FX Flash

THB - Battered For Now

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THB Hit Most Alongside KRW on Covid-19 Worries

THB is one of the worst performing currencies since market concerns over Covid-19 escalated from the week of 20 Jan. The softness in THB has likely been exacerbated by recent sell-offs in the domestic stock exchange and possible repatriation of funds by foreign investors.

Growth concerns are grave. Thailand's dependence on tourism receipts is high at 11.5% of GDP in 2018, with more than a quarter of these receipts attributable to spending by tourists from China. Further, Thailand's imports of intermediate inputs from China (scaled by GDP) are second-highest among AxJ countries, spurring supply chain concerns.

Covid-19 Added to Other THB Risks

Covid-19 was not alone in causing the THB weakness. We note three other factors:

- BoT's recent relaxation of regulations to boost capital outflows.
- Dissipating positive correlation of THB with Gold, which suggests that THB is receiving less support from rising gold prices.
- Political uncertainty has surfaced modestly, alongside an initial hiccup in the Budget.

Softness in Interim, But Some Positivity Expected by Mar/Apr

For now, sentiments could swing on a day-to-day basis but are broadly expected to remain dampened. In particular, rising case counts outside China, in South Korea, has spurred concerns that multiple clusters of contagion could emerge in Asia.

Nonetheless, the NESDC's base case is that the outbreak could peak in March and end by May during which China's ban on outbound tourism could be lifted. If more signs of effective Covid-19 containment emerge, fiscal stimulus, particularly in public investment, could help turn the narrative. A subsequent recovery in tourism flows, as seen during SARS, could also help to anchor THB sentiments for the rest of the year.

We shift our forecasts for USDTHB upwards on larger than expected Covid-19 impact on regional economies, especially with signs of rising contagion in countries such as Korea. If concerns escalate, TA suggests that USDTHB could rise to meet resistances at 31.88, or even 32.40 in the interim. But as drags dissipate, USDTHB may potentially retrace towards 31.30 by end-1Q. Year-end USDTHB forecast is now at 30.70.

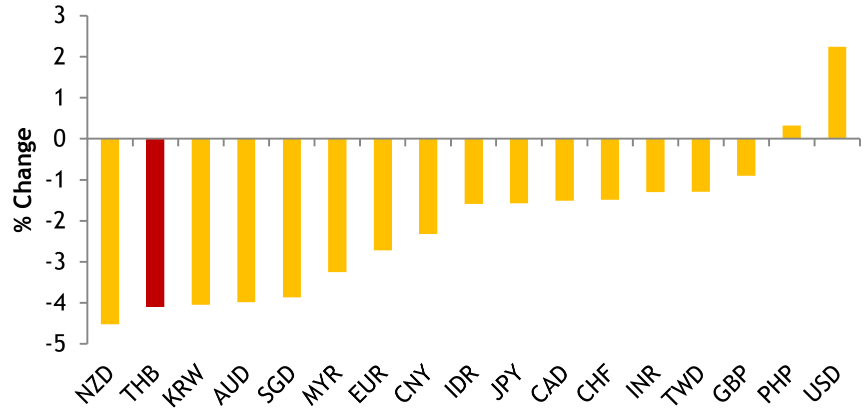
USDTHB Break-Out; Resistance at 31.88, 32.40. Supp. at 31.40, 30.98, 30.43

Source: Bloomberg, Maybank FX Research & Strategy

Battered THB

THB is one of the worst performing currencies since market concerns over Covid-19 escalated from the week of 20 Jan. The extent of THB softness thus far (from 20 Jan to week ending 21 Feb) is around -4%, on par with KRW, and slightly worst off compared to SGD.

