Maybank

FX

Global

FX Flash

THB Weakness For Near Term

- **THB sinks amid confluence of unfavourable factors**
- **Fiscal concerns and higher oil prices hurt the THB**
- **Additionally, USD strength and CNY/CNH weakness weigh broadly on Asian FX including the THB**
- **We see such factors are likely to continue to be a negative for the THB near term**
- **We therefore expect the USDTHB could head to 36.50 near term (possibly in coming weeks) as per our FX fast tracking model but we do not rule out it hitting 37.00**
- **However, in the medium term, we stay constructive on the THB as improving tourism numbers, higher equity inflows among other factors may lift the currency**

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

THB Underperforms Against Peers Amid Fiscal, Oil Concerns

Over the last week, the THB has been the worst performing currency regionally in East Asia. Whilst generally most currencies has been on the back foot amid the USD strengthening, the THB has had a number of additional factors that have been weighing on it that include fiscal concerns and higher oil prices. The currency has lost about over 0.8% within just a week with the weakness likely to persist for a while.

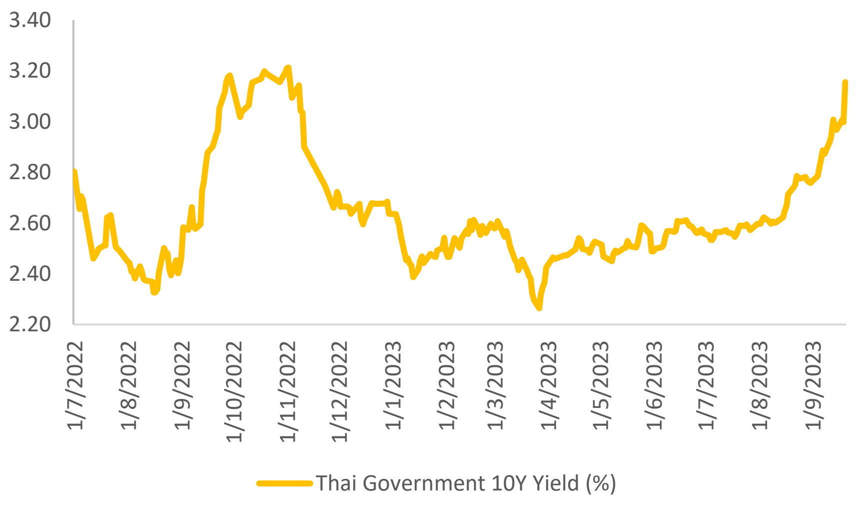
However, we remain constructive on the THB in the medium term. Further improving tourism numbers (possibly to higher than pre-pandemic levels), higher equity inflows, increased FDI and a bullish medium-long term gold outlook are among key factors which should they materialize would boost the THB. Regardless, we would also like to note that any risks of persisting lasting medium term fiscal pressure in addition to an extension of the Fed hiking cycle beyond another November hike could derail this bullish medium-term outlook. As a note, THB near term weakness and medium term strength is our expectation as stated in our recent ASEAN X Macro – Regaining THB Resiliency.

Government's New Measures Elevating Fiscal Pressures

More immediately, fiscal concerns look to have really weighed on the currency. This is evidently reflected in the spike in the Thailand 10y yields and the net foreign outflows from Thai bonds. Investors look increasingly anxious about the worsening fiscal position as the new government pursues both aggressive pro-growth policies and populist measures. These include but are not limited to a payout of 10,000 baht to every Thai above the age 16 years old, a power tariff cut from THB4.10 to THB3.99 and raising investment spending by 4% to THB717.2bn. The FY24 budget draft proposal sees fiscal deficit at 3.6% of GDP, which is higher than the original level of 3.0%. The deficit overall is projected to be at -THB693bn which is slightly lower than FY23 at -THB695bn amid expectations of higher revenue by 11.9% YoY even as expenditure is seen to increase by 9.3% YoY. The government is expected to borrow 7.6% more at THB2.4tn in FY24 versus last year.

