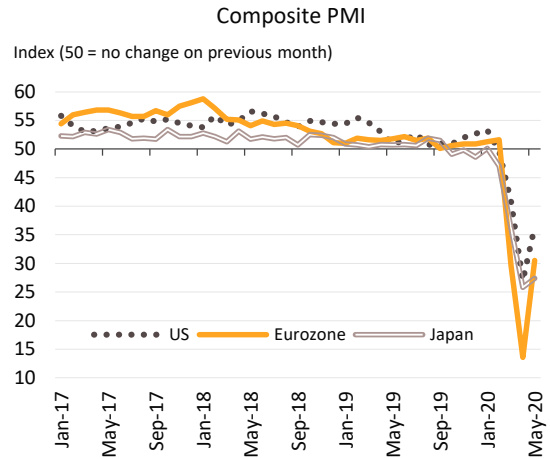


Global Economy

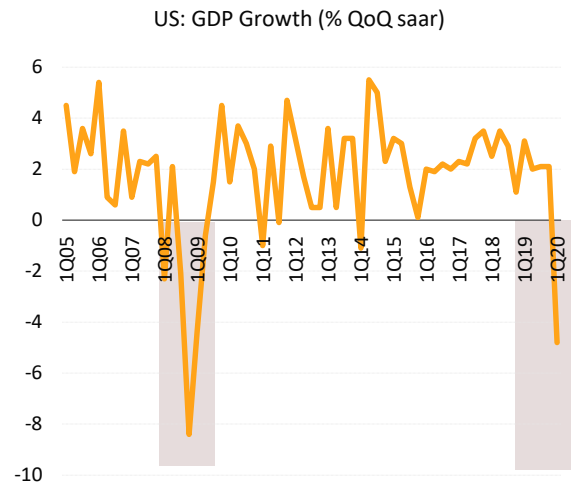
Production slightly recovers in some countries, while demand problems become more pronounced

Despite loosening lockdowns, output in major countries merely improve, governments thus step up stimulus measures. May's Flash PMIs increase after falling to low levels not seen since 2009 as reported in the US (36.4), Japan (27.4), Eurozone (30.5), France (40.3), Germany (36.8), and England (28.9) but these remains below 50.0, indicating that output continues to contract. *These are in step with the relaxation of lockdowns in many countries and the reopening of some production, but output remains lower than normal and unemployment is rising, consumer spending is weak, and many SMEs are lacking liquidity and may bankrupt. Concerns about weaker demand pressure many countries to introduce additional stimulus measures. For example, the US is preparing a new USD 3trn stimulus plan, the BOJ encourages commercial banks to provide loans to SMEs by paying them 0.1% interest and covering with government guarantee, the ECB is setting up a EUR 450bn recovery fund for the Eurozone, and the BOE has for the first time issued negative-yielding bonds.*



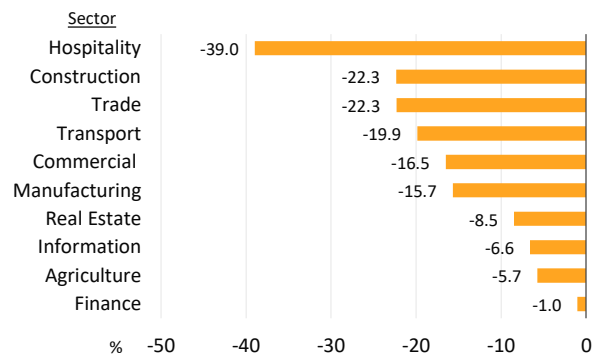
Source: Markit, Bloomberg

A fresh round of US-China conflict may drag on global recovery. Political tensions between the US and China have increased after China forced Hong Kong to enact national security law to prohibit political gathering and activities that are detrimental to national security. President Trump reacted to this by warning that the US would respond immediately to any suppression of Hong Kong's democracy movement, while at the same time, the US issued regulations to prohibit manufacturers from delivering semiconductors to Huawei unless they have obtained a license from the US Department of Commerce. The Senate has also just passed a law that allows for the delisting foreign companies from US stock exchanges whether they are controlled by foreign governments, and the result of this may then cause some Chinese companies registered in the US stock market to be removed from the market and even block Chinese companies from accessing US sources of capital in the future. Nonetheless, this law has yet to be passed by the House of Representatives. *The worsening US-China relations are likely to hinder the progress of negotiations to resolve their trade conflict, while also further disrupting international trade and investment, aggravating the impacts of COVID-19 and consequently delaying the recovery.*



