

## FX Insight

# THB - Decomposing the Recent Moves

### THB Outperformance In 2017 So Far

The THB has so far been undoubtedly the best performing currency in ASEAN. Year-to-date, the THB has gained 4.5% against the USD. The faster gains in the THB in 2017 coincided with increasing market doubts over global deflation trade prospects, leading to the unwinding of stale long USD bets, providing support for the THB's move higher.

### Accounting For The Spread Between THB & Regional Currencies

We obtain from our VAR decomposition analysis (which shows the percentage of the forecast variance due to each endogenous variables) the factors that are important to the determination of the USDTHB. The VAR decomposition appears to support our arguments for the recent strength of the USDTHB. From our VAR decomposition, the factor most important to changes in the USDTHB is the political environment. Thus, while the political calm in the kingdom is providing the impetus for an economic growth recovery and a stable investment environment for foreign funds, any shifts in political sentiments could impact the USDTHB. This is followed by real yields, foreign purchases of government debt and current account balances. Rice prices (a proxy for the important agricultural sector) and FDI and foreign purchases of equities plays a lesser role in determining the movement of the USDTHB.

### Gains In THB Could Be Temporary

The gains in the THB could easily reverse given that flows into Thai government debt from abroad year-to-date have been weaker than in the same period in 2016 (2017: THB113.7bn vs. 2016: THB160.9bn). There is a danger here that a flow reversal due to risk-off factors, both external and domestic, could put the recent gains in the THB at risk. Externally, a stronger US dollar from Fed rate hikes and potential US protectionist measures could potentially support the USDTHB move higher. On the domestic front, political tensions could re-emerge once the funeral of the late king and the coronation of the present king are over. This could re-ignite political temperature ahead of the general elections that could impact investor sentiments and hence the USDTHB. Consequently, we maintain our USDTHB outlook and expect the pair to climb steadily towards the 36.00 levels by end-2017.

We are bias to buy the USDTHB towards 34.200-levels (2017 low so far) targeting objective at 34.660 levels (23.6% fibo retracement of the 2016 high to 2017 low) and then at 34.800 levels. Stop-loss at 34-figure.

#### Analysts

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

Leslie Tang  
(65) 6320 1378  
leslietang@maybank.com.sg

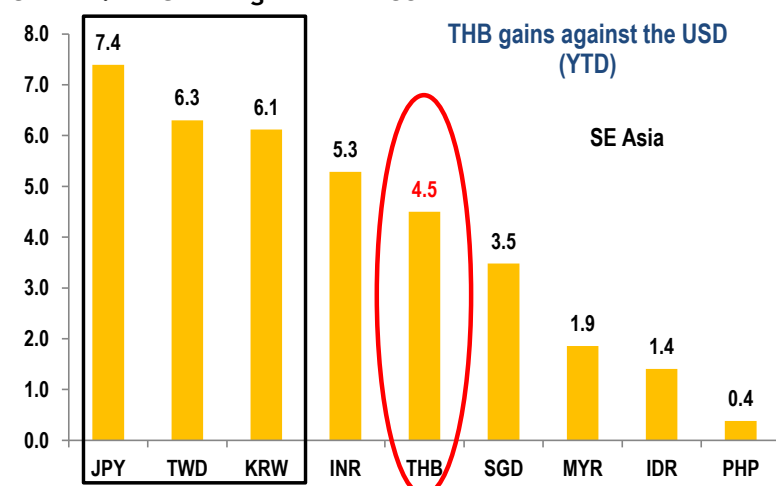
Fiona Lim  
(65) 6320 1374  
fionalim@maybank.com.sg

