MNI Bank of Thailand Preview – May 2021

Announcement Date: Wednesday, 5 May 2021

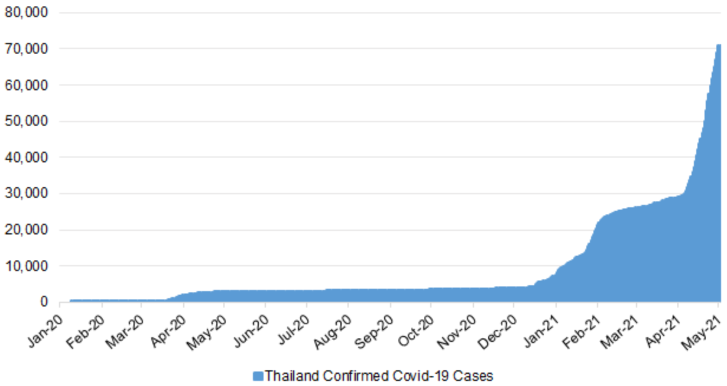
Announcement Time: 08:05 BST/14:05 ICT

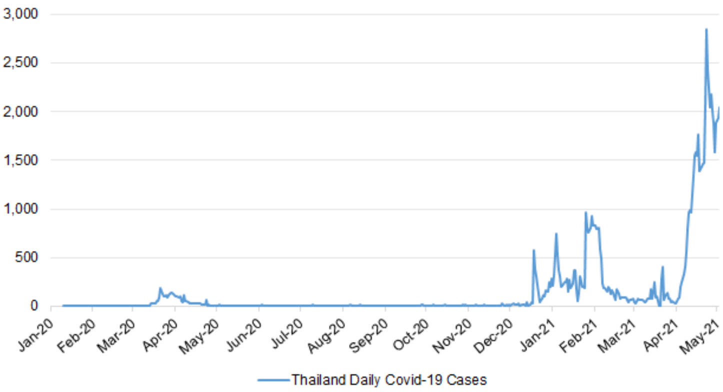
Link To Rate Decision: https://tinyurl.com/botmay2021

MNI Point of View: Third Wave Weighs On Outlook

Although the rapid resurgence of Covid-19 infections has put Thailand's economic recovery and tourism reopening plans at risk, we expect the Bank of Thailand to stand pat on rates Wednesday, as further policy loosening at this point would bring little benefit. However, the odds are high that the BoT will follow in the footsteps of fiscal authorities and downgrade their economic forecasts as the third wave of coronavirus bites.

The increase in new Covid-19 cases picked up in April, leading to Thailand's worst outbreak of the disease since the beginning of the pandemic. The country's health authorities suggested that the latest wave of infections has already passed its peak, but they were forced to implement new restrictions nonetheless, which disrupted consumer activity during Songkran Festival last month and placed a strain on local businesses. BoT Senior Director Chayawadee said that the MPC will take stock of the impact of the third wave on Thailand's economic growth during the upcoming policy meeting and signalled that the outbreak is expected to weigh on consumption and to delay reopening borders for international visitors.





Source: MNI - Market News/Bloomberg

The suite of new restrictions imposed by the government includes nationwide mask mandate and a cap on social gatherings, shutdowns of dine-in establishments and mobility restrictions in highest-risk provinces, as well as elongating the mandatory quarantine period for all incoming arrivals to two weeks. This latter step represents a major setback for the government, who had to backpedal on their earlier decision to cut quarantine duration. Although they insisted that plans to reopen Phuket to inoculated visitors are still on, the new wave of infections was a bucket of cold water on hopes for a swift reopening of tourism industry, the pre-pandemic backbone of Thai economy.

The Finance Ministry revised their economic projections accordingly and now see domestic GDP growth at +2.3% Y/Y this year (vs. +2.8% forecast in January and +4.5% forecast in October), while lowering expectations of foreign tourist arrivals to 2mn. Their downgrades came on the heels of downward revisions to the projections of the National Economic and Social Development Board (NESDB) and downbeat rhetoric from the BoT. The central bank warned that their forecasts from the March MPC meeting may now be outdated, but has not revealed any updated expectations as of yet.

