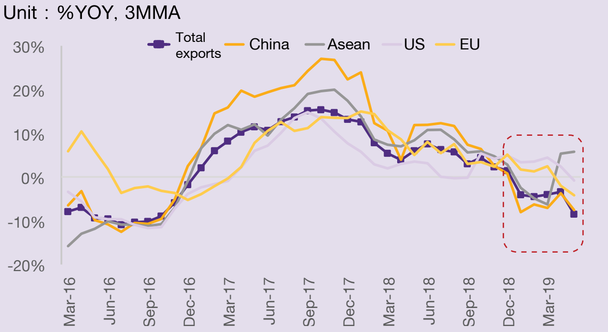


FX forecast	Q3-19	Q4-19
USD-JPY	108	108

Note: FX forecast 2019 as of the end of quarter based on Bloomberg Consensus as of 1 July 2019

Global slowdown is behind the fall in Japanese exports

Japan's exports value



Source : EIC analysis as of July 2019 based on data from Bloomberg, Bank of Japan and CEIC

China economy

Recovered in first quarter but prepared for impact from the new round of trade war

China's economy expanded by 6.4%YOY in the first quarter owing to temporary factors but is expected to slow down for the rest of the year. VAT cut measures effective on April 1, 2019 led industrial production in March to accelerate by 8.5%YOY due to stock build-up, especially for intermediate goods and industrial raw materials. Meanwhile, front-loaded local government bond issuances since the beginning of the year prompted investment by state-owned enterprises to rise 7.2%YOY during the first 5 months of 2019. However, China's economy signaled a slowdown once again in the second quarter, as reflected in a PMI index that stayed below 50 and industrial production that rose only 5%YOY in May, as well as retail sales that grew 7.2%YOY in April, the lowest in 16 years.

EIC revised down China's growth forecast to 6.2% in 2019, due to higher private sector concerns over the domestic economic situation re-escalating trade war with the US. Consumer confidence is expected to decline, signaling that growth in household consumption will moderate in 2019. Meanwhile, Chinese entrepreneur confidence index on economic conditions and orders from both domestic and external markets in the first quarter suggested that confidence has continued falling from the previous year. This is in consistent with Chinese exports, which are projected to shrink in 2019, particularly exports to the US that contracted 9%YOY during the first 5 months of the year. This was resulted from the US import tariffs on Chinese goods in 2018 and recently, a revise in import tariffs to 25% on Chinese goods worth USD 200 billion on May 10, 2019.

China retaliated by raising import tariffs from 5-10% to 5-25% on US goods worth USD 60 billion on June 1, 2019, covering US goods in food and beverages, consumer products, electronics devices, machinery, raw materials, and fuels, totaling 5,140 items. Although the US postponed an increase in import tariffs on the rest of Chinese goods worth USD 300 billion after a side meeting during the G20 summit, China has to be watchful of risks that the US will charge import tariffs of 10-25% in the future if both countries cannot reach agreement in the next round of trade negotiation.

Eyes on directions of fiscal stimulus and monetary policies to support the economy in the second half of 2019. During the first 5 months this year, local government accelerated bond issuances of over CNY 1.94 trillion, accounting for 90% of the quota for 2019. As a result, corporate tax cut measures will be key fiscal tools for the remainder of the year. Nevertheless, if China's economy is to be severely affected by a new round of the trade war, the People's Bank of China (PBOC) can further ease monetary measures during the second half of the year, focusing on tools to increase liquidity in financial markets by continuously injecting liquidity into the system. This has caused the volume-weighted average overnight repo rate to fall to 1% in late June. The PBOC can also reduce the reserve requirement ratio (RRR). Recently, RRR was lowered to only 8% for 1,000 small commercial banks at the provincial level to induce liquidity for banks to issue loans especially to small enterprises. The latest RRR cut was also an urgent measure in response to a revise in import tariffs by the US in May.

Implication for Thai Economy

- After the US import tariffs hike on Chinese goods, the Yuan weakened 1.5%YTD to 6.84 per US dollar as of 1 July 2019. Nevertheless, if the Yuan is likely to continue to weaken below 7 per US dollar, the PBOC may consider holding up the Yuan via measures to control capital outflow and to attract more foreign capital.

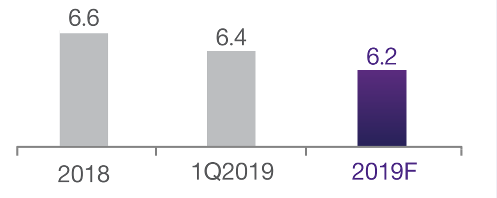
- Thai exports to China contracted 7.9%YOY during the first 5 months of 2019. Key products including computers and parts, electrical circuits, and chemical products, which involve in supply chain with China, contracted significantly due to impacts from the US-China trade war. However, exports of fruits, jewelry, and cosmetics exhibited high growth, indicating that Chinese consumers still demand these products. Retaliatory measures between the US and China may cause Thai exports to China to continue to shrink.

- China's direct investment in Thailand started to contract 5%YTD in the first quarter of 2019. However, investment in manufacturing of food and beverages, rubber, plastic, and electronic equipment, and machinery still grew at a high rate. In addition, BOI-approved investment projects from China totaling THB 29 billion were ranked the highest, where most investments included mega investment projects in the manufacturing of vehicle tires, metal products and parts, air-conditioners, fridges, and washing machines. These are products for which many countries around the world have implemented anti-dumping measures from China.

China economy

Recovered in first quarter but prepared for impact from the new round of trade war

Forecast GDP (%YOY)



Household

Household consumption decelerated

Retail Sales — %YOY; Typical; Min 4.3; Max 23.3; Latest 8.6 (May); ● neutral

Consumer Confidence Index — Index; Typical; Min 97.0; Max 126.0; Latest 125.3 (Apr); ● better

Unemployment — %Labor force; Typical; Min 3.67; Max 4.3; Latest 3.67 (Mar); ● better

Business

Business sector is affected by the trade war

NBS Manufacturing PMI — Index; Typical; Min 38.8; Max 59.2; Latest 49.4 (Jun); ● neutral

Fixed Asset Investment — %YOY; Typical; Min 5.3; Max 53.0; Latest 5.6 (May); ● neutral

Merchandized Export — %YOY; Typical; Min -26.7; Max 51.7; Latest 1.1 (May); ● neutral

Minimum and maximum of data range since 2000 — Percentile 25-75: Typical; Unit; Min; Max; Latest

2019 direction: 🟢 better 🟡 neutral 🔴 worse

Link with Thai economy

Tourist arrivals	-4.3	%YOY (Jan19-May19)
FDI	-5.0	%YOY 1Q18-1Q19
Export	-7.9	%YOY (Jan19-May19)
Import	-0.1	%YOY (Jan19-May19)

Monetary & fiscal policy

Government continues trade and investment liberalization and revises Negative List 2019

PBOC to cut more RRR in 2019

Watch list

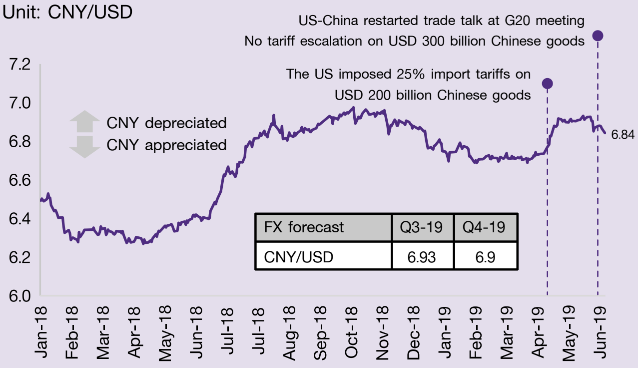
Effectiveness of economic stimulus package in second half of 2019

Risk of US imposing import tariffs on remaining Chinese goods worth USD 300 billion

PBOC may intervene if the Yuan weakens below CNY 7 per USD

Yuan

Unit: CNY/USD



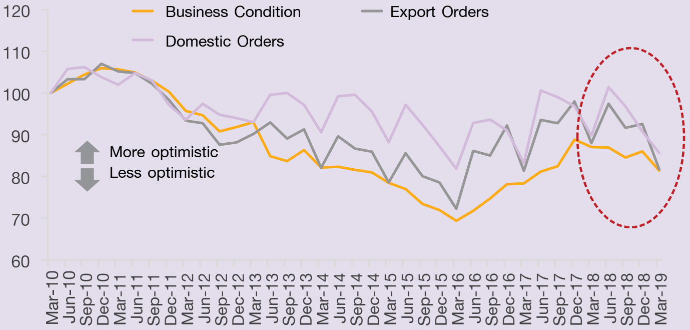
FX forecast	Q3-19	Q4-19
CNY/USD	6.93	6.9

Note: FX forecast 2019 as of the end of quarter based on Bloomberg Consensus as of 1 July 2019

Entrepreneurs are increasingly concerned over the domestic economic situation and the new round of the trade war

PBOC's Entrepreneur Survey

Unit: Index (2010=100)



Source : EIC analysis as of July 2019 based on data from Bloomberg and People's Bank of China's Enterprises' Survey

ASEAN4 economy

Central banks are preparing to ease their monetary policies given a lower-than-expected growth outlook

The ASEAN 4 economies slowed down in the first quarter of 2019 due to impacts from the US-China trade war that has continued since the second half of 2018, sluggish global trade, and electronic product cycle downturn, especially semi-conductors and smartphones. This resulted in a continued contraction of exports, a key growth driver of ASEAN 4 economy, since the beginning of 2019. This severe impact has also passed on to manufacturing sector. Thai exports to the ASEAN 4 thus contracted 8.6%YOY in the first 5 months of 2019, led by auto and auto parts, electrical devices, machinery, and industrial raw materials. Similarly, investment in the ASEAN 4 grew at a low rate in the first quarter, where private sector postponed investment amid ongoing uncertainties in domestic and external economies, as well as delays in public infrastructure investment in many countries. However, private consumption continued to expand, with improvements in employment conditions and wages.

Outlook of ASEAN 4 economy for the rest of 2019 depends on country-specific factors

Indonesia slowed down slightly at 5.07%YOY in the first quarter of 2019 owing to a serious fall in exports at 8.7%YOY during the first 5 months. This was following a decline in rubber and palm oil prices, key export products, due to global excess supply. In addition, the tightening measures on public infrastructure investment since 2018 led to a slowdown of investment of 5%YOY in the first quarter. Nevertheless, investor confidence and public investment are expected to accelerate in the latter half of 2019 as President Joko Widodo won his second term as president in April's general election.

Malaysia slightly decelarated to 4.5%YOY in the first quarter of 2019 due to a slowdown of the industrial and services sectors as well as a contraction in exports of 4.7%YOY during the first 4 months. This was particularly seen in a fall in exports of industrial raw materials and intermediate goods. Moreover, a suspension of infrastructure investment projects during late 2018 resulted in a reduction in public investment of 13.2%YOY in the first quarter of 2019. However, Prime Minister Mahathir Mohamad announced the resume of the East Coast Rail Link Project and many infrastructure development projects. This may expedite public investment in the latter half of 2019.

The Philippines grew at the lowest rate in 4 years at 5.6%YOY in the first quarter of 2019, mainly due to delays in passing the annual budget for fiscal year 2019. This caused a delay in infrastructure investment projects and a slowdown of public spending from double-digit growth to 7.4%YOY in the first quarter this year. Nevertheless, for the remainder of 2019, the economy is expected to recover driven by the “Build Build Build” project and new infrastructure investment projects under the government plans.

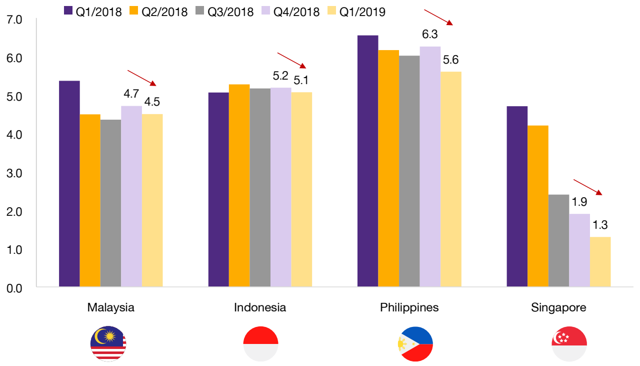
Singapore expanded by 1.3%YOY in the first quarter of 2019, the lowest in 10 years. Exports and industrial production contracted 2.6%YOY and 0.5%YOY respectively, due to a serious impact from the trade war and a decrease in global demand for electronics goods, which were main export products accounting for 45% of total exports in 2018.

The monetary policy stance of ASEAN 4's central banks began to be more accommodative, aiming at boosting the economy for the remainder of 2019 amid the re-escalating trade war. This was led by Bank Negara Malaysia who cut the policy rate by 0.25 ppt to 3%, and implemented measures to increase banking sector liquidity in May. This was followed by the Bangko Sentral ng Pilipinas cutting the policy rate 0.25 ppt to 4.5% in the same month and possibly considering lowering the Reserve Requirement Ratio (RRR) in the next meeting given a slower-than-expected economic growth. Also, Bank Indonesia (BI) just cut RRR by 0.5 ppt to 6% for commercial banks and 4.5% for Islamic banks in June. Moreover, the BI is expected to cut the policy rate in 2019 after a continuous increase in the policy rate by 1.75 ppt in 2018 in order to preserve financial stability. In addition, the Monetary Authority of Singapore may consider reducing the slope of the policy band in order to hold the SGD from over-strengthening in the latter half of 2019 and to boost the economy. Meanwhile, Fed has also signaled a dovish tone for the latter half of this year. EIC expects Fed to cut the policy rate 2 times, totaling 0.5 ppt in 2019.

ASEAN 4's economy slowed down in the first quarter of 2019 from external factors

ASEAN 4's GDP growth

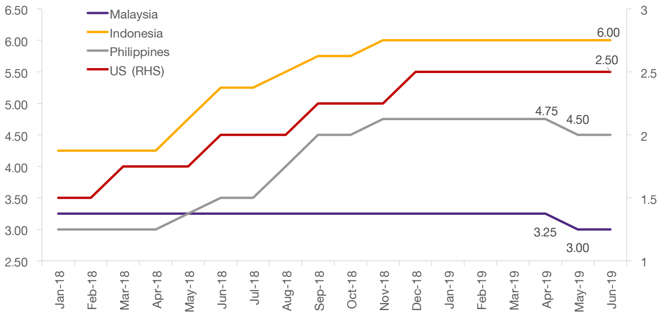
Unit : %YOY



ASEAN 4 began to be more dovish in the second half of this year given no relief from external risks

ASEAN4's policy rates

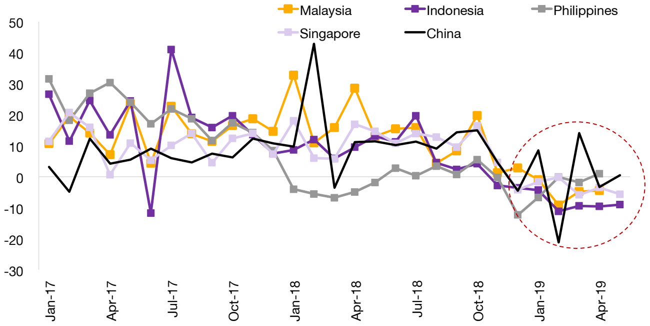
Unit : %



ASEAN 4's exports contracted in the first 5 months of 2019 and are expected to continue to shrink following the re-escalated trade war

Export growth

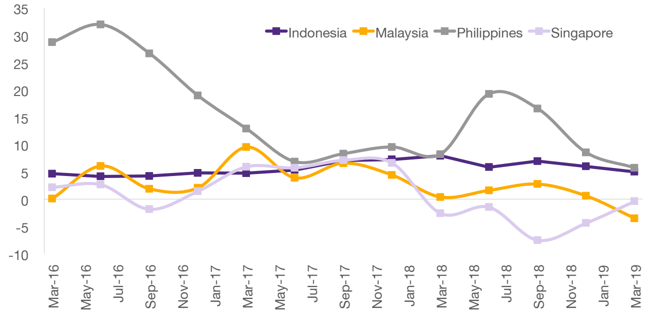
Unit: %YOY



ASEAN 4's Investment expanded at a low rate due to both private sector concerns and government delays

Gross fixed capital formation

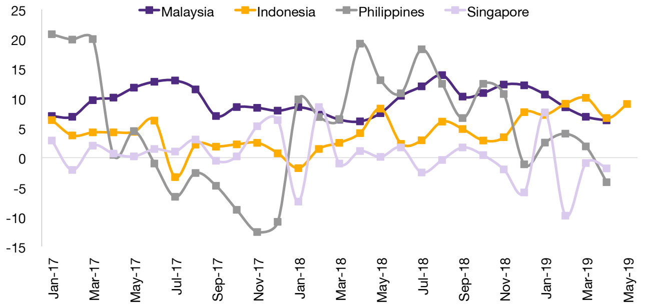
Unit: %YOY



ASEAN 4's domestic consumption grew well in the first quarter given improvement in labor market conditions

Retail sales

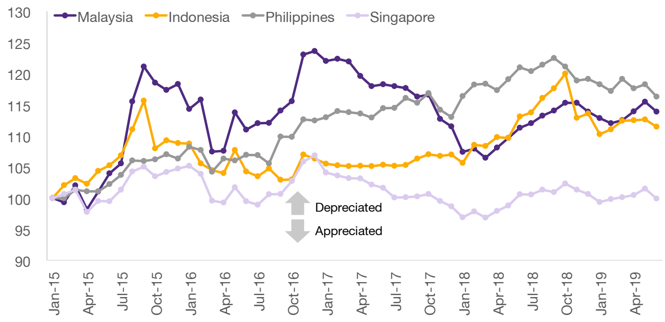
Unit: %YOY



ASEAN 4's currencies weakened slightly in the first quarter due to rising pressures from the re-escalated trade war

ASEAN4's currencies against US dollar

Index: January 2015 = 100



Source : EIC analyses based on data from CEIC, IMF, Asian Nikkei Review, Bloomberg, and National Bureau of Statistics of ASEAN 4

CLMV economy

Growth remains strong but faces risk if China's economy weakens severely.

CLMV economic growth remains robust despite global economic uncertainty, particularly from the current trade war. Exports from Cambodia, Laos, and Myanmar expanded by 13%YOY in the first 2 months of 2019, thanks to trade privileges, including GSP (Generalized System of Preferences) and EBA (Everything But Arms) from key trade partners. Meanwhile, exports from Vietnam slightly dropped. Tourism and foreign direct investment in CLMV countries also continued to expand at high rates owing to infrastructure investment and the expansion of manufacturing plants, especially in Vietnam, where Chinese companies have chosen to relocate production bases to avoid the US tariffs. Furthermore, household consumption will continue to grow with the support of a growing middle class going forward. According to the IMF forecast, CLMV economy will continue its growth of around 6-7% in 2019 and 2020, exceeding global growth rates of 3.3% and 3.6%, respectively.

The Vietnamese economy grew by 6.79%YOY in the first quarter of 2019, decelerating slightly from the preceding quarter that grew at a rate of 7.3%YOY. This was due to a fall in export growth from 12% in 2018 down to 7%YOY in the first 5 months in 2019, caused by a drop in demand for electronics, its key exports. However, the US-China trade war has led the US to seek more imports from Vietnam, boosting Vietnamese exports to the US, primarily apparel, footwear, and telephones and equipment, to surge by 29%YOY. This in turn has made the US be more cautious of Vietnam. Meanwhile, foreign direct investment (FDI) accelerated to a 4 year high at 69%YOY. In May 2019, Vietnam was among the first nations that successfully conduct 5G trial, following the US, Australia, Japan and South Korea. The network is expected to launch for commercial use by 2020. This could help attract foreign investment in high-tech industry -- one of sectors strongly backed by the government, in line with the country's aim towards becoming the regional leader in technology.

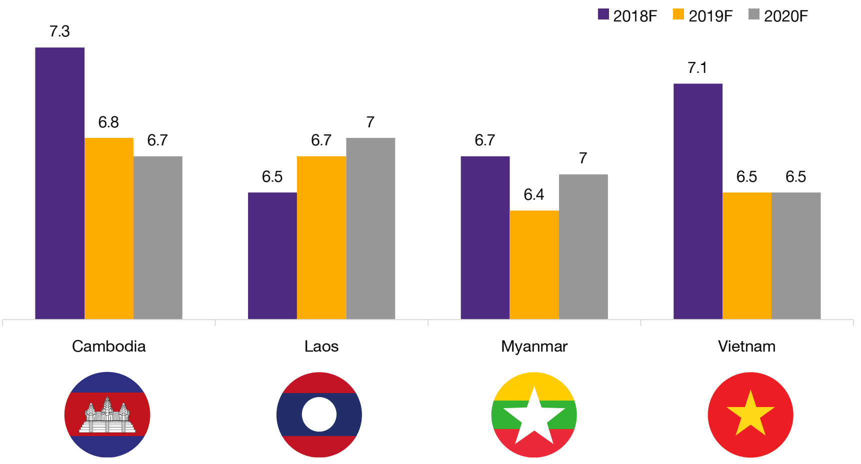
Key challenges ahead to the CLMV economies are prolonged current account deficits and China's economic slowdown. CLMV countries are heavily reliant on imports of construction materials and consumption goods. According to the IMF, the current account deficits of Cambodia, Laos and Myanmar were assessed at 11%, 17% and 4% of GDP, respectively, for 2018, and are expected to have prolonged deficits going forward. Given their weak external stability, these countries are at risk of sudden currency depreciation triggered by capital outflows. Laos, in particular, has foreign exchange reserves equivalent to only 1.3 months of imports at the end of 2017. Furthermore, as the CLMV economies rely heavily on China for their exports and investment, the slowdown of China's economy may take a toll on the both. In 2017, total exports to China accounted for 18% of total CLMV exports, whilst FDI from China was 13% of total FDI in CLMV.

During the first 5 months of 2019, Thai exports to CLMV contracted by 4.7%YOY. The drop in exports of refined petroleum, plastic products, and machinery and parts was mainly due to a fall in oil prices and a slowdown in the manufacturing sectors in various countries. However, exports of some product categories such as cars and car parts, steel, beauty products, and fruits still booked solid growth. Despite a bright economic outlook, CLMV's growth could be undermined by severe weakening of global economies and China's economy. This could impact Thai exports going forward.

CLMV economies are likely to maintain strong growth potentials

CLMV's economic growth 2018-2020

หน่วย : %YOY



Remark: 2018 growth of Vietnam is an actual number, the rest are forecasts by IMF WEO April 2019

Country specific risks

Cambodia - removal of EBA trade privilege from the EU would negatively impact garment, the country's key industry

Laos – high public debt level that are primarily denominated in foreign currencies, while foreign exchange reserves remain low.

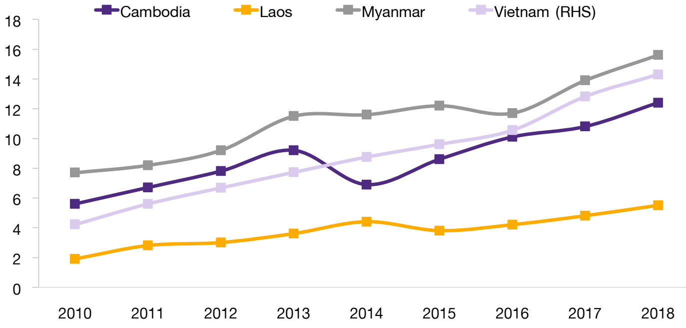
Myanmar – rising violence against Rohingya refugees puts country at risk of being denied EBA privileges with the EU and could hurt exports growth going forward

Vietnam – high credit growth and slowdown of domestic economy in line with global economic outlook.

Trade privileges such as GSP and EBA contributed to a robust export expansion

CLMV exports

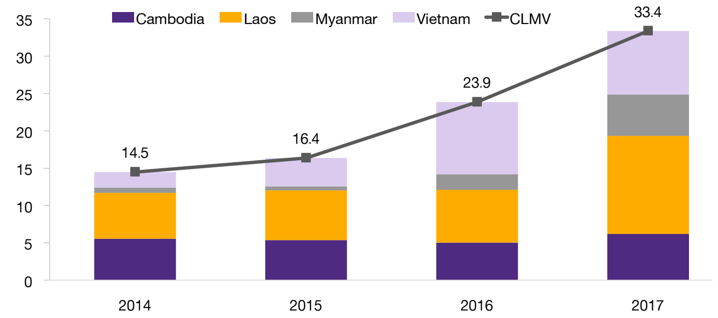
Unit: USD billion



FDI from China have been expanding, led by infrastructure investment projects under the Belt and Road Initiative.

Foreign Direct Investment from China

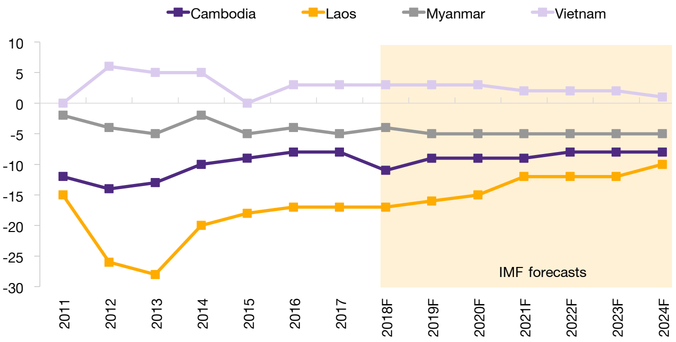
Unit: USD billion



The IMF expects CLMV countries to continue current account deficits, except for Vietnam.

Current account balance

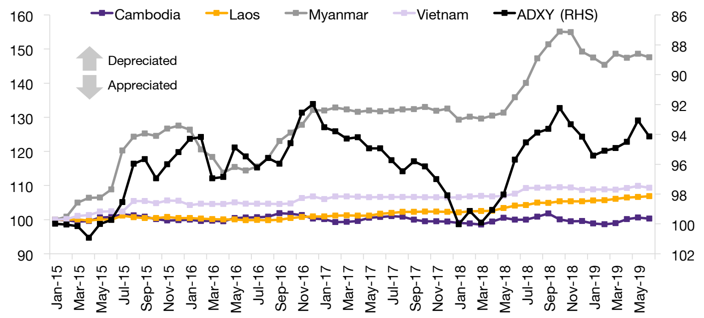
Unit: % of GDP



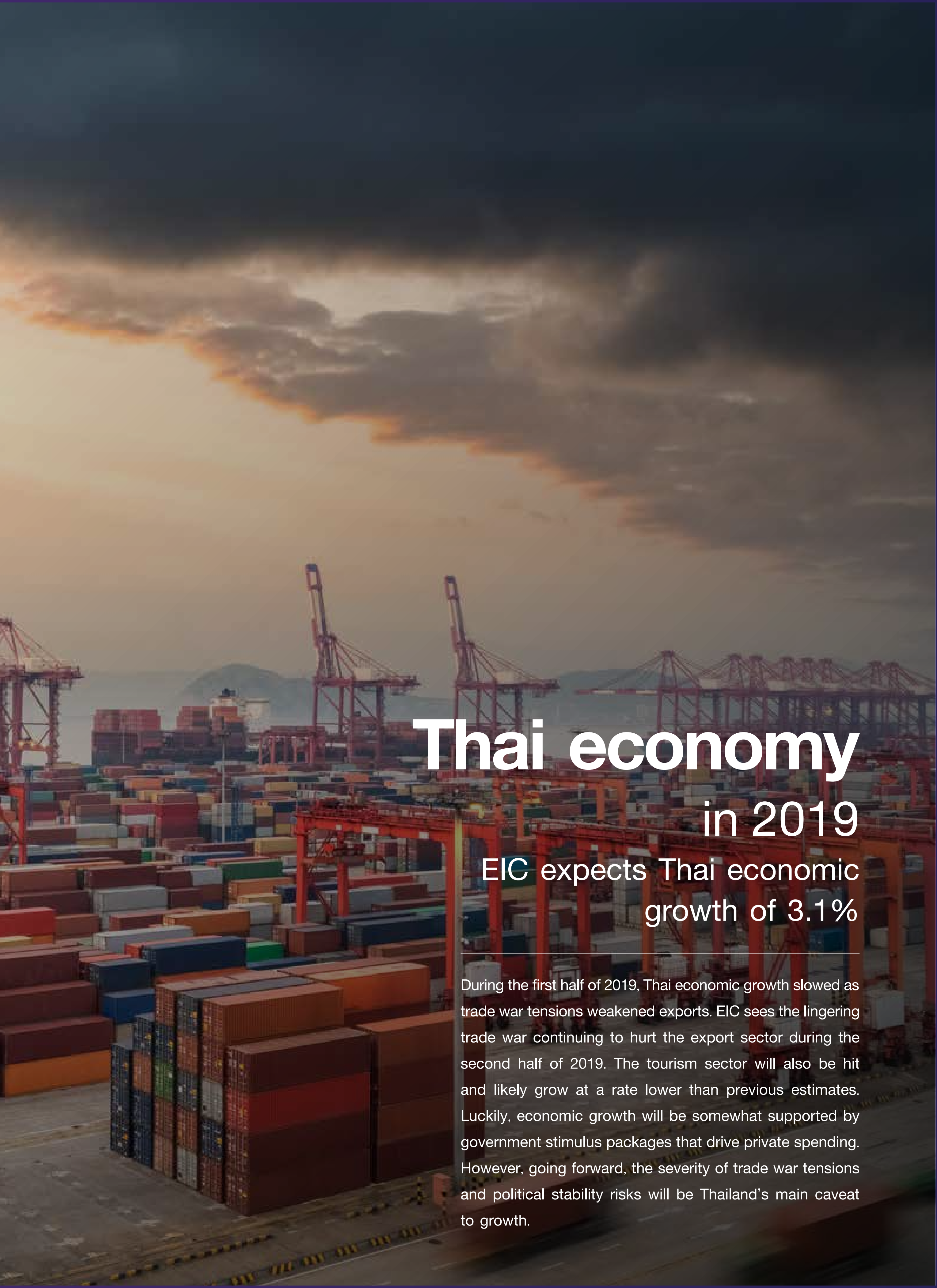
CLMV currencies fluctuated within central bank control, except for the Myanmar Kyat, which saw a sharp depreciation in 2018 due to capital flight.

CLMV currencies against the US Dollar

Index: Jan 2015 = 100



Source: EIC analysis based on data from IMF, ASEANStats, Bloomberg and CEIC



Thai economy

in 2019

EIC expects Thai economic growth of 3.1%

During the first half of 2019, Thai economic growth slowed as trade war tensions weakened exports. EIC sees the lingering trade war continuing to hurt the export sector during the second half of 2019. The tourism sector will also be hit and likely grow at a rate lower than previous estimates. Luckily, economic growth will be somewhat supported by government stimulus packages that drive private spending. However, going forward, the severity of trade war tensions and political stability risks will be Thailand's main caveat to growth.

Outlook for Thai economy in 2019

(as of Q3/2019)

EIC cuts its Thai economic growth forecast to 3.1% in 2019 from a previous 3.3%, as the escalating trade brawl is stunting global economic growth.

The Thai economic outlook in 2019 further dims by prior projections, as heightened trade war tensions impact the Thai economy. Thai exports of products that were part of China's supply chain targeted for export to the US were severely hit. Moreover, the global economic slowdown caused by increased deterioration of trade and investment outlooks and a higher degree of uncertainty further hurt the Thai economy. For this reason, export growth in 2019 is seen contracting. Similarly, the impact of trade tensions has spread to Thailand's tourism sector by lowering the number of inbound tourist arrivals. At the same time, export and tourist-based businesses were further slapped with a stronger Thai baht. The US Dollar depreciated following the Fed's increasingly dovish stance. Conversely, the Thai baht appreciated from its regional safe haven characteristics. The baht appreciation trend should continue, which will dampen export profits in terms of baht value and lowering per-person foreign tourist spending.

Investment growth anticipated, though at a slower rate. Export-related investments are expected to weaken following downward revisions to export figures. Even if investment figures were supported by public investment in infrastructure construction projects, which continually inject money into the economy. However, investment growth for the remainder of 2019 is still in question since political uncertainty persists, despite eased tension after a new prime minister was appointed. In addition, delays in national budget expenditure establishment could impact government investment disbursement during the last quarter of 2019.

The government stimulus packages enabled healthy private sector consumption growth. If excluding the impact from stimulus packages, consumption is expected to merely grow as waning exports weigh on revenue of export-related businesses. The fragile conditions could spread and hamper labor market conditions and employee salaries for those in export industries. However, the economic slowdown triggered the government to implement stimulus packages, such as the state welfare card and a tax deduction program during quarter 2 of 2019. EIC expects that a new round of stimulus programs will be issued by the new government during the second half of 2019. For this reason, healthy private consumption growth is anticipated, though at rates lower than in 2018.

Going forward, external and domestic risks still cloud the Thai economy. External risks stem from potential trade war severity amid slower-than-expected global economic growth, especially China's. The relative baht appreciation versus trade partners or competitors could impact the export and tourism sectors. As for domestic risks, political instability prevails with high uncertainty. Even though a new prime minister was appointed, various challenges lie ahead. The government's slim-majority number of seats and the difficulty in aligning coalition election policies cast doubts on the government's stability and ability to implement new policies. Furthermore, budget delays could impact quarter 4 disbursement, especially that involving government investment budget.

EIC revises Thai economic growth in 2019 downward to 3.1%

Key forecasts

( ) previous forecast ▲ Revised upward from previous forecast ▼ Revised downward from previous forecast

GDP (%YOY)

	2018	2019F
GDP (%YOY)	4.1	3.1 ▼ (3.3)
Policy rate (end of year)	1.75	1.75%
Exchange rate (end of year)	32.3	30.0-31.0 ▼ (31.0-32.0)

The economy is likely to weaken from previous estimates as exports slump

Policy rate should stay flat even if economic growth contracts as MPC still worries about financial stability

The baht should further appreciate from the Fed's increasingly dovish stance, and from its characteristics as EM safe haven during the trade war

Unit: %YOY	2018	2019F	Key factors in 2019
Private Consumption	4.6	3.9 ▲ (3.8)	• Gradual increase in farm and non-farm income • The government initiated economic stimulus packages in quarter 2, with potential addition during year end
Private Investment	3.9	3.7 ▼ (3.8)	• Export slowdown impacts investment in the sector • Continual political instability
Government Consumption	1.8	2.2	• Growth at normal rates following disburseme of fixed expenses
Government Investment	3.3	4.0 ▼ (5.3)	• Expansion following mega infrastructure project investments in Bangkok and upcountry • Risks from postponement of national budget that could impact public investment in quarter 4, 2019
Export of goods*	7.2	-1.6 ▼ (0.6)	• Revised to negative growth as prolonged and elevated trade war tensions cause the economy to slow by more than expected • Risks of baht appreciation
Tourist Arrivals	7.5	4.8 ▼ (6.3)	• Sluggish global economy causes foreign tourist arrivals to drop in tandem with lower spending per tourist from baht appreciation
Imports of goods*	14.3	-2.7 ▼ (0.8)	• Raw material imports following export contractions • Lowered crude oil prices reduce crude oil import value, Thailand's key import product
Headline Inflation	1.1	0.9	• Core inflation stabilized at low rates • Declining inflation trend from lowered average crude oil price in 2019

Trade war negotiation progress between the US and China will determine whether or not tensions will alleviate. If the situation worsens by more than expected, Thailand's export sector growth will also drop by more than anticipated.

