Maybank

FX

Global

FX Flash

THB Outperforms Regionally

THB Clocks Strong Performance Amid Favorable Factors

THB today saw quite some strengthening as the USDTHB gap down at open. We note that the THB was not in anyway an anomaly as many other EM Asian FX also strengthened substantially today but it was the top performer regionally. The strong performance of the currency also comes as the country has just recently witnessed a leadership change with Paetongtarn Shinawatra having been appointed as the new Prime Minister (PM). There are a few factors both externally and idiosyncratically that looks to have supported the THB strong performance today:

1. **Broad Dollar Weakness:** The greenback looks to have been coming off just ahead of Jackson Hole as markets may look to be just staying wary of any hints that Chair Powell could give about the pace of easing in addition to Ueda's address to parliament this week. US data on the most part had been showing quite some weakness in the economy although recent data such as retail sales were stronger, helping to pare pack recession fears and rate cut expectations. Aside Jackson Hole aside, the strong recent UK retail sales number also gave the GBP a lift too, which in turned weighed on the broad dollar.

2. **Elevated Gold Prices:** Thailand's position as a gold trading hub has meant that gold prices currently hovering around a record high has given support to the THB. A weaker USD and anticipations of Fed cuts together with lingering concerns about the political and economic situation has all played its part in boosting gold prices.

3. **BOT Likely to Keep on Hold**: For now, expectations remain for the central bank to stay on hold this year (next policy decision to be on Wed 21 Aug this week) and the recent 2Q GDP data, which had come out above estimates on a yearly basis has reduced the pressure somewhat for the central bank to ease. BOT staying on hold would come in light of global central banks embarking on an easing cycle and this would make the situation favorable for the THB. We are though aware of the uncertainty surrounding government stimulus (and the impact it could have on GDP) although new PM Paetongtarn has promised policy continuity (more elaborated below).

4. **Possible Policy Continuity Under New Leadership:** For now, the new PM Paetongtarn Shinawatra has vowed that she will continue with the "major economic stimulus measures". She has also come out to deny reports that her father had ordered her to terminate the digital wallet scheme. Rather she has said that her father had asked her to seek more opinions on the scheme. Paetongtarn has also mentioned that the government "intend to use" the scheme as "a major economic stimulus". Some sense of policy continuity at this point looks to have provided a degree of relief for the THB and markets.

Analysts

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

Alan Lau, CFA
(65) 6320 1378
alanlau@maybank.com

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

Shaun Lim
(65) 6320 1371
shaunlim@maybank.com

For the rest of this week, we will not rule out the possibility that there can still be further gains for the THB albeit it is likely to be more limited. The BOT policy meeting this week is likely to see a hold and the central bank may avoid tilting dovish although this is already expected. Powell at Jackson Hole may continue to reiterate the same message that had been expressed in prior weeks, which is that the Fed is moving closer to easing albeit the pace of it may continue to be data dependent. Broad dollar weakness therefore may not necessarily continue and the greenback could find some support soon. Gold prices are likely to stay elevated although momentum indicators are stretched on the upside and there can be some pullback in the near term. On the political front, market expectations for now lean to continuity in policy so there is little space for the THB to get much more of a lift from this. Overall, it appears that the effect of catalysts and supports for further THB gains are somewhat looking to be more limited. Eventually, we are expecting the THB to retrace some of its recent gains although that would be in line with other EM Asian FX. Fed rate cut expectations (futures still implying an about 100bps of cuts by end this year) receding alongside increasing focus on US election uncertainty can possibly work less favourably for EM Asian FX. This implies the possibility that the USDTHB can bounce up from current levels and end 3Q 2024 higher.