Source: CEIC

China: 1Q2020 GDP Growth by Sector (% YoY)



Source: NBS, CEIC, Krungsri Research

Chinese government raised budget deficit, while abandoning GDP target reflected possible effects of uncertainty. At this year's annual congress, the government announced plans to stimulate the economy by investing in ICT infrastructure, such as the 5G network, big data, and support systems for driverless electronic vehicles, together with civil infrastructure including high-speed rails, motorways and power stations. To fund this, Chinese government hiked its budget deficit target from 2.8% (in 2019) to at least 3.6% and lifted quotas for local government bond issues to CNY 3.75trn (from CNY 2.15trn in 2019). *However, for the first time in 20 years, no target growth rate for the year has been set, reflecting the continuing uncertainty over the impacts of COVID-19 and the expectation that recovery to pre-pandemic level will be a lengthy process.*

Thai Economy

The MPC cuts policy interest rate to a record low of 0.50%, and likely to keep unchanged for the rest of year, but exports remain at risk of collapse

Exports rose in April mainly from a jump in gold exports, but for the year, exports will shrink -8%. April exports totaled USD 18.9bn, up 2.1% YoY (compared to +4.2% in March), partly boosted by a +1,103% rise in gold exports. Excluding gold, exports fell -10.3%, and further removing aircraft and weapons brought the figure down to -13.1%. Major export categories declined, including autos and auto-parts (-53.8%), chemicals (-28.4%), rubber (-20.7%), electrical appliances (-17.7%) and plastic products (-17.1%), although working from home and stockpiling food during the lockdown due to COVID-19 outbreak lifted exports of rice (+23.1%) and processed food (+5.6%). Exports to the US, China, Japan and the ASEAN-5 expanded, mainly driven by demand for food and some specialty goods, although those for durables and other goods fell heavily elsewhere.

Krungsri Research expects that exports are likely decline sharply as a consequence of the strict measures to control the spread of COVID-19, as May Flash PMIs of the major economies still indicate a continual contraction, and although supply-chain disruption is likely to subside in 2H20 as lockdowns are loosened, global demand is expected to remain weak due to the explosion in unemployment and debt, which causes purchasing power to decrease. Recently, The WTO expects global trade to fall by between -13% and -32% this year, depending on the length of the pandemic and the effectiveness of policy responses. Given this, although Thai exports may benefit from higher world demand for food, agricultural goods account for only 20% of the value of all exports and this will be insufficient to offset hard falls elsewhere. Krungsri Research therefore forecasts a -8% fall in Thai exports for 2020.

The MPC cut policy interest rate to a historic low of 0.50%, and signals no further cut, though it is ready to use other monetary tools. On May 20, by a vote of 4 to 3, the MPC cut interest rates from 0.75% to 0.50% because (i) the Thai economy is contracting more sharply than expected and (ii) a more relaxed monetary policy will help to soften the impacts of this. Krungsri Research assesses that although the MPC is increasingly worried about the economy, their recent statement signals that there will be no further interest rate cuts because (i) 3 members of the committee voted to keep interest rates steady and instead call for speeding up the effectiveness of existing monetary and credit measures, and (ii) the MPC stated readiness to use additional appropriate monetary policy tools, however, it has cut the words "policy interest rate", compared to the previous report. Krungsri Research therefore expects that policy interest rate will remain at 0.50% through the rest of 2020 and the MPC will instead support the economy and ease COVID-19 impact through targeted monetary policy and fiscal policy.

