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THB – Gains Could Stall

Analysts
Saktiandi Supaat
(65) 6320 1379
saktiandi@maybank.com.sg

Leslie Tang
(65) 6320 1378
leslietang@maybank.com.sg

Fiona Lim
(65) 6320 1374
fionalim@maybank.com.sg

Christopher Wong
(65) 6320 1347
wongkl@maybank.com.sg

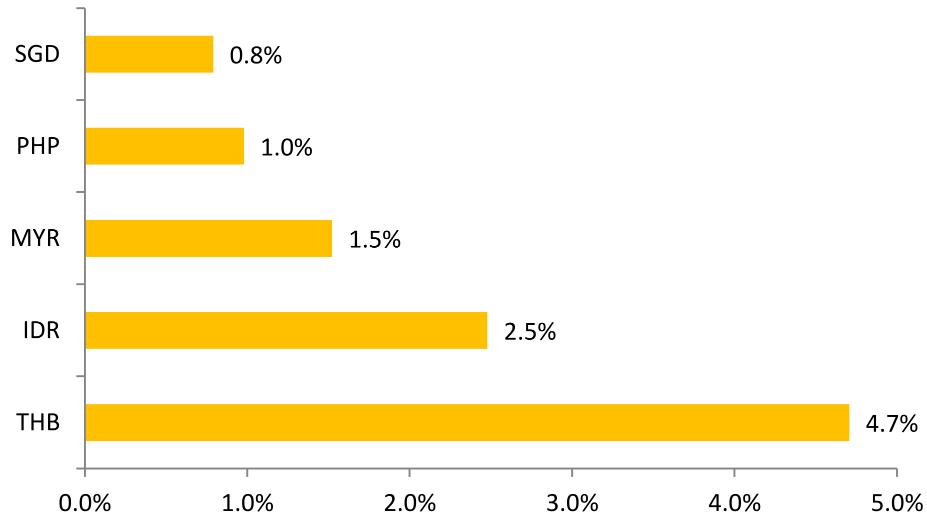
THB Has Been The Best Performer In 2019 YTD

The USDTHB has been on the down drift in 2019 so far. Year-to-date, the USDTHB has slipped from 32.591-levels (31 Dec 2018) to the 31-levels on 20 Feb 2019 – a loss of around 4.7% against the USD (Chart 1). This makes the THB the best performer year-to-date, supported by a mix of external and domestic factors. The recent THB strength in Feb can be attributed to a Singapore-registered company's purchase of a Thai company's stake in Ramkhamhaeng Hospital Pcl for USD412mn as well as the potential for a further rate hike as flagged in the BoT minutes. However, the THB move higher could stall amid potential global risk aversion and emerging domestic political risks. As we have previously flagged, the THB typically underperforms in the lead-up to the general elections but recovers post-elections, and there could be opportunities to buy the THB on dips.

The external environment has so far been conducive for USD/AXJs, including the USDTHB, to move lower. Softening USD economic data, US Fed's dovish pivot and optimism that the Sino-US trade war will fade are weighing on the USD. This in turn put downside pressure on the USDTHB.

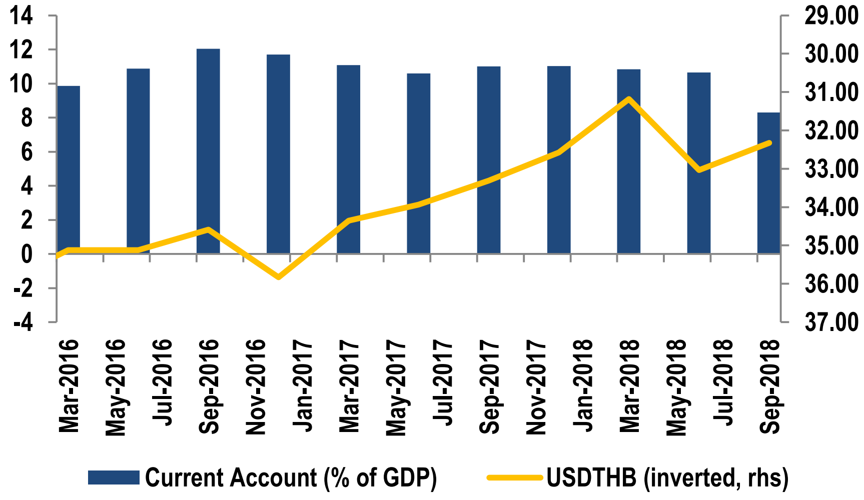
What makes the THB stand out among its regional peers though is its domestics factors. Underlying THB strength is the persistent current account surplus. The current account surplus has averaged 8.1% for the past five years. Even the narrowing of the current account surplus to just 8.3% of GDP in 3Q 2018 (latest data available) has not dent investors' appetite for the THB, providing the impetus for the slide in the USDTHB (Chart 2).

