

Good MornING Asia - 28 February 2019

Nobel Laureate, Paul Krugman, sees some chance of a global recession late this year or next, but Monetary Authority of Singapore (MAS) Managing Director, Ravi Menon, sounds more relaxed - where do we stand?

In this bundle



Is Krugman right?

Nobel Laureate, Paul Krugman, sees some chance of a global recession late this year or next, but Monetary Authority of Singapore (MAS) Managing Director,...



Asia Morning Bites

ASEAN Morning Bytes

General market tone: Wait and see. The markets are likely to move sideways as players await fresh leads on trade and geopolitical concerns ebbing.



China

Hong Kong: Hit by the trade war

Hong Kong 4Q18 GDP growth was weaker than expected. This was mainly a result of the trade war, which dampened exports, related jobs and therefore...



Thailand

Thailand: Steady economy amid political risks

Prime Minister Prayut Chan-o-cha is likely to remain in power at the general elections next month, though the transition to the new government under him...

Opinion | 27 February 2019

Is Krugman right?

Nobel Laureate, Paul Krugman, sees some chance of a global recession late this year or next, but Monetary Authority of Singapore (MAS) Managing Director, Ravi Menon, sounds more relaxed - where do we stand?



Global Recession possibility

Paul Krugman has been quoted recently as saying that there is some chance of a global recession late this year or next.

There is no widely accessible global recession indicator. But there are such indicators for the US, from which, most of the global business cycle usually starts and ends. One readily available indicator, the NY Fed index, has a recession in 12 months probability running at a 23.62%. That sounds a bit elevated, but not quite ringing alarm bells.

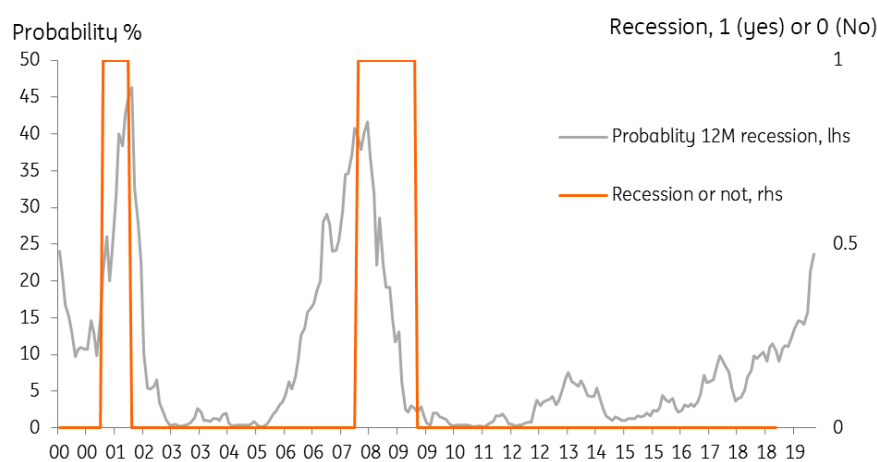
That said, this index has almost never risen from a lower level to reach this point, without then going on to register higher probabilities and in due course a recession. False signals are extremely rare. That is concerning.

As for a global recession, this is harder to define, with no widely accepted definition. The IMF has a rather complicated definition, involving declining Purchasing Power Parity (PPP) based per-capita GDP backed up by one of seven other indicators including oil consumption and per capita consumption amongst others. But for most of us, lacking the resources of the IMF, this isn't really all that helpful.

Perhaps a more accessible version is an older IMF definition, which backs out the global GDP growth rate from the per capita GDP cut-off, and suggests that a global recession happens when global growth falls below 3% per year. For the next several years, the IMF is forecasting global growth of just 3.6% to 3.7%. The buffer is small. Moreover, such forecasts tend to be a bit behind the curve. Have the IMF fully taken on board the effect of tariffs on China's exports and growth? Or the impact of the semiconductor cycle? US growth looks good for now, but some aspects of it suggest some slowdown this year and next, so is that baked firmly into the forecast? And Europe, it already looks slow and judging by business sentiment indicators, could slow further. India stands on the brink of a perilous standoff with Pakistan. Brexit may still happen badly ([see here for latest](#)). I could go on, but for the sake of brevity (and sanity), I won't.

