

BoT 3rd MPC Decision

An expected sixth consecutive 25 bps hike, its highest level since February 2015

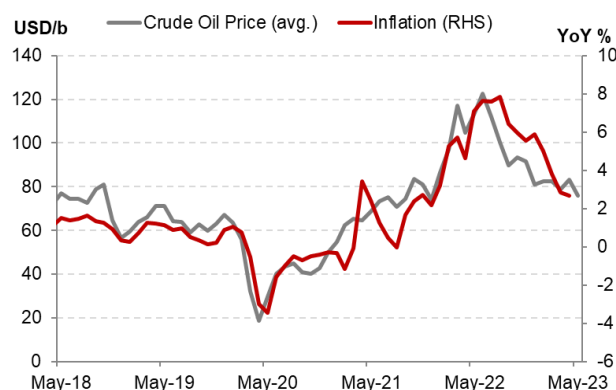
- The Bank of Thailand (BoT) raised the Overnight Repurchase Rate by another 25 bps to 2.00%, its highest since February 2015, in line with house and market expectations**
 - The Monetary Policy Committee's (MPC) seven members unanimously voted to raise the policy rate for a sixth straight meeting.
 - The committee deemed a continuation of gradual policy normalisation remained appropriate considering the growth and inflation outlook.
- The BoT retained its GDP growth forecast for 2023 at 3.6% (2022: 2.6%) and for 2024 at 3.8%**
 - The committee reiterated that the economy should continue to expand, primarily led by a strong recovery in tourism. This is expected to further support employment and labour income, which will continue to drive private consumption. The central bank states that merchandise exports are projected to improve in line with a moderate expansion in global economic activity. Furthermore, the BoT highlighted upside risks to growth, partly stemming from forthcoming government policies.
- The BoT stated that inflation should continue to decline but acknowledged that core inflation remained elevated**
 - After headline inflation returned to the target range of 1.0 – 3.0% over the last two months (Apr: 2.7%; Mar: 2.8%), the committee expects it to decline further and to register an average of 2.5% in 2023 (2022: 6.2%), amid easing electricity and oil prices. Whilst core inflation is projected to stabilise at 2.0% in 2023 and 2024, the central bank highlights that would still be an elevated level relative to the past (2022: 2.5%; 2021: 0.2%), given that the 10-year pre-pandemic average was 1.2%.
- We believe that the BoT has reached the end of its tightening cycle but has room to raise rates if needed**
 - With the repurchase rate at its long-term average of 2.00%, we reckon it has reached a sufficient level to address lingering inflationary pressures and upside risk from greater demand pressures amid expanding economic activity. That said, the committee stressed that it is “prepared to adjust the size and timing of policy normalisation” depending on changes to the growth and inflation outlook. As such, should inflation spike, perhaps from higher energy prices or a stronger-than-expected tourism rebound, we believe the BoT has room to raise rates by another 25 bps.
 - USDTHB year-end forecast (32.03; 2022: 34.61): The THB is still expected to strengthen this year, despite recent weakness due to domestic political uncertainty and the US Federal Reserve’s monetary policy direction. We reckon the baht will find some solace from the BoT’s 25 bps hike and to recover further should the Fed pause rate hikes at its upcoming meeting (June 13 – 14). Likewise, we expect a strong return of foreign capital inflows into Thailand in 2H23, but this is highly contingent on domestic political stability and the prompt formation of a new government.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
2.00% (+0.25%)	Thailand	Repo Rate	May-23
5.50% (+0.50%)	New Zealand	Official Cash Rate	May-23
4.50% (+0.25%)	UK	Base Rate	May-23
5.00% - 5.25% (+0.25%)	USA	Funds Rate Target	May-23
3.75% (+0.25%)	Euro Area	Fixed Rate	May-23
3.00% (+0.25%)	Malaysia	Overnight Policy Rate	May-23
3.85% (+0.25%)	Australia	Cash Rate	May-23
6.25% (+0.25%)	Philippines	Overnight Reverse Repurchase	Mar-23
5.75% (+0.25%)	Indonesia	7-Day Reverse Repo Rate	Jan-23
3.50% (+0.25%)	South Korea	Base Rate	Jan-23
3.65% (-0.05%)	China	Loan Prime Rate (1Y)	Aug-22
-0.10% (-0.20%)	Japan	Complementary Deposit Facility	Jan-16

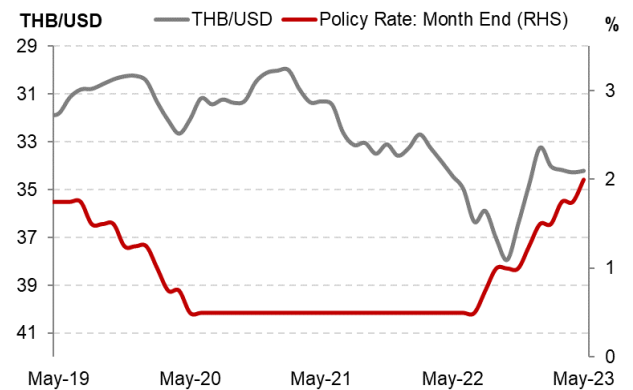
Source: Bloomberg, Macrobond, Kenanga Research

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

01 June 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 checked="" type="checkbox"/>	75% probability of 25 bps hike	25 bps rate hike	7 – 0
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

For further information, please contact:

Wan Suhaimie Wan Mohd Saidie
Head of Economic Research
wansuhaimi@kenanga.com.my

Muhammad Saifuddin Sapuan
Economist
saifuddin.sapuan@kenanga.com.my

Afiq Asyraf Syazwan Abd. Rahim
Economist
afiqasyraf@kenanga.com.my

Zalman Basree
Economist
zalman@kenanga.com.my

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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my