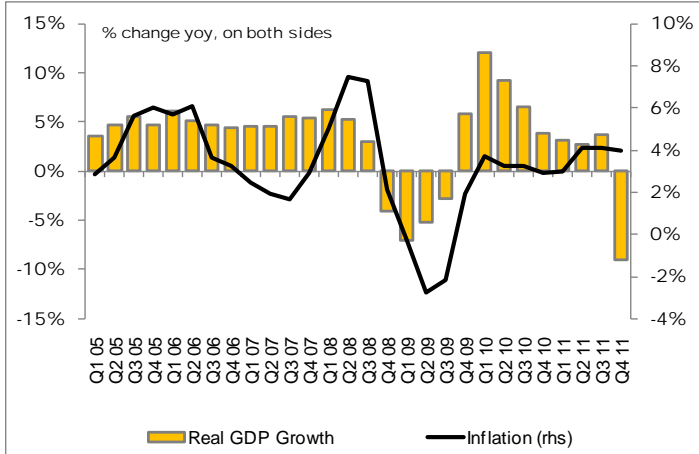


Thailand: Flat Growth in 2011 Giving Upside Potential This Year

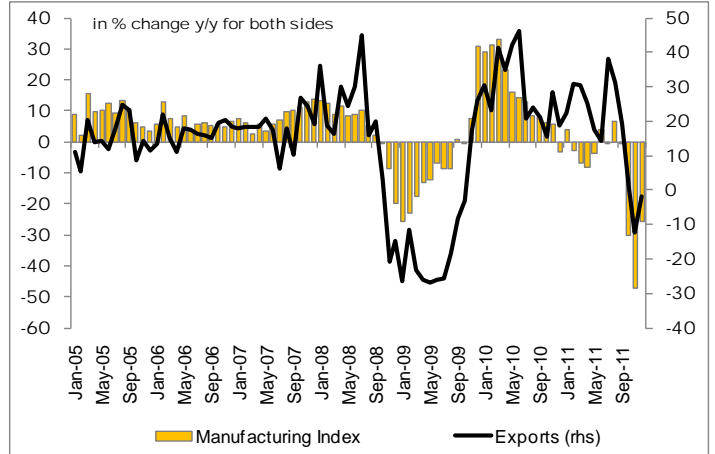
- Thailand's economy contracted by 9% in 4Q 11 (consensus: -5.0%), mainly due to floods that hit the kingdom late last year, causing massive disruption and pushing the country's exports off the cliff. The resulting weakness was broad-based. Private consumption shrank 3.0% y/y (3Q 11: +2.4%), government spending -3.1% (3Q 11: +4.9%), investment -3.6% (3Q 11: 3.3%), exports -6.5% (3Q 11: 17.3%). For the whole of 2011, the Thai economy barely grew at 0.1%.
- BOT to cut its benchmark interest rates further by another 25bps on Jan 25, its first MPC for the year. The National Economic and Social Development Board (NESDB) projected the economy to grow only by 1.5% this year, a massive growth forecast cut from 3.5-4.0% range given in Aug, after taking into account the impacts from severe flooding that has hit the country.
- The recent flooding has had detrimental exports on both production and exports as shown from the right hand panel below. Manufacturing contracted on average -26% y/y from Sep-Dec last year while exports growth averaged only 1.3% during the same period (Jan-Aug average was 26.3%!). Thailand Ministry of Commerce targets 15% exports growth, slightly lower than last year's 17.2%. We think they will exceed the target as we expect a more sustained global economic recovery in the latter half of this year and low base effects in 2H 11 may bring about better exports figures by then. This in turn would give an upside potential for Thai economic growth, with our current forecast of 2.3%, which is higher than the official forecast.
- USD/THB barely moved following the release of the significantly lower than expected 4Q 11 real GDP growth figures, perhaps as most investors had likely priced in such contraction. Nevertheless, we may see USD/THB trending lower in the medium-term on the back of upside growth potential this year and our forecast of BOT's responsiveness in cutting their benchmark interest rate to support growth. We expect another 25bps cut to 2.75% on Mar 21 MPC meeting. Lower inflation and down-trending interest rate trajectory is expected to be positive for the local bond market, thus giving potential boost for the local currency as well. Nevertheless, we remain cautious in the near-term on the European debt situations.
- Our forecast for USD/THB remains unchanged at 31.50 by end 1Q 12 and then for the pairing to move lower to 30.25 by 1H 12 before settling in at 30.00 by the end of 2012.**

Thai Economy Shrank More Than Expected On Floods



Source: Maybank FX Research, CEIC

Industrial Production & Exports Plunged On Supply Disruptions



Source: Maybank FX Research, Bloomberg

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Malayan Banking Berhad
(Incorporated in Malaysia)

Saktiandi Supaat
Head, FX Research
saktiandi@maybank.com.sg
(+65) 63201379

Enrico Tanuwidjaja
Senior FX Analyst
enrico@maybank.com.sg
(+65) 63201378

Phua Ming-weii
FX Analyst
mwphua@maybank.com.sg
(+65) 63201381