Thailand: Wide external surplus dents drive to curb baht strength

The Bank of Thailand's latest efforts to curb appreciation in the Thai baht are proving ineffective and aggressive interest rate cuts are needed to revive beleaguered domestic demand. We forecast two 25 basis point cuts before year-end

Source: Shutterstock

$3.2 billion June trade surplus

Higher than expected

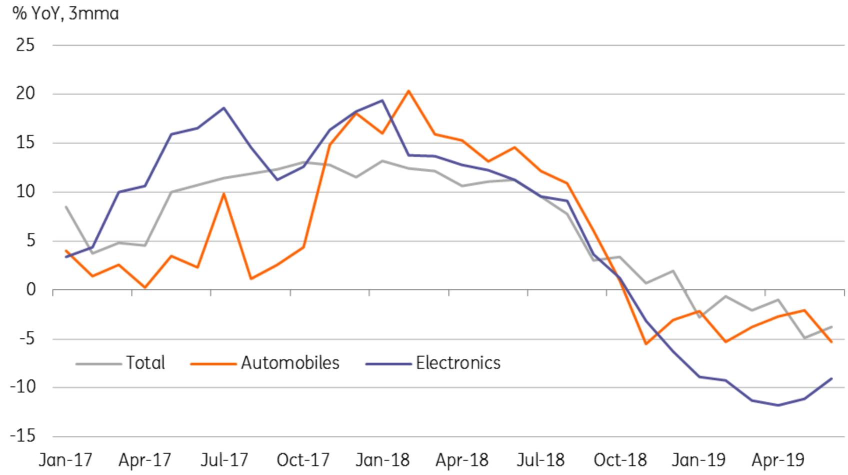
Fourth highest trade surplus in June

Thailand's trade balance posted an unexpectedly large $3.2 billion surplus in June, the fourth largest monthly surplus on record. This happened as year-on-year (YoY) exports contracted by 2.2% while imports tumbled by 9.4% YoY compared to consensus estimates of

-5.0% YoY and -2.5%, respectively. The corresponding growth rates for May were -6.2% and -0.7%.

Electronics and automobiles, with a combined 30% weight in total exports, remained the key drags; the global tech slump is depressing electronics exports and rising tariff barriers by the US are hurting automobiles and parts. Persistently weak domestic demand weighed on imports, while lower global crude prices likely kept a lid on fuel imports. Fuel makes up 17% of total imports.

Automobiles and electronics led export downturn



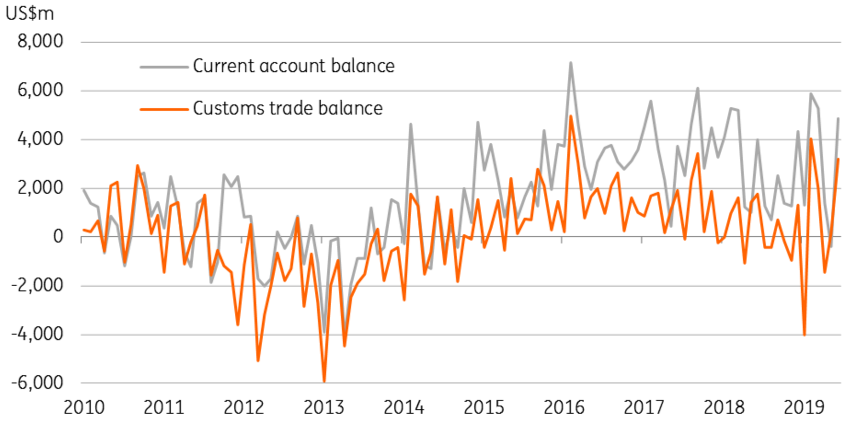
Source: Bloomberg, CEIC, ING

Persistent large current surplus

This puts cumulative export and import growth in the first half of the year (1H19) at -2.9% and -2.4%, respectively, both down sharply from +11.7% and +10.2% in 1H18. The 1H19 trade surplus of $3.9 billion, however, was little changed on the year.

The trade surplus is driving the current account surplus. Based on today's data, we estimate a close to $5bn current surplus in June (data due on 31 July), leading to a more than $18bn cumulative surplus in 1H19. A small narrowing from $20.8bn in 1H18 would far from satisfy the US Treasury, which currently has Thailand on its radar for currency manipulation. Having run at a rate of around 10% of GDP in 2016 and 2017, the current surplus dropped to 6.4% of GDP in 2018. We are considering an upward revision to our view of a further narrowing in the surplus to 4.8% of GDP in 2019 (consensus 6.6%).

Trade balance drives current account balance



Source: Bloomberg, CEIC, ING

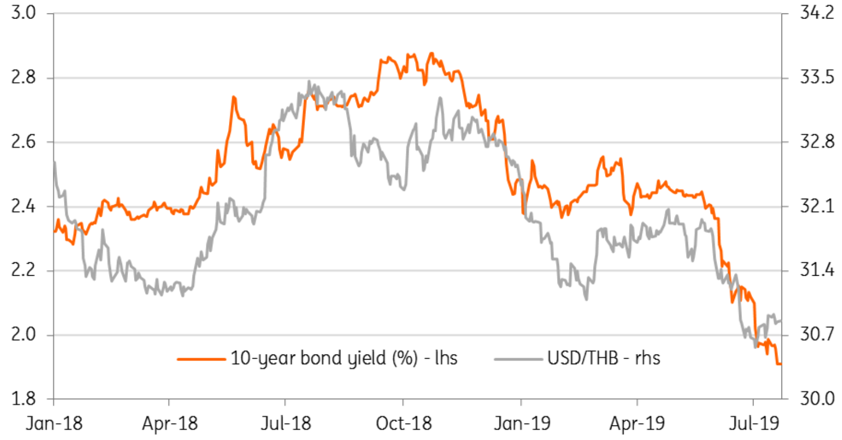
Efforts to curb THB strength in vain

A large trade surplus dampens the Bank of Thailand's recent efforts to rein in runaway currency (THB) appreciation this year. With a 5.5% year-to-date appreciation, the baht is the best performing Asian currency (second-best emerging market currency performer after the Russian rouble) this year.

Recently, the BoT has cut the limit on outstanding balances in non-resident THB accounts, including those for securities, to 200 million from 300 million. It has also tightened reporting requirement for non-residents' holding of debt securities issued in Thailand, making mandatory the disclosure of end beneficiaries of such holdings. While these measures have proven to be insufficient to arrest the currency appreciation, the authorities are considering more measures like reduction of bond supply and easing of rules on capital outflows.

Besides the persistently large external surplus, any efforts to curb THB appreciation pressure are currently being countered by USD weakness, as Fed rate cuts loom. A BoT rate cut may help to some extent, though it will take more aggressive central bank easing to revive beleaguered domestic demand. We forecast two 25 basis point BoT policy rate cuts in August and in the fourth quarter of the year.

Rallying Thai government bonds and the THB



Source: Bloomberg, ING