FX Monthly Report– THB

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FX Monthly Report

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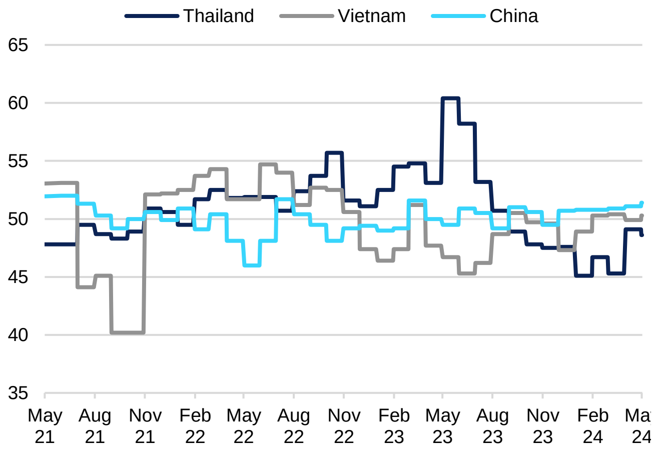
Thailand Focus

On April 11th, the Bank of Thailand (BoT) held its benchmark interest rate steady at 2.5%, resisting government calls to reduce borrowing costs amidst slow GDP growth. As Western central banks face uncertainty regarding the start of monetary easing, what's the outlook for the Thai baht?

In 2023, Thailand, along with Malaysia, Singapore, and Vietnam, saw their economic growth slow down due to a global downturn, restrictive monetary policies, and economic struggles in China, a crucial trading ally. This year, the World Bank has lowered its growth forecast for Thailand to 2.8% from an earlier prediction of 3.2%, citing weak exports and budget delays that have impacted government spending. Thailand's central bank has similarly reduced its growth estimate for 2024 to 2.5% from 3.2%. Thai economy heavily depends on its export sector, which makes up about 65% of its GDP. The lion's share of these exports are manufactured goods, accounting for 86% of the total export pool, with the primary markets being the US, China, and Japan.

Manufacturing PMIs

We see ongoing contraction in Thai factory activity.

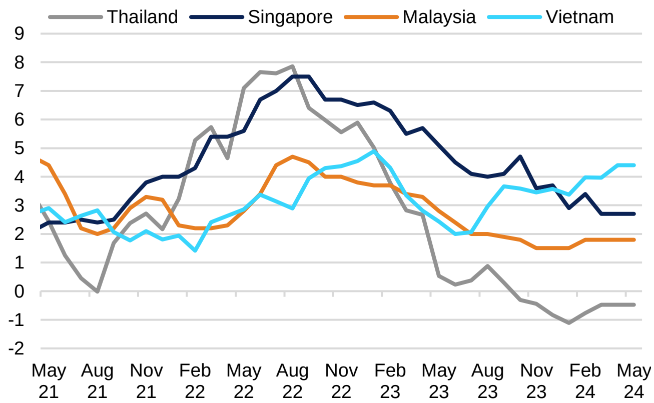


Source: Source: S&P Global, Caixin Global

Although a worldwide dip in demand for manufactured goods has significantly impacted Thailand's economic performance, the BoT pointed to a delayed budget as a major factor behind the current economic slowdown. Following the May 2023 elections, the progressive Move Forward Party secured the most votes but encountered resistance from conservative senators, resulting in a prolonged political deadlock. In August, a coalition government was established with the populist Pheu Thai Party, with its leader assuming the role of Prime Minister. The 2024 budget, initially scheduled for enactment by September 2023, was not passed until March 2024, thereby disrupting fiscal management. According to the BoT this delay led to a 20% reduction in the money circulating within the economy in Q4 2023, followed by an even steeper 40% decrease in Q1 2024, which extracted 140 billion baht or 0.8% of GDP from the economy. This fiscal disruption poses challenges for PM Thavisin, who aims for a 5% average economic growth over the next four years.

Consumer Price Index YoY

Inflation in Thailand remains softer than in other countries in the region.

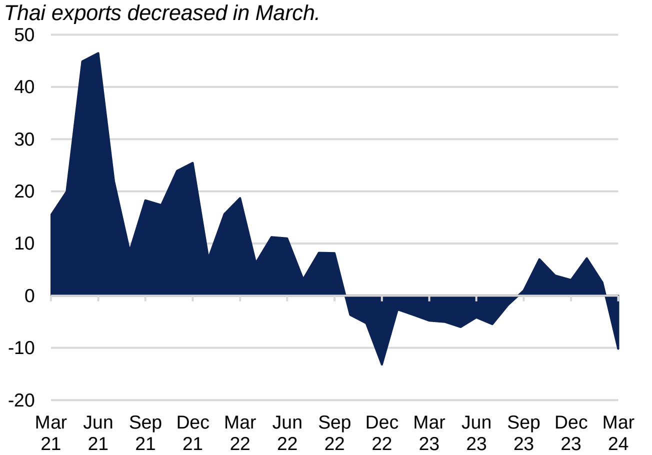


Source: Thailand Ministry of Commerce, General Statistic Office of Vietnam, Department of Statistics Malaysia, Singapore Department of Statistics

In response, PM Thavisin has advocated for lower interest rates. However, the independent central bank, citing the need to carefully manage household debt—which ranks among the highest in Asia at approximately 90% of GDP—raised the rates to 2.5% in September, marking the highest level in a decade. This was done to prevent excessive borrowing. Since then, the interest rates have remained unchanged. Despite ongoing advocacy from the Prime Minister, the central bank maintains that the current rate is 'neutral' and optimally calibrated to support sustained economic growth in Southeast Asia's second-largest economy.

