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Global

FX Flash

THB – The Political Maneuvering Has Begun

Political Tensions Likely To Rise

The political season has kicked off with the announcement of the candidates for Members of Parliament (MP) and Prime Minister (PM) on 8 Feb (Fri). The day proved to be eventful with the market sent into a frenzy with markets selling off the THB vs. the USD against a backdrop of political maneuvering. The USDTHB hit a near two-week high of 31.625 on 8 Feb (chart 1) though it has since eased off from that level.

Political tensions heightened after Princess Ubolratana – the elder sister of HM the King - was announced as the PM candidate for the Thai Raksa Chart Party, a party linked to former PM Thaksin Shinawatra. Her subsequent disqualification by royal command (and by the Election Commission (EC)) did not end the drama. The application to the EC to disband the Thai Raksa Chart Party added to the political uncertainty.

The USDTHB has since reversed some of its gains after the HM the King intervened against the Princess' candidacy. The EC has followed up by clarifying that members of the royal family are barred from seeking public office. Still, investors' puzzlement and concerns remained that the Palace was being dragged into the political arena has added to a sense of heightened political uncertainty. At the same time, market is watching to see if the Thai Raksa Chart Party will be disbanded by the EC for violating the Political Parties Act. Dissolution could raise the ire of their red-shirt supporters and heighten political tensions in the lead-up to the elections.

Chart 1: THB Sold Off Against The USD Amid Political Drama On 8 Feb

Source: Bloomberg, Maybank FX Research & Strategy

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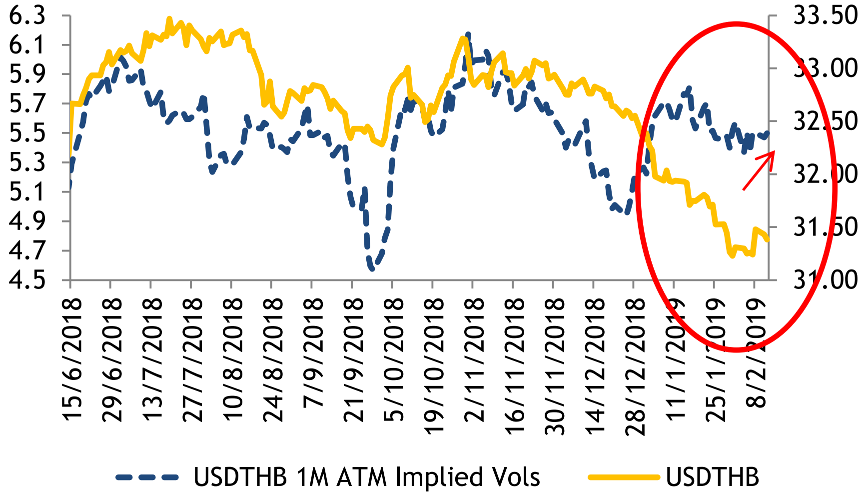
Chart 2: USDTHB Vols Have Picked-Up Again In Feb But Market Appears To Be Underpricing USDTHB



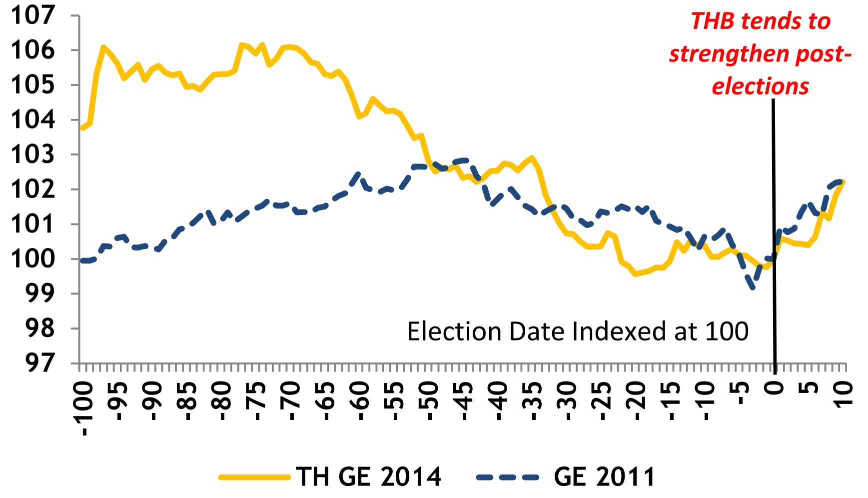
Source: Bloomberg, Maybank FX Research & Strategy

