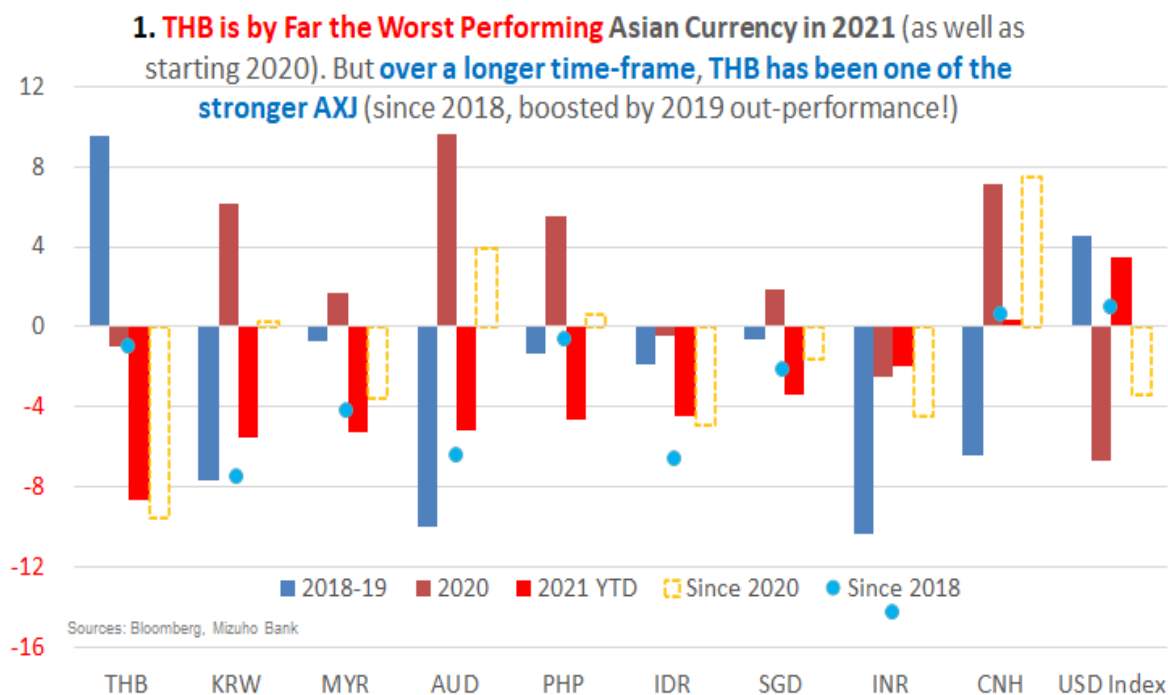


What's Troubling the Thai Baht?



