Thailand Economics

News Update

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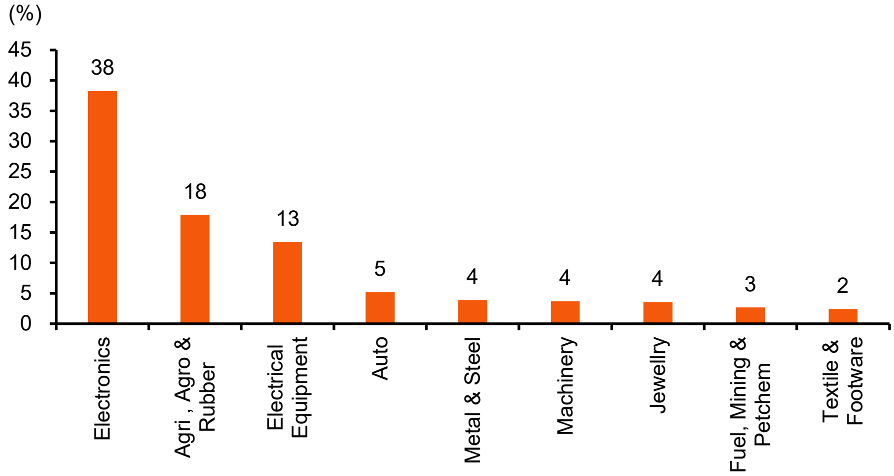
Much higher-than-expected reciprocal tariff

- **The 37% tariff far worse than expected**
- **Likely more severe degree of global slowdown**
- **Negative implications from China +1 target**
- **Rough estimate GDP growth downside of 1% p.a.**

There are two key surprises of the US's announced reciprocal tariffs. One is the very high rate on Thailand at 37% vs. market expectation of 10-15%. Second is the obvious target of China and ASEAN, as China's key supply chain, rather than by ranking of countries' trade surpluses. Although the final rate is expected to eventually be much lower than 37% after negotiations and more details in the making to be revealed, the overall situation is bad for Thailand in many ways. There are a lot more factors and potential changes that will happen but a rough estimate is GDP growth downside of around 1% p.a. from our current GDP forecasts of 3.0% p.a. in 2025-26F.

- As an open economy, Thailand is likely to be hit hard via its high exposure in exports (60% of GDP), tourism (9% of GDP) and FDI (6% BOI application value to GDP).
- The global slowdown is likely to be severe as the tariffs target the whole world and the US economy is to be largely impacted too. So, impacts are not limited to exports to the US but indirect impacts from exports to other countries and tourism.
- The US's target on China and ASEAN gives more negative implications to Thailand. First, China/HK accounts for 15% of total exports while ASEAN accounts for 23%. The more slowdown in these countries will hit Thai exports on top of the US (18%). Second, China/HK account for a large 21% of total tourist arrivals to Thailand and ASEAN accounts for another 30%. Third, the US's high tariffs on China and also ASEAN can raise doubts of whether there will be a rethink of FDI flows to Thailand. We however believe the direction of FDI flows will continue given that most countries are affected in certain degrees and that China and Vietnam are hit at a much higher tariff rates than Thailand. But still, the flow should slow from a more severe degree of the global slowdown.
- Given the situations of weaker-than-expected tourist arrivals in 1Q25 even before the tariff impact, the earthquake's impact to tourism, risks from the tariff impacts to the economy and the 10-year government bond falling below the policy rate of 2.0%, the market is now expecting at least two more Thai policy rate cuts to 1.50% this year. And the next cut by the Monetary Policy Committee is expected at the end of this month.
- It is very difficult at this stage to see a clear picture of the eventual impact from the tariffs as there remain great uncertainties from negotiations, retaliations by some countries, more announcements on sectoral basis and Donald Trump's flip flop style. We believe Thailand is in no position to retaliate and that the country will opt for negotiations to reduce the impact. But again, the impact to Thailand is not only from exports to the US but also from slowdown from China, ASEAN and the rest of the world, including the US slowdown itself.
- We are reviewing our strategy view on Thailand and stock picks. We believe MTC and SAWAD can still be falling interest rate plays. TRUE, 3BBIF and DIF are defensive plays in the telecom sector. CPN, CPAXT, HMPRO are domestic plays to hide in the retail sector. COM7 seems to have found its bottom with support from strong operation. Despite AMATA and WHA were already hit very hard out of concern on FDI flow after the US's clear target on not only China but also ASEAN, we expect sentiment to remain weak for the stocks.

Ex 1: Breakdown Of Exports To The US In 2024



Source: Ministry of Commerce

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