In short, the 0.6% buffer does not look terribly large or very comforting.

US recession probability indicator



MAS MD, Menon, sounds relaxed about global prospects

Now before I describe what MAS Managing Director, Ravi Menon, had to say yesterday about the Singapore and Global economies, let's be clear about priorities. Mine, as a market / bank economist, are to look for things that are about to go horribly wrong, to provide a prior warning for our clients. Mr Menon's, are to preserve and foster economic and market confidence. We are bound to look at the world in a different way, and our conclusions, as a result, may differ widely for perfectly legitimate reasons.

Menon suggested, contrary to things we have said in this note, that there is no reason for (other) central banks (CBs) in Asia to ease rates, describing the hikes by some regional CB's last year as appropriate and sensible. I agree with the last bit, and the room for easing may be limited, and probably for later in the year, not now. But real rates in a number of Asian economies, Indonesia for one, Korea another, look high enough to offer domestic economies some support through possible future easing, and not just if external conditions worsen, as domestic conditions aren't looking too impressive in some economies either.

Menon also takes a different view than Krugman saying that the global economy isn't heading for a hard landing in 2019. Adding that China's slowdown is enabling it to reach a more sustainable growth rate. I tend to share his conclusion, but I would be far more cautious about the hard landing outlook, You see, to me, this still seems like something that *could* happen, even if on balance I

don't think it will. But then as mentioned earlier, my job is to highlight risks, not to calm nerves.

As far as Singapore goes, Mr Menon was similarly upbeat, though there was just the hint of a door being opened for future changes in policy direction (next MAS meeting is in April) as he is quoted on Bloomberg as saying that although there is no need for stimulus if the economy evolves as expected in line with MAS forecast ranges "two months is a long time, so we'll see how it looks like then". That may be the most significant comment of the lot.

The SGD is a little softer overnight. The MAS decision in April is unlikely to show a change in the NEER policy, but I would say the risks of an easing grew a very small amount following these remarks.

Bank of Korea - probably won't ease, but should they?

A weak domestic economy, very low inflation, external headwinds - all of these are ingredients for a rate cut from the Bank of Korea (BoK) today. Yet not a single economist in the Bloomberg consensus thinks there will be a cut. Why? Probably for similar reasons as Mr Menon cited earlier for other Asian central banks. Though that time may well come later this year. We all wait with bated breath on developments between the US and China on trade. The possibility of auto tariffs would also seriously affect Korea's stumbling economy. A rate cut later this year might well be on the cards and would be entirely warranted if it came under such circumstances, in my view.

Asia Day ahead

From Prakash Sakpal:

India is the last Asian country to report GDP data for 4Q18 today. We expect it to join the majority of regional countries in posting slower growth, and consider consensus estimate of 6.8% YoY GDP growth subject to downside risk from a slowdown in exports and manufacturing (ING forecast 6.6%). The escalation of border tensions with Pakistan overshadows the economy and markets. The INR has depreciated 0.6% since the tensions started with the terror attack on 14 February and it is down 2.1% year-to-date, the most among Asian currencies. There are no reasons for the depreciation pressure to ease as the tensions will likely remain a burning issue going into elections in May.

Thailand's balance of payments data for January is expected to show a sharp negative swing in the current account balance, just like we saw from the customs-basis trade balance, which plunged to a deficit of \$4 billion in the last month from \$1.1 billion surplus in December. Having dropped to 7.5% of GDP in 2018 from 11% in the previous year, we forecast that the current surplus will shrink further to 4.5% in 2019. Yet it remains a strong support for the Thai baht, Asia's best-performer currency last year and remains so this year (see "[Thailand: Steady economy amid political risk](#)").

Author

Alissa Lefebre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific
Deepali.Bhargava@ing.com

Ruben Dewitte

Economist
+32495364780
ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee
kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands
marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic
420 770 321 486
david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing
sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China
lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist
michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland
michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania
tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials
marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research
coco.zhang@ing.com

Jan Frederik Slijkerman
Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA
Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Rico Luman
Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante
Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok
Senior Economist, Netherlands
marcel.klok@ing.com

Piotr Poplawski
Senior Economist, Poland
piotr.poplawski@ing.pl

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com

ASEAN Morning Bytes

General market tone: Wait and see. The markets are likely to move sideways as players await fresh leads on trade and geopolitical concerns ebbing.



