Thailand Outlook

OCBC Bank

In hope to sustain economic recovery into 2018

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Highlights

- **The Bank of Thailand kept its benchmark rate unchanged at near record low level at 1.50%, in line with our expectations.** Monetary policy committee members voted unanimously to hold rates unchanged, a level that has been kept since 2015.
- **Although widely expected to keep its monetary stance unchanged, the unanimous vote to do so this time around speaks volume.** It suggests that (1) policy-makers are unfazed from the many rate hikes seen in both developed and Asian central banks and (2) the need to ensure economic growth into the year ahead. A rate hike, should it come to pass at this juncture, could further rally the THB against its other Asian peers and worsen Thailand's relative competitiveness, especially with the Baht already being one of the region's best performers. Moreover, inflation risks appear almost non-existential at this point, with inflation missing BOT's target of between 1 – 4% in the past three years.
- **BOT's language in the report does signal a rather sanguine outlook for the year as well.** While reiterating that overall financial conditions remained accommodative and conducive to economic growth, the growth outlook is also underpinned on the back of external demand recovery. Inflation is also expected to return to BOT's target range of between 1 – 4% this year, up from 0.7% in 2017, on the back of a recovering domestic demand and higher oil prices since last year. Of course, the policymakers sound out risks as well, including "uncertainties pertaining to US economic and foreign trade policies as well as geopolitical risks."
- **We opine that Thailand's growth outlook will tide in line with Asia's external environment into the year ahead.** Importantly, some early signs of moderation in trade (note Dec's custom exports disappointing lower at 8.6% y/y, down from 13.4% in the previous month), and manufacturing momentum (Dec manufacturing index also disappointed at 2.4%, down from 4.1% in Nov) are already seen of late. With the lower-than-expected inflation print at 0.7% in January this year, keeping rates unchanged at the latest meeting is likely a move to sustain the economic recovery momentum into the year ahead. In a nutshell, we maintain our call for Thailand's growth to moderate to 3.5% into 2018, down from 3.9% in 2017. Even in the face of lower growth, we think that BOT's policy rate 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.

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