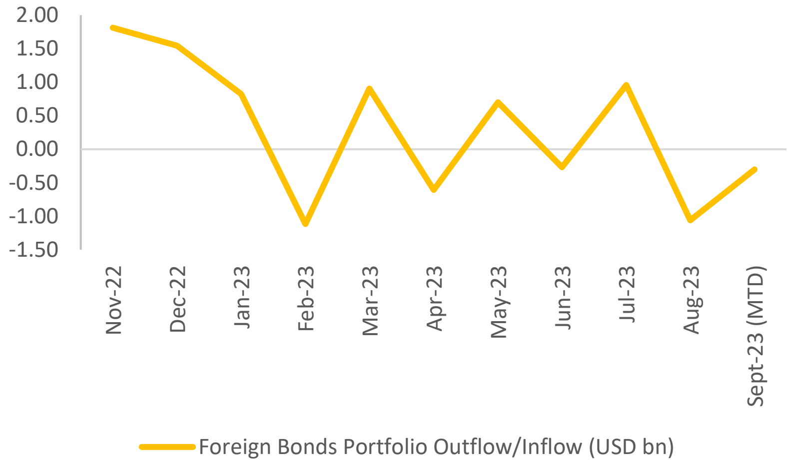
However, we think that such concerns related to the higher fiscal expenditure and Thai bond supply may only last in the short term. We have reason to believe that the situation may not pan out to be extremely bad given the risk of delayed implementation of the measures, Also, growth could likely coming out stronger amid the return of more tourists and the new government's pro-growth policies. We still see that that fiscal concerns are going to keep weighing on the THB in the coming near term but it does not dim our medium-term constructive outlook on the currency.

Chart 1: Thai 10y yields spike to the highest level since Nov 2022 amid fiscal concerns



Source: Bloomberg, Maybank GM FX Research and Strategy

Chart 2: Net outflows from bonds picked up amid fiscal concerns

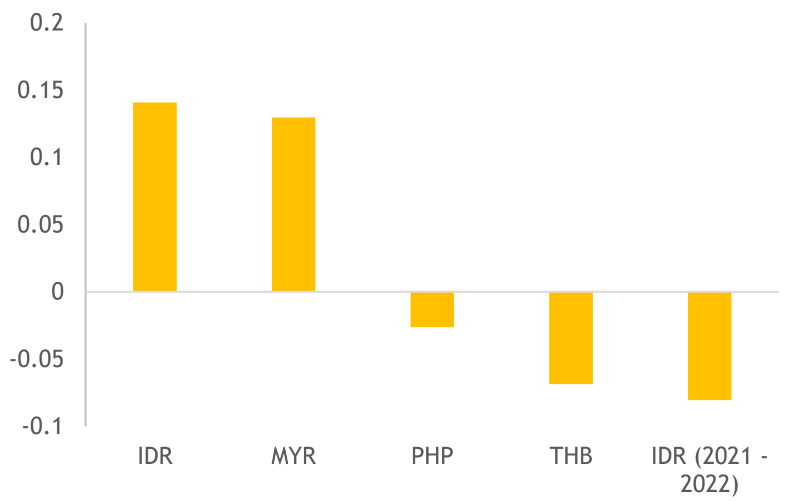


Source: Bloomberg, Maybank GM FX Research and Strategy

Elevated Oil Prices Another Negative Factor

Our own previous research has found that the THB has the second highest negative sensitivity to higher oil prices in ASEAN. This comes as no surprise given that the country is a net importer of oil. Our in-house forecast of Brent stands at $92.50/bbl by year end, which reflects that prices are going to stay elevated and hence, this would keep weighing on the currency. We are wary if oil prices can continue at such high levels into 2024 given persistent weakness in China's economy and expected softening in the US. Therefore, we do not believe this factor should materially change our positive medium term view of the THB.

