

Why Thai baht performed well while other Asian currencies slumped?

Since the beginning of 2018, Thai baht has been known as one of the best-performed currency in Asia, while many others were suffering, especially from the effect of USA policies. Before the reasons of currency changes will be clarified, I would like to walk through the range of my collected data first, how I categorized and selected those countries in Asia, then what were possible reasons those shaped their currencies.

First, to scope the study, only countries in Asia's Emerging Market will be related in this report, as it would be more reasonable to compare changes of Thai baht with its peers with quite similar economic demographics. Those selected countries are Thailand, China, Taiwan, Korea, Malaysia, the Philippines, and Indonesia. From the start of 2018 their currency changes were shown in figure1.

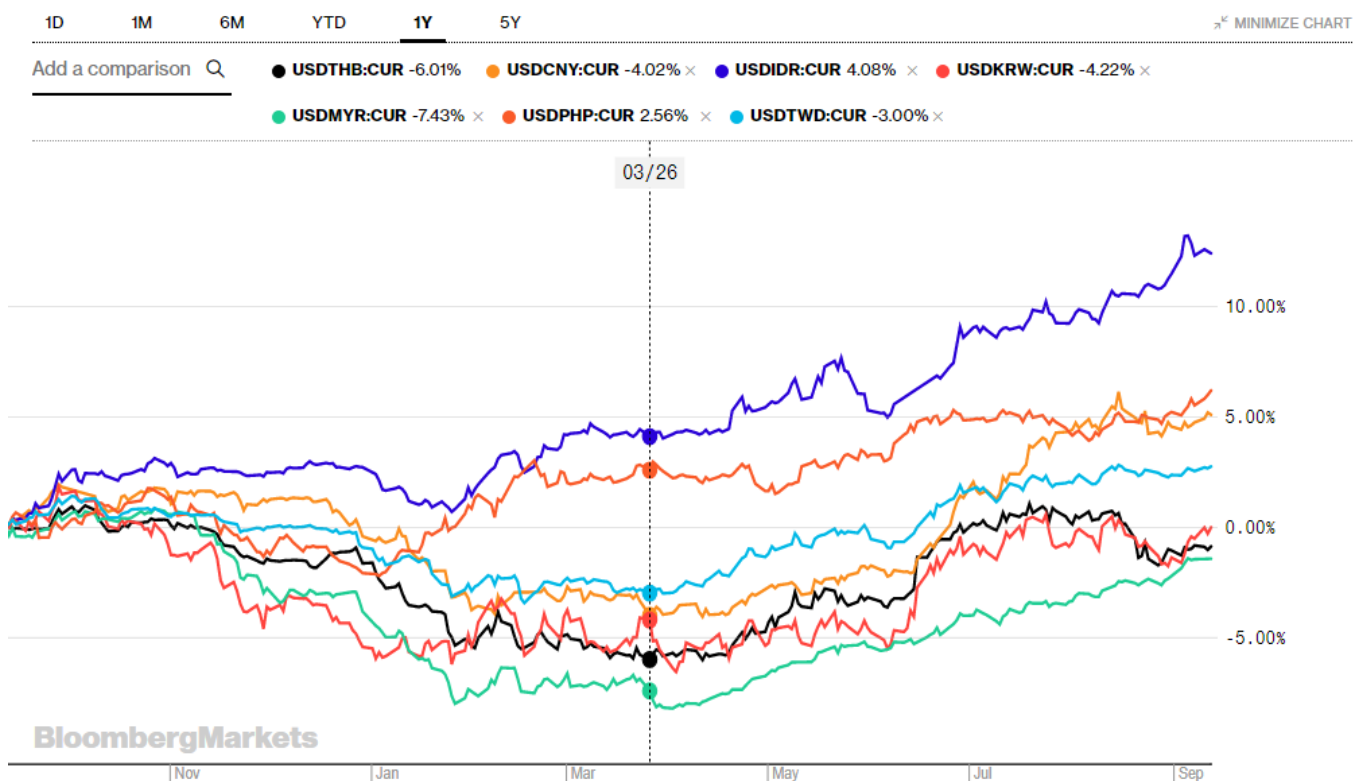


Figure1: Changes of 7 currencies in the latest one year

It is obvious that, in the first two quarters of 2018, two groups of countries can be divided: the weakened currencies (the Philippines and Indonesia) and the strengthened currencies. Thailand was in the strengthened group, the second best-performed currency after Malaysia ringgit. As the categories can be set up, there must be similar and different reasons among those countries, even within the same category itself as follow...

