

FX Insight

Limited Impact Expected From Election on THB

Opposition Achieves Resounding Victory

Preliminary results are showing that both the Move Forward and Pheu Thai looked to have captured the most seats at 151 and 141. Combined, that comes to 292 seats, which is well short of the 376 seats needed for a clear majority. However, if Prachachat (9), Seri Ruam Thai (1) and Thai Sang Thai (6) are included, that would bring the total number of seats to 308. Our in-house base case is that MF and PT together with those other parties should form a coalition government with the senate not voting against it.

Knee Jerk Election Impact To Wear Off And Other Factors To More Strongly Drive Currency

The THB strengthened in reaction to the results, an outperformer among the regional currencies. However, history has shown such as after the 2011 and 2019 election that the impact of the election can eventually wear off and that other factors such as USD movement drives the USDTHB pair more. We think that this would similarly be the case this time around, especially with the political uncertainty ahead still. Eventually though we believe that other factors such as expectations of the Fed’s rate directions, China’s recovery and tourism inflows would drive the THB. However, as these factors are likely to work in favour of the THB (with the Fed looking to pause and tourism inflows expected to improve), we therefore see that the THB would continue to strengthen this year even after the wearing off of the short term election effect. Hence, our forecasts for a downward trend in the USDTHB continues to hold.

Table 1: Maybank USDTHB Forecast

Forecast	2Q 2023	3Q 2023	4Q 2023	1Q 2024
USDTHB	33.50	33.00	32.25	31.50

Analysts

Saktiandi Supaat
(65) 6320 1379
saktiandi@maybank.com

Alan Lau
(65) 6320 1378
alanlau@maybank.com

Fiona Lim
(65) 6320 1374
fionalim@maybank.com

Shaun Lim
(65) 6320 1371
shaunlim@maybank.com

Resounding Opposition Victory But Path to New Coalition Unclear

The recently concluded Thai elections saw the opposition parties achieve a resounding victory. Even so, the path forward to the formation of a new coalition looks like anything but straightforward. The appointment of a new Prime Minister would be decided by a simple majority of the entire National Assembly (that includes both the Senate and House of Representatives). The simple majority number is 376 with there being 750 members overall in the Senate and House - split accordingly to 250 and 500 respectively. All 250 senators are appointed by the Royal Thai Military which therefore makes the situation tricky. According to preliminary results after which 97% of the vote had been counted, both the Move Forward and Pheu Thai looked to have captured the most seats at 151 and 141. Combined, that comes to 292 seats, which is well short of the needed 376 seats. However, if Prachachat (9), Seri Ruam Thai (1) and Thai Sang Thai (6) are included, that would bring the total number of seats to 308, which is again still short. As of the latest news, Pita Limjaroenrat of Move Forward is now claiming the mandate to be the next Prime Minister although it is unclear how he would achieve that majority. He has also ruled out the possibility of working with any of the military backed parties that include Palang Pracharath (40) and United Thai Nation (36). However, he has not ruled out working with Bhumjaithai (70) which had been part of the prior government coalition and if he does so, that would help him cross the 376 majority number. Consequently, building up to the release of official results in July and the appointment of the PM at the end of the same month, there could be plenty of political noise.

However, the Political Situation is Unlikely to Disrupt Tourism Heavily

We continue to hold on to our belief that tourism arrivals would not be hurt by the country's political situation. Tourism arrivals into the country this year has only been gradually picking up but the Tourism Authority of Thailand appears to sound optimistic on the outlook. They believe that tourist arrivals from China would hit 1 million from October onwards based on what they have seen in advanced bookings and requests for chartered flights. Tourist arrivals in March had stood at only 270,000 in comparison and still well below pre-pandemic levels. Furthermore, whichever political party forms the government, it is very likely that they would continue to work at developing the tourism sector given the income and employment it provides. Hence, this should hold well for Thailand's external position, which has seen its current account slip into negative throughout the pandemic amid the shutdown in global travel. This as expected would hold well for the THB.

Three Scenarios Could Pan Out

Our equity analysts have already noted three potential scenarios that could occur which are:

Scenario 1 (base case): MFP and PT form a coalition government together. Other potential partners such as Prachachat, Seri Ruam Thai and Thai Sang Thai join the coalition too. This would give the government 308 seats and the senate does not vote against this government being formed. Pita Limjaroenrat also becomes the new PM.