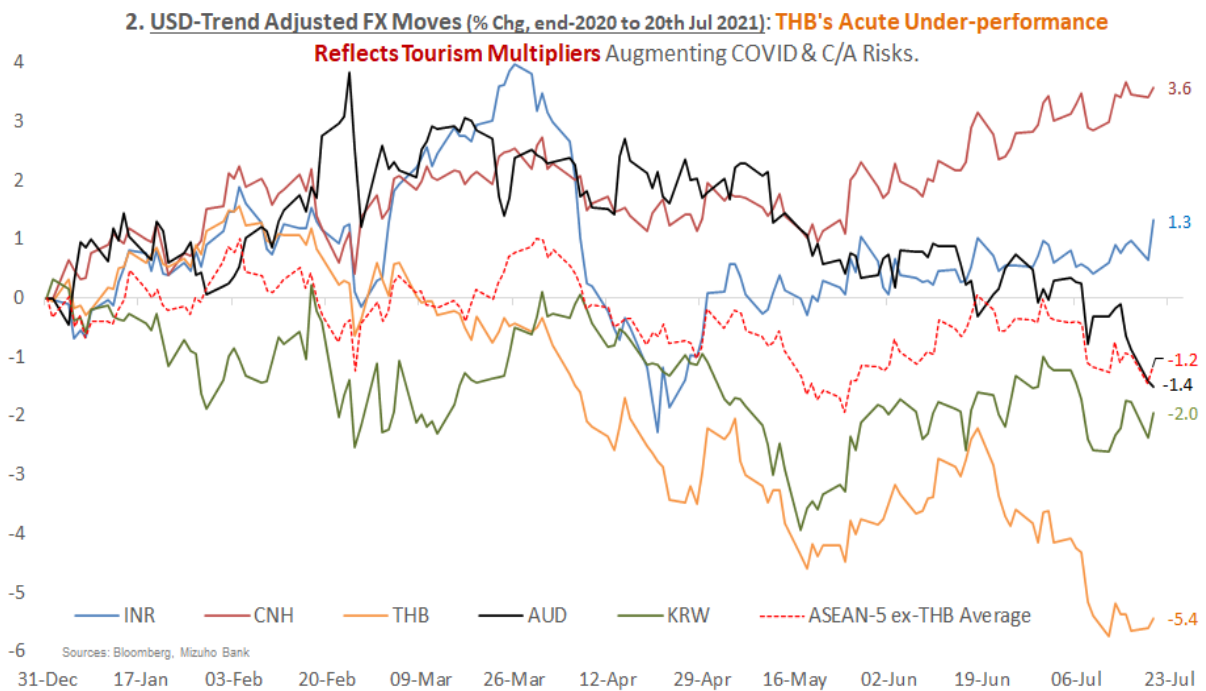
In a Nutshell: Uncharacteristic under-performance in the Thai Baht, rendering it the worst performer to date in 2021, begs the question of the drivers behind exceptional pressures. In fact, at face value, THB as the unequivocal and significant laggard does not square with Thailand's solid (albeit diminished) C/A surplus or relatively low inflation (which reassures real return). What's more, THB under-performance cannot be attributed to COVID headlines prima facie, given far more dismal "delta variant" outbreak/risks in the region.

But closer scrutiny reveals Thailand's structural "tourism multiplier", which amplifies (cyclical?) COVID devastation on the economy; and ties back to THB woes. This "tourism multiplier" should not be under-estimated given potential for far more pervasive and compounding adverse effects in excess of Thailand's exceptionally large reliance on tourism; as initial shock waves rippling via revenue channels may be amplified on balance sheet and jobs impact. A more direct observation of THB pressures from "cash-flow" is arguably better reconciled with shifts in, rather than absolute levels of, the Current Account. What this means is that further "variant risks" and attendant rolling delays to tourism/travel resumption will continue to pose a clear and present threat to the THB.

Uncharacteristic Weakness

The Thai Baht is by far the worst performing currency in 2021; revealing "COVID under-performance" since 2020. What's worth noting is that the THB is in the unfamiliar company of rupiah ((IDR) and rupee (INR) to be the only EM Asian currencies region to also fall in 2020 at a time when the USD was entrenched in a bearish trend (Chart 1). This is not just uncharacteristic, but a sharp reversal of fortunes for a currency that suffered "excessive" strength boosted by its unwelcome quasi safe-haven status in 2018-19; when the THB surged some 9-10% in defiance of broad-based (4-5%) USD gains that knocked back most other AXJ (Chart 1).

