Where is inflation in Thailand?

There has been none in the last three years and we do not expect it to emerge in 2018, allowing greater scope for the Bank of Thailand to remain on hold this year

Source: Shutterstock

0.8%

Thailand inflation in December (YoY)

Worse than expected

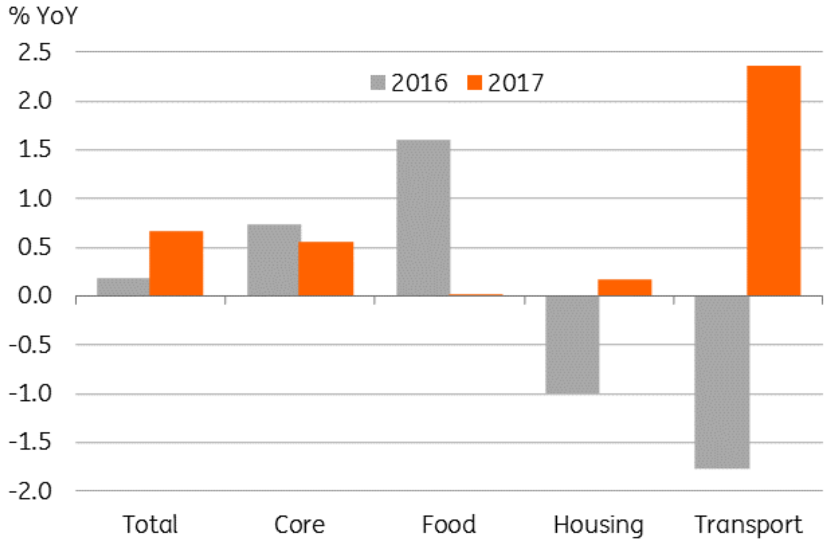
Downside inflation surprise

Thailand consumer price inflation in December was below expectations at 0.8% year-on-year, vs consensus for it to remain unchanged at the 1% rate of November. This puts full-year 2017 average inflation at 0.7%, an acceleration from 0.2% in 2016 and from -0.9% in 2015. However, inflation has persisted below the Bank of Thailand's 1-4% medium-term target set in 2015.

Divergent trends in food and transport prices

Food and transport prices are the typical drivers of CPI inflation in Thailand. While both these components are positively correlated, the trends in the two were in opposite directions in 2017. Improved crop production kept the food component flat after a 1.6% increase in 2016. Pass-through of higher global oil prices caused a sharp spike in the transport component to +2.4% from -1.8%. We expect these trends to hold in 2018.

Inflation by main components



Source: Bloomberg, ING

Weak domestic demand, strong THB

Apart from the influences from food and oil prices, weak domestic demand and strong Thai baht (THB) appreciation are factors contributing to low inflation. Again these trends are likely to hold in 2018. The THB's 10% appreciation vs USD made it the third best-performing Asian currency in 2017, after the Korean won and Malaysian ringgit, thanks to the persistently wide external surpluses the economy is enjoying.

10% THB appreciation vs USD in 2017

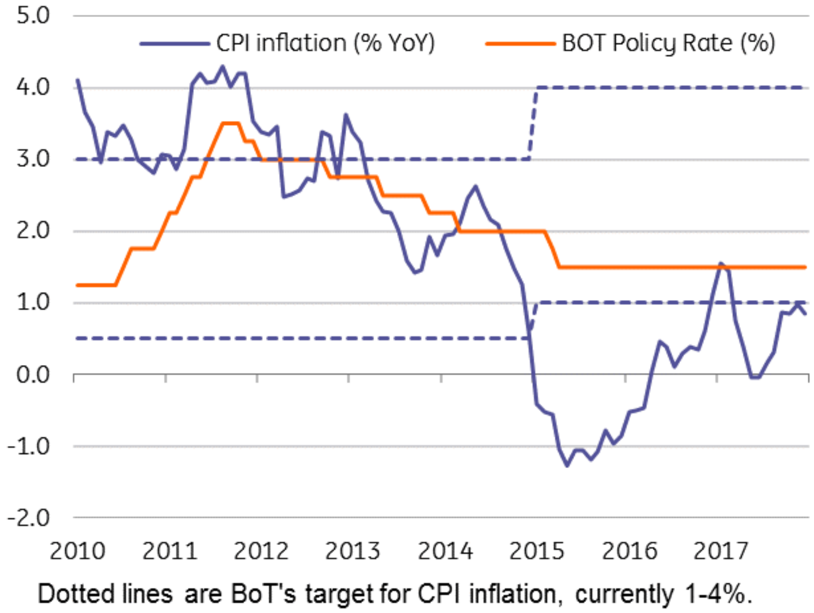
The BoT need not follow the US Fed

Low inflation has allowed the BoT to maintain the current accommodative monetary policy stance for a prolonged period.

The BoT need not follow the US Fed in tightening nor is there *need for higher interest rates yet, says governor Veerathai Santiprabhob*

Released today, the minutes of the BoT meeting held on December 20 revealed that the policymakers assessed risks to the central bank's 1.1% inflation forecast for 2018 as evenly balanced, while growth remained below potential. The BoT forecasts GDP growth in 2018 at 3.9%, close to the pace this year though the minutes point to downside risk from deceleration in exports.

Inflation and BoT policy



Source: Bloomberg, ING

ING forecasts on-hold BoT policy in 2018

We reiterate our forecasts for no change to BoT policy in 2018. This rests on our below-consensus forecasts of GDP growth of 3.5% and CPI inflation of 1.0% this year (consensus 3.7% and 1.4% respectively). Our end-2018 USDTHB forecast is 32.00 (consensus 32.5).