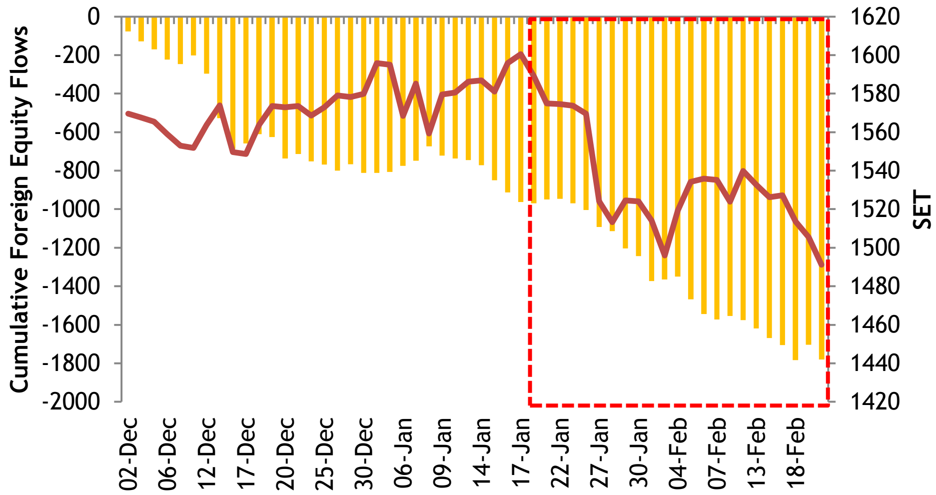
Change in FX (vs. USD) From 20 Jan to 21 Feb



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

The softness in THB has likely been exacerbated by recent sell-offs in the domestic stock exchange and possible repatriation of funds by foreign investors.

Cumulative Foreign Equity Flows and Thailand Stock Index (Since Dec-19)



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

Why the Pessimism?

Growth concerns are grave. The National Economic and Social Development Council (NESDC) has reduced its 2020 GDP forecast range to 1.5% to 2.5% (from 2.7% to 3.7% announced in Nov), mainly on the back of tourism concerns. Forecast for tourist arrivals is lowered to 37mn in 2020 (from 41.8mn), with an expected hit to tourism revenue of around THB150bn or US$4.8bn (compared to 2019).

Country Comparison: Risk Scoring Matrix On Growth Concerns

	Growth Concerns					
Country/ Currency	Tourism: China Visitors' Share	Tourism: Receipts as % of GDP	Supply Chain: Intermediate Goods From China (% of GDP)	Supply Chain: Intermediate Goods To China (% of GDP)	Exposure to China's Domestic Demand (% of GDP)	Risk Score
USD	13.5%	1.2%	1.4%	0.7%	1.2%	8
EUR	6.0%	1.6%	1.0%	1.2%	1.7%	8
JPY	26.9%	0.9%	1.7%	2.2%	2.6%	14
CHF	5.3%	3.0%	1.4%	1.8%	2.4%	12
GBP	3.2%	1.1%	1.0%	0.6%	1.2%	6
CAD	3.4%	1.2%	1.8%	1.8%	1.7%	10
AUD	26.7%	2.3%	2.1%	5.2%	4.9%	29
NZD	14.8%	3.0%	1.9%	2.8%	4.2%	22
SGD	14.5%	5.5%	2.8%	9.1%	7.8%	44
MYR	14.6%	5.8%	9.1%	12.7%	8.5%	60
IDR	13.5%	1.8%	2.4%	2.1%	2.5%	15
INR	2.7%	1.1%	2.3%	0.9%	1.1%	7
THB	27.8%	11.5%	7.7%	7.9%	7.0%	72
KRW	43.9%	1.1%	6.0%	10.5%	6.9%	45
TWD	24.4%	4.3%	5.5%	19.4%	13.0%	78
PHP	17.6%	2.3%	3.2%	5.0%	3.9%	25

Source: CEIC, Bloomberg, OECD-TiVA Database, Maybank FX Research & Strategy Estimates

Note: Scaling is achieved via indexing the largest value in each indicator at 100. Tourism and supply chain sub-scores are computed before averaging with scores for exposure to Chinese domestic demand. Tourism data are as of 2018; estimate for EU is average of Germany & France's. OECD TiVA data as at 2015.

A comparison with other economies shows that Thailand's dependence on tourism receipts is the highest at 11.5% of GDP in 2018, with more than a quarter of these receipts attributable to spending by tourists from China.

