

# Macro + FX Strategy

## Thailand: Jan Exports Drop Further To 5.7% Amid Global Trade Concerns

Friday, 22 February 2019

**Manop Udomkermongkol**

Economist

[manop.udo@uob.co.th](mailto:manop.udo@uob.co.th)

**Peter Chia**

Senior FX Strategist

[Peter.ChiaCS@uobgroup.com](mailto:Peter.ChiaCS@uobgroup.com)

- Thailand's exports contracted further to 5.7% y/y in Jan with value of US\$19.0 billion amid global trade pessimism.
- Jan imports rebounded with a strong 14.0% y/y growth in part due to a spike in arms imports ahead of scheduled military exercises with the US.
- As exports fell and imports surprisingly jumped, Thailand saw a trade deficit of \$4.0 billion in Jan, reversing the \$1.1 billion surplus in the previous month.
- Strong year-to-date gains in THB may start to reverse as Thailand's reduced export competitiveness start to show. We reiterate our modestly higher USD/THB trajectory for 2019.

**Due to global trade slowdown, Thailand's Jan exports dropped 5.7% y/y to US\$19.0 billion, marking the third consecutive monthly contraction.** The export drop was mainly owing to weaker exports of oil-related products (-9.6% y/y), internal combustion engine and parts (-33.9% y/y), computer and parts (-10.1% y/y) and automobiles and parts (-5.1% y/y). Meanwhile, exports of radio, television and parts (+31.1% y/y) and jewels and accessories excluding gold (+3.5% y/y) grew in the prior month. As for agricultural products, exports of rubber, rice, sugar and cassava products fell 15.1% y/y, 1% y/y, 29.9% y/y and 18.5% y/y, respectively. However, some export products steadily increased such as frozen and processed fruits and vegetables (+24.7% y/y), processed chicken (+8.7% y/y) and beverage (+3.7% y/y). By destination, exports to major markets including the US (+8.3%) and Japan (+0.9%) rose in the month. Nevertheless, exports to the EU and China contracted 4.8% y/y and 16.7% y/y in Jan. **Consistent with the drop in exports, we expect Jan export-related manufacturing production to display a similar pace of contraction.**

**Jan import growth surprisingly jumped to 14.0% y/y in part due to a spike in arms imports (+4,837.5% y/y) related to recent military exercises with the US, reversing from a 8.2% contraction in the previous month.** Feb exports will likely increase when the weapons are returned. The imports of raw materials and consumer goods increased 7.5% y/y and 4% y/y, respectively. By contrast, the imports of capital goods contracted 2.9% y/y. As a result of the surprise surge in imports, Jan trade deficit unexpectedly widened to \$4.0 billion, the widest level since 2013 (reversing the \$1.1 billion surplus in Dec).

**For 2019, we still target export growth of 4% in part due to the US-China trade tensions after a 6.7% rise last year.** Thailand is deeply entrenched in the global supply chain, and the tariffs imposed by the US on China will have a direct harmful impact on Thai exports such as computer parts and integrated circuits. Moreover, the recent appreciation of THB may weaken Thai exporters' income in the local currency. On the same note, the appreciation of THB by 4.4% y/y in the nominal effective exchange rate (NEER) in Jan weakened Thailand's international competitiveness against its trade competitors.

## FX Outlook: USD/THB In A Bottoming Phase Around 31.00

The Thai Baht (THB) has a strong start to 2019, gaining 4% from about 32.40 per USD on 2-Jan to current rate of 31.30. A “patient” Fed sparked a return of capital flows into emerging economies (Thailand included) in the last couple of months. A resilient Thai economy amid trade headwinds, strong current account surplus together with the Bank of Thailand (BOT) flagging further rate hikes added to appreciation pressures on the THB.

Going forward, with exports growth already in a moderating trajectory, authorities will be on the watch as further THB strength may dent exporters’ competitiveness. This time round, the “line in the sand” for USD/THB is likely to be at 31.00 where on approach, we can reasonably expect BOT officials to express concerns on the strong THB. Officials are also likely to defer any rate hike to 3Q to prevent further upside speculation on the THB and until election (scheduled for 24-Mar) uncertainties pass.

Further out, we still reiterate our modestly higher view of USD/THB, underpinned by the Fed resuming its rate hikes in Jun. Our point forecasts are 31.50 by end-1Q19, 31.70 by end-2Q19, and 32.00 for end-3Q and 4Q19.

Indicator	Jan 2019		2018	
	Million USD	Growth (%)	Million USD	Growth (%)
Exports	18,993.9	-5.7	252,486.4	6.7
Imports	23,026.3	14.0	249,231.9	12.5
Trade Balance	-4,032.4	-	3,254.5	-

Source: MOC, UOB Global Economics & Markets Research

#### Disclaimer

This publication is strictly for informational purposes only and shall not be transmitted, disclosed, copied or relied upon by any person for whatever purpose, and is also not intended for distribution to, or use by, any person in any country where such distribution or use would be contrary to its laws or regulations. This publication is not an offer, recommendation, solicitation or advice to buy or sell any investment product/securities/instruments. Nothing in this publication constitutes accounting, legal, regulatory, tax, financial or other advice. Please consult your own professional advisors about the suitability of any investment product/securities/ instruments for your investment objectives, financial situation and particular needs.

The information contained in this publication is based on certain assumptions and analysis of publicly available information and reflects prevailing conditions as of the date of the publication. Any opinions, projections and other forward-looking statements regarding future events or performance of, including but not limited to, countries, markets or companies are not necessarily indicative of, and may differ from actual events or results. The views expressed within this publication are solely those of the author's and are independent of the actual trading positions of United Overseas Bank Limited, its subsidiaries, affiliates, directors, officers and employees ("UOB Group"). Views expressed reflect the author's judgment as at the date of this publication and are subject to change.

UOB Group may have positions or other interests in, and may effect transactions in the securities/instruments mentioned in the publication. UOB Group may have also issued other reports, publications or documents expressing views which are different from those stated in this publication. Although every reasonable care has been taken to ensure the accuracy, completeness and objectivity of the information contained in this publication, UOB Group makes no representation or warranty, whether express or implied, as to its accuracy, completeness and objectivity and accept no responsibility or liability relating to any losses or damages howsoever suffered by any person arising from any reliance on the views expressed or information in this publication.