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FX Flash

THB - New BoT Measures Unlikely to Curb THB Rise

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Modest FX Reaction to Rate Cut & New Capital Outflow Rules

The BoT voted 5-2 to cut its policy rate to 1.25%. This is the second rate cut after the first easing move in Aug. The decision was based on the committee's view that a more accommodative monetary policy stance would contribute to growth and support the rise of headline inflation toward its target (1%-4%).

USDTHB saw a modest step-up alongside, but we think that it was the simultaneous announcement of a set of measures (effective 8 Nov) to relax capital outflows, which led to the modest softening of the THB (i.e., up-move in USDTHB towards 30.40).

Nonetheless, gains in the USDTHB were pared shortly after and the pair has stabilized near 30.30-30.35. A quick reading of the regulation changes shows that while targeted, they are unlike to lead to a decisive decline in THB strength. Rather, they are more likely to help mitigate the pace of any further rise in the THB.

Impact of New Measures Could be Limited

Allowing exporters to keep foreign currency proceeds overseas—which BoT views as potentially being most effective among the measures introduced—could help address pressures from current account surplus initially, but this is unlikely to be sustainable as companies likely have to convert their revenues back to THB to pay off domestic liabilities at some point. Data from BoT also shows that only a small share (slightly more than a tenth) of FX turnover transactions conducted by commercial banks was related to import-export demands.

Allowing the settlement of gold trading in foreign currency could help mitigate the boost imparted to THB from high gold prices—we had highlighted this positive correlation previously. But we note that the recent de-escalation in US-China trade tensions has the potential to lead to softened gold prices, which would have reduced the support to THB from this channel anyway.

Strength Likely to Continue in 2020

The THB has seen a ~7% rise relative to USD YTD, and as the initial impact of the recent BoT measures work their way through the economy, we could potentially see a near-term modest correction in USDTHB (perhaps to 30.40-30.50).

Our **measure-by-measure assessment (both announced and potential measures) below** shows that their effectiveness in curbing THB strength will likely be modest.

Going into 2020, healthy FDI flows, likely pause in further rate cuts, and sentiments associated with the robust current account surplus could still continue to exert downward pressure on the USDTHB pair. We look for USDTHB to end 2020 at 29.6.

Newly Announced Measures to Stimulate Capital Outflows

New Regulations Effective 8 Nov 2019	Current	Our Assessment
Repatriation of export proceeds • Exporters with proceeds below USD200k per bill of lading shall be allowed to keep the proceeds abroad, without a time limit. • Exporters with foreign currency proceeds exceeding the new threshold can use the revenues to offset foreign currency expenses, without having to repatriate the funds. • Rules on foreign currency deposit (FCD) account held with onshore banks shall be streamlined to provide flexibility in managing foreign currencies.	Current threshold is at USD50k.	• **BoT views this as potentially being the most effective among measures introduced.** • **Could help address pressures from current account surplus initially, but this is unlikely to be sustainable as companies likely have to convert their revenues back to THB to pay off domestic liabilities at some point.** • **Only slightly more than a-tenth of FX turnover conducted by commercial banks was related to import-export demands.**
Investment in Foreign Securities • Retail investors shall be allowed to invest up to USD200k per year in foreign securities, without having to invest via a Thai intermediary institution. • The aggregate investment limit allocated to investors regulated by the Thai Securities and Exchange Commission (SEC) shall be increased to USD150bn.	Retail investors would need to meet a specified criteria in terms of asset ownership in order to invest directly.	• **External low-returns environment might not be significantly more favorable compared to domestic investment climate.** • **Previous experience in 2003-2006 showed that such take-up is slow.**
Outward Transfers • Outward transfers allowed freely except for a few specific purposes (negative list), such as for settlement of FX/THB transactions with financial institutions abroad. • Individuals who wish to relocate abroad or transfer funds to relatives abroad shall be able to do so freely, and property purchase (up to USD50mn) can now be in the name of a family member. • Documentation shall no longer need to be provided to commercial banks when conducting outward transfers of < USD200k.	Currently allowed based on a positive list of specific purposes. Overseas property purchase has to be in own name. Current threshold is at USD50k.	• **Easing of restrictions is only likely to be effective when there's a demand for outward transfers.** • **Relocation abroad/transferring of funds to relatives/property purchases etc. might only occur among small pockets of Thai residents.**
Settlement of Gold Trading in Foreign Currency • Thai investors shall be allowed to trade gold in foreign currencies (through FCD accounts opened with onshore commercial banks) with designated gold trading companies that have received approval from the BOT. • Customers are able to keep foreign currency proceeds from gold investment in their FCD accounts, without having to exchange into baht for subsequent purchases.	Such transactions can only be done in baht.	• **Could help mitigate boost imparted to THB from high gold prices—we had highlighted this positive correlation previously.** • **Nonetheless, recent de-escalation in US-China tensions could lead to softened gold prices, which would have reduced the support to THB from this channel anyway.**

