DBS Focus

Thailand: Trade and growth jitters

DBS Group Research

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Radhika Rao
Economist

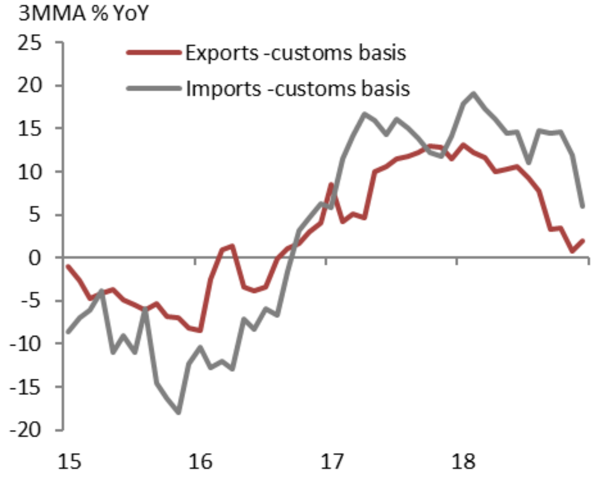
Please direct distribution queries to
Violet Lee +65 68785281 violetleeyh@dbs.com

- *Thailand's trade balance narrowed sharply in 2018. Trade will remain a drag in 2019, with sub-4% GDP growth likely.*
- *Weak exports also suggest slower accumulation in the current account surplus, restraining further appreciation in the THB*
- *Softer growth prospects and weak inflation profile lower the scope of follow-up hikes by the BOT*
- *Elections will be delayed to 24 March*

Thailand posted a surprising trade surplus in December 2018, after two consecutive months of deficits. Customs trade data saw exports undershoot expectations with a -1.7% YoY decline, with the sharp correction in imports (to -8.1% YoY from 14.7% in November), the primary reason behind pushing the balance to a surplus of USD1.1bn.

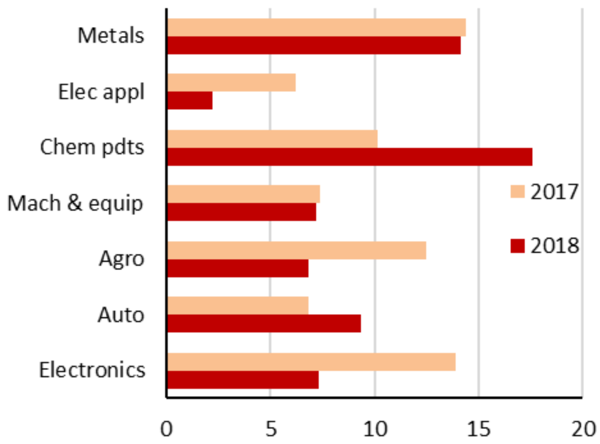
Despite this late-year improvement in the trade balance, the Thai trade sector faced a challenging 2018. Export growth (customs) moderated to 6.9% YoY from 10% year before. Three sectors emerged as the key drags - electronics halved to 7% in Jan-Nov18 vs 14% in 2017 and slower agro shipments (7% vs 12.5%) – which cumulatively make a third of total exports. Automobile shipments kickstarted the year on a strong note with 1H rise at 15%, but slowed to 1H rise to 2% in 2H, reflecting the broader slowdown in the sector in the regional sales.

Exports and imports growth tapers



Source: CEIC, Customs trade data, DBS Group Research

Exports breakdown (Jan-Nov18; YoY) - top 7 sectors; ascending order

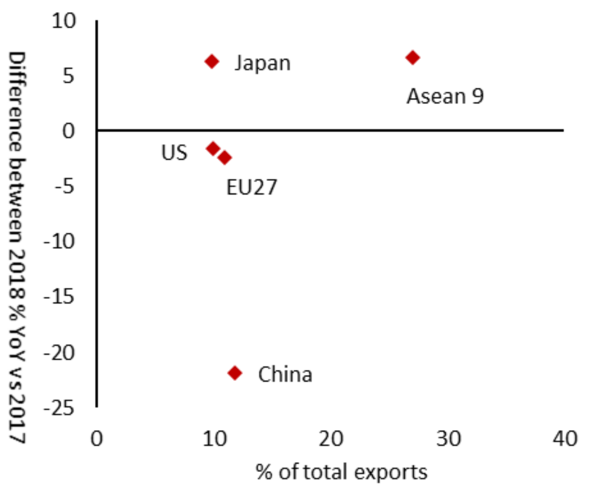


Source: CEIC, Bank of Thailand data, DBS Group Research

Imports were relatively steady at 13% in 2018 vs 2017's 14% in 2017. Making half of Thai purchases, raw material and intermediate goods imports accelerated to 21% YoY, along with a strong pick-up in consumer goods. This saw the trade balance narrow sharply to USD2.4bn down from USD15bn year before, posing a worry for the current account dynamics.

