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FX Insight

THB - Watch Out For Rising Headwinds

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Rising Headwinds for THB

A series of less favorable factors are looking to continue to keep weighing on the THB near term. This includes weak GDP results and the risk of a potential recession. The economic conditions combined with the government pressure for easing could guide the BOT to start an easing cycle ahead of the Fed. Whilst there could be some potential increased tourism inflow, especially from China, it is unlikely to hold as we enter a low season too. The trade balance too may struggle to hold a surplus given the expected gradual slowdown in the global economy. Therefore, the country's external position may remain fragile.

Regardless, There are Some Positive Factors for THB

However, the THB could get support from certain factors. We see that the Fed is likely to ease this year with our in-house economist expecting a total of 100bps of rate cuts with the first to come in Jul 2024. The start of a Fed easing cycle should help give a lift to the EM FX space including the THB. Aside that, gold prices are looking to stay elevated given the Fed cuts, which would also give support to the THB.

USDTHB Forecast Revised Upwards, Still Lower Year-End

We hold a balanced view of the THB but note that it is likely to be weighed down by weak growth, BOT easing and a continued challenged external position in the near term. To reflect this, we are revising up the USDTHB forecast. The USDTHB would end flattish at the end of 1Q 2024 and 2Q 2024. However, Fed easing and continued elevated gold prices should help give the THB support and lead to the pair moving lower in 2H 2024.

Forecast	1Q 2024	2Q 2024	3Q 2024	4Q 2024
USDTHB	**36.50** (34.75)	**36.50** (34.25)	**35.50** (33.75)	**34.50** (33.25)

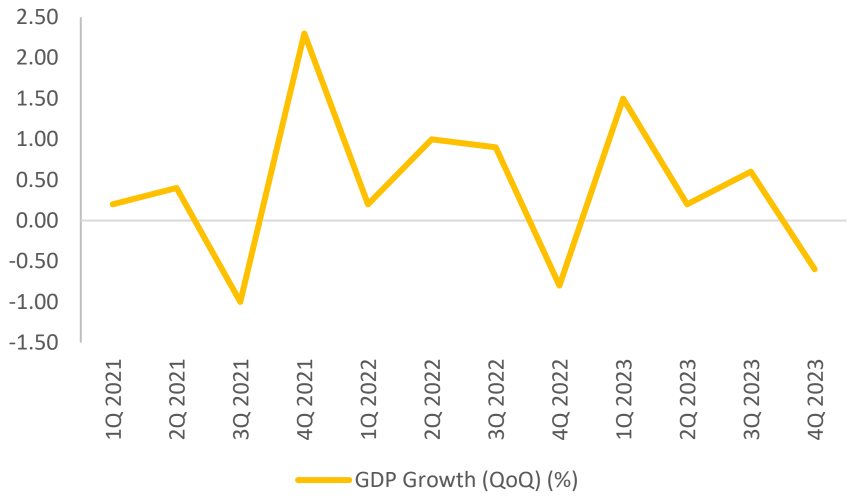
Previous Forecasts in Parentheses

Rising Headwinds for the THB

USDTHB has been heading higher in recent times amid a confluence of less favorable developments. The THB has been among the worst performers regionally against the USD, being only second to the JPY. Among the factors that looked to have weighed on THB sentiment includes concerns regarding the friction between the government and the Bank of Thailand (BOT) as the former pushes harder at the latter for a rate cut. The former has consistently been stating that a weak economy and deflation back the argument for the BOT to undertake a rate cut. PM Srettha recently has even gone so far as to call for the BOT to have an unscheduled meeting to cut rates.

