February 2009

Thai Economy

บริษัทหลักทรัพย์ ภัทร จำกัด (มหาชน)
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2009: Another Troubled Year

World Economic Outlook

	GDP growth, %			
	2007	2008F	2009F	2010F
Global and Regional Aggregates				
Global	**4.8**	**3.1**	**0.1**	**3.4**
Global ex US	**5.6**	**3.7**	**0.9**	**3.9**
G7	2.3	0.7	-2.9	1.9
Developed Markets	2.6	0.8	-2.8	1.7
Emerging Markets	7.8	6.0	3.6	5.3
Emerging EMEA	6.4	4.9	1.5	3.3
Emerging Asia	9.4	7.3	5.3	7.0
Latin America	5.6	4.3	1.5	3.1
Americas	3.1	1.9	-1.5	2.0
EMEA	4.0	2.2	-1.2	1.9
PacRim	7.5	5.2	2.9	6.2
PacRim ex Japan	9.1	6.9	4.8	6.6
G-7				
Canada	2.7	0.6	-1.7	2.4
Euro area	2.6	0.7	-3.1	1.5
France	2.1	0.7	-2.5	1.6
Germany	2.6	1.0	-3.5	1.4
Italy	1.4	-0.6	-2.6	0.9
Japan	2.4	-0.7	-4.2	4.2
UK	3.0	0.7	-3.2	0.8
US†	2.2	1.2	-2.6	1.5

	GDP growth, %			
	2007	2008F	2009F	2010F
Asia Pacific				
Australia	4.2	2.3	-0.3	1.8
China	11.9	9.1	8.0	8.3
Hong Kong	6.4	2.9	-2.0	3.6
India	8.9	7.9	5.8	7.5
Indonesia	6.3	5.7	4.0	5.1
Korea	5.0	3.8	-0.2	3.5
Malaysia	6.3	4.5	0.0	4.6
Philippines	7.3	4.3	3.1	4.5
Singapore	7.7	1.5	-2.1	4.2
Taiwan	5.7	0.1	-5.5	3.5
Thailand	4.8	2.9	-0.7	2.8
Latin America				
Argentina	8.7	7.0	1.6	2.1
Brazil	5.7	4.9	2.0	3.7
Chile	5.1	3.4	1.6	3.6
Colombia	7.5	3.2	2.0	3.0
Ecuador	2.5	6.6	1.5	2.3
Mexico	3.2	1.6	-0.1	2.5
Panama	11.2	8.4	4.6	5.3
Peru	9.0	9.1	4.2	5.2
Uruguay	7.4	10.8	3.4	4.0
Venezuela	8.4	4.8	1.7	2.5

Source: Banc of America Securities - Merrill Lynch estimates

Long and deep downturn ahead?

A long, hard slog

Peak-to-trough changes in severe financial crises*

	Cumulative change, %	Duration, years
House prices	-36	5.0
Equity prices	-56	3.4
Unemployment‡	7.0	4.8
GDP per person	-9.3	1.9

Percentage of years spent in banking crises

	Advanced economies	Emerging economies
Since 1800 or independence	7.2	8.3
Since 1945 or independence	7.0	10.8

*Argentina (2001), Colombia (1998), Hong Kong (1997), Indonesia (1997), Korea (1997), Malaysia (1997), Philippines (1997), Thailand (1997), Japan (1992), Finland (1991), Sweden (1991), Norway (1987), Spain (1977), US (1929)
†Excludes Japan ‡Percentage points, trough to peak

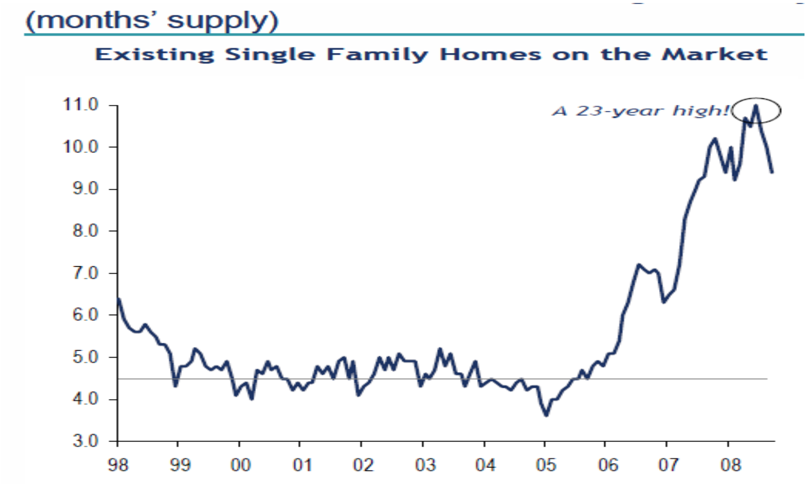
Source: Reinhart and Rogoff, *The Aftermath of Financial Crises*, 2009

Source: The Economist, 9 Jan 09

(Refer to Reinhart and Rogoff, The Aftermath of Financial Crises, 2009)

The analysis is based on 14 “severe” banking busts, including the Depression as well as the more recent “big-five” crises in the rich world—Spain in the late 1970s, Norway in 1987, and Finland, Japan and Sweden in the early 1990s. The sample also includes seven emerging-market crises.

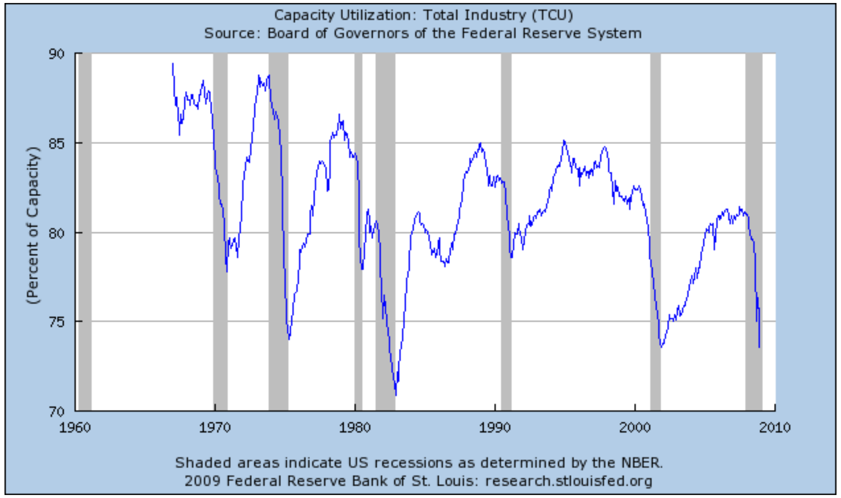
US: more downside



Source: National Association of Realtors, Census Bureau, Banc of America Securities - Merrill Lynch