Three reasons are behind the underperformance in Thai external sector, which we suspect will spill over into 2019 as well. First, despite positive newsbytes from the US-China trade negotiations, a downturn in regional PMIs since mid-2018 year set the stage for a weak final quarter trade performance in the region. 4Q18 exports data from South Korea, Taiwan, Singapore, China, Indonesia etc. have disappointed. 2019 is also off to a sluggish start as South Korea's exports dropped 14.6% YoY in the first 20 days of January. This essentially reflects caution amongst regional manufacturers over pipeline export orders, even as lower oil lifts pressure on the input costs and profit margins. Add to this, high-frequency data continues to point towards slower growth in China, with the latter amongst the top export destinations for Thailand. Thai exports to China are already moderating, up 3.2% YoY in January-November 2018, vs 25% rise in 2017. Our China team expects further slowdown in China's growth this year. A pick-up in export demand from Asean9 were insufficient to compensate for a slowdown in purchases from the US and China last year (see chart).

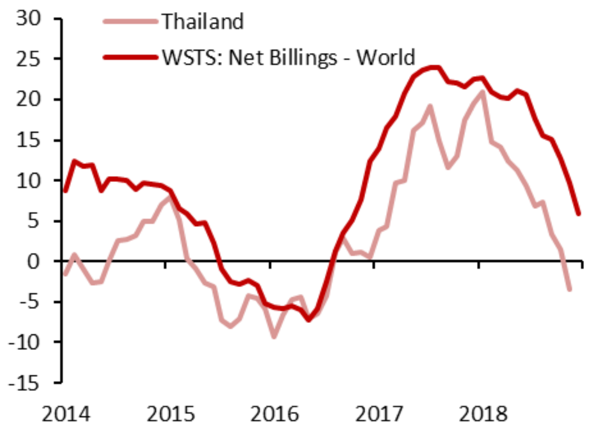
Thailand exports - destinations



Source: CEIC, data transformations by DBS Group Research

Second, part of the slowdown in regional exports reflects a tech-driven downturn, due to a maturing electronics cycle. This applies for North Asian economies and other regional players entrenched in the global supply chain, including Thailand. Recent profit warnings from Apple, Samsung and Foxconn herald tough times, highlighted by price cuts and slower capex plans. Absence of new product lines and inventory overhang have hurt the consumer electronics sector, particularly mobile phones and computers. The slump is likely to extend this year in the absence of fresh catalysts, before the broader 5G network rollout revives activity towards late-2019. While this sector has not yet fallen under the scrutiny of the China-US trade dispute, any deterioration in the bilateral talks or widening of the targeted product net will be a fresh blow for regional trade.

World - net semiconductors' billing vs Thai electronics exports
3MMA, % y/y



Source: CEIC, data transformations by DBS Group Research

Finally, THB outperformance might hurt trade competitiveness at the margin. Fortunately, the baht drew the brakes on its rally towards late 2018, leaving the currency flat on the year. On relative basis i.e. effective exchange rate, the currency was up 3.6% on nominal basis and 2.1% on real basis last year. Into 2019, strong portfolio inflows have hoisted the baht back as the outperformer, up 2.2% vs USD. Another bout of appreciation on NEER/REER basis will be an additional headwind for exporters.

Risks to growth and current account

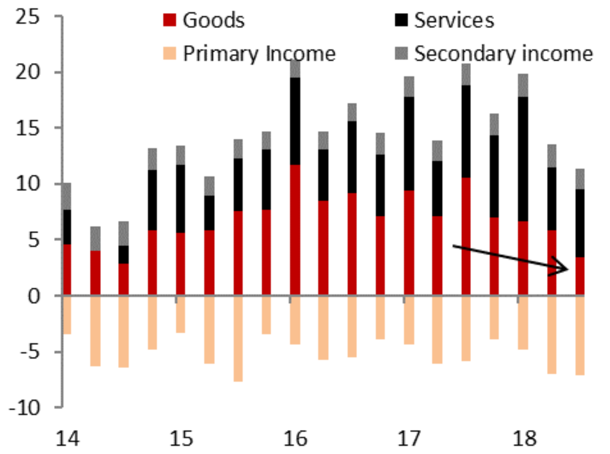
Real GDP growth slowed to 3.3% YoY in 3Q18 from a high of 4.8% in 1Q18. Apart from weaker trade data, sentiment indices softened towards late-2018, even as higher fixed asset investments led by public sector participation is set to improve, helped by pre-election and broader infrastructure boost. **Nonetheless, incoming data has increased the scope of a sub-4% GDP growth number in 4Q18.** Considering evolving risks, we maintain our conservative growth forecast of 3.8% for 2019, factoring in the likelihood that might slow as the shortterm lift to investments passes after the elections and manufacturing slows due to weaker exports. Tourism earnings have also been weaker, with focus on recent measures to boost travel earnings.

