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FX Flash

THB - Still Glittering in Gold

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BoT Stands Pat

BoT kept its policy rate unchanged at 1.5% today, in an unanimous board decision. THB had been softening against the USD since this morning (USDTHB climbed from around 30.55 to just below 30.62), but quickly retraced its weakness post the BoT decision. USDTHB pair was last seen around 30.55.

We note that BoT's estimate of 2019 core CPI is cut to 0.6% vs. 0.7% earlier, indicating continued tame price pressures. 2019 export growth estimate is revised lower to -1% (vs. 0% earlier), while GDP growth is revised to 2.8% (vs. 3.3% earlier). BoT also acknowledged "structural problems" in the economy which would affect competitiveness, as well as potential drag on consumption from slowdown in manufacturing employment. Growth concerns seem to be very much intact. Rationale for the pause would hence have to be attributed to factors such as concerns over remaining pockets of financial stability risks, as well as the need to assess impact of the earlier cut before more actions are taken.

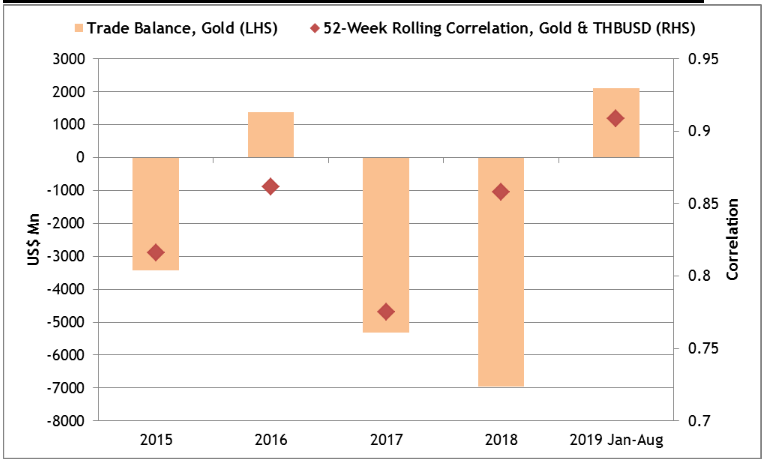
Officials pledged to continue monitoring THB's strength, and may potentially implement more measures to rein it in, if needed. We think that part of THB's recent strength has to do with its relationship with gold.

THB and Gold Now More Closely Intertwined

While Thailand is a net gold importer (on average), gold trading behavior appears to have deviated from longer-term norms in recent months. Alongside the rise in gold prices from just below US$1300 at the start of the year to >US$1500 now, Thailand's gold imports have fallen by more than -50%y/y in the first eight months of 2019, while gold exports have risen by more than 100%y/y. This has led to a modest surplus in gold trade balance over the period. In particular, the share of gold in Thailand's export basket averaged around 7% over Jun-Aug 2019, compared to the longer-term average of around 2%.

Reduction in gold purchases (imports), and drastic spikes in gold sales (exports) in an environment of rising/firm gold prices tend to give some support to THB—Thai gold traders presumably offer up less THB in exchange for USD in gold purchases, and exchange more USD sales proceeds back to THB post-sales. Concomitantly, such shifts in gold trading dynamics could portend tentative shifts in the tightness of relationship between gold and THB. We note that the 52-week rolling correlation between THB (using THBUSD as proxy) and gold prices have increased in recent years, to above 0.9 now. As long as geopolitical risks (trade war, Iran, Hong Kong, Brexit) stay intact, and gold prices remain above US$1500, we expect this channel to continue to impart THB some support in 4Q 2019.

Thailand's Gold Trade Balance and Gold/THB Correlation



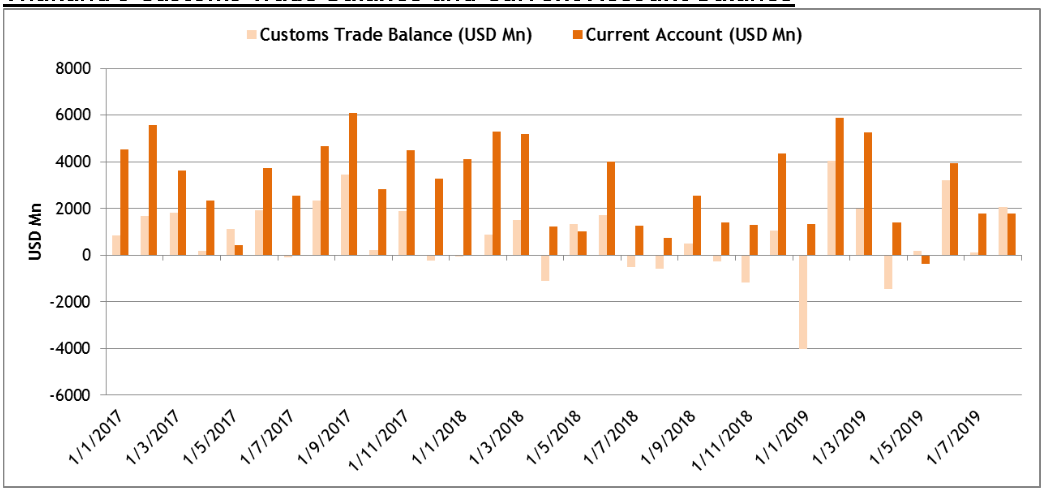
Source: *CEIC, Bloomberg, Maybank FX Research & Strategy Estimates*

