Thailand

Keeping the powder dry (again)

3rd August 2016

- **The Bank of Thailand voted unanimously once again to keep its benchmark rate unchanged at 1.50% for the 10th meeting in line with our expectations,** citing that economic growth is still recovering despite the greater downside risk felt from uncertainties in the global economy. Elsewhere, the bank iterated that inflation pressures may still return to the target band (1 – 4%) "slightly later than previously assessed due to weaker-than-expected energy prices". We read this as a rhetoric to mean that average inflation print this year may well undershoot even the 1.0% handle. Note that as recent as June this year, BOT governor Veerathai Santiprabhob commented that headline inflation is still on track to reach the low end of this said target.
- **Thailand appears to still enjoy the two key economic supports, namely public expenditure and tourism**, while private consumption are still healthy on the back of improving income levels and household confidence. At least on this, the existence of these supports are key reasons in deciding to keep rates unchanged. Not only does these supports continue to limit the downsides from the consistently weak external environment, but the move to keep policy space in case of future exogenous and unexpected economic shocks may well give the policy makers the much needed room to manoeuvre further if necessary. Overall, the committee deemed policy as appropriately accommodative, and it stresses the existence of various policy tools to support economic growth if needed.
- **At this juncture, we see little risk to our 2016 growth outlook of 3.2%** given the existence of fiscal expenditure that would provide that much needed buffer especially in today's global economic uncertainty. Elsewhere, tourist arrivals and private consumption should continue to support economic growth. On the inflation front, we recognise that much of the low domestic prices (+0.1% yoy in July) stemmed largely from exogenous factors like weak energy prices (-8.6% yoy), while core inflation still remains acceptable at 0.76% over the same period. As such, any rate cut in an attempt to lift inflation pressures may prove ineffective in doing so.

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