

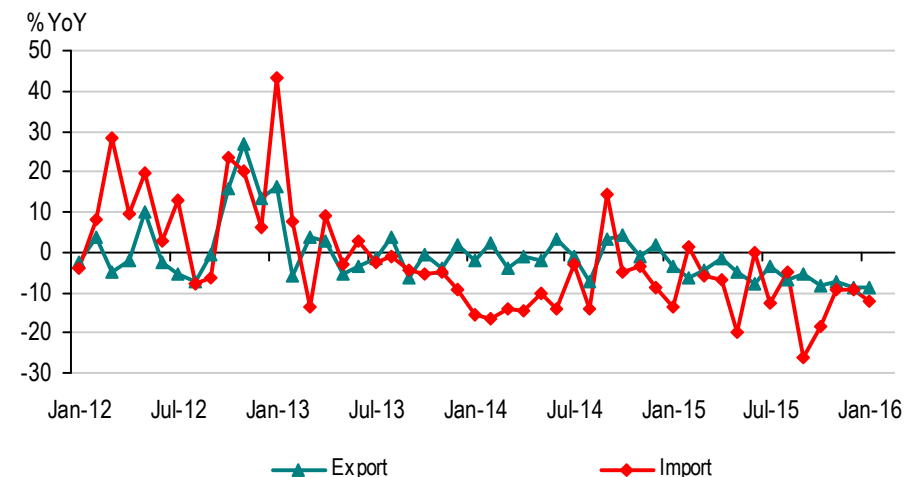
KBank Capital Markets Perspectives

25 February 2016

January custom trades: Rising risk of a 4th year of export contraction

- Thailand's January exports trailed market expectations for the 13th month.
- Exports contracted by 8.91%YoY in January following a 8.7%YoY fall in December.
- Imports fell at a sharper pace of by 11.0%YoY from a 9.2%YoY fall in previous month.
- Trade surplus surprised on the upside, widening to USD 240mn vs consensus forecast of USD 200mn.
- From the demand side perspective, exports to CLMV (share 10%) continued to show positive growth.
- However, demand from other markets fell broadly.
- The probability of export contracting for the 4th year is now becoming more eminent.
- The Bank of Thailand will continue to keep THB competitive.
- THB rose by 2.0%, on a nominal effective exchange rate (THB NEER) basis, in January, vs an average 2%-3% before the BoT surprised rate cut in March 2015.
- This shows that the BoT is unlikely to tolerate a rise in THB at this pace.
- We see USD/THB trading within a range of 35.50-36.00 for the rest of Q1/16.
- A level below 35.50 is likely to prompt the BoT to act.

Thailand's disappointing trade performance



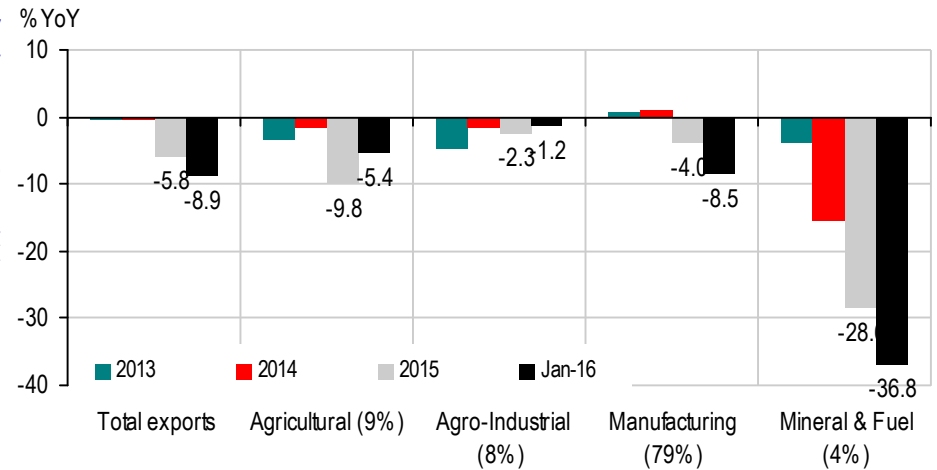
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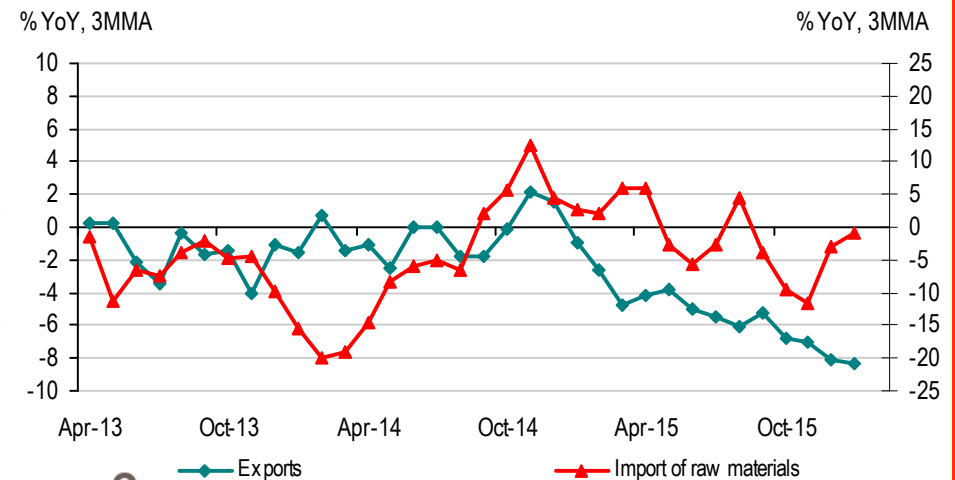
The decline in oil price exerted a sharper drag on exports

