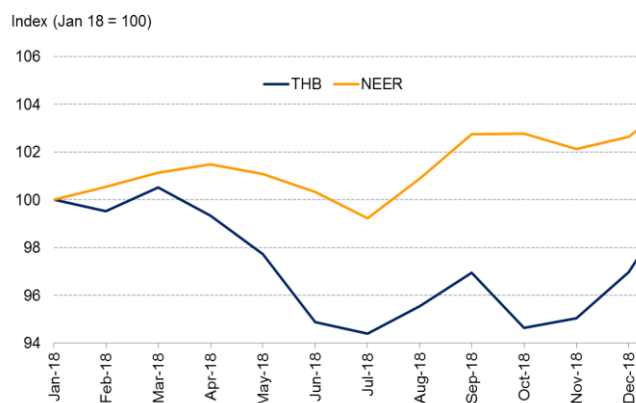


## The Bank of Thailand kept the policy rate unchanged as expected, however with votes split 4-2

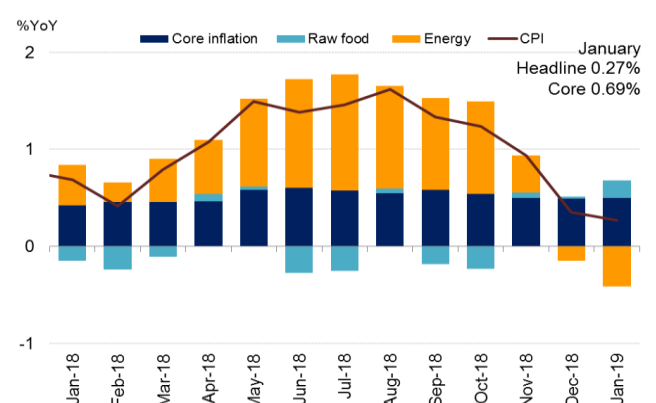
- **The MPC voted to keep the policy rate on hold at 1.75% at today's meeting.** We are rather surprised to see two members voted to raise the policy rate to 2.00% against the other four voting to leave the rate unchanged. (Note: one member was absent from the meeting). The statement reiterated on the need to build up "policy space" to counter the future downturn as well as the persistent "search-for-yield" behaviour amongst the Thai investors.
- **We still maintain our view that the BOT is likely to keep the policy unchanged for the whole year given the uncertain outlook about the global economy and global trade this year.** Moreover, the Federal Reserve has recently softened the stance regarding the pace of monetary tightening– both the Fed Funds rate and the balance sheet reduction. Therefore the need to "keep up" with the Fed has been significantly reduced.
- **In addition, the strengthening baht has continued unabated since the end of last year– being one of best currency performers against the US dollar in 2019.** This has undoubtedly complicated the BOT's policy deliberation as the strength of the baht will weaken exporters' income and lower our competitiveness further (Chart 1). Unsurprisingly the baht appreciated from 31.29 to 31.22 to the US dollar following the BOT policy decision announcement– to a large degree– on the two dissenters voting to hike the rate.
- **We continued to be baffled by the nonchalant manner in which the MPC responded to the falling inflation– which is likely to miss the inflation target band in coming months given the drop in oil prices.** Our forecast for inflation for 2019 is 0.8% YoY which is well above the January CPI inflation of 0.27% YoY, and the inflation outlook is likely to be subdued given lower energy prices despite the near-term fluctuations of raw food prices (Chart 2). There is a strong chance that inflation will tread into negative territory in coming months.
- **Therefore, with uncertain global backdrop, subdued inflation and strong baht, we still maintain the view of no rate hike in 2019 notwithstanding the split votes at the today's meeting.**

Chart 1: THB and NEER Movement



Source: Bloomberg

Chart 2: Contribution to Headline Inflation



Source: CEIC, Ministry of Commerce

**Burin Adulwattana**

Chief Economist/Strategist

burin.adulwattana@bangkokbank.com/ +66 2 230 2657

**Bangkok Bank Public Company Limited****DISCLAIMER**

The information contained in this report has been obtained from sources believed to be reliable. All reasonable effort has been made to ensure the facts stated herein are accurate and that the opinions contained herein are fair and reasonable. Where any information and statistics are quoted from any external source, such information or statistics should not be interpreted as having been adopted or endorsed by Bangkok Bank as being accurate. Neither Bangkok Bank nor any of its directors, officers, employees, and advisors nor any other person shall have any liability whatsoever for loss or damage howsoever arising, directly or indirectly, from any use of this information. The facts and information contained herein are as up to date as are reasonably possible and may be subject to revision in the future. Any opinions presented herein represent our subjective view and our current estimates and judgments which are based on various assumptions that may be subject to change without notice, and may not prove to be correct.

This report is for the recipient's information only. It does not represent or constitute an advice, offer, recommendation, or solicitation by Bangkok Bank and should not be relied as such. Neither Bangkok Bank nor any of its directors, officers, employees or advisors nor any other person makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this report. Neither Bangkok Bank nor any of its directors, officers, employees and advisors nor any other person shall have any liability whatsoever for loss or damage howsoever arising, directly or indirectly, from any use of this report.