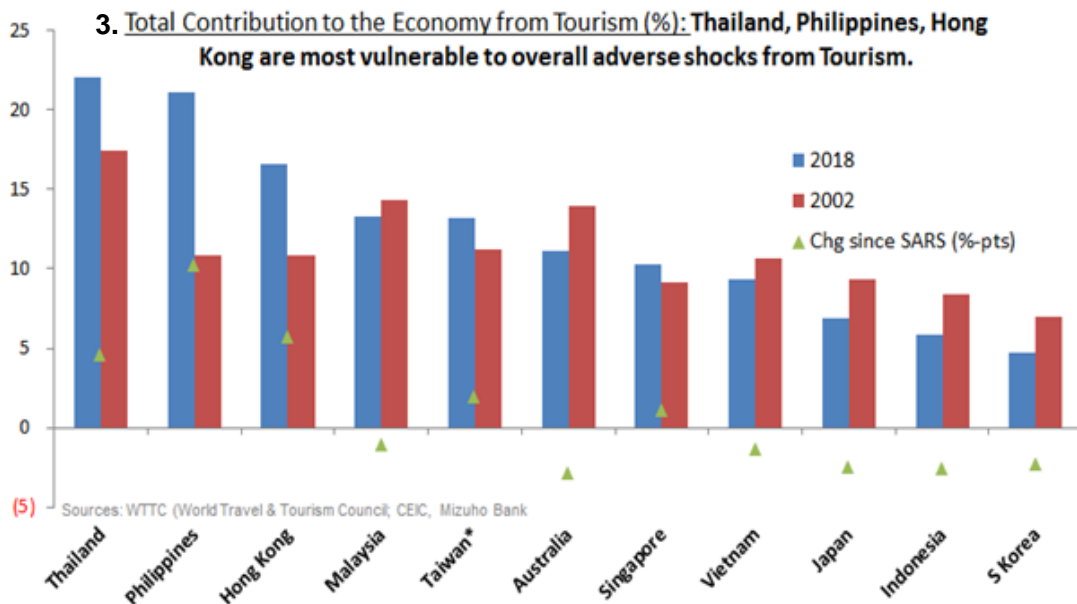
Given that overwhelming and extreme swings in USD trend – from an ultra-bearish wave last year to signs of a bullish turn this year – sometimes obfuscate specific currency moves/trends, it is useful to look at currency performance with the USD trend backed out (Chart 2 overleaf); which only reinforces the degree of THB under-performance rather than vindicating it.



Hidden Stress ...

And so, the conundrum is that the **THB has gone from evoking frustration about excessive strength** (in 2018-19) **to triggering concerns over sharp, outsized declines** (in 2021). This **begs the question of what's troubling this C/A surplus economy known for low inflation** (and corresponding steady positive real returns), which are typically associated with currency support from the rates and cash-flow channels. The inescapable conclusion that is hard not to suggest is that there are **hidden sources of stress beleaguering the THB**.

An **intuitive (and instinctive) answer** is that the **COVID impact on Thailand has been a lot more adverse than headline COVID metrics** (cases, vaccinations, etc) **suggest at first glance**. Point being, while Thailand's delta outbreak and vaccination woes/lags are far from the worst in the region (See Appendix Charts), **adverse impacts are amplified via Thailand's exceptionally high reliance on tourism** (Chart 3); which is in any case dependent on regional/global pandemic control.