Christopher Wong  
(65) 6320 1347  
wongkl@maybank.com.sg

## Near-Term THB Strength

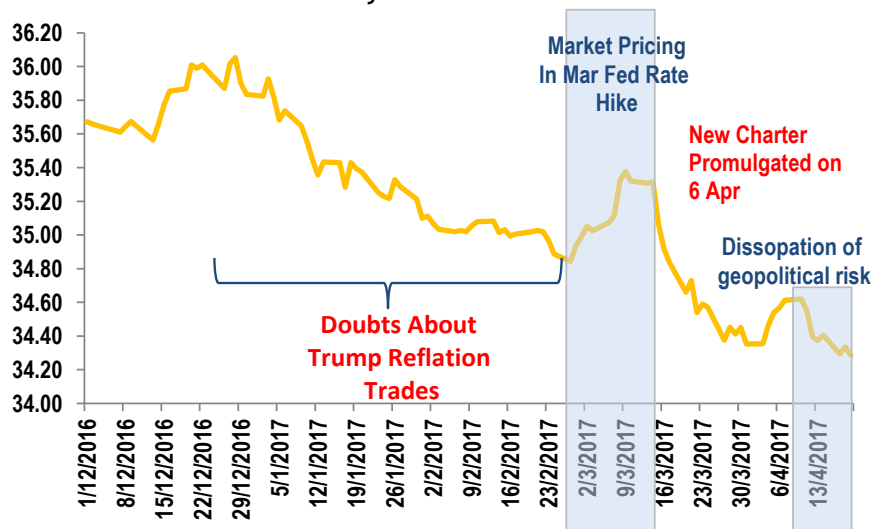
The THB has so far been undoubtedly the best performing currency in ASEAN. Year-to-date, the THB has gained 4.5% against the USD (see chart 1). The faster gains in the THB in 2017 coincided with increasing market doubts over global reflation trade prospects (Chart 2). The fading prospects for global reflation were triggered by the lack of concrete action on the part of the Trump administration to push forward with its tax reforms and infrastructure spending program. This led to the unwinding of stale long USD bets, providing support for the THB's move higher.

Chart 1: FX Gains Against The USD Year-To-Date



Source: Bloomberg, GM FX Research

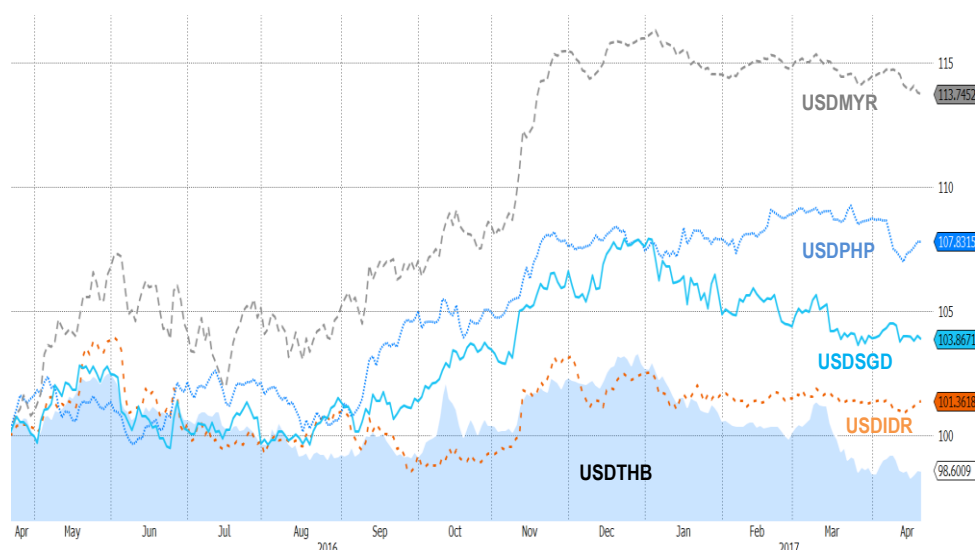
Chart 2: THB Has Been Broadly On The Downtrend Since End-2016



Source: Bloomberg, CEIC, Maybank Kim Eng, Maybank FX Research

So far, the THB has been maintaining a healthy spread over its regional peers (Chart 3). The unwinding of long USD positions cannot explain the strength of the THB over its regional peers. We believe that there are several factors could possibly explain the relative THB strength over the other ASEAN currencies.

