

Growth Engines and Opportunities in Capital Market 2020

Views from Economists

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ผู้อำนวยการโครงการ

TDRI Economic Intelligence Service (EIS)

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FETCO Capital Market Outlook :
Growth Engines and Opportunities
in Capital Market 2020



FETCO
Federation of Thai Capital Market Organizations



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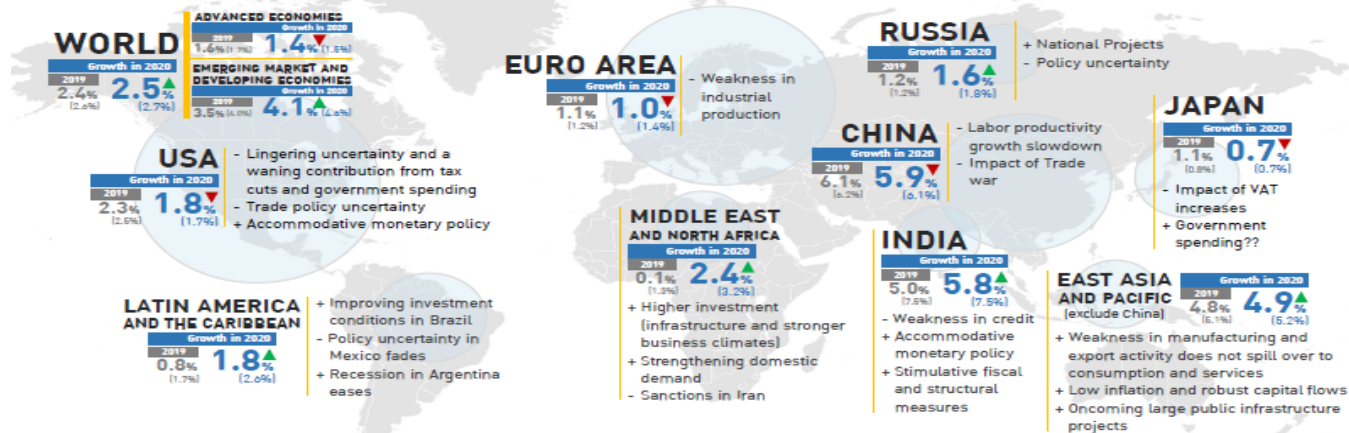


SET

GLOBAL GROWTH WILL BE NO MORE THAN LAST YEAR'S DUE TO CORONA OUTBREAK

- Corona virus outbreak will reduce global growth this year by 0.1-0.2 percentage-points (pp) from previous forecasts to 2.3-2.4% with China's GDP growth declining by 0.4pp to 5.5% (assuming outbreak ends in April); Japan, S.Korea, and ASEAN's growth will also be affected as trade and tourism are affected.
- However, no recession is forecasted with major economies including the US, still expanding this year.

Pre-Corona Outbreak GDP Growth Forecasts by World Bank Group (as of 20 Dec 2019)



Note: ▲ ▼ shows increase/decrease compared to 2019; Number in bracket is forecast in June 2019; Size of circle is the size of economy
Source: Global Economic Prospects (January 2020), World Bank and TDRI calculation

CORONA OUTBREAK CAN REDUCE THAILAND'S 2020 GDP GROWTH BY 0.5PP

IMPACTS ON THAILAND

- Impacts on Thailand comes both directly and indirectly from China; sectors that will be affected most are tourism, travel, exports, certain manufacturing that relies on Chinese parts, retail, and property.
- Sectors that could benefit from the outbreak are healthcare, e-commerce, delivery services and production of goods that prevent the spread of virus (masks, rubber gloves, anti-bacterial solutions and soap, air purifier, etc.).

CASE STUDIES

TOURISM

- Chiang Mai: Many Chinese tourists have already cancelled flights and hotel reservations up to the end of March. Tourism information center of Chiang Mai reports the number of unemployed Chinese tour guide up to 2,000.
- Phuket: A bus tour business has reported a mass cancellation of bookings, resulted in 1,200 tour buses not in operation.



AVIATION

- The CEO of Air Asia expects a drop around 300,000 customers in the first quarter and a full recovery around May to June.