Thai Exports YoY

Thai exports decreased in March.



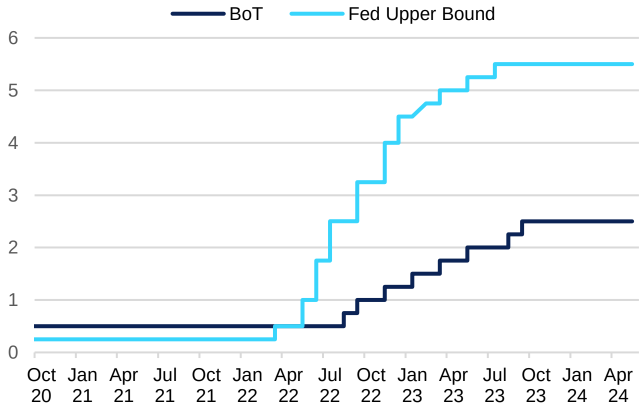
Source: Bank of Thailand

With lowered growth prospects and inflation, the central bank might contemplate lowering interest rates later this year. Thailand's consumer price index fell by 0.47% in March from the previous year, marking two consecutive quarters of deflation. As consumer confidence (CPI) and domestic consumption rise, the central bank may reassess its policy stance.

Simultaneously, Thailand's economy, heavily reliant on exports and tourism, anticipates benefiting from a robust uptick in tourism. The country has set an ambitious target to attract 40 million foreign visitors this year, up from 28 million in 2023. In response to the baht reaching a six-year high against the dollar at the end of last year, the central bank implemented several policy adjustments in January. To reduce the demand for the baht and decrease its value, thereby enhancing export competitiveness and tourism appeal, the central bank eased rules on capital outflows. Additionally, it increased the limit for money that exporters can keep overseas from $200,000 to $1 million and relaxed controls on foreign currency deposit accounts. Policymakers also established a threshold to prevent the dollar from trading below 30 Thai Baht, a move designed to curb excessive strengthening of the baht and maintain the competitive pricing of Thai exports.

Benchmark Interest Rates

Bank of Thailand states its benchmark rate is at ''neutral'' level.



Source: Federal Reserve, Bank of Thailand

Despite political pressures, Thailand's central bank remains independent in its interest rate decisions, underscoring the need for increased public investment to boost economic growth. Looking ahead, with the potential for the Fed to lower interest rates in autumn while Thailand's rates remain stable or are minimally adjusted, the baht could strengthen. The January measures to moderate the currency reflect proactive steps by the central bank to manage the baht's value, with further interventions likely, if the Fed's policy easing leads to significant appreciation of the baht. In the meantime, with ongoing repricing of the first Fed interest rate cut, we expect the USDTHB pair to continue the upward trend, possibly approaching 38 in the next three months.

Desk Comments

GBP

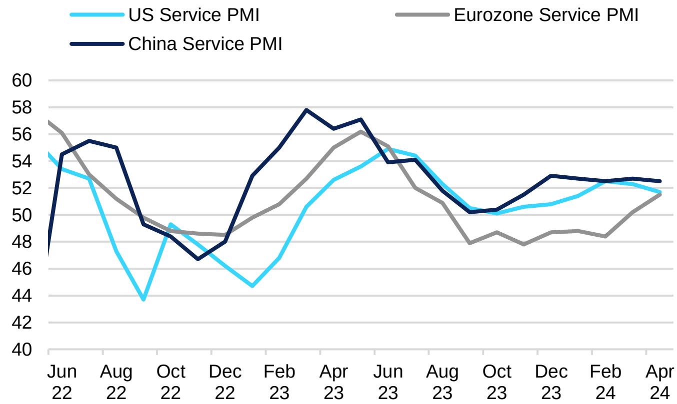
GBP trading lower in recent sessions despite higher for longer narrative from BOE, amplified by UK inflation slowing less than expected. BOE governor Pill has deviated from the more dovish tone that we recently heard from other members stating that a cut 'remains some way off'. However, UK inflation moved below the US for the first time since 2022. A full cut is now pushed back from June to August implying the market is pricing the BOE to act before the FED. Furthermore, the geopolitical risks are driving USD demand which has seen a period of GBP weakness against the greenback.

We remain bullish GBP. The resilience of GBP can be noted when compared to other G10 currencies. The past month has seen GBP strengthen against all G10 apart from USD and AUD.