EM Space: Testimonies from key US officials mixed, China data out later in the day

- **General Asia:** Fed Chair Powell's delivered a testimony again on Wednesday with little added save for some details on their plans for the balance sheet reduction. Comments from a trade official and President Trump's former lawyer failed to move markets convincingly.
- **Thailand:** The balance of payments data for January is expected to show a sharp negative swing in the current account balance, just as what we saw from the customs-basis trade balance, which plunged to a deficit of \$4 billion in the last month from a \$1.1 billion surplus in December. Having dropped to 7.5% of GDP in 2018 from 11% in the previous year, we forecast that the current surplus will shrink further to 4.5% in 2019. Yet its remains strong support for the Thai baht, Asia's best-performer currency last year and remains so this year.
- **Singapore:** Mr. Ravi Menon, the head of Singapore's central bank (MAS), views the current MAS policy stance as "appropriate" for the economy. The economy is off to a weak start in 2019 judging from the dismal NODX and manufacturing data for January. Having tightened twice in 2018 we believe the conditions are ripe for the MAS to leave the policy on hold in April, though last year's tightening also provides wiggle room for the central bank to ease if

things get really bad. “Two months is a long time, so we’ll see how it looks like then”, said Mr. Menon.

What to look out for: China PMI and US data dump

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Hong Kong: Hit by the trade war

Hong Kong 4Q18 GDP growth was weaker than expected. This was mainly a result of the trade war, which dampened exports, related jobs and therefore consumption and asset investment - especially investment in the residential property market. We expect economic weakness will continue in 1Q19 but will improve if trade tensions moderate.



Source: Shutterstock

Hong Kong GDP growth was weak due to the trade war

Hong Kong GDP growth was weaker than expected at 3.0% for the whole of 2018 and 1.3%YoY in 4Q18.

This was mainly a result of the trade war, which dampened export activities and related jobs in Hong Kong and on the Mainland, with negative feedback into consumption in Hong Kong.

Due to the negative sentiment on job security, mortgagors have been reluctant to increase their investment in the residential property market. And this has a negative impact on the jobs of real estate agents.

Investment only grew by 2.2% in 2018, which was lower than the first three quarters' average of

4.5%YoY. We believe that this is also a result of the trade war, causing businesses to defer their investment decisions.

1.3%YoY

 Hong Kong GDP growth in 4Q18

Worse than expected

Economic condition in 2019 depends on the trade war

We expect the overall economic condition will not change in 1Q19. If there is any trade pact it should be finalized by end of March. GDP growth is expected at 1.8%YoY in 1Q19.

We believe that the trade talks are progressing positively. We forecast GDP growth of 2.5% for full-year 2019. Consequently, we project faster growth in 2H19 than 1H19. But there are still many uncertainties in agreeing on a trade pact, especially on some difficult topics like the yuan path and "forced" transfer of technology. These difficult topics may yet lead us to revise downward our GDP forecast for 2019.

Long-term growth depends on integration with Mainland China

It is difficult for Hong Kong's economic activity to grow independently from Mainland China. In the long-run, Hong Kong's economic growth will partly depend on how it integrates with Mainland China.

[The Finance Secretary stated in the 2019 budget that "the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area \(Development Plan\), promulgated last week, is a milestone, setting out the development directions for the Greater Bay Area up to 2035."](#)

What we see is that it is not the Greater Bay Area design that would change the structure of the Hong Kong economy. We see this as a long term plan that could increase the degree of integration with Mainland China, and to tap the opportunities offered by Mainland China.

But before that is accomplished, Hong Kong's economic growth will be easily swayed by external economic and financial conditions.

