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กรุงศรี

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# Market Update and Outlook

Global Markets Group

August 2024

## Key FX assumption: US economic slowdown will become clearer

*Cutting interest rates  
“too late or too little  
could unduly weaken  
economic activity and  
employment”*

*Fed Chair Powell  
July 2024*

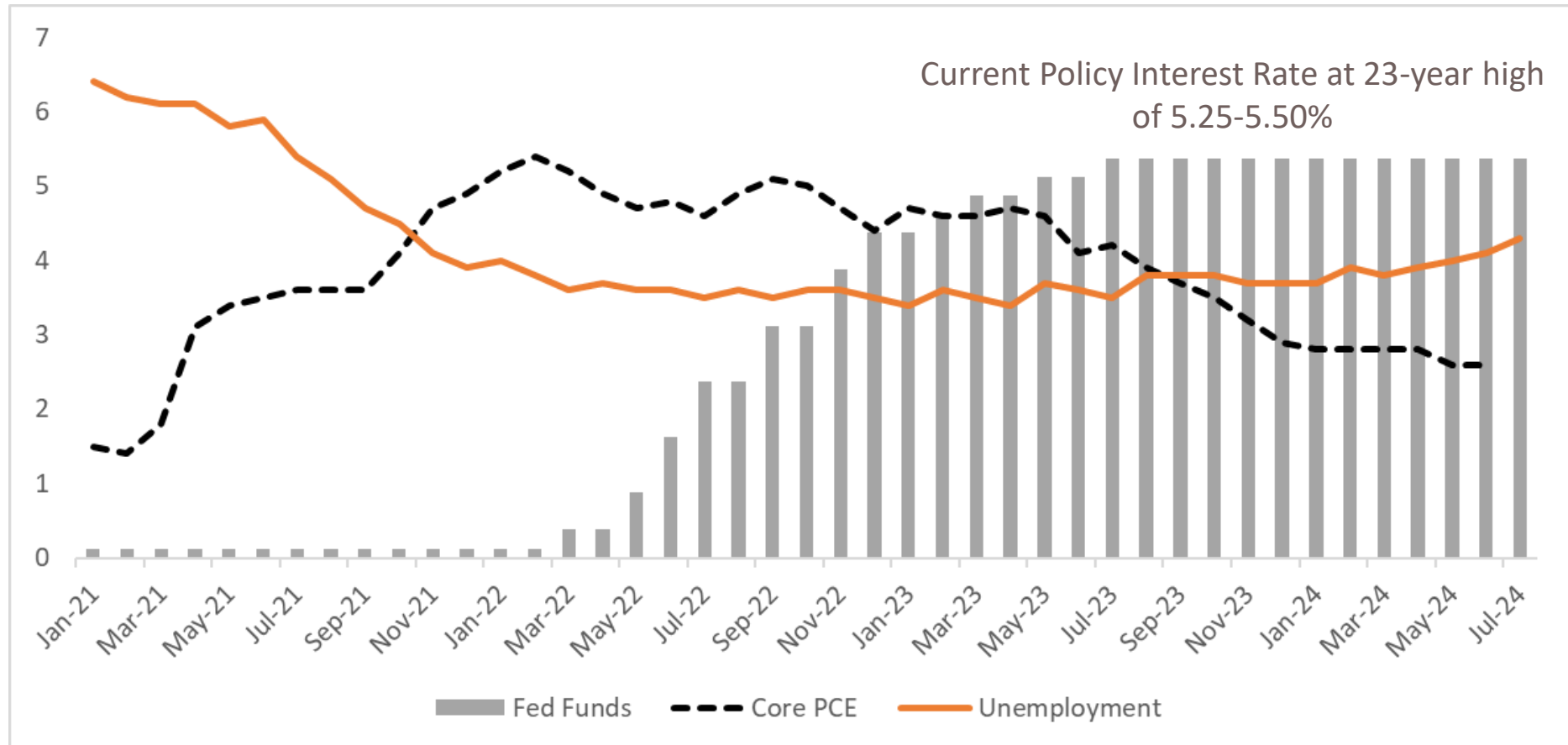


### US Rate-cutting Cycle Looms

- The Federal Reserve assessed that the balance of risks between jobs and inflation is getting more even. The July FOMC statement highlights that ***inflation risks are no longer the Fed's only policy focus*** when making interest rate decisions.
- Based on our assumption that US economic activities will indicate a further loss of positive momentum from here, we expect the Fed to start cutting rates in September and in subsequent meetings. The longer they wait, they may have to ease more aggressively in the future.
- Our view is in-line with a cyclical USD weakness ahead although the risks include slow economic recovery outside of the US, particularly in China and Europe.

