



krungsri
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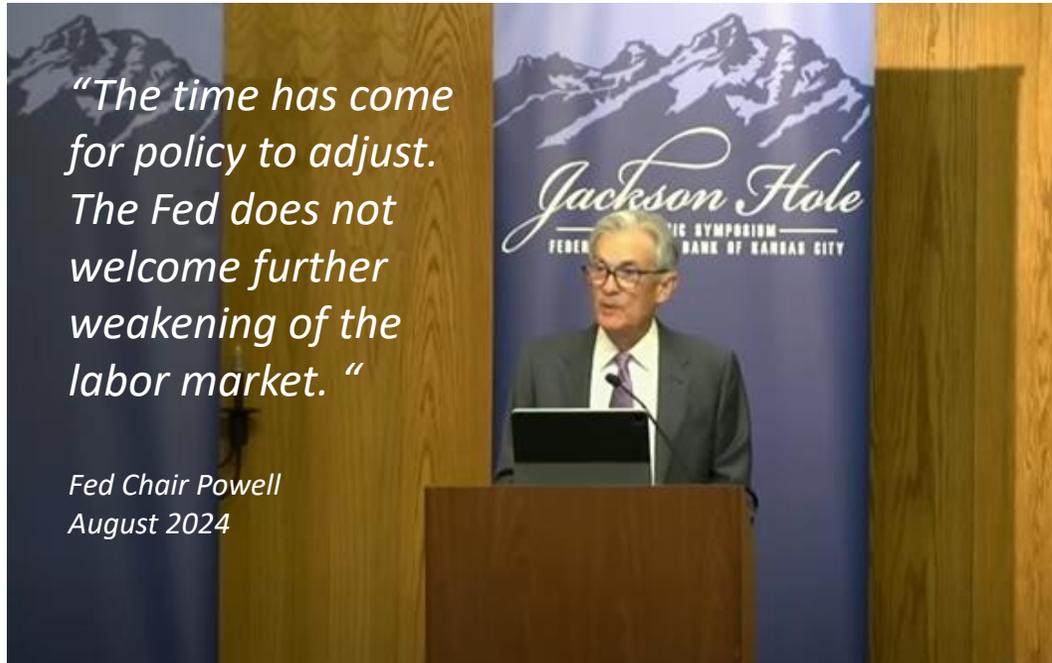
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Market Update and Outlook

