

# BoT 1<sup>st</sup> MPC Decision

An expected fourth consecutive 25 bps rate hike, bringing the Repo Rate to 1.50%

- **The Bank of Thailand (BoT) raised the Overnight Repurchase Rate by another 25 bps to 1.50%, in line with house and market expectations**

- The Monetary Policy Committee's (MPC) seven members unanimously voted to raise the policy rate for the fourth consecutive meeting.
- The committee reiterated that gradual policy normalisation remained appropriate, as the Thai economy continued to gain traction and core inflation remained elevated with growing risk from demand-side inflationary pressures.

- **The BoT expects the Thai economic revival to sustain its momentum, buoyed by a faster recovery in the tourism sector**

- The MPC stated that tourism will likely be boosted in the medium-term, by the earlier return of Chinese tourists following China's border reopening from Jan 8; the Tourism Authority of Thailand revised its tourist arrivals forecast to 25.0m in 2023 from 20.0m previously (2022: 11.2m). However, merchandise exports are expected to moderate this year in line with a global growth slowdown, although downside risks to the global economy have subsided slightly, due to the improving growth outlook in China and several developed economies.

- **Headline inflation is expected to decline to 3.0% in 2023 (2022: 6.1%) but core inflation may remain elevated**

- The BoT indicated that supply-side inflationary pressures should ease further amid a decline in global energy and commodity prices. However, core inflation may remain high for longer amid an increase in demand-side inflationary pressures, especially with the stronger recovery in tourism; core inflation remained at 3.2% YoY in December, its highest level since 2008.

- **We now expect one more 25 bps rate hike in March, bringing the policy rate to its long-term average of 1.75% (2022: 1.25%)**

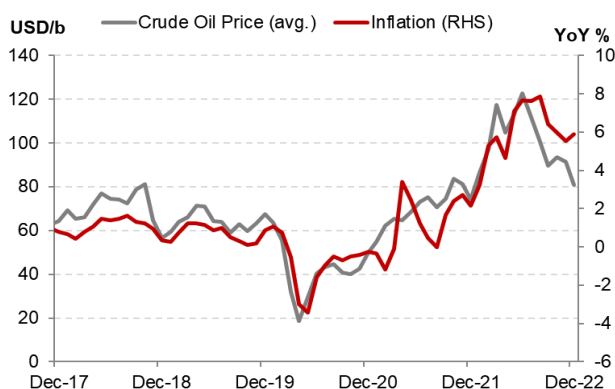
- Given Thailand's improving growth outlook, lifted by a resurgence in tourism, and growing concerns over demand-side inflationary pressures, we expect the MPC to raise the policy rate by 25 bps to 1.75% at its March meeting. We think it is more likely the policy rate will be kept at its long-term average (1.75%), but still assign a 25.0% probability of a final 25 bps hike in May, given that the BoT was the last of its peers to commence rate hikes and as core inflation remains high.
- USD/THB year-end forecast (32.03; 2022: 34.61): The THB is projected to continue strengthening this year, amid an improving domestic economic outlook as tourist arrivals trend notably higher and private consumption remains solid. Likewise, the USD is expected to weaken further as the US Fed completes its tightening cycle; long-dated US Treasury yields will likely decline at a relatively fast pace and the THB could then benefit from greater foreign portfolio inflows into the Thai bond market.

**Table 1: Policy Rates in Selected Countries**

Rate (Last Change)	Country	Central Bank Interest Rate	Date
1.50% (+0.25%)	Thailand	Repo Rate	Jan-23
5.75% (+0.25%)	Indonesia	7-Day Reverse Repo Rate	Jan-23
3.50% (+0.25%)	South Korea	Base Rate	Jan-23
5.50% (+0.50%)	Philippines	Overnight Reverse Repurchase	Dec-22
4.25% - 4.50% (+0.50%)	USA	Funds Rate Target	Dec-22
3.50% (+0.50%)	UK	Base Rate	Dec-22
3.10% (+0.25%)	Australia	Cash Rate	Dec-22
2.50% (+0.50%)	Euro Area	Fixed Rate	Dec-22
4.25% (+0.75%)	New Zealand	Official Cash Rate	Nov-22
2.75% (+0.25%)	Malaysia	Overnight Policy Rate	Nov-22
3.65% (-0.05%)	China	Loan Prime Rate (1Y)	Aug-22
-0.10% (-0.20%)	Japan	Complementary Deposit Facility	Jan-16

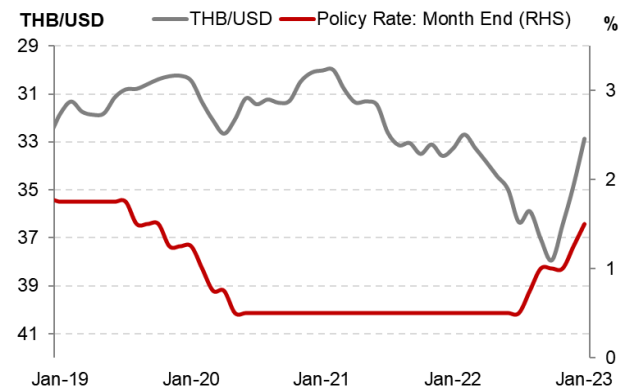
Source: Bloomberg, CEIC, Kenanga Research

**Graph 1: Inflation vs Crude Oil**



Source: Bank of Thailand, Bureau of Trade and Economic Indices, Kenanga Research

**Graph 2: Policy Rate vs. Currency**



Source: Bank of Thailand, Bureau of Trade and Economic Indices, Kenanga Research

26 January 2023

**Table 2: MPC Meeting Schedule for 2023 / KIBB Outlook**

No.	Date		KIBB Research Outlook	BOT Decision	Vote
1 <sup>st</sup>	25 January	<input checked="" type="checkbox"/>	25 bps rate hike	25 bps rate hike	7 – 0
2 <sup>nd</sup>	29 March	<input type="checkbox"/>	25 bps rate hike		
3 <sup>rd</sup>	31 May	<input type="checkbox"/>	25% chance of 25 bps hike		
4 <sup>th</sup>	2 August	<input type="checkbox"/>	No change		
5 <sup>th</sup>	27 September	<input type="checkbox"/>	No change		
6 <sup>th</sup>	29 November	<input type="checkbox"/>	No change		

Source: Bank of Thailand, Kenanga Research

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