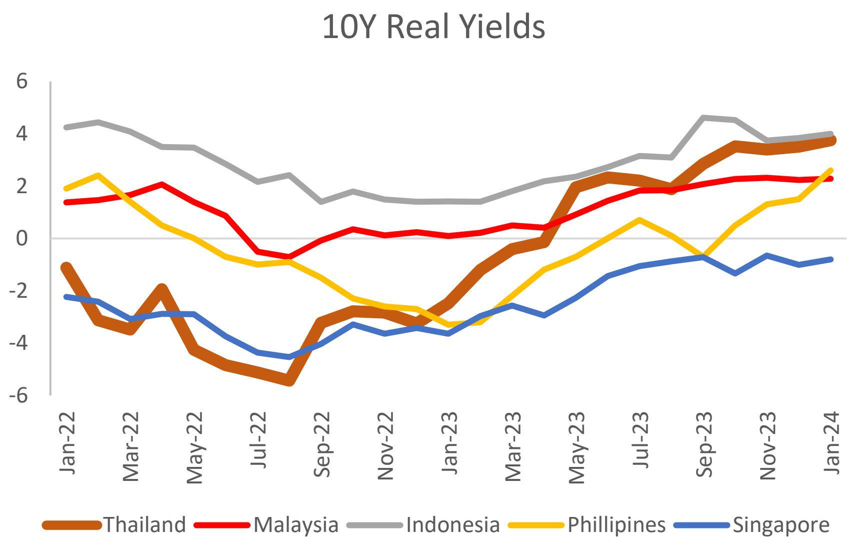
There does though appear to be some signs of economic weakness with the latest Jan headline inflation reading again in deflation. GDP is also looking weak as the 4Q number came out at -0.6% QoQ, which only serves to increase the pressure on the BOT to ease. Growth challenges looks like it could keep concerning the government especially as the digital wallet plan for now looks like it could be delayed. The central bank's last policy statement had appeared increasingly dovish as they see a slowing in 2024 growth and noted "heightened uncertainties associated with cyclical and structural factors" when deliberating monetary policy. Furthermore, 2 out of 7 members had voted against the hold. The weak Thai economic data also contrasts with the US data which is still showing quite some elements of strength. Our in-house economist sees a one 25bps cut by BOT this year to occur in April. However, market concerns of the risk of a deep BOT easing cycle starting quite ahead of the Fed (especially if Thai data keeps showing more weakness) is likely to keep weighing on the THB substantially. As it stands, such concerns already look to be doing so. For now real rates are still holding up well and ahead of a number of peer countries but deep cuts by the BOT can quickly erode this advantage.

Chart 1: Economic Growth Disappoints into Contraction, Pressuring the BOT More to Ease



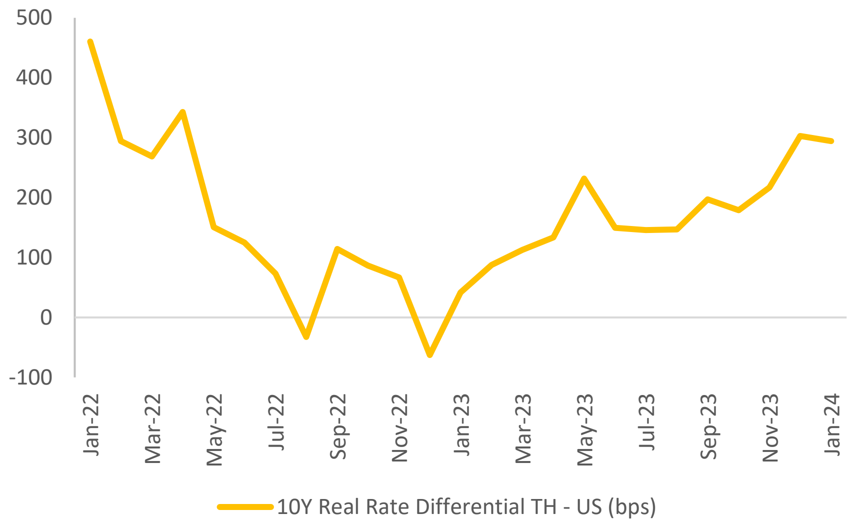
Source: Bloomberg, Maybank FX Research & Strategy