Global Markets Group

August 2024

Key FX assumption: US economic slowdown will become clearer

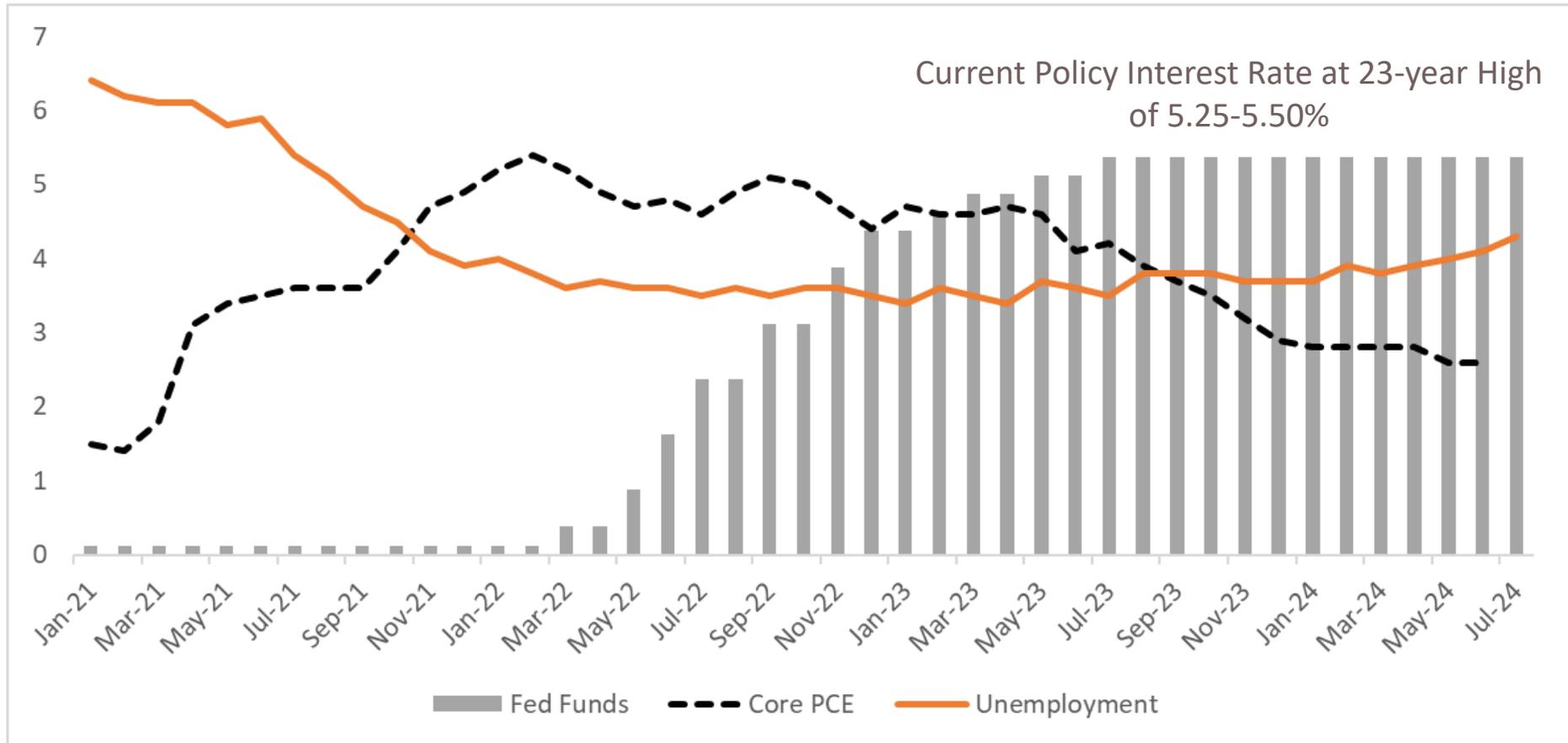


The Fed pivot is officially here

- Based on our crucial 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 in 2024. As for 2025, we currently project a move of 25bp each quarter. The lack of forward guidance at the Jackson Hole symposium on the magnitude of rate cuts leaves the door open for aggressive easing if needed.
- As is usually the case going into an economic slowdown, the incoming U.S. data is likely to send ***mixed signals of the scale of the downturn***. Given current market pricing, this means increased market volatility.
- Our ***soft-landing*** scenario suggests a cyclical USD weakness ahead although the risks include fragile economic recovery outside of the US, particularly in China and Europe.