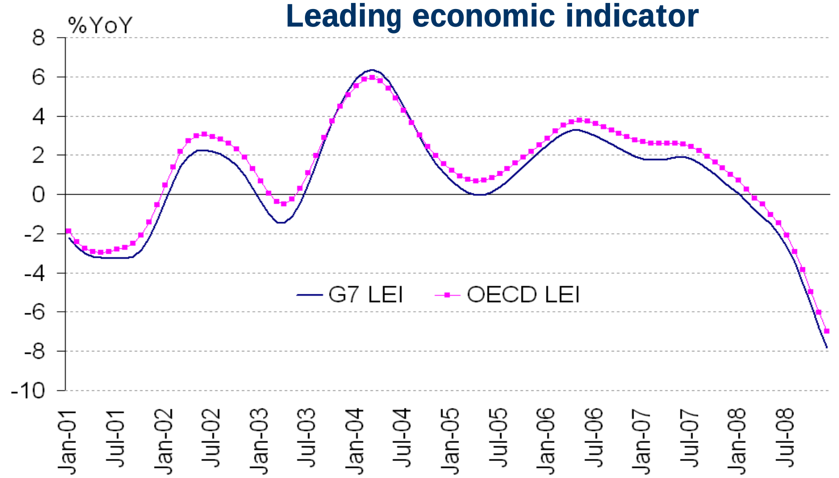
Inventory/shipment ratio

Source: Banc of America Securities - Merrill Lynch, Haver Analytics



Source: Federal Reserve

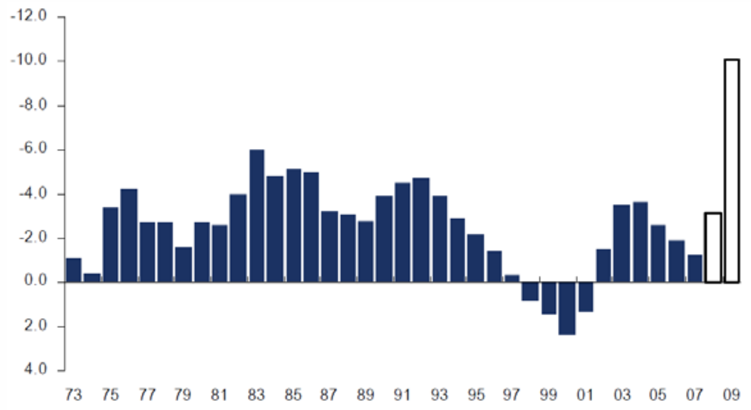
Leading economic indicator



Source: Bloomberg

US: President Obama's $787bn fiscal stimulus

Chart 16: Federal budget deficit to soar
Federal budget deficit/surplus as a share of GDP (inverted scale, percent)



Unshaded areas represent BAS-ML forecasts
Source: Office of Management and Budget, Banc of America Securities - Merrill Lynch

Table 1: Infrastructure Spending Timeline

CBO: Year Appropriated	Bln$	% Total
2009	$26	7%
2010	$110	31%
2011	$103	29%
2012	$53	15%
2013-19	$63	18%
	$355	**100%**

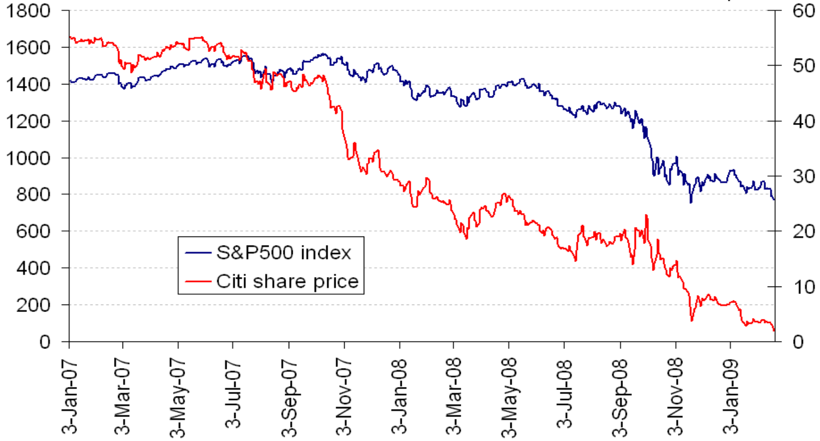
Source: CBO, Bloomberg News, Merrill Lynch

- Four main components:
- Social spending and subsidies (e.g. increased unemployment benefits, education and student loan subsidies)
- Tax cuts and increased tax deductions for low income and middle class
- Infrastructure investment (IT network upgrade for national health care; govt. building upgrades; roads, bridges and railways.
- Bernanke warning: Fiscal policy alone cannot bring about sustained recovery.

Democrat Congress-driven budget. President Obama and Treasury Secretary Geithner play supporting role.

US: Bank restructuring urgently needed

S&P500 and Citi share price



Source: Yahoo-finance

- Market was disappointed with Geithner's FSP announcement; bank stocks fell 17%
- Key details unavailable such as bad asset pricing and conditions for public-private sector participation.
- Concern over inevitability of nationalization which White House still denies

How soon will US govt. make tough decisions and re-privatize the banking system?

Federal Reserve becomes commercial bank(s)

$ bn	As of 08-Nov-07	As of 31-Dec-08	As of 18-Feb-09
Asset			
Securities held outright	**780**	**496**	**574**
Repurchase agreements	48	80	-
Term auction credit	-	450	448
Other loans	-	193	141
Other items (Commercial papers, central bank swap agreement)	62	**1,092**	**756**
Total Assets	**890**	**2,266**	**1,918**
Liability and capital			
Currency (net)	**782**	**853**	**858**
Repurchase agreements	36	88	71
Supplementary financing from UST	-	259	200
Institutional deposits and others	35	**1,023**	**747**
Capital	36	42	42
Total liability and capital	**890**	**2,266**	**1,918**

Source: Federal Reserve

US: Financial Stabilization Plan

Figure 3: Highlights of the Financial Stability Plan.

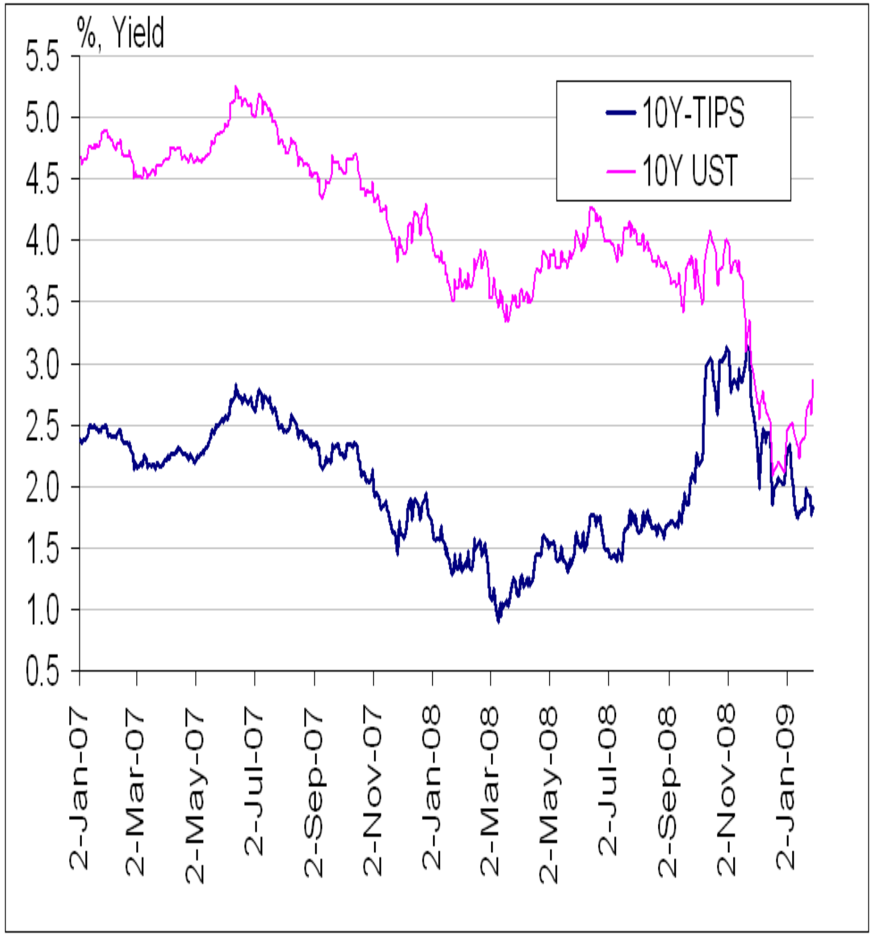
Financial Stability Plan (FSP)

