FX Flash

THB: More Flexibility in Baht Liquidity, Risk Factors Weigh

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Developing the Thai FX Market Ecosystem

The BoT announced relaxation of FX regulations under the Non-resident Qualified Company Scheme (NRQC) on 5 Jan (press release here). These developments, in BoT's words, are part of its efforts to enhance the "breadth and depth of the onshore foreign exchange market". We note that this latest announcement follows another instance of regulation relaxation last Nov.

One difference between the two announcements would be that Nov's measures were aimed at making it easier for Thai citizens to move money overseas and invest in foreign assets, or to hold foreign currency in Thai banks, which had a clearer impact (negative) for THB sentiments. **In comparison, the latest measures have a broader focus on helping non-resident companies manage THB currency risks or liquidity more flexibly, and likely have a more negligible direct impact on THB sentiments.**

Domestic Risk Factors at Play

With a swathe of domestic risk factors—Covid case surge, BoT's cautioning of downside risks to growth, no-confidence debate against PM Prayuth and his government on 27 Jan—potentially tempering THB positivity, **USDTHB may not see significant downward pressures in the interim**. Any excessive drops in USDTHB could also lead BoT to intervene to limit THB's appreciation, which it views as negative for the economy. A modest correction upwards may be possible for USDTHB if the above-mentioned risk factors exacerbate, but we expect the extent of any upswings to be capped.

More broadly for 2021, in a benign regional recovery scenario, THB could still remain on a gentle appreciation path vs. USD, even as the extent of any appreciation could lag pro-cyclical regional peers. We maintain our prior forecasts for USDTHB for now.

Forecast	1Q 2020	2Q 2020	3Q 2020	4Q 2020
USDTHB	30.30	30.10	29.90	29.70

USDTHB (Weekly): ***Tentative Bullish Divergence, Some Upside Risks***

Source: Bloomberg, Maybank FX Research & Strategy

Another Round of BoT Regulation Changes

The BoT announced relaxation of FX regulations under the Non-resident Qualified Company Scheme (NRQC) on 5 Jan (press release here). These developments, in BoT's own words, are part of the central bank's efforts to enhance the "breadth and depth of the onshore foreign exchange market".

We note that this latest announcement follows another instance of regulation relaxation last Nov, which the BoT also billed as improving the FX market ecosystem.

One difference between the two announcements would be that Nov's measures were aimed at making it easier for Thai citizens to move money overseas and invest in foreign assets, or to hold foreign currency in Thai banks, which had a clearer impact (negative) for THB sentiments.

The signalling from BoT in Nov may have helped slow the pace of THB gains vs. USD in the past 2 months. In comparison, the latest measures have a broader focus on helping non-resident companies manage THB currency risks or liquidity more flexibly, and likely have a more negligible impact on THB sentiments.

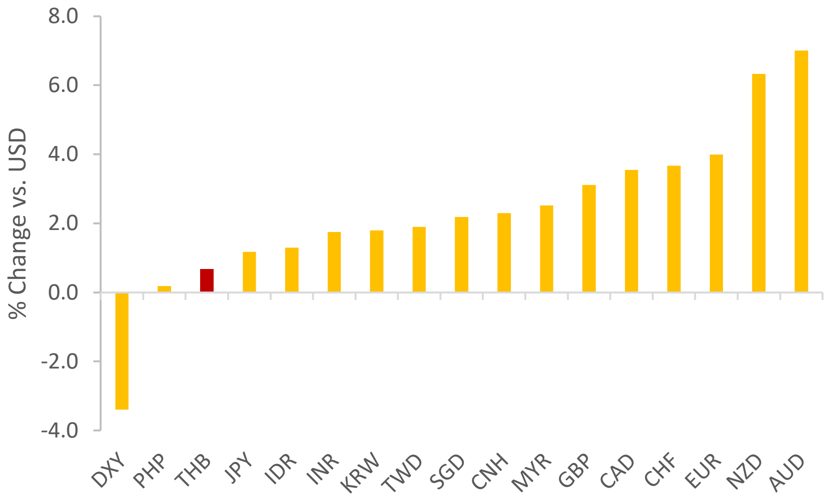
Summary of Measures (5 Jan 2021, 20 Nov 2020)

5 Jan 2021, *Greater flexibility for non-resident companies to conduct FX transactions against THB with domestic FIs under NRQC*
• Non-financial companies having trade and direct investment in Thailand participating in NRQC Scheme can manage THB FX risks without providing proof of underlying for each transaction. • Scope of eligible underlying transactions broadened to include anticipatory hedging and balance sheet hedging. • Eligible companies no longer subject to end-of day outstanding limit of THB200mn imposed on non-resident THB accounts. • With NRQC scheme allowing non-resident companies to conduct FX transactions with domestic FIs more freely, THB borrowing demand may decrease. Outstanding NRBA borrowing limit is hence reduced from THB600mn to THB200mn.
20 Nov 2020, *Making it easier for Thais to move money overseas and invest in foreign assets, and to hold foreign currency in Thai banks*
• Allowing free deposit and transfer of funds in foreign currency for Thai citizens. • Residents can use FX deposit transactions to diversify investments in overseas equities and gold denominated in USD. • Overseas investment limit for retail investors raised to $5 million per year, from $200,000 now. • No investment limit in foreign securities through local financial institutions such as brokerage firms and asset management companies. • Allowing local listing of foreign securities such as exchange traded funds that track foreign securities.