Author

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Thailand: Steady economy amid political risks

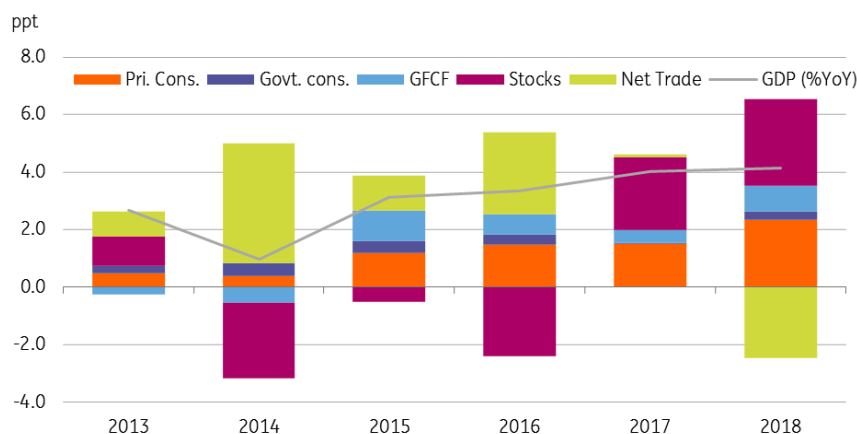
Prime Minister Prayut Chan-o-cha is likely to remain in power at the general elections next month, though the transition to the new government under him may not be smooth. Absent a significant political shock, the economy will be on a steady 3-4% growth path and the currency will continue to be an Asian outperformer in the medium-term



2018 wasn't all that bad with firmer growth

Thailand's economy grew by 4.1% in 2018, the best performance in the last six years. However, it was not much of an improvement from the 4% growth rate recorded in the previous year and underlying drivers of growth weren't very impressive either. As in 2017, a large contribution to growth came from inventory re-stocking, which isn't a healthy sign as the potential inventory overhang is likely to keep future output growth subdued. There was some improvement in domestic demand but the all-important investment demand continued to be anaemic and lacked a material boost from public investment. Meanwhile, narrowing external trade surpluses held headline GDP growth down.

Sources of GDP growth



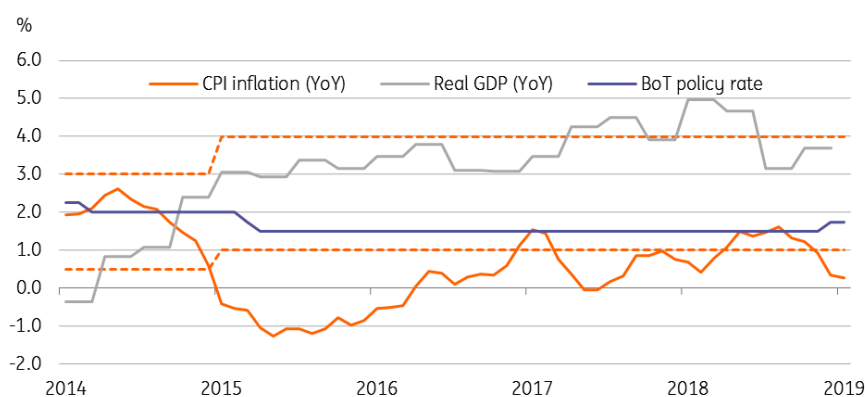
Source: CEIC, ING

The strong currency and lack of demand-side pressure have kept consumer prices subdued. The Bank of Thailand's (BoT) 1-4% policy inflation target has barely been achieved on a sustained basis in recent years. Last year was no different. Even though average CPI inflation of 1.1% in 2018 was the most in four years, after a brief return to the target level, inflation slid closer to zero toward the year-end. Apart from the pass-through of higher global oil prices to domestic fuel prices, which kept the CPI transport component elevated, and higher "sin taxes" on alcohol and tobacco products, there was no inflation in most other CPI components, not even in food prices, which have been the main driver historically, due to their 36% CPI weight.

On the external side, the current account surplus equivalent to 7.5% of GDP in 2018 represented a sharp narrowing from 11% recorded in the previous two years. Yet this remained the main source of currency (THB) strength. The Thai baht was unscathed and retained its top spot among Asian currencies during bouts of emerging market volatility owing to the trade war and contagion from the crisis in Argentina and Turkey.