# How Fed officials view balance of risks

## US Monetary Policy is Restrictive; Balance of Risks More Even



# Factors supportive of JPY turnaround

Falling US and  
Overseas  
Yields

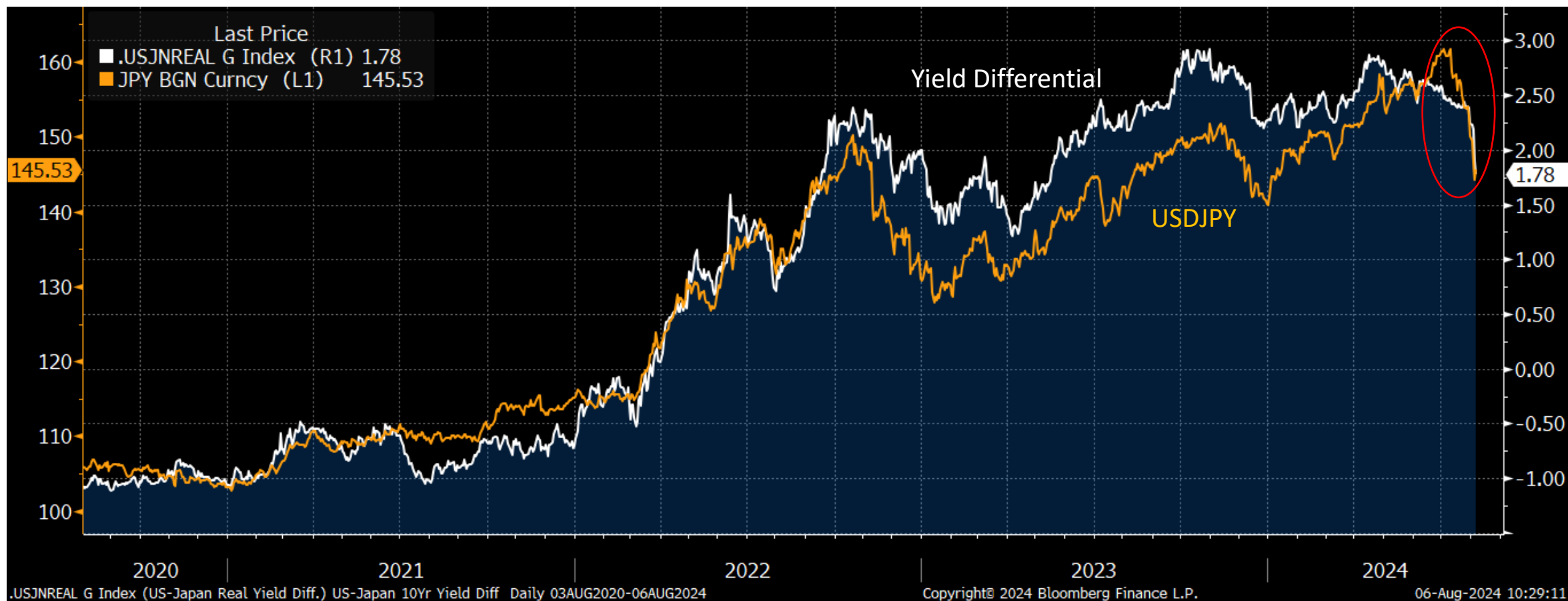
Global Growth  
Concerns

Rising Market  
Volatility

Policy  
Divergence

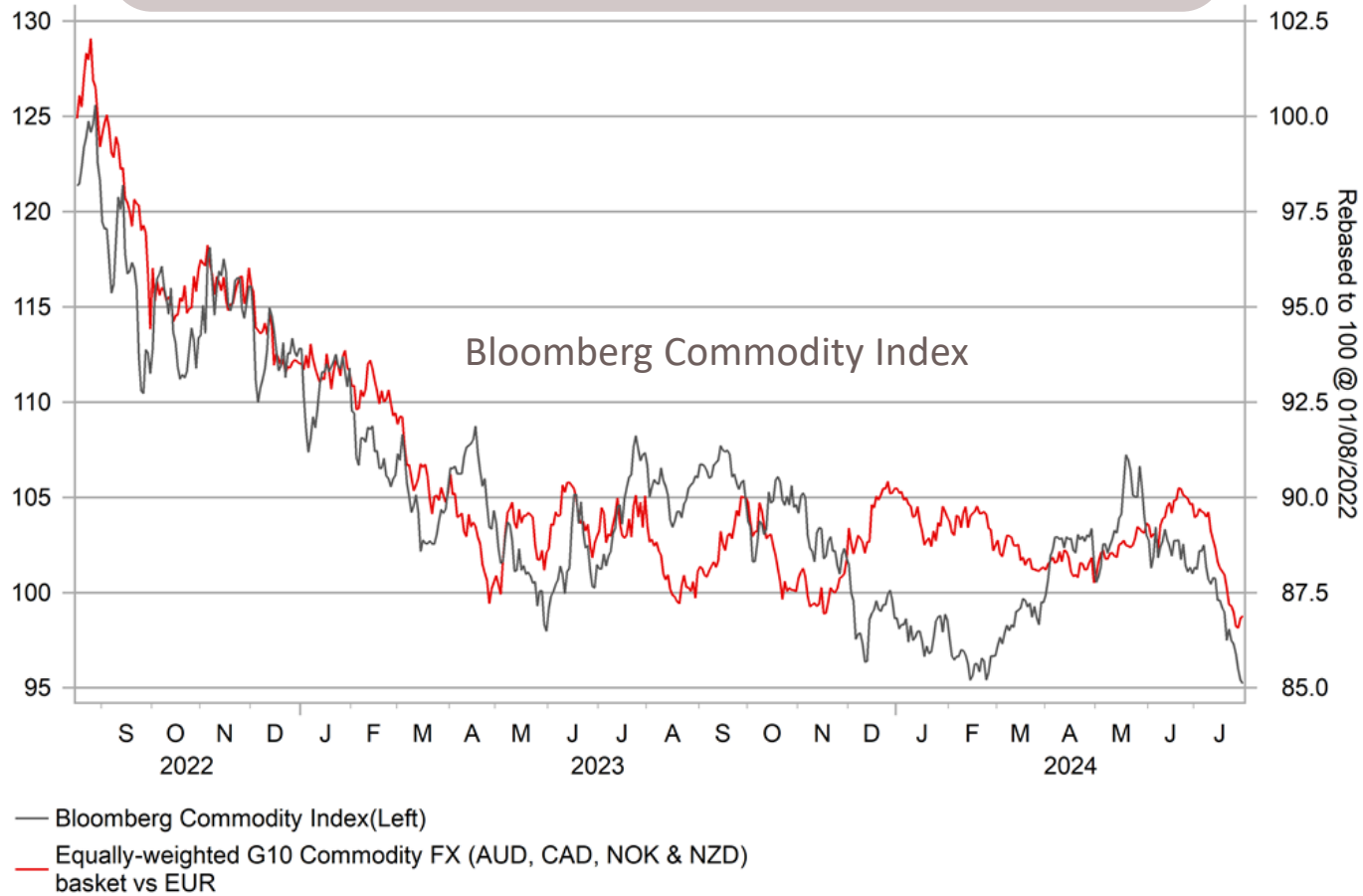
