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บริษัทหลักทรัพย์ ภัทร จำกัด (มหาชน)  
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## Economic Outlook

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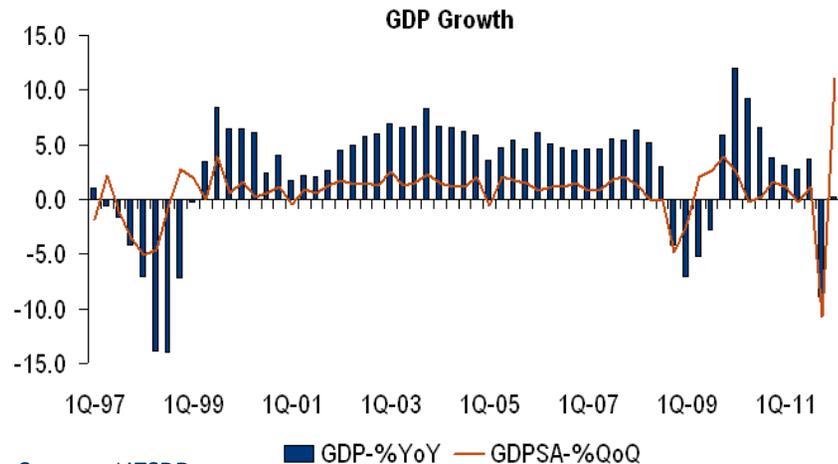


## Thailand's recovery largely on track

- Recovery from the floods is on track.
- Economy as a whole should return to normal by 3Q.
- Automobiles back to normal earlier than expected.
- Govt flood prevention spending is slower than expected.
- Global risks could rise in 2H12
- Cannot be complacent about political risk



## Recovery from the floods is on track

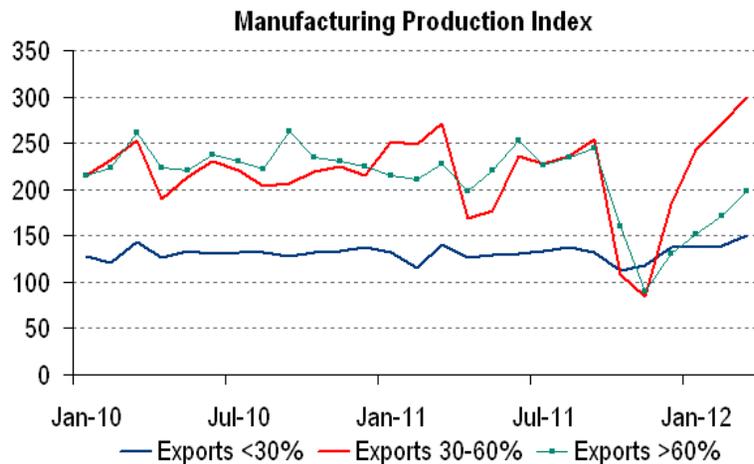


Source: NESDB

### GDP growth (%YoY)

	1Q-11	2Q-11	3Q-11	4Q-11	1Q-12
<b>GDP</b>	<b>3.2</b>	<b>2.7</b>	<b>3.7</b>	<b>-8.9</b>	<b>0.3</b>
Private consumption	3.3	2.7	2.4	-2.8	2.7
Private investment	12.6	8.6	9.1	-1.3	9.2
Govt consumption	1.8	1.0	4.9	-4.1	-1.6
Govt investment	-1.4	-9.9	-10.9	-12.1	-9.6
Exports (goods & services)	16.0	12.0	17.3	-6.4	-3.2
Imports (goods & services)	16.8	15.1	20.1	3.3	4.5

Source: NESDB



Source: OIE

### Manufacturing Production by Sector

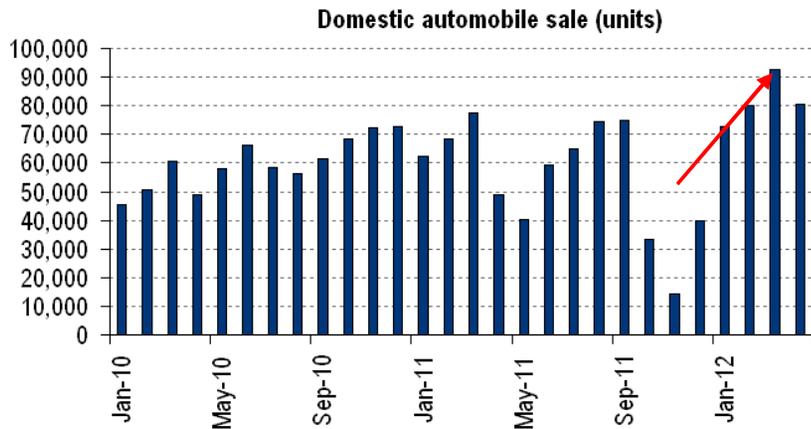
	1Q-11	2Q-11	3Q-11	4Q-11	1Q-12
Beverages	163.8	144.4	146.1	149.8	176.5
Textiles	72.1	63.4	59.8	47.1	50.6
Apparel	133.0	120.0	117.6	100.4	110.9
Paper	122.2	118.9	122.2	105.1	119.9
Refined petroleum	126.7	140.7	144.2	130.6	156.1
Chemicals	157.2	162.1	169.5	152.5	170.0
Rubber and plastic products	132.4	127.9	145.6	118.3	133.4
Non-metallic mineral	168.5	164.2	171.3	149.4	180.3
Basic metals	139.4	123.7	129.9	110.3	132.8
Machinery and equipment	239.7	239.1	220.7	119.8	213.3
Computing machinery	757.5	824.8	887.1	374.5	605.7
Electrical appliances	120.8	116.4	110.8	48.0	74.3
Vehicles	379.3	273.2	400.4	140.5	409.1