Balance of risks: the Fed can't wait until inflation is at 2%

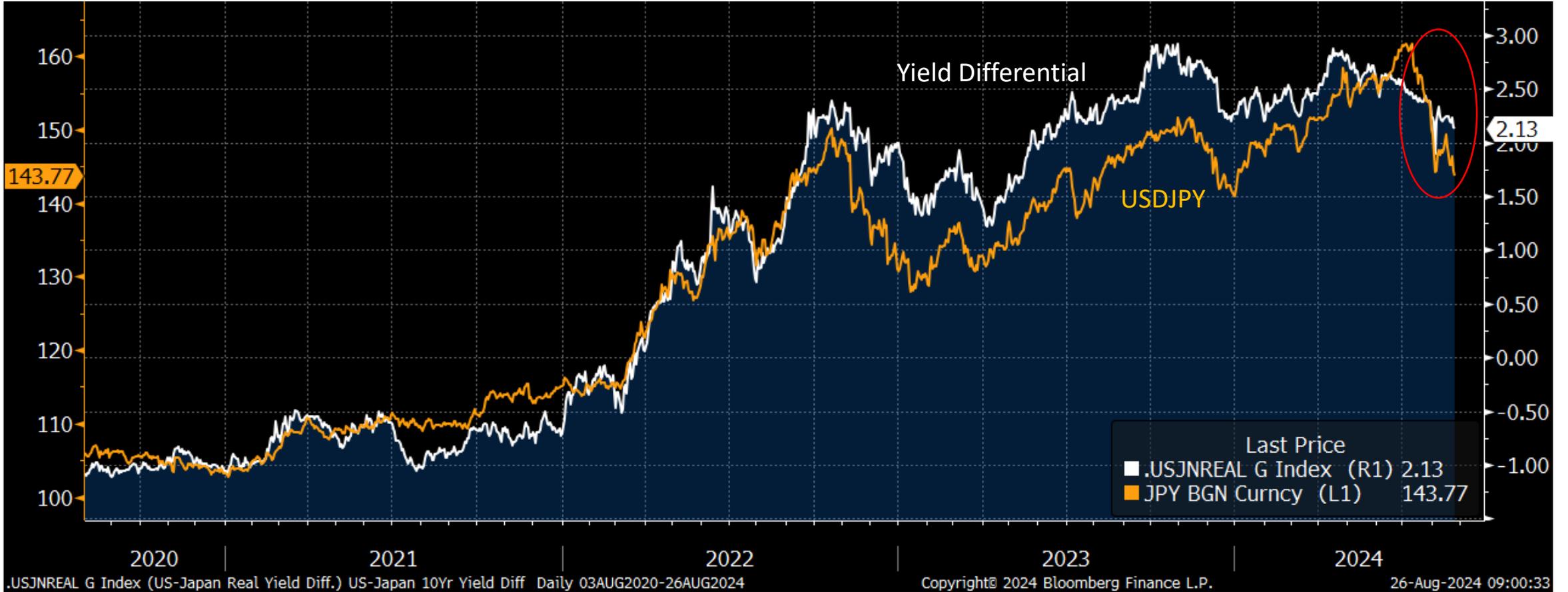
US Monetary Policy is Restrictive



Refinitiv

US yields to drift lower, but markets are well priced

USDJPY and Real 10Y US-JP Yield Spread



Factors supportive of JPY turnaround



Le shrub X

Global growth concerns

Commodities and Growth-sensitive Currencies



— Bloomberg Commodity Index(Left)
 — Equally-weighted G10 Commodity FX (AUD, CAD, NOK & NZD) basket vs EUR

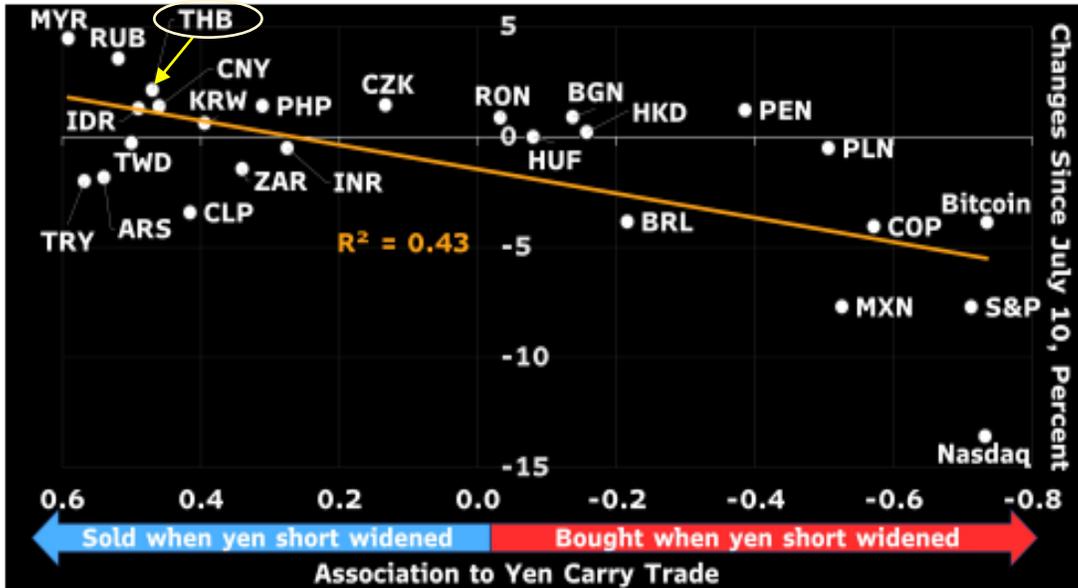
Daily Correlation Matrix

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, from August 2022 -2024

Increased volatility triggers risk unwinding

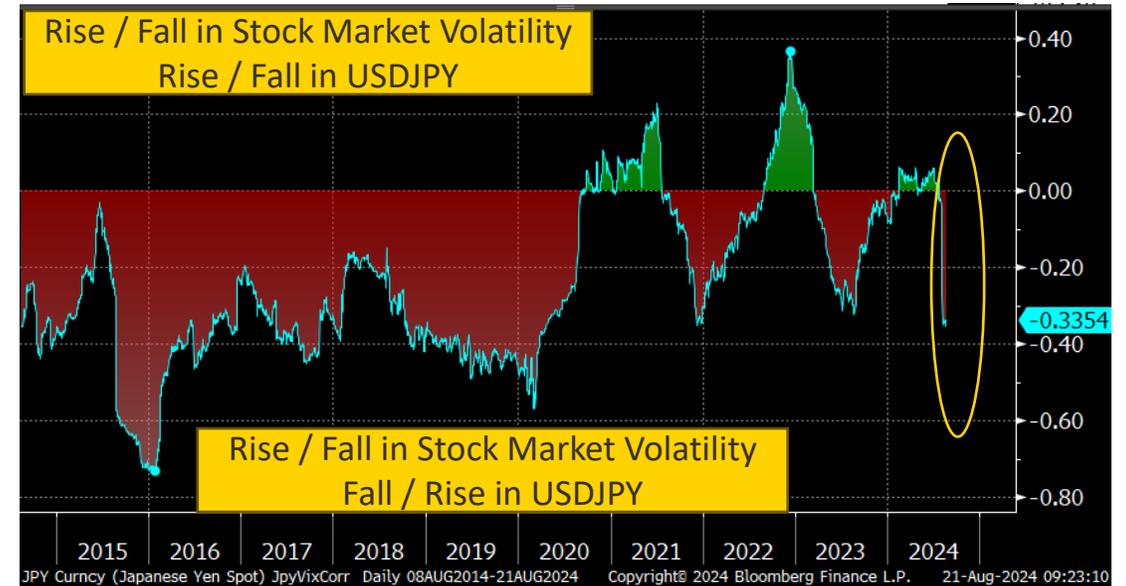
Yen Shorts and Cross-asset Correlation



Source: Bloomberg Economics

When yen-selling was at its recent peak, prices of bitcoin, Nasdaq and Mexican peso rallied. We believe the liquidation of yen carry also indicates such dynamic that the yen could gradually regain its traditional *safe-haven* status.

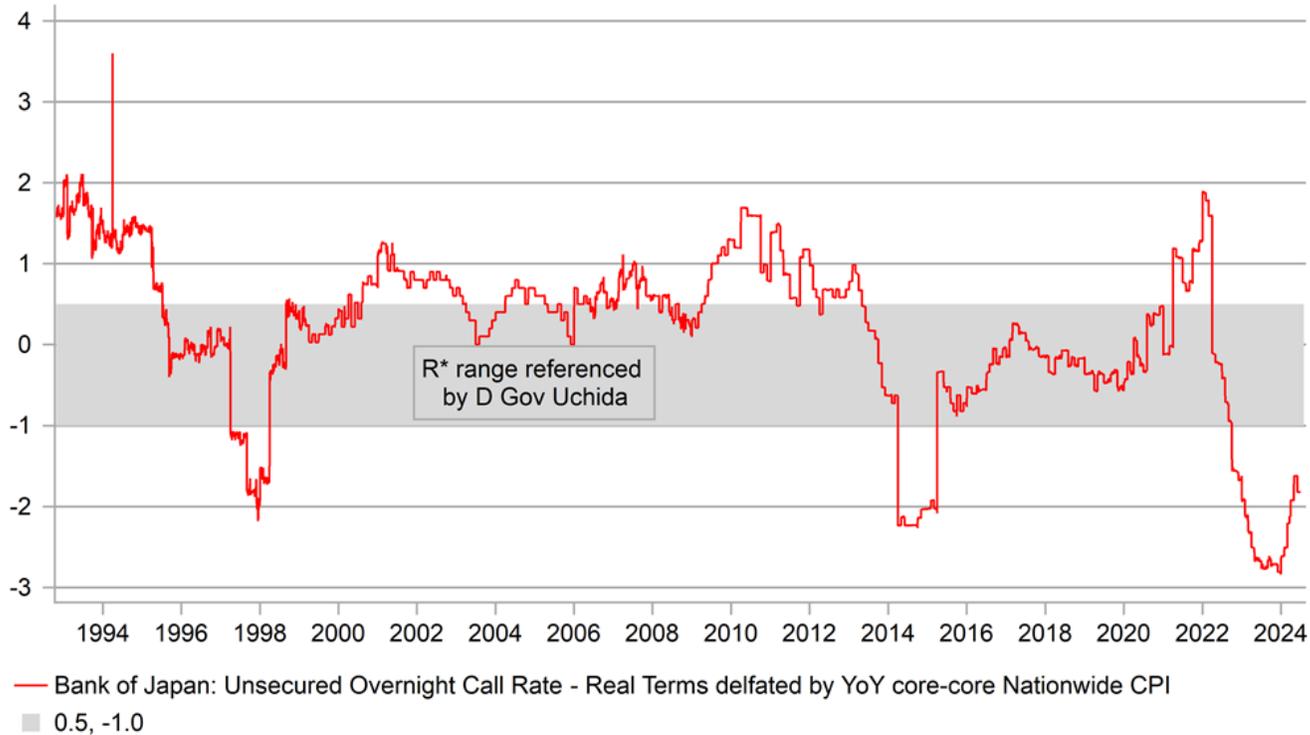
Yen and Volatility Index



The value of the yen moves in the same direction with the VIX (fear) index, barring the inflation shock of 2021-2023. Alongside the likely mixed data from the U.S., increased financial market volatility ahead is not conducive to attractive returns on carry trade strategies.

Bank of Japan policy normalization

Getting Rate Back to (Near) Neutral

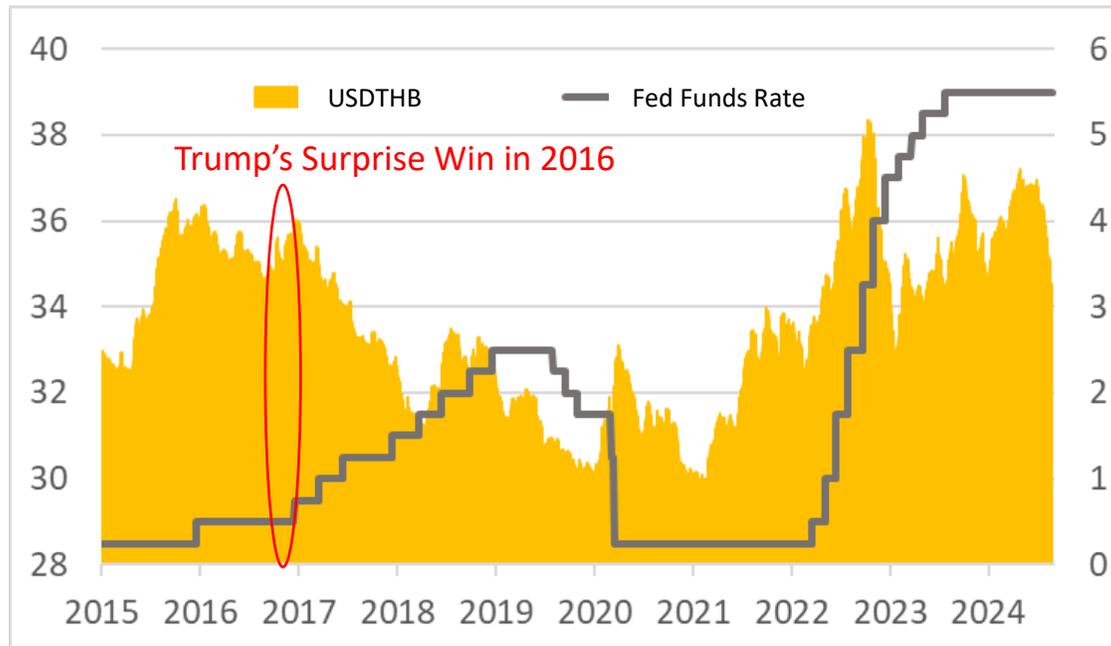


- The Bank of Japan raised rates in July to 0.25%, the highest since 2008, in line with our view but took some market participants by surprise. The reduction in Japanese government bond buying plan roughly matched market expectations.
- The BoJ statement emphasized real interest rates are at “significantly low levels”, suggesting there is a tendency to hike again, leading to global market turmoil on Aug. 5th
- Overall, recent developments reinforce our view that a one-way weakening trend of the yen has come to an end.

A close race and different rate cycle



USDTHB and US Policy Interest Rate

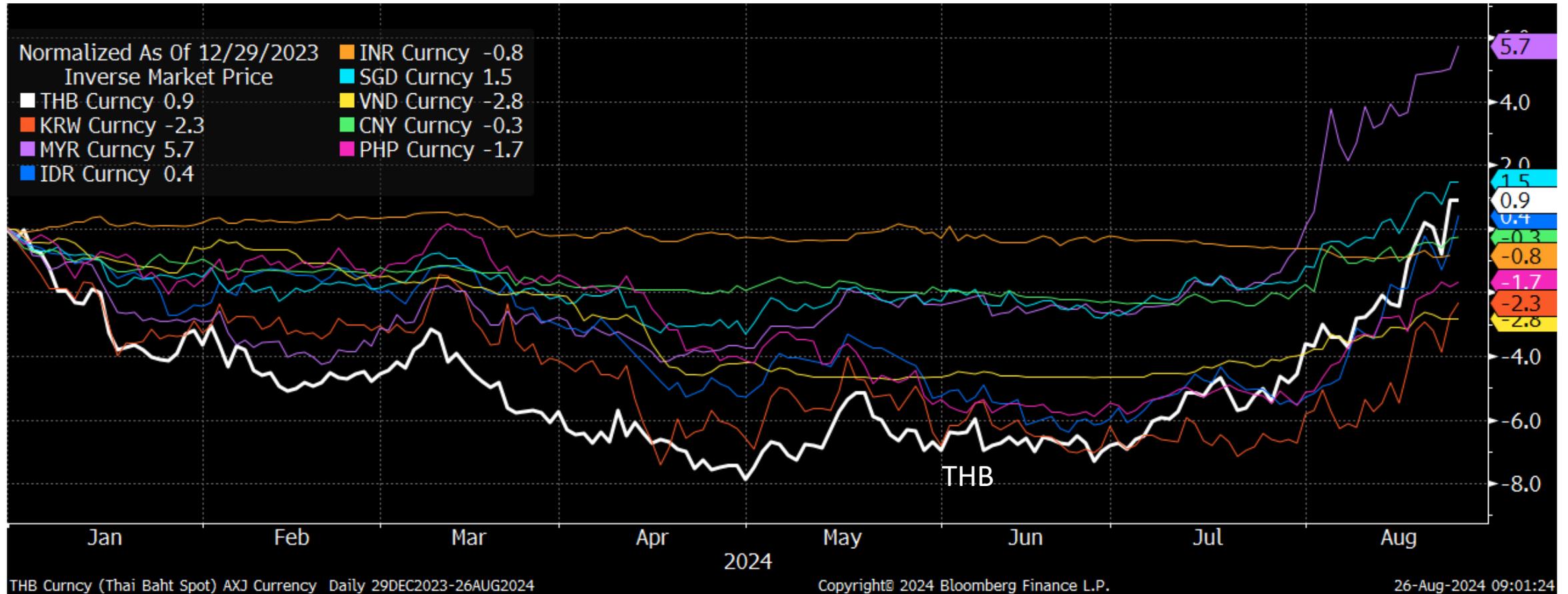


Krungsri Global Markets

- 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.
- 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 **policy sequencing** is important. Is it worthwhile to implement tariffs right after the election?
- In the more immediate term, we expect US inflation and growth to slow further into 2025 allowing the Fed to cut rates and resulting in cyclical USD depreciation.

