

## Thailand's economy ends first quarter of 2019 on weaker note

We consider our 3.1% GDP growth forecast for 1Q19 subject to downside risk. The hawkish central bank and persistently large current account surplus sustain the potential for THB outperformance. That said, we maintain our view of the USD/THB rate hovering around 32 through 3Q19



Source: Shutterstock

**-2.5%** March manufacturing growth

Worse than expected

### Increased downside growth risk

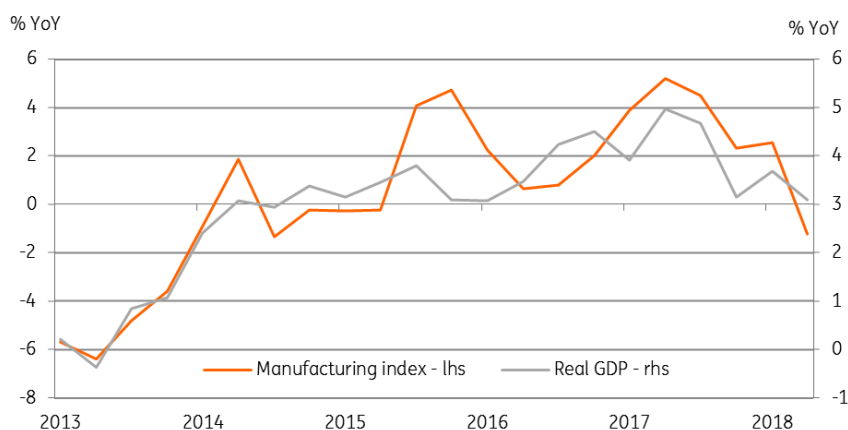
As widely expected, Thailand's manufacturing decline accelerated to 2.5% year-on-year in March from 1.6% in February, a steeper drop than the consensus estimate of 2.1%. Our even more

bearish forecast of a 3.5% fall rested on an accelerated decline in exports in March. By sectors, electronics have been a stand-out source of weakness in both exports and manufacturing. Weakness in steel and rubber were an added drag in March.

But it's not just an export-led slowdown. We think domestic demand also weighed on output as a spike in political risks surrounding the general election gripped the economy. A dip in consumer confidence index, a slowdown in motor vehicle sales, and a fall in tourist arrivals speak to this.

Cumulative manufacturing output fell by 1.2% YoY in the first quarter of 2019, a sharp negative swing from the 2.5% growth in the previous quarter. This will have almost certainly dragged GDP growth lower. We consider our 3.1% GDP growth forecast for 1Q19 as having an asymmetric downside risk. The finance ministry has just announced a cut in its GDP growth forecast for 2019 to 3.8% from 4.0% on a view of much slower export growth than previously expected (3.4% vs. 4.5%).

## Weak manufacturing, weak GDP



Source: Bloomberg, CEIC, ING

**\$6.1bn** March current account surplus

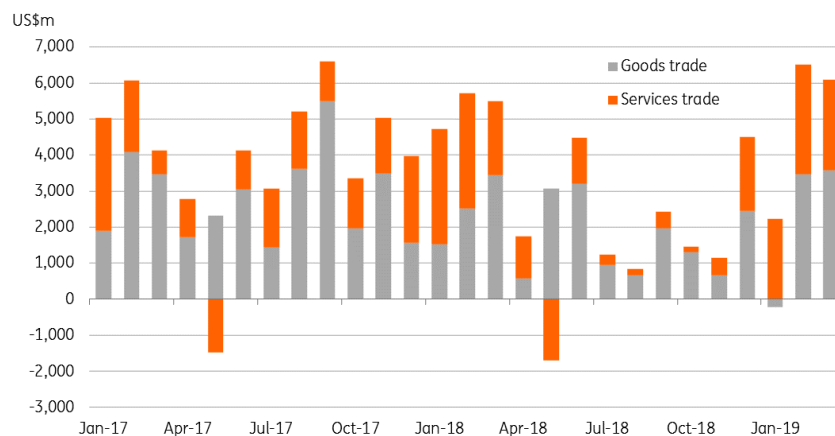
Higher than expected

## Persistent large current surplus

Also released today, balance-of-payments data for March revealed a current account surplus of \$6.1bn in the month, barely a narrowing from \$6.5bn surplus in February which was the third largest monthly surplus on record. Expectations were centered on a significant narrowing in line with the customs basis trade surplus. In the event, the surplus from goods trade was steady at \$3.5bn, while that from services trade fell only slightly.

The cumulative current surplus of \$14.6bn in the first quarter more than doubled from the \$7.1bn inflow in the previous quarter, which is a hopeful sign of an improved net trade contribution holding a floor under GDP growth.

## Current account surplus



Source: Bloomberg, CEIC, ING

### And yet a hawkish central bank

Despite slowing growth (and persistently low inflation) the Bank of Thailand's persistent hawkish tone keeps us from expecting policy support with a rate cut this year. Our baseline is no change to the BoT policy this year.

The elevated political uncertainty explains depreciation pressure on the Thai baht (THB) since February, paring strong gains made in the first month of the year. Yet, with a 1.8% year-to-date appreciation it's still the second-best Asian currency (after Chinese Renminbi, or CNY). The hawkish central bank and large current surplus should sustain the potential for THB to outperform in the rest of the year. That said, we maintain our view of the USD/THB rate hovering around 32 through 3Q19. Our year-end forecast remains at 31.80 (spot 31.96).

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