Further, it also has significant supply chain linkages with China. Imports of intermediate inputs from China (scaled by GDP) are second-highest among Asian countries, just behind Malaysia.

The overall risk score on growth concerns—computed by averaging and scaling proxy indicators for tourism dependence on, supply chain linkages with and exposure to domestic demand from China—gives a score of 72, just behind Taiwan.

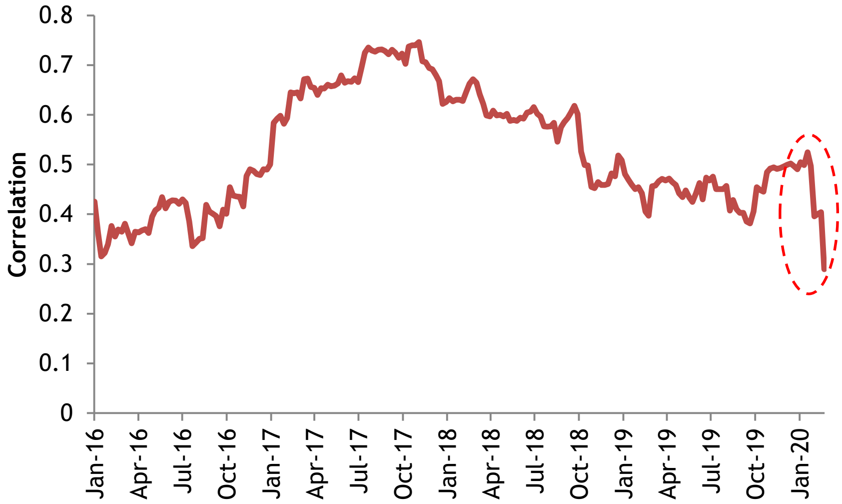
Other Factors Weighing on THB

(i) **BoT's recent relaxation of regulations to boost capital outflows could be weighing on THB sentiments.**

- The first round was announced in Nov 2019—measures include (i) allowing exporters to keep more foreign currency overseas (threshold increased from US$50k to US$200k per lading bill), (ii) allowing retail investors to invest in foreign securities (up to US200k) without going through a Thai intermediary, and (iii) allowing individuals and businesses to conduct fund transfers abroad more easily.
- As of early 2020, additional steps that are in the process of being reviewed and implemented include: (i) further increasing the amount of proceeds exporters can hold overseas to US$1mn per lading bill, which will cover 80% of Thailand's exports, (ii) allowing local companies and individuals to keep foreign currency in Thailand more easily and (iii) allowing insurers to invest abroad more easily.

(ii) **The strong correlation of THB with Gold might be dissipating.**

52-Week Rolling Correlation of returns in THB (vs. USD) and Gold



Source: Bloomberg, Maybank FX Research & Strategy Estimates

In the past, given Thailand's status as a regional gold trading hub, a period of rising gold prices (like what we have seen in the last two months) would have led to reduction in gold purchases, and increases in gold sales by Thai traders. This would usually 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.

But there have been a discernible softening in this relationship recently, possibly because the BoT allowed (since Nov 2019) Thai investors to trade gold in **foreign currencies**. Customers are able to keep foreign currency proceeds from gold investment in their accounts, without having to exchange into baht for subsequent purchases.

In this sense, this channel of support for THB could be dampened structurally.

(iii) **Political uncertainty has surfaced modestly, alongside an initial hiccup in the Budget**.

Thai Court has also disbanded a key opposition party, Future Forward, on the assessment that loans of US$6mn from the part leader Thanathorn to the party breached financing rules. A forced dissolution could stir up anger among the younger urban electorate, and could be a flash-point for demonstrations.

