

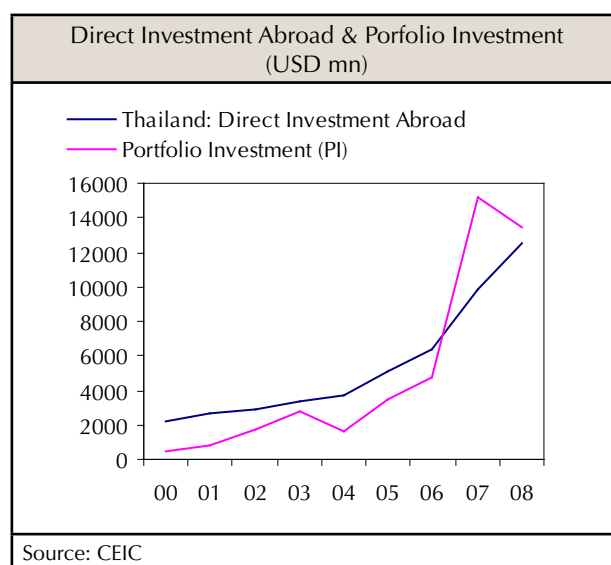
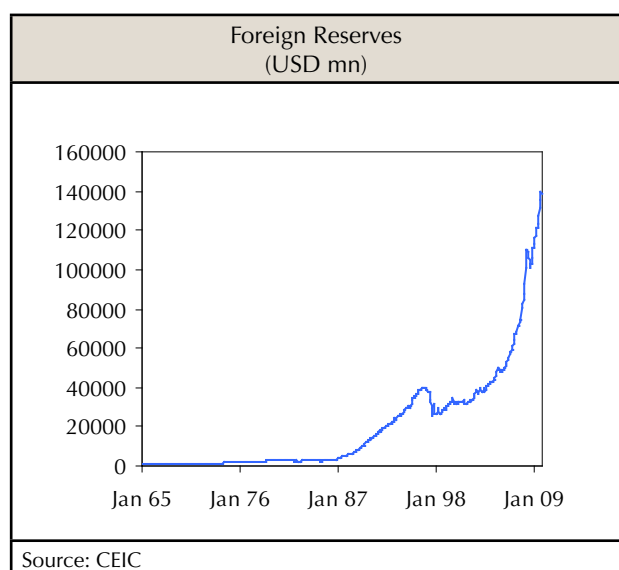
Tuesday, 02 February 2010

Thailand: Relaxing Outflows to Curb THB Strength

Bank of Thailand loosened regulations on outflows yesterday, aimed at enabling more Thai investments abroad and countering the THB's rise. BoT Governor Tarisa Watanagase had already pre-empted the moves last week, speaking on facilitating more outflows. The new announcements include:

- 1) Allowing Thai companies to directly invest abroad and extending the portfolio investment amount to US\$ 50 bn from US\$ 30 bn. (Effective Feb 2, 2010)
- 2) Allowing importers and exporters in Thailand to unwind foreign exchange hedging transactions for goods and services without seeking permission. (Effective Feb 2, 2010)
- 3) Increasing the purchase limit of properties abroad to US\$ 10 mn from US\$ 5 mn per year. (Effective around end Feb, 2010)
- 4) Allowing Thai companies to lend up to US\$ 50 mn to non-affiliated companies abroad, without seeking approval. (Effective around end Feb, 2010)

The speed of foreign reserves accumulation shows the tremendous inflows into Thailand. Foreign reserves reached a record US\$138.4 bn in Dec 2009. However, outflows in the form of direct investment abroad and portfolio investment has also increased in recent years, thanks to measures in 2007, which includes scrapping the US\$100mn limit on overseas investments by Thai listed companies. Controls were relaxed further by allowing large Thai companies with a minimum THB5bn in assets to invest directly in foreign securities without going through mutual or private funds.



Implications

Even though we haven't seen the kind of asset price inflation as exhibited by China's property prices, BoT looks to be pre-empting an asset price bubble in Thailand. As for the currency, the measures will certainly help to weaken the baht but will not likely lead to the THB being heavily depreciated, due to record high FX reserves. Also, the announcements are very controlled, with incremental changes, which should not lead to very volatile changes in the THB.

We are still keeping our forecast for the THB to reach 32.60 at the end of 1Q10, where we had already factored in some intervention on BoT's part to slow the THB's appreciation. The currency should still continue to strengthen against the USD over the year, albeit at a smaller pace.

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