

Vote is no longer unanimous

Monday, April 02, 2018

Highlights

- **Unlike the past central bank meetings which saw all members voting for rates to stay unchanged, the most recent policy meeting (28th March) saw its first dissenter calling for a 25bps rate hike to 1.75%.** Most members viewed the current monetary policy stance as conducive to economic growth and should foster the return of headline inflation to target, although the dissenter cited that prolonged monetary accommodation might induce market-watchers to “underestimate potential changes in financial conditions”.
- **In truth, recent data continue to paint a supportive growth environment.** Trade growth surprised on the upside with exports sustaining its double-digit growth prints while manufacturing growth exceeded market expectation at 4.7% in February. However, inflationary pressures continue to stay tame at -0.09% m/m (negative for the second straight month), suggesting that the falling food and energy-related prices contributed to the weaker overall prices. BOT statement cited similar growth drivers (including exports and tourism), but cautioned that the economic recovery had yet to benefit household income and employment while household debt remains elevated. Elsewhere, the language surrounding external risks remains relatively unchanged, which includes “uncertainties pertaining to US economic and foreign trade policies, retaliatory measures from trading partners of the US, and geopolitical risks”.
- **To us, the absence of an unanimous vote to keep rates unchanged signals the growing concern amongst policy-makers over the current low interest rate environment.** Our growth outlook remains unchanged at 3.5%, a tad lower than NESDB's growth projection of between 3.6 – 4.6%. We view that Thailand's growth outlook remains positive, on the back of a sanguine external demand backdrop. Inflation is also expected to return to BOT's target range of between 1 – 4% this year, up from 0.7% in 2017. However, we cannot discount the risk of moderating trade and manufacturing momentum into the year ahead. Even in the face of lower growth, we think that BOT's policy rate at 1.50% cannot be kept at such low levels for a prolonged period; higher rates to be seen in both developed and Asian central banks would eventually persuade BOT to play catch up in 4Q18. Moreover, the search for yield behaviour may also lead to the underpricing of risks, and eventually worsen debt serviceability of households and SMEs into the year ahead. As such, we look for policy-makers to eventually lift its benchmark rate by 25bps in 4Q18.

Treasury Research
Tel: 6530-8384

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

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

Co.Reg.no.:193200032W