



Thai junta: Swapping bullets for ballots

Thailand's first general election last Sunday since a 2014 coup, suggests that a coalition government is likely. The outcome has reinforced a longstanding and messy problem in its political landscape, leaving a limited mandate for the party that will form the government.

The junta is appointing the upper house (250-member Senate), as voters await results on the 500-member lower house that could swing in favour of the opposition. Uncertainty is likely to remain until the Election Commission, which has repeatedly delayed the poll results, releases the final vote tallies, potentially on March 29.

Jigsaw pieces remain a puzzle

Even as the military-proxy Phalang Pracharath party unexpectedly won the popular vote with the highest number of ballots, General-turned-leader Prayuth Chan-Ocha faces questions of legitimacy as a returning premier. Meanwhile, reports of rival parties cite vote rigging and irregularities in the election process. Pheu Thai, the leading opposition-backed by supporters of former Prime Minister Thaksin, is lobbying other parties in an attempt to form an opposition government.

In the most simplistic terms, Prayuth retains power should either the Bhumjaithai party or Democrat party support a military-backed coalition. However, with the Pheu Thai currently holding the lion's share of seats and possibly joined by another party, this sets the stage for possibly fractious outcomes as Prayuth can be voted out by the opposition. Should the Pheu Thai secure a majority in the lower house, we expect a short tenure to its coalition government with high chances of Parliament dissolving.

Any coalition in the lower house is looking to be a close call at this point.

Market moves

Typically, the Stock Exchange of Thailand (SET) rallies in the one month period after the country conducts a general election, with the exception of December 2007, that saw the market dipping by a mere 0.6%. A large part of post-election gains can be attributed to clarity in the political outcome and if uncertainties linger this time, market upswings could be delayed (if at all).

Thaksinomics

Thailand's political landscape has been punctuated by periodic turbulence witnessed by violent street clashes, dozens of coups, multiple governments and changing constitutions. Since 2001, a royalist elite has tussled with Thaksin, a polarising influence on politics. Although Thaksin remains self-exiled, he exerts policy influence via the Pheu Thai party. These include stimulus measures and cash handouts to the rural poor, who are the bedrock of his political support.

House view

The Thai baht, the best performing currency in Asia year-to-date against the US dollar, appears expensive at current levels. Our position is tactically short, although the Bank of Thailand could limit the strength of the currency by accumulating reserves.

In terms of interest rates, the dovish tilt from the central bank at its most recent meeting is supportive for rates in the medium term. Duration looks attractive considering slowing growth and muted inflation. In view of potential political risks, we prefer to take a defensive view on rates. Should political risks subside, investors with positions in shorter tenors may move further up the curve.

For equities, should the Phalang Pracharath party form a government, we believe the industrial, materials and the construction sector will benefit as infrastructure projects receive funding support. The party has also outlined phased steps to raise minimum wages and slash personal income taxes to boost consumption. To fund these plans, it intends to initiate visa waiver programs to raise tourism revenue. Thai property names could underperform as the military government had previously slapped draconian measures on the sector.

The Eastern Economic Corridor (EEC), a project to link with China's Belt and Road initiative will likely continue, regardless of government. Any further signs of delays to political outcome will likely weigh on investor confidence.

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