Thailand Outlook

OCBC Bank

Bank of Thailand in 'wait and see' mode

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Highlights

- **Despite the growth upgrade seen in the previous monetary policy meeting, the Bank of Thailand decided to keep its policy rate at 1.50% unchanged as widely expected.** The rate has been held at current level since early 2015. Similar to previous meetings, one of the seven policy committee member voted for a rate hike to 1.75%, suggesting the pressure for policy-makers to eventually raise rates should growth tailwinds intensify into end-year. Specifically, the Bank of Thailand had previously upgraded its growth outlook to 4.4% for the year ahead, while the Finance Ministry has recently hiked its growth expectation to 4.5% in late May.
- **We note that recent policy statements have been generally upbeat on growth and the current BOT statement remains similarly upbeat as well.** The statement cited that exports and tourism "continued to improve in tandem with global economic growth". Exports are also expected to "achieve higher growth than previously assessed", coupled with continued expansion of private consumption supported by improvements in employment. Inflation outlook remains largely unchanged however, amid some downside risks on lower fresh food prices. The statement however emphasised risks of lower tourism arrivals following the recent Phuket tour boat sinking incident. Other risks are centered on uncertainties surrounding the US foreign trade policies and geopolitical risks.
- **We opine that the decision to hold rates unchanged remains to be a prudent one.** Policy-makers' move to keep rates accommodative at this juncture is seen with poorer-than-expected incoming data. These include June's exports at a notable slowdown of 8.2% on a year-on-year growth basis (vs 17.6% y/y seen in January) as shipment growth faces a higher base print in 2H17. Further signs of growth moderation can also be seen from the slower manufacturing PMI (50.1 in June vs 50.2 in July) while Thailand's Business Sentiment Index (BSI) declined to 52.0 in July 2018, down from 52.8 in the previous month. On the inflation front as well, the softer core inflation print at 0.79% in July (down from 0.83% in June) likely did little to spur further monetary tightening.
- **In a nutshell, Thailand's growth outlook has remained positive to date despite growing investor concerns surrounding the US-Sino trade barbs.** Thailand's external environment still remains supportive of overall growth, albeit naturally seeing further slowdown as we approach high growth base seen in 2H17. Some upside risk to exports could be on the cards, given the Commerce Ministry's observation that Thailand's exports of food products could potentially be a beneficiary from the US-Sino trade tensions. Specifically on this, Minister Sontirat Sontijirawong commented that seafood exports could *"help boost total Thai exports this year at more than 8%, and even rising at a double-digit rate this year."* Despite the softer-than-expected core inflation seen of late, BOT still

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expects inflation pressures to "edge up given the gradual build-up in demand-pull inflationary pressures". All-in-all, we keep our Thailand growth outlook at 4.2% y/y in 2018, while anticipating policy-makers to eventually inject a 25bps token hike in 4Q18.