

FX, Fixed income, Econ, Facts & Fallacies

26 March 2025

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2 April D-day, hope for the best, plan for the worst

1 April is known as "April Fool's Day." 2 April may not be as humorous as the day before, as the Trump administration may announce harsh trade measures. There is a saying, "With Friends like These, Who needs enemies?" Mexico and Canada can attest to such sayings. The trade measures on Mexico and Canada serve as a horror movie trailer for countries with a sizeable trade surplus with the US, such as Thailand.

Based on IMF trade data (fig. 1), Thailand imported about USD 20.4billion from the US during the past 12 months while exporting USD 62.2billion, equating to a trade surplus of nearly USD 42billion. The US Treasury Department identifies a currency manipulator using three criteria:

- 1) Bilateral trade surplus with the US of at least USD15 billion.
- 2) Current account surplus of at least 3% of GDP.
- 3) Repeated foreign currency purchases make up at least 2% of GDP over 12 months.

A country meeting two criteria is placed on the "Currency Manipulation Watchlist" where its currency practices and macroeconomic policies are closely monitored. These criteria are likely to guide Trump Tariffs.

While with a larger trade surplus with the US of around USD 120billion, Vietnam may receive concessions from the US for geopolitical benefits, i.e., geopolitical ally in the South China Sea.

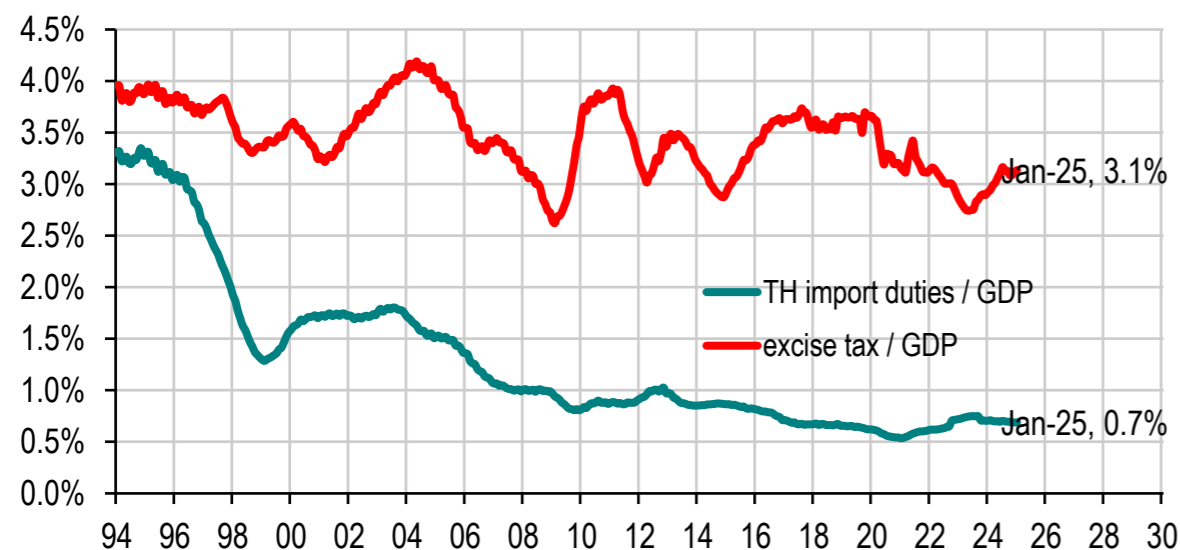
Figure 1: US currency manipulator criteria

		US TRADE DEFICIT WITH, USD mn	C/A TO GDP	CHANGE FX RES/GDP
1	CHINA	-285,421	2.42	0.2%
2	EUROZONE	-239,084	1.69	0.0%
3	MEXICO	-238,068	-0.11	1.3%
4	VIETNAM	-119,935	3.00	-1.4%
5	CANADA	-118,312	-0.51	0.2%
6	GERMANY	-84,572	5.73	0.0%
7	IRELAND	-79,088	17.16	-0.2%
8	JAPAN	-62,197	4.80	-0.6%
9	SOUTH KOREA	-57,622	5.30	-0.3%
10	ITALY	-47,270	1.37	0.1%
11	INDIA	-46,561	-0.90	0.0%
12	THAILAND	-41,964	1.49	3.3%
13	MALAYSIA	-24,511	1.70	0.9%
14	SWITZERLAND	-24,378	5.25	3.9%
15	INDONESIA	-14,458	-0.63	0.7%
16	ISRAEL	-12,689	3.16	2.6%
17	AUSTRIA	-12,444	2.94	-0.1%
18	CAMBODIA	-12,287	N/A	3.6%
19	FRANCE	-12,027	-0.32	0.0%
20	SWEDEN	-11,148	7.43	0.2%

Source: Bloomberg, IMF, KBank

Still, it seems that the Trump administration is working its way down the list of the so-called "Dirty Fifteen," a list that has not been announced yet. Countries on such a list may be subjected to "Reciprocal" tariffs. While Thailand's import tariffs are not high on a relative basis (see Fig. 2), other taxes, such as excise taxes, can make imported goods, such as from the US, exorbitantly high. It remains to be seen if the definition of "tariffs" would include other types of taxes, e.g., excise taxes. Note that excise taxes are about 22% of the Thai government revenue based on a long-term average. Theoretically, Trump Tariffs could help steepen the Thai yield curve because if excise taxes are reduced, Thai inflation would ease, but budget deficits would rise, i.e., lower expectations premium but higher term premium.