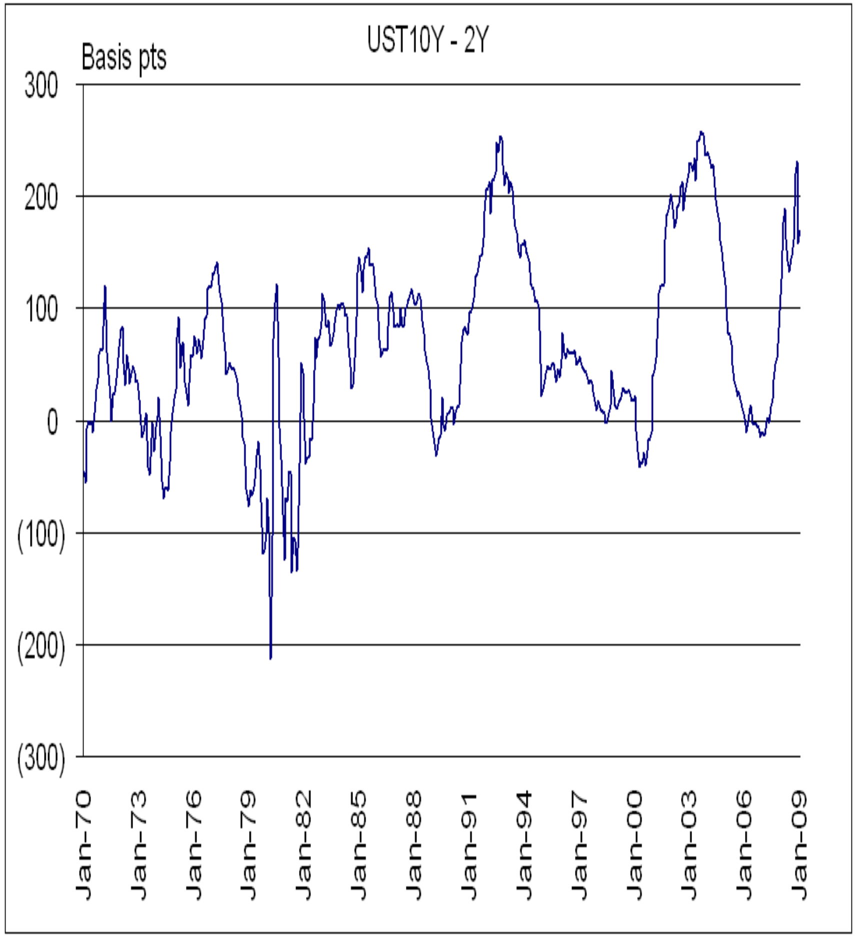
1. Financial Stability Trust
   - Holds investments made by Treasury under the Capital Assistance Program
   - Capital Assistance Program
     - Treasury provides "capital buffer" in the form of convertible preferred stock to help absorb losses after stress test
     - Preferred stock dividend to be determined; conversion price at a modest discount from stock price on Feb 9, 2009
   - Comprehensive stress test will determine if a bank has enough capital
     - Required for banks with assets exceeding $100 billion
     - Banks with less than $100 billion in assets will be eligible after supervisory review
2. Public-Private Investment Fund ($500 Billion - $1 Trillion)
   - Cleanse balance sheets of bad assets
   - Details are lacking but "using public financing to leverage private capital on a scale of $500 billion to $1 trillion
3. Consumer and Business Lending Initiative (Up to $1 Trillion)
   - Expansion of TALF up to $1 trillion from $200 billion.
   - Include CMBS in addition to consumer/SBA ABS. Work toward including other asset classes incl. non-Agency RMBS and CLOs
4. Transparency and Accountability Agenda - Including Dividend Limitation
   - FSP beneficiaries must show how assistance helps maintain or expand lending
   - As a general rule no dividends, share repurchases of acquisitions before the government is repaid
   - Firms have to comply with strict exec comp limitations including limiting senior executives to $500,000 plus restricted stock
   - Requires participation in mortgage foreclosure mitigation and prohibits political interference in investment decisions
5. Affordable Housing Support and Foreclosure Prevention Plan
   - Expansion (as necessary) of the GSE Debt & MBS Purchase Program
   - $50 billion for foreclosure prevention and requires that all FSP recipients to participate in foreclosure mitigation programs
   - Bring consistency and flexibility into loan modification process
6. A Small Business and Community Lending Initiative
   - Help SBA lending recover using the TALF, increased guarantee for SBA loans and fee reductions

Source: Treasury Department.