Indeed, persistently low inflation was an argument against the Bank of Thailand following the US Federal Reserve in tightening. Even so, the BoT stepped up its hawkish rhetoric and moved policy with a 25 basis point interest rate hike in December. The first BoT rate hike in seven years was aimed at gaining policy space for the future. Meanwhile, fiscal policy remained expansionary with close to a 3% of GDP budget deficit.

Growth, inflation, and central bank policy



Note: Dotted lines are BoT's inflation target, currently 1 to 4%.

Source: Bloomberg, CEIC, ING

Could 2019 be ugly as politics overtakes the economy?

After frequent rescheduling, general elections are (hopefully finally) set to take place on 24 March 2019. Hopes rest on this ending the long-standing political uncertainty about establishing a civilian government after the military grabbed power in May 2014. That coup overthrew the last elected government of Yingluck Shinawatra (2011-14), the sister of the former Prime Minister Thaksin Shinawatra (2001-06). General Prayut Chan-o-cha initially promised elections within a year of the coup but has pushed out the timing until this latest rescheduling.

Will the transition from military to publicly-elected government be smooth, without any political turmoil? Maybe not, judging by Thailand's political history which has been marred by frequent unrest, military interventions, and short-lived governments. A glimpse of this came earlier this month when a Thaksin-linked Thai Raksha Chart Party announced Princess Ubolratana Rajakanya, the elder sister of King Maha Vajiralongkorn, as its prime ministerial candidate for upcoming elections. A spike in political risk ensued with a public outcry against the move deemed unconstitutional and disrespectful to the royal family. The sell-off in local financial markets was associated with the steepest single-day depreciation of the THB since last October.

The King denounced the Thai Raksha Chart's move as unconstitutional, and the party now faces dissolution by the constitutional court on the grounds of violating election laws. This nipped in the bud Thaksin's bid to reacquire his grip on Thai politics via a royal family member and also bolstered the odds of Prayut holding on to power.

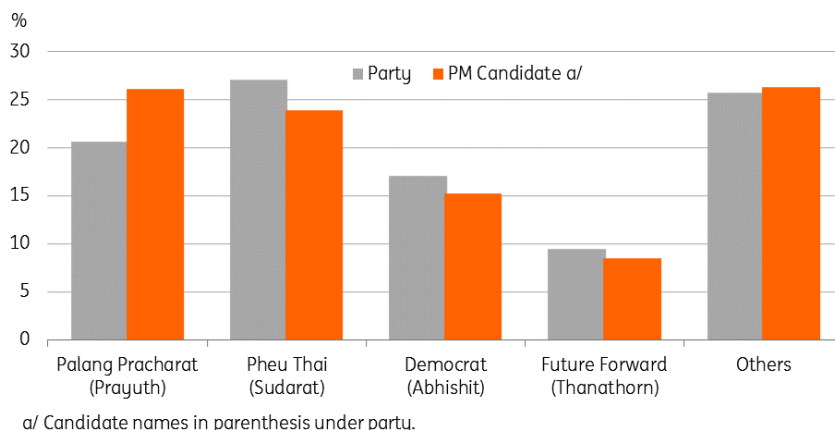
There are 68 prime ministerial candidates in the ring, including Prayut contesting from the military-backed Phalang Pracharat Party and former Prime Minister Abhisit Vejjajiva (2008-11) from the Democrat Party. Thaksin's Pheu Thai Party is also fielding three prime ministerial candidates, while the fourth major party in the fray is the newly-formed Future Forward Party led by Thanathorn Juangroongruangkit.

Moreover, the new constitution adopted in 2017 allows the military to retain its decisive role in future governments. The upcoming elections will be for the 500-seat lower house of parliament, but the 250-seat upper house, or Senate, is the non-partisan body of appointees from the Royal Thai Military. As such, the balance of power remains tilted toward Prayut. Yet, the passage to the

new government may not be without any political gridlock or public unrest.

What pre-election opinion polls point to?

Average results of various opinion polls held since December 2018.