Scenario 2: PT joins with PPRP, BJT and other smaller parties to form a coalition government. Paetongtarn Shinawatra would be appointed the PM. However, this is unlikely to happen given PT's opposition to the military and they would want to conserve any remaining political capital for the future (given that their popularity appears to have declined during this election).

Scenario 3: Senators vote to form PPRP-led Coalition. Whilst not an impossibility, this is unlikely to happen given that a minority government would be formed and there could be gridlock in the parliament (not to mention the risk of political unrest on the streets). General Pravit Wongsuwon would be appointed PM in this scenario.

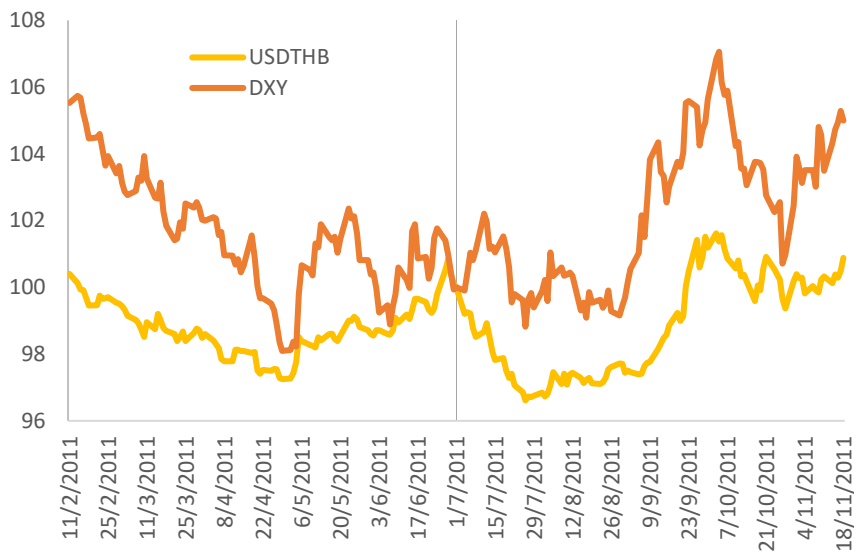
Regardless of which scenario pans out, we see that the THB would be unlikely to be affected in the medium to longer term by the political developments as tourism is unlikely to be heavily disrupted. Despite the political uncertainty in Thailand over the last few years, tourists have still continued to arrive in the country.

Post Election THB Strengthening Can Risk Wearing Off But Stay Bullish

It appears that post the election, the USDTHB was last seen having fallen by about 0.17% from Friday's close. However, history (in both the 2011 and 2019 elections) has shown that the THB can strengthen in a knee-jerk reaction right after the election before it starts to be driven more by the broader macro developments such as the USD movement or by other factors. We see the possibility of this also being the case this time around (especially given the political uncertainty ahead) and that the currency could eventually be driven more by expectations of the Fed's rate directions, China's recovery and tourism inflows. However, as these factors are likely to work in favour of the THB (with the Fed looking to pause and tourism inflows expected to improve), we therefore see that the THB would continue to strengthen this year even after the wearing off of the short term election effect. Hence, our forecasts for a downward trend in the USDTHB continues to hold.

As a note, if political stability can be achieved, we would not rule out the possibility of strong long term THB appreciation being achieved. However, that would be subject to whether the ruling government can effectively implement projects to attract FDI and strengthen export capacity. Even then, it would also be subject to how external forces evolve.