Fear of deflation has eased

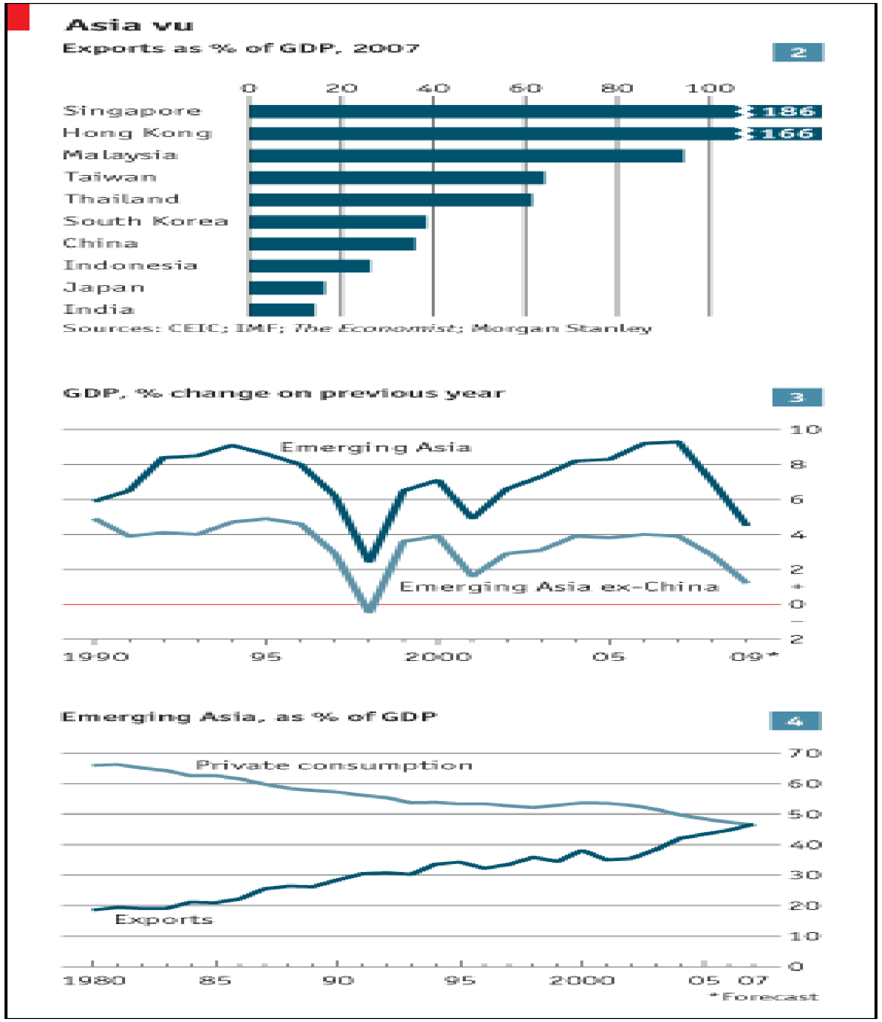
Bond market seems to be concerned over fiscal position rather than deflation



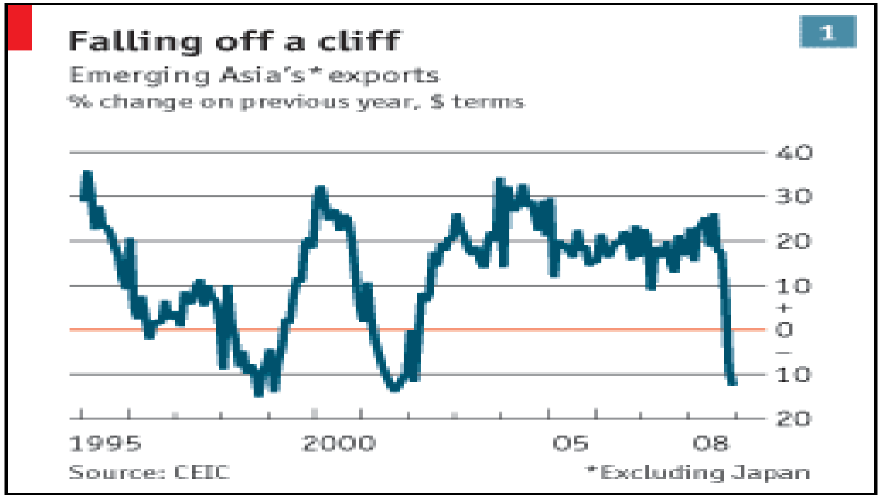


Source: Federal Reserve

Asia’s Vulnerability

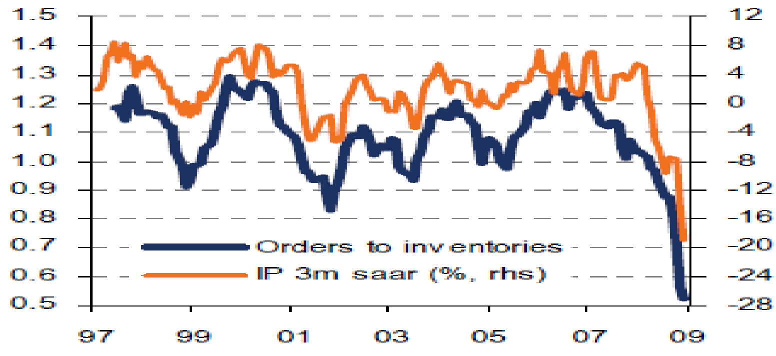


- Asia has become too export-dependent
- Current synchronized downturn of G7 shocked Asian economies
- Time for Asia to find a new engine of growth



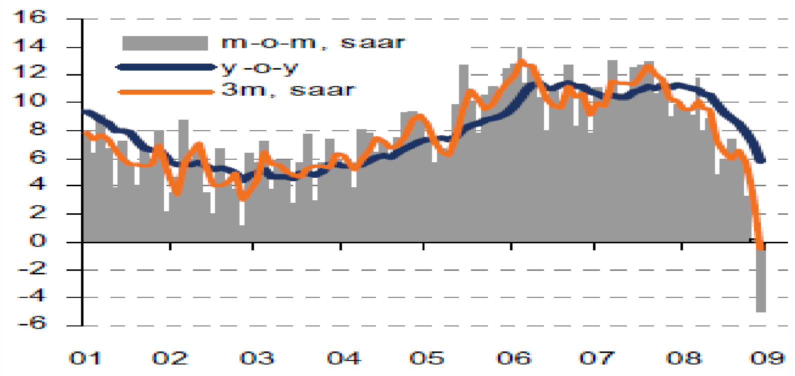
Europe: Deeper trouble than US?

Chart 14: Euro-area orders-to-inventories ratio and industrial production



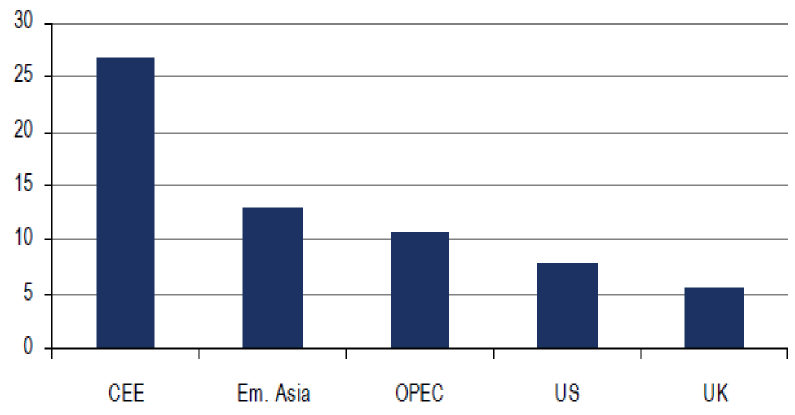
Source: Eurostat, European Commission, Datastream, Banc of America Securities-Merrill Lynch

Chart 17: Credit to non-financial private sector (%)



Source: European Central Bank

Chart 1: Contribution to the cumulated change in Eurozone exports from 1999 to 2008



Source: Banc of America Securities - Merrill Lynch

Table 1: Consolidated foreign bank claims on CEE countries in June 2008

	Austria	France	Germany	Italy
In $bn	286.9	158.5	209.8	208.5
In % of Domestic Credit	102.1	9.3	9.7	14.5

Source: BIS Quarterly Review, December 2008 (table 9B), Developing Europe excluding Turkey. ECB for domestic credit

China: early signs of pick-up?

