MNI Bank of Thailand Preview - January 2023

Meeting Date: Wednesday, 25 January 2023

Announcement Time: 07:00 GMT/14:00 ICT

Link To Statement: https://tinyurl.com/BoTMonPolDecisions

Contents

MNI POV (Point Of View): Gradual Normalisation To Continue

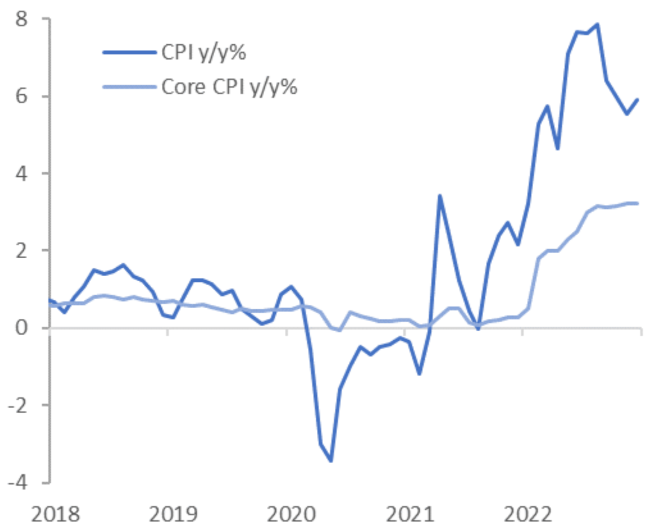
The Bank of Thailand (BoT) is widely expected to increase rates 25bp to 1.5% at its meeting on Wednesday January 25, after it revised up its inflation forecasts and December CPI printed higher again. Its 2019 peak in rates was only 25bp higher at 1.75%. It was also one of the last Asian central banks to begin tightening this cycle and if it moves as projected this week, then it would have only raised rates a cumulative 100bp compared with 300bp in Korea. Of the 20 analysts surveyed by Bloomberg 19 expect a 25bp hike with one expecting a pause.

In its November meeting statement, BoT reiterated that "gradual policy normalisation remains an appropriate course". It expects growth to continue to improve driven by recovering tourist arrivals and that inflation will return to the upper end of its 1%-3% target band by the end of this year. But it noted that the economic recovery is posing "risks to inflation". The central bank observed that financial conditions remain supportive. It expects growth to rise to 3.7% in 2023 from 3.2% last year driven by both tourism-related and increased domestic spending, as employment and incomes have improved. Pre-Covid tourism accounted for about 20% of employment in Thailand. The earlier-than-expected reopening of China has resulted in a 25% upward revision to projected 2023 tourist arrivals.

Figure 1: Tourism recovery supporting spending

Source: MNI – Market News/Refinitiv

Figure 2: No further inflation progress in December



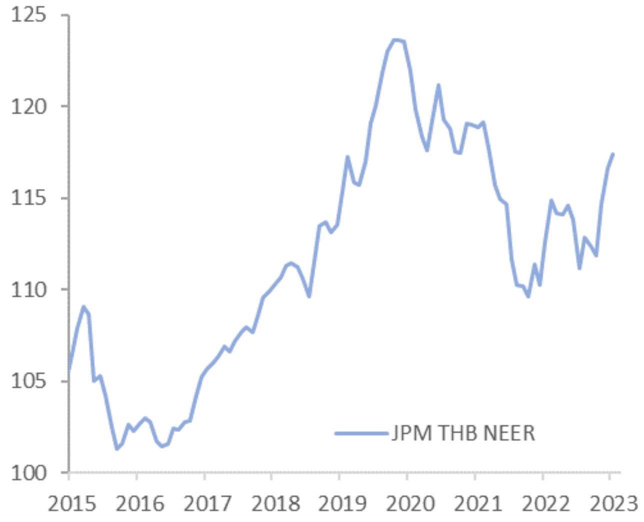
Source: MNI – Market News/Refinitiv

CPI inflation rose to 5.9% y/y in December from 5.5% driven by raw food prices, transport and base effects. Core was steady at 3.2% (see figure 2) – both remain above the upper-end of the 1-3% target band. Underlying price pressures are yet to peak but headline peaked in August at 7.9%. The December S&P Global PMI reported an increase in input costs and that businesses were able to pass this onto customers. Inflation pressures are expected to ease over 2023 as supply-chains and commodity prices ease, but there are upside risks stemming from the tourism recovery, gradual reduction in energy subsidies and accommodative monetary policy.

