

Thailand: Weak June inflation provides another reason for a rate cut

We continue to expect a 25 basis point cut in the Bank of Thailand's policy rate in the current quarter. However, that would be a mere reversal of the hike in late 2018, not much of a stimulus to the sagging economy. We are now adding one more 25bp rate cut to our policy rate forecast in the last quarter of the year



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0.9% June and 1H19 inflation rate

Inflation slides below 1%, again

Thailand's consumer price index (CPI) rose by 0.9% year-on-year in June, slower than the consensus of 1.1% (we expected no change from the 1.2% rate of inflation in the previous month). Core inflation of 0.5% YoY was in line with expectations of a slight slowdown from May. Food and

transport have been the key inflation drivers recently. A sharp negative swing in transport inflation (-1.6% vs. 0.1% in May) more than outweighed an acceleration in food inflation (3.1% vs. 2.8%).

The year-to-date inflation rate also is 0.9% - unchanged from the same period last year. We expect the inflation outturn for the rest of the year to remain benign, especially with strong currency appreciation this year keeping imported inflation at bay and anaemic domestic demand limiting any upside at home. The Commerce ministry cut its 2019 inflation forecast to 1.0% from 1.2%. Our 1% annual inflation forecast remains on track though with the risks tilted more to the downside than the upside.

Strengthening calls for BoT easing

This inflation data further strengthens our call for Bank of Thailand policy easing. The case for easing is very clear (see our latest note explaining [why the central bank should ease policy](#)). It's not just us, the government has also added its voice to the easing cause. On the day the BoT policy meeting started last week (26 June) when the bank left policy on hold, Deputy Prime Minister Somkid Jatusripitak said that "It can't go against the trend if the economic situation continues to be like this".

While the BoT left the policy rate unchanged last week, the statement was largely dovish and was accompanied by a downgrade of the central bank's growth forecast for 2019 to 3.3% from 3.8%. We take this as a signal that a rate cut is just around the corner. We continue to expect a 25bp rate cut in the current quarter, more likely at the next meeting on 7 August rather than at the 25 September meeting. However, that would still only be a reversal of the hike in late 2019, and not provide much stimulus to a sagging economy. We are therefore adding one more 25bp rate cut to our policy forecast in the fourth quarter, taking the policy rate to 1.25% by end-2019.