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- Starting the second half of 2015 with worldwide challenging from cash-strapped Greece and risk of equity bubble unfolded from severe decline in China's stocks at the beginning of July. Global sentiment worsened, and the market stepped into classic risk-off sentiment. Therefore, future movement on FX and interest rate markets will highly depend on Greece financial future and China's equity price trend.

- Key date to watch is July 12, the deadline for Greece to reach debt agreement with the lenders to be able to stay in 19-country currency union. The failure to reach the agreed debt proposal would deteriorate risk sentiment. That said, the euro could fall into a low of 1.07, the yen may rally toward 120level, and USD/THB could manage to be sustainable at 34.00level.

- USD/THB reached 34.00figure on July 8 as negative spillover from a plunge in China's equity underpinned the rise in USD/Asians. However, USD/THB struggled to maintain at and above 34.00 after the read of FOMC minutes released on July 9 showed dovish tone or policy makers were not ready to raise interest rate. Revisiting 34.00level is possible in a month if development in Greek drama and China stocks turned into lower investor risk appetite.

- Thai bond curve was bear steepening in June as the yields in the medium to long-end segments shifted higher, trailing a steep increase in Treasury yield as a consequence of bond selloff after Greece PM Tsipras unexpectedly requested to extend the IMF deadline and called for Greek referendum on July 5. However, Treasury subsequently recouped losses and gained on the flight to safety after the win of voting 'no' amplified Grexit risk. Meanwhile, MoF bond switching also played part of steepening curve due to increasing duration.

- We still favor LB-19 govies in July. An appropriate strategy to avert higher volatility from external environments would be avoiding long-term bond or extending duration. In addition, supply story in 4Q15 remains a supportive factor for LB-19 bond. At the same time, headline inflation in June began to pick up despite year-on-year contraction. If inflation bottoms out in the second half of this year, holding longer term bonds will incur greater losses.

- On IRS side, the swap rates rose moderately in June but traded lower since the beginning of July. Foreign demand to receive fixed interest rate has capped gain on swap rates. We believe that entire July would be sufficient for realizing Greece's future, and the market will fully absorb the news on Greece and China. Anticipation of improving sentiment may underpin an uptrend of the swap rates.

**Our call**

| USD/THB | Policy rate | Fixed Income Strategy | THB IRS |
|---|---|---|---|
| **33.85-34.15** | **1.25%** | Recommend: LB-19 | 5-year: 2.40%<br>10-year: 3.00% |

**Key Events in July**

| Date | Country | Events/Data |
|---|---|---|
| 12-Jul | GR | Deadline for submitting debt proposal to Greece's creditors |
| 13-Jul | CH | Exports and Imports in Jun |
| 14-Jul | US | Retail Sales in Jun |
| 15-Jul | CH | 2Q15 GDP |
| 17-Jul | US | CPI in Jun and U. of Michigan Sentiment in Jul |
| 24-Jul | CH | HSBC Manufacturing PMI in Jul |
| 24-Jul | EC | Markit Manufacturing and Services PMIs in Jul |
| 27-Jul | US | Durable Goods Orders in Jun |
| 27-29 Jul | TH | Custom Trade in Jun |
| 30-Jul | US | FOMC Rate Decision and 2Q15 GDP |
| 31-Jul | JN | CPI in Jun |
| 31-Jul | EC | CPI in Jul and Unemployment Rate in Jun |

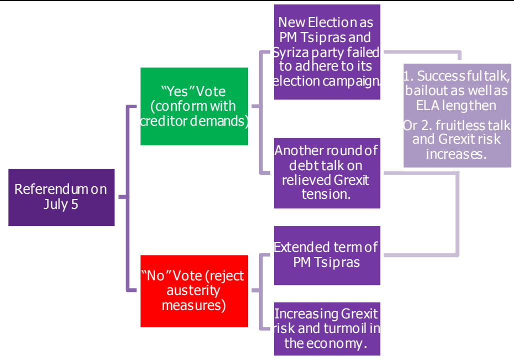
**Referendum on July 5; who was the winner?**