EXPORTS

- There are several reports of closed trading market affecting products such as tapioca flour, durian, mangosteen, and fresh longan.



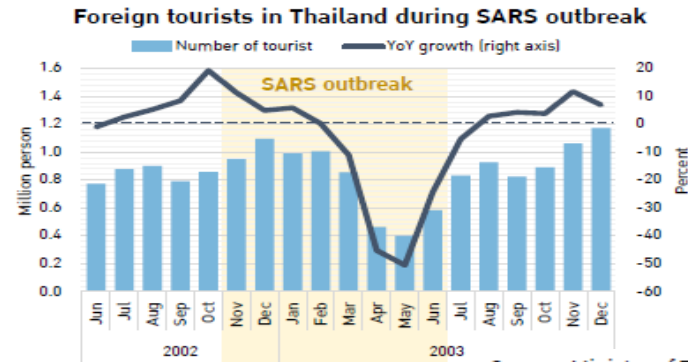
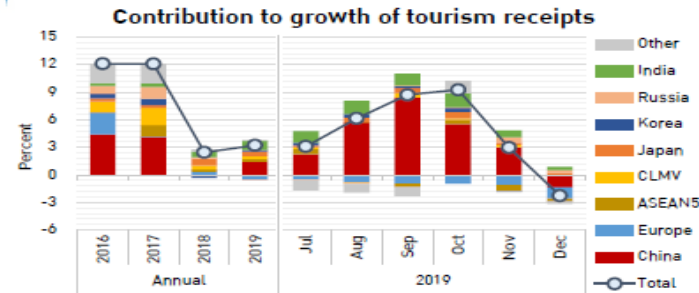
IMPORTS

- Raw materials: Sica New Materials (Thailand) Co., Ltd., a silicon metal & carbide producer & exporter, has ceased its operation until further notice due to an inability to obtain the required production raw materials from China.
- Parts: Some automotive companies in Thailand require certain parts from China and the production will be stalled if the trade does not resume before the inventory run out. (KTB analysis)



TOURISM COULD DROP BY 8-10% THIS YEAR

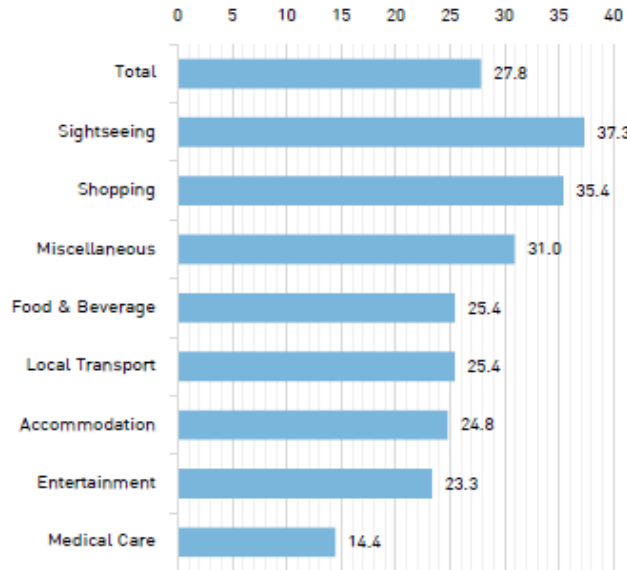
- In 2019, there were 39.8 million tourist arrivals, of which 11 million were Chinese; tourism receipts accounts for around 13% of real GDP.
- This year, Corona outbreak will dampen tourism arrivals from Feb to Jun, resulting in 3.0 million or 8% fewer tourists than that in 2019, reducing GDP growth by 1pp.
- Like SARS, it will take 1-2 months after the outbreak ends before tourist arrival recovers.
- Chinese tourists could fall on an average of 50% from Feb-Jun, while other tourists falls by 20%, resulting in a fall of 4.6 million tourists to 15 million in 2020H1.
- Recovery in 2020H2 will see tourist arrival expansion of 8% yoy or 1.6 million tourists more than that in 2019H2, resulting in 21 million tourists in 2020H2.