- The decline in oil price exerted a sharper drag on agricultural prices, causing agricultural and agro-industrial exports (share 15% of total exports) to fall by 4.1%YoY in January.** However, the fall was partially offset by seasonal demand for rice, sugar, and canned fruit and vegetables. Although those three product groups broadly showed double-digit growth rates, their shares to total exports are too small (share 5%) to cushion overall agricultural exports. A concerning point from January's trade data is the contraction in export volume of rubber and cassava, reflecting dampened demand for both products which had performed quite well in 2015. Export volume for rubber and cassava both fell 5.5%YoY after posting gains of 7.2%YoY and 4.3%YoY, respectively, in 2015. We will closely monitor the decline in agricultural prices which could further aggravate the impact of the drought conditions.
- Exports of manufacturing products (share 79%) underperformed the levels seen in 2015 due to both cyclical and structural factors.** Overall manufacturing exports dropped at a sharper pace of 8.5%YoY from -6.7%YoY in December. The most apparent drag came from the 40%YoY slide in oil price which resulted in a 25.2% drop in exports oil and refinery-related items, such as crude oil, chemicals, and plastics – which contribute about 13% to total export basket. In addition, the relocation of foreign manufacturing hub exerted higher pressure on Thailand's trade. Electrical appliances (share 10%) showed a larger fall of 9.7%YoY from -5.2%YoY in December (vs an average drop of -5.2%YoY in 2015).
- Going forward, Thailand's losing competitiveness in ASEAN trade fora looks likely to become a prevalent obstacle against trade recovery.** Major TV producers, such as LG and Samsung, have plans to relocate their production hub from Thailand within this year to Vietnam which has lower minimum wage, while the opening up of the AEC has lowered cost of imports. Currently, around 40% of Thailand's electrical appliance production (worth THB 400bn) is meant to serve external market (THB 150bn). According to the Thai Chamber of Commerce, countries that have benefitted from the production relocation are Vietnam (electrical appliances), Philippines (harddisk drive), Laos (camera and parts), and Malaysia (TV).

