Thailand

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Keep calm and stay pat

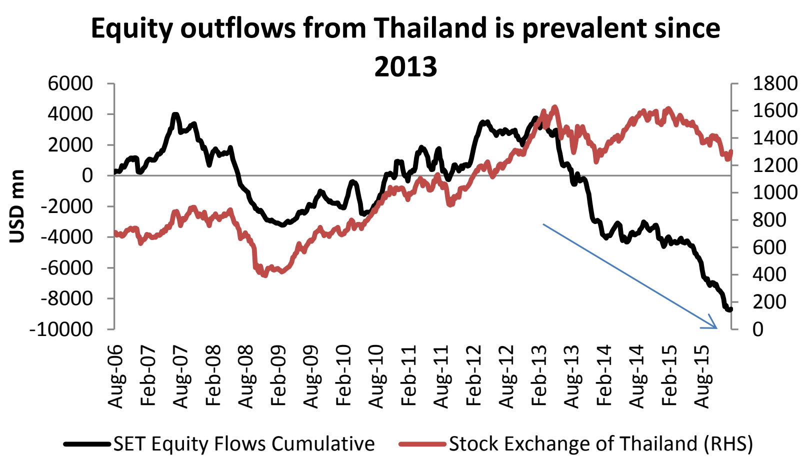
Wednesday, February 03, 2016

Highlights

- The Bank of Thailand decided to keep interest rates unchanged at 1.50% for the sixth consecutive session, with all seven members voting in unison. This is widely expected by the markets, given BOT's repeated rhetoric that policy remains accommodative and monetary policy divergence may potentially pose unnecessary volatility.
- Growth drivers in terms of public expenditure, private consumption and the recovery in tourist arrivals are still being observed, highlighting that the government's tax rebate and strong car purchases seen in December had supported overall growth.
- Still, the central bank recognized more downside risk to inflation, given the larger-than-expected fall in global oil prices. Nevertheless, it deems deflation risks as contained, as domestic demand is still expanding while core inflation remains in positive territory.

Standing firm, no cuts

"Be prudent and preserve policy space" could be key phrase on the lips of every committee member at their first policy meeting of 2016. The decision to stay pat at 1.50%, aside from providing room for a cut to support economic recovery, is also likely a highly calculated move in maintaining 'financial market stability'. More importantly, the unanimous decision to stay pat sets a tone for the rest of the year to come. The Bank of Thailand, metaphorically coined as a 'center-back in the soccer game'[1], has clearly shown its priority in mitigating long-run risks to financial stability, notably to prevent exacerbated fund outflows given global monetary policy divergence and the inherent indebtedness of Thailand's households.



Source: Bloomberg, Stock Exchange of Thailand, OCBC Bank

[1] Dr. Prasarn Trairatvorakul, *The role of the central bank in driving Thailand's sustainable growth,* 8 Oct 2014

Elsewhere, pertinent growth drivers are still present, thus underlining that any rate accommodation at this juncture is unnecessary. While it is a fact that Thailand is faced with weak exports, the central bank had reiterated that the stronger disbursement of public expenditure, as well as the uptick in domestic spending and tourism arrivals are still supporting economic growth. On the inflation front, the committee deems deflation risks as 'contained', given that domestic demand continues to expand while core inflation is still positive. Notably, inflation is expected to turn positive in the first half of 2016, likely given the low base seen in 2015 as well as some hope for oil prices to recover then.

A sturdy boat on rocky waters

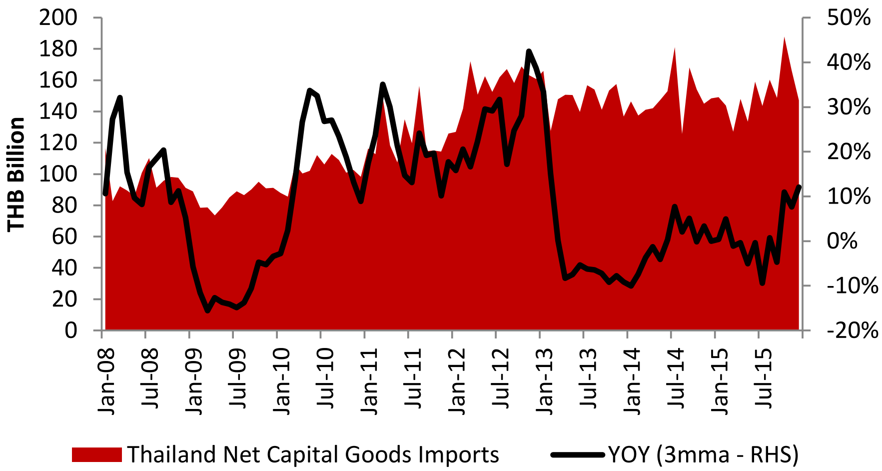
Aside from the growth drivers mentioned, we recognise that Thailand's growth fundamentals are looking far rosier than the complexion seen in the most of 2015. Akin to a sturdy ship, Thailand's economic conditions boast a relatively healthier appetite in retail spending and private investment, seen in positive growth in the last few months of 2015. Aside from that, the net imports of capital goods, likely regarded as a precursor for economic growth, has seen a marked improvement in 4Q15. The eventual translation of these encouraging signals have then translated into a greater confidence seen in both business and consumer sentiments.