# US yields to drift lower

## USDJPY and Real 10Y US-JP Yield Spread



# Global growth concerns

## Commodities and Growth-sensitive Currencies



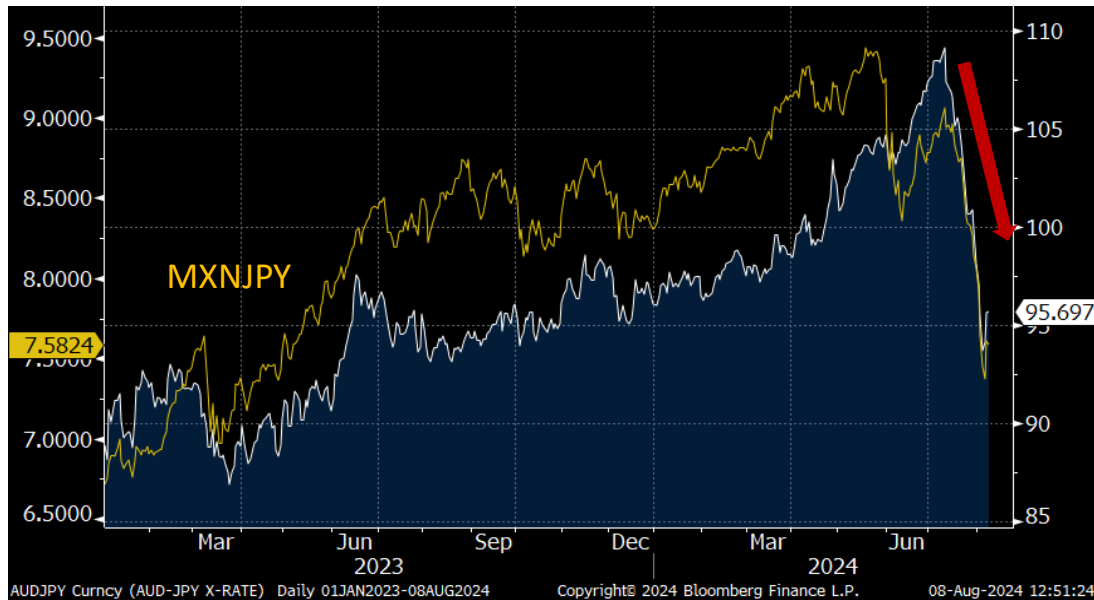
## Daily Correlation Matrix

Security	CAD	NOK	AUD	OIL	COPPER
CAD	1.000	0.736	-0.795	-0.326	-0.406
NOK	0.736	1.000	-0.780	-0.388	-0.471
AUD	-0.795	-0.780	1.000	0.218	0.503
OIL	-0.326	-0.388	0.218	1.000	0.314
COPPER	-0.406	-0.471	0.503	0.314	1.000

