

For Exclusive CNBC Interview  
(after PAD Seized Int'l Airport )

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## Politics Landscape: Majority Rule ?!?



**Politics:** A new cabinet has been installed with **Thaksin's brother-in-law, PM Somchai** taking the premiership.

In the beginning, the leaders of the anti-government protests have shown some willingness to negotiate with the new government, but violence on the streets have again erupted.

The question of how long this government can last remains uncertain. **The ruling party PPP faces the risk of being dissolved.**

The court verdict could be made before the end of the year or latest early next year.

As the result, this could precede another election early next year.

# Thailand: Political risks rising after PAD seized Intl Airport.



- Street protesters organized under the banner of **the People's Alliance for Democracy (PAD)** have escalated their protest with the intent to force the government out of office by the end of the week.
- Last Wed, the PAD invaded the Suvarnabhumi International airport, Bangkok's main airport, to block PM Somchai's arrival from the APEC summit held in Peru over the past week. The action has led to suspension of all in-bound and out-bound flights from Bangkok, and closure of the airport until this evening. Major news agencies have also reported bomb explosions from within the airport, though we have been unable to confirm these reports.
- **The escalation in violence over the last 24 hours is concerning.** By taking control of a major transportation hub, the protesters' actions suggest that they are willing to take more bold and aggressive moves to oust PM Somchai despite the potential adverse consequences on the economy. So far, PM Somchai is reportedly refusing to resign or dissolve the parliament.
- In the past, the police and armed forces have generally taken **a non-confrontational approach** with protestors as they coalesced and camped-out in public and government spaces in Bangkok.

## What needs to happen to restore normalcy?

Q: Given the rapid developments in Bangkok in the past two days, the PAD taking over the airport and the military urging for early elections – what needs to happen to restore normalcy?

1. **No Magic Formula or Quick Fix !!!**
2. **The basic social choice is the gov't exists because people do disagree more often than not. To achieve long term peace and prosperity, majority rule is recognized, but the minority voices must be heeded.**
3. **Where is the silent majority ?**

# Additional Economic Challenges



Q: Thailand, like the rest of the world, is facing a difficult growth environment. Coupled with political unrest, what does that add to the economic challenges the country faces?

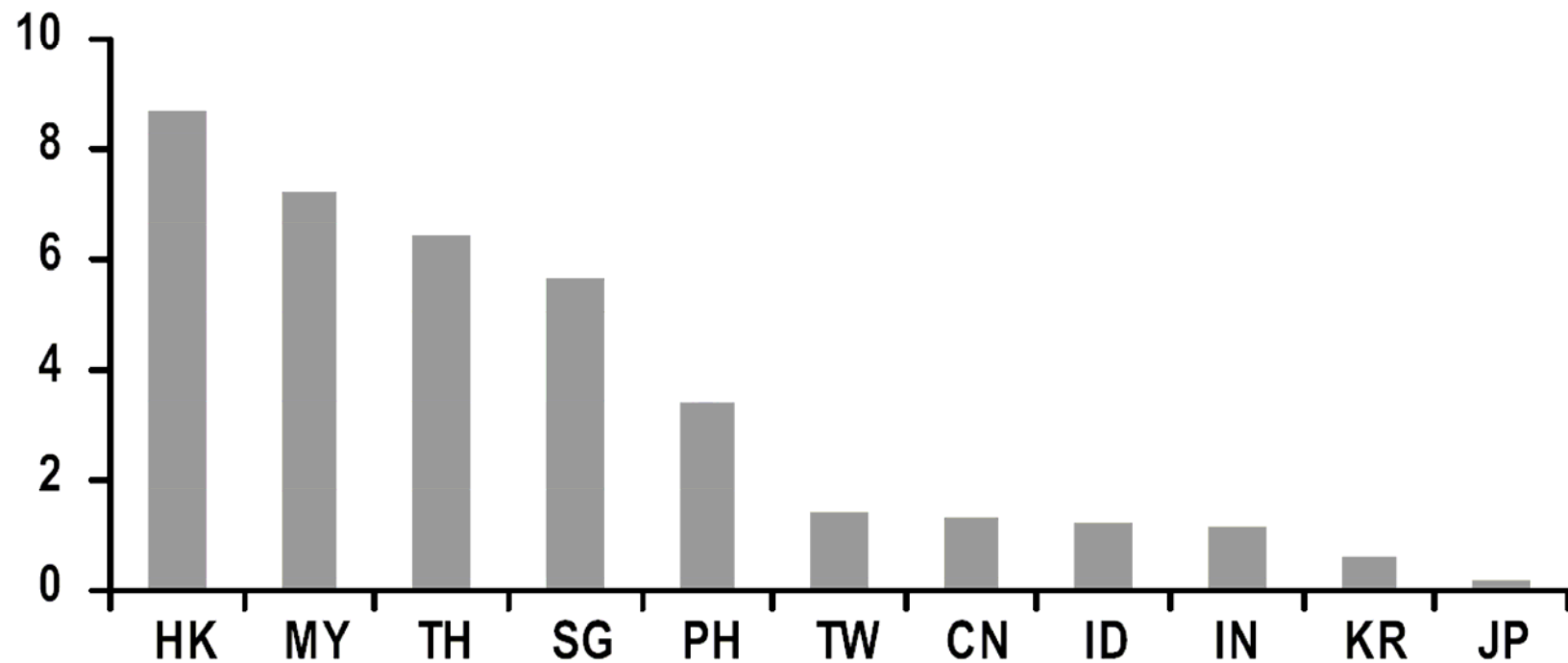
- **The escalation in violence over the last 24 hours is concerning.**
- Any international airport hub that is closed more than 48 hours would face serious adverse impacts.
- Thailand's tourism receipts account for almost 9% of the total current account receipts and are equal to roughly 6.5% of GDP (third highest in emerging Asia, see chart). Closure of the airport for any extended period of time will not only place these revenues at risk as we head into the holiday travel season toward year-end, but it also will disrupt business travel.
- Hopefully, the situation should be resolved peacefully very soon.
- **Reputation damages** should be managed professionally afterward.