Source: OIE

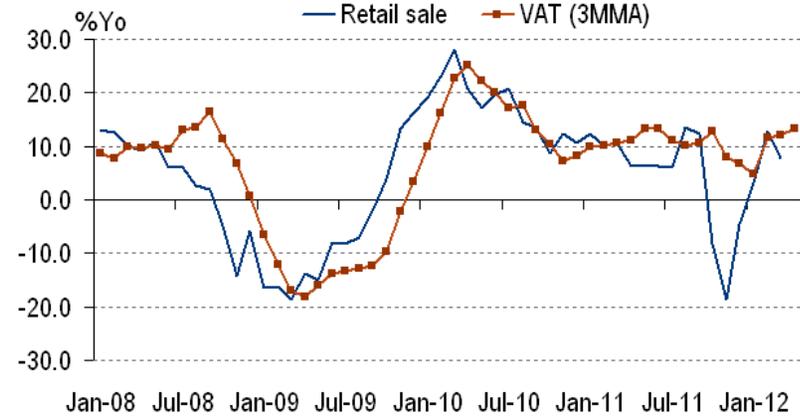
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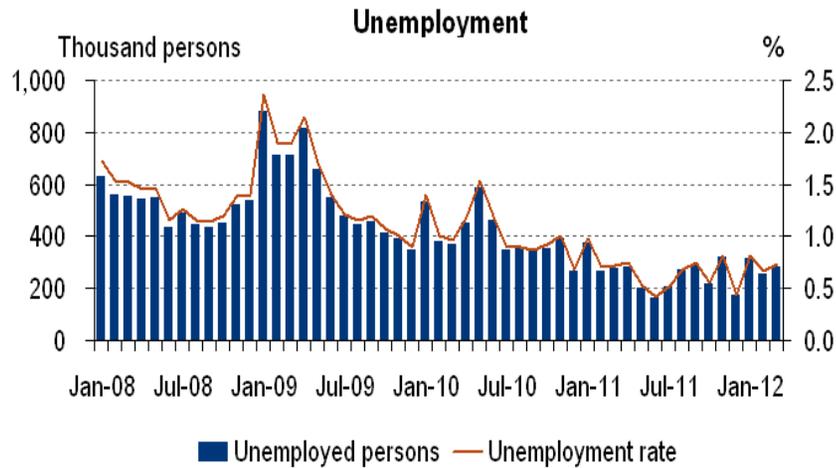
## Consumption recovery