New government formation. Government stability and its ability to implement new policies is the main concern. In addition to issues regarding the direction of the new government's policy and its impact to the Thai economy, going forward.

Note: *Exports and imports in terms of USD (BOP basis)

Source: EIC analysis as of 8 July 2019, based on data from NESDC, OAE, FPO, BOT, MOC, TAT, and Bloomberg

External sector of the Thai economy

EIC revises the 2019 export growth estimate downward to -1.6% from prolonged and heightened trade war tensions.

During the first 5 months of 2019, Thai export value shrank by -4.9%YOY (excluding shipments of military arms and weapons sent back to the US in February). The decelerated growth continued from the contraction in late 2018. Exports to nearly all 10 major destinations fell, except to the US, CLMV, and India, with growth of 4.7%YOY, 0.7%YOY, and 2.2%YOY, respectively. Meanwhile, exports of Thailand's top 10 product categories all faced negative growth (Figure 1).

Figure 1: Value of Thai exports during the first 5 months of 2019 shrank from late 2018, by both key destinations and key products.

Export by countries

Unit : %YOY

	Share	2018H1	2018H2	5M2019
Total	***100***	***11.7***	***2.5***	***-4.9***
ASEAN5	*15.5*	*12.6*	*14.7*	*-9.3*
China	*12.0*	*9.9*	*-3.6*	*-8.7*
CLMV	*11.6*	*16.8*	*16.6*	*0.7*
US	*11.1*	*7.9*	*3.4*	*4.7*
Japan	*9.9*	*18.0*	*8.4*	*-2.0*
EU15	*9.0*	*11.1*	*-0.7*	*-6.9*
Hongkong	*5.0*	*5.3*	*-1.5*	*-9.2*
Australia	*4.3*	*12.4*	*-6.1*	*-12.6*
Middle East	*3.4*	*-0.1*	*-9.9*	*-7.3*
India	*3.0*	*30.2*	*6.7*	*2.2*

Export by products

Unit : %YOY

	Share	2018H1	2018H2	5M2019
Total	***100***	***11.7***	***2.5***	***-4.9***
Auto, equipment, and parts	*11.4*	*14.7*	*0.3*	*-6.0*
Chemical and plastics	*9.4*	*23.0*	*14.5*	*-7.4*
Computer and parts	*7.8*	*16.7*	*-1.7*	*-11.5*
Rubber and rubber products	*6.2*	*-4.3*	*-3.7*	*-2.0*
Refined fuels	*3.7*	*34.5*	*25.9*	*-9.3*
Electronic integrated circuits	*3.3*	*6.8*	*-4.7*	*-10.7*
Machinery and parts	*3.2*	*16.7*	*0.9*	*-11.6*
Precious stones and jewelry (gold excluded)	*3.0*	*7.5*	*6.6*	*-3.1*
Iron and steel	*2.5*	*19.3*	*6.9*	*-8.1*
Rice	*2.2*	*19.3*	*1.5*	*-13.5*

Note : Export data were analyzed by excluding military arms and weapons shipment to the US in February

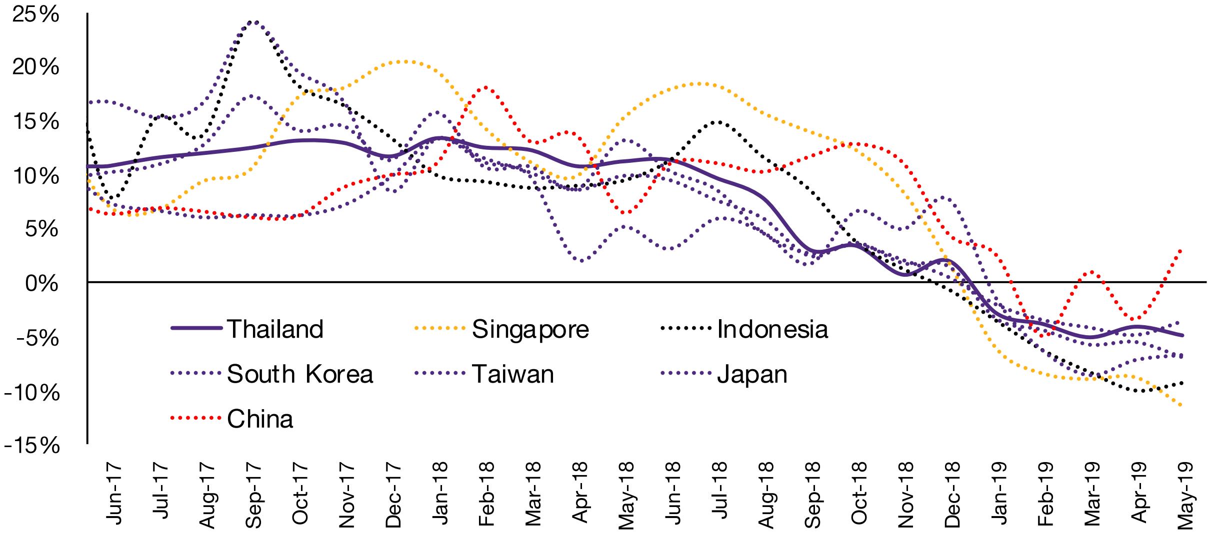
Source: EIC analysis based on data from the Ministry of Commerce as of 26 June 2019

The export sector in Thailand and regional countries still sees no signs of recovery. Thailand's export value in tandem with the value of other major markets in Asia such as Singapore, Indonesia, South Korea, Taiwan, and Japan continued to contract throughout the first 5 months of 2019 (Figure 2). Though China's export figures returned to slight growth in May, it was stemmed from front-loading as many Chinese businesses fear additional US tariff increment. However, once the impact from front-loading disappears, Chinese export growth will likely drop. For this reason, no clear signal regarding export recovery was present during the first 5 months of 2019.

Figure 2: Exports value of Thailand and key regional markets continued to contract throughout the first 5 months of 2019 without recovery sign

Export growths of Thailand and key Asian exporters* (3-month moving average)

Unit: %YOY



Note : Thai export does not include military arms and weapons shipment to the US in February 2019

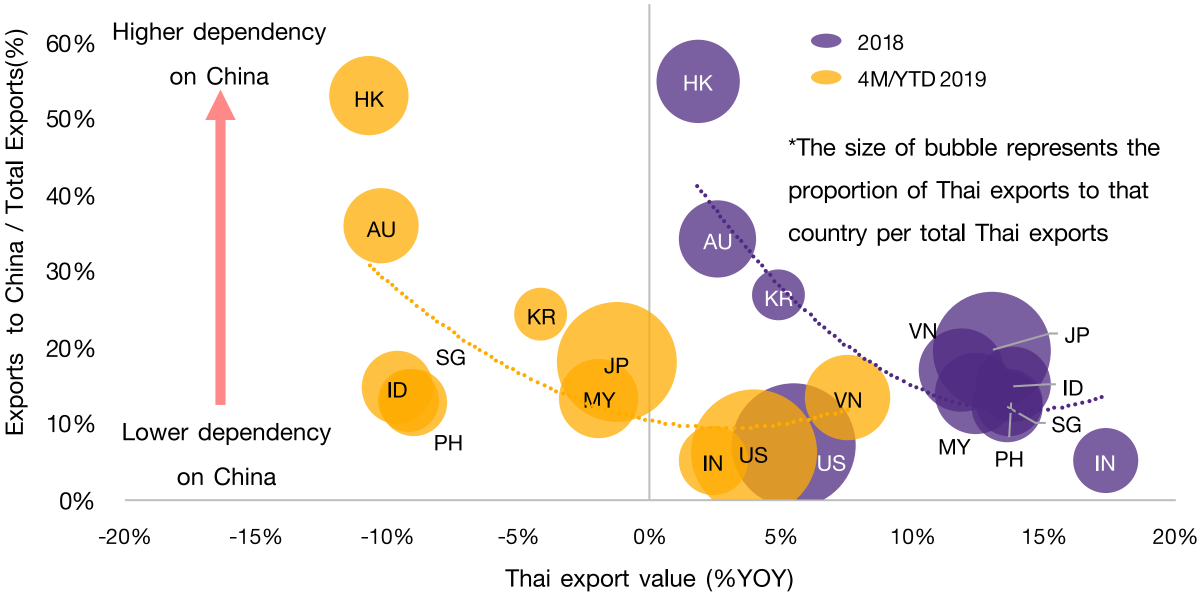
*Key Asian exporters are China, Indonesia, India, Singapore, South Korea, Taiwan and Japan

Source: EIC analysis based on data from the Ministry of Commerce as of 26 June 2019

EIC predicts that export growth in 2019 could drop to -1.6% from a previous estimate of 0.6% growth. The value of Thai exports during the first 5 months of 2019 weakened more than anticipated. Furthermore, trade war tensions between the US and China resumed with heightened tensions. During May 10, 2019, the US decided to escalate tariffs to 25% from 10% on USD 200 billion worth of Chinese imports. Meanwhile, China retaliated by escalating tariffs to 5-25% from a previous 5-10% on USD 60 billion worth of US imports. The ongoing trade war was a drag on Thai export growth, especially products that were part of China's supply chain targeted for export to the US, such as computers, computer parts and components, electronic integrated circuits, wood and wood products, and chemicals and plastics. Since the trade war began in August 2018 until May 2019, a clear trend of dwindling Thai exports to China has been witnessed (read more at In focus: Game of Trade : Getting Thailand ready for the US-China trade war). Furthermore, heightened trade war tensions indirectly impacted various countries with dependency on China, as China faced sluggish growth. Exports from Thailand to such countries with dependency on China will hence slow as well. EIC found that Thai exports to destinations with higher dependency on China dropped more significantly than those with less dependency on China (Figure 3).

Figure 3: Thai exports to trading partners with higher dependency on China significantly waned in comparison to those with lower dependency

Exports by key markets



Note : Exports data do not include military arms and weapons shipment to the US in February 2019

Source : EIC analysis based on data from the Ministry of Commerce and CEIC

However, the export sector will continue to face risks during the second half of 2019. Thailand's trading partners' economies could slow more than anticipated, while trade war tensions could ramp up. EIC sees that in the worst case, Thailand's export growth could decelerate by -3.1%YOY (read more at Box: Economic forecast scenario analysis). Another factor to consider is the US plan to ramp up automotive import tariffs from all countries to an anticipated 25%. Negotiations for trade deals with the European Union and Japan are currently in place, with expected conclusions by November 2019. Furthermore, the potential for a stronger baht could hamper the export sector during the remainder of the year through lower profit in baht term and decreased competitiveness of some homogenous-type export products such as agricultural products.

Lower-than-forecasted tourism revenue is anticipated following global economic slowdown, particularly China's.

During the first 5 months of 2019, the number of foreign tourist arrivals accumulated to 16.7 million, representing 1.6%YOY growth. Groups that continue to visit Thailand with satisfying growth, were, for instance, Malaysian (10.6%YOY), South Korean (3.7%YOY), Japanese (12.0%YOY), the US (4.6%YOY), and Indian (23.4%YOY). Meanwhile, Chinese tourist growth continued to shrink by -4.3%YOY, partly due to the high-base effect from early 2018 and trade war impacts. However, the negative growth was less severe than during late 2018. Regarding growth in terms of arrivals, those from Europe contracted by -2.1%YOY, particularly Russia, Thailand's key tourist source with a -2.9%YOY contraction during the first 5 months of 2019. Russians were hit with increasing domestic value-added tax rates, which lowered citizens' disposable income. Moreover, Russian tourists turned to visit other destinations such as Turkey due to its significant currency depreciation[1], hence swaying Russian tourists away from Thailand.

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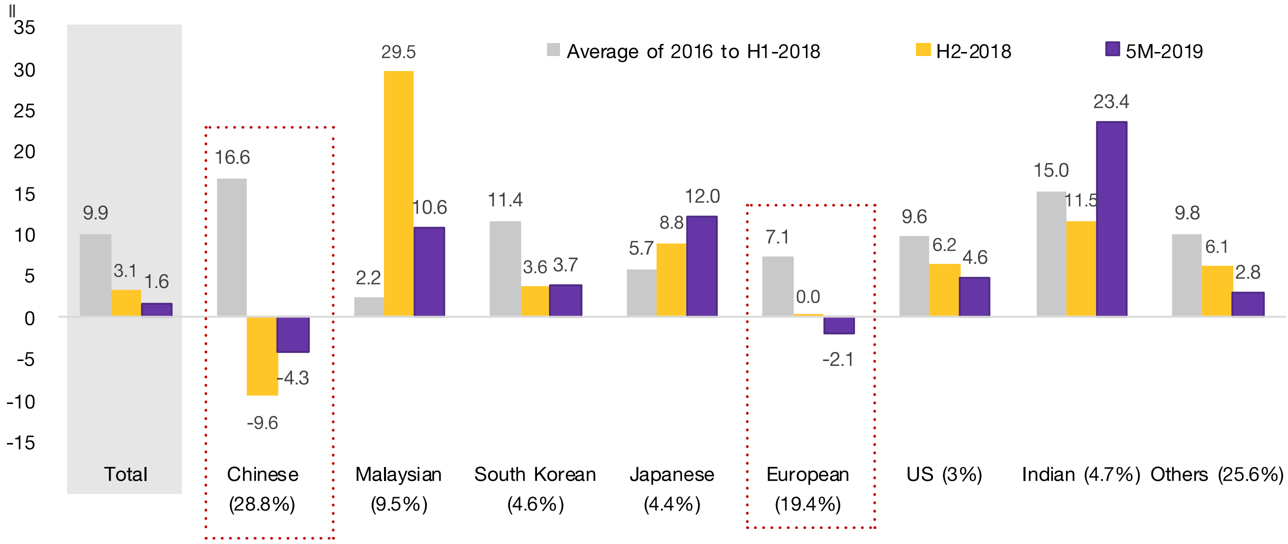
[1] Currency exchange between the Turkish Lira and the US Dollar as of 27 June 2019 was at 5.77 TRY/USD compared to the rate at the beginning of the year at 5.29 TRY/USD, representing a 9.1% depreciation

Figure 4: During the first 5 months of 2019, the number of tourists from various key originations continued to grow. Meanwhile, Chinese tourist growth dropped, though at a slower rate. European tourist growth turned negative.

Growth of foreign tourists' number

Unit: %YOY, In () is % of total foreign tourism share in the first 5 months in 2019



Source: EIC analysis based on data from Ministry of Transport as of 25 June 2019

Though the overall number of tourists grew, per-person spending dropped. During the first 5 months of 2019, average spending per tourist contracted by -0.8%YOY due to the global economic slowdown and baht appreciation. As such, spending from tourists from various originations slowed. Thailand's key group of foreign tourists, Chinese tourists (both in terms of number and per person spending[2]) saw slow spending per tourist growth of 0.9%YOY, a rate significantly lower than the previous 2 years (Figure 5). The various causes for low growth were, for example:

1) Stricter Chinese custom regulations. Tourists were faced with risks of higher import tax for items brought overseas. Meanwhile, the government lowered import tariffs for various products, in addition to implementing cross border e-commerce import (CERI), which reduced import tariff for on line shopping. As such, Chinese tourists have less incentive to buy products overseas while traveling abroad.

2) Chinese economic slowdown. The prolonged and continued impact from the current trade war made Chinese tourists more cautious regarding spending decisions.

3) Competition with other destinations to attract Chinese tourists. Key competitors were, for example, Vietnam and Cambodia, which were countries targeted by zero-dollar tour companies, as these tours were banned in Thailand.

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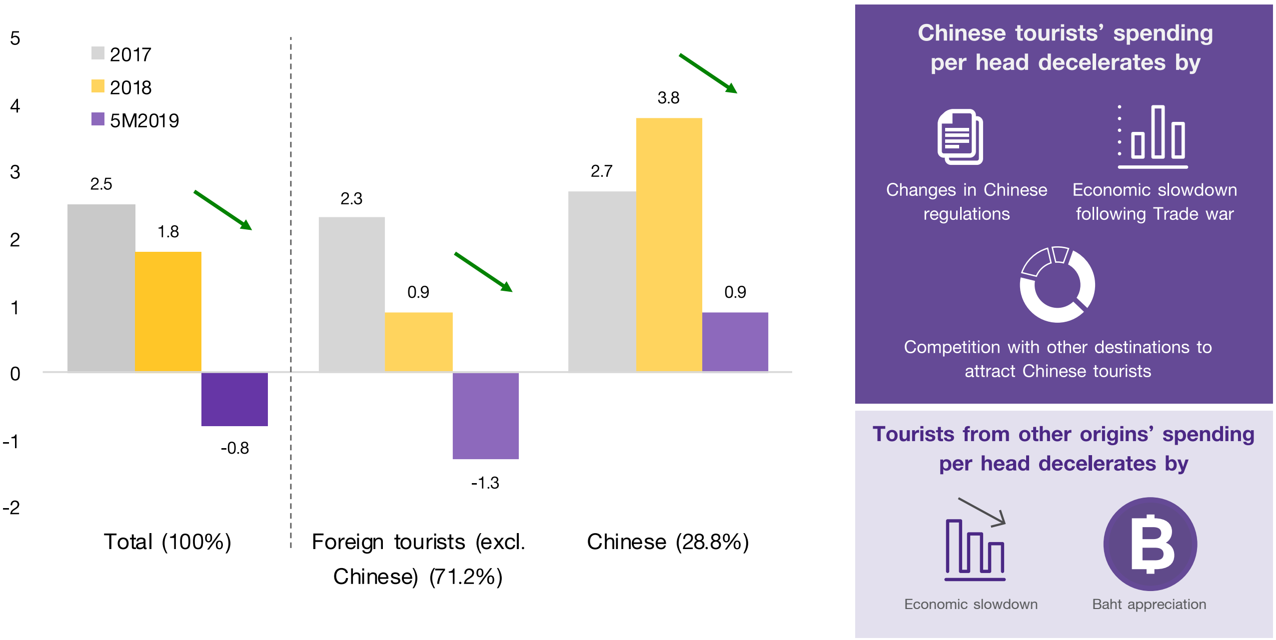
[2] During the first 5 months of 2019, the average spending per Chinese tourist was THB 54,518, while the average spending per all tourists was THB 52,190.

Figure 5: During the first 5 months of 2019, spending per foreign tourist dropped following lower spending per head in various countries

Foreign tourists' spending per head

Unit: %YOY, In () is % of total foreign tourism share in the first 5 months in 2019



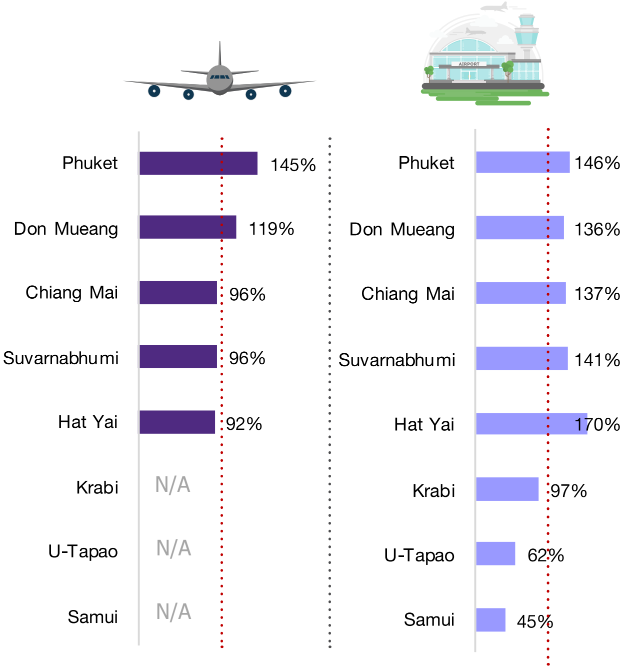
Source: EIC analysis based on data from Ministry of Tourism and Sports and CEIC as of 25 June 2019

EIC predicts that the overall number of foreign tourist arrivals will grow by 4.8% in 2019, or 40.1 million individuals. This is a drop from the previous 6.3% growth, representing 40.7 million tourists. During the first 5 months of the year, a lower-than-expected number of tourists was seen due to trade war and political tensions in Europe. EIC sees these events lingering throughout the remainder of 2019. Going forward, various challenges are undermining the tourism sector. For example, global economic conditions could slow by more than anticipated and the baht could continue to appreciate, influencing lower spending among tourists visiting Thailand, which could impact the tourism industry's competitiveness. Moreover, the industry could face risks from airport space limitation (Figure 6) in Suvarnabhumi, Don Mueang, Chiang Mai, Phuket, and Hat Yai, where airports are currently exceeding runway and passenger capacity. The airport expansion projects already initiated should be completed and ready for launch from 2020 onwards.

Figure 6: Crowded airports limit tourist capacity expansion in the future, especially in terms of runway capacity

Usage of major airports

Unit: % of capacity



Major airports development projects

Airport	Project	Expected completion*	Capability (million person/year)
Suvarnabhumi	**Phase 2:** Midfield Satellite Building 1	2020	60
	Phase 3: Passenger Terminal 2, and Runway 3	2024	90
Phuket	International Passenger Terminal expansion	2022	25
Chiang Mai	Passenger Terminal 2	2022	16.5
Krabi	Passenger Terminal 3 and airport apron	2022	8
Don Mueang	Passenger Terminal 3	2024	40
U-Tapao	Passenger Terminal 3, Runway 2, and Commercial buildings	2024	12
Hat Yai	Passenger Terminal 2 and runway	2024	8.5

Note: The completed year of each project is based on the report of the Ministry of Transport, which may be delayed than planned.

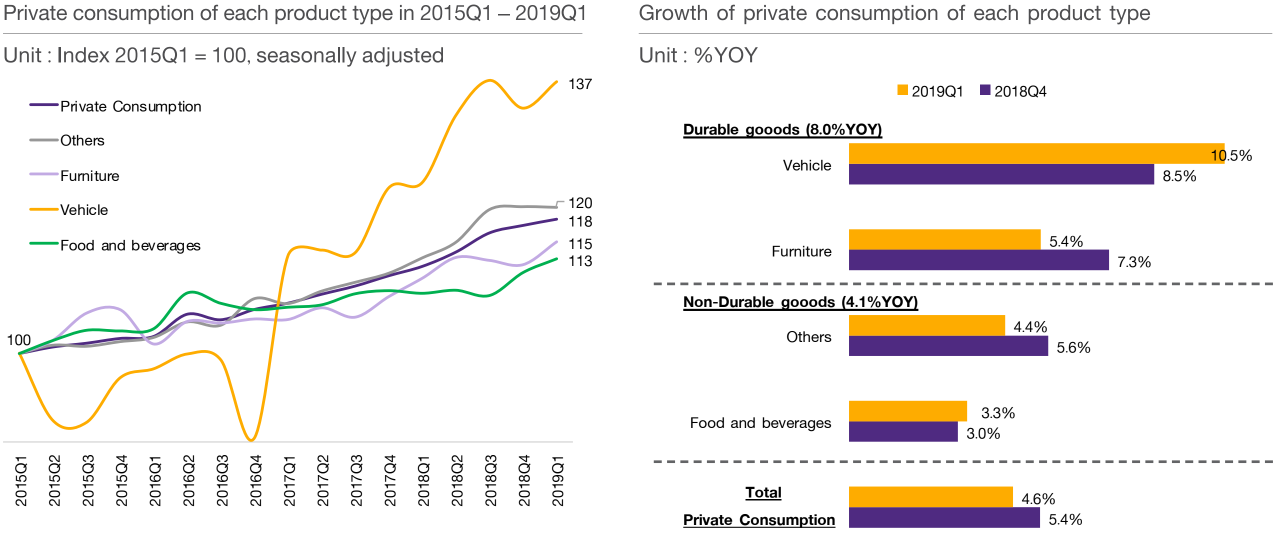
Source: EIC analysis based on data from Ministry of Transport, Department of Airports, the Airports of Thailand, and Phatra Asset

Domestic Economy

Private consumption should continually expand from economic stimulus packages implemented during mid-2019. Additional stimulus measures are expected in late 2019.

Private sector consumption rose by 4.6%YOY during the first quarter of 2019, down from 5.4%YOY growth during quarter 4, 2018. The 4.6% growth was considered satisfactory as it outpaced the 5-year average growth rate (2014-2018) of 2.7%YOY. Private consumption analysis by category (Figure 7) revealed that consumption of durable goods significantly expanded by 8.0%YOY, while non-durable goods expanded by 4.1%YOY. Automotive consumption grew the most at 10.5%YOY. Though the Thai economy slowed following weakening exports during the first quarter, the consumption sector continued to grow from economic stimulus packages via state welfare card implemented from late 2018 until the first quarter of 2019.

Figure 7: Private consumption during the first quarter of 2019 grew by 4.6%YOY, mainly due to the expansion of durable goods consumption


Private consumption of each product type in 2015Q1 – 2019Q1

Unit : Index 2015Q1 = 100, seasonally adjusted

Growth of private consumption of each product type

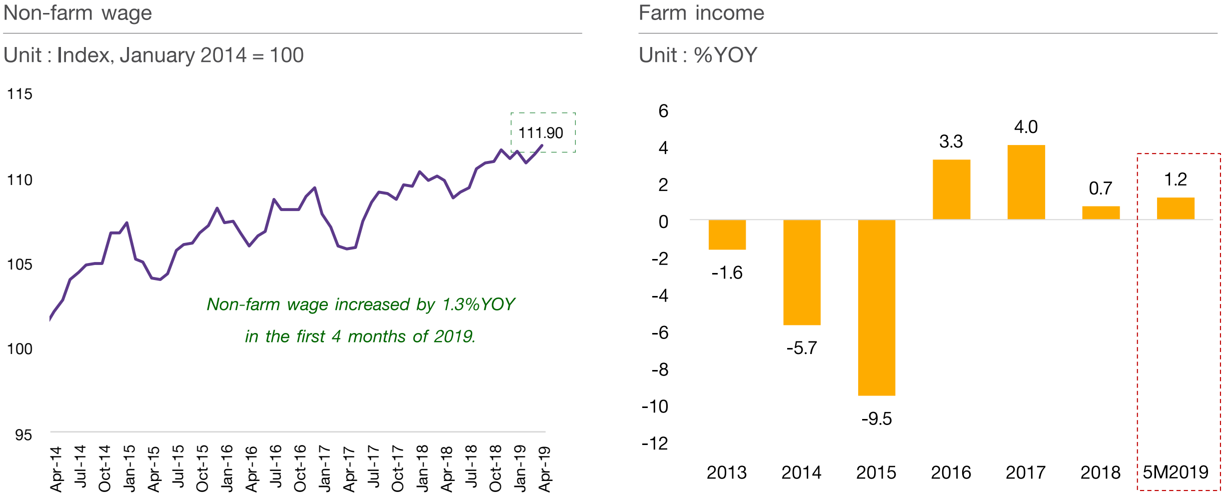
Unit : %YOY

Source: EIC analysis based on data from NESDC

Consumption continued to grow at satisfactory rates during the first 5 months of 2019. According to the Bank of Thailand's private consumption index (PCI), during the first 5 months of 2019 the index rose by 4.2%YOY. Consumption of all product categories surged, such as non-durable, semi-durable, and durable products, with growth of 2.8%YOY, 1.5%YOY, and 4.1%YOY, respectively. Continual consumption expansion was partly enabled by government economic stimulus packages via the state welfare card program.

For 2019 forecast, EIC sees private sector consumption growing by 3.9%. Consumption growth momentum should continue following a gradual increase in non-farm income, escalating by 1.3%YOY during the first 5 months of 2019. Meanwhile, farm income rose by 1.2%YOY during the same period as agricultural production increased by 1.7%YOY. However, agricultural product prices slightly dropped by -0.4%YOY.

Figure 8: Non-farm income gradually increased in tandem to rising farm income from increased agricultural production during the first 4 months of 2019.



Non-farm wage

Unit : Index, January 2014 = 100

Non-farm wage increased by 1.3%YOY in the first 4 months of 2019.

Farm income

Unit : %YOY

Source: EIC analysis based on data from NESDC, and OAE

However, EIC's consumption growth forecast of 3.9% for 2019 slowed from the actual previous year's growth rate of 4.6%. In 2019, durable goods consumption, particularly automobiles, is projected to slow from the high-base effect of the previous year. At the same time, foreseen slower-than-expected exports will, directly and indirectly, hurt the income of export-related businesses, leading to lower employees and owners' income. **However, the government's economic stimulus package** implemented during April (read more at Box: Mid-2019 economic stimulus package and its impact to GDP) with a capital injection of over THB 13.2 billion will be the supporting factor for private consumption during the 2nd quarter of 2019. Moreover, there is a high likelihood that the new government will issue additional economic stimulus measures during the second half of 2019. EIC hypothesizes that the value of the new stimulus package will be worth up to THB 20 billion[3] . Under such a scenario, EIC revises its private consumption growth forecast upward to 3.9% from the previous estimate of 3.8%.

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[3] In May, various news sources revealed that the Ministry of Finance has THB 70 billion in extra-budgetary reserves for emergency situations leftover. EIC predicts that the government will use 30% of the leftover budget to stimulate the economy, or approximately THB 20 billion.

BOX

Mid-2019 economic stimulus package and its impact on GDP

Measures through the state welfare card
(THB 13.21 billion)

Disabled
200 Baht/person/month

Eligible persons : 1.16 mn person
Period : May - Sep
Budget : THB 1.16 billion

Farmers
1,000 Baht/person

Eligible persons : 4.1 mn person
Period : One-time payment
Budget : THB 4.1 billion

Parents
500 Baht/a children

Eligible persons : 2.7 mn person
Effective period : One time
Budget : THB 1.35 billion

Welfare card's holders
200 or 300 Baht/person/month

Eligible persons : 14.6 mn person
Period : May - Jun
Budget : THB 6.6 billion

Tax deduction measures
(expected revenue loss of THB 8,620 million)

Education and sports equipment spending
Budget : maximum of 15,000 baht
Period : May – Jun.

Books and e-books spending
Budget : maximum of 15,000 baht
Period : Jan – Dec

Purchase of OTOP products
Budget : maximum of 15,000 baht
Period : Apr – Jun

Purchase of a house or a condominium up to THB 5 million
Budget : maximum of 200,000 baht
Period : Apr – Dec

Travel expenses
Budget : maximum of 15,000/20,000 baht (major/secondary provinces)
Period : Apr – Jun

Boost economy approximately by +0.05% of GDP

The cabinet resolution dated April 30, 2019, approved two types of stimulus package to support the Thai economy during mid-2019 as follows:

1) Stimulus packages to subsidize state welfare cardholders. A THB 13.21 billion budget was set for all cardholders and specific groups of people such as the disabled, farmers, and parents.

2) Tax deduction program. Eligible spending included tourism in first and second-tier provinces, sports equipment, books, and residential properties. The Ministry of Finance predicted that the government will forgo revenue of approximately THB 8.62 billion from the program.

EIC assesses that the state welfare card program will inject THB 13.2 billion into the economy, which will lift economic growth by 0.05% (2019 GDP will additionally grow by 0.05%). Consumption from low-income earners should increase, especially during the 2nd quarter, the key eligibility period for subsidies, except for disabled persons who will continue to receive support until the 3rd quarter of 2019. **However, EIC views the tax deduction packages aimed at stimulating tourism and specific product spending will have a limit impact on the economy** because spending generated from the tax deduction program is limited to taxpayers and many unlikely to reap maximum deduction benefits. Moreover, tax deduction programs boost spending only when the campaign is effective. The first car policy, for instance, accelerated automotive purchases during the effective policy period, but automotive purchases continued to contract once the program ended. Using the first car policy as a reference, the mentioned tax deduction program should somewhat accelerate spending during the 2nd quarter with a tradeoff of lower spending throughout the remainder of 2019. The overall impact of the tax deduction program in 2019 should therefore be limited.

Tax deduction from first-home purchases with valued under 5 million are also viewed as having a limited impact. Though the maximum eligible deduction is as high as THB 200,000, EIC sees that even **its impact on the residential real estate market is limited as well.** The criteria set for deduction eligibility is rather strict, with only those buying their first home can apply. Moreover, the government has continually promoted first home purchases throughout the past 7-8 years, further reducing the number of eligible taxpayers. Strict LTV measures and high household debt levels also weigh on financial loan approval. Therefore, the mentioned tax deduction policy should have a limited impact on the real estate sector and the Thai economy.[4]

Going forward, factors that could impact private consumption include the severity of trade war tensions that, if elevated, could exacerbate the labor market in export-related businesses. Heightened tensions could cause unemployment rates to increase and/or reduce labor incomes. Other factors are, for example, high household debt levels that continue to pressure spending of those with debts, and the possibility of drought that would directly impact farm incomes, especially if the severity is higher than expected. According to the Thai Meteorological Department's (TMD) latest report[5] (Figure 9), the drought threat in 2019 was reported as moderate. The TMD predicted that the amount of rainfall from June to August will be 5-10% lower than normal. Furthermore, water levels in dams throughout various regions were lower during the first half of 2019 (Figure 9) when compared to levels in 2018, particularly in dams in the central and eastern region, though water levels were not as critical as during 2016.

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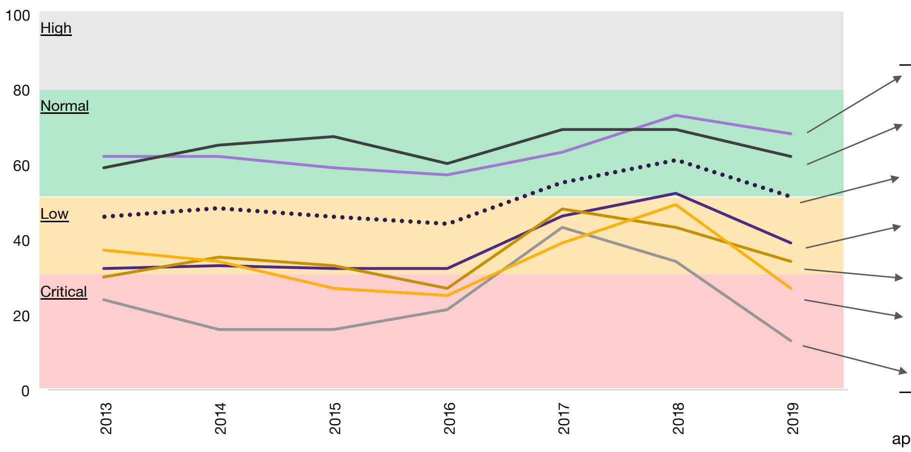
[4] Read more at "First-home stimulus measure may have limited impact on Thailand's housing market" https://www.scbeic.com/en/detail/product/6000

[5] Quarterly weather forecasts for Thailand during June – Aug 2019

Figure 9: Drought could pose a key threat since water levels in dams in 2019 are lower than levels in 2018, in addition to 5-10% lower than average rainfall during the next 3 months

The amount of water in dams of each region compared to the amount in the same period each year.