Bloomberg

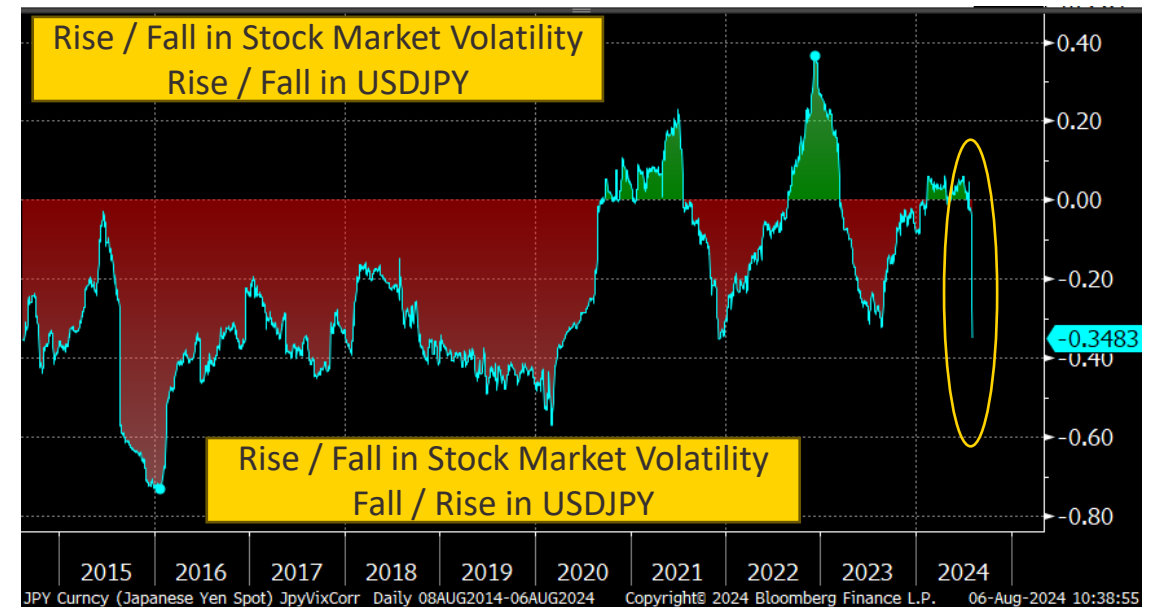
# Increased volatility triggers risk unwinding

## Example of FX Carry Trade Unwinds



Recent declines have wiped out nearly all of gains (yen losses) in certain currency pairs. The dynamic also indicates the yen could gradually regain its traditional safe-haven status.

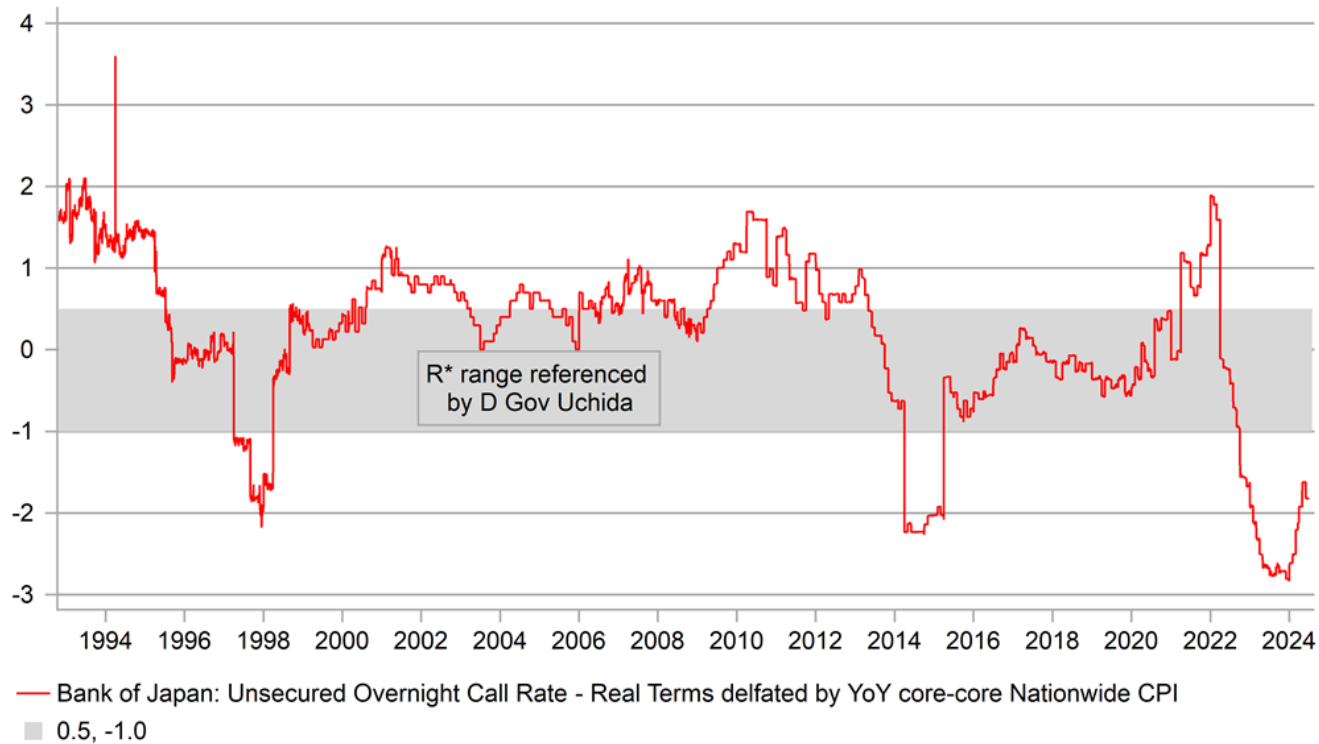
## Japanese Yen and Volatility Index



The value of the yen typically moves in the same direction with the VIX (fear) index, barring the inflation shock during 2021-2023.