The Thai trade deficit has been narrowing on a 3-month average basis but exports to major trading partners are still weak, except to the US. Importantly, in November the 3-month average current account moved into surplus for the first time since December 2020. Increased tourist arrivals and lower global commodity prices should continue to help the balance of payments position. The BoT said in its last statement that it is prepared to respond if the significant uncertainties currently surrounding global growth changed its outlook. While the December S&P Global PMI improved to its highest in 3 months, new orders contracted for the third consecutive month driven by overseas demand, inflation and economic conditions.

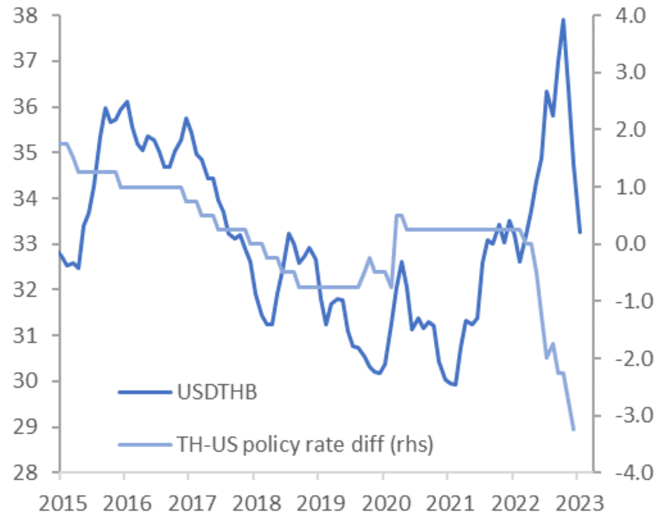
The improving growth and balance of payments position should take some of the pressure off of the baht this year, and thus import prices. USDTHB appears to have peaked in October and is down over 12% since then and 7% since the last BoT meeting. THB has also appreciated against a basket of currencies with the NEER up 7.35% since its July 2022 trough and has risen for three consecutive months to January. This should ease currency concerns, but the BoT stated that it will continue to monitor FX volatility. Ensuring that the rate differential with the US doesn’t widen further is part of FX stability policy. With the Fed expected to hike 25bp on February 1, a 25bp move in Thailand would keep the rate gap steady.

Figure 3: THB appreciating against USD & others



Source: MNI – Market News/Refinitiv/JP Morgan

Figure 4: Rate differential with US to stabilise



Source: MNI – Market News/Refinitiv/JP Morgan

The BoT is highly likely to raise rates by a further 25bp at its January 25 meeting. Its next meeting isn’t until March 29 and another 25bp is possible then too, as the Fed is likely to hike 25bp at its March 22 meeting. This would keep the rate differential with the US stable. Significantly negative real rates, inflation being above the upper end of the central bank’s target band and an even stronger recovery in tourism presenting upside risks to both the growth and inflation outlook make rate hikes at both Q1 2023 meetings probable.

Bank of Thailand November 30 2022 Meeting Statement

Mr. Piti Disyatat, Secretary of the Monetary Policy Committee (MPC), announced the outcome of the meeting on 30 November 2022 as follows.

The Committee votes unanimously to raise the policy rate by 0.25 percentage point from 1.00 to 1.25 percent, effective immediately.

The Thai economic recovery has continued to gain traction. Tourism and private consumption will continue to be key economic drivers going forward and help alleviate the impact of global slowdown on the Thai economy. Headline inflation is expected to be higher than the previous projection for 2023 due to domestic energy prices. However, it is still expected to decline and return to the target range within 2023. The Committee deems that a gradual policy normalization remains an appropriate course for monetary policy given the growth and inflation outlook, and thus votes to raise the policy rate by 0.25 percentage point at this meeting.

The Thai economy is projected to continue growing at 3.2 percent in 2022, 3.7 percent in 2023, and 3.9 percent in 2024. The tourism sector continues to strengthen as the number of foreign tourists continues to rise. Additionally, private consumption is supported by improving economic activities, as well as a more broad-based recovery in employment and labor income. The trajectory of Thai economic growth remains largely unchanged in 2023 and 2024 as the strength of the tourism sector and private consumption will help lessen the impact of the global slowdown on the Thai export sector. Nonetheless, the Committee will monitor the downside risks to the highly uncertain global economic outlook as well as the momentum of the tourism sector.