Unit : % of capacity of the dam, In () is share of total amount of water in the dams in 2018



Region	The expected difference of rainfall from the normal level		
	Jun	Jul	Aug
West (42.4%)	n/a	n/a	n/a
South (12.6%)	🟨	🟥	🟨
Total (100%)	🟨	🟥	🟨
North (32.0%)	🟩	🟥	🟨
Northeast (9.8%)	🟥	🟨	🟩
East (1.7%)	🟥	🟥	🟩
Central (1.6%)	🟥	🟥	🟥

🟩 approximate to normal level
🟨 5% below normal level
🟥 10% below normal level

Source: EIC analysis based on data from Meteorological Department, and Royal Irrigation Department as of 21 June 2019

Investment growth momentum from the previous year should continue, though at weaker rates following the export slump. Meanwhile, threats posed by political risks still linger.

Overall investment grew by 3.2%YOY during the first quarter of 2019, following solid private sector investment growth of 4.4%YOY. However, the mentioned growth slowed from the 5.5%YOY growth in the prior quarter. Export contractions during the first quarter hurt export-related businesses, and as a result investments in the sector were delayed. Moreover, the political uncertainty surrounding the election during the first quarter of 2019 clouded private sector investment. On the other hand, public sector investment growth merely dropped by -0.1%YOY due to lower investment in equipment, with a -11.7%YOY contraction. Meanwhile, government construction investment continued to grow by 4.1%YOY.

Investment growth trends during the first 5 months of 2019 significantly slowed from late 2018. The Bank of Thailand's private investment index (PII) revealed that during the first 5 months of 2019 the index contracted by -1.5%YOY compared to 2.6%YOY growth in Q4-2018. The discrepancy signified an outlook for lower private investment growth that aligns with outlooks of slowing export growth.

EIC evaluation sees private investment growth possibly reaching 3.7% in 2019, slowing slightly from the 3.9% expansion of the previous year. Slowing exports will cause export-related investment to slow as well (Figure 10). Moreover, high political uncertainty still lingers, despite increasing clarity from the newly appointed prime minister (read more at Box: Newly appointed prime minister reduces political uncertainty, though challenges lie ahead). As a result, investment confidence weakened, causing investors to potentially adopt a wait-and-see strategy and delay investment.

Figure 10: Private sector investments highly correlates with exports

Growth of private investment

Unit : %YOY

Export and private investment index (Real Values)

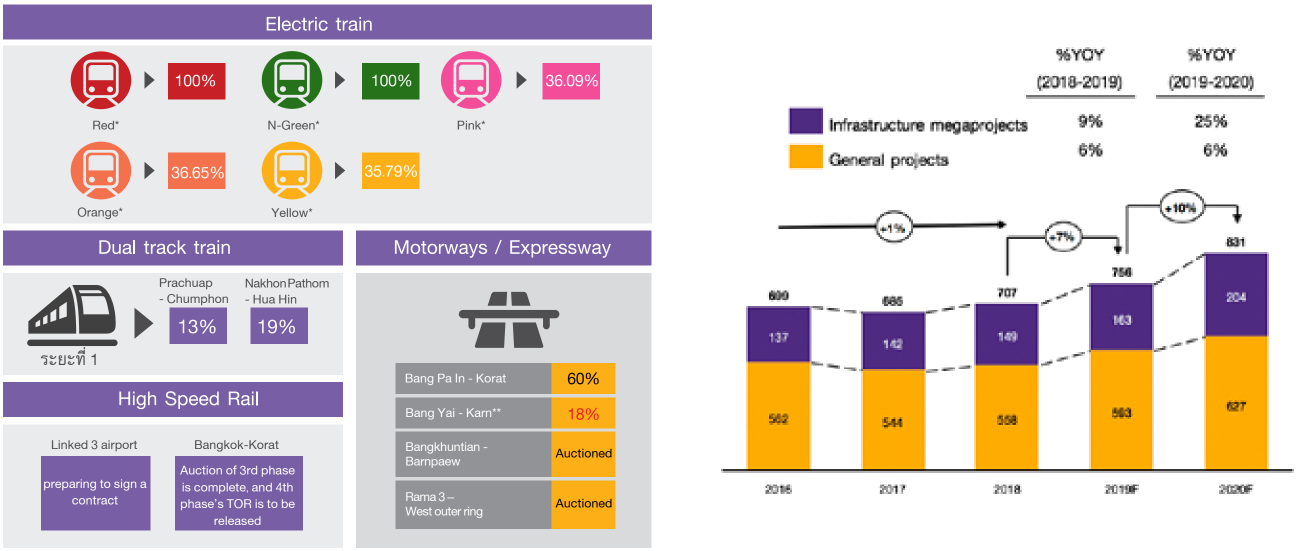
Unit : Index 2006Q1 = 100, 3-Quarter Moving Average

Export of goods and private investment are highly correlated trough businesses that both directly and indirectly relate to exports.

Source : EIC analysis based on data from NESDC

Meanwhile, growth from government construction investment is likely to continue, though with some obstruction from equipment investment. In 2019, public investment in construction is expected to expand by 7.0%. This investment will be a key supporting driver for the Thai economy and help counterbalance the impact of the global economic slowdown in 2019. The majority of infrastructure investment for 2019 will be for on-going projects, such as the rail system for the different Skytrain routes, dual-track railway, and high-speed railway (Figure 11). However, government investment in equipment should be flat this year, as witnessed by the -11.7% contraction during the first quarter.

Figure 11: Government investment for construction should continue to grow and is likely a key driver that helps strengthen overall domestic investment sentiment



Progress of important government infrastructure construction projects

Unit : % The success of civil progress at the end of May

Forecast of public investment in construction

Unit: THB billion

Note : * Red line (Bang Sue-Rangsit), North green line (Mochit-Sapanmai-Khu Khot), East orange line (Thailand cultural center-Min Buri), Yellow line (Lat Phrao-Samrong) และ Pink line (Khae Rai-Min Buri) ** The problem of land expropriation caused the construction of the Bang Yai-Kanchanaburi motorway to be delayed from the original plan approximately 9-12 months. Currently, The issue is being considered by the cabinet.

Source: EIC analysis based on data from MOT

BOX

Newly appointed prime minister reduces political uncertainty, though challenges lie ahead

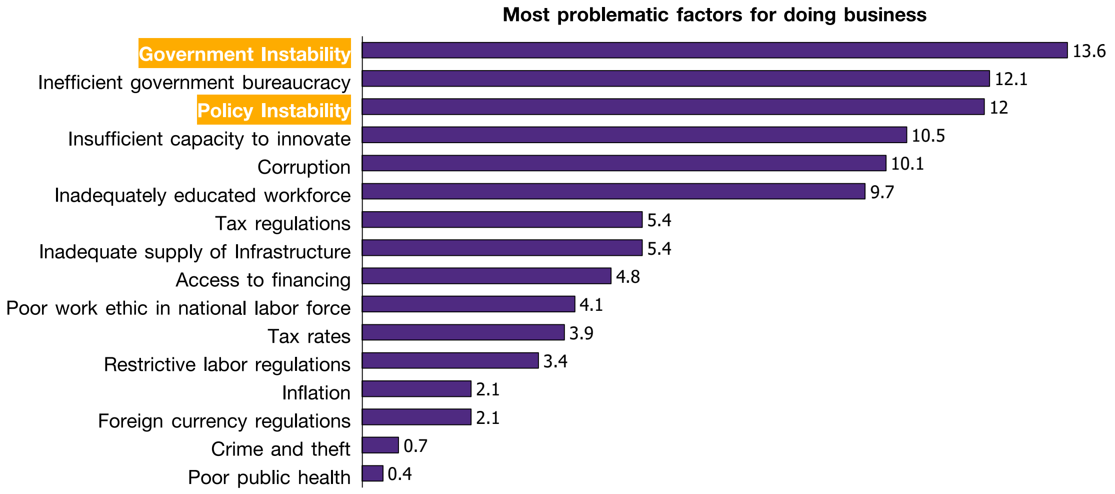
On June 5, 2019, members of Parliament convened to vote and named General Prayut Chan-o-cha as Thailand's 29th prime minister (second term). The leader was nominated by the Palang Pracharath Party and was the incumbent prime minister. **Confirmation of the newly voted prime minister somewhat reduced political instability.** The appointment signaled that a new government would soon oversee the country. Investor confidence soared, at least in the short-term. Thailand's stock market, the SET index, rose by 33.19 points during June 4th – 6th, partly from consecutive political progression – since the announcement of coalitions between Palang Pracharath and various other parties were made, until the PM voting date.

The return of power to the former prime minister should facilitate policy continuity. Some government policies established during the former government would be beneficial for Thailand, both in the short and long term. The continuity of such projects, for example, mega infrastructure projects in roads, rails, ports, and airports in addition to the development of the Eastern Economic Corridor (EEC) would be beneficial to Thailand's economy going forward.

Despite the power continuity, **various political caveats lie ahead:**

(1) The coalition party has only a slim majority of MP seats reflected by the vote on June 5, 2019, which could hinder the ruling party's issuance of new policy or legislation. Balancing the interests of each coalition party within the ruling party itself could also be a challenge. Therefore, questions regarding the new government's longevity surfaced. According to a Suan Dusit Poll survey[6] over 73.65% of respondents doubt that the new government will complete its 4-year term, and over 34.07% expect that the new government will not be in power for longer than 1 year. This concern will be a crucial risk factor for the Thai economy going forward, as political instability is ranked the number one obstacle to doing business in Thailand, according to a World Economic Forum (WEF) Executive Opinion Survey 2017-2018 (Figure 12).

Figure 12: According to a WEF survey, political instability is Thailand's most problematic factor



Source : EIC analysis based on data from World Economic Forum's Executive Opinion Survey 2017-18

(2) Compromising policies across coalition parties will be another challenge. Coalition parties campaigned on a range of policies during the election. Many were different, while some aimed for similar goals, though with different deliverables. With such behavior policy selection will be a tough task. The issue is further challenged by budget allocation, as many of the policies require substantial expenditure with ongoing support, such as policies regarding price guarantees for agricultural products or farm income guarantees, allowance for pregnant women, allowance for children from firstborns until a specified age, and the one million house policy. Other policies, such as promised wage hikes, could have a significant impact on the overall economy. Wage hikes will directly increase the financial burden of businesses and cause those that cannot afford the hike to go out of business. SMEs are the main concern here, as their current proportion of wages to total cost is likely to be high. Accordingly, while a new government can be set up, policy uncertainty remains, which is the 3rd most problematic factor for doing business in Thailand, according to a WEF Executive Opinion Survey 2017-2018 (Figure 12). Going forward, the new government should hastily provide clarity regarding economic policy direction in order to reduce instability, while carefully selecting and evaluating policies based on their impact on the economy.

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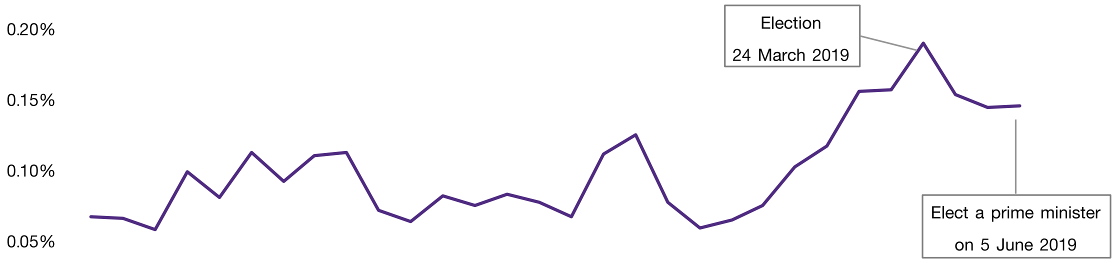
[6] Poll topic "Citizens' perception on the debate to vote for prime minister" dated Sunday, June 9, 2019

Moreover, Thailand's political uncertainty can be gauged by text analytics. Analytics using data from Global Database of Events, Language and Tone or GDLET (Figure 13) revealed that the proportion of news related to Thai political instability somewhat dropped, though to levels still considered high. The rate stabilized by the end of June, despite the new prime minister appointment in early June. Furthermore, when considering the tone of news, those relating to political instability on average still have a negative tone, showing that high political instability persists. The mentioned sentiment is likely to continually weaken investor confidence and hence represents as one of the key obstacles for private investment growth in the periods ahead.

Figure 13: A newly appointed prime minister somewhat reduced political uncertainty, though to levels still considered high. Meanwhile, news regarding political instability continues to contain a negative tone.

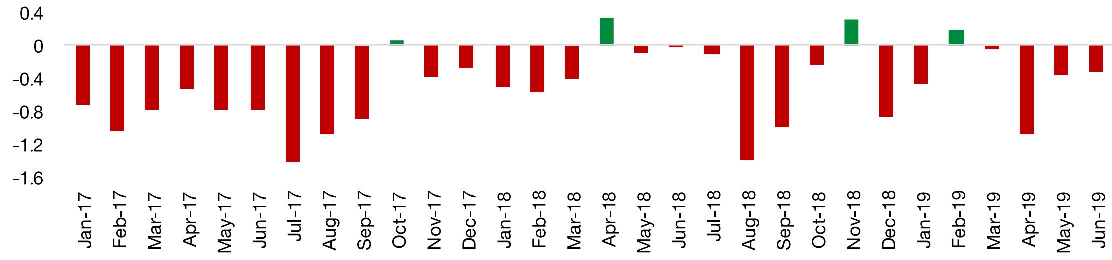
Proportion of political uncertainty news

Unit : % of the total number of online news in Thailand



Negative and positive tone in political uncertainty news

Unit : >0 Positive tone, <0 Negative tone, 0 Neither positive nor negative tone



Source : EIC analysis based on data from GDELT

Going forward, various challenges could impact overall investment. Apart from risks of a severe export slowdown and worsened political instability, a delay in government budget disbursement during Q4- 2019 poses another key risk. Most recently, the Budget Bureau revealed that the national budget for the fiscal year 2020 that normally starts in October could be delayed by approximately 3 months. Since the new government formation was not yet completed, the approval for the Budget Procedures Act was also delayed. The Ministry of Finance explained that the mentioned fiscal budget setback will still be manageable. The procedures used for budget disbursement in the previous year can be applied for disbursement in the delayed one. The Ministry of Finance believes that current expenditure disbursement will not be impacted, since it has a clear disbursement framework, such as paying salaries for government officials. However, disbursement of capital expenditure for new investment projects inaugurated during quarter 4 of the current calendar year could be affected as there are no ongoing liabilities and frameworks for disbursement. As such, if the government can accelerate debt-binding investment, the mentioned event will receive low impact. However, if not successful, capital injection from government investment could drop below estimates during the last quarter of 2019.

In 2019, headline inflation risks breaching the lower bound of the monetary policy target. EIC evaluates average inflation standing at 0.9% in 2019.

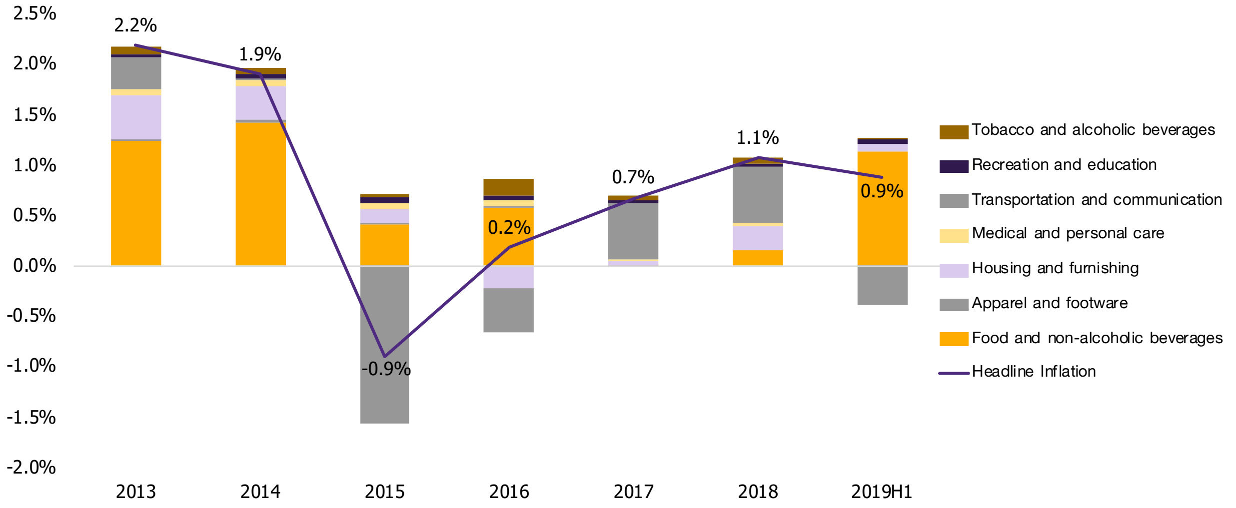
Recent headline inflation figures for the first half of 2019 stood at 0.9%YOY. Inflation temporarily increased from rising product and service prices. Fresh food prices, for example, have risen since February due to the impact of a drought that limits agricultural supplies. Furthermore, government agencies increased transportation costs both in and outside of Bangkok, which also caused the private sector to increase transportation costs during late April as well.

For the remainder of 2019, EIC believes the average inflation rate should stabilize at 0.9%YOY following meager economic growth reflected by core inflation figures. Meanwhile, temporary factors that increase inflation during early 2019 will become less prominent as the year progresses. There should therefore be no significant change in inflation figures. However, average inflation in 2019 could exceed forecasted levels, if the average crude oil price in 2019 leaps. Most recently, conflicts between Iran and the US linger, causing short spikes in oil price. EIC expects that the average Brent crude price in 2019 will be 66 USD/ barrel (Read more at Bull Bear: oil prices).

Figure 14: Inflation during the first half of 2019 increased from higher fresh food prices caused by drought

Contribution to Headline inflation

Unit : %, percentage points



Source: EIC analysis based on data from the Ministry of Commerce

BOX

Economic forecast scenario analysis

At present, trade war tensions between the US and China still pose high risks to the world economy and directly to Thailand's export sector. As such, economic figures are harder to forecast due to this uncertainty. EIC hence established a scenario analysis using base, worse, and worst case with the following assumptions:

	Base Case	Worse Case	Worst Case
Trade war severity	■ USD 250 billion worth of Chinese imports taxed at 25%		
	■ No additional tax on Chinese imports of USD 300 billion	■ Additional 10% tax levied on USD 300 billion worth of Chinese imports	■ Additional 25% tax levied on USD 300 billion worth of Chinese imports
Tourism revenue	-	Dropped by 1% from base case	Dropped by 2% from base case
Exchange rate (THB/ USD)	-	Appreciates by 0.1% from base case	Appreciates by 0.2% from base case
Government stimulus package	THB 20 billion	THB 25 billion	THB 30 billion

The base case scenario is used as the main scenario for all economic estimations in this round of forecast. In the worse-case scenario, the US imposes additional 10% import tax on USD 300 billion worth of Chinese imports and for the worst-case scenario, the US imposes additional 25% import tax on USD 300 billion worth of Chinese imports.

If the trade war tensions elevated, economies throughout the world will be impacted. Both Thailand's export and tourism sector will be weakened. Revenue from tourists will drop from the lower number of tourist arrivals, in tandem with lower spending per tourist. Furthermore, the baht could additionally appreciate from its regional safe haven characteristic following Thailand's consistent current account surplus and high levels of international reserves. As such, additional capital inflows could be witnessed. Lastly, the government is likely to issue additional economic packages to counterbalance any impact of lower external demand.

Main results for the 3 cases of the economic scenario analysis are as follows:

- **Base case.** The Thai economy should grow by 3.1%, while exports contract by -1.6%.
- **Worse case.** Export contraction worsens to -2.3% growth, influencing other economic sectors to slow. However, the impact will be alleviated from increasing government support in the form of additional economic stimulus packages such as money transfer for spending – the fastest method to inject capital into the economy. As such, private consumption is viewed growing by levels on par with the base case. Moreover, the Monetary Policy Committee (MPC) could lower the policy interest rate by 25 bps to 1.50% during late 2019 if the economic growth dips below 3%. In the worse-case scenario, the Thai economy is predicted to expand by 2.9%.
- **Worst case.** Export growth drops -3.1%. Even additional economic stimulus measures, private sector consumption will contract slightly from the base case. This is because the negative impact from dwindling exports reigns in the positive impact from additional economic stimulus. Meanwhile, the policy interest rate could be lowered to 1.5% as well. In a worst-case scenario the Thai economy is predicted to expand only by 2.7%.

	Unit	Base Case	Worse Case	Worst Case
Real GDP	%YOY	3.1	2.9	2.7
Private Consumption	%YOY	3.9	3.9	3.8
Government Consumption	%YOY	2.2	2.2	2.3
Private Investment	%YOY	3.7	3.4	3.0
Government Investment	%YOY	4.0	4.1	4.1
Export Value (USD)	%YOY	-1.6	-2.3	-3.1
Import Value (USD)	%YOY	-2.7	-3.4	-4.2
Policy Rate (end of year)	%	1.75	1.50	1.50
Headline Inflation	%	0.9	0.9	0.9
Core Inflation	%	0.7	0.7	0.7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Interest rates and exchange rates outlook 2019

Interest rates and exchange rates

Policy rate

Seeing that the growth of Thai economy was lower than projected, the Monetary Policy Committee (MPC) voted to hold the policy rate at 1.75% at its recent meeting. The MPC also conveyed concern over the stability in the country's financial system and the rapid appreciation of the Thai baht. At the MPC meeting on June 26, 2019, the Committee unanimously agreed to keep the policy rate unchanged at 1.75%, and decrease the 2019 economic growth forecast from 3.8% to 3.3%. Among the key factors is the Thai exports situation, which had been expected to expand at 0% in this year, a rate much lower than earlier assessed. Thailand's tourism sector also performed weaker than projected. The number of inbound international tourists is expected to fall from 40.4 million to 39.9 million. In terms of domestic demand, the MPC revealed that public investment has declined from 6.1% to 3.8% due to the announcement of the Budgetary Procedures Act 2020 which is expected to be delayed. For headline inflation, the MPC still kept its projection at 1.0% for 2019. The Committee described Thailand's financial condition in dovish terms, while expressing concern at the speedy appreciation of Thai baht, which may be inconsistent with the country's fundamental economic factors. Meanwhile, the Thai financial system in general was considered stable. Yet the MPC remained disturbed by search-for-yield behavior in the market. The MPC announced that macroprudential and microprudential policies would be activated along with policy rate adjustments in order to keep Thailand's financial system resilient.

The EIC expects the MPC to keep the policy rate unchanged throughout 2019 as they still project the Thai economy growing stronger in 2020, but continue to pay great attention to the country's financial stability. Moreover, EIC believes that low real interest rates in Thailand limit the MPC's ability to reduce the policy rate further.

1) EIC expects Thai economy to rebound in 2020. Thailand's economic growth had been projected to slow down. Although GDP forecasts have been moving downward from 4.0% at the Committee's meeting in December 2018 to 3.8% in March 2019, and more recently 3.3%, EIC considers these growth rates to be insignificantly lower than Thailand's potential GDP. With the MPC expecting the Thai economy to expand better at 3.7% in 2020, EIC anticipates that the MPC will not reduce the policy rate in this year.

2) The MPC still kept the stability of financial system a priority. The report of the recent MPC meeting contained signs of concern over the stability of the country's financial system. Household debt (car loans), risks from savings and credit cooperatives, and large business debts were mentioned. In order to control the risks, the MPC indicated that a number of strategic tools were required, including the policy rate.

3) Thailand's real interest rate remains lower than the rates of the other countries in the region. According to EIC's calculations, Thailand's real interest rate is 0.75% which is considered low compared to the other countries in the region. Therefore, the MPC's ability and need to decrease the rate in order to boost the economy may be less necessary than would be the case in those countries with high real rates which have been significantly elevated in 2018. (Figure 1)

Figure 1: Thailand's real policy rate has been lower than regional countries.

Real policy rate of selected countries

Source: EIC analysis based on data from Bloomberg

Short-term Thai government bond market

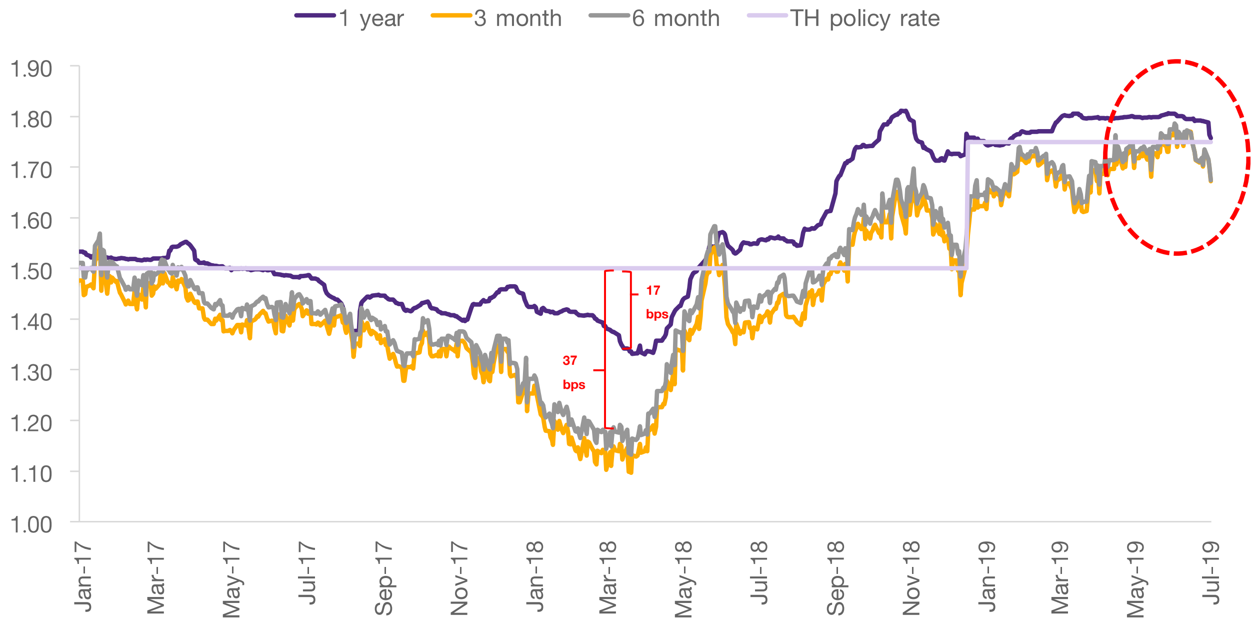
Recent development

Short-term Thai government bond yields remained steady along the policy rate as investors expected the MPC to keep the policy rate unchanged throughout 2019. (Figure 2) As of July 3, 2019, the 1-year Thai government bond yield was at 1.76%, the same as in the previous quarter and slightly under the policy rate. This was partly due to the MPC signaling decelerating growth for Thailand's economy and increasing economic risks. Investors also believed that the MPC would make no adjustment to the policy rate in 2019. As a result, the 1-year Thai government bond yield stayed close to the policy rate. Meanwhile, the 6-month Thai government bond yield decreased slightly by 4 bps from the prior quarter to 1.67%. Key factors included capital inflows to the short-term Thai government bond market and pressure from bond switching procedures which are part of the Ministry of Finance's debt restructuring mechanism.

Figure 2: Short-term Thai government bond yields have hovered around policy rate as investors expect MPC to hold rate this year. BoT's bond supply has not yet been cut.

Policy rate and short-term Thai government bond yields

Unit: %



Source: EIC analysis based on data from Bank of Thailand, and ThaiBMA

Outlook

EIC revised down the projection of the 1-year Thai government bond yields to be between 1.65% - 1.75% by end of 2019 (from 1.7-1.8%) as some market players may begin to expect a decline in the policy rate. EIC expects the MPC's likeliness of keeping the policy rate fixed throughout the year to be the main factor for short-term Thai government bond yields remaining steady along the policy rate. A close watch on the MPC's communication is required as they would play a significant role in signaling the change in policy rate. If the MPC shows signs that the policy rate will be lowered in 2019 or if there is a particular situation causing the market to price-in the policy rate cut (namely Fed and other central banks in the region decreasing their policy rates consistently or the US-China trade war not going as well as expected), short-term Thai government bond yields could fall below the policy rate significantly. (The act of pricing-in the policy rate change occurred during late 2018 when the MPC was to raise the policy rate. At the time the 1-year Thai government bond yield exceeded the policy rate by as much as 20-25 bps around a month before the actual policy rate increase by the MPC.)

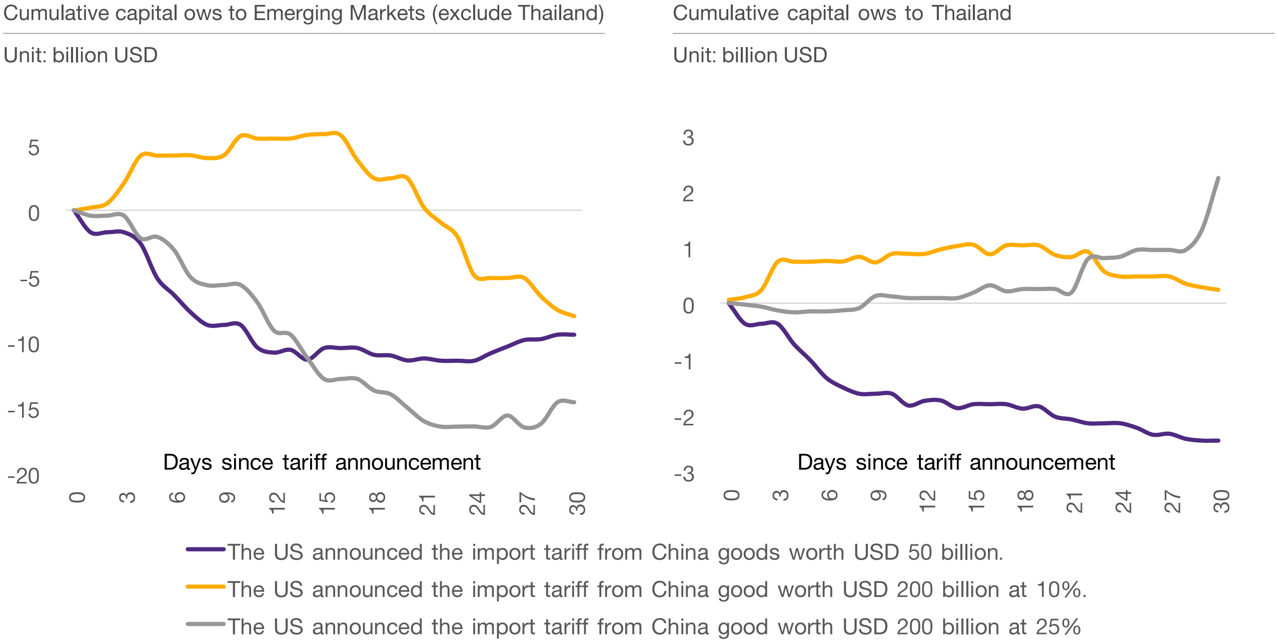
Based on these factors, EIC is slightly revising down its forecast for 1-year Thai government bond yields to between 1.65% - 1.75% by end of 2019 (from 1.7-1.8%).

Capital flows must be carefully assessed as they may notably influence short-term Thai government bond yields to contract more than forecasted. EIC sees capital inflow as a factor which could lower the base case for short-term Thai government bond yields. The return of US-China trade war could trigger capital inflows, forcing investors to move their money to safe assets, which include Thai government bonds. Capital may also flow to Thai markets if the Fed cuts its policy rate, weakening the value of the US dollar. In this regard, investing in emerging markets (EM) assets becomes competitively attractive with gaining profits from appreciating EM currencies on top of the outstanding high carry. EIC has studied capital inflows during the recent trade war and divided the case into 3 phases in order to identify the significance of the capital flows: (Figure 3)

- After the US announced 25% tariffs on China's goods of US$ 50 billion (June 15, 2018)
- After the US announced 10% tariffs on China's goods of US$ 200 billion (September 18, 2018)
- After the US announced 25% tariffs on China's goods of US$ 200 billion (May 5, 2019)

From phase 1 to phase 3, capital outflows from EM markets (excluding Thailand) were observed. Whereas, during phase 2 and phase 3 capital flowed into Thai markets (stock market and government bonds) as Thailand has strong external stability. As a result, EIC expects short-term Thai government bond yields may fall from the base case if the trade war returns while the Bank of Thailand has yet to release capital control measures.

Figure 3: Capital outflows from EMs have been observed in all 3 events. However, Thailand has experienced with capital inflows during the last 2 events of tariff announcement.



Source: EIC analysis based on data from IIF

BOX

The return of the J-curve?

The cutting of the Bank of Thailand's bond supply to be auctioned in July did not result in a decline in the number of BoT outstanding bonds, leading to a minimal chance of J-curve. According to the BoT issuance program in July 2019, the amount of bonds to be auctioned has been trimmed. This has caused some market players to believe that the Bank of Thailand is using the same measures as in April 2017; issuing fewer short-term bonds in order to minimize Thai baht speculation by foreign investors. However, the bond reduction in July was not announced by the Bank of Thailand as a measure aimed at curbing Thai baht speculation as in 2017. Instead, the move was intended to manage liquidity in the market, in which some bonds are due to mature at lower scales compared to the month before. Moreover, when considering short-term bonds outstanding, the level has not declined. Thus, the short-term bond cut might not influence the Thai baht to depreciate, and there is likely a low chance of the so-called J-curve (the event that short-term Thai government bond yields falling below the policy rate significantly) any time soon.

The comparison of BoT bond issuance in April 2017 and July 2019

	April 2017	July 2019
USDTHB situation before the bond issuance cut	+2.3% (March 2016 - March 2017)	+7.7% (June 2018 - June 2019)
Value of BOT bonds issued (per week)[1]		
• 3-month bond	30,000 million bath (Decreased by 10,000 million baht from the previous month)	35,000 million bath (Decreased by 5,000 million baht from the previous month)
• 6-month bond	30,000 million bath (Decreased by 10,000 million baht from the previous month)	40,000 million bath (Decreased by 5,000 million baht from the previous month)
• 1-year bond	45,000 million bath (No change from the previous month)	35,000 million bath (Decreased by 10,000 million baht from the previous month)
Change in BOT bonds outstanding [2]	Decreased by approximately 250,000 million baht (from the previous month)	Increased by approximately 65,000 million baht[3] (from the previous month)

(Data as of 3 July 2019)

From the table, in April 2017 the cutting of the BoT weekly bond issuance also led to a drop in the level of BoT short-term bonds outstanding. However, the bond reduction in July 2019 is not expected to result in a decline in the outstanding as the central bank has issued additional bonds, sufficiently replacing bonds due to mature in July.

