

EXIM Thailand Encourages SME Exporters to Hedge Foreign Exchange Risks

Mr. Pisit Serewiwattana, President of Export-Import Bank of Thailand (EXIM Thailand), reveals that Thai baht continued its strengthening trend throughout 2017, most recently on January 12, 2018 passing the 32 baht mark against the US dollar, up 12% which was the strongest in more than three years. This raised Thai baht ranking among the strongest currencies in the region. Yet, Thai export in the first 11 months of 2017 recovered firmly to reach a growth record of 10%, similar to **several other countries' double digit export growth despite their appreciating currencies**. Among them were South Korea (13.4% stronger won and 16.5% export growth), Malaysia (12.9% stronger ringgit and 15% export growth), Taiwan (9.6% stronger Taiwanese dollar and 13.1% export growth), etc. Although the stronger baht has not hurt Thai exports' price competitiveness, they have rendered exporters' baht income significantly lower. The authorities are most concerned with SME exporters who may be most impacted given their limited working capital and profit margins, thus more vulnerable to baht appreciation.

EXIM Thailand President said further that the baht future movement would be hard to predict given the current situation where several factors are in play besides economic fundamentals. Unpredictable factors like economic and monetary policies in developed countries like the USA, Europe and Japan; any possible geopolitical eruption of conflicts among countries; or asset speculations can all trigger massive swings in capital flows. The most effective way to hedge foreign exchange (FX) risks is therefore to buy FX option contracts, where exporters have the right to lock in (buy or sell) currencies at an agreed exchange rate. They will subsequently need not be concerned about losing income as a result of future baht strengthening, and may even gain profits by selling foreign currencies at the current spot rates when baht weakens. This is regarded as a currency pair hedging which allows exporters to gain maximum benefits. In addition, exporters may opt for trading forward contracts, or consulting with their financial institutions including EXIM Thailand, to manage FX risks more effectively.

“Allow me to emphasize that exporters are exhorted to refrain from currency speculations under all circumstances. Particularly for SME exporters whose working capital and margins are not particularly strong, **FX risk hedging will help them to figure out their cost and income more explicitly**. They will also be relieved from worries over the baht directions, and can thus devote their time and resources to product development and production efficiency improvement to avoid price competition and boost profitability,” added Mr. Pisit.

January 15, 2018
Corporate Communication Division
Secretary and Corporate Communication Department