BOT READY TO STEP IN

Central bank says intervention an option to curb baht volatility

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The Bank of Thailand might intervene if capital outflows roil the country's financial markets now that foreign investors are pulling out of emerging markets after the US Federal Reserve signalled a scaling down of its quantitative-easing (QE) strategy.

Deputy Governor Pongpen Ruengvirayudh said yesterday that the central bank had maintained its policy of allowing the baht to move according to the market mechanism and was ready to step in to take the reins if the unit got too wobbly.

The currency yesterday fell 1.2 per cent to 31.08 per US dollar as of 3.30pm, the biggest slide since May 10.

The SET Index lost 2.46 per cent or 35.51 points to 1,402.19 with turnover of Bt70.11 billion, in line with other Asian markets.

Asian stocks slumped the most in almost two years amid concerns a credit crunch in China is worsening and the Fed will reduce stimulus should the US economy continue to improve.

The MSCI Asia Pacific Index dropped 4.2 per cent to 127.52 as of 5.22pm in Tokyo, heading for its biggest loss since March 2011, as nine shares fell for each that rose. Hong Kong's Hang Seng Index erased all gains since September 13, when the Fed pledged to keep buying assets until it saw ongoing, sustained improvement in the US labour market.

Financial and capital markets in Asia including Thailand ran into turbulence after Federal Reserve chairman Ben Bernanke's hinting at the timing of the reduction in QE led to dollar purchases across the board, said Kozo Hasegawa, a Bangkok-based foreign-exchange trader for Sumitomo Mitsui Banking Corp.

"But concern about intervention is growing if the baht weakens sharply beyond 31," he said. Bernanke's hint is also weighing on other local assets, he said.

Vorapol Socatiyanurak, secretary-general of the Securities and Exchange Commission, said the recent capital movement has affected the trading of investors across the world, causing volatility in stock markets in Asia, including Thailand.

Kittiratt Na-Ranong, deputy prime minister and finance minister, urged the BOT to stand ready for capital movement.

However, the country's financial status is fully equipped to deal with market fluctuations, he said.

Amid exchange-rate or interest-rate stability, financial authorities, particularly the central bank, could deal with large shifts of foreign capital, he said.

What the Fed does with its QE policy would not matter much here since the country has measures ready with sufficient international reserves and local-currency liquidity to cope with funds flows, he said.

Stock Exchange of Thailand president Charamporn Jotikasthira said that even though foreign investors have sold Bt50 billion of stocks since early this year, this level is acceptable. But long-term foreign investors still hold 37 per cent of the Bt13-trillion capital market.

Chai Sophonpanich, chairman and president of Bangkok Insurance, expects the SET Index to decline to 1,250 points in three or four months, with a price-to-earnings (P/E) ratio of 13-14 times, on concerns over declining US bond purchases.

The current market P/E stays at 16 times.

Investors may have to slow down as foreign funds are continuing to dump Thai stocks, he said.

"If the SET drops to 1,250 points with a P/E of about 13-14 times, the market is attractive for stock purchase," he said.

Bangkok Insurance will spend about Bt300 million to accumulate fundamental and dividend stocks for one-to-two-year investment.

Now, it has about Bt700 million to Bt800 million on hand for stock investment.