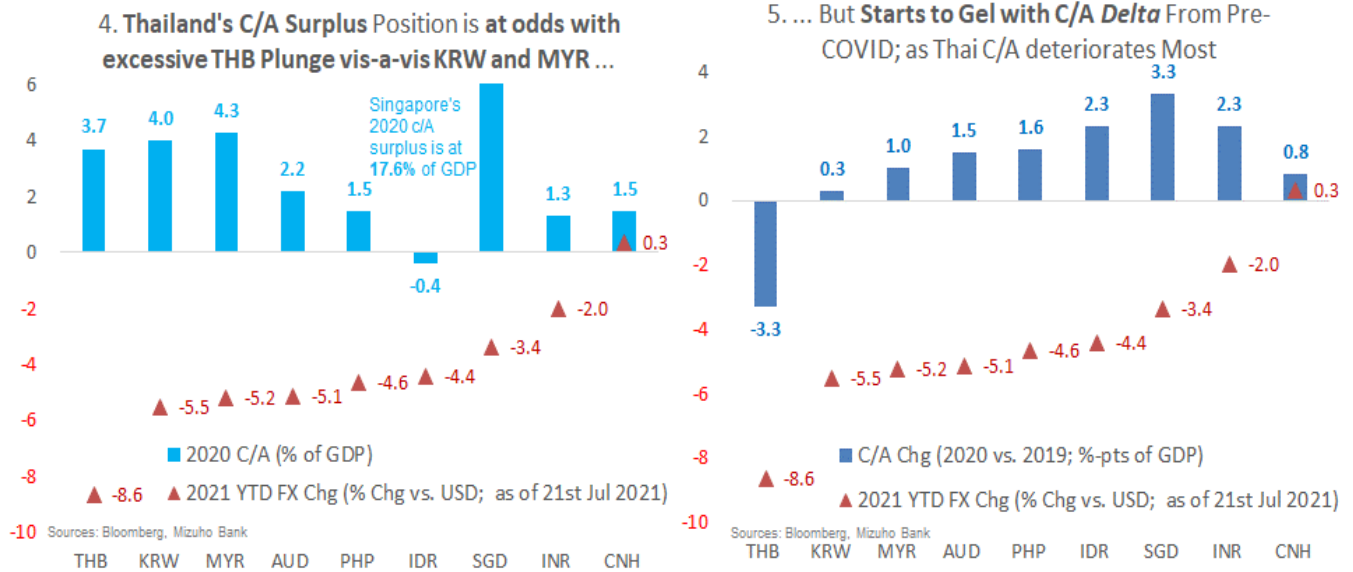


... From Tourism "Multipliers"

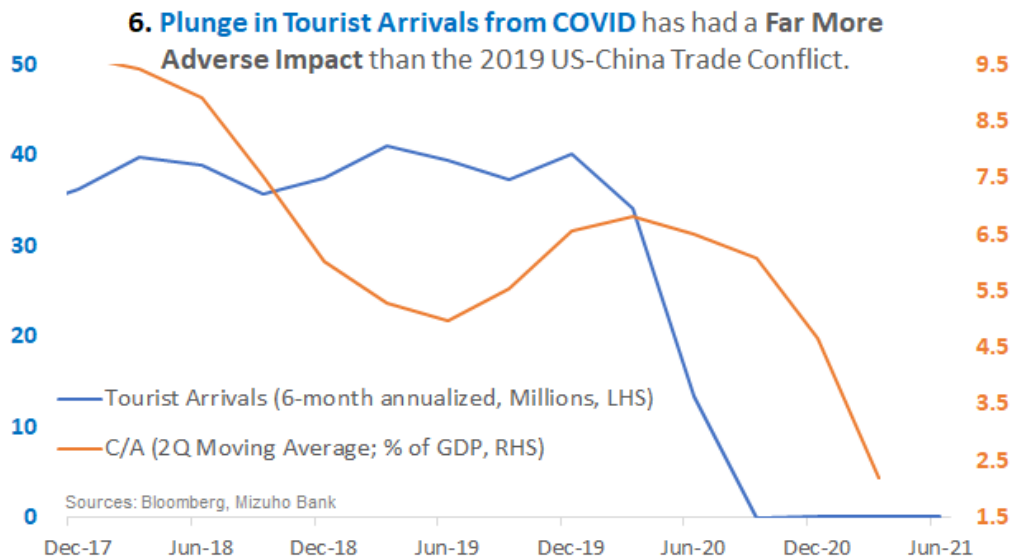
In other, words, the **THB is reflecting vulnerabilities to global COVID risks amplified by the so-called Tourism multiplier**; whose **adverse impact is far-ranging** from; i) **aggregate tourism revenues forgone** (showing up as cashflow shortfall in the Current Account) to; ii) **bankruptcy and default risks** (set to appear on corporate and bank

balance sheets as liquidity stress morph into solvency issues) and; iii) *consequent job losses* in the tourism and peripheral sectors. Upshot being, a closer examination of economic linkages and the attendant financial ripples start to reveal bases for what initially appeared to be exaggerated, if not confounding, THB underperformance.