Chart 3: USDTHB - Healthy Spread Over Its Regional Peers

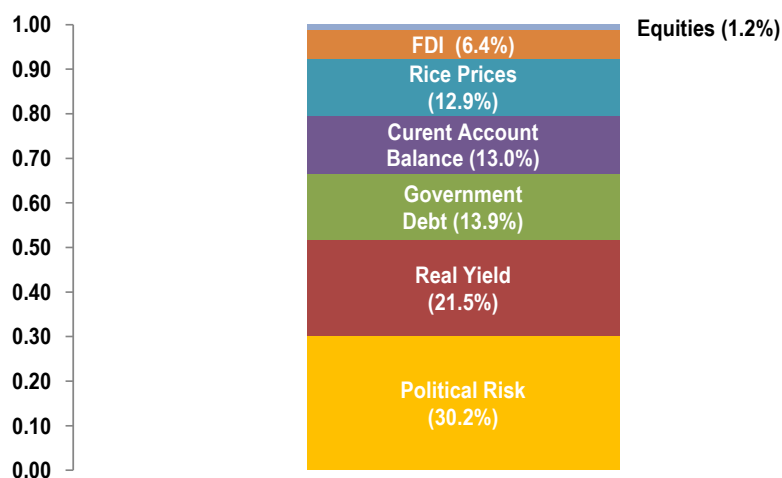


Source: Bloomberg, Maybank FX Research

### Decomposing THB Moves

We obtain from our VAR decomposition analysis (which shows the percentage of the forecast variance due to each endogenous variables) the factors that are important to the determination of the USDTHB. The VAR decomposition appears to support our arguments for the recent strength of the USDTHB. From Chart 4, we can see that the factor most important to changes in the USDTHB is the political environment. Thus, while the political calm in the kingdom is providing the impetus for an economic growth recovery and a stable investment environment for foreign funds, any shifts in political sentiments could impact the USDTHB. This is followed by real yields, foreign purchases of government debt and current account balances. Rice prices (a proxy for the important agricultural sector) and FDI and foreign purchases of equities plays a lesser role in determining the movement of the USDTHB.

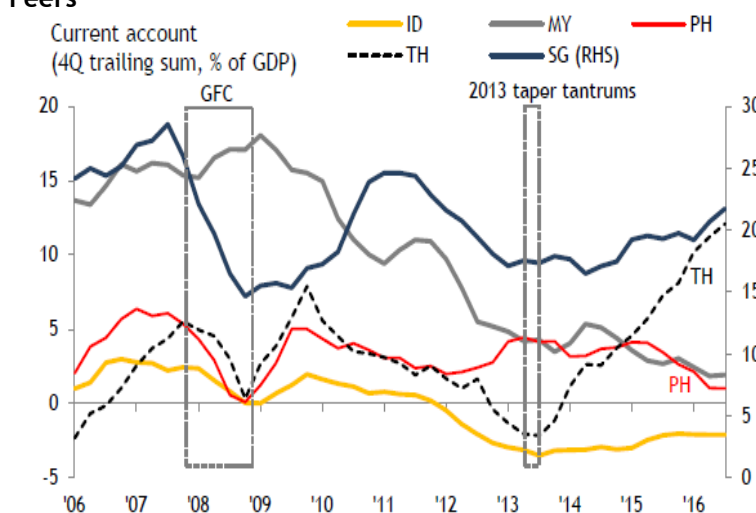
Chart 4: VAR Decomposition Suggests Political Environment Impacts USDTHB The Most



**Note:** Political risk indicator is obtained from the EIU political risk score for Thailand; rice prices (obtained from the benchmark White Rice 100% Grade B prices) are used as a proxy for the agriculture sector.

Source: Bloomberg, CEIC, Maybank FX Research

**Chart 5: Ballooning Current Account Surplus In Thailand Compared To Its Peers**

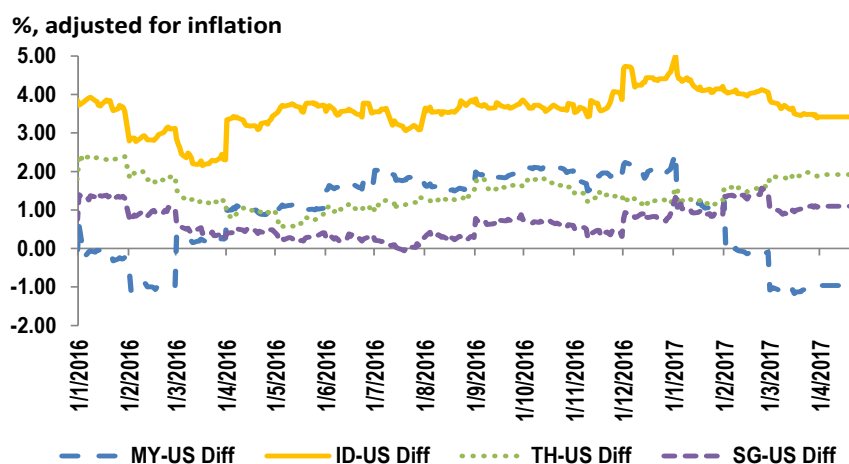


Source: Bloomberg, CEIC, Maybank Kim Eng, Maybank FX Research

From our VAR decomposition, the current account is a relatively important factor that accounts for the positive spread over its peers is its ballooning current account surplus (Chart 5). With the exception of Singapore, which historically has persistent and high current account surpluses, Thailand has seen its current account surplus balloon to more than 10% of GDP since 2014. In contrast, the current account surpluses of both Malaysia and Philippines are tapering, while Indonesia continues to see persistent current account deficits.

