

Bank of Thailand likely to maintain its hawkish rhetoric

The central bank's easing cycle may have ended but there are no compelling reasons for the policy interest rate to rise anytime soon



Source: Shutterstock

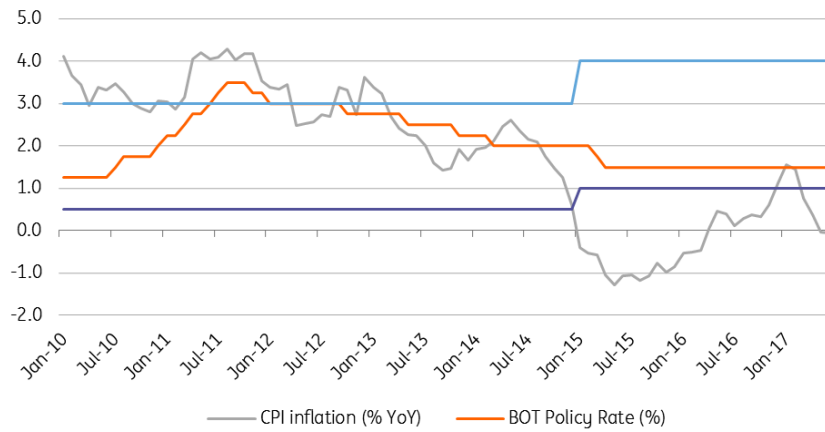
The Bank of Thailand Monetary Policy Committee meets tomorrow on November 8. We now share the consensus view that there will be no change to monetary policy this year, or indeed through 2018. Recent strong activity data, especially firmer industrial production growth suggesting that export recovery is finally stimulating manufacturing, led us to revise our BoT policy forecast, which until a month ago was in a consensus minority of a 25bp rate cut before end-2017.

We have also recently revised our GDP growth forecast for this year to 3.7% from 3.5% (cons: 3.5%, BoT: 3.8%). An on-hold policy decision means all the action will be in the policy statement for what it says about the future direction of interest rates.

Recent statements have been generally hawkish and we do not expect the upcoming one to be any different.

However, these statements haven't been convincing enough that the next move in the policy rate, currently 1.50%, will be up. Not in the medium-term, at least. Growth has been picking up, but in a disproportionate recovery, hopes of export strength broadening to domestic spending remain in vain.

Inflation remains well below the Bank's target



Source: ING, Bloomberg

Thailand isn't an outlier in the prevalent global trend of accelerating growth without stoking inflation. The BoT recently cut its inflation forecasts to 0.6% from 0.8% for 2017 and to 1.2% from 1.6% for 2018.

There is no spending-driven price pressure while the strong Thai Baht (THB) has kept imported inflation (where oil-related factors have a key role to play) at bay. With this, the BoT's 1-4% inflation target remains a far cry. The BoT has been under pressure from the government to curb THB appreciation to preserve the export-led recovery.

End of the one-way downtrend in USD/THB



Source: ING, Bloomberg

After strong appreciation against the USD earlier this year, the THB has been under a stable-

to-mild-depreciation trend since September that will likely see 33.0 to be the solid support level for USD/THB in the near-term. Our end-2017 USD/THB forecast is 33.50 (spot 33.2, consensus: 33.3).