The market has experienced a roller coaster on the ambiguity of the final arrangement between Greece and the EU leaders regarding bailout program expired on June 30. Firstly, there was a silver lining that Greece may meet bailout demands after the meeting with creditors on June 22 when last minutes' proposal from Greece PM Alexis Tsipras was welcomed by EU leaders and the euro surged to 1.14high on the optimism, not to mention global equity and peripheral bonds. Positive headline was proved short-lived after the proposal was rejected by Greece's parliament on June 24. The situation was getting worse as debt talk stepped backward while the deadline of aid fund stepped forward. Greek drama has become more intense after Tsipras unexpectedly brought an extended deadline for bailout program beyond specified June 30 on the table of debt talk on June 26, and this request was unacceptable by the lenders.  Furthermore, Greece missed bundling debt payment on the same date of IMF bailout deadline.

After shock effect unfolded when PM Tsipras announced the cash-strapped country will hold a referendum on austerity on July 5 to see whether Greek citizen will accept austerity measures. The IMF lost patience after 5-month negotiation was fruitless and the real pressure on political game turned on. "Yes" vote means Greece will be abided by bailout conditions, and "no" vote is an opposite direction. Implication to yes vote would mean leftist Syriza party led by PM Tsipras is a loser of the game of thrones as the winning election campaign was anti-austerity measures. Therefore, the new round of debt negotiation and election can be expected from voting yes. Grexit risk would also diminish from the vote. On the other hand, favor of "No" vote means Greece rejects austerity measures, extending the term of left-wing government. Further negotiation for voting "no" result, however, would create disastrous loss to Greece economy and financial markets as it elevates risk of Grexit. In addition, the shared economy would inevitable receive the spillover from an exit from eurozone. Grexit would destroy the economy in terms of potential hyperinflation and sharp rise in borrowing cost as well as skyrocketed unemployment rate. Hyperinflation may occur if Greece has to print its own money, drachma, to repay debt, disburse pension and other government expenses. Relative low credit currency compared with the euro would require a significant higher value of local currency than the euro for the same amount of repayment denominated in the euro to compensate higher risk of drachma currency. Zimbabwean dollar is a good example in this case of hyperinflation and surging unemployment rate in 2006-2009 when Zimbabwe printed its own ZWD money for its own use, and the failure of this currency caused a phasing out from using ZWD and replaced with USD, the euro, and ZAR.

The wining of vote 'no' on July 5 increases Grexit risk , and impatient eurozone lenders led by Germany Chancellor Angela Merkel and France President Hollande stressed Greece out by setting the deadline on July 12 to reach financial deal. If Greece fails to receive the approval deal, the steps taking to an exit from eurozone will be provoked. The hope that Greece will stick with common currency was not high until the debt proposal submitted by PM Tsipras on July 9 in exchange for EUR53.5bn 3-year bailout fund. Next step reverts to Greece's parliament whether to accept the reform package on July 10. If the package is accepted by the parliament, there is a high possibility that the creditors will welcome this debt proposal within the deadline on July 12 and Greece will remain a member of 19-country union. Under this scenario, the market sentiment will rebound. Therefore, equity, EM assets, and EM currencies should pick up. On the other hand, inability to reach the deal on July 12 would lead to Grexit and deteriorating risk appetite, creating losses on risky equity and EM assets.