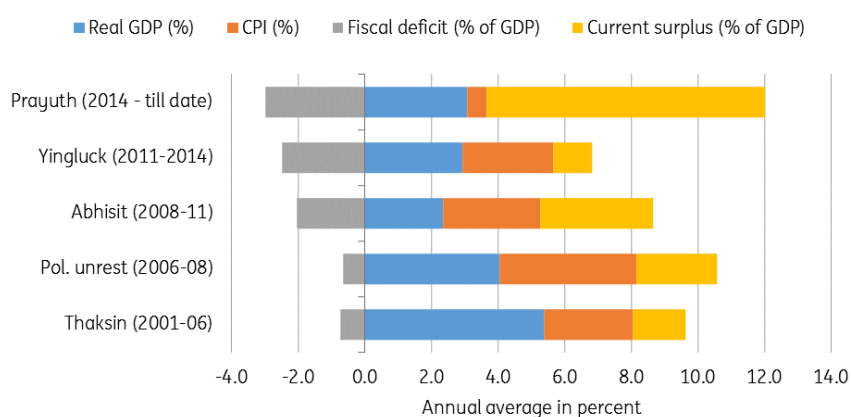
Source: Wikipedia, ING

Economic case for Prayut's re-election

Let's take a look at Thailand's economic performance under the current and previous regimes to assess Prayut's chances of continuing as prime minister.

Growth improved from a low of 1% in 2014 (the year of the military coup) to about 4% in the last two years, though the 3% average over these years was hardly an improvement over previous administrations. The economy enjoyed lower inflation under Prayut than previous regimes though this is more a result of weak demand and lower commodity prices.

How did the economy fared under recent governments?



Source: Bloomberg, CEIC, ING

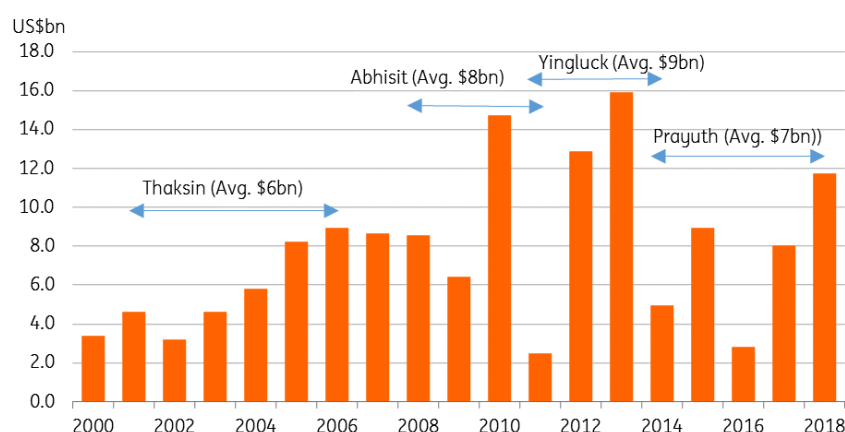
External situation - great, but thanks to weak demand

Of course, the external payments position had never been as strong as it was under Prayut, supported by a lumpy current account surplus and swelling foreign exchange reserves. However, a

large current account surplus also reflects a gross economic imbalance, which has failed to correct despite expansionary macroeconomic policies. Having slashed policy rates by 200 basis points to 1.5% from late 2011 to early 2015, the BoT held policy stable until the latest hike in December 2018. The fiscal deficit averaged about 3% of GDP in the years from 2014, more than the previous administrations.

Foreigners have been pouring funds into local stocks and bond markets in recent years, thanks to the comfort of healthy external payments boosting the currency. And direct investment inflows also gained traction in the last two years. But real investment growth continued to be depressed under military rule (there is also a structural aspect to this as discussed in the next section).