Soft Growth Outlook, but Fundamentals Still Favorable

2Q GDP growth (+2.3%y/y vs. +2.8% in 1Q) had eased to a 5-year low as domestic demand dampened further, adding to concerns over the sharp decline in exports (-6.1%). The slump in exports was due to weakness in both goods (-5.8%) and services (-7%). Higher frequency data in Aug subsequently showed exports contracting by -4.0%y/y (vs. +4.2% in Jul), as weakness was observed among exports in both agricultural (rice & rubber) and industrial (vehicles & parts) products. The export outlook could remain challenging in the interim as the US-China trade conflict is set to escalate with tariff hikes starting 15 Oct (to 30% from 25% on previous $200bn of China's exports) and 15 Dec (15% on $160bn). Just today, BoT also acknowledged "structural problems" in the economy which would affect competitiveness, as well as potential drags on consumption from the slowdown in manufacturing employment.

Despite the above, our Economists note that there could be some positivity associated with recovering tourist arrivals after a year-long slump (led by Chinese tourists), as well as a pick-up in FDI interest (applications surged 109% in 1H 2019). [See *Tourism Rebound, Rising FDI & Other Takeaways*, 19 Sep 2019] Indeed, Thailand's Aug tourist arrivals numbers out today showed that total arrivals picked up by +7.4%y/y (vs. +4.7% in Jul), the strongest pace since Dec-18. Chinese tourists (+19%) had made a strong comeback. This could continue in in Sep as the diversion away from Hong Kong and Japan/South Korea continues.

Thailand's Customs Trade Balance and Current Account Balance



Source: *CEIC, Maybank FX Research & Strategy Estimates*

More importantly for investor confidence, there is still a fair chance that Thailand's current account balance could come in at 5-6% of GDP or higher this year, while the budget deficit could be capped at -3% of GDP. These suggest healthy macro fundamentals which will instill longer-term confidence in the value of the THB.

We note that DPM Somkid has recently tried to downplay the role of interest rates in propping up growth (arguing that confidence channels are more important), so extent of cuts from current 1.5% level could be limited. This could help maintain relative yield differentials in Thailand's favour, as more DM and Asian central banks continue to ease, and in turn support the THB.

Low-Beta Stabilizer Role of THB Intact

In end-June, we had experimented with a simulation-based approach to tease out certain behavioral asymmetries and dispersion bands (uncertainty) among currency pairs, given the highly uncertain market environment (see *Exploiting the Behaviours, Asymmetries and Dispersions in FX*).

% Changes in Currency Pairs by End-2019 Under Different External Conditions

	Protracted Trade Conflict (% Change)			Risk-on Re-emergence (% Change)		
	10-percentile	Median	90-percentile	10-percentile	Median	90-percentile
SGDUSD	-5.7	-2.7	0.4	0.7	3.6	6.5
MYRUSD	-8.1	-4.2	-0.1	1.5	4.3	7.1
IDRUSD	-5.5	-2.6	0.3	2.1	4.9	7.8
THBUSD	-2.9	-1.0	1.0	0.3	2.1	4.1
KRWUSD	-9.2	-4.6	0.3	3.8	9.1	14.7
PHPUSD	-4.1	-2.1	0.1	1.6	3.6	5.8

Note: Starting points of currency pair values are as at 20 June 2019. 10-percentile, median and 90-percentile values refer to the respective percentile values out of a range of 10,000 simulated outcomes as at end-2019, under external conditions specified in each scenario.

Source: Maybank FX Research & Strategy Estimates

The exercise revealed that the sensitivity of THB to shifts in external circumstances (trade conflict vs. risk-on) was potentially lower compared to other regional currencies. **Its relationship with gold, which we had highlighted earlier, could be one key factor driving this relative stability. As long as gold prices remain >US$1500, we expect this low-beta behavior of THB to remain intact.**

FX Technical Outlook: USDTHB [Daily] - 30.40 as Key Support

Momentum and stochastics on daily chart do not show clear biases. Pair was testing 21 DMA at 30.55 (21 DMA) earlier today, but gains were not sustained post BoT decision to hold rate at 1.5%. Next resistance is some distance away at 30.71 (50 DMA), then 31.10 (38.2% Fibonacci retracement from May high to Jul low). We view 30.40 (longer-term 23.6% fibo retracement from 2009 high to 2013 low) as a key support level, if THB was to strengthen further. If this level fails to hold, pair could extend losses towards 30.0.

Source: Bloomberg, Maybank FX Research & Strategy

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