Chart 6: PMI made a sizable comeback

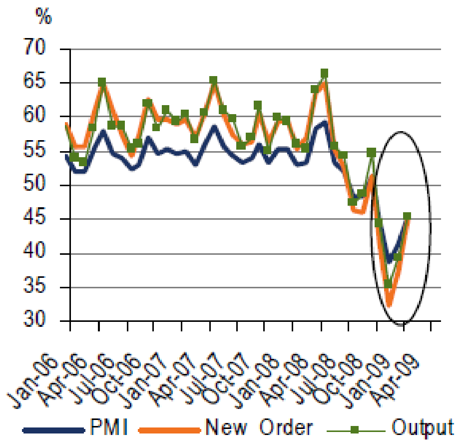


Chart 7: Credit growth has been accelerating

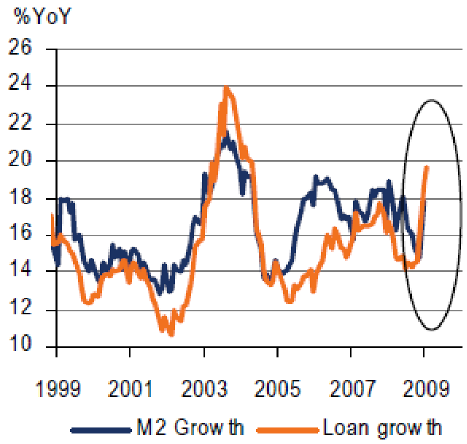
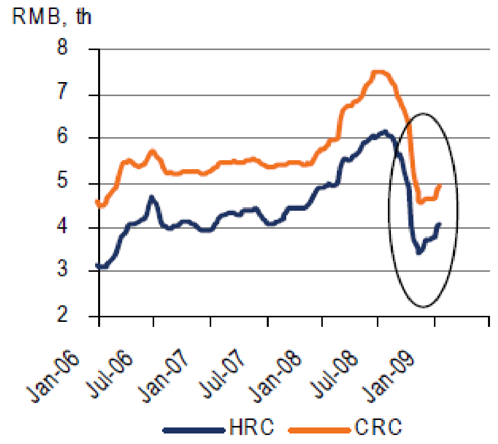


Chart 8: Steel prices are rising too



Source: Banc of America Securities - Merrill Lynch

- China should be the first major economy to recover, given its strong fundamentals (massive FX reserves, low debt levels, large current account surplus)
- Aggressive stimulus policies; 4trn yuan on infrastructure projects, liquidity injection and sectoral support from govt.
- However, China has to cope with 20 million jobs lost (2.6% of total employment)
- Small pick-up in some indicators is a good sign. Can it be sustained?

2009: Coping with global downturn

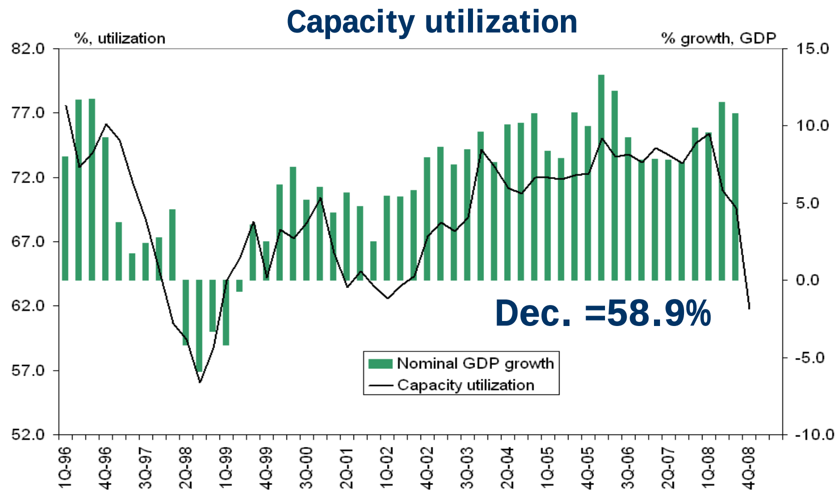
- Weak export a major negative surprise
- At current run rate, export contraction could take out 4.5% of GDP
- 2009 fiscal stimulus provides 50% offset
- 2010 fiscal stimulus to step back because of legal constraints.
- Investment the key to future upside and/or downside.

Thailand Economic Forecast

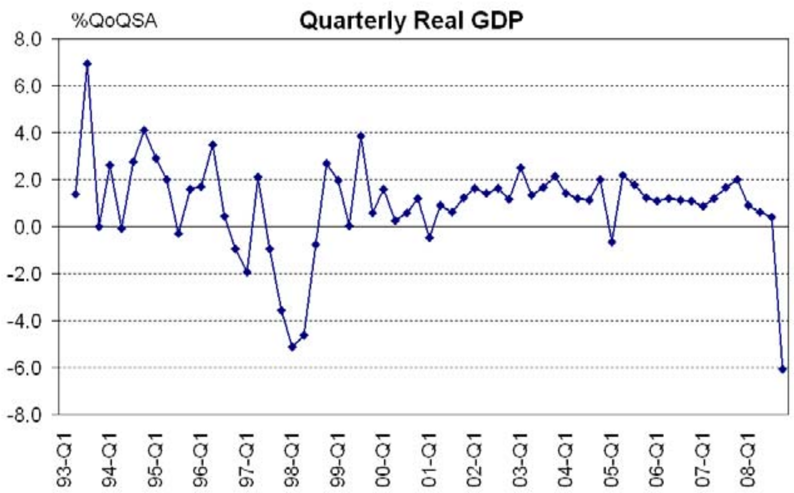
%YoY	2008	2009E	2010E
Real GDP	2.6	-0.7	2.9
Private consumption	2.5	0.0	2.5
Govt consumption	0.4	8.0	2.0
Total investment	1.1	-3.7	6.0
Private	3.2	-6.0	6.0
Public	-4.8	3.5	6.0
Headline CPI	5.5	-0.8	2.2
External balance			
Exports	16.5	-14.0	7.0
Imports	26.0	-16.0	10.0
Current account (US$ bn)	-0.1	3.6	0.1
% of GDP	0.0	1.6	0.0
Policy rate	2.8	1.0	1.0
Baht (end period)	34.7	34.0	32.0

