

19 September 2024

Interest rate-cutting cycle begins

Market Outlook

>> 1420 - 1435 <<

The Thai stock market looks set to retreat in today's trading session due to rising concerns about the US economic economy, as evidenced by the Fed's decision to lower its interest rate by 50 bps on Wed. However, hopes for a further recovery in tourism are expected to provide some support to the SET Index. The 50 bps rate cut brought the federal funds rate down to a range of 4.75%-5%. The central bank's Federal Open Market Committee (FOMC) indicated through its 'dot plot' the equivalent of 50 more bps of cuts by the end of this year and another full percentage point in cuts by the end of 2025. This shows a downward trend in US interest rates. The FOMC also revised down its US GDP growth forecast slightly to 2% and lowered the PCE and Core PCE inflation outlooks to 2.3% and 2.6%, respectively, compared to the Jun forecasts of 2.6% and 2.8%. Additionally, the unemployment rate outlook was raised from 4% to 4.4%, fueling concerns about the state of the US economy, suggesting that the Fed deems a substantial rate cut necessary. This outlook is likely to increase pressure on the Thai stock market. Despite that, the downward trend in interest rates is expected to benefit stocks in the finance, power plant, real estate, commerce, industrial estates and construction sectors. In addition, the tourism sector could receive a boost from reports that The Tourism Authority of Thailand (TAT) governor plans to forward a 2025 tourism-promotion plan to the cabinet within the next 1-2 weeks, following discussions with the prime minister yesterday. There is anticipation of the revival of 'We Travel Together' and 'Half-Half Co-payment' schemes. In 2020, the 'We Travel Together' program was one of the top three stimulus campaigns favored by the public, with over 5mn rights used, leaving only 225,000 rights unused. The program is expected to help stimulate the domestic economy and tourism at this time also. With typically higher tourist numbers in 2H compared to 1H, the target of 205mn domestic trips could be achieved. Other key economic events to watch this week include the BoE meeting, which is expected to keep a 5% interest rate on hold. As the PPI inflation in Aug edged down by 1.2% y-y and 0.5% m-m, this gives the BoE more time to assess the impact of easing inflation without rushing to adjust its policy rate.

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) global interest rate-cutting cycle: GPSC, GUNKUL and SPALI and 4) tourism plays: AAV, BA, CENTEL, ERW and MINT

Positive Factors

- The Minister of Finance revealed the possibility that Thailand will allow the sale of foreign currency bonds in Q1 2025 to create interest rate standards for the private sector and attract fundraising from foreign investors.
- The UK PPI from supply side in August came out at -1.2% y-y, which is worse than market expectations of -0.9% y-y, and a decrease from the previous month, which saw a growth of 0.2% y-y. This trend is likely to pressure consumer inflation rates to decrease in the following period.
- The Minister of Labor is proceeding with the meeting to raise the minimum wage to 400 baht on September 20, 2024, and looking for measures to assist employers if there are adverse effects. It is expected that the announcement for wage increases can coincide on October 1, 2024.
- The Department of Thai Traditional and Alternative Medicine has initiated a public consultation on the Cannabis Act from September 16 to 30, 2024, and it is expected to be used for therapy, education, and research purposes going forward.

Negative Factors

- The Meteorological Department has issued warning number 5 regarding the "Depression" storm in the upper South China Sea entering Thailand. Heavy to very heavy rainfall is expected in the northern, northeastern, eastern, and southern regions, including Bangkok and its vicinity, during the period of September 20-23, with risks of flash flooding and runoff.
- The Deputy Prime Minister revealed that by the end of fiscal year 2024, public debt is expected to be at 65% of GDP, and by the end of fiscal year 2025, the public debt-to-GDP ratio is projected to rise to 66% under an economic growth rate of 3%.
- Nikkei Asia reported average land prices as of July 1, which increased by 1.4% year-on-year, marking a continuous increase for the third consecutive year and returning to levels seen in 1992, during the bubble economy period.
- China has retaliated against nine U.S. companies by freezing their assets and prohibiting individuals in China from conducting transactions with these companies after discovering that they had sold weapons to Taiwan.

PICKS OF THE DAY

	Target
	2.80 / 2.90
	Support
AAV	2.60

- Anticipated improvement in normal profit for 3Q24, with peak earnings expected in 4Q24

	Target
	66.00 / 68.00
	Support
CPALL	62.00

- Digital wallet expected to boost revenue in 4Q24
- Strongest SSSG in sector

Strategy team

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Ref.No.: CO2567_0180