# Bank of Japan policy normalization

## Getting Rate Back to (Near) Neutral

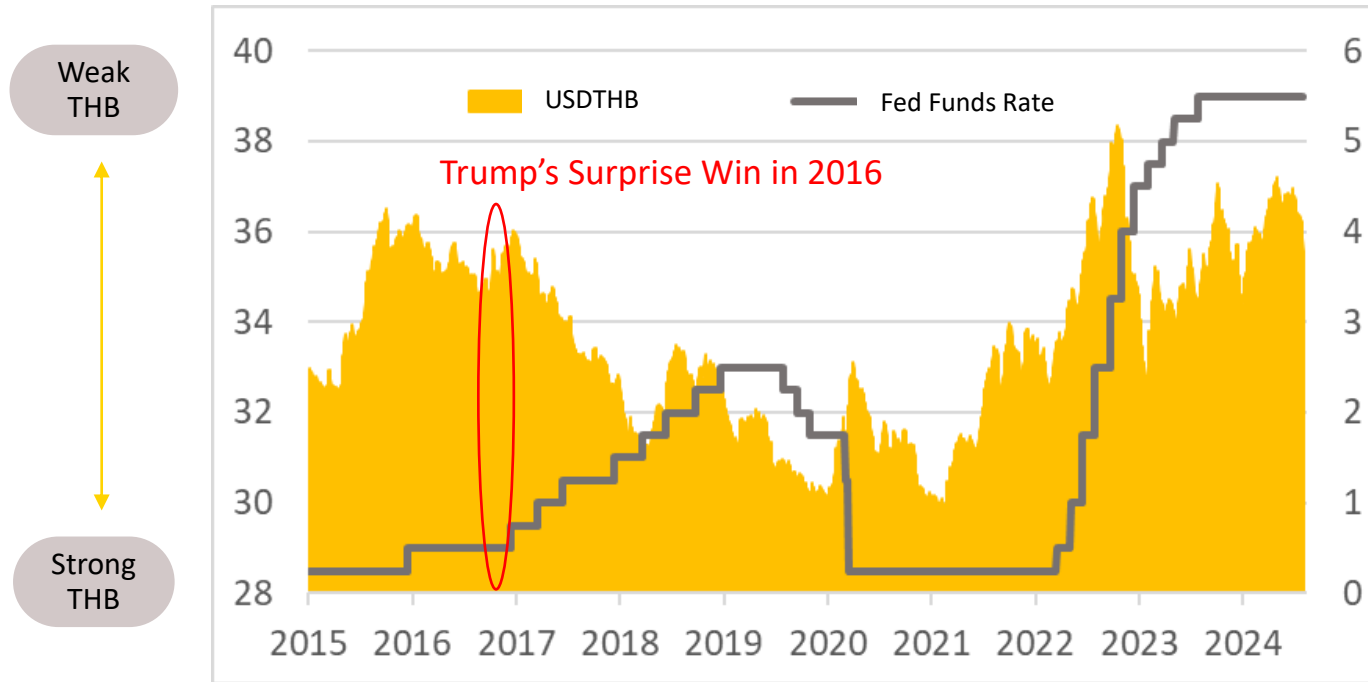


- The Bank of Japan raised rates in July to 0.25%, the highest since 2008, in line with our view but took some market participants by surprise. The reduction in Japanese government bond buying plan roughly matched market expectations.
- The BoJ statement emphasized that real interest rates are at “significantly low levels” and so there is a tendency to tighten again, leading to global market turmoil.
- Overall, recent developments reinforce our view that a one-way weakening trend of the yen has come to an end.



# US political risks and market implications

## USDTHB and US Policy Interest Rate



Krungsri Global Markets



- Former President Trump expressed concerns over the strength of the USD which is hurting the US manufacturing sector. The stance is similar to at the start of his first term in office. VP nominee Vance has also supported a weaker USD.
- While Trump may want a weaker dollar, his inflationary policies; higher tariffs, lower taxes and lower immigration could limit dollar selloffs **once they are implemented and start to have an impact.**
- But in the more immediate term, we expect US inflation and growth to slow further into early 2025 allowing the Fed to cut rates and resulting in USD depreciation.

