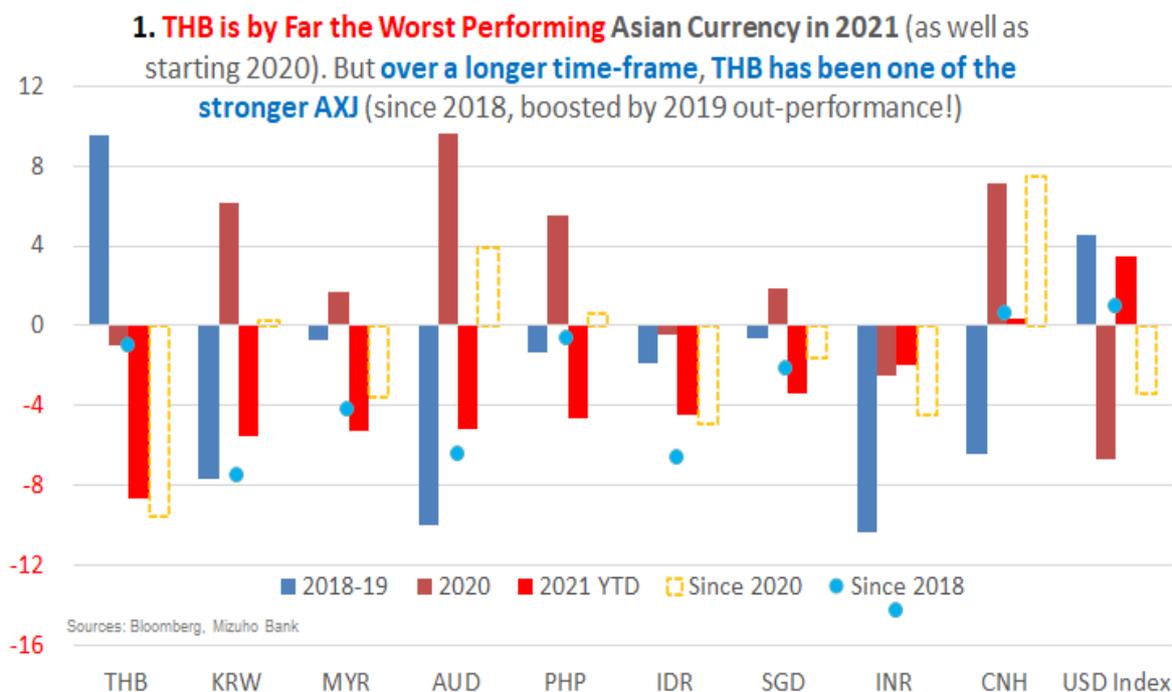


What's Troubling the Thai Baht?



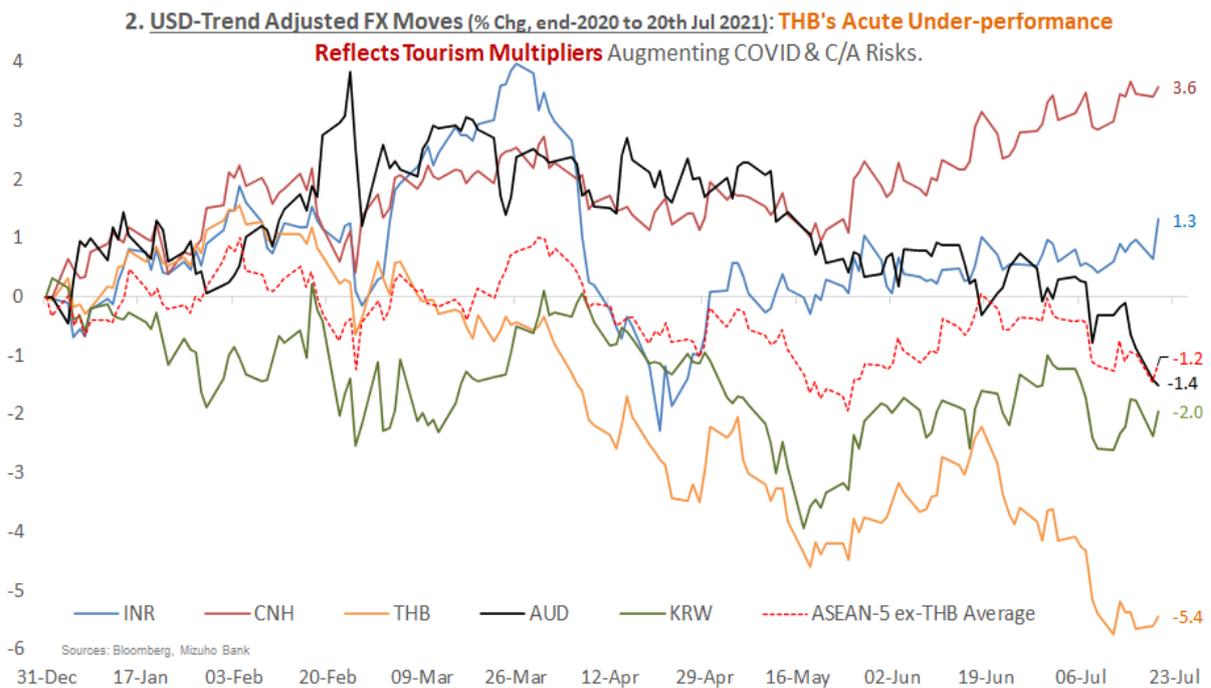
In a Nutshell: Uncharacteristic under-performance in the Thai Baht, rendering it the worst performer to date in 2021, begs the question of the drivers behind exceptional pressures. In fact, at face value, THB as the unequivocal and significant laggard does not square with Thailand's solid (albeit diminished) 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).