If the Thai baht continues to significantly appreciate, the central bank might consider additional capital control measures, which include cutting of the bond supply. The value of the Thai currency has strengthened by 5% since the beginning of 2019, stronger than other currencies in the region. This may pressure the Bank of Thailand to implement measures to control heavy capital inflows. One of the possible measures could be reducing the BoT short-term bond supply. Given that baht strengthened further sharply, EIC expects the Bank of Thailand to deliberately scale down the short-term bonds outstanding in the market (similar to the measure implemented in April 2017) in order to prevent a Thai baht speculative flows. As a result, from now on the level of BoT bond issuance and BoT outstanding bonds must be observed very closely.

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[1] 3-month and 6-month BOT bond will be auctioned 5 times in July 2019, while 1 year bonds are auctioned only 1 time per month.

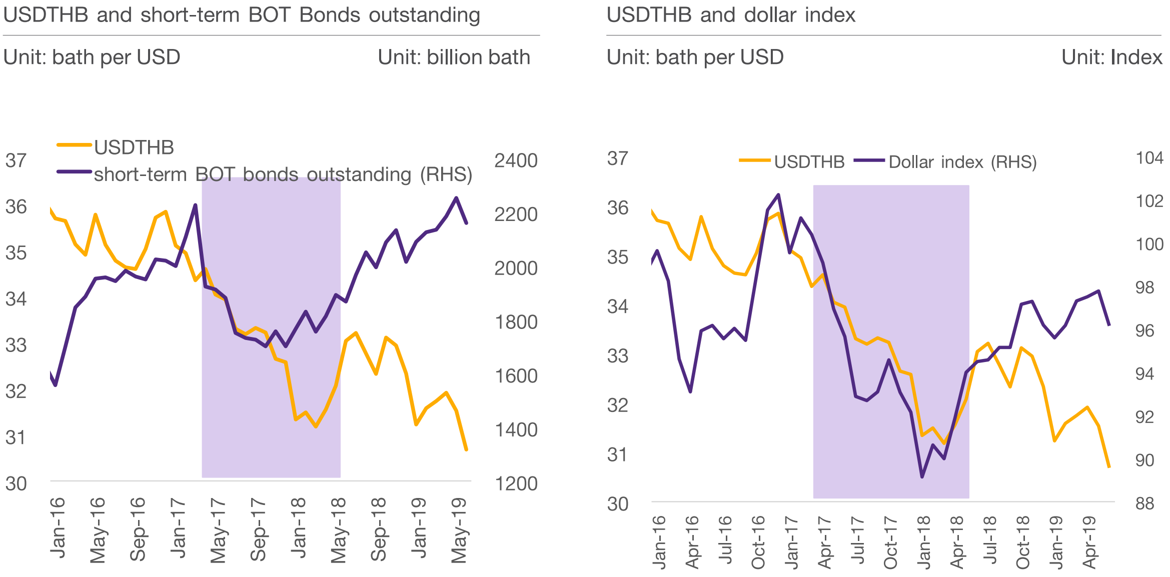
[2] Calculated from the outstanding amount of BOT bonds with a maturity of less than 1 year, taking into account the amount of bonds expiring in that month without being renewed

[3] The outstanding value is calculated from 3-month and 6-month BOT bond to be issued in July 2019, minus the value of the 3-month and 6-month BOT bonds that will expire in July.

The effects of bond reduction measures on the Thai baht

The central bank's short-term bond downsizing measure may help slow down the appreciation of Thai baht, but it cannot weaken the value of Thailand's currency. In 2017, after the size of BoT short-term note issuance scheduled for April had been scaled back, the level of outstanding bonds continuously dropped while the Thai baht continued appreciating. (Figure 4: left) The baht later depreciated in March 2018, a year after the measure was implemented. This devaluation of the Thai baht also occurred following the rise in BoT outstanding short-term bonds.[4] EIC has found that the appreciation of the Thai baht in such a period of time was notably dependent on the US dollar index. (Figure 4: right) When the Thai baht got weaker, US currency got stronger due to the Fed's policy rate raise. Based on these facts, the bond reduction measure in 2017 alone could not have devalued the Thai baht. The US currency and the size of Thailand's current account (a reflection of demand for Thai baht) also influence the value of the Thai currency. (See further details in "Outlook of Thai Baht in 2019Q3") Nevertheless, EIC expects the measure - which helps minimize the amount of capital inflows aimed at Thai baht speculation - to "lighten up the situation" by partially slowing down the appreciation of Thai baht which will benefit Thai exporters who have no bargaining power in world markets.

Figure 4: Despite BOT 's effort to decrease bonds outstanding consistently, THB has strengthened over time. THB was driven mostly by external factor, e.g. US dollars instead.


USDTHB and short-term BOT Bonds outstanding

Unit: bath per USD Unit: billion bath

USDTHB and dollar index

Unit: bath per USD Unit: Index

note: The purple band refers to the period in which the measures have been adopted.

Source: EIC analysis based on data from Bloomberg and ThaiBMA

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[4] The bank of Thailand officially announced an increase in the maximum issue size per auction of 3 - month and 6 - month bills in May 2018.

The effects of bond reduction measures on the Thai government bond market

The 2017 measure was one of the factors causing short-term Thai government bond yields to fall below the policy rate or the J-curve. (Figure 2) Looking back at the effects from the bond supply cut measure in 2017, investor demand for bonds then was still high when the supply of bonds became low, causing the yields of short-term Thai government bonds to sink below the policy rate. The J-curve took place in April 2017 after the 3-month and 6-month bond supply of a total value of Baht 20 billion per week was cut by the central bank. The 3-month government bond yield declined to an average of 1.40% in April, while yields of 6-month bonds hit an average of 1.43%. Meanwhile, in the same month, 1-year government bond yield remained steady at 1.51% as the Bank of Thailand did not scale back the size of the 1-year note issuance scheduled for such round. (The policy rate then was at 1.50%.) However, while the central bank kept the bond volume low, the short-term government bond yield plunged continuously and hit a record low during the end of Q1/2018. The expectations of some investors for potential rate cuts were a supplementary factor.

Outlook

EIC expects that, if the Bank of Thailand downsizes the supply of short-term bonds to the level that outstanding bond volume decreases significantly in the second half of 2019, the chance for having the J-curve would be higher. In terms of the effect on the Thai baht, this bond reduction measure might help slowdown the appreciation of the Thai baht but may not weaken the currency. The key factors that could cause the J-curve are:

1. Market expectation of an MPC policy rate cut
2. Significant and on-going Thai baht appreciation
3. A decline in the volume of outstanding short-term bonds to below the level of market demand

As EIC sees it, factor 1 and factor 2 have already occurred in the current situation. Thai economy decelerating further in 2019 could force the market to anticipate a policy rate cut. Meanwhile investor confidence in the stability of Thai currency, and the rate cut signals by the Fed, the European central bank (ECB), and other regional central banks are factors influencing the Thai baht to continue appreciating. An implementation of Bank of Thailand's measure which crucially decreases the volume of outstanding short-term bonds could expedite the J-curve to happen. Regarding the Thai baht, EIC expects this measure to generate limited effects; similar to the measure launched during 2017-2018.

A summary of previous and prospective Thai currency stability measures

Thai currency stability measures	Implementation period in the past	Anticipated effects	Likeliness of implementation
Bond reduction measure: Reduce the supply of short-term bonds for auction, leading to a smaller volume of bonds outstanding in the market, in order to minimize Thai baht speculation by non-resident investors	**April 2017 - May 2018**	A bond reduction measure similar to the 2017 case has a high potential of causing the J-curve environment but may not devalue the baht.	🟠
Stricter control on capital inflows: preventive measures, namely a regulation issued by the Bank of Thailand demanding investors declare the sources of their funds or the objectives of their capital transactions.	**Not yet implemented**	This measure may as well have consequences for a number of transactions of long-term investment as well, creating more difficulty in managing investment positions or business operations.	🟠
Taxation of foreign investors buying Thai government bonds : The government will collect 15% withholding tax from capital gains and interest income due to occur from bonds held by foreign investors who buy bills and bonds of under 1-year maturity. Existing foreign investors may be granted exemptions.	**Not yet implemented**	This measure may affect investor confidence in Thai financial markets, leading to rapid capital outflows and critical damage to domestic asset prices.	🔴
Unremunerated Reserve Requirement: The URR measure requires financial institutions who offer to buy or exchange foreign currencies to Thai baht to reserve 30%of the total fund amount in each foreign currency buy or exchange. (Unless such foreign currencies are related to trade in goods and services or foreign direct investment)	**December 2006 - February 2008 (The measure in the stock exchange market was terminated after activating for a day.)**	This measure greatly affects investor confidence, leading to a big wave of capital outflows.	🔴

🟢 Meaning: Most likely to be activated
🟠 Meaning: Moderately likely to be activated
🔴 Meaning: Least likely to be activated

Why is bond reduction required in order to devalue the Thai baht?

The reasons that BoT has resorted to bond supply measures stemmed from the fact that BoT has implemented other measures aiming to curb speculative flows in Thai baht directly before, which are

1. **Measures to Limit Thai Baht Liquidity:** limiting domestic financial institutions from providing Thai baht liquidity to non-residents (NR) in the case transactions are undertaken without underlying assets, the total outstanding balance executed by each financial institution shall not exceed 600 million baht per NR.
2. **Measures to Curb Capital Inflows:** limiting domestic financial institutions from borrowing Thai borrowing or undertaking transactions comparable to Thai baht borrowing from NRs in the case of transactions undertaken without underlying assets, the total outstanding balance executed by each financial institution shall not exceed 10 million baht per NR.
3. **Measures on Non-resident Baht Account (NRBA) and Non-resident Baht Account for Securities (NRBS):** limiting NRBA account and NRBS account outstanding balances at the end of each day to not exceed 300 million baht per NR, and forbidding all domestic financial institutions from paying interest to each NRBA and NRBS account.
4. **Measures on Non-Deliverable Forward (NDF):** prohibiting financial institutions from undertaking transactions against Thai baht with NR

These measures help prevent Thai baht speculation, particularly in the case of NRs speculating directly on Thai baht (not using underlying assets). To avoid being affected by these measures, NRs resorted to possess and speculate Thai baht through holding other Thai assets instead. The Bank of Thailand's short-term bonds are the Thai assets with low risk which are popular NRs. **In this regard, the measure on bond reduction has become a tool that may help preventing Thai baht speculation, as a lower supply of bonds means limited amount to be purchased and higher price to pay.**

Long-term Thai government bond market

Recent development

At the beginning of Q2/2019, yields for long-term Thai government bond remained steadily high at around 2.43% - 2.48% due to the increasing levels of Thai government bond supply and inflation expectation.

1) Thai government bonds outstanding in May 2019 expanded at 2.53%MOM from 1.08%MOM the month earlier. (Figure 5)

2) In Q2/2019, headline inflation elevated, leading to a higher inflation expectation for Thailand. According to a survey of professional forecasters in March 2019, projected inflation for a year ahead swelled to 1.5% from 1.3% in the prior quarter.

However, 10-year Thai government bond yields have been moving downward since June due to US Treasury yields having plunged significantly during the same period of time. (Figure 6) The recent downfall of US Treasury yields is the result of the following factors.

1) The obvious decelerating trend of the US economy indicated by the purchasing managers' index (PMI) of the manufacturing and service sectors in June, which hit 50.1 and 50.7 respectively, the lowest since 2016.

2) The return of US trade wars against a number of countries, namely China, Mexico, Europe, India and Turkey, which has increasingly affected the expansion of both the global and US economies.

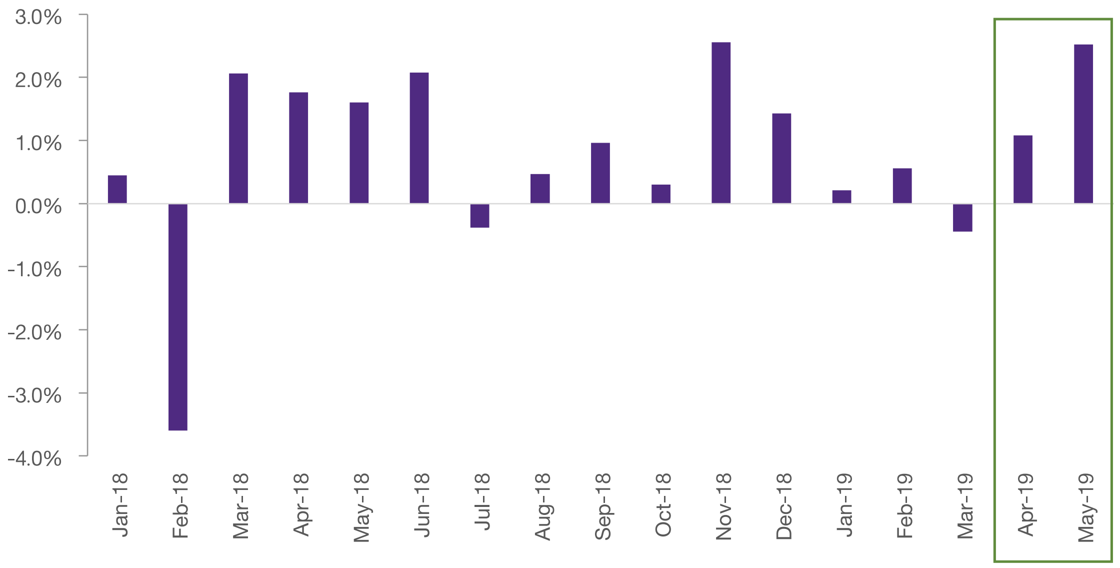
3) The Federal Open Market Committee (FOMC) signaling an upcoming policy rate cut and having decreased the projection of the longer run rate from 2.8% announced at a meeting in March to 2.5%.

In addition, the previously mentioned capital inflows are another key factor pressuring long-term Thai government bond yields. On July 3, 2019, the yield of the 10-year Thai government bond was at 1.98%, dipping by 46 bps from the earlier quarter.

Figure 5: The outstanding of long-term Thai government bonds has increased in the past two months.

Growth of long-term Thai government bond outstanding

Unit: %MOM

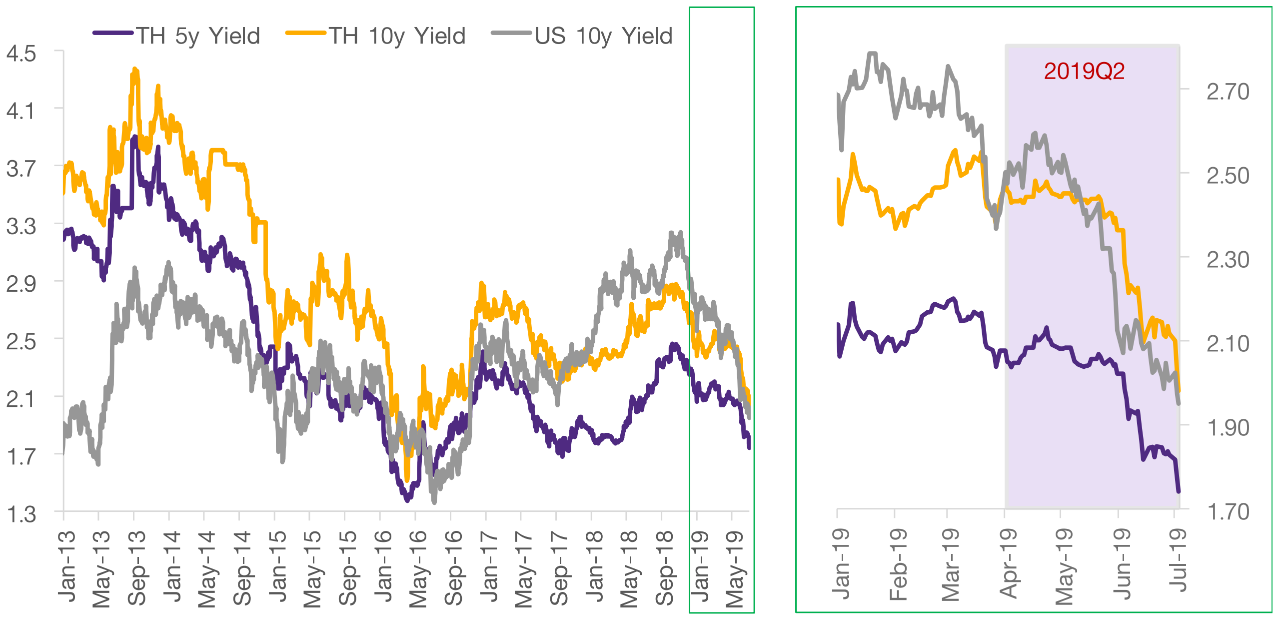


Source: EIC analysis based on data from ThaiBMA

Figure 6: Long-term Thai government bond yields have fallen in the latest quarter, driven mostly by decreasing US treasury yields and capital flows into Thai bond market.

Long-term Thai government bond yields and long-term US government bond yields

Unit: %



Source: EIC analysis based on data from The bank of Thailand and ThaiBMA

Outlook

EIC revised down 10-year Thai government bond yields to be between 1.90% - 2.00% by the end of 2019 (from 2.6% - 2.8%) mainly due to US Treasury yields, which have the potential to decrease further. The factors influencing the US Treasury yields plunging are as follows.

1) The US economy is likely to decelerate in an on-going manner. Although the US and China have recently agreed that no additional tariffs would be raised (worth around US$300 billion), the current 25% tariffs on US$250 billion worth of Chinese goods are still in place. In this regard, EIC expects the now effective tariffs to continue interrupting the economies of the US and China as well as elsewhere throughout 2019.

2) The US inflation expectation could be trimmed further. Reflecting 5y5y break-even inflation, the US inflation expectation as of June 2019 was 1.84%, a decline from the 2018 average of 2.16%. (Figure 7) Moreover, the Fed has renewed its 2019 inflation projection from 1.8% to 1.5%.

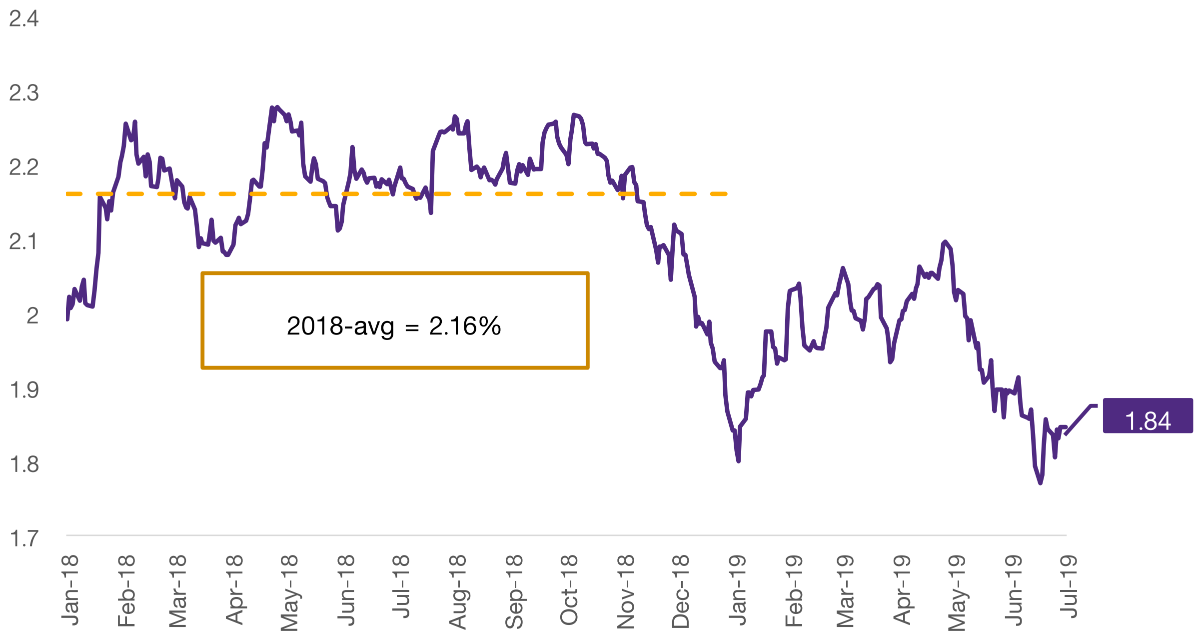
3) EIC expects the Fed to cut the policy rate for the second time this year. This move shall lead to a downward shift in US Treasury yield curve, as the US bond market at the moment is not fully representing the fact that there is a potential for US economic slowdown and the Fed's fully price-in rate cut.

A domestic factor which may pressure Thai government bond yields to dive is the potential deceleration of the Thai economy. Influencing forces include Thai exports, which EIC projects shrinking by 1.6% in 2019, and a delay in the government's 2020 budget disbursement which could undermine public investment and confidence in private investment. EIC expects the Thai economy in 2019 to expand by 3.1%, lower than market-projected growth of 3.5%. Furthermore, as the US inflation projection declined more significantly than that of Thailand, EIC sees long-term Thai government bond yields contracting less severely than those of the US.

Figure 7: Inflation expectation, as reflected by 5y5y break-even inflation, in June 2019 was at 1.84%. This figure has decreased from the 2018-average of 2.16%.

US long-term inflation expectation, (5y5y breakeven inflation)

Unit: %



Source: EIC analysis based on data from Bloomberg

Thai baht

Recent development

Thai baht continued devaluing against the US dollar from the first quarter due to a stronger US dollar index and capital outflows from the Thai bond market (Figure 8).

1) At the beginning of Q2/2019, the Fed was not as dovish as the central banks of other key economies. By that time, although the Fed showed a patient approach regarding the rate increase, other central banks still signaled more dovish moves compared to the Fed. (Figure 9: left)

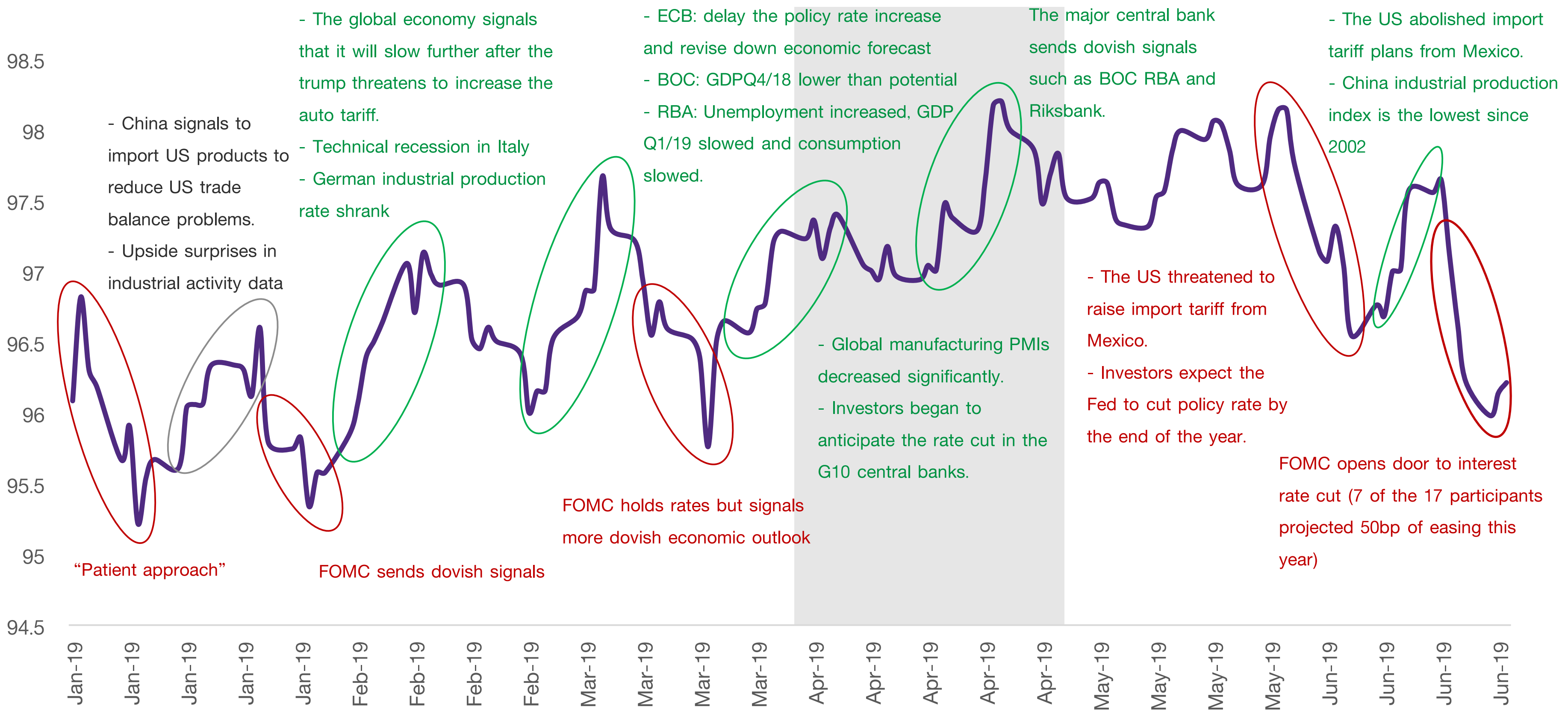
2) Based on the decelerating purchasing managers' index for the manufacturing sector, the global economy has the potential to decelerate further and is facing increasing risks. (Figure 9: right) Being a counter-cyclical asset, the US dollar accordingly got stronger.

3) From the beginning of the year until April 2019, capital worth 7.9 billion baht outflowed from Thailand. The country's unsettled political landscape was partly the cause, obstructing investors from investing in Thailand's markets.

Figure 8: The US dollar strengthened further due to the global economic slowdown. But began to weaken After the US economy slowdown and the Fed communicates the opportunity to reduce the policy rate.

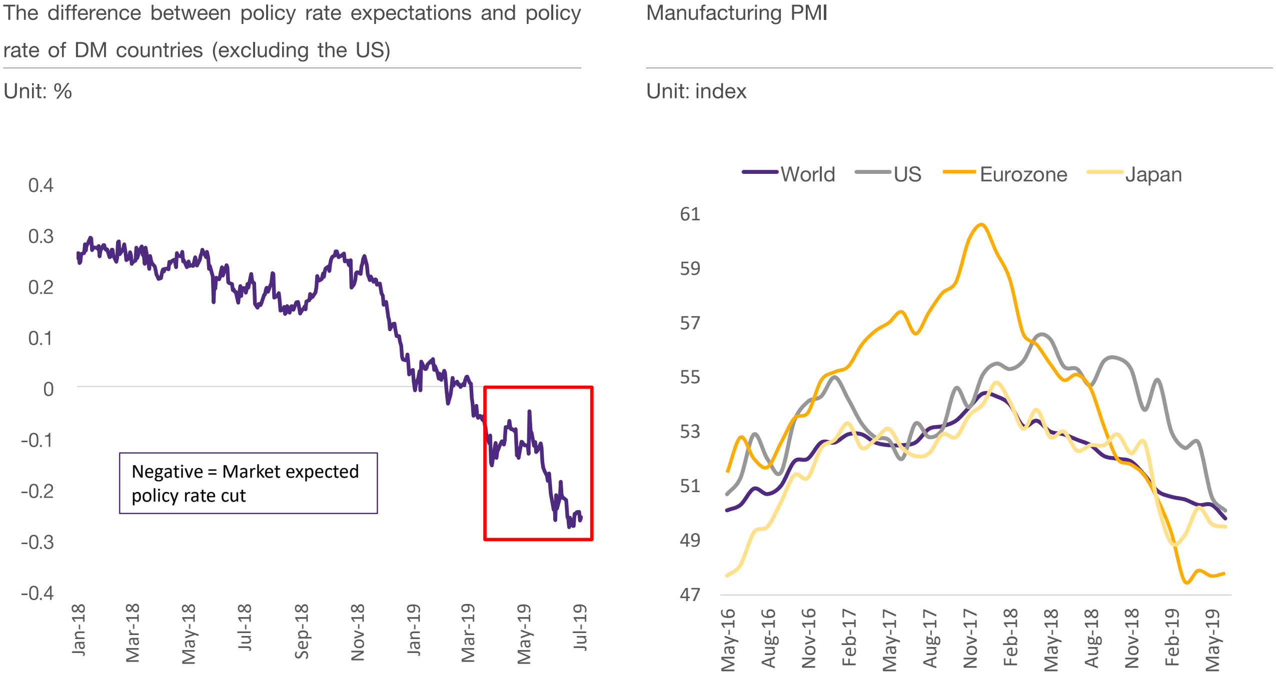
The movement of the dollar index in various important events

Unit: Index



Source: EIC analysis based on data from Bloomberg (Data as of 26 June 2019)

Figure 9: Other DM central banks have signaled dovish tome since the beginning of this year. Meanwhile, global economy slowdown, reflected by the lower manufacturing PMI.



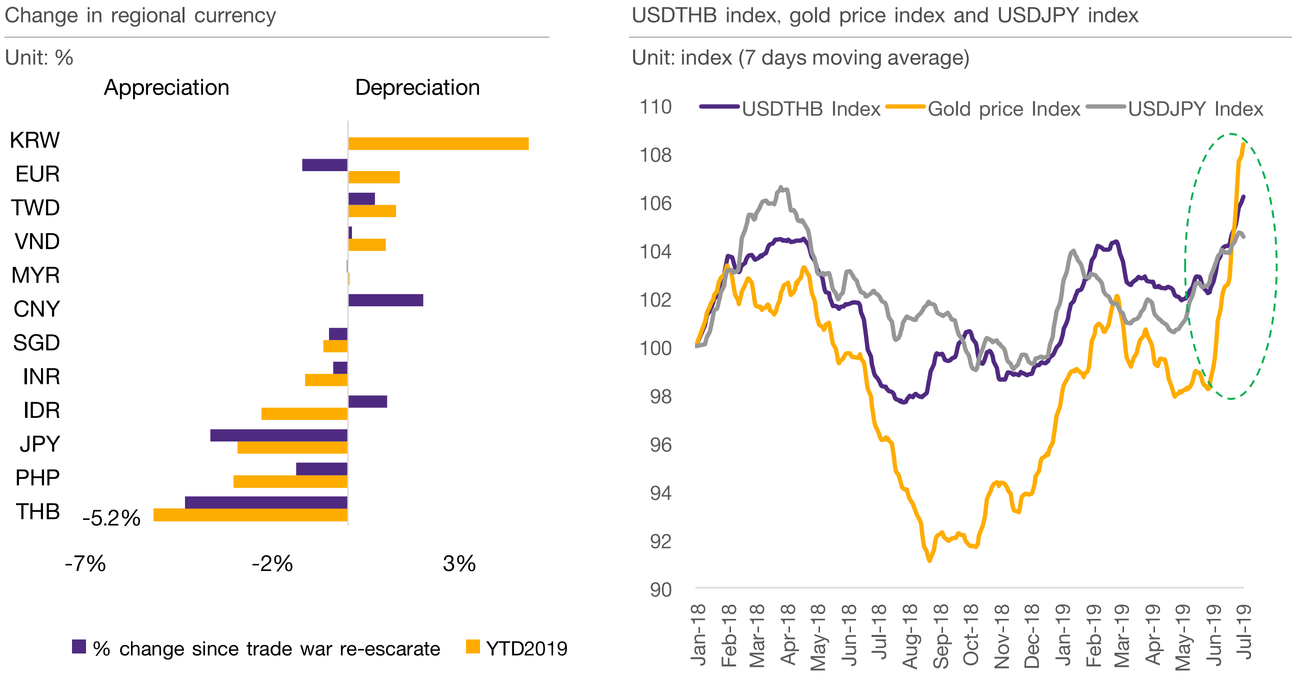
Source: EIC analysis based on data from Bloomberg

The value of the Thai baht against the US dollar appreciated after the trade war reignited in early May, and the US dollar index got weaker after the Fed signaled a potential rate cut at its FOMC meeting (Figure 10: Left). The Thai baht against the US dollar on July 3, 2019 stood at 30.64, 3.57% stronger than the previous quarter. The following were key factors.

1) The trade war re-erupted in early May, leading to heavy capital inflows to Thailand's financial market. With Thailand's high current account surplus at 11% to GDP (Q1/2019) and foreign reserves being 3.3 times higher than short-term external debt (as of March 2019), The Thai currency is considered a safe haven asset. Moreover, the stronger value of the Thai baht is consistent with other safe haven assets, including the Japanese yen and gold prices. (Figure 10: Right)

2) After the Fed sent a policy rate cut signal in early June, the US dollar index on July 3, 2019 depreciated from the prior quarter by 0.53% to 96.77. This is the other factor inducing the Thai baht to sharply strengthen during the end of Q2/2019.

Figure 10: Following the re-escalation of trade war, USDTHB has strengthened as Thailand has strong external stability. The appreciation of THB has been consistent with the stronger JPY and rising gold price.



Note: data as of 3 July 2019

Source: EIC analysis based on data from Bloomberg

Outlook

EIC now forecasts that the value of Thai baht against US dollar will appreciate by the end of 2019 and be within a range of 30-31 baht per US dollar (from a previously forecasted range of 31-32 baht per US dollar). The followings are the key factors influencing the value of the Thai baht.

1) The US dollar has the potential to depreciate from earlier quarters due to a decelerating US economy and the Fed being more dovish than the other central banks: EIC expects the US economy to slow down significantly, and the Fed might decide to cut its policy rate during the second half of 2019. Moreover, the market considers the Fed to be more capable of using expansionary monetary policy than the other central banks of the key economies, which mostly have effective lower bounds. As a result, the US dollar may devalue from the previous quarter, giving the Thai baht the potential to stay relatively strong.