We have a bit of experience in this field after many repeated nature made or man-made disasters in recent years.

# Fig 1: Emerging Asia—Tourism revenues



% of 2007 GDP, (China, Indonesia, and Japan 2006)



Source: J P Morgan (Nov. 27, 08)

# -What do you say to foreign investors? Interest Rate, THB & FX Reserve



- **Interest rate outlook:** The probability of a rate cut has risen. Inflation has come down sharply and is likely to stabilize from here. Importantly, inflation expectations have now eased significantly. This gives the BoT more flexibility to re-focus on growth.
- **From a currency perspective, the ongoing political uncertainty and associated risk of intensifying tensions will continue to have a negative bearing on THB and will make a near-term test of USD/THB 36.00 a credible target.** Gradual THB Adjustment is sensible in line with the region.
- THB FX volatility is so far being **moderated** by the absence of speculative positions and the active management of the Bank of Thailand to smooth volatility (as of Oct 2008 foreign currency reserves stand at USD101bn). So far, fx flows have remained relatively light through out today's events
- **Total FX Reserve = USD104bn = over**
- Any actions leading to violence, or another coup, would be viewed **negatively** by markets. But this should be **short live** judging from our long history.

## Fig. 2: Asian official foreign exchange reserves – Ample for ABC Bank & ACU



US\$ billion, eop

	2007	2008f	2009f	Jun 08	Oct 08 <sup>1</sup>	Change <sup>2</sup>
Total	2,979	3,408	3,662	3,352	3,277	-74.6
<b>China</b>	<b>1530</b>	<b>2066</b>	<b>2296</b>	<b>1809</b>	<b>1906</b>	<b>96.8</b>
Hong Kong	152.7	153.0	163.7	157.6	154.9	-2.7
India	299.6	274.5	279.0	302.1	244.0	-58.0
Indonesia	53.6	46.1	41.1	59.5	50.6	-8.9
Korea	264.0	176.0	166.0	258.1	212.3	-45.8
Malaysia	90.4	94.4	106.4	125.8	100.2	-25.6
Pakistan	14.0	4.5	1.5	11.3	8.3	-3.0
Philippines	30.2	33.2	32.0	36.7	35.7	-1.0
<b>Singapore</b>	<b>164.9</b>	<b>156.7</b>	<b>162.2</b>	<b>176.7</b>	<b>162.2</b>	<b>-14.5</b>
Taiwan	270.3	279.5	286.5	291.4	278.2	-13.2
<b>Thailand</b>	<b>85.3</b>	<b>99.8</b>	<b>101.8</b>	<b>103.0</b>	<b>103.2</b>	<b>0.2</b>
Vietnam <sup>3</sup>	23.6	24.0	25.5	20.9	22.0	1.1

1. September data for China, Pakistan, and Vietnam

2. Percentage point change from June to October

3. Estimate

Source: JPM, Nov. 08

### Figure 3. Thailand – Outstanding Net International Reserves, Monetary Base, and Liquid Foreign Exposures (October 2008)