Another factor that could possibly account for the recent strength of the THB is the widening real yield differentials between the 10Y UST and Thai government bond (Chart 6). This should encourage capital inflows in search of higher returns. As can be seen in Chart 4, the real yield differentials are not the widest in the region. That honor belongs to Indonesia. Still, the yield differentials between the UST and Thai government debt though are widening when compared to its peers like Indonesia and Malaysia (which has fallen into negative territory). Note too that foreign ownership in Indonesia is high at 38% (as of end-Mar 2017) compared to Thailand's 15% over the same time horizon. This makes Thailand more attractive as an investment destination than Indonesia.

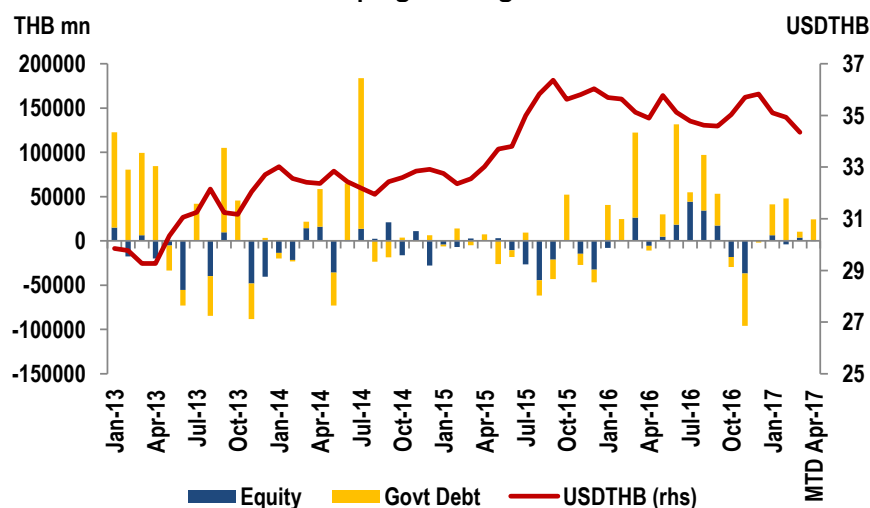
**Chart 6: Real Yield Differentials On The Rise In Thailand**



Source: Bloomberg, Maybank FX Research

More importantly, this combination of a persistent current account surplus and widening yield differentials has improved the investment sentiments for foreign investors. This is reflected in the strong inflow into Thailand recently. So far in the first three months of 2017, foreign funds have purchased THB8.50bn of government debt. If such purchases by foreign investors continue in the months ahead, this could be supportive of the THB as can be seen in Chart 7.

Chart 7: Portfolio Inflows Helping To Weigh On USDTHB



Source: Bloomberg, Maybank FX Research

In the near term, then, we believe that the THB could be well-supported and could even overshoot to the downside our projection for the USDTHB to end 2Q at 34.80 amid the current political calm. However, we do not believe that this state of affairs could last in the medium- to longer-term.

Note that while inflows have been so far supportive of the THB, the flows are not exceptionally strong as they were in previous periods. In fact, the flows into Thai government debt from abroad year-to-date have been weaker than in the same period in 2016 (2017: THB113.7bn vs. 2016: THB160.9bn). There is a danger here that a flow reversal due to risk-off factors, both external and domestic, could put the recent gains in the THB at risk.

Externally, market underpricing of US Fed fund rate hike could not only see a sharper upward move in UST yields but also in the USD. This could spark a sell-off in EM assets, including those from Thailand. In addition, the recent US Treasury Department foreign-currency report may have not accused Thailand of being a currency manipulator but there is a risk that some remedial action could be taken by the US to re-align its trade surplus with Thailand. The report by the Commerce Department in Jun could propose such remedial action that could include protectionist measures. This could potentially disrupt trade and weigh on the THB ahead.

