

Thailand's merchandise exports in February contracted with looming downside risks from the Covid-19 outbreak

- Thailand's exports in February contracted 4.5% YoY, following a 3.4% YoY expansion in January, while imports for the month fell 4.3% YoY after dropping 7.9% YoY in the previous month (Chart 1). Trade balance saw a surplus of USD3.9 bn as a result.
- The main drivers of this month's exports decline were oil (-10.7% YoY) and weaponry (-100% YoY). Oil export value declined primarily due to lower prices, while weaponry exports dropped from the effect of a high base in the last year as weapons were transferred back after the Cobra Gold Military Exercise in Jan 2019, which was counted towards the export figure. This year, the exercise took place instead in February; hence we expect to see an increase in weaponry exports in March. In contrast, gold exports (+178.4% YoY) still held up well amid the Covid-19 outbreak. Excluding gold, oil, and weaponry, exports edged up by 1.5% YoY. Agricultural exports fell 3.0% YoY from lower exports of rice (-26.6% YoY), fresh and processed fruits (-16.2% YoY), cassava (-11.0% YoY), and sugar (-3.8% YoY) mainly due to lower external demand and lower production from drought.
- Contraction in February imports was broad-based. The fall was primarily from lower imports of vehicle (-19.2% YoY), fuels (-12.1% YoY), and capital goods (-9.0% YoY). Imports of consumer goods (-6.8% YoY) and raw materials and intermediate goods (-5.5% YoY) went down as well.
- Over the coming periods, the global trade is expected to deteriorate materially as external demand worldwide slump due to the Covid-19 pandemic. The chance of a near-term export recovery remains slim unless the virus pandemic improves significantly. For Thailand, trade is likely to be hit hard in the coming months since exports make up more than 50% of the country's GDP. Imports will also fall in tandem with slumping domestic demand and investment. That said, the magnitude of the outbreak's impact on the global exports, as well as Thailand's, depends on how fast the virus is contained.
- However, the recent development suggested that disruptions from the pandemic would likely linger. Although the virus situation has significantly improved in China, the number of infected cases is still rising rapidly in many countries such as Italy, the US, Spain, Germany, and Iran. Lockdowns and business closures are also becoming the norm. The combination of widespread flight cancellations, falls in production, as well as an oil price war between Russia and Saudi Arabia are leading to a collapse in petroleum prices, especially oil (Chart 2). On March 20, the Bank of Thailand cut its policy rate to a record low of 0.75% at an emergency meeting, as the outbreak seems to be more severe and persistent than previously envisaged. **Against these backdrops, we expect the Thai exports to continue weakening over the coming months until the lockdowns and travel bans start to return to normal.**

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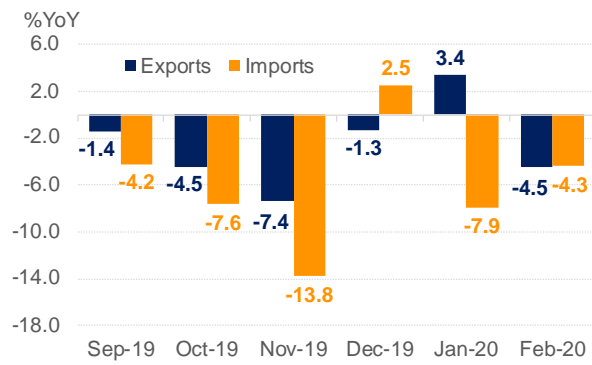
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Chart 1: Thai Export Growth



Source: Ministry of Commerce

Chart 2: WTI Crude Oil Price



Source: CEIC

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