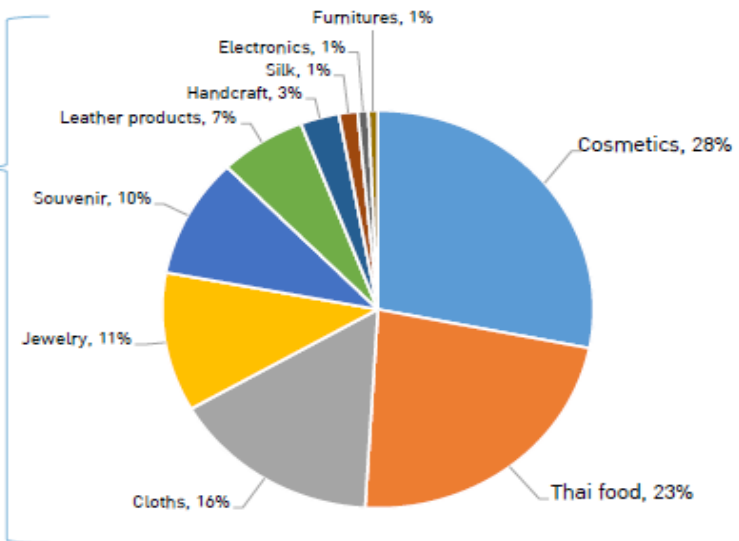
Source: Ministry of Tourism and Sport

CHINESE TOURIST DECLINE AFFECTS WHICH SECTORS?

Share of Chinese Tourists' Expenditures in Total Expenditures of Foreign Tourist by item in 2018



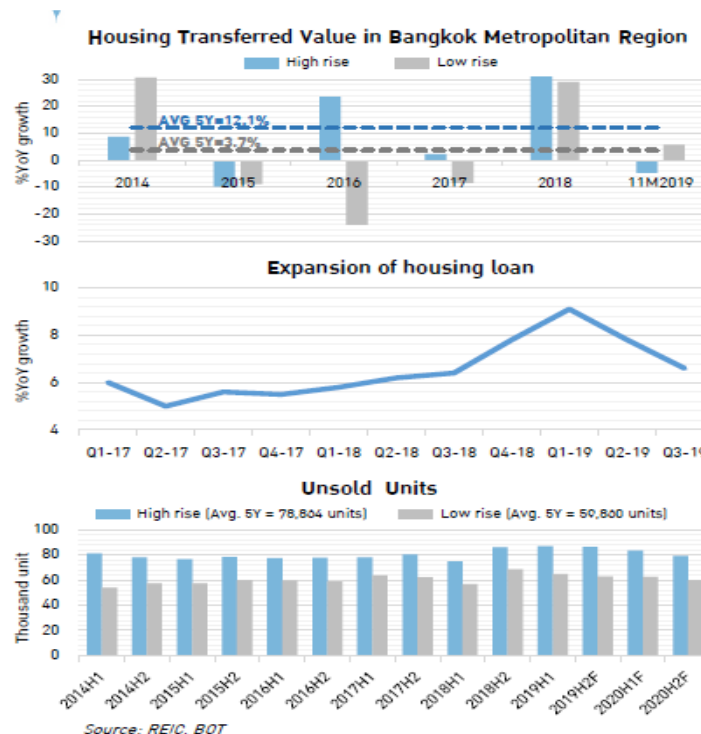
Share of Chinese Tourists' Shopping Expenditures by Product in 2018



Source: Tourism Authority of Thailand by with TDRI calculation

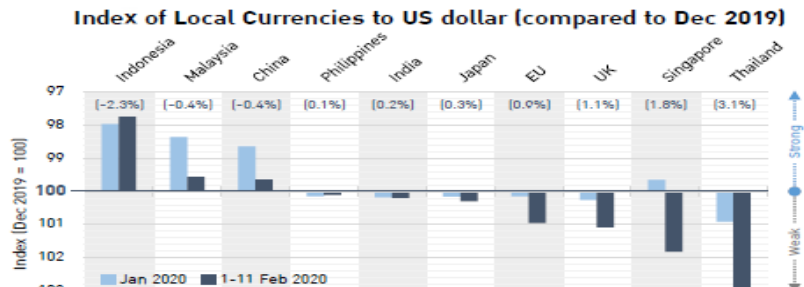
PROPERTY SECTOR CONTINUES TO BE SOFT THIS YEAR

- Property market continues to slow down with a forecasted decline in housing property transferred by 2.2-4.8% in 2020.
- Market predicts that the unsold stocks will be more than 150,000 units in 2020H1 hence construction of housing property will be quite dampened this year.
- Delayed Chinese purchases (14% of total condominium demand) from Corona outbreak will impact condominium sales in 2020H1.
- Loan-to-value (LTV) relaxation, low interest rate, property transfer fee cut from 2% to 0.01% (for less than Bt3 million) and Baan Dee Mee Down, a Bt50,000 cash rebate program, will help support domestic demand somewhat.