Chart 2: Real Rates are Higher than Peers but could be Eroded if a Deep Easing Cycle Materializes Soon



Source: Bloomberg, Maybank FX Research & Strategy

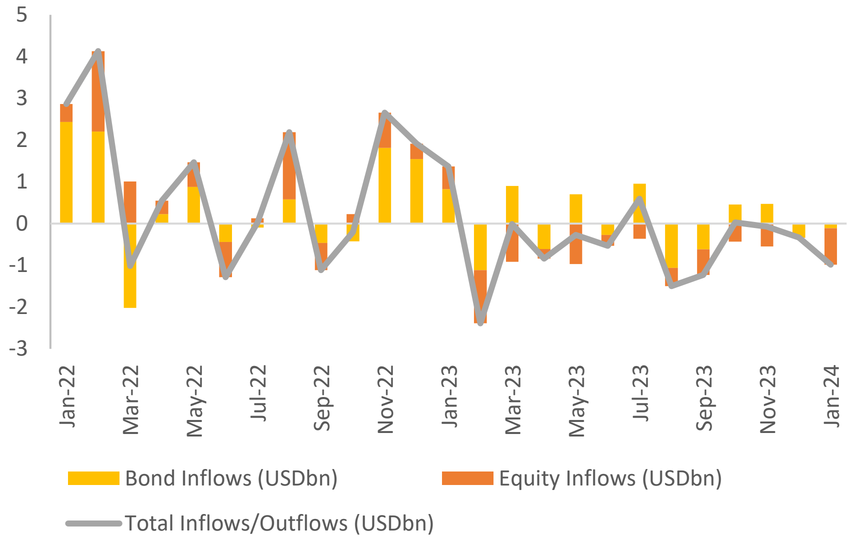
Chart 3: Real Rate Differentials with the US is still at an Advantage Although Similarly this could be at Risk of being Eroded



Source: Bloomberg, Maybank FX Research & Strategy

Meanwhile, we also stay cognizant of any political risks that could emerge. A recent Bangkok Post article titled “PM Faces New Leadership Test” had noted that “politics is likely to get more intense from here on in”.

Chart 4: Portfolio Outflows Weighing on the THB too

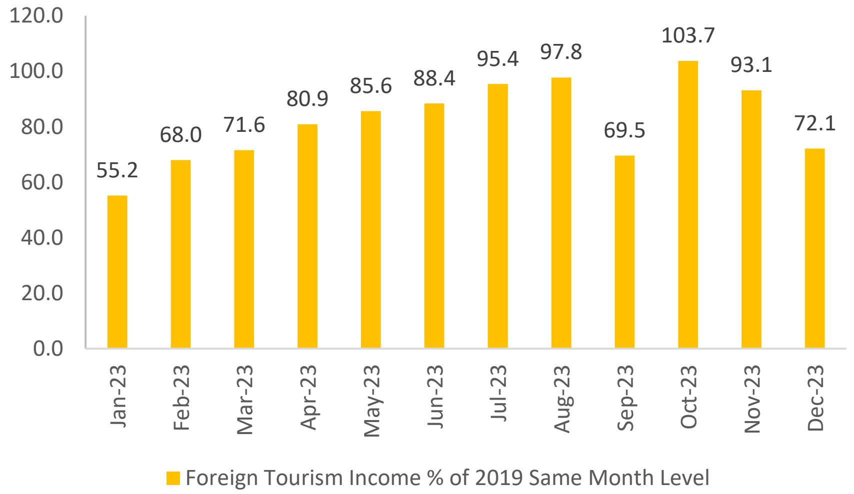


Source: Bloomberg, Maybank FX Research & Strategy

We would like to note too of the possibility that tourism numbers may not sufficiently pick-up this year. Even though the Chinese platform company Meituan had seen Chinese overseas hotel reservations hit a record during the Lunar New Year (with Southeast Asia being among the most favoured destinations for Chinese tourists), it is difficult to see if this can keep holding up given the continued challenges within the Chinese economy. To note, we are also entering a low season for tourism.

