Thailand Outlook

Treasury Research
Tel: 6530-8384

OCBC Bank

Beware of growth moderation

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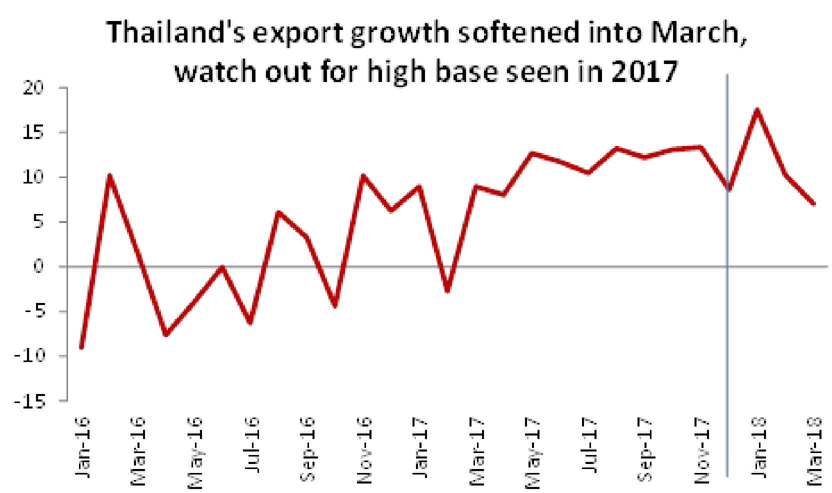
Highlights

- **The Bank of Thailand kept its benchmark rate unchanged at 1.50%** in their latest MPC meeting (16th May 2018). The committee voted on the decision in an unanimous fashion, although one MPC member was reported to have been unable to attend the discussion. Note that the central bank had seen its first dissenting vote to hike rates in their previous meeting in March.
- **The language surrounding the BOT statement remains largely positive,** which indicated that the "economy as a whole continued to gain further traction" given the uptick in exports and tourism, while private investment was seen to have picked up and is projected to expand further from government projects. However, the policy-makers were quick to point out that the positive spillovers from the improvement in Thailand's external sector has still not been seen in private consumption and employment, while household debt remains elevated. Also, they pointed out that there are risks of delays in budget disbursement, which could limit public expenditure levels should the delays persist.
- **Elsewhere, inflation has picked up into 2Q, especially seen with headline inflation crossing its 1.0% handle then.** Note that the policy makers expect both headline and core inflation prints to rise gradually into the year, though demand-pull inflationary pressures remained low, reinforcing the rather tepid domestic consumption prints and employment indicators as discussed above. On exchange rates, BOT indicated their outlook for the Baht to remain volatile given the uncertainties pertaining to policy-making in other major advanced economies, and the central bank will closely monitor exchange rate developments going forward.



Source: Bloomberg, OCBC

Barnabas Gan
Tel: 6530-1778
BarnabasGan@ocbc.com

- **Our outlook for Thailand remains positive to-date despite signs of moderation seen in the latest prints.** While Thailand's Purchasing Manager's Index Manufacturing print remained below the expansionary handle of 50.0, exports continue to surprise market expectation (note custom exports rose 7.1% y/y in March, vs market estimate of 6.0%). Still, note that Thailand remains to be an export-oriented economy, with merchandise exports accounting for 58.5% of GDP in 2017, and the exports growth moderation from 17.6% y/y seen in January 2018 and a relatively formidable base year in 2017 (export grew 9.9% y/y in 2017) could mean further export growth moderation into the year. Our outlook for Thailand's economic growth remains unchanged at 3.5% for the year, while inflation is projected to rise to average 1.4% at end-year. Lastly, note that BOT's concern surrounding the current low interest rate environment at 1.50% is still being seen in the latest statement, specifically that such an environment could "lead to under-pricing of risks, and the deterioration of debt serviceability of households and SMEs". In a nutshell, barring an unexpected decline in growth outlook, the issues surrounding further rate differentials from further rate hikes in other major developed economies amid BOT's concern over the current interest rate level would likely lead to BOT's rate hike of 25bps rate hike at end-year.

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