Business Address – MNI Market News, 5th Floor, 69 Leadenhall Street, London, EC3M 2DB

Therefore, the BoT will most likely use the upcoming meeting to join the government and NESDB and slash economic projections for this year, so that they reflect the impact of the third wave of coronavirus. As per the March statement, the BoT expected GDP to rise 3.0% Y/Y in 2021 and 4.7% Y/Y in 2022, while minutes from the March meeting revealed that the Bank's worst-case scenario is a 1.7% Y/Y contraction. Focus will be on the MPC's assessment of the damage wrought by the renewed outbreak of Covid-19.

Elsewhere, the latest data signals released out of Thailand were a mixed bag. March saw continued deflation of consumer prices, although officials attributed the negative CPI reading to one-off government measures and expected it to turn positive in April. The MPC will know if it did, as the next CPI report comes out hours before their policy announcement. Meanwhile, Customs Department's exports surged in March, reaching best levels in at least three decades, as global demand picks up. These conflicting developments are unlikely to sway Committee members either way.

Although the resurgence of coronavirus has severely affected Thailand's economic recovery, this MPC has turned very conservative about adding monetary stimulus. The opening lines of every single statement since November featured an already familiar phrase, noting that the Bank wants to "preserve the limited policy space to act at the appropriate and most effective timing." On top of this refrain, the BoT recently pushed back against suggestions that it should deploy unconventional policy tools, with Senior Director Sakkapop assessing the probability of using YCC as low, even as it remains in the policymakers' toolkit.

With the benchmark interest rate already at or close to its effective lower bound, the MPC is widely expected to leave monetary policy parameters unchanged on Wednesday and keep focusing on macroprudential measures aimed at easing liquidity. The Bank of Thailand recently announced that it gave a nod to the first batch of loans from a targeted scheme to assist SMEs hit by the Covid-19 pandemic. Policymakers will likely continue to focus on such targeted support, while leaving the heavy lifting to fiscal policy. Deputy PM Supattanapong pledged last month that new measures will be submitted to cabinet in May, which allows the BoT to remain in the back seat.

Bank of Thailand March Monetary Policy Decision:

The Committee voted unanimously to maintain the policy rate at 0.50 percent to support the economic recovery which remained highly uncertain.

The Committee assessed that the Thai economy continued to expand, but downside risks and uncertainties surrounding the economic outlook remained high in the period ahead. The economy would thus need support from the continued low policy rate. The Committee therefore voted to maintain the policy rate at this meeting to preserve the limited policy space to act at the appropriate and most effective timing.

The Thai economy was projected to expand by 3.0 and 4.7 percent in 2021 and 2022 respectively, somewhat lower than the previous projection in line with lower tourist figures and the impacts of the new wave of the COVID-19 outbreak. However, the economy would be supported by a fast recovery in merchandise exports, which was in line with the expansion of trading partner economies, as well as the economic stimulus measures additionally announced. Nonetheless, the recovery would remain uneven across economic sectors. Significant risks included the efficacy and distribution of COVID-19 vaccination, the recovery in foreign tourist figures, and the continuity of fiscal support. The financial system remained sound despite vulnerabilities in some segments due to the negative shocks from the recent COVID-19 outbreak, particularly low-income households and SMEs. Headline inflation was projected to return to the target in the middle of 2021 and would stay close to the lower bound of the target range throughout the forecast period. Medium-term inflation expectations remained anchored within the target.

Despite ample overall liquidity and low financing costs, the distribution of liquidity remained uneven due to increased credit risks. This was a result of more fragile financial positions, particularly for businesses that experienced slow recovery and households that were additionally affected by the recent outbreak. Long-term government bond yields rose in tandem with US Treasury yields. On exchange rates, the Thai baht depreciated against the US dollar in line with regional currencies. The Committee would closely monitor developments in the financial markets and assess their implications on the recovery in the period ahead, as well as continue to expedite the new foreign exchange ecosystem.

