

# Thailand takes a hammer to the baht

Leslie Shaffer | @LeslieShaffer1

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Thailand's baht has long out-muscled regional peers, but amid a stumbling economy, the central bank has pulled the plug on supporting the currency.

The Bank of Thailand (BOT) last week sent a triple whammy to the markets: In a surprise move, it cut its benchmark interest rate by 25 basis-points to 1.5 percent. In its statement, the BOT mentioned its concerns about the continued strength of the baht. That was followed up with the easing of some of the country's capital controls, which will allow more funds to flow out of the country.

"All three things marked a strong message," said Santitarn Sathirathai, an analyst at [Credit Suisse](#), noting it's rare for the BOT to mention the currency level. "If there is appreciation in the baht again, which could happen due to the current account surplus, then the Bank of Thailand could intervene to cap appreciation and to cap outperformance over regional currencies."

"It's a paradigm shift," he added.

After the moves, the [baht](#) fell, with the U.S. dollar fetching 33.25 baht early Wednesday, tapping the baht's weakest level since early 2010, when the euro zone crisis was starting to rear up. That compares with around 32.59 baht before the BOT's actions. Thailand's markets were closed Tuesday for the Coronation Day holiday.

To be sure, the BOT has cut before without getting much more than a yawn from the exchange rate and the country's economy has faced weaker tourism, disinflation and stumbling exports for a while.

But what's different this time is the combination of measures.

"Lack of interest was the reason for the baht remaining stable," said Nizam Idris, head of strategy, fixed income and currencies at [Macquarie](#). "No one was selling," in part because the capital controls made shorting the currency expensive, he noted. "The floodgates have finally been opened."

He noted that in real effective exchange rate terms, the baht has been at its most expensive since the Asian Financial Crisis in the late 1990s. "Based on growth and inflation, there's no justification for that whatsoever."

The country is actually exporting less than in 2012, underperforming the region and inflation, already in negative territory, could become sustained deflation, Macquarie said in a note last week.

While a concerted effort to weaken the baht may bring up the specter of a "currency war," the BOT may not be directly aiming to make Thailand's exports appear more competitive.

While the BOT mentioned concerns that the baht's appreciation against its trading partners and competitors could hurt exports, "the problem with weak exports is also due to structural and cyclical factors (e.g. export product mix, shifts in the manufacturing base to lower-cost countries, and productivity)," analysts at [HSBC](#) said in a note last week.

Others noted that exports may be a less pressing concern than debt deflation, or when deflation increases an effective debt burden. Debt for the private sector, combining households and businesses, is above 160 percent of gross domestic product (GDP), HSBC noted.

"High private sector credit means the debt becomes higher," Idris noted. "The private sector won't spend if it expects prices to fall."

—By *CNBC.Com's Leslie Shaffer*; Follow her on Twitter [@LeslieShaffer1](#)