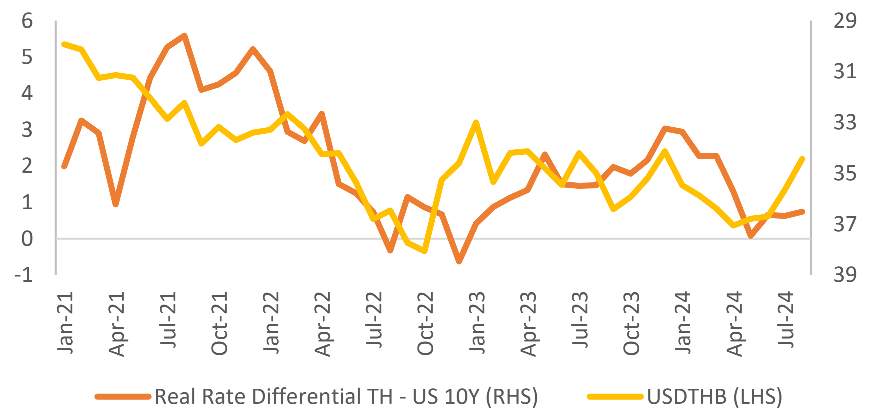
In the medium term, we continue to expect that the USDTHB would trend lower overtime. Our house view is that the Fed would ease rates by 50bps this year and another 100bps in 2025. The Fed easing would come in light of a slower pace of BOT easing as we see them holding in 2024 but likely cutting by 25bps in 2025. This would keep the yield differentials in favour of the THB. Also, we hold a bullish long term view of gold as global conditions are looking to stay favorable for the precious metal. Lower yields/rates, weaker dollar, persisting geopolitical tensions and resilient Chinese demand are all factors that can keep bolstering gold and consequently the THB. Growth and the external position of the country can also improve in time as our base case remains for a global soft landing and not one of a recession. We do stay wary of the risks related to the country’s political situation although for now, Paetongtarn has attempted to try to be more reassuring by vowing to keep the economic stimulus in place.

Overall, we are choosing to therefore hold to our USDTHB forecasts, seeing it moving higher by end 3Q 2024 before moving gradually lower towards year end and also even heading down further from that level by mid-2025.

Table 1: USDTHB Forecasts

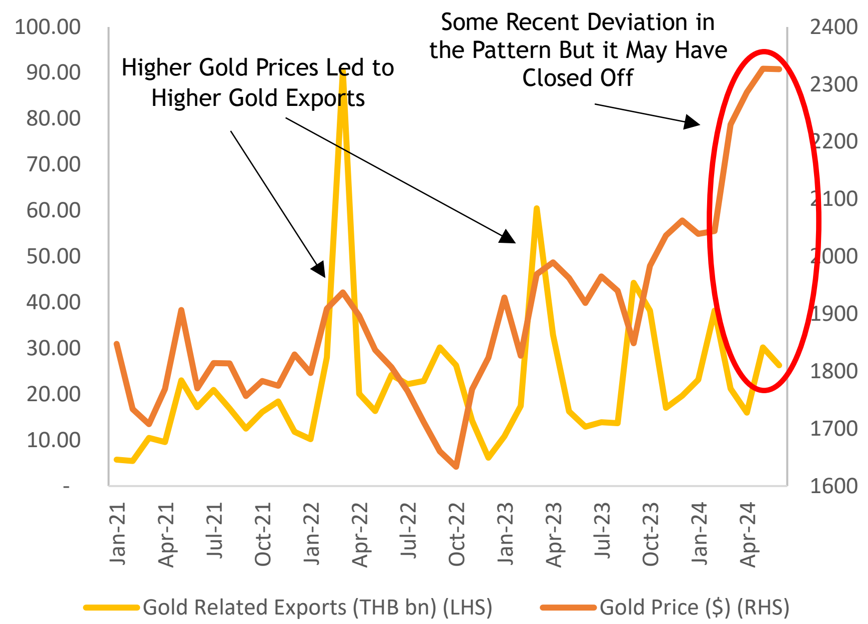
Forecast	3Q 2024	4Q 2024	1Q 2025	2Q 2025
USDTHB	35.50 (-)	34.00 (-)	33.50 (-)	33.00 (-)

Chart 1: BOT Keeping on Hold in 2024 as the Fed Eases May Guide Yield Differentials to be More Favorable for the THB



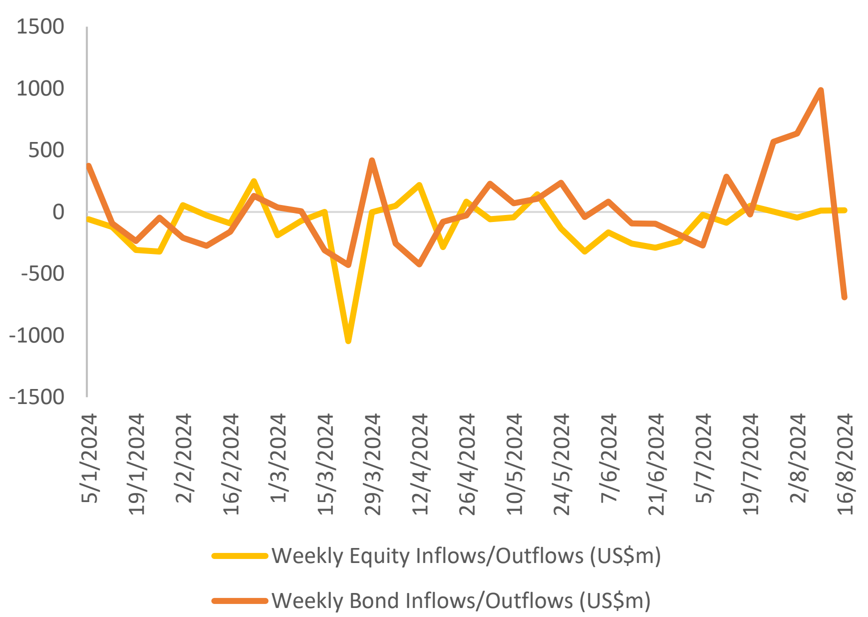
Source: Bloomberg, Maybank FX Research & Strategy
Note: Aug 2024 is as of 18 Aug 2024