THB rebounds after weak H1

2024 Regional FX Performance



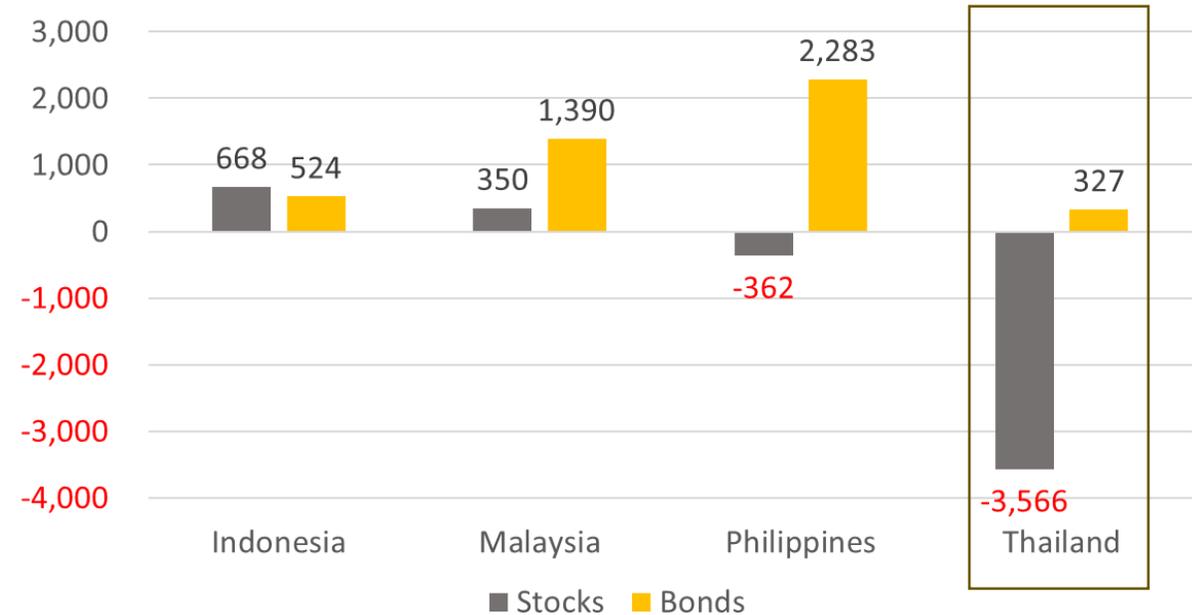
Foreign portfolio flows

Foreign Flows: THB Securities

Foreign flows THB mn	2024*	2023
Stocks	(125,927)	(192,490)
Bonds	(16,029)	(146,148)
Short-term bonds	(36,127)	(26,194)
Long-term bonds	44,882	37,064
Expired bonds	(24,784)	(157,019)

Stock Exchange of Thailand, Thai Bond Market Association, * data as of August 23, 2024

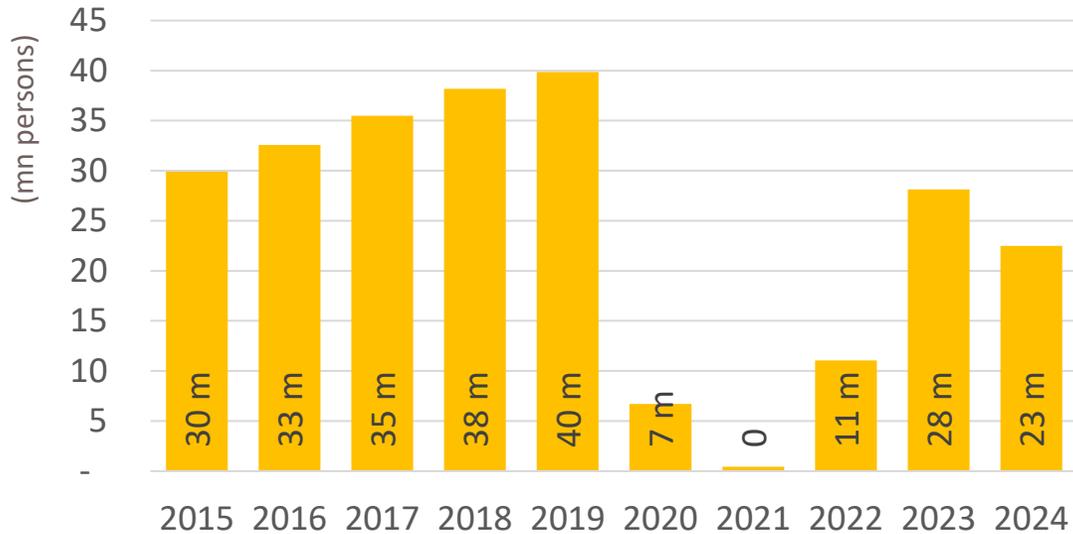
Peer Comparison (2024, USD mn)



