Good MornING Asia - 25 February 2020

The spread of Covid-19 outside China, and now outside Asia, is a game-changer for markets, which has seen US Treasury yields and stocks tumble

In this bundle

Asia Morning Bites

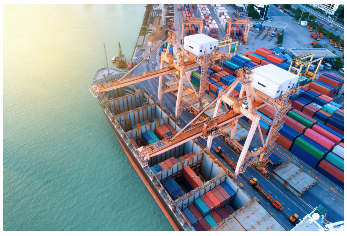
ASEAN Morning Bytes

The risk of Covid-19 becoming a global pandemic has put risk assets in a tailspin. While we may see some bargain hunting today, there is unlikely to be...

Malaysia

Malaysia's Mahathir's resignation comes at the worst time for the economy

Malaysia's prime minister Mahathir Mohammad's surprise resignation means politics looks set to be an added headwind for the economy already...



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...

Opinion | 25 February 2020

Markets tumble on coronavirus fears

The spread of Covid-19 outside China, and now outside Asia, is a game-changer for markets, which has seen US Treasury yields and stocks tumble.

Source: Shutterstock

The numbers speak for themselves

The 10Y US Treasury yield is now 1.37%, the S&P500 tumbled 3.3% overnight, the Eurostoxx index was down 4%, Asian stock futures are all red this morning, gold got close to $1700 yesterday, the Korean won hit our 1Q20 target of 1220, so we now need to think whether we need to push that higher. The IDR and PHP are beginning to lose the resilience they had shown early on in this episode, and the INR has risen above 72.0. About the only currency that is looking a bit less soft today is the CNH, which has actually outperformed a bit as the story shifts from China to the rest of the world.

In terms of that story, the new South Korean total of confirmed cases stands at 833 as of writing, though Italy is catching up fast, with 229. Iran is on 61, adding a further 18 cases in the last 24 hours. Most of the 53 US cases are Diamond Princess passengers, and so will have been in isolation posing little additional risk, which is at least one spot of brighter news.

At some stage, the market will decide it is oversold and there will be a correction. A better day out of Italy would help to deliver this. Each day that there are no further outbreaks in Europe will also add weight to the notion that Italy moved fast enough to contain the virus.

On the other hand, the World Health Organization could at some stage designate this as a Pandemic, which would likely spur a further down leg.

Confirmed cases outside China as of 8:25 am SIN

ASEAN developments

Prakash Sakpal has written on recent developments in the ASEAN region today, like most days. He writes:

"Malaysia: Political uncertainty spiked yesterday with the sudden resignation of Prime Minister Mahathir Mohamad, a big blow to hopes for a smooth leadership transition to his rival-turned-successor, Anwar Ibrahim, later this year. Mahathir still remains as interim prime minister until a new government is formed. This political crisis comes at the worst time for the economy - bracing for a significant beating from the Covid-19 outbreak. It dashes hopes for any fiscal stimulus for the economy and sends the Malaysian ringgit on a steady depreciation path. The USD/MYR traded above our end-1Q20 forecast of 4.20 yesterday. Prolonged political uncertainty could see the MYR depreciating towards 4.50 over the course of the year - a level last seen three years ago.

Thailand: Surprisingly firmer January export growth appears more of a transitory blip and we expect weakness to return as the impact of Covid-19 becomes more pronounced. Besides depressing trade growth ahead, Covid-19 will seriously dent the Thai tourism sector. The finance ministry is considering soft loans worth THB 100 billion for affected tour operators. We forecast a near-halving of the current surplus this year to about 3.5% of GDP from 6.9% in 2019. 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 31.66).

Singapore: A sharp slowdown in core inflation was a standout in yesterday's inflation release for January. The annual hike in school fees at the start of the year typically pushes core inflation higher. This year there was a cut in school fees, dragging the core measure down to 0.3% from 0.7% in December, the lowest reading in over four years. Headline inflation was steady at 0.8%. Subdued inflation provides more reasons for the central bank (MAS) to ease in April".

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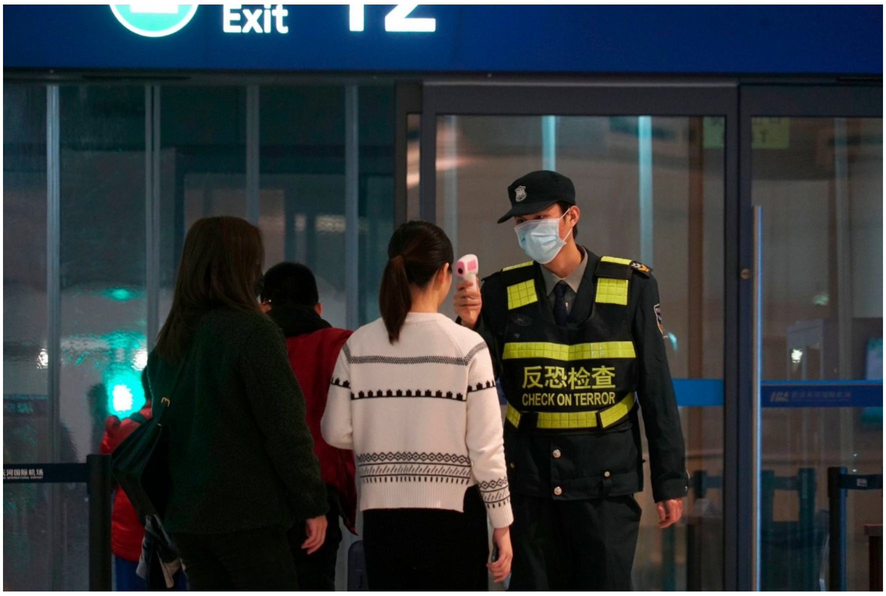
Article | 24 February 2020 China

