

Why Thai baht still strengthen despite lack of foreign demands?

Economic data from the second quarter GDP, which reported a contraction of 12.2%, displayed sharp impacts Covid-19 pandemic caused Thai economy on both internal and external sectors. For instance, private consumption contracted 6.6%, the largest drop in consumption since Tom Yum Kung crisis in 1998, due to a country-wide lockdown. Exports and Tourisms, which rely heavily on foreign demands, faced weak demands from abroad. Exports in the first seven months of the year contracted 12.4%, making it the largest contraction in the last 20 years.

Although there are some promising signs on Thai economic recovery, one issue that might pressure the recovery on Thai economy in the second half of the year is the strengthening of Thai baht. The strengthening of Thai baht, which posed negative impacts to both exports and tourisms this time might come as a surprise to some readers. Usually, Thai baht appreciation comes from higher demands for Thai Baht. Demands can come from foreign tourists who need to exchange Thai baht for leisure purposes or Investors who plan to invest in Thai financial markets. Higher demands, then, lead to higher value of Thai baht, which results in stronger Thai baht.

Based on this idea, the current situation in which Thailand has not welcomed any new tourists in the last five months suggests there are fewer demands for Thai baht. Hence, Thai baht should become weaker. However, after the Covid-19 crisis peaked in March, Thai baht has appreciated more than 5 percent.

There are both external and internal factors that explain the baht appreciation in the second quarter. U.S. dollar depreciation is the main external factor that cause not only Thai baht to appreciate, but also other Asian currencies. The U.S. dollar depreciation resulted from larger supply of dollar, which came from Quantitative Easing (QE). The federal reserves had to introduce QE in March to provide liquidity to markets and support the U.S. economy.

Regarding the domestic economy, the COVID-19 outbreak significantly reduces the demand for Thai baht from international tourist as expected, causing the service account to be negative for the first time in 5 years. Nevertheless, the overall balance of payment has been positive in the second quarter. The main driver this time is a surplus in a financial account which amounts to 11 billion USD dollar, a highest record since the global financial crisis in 2008. Market volatilities in March induced business and financial institutions to moderate their risks by channeling their foreign investments and foreign deposits back to Thailand, causing large capital inflows which resulted in a surplus in the financial account. This event is like the first quarter of 2008 which had large returns of foreign deposits and investments as well.

In sum, Covid-19 outbreak disrupted not only Thai economic outlook but also foreign flows that affect the direction of Thai baht. To support venerable sectors that rely on foreign demands, the issue of strengthening baht might require greater focus from related parties.

BOP faced a sharp rise in net goods exports and investment inflows in 2Q20