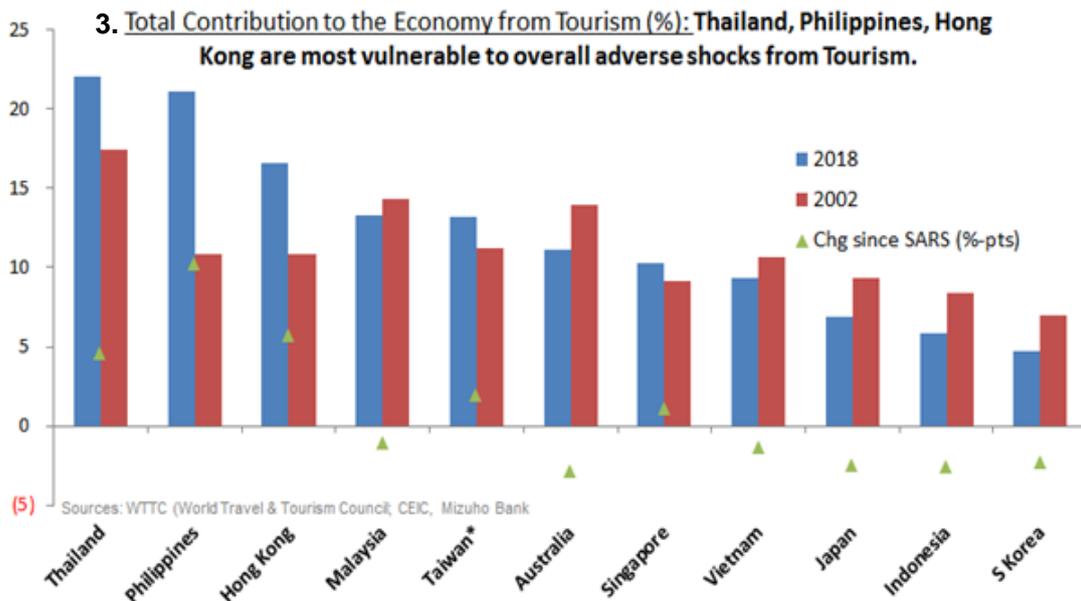
Given that overwhelming and extreme swings in USD trend – from an ultra-bearish wave last year to signs of a bullish turn this year – sometimes obfuscate specific currency moves/trends, it is useful to look at currency performance with the USD trend backed out (Chart 2 overleaf); which only reinforces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

