

Thailand: Inflation has peaked

With inflation peaking, GDP growth poised to slow, and continued currency outperformance during the recent emerging market rout, the Bank of Thailand is under no pressure to move policy just yet



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1.6% August CPI inflation

Higher than expected

Food prices boost CPI inflation

Thailand's consumer price index (CPI) rose 1.6% year-on-year in August, more than the (unchanged) 1.5% YoY expected by consensus. Core CPI, stripping out food and fuel prices, remained close to the 0.8% YoY level it has been around since May.

Food price inflation was a source of upside surprise, rising to 0.8% from 0% the previous month. We didn't see this coming, though we weren't completely caught off guard on all other CPI components, which posted either lower or unchanged inflation from July. The transport

component stood out for its sharp slowdown, resulting from recent lower global oil price inflation as well as a high base-year effect.

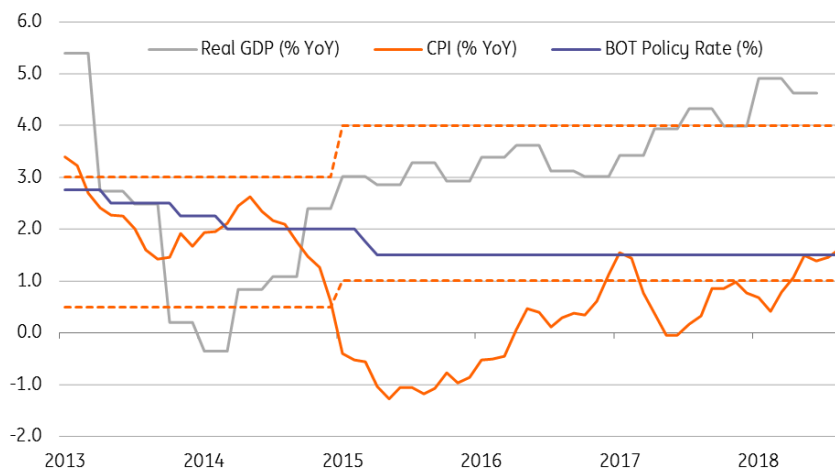
But inflation peak is behind

The 1% year-to-date inflation is at the low-end of the BoT's policy target of 1-4%. We see high base-year effects widening from the transport to the food components from September, pushing headline inflation below 1% in September. Our forecast for full-year 2018 average inflation is 1.1%.

With our strong external position, the need for Thailand to increase the policy rate is not as imminent as other emerging markets. – BoT Governor Veerathai

In an about-turn after fuelling expectations of policy normalisation in order to create some policy space for the future, BoT Governor Veerathai Santiprabhob has toned down his hawkish rhetoric. With GDP growth poised to slow – the BoT forecast 4.2% growth in the 2H18, down from 4.8% in 1H18 – and a large current surplus shielding the currency (THB) from the emerging market sell-off, stable BoT policy continues to be our baseline expectation for the remainder of the year.

Growth, inflation and BoT policy



Dotted lines are BoT's target for CPI inflation, currently 1-4%.

Source: Bloomberg, CEIC, ING