Coronavirus: Slumping tourism will cost Asia up to $115bn this year

Holidays in Hell: The impact of the Covid-19 virus on economies in Asia is potentially huge, as tourism in the region takes a beating. Here, we attempt to quantify the hit to GDP



We are getting quite used to seeing footage of tourists stranded on cruise ships as the Covid-19 outbreak leads to aggressive attempts at containment. One thing is very clear, travel and tourism in Asia are taking a beating. From deserted hotels to empty airports, the impact of this little scrap of protein and lipid on economies in the region is potentially enormous. In this note, we set out a process to estimate the loss of Asian GDP through lost tourism receipts alone, and come up with a total figure of $105-115 billion.

It's far too early to speculate how far this Covid-19 outbreak will go. But barely two months into this epidemic and the ramifications are already far-reaching. Parts of China are in a literal lockdown, and there is very little travel between China and other parts of Asia. Where this still occurs, screening and quarantine procedures are in place. Few if any Chinese travellers will consider a two week lockdown an acceptable price for a similar length vacation elsewhere in Asia, and not surprisingly, Asian tourists are also notable by their absence in China.

What we're measuring

Our approach will be to cost the impact of Covid-19 in terms of Gross Domestic Product (GDP). GDP is usually measured in terms of expenditures, so if someone doesn't go on holiday, and doesn't spend a hypothetical $1000 on that holiday, although that $1000 does not disappear and is still sitting in their bank account, the hypothetical recipient of those expenditures now receives nothing.

If we assume that tourism to and from China basically grinds to a halt in 2020, and extra-regional tourism also diminishes, then the cost to the region from lost tourism revenues alone is approximately $105-$115 billion. If this doesn't sound sufficiently scary, bear in mind that tourism is just one of the channels through which the coronavirus can weaken the GDP growth of Asian countries grappling with this epidemic.

We will take a couple of sweeps at this subject before honing in on our final estimation. Looking at where Chinese tourists have stopped visiting is part of, though clearly not all of the story. But it is the simplest place to start.

We also need to consider how the Covid-19 outbreak is affecting other travel in the region. China is both a visiting nation and a visited one. To do the analysis properly, we also ought to consider spending by outbound tourists to China, as well as the inbound Chinese tourists that will no longer be visiting them. Finding reliable data to make such comparisons has not been easy, and we have had to make some simplifying assumptions.

For an individual nation, tourism is both an import and an export, and net tourism expenditure is what gets put into their GDP calculation. For some of the less developed Asian economies, tourism is predominantly an export, and gross revenues are the real issue. So we will also show measures such as revenues as a percentage of total exports and employment in tourism as a percentage of total employment for different economies in the region.

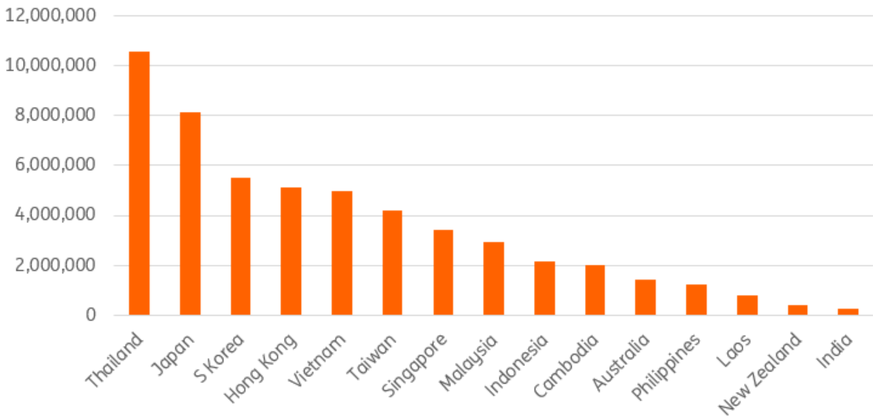
Furthermore, we won't forget that not all travel in the region is either to or from China, even though about 40% of it is. Of the remainder, a similar amount is non-China intraregional, and only about 20% from outside the region. We have to also consider how these tourism flows will be affected.

1 China outbound travel

We start by looking at Chinese outbound travel. In other words, which countries are most visited by Chinese tourists and business travellers. In 2018, Residents of China made more than 53 million overseas visits to other parts of Asia. The very clear "winner" in all of this was Thailand with more than 10 million visitors from China. This was followed by Japan, South Korea and Hong Kong, and then not far behind, Vietnam.