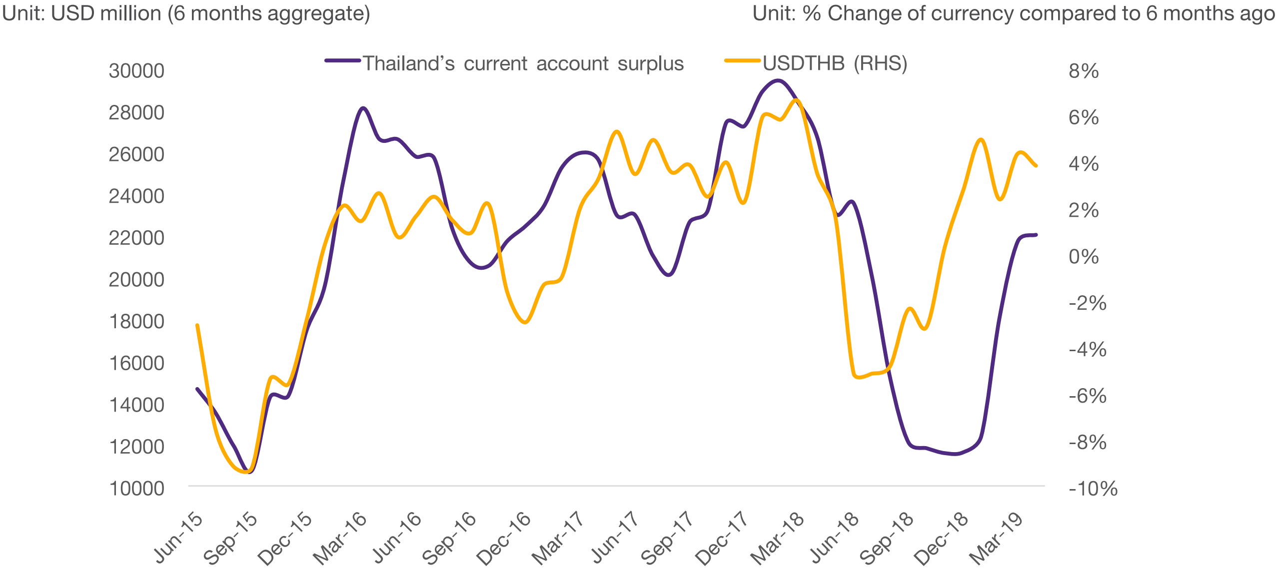
2) The demand for Thai baht is high, as Thailand has a large current account surplus: After having studied the relationship of Thai baht and Thailand's current account, EIC has discovered that the two economic indicators have a positive correlation. The Thai baht tends to get stronger when the current account surplus grows. (Figure 11) EIC projects Thailand's current account in 2019 expanding from last year. Key factors include the continuing trade surplus (although Thai exports contracted by 1.6%, Thai imports plunged more significantly by 2.7%.) and service account surplus (although the projection of Thailand's inbound foreign tourists has been scaled down from 6.3% to 4.8%, the expected number of visitors is still on the rise). EIC anticipates the value of Thailand's current account by the end of 2019 to be 37.3 billion US dollars, a jump from 35.2 billion at the end of 2018.

3)The other regional central banks have decreased their policy rates, pressuring the Thai baht to relatively strengthen: In 2018, the Fed raised the policy rate 4 times (100 bps), causing the currencies in the region to greatly depreciate against the US dollar. The regional central banks then needed to adjust their policy rates upward along with the Fed in order to maintain economic stability. Nevertheless, devaluation pressure on regional currencies is lower this year, enabling regional central banks to reduce their policy rates to boost their economic conditions. By doing so, they have made the Thai baht comparatively stronger. (Figure 12)

EIC expects the value of the Thai baht to be stronger, but not more than 30 baht per US dollar, as the global economic slowdown will keep US dollar depreciation minimal. EIC anticipates the US dollar to devalue only slightly from the current stage because the global economy has the potential to decelerate in an on-going manner, creating the demand for US dollars, a safe haven asset. EIC has identified the nature of US dollar index and PMI relationship; when the global economy slows down or faces a recession, the US dollar tends to strengthen. (Figure 13)

Figure 11: Positive relationship between THB appreciation and the current account surplus has been observed.

Thailand's current account surplus and USDTHB



Source: EIC analysis based on data from Bloomberg

Figure12: Dovish monetary policy of other regional central banks is expected. This could put additional pressure on THB appreciation.

FX change and policy rate of the countries in the region

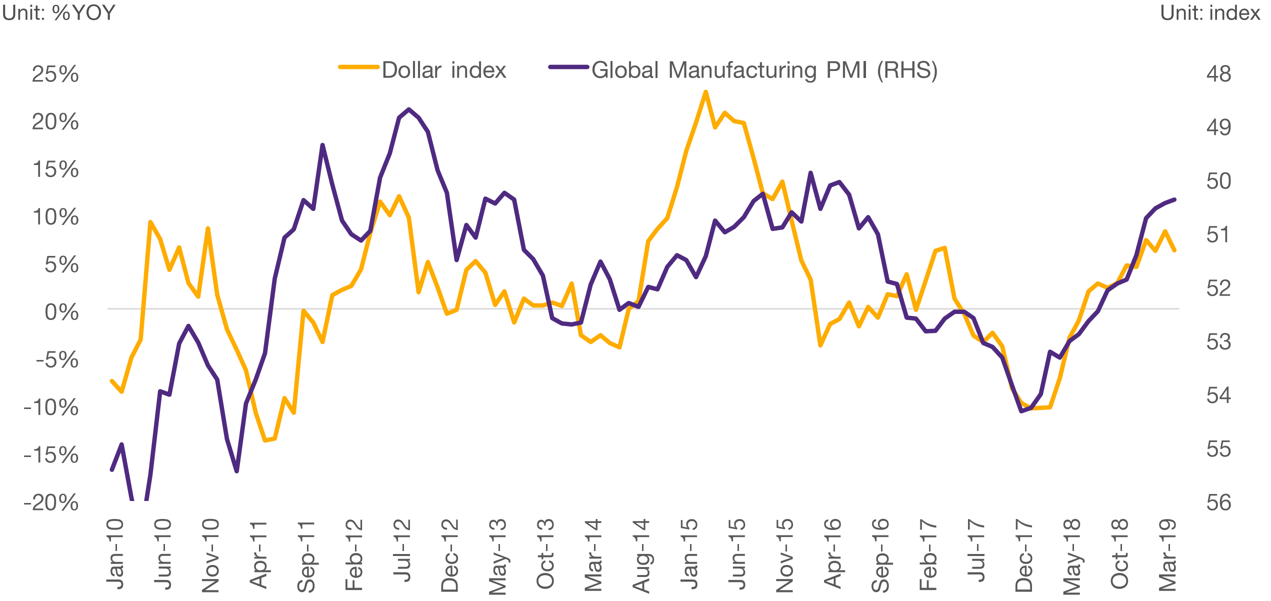
	2018		2019		
	FX change (%change against the US dollar)	**Policy rate chg.** (Basis points)	**FX change** (%change against the US dollar)	**Policy rate chg.** (Basis points)	**Policy rate** (%)
US (DXY)	**4.4%**	**100**	**0.6%**	**0**	**2.5%**
Index	**-8.4%**	**50**	**1.3%**	**-50**	**6%**
Indonesia	**-5.8%**	**175**	**1.8%**	**0**	**6%**
Malaysia	**-2.1%**	**25**	**-0.1%**	**-25**	**3%**
Philippines	**-5.1%**	**175**	**2.8%**	**-25**	**4.5%**
Australia	**-9.7%**	**0**	**-0.3%**	**-25**	**1.25%**
New Zealand	**-5.3%**	**0**	**-0.2%**	**-25**	**1.5%**
Thailand	**0.8%**	**25**	**5.2%**	**0**	**1.75**

Note: data as of 3 July 2019

Source: EIC analysis based on data from Bloomberg

Figure 13: During the global economic slowdown or recession period, US dollars usually strengthens.

Dollar index and Global Manufacturing PMI



Source: EIC analysis based on data from Bloomberg and JP Morgan

Additionally, the Bank of Thailand has to face the more challenge of preventing the Thai baht from appreciating sharply as Thailand has a higher risk of being considered a currency manipulator. According to a report titled "Macroeconomics and FX Policy of Major Trading Partners" by the US Department of the Treasury, Thailand has been placed on a list of US major trading partners since US-Thailand bilateral trade value exceeded 40 billion US dollars in 2018. Thailand however is not on the monitoring list yet. To be on this list, the country must meet at least 2 out of 3 of the following criteria.

- In one year, a minimum of 20 billion US dollars' worth of the country's trade balance with the US
- In one year, current account surplus at 2% per GDP
- At least 2% of foreign exchange reserves per GDP and a minimum of 6-month market intervention (out of 12 months)

EIC expects that in the coming stage the Bank of Thailand may have limited capability in managing the value of the Thai baht, risking more chance of appreciation. Although at the present Thailand has only met with a criteria on current account surplus, a risk of meeting bilateral trade criteria remains as there has recently been a surplus in Thailand's trade with the US of 19 billion US dollars during the last 4 quarters. Thus, Thailand's central bank may not be able to effectively control the stability of the Thai currency for the remaining months of 2019, with the risk of the Thai baht strengthening continuously.

BULL - BEAR

Oil Price

Bull-Bear Oil Price

Crude oil price (USD/Barrel) (Average)	2017	2018					2019F					
	Average	Q1	Q2	Q3	Q4	Average	Q1	Q2F	Q3F	Q4F	Average*	Range**
WTI	51	63	68	70	59	65	55	62	61	59	59	54-64
Brent	54	67	75	75	68	71	63	71	66	65	66	63-71

*Annual baseline average crude oil prices based on EIC estimates

**Annual baseline crude oil price ranges based on estimates by 5 leading global houses (as of 1 July 2019)

BULLs

- Following the OPEC meeting in Vienna on 1 July 2019, members reached an agreement to extend the oil production cut of 1.2 million barrels of oil per day to March 2020 in order to maintain the balance between supply and demand in the oil market. Saudi Arabia, the highest oil producing country within OPEC, was able to reduce its oil production in May 2019 to 9.65 million barrels per day, which was lower than the agreed target of 10.3 million barrels per day.
- Iran threatened to close the Strait of Hormuz in response to the US ending its sanctions exemptions on Iranian oil imports for 8 countries – China, India, South Korea, Japan, Turkey, Taiwan, Greece, and Italy. The Strait of Hormuz is an important channel for oil tankers from Middle Eastern countries to reach the global market, and one-third of total oil production is transported through the Strait of Hormuz. Its closure could lead to a tighter oil supply.
- The US-Iran conflict escalated when the US accused Iran of attacking two oil tankers in the Gulf of Oman on 13 June. One week later, Iran shot down a US military drone valued at 110 million USD while it was flying over the Strait of Hormuz. These escalating tensions could lead to a surge in oil prices over the short term.

BEARs

- The trade war escalation between the US and China could contribute to a slowdown in the global economy, which in turn could negatively impact oil demand. The US announced an increase in tariffs on 200 billion USD worth of Chinese goods, which was an increase from 10% to 25%. In response, China increased tariffs on 60 billion USD worth of US goods, increasing duties from 5-10% to 5-25%. According to an analysis by the US Energy Information Administration (EIA), the global demand for oil in 2019 will be at 101.1 million barrels per day, decreasing by 1.2% YOY compared to the previous year's expansion of 1.4% YOY.
- There is an increasing trend in oil supply from US producers. This is reflected in the average number of oil rigs during the first 5 months of 2019, which numbered at 833 and expanded by 4% YOY. The EIA has assessed the US crude oil production volume in 2019 to be at 12.3 million barrels per day, expanding up to 12.4% YOY.

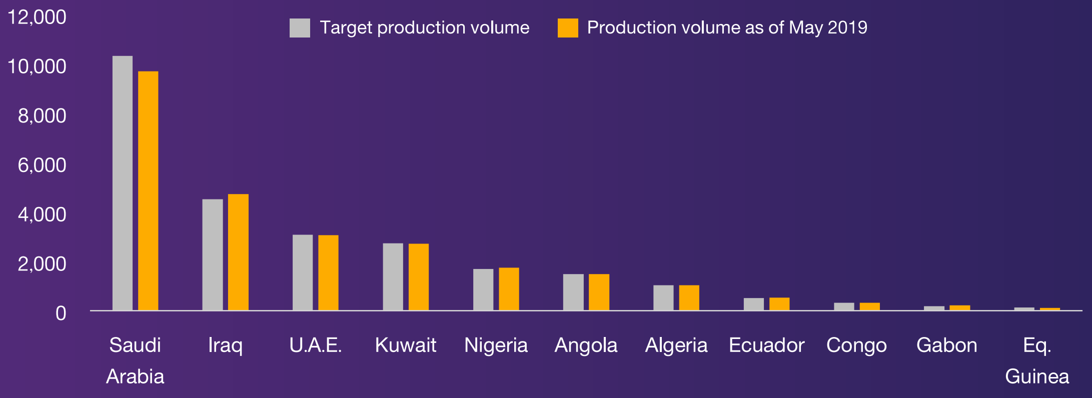
SCB EIC View : **Bear**

Crude oil prices in Q3 of 2019 demonstrate a decreasing trend compared to the previous quarter, with the key contributing factor being the escalation of US-China trade war, which has led to a global economic slowdown and a negative impact on oil demand. Furthermore, despite OPEC extending its oil production cut through to March 2020, increased US production is expected to replace the diminished OPEC supply. The EIA's assessment revealed that in Q3, the US will produce up to 12.3 million barrels of crude oil per day, or a 12.4% YOY growth.

Nevertheless, it is also important to keep an eye on the geopolitical risks that could contribute to a surge in crude oil prices over the short term. In particular, the issue of US sanctions on Iran for its nuclear program does not appear to be easily resolved. The US had initially exempted 8 countries from its sanctions from November 2018, allowing them to import oil from Iran. However, in early May 2019, the US announced an end to these sanctions exemptions, resulting in the decrease of Iranian oil exports to 400 thousand barrels per day – a contraction of 57% compared to the previous month, when Iran exported 940 thousand barrels per day. Furthermore, Iran threatened to close the Strait of Hormuz. If this occurred, it would prevent Middle Eastern countries such as Saudi Arabia, Kuwait, Iraq, Iran, and United Arab Emirates from exporting oil through this channel, which could potentially tighten oil supply.

OPEC Oil Production Volume in May 2019 against Agreed Production Target

Unit: Thousand barrels per day

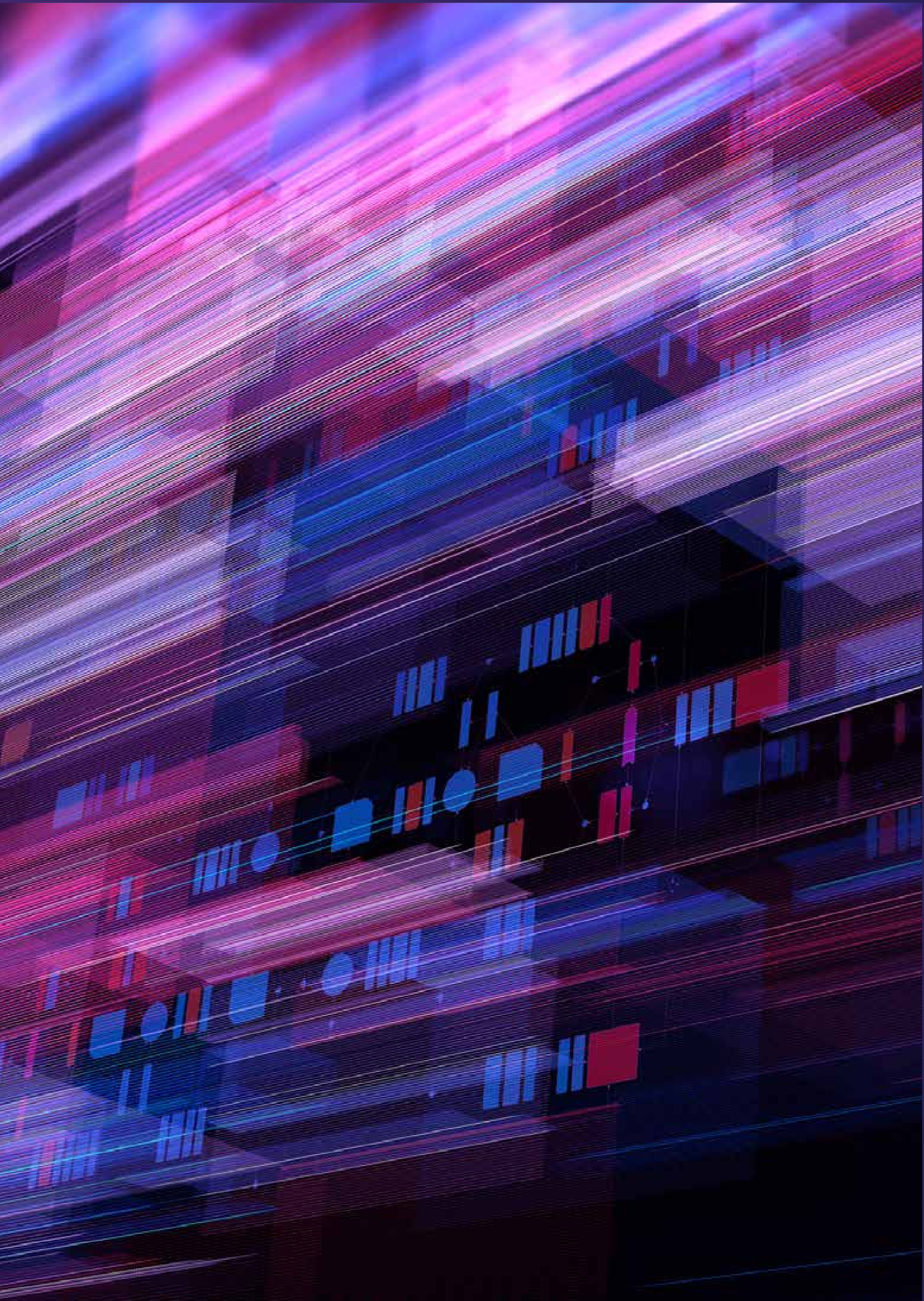


Compliance rate	106%	96%	100%	100%	97%	101%	100%	97%	98%	86%	108%

Source: EIC analysis based on OPEC data

Data Analytics :

Bangkok Ho(s)tel good reviews, good prices



Bangkok Ho(s)tel
good reviews, good prices

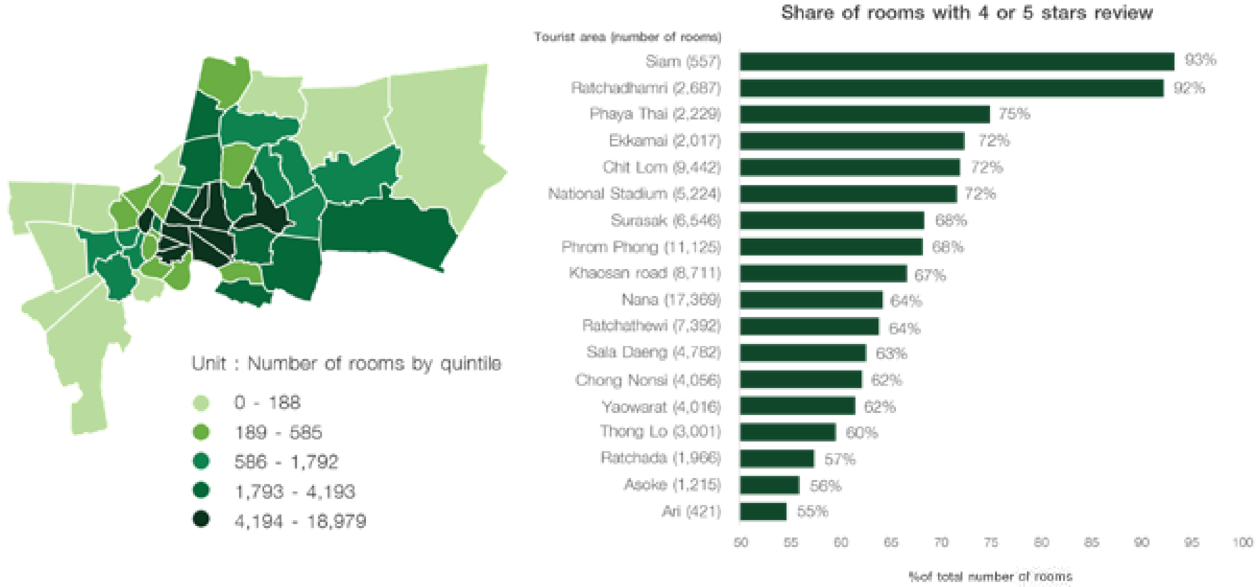
Thailand's tourism industry has grown dramatically over the last 10 years. The number of foreign tourist arrivals averaged an expansion of 11.7% per year, from 14 million in 2009 to as high as 38 million in 2018. Supporting factors were overall global tourist revenue growth, an increase in the number of Chinese tourists, airport expansion, and new low-cost airline routes. At present, foreign tourist arrivals generate over THB 2 trillion, accounting for 12% of Thailand's GDP.

The lodging industry grew as well thanks to this growth in tourism. GDP from the hotel and restaurant industry increased by 13.8% per year in tandem with high tourism growth, a rate surpassing Thailand's overall GDP growth of only 6.0% per year. During the time, new business registrations in the lodging industry accelerated by as much as 12.1% per year, especially in large cities such as Bangkok, Chonburi, Chiang Mai, and Phuket. However, new business growth brought along increased business competition. As a result, new challenges emerged for businesses, such as fierce competition in securing customers, little to no ability to increase room prices, and higher marketing expenditures. In light of this, understanding changes in the competitive landscape and customer behaviors will become increasingly advantageous.

EIC views that amid fierce business competition, big data analysis will enable businesses to understand the market better and make more accurate strategic decisions. Technological developments in tandem with changing travel behaviors led to an increase in website usage for searching, travel selections, and writing reviews. Information received from websites, hence, became an increasingly important source for businesses in understanding their customers better, and can be analyzed in various aspects. EIC therefore conducted an analysis using information from tripadvisor.com to study hotels and accommodations in Bangkok. The following analysis is based on data from 140,000 rooms on TripAdvisor with 540,000 aggregated reviews from both Thai and foreign tourists (data as of March 2019).

1) Accommodations in popular locations did not necessarily receive good reviews: In Bangkok, most accommodations were concentrated in the central business district and popular tourist spots such as Nana, Phrom Phong, and Chit Lom, which had roughly 10,000-20,000 rooms per area. However, areas with large numbers of rooms did not guarantee high review scores. EIC analysis showed that areas with rooms with the highest review scores, or those with higher than 4 points from a total of 5 points, were Siam (93%), Ratchadamri (92%), and Phaya Thai (75%). Meanwhile, areas with high room concentration such as Nana, Phrom Phong, and Chit Lom had scores of 4 points or higher at 64%, 68%, and 72%, respectively, which were lower than the previous category (Figure 1).

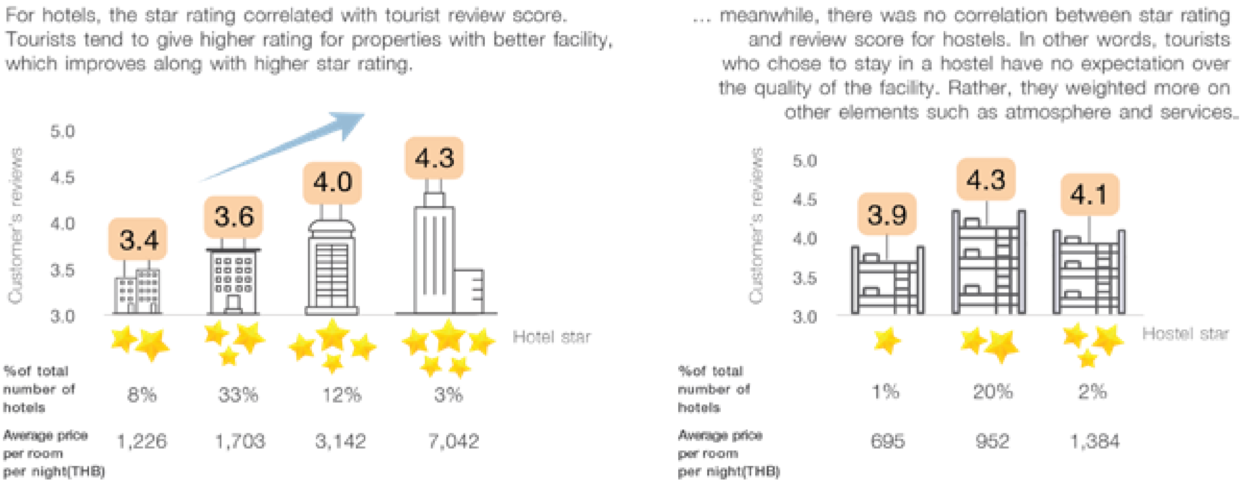
Figure 1 : Number of rooms in Bangkok



Source : EIC analysis based on data from tripadvisor.com

2) For hotels, star rating correlated with review score and price per night. However, the correlation was not present among hostels: EIC analysis revealed that for hotels, those with higher star ratings received higher review scores in comparison to those with lower star ratings, enabling higher prices per night charged. On average, 5-star hotels received review scores of 4.3 points out of a total of 5, while 4-star hotels received 4.0 points, and 2 to 3-star hotels received 3.6 and 3.4 points, respectively. Meanwhile, the price per night charged increased according to star rating as well (Figure 2). The hotel star rating corresponded to the standard and quality of its facility, hence, when tourists choose to stay in hotels, facility quality per star rating could be increasingly important. Conversely, the mentioned correlation witnessed in hotels was not present in hostels. Although hostel price per night also increased according to the star rating, there was no correlation with review scores. It could be the case that tourists that choose to stay in hostels have lower expectations regarding hostel facilities, but rather focus more on other aspects such as atmosphere or service.

Figure 2 : Average room prices between hotels and hostels



For hotels, the star rating correlated with tourist review score. Tourists tend to give higher rating for properties with better facility, which improves along with higher star rating.

… meanwhile, there was no correlation between star rating and review score for hostels. In other words, tourists who chose to stay in a hostel have no expectation over the quality of the facility. Rather, they weighted more on other elements such as atmosphere and services.

Source : EIC analysis based on data from tripadvisor.com

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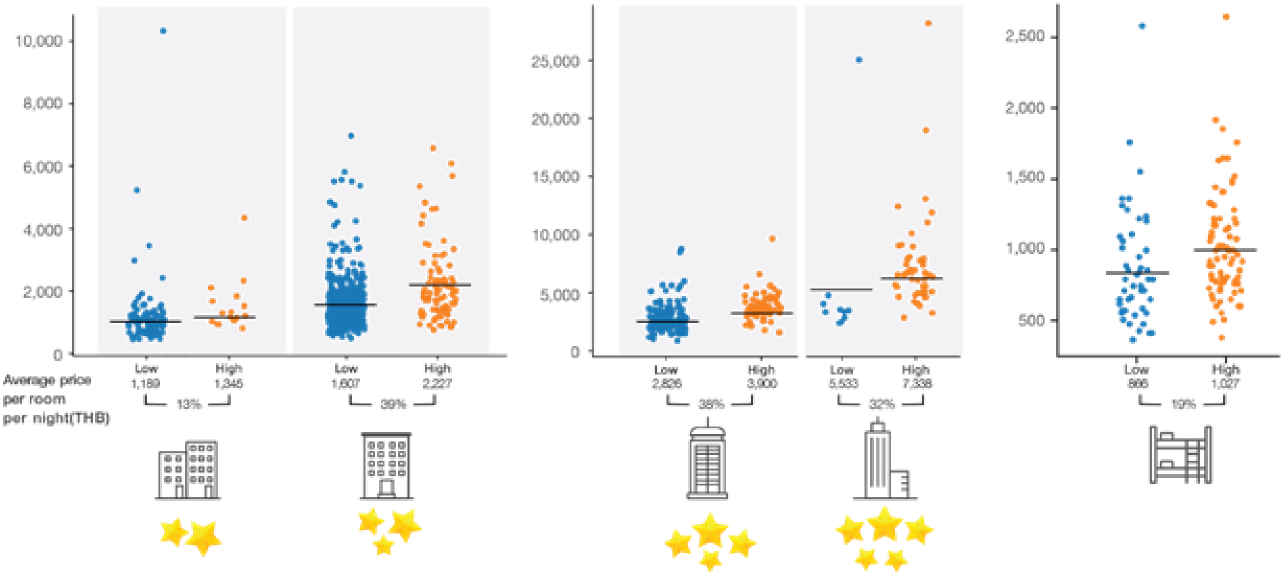
1 Hotel star กำหนดโดยเว็บไซต์ตามคุณภาพของ facility ของที่พัก

2 ราคาห้องพักเฉลี่ย คือ ราคาห้องพักเฉลี่ยระหว่างราคาช่วง high season และ low season ของห้อง standard ที่ที่พักระบุไว้บนหน้าเว็บไซต์

3) Meanwhile, accommodations with higher review scores will on average charge higher prices per night than peers in the same star ranking: In order to compare price per night among accommodations, EIC selected hotels with scores of 4 points and above from a total of 5 points as a benchmark for a great review score. Results were that among hotels with the same star rating, those with great review scores charged higher prices. For example, among 2-star hotels, those with great review scores charged 13% more. Whereas among hotels with 2-stars and above, those with great review scores charged 32-39% more (Figure 3). As for hostels, those with great review scores charged roughly 19% more than those with lower scores. Hence, EIC believes that review scores have an inuence on accommodation choice.

Figure 3 : Review scores could affect room prices.



Source : EIC analysis based on data from tripadvisor.com

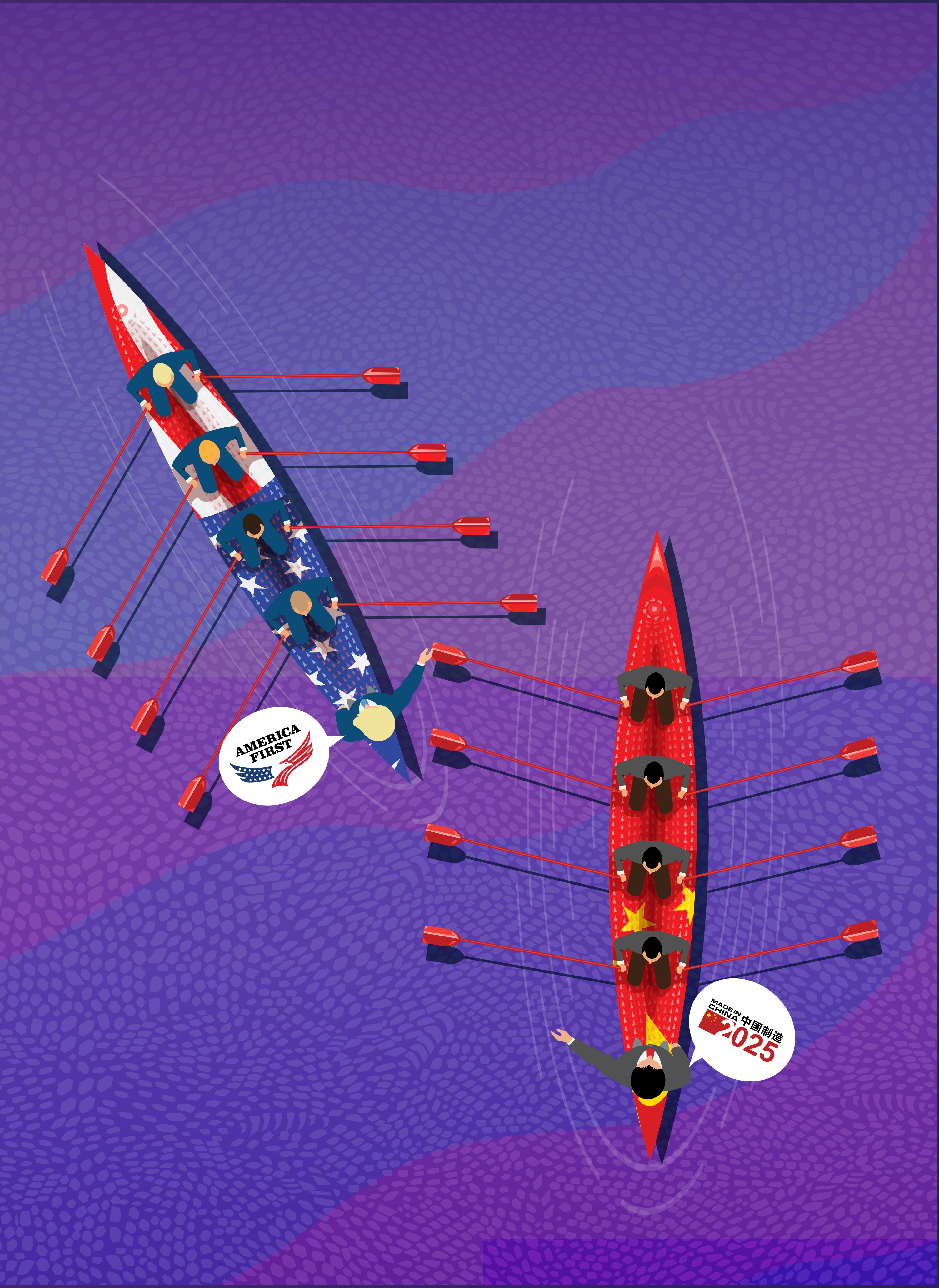
EIC believes that businesses should strive to impress and please customers as it will have a direct impact on review scores and price per night. Strategies to further heighten scores could be, for example, consistent cleanliness, facility quality maintenance, friendly service, and all-round services for tourists. Furthermore, businesses should **leverage the usage of tourist-related websites or online platforms** to help promote and to help analyze the current competitive landscape and changing customer behaviors. Online travel agencies such as Agoda.com or Trip.com are especially useful as they connect to China's top-rated traveling service website CTrip. Apart from the mentioned channels, businesses could also use hotel management systems and software for accounting or human resources to enable cost reductions. Support for a wider range of payment methods, especially WeChat Pay and Alipay electronic payments in order to provide convenience for Chinese tourists is also recommended. According to a survey by Hotel.com, 44% of Chinese tourists responded that payment via their Chinese mobile wallet will make them feel most welcomed, the highest proportion equivalent to feeling welcomed when staff can speak Chinese.

EIC sees high potential for growth in Thailand's tourism. Improving service quality with continually improving operation efciency will help increase the chance for businesses to succeed in line with the industry's long-term trend.

Game of Trade

Getting Thailand ready for the US-China trade war

Since 2018, the US trade protectionist measures aiming at protecting US interests have returned to become a top global headline. The period has seen the escalation of the measures the US has imposed against many countries, Especially China, reiterating the “America First” slogan President Trump used during his 2016 election campaign. The attempt by the US to reduce its trade deficit has led to new tariff measures as well as other trade protectionist measures imposed on its trading partners, particularly the tensions over trade and technology with China. The global and Thai economies are poised to enter a challenging period that would bring both risks and opportunities from trade war, which has already escalated into the war between the US and China to become the next economic and technology superpower.

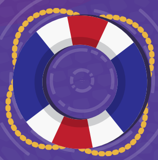

AMERICA FIRST
MADE IN CHINA 中国制造 2025

GAME OF TRADE

เตรียมพร้อมเศรษฐกิจไทย ในศึกชิงมหาอำนาจทางการค้าสหรัฐฯ-จีน

AMERICA FIRST

The interest of Americans is a priority!



MADE IN CHINA 中国制造 2025

Under Made in China 2025 China aims to become the world's industrial and technology leader

Trade War

The US started the trade war, accusing China of "intellectual property theft" under section 301

	Jul 6, 2018	Aug 23, 2018	Sep 24, 2018	Dec 18 - Apr 19	May 10, 2019	Jun 1, 2019	
US tariffs	34 bn • Machinery • E&E 25%	16 bn • Circuits • Motors 25%	200 bn • Industrial and farm products 10%	Trade war truce	200 bn 25%		300 bn
China's retaliation	25% 34 bn • Soybeans • Pork	25% 16 bn • Primary Plastics • Chemical Products	5-10% 60 bn • E&E • Fuels	US and China agree to start negotiation and temporarily pause new tariffs	Re-escalated	5-25% 60 bn	10 bn

The US delayed import tariff hikes on additional USD 300bn of Chinese goods in 2019 after the G20 summit in Osaka during 28-29 June 2019

Tech War

The US started the tech war with China, concerning that Huawei 5G technology would threaten US national security

HUAWEI

Technology war

- Dec 6, 2018: Canadian authorities confirmed that Huawei's CFO was detained at the request of US government.
- May 15, 2019: Executive ordered banning Huawei equipment for national security reasons.
- May 20, 2019: President Xi visited a major plant of rare-earth, a key material used in tecnology product manufacturing.
- June 29, 2019: The US lifted its ban on Huawei.