Source: *Bank of Thailand, Maybank FX Research & Strategy*

The BoT committee added that it would consider further measures to curb the currency if necessary. We consider several other potential options going forward.

Other Potential Measures to Curb THB Strength

Options	**Our Assessment**
Further Rate Cuts (**Unlikely**)	• Our economist team's view **is that the latest cut will likely be the last in BoT's current easing cycle, and the policy rate is expected to be maintained at 1.25% through 2020.** • **The economy has likely bottomed out in 2Q and 3Q, with a recovery in sight led by tourism and a gradual improvement in manufacturing and exports, especially if a 'Phase One' US-China trade deal materializes.**
FX Intervention **(Likely Modest in Magnitude)**	• **Recent removal of Generalized System of Privileges (on US$1.3bn worth of Thailand exports to US) might be viewed as a warning shot from US.** • **Thailand may risk being added to the US Treasury watch-list of foreign currency manipulators in its upcoming semiannual report, after dodging the list earlier in May (Msia, Spore and Viet were added), especially if it shows excessive signs of FX intervention.**
Possible Capital Inflow Measure (1): Further reduce limits on outstanding balances of non-resident THB accounts. (**Unlikely to be Reduced Significantly**)	• **Limits on outstanding balances of non-resident THB account and non-resident THB account for securities were already reduced earlier (effective July 22) from 300m THB per non-resident to 200m THB per non-resident.** • **Further reductions might see diminishing returns in effectiveness.**
Possible Capital Inflow Measure (2): *Unremunerated Reserve Requirement (URR) type measures seen in 2006 to 2008.* *E.g., Investors bringing new funds into Thailand were required to reserve a portion of their funds with commercial banks, and would be allowed to get the reserve back only after one year. However, if the investors took the funds out of Thailand within the year, a portion of the reserve was collected as penalty.* (**Possible, but likely to be temporary. Reserve could be adjusted lower from "30% of funds" in 2006-08. Penalty could be adjusted lower from "1/3 of reserve".**)	• **Unpopular, as it added significantly to financial intermediation costs among businesses.** • **Overly severe penalties could discourage foreign investment flows.**

Source: *Bank of Thailand, Maybank FX Research & Strategy*

On balance, taking the above assessments into account, the likelihood of a decisive reversal of THB strength arising from such measures is low.

The THB has seen ~7% rise relative to USD YTD, and as the initial impact of the above-mentioned measures work their way through the economy, we could potentially see a near-term modest correction (perhaps to 30.40-30.50).

Going into 2020, various THB-supportive factors will likely be in play. Healthy FDI flows (FDI application up 69%y/y in first 9 month), likely pause in further rate cuts, and sentiments associated with the robust current account surplus, could continue to exert downward pressure on the USDTHB pair. <u>We look for USDTHB to end 2020 at 29.6</u>.

<u>Daily Chart: Mild Positive Bias in USDTHB</u>

Source: *Bloomberg, Maybank FX Research & Strategy*

Momentum on daily chart is mildly bullish, while stochastics show signs of inching up from oversold conditions. These indicators could portend a mild positive near-term bias in the USDTHB pair, even as the downward trend channel remains intact. Resistance at 30.40 (longer-term 23.6% fibo retracement from 2009 high to 2013 low), 30.60 (23.6% fibo retracement from May high to Oct low), then 30.87. Support at 30.16 (Oct low), 30.00.

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