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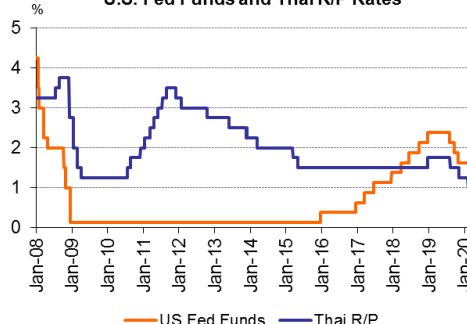
MPC Special Coverage

May 20, 2020

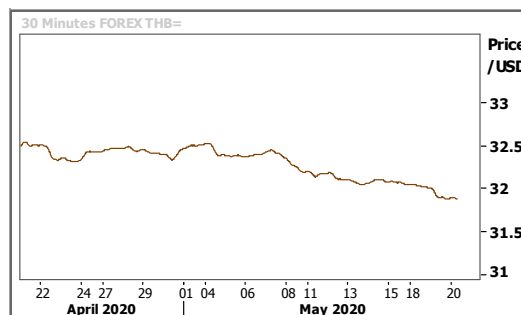
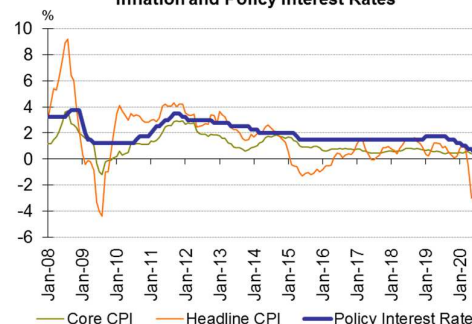
BoT cuts key rate to 0.50%

- The Bank of Thailand's Monetary Policy Committee, voted 4-3 to slash the one-day repurchase rate by 25bps to yet another all-time low of 0.50% this afternoon, taking combined cuts this year to 75bps. Today's decision matched the broader market expectations.
- The Committee assessed that Thailand's 2020 economic outlook has worsened from the prior estimates in tandem with the deterioration in the global economy and the impact from restriction measures to curb the coronavirus outbreak around the world. Inflation is projected to sink deeper into negative territory while financial stability has become more fragile. Weakness in tourism and exports, as well as domestic demand fallout from rising unemployment will lead to a sharper economic contraction, according to the statement.
- The baht weakened only slightly to 31.92 right after the announcement before revisiting 31.87, largely unchanged from the morning session as the outcome was generally anticipated. The Thai currency has depreciated over 6% so far this year due to the economic shock from the COVID-19 pandemic and portfolio outflows. Still, the Committee expressed concerns over the potential of renewed baht strength which would hinder economic recovery.
- The MPC next meets on Jun 24. The overall tone of policy language was dovish. Tellingly, nonetheless, we think that the tight 4-3 verdict, with three members voting to keep rates steady, indicates the end of the rate-cutting cycle. As a matter of fact, the Committee reiterated today the readiness to use monetary tools as deemed appropriate and necessary but dropped the reference to using the "policy rate" mentioned in the March statement. We expect rates to remain at 0.50% in the period ahead and the MPC to pursue additional targeted measures in coordination with fiscal stimulus schemes to help shore up the battered economy.

U.S. Fed Funds and Thai R/P Rates



Inflation and Policy Interest Rates



Reuters

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