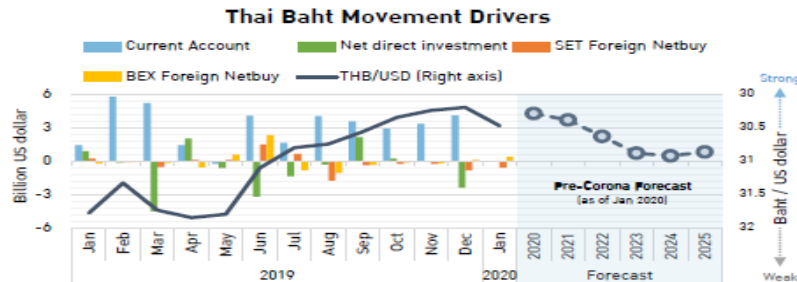


BAHT WILL AVERAGE AROUND BT31/USD, WHILE INTEREST RATE REMAINS LOW

- Baht weakened from Bt30.2/USD in Dec 2019 to Bt30.5/USD in Jan 2020 (+0.9%) and Bt31.1/USD during Feb 1-11 (+3.1% from Dec 2019).
- In 2020H1 the Baht could be above Bt31/USD as Corona outbreak reduces exports and tourism receipts, before rebounding to below Bt31/USD in 2020H2 once outbreak is contained.
- Interest rates will remain low in line with low global interest rates; however, another reduction in Q3 is possible should Corona outbreak or drought pro-long, reducing growth further.



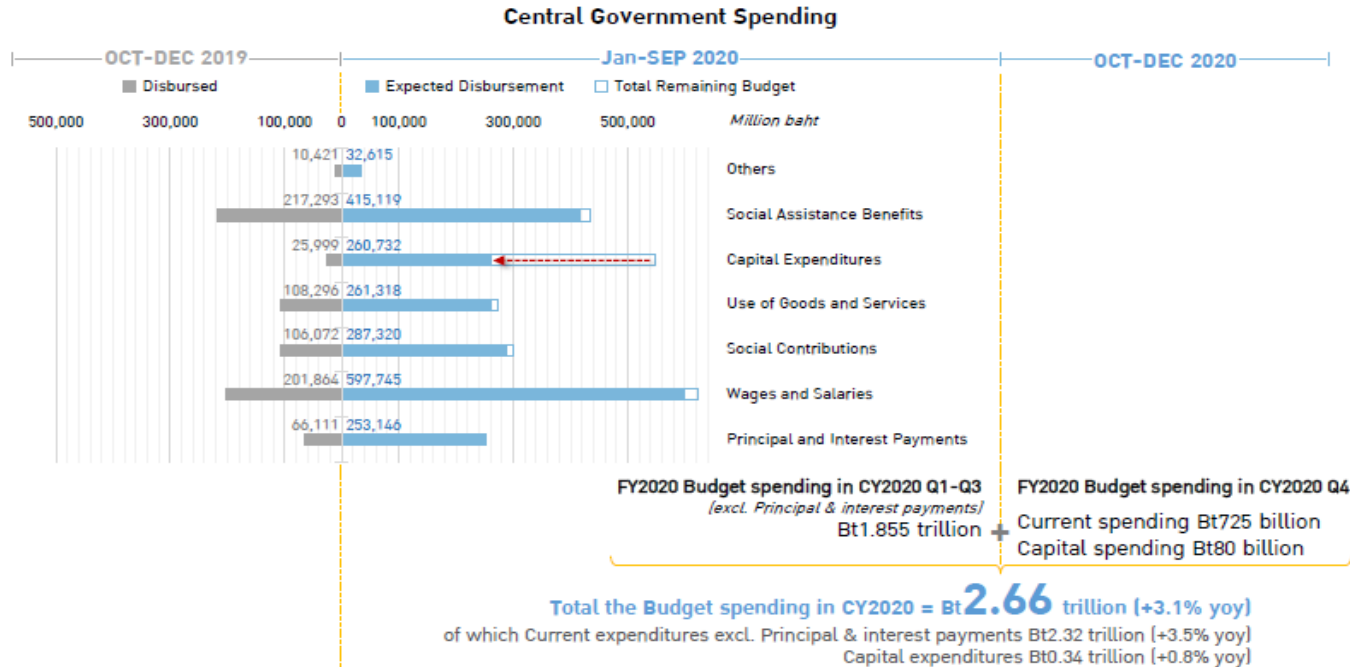
Note: Number in brackets are %changes in exchange rate in 1-11 Feb 2020 from Dec 2019; -- = appreciate (strong), + = depreciate (weak)