The sturdy ship however, has one thing to contend with, specifically the weak external environment seen in Asia, including Thailand. On this, the greater-than-expected fall in oil prices is a key culprit in this, rendering a sharp contraction in Thailand's export value for 12 consecutive months. The point is, although Thailand's domestic fundamentals are looking more solid, the exogenous factors (namely oil prices and relatively weaker external demand) seen in the external environment are likely the key drags in economic growth.

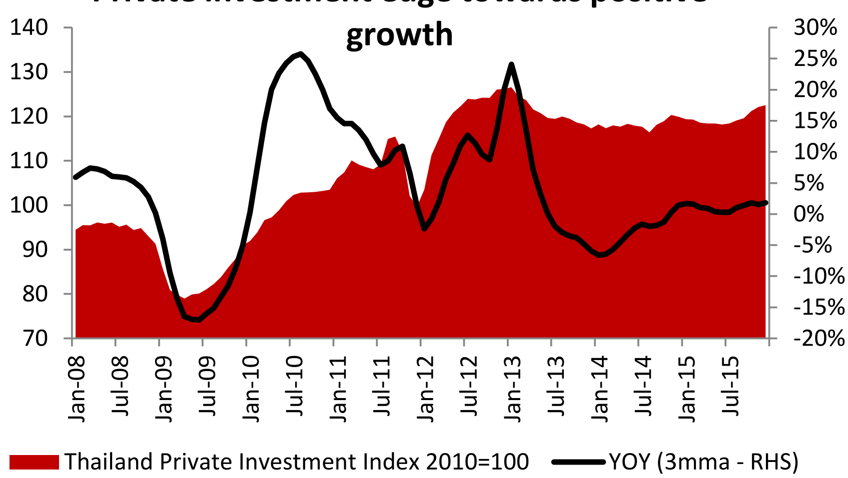
All-in-all, we remain confident for Thailand to grow a respectable print of 3.2% this year, underpinned by stronger government expenditure as well as the recovery in both consumer spending and investments. Elsewhere, given the weak oil prices, we downgrade our inflation call to 0.6%, from a previous 1.4%. With growth supports seen in public disbursement and tourism spending, we view that the central would likely stay pat for the entire year, and even possibly inject a token 25bps hike to 1.75% in response to maintaining financial stability.

Appendix

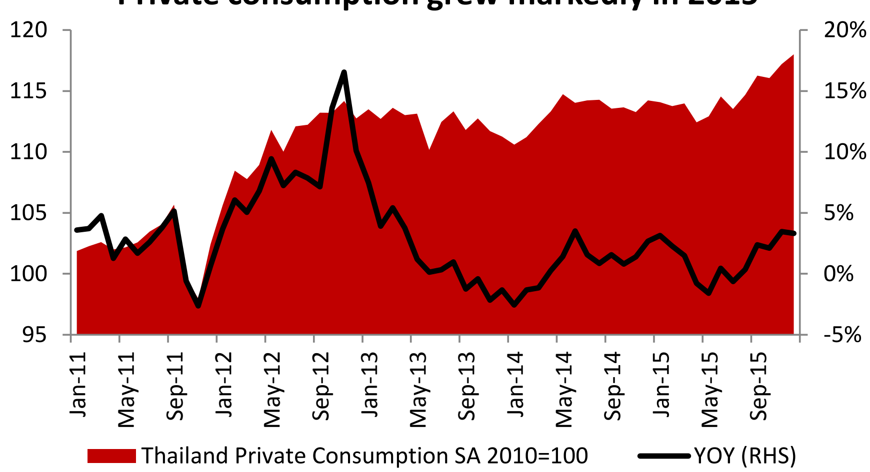
Appetite for capital goods turn healthier



Private investment edge towards positive growth



Private consumption grew markedly in 2015



Source: Bloomberg, OCBC Bank