Chart 1: THB Has Been The Best Performing Currencies Against The USD Since The Start Of 2019



Source: Bloomberg, Maybank FX Research & Strategy

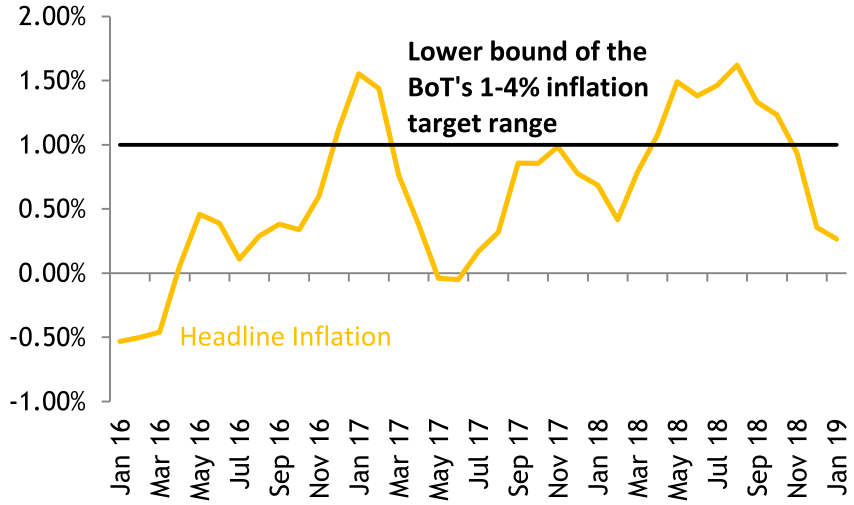
Chart 2: Persistent Current Account Surpluses Supportive Of THB



Source: Bloomberg, Maybank FX Research & Strategy

Low domestic inflation (where headline CPI has averaged 1.0% for the whole of 2018 which is at the lower end of the BoT's 1-4 target range) has also helped the THB, producing an environment that leaves the Bank of Thailand (BoT) with policy room to remove its accommodative policy at a gradual pace unlike the Philippines (Chart 3). A less aggressive pace of rate hikes should be supportive of economic growth and less likely to stifle price increases, which turn should be positive for the THB.

Chart 3: Headline Inflation Has Been Coming In Below The BoT's Target Range



Source: CEIC, Maybank FX Research & Strategy

Though the BoT can be patient to adjust its policy rate, this does not suggest that the central bank will avoid removing some policy accommodation. BoT Governor Veerathai Santiprabhab provided the clearest guidance in Nov 2018 that the central bank could hike rate once in 2018 though it would be followed by a prolonged pause. Other BoT officials had also hinted that there could be further rate hikes, though such moves will be data-dependent. More significantly, the BoT Governor commented that higher rates are unlikely to be problematic for the economy, suggesting a tightening bias. The move to normalise monetary policy was to provide the central bank with more policy space should shocks emerge. Not surprising then, there has been a build-up in market expectations that the BoT will continue to normalise monetary policy by hiking its benchmark interest rate gradually that is helping to drive the USDTHB lower.

Recent Events Drove USDTHB Lower In Mid-Feb

More recently in Feb, the USDTHB had retraced gains after climbing higher to the 31.629-levels in 11 Feb. The reversal in the USTHB can be possibly attributed to a one-off M&A deal that involved companies in Thailand and Singapore. It was reported by Bloomberg News that a Singapore-registered company Cypress Consolidated Healthcare Pte had purchased Bangkok Dusit Medical Services Pcl's stake in Ramkhamhaeng Hospital Pcl – a listed company on the Stock Exchange of Thailand – for USD412mn. According to Bangkok Dusit Medical Services, the sale had taken place from 14 Feb to 20 Feb, which contributed to the record net foreign inflow into equities of USD256.6mn – the largest inflow since Mar 2017. This purchase dragged the USDTHB lower to 31.060-levels, breaking below the 2018 low of 31.086.

