Bank of Thailand cuts rates as risks from coronavirus rise

As Thailand cuts rates, we've added one more 25 basis point rate cut to our forecast this year, as the spread of the coronavirus depresses growth outlook, most likely via tourism

Source: Shutterstock

1.00% BoT policy rate

After 25bp cut today

Surprise for markets – not for us

The Bank of Thailand's decision to cut rates by 25 basis point to 1.00% today was in line with our forecast. The move, which brings the policy rate to an all-time low, was a surprise for the market given the consensus tilted on a stable policy decision. But it was a unanimous vote by all committee members.

Given that things might get worse before they get better, means we can expect a couple of quarters of substantially weak growth

The rate cut comes as the central bank acknowledges rising economic risk from the rapid global spread of the coronavirus that's poised to hit the tourism industry and the overall GDP growth for a substantial part of the year. Although nowhere near as China, with more than 24,000 people infected at the time of writing this article, Thailand has detected 25 coronavirus cases making it the third most infected country in Asia. And given that things might get worse before they get better, means we can expect a couple of quarters of substantially weak growth.

The BoT statement noted that "the Thai economy would expand at a slower rate in 2020 than previously forecasted and much further below its potential due to the outbreak of coronavirus, the delayed enactment of the Annual Budget Expenditure Act, and the drought that would affect a large number of related businesses and employment".

More easing ahead

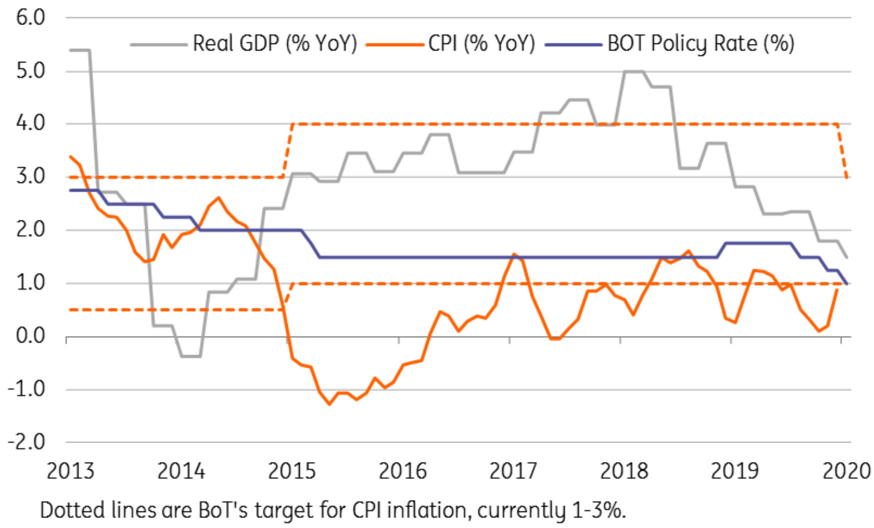
We don't think one rate cut will be enough in preventing the growth slowdown, let alone boosting growth. Two rate cuts from the central bank in 2019 didn't help much either and growth continued to decelerate through the fourth quarter of the year (data due 17 February). Indeed, the economy will need more monetary easing, more so when the fiscal lifeline continues to be absent as the budget for 2020 still has to be cleared in parliament.

We are adding one more 25bp rate cut to our BoT policy forecast

We believe persistently low inflation will keep the door open for further BoT easing this year. Lower crude oil price will remain the main headwind to inflation, while demand-side price pressures remain absent. We see inflation staying under the BoT's medium-term policy target, which the central bank narrowed this year to 1-3% from 1-4% and was barely met in recent years. We cut our average inflation forecast for 2020 to 0.6% from 1.0%.

We are adding one more 25bp rate cut to our BoT policy forecast. We believe the BoT would want to remain ahead of the curve in its policy response to the evolving situation. If so, another cut at the next meeting in March makes more sense as a timely, and probably more effective, boost to the economy.

Growth, inflation and Bank of Thailand policy



Source: Bloomberg, CEIC, ING

What it means for the markets?

The rate cuts also serve the official drive to stem the currency appreciation - the objective that's finally seeing some light at the end of the tunnel this year after a slew of measures taken last year failed. This is because a possible sharp dent in tourist inflows would narrow the current account surplus, the only driver for the THB strength all these years.

The Thai baht weakened above 31.20 (from around 31.15) against the US dollar in a knee-jerk reaction to the central bank announcement. But, oddly enough, it gained some ground subsequently and traded below 31.00.

This doesn't deter us from our view of the pair settling in the new, higher trading range of 31-33 this year and trading close to the top end of the range over the next three months.