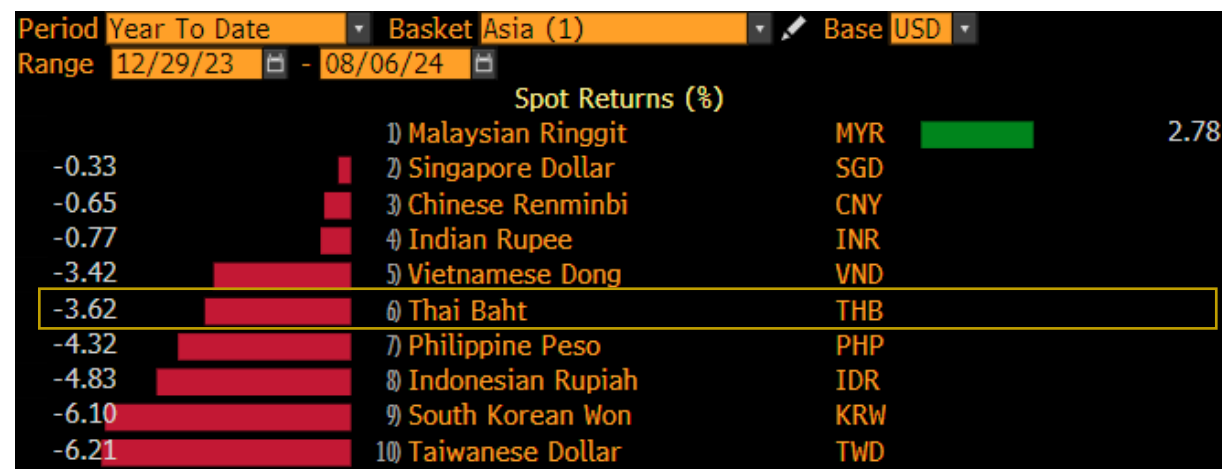
# THB rebounds after weak H1

## Q3/24 Regional FX Performance



Bloomberg

## 2024 Regional FX Performance



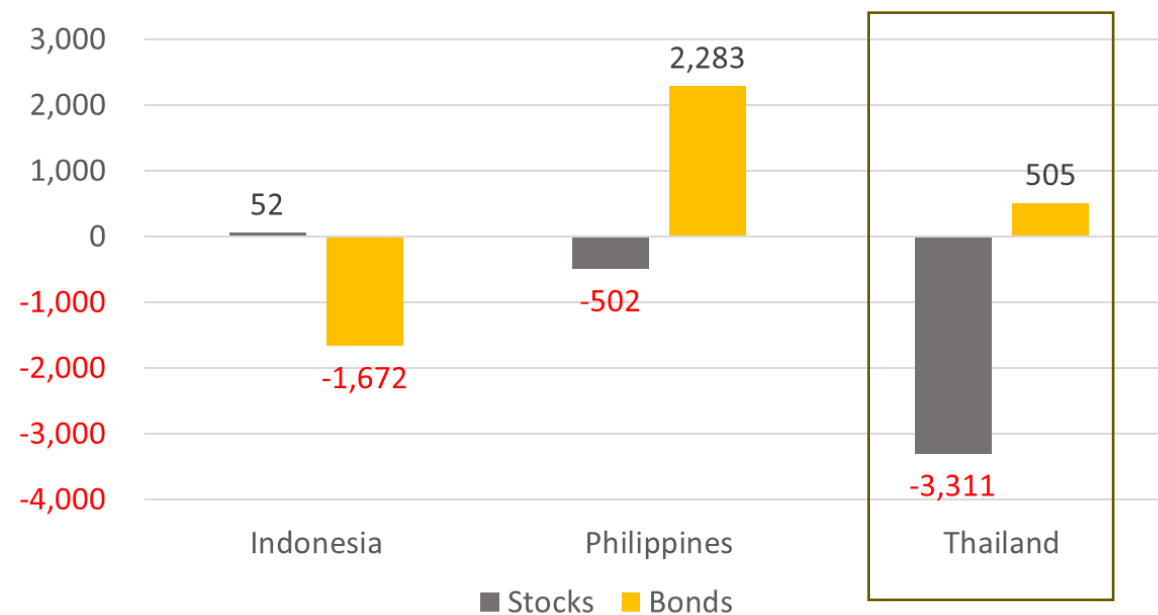
# Foreign portfolio flows

## Foreign Flows: THB Securities

Foreign flows THB mn	2024*	2023
Stocks	(119,962)	(192,490)
Bonds	(5,593)	(146,148)
Short-term bonds	(6,472)	(26,194)
Long-term bonds	23,551	37,064
Expired bonds	(22,672)	(157,019)

Stock Exchange of Thailand, Thai Bond Market Association, \* data as of August 7, 2024

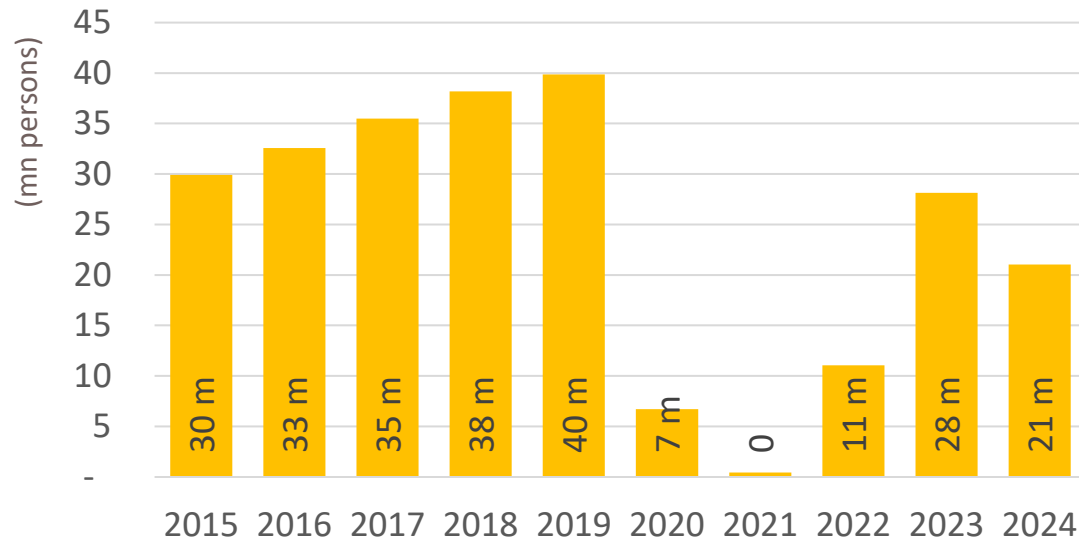
## Peer Comparison (2024, USD mn)