Not So Hidden “Delta”



In fact, **THB weakness despite its solid Current Account surplus**, which does not appear sensible in absolutes, **reconciles better in the “delta”** (difference/change) **triggered by COVID** (Charts 4 & 5). Fact is, while **Thailand’s near-4% Current Account surplus** stood shoulder to shoulder with the likes of Korea and Malaysia in 2020 reveals itself to have had a **better footing pre-COVID** (2019 C/A: 7.0% of GDP); with **very real diminution in the services surplus that has been seriously eroded by tourism dollars forgone**. This is a point laid bare in the **plunge in tourist arrivals in Thailand corresponding with C/A plunge** (Chart 6).



Of Recovery & Remaining Risks

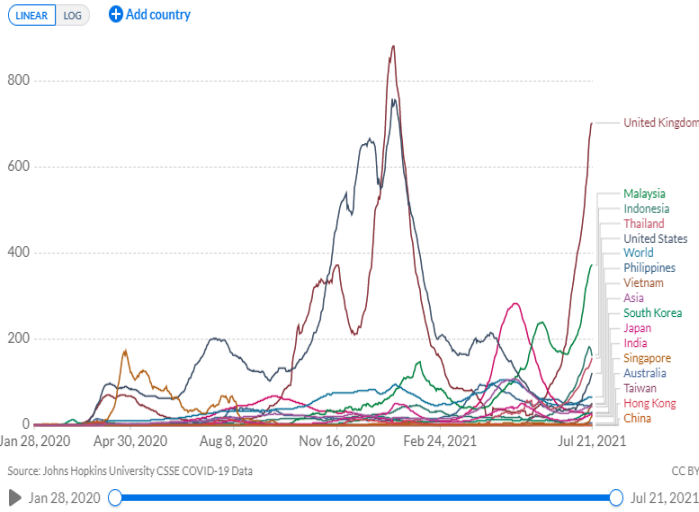
To be sure, the **setback to global travel reverberating through Thailand’s exceptionally large “tourism multipliers”**, while the overarching reason why the THB is languishing at the bottom of the EM Asia FX pile, **is not the only reason**. To a lesser extent, **fiscal strains as COVID prolongs**, Thailand’s **challenges with vaccine procurement** as well as **supplementation** (amid Sinovac lapses) and **undercurrents of socio-political risks** also factor in; sometimes featuring prominently.

But the sheer force of this “tourism multiplier” means that it remains the decisive drag on THB. But as a corollary, a **more sustained and emphatic recovery in global tourism travel** (most likely H2-2022 to 2023) **will set the stage for a smart snap-back in THB; at least relative to other EM Asia FX**. Especially as a restoration of solid C/A surplus and real returns revive THB’s allure as a quasi-safe haven; should “taper” induce pressures on “twin deficit” currencies.

Appendix Charts (Source: Our World in Data)

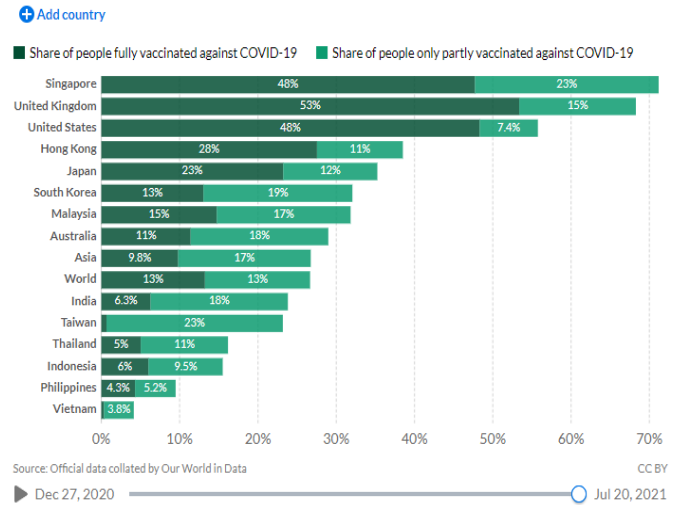
Daily new confirmed COVID-19 cases per million people

Shown is the rolling 7-day average. The number of confirmed cases is lower than the number of actual cases; the main reason for that is limited testing.