Chart 1: USDTHB And DXY 100 Days Before And After The 2011 Election

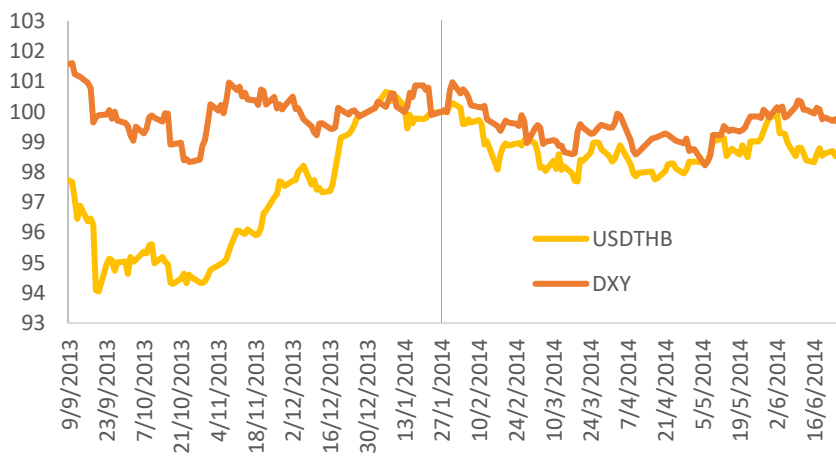


Source: Bloomberg, Maybank FX Research

Note: 1) Solid line denotes election date

2) Currencies are indexed to the value the day before election date

Chart 2: USDTHB And DXY 100 Days Before And After The 2014 Election

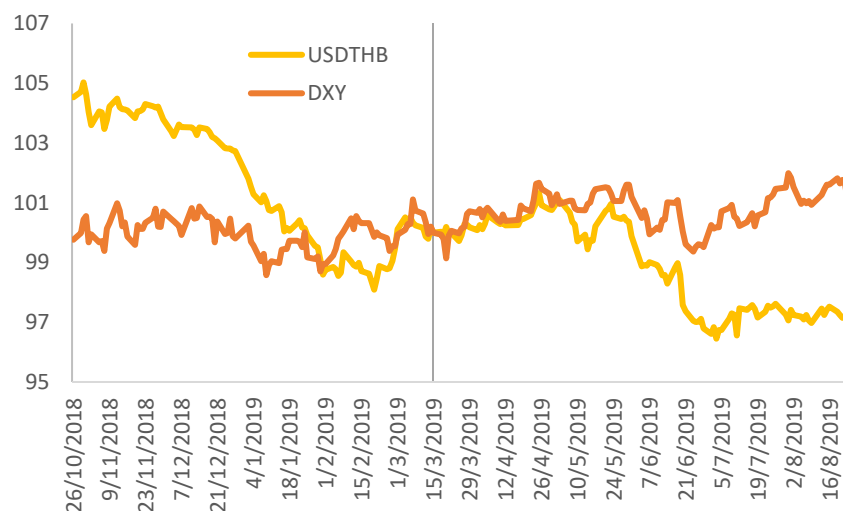


Source: Bloomberg, Maybank FX Research

Note: 1) Solid line denotes election date

2) Currencies are indexed to the value the day before election date

Chart 3: USDTHB And DXY 100 Days Before And After The 2019 Election



Source: Bloomberg, Maybank FX Research

Note: 1) Solid line denotes election date

2) Currencies are indexed to the value the day before election date

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Published by:



Malayan Banking Berhad
(Incorporated In Malaysia)

Foreign Exchange
Singapore
Saktiandi Supaat
Head, FX Research
saktiandi@maybank.com.sg
(+65) 6320 1379

Fiona Lim
Senior FX Strategist
Fionalim@maybank.com.sg
(+65) 6320 1374

Alan Lau
FX Strategist
alanlau@maybank.com
(+65) 6320 1378

Shaun Lim
FX Strategist
shaunlim@maybank.com
(+65) 6320 1371

Indonesia
Juniman
Chief Economist, Indonesia
juniman@maybank.co.id
(+62) 21 2922 8888 ext 29682

Myrdal Gunarto
Industry Analyst
MGunarto@maybank.co.id
(+62) 21 2922 8888 ext 29695

Fixed Income
Malaysia
Winson Phoon
Head, Fixed Income
winsonphoon@maybank.com
(+65) 6340 1079

Se Tho Mun Yi
Fixed Income Analyst
munyi.st@maybank-ib.com
(+60) 3 2074 7606

Sales
Malaysia
Zarina Zainal Abidin
Head, Sales-Malaysia, Global Markets
zarina.za@maybank.com
(+60) 03- 2786 9188

Singapore
Janice Loh Ai Lin
Head of Sales, Singapore
jloh@maybank.com.sg
(+65) 6536 1336

Indonesia
Endang Yulianti Rahayu
Head of Sales, Indonesia
EYRahayu@maybank.co.id
(+62) 21 29936318 or
(+62) 2922 8888 ext 29611

Shanghai
Joyce Ha
Treasury Sales Manager
Joyce.ha@maybank.com
(+86) 21 28932588

Hong Kong
Joanne Lam Sum Sum
Head of Corporate Sales Hong Kong
Joanne.lam@maybank.com
(852) 3518 8790

Philippines
Angela R. Ofrecio
Head, Global Markets Sales
Arofrecio@maybank.com
(+632 7739 1739)