### Greece Scenarios after the referendum




*Source: SCB FM*

### The market impact on chaotic Greece

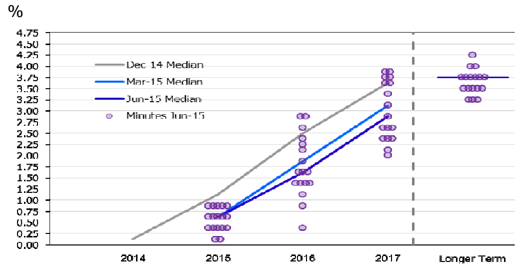
| Greece spillover | Given reaching deal on July 12 | Given failing to reach deal on July 12 | Remark |
|---|---|---|---|
| EUR/USD | Rising to 1.113 and next at 1.13 | Decline with first low at 1.1085 and next at 1.078 | EUR/USD may move lower if Greece is not able to reach deal on July 12 on elevating Grexit risk. |
| Yen, USD, Treasury, and core GB | Loss | Gain | Relative safe assets strengthen on back of flight to quality. |
| EM currencies, stock market, oil | Rising | Declining | Risky EM assets and stock markets will fall (rise) on deteriorating (improving) risk sentiment. |
| USD/THB | Unable to sustain at 34.00. | Rising above 34.00 | EM currencies rise (fall) with risk on(off) sentiment. |

*Source: SCB FM*

**Dotplots showed a gentle path of rate hikes**

The FOMC meeting on June 16-17 pictured short-term interest rate trend as this meeting provided new economic forecasts and Fed Funds rate projection. 2016 and 2017 Fed funds rate projections were revised lower to 1.625% and 2.875% signaling a gradual path of liftoff. FOMC statement side-by -side comparing with the statement on April 28-29 told us that economic condition improved from the first quarter contributed by labor market and household spending while other key readings have not seen any material changes from the meeting in April. Policy makers lowered GDP in 2015 to 1.8%-2.0% from 2.3% to 2.7% while forecasted GDPs in 2016 and 2017 were adjusted slightly higher.

### Dotplots in 2016 and 2017 were revised lower at June's meeting.




*Source: Bloomberg and SCB FM*

**USD/THB: Upside bias 33.85-34.15**

USD/THB traded higher within 33.53-33.98 range in June. The baht plunged to 33.98 on June 8 after report on June 5 showed U.S. change in nonfarm payrolls climbed to 280K positions in May. However rising USD/THB paused on June 9 and the pair consolidated in range of 33.55-33.80 for almost entire month after Thailand's MPC hold interest rate at 1.50% on June 10 without additional easing signal after the meeting. Extreme poor exports and imports data in May deepened slowdown risk as imports and exports contracted 20%YoY and 5%YoY, respectively. Furthermore, external environments kept most currencies traded with little interest as Greek drama muted trading activities amid uncertainty before month-ended deadline. The outcome of FOMC meeting on June 16-17 indicated that the Fed will gradually raise interest rate, preventing USD from shooting higher.

Grexit risk and a plunge in China's stocks pushed USD/THB higher to 34.00 and above on July 8. However, USD/THB struggled to maintain its 34.00 after the release of the FOMC minutes for the June's meeting further sent dovish signal after revising Fed Funds rate projection in 2016 and 2017 lower. In July, we expect USD/THB to shift in 33.85-34.15. The baht may be under downward pressure from the possibility that risk-off sentiment will dominate trading in July as Greece may exit from 19-country currency, and China's equity price sends a signal of bubble.

**Key factor to watch:** Thailand custom trade during the last week of July.

**Recommendation for exporter:** selling at 34.05, a high on July 8.

**Recommendation for importer:** Buy on dip at 33.88, first support for pivot at July 8.

USD/THB


*Source: Thomson Reuters*

**EUR/USD: 1.07-1.13 (EUR/THB 36.22-38.59)**

EUR/USD shifted in range of 1.0886-1.1436 in June, very similar to previous month range of 1.0818-1.1466. The euro was in corrective mode in June despite growing uncertainty about Greece debt crisis as deadline of IMF bailout fund and bundling installment on June 30 approaches. The market had early anticipated good news on debt talk between Greece and its creditors, sending EUR/USD from 1.09 on June 1st to the level above 1.13 on June 17. Therefore, when the negotiation on June 21 stepped forward after EU leaders accepted last minutes proposals from Greece PM Alexis Tsipras, the euro declined from sell on fact and met a low of 1.1167 on June 23. The volatility of the shared currency peaked at June 29 after Greece's government denied creditors' proposal to unlock last amount of IMF bailout fund. Consequently, the euro swung in wide range of 1.09530-1.103, the largest one-day move since the FOMC meeting on March 18 which USD fell broadly after the Fed dropped patient to hike interest rate but sounded dovish from revising short-term interest rates and GDP projections lower.

