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FX Flash

THB - Powell and BoT's Tug-of-War

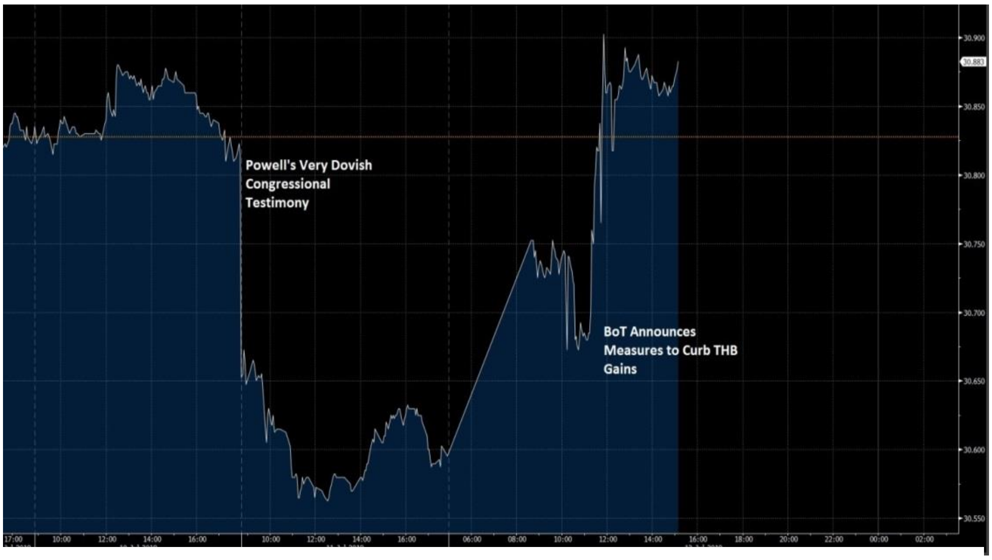
Enhanced Measures to Curb THB Strength

We had cautioned for the past few weeks with regards to potential implementation of BoT measures targeted at foreign inflows and reducing THB strength. Fed dovishness, and partial safe haven characteristics, had fueled excessive inflows into Thailand in June. That, and several other factors, led us to reiterate our call for an upward retracement in the USDTHB pair this morning (see here).

The measures were subsequently announced by BoT just before noon today, and led the USDTHB pair to spike from around 30.680 to an intraday high of 30.903, before paring back to 30.820 as of writing. The measures themselves are pretty clear-cut. BoT will reduce limits on outstanding balances of non-resident THB account and non-resident THB account for securities from 300m THB (US$9.7mn) per non-resident to 200m THB (US$6.5mn) per non-resident effective July 22. (We had actually suggested this as a possible measure in our monthly piece on 2 July here, pg 41). We note that this is targeted at reducing short-term speculative holdings of THB or THB securities, as non-resident THB holders who have underlying trade and investment activities in Thailand may write in to BoT for waivers.

Further, names of end-beneficiaries will now have to be reported for non-residents' holdings of THB debt securities issued in Thailand, which will help the BoT to monitor non-residents' investment behavior better.

As a result of these measures, the decline in the USDTHB (softer USD) arising from Powell's very dovish congressional testimony on Wed has largely been retraced (weaker THB).



Source: *Bloomberg, Maybank FX Research & Strategy*

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Modestly Bearish on THB in Interim

Several factors supporting potential upsides in USDTHB pair (bearish THB) remain in play. Bond inflows have turned negative WTD (as at 11 Jul), at -534mn, in part due to perceived low yields of Thai bonds and continued verbal intervention from BoT officials. The decline/moderation should continue post the announcement of new restrictions highlighted above. While equity inflows are modestly healthy at $186mn WTD, we note that the SET has run up around 7-8% since the recent trough in mid-May, and given softer growth outcomes and recent export contractions, may have limited room to rise further. Equity flows could moderate going forward as well.

Risk of political tensions is also not off the table post-elections, with the World Bank highlighting political uncertainty as a key risk for the Thai economy. Market participants may doubt the effectiveness of the Junta-led 19-party coalition in policymaking, especially in implementation of large infrastructure projects, given their very slim majority over the opposition.

On the other hand, one potential factor which could help support THB somewhat, or limit its declines, could be resilience in gold prices, given Thailand's role as a regional gold hub and THB's high positive correlation with gold price. Data released this afternoon also shows foreign reserves at $214.9bn as at 5 Jul, still higher than the $205bn as at end-2018. Current account balance for the full year is also likely to be positive, despite May's negative reading. These factors should help cap the extent of softening in THB.

We see key resistance at 31.07 (Feb low, before recent decline in June), and then further out at 31.33 (50 DMA). Momentum and stochastics indicators are modestly bullish. We note that given current conditions, 30.45 (76.4% Fibonacci retracement of the 2013-2015 rally) should be a strong support for now.

Source: *Bloomberg, Maybank FX Research & Strategy*

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