

## 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



Source: Shutterstock

**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%.

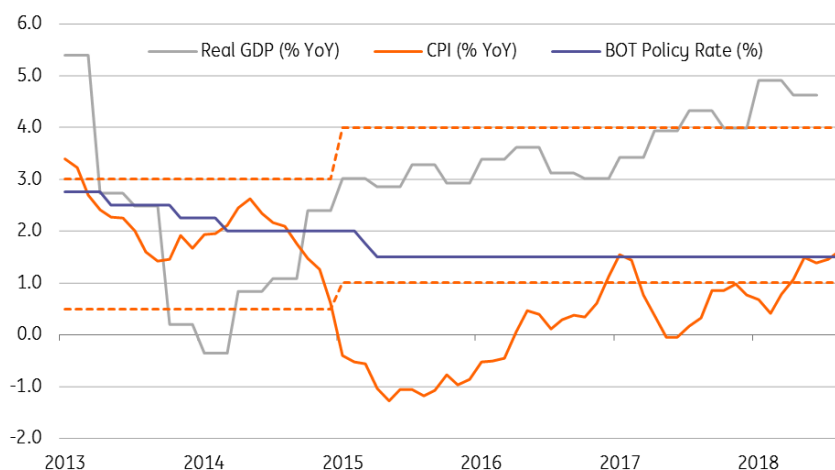
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*With our strong external position, the need for Thailand to increase the policy rate is not as imminent as other emerging markets. – BoT Governor Veerathai*

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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

### Author

**Alissa Lefebvre**

Economist

[alissa.lefebvre@ing.com](mailto:alissa.lefebvre@ing.com)

**Deepali Bhargava**

Regional Head of Research, Asia-Pacific  
[Deepali.Bhargava@ing.com](mailto:Deepali.Bhargava@ing.com)

**Ruben Dewitte**

Economist  
+32495364780  
[ruben.dewitte@ing.com](mailto:ruben.dewitte@ing.com)

**Kinga Havasi**

Economic research trainee  
[kinga.havasi@ing.com](mailto:kinga.havasi@ing.com)

**Marten van Garderen**

Consumer Economist, Netherlands  
[marten.van.garderen@ing.com](mailto:marten.van.garderen@ing.com)

**David Havrlant**

Chief Economist, Czech Republic  
420 770 321 486  
[david.havrlant@ing.com](mailto:david.havrlant@ing.com)

**Sander Burgers**

Senior Economist, Dutch Housing  
[sander.burgers@ing.com](mailto:sander.burgers@ing.com)

**Lynn Song**

Chief Economist, Greater China  
[lynn.song@asia.ing.com](mailto:lynn.song@asia.ing.com)

**Michiel Tukker**

Senior European Rates Strategist  
[michiel.tukker@ing.com](mailto:michiel.tukker@ing.com)

**Michal Rubaszek**

Senior Economist, Poland  
[michal.rubaszek@ing.pl](mailto:michal.rubaszek@ing.pl)

**This is a test author**

**Stefan Posea**

Economist, Romania  
[tiberiu-stefan.posea@ing.com](mailto:tiberiu-stefan.posea@ing.com)

**Marine Leleux**

Sector Strategist, Financials  
[marine.leleux2@ing.com](mailto:marine.leleux2@ing.com)

**Jesse Norcross**

Senior Sector Strategist, Real Estate

[jesse.norcross@ing.com](mailto:jesse.norcross@ing.com)

**Teise Stellema**

Research Assistant, Energy Transition

[teise.stellema@ing.com](mailto:teise.stellema@ing.com)

**Diederik Stadig**

Sector Economist, TMT & Healthcare

[diederik.stadig@ing.com](mailto:diederik.stadig@ing.com)

**Diogo Gouveia**

Sector Economist

[diogo.duarte.vieira.de.gouveia@ing.com](mailto:diogo.duarte.vieira.de.gouveia@ing.com)

**Marine Leleux**

Sector Strategist, Financials

[marine.leleux2@ing.com](mailto:marine.leleux2@ing.com)

**Ewa Manthey**

Commodities Strategist

[ewa.manthey@ing.com](mailto:ewa.manthey@ing.com)

**ING Analysts**

**James Wilson**

EM Sovereign Strategist

[James.wilson@ing.com](mailto:James.wilson@ing.com)

**Sophie Smith**

Digital Editor

[sophie.smith@ing.com](mailto:sophie.smith@ing.com)

**Frantisek Taborsky**

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

**Adam Antoniak**

Senior Economist, Poland

[adam.antoniak@ing.pl](mailto:adam.antoniak@ing.pl)

**Min Joo Kang**

Senior Economist, South Korea and Japan

[min.joo.kang@asia.ing.com](mailto:min.joo.kang@asia.ing.com)

**Coco Zhang**

ESG Research  
[coco.zhang@ing.com](mailto:coco.zhang@ing.com)