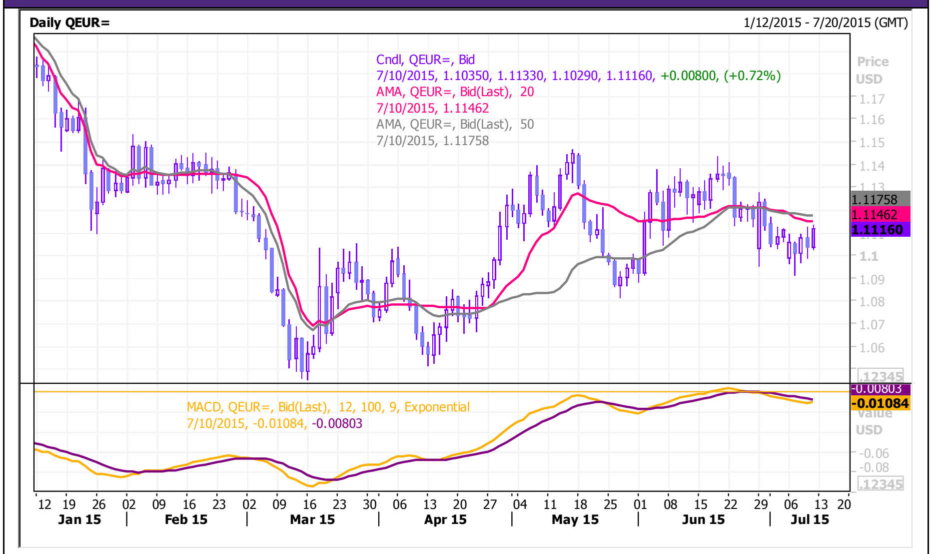
We expect EUR/USD to shift in range within 1.07-1.13 in July. The FX mover is the outcome of Greece's debt proposal on July 12. If Greece failed to submit the acceptable deal, the euro could fall into 1.07, a low on April 23. Meanwhile, the rise above 1.13 would be possible on back of successful debt agreement.

**Key factor to watch:** The deadline for Greece to submit economic reform plan on July 12 and estimated eurozone CPI in July and unemployment rate in June on July 31.

**Recommendation for exporter:** selling above 38.00 (EUR/USD above 1.12).

**Recommendation for importer:** Buy at 36.38 (EUR/USD at 1.07).

EUR/USD




*Source: Thomson Reuters*

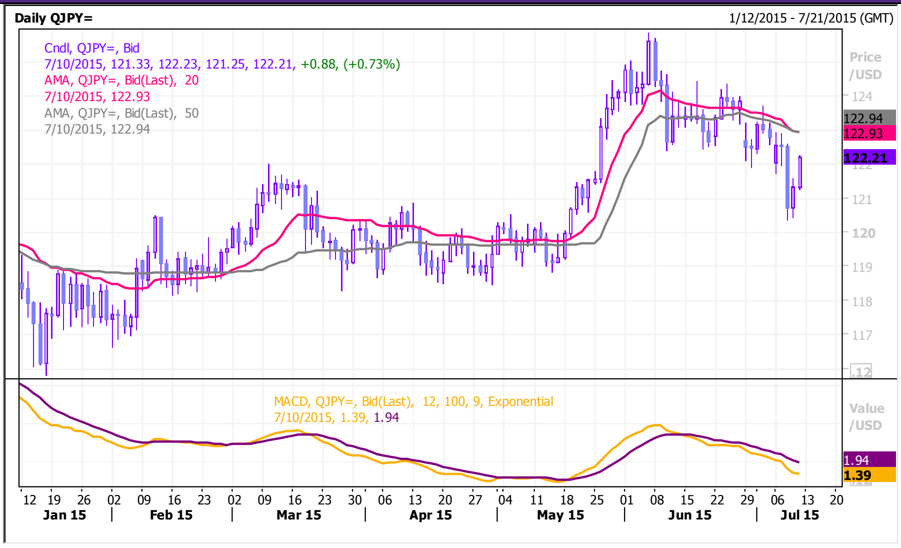
**USD/JPY: 120-124 (JPY/THB 27.30-28.46)**