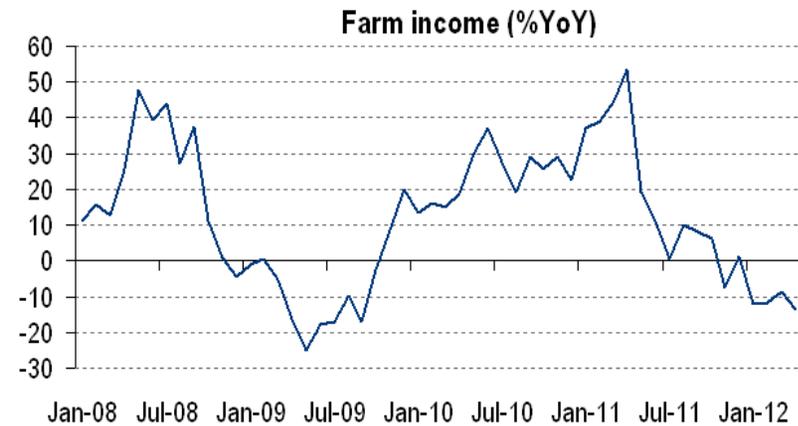
Source: BoT



Source: BoT



Source: NSO

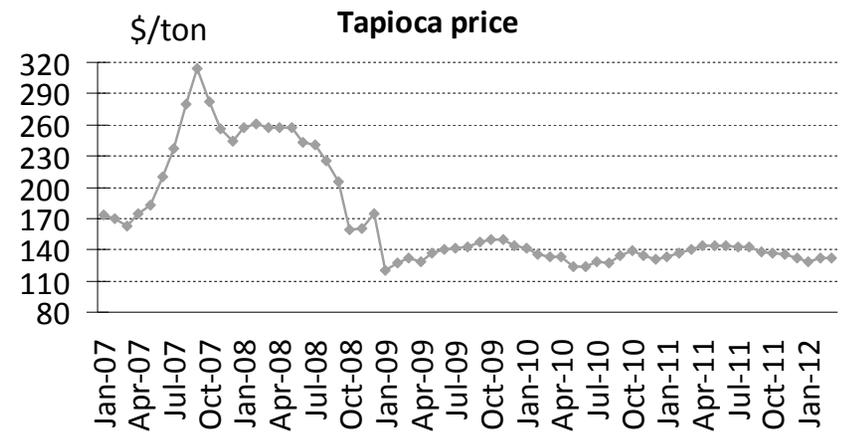
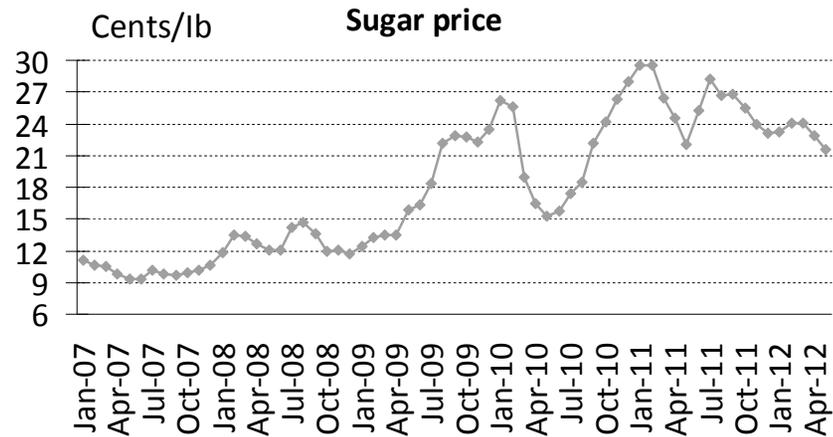
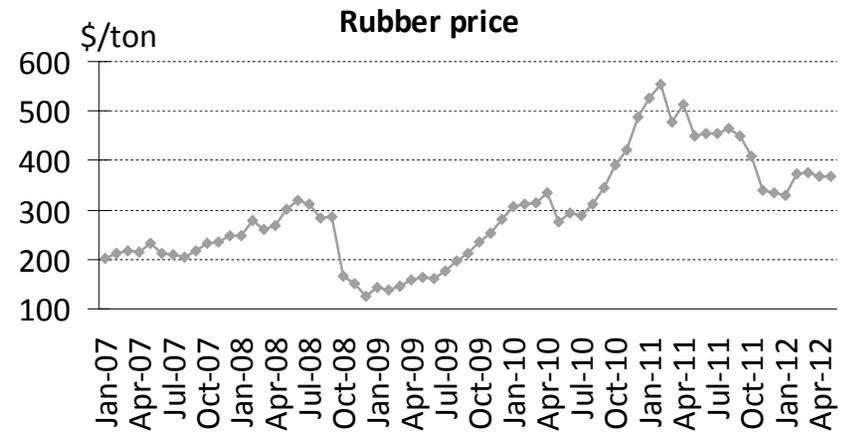
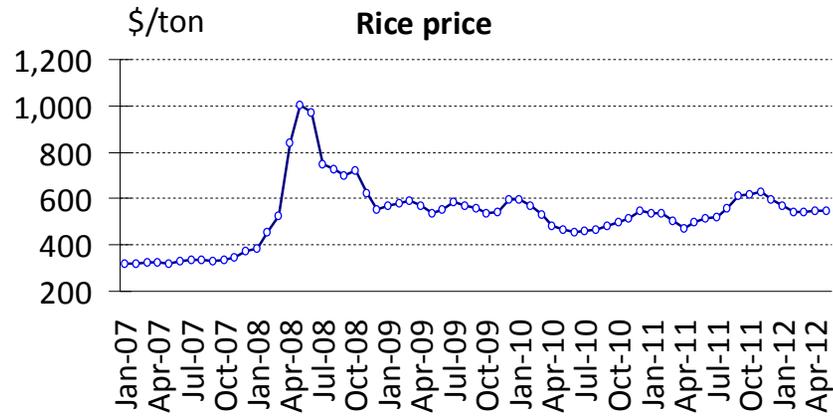


Source: BoT

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## Key commodity prices are weak