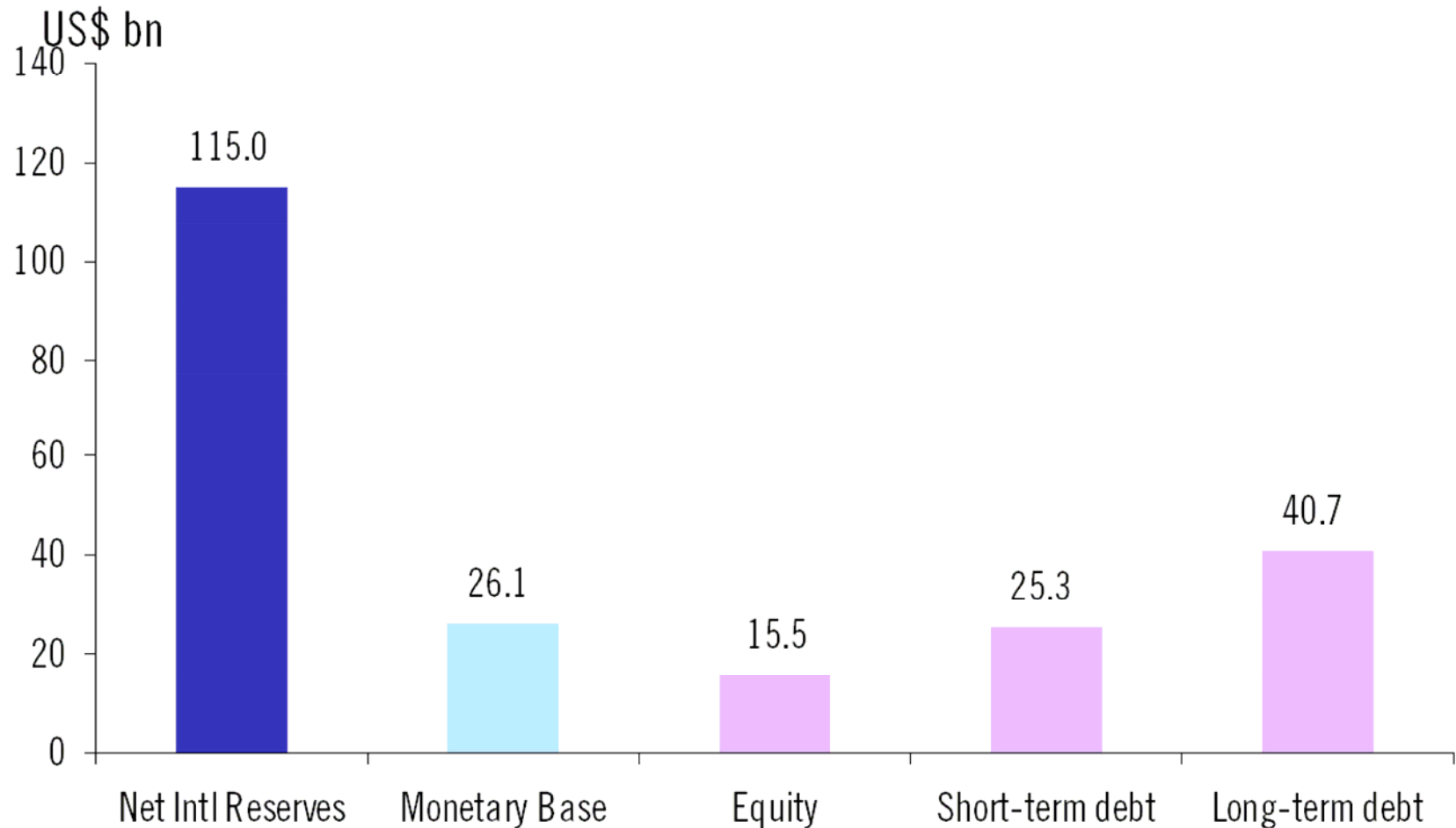


Figure 3 shows only 18.8% of net international reserves are used as monetary base. Excess reserves are easily matched by foreign equity and short-term debt outflow without disrupting domestic liquidity.

# -What do you say to foreign investors?

## Credit Default Risk & Sovereign Risk



- **From a sovereign credit perspective**, as alarming as the headlines may be for other asset classes, external debt has long been indifferent toward idiosyncratic risk in Thailand.