Philippines peso and Indonesia rupiah

Philippines peso weakened in the positive perspectives of their executives of the country. First, it weakened according to the current account deficit and sticky interest rate despite the latest high economic growth of 6% and continuously increased inflation. The executive said that CA deficit happened on purpose, as they aimed to make 2018 and 2019 to be the year of building up infrastructures, so importing construction materials can normally make CA deficit. Also, even USA already increased their interest, Philippines rejected to follow as they still want higher growth and they believe the growth will not be overheated. Those reasons support peso depreciation, but their

government will not intervene as they believe the weakening currency will be the automatic buffer which protects their country from the crisis as in 1997.

Meanwhile, Indonesia rupiah weakened in the negative perspective of both their executive and investors. Its fundamental which is the net current account value was the worst among seven selected countries and the external debt is in quite the same level of Thailand which had a much higher net CA balance.

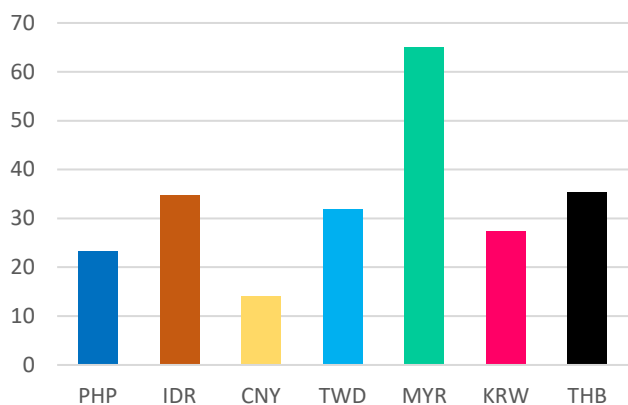


Figure2: External debt as a percentage of GDP

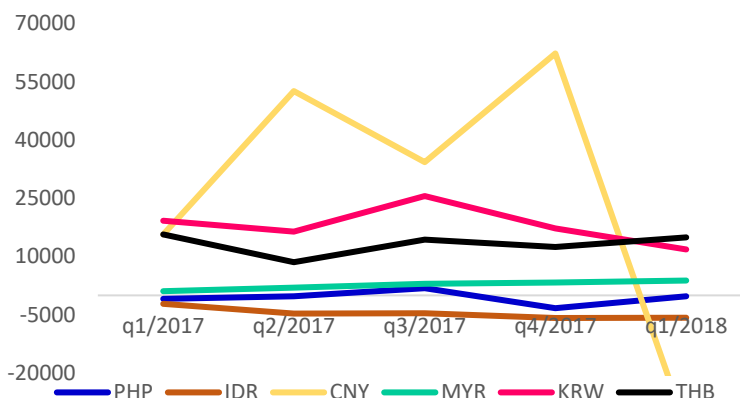


Figure3: Net current account balance in million USD

Comparing a country with high CA as a company with high equity, Indonesia would be the company with low equity but high foreign debt that is so vulnerable to external changes. Also, the other main reason was said to be the increase of US treasury yield which made the investors easily moved out from the market. Recently, Indonesia executives already sacrificed the future growth of their economy to hike the policy rate and intervene the market by bond purchasing to support their currency.

The other five strengthened currencies

These countries have things in common: the long period current account surplus and low inflation. Apart from these two reasons, other specific factors affect each currency. Starting with Taiwan, a country with the most stable currency of the group, which is easily attracted to investors as its export products are growing importance to the world electronic value chains and its inflation was recently the lowest of the group giving the promising real yield rate. Moving further to look at China who just had the current account deficit in Q1/2018, the first time in almost a decade. Nevertheless, the financial account surplus increased and help smoothed the effect from the net CA. However, from the reasons of service and tourism deficit as in Q1, higher support for domestic purchasing from the government, and trade war with the USA, more of CA deficit can occur in the future and depreciation of yuan may be expected.

