

# BoT 4<sup>th</sup> MPC Decision

Seventh straight 25 bps hike to a 9-year high, marking the potential end of tightening

- **The Bank of Thailand (BoT) raised the Overnight Repurchase Rate by another 25 basis points (bps) to 2.25%, a nine-year high, in line with market estimates but against house expectations**

- The Monetary Policy Committee's (MPC) seven members unanimously voted to raise the policy rate for a seventh straight meeting.
- The committee stated that raising the policy rate would help to maintain inflation within the target range, given the context of continued economic expansion and reduced slack. The hike would also preserve policy space amidst the uncertain economic outlook, whilst preemptively addressing potential financial imbalances that could arise in a prolonged low interest rate environment.

- **The BoT expects the Thai economy to continue expanding, driven mainly by tourism and private consumption**

- The BoT retained its GDP growth forecast for 2023 at 3.6% YoY (2022: 2.6%) and for 2024 at 3.8%, to be driven by an expected 29.0m foreign tourist arrivals in 2023 and 35.5m in 2024. That said, the committee acknowledged that external demand has softened, amid subdued demand from China, but expects it to gradually recover going forward. They also highlighted increased risks to the growth outlook given prolonged domestic political uncertainties and an uneven global economic outlook.

- **The BoT expects headline inflation to rebound in 2H23 and core inflation to settle at a relatively high level**

- Although headline inflation eased YoY in June (0.23%; May: 0.53%), it surged to a one-year high on a MoM-basis (0.6%; May: -0.7%), indicating that price pressures remain volatile. The central bank expects headline inflation to return to within its 1.0% - 3.0% target range in 2H23 as the high base effect dissipates, while core inflation is anticipated to remain considerably higher than the long-term average. Of note, the BoT stressed that upside inflationary risks stem from potentially higher food prices should there be a more severe case of El Nino.

- **We believe that the BoT has reached the end of its tightening cycle and will keep rates unchanged going forward**

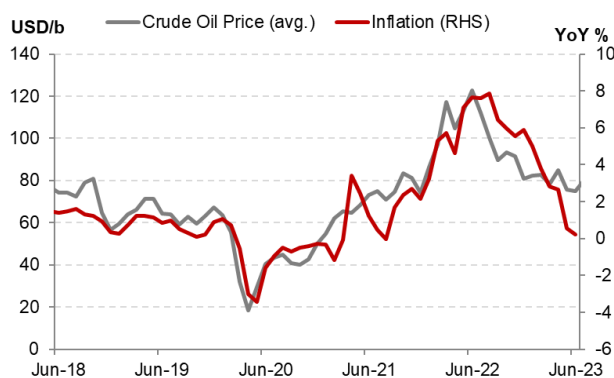
- Following 175 bps of cumulative rate hikes, we reckon that the policy rate is sufficient to temper lingering inflationary pressures, with headline inflation to remain well within the target range. Although the BoT sounded optimistic on the growth outlook, we note elevated domestic risks given that Thailand's Private Consumption Index contracted in June (-0.3% MoM; May: 1.5%) and Manufacturing PMI slipped in July (50.7; June: 53.2). Furthermore, we expect exports to remain subdued as developed economies experience a slowdown or fall into recession later this year.
- USDTHB year-end forecast (32.03; 2022: 34.61): The 25 bps rate hike should provide some minor support to the THB, but given the ongoing political impasse, the baht will likely remain pressured in the near-term. However, we anticipate the baht to strengthen towards the end of the year as the USD potentially weakens amid the end of the US Fed's own tightening cycle and with the formation of a new government in Thailand.

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

Rate (Last Change)	Country	Central Bank Interest Rate	Date
2.25% (+0.25%)	Thailand	Repo Rate	Aug-23
4.25% (+0.25%)	Euro Area	Fixed Rate	Jul-23
5.25% - 5.50% (+0.25%)	USA	Funds Rate Target	Jul-23
5.00% (+0.50%)	UK	Base Rate	Jun-23
4.10% (+0.25%)	Australia	Cash Rate	Jun-23
3.55% (-0.10%)	China	Loan Prime Rate (1Y)	Jun-22
5.50% (+0.25%)	New Zealand	Official Cash Rate	May-23
3.00% (+0.25%)	Malaysia	Overnight Policy Rate	May-23
1.875% (+0.125%)	Taiwan	Discount Rate	Mar-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
-0.10% (-0.20%)	Japan	Complementary Deposit Facility	Jan-16

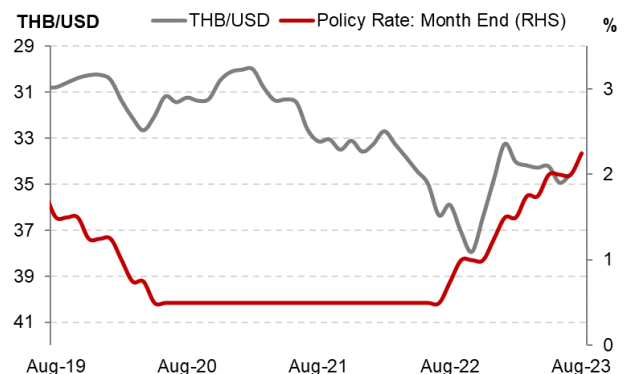
Source: Bloomberg, Macrobond, Kenanga Research

**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

03 August 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 checked="" type="checkbox"/>	25 bps rate hike	25 bps rate hike	7 – 0
3 <sup>rd</sup>	31 May	<input checked="" type="checkbox"/>	75% probability of 25 bps hike	25 bps rate hike	7 – 0
4 <sup>th</sup>	2 August	<input checked="" type="checkbox"/>	No change	25 bps rate hike	7 – 0
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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