Outbound travel for China is dominated by tourism, rather than business travel. And while tourism sites differ in their explanations for what factors drive these tourist flows, these days, "experience" is usually towards the top, along with dining opportunities. Shopping is still high up the list of driving causes but is by no means the main push factor. Whatever the explanations, Thailand clearly offers them in abundance.

Visitor arrivals from mainland China 2018

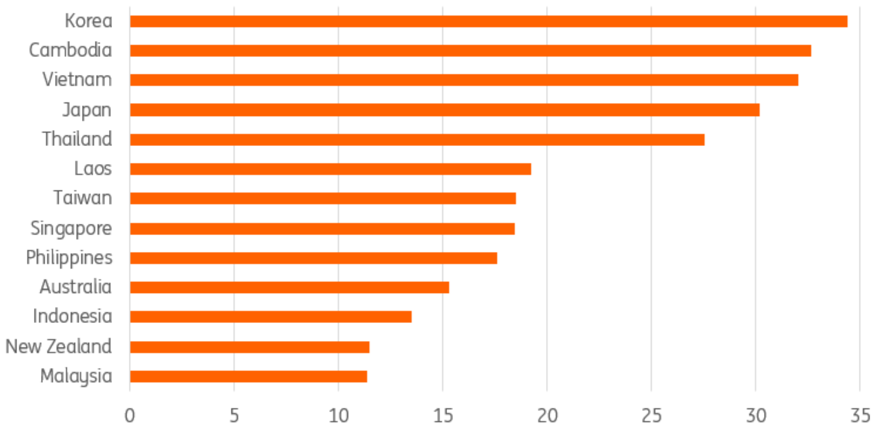


Source: See below

While Thailand tops the poll for the region as a whole in terms of pure numbers, Chinese tourists are still a very important source of income for other South East Asian economies. Considered as a proportion of all inbound tourists, Chinese visitors account for a much larger proportion of arrivals to Cambodia and Vietnam, with Laos not too far behind.

Interestingly though, when you look at Asia-Pacific as a whole, it is South Korea that stands out, with China accounting for 34% of all arrivals. Japan is not far off at just over 30%, with Cambodia and Vietnam also near the top, along with Thailand in fifth place at 27.5% (2018 figures). These differences probably reflect the fact that Thailand is more of a global tourist destination, diluting some of the impacts of regional tourism flows.

China tourists as % total

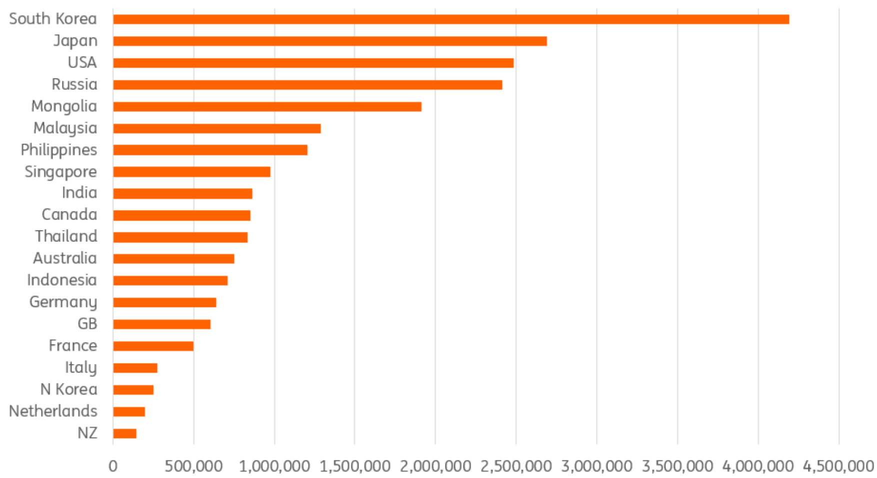


Source: See below

2 Asian tourism to China

To put these South Korean figures into a more appropriate perspective, we should note that a developed economy like South Korea is also characterised by a great deal of outbound tourism. It turns out that South Korea tops the Asian league table for tourist departures to China, with an impressive 4.2 million outbound tourists in 2018. That's 50% more Korean tourists to China than from Japan or the United States.

Tourist Arrivals in Mainland China

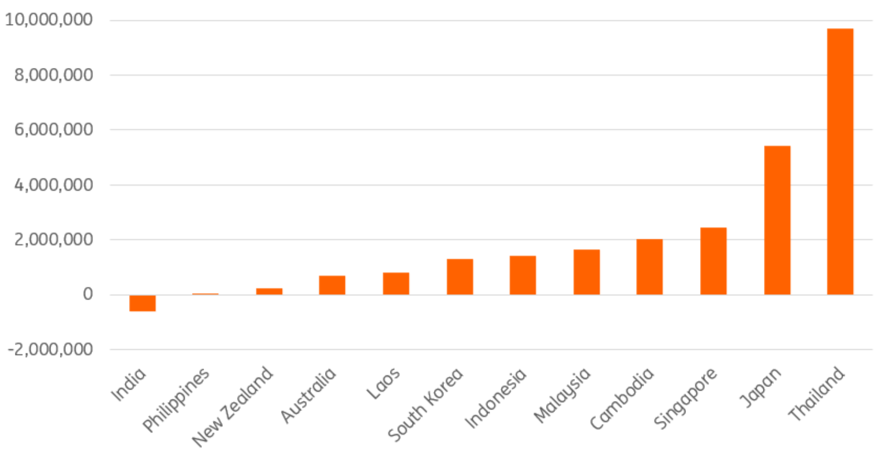


Source: Statista

In net terms, in 2018 there were only about one million more Chinese visitors to Korea than Korean visitors to China. For Korea, that may soften the blow to GDP from lost Chinese tourism revenues, especially if Koreans don't just travel elsewhere instead.

