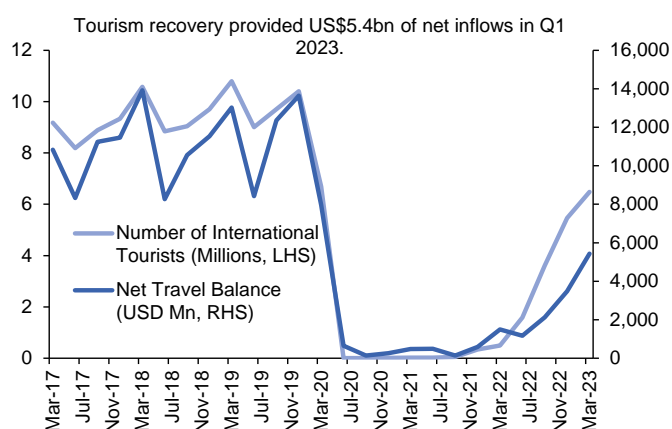


THB: The Political Uncertainty Premium

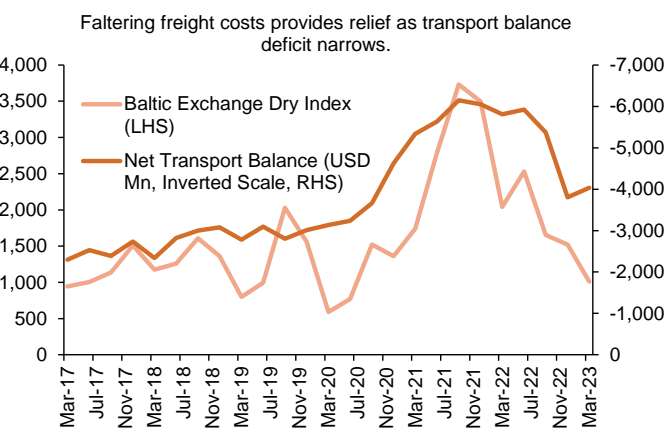
In a Nutshell:

- Given fading headwinds from sliding freight costs and substantial net travel inflows from tourism to around US\$5bn per quarter since the start of 2023, **one would expect the THB to be on an emphatic and discernible recovery path.**
- Admittedly, risks of delays to Budget 2024 may interrupt the economic recovery. But this is unlikely to be a significant driver of THB underperformance.
- Instead, almost certainly **the on-going political uncertainty, involving not just PM selection but possibly coalition government stability appears to be the main bugbear for THB.**
- Over and above the political uncertainty premium, THB underperformance is arguably **also a consequence of dented confidence due to corporate debt worries and fraud issues which have precipitated foreign equity and capital outflows.**
- While we remain **fundamentally constructive** on the THB, the ongoing uncertainty and drags will have to fade in order to allow a smoother recovery path.

Budding Tourism Tailwinds, Fading Freight Headwinds



Source: CEIC; Mizuho Bank



Source: CEIC; Mizuho Bank

Tourist arrivals have reached about two-thirds of pre-Covid 2019 levels in Thailand. In Q1 2023, the net travel balance **accrued US\$5.4bn of inflows**. Given that tourist inflows are projected to have remain steady in Q2 with incremental pick-up in H2, the bolster current account position ought to have provided tailwinds for THB recovery. What's more, headwinds from freight cost which resulted in peak deficit of US\$6bn of deficit in 2022 have begun to fade since late 2022/early 2023. Admittedly, while Q2's Baltic dry index had edged up from Q1, the **transport balance ought to still experience relief** from freight staying near recent lows. In addition, subdued oil prices also provide marginal relief on the energy import bill front.

