Thailand

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No change in benchmark rate – we see no further rate cuts in 2020

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- **The benchmark interest rate was kept constant at 1.25%.**
- **The decision was unanimous among MPC members.**
- **2020 GDP growth was downgraded to 2.7% from 3.3%.**
- **We maintain our view that the Bank of Thailand is probably done in the current cycle, unless the macroeconomic situation deteriorates sharply from here.**

1. Bank of Thailand maintains benchmark rate at 1.25%.

There was little surprise with this decision, as all 23 analysts on Bloomberg (including ourselves) expected no change to the benchmark interest rate. The decision was unanimous within the MPC. Concerns about financial stability and the baht strength remain.

2. 2020 growth downgraded to 2.8% from 3.3%.

Despite the downgrade in growth, this revision does not come as a surprise to us given that we have already forecasted a 2020 GDP growth rate of 2.9% for Thailand, as written in our global outlook. Similarly, our forecast of headline inflation of 0.6% in 2020 is now closer to their adjusted estimate of 0.8% from 1.0% previously. A V-shaped recovery for Thailand may not be forthcoming next year and this is suitably reflected in the latest downgraded forecasts by the Bank of Thailand.

3. We maintain this is probably the last rate cut for Thailand in this cycle.

The market remains split on whether the Bank of Thailand will perform more rate reductions in 2020. The latest press statement offers mixed reviews, with the term "the Committee would stand ready to use policy tools as appropriate" returning after an absence in the November statement. However, this was negated by an upbeat growth outlook, where the statement also stated that "the Committee viewed that the global economic outlook [has] started to stabilize".

On the back of an improving economic outlook following the recent US-China phase one trade deal, we think the Bank of Thailand is likely to keep rates constant through 2020. The pressure for easing will continue to drop if China returns to the market for goods. An increasing risk appetite globally may also result in lesser demand for Thailand's safe haven status. We note that while inflation is expected to remain muted, inflationary pressures have remained structurally low for years and the BoT is unlikely to risk financial stability for boosting prices.

4. Factors that may push the Bank of Thailand into further easing.

a) **US-China relations head south.** A return of trade hostility between the two countries – not a remote possibility given that campaigning for the 2020 US Presidential Elections is due to begin – will see a return in demand for safe-haven Thai assets. The possible deterioration in macroeconomic outlook and an appreciating baht are likely to prompt the BoT to cut rates to restore growth and limit the baht's strength.

b) **Domestic political situation turns sour.** A potential disbanding of the Future Forward Party may result in domestic social unrest. Over the weekend, thousands of Thais turned up in Bangkok in a show of support for the party. An intensification of this unrest may lead tourists away from Thailand and further hurt the already-fragile growth in 2020, prompting the BoT to step in to arrest the decline.

c) **Persistent laggard growth among peers.** If domestic growth remains muted despite further US-China trade deals being clinched and an improvement in economic fortunes of neighbouring economies, the BoT may step in with more monetary stimulus.

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