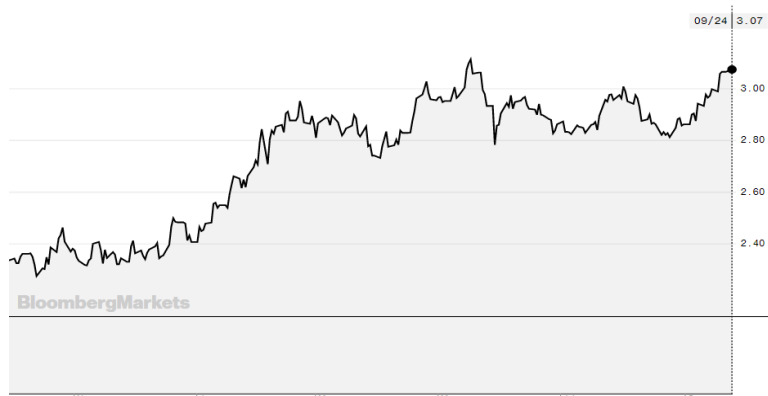


Figure4: US 10 year treasury yield in the latest 1 year

For the last three countries, Korean won faced quite the same important factor as in Thailand: their CA surplus, especially from tourism, and Malaysia ringgit surged from the oil price benefit, as oil is one of their main export. Also, from the Indonesia rupiah slump, investors can escape to Malaysia as it can offer the same commodity of palm oil. Moreover, the ringgit is expected to outperform other currencies further, as it may get a low effect from the ongoing trade war.

Lastly, Thailand baht surged with high impact effect of CA surplus from the tourism industry. Except for China, Thailand had the highest CA surplus among all other selected countries. Even the trade war may have an impact on Thai exports but many analysts said it would not be high, as the linkage of Thailand’s supply chain to high-tech China exports is relatively small and some Chinese products as agricultural products may be substitutable by Thai’s, so Thailand may also get some benefits to smoothened the storm. The last main reason for baht strength was the short term expectation of investors, as many of them concerned Thai economy growths as strong and stable enough to expect increase in policy rate, so huge amount of foreign inflow rested in the short term Thai bond in Q1. However, the future of baht is still in question, as our central bank already made sure of the stable policy rate position and its concern of low inflation rate that still missed from the target will need this low policy rate further.

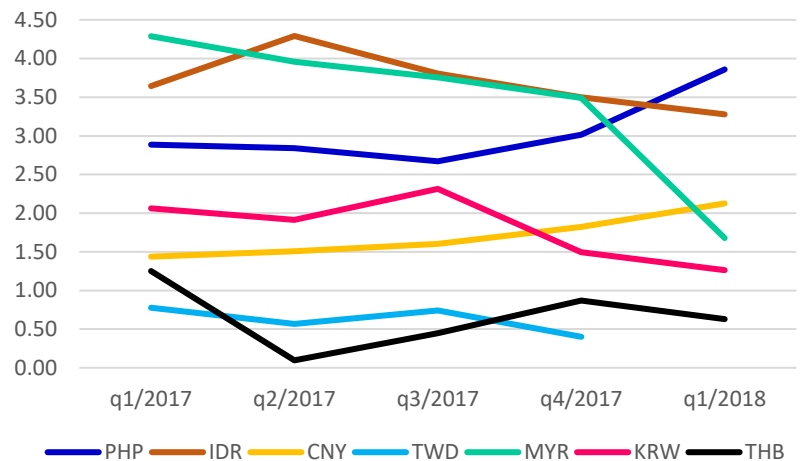


Figure5: Inflation in percentage

In conclusion, changes in currencies depend on their supply and demand which come from internal situations, external situations, and expectations. These factors always are influenced by specific issues in each country. Thailand benefits a lot from being the famous destination for tourists and the long period of CA surplus builds up the strong and solid picture to the investors. Nevertheless, the future direction of Thai baht can be uncertain as Thai beneficial fundamentals can be changed, the real effect from trade war is still unknown, and the sentiment of worldwide investors are always unstable.