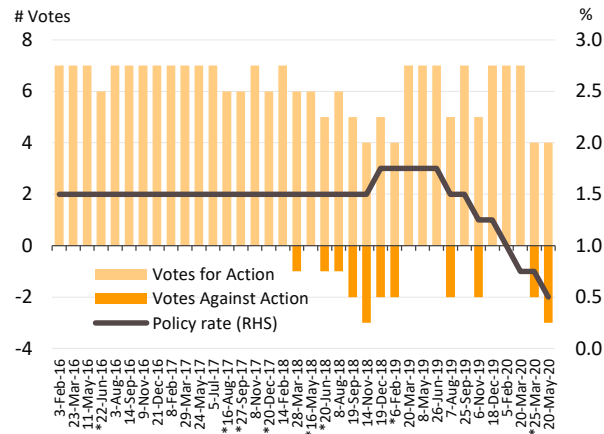
The financial sector is coming under greater threat after NPLs to total loans hitting its highest level in 9 years. Between year-end 2019 and 1Q20, these ratios increased from 2.98% to 3.05%. For households and SMEs, NPLs rose from 2.90% to 3.23% and 4.63% to 4.81%, respectively. These imply the economy has been severely affected by COVID-19, particularly weakening household income and repayment ability, together with SME's lack of liquidity. Although commercial banks have eased the burden of debtors, it is expected that the NPLs will continue to increase, especially in 2Q20, due to deteriorating economy caused by strict epidemic control.

Thailand's Export Markets

	Growth (%)				Share (%)
	2019	Mar-20	Apr-20	4M20	4M20
Total Market	-2.7	4.2	2.1	1.2	100.0
USA	11.8	42.9	34.6	4.6	14.0
EU	-6.6	-14.8	-28.7	-10.2	8.0
Japan	-1.5	-2.8	9.8	-2.3	9.7
China	-3.8	-4.8	9.0	1.8	11.4
ASEAN5	-9.6	6.8	13.0	7.4	15.0
CLMV	-6.3	2.9	-31.0	2.5	10.5
Australia	-4.2	5.7	-28.5	-10.7	4.8
Middle East	-1.9	-9.7	-25.3	-3.9	3.2

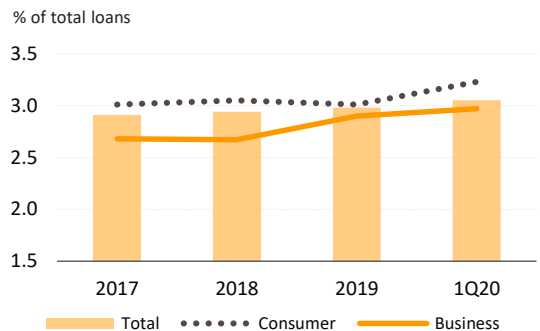
Source: MOC

MPC Policy Rate Decisions



Note: * At least one MPC member was absent from the meeting
Source: BOT

NPLs of Commercial Banks



Source: BOT

Sompawin Manprasert, Ph.D.

Phornphan Phoksuphat

Head of Research Division and Chief Economist

Head of Macroeconomic and Industry Research

Macroeconomic Team

- Sujit Chaivichayachat Head of Macroeconomic Research
- Churailuk Pholsri Senior Economist (Forecasting)
- Soison Lohsuwannakul Senior Economist (Regional Economy)
- Sathit Talaengsatya Senior Economist (Regional Economy)
- Lookhin Varachotisate Economist

Industry Team

- Sarun Sunansathaporn Head of Industry Research
- Taned Mahattanalai Senior Analyst (Steel, Medical Devices)
- Chamadanai Marknual, Ph.D. Senior Analyst (Construction Contractors)
- Poonsuk Ninkitsaranont Senior Analyst (Healthcare, Mobile Operators)
- Piyanuch Sathapongpakdee Senior Analyst (Transport & Logistics)
- Narin Tunpaiboon Senior Analyst (Power Generation, Modern Trade, Chemicals)
- Puttachard Lunkam Analyst (Hotels, Construction Materials, Industrial Estate)
- Wanna Yongpisanphob Analyst (Automobile, Electronics & Electrical Appliances, Food & Beverages)
- Patchara Klinchuanchun Analyst (Real Estate)
- Chaiwat Sowcharoensuk Analyst (Agriculture)
- Aphinya Khanunthong Analyst (Energy, Petrochemicals)

Intelligence Team

- Pimnara Hirankasi, Ph.D. Senior Analyst
- Talublugkhana Thanadhidhasuwanna Senior Analyst (Financial Sectors)
- Rachot Leingchan Analyst
- Arpakorn Nopparattayaporn Analyst
- Chutipha Klungjaturavet Analyst

MIS and Reporting Team

- Suratchanee Somprasong Administrator
- Thamon Sernsuksakul Administrator
- Chirdsak Srichaiton MIS Officer
- Wongsagon Keawuttung MIS Officer

For research subscription, contact krungsri.research@krungsri.com

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