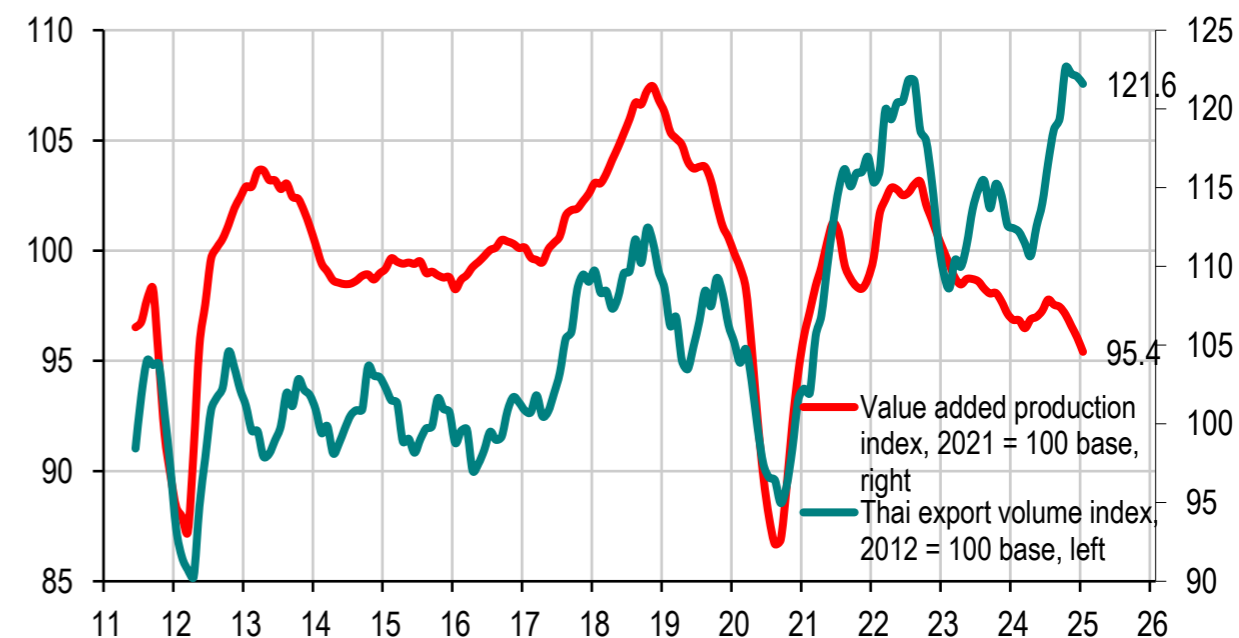
Figure 2: Thai import duties/GDP and excise taxes/GDP



Source: Bloomberg, KBank

Could the Trump administration play trade hardball with Thailand? Is it possible for a country to see its export volume grow while its industry output falls? Fig. 3 shows something interesting, in our opinion. The red line is the value-added production index, similar to industry output. Meanwhile, the green/teal line is Thailand's export volume. Both series were positively and significantly related before early 2023 (from 2011 to 2022) (t-statistic of 7.652). Afterward, both series were negatively but significantly related (t-statistic of -3.383). How could this be: falling industrial production but rising exports? Thailand might be acting as a wholesaler, i.e., buying from somewhere and then selling it elsewhere.