Thailand's export performance by products



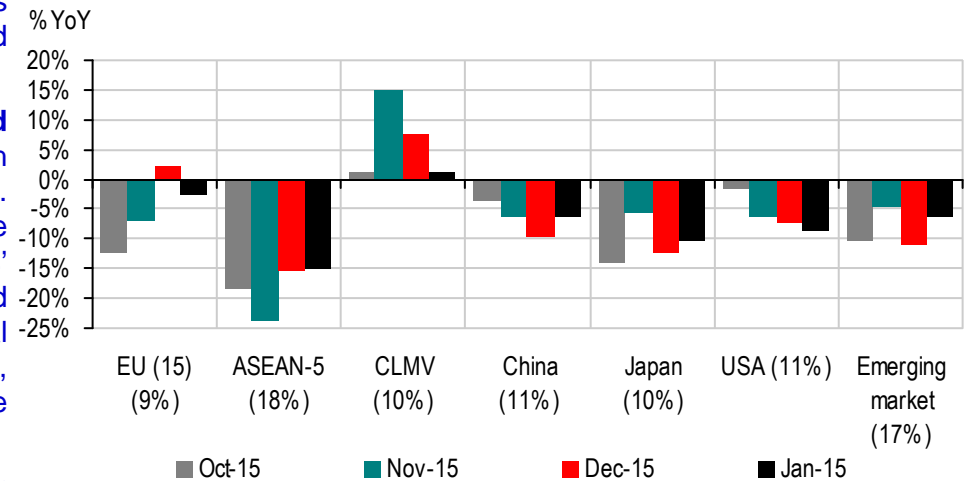
Imports of raw materials suggest a continued fall in exports



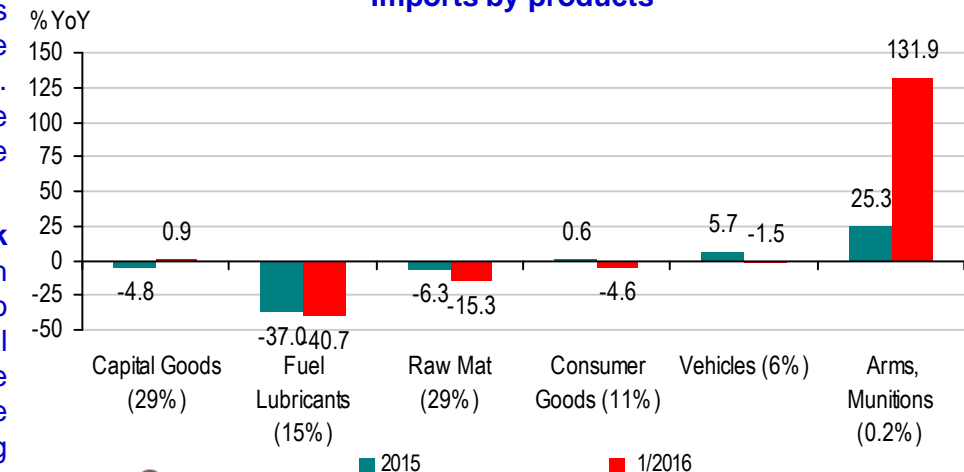
The BoT is unlikely to tolerate a THB rise of >2% per month

- Automobile exports continue to outperform, growing 0.4%YoY in January from 2.4%YoY in December.** Passenger car exports rose by as much as 84.9%YoY (vs 2015 average of +53.0%); however, van and pickup exports dropped 98.7%YoY and 38.2%YoY (vs 2015 average of 43.9 and 20.5%), respectively.
- From the demand side perspective, exports to CLMV (share 10%) continued to show positive growth of 1.2%YoY from 7.7% in December.** Products which have benefitted from cross-border trades are jewelry, automobiles and parts. However, demand from other markets fell broadly. Exports to G3 economies (share 30%), namely Japan, US, and EU, dropped 7.1%YoY. American consumers' demand for computers, frozen seafood products, and radios posted broad-based declines. The slowdown in China and ASEAN economies weighed on intra-regional exports. While, declining revenues for oil-exporters, such as the Middle East, Africa, and Latin America, also played a major role in suppressing Thailand's trade performance, with exports to these markets falling 10%-18%.
- Despite a strong growth in military-related imports, imports dropped sharper by 12.4%YoY in January.** While imports of energy and raw material imports continued to post negative growth, imports of consumer products and automobile and parts reversed their positive trend, falling 4.6%YoY and 1.2%YoY, respectively. On a more positive note, capital good imports rose slightly by 0.93%, but the outlook remains challenging as relocation of production facility will likely to continue exerting negative influence on Thailand's manufacturing sector.
- Our base case scenario is for exports to grow by 2.0% this year on the back of global demand recovery.** But, the probability of export contracting for the 4th year is now becoming more eminent. The Bank of Thailand (BoT) will continue to keep THB weaken in relative terms. THB rose by as much as 2.0%, on a nominal effective exchange rate (THB NEER) basis, in January, compared to an average rise of 2%-3% before the BoT surprised rate cut in March 2015. This shows that the BoT is unlikely to tolerate a rise in THB at this pace. We see USD/THB trading within a range of 35.50-36.00 for the rest of Q1/16. A level below 35.50 is likely to prompt the BoT to act.