PMIs continue to surprise to the topside with services in expansionary territory at 54.9. UK consumer confidence is edging higher and British households are becoming more optimistic about the outlook of the economy as the cost of living crisis eases. We see room for further GBP strength but prefer to buy on pull backs against lower yielding European currencies.

Global Service PMIs Performance

Eurozone services are picking up.



Source: S&P Global

EUR

The latest eurozone GDP data show the bloc's recovery prospects. Euro area economy grew more than expected in Q1, the economy grew 0.3% vs consensus 0.1%. Recent PMI releases show composite and service surpassing expectations. Meanwhile, the fall in services inflation suggest price pressures continue to ease. These factors have steered EURUSD lower due to divergent rate cut expectations between the FED and ECB, leading to the potential of the pair reaching parity this year. The option-implied probability of EUR/USD hitting parity has risen to 4% for Q2 and 10% for the next 6 months.

Although the ECB is now priced to cut before most major central banks, we remain cautious as energy price rises and any further escalation in the middle east may see repricing of the short-term curve which could give EUR some support in the near term. ECB hawks may also point to the continued strength in core inflation indicators and council members arguing they should be cautious with cuts giving EUR support in the coming weeks.

EURUSD implied volatility is 1% higher than at the end of last month due to the pick up in vols after the escalation in the middle east. Levels have remained slightly elevated and provide a good opportunity to sell vol. Selling EURGBP rallies worked well this past month, but we are now neutral on EURUSD. We expect the downside to be limited for the aforementioned reasons and technical support between 1.05-1.06.

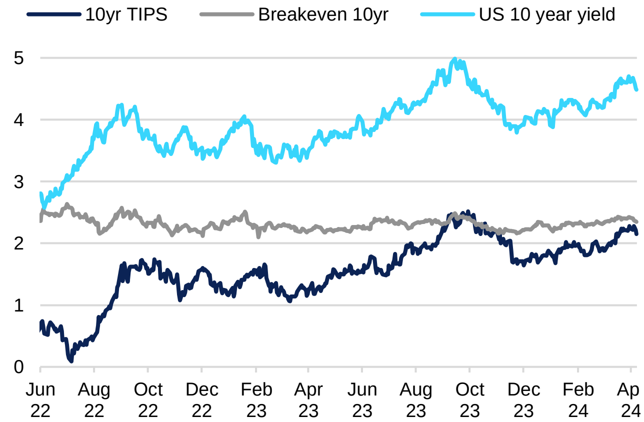
USD

The USD dollar index strengthened again for the 4th straight month in April as yields continue to rise, coupled with geopolitics and an uptick in rates volatility has kept USD bid. Market sentiment on rates has changed to higher for longer, and the Fed and Powell reinforced the narrative at this month's meeting. However, Powell squashed any potential for rate hikes, with a slight dovish response, indicating disinflation is still on the cards, downplaying recent inflation data.

The desk is still expecting to see 75 basis point cuts in 2024. Although July is now looking unlikely, we still believe September is open, contrary to market expectations of one cut for the year coming in Nov. We agree with the Fed that not much has changed with the disinflation narrative; a large part of inflation has been driven by rents, which are expected to moderate and there are strong reasons to expect growth to slow. Official numbers often lag reality, and we are seeing rebalancing in labour markets, with a continued downtrend in job openings and wages. The Fed will cut as soon as data allows, and we believe this is likely to be soon.

10yr TIPS vs 10yr Breakeven vs 10yr Yield

US nominal yields remain above the 4% level.



Source: Federal Reserve

The Fed kept the median dot plot unchanged but adjusted 2025 down from 100bp to 75bp, indicating that the easing cycle will take a lot longer, as inflation remains elevated. Fed minutes showed that most officials expressed caution against moving too quickly on rate cuts. Yields over the last month has been volatile, with short-term yields rising, and markets still pricing in first cut in June/July.

We expect the dollar to remain in a range in Q1 and then weaken in Q2 against other Majors. USD's performance against EM will be determined on the magnitude of slowdown in the US at time monetary policy starts easing.

Our Outlook

USDTHB

Technical Analysis

GBPUSD

We expect GBPUSD to consolidate between the wedge formed by white downtrend line and green trendline. On the upside, a close above white trend line and the 200-week moving average likely to lead to retest of 2023 highs at 1.3142, with a break above could see the cross target 2022 highs @ 1.3749. On the downside, a close below green trendline could lead to a move lower with support coming @ 1.2037 and then 1.18; support beyond there coming at 1.1420 (61.8% fib).

EURUSD

EURUSD broke below red trend posting it largest weekly loss since May 2023, testing 76.4% Fib line. We expect EURUSD to trade between White downtrend and support around 1.05 / 1.0448 (lows from Sep), with a breakout indicating future direction. On the downside a close below 1.05 / 1.0448 likely to lead to further declines to 1.02 (61.8% Fib). On the upside, a break above white trend line could see market test Red trendline/200day Ma, with a close above leading to market testing highs from July @ 1.1276, with resistance beyond there coming at 1.1495/1.1500.

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