Source: SET, ThaiBMA, BOT, CEIC and Consensus Economics Inc. (as of Jan 2020)

Note: Current account and Net direct investment data for Jan 2020 are not yet released

DELAYED FY2020 BUDGET RESULTS IN 2020 GOVERNMENT INVESTMENT RISING BY < 1%



RECENT GOVERNMENT MEASURES ARE MOSTLY SHORT-RUN (1)

SERVICE SECTOR

[62.3% of RGDP and 49.9% of employment]

"Tourism affected by the Corona virus outbreak"

Measures: Stimulate domestic tourism by reducing cost and increasing liquidity

- Tax measures
 - Tax deduction for 2 times of domestic training and seminar expenses and for 1.5 times hotel renovation expenses
 - Tax rate reduction for domestic jet fuel tax
- Financial measures
 - Extend debt repayment and reduce fees
 - Various loan totaling 123,000 million Baht

Our effectiveness assessment: The tax measures could stimulate demand for hotel occupancy post-Corona outbreak; jet fuel tax reduction could help support tourism in the provinces; financial measures could help small tourism-related operators with liquidity issues during outbreak months.

AGRICULTURAL SECTOR

[6.2% of RGDP and 33.5% of employment]

"Agriculture incomes affected by drought"

Measures: Price support

- Agricultural price guarantee budget: Bt69.7 billion*
 - Rice Bt21,495.71 m. (Bt10-15K/ton)
 - Palm oil Bt13,378.99 m. (Bt4/kg)
 - Rubber Bt24,278.63 m. (Bt23-60/kg)
 - Cassava Bt9,670.00 m. (Bt2.50/kg)
 - Maize Bt923.33 m. (Bt8.50/kg)

*Note: * Limited to certain amount or size of growing areas for each crop
(BAAC will pay farmers first, after which the government will payback to BAAC by the annual budget later)*

Our effectiveness assessment: At aggregate level, these will help raise farm incomes as price guarantees of all crops are much higher than overall production declines compared to 2019. But farmers with production relying mainly on irrigation, particularly in the NE, could suffer big production losses and income decline this year.

RECENT GOVERNMENT MEASURES ARE MOSTLY SHORT-RUN (2)

MANUFACTURING SECTOR

[32.6% of RGDP and 16.3% of employment]

“Private investments declined from the decrease in domestic and foreign purchasing power”

Measures: Reduce cost of investment and increase liquidity

- Measures to support domestic investment:
 - Corporate income tax deduction 2.5 times of machinery expenses
 - Exemption of import duty for machineries that have not been exempted
 - Various loans totaling over Bt100,000 million
(The Government expects to stimulate investment of Bt110 billion or 0.7% of GDP)

Our effectiveness assessment: Overall impact on stimulating investment will be small as capacity utilization in many sectors are low and demand conditions both domestic and global remain uncertain.

FY2020 Budget for emergency measures

- Bt96 billion of Contingency Fund for emergencies or immediate needs (0.6% of GDP)
- Bt3 billion for reimbursement of emergency financial assistance to disaster victims (0.2% of GDP)

Our effectiveness assessment: The Government could use these funds to further alleviate impacts of Corona outbreak and drought.

THANK YOU

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