

Macro Note

Thailand's June Exports Fall 2.2%, Expecting Zero Growth This Year

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- Thailand's June exports dropped 2.2% y/y with value of US\$21.4 billion amid a global economic slowdown and the US-China trade tensions.
- June imports contracted 9.4% y/y led by imports of raw materials, crude oil and capital goods.
- For the first half of 2019, exports and imports fell 2.9% y/y and 2.4% y/y respectively.
- We reiterate our view that the BoT will keep the policy rate on hold on 7 August 2019.

Due to the US-China trade dispute and global economic slowdown, Thailand's June exports fell 2.2% y/y to US\$21.4 billion, improving from a 6.2% decrease in the previous month. For the year to the end of June, exports dropped 2.9% from the same period in 2018. A plunge in June exports was mainly due to exports of computer and parts (-15.5% y/y), oil-related products (-22% y/y), integrated circuits (-20.6% y/y) and steel and iron products (-15.5% y/y). As for agricultural products, exports of rice, sugar and cassava products declined 34.6% y/y, 19.4% y/y, and 17.5% y/y, respectively. However, exports of motorcycle and parts and air-conditioners expanded 5.7% y/y and 9% y/y, respectively. Some agricultural export products still increased such as rubber products (+11.8% y/y) and beverages (+2.8% y/y). By destination, exports to all major markets including the US (-2.1%), the EU (-7.7%), Japan (-1.9%), China (-14.9%) and ASEAN-5 (-3.5%) dropped in June. Nevertheless, exports to India grew 8% y/y. **Consistent with the drop in exports, we expect June export-related manufacturing production to exhibit a similar pace of contraction.**

June imports dropped 9.4% y/y to \$18.2 billion, after decreasing 0.7% in the prior month. The imports of raw materials and capital goods contracted 5.2% y/y and 11.3% y/y, respectively. Meanwhile, the imports of crude oil decreased 27.2% y/y. That resulted in a trade surplus of \$3.2 billion, above \$181.5 million in a month earlier.

We are targeting merchandise export growth for the whole year at zero growth in part due to the US-China trade tensions after a 6.7% rise last year. Thailand is deeply entrenched in the global supply chain, and the tariffs imposed by the US on China will have a direct harmful impact on Thai exports such as computer parts and integrated circuits. In addition, the steady appreciation of THB may weaken Thai exporters' income in the local currency. On the same note, the appreciation of THB by 7.1% y/y in the nominal effective exchange rate (NEER) in June weakened Thailand's international competitiveness against its trade competitors.

In terms of monetary policy, we expect the BoT to keep the policy rate unchanged at 1.75% on 7 August 2019 as the Thai economy will likely grow more slowly than its potential amid uncertainties stemming from the US-China trade tensions and headline inflation would stay near the lower bound of the official inflation target range of 1% to 4% this year. Meanwhile, overall financial conditions remain accommodative and conducive to growth.

Indicator	Jun 2019		Jan-Jun 2019	
	Million USD	Growth (%)	Million USD	Growth (%)
Exports	21,409.3	-2.2	122,970.7	-2.9
Imports	18,197.1	-9.4	119,027.4	-2.4
Trade Balance	3,212.2	-	3,943.2	-

Source: MOC, UOB Global Economics & Markets Research

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