

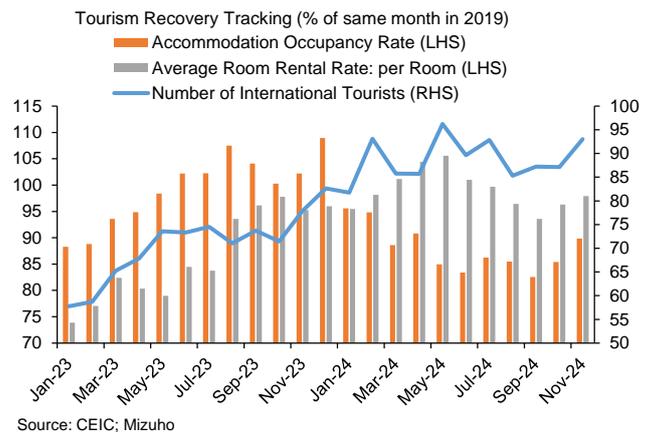
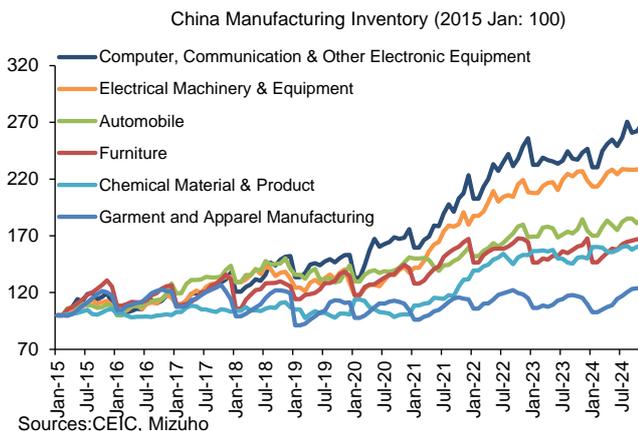
Thailand 2025: Fortuitous Notes, Rough Pitch

In a Nutshell: Coming off sharp depreciation pressures in Q1 2024, the THB had fortuitously managed to stave off steep losses against the USD for the year on tailwinds from JPY during Q3's expectations of Fed pivot and a coincidence of BoT policy hold, relief around BoT's independence towards end-Q4 amid some proxy relief from China stimulus.

Macroeconomic headwinds will persist in 2025 as we expect 2025 GDP growth to stay around 2.7% which remains below pre-pandemic trend. Competition from Chinese products will continue to weigh and offset ongoing tailwinds from electronics demand. While domestic consumption may see a lift from fiscal handouts in early 2025, the early optimism may fade into mid 2025 as raising underlying consumer confidence remains a high bar.

Inflation will remain bumpy on adjustments to administrative measures such as electricity tariffs and fuel regulation though the monetary policy spotlight has shifted to credit quality and growth amid surging credit card debt. Uncertainty over the efficacy of restructuring household debt, central bank independence and longer term fiscal trajectory imply that the THB will continue to be relatively more volatile. As such, even as we envisage that tourist arrivals will impart a firmer current account to support the THB in 2025 to retain allure relative to current account deficit peers (IDR and PHP), the accentuated volatility imply that these gains may fade abruptly leading to time sensitive vulnerability.

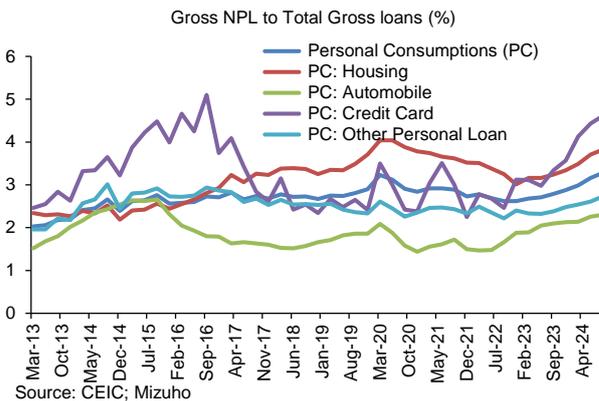
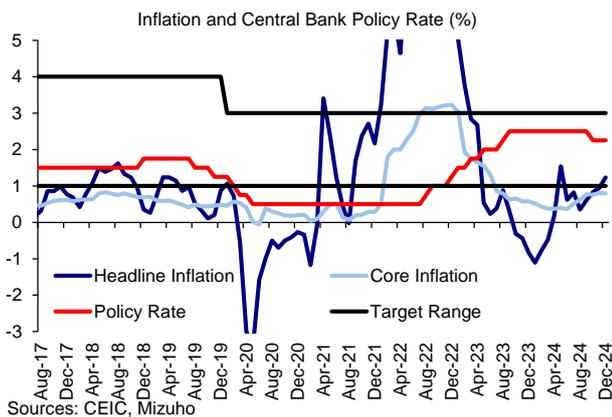
Growth: Skewed and Below Trend



