

26 August 2024

Interest rate-cutting cycles are about to begin

Market Outlook

>> 1350 – 1365 <<

The Thai stock market appears poised for a gradual increase, supported by the prospect of lower interest rates in both the US and Thailand, a recovery in crude oil prices and the formation of a new cabinet. Regarding interest rates, Federal Reserve Chairman Jerome Powell signaled cuts to the Federal Funds rate at Jackson Hole, Wyoming, on Fri. He indicated that inflationary risks have eased, while risks to the job market have increased. He stated that "the time has come" to cut rates, but the timing and pace of rate cuts will depend on incoming data. His remarks are expected to boost market sentiment. Likewise, the Bank of Thailand (BoT) has also signaled an interest rate cut. Governor Sethaput Suthiwartnarueput noted that whether the policy rate will be lowered depends on economic growth, inflation and financial stability. Tight loan offerings by commercial banks have begun to affect the economy, and if the impact exceeds expectations, there is a likelihood that the Monetary Policy Committee (MPC) will adjust its policy interest rate. Considering crude oil prices, WTI crude rose to US\$75.18 per barrel, boosted by a weaker dollar index – reaching the lowest level in eight months at 100.6 – and Israel's strikes on southern Lebanon. These provide a boost to upstream energy and power plant stocks. In terms of the coalition government formation, the caretaker deputy prime minister indicated that the list of cabinet line-ups will be completed by Aug, and the new government could start working in Sep. This development is likely to support industrial estate and construction stocks due to easing concerns about economic instability and the prospect of incoming state investments. On a negative note, Thai stocks are likely to be pressured by the MSCI Index rebalancing adjustments, with AWC, GPSC, EA and IVL slated to be removed from the Standard Index. Meanwhile, BJC, EA, KAMART and TLI are set to be included in the MSCI Small Cap Index, which will also see the removal of BAFS, BYD, EPG, NEX, ORI, PTG, RBF, THANI, SC, SJWD, SKY, SNNP and THCOM. The adjustments, which will take effect on Fri, are likely to put the SET Index under pressure. Additionally, the US-China tensions are intensifying after the US added 105 Russian and Chinese firms to a trade restriction list over their alleged support of the Russian military.

Trading ideas: 1) Interest rate-cutting cycle: CCET, KCE, DELTA, MTC, SAWAD, AEONTS and KTC, 2) recovery in crude oil prices: PTTEP, SPRC, TOP and PTT, 3) new government: AOT, CPN, CPALL, CPAXT, BJC and KTB, 4) 'Thailand Focus' event: BBIK, ADVANC, BCP, BH and WHA

Positive Factors

- China is moving forward with real estate sector reforms by promoting property sales after completion, signaling a shift from the previous model of pre-sale construction. This is expected to alleviate China's real estate problems.
- The Chairman of the Thai Chamber of Commerce agrees with distributing digital wallet cash to "vulnerable groups" and proposes a project to match funds for citizens, where for every hundred spent by citizens, the government provides an additional hundred. He recommends implementing tax incentives for high purchasing power groups to attract funds into the economy.
- TDRI supports the Negative Income Tax policy to encourage people to enter the tax system and create support for low-income individuals, alongside motivating people to work harder rather than relying on welfare income from the government.
- European Central Bank policymakers stated that there is a possibility of the central bank reducing interest rates two more times this year, as inflation continues to decline as expected.

Negative Factors

- The Bank of Japan (BOJ) is ready to raise interest rates if the economy and inflation meet expectations, while closely monitoring the market situation.
- The Finance Minister supports the carbon credit trading platform, signaling a move towards implementing a carbon tax based on international models, aiming to reduce carbon emissions by 30% or 120 million tons, which could negatively impact stocks in the energy sector.
- Strategists of BofA said rate cuts are "not a likely spark for equity buying"
- Kasikorn Research Center predicts that auto installment loans in the Thai banking system will contract by 6.2% year-on-year in the first half of 2024 due to several factors putting pressure on purchasing power and borrowers' repayment ability, including income issues and household debt burden, while financing companies are reducing credit limits and increasing down payments. The proportion of Stage 2 and NPL loans to overall auto loans is expected to rise to 18% in 2024, up from 17.35% in Q2 2024.

PICKS OF THE DAY

	Target
	19.50 / 20.00
	Support
KTB	18.00 / 18.30

- Beneficiary of state projects
- Highest loan growth in the sector in Jul

	Target
	5.30 / 5.50
	Support
WHA	5.00

- Bet on big lots in 3Q24
- FY24 profit expected to reach new high

Strategy team

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