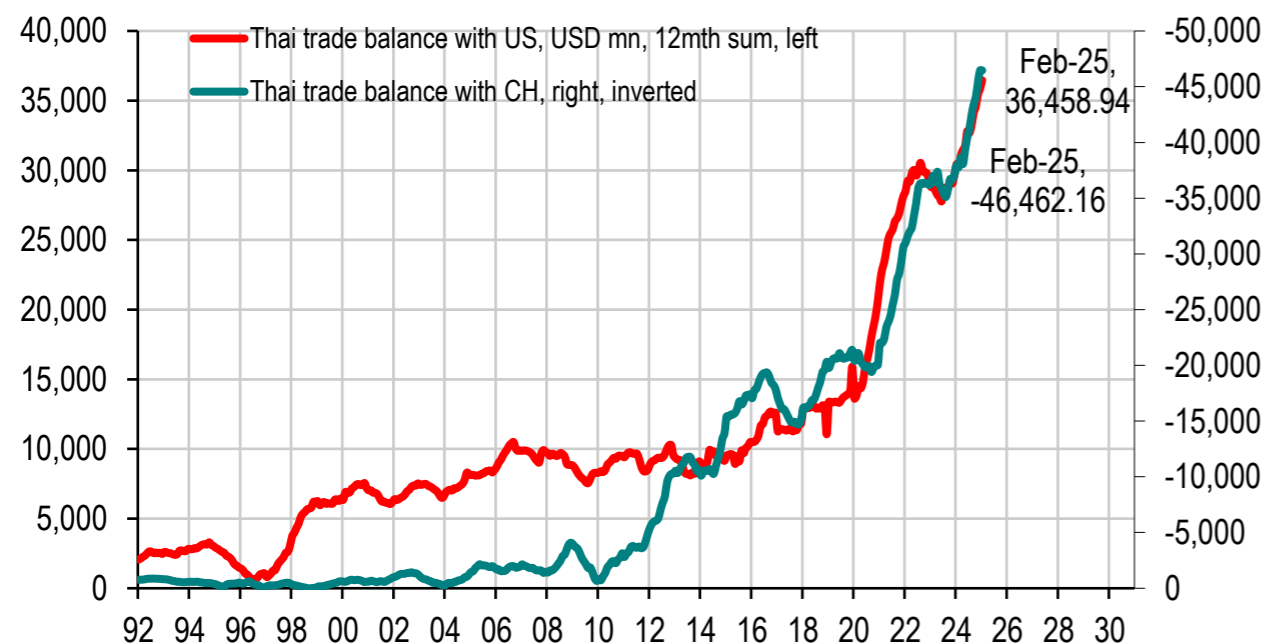
Figure 3: Where is "Made in Thailand"? ...falling production but rising exports?



Source: Bloomberg, KBank

China and the US are Thailand's biggest trade partners. Our further analysis suggests our "wholesaler-trade" theory. Fig. 4 shows that Thailand's trade deficit with China accelerated after 2011. It was found that post-2011, Thailand's trade deficit with China is statistically and significantly related to Thailand's trade surplus with the US, raising the possibility that Thailand is being used as a "Back Door" for Chinese exports bound for the US.

Figure 4: Why, after so many years, did Thai-China deficit rise & Thai-US surplus rise



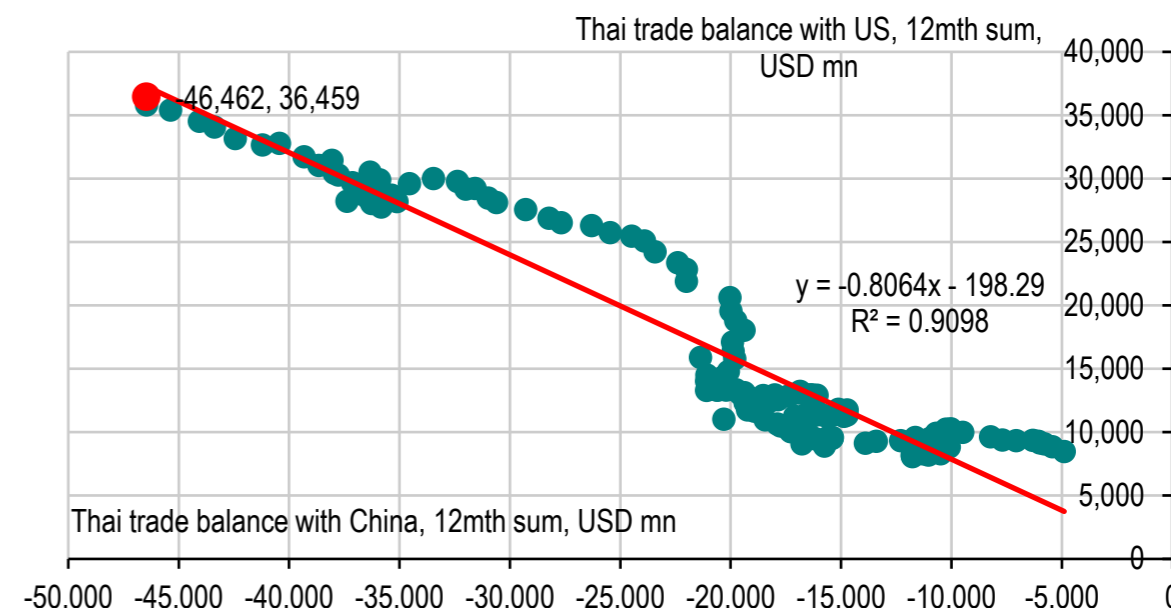
Source: Bloomberg, KBank

If we adapt the data of the previous chart as a XY scatter shown in fig. 5, it suggests that 80% of Thailand's trade surplus with the US is related to Thailand's trade deficit with China. The

implications are "Hope for the best and plan for the worst." Importers are recommended to step up FX hedge efforts as USD/THB bias may be shifting to the upside.

Thailand has already received one warning shot when US Secretary of State – Marco Rubio announced several visa sanctions (<https://www.state.gov/announcement-of-a-visa-restriction-policy-to-address-the-forced-return-of-uyghurs-and-members-of-other-ethnic-or-religious-groups-with-protection-concerns-to-china/>).

Figure 5: ...and it is no coincidence? Trump tariff risk is high, Let's find out soon



Source: Bloomberg, KBank



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