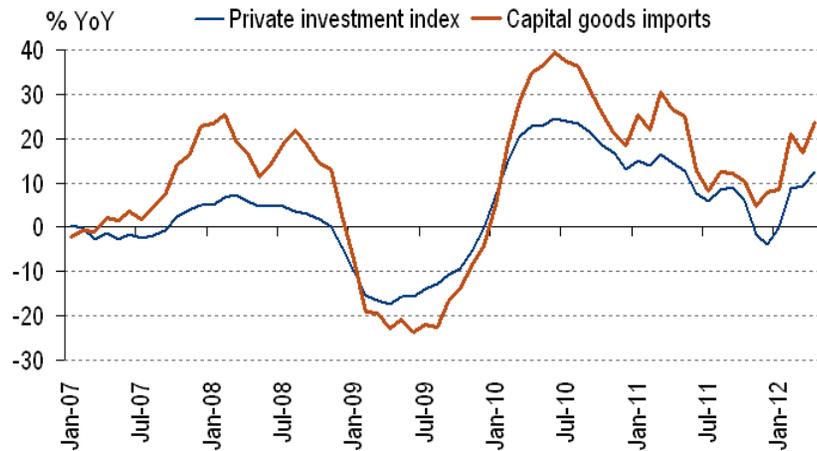


Source: Bloomberg

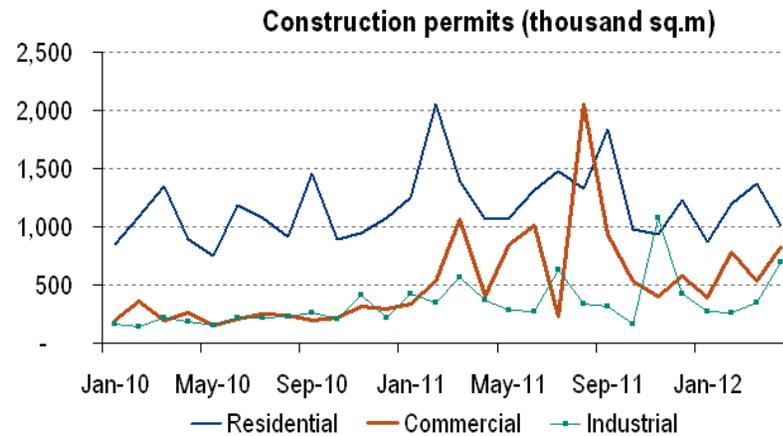
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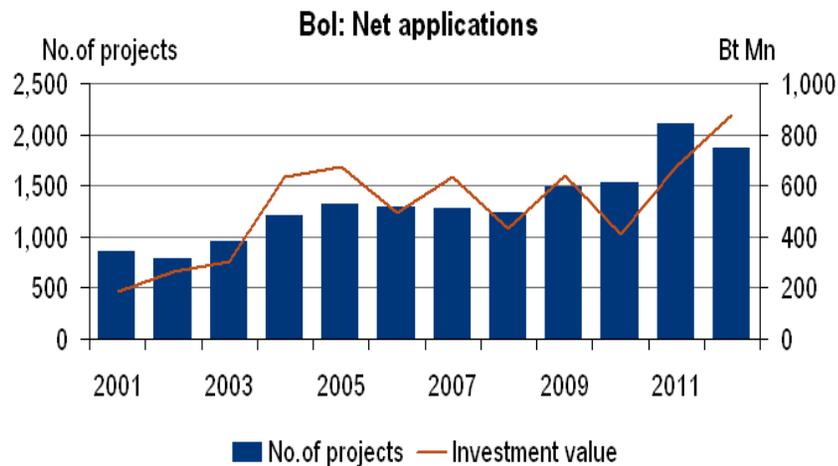
## Investment: good rebound



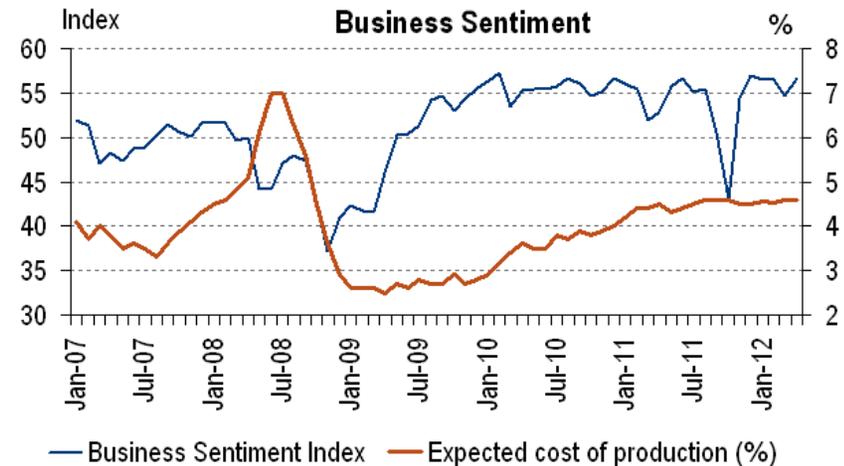
Source: BoT



Source: BoT



Note: 2012 = Jan-Apr annualized  
Source: BoT



Source: BoT

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## Bottled-up inflation

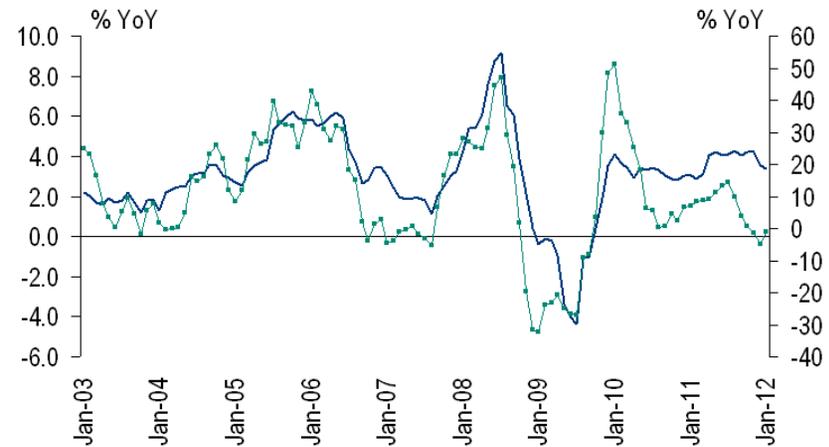
- Many months of price restraints have to be lifted
- Producers also believe that price increase could be passed on following minimum wage hike
- Oil is a key factor affecting Thai inflation

Inflation expectation and expected cost over the next 12M



Source: BoT survey

Thailand inflation correlates with fuel prices



Source: MoC — Headline CPI — Fuel price-RHS

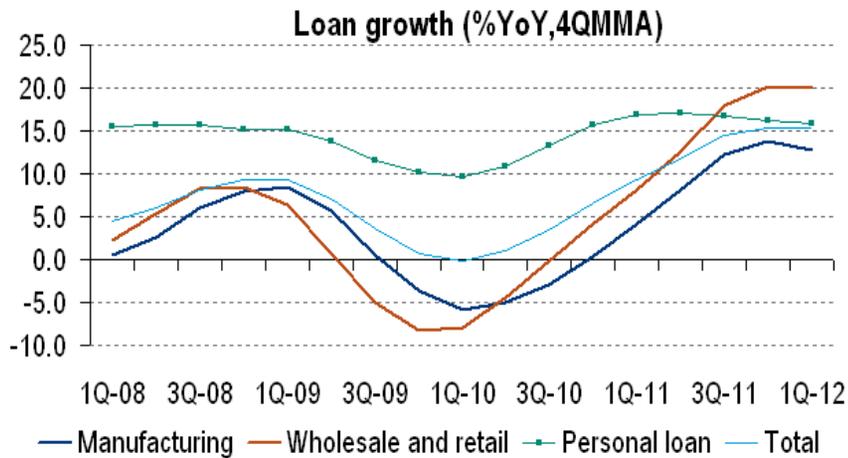
	Weight in CPI	Correlation for the period	
		2003-Jan 2012	2006-Jan 2012
CPI vs Food prices	33.00%	0.35	0.35
CPI vs Fuel prices	5.30%	0.78	0.79