Additional impetus for the USDTHB to move lower was also triggered by the BoT's minutes for the 6 Feb meeting. The minutes flagged the potential for another rate hike though any hike will be gradual and data dependent. This suggested that the normalisation process that began in Dec 2018 still has legs to run and that another rate hike could be forthcoming from the BoT in 2019.

USDTHB Slippages Could Stall Ahead

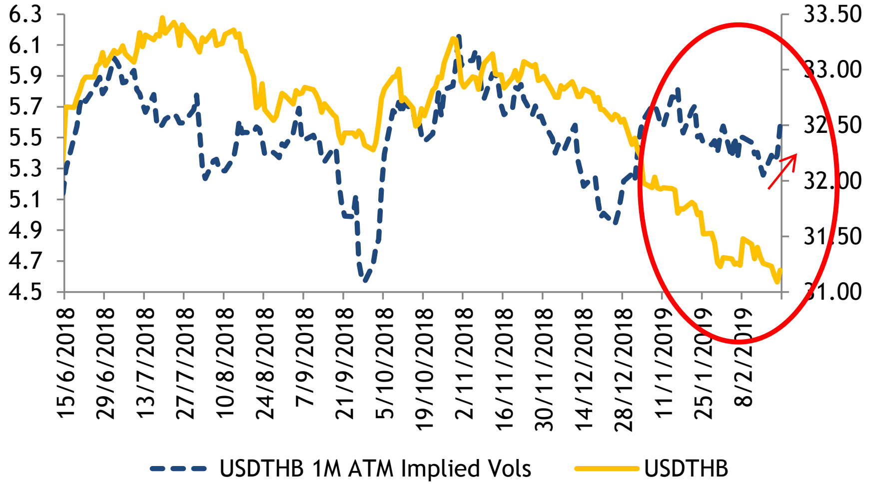
We do not expect the USDTHB move lower will continue unabated. The record breaking foreign equity inflows may not continue especially if global risk aversion re-emerges. We could see a re-allocation from riskier EM assets back to safe-haven plays including the USD and JPY should Sino-US trade negotiations fail to produce any meaningful agreement.

The USDTHB move lower could also be stymied temporarily as political risks returns to the forefront. As we have written previously, our study on the price action of the THB in the 100 days preceding the elections suggests that the USDTHB could climb higher. The tendency for political temperature/tensions to rise ahead of elections due to fractious politicking by different interest groups coupled with the possibility that the Thai Raksa Chart Party – aligned with former Premier Thaksin – could be disbanded 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. Once political clarity re-emerges, we expect the THB to recover.

We could thus see the USDTHB pick-up in the lead-up to the general elections scheduled on 24 Mar. So far, vols (as measured by USTHB 1 month at-the-money implied volatility) appear to have edged higher in Feb (Chart 4). The USDTHB, in contrast, is heading the opposite direction, highlighting the divergence between movements in the USDTHB and the 1-month vols. This could potentially leave the USDTHB vulnerable to playing catch-up as political tensions heighten.

Chart 4: Vols & USDTHB Have Diverged Suggesting Market Appears To Be Underpricing USDTHB



Source: Bloomberg, Maybank FX Research & Strategy

As we have previously flagged, the THB typically underperforms in the lead-up to the general elections but recovers post-elections, and there could be opportunities to buy the THB on dips.

Chart 4: USDTHB Daily Chart - Edging Higher Near-Term

Source: Bloomberg, Maybank FX Research & Strategy Estimates

USDTHB move lower appears to have stalled amid the unwinding of some short-USD positions following the US FOMC minutes released. Pair was last seen around 31.188-levels. Daily bearish bias appears to be picking - up, while stochastics is at oversold conditions. This suggests that risks could potentially turn higher in the near term. Resistance is around 31.330-levels (21DMA) ahead of 32.642-levels (23.6% fibo retracement of the 2018 high to 2019 low). Support nearby at 31.060-levels (2019 low).

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Maybank

Malayan Banking Berhad
(Incorporated in Malaysia)

Saktiandi Supaat
Head, FX Research
saktiandi@maybank.com.sg
(+65) 63201379

Christopher Wong
Senior FX Strategist
wongkl@maybank.com.sg
(+65) 63201347

Fiona Lim
Senior FX Strategist
Fionalim@maybank.com.sg
(+65) 63201374

Leslie Tang
Senior FX Strategist
leslietang@maybank.com.sg
(+65) 63201378