We could see the USDTHB pick-up in the lead-up to the general elections in 24 Mar consequently. Already vols (as measured by USTHB 1 month at-the-money implied volatility) have ticked higher in Feb (Chart 2). However, there appears to be a divergence between movements in the USDTHB and the 1-month vols. The USDTHB does not appear to be tracking vols, leaving the pair potentially vulnerable to playing catch-up as political tensions heighten.

The current price action was in line with our expectations. Our earlier study on the price action of the THB in the 100 days preceding the elections suggests that the USDTHB could climb higher (chart 3). The tendency for political temperature/tensions to rise ahead of elections due to fractious politicking by different interest groups could lift risk premium and weigh on the THB. We expect the elections to lead to a fractious parliament with no single party able to form a government by itself. At the same time, the military involvement in politics will continue for the next five years at least through their appointment of senators. Still, once political clarity re-emerges, we expect the THB to recover.

This fits into our base scenario for the 24 Mar election. We believe that a majority government by a single party is unlikely given the new Constitution. A fractious parliament made up of smaller parties is likely with the Senate dominated by 250 members appointed by the military junta. This should allow the military to retain influence in the government as no single party will be able to command a majority. More likely than not, PM Prayuth should remain as PM as a result. We do not expect any change in economic policy direction and for the BoT to continue normalising policy in 2019. Some initial volatility is expected in the aftermath of the election but we expect the THB to stabilise and continue on its appreciation path thereafter.

Chart 3: THB Tends To Soften In The Run-Up To Elections But Appreciates Post-Elections



Note:
(1) Line chart shows average FX performance vs. USD for the past two elections of each country (indexed to 100 at election year)
(2) Negative numbers denotes the number of days before the elections, positive numbers denotes the days after the elections

Source: Bloomberg, Maybank FX Research & Strategy Estimates

We have slightly more than a month before polling day and political tensions are likely to remain elevated until then (see table below). The immediate focus will be on the decision by the Election Commission to the application for the dissolution of the Thai Raksa Chart Party. Any decision made by the EC is unlikely to please either side of the political divide and could set the stage for domestic political division to widen even further. This should keep the political climate highly charged and weigh on the THB as investors sit on the sideline until there is political clarity.

Table: Countdown To The 2019 General Elections

Key Poll Dates

4-8 Feb	Application Open for Constituency MP, Party-list MP and PM Candidates
15-Feb	Finalised List of Constituency MP, Party-list MP and PM Candidates
4-16 Mar	Advance Voting for Voters in foreign countries
17-Mar	Advance Voting Regardless Whether The Voters Live In Their Constitutencies or elsewhere
24-Mar	Election Day
9-May	Election Commission to Confirm at least 95% of the Poll Results

Source: Bangkok Post, Maybank FX Research & Strategy

Chart 4: USDTHB Weekly Chart - Overstretched

Source: Bloomberg, Maybank FX Research & Strategy Estimates

USDTHB has been on the downtrend since end-Oct 2018. Pair was last seen around 31.340 levels. Bearish momentum on the weekly chart remains intact but waning, while stochastics is still at oversold conditions. This suggests potential for upside risks to the pair ahead. Support is at 31.09-levels (2018 low and low not seen since Nov 2013). Rebound though could see pair revisit 31.800-levels ahead of 32.270-levels (23.6% fibo retracement of the 2016 high to 2018 low).

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