Looked at in this way, South Korea drops right back down the table with very limited net travel to China, though Japan and Thailand still stand some way up from the rest of the region with a still very substantial net inflow of Chinese tourists. Net tourist figures may suggest that some economies will experience a smaller hit to GDP than others. But if other Asian countries also stop visiting China, this is also a loss of GDP when considered at a regional level. We need to add both inbound and outbound travel between China and the rest of Asia to come up with the potential impact of the coronavirus.

Net tourism 2018



Source: See below

3 Revenues from tourism

In addition to absolute flows of tourists to and from China, we also need to have some idea of the relative spending power of tourists arriving from China, compared to those visiting it. We don't have great data here. Some countries in the region do provide some spending figures for tourists from different countries. For example, according to Australian tourism statistics, Chinese tourists spend considerably more than visitors from most other nations.

Anecdotally, Korean media reports that many Chinese visitors travel to department stores to buy luxury goods or jewellery for re-sale back in China, reflecting the different prices of these goods there. An article in the China Daily newspaper reports that Chinese tourists in 2018 spent nearly \$128 billion in 149 million overseas trips. That works out at about \$850 per tourist.

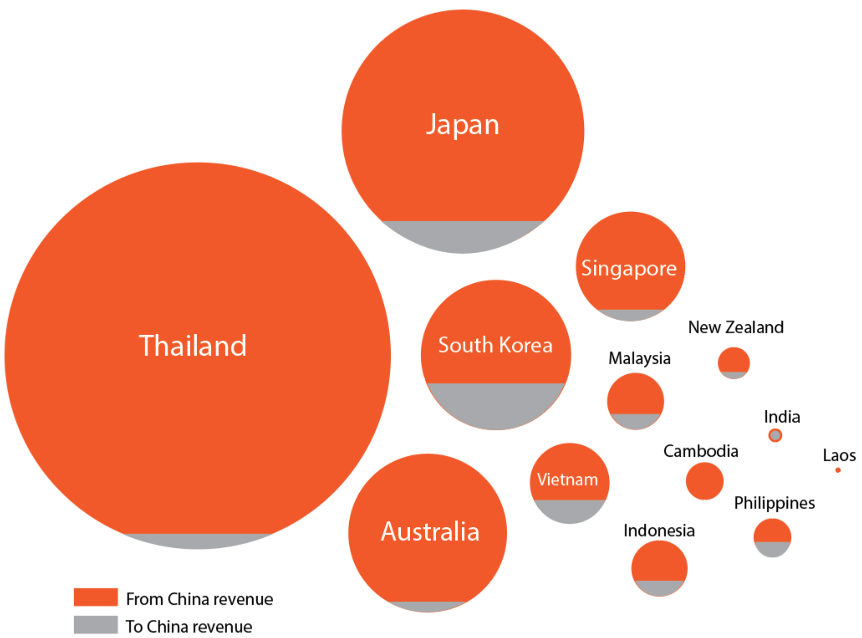
Similarly, recent Singapore data shows 3.4 million visitors from Mainland China spending \$3.9 billion, an average of just over \$1000 per visitor.

For visitors to China, the data is even less clear. A Travel China website puts inbound visitor revenue at about \$123 billion from 140 million trips, a little less than \$1000 per visit.

The United Nations World Tourism Organization gives average revenues per visitor for all the countries we are interested in, so by multiplying visitor arrivals by average revenue, we can calculate revenues for both outbound and inbound Chinese tourism.

One big advantage of the United Nations World Tourism figures is that they provide a comparable set of figures across the whole region. What they don't do, however, is show receipts by country of tourist, only average revenues. To take account of the high spender characteristic noted for Chinese tourists, we have adjusted the average visitor receipts upwards by 25% for each country to reflect this. This is one of many possible sources of error in these estimations.

Tourism receipts and net revenue



Source: https://www.unwto.org/statistics, https://www.pata.org/sic/

To calculate the total loss stemming from Covid-19, we have assumed zero tourism receipts for Asian countries from inbound China visitors. That's obviously a gross simplification, but it fits a scenario where the epidemic lingers long after it peaks. Official travel restrictions may be slow to be removed, and travellers may remain wary long after it is safe for them to travel again.

For Asia as a whole, we also need to add the outbound spend to China, which we also assume is lost in its entirety. In other words, we only net out at the country level, for Asia as a whole, this is all spending that is not happening. All GDP lost. That works out as a loss of $74 billion in inbound Chinese tourism receipts, plus a further $10 billion in lost Chinese receipts from deferred Asian tourism for a total of $84 billion.

80% of tourism in Asia is intra-regional, so if we want to scale this up to include losses stemming from non-China tourism within, and from outside the region, we will need to make some further simplifying assumptions.