Source: Phatra Securities estimates

Thailand: Utilization plunges, also GDP



Source: BoT



Source: NESDB

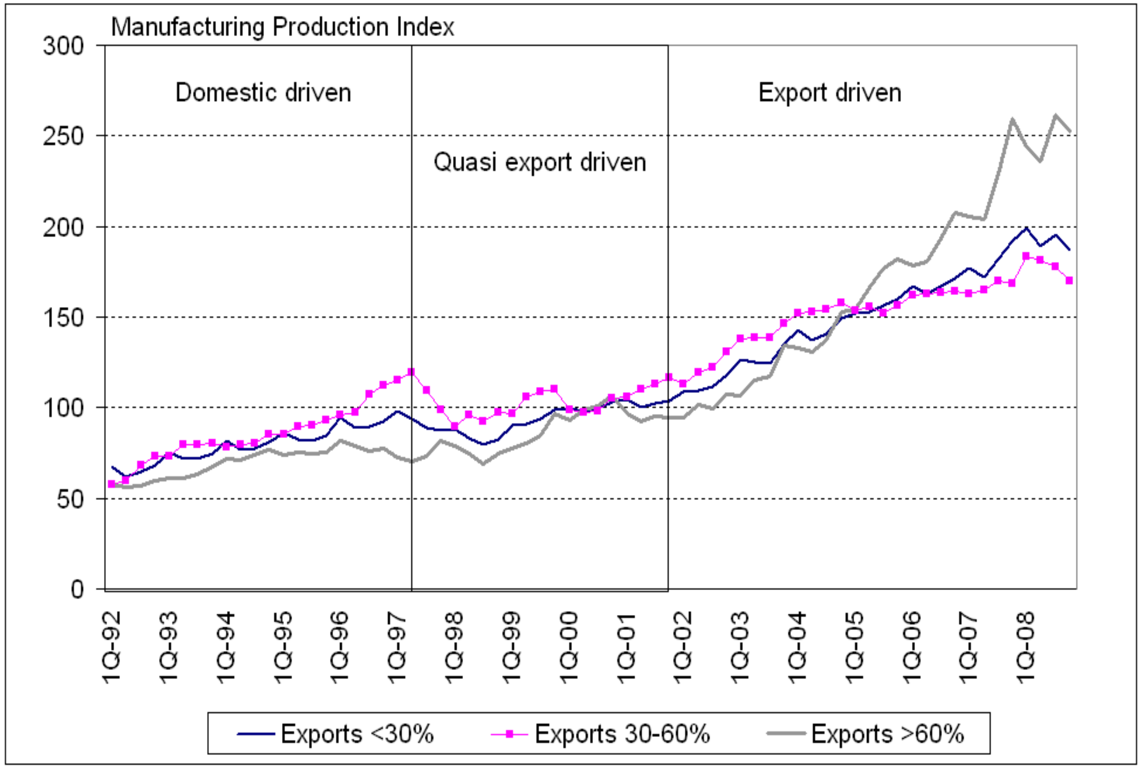
	4Q-07	3Q-08	4Q-08		
	%	%	%	YoY chg	QoQ chg
Capacity utilization	**74.7**	**69.6**	**61.8**	**-12.9**	**-7.8**
P.C.wire & P.C.stand wire	69.9	63.6	29.9	-40.0	-33.7
Upsteram petrochemical	97.0	88.8	62.7	-34.3	-26.1
Wire rod	58.2	42.6	24.4	-33.8	-18.2
Downstream petrochemical	103.0	92.4	70.6	-32.4	-21.8
Integrated circuits	**96.0**	**91.9**	**63.8**	**-32.2**	**-28.1**
Pulp	90.2	91.4	59.2	-31.1	-32.3
Printing & writing paper	101.2	96.0	71.0	-30.2	-25.0
Steel bar & shape steel	62.7	56.7	33.0	-29.7	-23.8
Computer	**57.9**	**36.6**	**29.5**	**-28.4**	**-7.1**
Craft paper	91.1	85.9	64.2	-27.0	-21.7
T.V.	**78.4**	**59.8**	**52.1**	**-26.3**	**-7.8**
Hot and cold rolled sheet	54.5	48.1	28.6	-25.9	-19.5
Hard disk drive	**93.2**	**77.9**	**68.9**	**-24.4**	**-9.1**
Battery	78.0	57.3	54.2	-23.8	-3.1
Commercial car	95.4	76.4	72.7	-22.7	-3.8
Intermediate petrochemical	102.4	97.6	80.1	-22.4	-17.5
Synthetic fiber	77.8	68.4	56.2	-21.6	-12.2
Steel Pipe	65.9	70.2	47.7	-18.2	-22.5

Source: BoT

Export-driven economy

Export dependency: Accumulated growth of production			
	1Q92-2Q97	3Q97-4Q01	1Q02-4Q08
Exports <30%	107.6	6.3	50.7
Exports 30-60%	-2.8	30.7	8.4
Exports > 60%	22.0	28.7	167.8

Manufacturing Production Index



Source: BoT

Refer to important disclosures at the end of this report.

1997 crisis for the rich vs. 2009 crisis for the working class

	GDP	Real GDP	Priv consumption		Investment		Exports		Imports	
	Bt bn	% Growth, YoY	Bt bn	% of GDP	Bt bn	% of GDP	Bt bn	% of GDP	Bt bn	% of GDP
1996	4,611	5.9	2,480	54	1,893	41	1,810	39	2,099	46
1997	4,733	-1.4	2,587	55	1,599	34	2,272	48	2,205	47
1998	4,626	-10.5	2,505	54	1,035	22	2,724	59	1,989	43
1999	4,637	4.4	2,595	56	966	21	2,703	58	2,120	46
2006	7,841	5.2	4,377	56	2,197	28	5,778	74	5,504	70
2007	8,493	4.9	4,562	54	2,247	26	6,218	73	5,544	65
2008	9,103	2.6	4,992	55	2,487	27	6,956	76	6,705	74