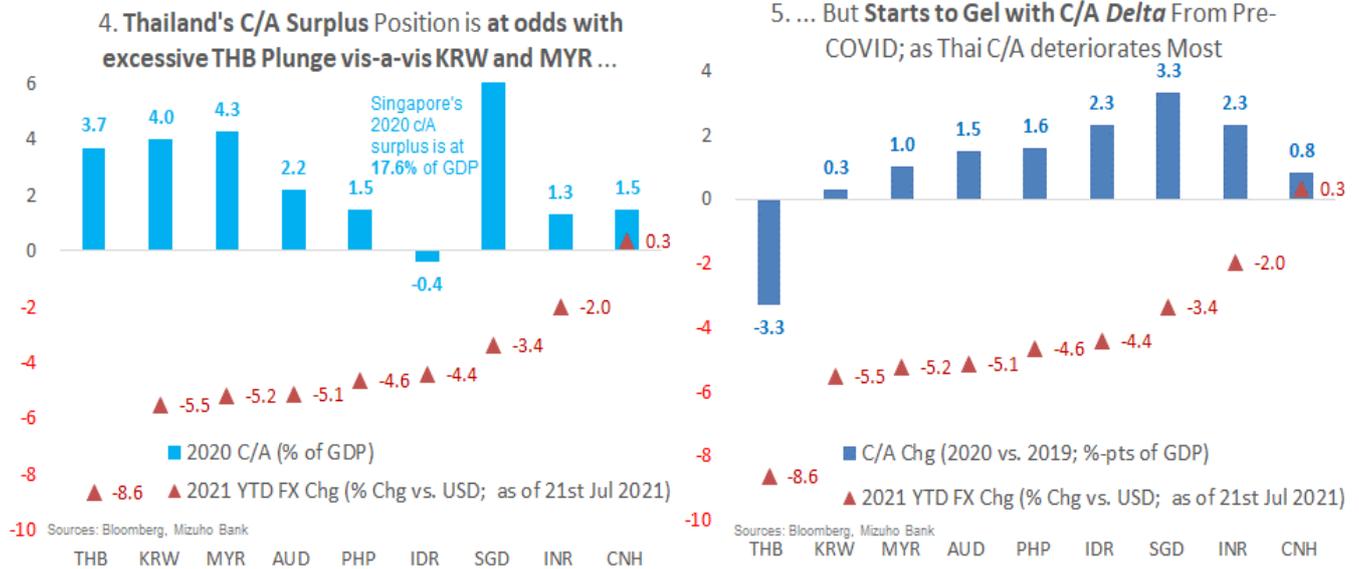


... From Tourism “Multipliers”

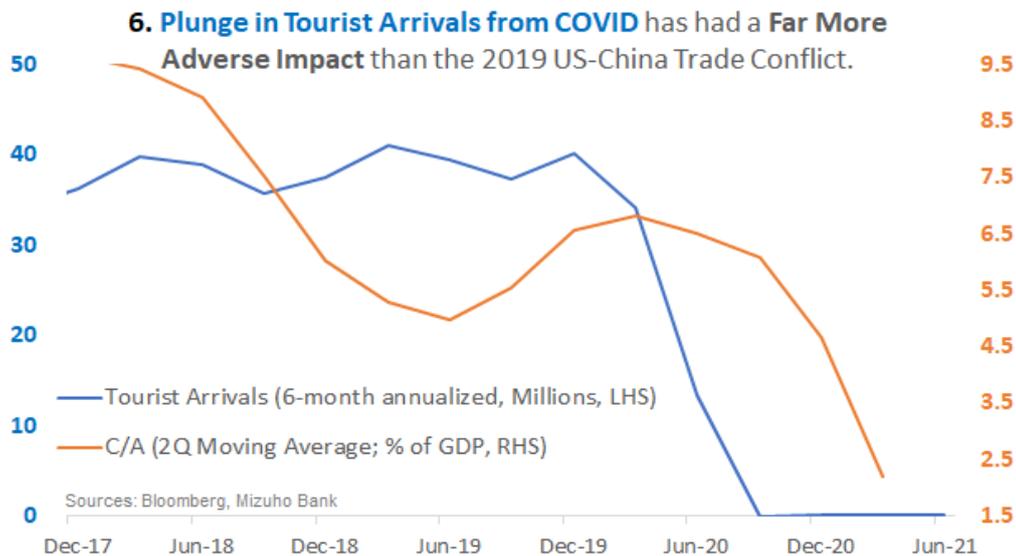
In other, words, the **THB is reflecting vulnerabilities to global COVID risks amplified by the so-called Tourism multiplier**; whose **adverse impact is far-ranging** from; i) **aggregate tourism revenues forgone** (showing up as cashflow shortfall in the Current Account) to; ii) **bankruptcy and default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

