

BoT 2nd MPC Decision

An expected fifth straight 25 bps hike, reaching a 4-year high of 1.75%

- **The Bank of Thailand (BoT) raised the Overnight Repurchase Rate by another 25 bps to 1.75%, in line with house and market expectations**

- The Monetary Policy Committee's (MPC) seven members unanimously voted to raise the policy rate for a fifth consecutive meeting.
- The committee deemed a continuation of gradual policy normalisation was appropriate considering the growth and inflation outlook.

- **The BoT adjusted its GDP growth forecast for 2023 down slightly to 3.6% (2022: 2.6%) from 3.7%, and forecast 2024 growth to improve to 3.8%**

- The MPC stated that the economy should continue to expand, driven primarily by a further recovery in tourism, which is expected to promote employment and sustain private

consumption. Exports show signs of recovery, with expectations of further strengthening in 2H23, but an uncertain global economic outlook, amid banking crises and persistently elevated inflation in the West, have tilted risks to the downside.

- **The central bank revised down its headline inflation forecast marginally to 2.9% from 3.0% previously (2022: 6.1%)**

- The committee stated that inflationary pressures were easing especially after the better-than-expected headline inflation reading in February (3.8% YoY; Jan: 5.0%), and that it would likely return to within the target range of 1.0 – 3.0% by the middle of the year; headline inflation is expected to ease further to 2.4% in 2024. That said, the BoT stressed that underlying inflation remains elevated with upside risks growing; core inflation rose in February (0.11% MoM; Jan: 0.08%)

- **We now expect one more 25 bps rate hike in May as the BoT prioritises stemming core inflation**

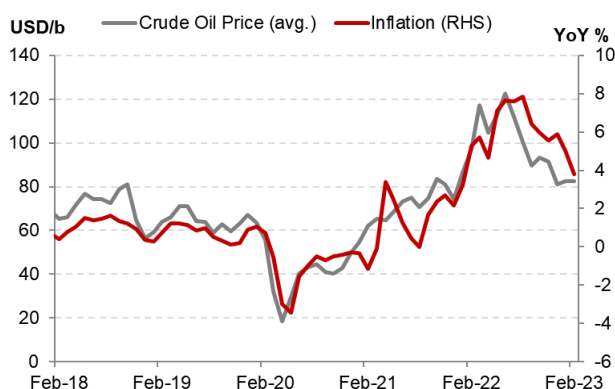
- We reckon the BoT will hike to a terminal rate of 2.00% in order to prevent elevated price pressures from returning amid a strong recovery in tourism and greater domestic demand. Although headline inflation eased in February, the BoT appears concerned that stubbornly elevated core inflation could be sticky. Furthermore, inflationary pressures and the Thai economy could receive a boost from the upcoming election (May 14), potentially justifying a sustained hawkish stance.
- USD/THB year-end forecast (32.03; 2022: 34.61): The THB is still expected to strengthen this year, despite recent weakness ahead of the general election. The baht should be buoyed by favourable domestic economic conditions, including sustained tourist arrivals and robust domestic demand. Meanwhile, the USD is still expected to weaken this year as the Fed inches towards the end of its tightening cycle. Likewise, we expect steady foreign inflows into Thailand's capital markets, which could further benefit the THB, but this is contingent on political stabilisation after the election.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
1.75% (+0.25%)	Thailand	Repo Rate	Mar-23
4.75% - 5.00% (+0.25%)	USA	Funds Rate Target	Mar-23
3.50% (+0.50%)	Euro Area	Fixed Rate	Mar-23
3.60% (+0.25%)	Australia	Cash Rate	Mar-23
4.75% (+0.50%)	New Zealand	Official Cash Rate	Feb-23
6.00% (+0.50%)	Philippines	Overnight Reverse Repurchase	Feb-23
4.00% (+0.50%)	UK	Base Rate	Feb-23
5.75% (+0.25%)	Indonesia	7-Day Reverse Repo Rate	Jan-23
3.50% (+0.25%)	South Korea	Base Rate	Jan-23
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

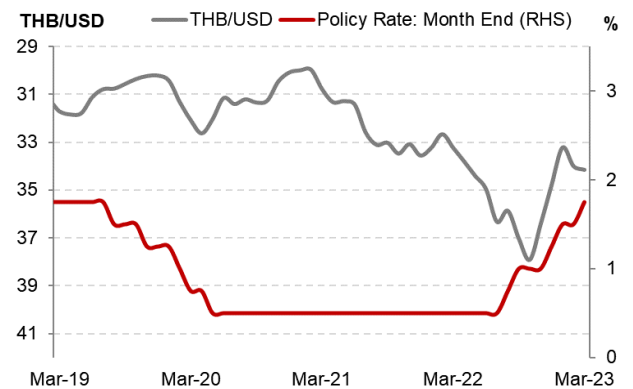
Source: Bloomberg, CEIC, Kenanga Research

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

30 March 2023

Table 2: MPC Meeting Schedule for 2023 / KIBB Outlook

No.	Date		KIBB Research Outlook	BOT Decision	Vote
1 st	25 January	<input checked="" type="checkbox"/>	25 bps rate hike	25 bps rate hike	7 – 0
2 nd	29 March	<input checked="" type="checkbox"/>	25 bps rate hike	25 bps rate hike	7 – 0
3 rd	31 May	<input type="checkbox"/>	75% probability of 25 bps hike		
4 th	2 August	<input type="checkbox"/>	No change		
5 th	27 September	<input type="checkbox"/>	No change		
6 th	29 November	<input type="checkbox"/>	No change		

Source: Bank of Thailand, Kenanga Research

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