

Thai central bank delivers long-awaited policy rate cut

Today's cut takes the Bank of Thailand's policy rate to its previous all-time low of 1.25%, the level last seen during the 2009 global financial crisis. We think this marks an end of a relative short-easing cycle of an otherwise hawkish Asian central bank



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1.25%

As expected

BoT policy rate

After 25 bps cut today

Second rate cut this year

The Bank of Thailand's Monetary Policy Committee decided to cut its policy interest rate by 25 basis points at the meeting today. The second rate cut this year takes policy rates down to 1.25%, the lowest level ever that was last reached during the 2009 global financial crisis.

No surprises here, as the move was in line with the broad consensus view as well as our forecast – all rested on a continued deterioration in growth as well as inflation paths this year.

What's surprising though, is that Asia's most hawkish central bank (there were still two dissenters in a seven-member policy committee) finally conceded to the fact that the economy needed lower interest rates to stimulate the domestic spending and also to rein in the rapid pace of currency (Thai baht) appreciation that's been dampening prospects of any near-term recovery.

The BoT also flagged more measures to curb currency appreciation pressure.

An end of short easing cycle

With the policy interest rate already at its record low level, there isn't much policy space left on the monetary side. Nor would further rate cuts be a sure-fix for the economy plagued by years of political uncertainty dampening domestic demand, while headwinds to any export-led recovery are getting stronger.

With one more policy meeting to go before the year-end, and given the BoT's reluctance to ease earlier this year, we expect no more rate cuts this year. And with little-to-no incremental benefit to limited easing implemented so far, it's fair to assume an increased resistance from the central bank for further easing in 2020.

This means the onus lies on the fiscal policy, though there is nothing promising on that front either, despite recent stimulus measures for farmers and tourism. As such, slow growth and low inflation trends look like they are here to stay throughout 2020. Maybe even beyond.

What's in it for the markets?

The widely anticipated move is unlikely to have much market impact. Even if the USD/THB rate spiked 0.3% on the announcement, it's likely to be reversed given that the currency continues to have strong backing from a large current surplus. And judging from the failure of earlier measures, there is little hope of new measures bearing any fruit in curbing currency appreciation.

Moreover, the end of the easing cycle will bring the THB bulls back in to play despite new measures to curb THB appreciation, Our end-2019 USD/THB forecast is 30.40 (spot 30.34).