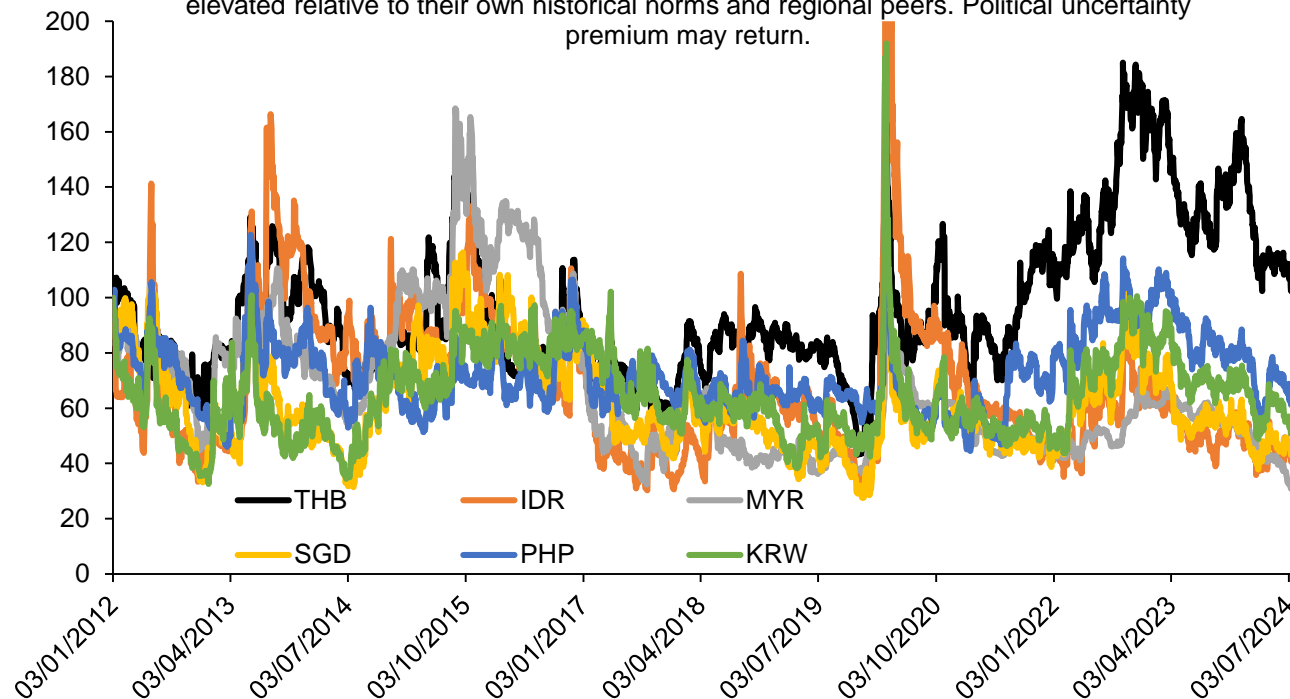


THB: Political Uncertainty Reigns

FX 1 Month Option Volatility Index (3 Jan 2012=100): THB volatility remains significantly elevated relative to their own historical norms and regional peers. Political uncertainty premium may return.



Source: Bloomberg; Mizuho

- This afternoon, the Thai Constitutional court in a 5-4 vote has found PM Srettha guilty of an ethics violation for appointing a minister who did not meet ethical standards. This in turn disqualified him for the PM office and this decision is final and cannot be appealed.
- In turn, Deputy PM Phumtham Wechayachai will be the caretaker PM. One likely scenario is that Thailand's Parliament will select a new Prime Minister from a new list of candidates. Some possible candidates include Paetongtarn Shinawtra, who is the leader of the Pheu Thai Party and daughter of ex-PM Thaksin, Prawit Wongsuwan, former Deputy Prime Minister and also former Army Chief and Interior Minister Anutin Charnvirakul of the Bhumjaithai Party.
- In terms of implications of key policy initiatives, the digital wallet plans which has faced much opposition may be at risk if Paetongtarn does not get elected given that it was Pheu Thai's key election promise. Likewise, the recent casino bill which aims to pave the way for an integrated gaming resort is also on the line.
- While the Pheu Thai Party yields significant influence in the House of Representatives, the likes of Prawit is also likely to enjoy support from the military establishment and Anutin being a clear supporter of Thailand's constitutional monarchy will also get substantial backing. **The selection outcome is far from certain.**
- Consequently, the **potential political uncertainty, if prolong, may reassert on the THB recovery path.** Worryingly, even before this episode, the THB is already undergoing a significant period of volatility, nearly as elevated or even more than previous episodes of crisis (such as coups) and also higher volatility than regional peers.
- Meanwhile, the ongoing public dissonance with the BoT may ironically ease depending on the candidate selection.

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