The Committee viewed that the continuity of government measures and policy coordination among government agencies would be critical to support the economic recovery going forward. Monetary policy must remain accommodative. The Committee encouraged the expedition of the new financial rehabilitation measures to support business recovery post-COVID-19 to ensure distribution of liquidity to the affected groups in a targeted manner, reduce debt burden, and support the economic transformation in the period ahead. While financial institutions should accelerate debt restructuring, fiscal measures must continue to sustain the economy. In particular, the government should expedite budget disbursement under the restoration plan once the new wave of the outbreak become well contained. In addition, the government should simultaneously implement supply-side policies to support business restructuring and upskilling of labor, which would help support sustainable economic recovery in the long term.

Under the monetary policy framework with objectives of maintaining price stability, supporting sustainable and full-potential economic growth, and preserving financial stability, the Committee continued to emphasize supporting the economic recovery. The Committee would monitor the adequacy of the government measures and various risks, especially the outbreak situation in Thailand and abroad, in deliberating monetary policy going forward. The Committee would stand ready to use additional appropriate monetary policy tools if necessary.

Click to see the full statement and forecasts.

Sell-side comments:

ANZ: We expect the Bank of Thailand (BoT) to keep its policy rate unchanged at 0.50% at its meeting on Wednesday. The economy has come under renewed pressure following a third virus wave and the associated containment measures. Fiscal policy needs to do the heavy lifting, while the BoT's policy response will remain targeted. Thailand's economy had been showing some signs of improvement, but the onset of a third wave of virus infections has put the brakes on the nascent recovery. The government has responded by tightening movement restrictions, and mobility – which had normalised in late March and early April – has plunged. This latest wave is Thailand's largest yet; the faster pace of spread and the fact that Bangkok – which accounts for roughly one quarter of GDP – has been at the epicenter suggests that the economic damage incurred this time may be larger than during the previous wave. However, with the benchmark policy rate at just 0.50%, there is little appetite for further cuts. Recent comments from a BoT official also ruled out unconventional measures for now. Instead, the BoT's focus will likely be on targeted measures of support. It has repeatedly reiterated that the main challenge is liquidity distribution, as opposed to liquidity levels. To boost credit access, the central bank's soft loan program has been recently revised with more relaxed criteria, and an "asset warehouse scheme" that will allow struggling businesses to temporarily park their assets with lenders in exchange for credit has been set up. The BoT is now reportedly considering more support measures and debt mediation for retail debtors too. Fiscal policy will need to do more of the heavy lifting, and the government is preparing measures to support the economy. It currently has about THB380bn to be allocated –THB240bn left over from the THB1trn loan decree, THB100bn from the central budget reserved for emergencies and THB40bn from the COVID-19 mitigation budget. Measures to alleviate costs of living and stimulate domestic consumption, including cash handouts, are likely.

Barclays: We think the BoT is likely to leave its policy rate unchanged at its all-time low of 0.50%. Despite the resurgence in COVID cases and cautious outlook for growth, the policy rate already at or close to its effective lower bound, which limits the central bank's ability to provide more support to the economy. Instead of rate cuts, we expect the BoT is likely to continue to complement fiscal policy with targeted credit and financial steps. Policy normalisation seems far away as the demand side pressures remain subdued and the central bank is yet to express caution about financial stability risks.

DBS: Bank of Thailand is likely to extend its cautious tone on the economy's outlook, including a likely delay in border reopening as cases spike locally as well as in multiple pockets globally, whilst the vaccination rollout hits a speed-bump. Tougher business conditions, modest impact from the fiscal stimulus and its fallout on consumption might also be highlighted as risks. The ground will be laid to lower growth forecasts further from the current 3%. Policy guidance is unlikely to deviate from recent rate reviews, highlighting the available room to act, but preference to hold back ammunition for the time being. Baht underperformance might receive a mention, but we don't expect that to be a bother for the policymakers.

