Thailand’s trade dodged Covid-19 pain in the first quarter

The surprising trade strength earlier this year looks to be transitory, potentially giving way to a significant slump in the current quarter

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4.2%

March export growth

Year-on-year

Higher than expected

Exceptionally strong trade growth

Thailand’s trade data for March came in as a pleasant positive surprise. Exports rose by 4.2% year-on-year in the last month, beating the consensus of a 5.8% fall. Imports grew faster, by 7.3%, against the consensus estimate of an 8% fall. These were the strongest yearly gains in both indicators in more than a year. And it was not just a low base year effect. The underlying strength was also reflected in strong month-on-month (not seasonally adjusted) gains of 8.5% in exports and 24.3% in imports.

We surmise some of this strength could be from a possible front-loading of shipments amidst a dampening outlook due to the Covid-19 outbreak and ahead of the state of the emergency that came into force on 26 March.

Among the main export drivers, electronics gained some traction with 8.6% YoY growth, but autos and parts continued to be weak, with a 5.6% fall. The combined exports of these two sectors account for 29% of Thailand's total exports. Fuel and raw materials helped on the import side, with 9% and 12% growth, respectively, while capital and consumer goods imports contracted.
But outshining everything was the jewellery trade, with a 72% bounce in exports and 53% bounce in imports in this sector.

The surprising trade strength so far this year is going to be transitory, giving way to a significant slump in this quarter as the accelerated global spread of the disease depresses demand.

But no end to Thai baht's plight

The trade balance eked out a $1.6 billion surplus in March, bringing the cumulative surplus in the first quarter of 2020 to $3.9 billion or $1.8 billion higher than a year ago. This should keep the current account in surplus in the first quarter; at $8.8 billion, the current surplus in the first two months of the year was $1.6 billion above the year-ago level (March data isn't due until 30 April). However, with virtually no dollar inflows from tourism, we would imagine a narrower current surplus in the first quarter and also in the rest of the year than in 2019. The current surplus amounted to 7% of GDP in the last year. This year we expect it to be almost half of that.

A narrower current surplus explains the Thai baht's (THB) plight this year as an emerging market underperformer, a significant reversal of fortune from last year when the baht was the strongest emerging market currency. Currently at 32.50 against the US dollar, the THB exchange rate has depreciated by 7.7% so far this year. We see a further depreciation to 35 by the end of this quarter.

Whether the weak currency will help trade to recover once demand returns is something we aren't thinking about just yet as the pandemic continues.