

Thailand: More reasons why BoT should cut rates tomorrow

Weak data drives another downgrade of our GDP growth forecast for the year to 2.5% from 2.8%, the third downgrade this year. This is why we believe the Bank of Thailand should cut rates at its policy meeting tomorrow



Source: Shutterstock

-4.4% August manufacturing growth

Worse than expected

Dismal manufacturing

In an extended negative streak for the fourth month, manufacturing production contracted by 4.4% year-on-year in August. The fall was steeper than the consensus median of -3.3% and it followed a 3.2% fall in July.

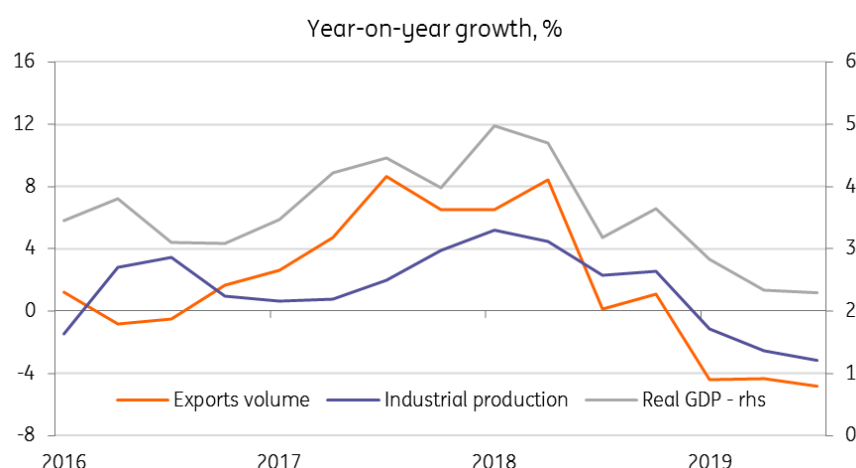
A negative swing in exports growth (to -4% YoY in August from 3.8% in July) explains some of the manufacturing weakness. It's not just exports though; domestic demand also has been weak as reflected by steadily falling consumer confidence and car sales.

GDP growth will be dismal too

The July-August average manufacturing growth of -3.8% is a further deterioration from the -2.5% average for the second quarter. Absent any hope of a rebound in growth in September, this will certainly be associated with continued weak GDP growth in the current quarter. The summer season tourism boost to services output may offset some of the manufacturing weakness, though this will be far from enough to accelerate GDP growth from a five-year low of 2.3% in 2Q19.

As such, we now see GDP growth in the current quarter little changed from its second-quarter pace and revise our growth forecast accordingly to 2.3% from 3.0%. We also cut our full-year 2019 growth forecast further to 2.5% from 2.8%, the third downgrade this year.

On a downtrend



Source: Bloomberg, CEIC, ING

Quarterly data with ING estimates for 3Q19.

This is why BoT should ease again tomorrow

Coming ahead of the Bank of Thailand's policy announcement tomorrow, the economic data paints an increasingly weak economic outlook. There is no denying that the economy, which is among Asia's worst performers this year, is in need of greater policy support. But will the Bank of Thailand bite the bullet and cut rates again tomorrow? The consensus doesn't suggest so.

Once again, we are bucking the consensus with our view of a 25 basis point rate cut to 1.25% at this meeting. The BoT started its easing cycle in August, albeit reluctantly judging from their hawkish stance, which makes our back-to-back rate cut forecast difficult to support. Yet, as the political noise frustrates expectations of the recently announced \$10 billion (about 2% of GDP) fiscal stimulus kick-starting the economy anytime soon, any onus for policy support has shifted back to monetary policy.

If they don't move tomorrow, we don't think we will have to wait for too long for the next cut. If nothing else, such a move is warranted from the strength of the THB, which is up 6.78% this year

(starting date 31 Dec 2018), beating even the JPY (only +1.87% in comparison).