

Thailand: The Reality of Thai Boxing




Microscope

As a matter of fact, political turmoil since a 2006 coup has compounded Thailand's economic woes as rival demonstrators seized airports, streets and government buildings in the past year. Anti-government protesters have pledged to continue targeting Abhisit, who they say lacks a popular mandate to govern. But Kasikorn Research Center (KRC), a leading Thai research house, which said in a recent report that the government's role is crucial to the economic recovery, amid the continued weak demand in the private sector. Nevertheless, Suthep, deputy Prime Minister for security affairs admitted that dealing with pro-Thaksin movement was not easy as they had major target to overthrow the government. Although it is seen obvious here that the domestic political conflict might not end soon, from an economic perspective, the existing coalition government wants to be in position at least for another year in order to make sure key policies, including government's measures to boost economic recovery, are implemented before a general election is called. Accordingly, that should give the government sufficient time for political reform. 

Thailand's benchmark stock index has surged over 50% from this year's low in March as major manufacturing companies from Hana Microelectronics Pcl to Delta Electronics (Thailand) report higher orders. The economic situation is quite promising now as the central bank has kept its key interest rate unchanged at 1.25% for three meetings after four cuts from December to April while a brighter global outlook bolster economic prospects. Thailand's parliament approved at the end of last month the budget for 2009/10 with a lower fiscal deficit than the current year, although some stimulus spending to help the economy has been kept out of the fiscal calculation, according to Reuters. The 1.7 trillion baht (US\$50 billion) budget bill, proposed by Prime Minister Abhisit Vejjajiva, is about 13 percent lower than the current year's budget. The planned deficit for 2009/10 (Oct-Sept) will amount to about 3.8% of

GDP, versus over 5% this year. It is expected to clear the final legislative hurdle in September. The government also says it will inject 200 billion baht (\$5.9 billion) into the economy by the end of next year to bolster growth as a revival in export orders helps the nation recover from its first recession in a decade. The spending will boost economic growth by as much as 2.5% a year, according to Finance Minister. As a result, GDP will expand in the fourth quarter from a year earlier as the spending kicks in this month and overseas demand improves. In fact, the economy shrank 4.9% in the second quarter from a year earlier, after contracting 7.1% in the previous three months. Though Thailand's economic fundamental is strong, Fitch Ratings has expressed that the country might experience a prolonged period of the political instability. In April 2009, Fitch Ratings

downgraded Thailand's sovereign ratings to "BBB" from "BBB+" basing on the assessment that the continued political disorder has undermined the functioning of government, which might impact the country's medium-term growth, especially the increasing cost of borrowing as well as higher cost of equity capital when companies issue new shares to raise funding. Nevertheless, Abhisit's coalition, which took office in December, won parliamentary approval in July for 800 billion baht of borrowing to help finance a 1.43 trillion baht stimulus package and fiscal deficits over the next three years. In addition, Finance Minister has said 800 billion will be raised locally, either through government bonds or loans from commercial banks, indicating the power the existing coalition government. 

MARKET BRIEFING


YTD % (local curr)

US DJ	9,605 (9.4%)
Nasdaq	2,080 (32.0%)
Euro Stoxx 50	2,831 (15.5%)
HSI	21,161 (47.1%)
Japan NK225	10,444 (17.9%)
China Shanghai Composite	2,989 (64.2%)
Singapore	2,681 (52.2%)
India BSE30	16,264 (68.6%)
Brazil BOVESPA	58,366 (55.4%)
Aus All Ord	4,596 (25.6%)
US-10yr Bond	Yield 3.35%


As at 11/09/09

Insight: "Quantitative Easing"

Quantitative easing is similar to "printing money", which can have same impact by cutting interest rates. Normally, a central bank stimulates the economy by lowering interest rates. When it cannot lower them any further, it can attempt to seed the financial system with new money through quantitative easing. That is to say, quantitative easing implies an extreme form of monetary policy used to stimulate an economy where interest rates are either at, or close to, zero. Examples of economies where this policy has been used include Japan during the early 2000s, and the US and UK during the global financial

crisis of 2008-2009. Practically, the central bank purchases financial assets, including government paper and corporate bonds, from financial institutions and banks using money it has created out of nothing. This process is called open market operations. The creation of this new money may seed the increase in the overall money supply through deposit multiplication by encouraging lending by these institutions and reducing the cost of borrowing, thereby stimulating the economic activity (usually the intended effect), increase inflation of prices, decrease the velocity of money, or a combination of these. However, every policy does have a cost. There is a risk that banks will still refuse to lend despite the increase in their deposits, and in a worst case scenario, possibly lead to hyperinflation. 

A-Z Financial Tools

Key man insurance is a life insurance policy purchased by a company to insure the life of a key executive. The policy is used in order to compensate any loss arising from death of the executive. The company is usually the beneficiary in case of the executive's death. In HK, the premium paid for the life policy without cash value may be tax-deductible. 



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