USD/JPY shifted in higher range of 121.92-125.85 in June. Like the euro, the yen met its monthly low of 125.85 after upbeat U.S. employment data reported on June 5. However, safe heaven bids to avert Greek debt crisis added downward pressure on USD/JPY and it consolidated in range of 122.3-124. After Greece defaulted on the IMF debt on June 30 and called for Greek referendum on July 5, the yen traded higher against the dollar from risk-off sentiment. Looking ahead, when there is a final answer of Greece turmoil and risk sentiment is not affected from Greek drama, we still believe that USD/JPY will revert to an uptrend attributed by policy divergence between the Fed and the BOJ. USD/JPY can revisit the first barrier at 123.5, level on July 2 and then 124, level on June 24.

**Recommendation for exporter**: sell above 28.00 (USD/JPY 120.5, level on July 5).

**Recommendation for importer**: buy at 27.53 (USD/JPY 123.50, high on July 2).

USD/JPY

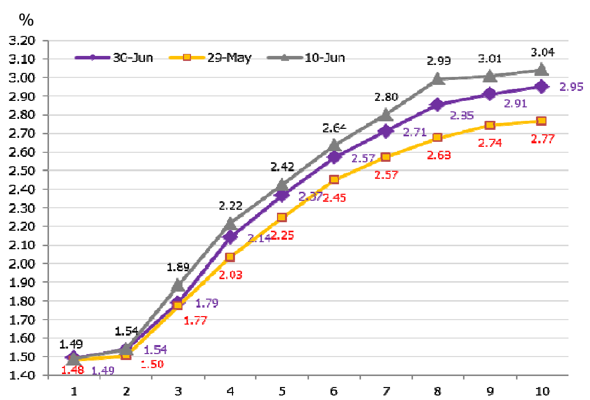



*Source: Thomson Reuters*

## Fixed Income Market

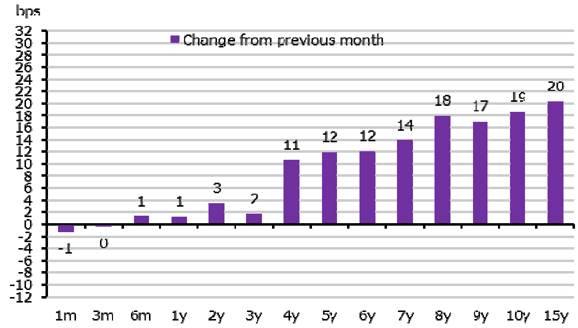
Bond curve was bear-steepening in June following sell-off pattern in May. Yields within 4Y-7Y segment rose around 10-14bps and for 8Y-15Y segment, yields edged higher 15-20bps. Surging EGB yields was a consequence of concern about Greece's debt crisis after the country missed the payment on June 5 and the agreement on the budget proposal has remained inconclusive. Bond yields rose as the MPC maintained interest rate at 1.50% on June 10 and the statement released after the meeting is quite balanced, leaving the market with neutral stance about interest rate cut. The MPC committees were optimism about inflation while they still opened the door for future interest rate trimming if needed. In addition, Thai bond saw a mild THB7.57bn selloff in June from Greek drama, but it had not experienced a hard sell when compared with a selling of THB26.13bn in May. Moreover, steeper bond curve was a consequence of the MoF's bond switching project on June 22 as it extended duration by replacing of the bond expiring in December 2015 with 2Y-22Y bonds. On average, the bond switching project lengthened the bond duration to 11.81years.