Bloomberg, latest available data

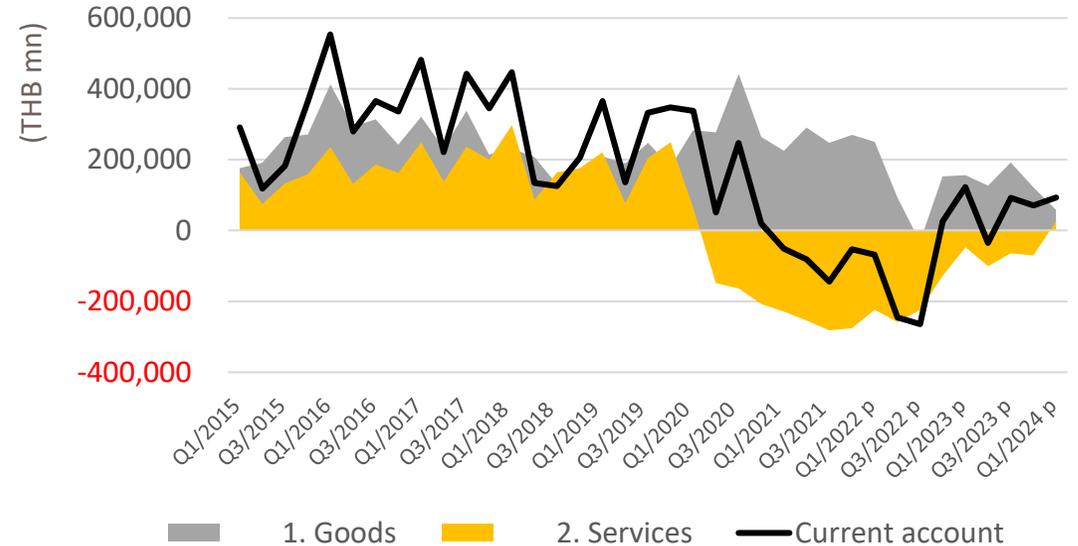
Tourism recovery but what's next?

Foreign Tourist Arrivals



Data from January 1 - August 18, 2024
Ministry of Tourism and Sports

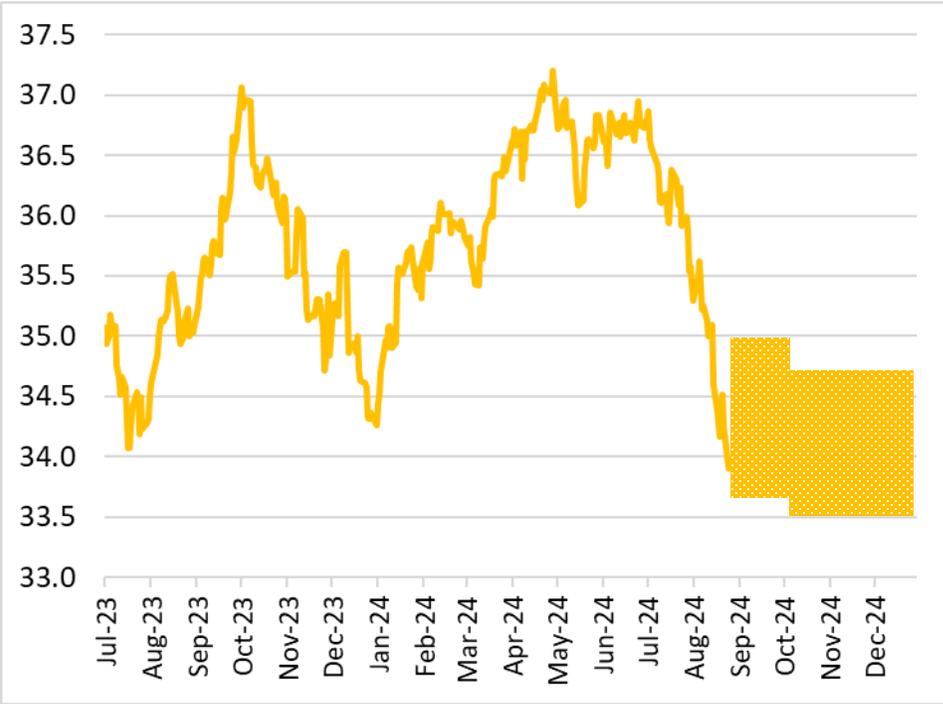
Current Account



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 is 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.

Our forecast



FX	USD/THB	JPY/THB	EUR/THB
Q3/24F	33.75-35.00	23.00-25.00	37.50-38.75
Q4/24F	33.50-34.75	23.30-25.50	37.25-38.50
Q1/25F	33.25-35.25	23.40-25.80	37.00-38.25
Q2/25F	33.00-35.00	23.50-25.90	36.75-38.50

Policy Rate	Current	Q2/25F
US	5.25-5.50%	4.25% *
Eurozone	3.75%	2.75%
Japan	0.25%	0.50%
Thailand	2.50%	2.50%

Krungsri Global Markets, JPY/THB is per 100 yen

As of August 21, 2024, * upper bound

Thank You

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