The US allowed US companies to continue doing business with Huawei after the G20 summit in Osaka during 28-29 June 2019

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Trade war impacts on Thailand

Trade channels

Supply chain linkage with China

Lower Thai exports of intermediate good to China

China's economic slowdown

Lower Chinese consumer confidence and purchasing power, lower Thai exports of consumer goods to China

Impact through Thai trade partners that rely on China

Lower Thai exports to countries heavily relying on trade with China

Domestic sectors

Product dumping

Influx of cheap steel products from China, affecting Thai domestic producers.

Tourism sector

Chinese tourists prefer Greater China (Hong Kong, Macao, Taiwan) to Thailand

Real estate sector

Slowdown in China's investment in Thai condominium

And how should Thailand deal with it?

Government

Broaden FTA negotiation to new markets

e.g. Pakistan, Turkey, Sri Lanka, RCEP, EU, CPTPP

Improve business environment to attract foreign investors

Ease business registration procedures

Infrastructure development

Business

Diversify export markets

e.g. to India and CLMV countries

Utilize tax privileges from trade partners

e.g. China's import tariff reduction

Substitute Thai exports to the US

(Box: Window of opportunity for Thailand in the midst of the trade war)

SCB
Economic Intelligence Center

Global trade development and the latest assessments of the US-China trade war

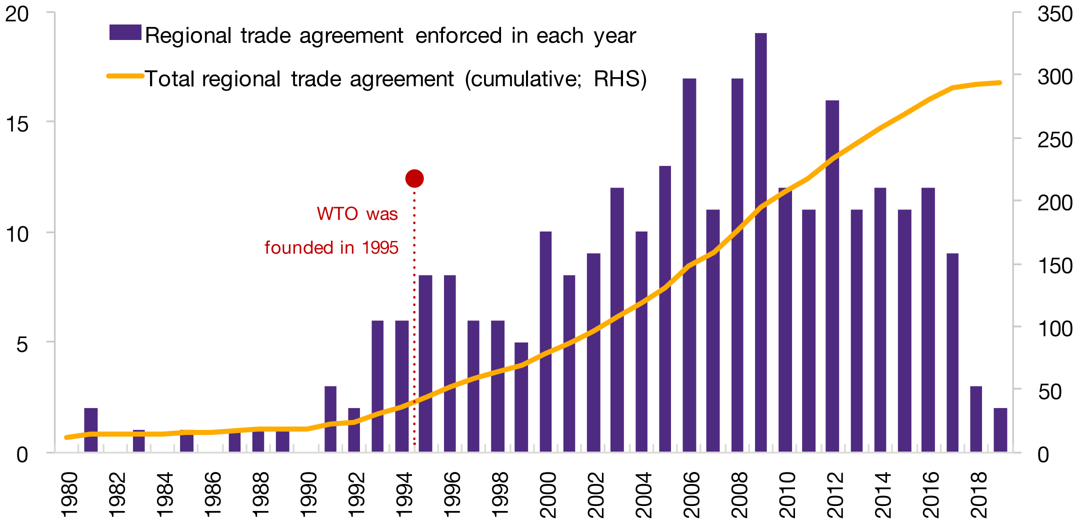
1.1) Development of global trade before the US-China trade war and the role of China.

International trade has played and important part in promoting economic development and expansion since the establishment of the General Agreement on Tariff and Trade in 1948, which later developed into the World Trade Organization (WTO) in 1995. The establishment of the WTO has promoted international trade liberalization, resulting in a number of bilateral and multilateral trade agreements. (Figure 1) **As a result of these agreements, global supply chains have become more broadened and more complex.** They also brought about production fragmentation and changes in production networks from domestic-oriented trade focusing on simple final products to the exchanges of primary or intermediary goods before final products are exported to another country. This has resulted in supply chains which create economic value, increase employment, and boost domestic and international resource allocation, giving rise to massive economic development. In addition, trade agreements resulted in offshoring from developed countries to developing countries as producers took advantage of free trade agreements and lower wages in developing nations. Developing economies, especially in Asia, have become the main destination of Foreign Direct Investment (FDI), both from developed countries and businesses seeking to relocate their production bases.

Figure 1 : The number of free trade agreements has increased steadily since the establishment of WTO.

Regional trade agreement by year of entry into force

Unit: number



Source : World Trade Organization (data as of June 2019)

During the past decade, technological progress has spurred many changes in global trade. According to the Mckinsey Global Institute[1] , new technologies have changed the nature of global supply chains in three ways: (1) new technologies such as Blockchain, E-commerce and the Internet of Things reduce transaction costs; (2) automation makes production more productive, replacing a large number of human workers. Factories might consider moving their production bases back to developed countries with more technological capacity to take advantage of labor-saving innovation, potentially leading to changes in the global supply chains. Countries with better technological advancment would be more attractive to firms seeking relocation and; (3) technology has led to a shift in consumer demand to new products such as smartphones, hybrid cars, and IT products. Technological products will be in higher demand, giving incentives for countries to innovate and compete to be leaders in future technologies.

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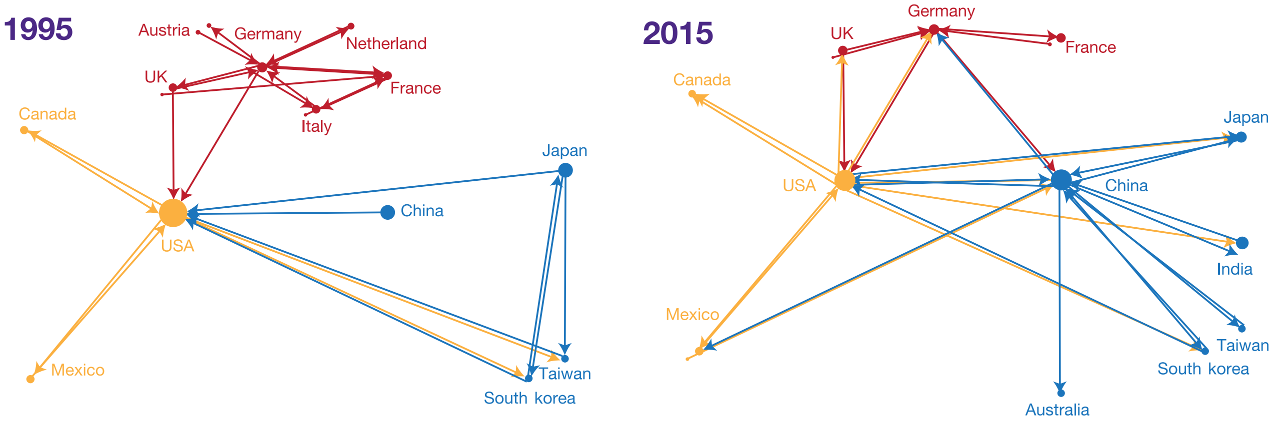
[1] McKinsey Global Institute. (2019). Globalization in transition: The future of trade and value chains.

China has elevated its role in global trade since joining WTO in 2001 and has become the world's major manufacturing factory. China's Open-Door Policy and its membership of the WTO allowed Chinese products to enter global markets. Its advantages on lower labor cost also attracted a large-scale factory relocation to China, making the country a key producer of manufactured and electronic products in Asia and the world (Figure 2). Hence, China has played an inreasing role in Asia's global supply chains and stepped up to be the world's largest exporter, with the US being a main consumer of Chinese exports.

As technology became more important to the global trade, China began to upgrade the country from being a global factory to becoming a leader in future technology, an ambition backed by the Chinese administration. Chinese producers not only take production orders from foreign countries, they also seek technological transfer from developed countries, develop existing know-how, and potentially are going to unlock technologies of the future, particularly 5G telecommunication and AI adoption. China's technological advance is in part attributable to the Chinese government, which laid out the 'Made in China 2025'[2] strategy paving the way for China to become the world leader of future technology. **However, many countries, especially the US, suspected China's technological development, claiming that the development is partly caused by intervention from China's State-Owned Enterprises (SOEs) and unfair treatment of foreign firms,** including the requirement for transfers of foreign technological know-how, and possible infringement of intellectual property rights. Being the world's largest consumer base, China pressures foreign firms to transfer technology in exchange for an access to the Chinese market. China's role in the global economy, technological development, as well as trade and technological competition altogether formed a starting point leading to the current US-China trade war.

Figure 2 : China has elevated its role in Asian trade and supply chains after joining WTO

Development of the world trade



Source : IMF, World Economic Outlook, April 2019

1.2) The origin of US protectionist measures and the latest update on the US-China trade war

The US perceives the changing global trade landscape driven by China's rising power which may cause the US to lose its position as the global economic and technology leader. Therefore, the US has attempted to counterbalance and undermine China's power expansion. The Obama administration pushed forward Trans-Pacific Partnership (TPP) in 2009. TPP is a large-scale trade agreement with strict trade standards and obligations covering various issues, including those related to China, such as private sector liberalization and protection of intellectual property rights. The agreement is expected to undermine China's economic power. Nevertheless, the US under the Trump administration withdrew itself from the TPP in 2017 and resorted to imposing import tariffs on Chinese goods as a tool to thwart China's rising power, leading to the ongoing trade and technology war between the two superpowers.

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[2] Made in China 2025 is a long-term policy to transform China's production sector into becoming the world's economic superpower and technology leader. The policy has three phases: (1) 2025 -- aimed at lifting up China's production capacity and labor productivity within the production sector. Chinese producers are given incentives to conduct R&D offering advanced technological products and services; (2) 2035 -- develop innovation and improve China-made products to be on par with international standards and; (3) 2049 -- China becomes a leading producer of manufactured products. The year 2049 also marks the 100th anniversary of the establishment of People's Republic of China.

The US trade protectionist measures are motivated by both political and economic reasons, depending on the assumptions of proponents and opponents of the measures. However, considering the clear economic motives which President Trump originally aimed at, there are at least three reasons EIC views as incentives and goals of the current trade war:

1. **To reduce the trade deficit.** Trump believes that the prolonged US trade deficit is a result of unfair trade practices caused by factors such as (1) supports from governments of exporting countries which distort markets (2) currency manipulation to make exports more competitive (3) dumping and (4) membership in trade agreements such as TPP and NAFTA (North American Free Trade Agreement), which put the US into a disadvantageous position.

2. **To increase US employment.** Trump believes that the reason why many US workers remain unemployed is the offshoring of large manufacturing firms, particularly hard manufacturers such as automobile and steel industries. Therefore, the attempt to attract those firms to relocate back to the US would create more jobs in the US. Trump's Policy which gives large tax benefits under massive tax reform in late 2017, combined with tariff measures on imports, would motivate US companies operating abroad to move back to the US in the future.

3. **To end China's violation of intellectual property rights.** The US Trade Representative (USTR) indicated that the Chinese government implemented unfair policy to pressure US companies to transfer their technological know-how to China, leading to violation of intellectual rights property hurting US companies and trade. Such policy includes: (1) enforcement of investment rules forcing US companies to make technological transfer in exchange for access to the Chinese market; (2) selective unfair licensing to pressure US companies to engage in know-how transfer; (3) government supports for Chinese firms to merge with US-based companies to get access to technological knowledge and intellectual property and; (4) the Chinese government supports cyber intrusion to access US's computer networks containing invaluable confidential business data and information concerning US policy to impede China's rising position to be the world leader of technology according to the 'Made in China 2025' policy, a long-term blueprint of the Chinese government to develop the economy into the high-innovation global production hub by 2025.

Summary of the US-China trade war 2018-2019

(data as of 28 June 2019)

Battle!
1

The US imposed tariffs on washing machines and solar panels (section 201 - safeguard tariff)

US trade protectionist measures	Retaliatory measures from US trading partners
On February 7, 2018, the US imposed tariffs on washing machines and solar panels imported from all countries to protect US producers.	none
Tariffs on washing machines are divided into 2 parts; the first 1.2 million imported washing machines are subject to a 20% tariff and the rest are subjected to a 50% tariff. For solar panels, the tariff is 30%. Imports of both products will be reduced by 2-5% in every following year.	

Implications and impacts on Thai industries

- In 2018, Thai exports of washing machines and solar panels contracted 54%YOY and 18%YOY, respectively. The impact remains to be felt in 2019 since the US is a key export destination for both products. Nevertheless, EIC expects exports of washing machines to recover in 2019, with expected growth at 6%YOY, reaching export value of USD 1.46 billion. Meanwhile, exports of solar panels should grow at around 5%YOY, with an export value of USD 1.3 billion. This is due to higher US demand for both products and Thai producers' export diversification from the US to the EU and other markets since 2018. However, the global price of solar panels is expected to continue falling in tandem with improving productivity of solar-panel producers.

- Overall, exports of electronic goods and electrical appliances will be affected. Export value of goods subject to the measures including semiconductors (solar panels) and washing machines, dry-washing machines, and parts exported to the US grew 52%YOY and 57%YOY, respectively in the first 5 months of 2019, recovering from last year's low base but remaining below the value in the first 5 months of 2018. The export value of both products combining all export destinations contracted 17%YOY and 3%YOY, respectively over the same period.

Battle!
2

The US imposed tariffs on steel and aluminum (section 232 - national security tariff)

US trade protectionist measures

On March 1, 2018, the US imposed 25% on steel and 10% on aluminum imports from all countries, in addition to previous measures, with an aim of reducing steel imports and stimulating the US steel industry.

Retaliatory measures from US trading partners

On March 7, 2018, the EU, the second largest exporter of steel and aluminum to the US, retaliated by imposing a 25% import tariff on US goods worth USD 3.2 billion, including agricultural products, motorcycles, and others.

On April 2, 2018, China retaliated by introducing a 15-25% import tariff on 82 US products worth USD 2.4 billion, such as aluminum, fruit, and pork.

In addition, Canada, Mexico, India, Russia and Turkey increased import tariffs on US steel and aluminum in response to the measure.

Implications and impacts on Thai industries

- In 2018, US imports of steel-related products decreased slightly 2%YOY, standing at around 52.5 million tons. The trade war affected the three highest import volume of steel-related products, namely semi-finished steel falling 10%YOY to 5.4 million tons, coated steel sheet falling 17%YOY to 3.9 million tons, and steel-welded pipe falling 24%YOY to 3.1 million tons. These three products accounted 10%, 8%, and 6% of all US imports of steel-related products in 2018. The group of products on which the impact was secondary included seamless steel pipe, rebar, and cold-rolled coil. The countries which felt the greatest impact from this tariff measure were China, Russia, Japan, and Turkey, as they altogether exported steel-related products worth 12.3 million tons, or 24% of all US steel imports in 2018.

- The US import tariff on steel products should marginally affect Thai steel exporters since the US is not a primary export destination for the Thai steel industry. During the first quarter of 2018 to the first quarter of 2019, the enforcement period of section 232, the volume of steel exports (HS72) from Thailand to the US fell by 65 thousand tons to around 100 thousand tons, or only 2.7% of the total volume of total Thai steel exports. In addition, Thailand was able to get tariff exemption from the USTR for specific companies and shipments on case-by-case basis for certain steel products, such as steel pipes.

Battle!
3.1

The US imposed a 25% import tariff on Chinese goods worth USD 50 billion and China retaliated.

US trade protectionist measures	Retaliatory measures from US trading partners
The US imposed a 25% import tariff on Chinese goods due to China's violation of intellectual property rights under section 301 of the US Trade Act of 1947. The measure affected 1,097 products worth USD 50 billion. The products can be categorized into two groups.	China retaliated by announcing the similar 25% tariffs worth the same value of products effective on the same date. The measure affects 878 products worth USD 50 billion.
The first group, which has been subjected to import tariffs since July 6, 2018, includes 818 products worth USD 34 billion. Important products are machinery parts, LEDs, electronic parts, and other parts.	The first group consists of 545 products worth USD 34 billion. Major products include grains, soybeans, milk powder, and pork.
The second group, which has been subjected to import tariffs since August 23, 2018, includes 279 products worth USD 16 billion. Important products are IC, electrical circuits, and motorcycles.	The second group consists of 333 products worth USD 16 billion, including plastic beads, chemical products, and medical appliances.

Battle!
3.2

The US imposed tariffs on Chinese imports worth USD 200 billion and China retaliated.

US trade protectionist measures	Retaliatory measures from US trading partners
On September 31, 2018, the US imposed 10% tariffs on Chinese imports worth USD 200 billion, effective on 24 September 2018.	As a retaliation, the Chinese government imposed a similar import tariffs of 5-10% on US imports worth USD 60 billion, effective immediately after the US measure was enforced.
5,475 products from China worth 8.3% of all imports to the US in 2017 are subject to this measure, covering products from agricultural to manufactured goods. Major products include assembled printed circuit boards, metal furniture, hard disks, UPS, and etc.	5,207 products from the US worth 3.3% of total imports to China in 2017 are subject to retaliated measure. Major products include medical equipment, petroleum gas, semiconductor, etc.
The US then raised the tariffs from 10% to 25% on May 10, 2019.	China then raised tariffs from 5-10% to 5-25%, effective on June 1, 2019.

Battle!
3.3

The US threatened to impose tariffs on the remaining Chinese imports, and China retaliated.

US trade protectionist measures

The US threatened to impose 25% tariffs on the remaining Chinese imports worth USD 300 billion. Major products include cellphones, laptops, toys, sports shoes, and electronic appliances.

Retaliatory measures from US trading partners

China prepared a retaliation by introducing tariffs on the remaining US imports worth USD 10 billion. The list of products has not been announced.

Implications and impacts on Thai industries

As for the US, tariffs hike on Chinese consumer goods is likely to affect prices of products in domestic market, leading to a rising inflation. Higher product prices, especially those of goods highly rely on Chinese imports, will undermine the US household consumption going forward. Meanwhile, countries largely linked with China's supply chain may be disrupted as the US finds imports from other market in substitution for Chinese goods, particularly electronics products. Countries with strong linkage to China's electronics supply chain are South Korea, Taiwan, Vietnam, Malaysia, and Thailand. Similarly, the Chinese economy is under transition, seeking to rely more on domestic consumption. If the trade war leads to higher prices of imports from the US and China cannot promptly find substitutes, Chinese consumers would face negative consequences similar to what US consumers will face. Therefore, there is a greater risk that the potentials of these two economic superpowers would deteriorate.

Battle! 4

National Security Tariff measure on automobiles and parts (Section 232)

US trade protectionist measures	Retaliatory measures from US trading partners
On May 23, 2018, the US began an investigation on imports of automobiles and parts under Section 232. On May 18, 2019, the US administration then decided to postpone a tariffs hike for 180 days to negotiate with its main trading partners, including the EU and Japan. The new deadline for the decision on automobiles and parts tariffs hike is November 14, 2019.	None

Implications and impacts on Thai industries

- The 25% tariffs hike on automobile industry would directly affect automobile exports of Thailand as well as other ASEAN countries including Malaysia, Indonesia, the Philippines and Vietnam. Vietnam and the Philippines would likely face the highest impact since both countries rely on exports of automobile parts to the US constituting as much as 20% and 24% respectively of their overall automobile industry exports. As for Thailand, in 2018 the value of automobile parts exports to the US is about USD 900 million, or 3% of total automobile industry exports.

- The possibility of US slapping tariffs on automobile industry has declined as the US is under trade talks with major trading partners of these products, including Mexico, Canada, the EU, and Japan. As a result, President Trump decided to postpone final decision deadline to November 2019. Nevertheless, countries with large automobile exports, including Thailand, remain subject to the risk that the US would negotiate and end up with export limit or quota set by the US. The recent example is South Korea who agreed with the US to limit steel exports in exchange for an exemption on the steel tariffs imposed under Section 232.

- There are both direct and indirect impact on Thailand under Section 232, worth as high as USD 6 billion. The direct impact includes Thai automobile exports to the US worth USD 0.2 billion, motor and accessory exports worth USD 1.2 billion, and tire exports worth 2.1 billion. The indirect impact is on Thai automobile part exports to the US trade partners which could be assembled before exported to the US. Thai automobile exports may be adversely affected if trade partners in automobile supply chain point to deceleration. These trading partners include Germany, Japan, and Mexico.

- As for Mexico, the country is likely to be exempted from the 25% US tariff according to the conditions of the USMCA, but Thailand remains subject to potential impact through Thai exports of machinery and automobile parts to Mexico. This is due to the USMCA's requirement that automobiles to be exported within the USMCA countries must use at least 40% of parts from countries in the North America. This potentially leads to a decrease in automobile parts' orders from Mexico.

1.3) Assessing impact of additional US import tariffs on the remaining USD 300 billion worth of Chinese goods.

The US has pushed back import tariffs hikes on the remaining USD 300 billion worth of Chinese goods following side meeting at the G20 summit. Nonetheless, the possibility of another rate hike remains on the horizon. During June 28-29, US President Donald Trump and Chinese President Xi Jinping met in side meeting to discuss trade protectionism measures. The negotiation ended with both sides agreeing to resume trade talks and the US announcing there would be no additional tariffs imposed on Chinese goods. Nevertheless, depending on progress in the next round of the US-China trade negotiations, the US President, who holds authority on tariff rates, may still raise tariffs as he suddenly did last May, when tariffs on USD 200 billon of Chinese goods were raised from 10% to 20%. As such, the risk of another tariff hike on Chinese goods remains.

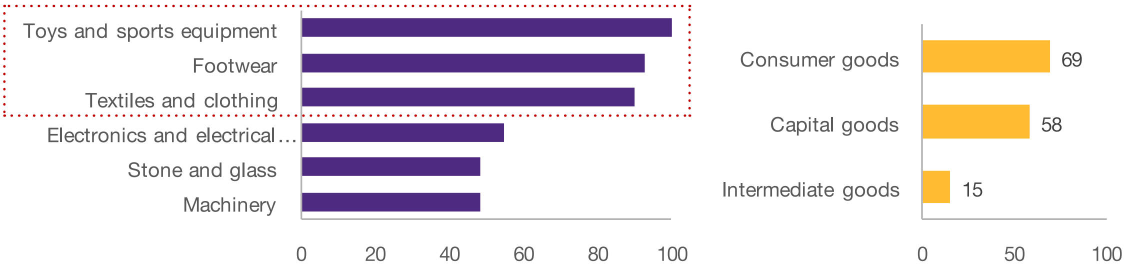
Most remaining USD 300 billion Chinese products are consumer goods that are not included in the first 2 rounds of tariff hikes. These cover 69% of total final goods, 58% of total capital goods, and 15% of intermediate goods the US imported from China. The lists of products in this round also extend to all toys and sport equipment, and more than 90% of footwear (Figure 3). The Chinese product categories that will have the highest impact are smart phones, laptops, toys, and sport shoes.

The third US tariffs hike may have a direct impact on the US inflation, since product lists cover more consumer goods than the previous round and the US importers are likely to push tariff burden on to the consumers. This will be driven by rising prices for mobile phones, laptops, and sport shoes. The Federal Reserve Bank of San Francisco conducted an impact assessment using a scenario where a US import tariff rate of 25% is imposed on all Chinese goods, generating a cost-push inflation. Results showed that personal consumption expenditure (PCE) would increase by 0.4 percentage points, which would put pressure on purchasing power going forward. Meanwhile the non-residential private investment index would rise by 1.4 percentage points owing to higher costs of imported raw materials, particularly electronics and machinery industries, as shown by a significant rise in the China import price index following the tariff hikes. This will in turn negatively impact business profits and lead to lower hiring in the US production sector in future.

Figure 3 : Chinese goods worth USD 300 billion are mostly final goods.

Share of imports from China subjected to US tariffs on USD 300 billion round

Unit : % of total imports from China in each product group



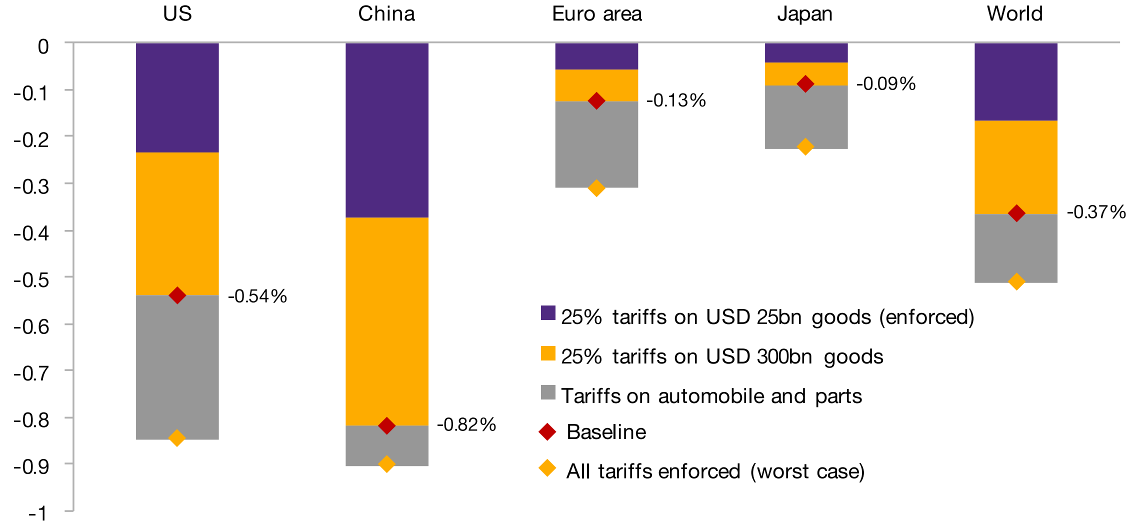
Source : Perterson Institute for International Economics (PIIE)

All 3 rounds of the US tariff hike on Chinese goods will have widespread impacts on the global economy. Uncertain trade policies of the US and falling China export orders will likely hurt investor confidence and in turn delay fixed investment, while the US tariffs hikes and China's retaliation will drive down trade between the two countries as imports become more expensive. Thus, the two economic superpowers are likely set for slower growth. Goldman Sachs estimates show that if the US imposed 25% tariffs on all Chinese imports, the global economy during the next 3 years will fall by 0.37%, while the US and Chinese economies will contract by 0.54% and 0.82%, respectively (Figure 4).

Figure 4 : Trade war will adversely affect the global economic growth.

Trade war effects on global economic growth in 3 years

Unit : %



Source : Goldman Sachs

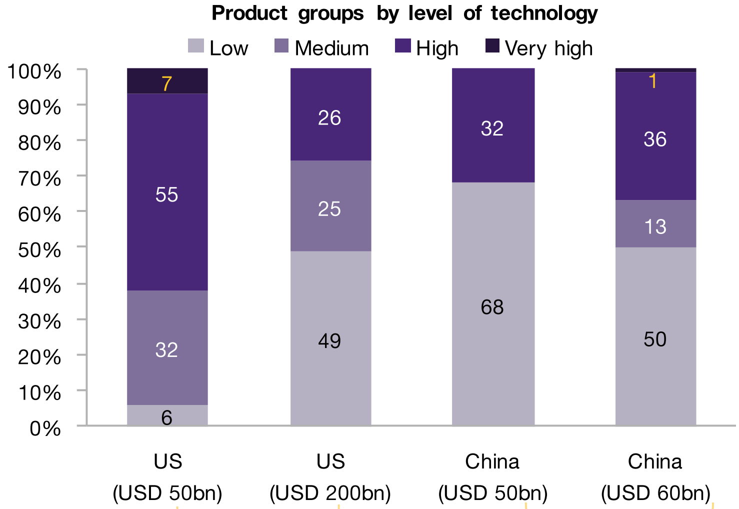
1.4) The first episode of the US-China technology war and implications on the global economy

Further to the ongoing US-China trade war, which may be prolonged amid great uncertainty around trade negotiations, a technology war between the US and China erupted when the US placed a ban on Huawei on May 15, 2019. The US administration prohibited US companies, including Google and Microsoft, from doing business with Huawei, and broadened the scope to end business relationships with Huawei by other US giant allies in the telecommunication technology sector, including KDDI and Softbank from Japan. In fact, this technology war simultaneously started as the trade war was being escalated in the middle of 2018, as the list of Chinese goods the US eyed imposing tariffs on were mostly technology-related. In addition, tensions started to heighten in December 2018 when the US government asked Canada to detain the CFO of Huawei and transfer her to the US to face prosecution for Huawei's violation of the US's trade sanctions on Iran, as well as Huawei's violation of the intellectual property rights of T-Mobile, the US-based mobile-phone provider. A technology war is indeed hidden under the surface of the trade war. If we dig deep into the categories of goods for which the US and China imposed tariffs on each other (Battle 3.1 - 3.2) based on levels of technology used in production, there is clearly an attempt to undermine Chinese exporters of technological products and to impede China's technological development according to the Made in China 2025 strategy, as detailed in the following.

Figure 5 : The US protectionism measures against China aim not only to reduce trade deficit but also to limit China's techonological development.

Comparison of the US-China targeted products released in June and July

Unit : %



Very high	Weapons and cartridges
	Aircraft and spacecraft
High	Medical equipment
	Automobile and parts
	Train and locomotives
	Nuclear reactor and machinery
	Medicine
	Ship
Medium	Electrical machinery
Low	Furniture
	Aluminum
	Steel
	Chemical products
	Rubber
	Agricultural products
	Plastics
	Oil and gas

Target China's very high technology products

Target China's low technology products (such as furniture) to curb China's influence in global supply chains and draw the US companies' manufacturing investment back to the US

Target US low-to-medium technology products and avoid US goods which may affect Chinese industry, but China's room to impose tariffs is somewhat limited

Sectors to be affected from the US-China trade war

Source : EIC analysis based on data from Natixis research

In the first round of tariff measures, the US imposed tariffs on Chinese imports worth USD 50 billion. In this round, the US targeted goods that require high advanced technology, such as airplanes and spacecraft, making up 7% of the list of goods affected. Goods that require advanced technology make up 55% of the list, such as medical equipment and medicine.

In the second round, tariffs were imposed on Chinese imports worth USD 200 billion. The targeted goods were intermediate goods requiring low technology in a bid to undermine China's role in global supply chains and to persuade US companies to relocate back to the US. Still, goods that require high advanced and advanced technology comprise 26% and 25% of the list, respectively.

The war between the US and China to win the position of the world's technological superpower officially began after President Trump issued an executive order prohibiting Huawei from selling products and services in the US, and the US Department of Commerce added Huawei to its US entity list, a list of companies that US companies are not allowed to do business with. Under the US entity list, no business transactions are allowed, including the sale of products, parts, IT, and software, as well as technology exchange, except when the US government grants permission. In doing so, the US government cited national security reasons and protection of US internet and IT networks from technological intrusion of foreign countries. After the G20 meeting in June 2019, the US administration has temporarily allowed US companies to do business transactions with Huawei. Despite the trade war truce, the trade and technology sectors could still face additional impacts from this dispute over technological development, further to the impacts already felt from the trade war. This will hurt US companies, which will lose opportunities for doing business with Huawei, and directly impacts Huawei and all other related companies (Figure 6). China depends on the US for software, semiconductors, and as a market for exports. Meanwhile, the US relies on China for production, factories and access to the Chinese consumer market. Nevertheless, the US fears that if Huawei is allowed to develop 5G technology, China would be able to control data networks globally. The US believes that the Chinese government is behind Huawei, which possibly attaches hidden devices to their products to elicit information from the US, while the US has little access to Chinese data. In addition, Huawei is currently the world's leader in 5G networks and has become a top seller of smartphones. As a result, Huawei is seen as a main driving mechanism for the Made in China 2025 strategy, and thus is inevitably worth eying closely as the trade and technology wars proceed.

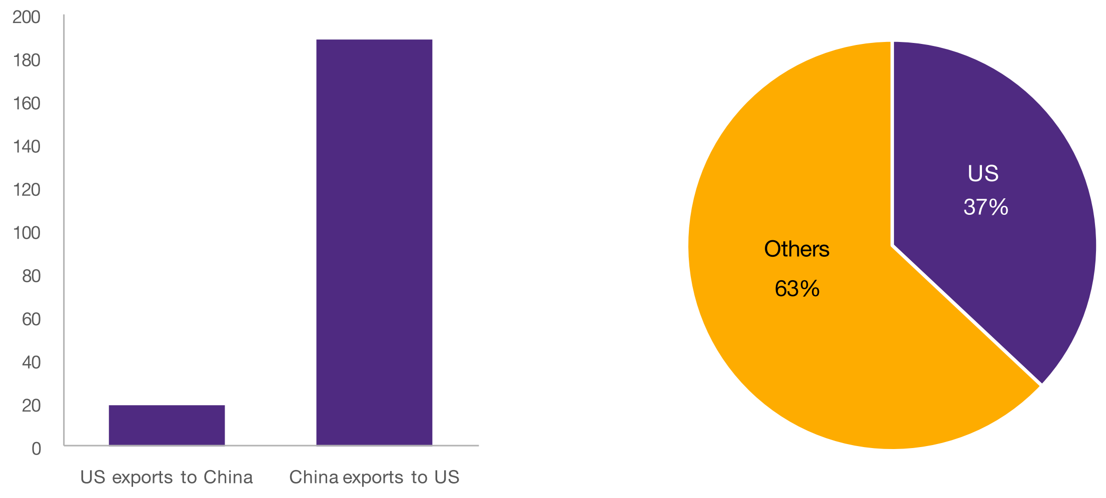
Figure 6: China exports technological products to the US more than vice versa. Chinese companies like Huawei remain dependent on the US and have large business operation in the US.

Tech product exports between the US and China

Unit : USD billion (2018)

Huawei's share of operating expense by country

Unit : % (2018)



Source : EIC analysis based on data from Natixis research

Huawei falling into the US entity list would greatly affect the company's business operations, particularly the sale of smartphones outside China. Given the continuing development of 5G technology and the rising number of 5G users, the competition to develop and maintain the market shares of the 5G market would be the major battle field in coming years. If the US administration does not soften its stance on Huawei, Huawei' product sales in the growing consumer markets would inevitably be negatively impacted (Figure 7). Although Huawei has rolled out emergency plans, including building up stocks and reducing its reliance on foreign producers (especially the US) by producing its own chips, developing technology and its own operating system, these methods are costly and will take time to develop and gain trust from consumers globally. In addition, based on a report from Arm Holdings, the company is likely to end its business relationship with Huawei, adding significant negative impacts to Huawei. This is because Huawei's chip production relies on the design and prototypes from Arm Holdings, and it is difficult for Huawei to develop technology to replace current versions, or to produce new chips that can command trust from the global market in a short time. Furthermore, Huawei's being fully denied access to Android's operating system on the part of Google Android, including Google Play Store, Google Play Services as well as Google-Mobile-Service applications such as Google Search, Google Maps, Gmail and YouTube etc. would add risks to the future sales of smartphones outside China.

