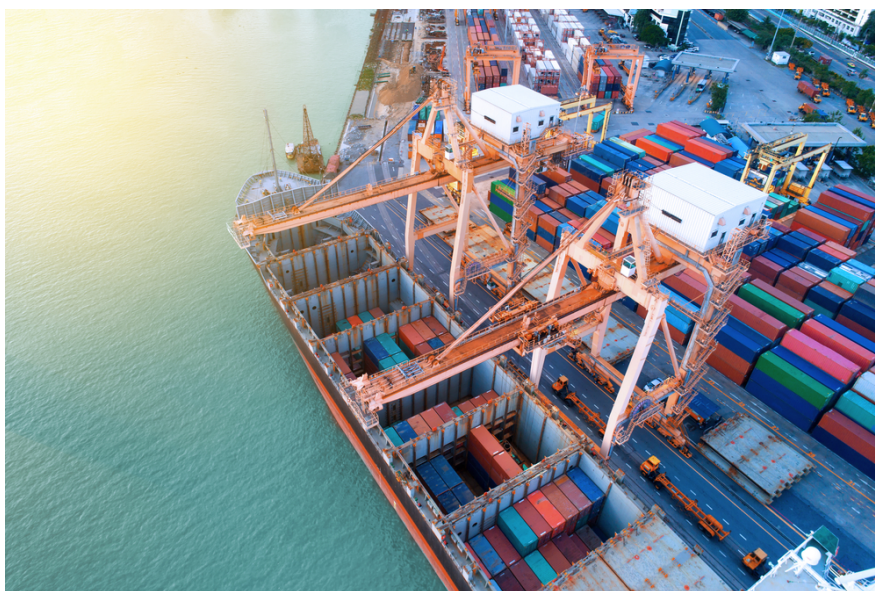


Thailand: January trade growth beats expectations

We view January trade outperformance as a transitory blip. With Covid-19 poised to depress trade, tourism and the current account surplus this year, we expect the Thai baht to remain an Asian underperformer throughout the year



Source: Shutterstock

3.4%

January export growth
year-on-year

Higher than expected

January trade outperformance

While the consensus estimate called for a steeper fall in Thailand's exports (by 2.9% year-on-year), they grew by 3.4% growth in January. The first positive reading in six months followed a 1.3% contraction in December. Likewise, import performance in the last month also turned out to be

better than expected, although it's still a negative swing in growth to -7.9% from +2.5% in the previous month (consensus was -16.5%).

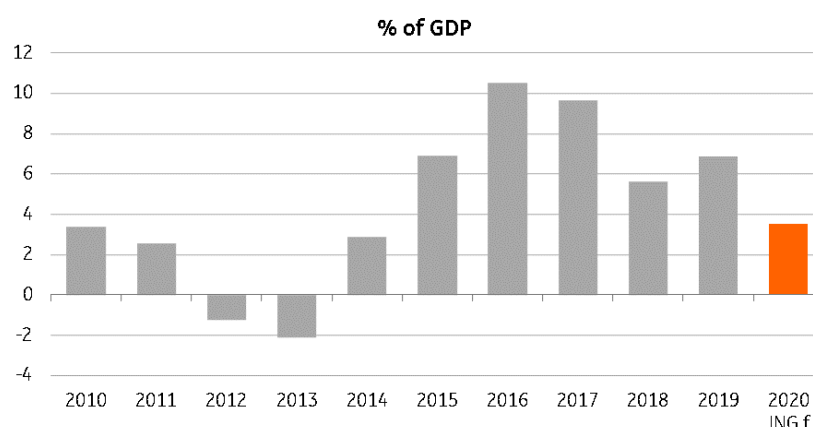
This resulted in a trade deficit of \$1.6 billion in January, a significant swing from a surplus of about \$600 million in the previous month.

Looks like a transitory blip

It's difficult to pinpoint the source of the upside trade surprises. As for exports, it seems the low year-ago base outweighed the current weakness from the Lunar New Year holiday and the extended slack in demand due to the coronavirus in key trading partners like China. More importantly, electronics and autos, with a combined weight of 30% in total exports, continued to be the weak spots coming into 2020. We expect a return to negative export growth, probably a double-digit negative reading in February, as the impact of the disease becomes more pronounced amid a prolonged shutdown of factories in China.

Underlying the negative shift in import growth was a rather unfavourable base effect, while domestic demand continued to be anaemic as was evident by the slowdown in both consumer and raw material imports. A 20% surge in fuel imports was surprising though in view of crashing global oil prices in the last month. We envisage a protracted negative import trend over the rest of the year.

Narrowing current account surplus



Source: CEIC, ING

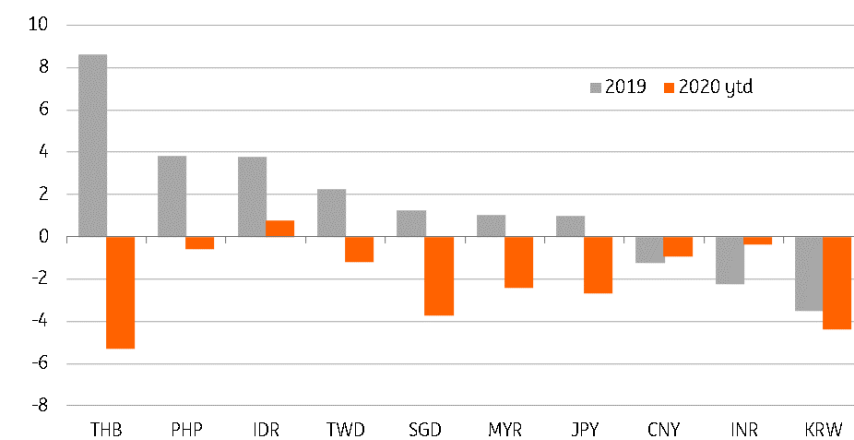
THB re-pricing for narrowing current surplus

A sharp negative swing in the trade balance coming into 2020 heralds the start of the narrowing current account surplus trend this year. Look out for January balance of payments data due later this week (28 February). Besides depressing trade growth ahead, Covid-19 will seriously dent the Thai tourism sector. We expect a near-halving of the current surplus this year to about 3.5% of GDP from 6.9% in 2019.

The Thai baht (THB) has been the worst-performing emerging market currency so far this year with a more than 5% depreciation against the US dollar. Besides re-pricing for weakening support from external surpluses, expectations of more Bank of Thailand rate cuts ahead also are weighing on the currency.

We continue to forecast the USD/THB rate at 32.80 by the end of the first quarter, close to the top end of our anticipated 31-33 trading range for 2020 (spot 31.69).

Asian currency performance (%)



Source: Bloomberg, ING

2020 year-to-date up to 21 February.