

## BoT appears more open to monetary easing

Wednesday, June 26, 2019

### Highlights

- Benchmark rates remain static at 1.75%, as expected.
- MPC members voted unanimously for rates to remain constant.
- Judging by the press release, we think the BoT is now more open to a rate cut compared to last month, but a rate cut remains a step too far at this stage.
- We continue to monitor for MPC dissents in the upcoming meetings, but think that any rate cut may come only as late as December.

The Bank of Thailand has, unsurprisingly, **kept rates constant at 1.75%**. The vote split shows an unanimous vote within the MPC to keep rates on hold. Overall, it is our opinion that the latest MPC policy report shows a larger degree of inclination by members to consider easing its monetary stance.

### **Press release statement**

Two key themes stood out particularly for us:

- 1) **Firstly, the MPC dropped the line** “*viewed that current accommodative monetary policy stance would remain appropriate*” from its statement. The last time there was a deviation from this portion of the statement was in June 2018, when the phrase “*...and would stand ready to utilize available policy tools to sustain economic growth while also ensuring financial stability*” was dropped. This lasted for another MPC meeting; on the third and fourth meetings, the phrase “*...although the need for currently accommodative monetary policy would be gradually reduced*” was added, before a rate hike was finally performed.

**Drawing on this past experience, this may suggest that the BoT is another four meetings away from adjusting its rates** – which would be in-line with our previous suggestion of a late rate cut only in end Q4 this year.

- 2) **The BoT also spoke at length about the baht strength** in June’s press release, expressing concerns that the baht appreciation may not be consistent with economic fundamentals. This further adds credence to the hypothesis that the central bank is now more open to adjusting rates lower.

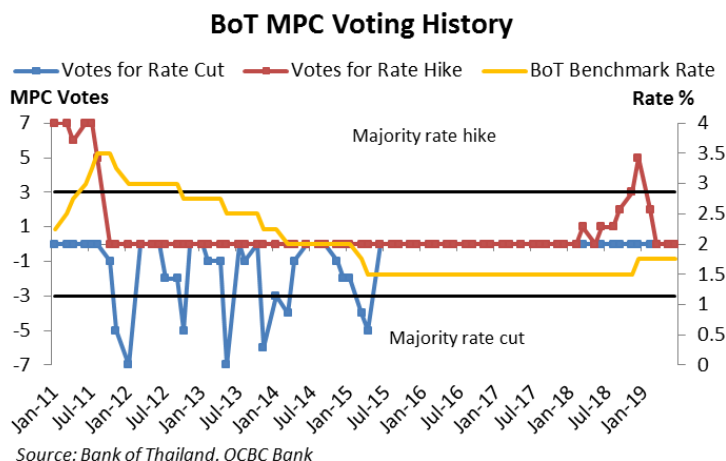
### Economic risks and budget delay are BoT's considerations

In its June press release, the BoT also pointed out risks to growth more specifically, **which may appear to suggest an acknowledgement of the increase in challenge of external macroeconomic headwinds**. The press release points out that a slower tourism rate, signs of moderation in earnings and employment in the export-related manufacturing sectors, as well as expectations of slowing private investments to be drags on growth. The BoT also specifically flagged out the delay in the budget and postponement of some state-owned enterprise investments as worth monitoring.

The budget delay, in particular, may enhance the possibility of a BoT rate cut, as there are no new infrastructure spending expected until 2020. Given the challenges the economy faces this year, stimulus – either in the form of fiscal or monetary – would likely be needed to spur economic growth. With fiscal approval delayed, the onus may likely rest on the BoT to pick up the slack.

### Watch for MPC dissents in coming meetings

As repeatedly pointed out, the MPC rarely moves from an unanimous vote on a rate hold one meeting, to a majority voting for a rate change in the next immediate meeting. **We thus believe that BoT a rate cu this year, while displaying an increased probability, is still far from potentially being executed**. Observing for dissents in the upcoming meetings will be key in obtaining better clarity on when the BoT may embark on a rate cut. We still hold the belief that macroprudential stability is a high emphasis of the BoT – **should the global macroeconomic situation perform a positive turnaround, it is highly likely that the BoT may choose to keep rates on hold through 2019 instead**. Ceteris paribus, at present it is our opinion that the BoT may only cut its benchmark rate by 25bp to 1.50% only as late as December 2019.



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