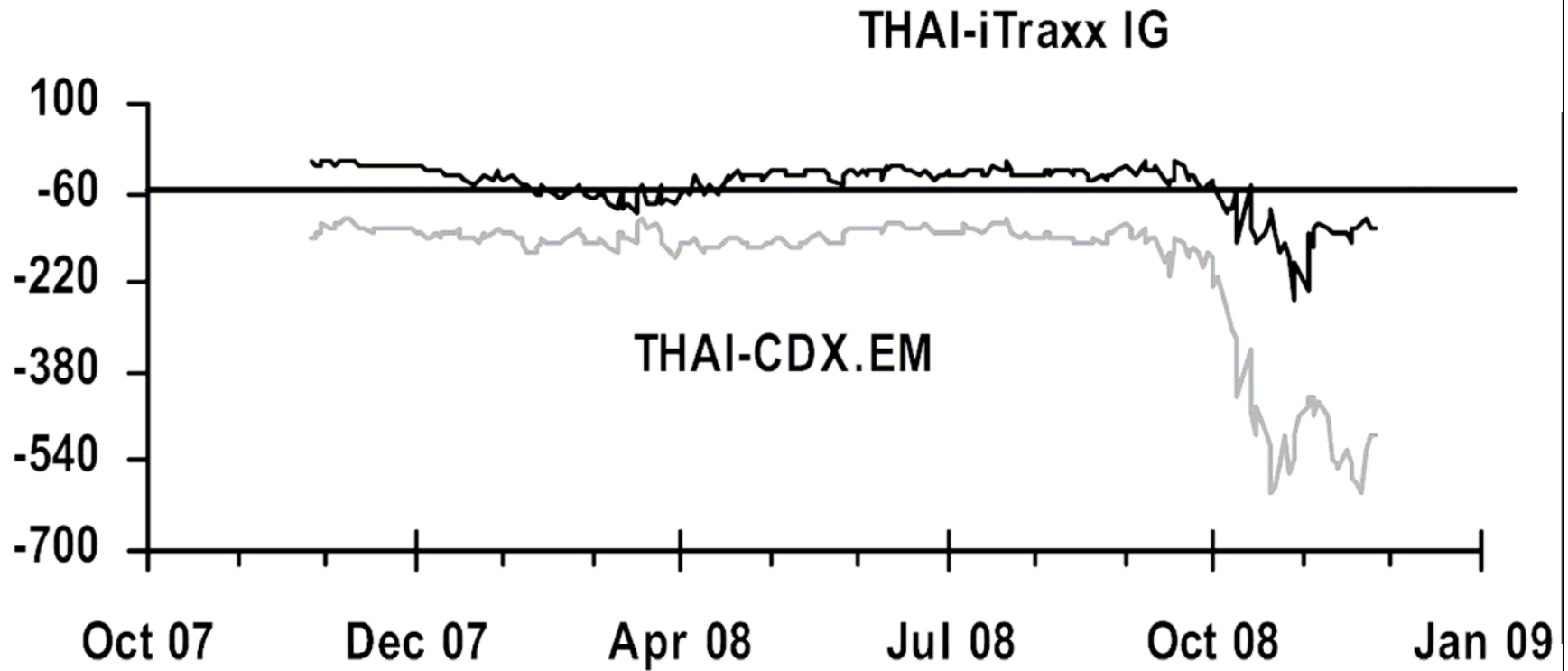
The government's outstanding foreign currency bonds are worth approximately US\$957 mn, of which US\$237 mn is due before the end of 2009.

- **Total government external debt is about US\$12.6 bn. When taken in the context of foreign exchange reserves totalling US\$104 bn, these numbers have consistently failed to breach the market's threshold of concern.**
- This attitude is reflected in the credit market's apathy toward the steady deterioration in Thailand's political situation: the sovereign CDS have become **relatively "safe"** both within Asian and compared to global emerging market CDS (second chart).
- Absent a more severe impact on THB and the broader economy from the current political turmoil, it could be difficult to identify the breaking point in the elastic quality of Thai sovereign CDS spreads.

# Figure 5: Thailand—CDS spread



basis points



Source: J P Morgan (Nov. 27, 08)

# Any other areas you would like to discuss?



- Thailand is a peace-loving country.
- Over the last hundred years, Thailand had abolished slavery and ended absolute monarchy *without* civil war.
- In parliament democratic system, all Thai people still have very high respect to our constitutional monarchy. The institution has been tested and endured in nearly all imagination political economic conditions.
- In short, the monarchy has *evolved* over the last 700 years.

