

## Bank of Thailand catches markets off-guard

Our high-conviction, low-probability call of a rate cut has paid off. While rate cuts will take some of the appreciation pressure off the Thai baht, we don't see the currency losing its luster as a top-performing emerging market currency just yet. That said, we are revising our end-2019 USD/THB view to 31.5 from 31.0.



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# 1.50%

BoT policy rate

After 25 basis point cut today

Lower than expected

### Our high-conviction, low probability call paid off

Contrary to the solid consensus forecast of no change, the Bank of Thailand (BoT) Monetary Policy Committee voted five-to-two to cut the policy rate by 25 basis points to 1.50%.

We were one of only two forecasters looking for a BoT policy rate cut at today's meeting. All 27 other participants in the Bloomberg survey were looking for rates to stay on hold. The BoT's sustained hawkish rhetoric has solidified the consensus view even as economic growth continued to weaken this year and inflation continued to be subdued.

Indeed, the [BoT policy statement](#) noted increased downside growth risks and continued subdued inflation prospects in support of today's move. It also cited weak tourism as a factor dragging the economy into further weakness, while elevated household debt has been weighing on private consumption. On a positive note, the Committee sees economic potential benefiting from the relocation of production to Thailand (amid the ongoing US-China trade war) and implementation of public-private partnership infrastructure projects (Eastern Economic Corridor).

We see today's move followed by a cut in the central bank's growth and inflation forecasts for 2019, currently 3.3% and 1.0% respectively. We have recently cut our growth forecast to 2.8% from 3.1% ([read more here](#)), but we are reviewing our 1.0% inflation forecast for a downgrade in view of the recent dip below the BoT's 1-4% policy target (0.9% average in the year to July).

## Not a one-and-done, more rate cuts to come

We don't think this is going to be a 'one-and-done' move. The easing cycle has just begun, and today's rate cut merely reverses a 25bp hike the BoT implemented late last year – not yet a real stimulus for the economy given the likelihood of further economic weakness ahead.

Judging by the BoT's routine hawkish rhetoric, it's hard to imagine that it will set itself off on an aggressive easing cycle. However, we don't see any reason why the BoT can't cut rates further, given the economy seems stuck on a low growth-low inflation path. For now, we have pencilled in one more rate cut in the fourth quarter of the year. But there may well be more to come.

## What this means for the markets?

The authorities have been worried about rapid currency appreciation pressure with the view that this is potentially bad for exports as well as tourism. Foreign investors have been taking the Thai baht as a safe-haven bet given the strong backing from the large current account surplus and record stock of foreign reserves. As recent BoT measures to stem short-term confidence-sensitive capital inflows are proving inadequate, rate cuts should provide some additional help.

Nevertheless, we don't see the currency losing its luster as a top-performing emerging market currency just yet. We are only revising our end-2019 USD/THB forecast slightly higher (currently 31.0) to 31.5 (spot 30.8) as an intensified currency war could help the THB to sustain its regional outperformance through the rest of the year.