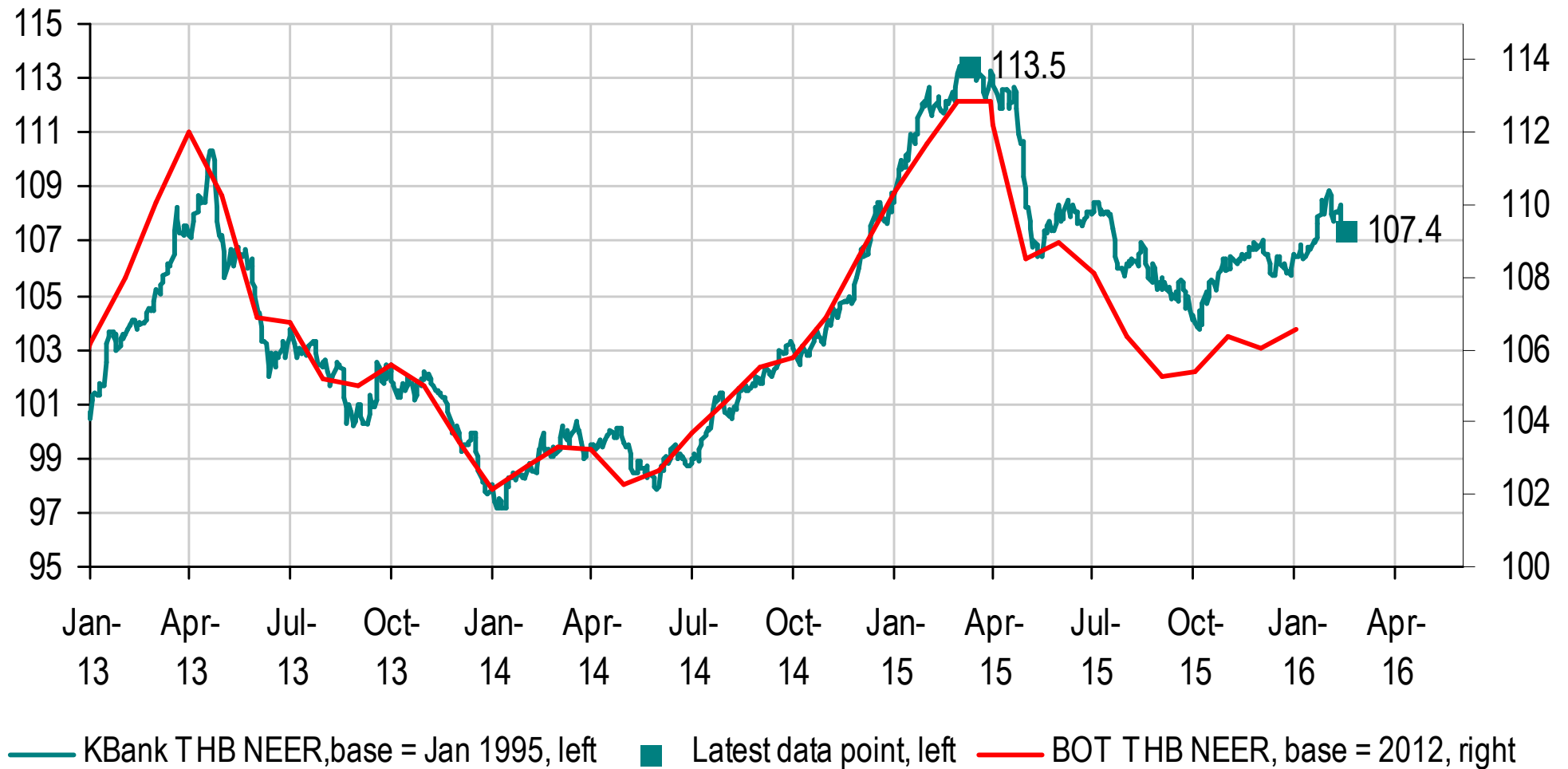
Exports by destination



Imports by products



THB trade-weighted index edged lower since January



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