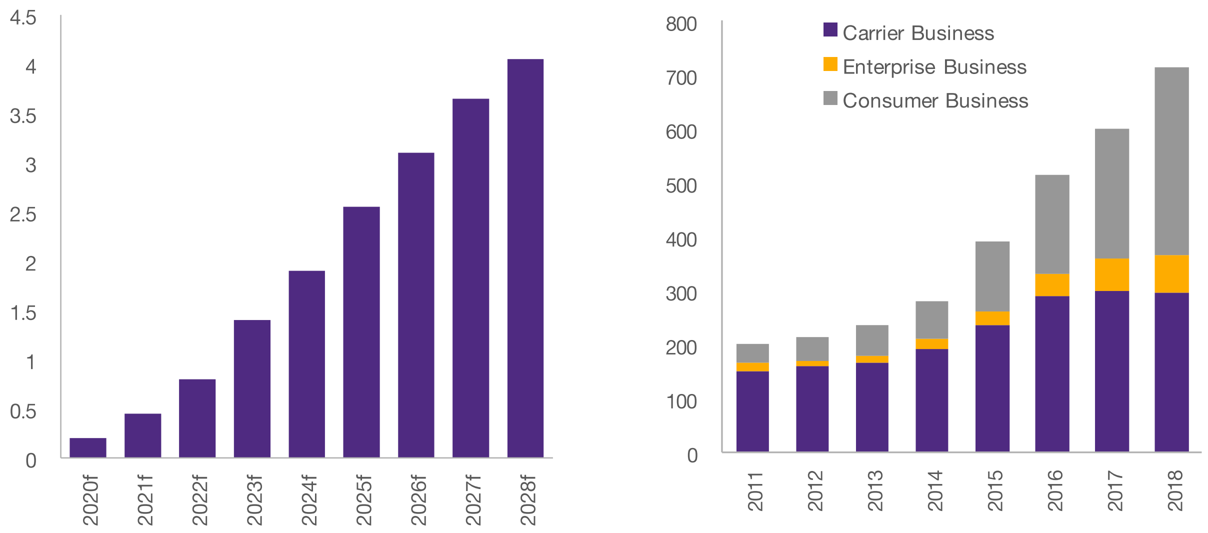
Figure 7: The US ban would negatively affect Huawei business, particularly consumer markets which are a large portion of Huawei revenue source amid an expanding number of 5G users.

Global 5G subscription forecasts

Unit: billion people

Huawei's revenue by business segment

Unit : CNY billion



Source : Huawei and Fitch Solutions

The future technology confrontation between the US and China will pose challenges to market structures and the development of 5G if the tension leads to polarization. In the long term, many countries around the world including Thailand, might have to choose between the US or China's supply chains if the two countries cannot cooperate and recognize mutual benefits from technology development. Nevertheless, in EIC's assessment in the short to medium terms, technology competition would be fragmented at the level of companies, not countries. In fact, there are close ties between the US and China in technology and trade reliance. Leading US chip producers such as Qualcomm remains dependent on exporting semiconductors to China, which makes up 60% of the company's total sale in 2018 (Figure 8). Technological products of many large US companies, including Apple, rely on sales to Chinese consumer markets (Figure 9). For Chinese producers, most of them including Huawei rely

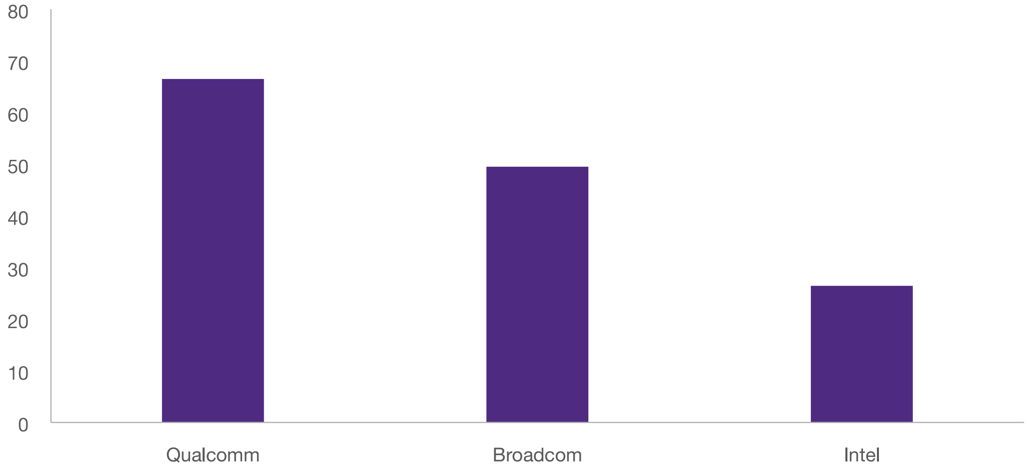
[3] Arm Holdings is a chip-designing company established in 1990, which was later taken over by a Japanese telecommunication company named Softbank in 2018. Arm Holdings's headquarter is based in California, US. The company does not directly produce chips, but grants permission to other companies wanting to produce or develop their own chips. Chips of many leading companies' agship smartphones such as Samsung Exynos, Qualcomm, Snapdragon, Apple A12, and Huawei's Kirin rely on Arm Holdings's permission licenses.

on technology imported from the US, and without service support from Google Android, Chinese companies face high risks in developing their own operating systems to penetrate markets outside China. Nevertheless, in the long term, heightening trade and technology tensions would fuel China's technological development, resulting in less reliance on the US and a clear fragmentation of two technology camps. In fact, China's ecosystem and internet networks are distinct and have been separate from the US's system for many years, as reflected by the Chinese government's blockage of most US-based services and the government's attempt to develop systems and services through leading Chinese companies such as Baidu, Alibaba, or Tencent. Although the overall current operating system in China is largely Chinese-centric, with many of user interfaces displaying mainly Chinese language, attempts to diversify sales outside China as well as the development of the new ecosystems on new operating networks by Chinese producers including Huawei would in the future allow Chinese companies to directly compete with US companies such as Google, Facebook and Amazon. Competition would be high in emerging markets in Asia, Africa and Latin America and so on, with massive business opportunities from growing economies and expanding middle-classes as well as demand for developing basic infrastructure in technology and telecommu-

Figure 8 : Large US semiconductor producers rely on sales in China.

Qualcomm, Broadcom, and Intel's semiconductor sales in China

Unit : % of global sales (2018)

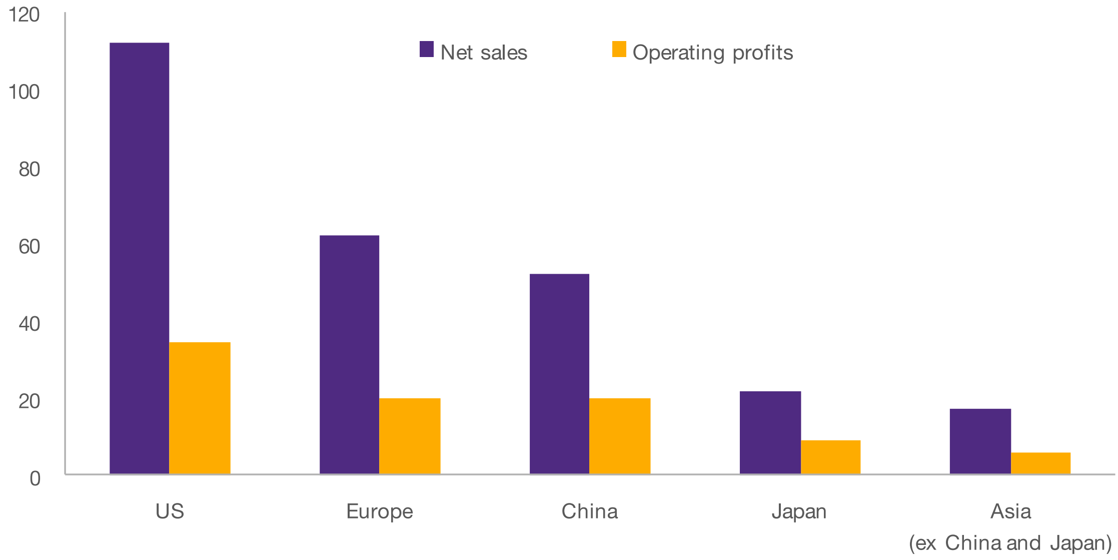


Source : Qualcomm, Broadcom and Intel

Figure 9 : US technology companies like Apply depend on sales and high operating profits in China

Apple's sales and profits by region

Unit: USD billion (2018)



Source : Apple

In EIC's view, countries in Asia particularly those having trade ties with the two superpowers including Thailand, need to balance their relationships with the US and China on both trade and technology. China will become the main competitor of the US in developing new technologies, particularly AI and basic technology infrastructure, in which China has taken steps beyond the US and begun to reap advantages, especially in 5G technology and AI. Many Southeast Asian countries, including Singapore and CLMV economies, which are related to the Belt and Road Initiative (BRI), still rely on China's technology and access to Chinese funding. At the same time, they still depend on exports to the US as well as US technology, subjecting them to the risk of facing pressure from the US with regard to trade and the import of technology. This poses challenges to those countries, including Thailand, in balancing relationships with the US and China in the future.

The trade war and impacts on the Thai economy

The war on trade and technology will have negative impacts on China's trade and economy. The Chinese economy is already showing signs of possible slowdown in 2019, citing a slight contraction of China's exports during the first 5 months of 2019 and slower expansion of industrial production and retail sales. **Thailand's economy will also get affected due to its close linkage with China's economy in trade and many other dimensions.** EIC sees the trade war impacting the Thai economy through 6 channels (Figure 10), which are 1) impact through supply chain linkage with China, 2) impact from China's economic slowdown, 3) impact through Thailand's trade partners with heavily reliant on China as an export market, 4) impact from the dumping of Chinese goods, 5) impact on Thai tourism sector and 6) impact on Thai real estate sector.

Figure 10 : Impact channels to the Thai economy

Impacts on Trade

Supply chain linkage with China

China's economic slowdown

Impact through Thai trade partners that rely on China

Effects on domestic sectors

Product dumping

Tourism sector

Real estate sector

Source : EIC analysis

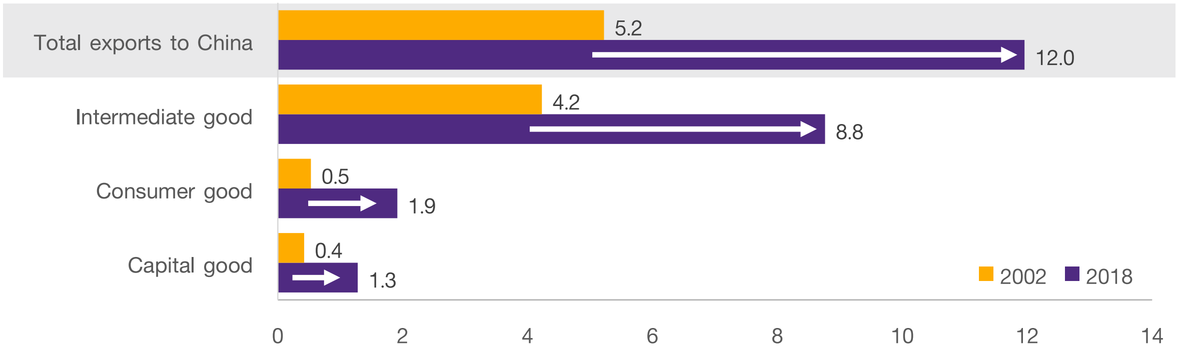
2.1) Impact through supply chain linkage with China

China has been elevating its role in Thailand through trade and supply chain. China was Thailand's 5th largest trade partner in 2002, but has become Thailand's top export destination, accounting for 12% of total Thai exports in 2018, ahead of the US and Japan, which accounted for 11% and 10% of total Thai exports, respectively. In terms of export composition, the majority of Thai exports to China are raw materials or intermediate goods used for consumer goods production. This shows that Thailand continues to develop more linkage with China's supply chain (Figure 11).

Figure 11 : China has become more significant to Thailand in terms of trade.

Thai exports to China by product groups

Unit : % of total Thai exports



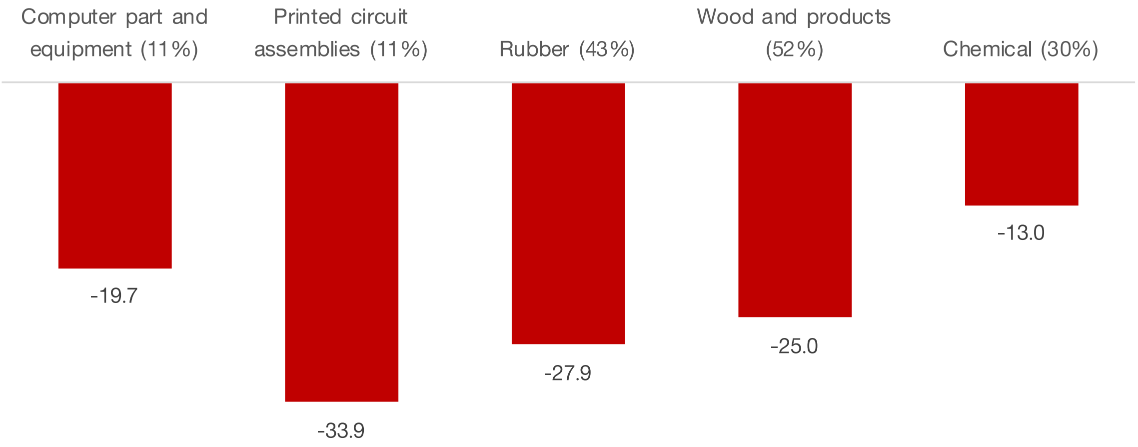
Source : EIC analysis based on data from MOC

The US-China trade war has damaged Thai industries that are parts of China's supply chain. Since the imposition of US discrimination measures against Chinese products in mid-2018 and China's retaliation, the volume of trade between the US and China has fallen. This in turn has affected Thai manufacturers that exported raw materials and intermediate goods to Chinese manufacturers. Currently, the US has raised tariffs on USD 250 billion worth of Chinese goods, covering around 45% of total Chinese exports to the US. At the same time, China has increased tariffs on USD 110 billion worth of US goods, covering roughly 90% of total US exports to China. These products, subjected to higher tariffs from either side, range from a wide variety of agricultural to industrial goods. As a result, Chinese exports have contracted severely in recent times. This consequently led Thai exports involved in China's supply chain to plunge in all categories during the first 5 months of 2019 (Figure 12). This included computers and parts, electrical circuits, rubber, wood and wooden products, and chemicals. Thai exports of these products to China during January-May fell by 20%, 34%, 28%, 25% and 13%, respectively.

Figure 12 : Thai exports to China have plummeted as they are mostly used in China's supply chain

Export growth of products with China's supply chain linkage (Jan-May 2019)

Unit : %YOY

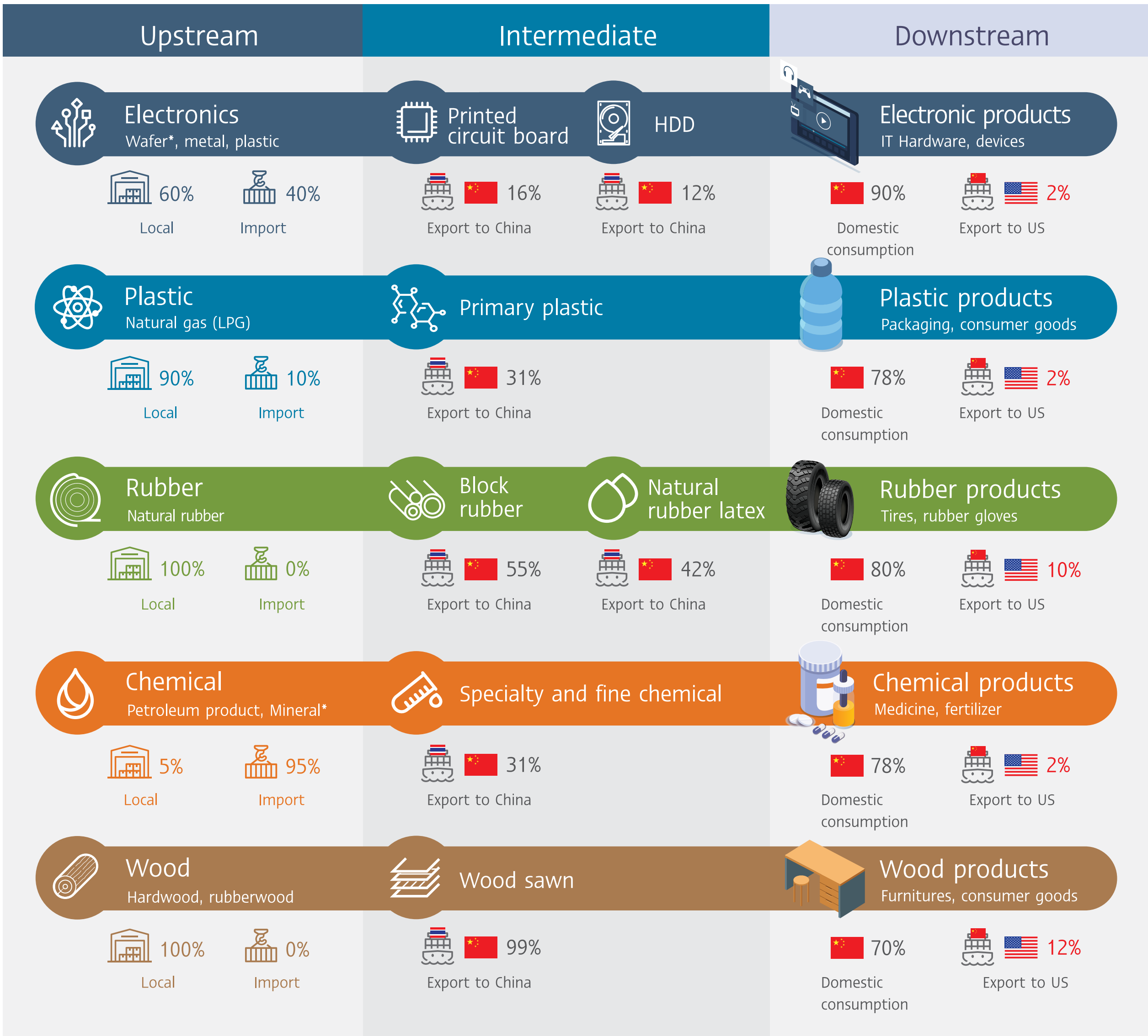


* ( ) : Share of Thai exports to China by products

Source : EIC analysis based on data from MOC

Figure 13 : Effects on Thai industries through supply chain linkage with China

Unit : % share of total exports



Note : *Thai imports of wafer (Silicon) and mineral (e.g. Potash) 100%

Source : EIC analysis based on data from MOC (2018)

To watch : The US import tariffs hike on remaining Chinese goods worth USD 300 billion will further pressure on Thai exports that are parts of China's supply chain. The majority of Chinese products that have yet to face higher tariff rates are consumer goods such as mobile phones, microwaves, and sport shoes. This will therefore affect Thailand's major export categories, especially electrical products (electrical parts) and rubber products (synthetic rubber and block rubber) that are exported to China for final process before exporting to the US market. Impacts may also spread towards other Thai product categories that are linked to China's supply chain, such as machinery and chemicals. For Thai businesses, strategy to mitigate foreign exchange risk is recommended, especially for firms using the Yuan in their transactions. This is because the Chinese Yuan value is likely to further depreciate against the US dollar given the US-China trade war continuing to affect China's economy.

2.2) Impact from China’s economic slowdown

Trade war pressure on China’s economy has led to falling purchasing power and confidence of Chinese consumers. The US introduction of trade barriers resulted in China’s export contraction of 0.04%YOY in the first 5 months of 2019. Exports to the US alone plunged by 8.7%YOY. Given this, the EIC expects China’s economy to grow at a slower pace from 6.6% in 2018 to 6.2% and 6.1% in 2019 and 2020, respectively. China’s economic slowdown will pass its weaker trend to Chinese consumers’ purchasing power and also their demand for Thai imports.

Thai products likely to be affected by China’s lower purchasing power are primarily consumer goods, such as furniture, electrical goods, cars, and agricultural goods. Although exports of these products have seen robust growth in the past, this growth continue its downward momentum is likely to slow down during the second half of 2018 until 2019 (Figure 13). Exports of cars, rice, and cassava products declined by 50%, 45% and 14%, respectively, in the first 5 months of 2019. Furthermore, as the trade war is prolonged and worsens Chinese consumer confidence, popular Thai exports such as fruits, beauty products, gems and jewelry are also likely to suffer. These exports have enjoyed strong growth over the last 10 years. In fact, during 2010-2018 the growth rate of Thai fresh, frozen, and dried fruits exported to China was as high as 13% per year. During the same period, exports of beauty products such as cosmetics, soap, and skin treatment products to China grew roughly 17% per annum, whilst exports of gems and jewelry to China grew on average of 31% per annum (Figure 14).

Figure 14: A slowdown of the Chinese economy will negatively impact Thai exports to China, especially consumer products and popular Thai products.

Thai export products to be affected from China’s economic slowdown

Thai export products to China	Growth (%YOY)			
	2017	2018H1	2018H2	5M2019
Consumer goods				
Furniture	45%	48%	7%	3%
Electrical appliances	18%	15%	-10%	-12%
Automobile and parts	54%	7%	-31%	-50%
Rice	20%	-24%	20%	-45%
Cassava products	-3%	17%	-11%	-14%
Popular Thai products among Chinese consumers				
Fresh and processed fruits	28%	49%	55%	122%
Cosmetics and skincare	-2%	216%	156%	63%
Jewelry and accessories	42%	6%	53%	4%

Source : EIC analysis based on data from MOC

Recommendation: Thai exporters should find ways to reap benefits from China’s import tariff cuts, diversify export markets to avoid heavy reliance on China, and utilize free trade agreement privileges to access other potential markets such as CLMV countries and India.

2.3) Impact through Thailand's trade partners that rely on China

The trade war and China's economic slowdown will have negative effects on Thai exports brought by trade partners that heavily rely on China. As the trade war drives down China's demand for imported intermediate goods and China's economic slowdown causes imports of consumer goods to fall, China's trade partners will in turn also need to cut down on their imports of raw materials, intermediate goods, and other products from Thailand. Thailand's key export markets that rely heavily on China for exports are Hong Kong, Australia, South Korea, Japan, and Vietnam, where China accounts for 55%, 29%, 27% 20% and 17% of their total exports, respectively. These countries combined however account for 26% of total Thai exports in 2018.

Thailand's major exports to these countries will therefore face demand risk, in particular automotive, machinery, electronic parts, and plastic. China's lower demand for intermediate goods especially machinery and electronics from Hong Kong, South Korea, Japan and Vietnam will hurt Thai businesses reliant on exporting raw materials and parts to these countries. Australia, on the other hand, mostly exports primary goods to China, such as ore, iron ore, and coal, and thus will tend to have a smaller impact on Thailand via the supply chain. However, Australia may still import fewer Thai products, of which Thailand's key exports to Australia are automobiles and machinery. Despite the continued growth of Thai exports to these 5 countries in 2018, in the first 5 months of 2019 Thai exports to Hong Kong, Australia, Japan, and South Korean have receded at a rate of 9%YOY, 2%YOY, 2%YOY and 13%YOY, respectively, signaling that export growth to these markets may slow in 2019 (Figure 15). The only exception was Vietnam, which continued to expand at 6%YOY.

Figure 15 : Thai key export product to major trade partners

Thailand's major trade partners	Key export products	Growth (%YOY)				Share of Thai exports to each trade partners (%)
		2017	2018H1	2018H2	5M2019	
Hong Kong	**Total exports**	7%	5%	-1%	-9%	100%
	Computer and parts	6%	27%	12%	-12%	29%
	Jewelry and accessories	2%	-9%	-13%	-6%	17%
	Electrical circuits	2%	-5%	-9%	-16%	15%
Japan	**Total exports**	8%	18%	8%	-2%	100%
	Automobile and parts	-2%	35%	23%	5%	7%
	Processed chicken	15%	5%	6%	13%	5%
	Telephone and parts	292%	33%	-17%	-16%	4%
Vietnam	**Total exports**	23%	12%	12%	6%	100%
	Automobile and parts	-9%	-9%	139%	158%	11%
	Refined oil	52%	34%	-7%	-31%	8%
	Primary plastics	24%	49%	24%	-10%	8%
South Korea	**Total exports**	14%	10%	2%	-4%	100%
	Woods and products	42%	28%	3%	-20%	5%
	Computer and parts	58%	41%	-13%	-1%	5%
	Electrical circuits	-19%	-44%	-33%	-16%	5%
Australia	**Total exports**	2%	12%	-6%	-13%	100%
	Automobile and parts	11%	20%	-8%	-19%	57%
	Air conditioner and parts	24%	-6%	-11%	-6%	5%
	Primary plastics	24%	21%	-1%	-25%	3%

Source : EIC analysis based on data from MOC

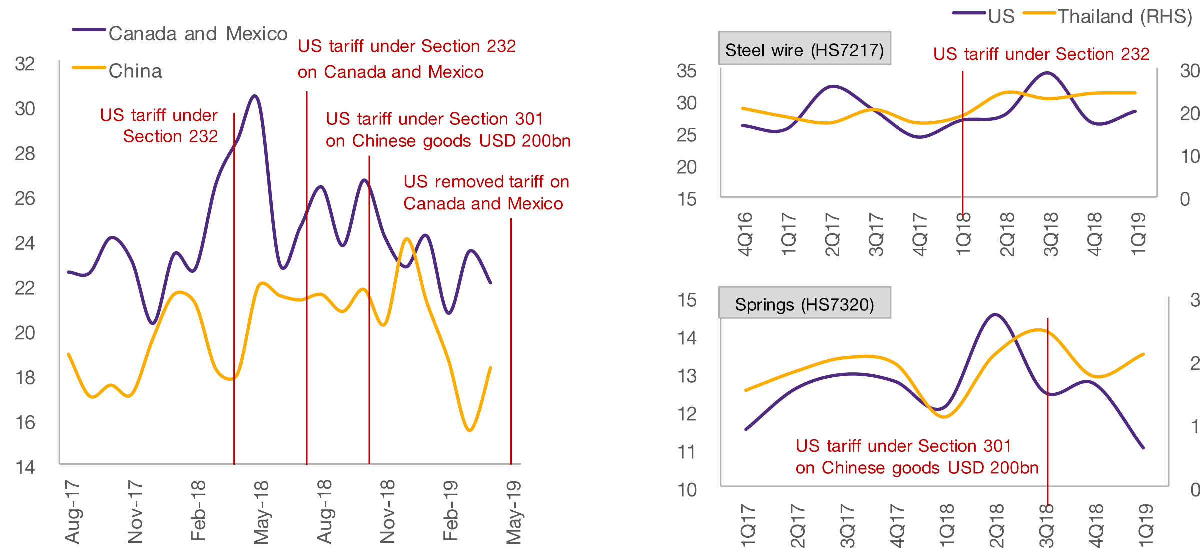
2.4) Impact from the dumping of Chinese products

The US-China trade war has made Chinese exports to the US less competitive due to added tariff costs. Consequently, China is discharging its products onto other countries, including Thailand. EIC believes Thai manufacturers will be directly affected, particularly steelmakers, as steel is undifferentiated and can be easily substituted.

Chinese exports of steel-related products to the US, China's major market, contracted 7%YOY during the first 4 months of 2019. Since March 2018, the US, according to section 232 Trade expansion act of 1962, introduced a tariff of 25% on steel imports on nearly all countries as a measure to safeguard the domestic industry. Furthermore, the US also imposed additional tariffs on USD 200 billion worth of Chinese imports at an initial rate of 10% and later raised it to 25% on May 10, 2019. On the other hand, soon after on May 17, 2019, the US canceled steel and aluminum tariffs for Canada and Mexico. Chinese steel products penalized with higher tariffs will have greater difficulty competing and may be forced to cease exporting to the US market.

Cheap steel products flooding into Thai market since the beginning of the second quarter of 2018 have had a direct effect on Thai steelmakers. Due to lower US demand for Chinese steel and China's excess capacity in steel production, Chinese steelmakers are turning their heads towards Thai market. This is because Thailand demands 13.6 million tons of imported steel each year, which is the second highest following the US market. EIC believes that Chinese steel products have already penetrated Thai market, especially among steel products unprotected by anti-dumping measures such as steel wire (HS7217) and springs (HS7320) (Figure 16). Such steel products, accounted for a large share of Thai steel imports, have seen an accelerating growth following the US tariff rate hike at 18%YOY and 22%YOY in the first 5 months of 2019, respectively. Furthermore, data from 2012 to 2018 indicates the positive correlation between changes in steel prices in Thailand and in China. This demonstrates that the drop in average steel prices in China owing to impacts from the trade war and excess steel output in China are key factors dragging down the average price of steel in Thailand.

Figure 16: Chinese steel exports to the US market have shrunk due to the imposition of steel tariffs under Section 232 but Chinese exports of steel wire (HS7217) and springs (HS7320) to Thailand have increased.



US's steel imports from majors partners

Unit : % of total imports

China's steel exports to the US and Thailand

Unit : Thousand tons

Source : EIC analysis based on data from Bloomberg, Goldman Sachs, JPMorgan and Shanghai Commodity Exchange (SHE)

The recent dumping of Chinese steel products has caused the rate of capacity utilization rate of steel production among Thai steelmakers fell continually down to 38% in the first quarter of 2019 from 45% in 2018. This reflects the fact that some Thai steelmakers and Thai steel exporters are unable to reduce their costs of production in response to higher competition from cheaper Chinese imported steel. The Association of Thai Steel Industries is aware of the impacts and risk of Chinese steel dumping and has urged the government to provide countermeasures since the US increased steel tariff under section 232 to support the domestic industry. Thailand anti-dumping measures currently cover mostly flat steel products such as hot-rolled sheets (HS7208) flat-rolled sheets (HS7210) and pipes (HS7305 and HS7306). Such measures will not be able to mitigate the dumping effects from China's long steel products.

Recomendation : Maintaining appropriate stock levels is key to lowering risk of stock losses for steelmakers and traders. Furthermore, steelmakers and traders should inspect stock and manage sales periods within the industry average, which is around 45-60 days for manufacturers and 45 days for traders (not including safety stock). As an additional method for reducing stock losses, steelmakers and traders should consider lowering in-advance purchases, in particular purchases made prior to receiving client orders.

2.5) Impact through Thailand's tourism sector

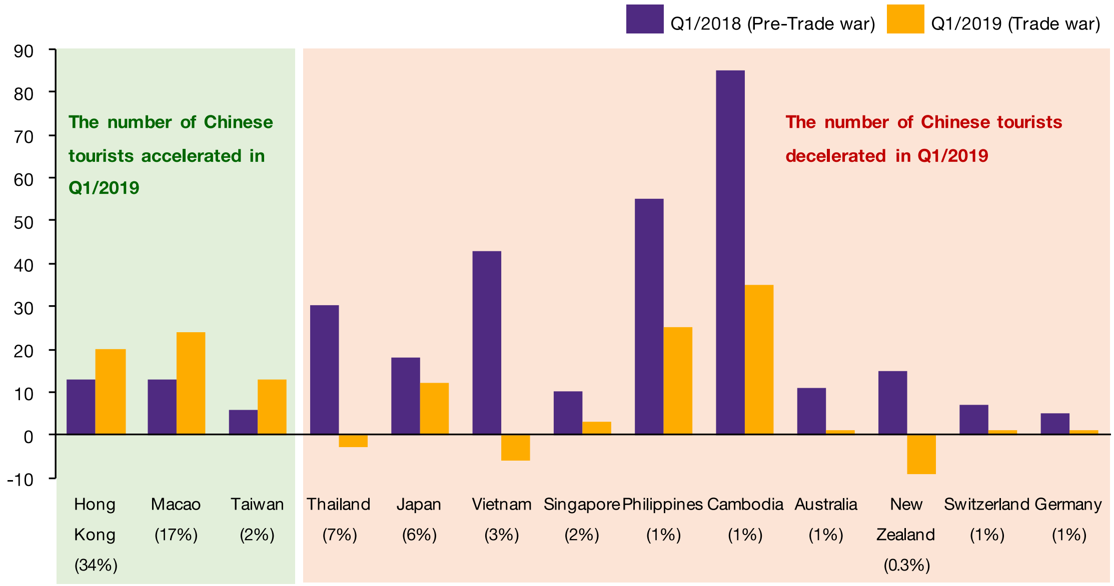
Thai tourism sector is likely to be affected by a slowdown of the Chinese economy and the US-China trade war in 2019 and beyond. This is because Thailand relies heavily on Chinese tourists, both in terms of the number of Chinese tourists, which accounted for 28% of total foreign tourist arrivals in 2018, and spending, where spending by Chinese tourists is ranked among the highest at an average of 55,116 baht per person per trip. Nevertheless, the number of Chinese tourists traveling to Thailand is expected to reach 11.6 million persons this year, thanks mainly to a recovery in the latter half of the year from a low base effect in the latter half of 2018 following the Phuket boat incident and an attack on Chinese tourists. However, EIC believes that Thai tourism sector in 2019 is likely to slow down as the behaviors of Chinese tourists change in response to income effects.

Chinese tourists instead prefer traveling to shorter distance destinations in the first quarter of 2019 given uncertainties on future income. (Figure 18) In the first quarter of 2018 before the US announcement of a full-scale trade war with China, a large number of Chinese tourists still travelled to popular tourist destinations, including Thailand (no.1), Japan (no.2), and Vietnam (no.5) with continuously high growth of 30%YOY, 18%YOY, and 43%YOY, respectively. The Philippines and Cambodia have also seen rapid growth of Chinese tourist arrivals of 55%YOY and 85%YOY, respectively, which signaled the increased popularity of new tourist destinations. However, the prolonged US-China trade war is an important factor for the slowing Chinese economy, resulting in continued contraction of Chinese industrial sector profits 2.3%YOY for the first 5 months of 2019, and a slowdown in retail sales to 7.2%YOY in April 2019, the lowest level in 16 years. Therefore, the effects on income of Chinese people have passed through to a slowing outlook for spending as reflected in the changing behaviors of Chinese tourists regarding their choices of tourist destinations. They now prefer traveling shorter distances given relatively cheaper costs of travel and tourism spending. In the first quarter of 2019, the growth of outbound Chinese tourists choosing to travel within Greater China including Hong Kong (20%YOY), Macao (24%YOY), and Taiwan (13%YOY) accelerated considerably. Meanwhile, growth of outbound Chinese tourists traveling to other countries mostly grew at a low rate, with negative growth for some countries, including Thailand (-3%YOY), Vietnam (-6%YOY), and New Zealand (-9%YOY) down from having high growth rates in the past.

Figure 17: Chinese tourists preferred traveling shorter distances, while the number of Chinese tourists traveling to other countries decelerated.

