

Wednesday, 13 January 2010

# Flash Notes

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## Thailand: Policy Rate Unchanged at 1.25%

Bank of Thailand has maintained the policy interest rate at 1.25%, in line with consensus. The domestic economy still continues to be driven largely by government spending, rather than sustainable factors such as private investment or domestic consumption. We think that the interest rate will be kept at 1.25%, and we maintain our expectations of a rate hike of 0.25% in 3Q10 to 1.5%, since we think the economy will probably start on a sustainable path to growth in the later half of next year. Currently, Thailand does not seem to have any immediate impetus for normalization of monetary policy.

No doubt inflation has soared in Dec, due to the high crude oil price, but core inflation, which the Thai monetary policy committee targets, is also not likely to trigger any policy normalization in the form of tightening. Core inflation looks likely to stay within the 0.0-3.5% quarterly average range the BoT aims for. Although there does not seem to be significant risks of asset price bubbles, BoT flagged out risks of potentially destabilizing inflows arising from different monetary policies, "which may lead to more volatile capital flows going forward."

With expectations of no rate hikes priced in, the THB was largely unchanged at around the 33.05 level. We are keeping our forecast for the THB to reach 32.60 at the end of 1Q10.

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