

Thailand: A downside inflation miss

With the lingering global trade risk and persistently low inflation, we don't think the BoT will be in a position to unwind its policy accommodation anytime soon



Source: Shutterstock

1.38% CPI inflation in June

Year-on-year

Lower than expected

Below-consensus June inflation

Thailand's consumer price inflation surprisingly slowed to 1.4% year-on-year in June from 1.5% in May. The consensus expectation was for inflation to remain unchanged at 1.5%. The Bloomberg headlines point to energy prices as a source of inflation – a result of rising global oil prices. But lower food-price inflation more than offset the energy increase to push the headline rate lower. Core inflation, which strips out food and energy prices, was steady at 0.8%.

Steady, low inflation ahead

We believe inflation is close to its peak in the current cycle. Absent significant supply shocks from food or oil prices, we expect inflation to remain close to the low end of the central bank's (BoT) medium-term policy target of 1-4%. The commerce ministry has just announced a mild adjustment to its full-year 2018 average inflation forecast to 0.8-1.6% from 0.7-1.7%. The BoT's forecast is 1.1%. We forecast 0.9%.

Stable central bank policy

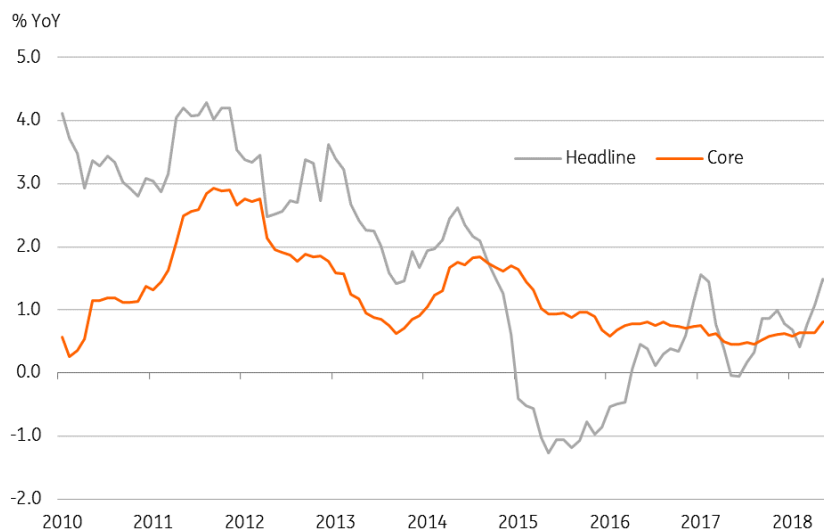
The BoT easing cycle started in early 2012 is finally beginning to see some light at the end of the growth tunnel, though this hasn't lifted inflation. With the lingering global trade risk to growth and persistently low inflation, we don't think the BoT will be in a position to unwind policy accommodation anytime soon. Nor do BoT policy-makers appear in any rush to do so, given their recent dovish rhetoric.



Chance of BoT policy move in 2018

"... private consumption continued to expand, although elevated household debt and the economic expansion had yet to benefit household income and employment in a broad-based manner, resulting in a gradual improvement in purchasing power". – the latest BoT policy statement

Consumer price inflation



Source: Bloomberg, ING