Headline inflation is expected to be at 6.3 percent in 2022, peaking in the third quarter, before declining to 3.0 percent in 2023 and 2.1 percent in 2024. Headline inflation is expected to be higher than previously assessed for 2023 on the back of the upward adjustment of electricity charges, but it is expected to return to the target range by the end of 2023. Core inflation projection is close to the previous assessment at 2.6 percent in 2022, 2.5 percent in 2023, and 2.0 percent in 2024. Meanwhile, medium-term inflation expectations remain anchored within the target range. However, the Committee will continue to closely monitor risks to inflation, especially a potential increase in cost pass-through as well as domestic energy prices which remain uncertain.

Overall financial system remains resilient. Commercial banks maintain high levels of capital and loan loss provision. Debt serviceability of households and businesses has improved in line with the economic recovery. However, the financial positions of some SMEs and households remain fragile and sensitive to the rising living costs and debt burden as incomes have yet to fully recover. The Committee views that financial institutions should continue to press ahead with debt restructuring and deems it important to have targeted measures and sustainable solutions in place for vulnerable groups.

Overall financial conditions remain accommodative. Funding costs in the private sector gradually rise in tandem with the policy rate but remain conducive for business financing, with credit and funding in the bond market still seeing growth. The baht against the US dollar has been highly volatile owing mainly to expectations surrounding the monetary and macroeconomic policy in major economies. The Committee will continue to closely monitor developments in the financial market and volatilities in the foreign exchange market.

Under the monetary policy framework with objectives of maintaining price stability, supporting sustainable and full-potential economic growth, and preserving financial stability, the Committee judges that the Thai economic recovery will be on track, albeit with risks to inflation. The policy rate should be normalized to the level that is consistent with sustainable growth in the long term in a gradual and measured manner. Given the heightened uncertainties surrounding the global economy, the Committee is ready to adjust the size and timing of policy normalization should the growth and inflation outlook shift from the current assessment.

Click here for [November meeting minutes]

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

Sell-Side Analyst Views

ANZ (+25bp): We expect the Bank of Thailand (BoT) to stay on its current course of gradual policy normalisation and deliver a 25bp rate hike at its upcoming meeting (Wednesday, 25 January at 15:00 SGT). The combination of improving growth prospects and still elevated inflation gives the central bank room to continue reducing policy accommodation.

- Notably, the faster-than-anticipated reopening in Mainland China has opened up upside risks to Thailand's growth and inflation outlook. The tourism authorities recently upgraded their 2023 projection to 25million arrivals (previously 20million) on the back of a faster-than-expected China reopening, versus an estimated 11.8million for full-year 2022, and we think the risks are still tilted towards a positive surprise. The tourism recovery will support the labour market, which accounted for around one-fifth of employment prior to the pandemic, as well as demand-pull price pressures.
- Although inflation is set to ease this year amid high base effects, we expect both the headline and core prints to stay above the mid-point of the BoT's 1-3% target band in the coming quarters.
- Overall, we do not think growth and inflation dynamics warrant deeply negative real policy rates. We see scope for four 25bp rate hikes this year, which will take the terminal policy rate to 2.25%. This terminal rate will also allow the central bank to rebuild policy space to meet future exigencies.

Bank of America (+25bp): We expect the Thai Monetary Policy Committee to continue its gradual normalization, raising rates by 25bps at each of the next four meetings with a terminal rate of 2.25%. The risk on rates is tilted to the upside if the tourism recovery is proven to be inflationary.

Barclays (+25bp): Keeping in line with its peer central banks, we think the Bank of Thailand, at its meeting next week (25 January) is likely to signal that policy does not need much more tightening. While we expect a 25bp rate hike next week, only the fourth by the BoT, we think the MPC will remain dovish, especially given many months of easing inflation and much better prospects on growth and the current account helping alleviate pressure on the currency. That said, the BoT has not yet talked about the lagged effects of cumulative tightening. Additionally, real rates are still quite negative and a robust outlook for growth does give the MPC enough room to hike once more in March, in order to build policy space for future contingencies. Our base case does not pencil in a hike in March, as we expect the BoT to hold off from hikes when global central banks signal the end of their hiking cycle and global growth slows down. However, if global growth appears to be better than expected by March, we think a hike in March could become a possibility.