# END

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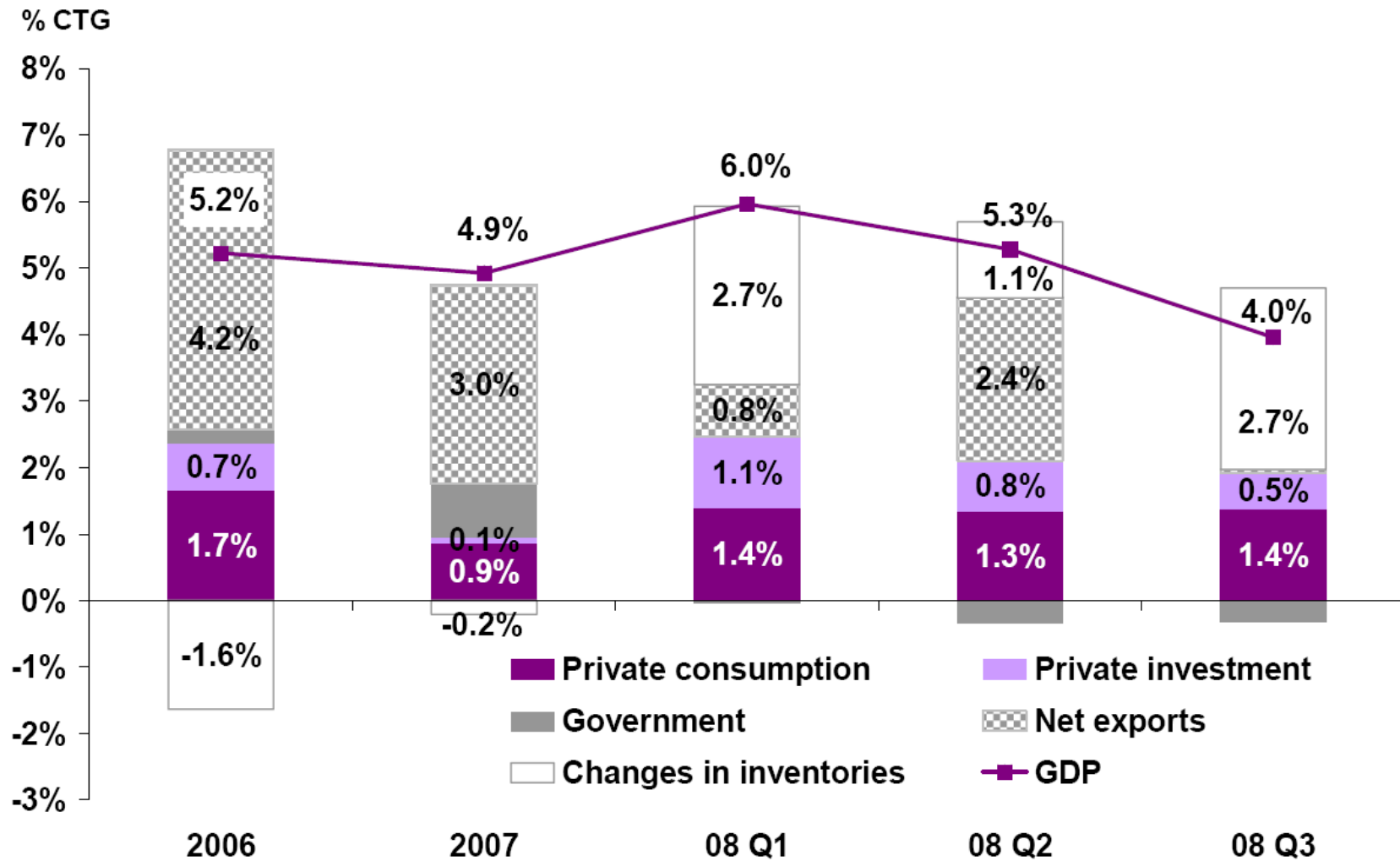
# Exhibit 1: Demand-side GDP breakdown



Components	Growth (%YoY)		Contribution to Real GDP growth	
	2Q08	3Q08	2Q08	3Q08
Private Consumption	2.5%	2.6%	1.3%	1.4%
Government Consumption	-3.7%	-2.9%	-0.3%	-0.3%
Gross Fixed Capital Formation	1.9%	0.6%	0.5%	0.1%
Private Investment	4.3%	3.5%	0.8%	0.5%
Government Investment	-5.2%	-5.5%	-0.3%	-0.4%
Exports	9.1%	8.2%	6.3%	5.9%
Imports	6.9%	10.5%	3.9%	5.9%
Net exports	18.3%	0.3%	2.4%	0.0%
Change in inventories	-339.6%	-357.9%	1.1%	2.7%
<b>GDP</b>	<b>5.3%</b>	<b>4.0%</b>	<b>5.3%</b>	<b>4.0%</b>