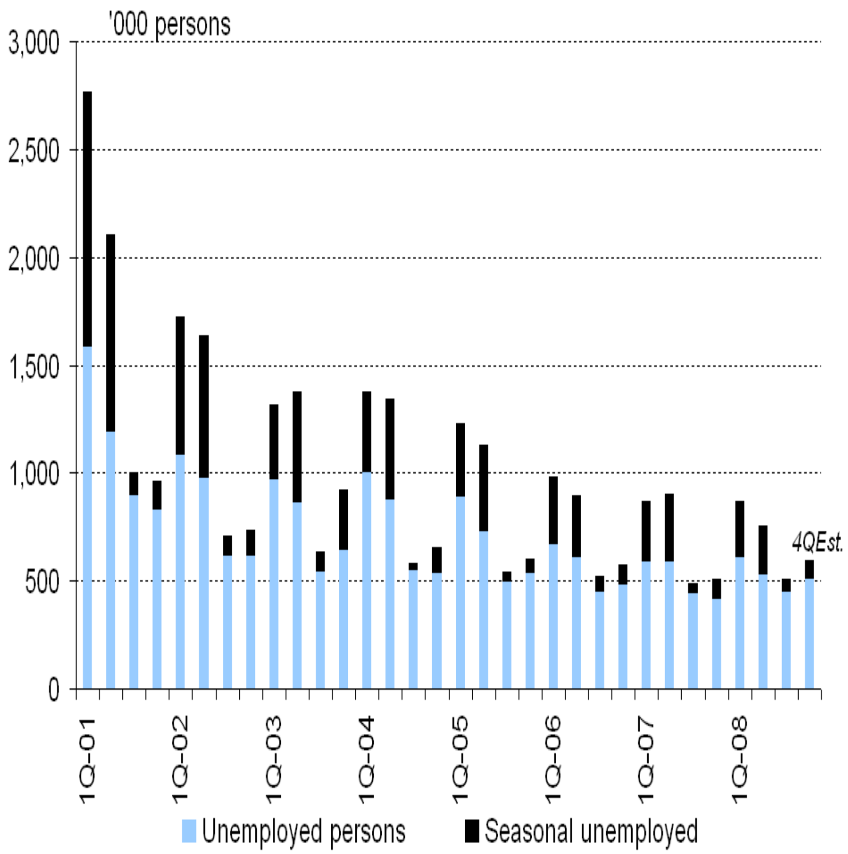
Source: NESDB

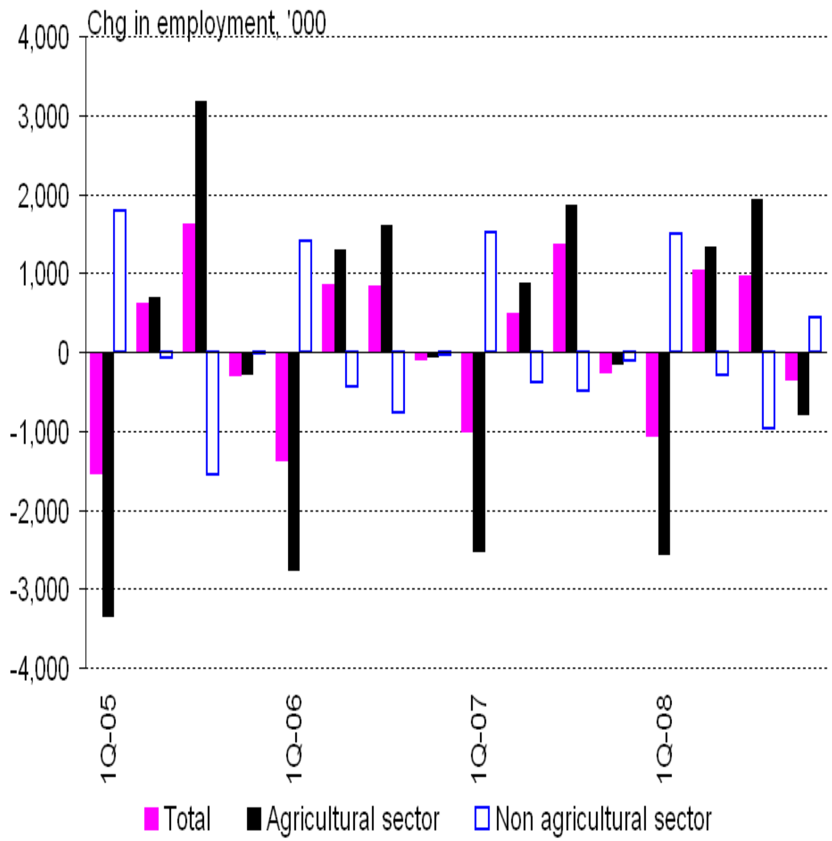
- 1997: Overleveraged banks and companies faced wealth losses. Decline in asset prices. Exports and agriculture came to the rescue.
- 2009: Shortage of effective global demand which is 2/3 of the Thai economy. Downsizing and layoffs with no offsetting demand in sight.

Source: NESDB, BoT

Unemployment: Problem only beginning

- In times of slowdown, 1/2mn rise in unemployed is possible
- 350,000 new entrants per year. About 1mn try to find urban work in 1Q



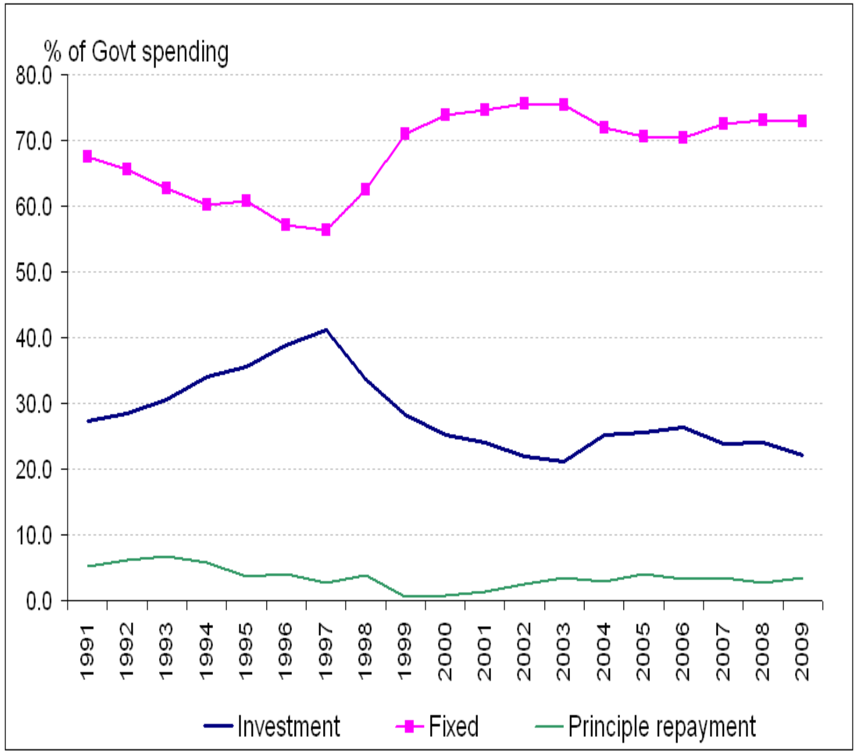


Source: NSO

Refer to important disclosures at the end of this report.

Govt. spending faces limitations

- FY09 deficit Bt475bn (Bt250bn planned deficit +Bt115bn supplementary spending +Bt110bn revenue shortfall.
- Limitation on govt. borrowing Bt715bn
  - Annual deficit Bt440bn
  - Foreign borrowing: room available Bt155bn
  - Guarantee SOEs borrowing: room available Bt119bn
- Fixed spending (wages, expenses, transfers, and interest payments) is 73% of budget. Little room for discretionary spending



Source: Budget Bureau

Worse-case scenario is much sharper revenue shortfall forcing govt. to try to collect more taxes or cut back investment spending in 3Q