Recap of Recent THB Performance

Broader risk-on sentiments induced by a Biden victory, positive vaccine progress, US stimulus hopes etc., led to a ~3% decline in USDTHB in the first 2 weeks of Nov 2020, but the pace of appreciation in THB has visibly slowed since, with only a ~0.6% dip in USDTHB pair from mid-Nov till now (as of writing).

Recent Pace of THB Appreciation Modest (15 Nov 2020 to 7 Jan 2021)

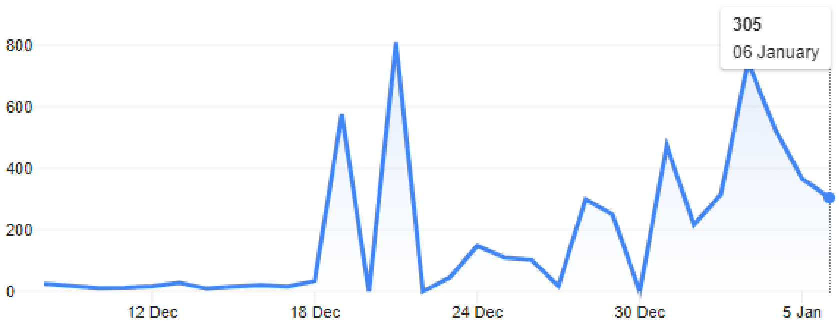


Note: % change is against USD except for DXY.

Source: Bloomberg, Maybank FX Research & Strategy

Domestic Risks on the Horizon

Covid Spread & Growth Concerns



Source: JHU CSSE Covid-19 Data from John Hopkins University

Total cases over the past two weeks number around 3.6k. The latest surge prompted authorities to identify 28 provinces as high-risk areas, and set new limitations such as suspension of some business operations and meetings that could potentially fan infections.

BoT subsequently warned that the outbreak has turned out to be "*more severe than previously assessed*" and that this "*increased the possibilities that the economy would underperform the baseline projection for 2021 and 2022*". BoT's Dec forecast for 2021 at 3.2% and 4.8% respectively.

The silver lining here could be that authorities appear to be holding off on a national lockdown for now, and more steps to support the economy and businesses in the near-term could be discussed soon. Relief measures may include an extension of the domestic travel subsidy and co-spending program.

Political Uncertainty & Pro-Democracy Movement

Thailand's biggest opposition party Pheu Thai also plans to begin a process for a no-confidence debate against PM Prayuth and his government on 27 Jan. The debate is expected to last seven days, with key focus on the government's "mismanagement" of its Covid-19 response. Last year, Prayuth and five other ministers survived a no-confidence vote in Feb, after a week-long censure debate during which Prayuth had to rebut a range of criticisms from the opposition.

While the recent Covid-19 wave could have contributed to a pause in street protests, underlying tensions between pro-democracy groups and the government could remain intact in 2021. A poll conducted from 24-25 Dec by the National Institute of Development Administration found that 41.6% of respondents (vs. 40.4% prior) expected Thailand's political situation in 2021 to be unchanged from last year. Some 35.5% (vs. 45.0% prior) expect more disruptions.

On Net…

With a swathe of domestic risk factors—Covid case surge, downside risks to growth, political uncertainty (no-confidence debate against PM Prayuth and his government on 27 Jan)—potentially tempering THB positivity, USDTHB may not see significant downward pressures in the interim. Any excessive declines in USDTHB could also lead BoT to intervene to limit THB's appreciation, which it views as negative for the economy. A modest correction upwards may be possible for USDTHB if the above-mentioned risk factors exacerbate, but we expect the extent of any upswings to be capped.

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USDTHB (Weekly): ***Tentative Bullish Divergence, Risks Skewed Modestly to Upside***

Source: Bloomberg, Maybank FX Research & Strategy

Pair appears relatively supported by the 29.90-levels for now. Last seen at 29.95. Momentum on weekly chart is mildly bearish, while RSI is near oversold conditions. We note signs of bullish divergence on MACD setting in, i.e., lower low in pair not accompanied by lower low in momentum indicator. Risks to pair hence skewed to upside in interim.

Support at 29.90 before 29.50. Next long-term support is some way off at 28.60 (2013 low). Resistance nearby at 30.00 (21-DMA), before 30.40 (50-DMA), 30.80 (100-DMA).

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