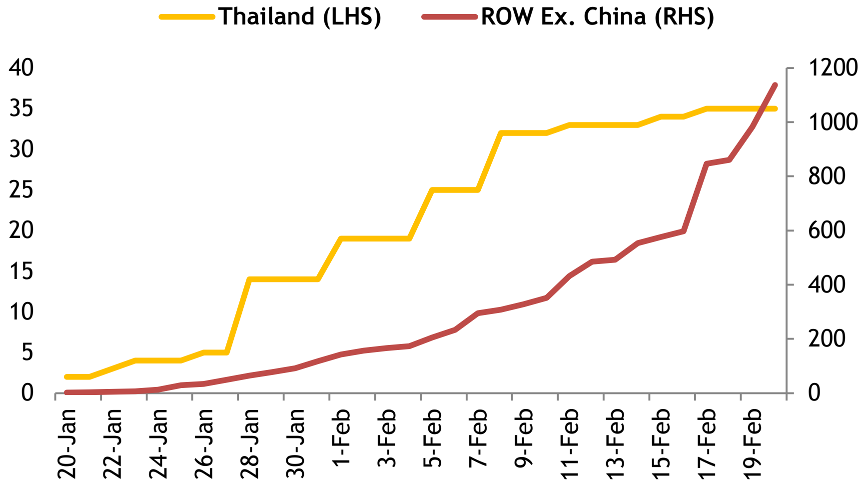
Earlier in Jan, just as markets were cautiously optimistic on the FY2020 Budget being finally approved after a three-month delay, confusion soon arose. Allegations had emerged that some legislators who supposedly voted were not actually present. Worries over further delays in budget disbursement had dampened THB sentiments further then (subsequently resolved).

Buy the Dip? … Some Potential Positivity by March/April

For now, **sentiments could swing on a day-to-day basis but are broadly expected to remain dampened**.

In particular, rising case counts outside China, in South Korea, has spurred concerns that multiple clusters of contagion could emerge in Asia, adding further to worries over eventual supply chain and tourism disruptions.

Confirmed Cases in Thailand and ROW Ex. China



Source: WHO, John Hopkins CSSE, Maybank FX Research & Strategy Estimates

On a comforting note though, cases in Thailand are showing some signs of stabilizing vs. ROW (ex. China). The NESDC's base case is that the outbreak could peak in March and end by May during which China's ban on outbound tourism could be lifted. **When more signs of Covid-19 containment emerge, fiscal stimulus could help turn the narrative**.

Earlier concerns over the Budget should dissipate as it was finally passed by the Senate and is currently awaiting Royal endorsement. Public investment, which was weak previously (-5.1%y/y in 4Q 2019), will be closely watched. Of the THB640bn investment budget, THB400bn will be disbursed by 2Q, and THB240bn will disbursed by 3Q, according to the Finance Minister.

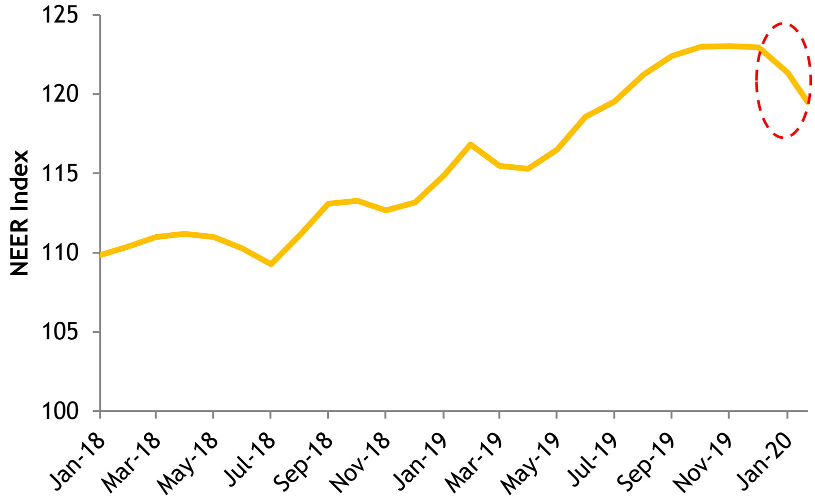
Fresh stimulus measures such as a higher budget for Village Funds, soft loans for water resource development and a new phase of the Taste-Shop-Spend scheme will be launched soon to provide support to growth in 1H. The government is also preparing relief measures for tourism operators hit by the outbreak including soft loans, tax incentives and training courses.