On the domestic front, we believe that downside pressure to the pair could come when politics return to the forefront towards the latter part of the year. For now, the funeral of the late King HM Bhumibol, which is expected sometime in Nov and the coronation of HM King Maha Vajiralongkorn, which should follow soon after, will push the elections to the early- to mid-part of 2018. Once the time line for the elections is announced, simmering political tensions are likely to break open to the surface.

The areas of contention will be the continued domination of the military (and the elites) in the political arena. The military has been given the power to appoint the 250 members of the new Senate in the first five years after the first parliament convenes under the new constitution. At the same time, the new constitution allows for the appointment of a non-elected PM to head the government. This suggests that the military and its allies will continue to dominate politics long after the coup. The re-ignition of political temperature ahead of the general elections is likely to impact investor sentiments and lift the USDTHB higher towards the 36-handle by the end of the year.

### Maintain Our USDTHB Forecast

Taken together, we expect the recent strength in the THB to be temporary. External and domestic factors, including global risk aversion, could weigh on investment sentiments and result in a slowdown in inflows into Thai assets. Consequently, we expect the USDTHB to climb steadily towards the 36.00 levels by end-2017 (Chart 8).

Chart 8: Maybank USDTHB Forecast

Forecast	2Q 2017	3Q 2017	4Q 2017	1Q 2018
USDTHB	34.80	35.30	36.00	36.20

### Strategy

Chart 9: Daily Chart - Tilting Higher



We are bias to buys the USDTHB towards 34.200-levels (2017 low so far) targeting objective at 34.660 levels (23.6% fibo retracement of the 2016 high to 2017 low) and then at 34.800 levels. Stop-loss at 34-figure.

## DISCLAIMER

This report is for information purposes only and under no circumstances is it to be considered or intended as an offer to sell or a solicitation of an offer to buy the securities or financial instruments referred to herein, or an offer or solicitation to any person to enter into any transaction or adopt any investment strategy. Investors should note that income from such securities or financial instruments, if any, may fluctuate and that each security's or financial instrument's price or value may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not necessarily a guide to future performance. This report is not intended to provide personal investment advice and does not take into account the specific investment objectives, the financial situation and the particular needs of persons who may receive or read this report. Investors should therefore seek financial, legal and other advice regarding the appropriateness of investing in any securities and/or financial instruments or the investment strategies discussed or recommended in this report.

The information contained herein has been obtained from sources believed to be reliable but such sources have not been independently verified by Malayan Banking Berhad and/or its affiliates and related corporations (collectively, "Maybank") and consequently no representation is made as to the accuracy or completeness of this report by Maybank and it should not be relied upon as such. Accordingly, no liability can be accepted for any direct, indirect or consequential losses or damages that may arise from the use or reliance of this report. Maybank and its officers, directors, associates, connected parties and/or employees may from time to time have positions or be materially interested in the securities and/or financial instruments referred to herein and may further act as market maker or have assumed an underwriting commitment or deal with such securities and/or financial instruments and may also perform or seek to perform investment banking, advisory and other services for or relating to those companies whose securities are mentioned in this report. Any information or opinions or recommendations contained herein are subject to change at any time, without prior notice.

This report may contain forward looking statements which are often but not always identified by the use of words such as "anticipate", "believe", "estimate", "intend", "plan", "expect", "forecast", "predict" and "project" and statements that an event or result "may", "will", "can", "should", "could" or "might" occur or be achieved and other similar expressions. Such forward looking statements are based on assumptions made and information currently available to us and are subject to certain risks and uncertainties that could cause the actual results to differ materially from those expressed in any forward looking statements. Readers are cautioned not to place undue relevance on these forward looking statements. Maybank expressly disclaims any obligation to update or revise any such forward looking statements to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

This report is prepared for the use of Maybank's clients and may not be reproduced, altered in any way, transmitted to, copied or distributed to any other party in whole or in part in any form or manner without the prior express written consent of Maybank. Maybank accepts no liability whatsoever for the actions of third parties in this respect.

This report is not directed to or intended for distribution to or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.

Published by:



Malayan Banking Berhad  
(Incorporated in Malaysia)

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

Christopher Wong  
Senior FX Analyst  
wongkl@maybank.com.sg  
(+65) 63201347

Fiona Lim  
Senior FX Analyst  
Fionalim@maybank.com.sg  
(+65) 63201374

Leslie Tang  
Senior FX Analyst  
leslietang@maybank.com.sg  
(+65) 63201378