Economics

DBS Flash

Thailand: THB seasonality to flip

DBS Group Research

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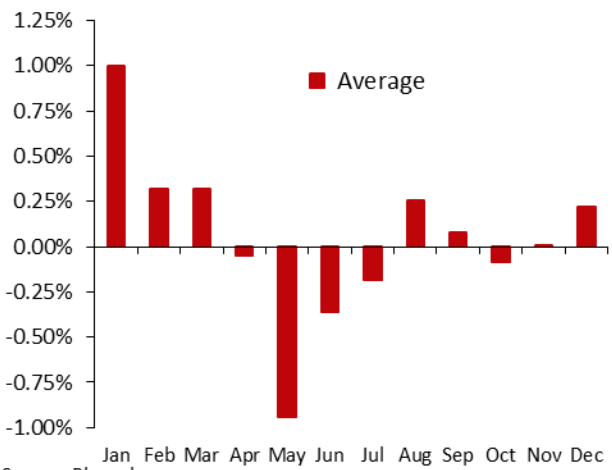
- *We expect seasonality factors to turn against the THB in 2Q.*
- *Despite a strong THB year-to-date, Thai rates have underperformed.*
- *Over the medium term, return potential of Thai rates is likely mixed.*

THB: Maintain underperformance view

The next 3 months could be particularly challenging for the THB. Based on our analysis, there is a high degree of seasonality to THB performance. The THB is seasonally very strong in 1Q and this year was no exception (2.5% appreciation year-to-date, best within Asia). Up next, the THB will be approaching the 2Q period when it is seasonally weak (especially month of May).

THB monthly returns (2000-2018)



Source: Bloomberg

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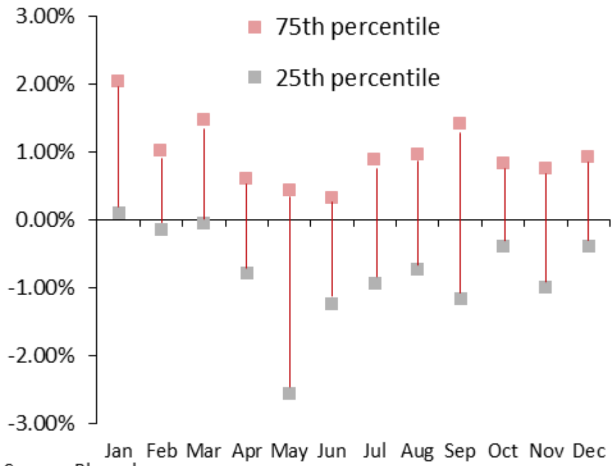


Source: Bloomberg

A couple of structural factors drive the seasonality. Monthly tourism receipts are expected to fall sharply by USD1.0-1.7bn as the tourism season switches from high to low. Dividend repatriation by foreign investors is expected to spike as Thai companies pay their final dividends for the previous financial year (we estimate foreign investors to receive USD2.0bn of dividends between April and June).

Beside seasonality factors, there is also the upcoming elections which could see the THB trade more volatile. Markets are already pricing for it with front-end onshore funding rates inverted and offshore rates trading at a sizable premium to onshore.

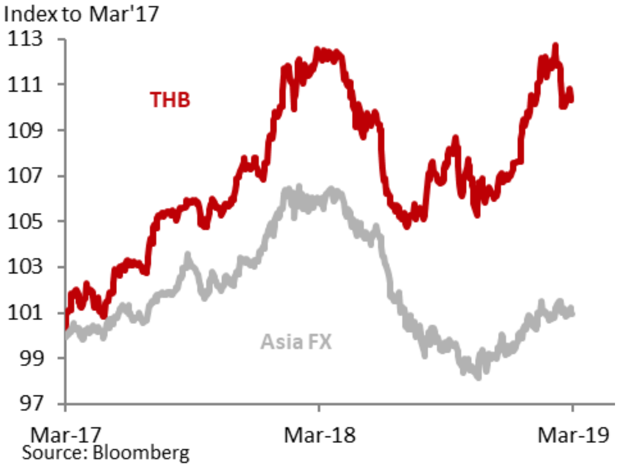
Thai Rates: Return potential likely mixed

Despite a strong THB in 2019, Thai swap and government bond rates have broadly underperformed Asian peers. Bank of Thailand (BoT)'s relative hawkishness vs regional central banks (2 MPC members voted for hike at the last meeting) is putting some pressure on short-term rates. At the longer tenors, investors are probably demanding a greater risk premium to compensate for election-related uncertainties.

Refer to important disclosures at the end of this report.

Beyond the upcoming elections, from a total returns perspective, we do not have a high conviction view on the performance of Thai rates. Up to the 10Y tenor, Thai rates are lower than US's. Unless BoT tilts dovish or EM volatility returns (Thai bonds are somewhat safe haven within EM), there doesn't seem to be much scope for a decent rally. However, Thai rates do enjoy significant carry and rolldown returns from the curve being quite steep (especially the belly). All considered, fixed income return potential is probably mixed. For offshore bond investors, we are not optimistic on fx return potential as we consider the THB to be quite overvalued. On the basis that the THB is likely to be weaker, investors are better off swapping to USD and picking up the extra yield (3M swaps offer 85bps).

THB could be overvalued, having appreciated ~10% against Asian peers over the past 2 years.



Source: Bloomberg

Swap Carry and Rolldown, 1Y horizon

In bps	USD	SGD	THB
3Y	-13.1	1.5	14.5
5Y	-4.0	5.3	12.1
10Y	3.2	9.1	11.0

Source: Bloomberg

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

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