Source: Phatra calculations

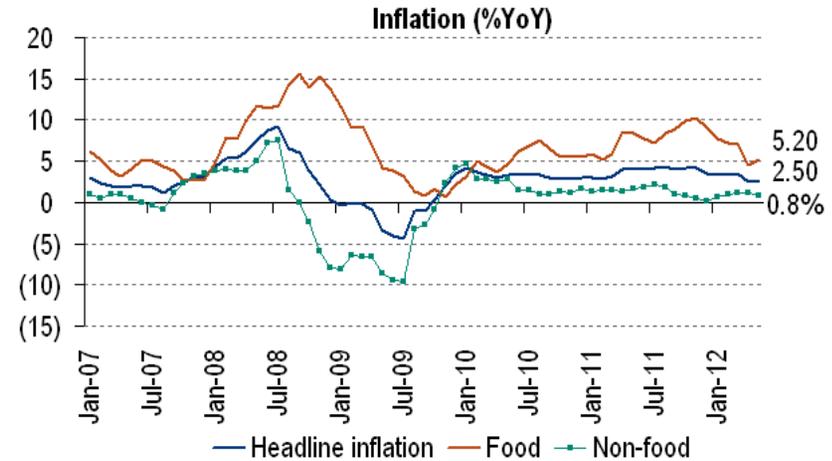
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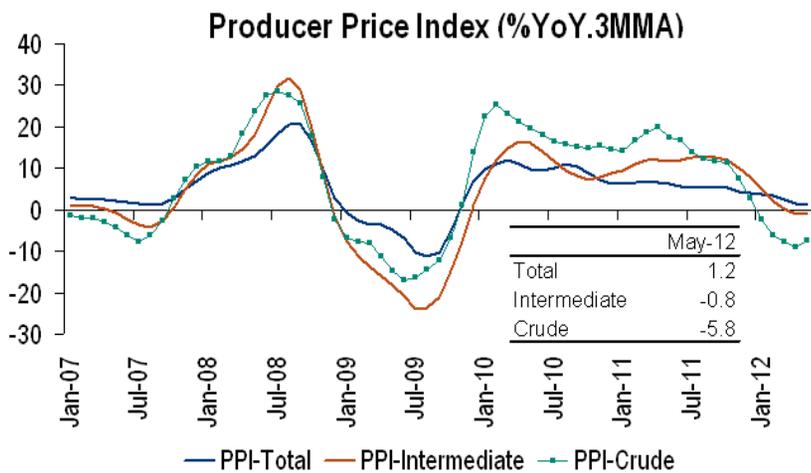
## Inflation subsiding at producer level



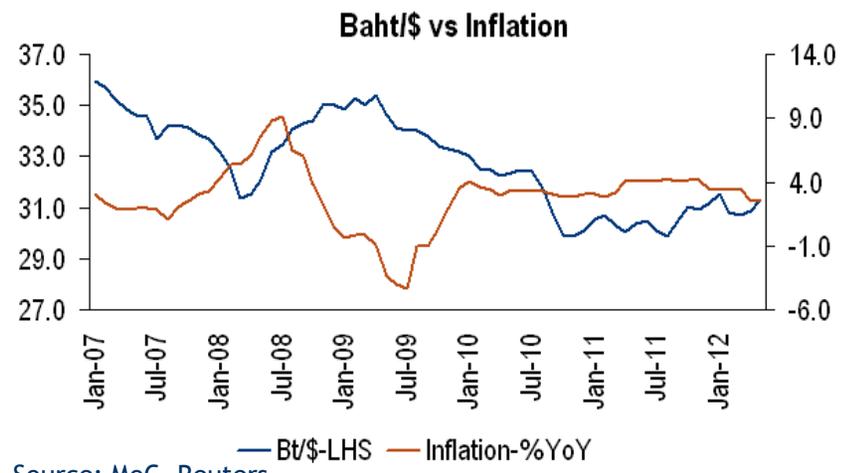
Source: BoT



Source: MoC



Source: MoC

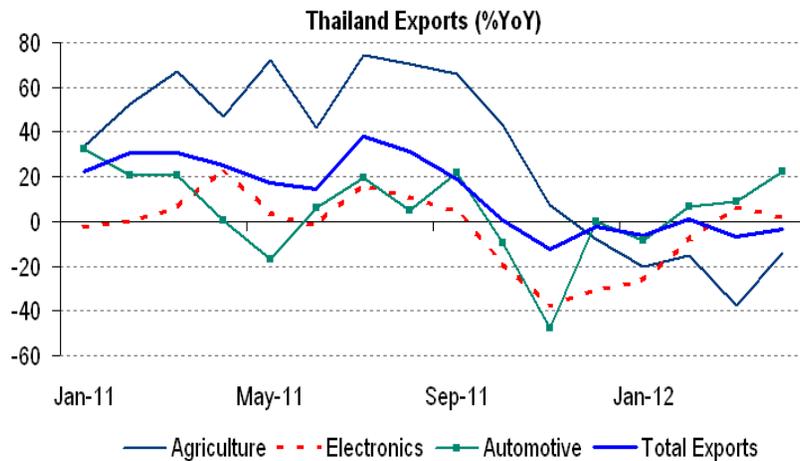


Source: MoC, Reuters

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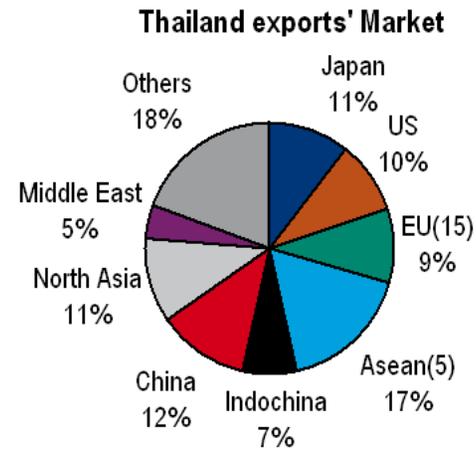
## Exports: possible impact from Europe, China



Source: BoT

Exports share by product (2011)						
	World	EU	US	Asean (5)	China	JP
Agricultural products	12.9	12.6	11.4	9.5	<b>26.6</b>	<b>17.7</b>
Agro-industrial products	7.6	9.1	12.4	6.4	1.6	10.1
Manufacturing products	73.4	76.7	72.8	67.9	67.4	69.4
Mining and fuel products	5.8	1.3	3.3	<b>15.9</b>	4.4	1.8
Others	0.2	0.4	0.1	0.4	0.0	1.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: MoC



### Top 6 exports to Europe (% of total exports)

Automatic data processing machines and parts thereof	9.4
Precious stones and jewellery	8.2
Prepared poultry	4.4
Rubber products	4.2
Apparel and clothing	4.1
Motor cars, parts	3.8

### Top 6 exports to China (% of total exports)

Rubber	18.6
Automatic data processing machines	15.7
Chemical products	9.8
Polymers of ethylene, propylene, etc	8.9
Rubber products	6.5
Tapioca products	5.0

Source: MoC

Refer to important disclosures at the end of this report.



## Thailand growth forecast

% Growth, YoY	2011P	Phatra		Consensus		BoT		MoF		NESDB	
		2012F	2013F	2012F	2013F	2012F	2013F	2012F	2013F	2012F	2013F
<b>GDP</b>	<b>0.1</b>	<b>5.7</b>	<b>4.5</b>	<b>5.3</b>	<b>4.7</b>	<b>6.0</b>	<b>5.8</b>	<b>5.5</b>	<b>n.a.</b>	<b>5.5-6.5</b>	<b>n.a.</b>
Private consumption	1.3	4.8	4.0	4.0	4.0	5.7	4.5	4.5	n.a.	4.5	n.a.
Government consumption	1.4	6.0	3.0	n.a.	n.a.	4.9	2.2	4.5	n.a.	3.5	n.a.
Total investment	3.3	12.2	9.6	10.5	7.0	n.a.	n.a.	11.9	n.a.	12.3	n.a.
Private investment	7.2	11.0	10.0	n.a.	n.a.	14.3	10.6	11.9	n.a.	13.0	n.a.
Government investment	-8.7	13.0	8.0	n.a.	n.a.	17.9	17.7	12.1	n.a.	10.0	n.a.
Exports (BoP basis-\$ term)	16.4	10.0	13.0	10.3	11.2	9.2	14.6	13.5	n.a.	15.1	n.a.
Imports (BoP basis-\$ term)	24.7	14.5	13.0	15.5	10.0	17.0	12.4	23.3	n.a.	22.3	n.a.
Current account – US\$ bn	11.9	3.8	4.9	6.1	9.5	-2.1	-0.9	-3.5	n.a.	2.7	n.a.
Current account-% of GDP	3.4	1.0	1.2	n.a.	n.a.	n.a.	n.a.	-0.9	n.a.	0.7	n.a.
Inflation	3.8	3.6	3.0	3.3	3.4	3.5	3.5	3.6	n.a.	3.5-4.0	n.a.

Source: BoT, MoF, NESDB, Consensus Economics and Phatra



## Govt wants to drive growth

### Infrastructure development plan

	Billion Baht
Projects	
Land transport	1,470.0
Air and Marine transport	148.5
Energy	499.5
Telecommunication	35.2
Utility	117.0
<b>Total</b>	<b>2,270.2</b>
Financing source	
SOEs and loans	721.5
PPP	413.4
Government	1,135.1
<b>Total</b>	<b>2,270.2</b>

Source: NESDB

- Govt.'s Bt2.3trn investment plan is meant to “transform Thailand” with aggressive infrastructure building
- It wants BoT to help by releasing liquidity and cutting financing costs



## The optimistic scenario

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- Opening-up of Myanmar holds great potential for the “ASEAN mainland”
- Govt. spending on infrastructure would complement the ASEAN mainland boom
- Top-line growth would be boosted so that costly populist policies can be absorbed
- However, sustainable growth may need genuine reforms: better education and training; reduced corruption; less distortion of the free market

