

Strong THB fails to move policy-makers

Wednesday, August 30, 2017

Highlights:

- **The Bank of Thailand kept interest rate unchanged at 1.50% in a unanimous fashion.** The move to keep interest rate unchanged was made despite the strong Thai Baht seen since the start of the year. Empirically, the Thai Baht has appreciated 7.6% against the USD this year, making the THB clocking the strongest performance across its Asian peers.
- **Still, the central bank warned of the strong THB, which “might affect business adjustments”, adding that it will continue to closely monitor developments in the foreign exchange market.** Policy-makers attributed the strong THB to the country’s current account surplus (11% of GDP). Despite the strong THB, Thailand’s export growth continued to print in double digit growth rates (June: +11.8% yoy), in part due to the low base last year amid an observable better external environment in Asia seen to-date. As such, given that the strong THB has done little to dent the country’s external trade health, we view that BOT will likely refrain from intervening in the THB for now.
- **The MPC’s view of Thailand growth remains largely unchanged from the previous meeting rhetoric:** growth outlook is improving while financial conditions remained accommodative. Still it acknowledged that the recovery is not broad-based, while the low inflation remains to be supply-driven. In all, our full-year growth outlook for Thailand is unchanged at 3.5%, underpinned by the recovery in Thailand’s key sectors including domestic consumption, investments and trade. Inflation will likely remain below BOT’s target band of between 1 – 4% this year (OCBC Outlook: 0.4%), though the low prices are chiefly supply-driven rather than from demand-push variables. We look for BOT to keep interest rates unchanged at 1.50% for the rest of this year.

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