At the same time, CPI inflation has fallen below 1% YoY for the second straight month in December while core inflation inched lower to 0.7% in December from 0.8% in June. **A pullback in global oil prices also point to an absence in supply-side pressures, reinforcing our expectations of a pause in policy rates this year.**

A narrower current account surplus is in the offing. As the chart below highlights, the Thai goods and services primarily drives the current account balance. Following the sharp correction in the 2018 trade surplus, the current account balance is also likely to moderate to ~7-7.5% of GDP from 11% in 2017.

Weaker trade balance to drag current account bal

USDbn

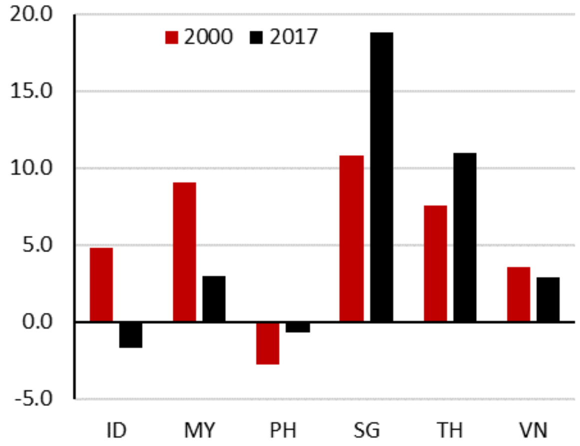


Source: CEIC, data transformations by DBS Group Research

Despite this sharp narrowing, this external balance is still relatively stronger than few of the regional peers, which partly explains the THB's recent outperformance. However, given the risks to the external sector and headwinds to the tourism sector due to a slowing global demand, suggest that the current account balance will moderate further this year, potentially within 6.0-6.5% of GDP range. This and rates on pause, we suspect, will restrain the Thai baht's ability to appreciate further this year.

Stronger external balance vs ASEAN peers

% of GDP



Source: CEIC, data transformations by DBS Group Research

The Thai Royal decree was issued yesterday to authorise the elections in 2019, which was followed shortly by a confirmation by the Election Commission. Elections will be held on March 24, for the first time since a coup was announced in 2014. Separately, as the ASEAN chair, Thailand will hold the summit in mid-2019, just after the incoming government assumes office.

Group Research

Economics & Strategy

Taimur Baig, Ph.D.
Chief Economist - G3 & Asia
+65 6878-9548 taimurbaig@dbs.com

Nathan Chow
Strategist - China & Hong Kong
+852 3668-5693 nathanchow@dbs.com

Masyita Crystallin, Ph.D.
Economist – Indonesia & Philippines
+62 21 2988-4003 masyita@dbs.com

Joanne Goh
Regional equity strategist
+65 6878-5233 joannegohsc@dbs.com

Neel Gopalakrishnan
Credit Strategist
+65 6878-2072 neelg@dbs.com

Eugene Leow
Rates Strategist - G3 & Asia
+65 6878-2842 eugeneleow@dbs.com

Chris Leung
Economist - China & Hong Kong
+852 3668-5694 chrisleung@dbs.com

Ma Tieying
Economist - Japan, South Korea, & Taiwan
+65 6878-2408 matieying@dbs.com

Radhika Rao
Economist – Eurozone, India & Thailand
+65 6878-5282 radhikarao@dbs.com

Irvin Seah
Economist - Singapore, Malaysia, & Vietnam
+65 6878-6727 irvinseah@dbs.com

Duncan Tan
FX & Rates Strategist - ASEAN
+65 6878-2140 duncantan@dbs.com

Samuel Tse
Economist - China & Hong Kong
+852 3668-5694 samueltse@dbs.com

Philip Wee
FX Strategist - G3 & Asia
+65 6878-4033 philipwee@dbs.com

Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations).