Thailand: Inflation continues to drift away from target

With inflation further undershooting its target, the BoT should move to cut rates sooner rather than later. We maintain our view of a 25bp policy rate cut before the year-end

Source: Shutterstock

0.3% September inflation

Lower than expected

Another downside surprise

Thailand's consumer price index (CPI) rose by 0.3% year-on-year in September, slower than consensus of 0.4% rise and the slowest gain in eight months. Our forecast of unchanged inflation rate at August's 0.5% rested on expectations of supply shocks to food prices from heavy rains and floods in the northeast parts of the country being countered by persistently weak transport component. In the event both these CPI components posted slower gains with the added drag from deeper decline in clothing component.

The slowdown in core inflation to 0.4% in September from 0.5% in August was in line with our forecast, however.

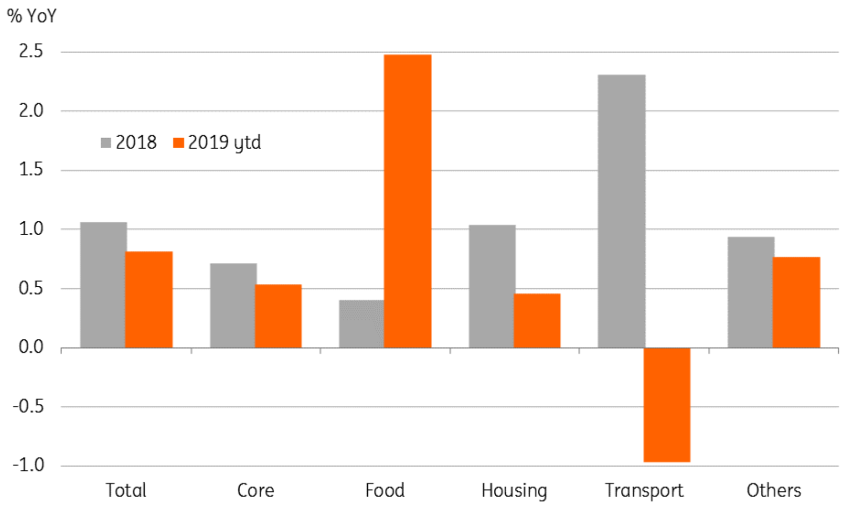
ING forecast downgrade

Inflation has been drifting away from the Bank of Thailand's 1-4% medium-term target range for the monetary policy operation. And this is not just about the monthly rate. The year-to-date average inflation rate of 0.8% YoY is also under the BoT's target and down from 1.1% a year ago.

The base year effect is turning favourable and this could result in some pick-up in the annual inflation rate over the rest of the year, possibly taking it up to the 1% low end of the BoT's target by December. However, with persistently weak domestic spending and absent any severe supply shocks to food or fuel prices, it's hard to imagine it staying in the target range on a consistent basis.

We are revising our inflation forecast for 2019 to 0.8% from 1.0% and for 2020 to 1.0% from 1.4%.

There is no inflation outside food prices



Source: Bloomberg, CEIC, ING

Cut rates sooner rather than later

Increasingly weak activity data supports the call for more policy accommodation from the central bank. Less than a week ago at the routine monetary policy meeting, the BoT downgraded its growth and inflation outlook but stopped short of cutting the policy rate.

> *Central bank is ready to review the key rate and use policy tools if economic situation veers away from forecast -- BoT Governor Veerathai*

We see no merit in the BoT delaying what looks to us to be an inevitable and much-needed rate cut. If nothing else, it might help to rein in the currency appreciation that the authorities are increasingly concerned about. There was some relief on that front in September when the THB turned out to be an Asian underperformer, though that may not become a trend against a backdrop of a large current account surplus. We maintain our view of a 25bp policy rate cut to 1.25% before the yearend.