

## Thailand's GDP Growth vs. THB

- Strong economic growth amid a recovery in global trade will be supportive of THB
- BoT warns of THB speculation in a statement, suggesting an excessively strong THB is not in local regulators' interest
- THB could continue to outperform regional peers with USD/THB possibly heading for the 33.0 level followed by a consolidating pattern

**Asia Overview** - Most EM Asian currencies advanced versus the dollar during Monday's Asian session, led by the KRW. The KRW gained 0.2% despite portfolio outflows. We stay cautious on the impact of the military drills on geopolitical situation as the Pentagon conducts the annual Ulchi-Freedom Guardian military exercise in South Korea from 21 August to 31 August. Korea's vice finance minister Ko Hyoung-kwon said Monday that the economy will face some downside risks going forward due to possible labor strikes at local carmakers and a cooldown in the local property market, according to Yonhap News. The deliverable JPY, CNH and SGD advanced more in NY session amid a broadly weakening dollar. The CNY gained somewhat on Monday. China expressed "strong dissatisfaction" with the US decision to probe its intellectual-property practices and pledged to respond if needed. We believe the two largest economies will manage to avoid a trade war. The IDR and MYR inched up yesterday. USD/IDR will likely trade in a range of 13,300 to 13,400 for now, while climbing in response to risk aversion. The BI is likely to stay on hold with a dovish stance on Tuesday. BI Deputy Governor Perry Warjiyo said on Monday that the central bank is committed to intervening in FX market to ensure stability. The 4.30 mark is now serving as a resistance for USD/MYR. Meanwhile, hovering external uncertainty could limit downside potential in the pair. The INR pared its earlier gains and closed almost flat on Monday. USD/INR is likely to trade around the 64 level for now. We stay watching India's continued equity outflows that amounted to USD 1.13bn last week. Philippines onshore markets were closed Monday for a public holiday. We would buy USD/PHP on dips. BSP Governor Nestor Espenilla said yesterday that the PHP is expected to regain stability in the near term on the back of solid macroeconomic fundamentals. The TWD ended unchanged amid equity outflows on Monday. USD/TWD is likely to range trade between 30.0 and 30.5 for now. Taiwan's export orders rose 10.5% yoy in July after increasing 13.0% a month ago, missing market forecasts of a 13.0% advance. The THB reversed its earlier gains, ending slightly weaker on Monday.

Regional equity indices diverged on Monday. China's SHCOMP index rose 0.56%, while India's NIFTY50 index slid 0.84%. Korea's KOSPI index declined 0.14% with foreign investors selling a net USD 55.4mn of local shares. In the meantime, Taiwan's TWSE index edged up 0.05% although global funds reduced their holdings in local main board shares by TWD 2.55bn (USD 84.1mn) on Monday. Malaysia's KLCI index and Indonesia's JCI index closed down 0.26% and 0.56% respectively. Thailand's SET index advanced 0.20% despite USD 31.4mn of equity outflows.

**Thailand** • Thailand's economy grew at its fastest pace in over four years in the second quarter, expanding 3.7% yoy amid a recovery in global trade versus market estimate of a 3.2% growth.

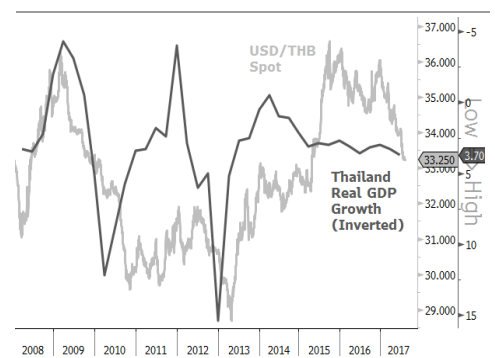
The National Economic and Social Development Board (NESDB) on Monday raised its GDP growth forecast for 2017 to 3.5%-4.0% from 3.3%-3.8% projected in May. The NESDB is now expecting exports to rise 5.7% this year, up from the earlier forecast of 3.6%.

Meanwhile, the BoT said Monday that it may raise its 2017 GDP growth forecast in September monetary policy report again, after increasing it to 3.5% in June report from the previous estimate of 3.4%. In a statement released on 16 August, the BoT

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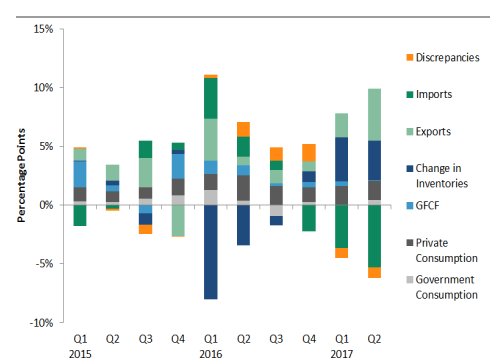
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USD/THB vs. Thailand's GDP Growth (%YoY)



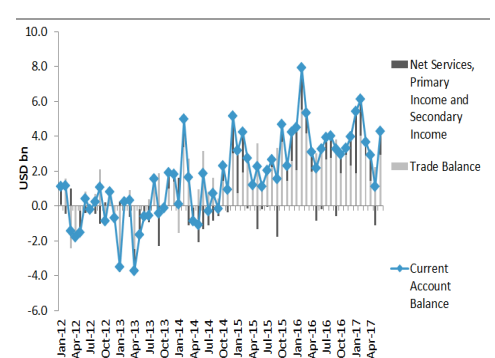
Source: Bloomberg & Scotiabank FICC Strategy

Thailand's GDP Growth Contribution



Source: Bloomberg & Scotiabank FICC Strategy

Thailand's Current Account Balance



Source: Bloomberg & Scotiabank FICC Strategy

said that "Thailand's growth outlook improved further on the back of the expansion in merchandise and services exports," and "domestic demand continued to expand at a gradual pace, although it was not sufficiently broad-based."

Strong economic growth momentum has led to the nation's large trade surplus and current account surplus. The THB has appreciated 7.8% year-to-date amid large bond inflows, the best performing currency in the region.

The THB's outperformance has spurred concern as it could hurt the export-hub's competitiveness. The central bank said Monday in a statement that "The BoT has observed occasional increases in volume of foreign exchange transactions. Therefore, the BoT requires commercial banks to provide additional information in the event of unusually high volume of transfers between non-resident baht accounts which may relate to Thai baht speculation. The BoT may also consider additional measures to limit the opportunity for Thai Baht speculation." It suggests that an excessively strong THB is not in local regulators' interest.

**The THB could continue to outperform regional peers with USD/THB possibly heading for the 33.0 level followed by a consolidating pattern.**

**TODAY'S CALENDAR**

| Time (HKT) | Economy | Type | Release                             | Period | Consensus | Last     | Significance |
|------------|---------|------|-------------------------------------|--------|-----------|----------|--------------|
| 15:00      | MY      | DATA | Foreign Reserves                    | Aug 15 |           | \$99.4bn | med-high     |
| 16:00      | TW      | JOB  | Unemployment Rate                   | Jul    | 3.80%     | 3.78%    | med          |
| 16:30      | HK      | INFL | CPI Composite YoY                   | Jul    | 2.0%      | 1.9%     | med          |
|            | ID      | BI   | Bank Indonesia 7D Reverse Repo Rate | Aug 22 | 4.75%     | 4.75%    | high         |

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