Chart 2: Higher Gold Prices Historically Can Bolster Gold Exports, Which in Turn Can Give a Lift to the THB



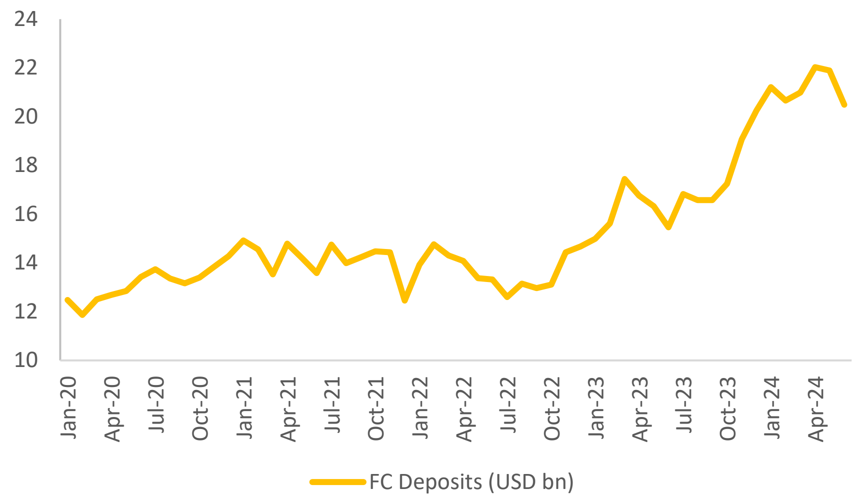
Source: MacroBond, Maybank FX Research & Strategy

Chart 3: Portfolio Flows Were Less Favorable Last Week Amid Some Jitteriness Although in the Medium Term, Appetite Can be Better



Source: Bloomberg, Maybank FX Research & Strategy

Chart 4: Foreign Currency Deposits Remain Elevated Although it Has Come Off a Little Recently



Source: MacroBond, Maybank FX Research & Strategy

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Published by:

Malayan Banking Berhad
(Incorporated In Malaysia)

Foreign Exchange

Singapore

Saktiandi Supaat
Head, FX Research
saktiandi@maybank.com.sg
(+65) 6320 1379

Fiona Lim
Senior FX Strategist
Fionalim@maybank.com.sg
(+65) 6320 1374

Alan Lau
FX Strategist
alanlau@maybank.com
(+65) 6320 1378

Shaun Lim
FX Strategist
shaunlim@maybank.com
(+65) 6320 1371

Indonesia

Juniman
Chief Economist, Indonesia
juniman@maybank.co.id
(+62) 21 2922 8888 ext 29682

Myrdal Gunarto
Industry Analyst
MGunarto@maybank.co.id
(+62) 21 2922 8888 ext 29695

Fixed Income

Malaysia

Winson Phoon
Head, Fixed Income
winsonphoon@maybank.com
(+65) 6231 5831

Se Tho Mun Yi
Fixed Income Analyst
munyi.st@maybank-ib.com
(+60) 3 2074 7606

Sales

Malaysia

Zarina Zainal Abidin
Head, Sales-Malaysia, Global Markets
zarina.za@maybank.com
(+60) 03- 2786 9188

Singapore

Janice Loh Ai Lin
Head of Sales, Singapore
jloh@maybank.com.sg
(+65) 6536 1336

Indonesia

Endang Yulianti Rahayu
Head of Sales, Indonesia
EYRahayu@maybank.co.id
(+62) 21 29936318 or
(+62) 2922 8888 ext 29611

Shanghai

Joyce Ha
Treasury Sales Manager
Joyce.ha@maybank.com
(+86) 21 28932588

Hong Kong

Joanne Lam Sum Sum
Head of Corporate Sales Hong Kong
Joanne.lam@maybank.com
(852) 3518 8790

Philippines

Angela R. Ofrecio
Head, Global Markets Sales
Arofrecio@maybank.com
(+632 7739 1739)