Thai's government yield curve was bear-steepening




*Source: Bloomberg and SCB FM*

## Thai's government yield curve was bear-steepening




*Source: Bloomberg and SCB FM*

## Mild bond selloff in June

| THB mn | Foreign Net buy/-sell in Thai's stocks | Foreign Net buy/-sell in Thai's bond |
|---|---|---|
| May'14 | -35,760 | -37,206 |
| Jun'14 | -357 | 64,826 |
| Jul'14 | 13,766 | 170,225 |
| Aug'14 | 2,398 | -23,582 |
| Sep'14 | 23,409 | -15,611 |
| Oct'14 | -16,139 | 3,672 |
| Nov'14 | 11,047 | -159 |
| Dec'14 | -27,739 | 6,434 |
| Jan'15 | -4,300 | -1,785 |
| Feb'15 | -6,898 | 13,907 |
| Mar'15 | 2,742 | -4,815 |
| Apr'15 | 130 | 7,346 |
| May'15 | 3,147 | -26,126 |
| June'15 | -10,488 | -7,573 |

*Source: Bloomberg and SCB FM*

## Bond switching project extended duration to 11.81 years

| Destination bonds and respective yields | Maturity | Accepted amount (THB mn) | Weighted Avg. Duration |
|---|---|---|---|
| LB183B: 1.66%-1.76% | 2 years and 9 months | 8,039 | (8,039/63,960)*2.75 = 0.35 |
| LB206A: 2.37%-2.49% | 5 years | 18,291 | (18,291/63,960)*5= 1.43 |
| LB25DA: 2.88%-3.00% | 10 years and 6 months | 9,656 | (9,656/63,960)*10.5= 1.59 |
| LB296A: 3.35%-3.45% | 14 years | 10,580 | (10,580/63,960)*14=2.32 |
| LBA37DA: 3.69%-3.79% | 22 years and 6 months | 17,394 | (17,394/63,960)*22.5=6.12 |
| **Total** | | **63,960** | **11.81** |

*Source: Thai PDMO and SCB FM*

**Benefits of Bond Switching**

**<u>Strengths</u>**

1. Better serve demand for the bond amid light supply.
2. Extending duration and benefit HTM long-term financial institutions like insurance companies, SSO, and provident funds. Bond switching is a process of switching shorter-term bonds to longer-term bonds.
3. Current bull steepening curve (as of June 22) offers benefit as destination bond yield (price) are higher (lower) than current bidding yield (price).
4. Reducing Refinancing risk.

*Source: SCB FM*

## Yield curve and strategy

**Our take:** Maintaining a buy of LB19-govies.

In July, we place our emphasis on Greek uncertainty, sounded dovish FOMC on June 16-17, additional bond supply in July, and reduced negative Thailand's headline CPI in June. From external environment, Greece's chaos has yet caused a huge selloff in EM assets. However, voting no result may eventually result in prolonged risk-off sentiment from the worst case scenario of an exit from eurozone and the announcement of cross default. Threat from loss on EM bond may be partially offset by dovish Fed after a downward projection of dotplots in 2016-2017. In our view, the market may fully absorb new forecast of Fed funds rate and the decline in Treasury yields should be an impact of flight to safety owing to Greece's turmoil. Thus, Thai bond yields may move in the opposite direction of Treasury yields.

Internal environment raised some concerns about holding bond with 5-year and longer tenors as improving headline inflation in June and new supply for 5-, 10- and 12-year bonds in July may underpin the rise in the yields. As a consequence of external and internal development we remain in favor of LB19 govies. The lack of bond supply in the coming 4Q15 as well as risk-off sentiment should keep a holding of relative short-term LB19 bond safe from risk aversion and the pickup in CPI.