Goldman Sachs: We expect the Bank of Thailand (BoT) to keep policy rates on hold at 0.5% (Bloomberg consensus: 0.5%) at its meeting next week. Higher global oil prices and unfavorable base effects will likely drive headline inflation significantly higher in coming months. However, still significant economy-wide slack will keep core inflation in check this year. The recent surge in local COVID-19 cases poses an additional headwind to the domestic recovery as containment policy has tightened again, and it could potentially impact tourism reopening timelines. We expect the central bank to cut its 2021 growth projections at the meeting next week due to lower projected international tourists arrivals. Going forward, as activity recovers only slowly, with the bulk of "catch up" growth on rebounding tourism only likely in 2022 as border controls loosen later this year, we expect Bank of Thailand to be one of the slowest central banks to hike policy rates, only beginning to tighten policy in early 2023.

Morgan Stanley: We expect BoT to stand pat at the upcoming monetary policy meeting next week. Recall BoT eased aggressively last year to cushion growth, cutting the policy rate by 75bps cumulatively, to a record-low level of 0.5%. With the policy rate close to its effective lower bound and given our expectations of a sustained cyclical recovery amid a low base, improving global backdrop and the ongoing vaccine rollout, we think further rate cuts are unlikely. At the same time, we don't see BoT normalizing monetary policy in a hurry either, given the Fed's dovish average inflation-targeting framework as well as rising but still benign inflation in Thailand.

TD Security: BoT is likely at the bottom of its easing cycle. Thailand facing increasing COVID cases and tighter restrictions, constraining activity. While domestic growth risks are rising, external trade is strengthening. Fiscal policy continues to play a strong role in recovery, with BoT likely to focus on macroprudential measures rather than policy rates.

UOB: According to the Bloomberg survey (as of 30 Apr), all the 6 economists polled unanimously expect BOT to keep its policy rate unchanged at 0.5%. We keep to our call for BOT to leave its benchmark rate unchanged at 0.50% for the whole of 2021. Still, Thailand's economic growth is likely to be uneven amid pronounced downside risks should COVID-19 worsen. If macroeconomic fundamentals stay unexpectedly subdued into 2H21, a 25bps rate cut could materialise then.

MNI INSIGHT: Thai Central Bank Balancing Stimulus Against Baht

By Lachlan Colquhoun

SYDNEY (MNI) - Fear of further weakening the baht will likely prevent the Bank of Thailand cutting rates from the current record low 0.5%, as a resurgence of the pandemic leaves policymakers needing to balance stimulating a faltering economy with long-held concerns over a volatile currency, MNI understands.

BOT officials confirmed last weekend that a third wave of Covid-19 infections was likely to force a downgrade in GDP forecasts, which are currently for 3% growth this year and 4.7% next year, as the return of tourists to the nation's beaches remains an uncertain prospect.

But action to address the weakening economy could be stymied as the downturn coincides with a reversal in the momentum of the baht, which has fallen more than 4% so far this year after climbing 5.8% against the dollar in Q4 2020.

While there is support for an interest rate cut given the weakening economy, the Bank will be careful not to further undermine the currency, making any change to policy unlikely next week.

BAHT WEAKNESS

The Bank carries out limited interventions to manage baht volatility, and earlier in April Thailand was included on a U.S. Treasury watchlist of potential currency manipulators, having fulfilled the key criteria of a current account surplus in excess of 2% of GDP and a trade surplus of more than USD20 billion with the U.S. It fell just short on a third criterion, having purchased foreign exchange to the value of 1.8% of GDP over 12 months, just below the 2% limit. The BOT rejects any suggestion it manipulates the baht.

The BOT spent much of last year seeking to keep a lid on the baht through small interventions and measures such as allowing Thai retail investors to purchase up to USD$5 million in foreign securities, up from a previous limit of USD200,000. Local residents and companies were also allowed to open foreign currency deposits in Thailand.