The Bank of Thailand kept the policy rate unchanged as expected, however with votes spilt 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 spilt votes at the today’s meeting.

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**Chart 1: THB and NEER Movement**

![Chart 1: THB and NEER Movement](source: Bloomberg)

**Chart 2: Contribution to Headline Inflation**

![Chart 2: Contribution to Headline Inflation](source: CEIC, Ministry of Commerce)

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