Chart 3: THB is the most negatively sensitive to higher oil prices in ASEAN after the IDR



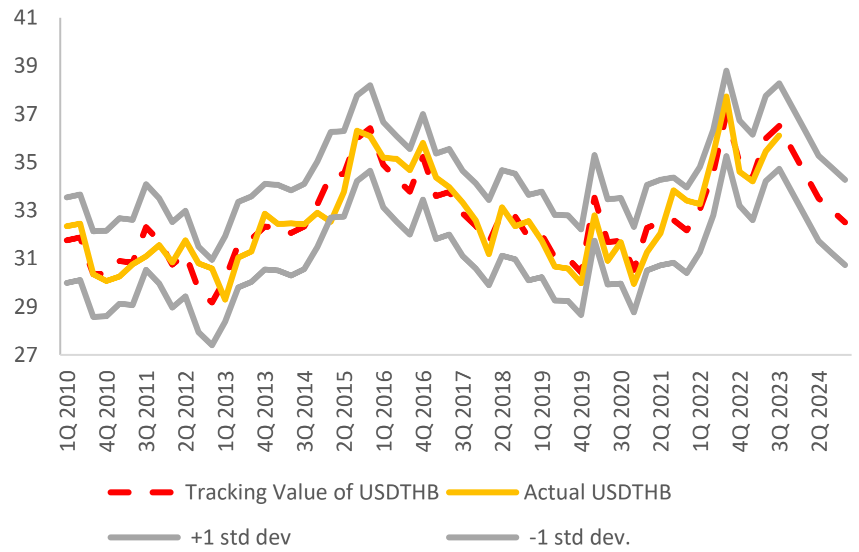
Source: Bloomberg, Maybank GM FX Research and Strategy

Note: Results derived from a TSLS regression run with respective currency on a number of variables that include rate differential, Brent price, country stock market indices, CPO price, gold price, DXY and coal price over a time period 2013 - 2023 or 2021 - 2022 (as stated) with monthly data - controlling for multicollinearity.

The THB May Still Weaken Further

As we had emphasized in our previous publications - ASEAN X Macro – Regaining THB Resiliency, we expect the USDTHB to stay elevated in the near term given the confluence of both negative external and domestic factors hurting sentiment towards the currency. In addition to those as mentioned negative factors still weighing on sentiment, we also see a stronger USD hurting the THB. The latter is amid the “higher for longer” narrative, a more hawkish Fed and weakness in Euro, GBP. A weaker CNY/CNH is also likely to keep weighing on the wider Asian FX complex in the near term. Our own FX fast tracking model which estimates the output based on an assumption of elevated CDS concerns, stronger DXY and weakness in CNY sees the pair heading towards 36.50 near term (possibly in the coming weeks). We do not rule out the possibility of it even hitting 37.00.

Chart 4: Our FX fast tracking model forecasts the pair to hit 36.50 near term before coming down after that



Source: Bloomberg, Maybank GM FX Research and Strategy

Note: Fitted value derived through an OLS run with USDTHB regressed on CDS, USDCNY, UST - Thai govt real differentials, DXY, equity flows, reflation proxy (MSCI World Index/FTSE World Govt Bond Index) and gold prices

Signals also appear mildly bullish from a technical perspective on the weekly chart. Momentum indicators are on the rise and imply some further upside. Meanwhile, a golden cross has formed with the 21-sma crossing above the 100-sma. Resistance is at 36.21 (Fibo retracement of 61.8% from Jan 2023 low to Oct 2022 high) and 37.00 (psychological level). Support is at 34.89 (21-sma) and 34.00 (psychological level).

Chart 5: Technical indicators look mildly bullish on the weekly chart

Source: Bloomberg, Maybank GM FX Research and Strategy

Therefore, THB may still weaken further near term before there is strengthening in the medium term.

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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)