Net foreign direct investment inflows



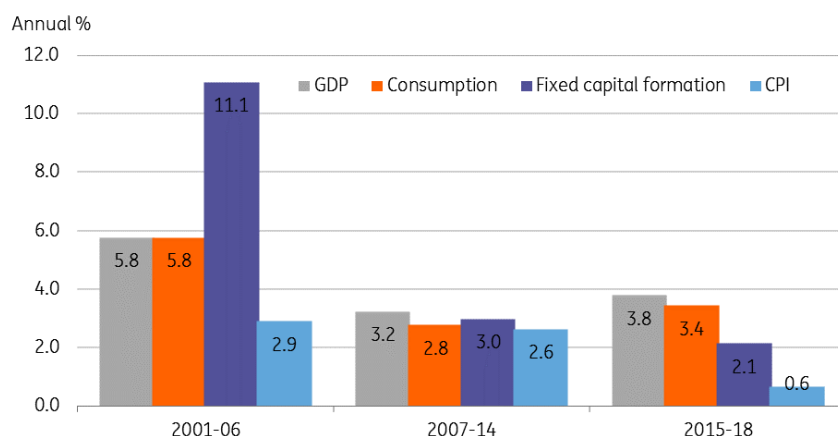
Source: CEIC, ING

Structural trends – plenty of slack in the economy

The post-Thaksin era was marked by a significant surge in political uncertainty taking a toll on the economy. This is evident from the almost permanent shock to growth via weak investment demand. Once an Asian tiger, Thailand's economy has struggled to grow in recent years with a steady slowdown from an annual average rate of 5.8% in 2000-06 (Thaksin era) to 3.2% in 2007-14 (years of heightened political turmoil). A slight improvement in recent years (military government) can be characterised as lopsided – persistent weak domestic demand – without stoking any inflation.

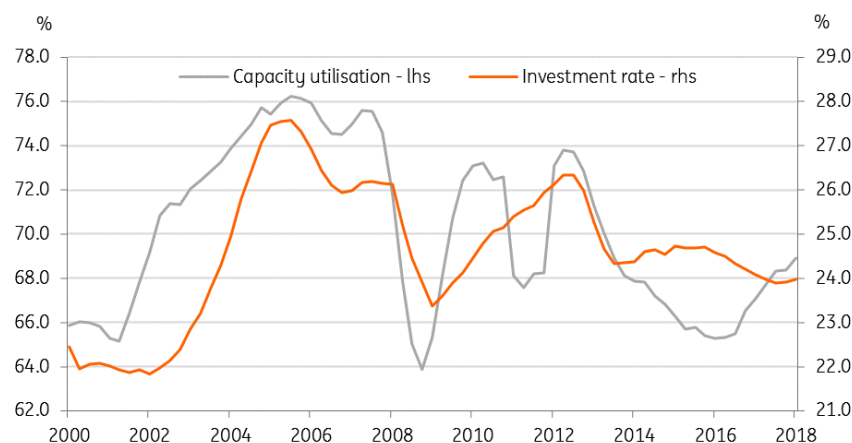
There is plenty of slack in the Thai economy as underscored by factories running at about two-thirds of their capacity. The elevated manufacturing inventory-to-shipment ratio points to the same feature. And this has dampened the investment rate (ratio of fixed capital formation to GDP), which has failed to reach the Thaksin-era highs, while politics has been a constant overhang on investor sentiment.

Years of political uncertainty has shocked growth lower



Source: CEIC, ING

Unused capacity weighs down investment



Source: CEIC, ING

Steady as it goes into the medium term ...

We expect the broad economic trends described above to remain in place in the medium term. Absent significant political risk, we see no reason for Thailand’s GDP growth to break out of the 3-4% range that it’s seen in recent years. The National Economic and Social Development Council (NESDC) projects 3.5-4.5% growth in 2019, as election spending is likely to provide upside to consumer spending. But with the prevailing external risks from the global trade war, GDP growth will likely be closer to the low end of the NESDC’s forecast range.

Investment will persist as a weak spot. Hope rests on the continuation of the Eastern Economic Corridor Plan undertaken by the current administration under the new government. This is a long-term plan to develop three coastal regions into a special economic zone with airports, deep sea ports, and high-speed rail, and spanning a multitude of industries. Thailand is also seen among the destinations for potential supply chain relocation resulting from the US-China trade dispute, but is still not as attractive a destination as Cambodia, Vietnam, Myanmar or Laos – all up-and-coming countries with relatively cheap labour.

We see external trade imbalances narrowing gradually. A significant negative swing in the trade balance in January to a deficit of \$4 billion from a surplus of \$1.1 billion in the previous month heralds this trend. We forecast that the current surplus will shrink further to 4.5% in 2019, providing continued strong support for the currency's appreciation.