Bloomberg, latest available data

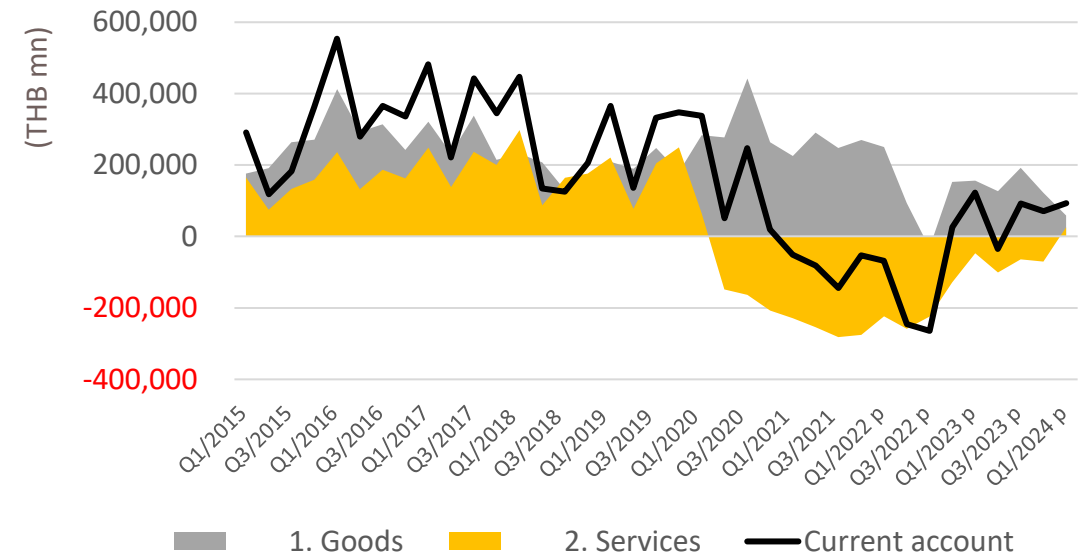
# Tourism recovery but what's next?

