Thailand

OCBC Bank

Growth Outlook Gets an Upgrade

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Highlights

- **The Bank of Thailand policy-makers voted unanimously to maintain policy rate unchanged at 1.50% at its latest July meeting.** Importantly as well, the improving economic environment gave the central bank more reasons to finally upgrade its growth outlook for 2017 and 2018. However, given the softening inflation mainly due to supply-side factors, BOT shaded its headline and core CPI expectations lower.

- **Delving into specifics, BOT upgraded their domestic growth outlook to 3.5% for 2017 and 3.7% for 2018, up from 3.4% and 3.6%, respectively.** The domestic economy remains supported by expansions in its merchandise exports and tourist arrivals. Empirically, export expanded 7.4%yoy in the first five months of 2017 (5M17), the highest print since 2011 over the same period. Moreover, tourist arrivals continue to grow, clocking 3.2%yoy in 5M17. Other areas such as private consumption and manufacturing also expanded slightly from the same period last year, suggesting that the uptick in Thailand's external environment is gradually injecting positive spill-over effects into its real domestic economy.

- **On the inflation front, headline inflation had softened markedly** with its latest June CPI print in deflationary territories (-0.05%yoy). Much of the fall is mainly due to supply-side factors, especially lower fresh food prices (given this year's higher agricultural output following 2016's drought) and persistent low energy prices. Given the lower domestic prices of late, BOT had downgraded its headline and core CPI outlook to 0.8% (from 1.2%) and 0.6% (from 0.7%) for this year. Despite the falling prices, we opine that the deflationary period is likely transitory, and inflation is likely to gradually increase in 2H17.

- **Still, areas of concerns still exist. BOT cited that its domestic growth prospect is still subjective to external risks,** including "uncertainties pertaining to US economic and foreign trade policies, monetary policy directions of major advanced economics, China's economic structural reforms, and geopolitical risks." Domestically, policy-makers also cited concerns over the deterioration in debt serviceability of SMEs, while the search for yield behaviour especially in the current prolonged low interest rate environment would warrant continued monitoring.

- **We note that BOT's recent change in its GDP and inflation outlook is now sitting squarely with our GDP (3.3 – 3.5%) and inflation (0.8%) outlook** as written in our recent OCBC Research Monitor Report on 5th June 2017. In view of the good run in the first half of this year, its economic growth should comfortably print in tandem with the revised official outlook of 3.5% for the year. As cited above, we opine that inflation should revert back to positive prints into 2H17, especially as the higher food prices seen in 1H16 fades lower into 2H16, coupled with the likelihood for oil prices to point higher (OCBC WTI outlook: $55/bbl at end-2017). All-in-all, the relatively softer inflation environment and elevated household debt levels should keep BOT to hold rates unchanged for the rest of this year at 1.50%.