We estimate real GDP growth in 2025 at 2.7% which is below the pre-Covid 2015-19 average of 3.5%. Competition from Chinese products reflected by surging inventory levels in China will weigh and offset on-going recovery in demand for the electronics sector. As the manufacturing sector support will revert from being a drag to turn very slightly positive this year, **services sector will still be a key growth driver backstopped by healthier levels of tourist arrivals likely maintaining above 90% of 2019 levels going forward.**

In terms of growth dynamics, early optimism may prevail in Q1 as effects of fiscal handouts play out in the retail trade and services sector but Trump woes will likely be a dampener on investment spending. Structural industrials woes from the automobile industry and limits from the electronics industry will likely take hold in mid-2025. Fading effects of government handouts may reveal themselves in late 2025.

Inflation: Policy Led, Not Leading Policy



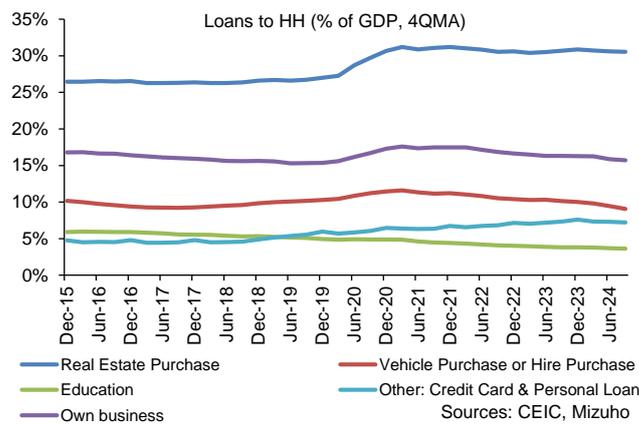
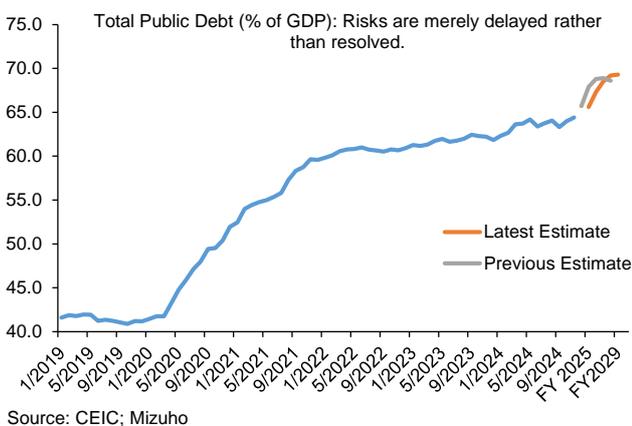
While inflation will still be closely watched, barring sharp external shocks, it will be likely be an accompanying factor rather than the main driver of monetary policy settings. In fact, **inflation will continue to be policy/administratively driven**. Specifically, measures such as adjustments on electricity tariffs, the ability of the oil fuel fund to sustain the diesel price cap and proposed regulatory changes to oil and gas sector as well as impact from the handout boost consumption will drive various kinks in the inflation profile ahead. Monetary policy will continue to navigate balancing growth and financial stability risks. Amid rising NPLs, the balance of risks tilts towards another rate cut in H1 2025.

Financial Stability and Political Risks: Diminished in the Near Term, No Longer Term Resolution

Table: Debt Restructuring Programme

Interest Payments Suspension	First year: 50% principal reduction, Second year: 70% principal reduction, Third year: 90% principal reduction. Applicable to home, car and SME loan with eligibility limits.
Removal of Small Debt	Pay 10% of outstanding amount owed (<5k THB) and loan is closed.

On the household credit front, **recent debt restructuring programme alleviates stress on households** and small businesses by transferring some of the burden onto the government's balance sheet and through a reduction of banks' contribution to the Financial Institutions Development Fund. While the measures provide pockets of relief as households had increasingly turn to credit card debt, **restructuring wider economic productivity and restoring household confidence which is essential to boost growth remains a high bar** as the recent slump in auto and property sales signal a lack of underlying consumer confidence which may continue to inhibit the pace of credit creation in 2025.