## Foreign Tourist Arrivals



Data from January 1 - August 4, 2024  
Ministry of Tourism and Sports

## Current Account

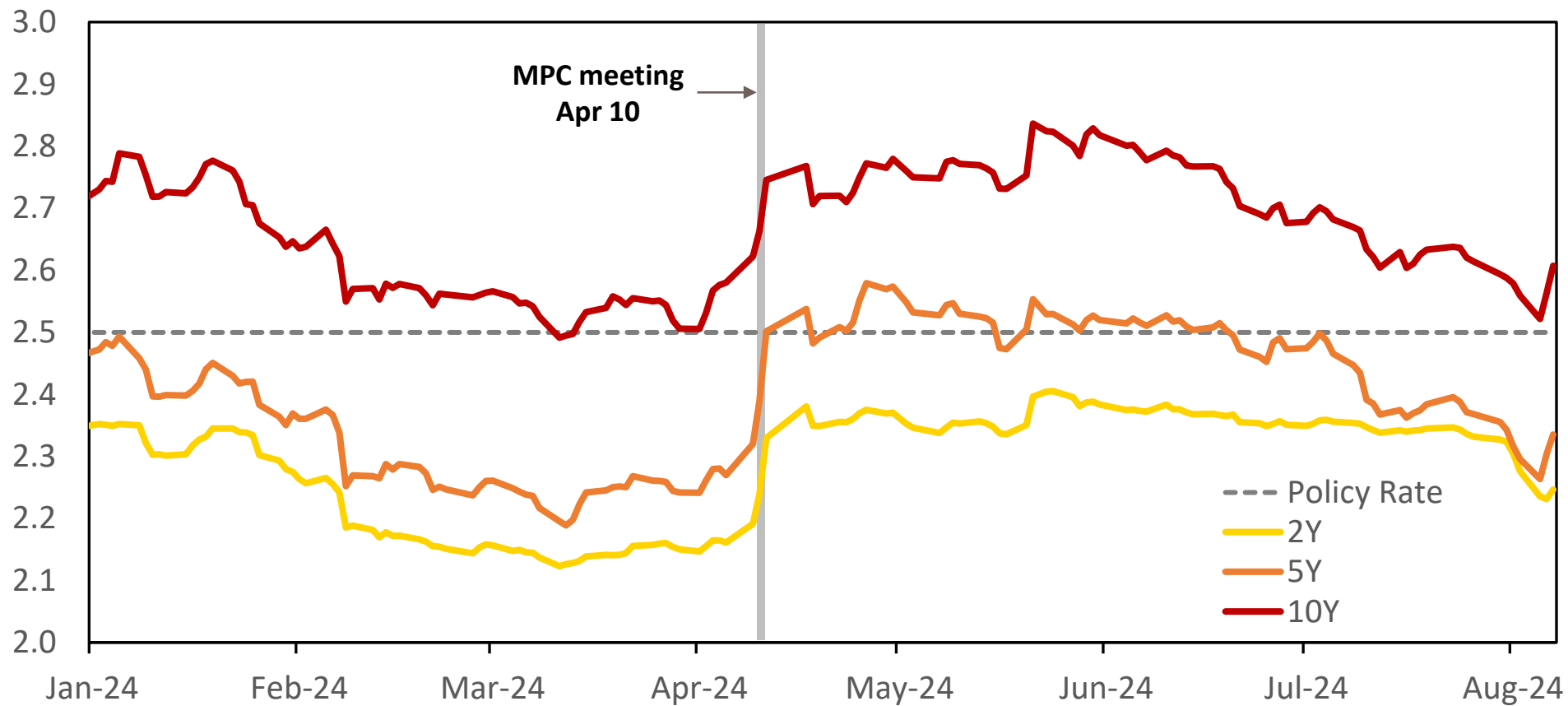


Bank of Thailand

- Thailand had run a high level of current account surplus before the Covid-19 crisis. The persistent surplus led to baht appreciation (at the end of 2019, the baht strengthened by 18% compared to the end of 2015), but the situation has changed drastically due to the pandemic and the Russia-Ukraine war.
- While the return of tourists are very encouraging, if the structural problems that hold back the country's competitiveness are not resolved, surplus levels may trend lower in the long term. This could ultimately weaken the baht's immunity.

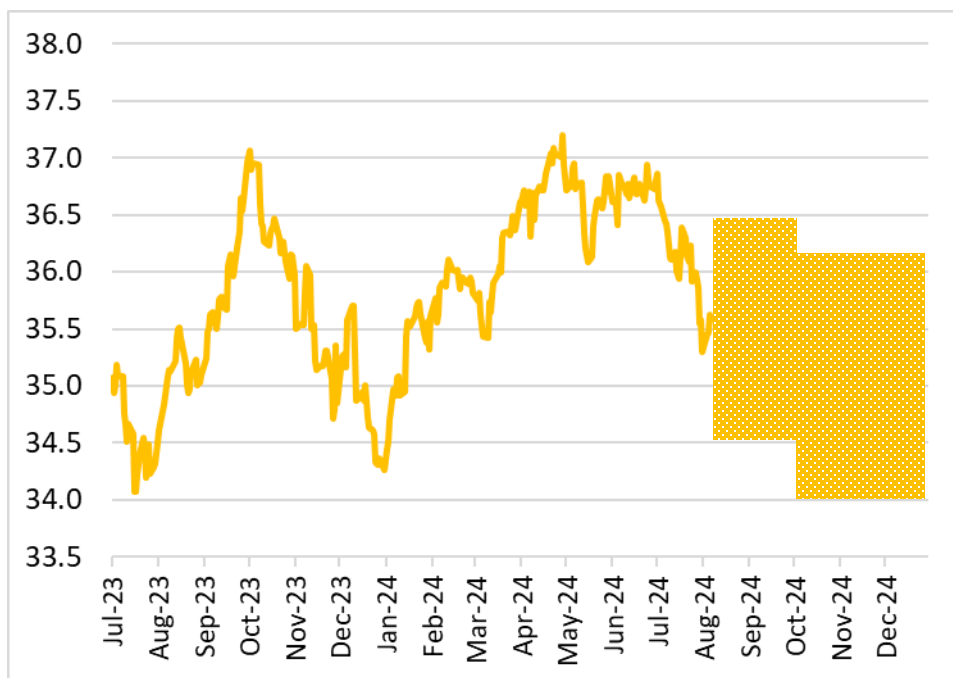
# Thai interest rates

Thai Government Bond Yields (%)



Refinitiv, latest available data

# Our forecast



FX	USD/THB	JPY/THB	EUR/THB
Q3/24F	34.50-36.50	23.50-25.25	38.00-39.50
Q4/24F	34.00-36.25	23.30-25.50	37.75-39.25
Q1/25F	33.75-36.00	23.40-25.80	37.50-39.00
Q2/25F	33.50-35.75	23.50-25.90	37.25-39.00

Krungsri Global Markets, JPY/THB is per 100 yen

Policy Rate	Current	Q2/25F
US	5.25-5.50%	4.00% *
Eurozone	3.75%	2.75%
Japan	0.25%	0.50%
Thailand	2.50%	2.50%

As of August 5, 2024, \* upper bound

Thank You

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