

18 September 2024

Fed's rate-cutting cycle set to begin

Market Outlook

>> 1425 - 1445 <<

The Thai stock market looks poised to move sideways in today's trading session, as an upside from domestic stimulus measures and stronger-than-expected US economic data is likely to be constrained by investors reducing their positions ahead of tonight's outcome of the Fed's Federal Open Market Committee (FOMC) meeting. On a positive note, the SET Index could receive support from yesterday's cabinet approval of a 10,000-baht cash handout program for 14.5mn vulnerable people under the first phase of the digital wallet scheme. The handout is slated to begin on Sep 25 and run until the end of this month. According to the finance ministry, the handout is expected to boost GDP growth by 0.35%, bringing total economic expansion to 3% for the year. The ministry also reiterated that the second phase of the digital wallet program will move ahead, supported by completed registrations and an already-prepared budget. Details of the second phase will be considered by a new committee responsible for economic stimulus policies, chaired by the prime minister, within this week. Furthermore, sentiment in the domestic stock market could be lifted by better-than-expected US economic data for Aug, released last night, potentially easing concerns about economic problems. US retail sales rose by 0.1% m-m. Despite softening from 1.1% m-m growth in Jul, retail sales surpassed expectations of a 0.2% m-m contraction. Industrial output grew by 0.8% m-m, exceeding forecasts of 0.2% m-m growth and reversing a contraction of 0.9% m-m in Jul. However, the stock market's upside is likely to be limited by a reduction in risk exposure among investors ahead of tonight's release of the FOMC meeting outcome. There is a 65% chance of the Fed reducing interest rates by 50 bps, according to data on the CME's FedWatch tool. We however assign more weight to a 25 bps cut, given the current US economic figures, which show no signs of a recession. The Fed's economic forecasts, dot plots and remarks by its officials will be under close watch, as they could signal the future direction of the US economy and monetary policy.

Trading ideas: 1) Vayupak Fund-driven stocks: AP, BBL, BDMS, CPALL, LHHOTEL and TISCO, 2) state budget and policies: AEONTS, CK, KTB, KTC, SAWAD, STEC, TIDLOR and WHA, 3) interest rate-cutting cycle: GPSC, GUNKUL, and SPALI and 4) tourism-boosted stocks: AOT, CENTEL, ERW and MINT

Positive Factors

- The Ministry of Tourism and Sports revealed that from January 1 to September 15, 2024, Thailand had welcomed a total of 24.8 million international tourists, generating approximately 1.16 trillion baht in revenue from their spending.
- The Cabinet has approved the extension of the current 7% VAT rate for another year, shifting the end date from 30th September 2024 to 30th September 2025, in line with the current economic conditions.
- The Cabinet has approved the criteria for providing financial assistance to those affected by flooding during the 2024 rainy season and has requested approval for a budget of 3.045 billion baht for the fiscal year 2024. The Ministry of Interior has been instructed to expedite the verification process to ensure suitability to the situation and reduce the paperwork required for various forms of assistance to ensure quick access for the public.
- The Deputy Prime Minister and Minister of the Interior has instructed the Provincial Waterworks Authority to implement five measures to assist and provide relief to residents in flood-affected areas. These include waiving water bills and general service fees, extending the deadline for overdue payments, allowing installment payments for water bills, providing free water for household cleaning, and ensuring continuous support with bottled drinking water and tap water

Negative Factors

- The Trade Policy and Strategy Office (TPSO) indicated that the construction materials price index in September 2024 is likely to rise compared to the same period in 2023. This is due to the volatility of oil and energy prices in the global market, driven by geopolitical conflicts, which have led to higher raw material and production costs compared to the same period in 2023.
- TRIS Rating revealed that the outlook for the next 12 months indicates a decline in revenue for the media and publishing sector, driven by the economic slowdown and constrained consumer spending. Meanwhile, high production, sales, and operational costs continue to exert pressure on the profitability of businesses.
- Two oil refiners in China run by chemical conglomerate Sinochem Group Co. were declared bankrupt, highlighting the headwinds older units face as margins plummet.
- The US State Department has announced the approval of a potential foreign military sale to Taiwan, involving spare parts valued at approximately \$228 million. According to the State Department, the sale aims to support Taiwan's military in maintaining combat readiness amid China's grey zone intrusions.

PICKS OF THE DAY



Target
45.00 / 46.00
Support
41.50 / 42.00

BUY

- Higher 2H24 loan growth than 1H24
- Speculation on anticipated interest rate cut



Target
20.00 / 20.50
Support
19.00 / 19.20

BUY

- 3Q24 project launches increase
- 3Q24 earnings expected to grow y-y

Strategy team

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