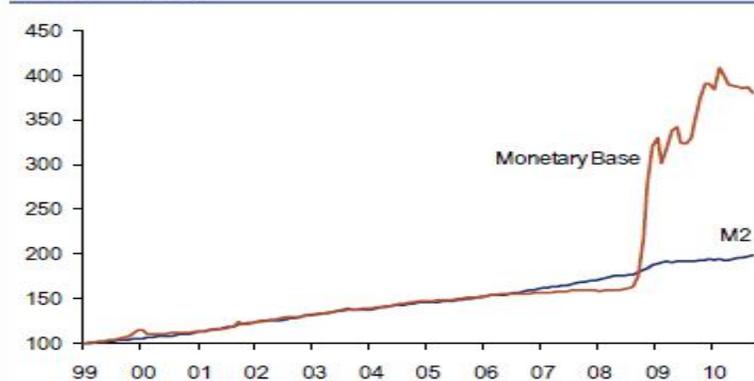




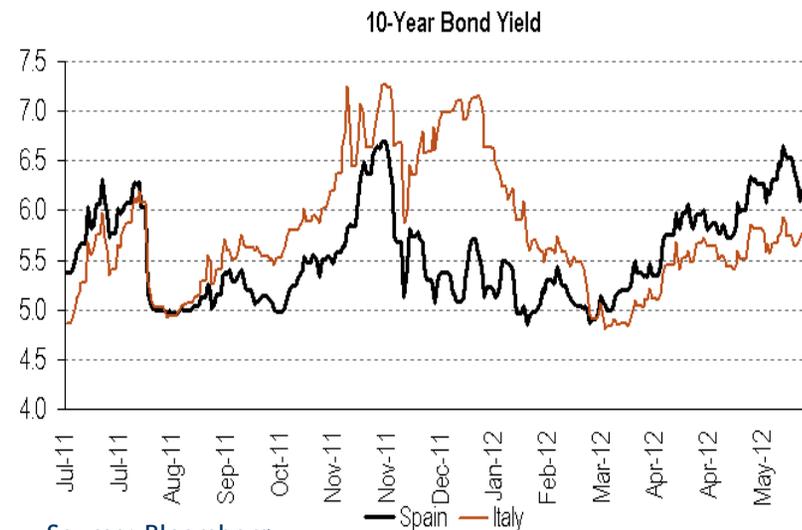
## New doubts about global recovery

- Data were strong during 1Q but have become mixed
- Focus on European risk; especially impacts of Greece leaving euro
- US “fiscal cliff” could add to downside risk
- Asia expected to do well if US and Europe can “muddle through”

**Chart 3: Impaired channel in the US  
(1999 = 100)**



Source: Federal Reserve, BofA Merrill Lynch Global Research



Source: Bloomberg

Refer to important disclosures at the end of this report.



## US fiscal cliff

### The size of the shock

#### Pending tax increases

Bush tax cuts	\$180 bn
AMT	120 bn
Payroll tax	120 bn
Tax extenders	20 bn
Obamacare	20 bn
Business expensing	10 bn

#### Pending expiring programs

Extended UI	\$40 bn
Medicare doc fix	20 bn
Other programs	40 bn

#### Pending spending cuts

Sequester	\$110 bn
Initial debt plan	40 bn

<b>Total</b>	<b>\$720 bn</b>
<b>Percent of GDP</b>	<b>4.6%</b>

Source: BofA Merrill Lynch Global Research, Congressional Budget Office

- Nov elections and political gridlock could result in large fiscal cutbacks in 2013
- Uncertainties and concerns could slow US economy down as election nears
- Investors pin their hopes on QE3



## Risk of a synchronous global slowdown by year end

- Grexit: Greek elections could go well and Greek could survive in 3Q but Grexit could happen in 4Q.
- Greeks are taking money out of banks and not paying taxes. Eurozone govts. may realize that quick Grexit would cost less
- Concern in Spain is banks which loaned 223% of GDP and now has 8.16% NPLs. Spanish govt. cannot afford recap but does not want to ask for aid.
- Risk is for a bank run in Europe's periphery with deposits of 1.3trn euros. But European-wide deposit insurance is difficult to set up in the short run.
- Germany willing to talk about euro bond, banking union, deposit guarantee, etc. but as quid pro quo, Berlin "must have a say" in the national fiscal policies in Europe.
- Good news - all the right policies will be up for discussion. Bad news - complex quid pro quo could take many months to discuss while contagion could set in quickly.
- Global risk is that US "fiscal cliff" pulls down US economy in 4Q just as Grexit create contagion in Europe. If Europe goes, BoAML sees 1/3 chance of a US recession in 1H 2013.



## Bull & Bear Scenarios in 2012/13-GDP growth

### Bear Case (Ugly)

A deep recession in Europe (-2.5%) from Greek exit and a disorderly default; while US faces a recession from the fiscal cliff (-0.5%).

### Bull Case (Good)

European leaders act decisively to contain the crisis (1.0%) while US averts the fiscal cliff, expanding +2.5%.

### Base Case (Bad)

Slower growth in China (8.0%), US (2.0%) with a mild contraction in Europe (-0.5%) but not a full-blown global crisis.

	Baseline	Bull Case	Bear Case
Probability	60%	10%	30%
US	2.0	2.5	-0.5
Europe	-0.5	1.0	-2.5
EM Asia	6.6	7.8	5.5
China	8.0	9.2	7.5
Hong Kong	2.4	4.5	-1.3
India	6.5	7.5	5.5
Indonesia	6.0	6.8	4.5
Korea	3.0	3.9	1.8
Malaysia	4.2	5.8	2.0
Philippines	4.4	5.2	3.7
Singapore	2.5	5.0	-1.0
Taiwan	2.8	4.2	-1.0
Thailand	5.7	6.5	2.0