Spillover Delays – Fiscal Budget

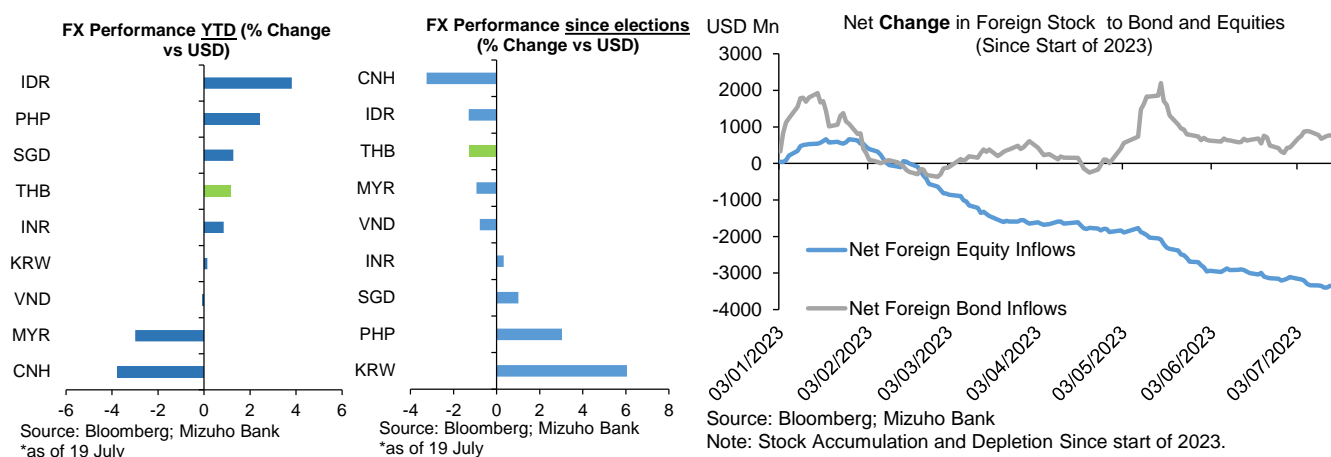
The delays of the new government formation will have consequent knock-on effects on the Fiscal Budget 2024 which was slated to be implemented on 1 October. If the government is not formed within this month, the Budget Bureau has estimated that the **delay would be around 6 months** due to the need for reconstructing the Budget and official estimates from the Finance Ministry has gauged the **economic**

impact to be mild at 0.05% point. The **subdued impact** on a standalone Budget delay is **not unexpected** given that government agencies' expenditure can proceed based on previously approved criteria.

The issue of their diesel price cap reflects the uncertainty from the lack of a new government. While the diesel price cap at 32THB/litre has been extended beyond July 20, it was based on **Oil Fuel Fund office which enhanced subsidies** to offset the ending of excise tax cut as the **interim government had no authority to prolong the excise tax reduction.**

The broader challenge is the clouded uncertainty over economic policy direction which ranges from possibilities of enlarged fiscal transfers to households to substantially higher minimum wages. While government agencies' spending can proceed based on previous Cabinet approvals and standalone Budget delays can be calculated economic risks, the uncertainty over policy direction inhibits business investment spending. Furthermore, uncertainty over lese majeste law triggers **worries over social unrest which could impact tourism recovery.**

THB – Releasing the Shackles?



Since our pre-election outlook (Mizuho Flash: Thailand Elections - Unsettled Continuity), it was indeed that the case which was flagged that “political risk premiums on the THB will be exacted” arising from uncertainty. While the THB has indeed appreciated by 1.5% YTD, the fact that these **gains were accrued prior to the May 14 General Elections is telling of the shackles which political uncertainty asserts.** Looking ahead, political certainty remains elusive with a myriad of outcomes. First, amid Move Forward Party's **Mr Pita suspension (announced on 19 July) of his MP status by the Constitutional Courts**, his prospects of securing the PM seat is in peril. Second, Pheu Thai Party's PM candidate Mr Srettha Thavisin is set to be nominated if Mr Pita fails in his second bid today. That said, in the event that the **Move Forward Party which garner the most votes during the election is excluded** from a coalition led by Pheu Thai Party, the **risk of social unrest is non-trivial.** The consequent third point is that the middle ground may be of a reduced MFP involvement in the coalition with a Pheu Thai PM.

Nonetheless, we are wary of over attributing THB weakness to the political climate especially considering the corporate scandals of listed companies on the Thailand Stock Exchange. Specifically, **foreign funds outflows from equities and bonds persisted** for much of Q2 2022. Rising borrowing costs worsening corporate debt servicing burdens and hit valuations while corporate governance issues dent confidence of investors. As such, **the THB which is on its fundamentally sound path to recovery will be inevitably be subject to fits and starts along the way.**

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