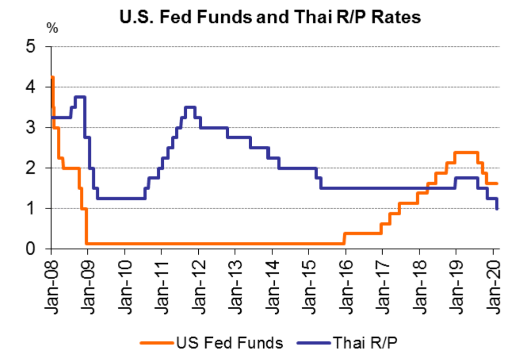
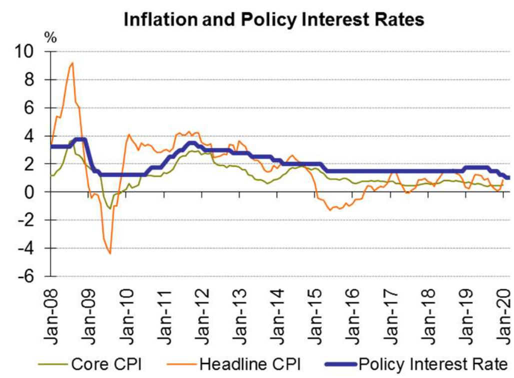
MPC Special Coverage

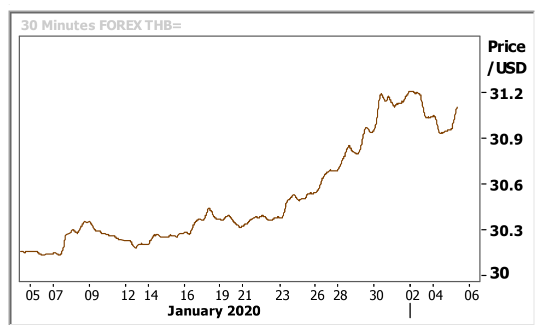
February 5, 2020

BoT cuts key rate by 25 bps to 1.00%

- The Bank of Thailand's Monetary Policy Committee, voted unanimously to cut the one-day repurchase rate by 25 bps to a fresh record low of 1.00% this afternoon. The move marked the third reduction in the policy interest rate since August 2019.
- The Committee expressed increasing concerns over the economy, describing growth outlook as worse than previously assessed and further below potential. Key headwinds being cited were the outbreak of the novel coronavirus, the uncertainty related to annual budget timeframe, as well as drought conditions. On inflation, the MPC judged that headline prices would average below the lower bound of the policy target of 1% for both 2020 and 2021 due to the setback of energy costs as well as sluggish domestic demand.
- The baht weakened to around 31.25 after the announcement before coming back to 31.13, roughly matching levels seen in the morning session. Analysts had been split as to whether the MPC would act this time or wait until March. Yields continue to decline even as, from the trading perspective, the rate cut was fully priced. Year-to-date, the Thai currency has reversed almost half of last year's gains to become Asia's worst performer, down by 3.9% in light of faltering tourism due to the virus outbreak and as the potential delay in budget disbursement further hurts confidence. The Committee noted that despite recent depreciation relative to currencies of trade partners, the baht's value may not reflect economic fundamentals still. Accordingly, foreign exchange and capital movements will continue to deserve close monitoring.
- The MPC next meets on Mar 25. The overall tone of policy language was clearly dovish. The decisive entry to an unexplored territory, in our view, paves the way for further cuts if conditions deteriorate although we remain skeptical of the growth-spurring effect from today's supposedly symbolic helping hand.







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