Citi (+25bp): Inflation has eased gradually but still far from target. There may still be some upside price pressures from energy price fluctuations and gradual removal of energy subsidies in the coming quarters. With the economic recovery still fairly robust, we expect the BOT to raise the policy rate further next week, but policy stance will likely remain broadly unchanged.

Goldman Sachs (+25bp): We expect the Bank of Thailand (BoT) to raise its policy rate by 25bp to 1.5% at its upcoming meeting (Bloomberg consensus: 1.5%). While headline inflation, in year-over-year terms, is likely to decline over the course of the year on lower energy contributions and favourable base-effects, it remains elevated at close to 6% versus the inflation target range of 1%-3%. Core inflation momentum, which excludes all food and energy, is also likely to build as demand rebounds and tourism picks up. Policymakers continue to signal a measured and gradual pace of tightening, that could "continue for a while" as the economy recovers and inflation returns within the BOT target range over the course of the year. Going forward, we continue to expect BOT to hike rates in 25bp increments until the policy rate reaches a terminal level of 2.5% by Q3 2023.

JP Morgan (+25bp): The prognosis is that China's border reopening should provide a considerable lift to Thailand's BOP and possibly GDP growth with a manageable pass-through to inflation. If this is correct, then we think that the BoT will not be compelled to deliver additional tightening beyond what we have telegraphed, i.e., two 25bps hikes in 1Q23. We continue to pencil in a terminal policy rate of 1.75%, with the balance of risk slightly skewed toward one more 25bps hike in 2Q23 if the growth/inflation dynamics pick up more than expected.

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

Morgan Stanley (+25bp): We expect BoT to raise the policy rate by 25bp to 1.50% at the upcoming meeting. This is in line with BoT's guidance from the 2022 November meeting that the policy rate should be normalized in a "gradual and measured" manner. Core inflation has hovered at ~3.2% YoY over Oct-Dec 2022, only marginally above the 1-3% target range, while headline inflation has already softened by almost 200bp from its Aug-22 peak. These reaffirm our view that inflation pressures are still more cost-push in nature. With next week's 25bp hike (for a cumulative 100bp increase), we think BoT will have likely reached the peak rate of this cycle. At 1.50%, the policy rate would be back to the pre-pandemic levels and we see BoT staying on hold thereafter. Looking ahead, the upside risk for rates should come from a faster than expected recovery in domestic demand leading to an acceleration in core inflation.

Natwest (+25bp): The BoT meets on Wednesday, and we expect another 25bp hike to 1.50%. From an inflationary perspective, the motivation is clear. Headline CPI has eased from its peak of 7.9% last Aug to 5.9% in Dec, and while core CPI has benefited from subsidies and price caps, it has yet to show signs of peaking. A still-recovering economy may mean that the BoT still sees demand-pull inflation remaining firm in the coming months. But less external pressures – in the form of a rapidly appreciating THB – should offer some relief.

TD (+25bp): 25bp hike likely. Headline and core inflation have continued to push higher, significantly above the BoT's 3% target. Inflation will continue to be biased to the upside amid increases in electricity tariffs and minimum wages. Recovering economic momentum, means that demand side pressures will build. BoT will need to hike until core inflation comes back under control.

UOB (+25bp): We expect that BOT may soon reach the peak of its current rate-hiking cycle, with our forecast of another 25bps rate hike at the upcoming Jan 25 MPC meeting to 1.50% and then for another final 25bps hike to 1.75% at its scheduled MPC meeting on 29 Mar. Overall, despite its 1.75% terminal rate, we expect negative real interest rates will continue to favor Thai economic recovery as it diverges away from an ultra-tight monetary policy elsewhere in the world, most notably in the US and Europe. However, a combination of expectation of significantly higher tourist arrivals this year and its associated improvement in Thai's current account position altogether with a relatively less tight monetary policy environment to support growth recovery, the Thai economy is likely to find itself in a "sweet-spot" of having consistently higher GDP growth and an appreciating currency that is unlikely to unwarrantedly hurt the recovery trajectory