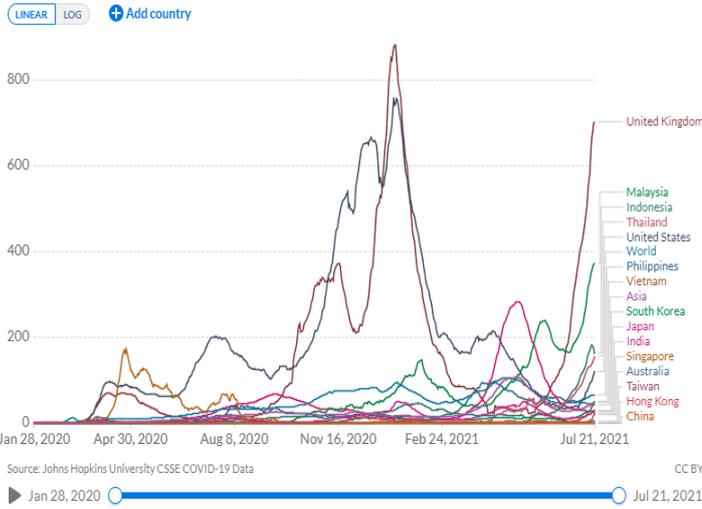
To be sure, the **setback to global travel reverberating through Thailand’s exceptionally large “tourism multipliers”**, while the overarching reason why the THB is languishing at the bottom of the EM Asia FX pile, **is not the only reason**. To a lesser extent, **fiscal strains as COVID prolongs**, 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)

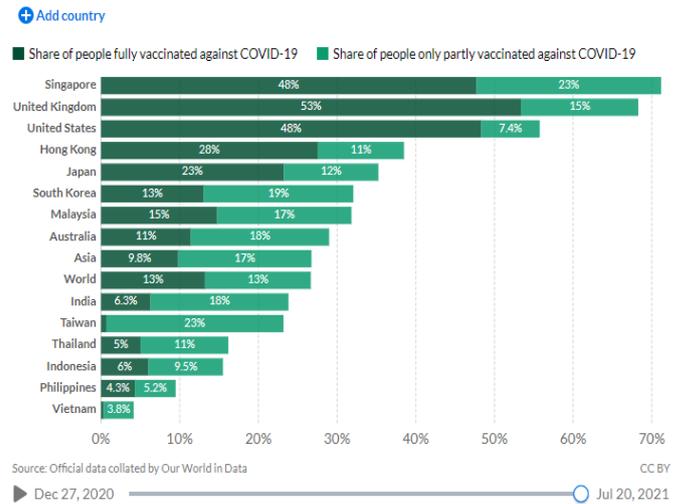
Daily new confirmed COVID-19 cases per million people

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.



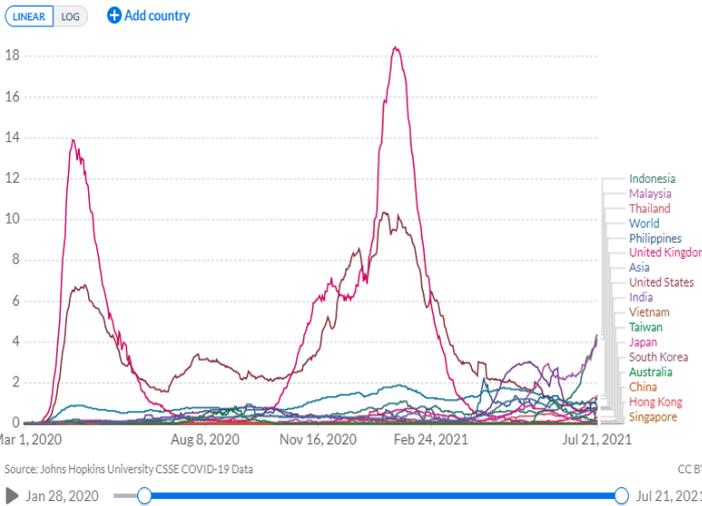
Share of people vaccinated against COVID-19

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



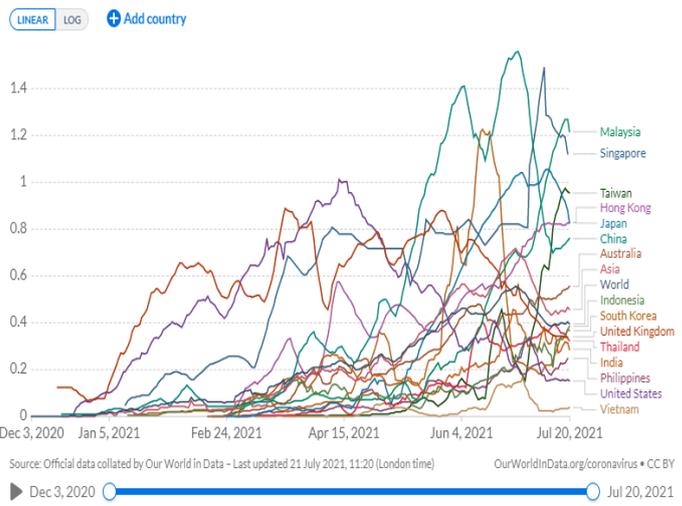
Daily new confirmed COVID-19 deaths per million people

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.



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