The number of outbound Chinese tourists by destination

Unit: %YOY (% share of outbound Chinese tourists in 2018)



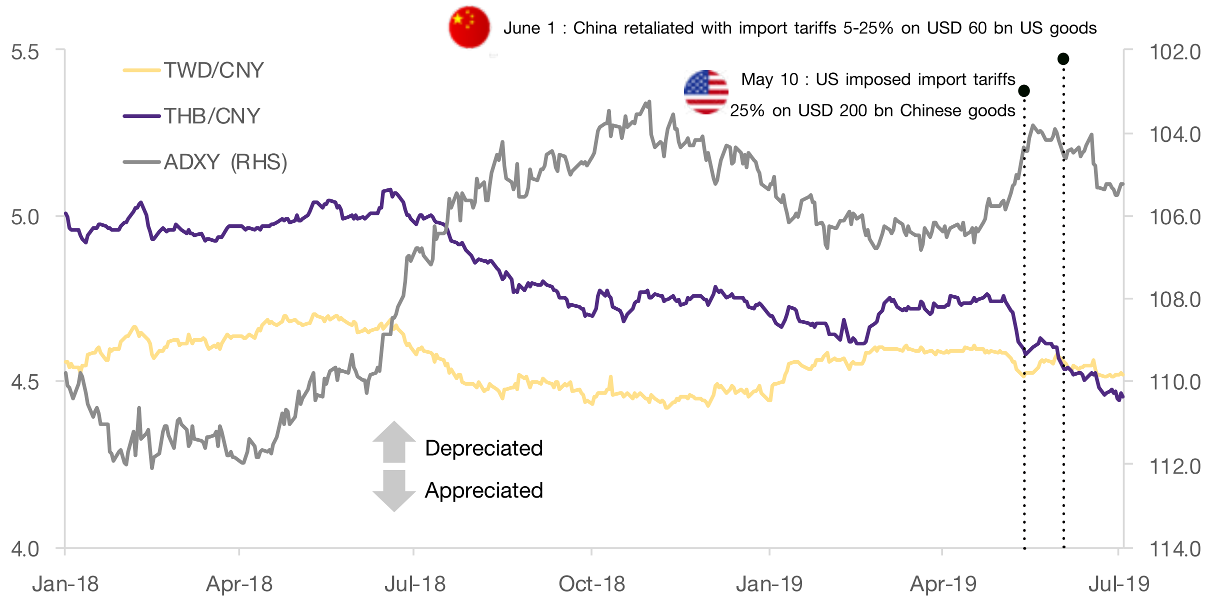
Source : EIC analysis based on data from the Ministry of Tourism of China and each country

Chinese tourists are likely to spend less abroad due to the effects on income and exchange rates, as well as government measures. Apart from the effects on income of Chinese people driven by an economic slowdown, exchange rate appreciation of tourist destination countries against the yuan caused goods and services in those countries to be relatively more expensive for Chinese tourists. As such, Chinese tourist spending in those countries is expected to be smaller. In comparison to the yuan, the Thai baht and Japanese yen strengthened 5.4%YTD and 2.0%YTD respectively, resulting in higher tourism costs for these two countries, whereas Hong Kong dollar and Macao pataca only appreciated slightly at around 0.5%YTD, and Taiwanese dollar weakened 1.7%YTD. Nevertheless, uncertainties about the outcome of the US-China trade negotiations will lead to a weakening yuan, while the baht is strengthening (Figure 18) in response to higher demand for baht as a regional safe haven currency. Thus, Chinese tourists traveling to Thailand might consider reducing their spending. Moreover, there were measures by the Chinese government to promote more domestic spending including 1) an increased stringency of custom inspections since October 2018, which makes Chinese tourists spend less abroad given concerns over custom duties, 2) an amendment on cross-border e-commerce regulations in January 2019 giving Chinese additional choices for buying goods from global sources through e-commerce channels, and 3) a continual decrease in import tariffs on consumer goods since July 2018, which resulted in a significant drop in prices of consumer goods such as clothing, shoes, and cosmetics. Thus, in 2019, Chinese tourists might not only travel less to Thailand, they might also reduce the amount they spend on tourism in Thailand.

Figure 18 : A weakening yuan against a strengthening baht might prompt Chinese tourists traveling to Thailand to reduce some of their spending.

Exchange rate

Unit : foreign currency/CNY



June 1 : China retaliated with import tariffs 5-25% on USD 60 bn US goods

May 10 : US imposed import tariffs 25% on USD 200 bn Chinese goods

Source: EIC analysis based on data from Bloomberg

Thailand's tourism sector should be watchful for any additional impacts, should Chinese government issues measures to control outbound travel of Chinese tourists as diplomatic bargaining tool. This is because tourism sector in many countries, including Thailand, relies heavily on Chinese tourists. As a result, the Chinese government may impose measures to control outbound Chinese tourists in certain countries with international policies in a way that support the US. An example would be China announcing a ban on selling travel packages to South Korea in March 2017 as an objection against South Korea's permission for the US to set up the THAAD system. Such measure led to a fall in the number of Chinese tourists traveling to South Korea as much as 48%YOY, with a widespread impact on hotels, restaurants, cosmetic shops, duty-free shops, and other businesses. This has caused a loss of South Korean tourism revenue of approximately USD 4.5 billion in 2017.

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[4] Data as of 1 July 2019

Recommendation: Both the public and private sectors must cooperate in expanding Thailand's tourism market and accommodating a more diverse group of tourists. The government has already taken a series of tourism promotion measures, including an exemption of visa-on-arrival fees for 21 countries, continued tourism promotion by the Tourism Authority of Thailand (TAT) such as the signing of agreements with major Chinese companies including Alipay or China Travel Service (CTS), and a campaign to attract high-end tourists from Nordic countries. Apart from government measures, the private sector should hurry in finding new potential markets such as India, which is a large market enjoying a high growth in tourist numbers at 23.4%YOY in the first 5 months of 2019, as well as neighboring countries in ASEAN with tourist growth at 6.4%YOY during the same period due to convenience in traveling. Moreover, businesses should offer new goods and services to provide choices serving the different needs of foreign tourists, such as health care tourism for the elderly and natural and cultural tourism for foreign independent tourists. Nevertheless, Thailand should upgrade the quality of both old and new tourist attractions. Thailand should also increase its capacity to accommodate a greater number of tourists, especially the expansion of international airports, for the sustainable growth of the tourism

2.6) Impact through Thailand's real estate sector

Thai condominium market has been popular among Chinese investors, particular over the past 2-3 years, partly due to an ongoing control of property purchasing in China. Chinese investors then find investment opportunities in real estate elsewhere in other countries. Thailand's condominium market has gained interest from Chinese investors as Thailand became one of Chinese top destinations for investment and tourism, coupled with attractive future investment returns. This led to an acceleration in condominium ownership transfers by Chinese investors, at around 64% per year during 2014-2018, reaching a share of 43% of total foreign demand in 2018, up from 15% in 2014.

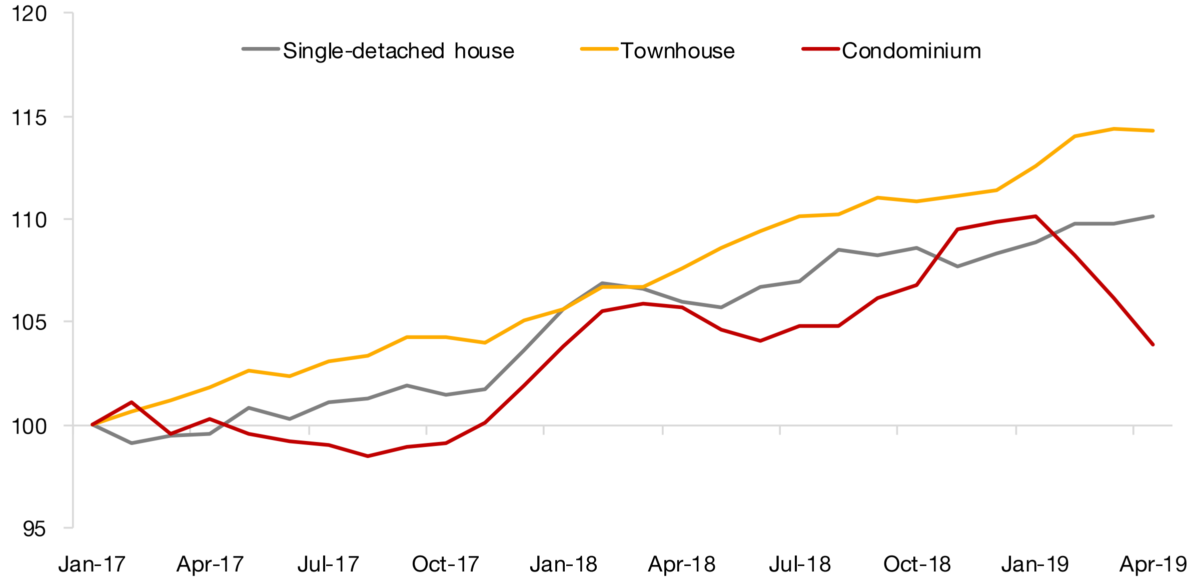
Demand for Thai condominiums by Chinese investors is expected to slow down in 2019 due to both direct and indirect impacts from the US-China trade war. The impacts will be from 1) China's economic slowdown, which will directly affect future income and investor confidence in the real estate market abroad, 2) a depreciation of the yuan at 5%YTD against the baht, which will lead to higher costs of buying condominium in Thailand for Chinese investors, 3) a slowdown of growth of Chinese tourists traveling to Thailand, which will lead to Chinese investors be more cautious when buying condominiums in Thailand for rent to Chinese tourists, and 4) the possibility that the Chinese government may implement capital control measures, particularly on outflows, if the yuan continues to weaken from a lower-than-expected Chinese economic slowdown. This will add difficulties for Chinese investors wishing to buy condominiums overseas.

In addition, Thailand's new LTV measure has had an impact on investment attractiveness in the real estate market, especially in condominiums, which are popular among Chinese speculators. The Bank of Thailand tighten mortgage loan extensions, with the ceiling for Loan-to-Value (LTV) lowered for mortgage loans of houses worth less than THB 10 million for second and subsequent contracts and houses worth more than THB 10 million. This resulted in higher down payments, at approximately 10-30%. The price expectation of Thai condominium is likely to be lower in 2019, following the market slowdown (Figure 19). This could be observed in the average condominium price in Bangkok and its vicinity rising by only 1.8% in the first 4 months of 2019, lower than a 5-year average at 6% per year in the past. Thus, Thai condominium prices are likely to decline in the period ahead, which mean lower investment returns for Thai condominiums, affecting the willingness to buy Thai condominium for speculation by foreign investors, especially Chinese investors.

Figure 19 : The investment attractiveness of returns on Thai condominiums declined as condominium prices in Bangkok and its vicinity are expected to slow down.

Average price of property in Bangkok Metropolitan Region

Unit: Index (2017 = 100)



Source : EIC analysis based on data from the Bank of Thailand

Recommendation: Condominium developers with large share of speculative investment by Chinese investors may have to instead target Chinese condominium buyers with real demand, including Chinese students increasingly coming to Thailand for education, and reduce risks of too much reliance on Chinese investors by expanding markets to consumers and investors of other nationalities, especially foreign investors relocating their industrial production base from China to Thailand for goods such as electronics to avoid impacts from the US-China trade war.

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[5] LTV is the ratio of mortgage loan received to the actual value of the property. For example, for a house worth THB 1 million, a financial institution extends mortgages at an LTV rate of 90% or THB 900 thousand. In this case, borrowers must have THB 100 thousand for a down payment. A reduction of the LTV rate ceiling, effective on 1 April 2019, means that more cash for down payments will be required.

Recommendations for Thailand's public and private sectors

3.1) Public sector

3.1.1) Push forward negotiations on free-trade agreement with trading partners in order to offer opportunities for Thai exporters to expand to other new export destinations. The Thai government is currently negotiating free-trade agreements with several countries, such as bilateral trade agreements with Pakistan, Turkey, Sri Lanka, and the Regional Comprehensive Economic Partnership (RCEP)[6], and is preparing to revive trade negotiations with the EU which have been paused since 2014 due to political factors. Moreover, the Thai government is preparing to take part in the Comprehensive and Progressive Agreement of Trans-Pacific Partnership (CPTPP)[7] Joining the CPTPP will provide exporters access to markets in Canada and Mexico, where Thailand has not yet established free-trade agreements.

3.1.2) Speed up business climate improvement to attract foreign investment, particularly the expansion or relocation of production bases. According to a study by AMRO[8] , the ASEAN region is among the top choices for the US and European companies considering relocating their production bases out of China in order to avoid adverse impacts from the current trade war. However, Thailand still faces competition from neighboring countries, particularly Vietnam, which has advantages over Thailand regarding tax privileges and expansive free-trade agreement networks. At present, Vietnam enjoys Generalized System of Preferences (GSP) from the US, is one of member countries in the CPTPP, and is about to reach a European-Vietnam free-trade agreement (EVFTA) within 2019. However, Thailand is ranked higher than Vietnam in the World Bank's Ease of Doing Business report for 2019,[9] with Thailand ranked 27th and Vietnam ranked 69th out of 190 countries. Strengths of Thailand include the ease of getting electricity and starting a business, whereas its weaknesses are enforcing contracts, registering property, and getting credit. These weaknesses are where the government should begin providing standards for fast improvement. Apart from developing steps for business and accelerating infrastructure projects, the amendment of regulations for investment and technological development are important factors in creating an investment-friendly environment. The Thai government currently has adopted measures supporting investment in 10 targeted industries of the future, including smart electronics, agriculture and biotechnology, robots, and digitalization.

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[6] 16 RCEP member countries include ASEAN countries, China, Japan, South Korea, India, Australia, and New Zealand.

[7] 11 CPTPP member countries include Japan, Canada, Mexico, Peru, Chile, Australia, New Zealand, Singapore, Malaysia, Brunei, and Vietnam.

[8] AMRO. (2019). ASEAN+3 Regional Economic Outlook 2019: Building Capacity and Connectivity for the New Economy

[9] World Bank. (2019). Doing Business 2019: Training for Reform. Retrieved from www.doingbusiness.org

3.2) Private sector

3.2.1) Diversify export destinations to other trade partners with growth potentials. Examples include CLMV countries, which have high growth potential, and India, which has a large population. The CLMV economies are expected to continue growing at a high rate of 6-7% in 2019 and onward, resulting in higher GDP per capita. This comes with an expansion of the middle-income class with greater demand for consumer goods. This is an opportunity for Thai products, which already enjoy a good perception as CLMV consumers see Thai goods as high quality goods at affordable prices. Moreover, India is another high potential export market, attributable to its having the second largest population in the world after China, its promising outlook for economic growth and purchasing power, as well as free-trade agreements with Thailand and ASEAN. India is the 9th export market for Thailand in 2018, accounting for 3.3% of Thailand's total export value. Thai products with an opportunity to expand into India include plastic and plastic products, electrical appliances, and jewelry and accessories, which are all major export products to India. (Read more in Outlook Q2/19 Box: A look at India – a high-value market for future Thai exports and tourism)

3.2.2) Study and take full benefits from existing free trade agreements in order to export to other trading partners such as New Zealand, Chile, and Peru, which are countries that have free trade agreements with Thailand. In 2018, Thai export values to these countries accounted for only 1%, 0.3%, and 0.1% of Thai total exports respectively. Key export products include car and car parts, home electrical appliances, plastic resin pellets, and canned and processed seafood.

3.2.3) Look for opportunities to utilize tax benefits from China's import tariff reduction. China's import tariff reductions in 2018-2019 are in response to the prolonged trade war with the US, and complies with domestic economic reform policies, promoting a consumption-driven economy. In particular, all three rounds of the reduction in import tariffs have led to a continued decline in the average import tariff rate under the Most Favored Nation (MFN) condition. Thai exporters should be aware of Chinese import tariff cut measures in detail for privileges and advantages, as follows:

1. China decreased import tariffs on 1,449 consumer goods items[10] effective on July 1, 2018. This announcement to reduce import tariffs on consumer goods by the Chinese government mainly aims to support an increase in domestic consumption. Key goods with a reduction in import tariffs include;

- Apparel, shoes, cooking utensils, and sports equipment are now subjected to a 7.1% import tariff (from 15.9%)
- Home electrical appliances such as fridges and washing machine are now subjected to a 8% import tariff (from 20.5%)
- Processed food is now subjected to a 6.9% import tariff (from 15.2%)
- Cosmetics and health and beauty products are now subjected to a 2.9% import tariff (from 8.4%)
- Medicines such as penicillin and insulin are now subjected to a 0% import tariff (from 6%)
- Automobile 135 items are now subjected to a 15% import tariff and another 4 items are now subjected to a 20% import tariff (from 25%)
- Auto part 79 items are now subjected to a 6% import tariff (from 8-25%)

2. China decreased import tariffs on 1,585 items[11] **for both capital and consumer goods,** effective on November 1, 2018. This reduction aims to reduce cost burden and respond to demand for higher variety and better quality products for businesses and households. Key products enjoying a reduction in import tariffs include;

- Machinery is now subjected to an 8.8% import tariff (from 12.2%)
- Construction material and apparel are now subjected to an 8.4% import tariff (from 11.5%)
- Paper, wood, minerals, jewelry, and other raw materials are now subjected to the lowest rate of 5.4% (from 6.6%)

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[10] Documents from the Ministry of Finance of the People's Republic of China, http://gss.mof.gov.cn/zhengwuxinxi/zhengcefabu/201805/P020180531717000728789.pdf

[11] Documents from Ministry of Finance of the People's Republic of China, http://gss.mof.gov.cn/zhengwuxinxi/zhengcefabu/201809/P020180930650864922349.pdf

3. **China reduced tariffs on imported goods in 2019** covering a wider range of products, aiming to comply with a policy promoting the opening of the trading sector, reducing costs for businesses, and increasing household consumption. This will move China forward to a consumption-led economy. Details are as follows.

- A temporary decrease in import tariffs on 706 goods[12], effective on January 1, 2019
    - i. Precursor/raw materials for the production of certain types of medicines are now subjected to 0% import tariff to reduce the costs of medical care for patients and promote public health within the country.
    - ii. Ingredients for animal feed, such as sunflower seed, cotton seed, palm, and canola meal are now subjected to 0% to replace imports of soybeans from the US. This was following an increase in import tariffs on US soybeans to 25% in July 2018 as a retaliatory measure.
    - iii. High-technology parts and components are now subjected to low levels of import tariffs, such as airplane engine (1%) and robots used in the welding industry in automotive production lines (5%)
- Additional reductions in import tariffs on 484 information technology products[13] effective on July 1, 2019, such as lens for mobile devices, components for infrared thermometer sensors, medical equipment, speakers, and printers.

However, possible benefits to Thailand from a China's reduction in import tariffs are limited in certain product categories as key export products to China to fall under new tariff rates are already exempted from import tariffs in accordance with the existing ASEAN – China Free Trade Agreement. In particular, Thai products with a large share of exports to China include protein concentrates and textured protein substances (HS 2106.10), electric motors of an output not exceeding 37.5 W (HS 8501.10), lens for cameras, projectors, photographic enlargers or reducers (HS 9002.11), parts for air or vacuum pumps, and air or other gas compressors (HS 8414.90) (Figure x). Therefore, **Thai export products that will clearly benefit from this reduction in import tariffs by China include articles of iron or steel (HS 7326.90). These are export products with a large share of exports to China, while they received a decrease in import tariffs from 10.5% to 8% and are not covered under ASEAN – China FTA. Most of the remaining items on the list, such as machinery, equipment, paper, and wood, does not have a considerable share of exports to China and thus received fewer tariff reductions.**

Figure 20 : List of Thailand's key export products to China subject to new tariff rates and ASEAN-China FTA

HS Code	Products	Old tariff rate (%)	New tariff rate (%)	Change (%)	Import tariff under ASEAN-China FTA	Thai exports to China	
						USD	Share (%)
7326.90	Articles of iron and steel	10.5	8	-24	-	238,910,347	0.81
2106.90	Protein concentrates and textured protein substances	35	12	-66	0	186,791,209	0.63
8501.10	Electric motors of an output not exceeding 37.5 W	24.5	12	-51	0	138,438,804	0.47
9002.11	Objective lens for cameras, projectors, or photographic enlargers or reducers	15	6	-60	0	101,658,831	0.34

Source: EIC analyses based on data from the Chinese Ministry of Commerce

3.2.4) Consider opportunities to export products to the US to replace Chinese products that are subject to higher import tariffs. Thai products with larger share of imports to the US following the trade war include plastic and plant products. Meanwhile, other products with export-for-replacement opportunities are those include printing circuit boards and computer parts. However, Thai products in those categories still have a low share in the US market and are facing competition from products from Mexico and Malaysia. Thai companies should thus deal in long-term contracts with US importers to preserve export shares. (Read more in Box: Window of opportunity for Thailand in the midst of the trade war)

[12] Documents from Ministry of Finance of the People's Republic of China,http://gss.mof.gov.cn/zhengwuxinxi/zhengcefabu/201812/P020181221619891346040.pdf

[13] Documents from Ministry of Finance of the People's Republic of China, http://gss.mof.gov.cn/zhengwuxinxi/zhengcefabu/201812/P020181221619891716302.pdf

BOX

Window of opportunity for Thailand in the midst of the trade war

Uncertainties from the trade war have had broad-base negative impacts on Thai and global economies, most unavoidably on exports. But every cloud has a silver lining. The following are two opportunities that Thai firms can take advantage of in order to alleviate adverse trade war effects.

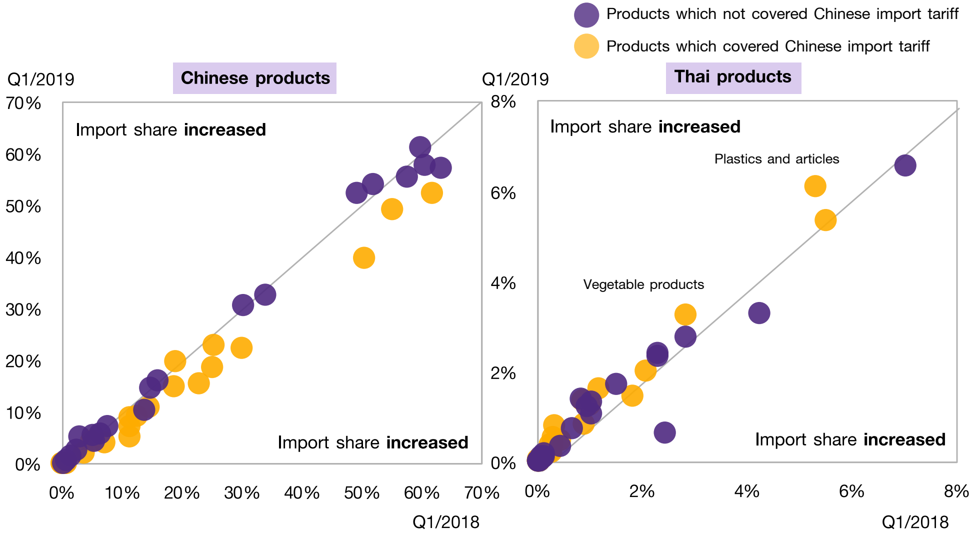
1. Opportunities of Thai export substitution to the US

As the trade war continues, US firms look for imports from other markets to substitute for products from China which have become more expensive due to the higher tariffs. This presents an opportunity for Thai exporters to sell more goods to the US. When comparing the share of imports from China to total US imports before and after the beginning of the trade war, the share of Chinese imported goods declined from 4Q 2018 to 1Q 2019, especially in products affected by the tariffs (Figure 21). This shows that US importers have turned to other suppliers after tariffs were imposed on Chinese goods. Among many beneficiaries, Thailand has made some gains in exporting substitutes to the US, as the share of imports from Thailand to the US has ticked up slightly for plastic, plastic products, and plant products. Furthermore, if the US decides to impose additional tariffs on Chinese goods and maintain them at that level going forward, Thailand's exports to the US can be boosted in the short-run.

Figure 21 : For products subjected to tariffs, the US imported less from China, and more from other markets.

Share of US imports by product

Unit : % of total import by product



Source : EIC analysis based on data from USITC

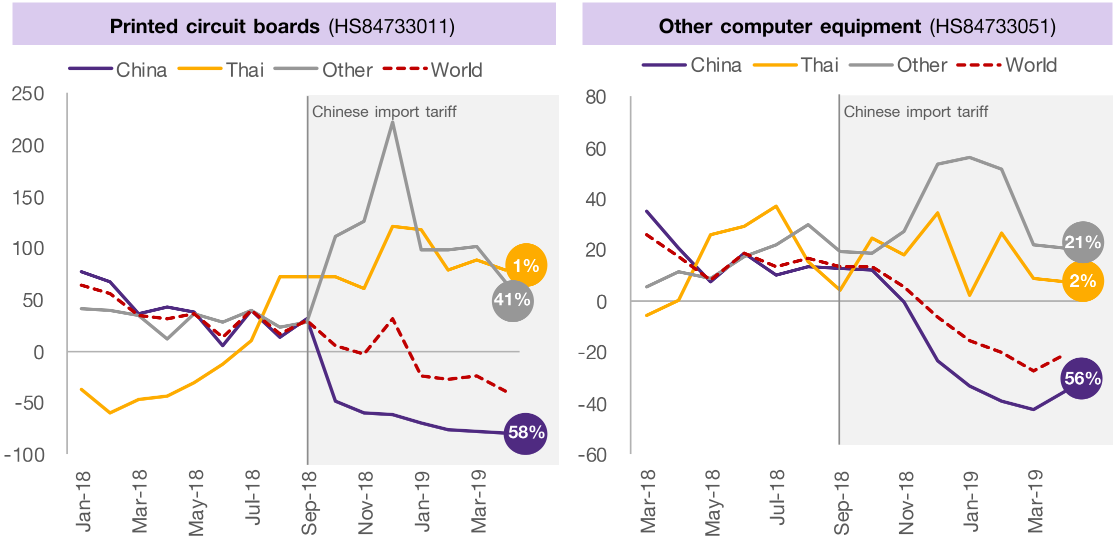
Printed circuits and other computer parts are some examples of products for which the US sought substitutions, immediately after tariffs were imposed on Chinese imports. EIC analysis shows that once the tariffs took effect, US importers immediately slashed imports of some Chinese products, turning instead to imports from other countries. Thailand is among the countries that benefitted from such substitution, exporting more printed circuits and other computer parts to the US (Figure 22). However, imports from Thailand only accounted for 1-2% of total US imports of these products. This is because Thailand faces strong competition from other exporters, including Mexico and Malaysia, who are also capable of providing substitutes for Chinese products. As a result, Thailand's gain from exporting substitutes to the US has been limited thus far. Hence, any Thai exporters with the opportunity to do so should try to secure long-term trade contracts with US importers in order to ensure future orders and maintain market shares in the US over the long run.

Figure 22 : US instantly sought import Substitutions for some Chinese goods once the tariffs took effect.

US goods import by product

Unit : %YOY, 3MMA

% Import share in 2018



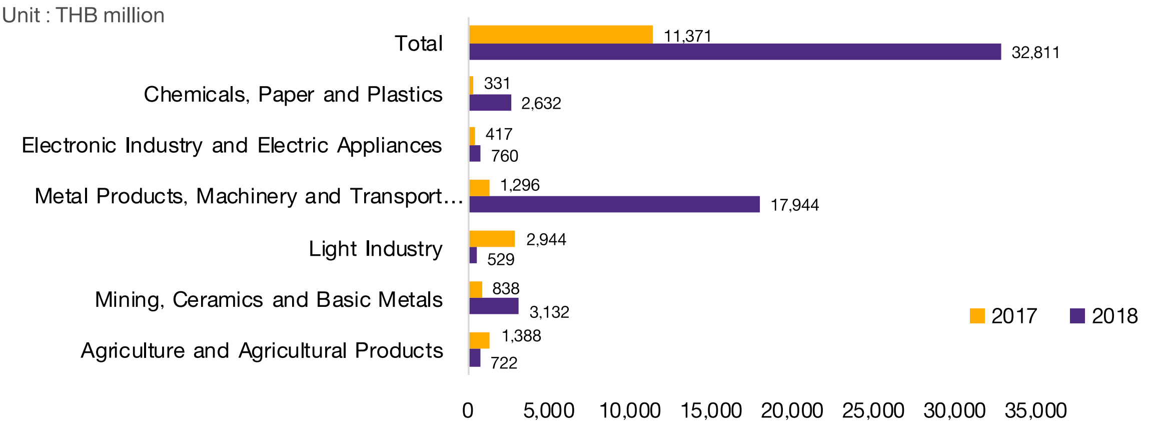
Source : EIC analysis based on data from USITC

2. Opportunities from the relocation of production bases from China to Thailand

Foreign producers who used to manufacture their final goods in China have begun to expand their production base outside the country to avoid uncertainties from the trade war. Although these firms tend to maintain production facilities in China to serve domestic consumption, they have expanded their production bases to other countries, particularly to produce US-bound exports, in order to diversify risks from future uncertainties. This presents a prime opportunity for Thailand to attract foreign investment. Indeed, the total amount of foreign investment granted incentives by the Board of Investment (BOI) soared markedly from THB 11 billion in 2017 to THB 33 billion in 2018 (Figure 23), mostly in the metal, machinery, and transport equipment sectors. In addition, after foreign firms choose to invest in Thailand, they will likely need local inputs such as raw materials and parts, also boosting domestic producers.

Figure 23 : Thailand may benefit from the relocation of production bases out of China.

BOI-approved FDI from China



Source: EIC analysis based on data from BOI

RICOH is one example of a foreign producer relocating its production base from China to Thailand to avoid uncertainties from the trade war. A Japanese printer maker, RICOH has relocated the production of high-speed printers for export to the US from RICOH Asia Industry (Shenzhen) to RICOH Manufacturing (Thailand), which used to produce only low to medium-speed printers. The relocation not only introduces high-speed printing technology to Thailand, but also supports local suppliers indirectly through a boost in raw material orders. This is confirmed by Thai plastic manufacturer Tapaco Public Company Limited, who revealed that it had seen a surge in orders for plastic products from RICOH Manufacturing (Thailand)[14], making RICOH Tapaco's largest client at the moment.

However, Thailand may only be one of alternatives for firms planning to relocate, as competitors in the region, such as Vietnam, are also vying for such investments. Nevertheless, if Vietnam secures the investment, Thailand can still benefit from exporting intermediate goods to Vietnam. Foreign manufacturers are increasingly interested in investing in Vietnam, thanks to the many trade agreements the country has signed with foreign countries, especially the EVFTA with the European Union. Hence, many foreign manufacturers, mostly in the electronics, apparels, and furniture sectors, are expecting to relocate their factories to Vietnam to avoid trade war impacts. This presents an opportunity for Thai manufacturers to increase their exports of raw materials and parts to Vietnam. Over the past 5 years, exports of machinery and electronics from Thailand to Vietnam have expanded on average 8% and 20% per year, respectively. They altogether accounted for 23% of total exports from Thailand to Vietnam in 2018. (Read more on the relocations of production bases to Vietnam in see CLMV Monitor Q1/19)

Even though these opportunities will not be enough to offset the negative impacts of the trade war on Thai exports, Thai businesses must still try to seize these opportunities and transform them into long-term benefits. As a small open economy, Thailand will not be able to evade adverse consequences from the trade conflict between the two global superpowers, or the slowdown in the global economy. Thai businesses must make an effort to seize any opportunities from the trade war, both from export substitutions of Chinese goods to the US and from the relocation of production bases from China. At the same time, the government needs to create a favorable atmosphere for trade and investment within the country in order to attract foreign investments. It must also establish trade agreements with other nations to reduce the disadvantages that Thai firms face when competing against countries in the region. Finally, as the trade war between the two superpowers remains highly uncertain, Thai businesses, particularly exporters, must pay close attention to the developments of the conflict going forward.

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[14] HoonSmart, RICOH's relocation drives a surge in plastic revenue for TAPAC, https://www.hoonsmart.com/archives/56965, 22 May 2019.

More EIC articles on trade war analysis:

16 May 2019

US-China Trade war heats up once again with both sides raising 25% import tariffs on each other, risking further slowdown in global trade and Thai exports.

13 March 2019

CLMV Monitor Q1/2019

8 January 2019

In focus : 3 Top Picks of the Thai Economy in 2019 (Topic 3)

19 September 2018

US-China Trade war heats up with new USD 200 billion tariffs on Chinese goods

23 March 2018

U.S. plans to impose tariffs on Chinese imports, raising trade war fear

Summary of EIC forecasts

Key indicators	2018	Unit	Actual			EIC forecast			Consensus (Jun19)
	Share (%)		2016	2017	2018	H1/19	H2/19	2019	2019
Real GDP growth		% YOY	3.4%	4.0%	4.1%	2.5%	3.7%	3.1%	3.3%
Demand-side									
Private consumption	51%	% YOY	2.9%	3.0%	4.6%	4.3%	3.5%	3.9%	3.7%
Public consumption	15%	% YOY	2.2%	0.1%	1.8%	2.7%	1.7%	2.2%	
Total Investment	24%	% YOY	2.9%	1.8%	3.8%	3.9%	3.7%	3.8%	3.5%
Private investment	18%	% YOY	0.6%	2.9%	3.9%	4.4%	3.1%	3.7%	
Public investment	6%	% YOY	9.5%	-1.2%	3.3%	2.7%	5.7%	4.0%	
External sector									
Export of Goods (USD)		% YOY	0.1%	9.8%	7.2%	-4.2%	1.0%	-1.6%	1.7%
Import of Goods (USD)		% YOY	-5.1%	13.2%	14.3%	-3.5%	-1.9%	-2.7%	2.9%
Current account		USD bn	48.2	50.2	35.2	20.1	17.2	37.3	33.1
Current account/GDP		% of GDP	11.7%	11.0%	6.9%	7.6%	5.9%	6.8%	
Key rates									
Headline inflation		% YOY	0.2%	0.7%	1.1%	0.9%	1.0%	0.9%	1.0%
Core inflation		% YOY	0.7%	0.6%	0.7%	0.7%	0.7%	0.7%	
Policy rate (RP-1D) (end period)		% p.a.	1.50%	1.50%	1.75%	1.75%	1.75%	1.75%	
THB/USD (end period)		THB/USD	35.3	33.9	32.3	30.7	30 - 31	30 - 31	
Oil price, Brent (average)		USD/barrel	45	55	72	66	67	66	

Source: EIC forecast based on data from Bloomberg, BOT, CEIC, IMF, MOC, MOF, NESDB, OAE, OIE, TAT. Consensus forecast from APCF Consensus Economics Survey as of June 10, 2019

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Pang-ubon previously worked for the Revenue Department of Thailand as Tax Economist, her responsibilities were forecasting monitoring and analyzing tax revenue collection, setting up and monitoring tax revenue collection target, analyzing economics and business performance for tax revenue collection purpose and managing data for tax policy's cost-benefit analysis. She also has experience in working on macroeconomics analysis and revenue forecasting using quantitative model and data analytics tools.

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