

Thai central bank has reasons but no room to ease policy

We have cut our view of Thailand's GDP growth in 2Q20 to -12.8% from -8.3% and in full-year 2020 to -6.6% from -5.4%. The Bank of Thailand has all the more reasons to ease but no room left to do so at the meeting this week



Veerathai Santiprabhob, the outgoing Governor of the Bank of Thailand,

0.50%

BoT policy rate forecast

No change this week

The BoT to stay on hold

The Bank of Thailand's Monetary Policy Committee is meeting on Wednesday, 5 August, to review the current policy setting. Three policy rate cuts so far this year, adding up to 75 basis points, have pushed the repurchase rate, the policy rate, to an all-time low of 0.50%.

We believe the MPC will vote to leave the policy rate unchanged this week. We aren't alone here and there's solid consensus supporting it.

Why should the BoT ease?

Thailand may be a success story in containing the Covid-19 outbreak, but not so much in preventing the economic slump brought on by this pandemic which is one of the steepest in Asia. Even if economic activity bottomed in the last quarter, the recovery is not going to take hold as long as two key drivers of exports and tourism remain missing in action.

Just released today, the Markit manufacturing PMI for July improved to 45.9 from 43.5 in June, implying a slightly smaller contraction of activity in the sector. But it's still a contraction that signals persistent negative GDP growth coming into the third quarter. Similarly, the central bank's Business Sentiment Index (BSI) rose to 42.9 from 38.5 over the same months but is still well below the pre-Covid-19 level of 48.5 at the start of the year. The BSI closely tracks year-on-year real GDP growth and is consistent with negative GDP growth in 3Q.

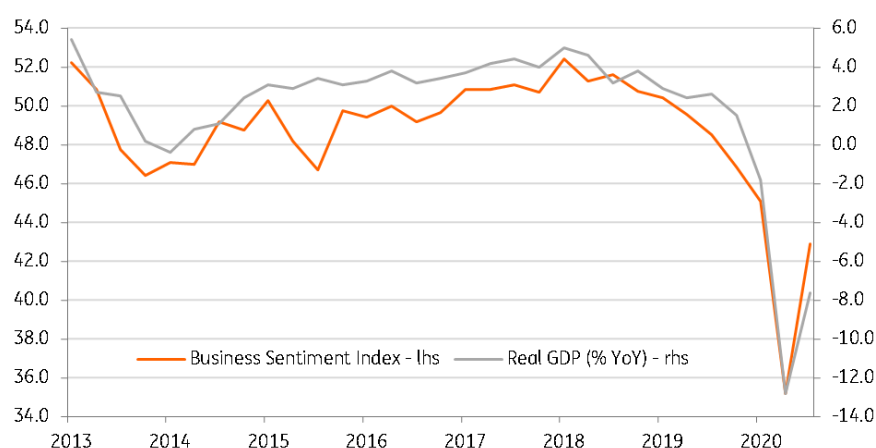
This would be the steepest GDP fall on record

Meanwhile, large export and manufacturing declines persisted through June and prompted a further downgrade of our GDP view for the last quarter and the year as a whole. We now see a 12.8% year-on-year GDP fall for 2Q, steeper than 8.3% earlier forecast. This would be the steepest GDP fall on record. We have also cut our full-year 2020 growth view to -6.6% from -5.4%, though not as bad as the BoT's own forecast of -8.1% GDP fall this year though.

And, coming just ahead of the BoT policy decision on Wednesday, consumer price data for July should reinforce the negative inflation streak extended to 3Q. Our forecast is -1.5% YoY, slightly better than -1.6% in June. This is way below the BoT's 1-3% policy target for CPI inflation.

Hence, the BoT has all the more reasons to ease policy further.

Business Sentiment Index vs. Real GDP Growth



Source: CEIC, ING

Note: ING's GDP forecast for 2Q20 and 3Q20.

What if there are no more rate cuts?

Just recently Assistant Governor, Titanun Mallikamas, indicated that they were preserving easing space for a worst-case scenario. That said, we consider the BoT's rate cut cycle has bottomed. An on-hold policy rate at the current level for a foreseeable future remains our baseline through 2021, at the least.

However, the speculation about the quantitative easing (QE) route may gain traction amid a change of leadership at the central bank. Last week, the Cabinet announced the selection of Sethaput Suthiwart-Narueput as the new governor, taking over from Veerathai Santiprabhob whose term ends in September. As an existing BoT-MPC member, an economic adviser to Prime Minister Prayuth Chan-Ocha, and former World Bank economist, the new governor should have a good grip on policymaking.

We think the markets will all the more be anxious to know if he would steer the policy towards quantitative easing. We remain sceptical about QE being on the table just yet, not in the near term.

Author

Alissa Lefebre

Economist

alissa.lefebvre@ing.com**Deepali Bhargava**

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com**Ruben Dewitte**

Economist

+32495364780

ruben.dewitte@ing.com**Kinga Havasi**

Economic research trainee

kinga.havasi@ing.com**Marten van Garderen**

Consumer Economist, Netherlands

marten.van.garderen@ing.com**David Havrlant**

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com**Sander Burgers**

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke

Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania
valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klokk

Senior Economist, Netherlands
marcel.klokk@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas
Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroeder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com