

Wednesday, 25 January 2012

Flash Notes

Thailand: Policy Rate cut by 25bps to 3.00%

The Bank of Thailand continued to cut policy interest rates by 25 bps to 3.00%, in line with consensus estimates. The Monetary Policy Committee (MPC)- which voted unanimously to reduce the policy rate-started its rate cuts in Nov, to support rebuilding and investment in the country after the floods were deemed to have a more severe impact than initially expected. In its statement today, the BoT said, "the impact of the floods on the Thai economy was greater than previously assessed and the restoration process is likely to be more drawn out." The central bank said that manufacturing production would only likely normalise by 3Q, which is a concern, given that the manufacturing sector accounts for about 40% of GDP. The BoT also noted the further deterioration in the external economy, with the euro zone likely to enter a recession.

With inflationary pressure subsiding, the BoT has more room to manoeuvre in easing monetary policy. Headline inflation in Dec fell to 3.5% from 4.2% in Nov, but inflationary pressures could persist on strong domestic consumption stemming from government measures such as raising the minimum wage come Apr 1. Reconstruction spending will also help generate economic activity.

Domestically for the economy, we are looking at 4Q contracting 1.5% y/y, and a growth rate of 2.0% for full year 2011. For 2012, we think GDP could grow 5.0%, as rebuilding efforts take hold, but there could be downside risks depending on whether private investment picks up. We think the BoT could pause with its rate cutting for now to ascertain the impact on the economy. It was reported in the newswires that assistant governor Paiboon Kittisrikangwan said, "after two rate cuts, we think the current rate at 3.00% is appropriate for both growth and the inflation outlook." A further rate cut could be possible if private investment and the manufacturing sector continues to stay weak, and if the problems in Europe escalate.

Impact on USD/THB

Movements in the Asian currencies and THB will continue to be dictated by newsflows and the developments in the Euro. The deterioration in the European debt crisis could see the USD/THB edge up to 31.80 by end 1Q2012.

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