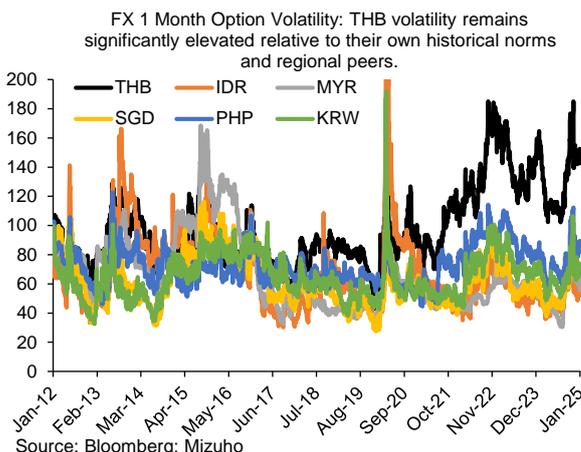
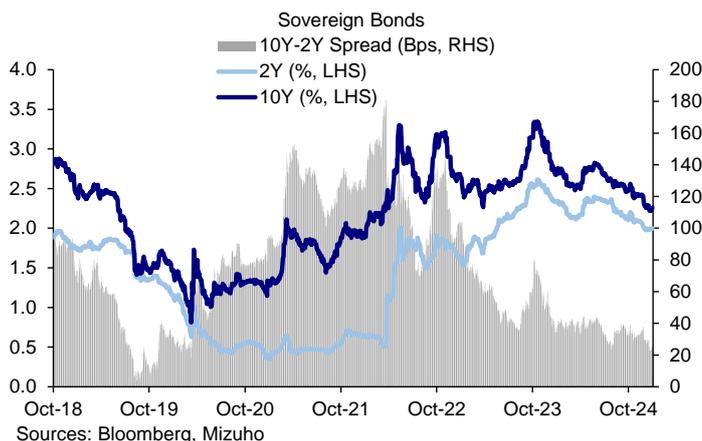


As for government finances, near term fiscal risk may appear diminished with the latest estimates for FY 2025 (released in December 2024) for public debt ratio reduced from 67.9% to 65.6% of GDP. Nonetheless, these public debt risks are merely delayed and not resolved with the FY2028 estimate revised upwards to 69.2% from 68.6% and the new 5-year trajectory show no signs of an inflection compared to the previous path which peaked in FY2027.

On the political front, risks appear to have stabilised as the case accusing former PM Thaksin of attempting to overthrow the monarchy was dismissed in late November. While there is still a pending case against Thaksin for exerting undue influence over the ruling Pheu Thai party, the threat to wider near term stability of the Pheu Thai party in 2025 is relatively much smaller in the probe given multiple political interdependencies. On balance, the threat of political instability via legal challenges is unlikely to abate and in fact will continue to linger and serve to achieve an occasionally stable equilibrium within the tussle of political powers between various fractions.

Rates: Slippery Fronts and Steep Ends

With 10-2Y spread now below 30bps, **curve steepening remains the favored base case in 2025 with the spread returning to the 40-60bps range**. On the front end, there is room for a 25bp policy rate cut by the BoT and still remain in their ‘broadly neutral’ zone. Admittedly, room for 2Y yields to head significantly lower on domestic factors alone may be rather constrained as market have already priced in 1 cut over the next 12 months. Nonetheless, as explained above, the fiscal trajectory remains an unenviable one especially given the lack of any planned fiscal consolidation and as such buoyancy above the 2% mark ought to be sustained for 10Y yields. That said, deference to UST yields imply that slippages below the 2% cannot be ruled out in a sharp Fed easing cycle. Even in that case, steepening remains on the card as front end yields would see a much sharper decline.



THB: Good Note, Tough Ride

The THB has been through a wild ride in 2024. After sharp depreciation pressures in H1, THB rode on JPY tailwinds to record outsized gains from expectations of a Fed pivot in Q3. Towards end 2024, the THB fortuitously managed to stave off sharp losses for the year against a resurgent USD due to a confluence of BoT’s hold and a relief from fears over central bank autonomy in December amid some proxy relief from China stimulus.

Looking ahead, the THB’s potential for recovery among peers is diminished by its heightened volatility emanating from the risk backdrop. Notably, while tourism sector may not offset growth headwinds, it remains an important FX driver as a return to an even firmer current account surplus in 2025 sets it apart from deficit peers such as the PHP and IDR. Compared to these peers, the relative lack of rate cuts also enhances the attractiveness of the THB. However, THB’s volatility also mean that gains may fade abruptly leaving time sensitive investors vulnerable. All in, the THB remains vulnerable to the U especially in the early stages of Trump 2.0 amid fears of widespread tariffs.

FX Forecasts	Q1 25	Q2 25	Q3 25	Q4 25	Q1 26
USD/THB	32.9 - 35.9 (34.8)	33.8 - 36.2 (35.2)	33.4 - 35.7 (34.3)	32.7 - 34.9 (33.6)	32.6 - 34.6 (33.3)

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