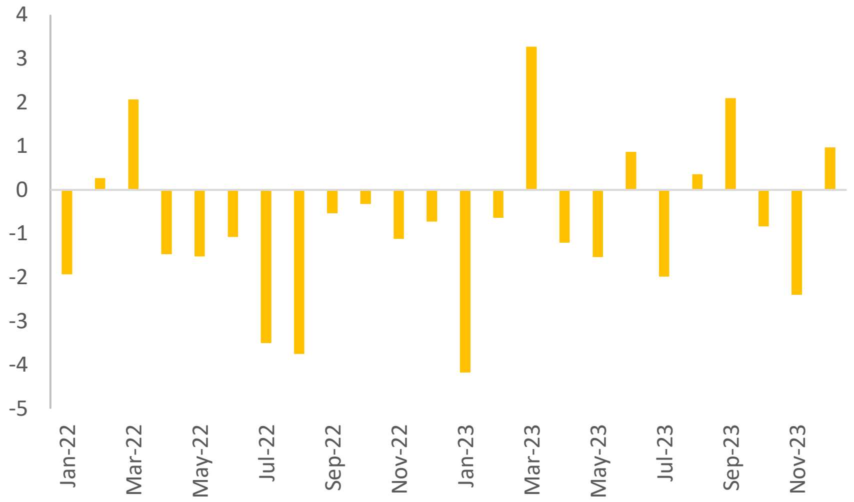
As a whole, the external position is likely to remain under pressure in the coming future especially given that the global economy may face a slowdown.

Chart 5: Foreign Tourism Income still quite Behind 2019 Levels



Source: Bloomberg, Maybank FX Research & Strategy

Chart 6: Trade Surplus May Struggle to Hold Amid Global Slowdown



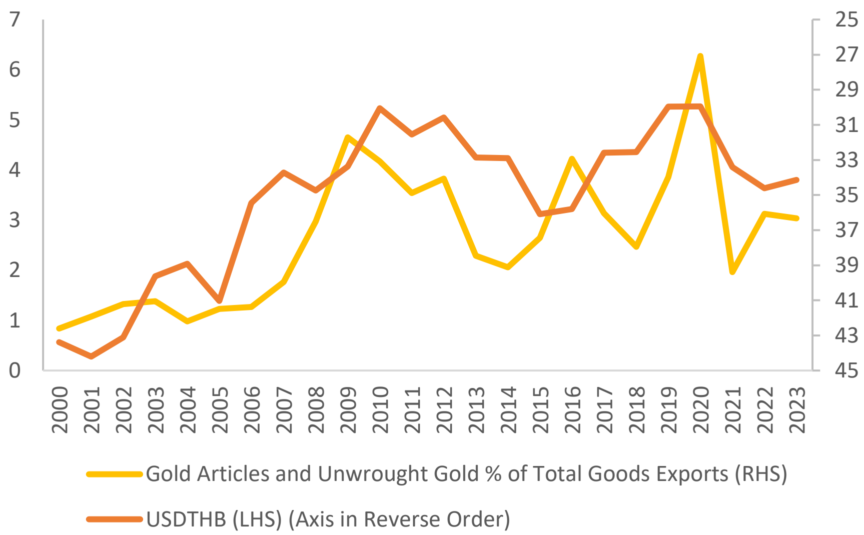
Source: Bloomberg, Maybank FX Research & Strategy

Regardless, there is Still Positive Support for THB

Although we have highlighted some headwinds here that are looking to weigh on the THB, we would also like to mention a number of potential factors that could work in favor of the THB this year.

The first among this is that gold prices have been holding up well in the last couple of months at elevated levels. There continues to be good prospects for it to do so with expectations for Fed easing this year. Given Thailand's position as a gold trading hub, we expect this to be a strong supporting factor for the currency.

