

17 October 2024

# BoT 5<sup>th</sup> MPC Decision

Surprise 25 bps rate cut aims to reignite economic growth

- **The Bank of Thailand (BoT) cut the Overnight Repurchase Rate by 25 basis points (bps), bringing it to 2.25%, surprising both market and house expectations.**

- The Monetary Policy Committee (MPC) voted 5-2 in favour of this policy rate cut, marking the first cut since May 2020.
- **BoT statement:** It expected inflation to gradually return towards the target range by the end of 2024, stating that "the committee deems that a neutral stance of the policy rate remains appropriate with the economic growth and inflation outlook." The gradual pace of inflation moving toward the target has led the BoT to recalibrate its monetary policy strategy. It also highlighted the weak performance of the economy, which has been aggravated by high debt servicing costs for borrowers. The lower rate may alleviate financial pressure on businesses facing rising expenses, particularly due to the recent strengthening of the local currency.

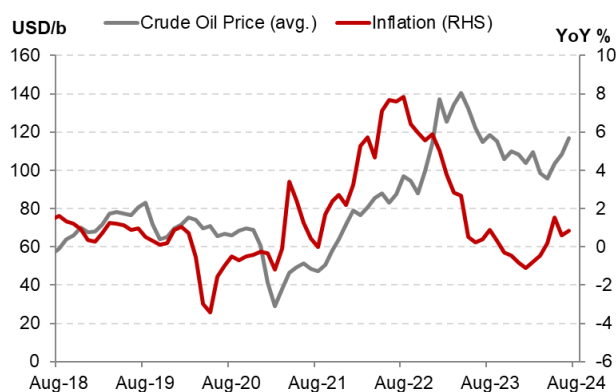
**Table 1: Policy Rates in Selected Countries**

Rate (Last Change)	Country	Central Bank Interest Rate	Date
6.00% (-0.25%)	Philippines	Target Reverse Repurchase	Oct-24
2.25% (-0.25%)	Thailand	Repo Rate	Oct-24
4.75% - 5.00% (-0.50%)	USA	Funds Rate Target	Sep-24
6.00% (-0.25%)	Indonesia	BI Rate	Sep-24
4.25% (-0.25%)	Canada	Overnight Rate	Sep-24
3.50% (-0.25%)	Euro Area	Key Deposit Facility Rate	Sep-24
5.25% (-0.25%)	New Zealand	Official Cash Rate	Aug-24
0.25% (+0.15%)	Japan	Overnight Call Rate	Jul-24
5.00% (-0.25%)	UK	Base Rate	Jul-24
3.35% (-0.10%)	China	Loan Prime Rate (1Y)	Jul-24
4.35% (+0.25%)	Australia	Cash Rate	Nov-23
3.00% (+0.25%)	Malaysia	Overnight Policy Rate	May-23
3.50% (+0.25%)	South Korea	Base Rate	Jan-23

Source: Bloomberg, Kenanga Research

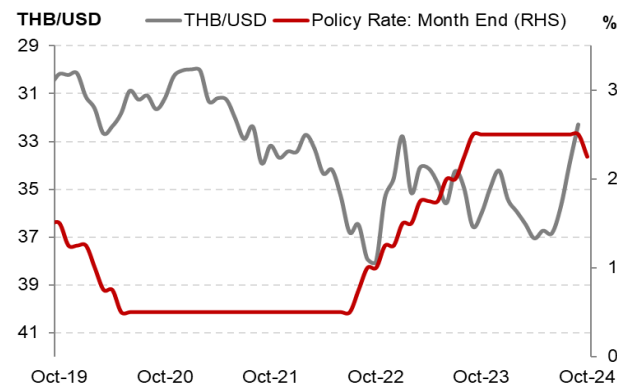
- **Thai economy is projected to continue expanding, propelled by higher consumption and export recovery**
  - The BoT expects the domestic economy to be driven by increased domestic demand and private consumption from the USD 14.0b "digital wallet" stimulus scheme, which will benefit 45m people. This initiative, combined with a potential recovery in exports and continued support from tourism, is expected to help GDP growth reach the government's revised target of 2.7% for 2024 from the initial target of 2.6%.
- **The BoT expects headline inflation to increase at gradual pace, amid remain below target range**
  - It revised the forecast for headline inflation to 0.5% for 2024, down from 0.6%, and is projected to be 1.2% for 2025. In September, headline inflation rose to 0.61%, up from 0.35% in August, but it remains below the target range of 1.0% to 3.0%. This increase was mainly driven by higher prices for certain vegetables and diesel. Unpredictable weather conditions are expected to be the primary factor behind the modest rise in raw food inflation.
- **We expect the BoT to continue with gradual monetary easing, supporting the bullish growth outlook**
  - To stay competitive, BoT's monetary policy is expected to align with global trends, particularly among regional peers and advanced economies that are increasingly opting to ease rates to support growth. With inflation likely remaining below target, future rate cut will help stimulate demand and push prices upward. Additionally, such cuts would signal effective coordination between fiscal and monetary policies, despite recent political changes.
  - USDTHB year-end forecast (34.9; 2023: 34.61): We maintain our forecast despite the Baht's stronger appreciation in September. Escalating geopolitical tensions in the Middle East could weaken the baht, following the stronger dollar as haven currency. If another 25 bps rate cut occurs, Thailand may gain economic momentum through domestic-led recovery, allowing it to catch up with regional peers.

**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

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**Table 2: MPC Meeting Schedule for 2024/ KIBB Outlook**

No.	Date		KIBB Research Outlook	BOT Decision	Vote
1 <sup>st</sup>	7 February	<input checked="" type="checkbox"/>	No change	No change	5– 2
2 <sup>nd</sup>	10 April	<input checked="" type="checkbox"/>	No change	No change	5 –2
3 <sup>rd</sup>	12 June	<input checked="" type="checkbox"/>	No change	No change	6– 1
4 <sup>th</sup>	21 August	<input checked="" type="checkbox"/>	No change	No change	6– 1
5 <sup>th</sup>	16 October	<input checked="" type="checkbox"/>	No change	25 bps rate cut	5– 2
6 <sup>th</sup>	18 December	<input type="checkbox"/>	25 bps rate cut		

Source: Bank of Thailand, Kenanga Research

**For further information, please contact:**

**Wan Suhaimie Wan Mohd Saidie**  
Head of Economic Research  
[wansuhaimi@kenanga.com.my](mailto:wansuhaimi@kenanga.com.my)

**Muhammad Saifuddin Sapuan**  
Economist  
[saifuddin.sapuan@kenanga.com.my](mailto:saifuddin.sapuan@kenanga.com.my)

**Afiq Asyraf Syazwan Abd. Rahim**  
Economist  
[afiqasyraf@kenanga.com.my](mailto:afiqasyraf@kenanga.com.my)

**Nurul Hanees Hairulkama**  
Economist  
[nurulhanees@kenanga.com.my](mailto:nurulhanees@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](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)