Bt115bn Supplementary budget

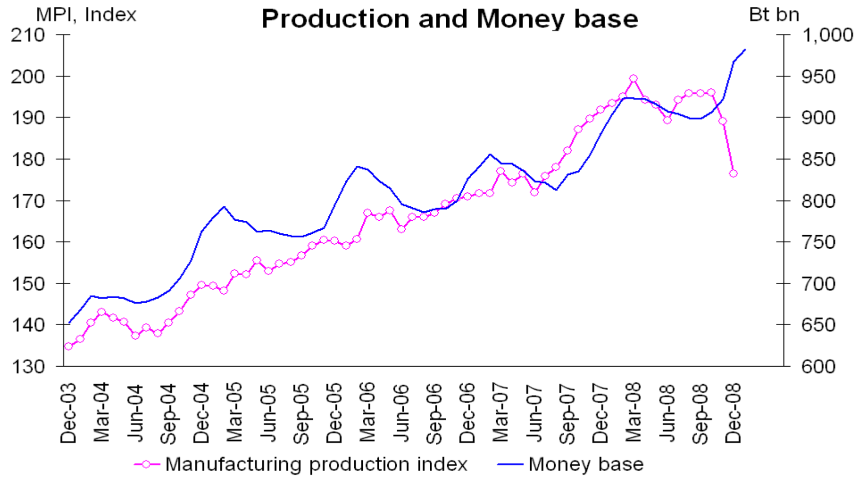
Supplementary budget allocation

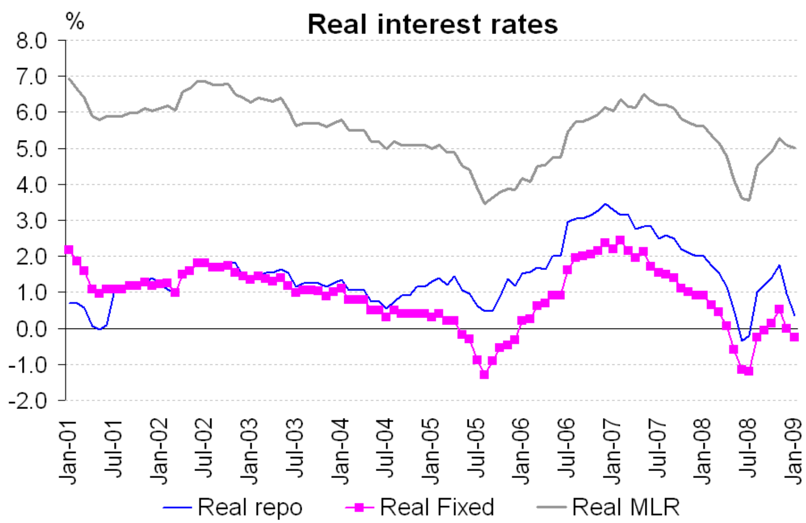
Program	Budget (Bt mn)
Rural	**23,556**
Agriculture water resources	2,000
Community water development	760
Village roads	1,500
Village fund	15,200
Rural healthcare workers support	3,000
Healthcare facilities/buildings	1,096
Democrat Populist Programs	**46,970**
Education subsidy	19,000
Grant for elderly	9,000
Grant for 9mn workers and 1.5mn civil servants and	18,970
Business	**1,500**
SMEs enterprises	500
Tourism	1,000
Cost of livings/Unemployed workers	**21,118**
Subsidised electricity/water/buses/trains (6 months)	11,409
Homes for police	1,809
Discount retail goods	1,000
Worker retraining	6,900
Others	**21,856**
Emergency budget	2,391
PR	325
Repay treasury reserve	19,140
Total	**115,000**

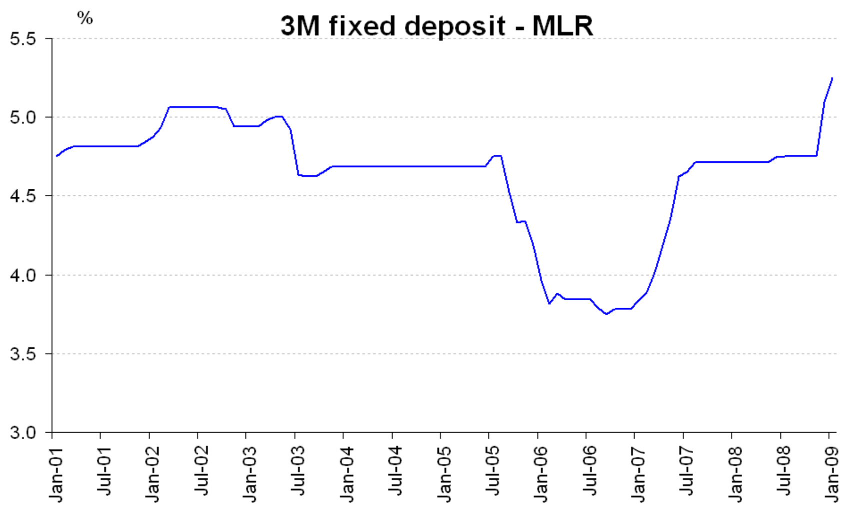
Source: Thai Government

- 1st fiscal package worth Bt115bn, equivalent to 1% of GDP. More populist than anti-recession.
- Little help for businesses or job creation. Soft loans being prepared
- Democrat populist program permanent. Coalition partners complain that they only receive crumbs.
- $2bn foreign loan being prepared as Plan B if 2H recovery fails to appear
- Bt2.2trn infrastructure projects under review. Same old projects but much more skepticism about implementation.

100bps cut to 1.0% in 2009; baht being weakened; real deposit rates turn negative







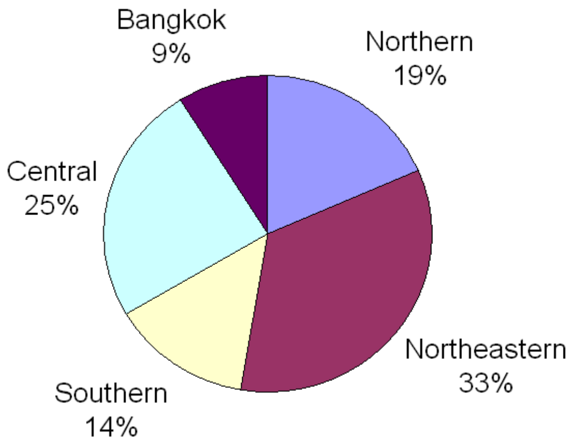
Source: BoT, Phatra Securities calculations

Refer to important disclosures at the end of this report.

Politics: Calmer for now

- Democrats are 'blessed by angels' and likely to do no wrong. Red shirts and Phuea Thai are disorganized. This means short-term calm.
- Three short-term political risks: Red Shirt demonstrations; Bt250mn from TPI; and Amnesty bill.
- Still, we believe the govt. will last only 1 year for 3 reasons: economic hardship will make govt. unpopular by year-end; some factions within Democrats unhappy; Democrats and coalition partners could part ways
- There are serious political divisions in Thailand that are being suppressed and not dealt with. Crackdown on thousands of websites for les majeste.

Members of Parliament by geographical area



Source: Phatra Securities estimates

Table 1: Government coalition

	No. of MPs	No. of Cabinet seat
Democrat	173	18
Chart Thai Pattana	25	4
Bhum JaiThai	32	7
Ruam Jai Thai Chart Pattana	9	2
Puea Pandin	16	4
Social Action	5	1
	260	**36**

Source: Parliament
Note: Puea Pandin has 32 MPs, however, 16 support the opposition Puea Thai party

Thailand: Main themes and challenges

- Crisis of the poor especially by mid-year
- Fiscal and monetary stimulus likely to fall short
- Absence of imbalances helps avoid economic crisis but suffering of the masses will be difficult to handle
- Short-term political calm; but do not be complacent
- Political division is real and can be difficult to manage in the long term

Important Disclosures