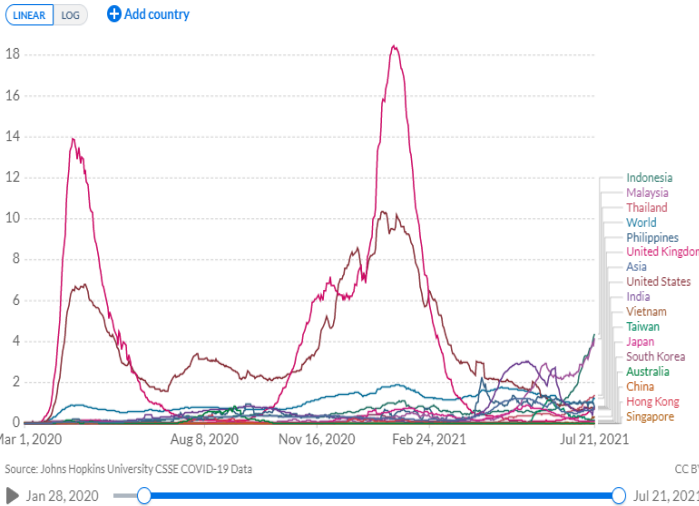
Share of people vaccinated against COVID-19

This data is only available for countries which report the breakdown of doses administered by first and second doses.



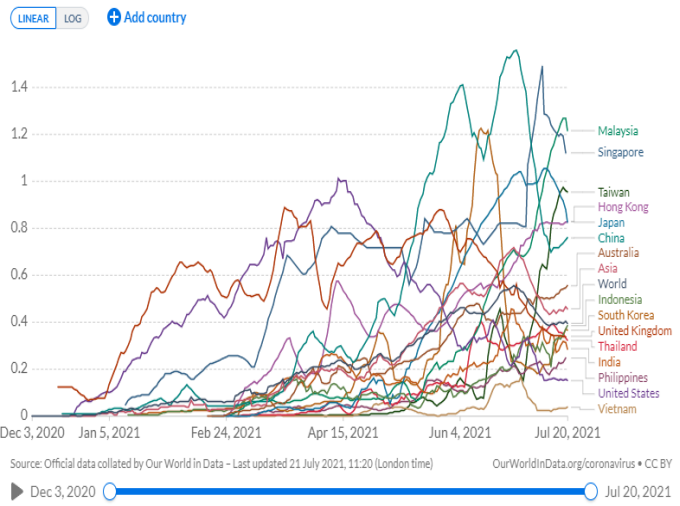
Daily new confirmed COVID-19 deaths per million people

Shown is the rolling 7-day average. Limited testing and challenges in the attribution of the cause of death means that the number of confirmed deaths may not be an accurate count of the true number of deaths from COVID-19.



Daily COVID-19 vaccine doses administered per 100 people

Shown is the rolling 7-day average per 100 people in the total population. For vaccines that require multiple doses, each individual dose is counted.