Source: BofA Merrill Lynch Global Research estimates, CEIC



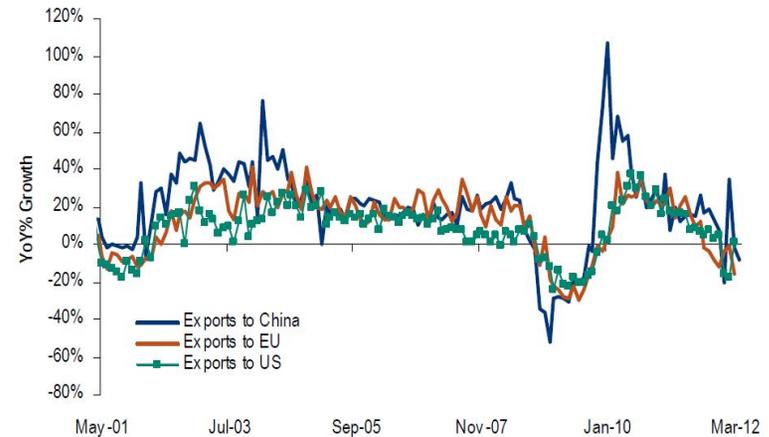
## Europe: Impact from trade flow

### Asia exports to Europe (\$bn and % share)

	Exports to Europe US\$b	Total Exports US\$b	Exports to Europe % total exports	Europe's Ranking as export market	Exports to EU % GDP
China	356.2	1901.5	18.7	1 <sup>st</sup>	4.9
Hong Kong*	0.7	8.4	8.3	2 <sup>nd</sup>	0.3
India	52.4	294.8	17.8	1 <sup>st</sup>	3.1
Indonesia	20.5	203.5	10.0	3 <sup>rd</sup>	2.4
Korea	56.3	563.6	10.0	2 <sup>nd</sup>	5.0
Malaysia	23.5	227.2	10.4	3 <sup>rd</sup>	8.4
Philippines	6.2	48	12.9	3 <sup>rd</sup>	2.9
Singapore*	21.4	141.2	15.2	1 <sup>st</sup>	8.2
Taiwan	31.2	308.3	10.1	5 <sup>th</sup>	6.7
Thailand	23.9	226.5	10.6	2 <sup>nd</sup>	6.9

Source: BoFA Merrill Lynch Global Research, CEIC. Note: Based on 2011; \*based on domestic exports for Hong Kong and non-oil domestic exports (nodx) for Singapore

Chart 1: Asian Exports to Europe, US and China are All Contracting



Source: Bank of America Merrill Lynch Global Research estimates.

### US exports' market (2010)

	% to total exports
Canada	19
Mexico	13
South and Central America	11
<b>Europe (27)</b>	<b>19</b>
China	7
Japan	5
Other Asia	16
Others	10

Source: WTO

### Japan exports' market (2010)

	% to total exports
US	16
<b>Europe (27)</b>	<b>11</b>
China	22
Other Asia	37
Others	14

Source: WTO

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## European bank claims on EM Asia

Table 1: European bank claims on emerging Asia and Asian countries (US\$bn and as % of GDP)

	All European banks					Europe (ex British and Swiss)				
	2Q11 (US\$bn)	4Q11 (US\$bn)	2Q11 (%GDP)	4Q11 (%GDP)	Diff from peak (%GDP)	2Q11 (US\$bn)	4Q11 (US\$bn)	2Q11 (%GDP)	4Q11 (%GDP)	Diff from peak (%GDP)
<b>Emerging Asia</b>	<b>1,382</b>	<b>1,263</b>	<b>11%</b>	<b>10%</b>	<b>-0.9%</b>	<b>424</b>	<b>344</b>	<b>3%</b>	<b>3%</b>	<b>-0.6%</b>
Singapore	185	169	71%	65%	-6.2%	68	56	26%	22%	-4.5%
Hong Kong	360	345	148%	142%	-6.1%	64	53	26%	22%	-4.4%
Taiwan	92	71	20%	15%	-4.6%	28	14	6%	3%	-3.1%
Korea	187	155	17%	14%	-2.9%	69	49	6%	4%	-1.8%
Malaysia	59	56	21%	20%	-1.0%	11	10	4%	3%	-0.5%
India	159	146	9%	9%	-0.8%	61	56	4%	3%	-0.3%
Thailand	23	21	7%	6%	-0.7%	7	6	2%	2%	-0.4%
Philippines	15	14	7%	7%	-0.4%	6	4	3%	2%	-0.7%
China	264	250	4%	3%	-0.2%	95	83	1%	1%	-0.2%
Indonesia	36	35	4%	4%	-0.2%	14	14	2%	2%	-0.1%

Note: European bank claims hit a peak in 2Q11. Source: BIS, BofA Merrill Lynch Global Research estimates



## Impact on Asia and Thailand

- Direct trade impact appear small. Thai exports to Europe is only 10% of total exports and falling. But Thai exports to Europe is 6.9% of GDP.
- But China is slowing down from local factors and because Europe is China's biggest export market (21% of total exports). Also China's most profitable export market according to BoAML.
- China is Thailand's biggest export market but growth is fading quickly.
- Within ASEAN, Thai exports to Indonesia and Malaysia are growing well while Singapore has lagged behind.
- But Malaysia exports to Europe is 8.6% of GDP, highest in Asia, followed by Singapore at 8.4% of GDP.
- Hongkong and Indonesia markets could help cushion the blow. Their exports to Europe is 0.4% and 2.4% of GDP respectively.
- Shocks could come through financial flows - the extent to which European banks withdraw liquidity and credit globally. European banks claim on Asia - \$1.4trn - is highest in Hong Kong, China, Korea, Singapore, India.
- European bank claims in Thailand is only \$23bn or 6% of GDP.

*But the biggest concern is US and Europe slowing down together end of 2012 and 1H 2013.  
Already commodity prices are falling quickly.*



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