Chart 7: Rise in Gold Exports Correlate with THB Strength



Source: Macrobond, Bloomberg, Maybank FX Research & Strategy

The second factor we would like to note is the likelihood of Fed easing this year. Our house view at this point is expectations for the Fed to cut by 100bps with the first of it likely to come in July. Whilst US inflation numbers may recently have showed some strength, we still believe a downward trend is intact albeit it maybe a bumpy one.

Conclusion: Revise USDTHB Forecast Upwards Although Still Expect It Stronger Year-End

We hold a balanced view of the THB but note that it is likely to be weighed down by weak growth, BOT easing and a continued challenged external position in the near term. To reflect this, we have consequently revised up the USDTHB forecast. The USDTHB would end flattish at the end of 1Q 2024 and 2Q 2024. However, Fed easing and continued elevated gold prices should help give the THB support and lead to the pair moving lower in 2H 2024.

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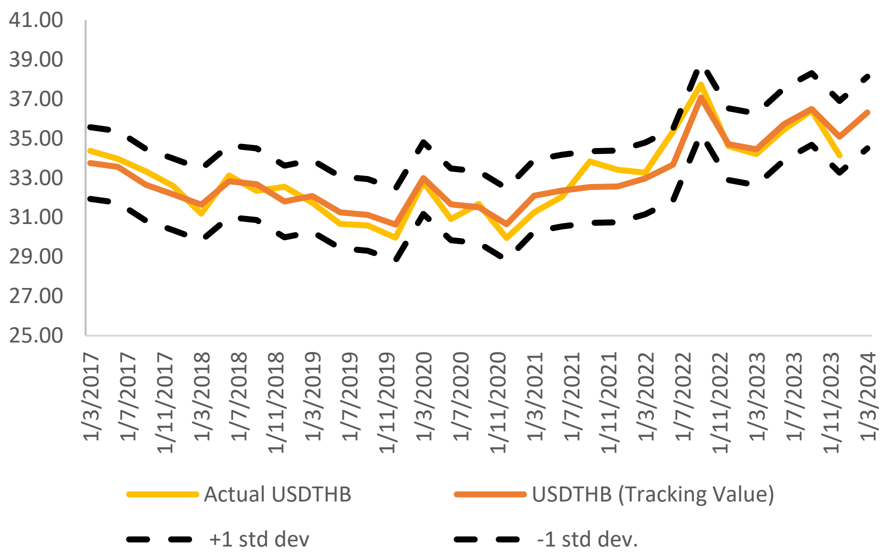
Previous Forecasts in Parentheses

Chart 8: Our Maybank Short Term Tracking Model now sees USDTHB Ending Higher at the End of 1Q 2024 at Around 36.32



Source: Bloomberg, Maybank FX Research & Strategy
Note: Maybank short term tracking model is a least squares of the USDTHB regressed on Thai 5Y CDS, Thai current account differentials with the US, USDCNY, UST - Thai govt 10Y real yield differentials, DXY, fund flows, reflation proxy (MSCI World Index/FTSE World Govt Bond Index) and gold prices

Daily Chart - Bullish Amid Inverse Head and Shoulder Pattern

Near term, USDTHB looks bullish given the inverse head and shoulder pattern. Right now, pair is trading just above the 36.00 level with the risk of it heading towards 37.25 amid the less favorable factors near term that we have mentioned. Momentum indicators at the same time are pointing to the upside. At 37.25, the pair would form a double top and potential profit taking at that level can then result in it moving lower. Resistance for the pair stands at 36.50 (76.4% retracement from Dec 23/Jan 24 low to Oct 23 high) and 37.25 (around 2023 high). Support is at 36.00, 35.62 (100-dma) and 35.30 (around 50-dma and 200-dma).

Chart 9: Daily Chart - Bullish Near Term on USDTHB

Source: Bloomberg, Maybank FX Research & Strategy

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