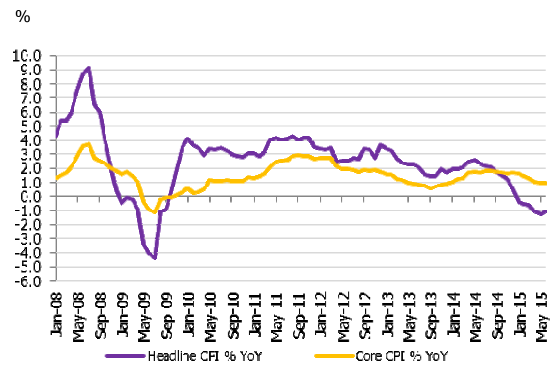
**New Bond Supply in 4Q15**

4Q15 Bond Auction Schedule

| Auction Date | LB206A | LB25DA | LB296A | LBA37DA | LB446A | LB616A | Total |
|---|---|---|---|---|---|---|---|
| 1-Jul-15 | | | | | | | - |
| 8-Jul-15 | 20,000 | | | | 9,000 | | 29,000 |
| 15-Jul-15 | | 10,000 | | | | | 10,000 |
| 22-Jul-15 | | | | | | | - |
| 28-Jul-15 | | | | 10,000 | | | 10,000 |
| | | | | | | | 49,000 |
| 5-Aug-15 | | | | | | | - |
| 11-Aug-15 | | | 6,000 | | | | 6,000 |
| 19-Aug-15 | 20,000 | | | | | | 20,000 |
| 26-Aug-15 | | | | | | 7,000 | 7,000 |
| | | | | | | | 33,000 |
| 2-Sep-15 | | 10,000 | | | 5,000 | | 15,000 |
| 9-Sep-15 | | | | 10,000 | | | 10,000 |
| 16-Sep-15 | | | | | | | - |
| 23-Sep-15 | | | 6,000 | | | | 6,000 |
| | | | | | | | 31,000 |
| **Total** | 40,000 | 20,000 | 12,000 | 20,000 | 14,000 | 7,000 | 113,000 |

*Source: Thai PDMO and SCB FM*

Inflation showed sign on bottom-out in July

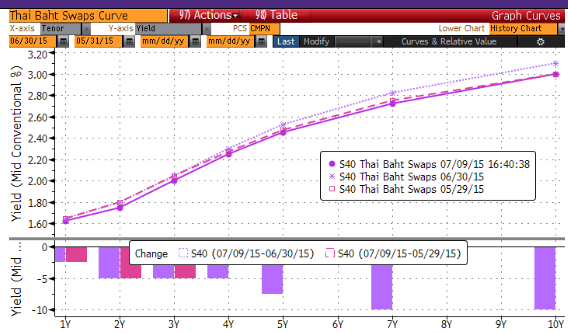



*Source: Thai PDMO and SCB FM*

**View on THB IRS swap curve**

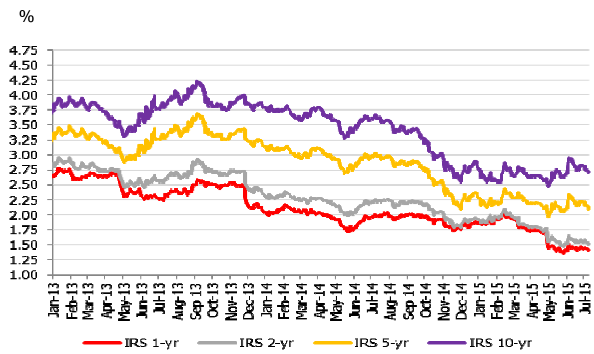
IRS curve saw another month of bear-steepening in June due to the rise in the swap rates in intermediate and long-end segment trailing selloff in EM bonds since Greece's financial turbulence influenced a rise in yields of Treasury, U.K. gilt, and EGB bonds. In July, global risk sentiment may be worsening if Greece misses the deadline to submit the proposal on July 11 or China stocks extend a decline. Higher IRS rates might be a result of a spillover from potential risk-off sentiment and underpinning bond yields. Therefore, we maintain the target of 5- and 10-year swap rates at 2.4% and 3.0%.

The swap curve steepened in May.




*Source: Bloomberg*

5-year and 10-year IRS rates consolidated in tight range




*Source: Thomson Reuters and SCB FM*

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