Key economic indicators and ING's forecasts

Thailand	2015	2016	2017	2018	FY2019 f	FY2020 f
Real GDP (% YoY)	3.1	3.4	4.0	4.1	3.8	4.0
CPI (% YoY)	-0.9	0.2	0.7	1.1	1.0	1.4
Unemployment rate (%)	0.9	1.0	1.2	1.1	1.2	1.1
Fiscal balance (% of GDP)	-2.9	-2.7	-3.5	-3.0	-3.2	-2.9
Public debt (% of GDP)	42.1	41.1	41.2	42.4	43.7	46.9
Current account (% of GDP)	8.0	11.7	11.0	7.5	4.5	3.4
FX reserves (US\$bn)	156.5	171.9	202.6	205.6	220.0	230.0
External debt (% of GDP)	32.7	32.0	34.1	31.3	32.0	33.0
Central bank policy rate	1.50	1.50	1.50	1.75	1.75	1.75
3M interbank rate (% eop)	1.63	1.59	1.57	1.86	1.85	1.85
10Y govt. bond yield (% eop)	2.50	2.65	2.32	2.48	2.60	2.80
THB per USD (eop)	36.08	35.84	32.58	32.33	31.80	31.50

Source: Bloomberg, CEIC, ING

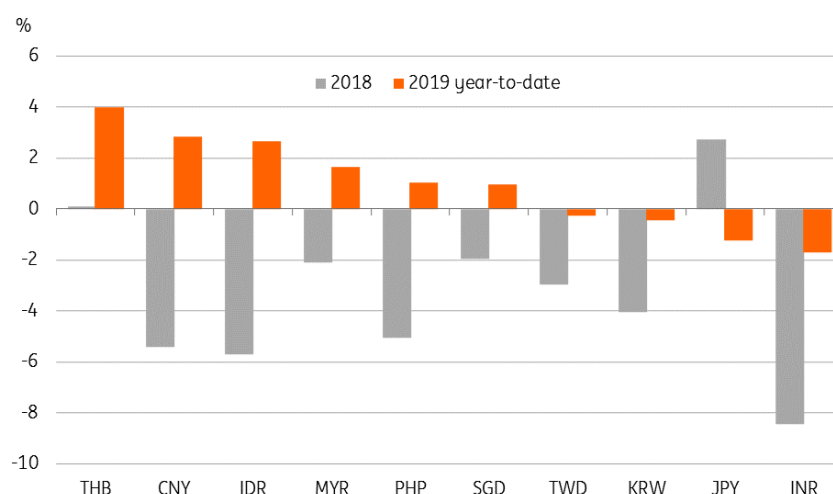
... thanks to continued policy accommodation

We aren't anticipating a near-term departure of monetary or fiscal policy from the current accommodative stances. Despite the sustained hawkish tone, the BoT has flagged policy to be data-dependent and yet likely maintaining an 'accommodative' bias for this year. We don't see anything significant in the data to cause another rate hike this year, nor do we expect any easing. This view of policy status quo hinges on our forecasts of growth slipping below 4% and inflation hovering around 1% in the current year.

Fiscal policy will remain accommodative, too. The state budget for the current financial year ending September 2019 is set to produce a deficit equivalent to about 2.6% of GDP, a consolidation from 3% in FY2018. But slower GDP growth will likely depress revenue, and together with the surge in election spending, this will see a wider budget gap than projected. However, we don't see anything here threatening the country's investment-grade sovereign credit rating underpinned by still sound external payments.

Still, there are more reasons for the authorities to be worried about the ongoing currency strength, which is detrimental to exports in the current environment of rising global trade protectionism. The BoT views recent THB appreciation as consistent with broader emerging currency trends supported by a dovish turn in US Fed policy and softer US dollar. Moreover, we think the reason for the currency's 4% year-to-date appreciation probably lies in investor confidence about the military Junta maintaining its grip on the government, and thus ensuring political as well as economic stability. Although we aren't ruling out some weakness in the run-up to March elections, the THB will remain investors' darling for the rest of the year.

THB remains top-performing Asian currency



Note: In descending order of 2019 performance.

Source: Bloomberg, ING

Author

Alissa Lefebre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante
Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas
Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroeder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.