Thai exports declined more steeply than expected in Jan 2019

- Thailand’s exports in January 2019 shrank 5.7% YoY, and even excluding oil and gold, exports fell by 5.1% YoY— a third consecutive month of contraction. This is due to a combination of weak global backdrop and the recent strengthening of the baht. As such, trade deficit widened to USD 4 billion, the highest since 2013 (Chart 1). According to the Bloomberg consensus, the estimate of trade deficit was only USD 326 million.

- Imports surged by 14.0% YoY, but this was primarily a result of the weapons imported associated with the Thai-US Cobra Gold joint military exercise, which vastly overstated the import figure. Note that this will not show up in the current account number, which is prepared on the BOP basis, because there was no change in the ownership of the weapons.

- The weak global backdrop has resulted in slowing global trade (Chart 2). In January, Thai exports to China dropped by an alarming 16.7% YoY, and our exports to ASEAN5 fell by 7.4% YoY. In contrast, our exports to the US expanded by 8.3% YoY, partly benefitting from the US-China trade tariffs.

- The rebound in tourist numbers in January 2019 will likely cushion the blow to our current account from the trade deficit, as tourism receipts grew by 2.4% YoY in the month.

- Our export growth projection of 4.5% for the year 2019 may have looked too optimistic, given the Jan trade data, therefore we would have to lower our baseline 2019 GDP growth forecast of 3.8%, with even greater risks tilted to the downside.

- The baht dropped upon the release of the trade data, with USDTHB weakening from 31.24 to 31.34 immediately. If trade deficits were to turn current account into deficit too, this might finally give a pause to the unrelenting appreciation in the baht.
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