There will continue to be non-China intra-Asian tourism. But with many countries in the region having some coronavirus issues, even this tourism is likely to be dampened. With non-China intra-Asian tourist flows about the same as those involving China, we assume a 25% reduction in revenues from this source, rather than the 100% loss we assumed for China. That adds a further $21 billion to our total.

A further $10 billion is an arbitrary modifier to take care of net losses stemming from extra-regional tourism losses (e.g from the US, Europe etc). This takes our grand total to $115 billion.

Note, here, with this final modifier, it is the net loss that counts as we are considering tourism outside the region. If tourists from Asia are also deterred from travelling outside the region given the reception they feel they may receive elsewhere, that may mitigate some of this modifying addition and introduce a further potential source of error.

Leaving out this last $10 billion would, on the one hand, dismiss the potential for further losses outside the region. On the other hand, a more methodically worked estimate is not likely to be large enough to warrant the additional effort involved. We leave it to the reader to decide whether or not to include it, which is why we present the total as a range, rather than a single figure.

Finally, we acknowledge that the expenditures we are measuring do not necessarily represent GDP losses, as those are derived from the value-added of expenditures, not total receipts. But as we are in most cases looking at spending on final services and products, those figures probably aren't a bad approximation, and our use of 2018 figures also adds in a little conservatism that will hopefully net out some of the measurement error that creeps in from additional sources such as these.

In the end, such estimations are intended to shine a light onto potential losses, not provide a surgically precise forecast.

What use are such estimates?

Estimates of GDP loss like this are also a proxy for the threat to employment in these economies. What becomes apparent when you examine the proportion of exports accounted for by travel and tourism, and the proportion of employment that is accounted for by this sector, is that there is a very close, almost unitary relationship.

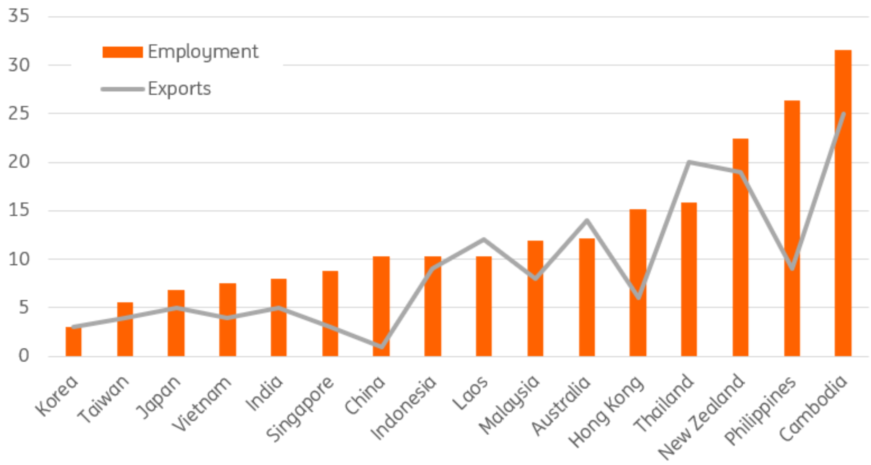
What's interesting here, is that although some of the developing economies of SE Asia are represented at the very top of this comparison, namely Cambodia and of course Thailand, others, such as Vietnam have clearly gone down a different development route, with manufacturing accounting for more employment and exports. Laos is somewhere in the middle, perhaps hampered in becoming more of a tourist hotspot by its lack of coastline.

The big numbers in terms of the GDP loss from this analysis came from the large developed economies of Japan and South Korea, but in terms of the proportion of exports and employment that this represents for them, it is not such a big deal. But this analysis has dealt with only one channel for Covid-19 to affect economic activity. Japan and Korea may face other issues, such as supply chain disruptions in industry. So they are not off the hook.

Furthermore, the employment distinction doesn't fall neatly along income and development lines, with New Zealand, Australia and Hong Kong towards the more exposed end of the chart.

Time will tell the reach and extent of the economic damage that Covid-19 ultimately wreaks. Hopefully, this note will prove helpful for those crafting responses to combat its effects.

Employment and exports related to tourism as a % of total



Source: https://knoema.com/WTTC2019/world-travel-and-tourism-council-data

Sources

Chart 1, 2

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Chart 4

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Snap | 24 February 2020 FX | China

China: PBoC is ready to ease further

The People's Bank of China has decided to ease monetary policy further. This time it is to be focused on smaller firms affected by Covid-19

Source: Shutterstock

Focused monetary policy easing, part 2

Apart from implementing the special re-lending program of CNY 300 billion announced earlier, the central bank is going to encourage financial institutions to support measures to help smaller firms affected by Covid-19. This will include extending loan repayment dates, provide special credit facilities to affected industries' private enterprises and smaller firms, as well as reduce the interest burden on these companies if necessary.

Burden will be shifted to banks

The objective is to prevent a domino effect of a broken liquidity chain. Though the expected monetary easing is still very focused on helping companies to surf the tide of Covid-19, there is increasingly more of a burden on banks. Extending repayments and providing extra credits means that there will be extra capital pressure on banks. Liquidity is not an issue yet as we expect PBoC can manage liquidity through open market operations or targeted reserve requirement ratio cuts.

> We expect the PBoC will cut the RRR from 12.5% to 12.0% for targeted use of the liquidity.

We believe that only some banks can enjoy these targeted cuts or only loans that match a set of requirements to provide critical funding to companies that are eligible for these targeted RRR cuts. We estimate that these measures could release around CNY400 billion of liquidity. This is in contrast to a broad-based RRR cut that could release liquidity of around CNY1000 billion.

The yuan has already strengthened, reflecting market expectations on more easing from the government. We expect the yuan to be stable around 7.03 per dollar when the policy will be announced later.

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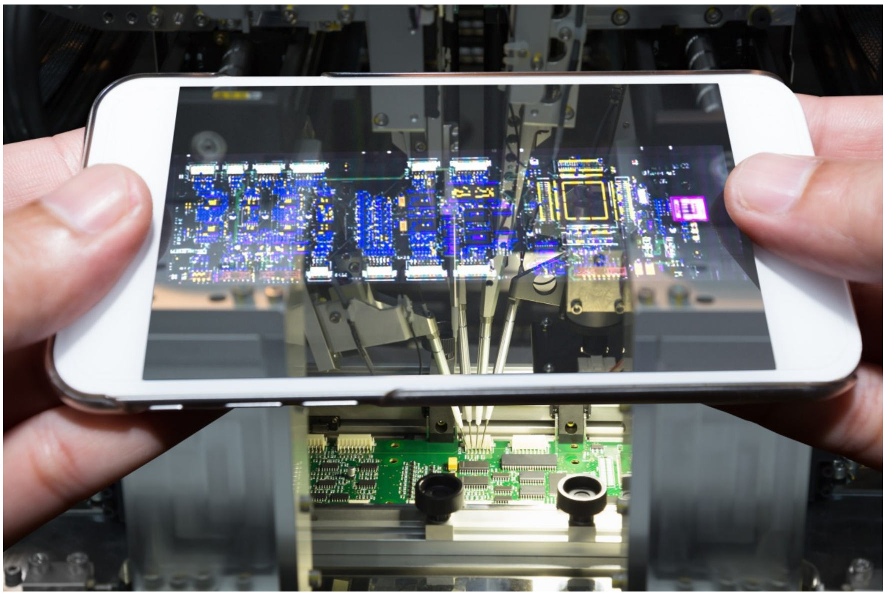
Taiwan: Industrial production yet to feel the coronavirus impact

Taiwan's industrial production surprised on the upside even though it continued to contract. The impact of the coronavirus has yet to be fully reflected in the data. We must wait for February to see the deep damage to the supply chain



Source: Shutterstock

Industrial production fell just a little

Taiwan's industrial production shrank by just 1.51% year-on-year, better than the consensus estimate of -4.0%.

One important factor is that 5G infrastructure has pushed up growth in the manufacturing of integrated circuits by 30% YoY. As we have pointed out on several occasions before the outbreak of Covid-19, 5G is the key area of growth for China in 2020. We still believe 5G is very important for growth this year but it will be slower than expected due to the epidemic.

But it may not be good news for corporate profits

Even if Taiwan is not as severely affected by the coronavirus as Mainland China, disruptions to the supply chain will still prove damaging to its economy.

While manufacturing of integrated circuits has been strong in Taiwan, these electronic parts are unlikely to become part of the final product. Instead, inventories will build up, which will add to GDP growth, but will not count as corporate profits.

We are not optimistic on February's number

We are not reading too much into January's industrial production data and instead will wait for February and March's industrial production data in both Mainland China and Taiwan to gauge first and second quarter exports.

For our forecasts on GDP and the Taiwan dollar, you can read our Taiwan quarterly report, which details how the economy will be hit by Covid-19 and the political situation.

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ASEAN Morning Bytes

The risk of Covid-19 becoming a global pandemic has put risk assets in a tailspin. While we may see some bargain hunting today, there is unlikely to be any lasting relief from weak investor sentiment anytime soon

EM space: Pandemic worries

General Asia: The risk of Covid-19 becoming a global pandemic sent risk assets in a tailspin yesterday. The selloff started in Asia and persisted in European and US trading. While we may see some bargain hunting today, there is unlikely to be any lasting relief from weak investor sentiment anytime soon. Malaysia remains in the spotlight for heightened political risk.

Malaysia: Political uncertainty spiked yesterday with the sudden resignation of Prime Minister Mahathir Mohamad, a big blow to hopes of a smooth leadership transition to his rival-turned-successor, Anwar Ibrahim, later this year. Mahathir still remains the interim prime minister until a new government is formed. This political crisis comes at the worst time for the economy - bracing for a significant beating from the Covid-19 outbreak. It dashes hopes of any fiscal stimulus for the economy and sends the Malaysian ringgit on a steady depreciation path. The USD/MYR traded above our end-1Q20 forecast of 4.20 yesterday. Prolonged political uncertainty could see it depreciating towards 4.50 over the course of the year - a level last seen three years ago.

Thailand: Surprisingly firmer January export growth appears more of a transitory blip and we expect weakness to return as the impact of Covid-19 becomes more pronounced. Besides depressing trade growth ahead, Covid-19 will seriously dent the Thai tourism sector (see also this note on Asian tourism and the coronavirus). The finance ministry is considering soft loans worth THB 100 billion for affected tour operators. We forecast a near-halving of the current surplus this year to about 3.5% of GDP from 6.9% in 2019. 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 31.66).

Singapore: A sharp slowdown in core inflation was a standout in yesterday's inflation release for January. The annual hike in school fees at the start of the year typically pushes core inflation higher. This year there was a cut in fees, dragging the core measure down to 0.3% from 0.7% in December, the lowest reading in over four years. Headline inflation was steady at 0.8%. Subdued inflation provides more reason for the central bank (MAS) to ease in April.

Indonesia: Finance Minister Sri Mulyani Indrawati told media yesterday about an imminent support package for the sectors affected by the virus outbreak. The announcement is expected after a Cabinet meeting later today.

What to look out for: 4Q19 GDP and central bank policies

- Hong Kong 2020 Budget (26 Feb)
- Philippines fiscal balance (26 Feb)
- Singapore industrial production (26 Feb)
- Thailand industrial production (26 Feb)
- Korea central bank meeting (27 Feb)
- US 4Q19 GDP (27 Feb)
- India 4Q19 GDP (28 Feb)
- Korea industrial production (28 Feb)
- Thailand balance of payment (28 Feb)
- US personal income and spending (28 Feb)
- China PMI (29 Feb)

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Article | 24 February 2020 **Malaysia**

Malaysia's Mahathir's resignation comes at the worst time for the economy

Malaysia's prime minister Mahathir Mohammad's surprise resignation means politics looks set to be an added headwind for the economy already reeling under the impact of the coronavirus outbreak. The crisis throws the imminent fiscal stimulus package into disarray and sends the Malaysian ringgit on a steady depreciation path

Malaysian Prime Minister, Mahathir Mohamad

Surprise resignation

His move back into power was a massive surprise, and his resignation is just as surprising too.

Prime minister Mahathir Mohamad resigned today, leaving the ruling coalition, Pakatan Harapan, formed with the party of his rival-turned-successor, Anwar Ibrahim. It was all surrounding the leadership transition to Anwar, which was supposed to happen by May 2020. But Mahathir had been delaying it until the Asia-Pacific Economic Cooperation Summit in November this year and had lately even been ruling out a transition until all problems inherited from the previous government were resolved.

A new coalition with Mahathir at the helm may be a more likely scenario for the most experienced statesman in Malaysian politics

The political drama had been going on since Sunday when a faction of Anwar's People's Justice party reportedly collaborated with Mahathir to reconfigure the ruling Pakatan Harapan coalition and met the King in this regard, although Mahathir was absent at this meeting.

Meanwhile, Malaysian Economic Affairs Minister Mohamed Azmin Ali, who is Anwar's rival within their own party, announced his departure from the party along with 10 other members of parliament, forming an independent parliamentary bloc.

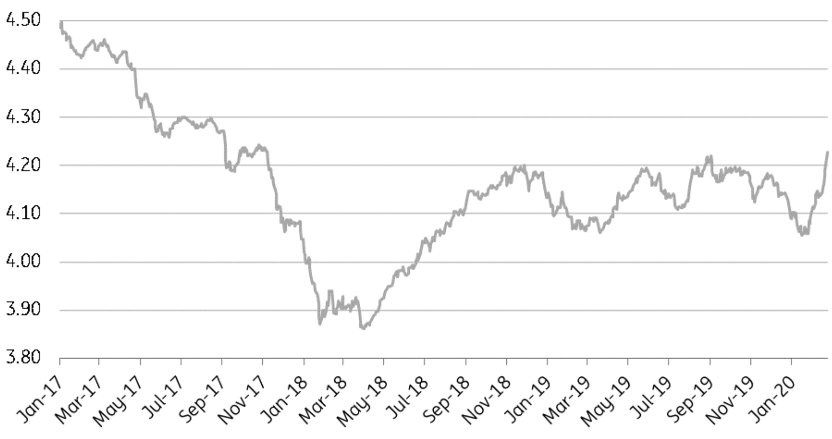
More political uncertainty ahead

It's hard to determine what course politics will take next.

A possibility includes Mahathir forming a new coalition with other parties in the opposition. He needs 112 out of 220 seats and an alliance with the dominant party in the opposition and the one he led formerly, the United Malays National Organisation (UMNO), isn't being ruled out. Or, Anwar could end up taking that route as he was due to meet the King today.

We can't rule out the possibility of new elections if the political stalemate continues for too long. But a new coalition with Mahathir at the helm may be a more likely scenario for the most experienced statesman in Malaysian politics.

USD/MYR - possibly on a steady weakening path ahead



Source: Bloomberg, ING

Not great timing for the economy

The political crisis doesn't come at a great time for the economy already reeling under the impact of Covid-19. While the outbreak is taking a toll on both trade and tourism, the political risk will work to further depress investor confidence. Just recently, we slashed our growth forecast in 2020 to 3.5% from 4.5%, making it the worst year for growth since the

2009 global financial crisis.

> *Prolonged political uncertainty could see the ringgit depreciating toward 4.50 over the course of the year - a level last seen three years ago*

The government was reportedly preparing a stimulus package to soften the impact of the virus but the resignation throws the economic plans into disarray, let alone the extra-budgetary stimulus. As such, the onus lies on the central bank for rate cuts to support growth as there is room for easing due to continued low inflation. We expect a rate cut at the next meeting in March.

The political turmoil has also exacerbated the weakening pressure on Malaysian assets, including the Malaysian ringgit, weakening the exchange rate past 4.20 against the USD - the level we expected for end-1Q20. Prolonged political uncertainty could see the ringgit depreciating towards 4.50 over the course of the year - a level last seen three years ago.

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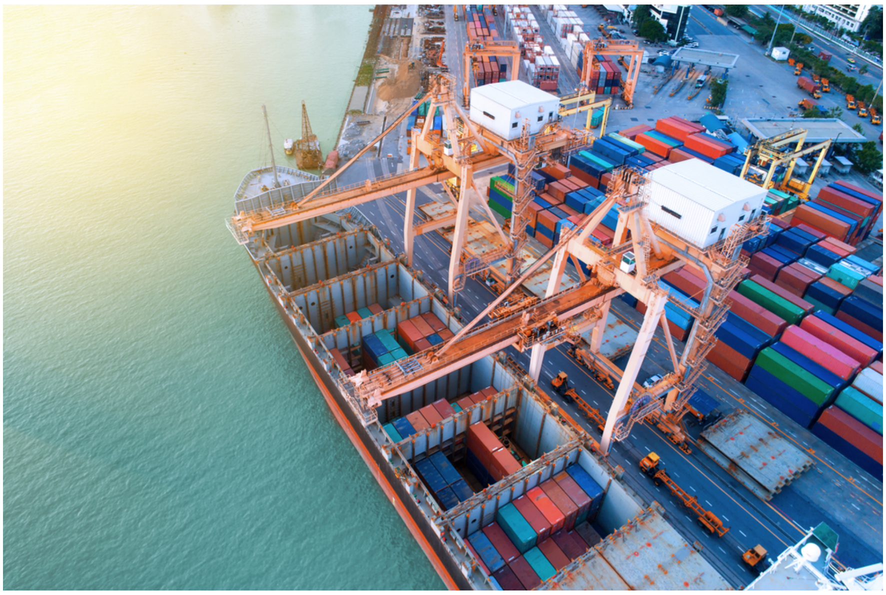
Thailand: January trade growth beats expectations

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%).

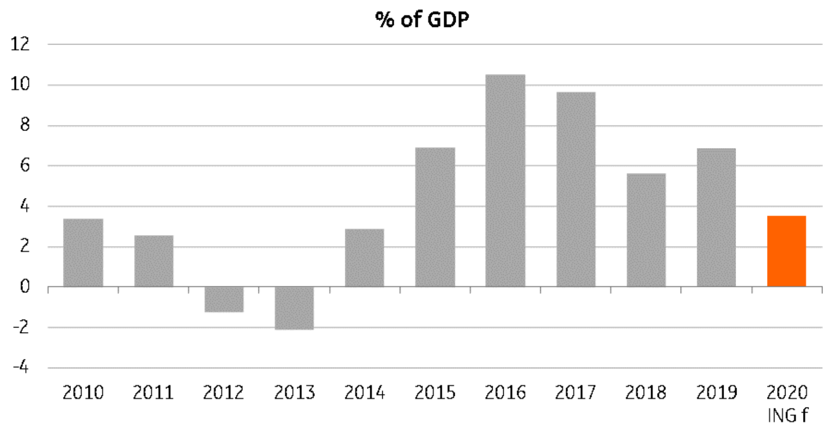
This resulted in a trade deficit of $1.6 billion in January, a significant swing from a surplus of about $600 million in the previous month.

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

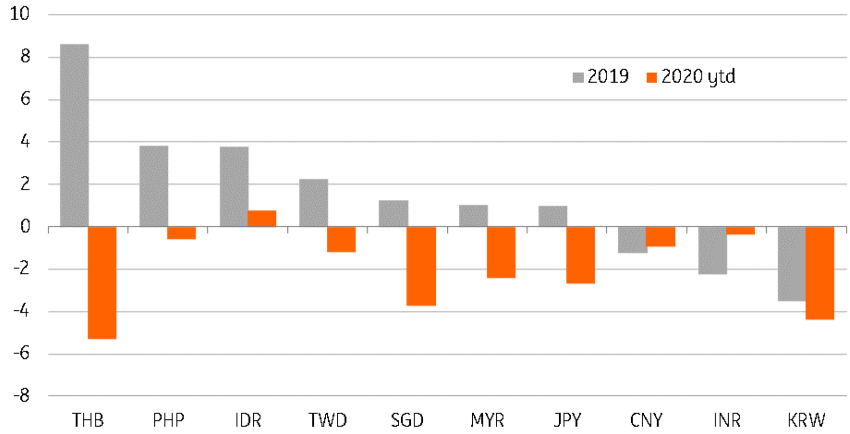
THB re-pricing for narrowing current surplus

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.

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