Bangkok Bank | RESEARCH

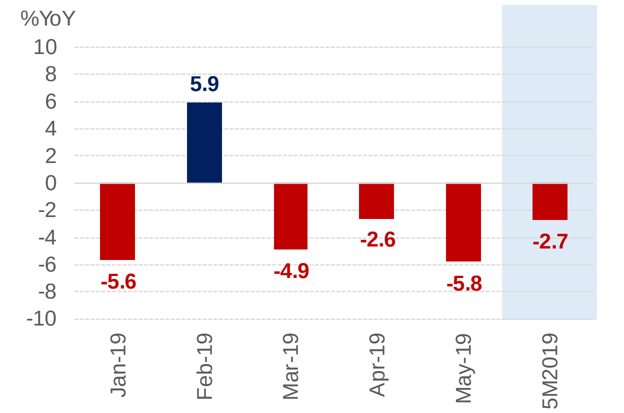
ECONOMICS

June 27, 2019

Bank of Thailand left the policy rate unchanged

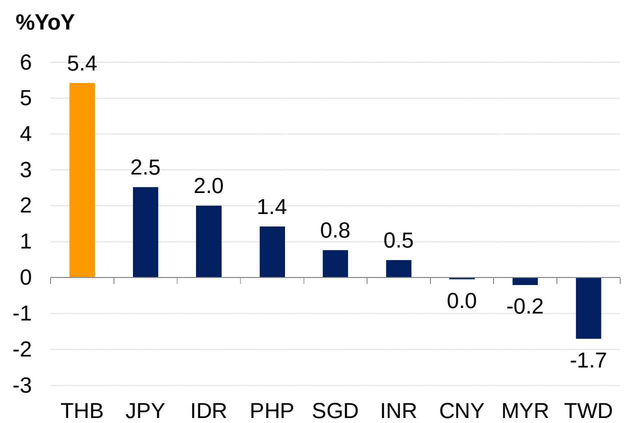
- **On June 26th, the MPC voted unanimously to keep its policy rate unchanged at 1.75%.** The Bank of Thailand revised down its projection for 2019 GDP growth to 3.3%, from 3.8% previously. Slower pace of economic expansion is mainly the result of poor merchandise exports and disappointing readings from the tourism sector– especially the 8.5% YoY drop in the number of Chinese visitors in May.
- **Given the contraction in our exports for the first five months of 2019 (Chart 1), we are likely to revise down our 2019 GDP forecast further from the current level of 3.1%,** which is based on our conditioning assumption of a 0.5% export growth. We are likely to witness a whole-year fall in exports which will drag down our GDP further. Also, the weakness of the global economy continues to weigh on our export and tourism outlook.
- **The outcome of the MPC meeting is in line with market expectations of no change.** That said, the BOT will be under mounting pressures to cut its policy rate. Today, Deputy Prime Minister Somkid Jatusripitak said that the BOT should cut interest rates and not to go against the grain with other central banks. He reiterated the need for policy easing to counter the economic slowdown, as well as the hit to our export competitiveness from the unrelenting strength of the Thai baht **(Chart 2)**. That said, the BOT is independent in terms of its policy deliberation. The BOT, however, mentions that the strength of the baht is not consistent with our economic fundamentals, but room for policy maneuver should be limited given that the US may include Thailand on a currency manipulator list.
- **The BOT also cut the core inflation forecast to 0.7% from 0.8%**. Inflation should not be a key factor in triggering a policy move as the BOT's inflation forecast of 1.0% remains within the target of 1-4%. Another interesting development is a change in the policy stance from the Federal Reserve which is now decidedly more dovish. As such, financial markets currently expect a cut in Fed Funds rate as early as July and two further cuts in 2019. If the Fed starts to deliver rate cuts, it will be worth watching if the BOT will adopt a much more dovish stance. **That said, we maintain our call that the BOT will remain on hold for 2019. The hiking cycle is, in our opinion, finished. The next policy move will be an easing, not tightening. A policy rate cut is no longer a matter of if, but when.**

Chart 1: Export growth



Source: Ministry of Commerce

Chart 2: Thai baht movement versus Asian currencies



Source: Bloomberg

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