Important Information

This publication has been prepared by Mizuho Bank, Ltd. (“Mizuho”) and represents the views of the author. It has not been prepared by an independent research department and it has not been prepared in accordance with legal requirements in any country or jurisdiction designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

Disclaimer

Unless otherwise stated, all views or opinions herein are solely those of the author(s) as of the date of this publication and are not to be relied upon as authoritative or taken in substitution for the exercise of judgement by any recipient, and are subject to change without notice. This publication has been prepared by Mizuho solely from publicly available information. Information contained herein and the data underlying it have been obtained from, or based upon, sources believed by us to be reliable, but no assurance can be given that the information, data or any computations based thereon are accurate or complete. This publication provides general background information only. It is information in summary form and does not purport to be complete. This publication has been prepared for information purposes only and is not intended by Mizuho or its affiliates to constitute investment, legal, accounting, tax or other advice of any kind and all recipients of this publication are advised to contact independent advisors in order to evaluate the publication, including, without limitation, the suitability of any security, commodity, futures contract or instrument or related derivative (hereinafter, a “financial instrument”), product or strategy herein described. This publication is not intended to be relied upon as advice to investors or potential investors and does not take into account investment objectives, financial situation or needs of any particular investor. It is not intended for persons who are Retail Clients within the meaning of the United Kingdom’s Financial Conduct Authority rules nor for persons who are restricted in accordance with US, Japanese, Singapore or any other applicable securities laws.

This publication has been prepared for information purposes only and is not intended by Mizuho to market any financial instrument, product or service or serve as a recommendation to take or refrain from taking any particular course of action or participate in any trading or other strategy. This publication is not an offer to buy or sell or a solicitation of any offer to buy or sell any security or any of the assets, businesses or undertakings described herein, or any other financial instrument, nor is it an offer to participate in any trading or other strategy, nor a disclosure document under applicable laws, rules, regulations or guidelines. Nothing contained herein is in any way intended by Mizuho or its affiliates to offer, solicit and/or market any financial instrument, product or service, or to act as any inducement to enter into any contract or commitment whatsoever. Neither the author, Mizuho nor any affiliate accepts any liability whatsoever with respect to the use of this publication or its contents or for any errors or omissions herein.

Mizuho and its affiliates, connected companies, employees or clients may take the other side of any order by you, enter into transactions contrary to any recommendations contained herein or have positions or make markets or act as principal or agent in transactions in any securities mentioned herein or derivative transactions relating thereto or perform or seek financial or advisory services for the issuers of those securities or financial instruments.

All of the information contained in this publication is subject to further modification without prior notice and any and all opinions, forecasts, projections or forward-looking statements contained herein shall not be relied upon as facts nor relied upon as any indication of future results. Opinions stated in this publication are subject to change without notice. Future results may materially vary from such opinions, forecasts, projections or forward-looking statements. The information contained in this publication may not be current due to, among other things, changes in the financial markets or economic environment. Mizuho has no obligation to update any information contained in this publication. Past performance is not indicative of future performance.

This is a strictly privileged and confidential publication. This publication contains information addressed only to a specific individual and is not intended for distribution to, or use by, any person other than the named addressee or any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation. Save with Mizuho’s prior written consent, you may not disclose, divulge, reproduce or furnish any information contained herein to any other party. Please notify the sender immediately if you have mistakenly received this publication.

Singapore: Mizuho is licensed as a bank under the Banking Act (Chapter 19) of Singapore, and is regulated by the Monetary Authority of Singapore.

Japan: Mizuho is authorised and regulated by the Financial Services Agency of Japan.

United Kingdom / European Economic Area: In the UK, Mizuho is authorised by the Prudential Regulation Authority and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of MHBK’s regulation by the Prudential Regulation Authority are available upon request. This publication may also be distributed by Mizuho International plc (“MHI”). MHI is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

United States: This publication is not a “research report” as defined in Commodity Futures Trading Commission (“CFTC”) Regulations 1.71 and 23.605. The content of publications distributed by Mizuho Securities USA Inc. (“MSUSA”) is the responsibility of MSUSA. The content of publications distributed directly to US customers by Mizuho is the responsibility of Mizuho. US investors must effect any order for a security that is the subject of this report through MSUSA.

© 2014 Mizuho Bank Ltd