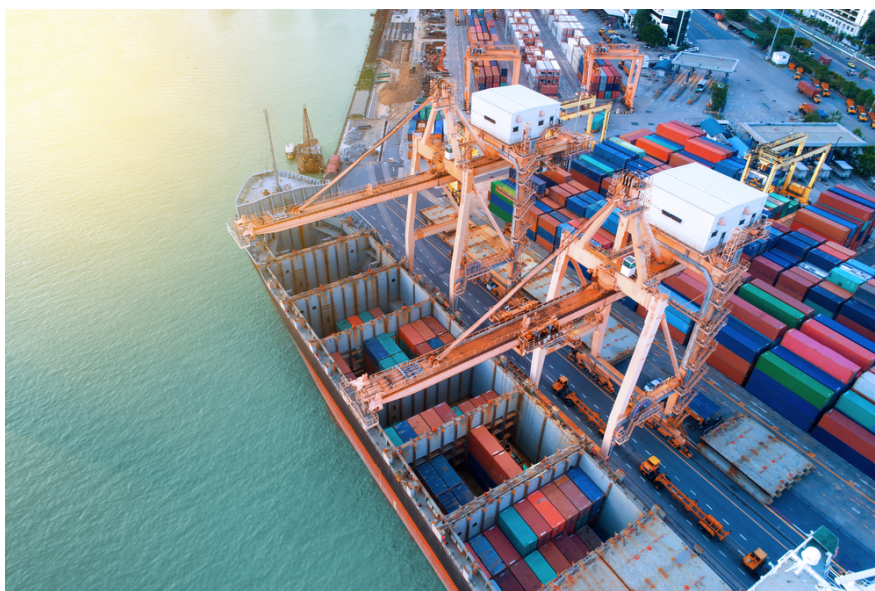


Thailand: Current account surplus narrows in May

We don't think the recent revision of our end-2018 USD/THB forecast to 33.8 from 32.3 is the last revision. We are looking for a further downgrade as we assess the impact on Asian currencies of an all-out trade war



Source: Shutterstock

\$958m Current account surplus in May

Lower than expected

A surprise narrowing of the current account surplus

We thought that the sharp positive swing in Thailand's customs-basis trade balance to a \$1.2 billion surplus in May from a deficit of similar size in April meant the current account was in for a wider surplus in the last month. But the balance of payments data for May revealed just the

opposite; a narrower current surplus of \$958 million compared to the \$1.4 billion surplus in April. The consensus forecast was for a surplus of \$1.5 billion.

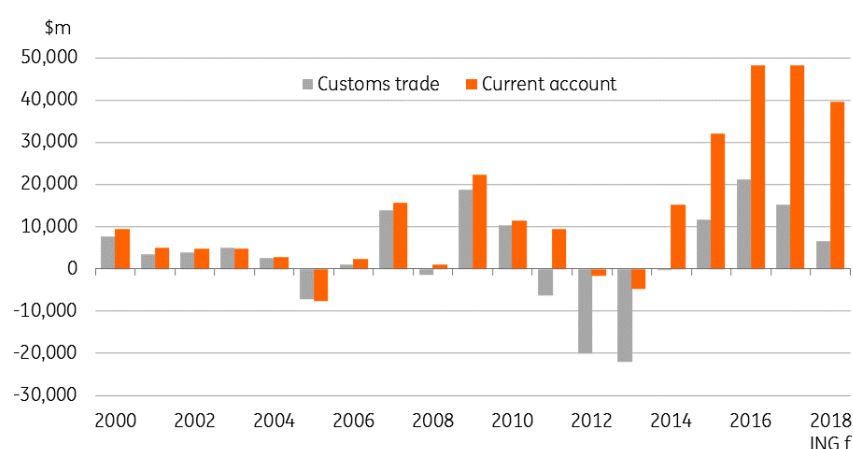
This puts the cumulative current surplus in the first five months of the year at \$19.4 billion, which is \$782 million wider on the year. The contrast with the \$3.8 billion narrowing in the trade balance over the same period reveals that services trade continued to perform well this year, thanks to the tourism sector, with a 14% year on year surge in international visitors in the first four months of 2018.

A reversal of fortune for the Thai baht

After a strong run in the last four years, Thailand's external payments have started to weaken this year and foreign exchange reserves have started to fall in May after peaking over \$215 billion in the previous two months. These trends are here to stay as the global trade war threatens exports and confidence-sensitive capital inflows while rising oil prices boost imports. We forecast that the annual current surplus in relation to GDP will narrow to 7.5% in 2018 from 10.6% in 2017.

Weakening external payments are negative for the currency. The Thai baht (THB) is Asia's worst performer in June with 3.4% depreciation against the USD, a reversal of fortune from being Asia's outperformer last year through early this year. We don't think the recent downgrade of our end-2018 USD/THB forecast to 33.8 from 32.3 will be the last (spot 33.1). We are looking for a further downgrade as we assess the impact on Asian currencies of an all-out trade war.

Narrowing external surpluses



Source: Bloomberg, ING