

## Thailand: Slow growth, low inflation, rising political risk

We anticipate some re-pricing for political risk to weigh on THB performance going forward



**3.4%** Manufacturing growth in January  
Year-on-year

As expected

### Manufacturing slowed in January

Thailand's industrial production growth slowed in line with consensus to 3.4% year-on-year in January from 5.0% in December (revised up from 2.4%). IP slowdown contrasts with strong exports in January with 17.6% YoY growth. While export growth accelerated in the last year IP growth remained in low-single digits. The de-coupling of export and manufacturing, which could be traced to weak domestic demand, persists coming in to 2018. We are placing our 3.8% forecast for GDP growth in the current quarter under review for a possible downgrade (consensus 3.9%).

## Inflation remains low

February consumer price data is due on Friday, March 2. Inflation has been under 1% YoY since March 2017, which is where consensus forecast is for it to stay (consensus 0.7%, ING forecast 0.8%). Outside housing and transport sectors there is no inflation in Thailand. We forecast inflation in 2018 averaging at 1.1%, which is in line with the Bank of Thailand (BoT) forecast (consensus 1.4%, 2017 0.7%).

Released today, the BoT minutes of last Monetary Policy Committee meeting held on February 14, pointed to still sluggish domestic demand recovery with low demand-pull inflationary pressure. The document revealed policymakers' preference for continued accommodative monetary policy to support recovery of domestic demand. We reiterate our forecast of no change to the BoT rate policy through 2018.

## Politics to weigh on markets

The political uncertainty is starting to creep up as the military government once again postponed timing of general elections, which now will not be held until after February 2019 as against previous guidance of November 2018. If intensified, the political uncertainty will be a big negative for Thai financial markets. The THB remains among Asian outperformers with 3.9% year-to-date appreciation against the USD. We anticipate some re-pricing for political risk to weigh on the THB performance going forward. Our end-2018 USD/THB forecast is 31.0 (spot 31.5, consensus 31.2).

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