A subsequent recovery in tourism flows—during SARS, tourism flows turned around in June after emergence of concerns in Feb 2003—could be the positive trigger needed to anchor THB sentiments for the rest of the year.

Longer-Term Fair Value Monitor

We note that THB NEER (trade-weighted basket basis) has fallen by around -3% since peaking in Oct-Nov last year. Most of the decline was in early 2020.

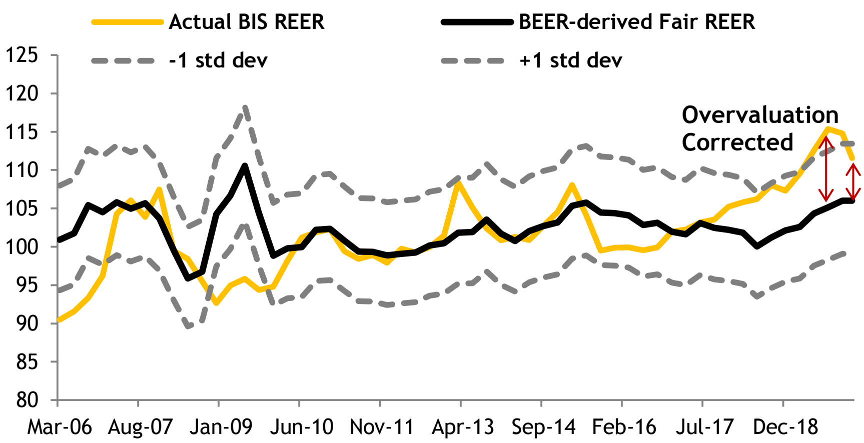
Nominal Effective Exchange Rate for THB



Source: BIS, Maybank FX Research & Strategy Estimates
Note: Data from BIS has last monthly data point at 31 Jan 2020. Spot as at 21 Feb is estimated.

As a result, although our fair value model (see piece here for fair value framework) still shows THB REER to be overvalued, by around 5% on a trade-weighted basis, the **extent of misalignment has corrected** from around 8% in end-2019. Notably, the actual REER is now within 1 std dev. uncertainty band from the fair value estimate.

Model-Derived THB Fair Value and Actual THB REER



Source: BIS, CEIC, Bloomberg, Maybank FX Research & Strategy Estimates
Note: BEER-derived fair value is from panel dynamic ordinary least squares estimation (panel DOLS), incorporating variables such as net foreign assets, trade exposure, productivity differentials with trading partners and real interest rate differentials with trading partners.

Summary of Outlook

Forecast	1Q 2020	2Q 2020	3Q 2020	4Q 2020
USDTHB	31.30 (30.80)	31.10 (30.60)	30.90 (30.40)	30.70 (30.20)

Previous Forecast in Parenthesis

Given the various aforementioned factors weighing on the THB (including signs of worsening in Covid-19 contagion in regional countries such as Korea), we take the opportunity to shift our forecasts for USDTHB upwards. But we leave the subsequent THB recovery trajectory intact, on support from fiscal stimulus and potential recovery in tourism flows. While end-Q1 forecast is at 31.30, we also note the possibility for USDTHB to see some overshooting (upwards) in the interim, with 31.88 and 32.40 as potential resistance levels. Our new year-end USDTHB forecast is 30.70.

USDTHB Technicals

Weekly chart - USDTHB Break-Out, Bullish Divergence Underway

Source: Bloomberg

USDTHB has broken out of its falling wedge (formed since Dec-2018). At the same time previously-observed bullish divergence on MACD is also underway.

Pair was last seen at 31.65 levels, after consolidation in 30.98 - 31.43 range. Bullish momentum intact but RSI in overbought conditions. Immediate resistance at 31.88 (61.8% fibo retracement of Dec-2018 high to 2020 low) needs to be broken for upward momentum to gain traction.

An eventual move towards 32.40/50 levels (textbook objective of the bullish flag formation) should not be ruled out. Support at 31.40 (50% fibo), 30.98 (38.2% fibo) before 30.43 (23.6% fibo).

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