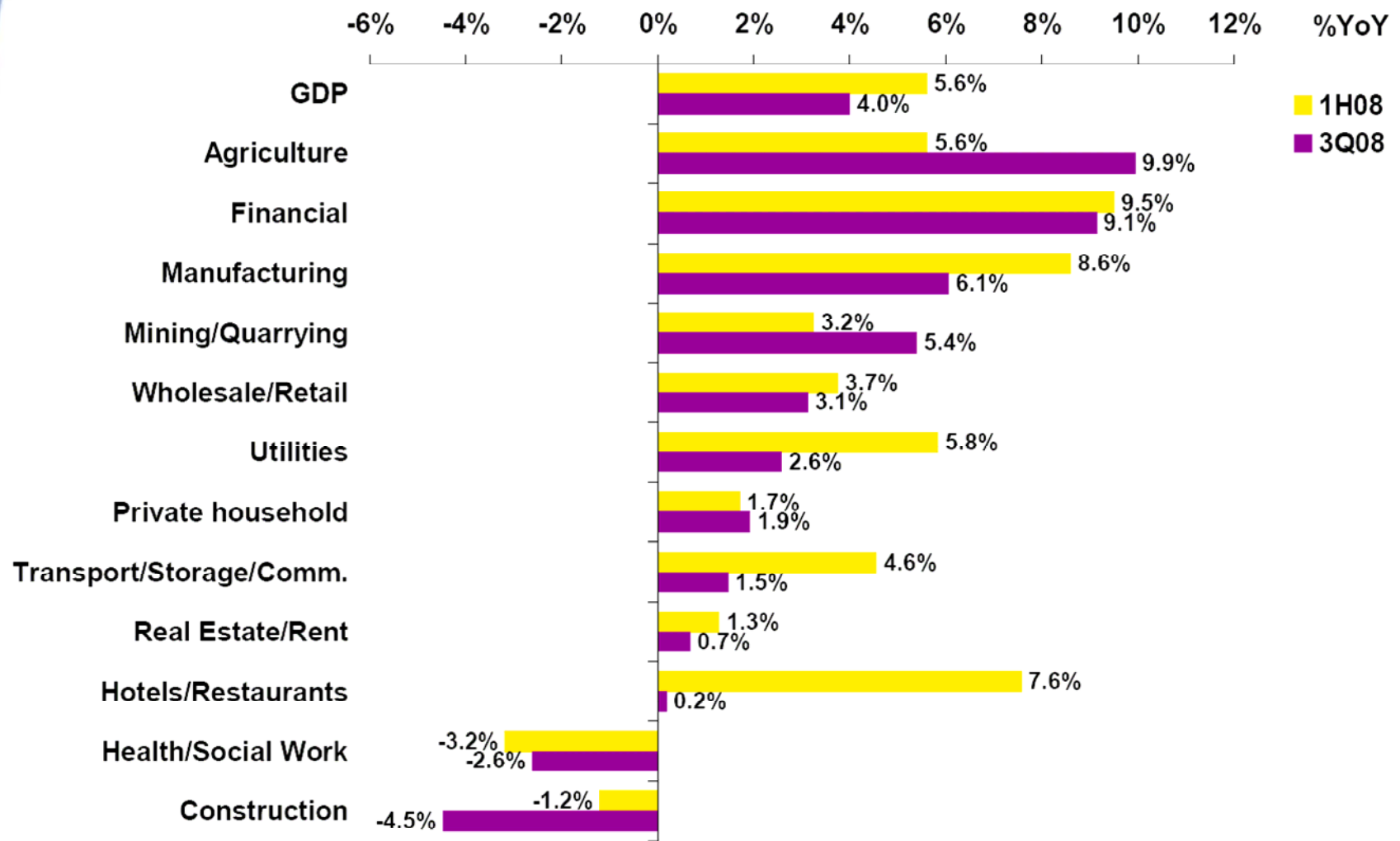
Source: NESDB; SCBS Investment Research

# Exhibit 2: Contribution to real GDP growth



Source: NESDB; SCBS Investment Research

# Exhibit 3: GDP growth classified by industry



Source: NESDB; SCBS Investment Research