**Jan Frederik Slijkerman**  
Senior Sector Strategist, TMT  
[jan.frederik.slijkerman@ing.com](mailto:jan.frederik.slijkerman@ing.com)

**Katinka Jongkind**  
Senior Economist, Services and Leisure  
[Katinka.Jongkind@ing.com](mailto:Katinka.Jongkind@ing.com)

**Marina Le Blanc**  
Sector Strategist, Financials  
[Marina.Le.Blanc@ing.com](mailto:Marina.Le.Blanc@ing.com)

**Samuel Abettan**  
Junior Economist  
[samuel.abettan@ing.com](mailto:samuel.abettan@ing.com)

**Franziska Biehl**  
Senior Economist, Germany  
[Franziska.Marie.Biehl@ing.de](mailto:Franziska.Marie.Biehl@ing.de)

**Rebecca Byrne**  
Senior Editor and Supervisory Analyst  
[rebecca.byrne@ing.com](mailto:rebecca.byrne@ing.com)

**Mirjam Bani**  
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)  
[mirjam.bani@ing.com](mailto:mirjam.bani@ing.com)

**Timothy Rahill**  
Credit Strategist  
[timothy.rahill@ing.com](mailto:timothy.rahill@ing.com)

**Leszek Kasek**  
Senior Economist, Poland  
[leszek.kasek@ing.pl](mailto:leszek.kasek@ing.pl)

**Oleksiy Soroka, CFA**  
Senior High Yield Credit Strategist  
[oleksiy.soroka@ing.com](mailto:oleksiy.soroka@ing.com)

**Antoine Bouvet**  
Head of European Rates Strategy  
[antoine.bouvet@ing.com](mailto:antoine.bouvet@ing.com)

**Jeroen van den Broek**

Global Head of Sector Research  
[jeroen.van.den.broek@ing.com](mailto:jeroen.van.den.broek@ing.com)

**Edse Dantuma**  
Senior Sector Economist, Industry and Healthcare  
[edse.dantuma@ing.com](mailto:edse.dantuma@ing.com)

**Francesco Pesole**  
FX Strategist  
[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

**Rico Luman**  
Senior Sector Economist, Transport and Logistics  
[Rico.Luman@ing.com](mailto:Rico.Luman@ing.com)

**Jurjen Witteveen**  
Sector Economist  
[jurjen.witteveen@ing.com](mailto:jurjen.witteveen@ing.com)

**Dmitry Dolgin**  
Chief Economist, CIS  
[dmitry.dolgin@ing.de](mailto:dmitry.dolgin@ing.de)

**Nicholas Mapa**  
Senior Economist, Philippines  
[nicholas.antonio.mapa@asia.ing.com](mailto:nicholas.antonio.mapa@asia.ing.com)

**Egor Fedorov**  
Senior Credit Analyst  
[egor.fedorov@ing.com](mailto:egor.fedorov@ing.com)

**Sebastian Franke**  
Consumer Economist  
[sebastian.franke@ing.de](mailto:sebastian.franke@ing.de)

**Gerben Hieminga**  
Senior Sector Economist, Energy  
[gerben.hieminga@ing.com](mailto:gerben.hieminga@ing.com)

**Nadège Tillier**  
Head of Corporates Sector Strategy  
[nadege.tillier@ing.com](mailto:nadege.tillier@ing.com)

**Charlotte de Montpellier**  
Senior Economist, France and Switzerland  
[charlotte.de.montpellier@ing.com](mailto:charlotte.de.montpellier@ing.com)

**Laura Straeter**

Behavioural Scientist  
+31(0)611172684  
[laura.Straeter@ing.com](mailto:laura.Straeter@ing.com)

**Valentin Tataru**  
Chief Economist, Romania  
[valentin.tataru@ing.com](mailto:valentin.tataru@ing.com)

**James Smith**  
Developed Markets Economist, UK  
[james.smith@ing.com](mailto:james.smith@ing.com)

**Suvi Platerink Kosonen**  
Senior Sector Strategist, Financials  
[suvi.platerink-kosonen@ing.com](mailto:suvi.platerink-kosonen@ing.com)

**Thijs Geijer**  
Senior Sector Economist, Food & Agri  
[thijs.geijer@ing.com](mailto:thijs.geijer@ing.com)

**Maurice van Sante**  
Senior Economist Construction & Team Lead Sectors  
[maurice.van.sante@ing.com](mailto:maurice.van.sante@ing.com)

**Marcel Klok**  
Senior Economist, Netherlands  
[marcel.klok@ing.com](mailto:marcel.klok@ing.com)

**Piotr Poplawski**  
Senior Economist, Poland  
[piotr.poplawski@ing.pl](mailto:piotr.poplawski@ing.pl)

**Paolo Pizzoli**  
Senior Economist, Italy, Greece  
[paolo.pizzoli@ing.com](mailto:paolo.pizzoli@ing.com)

**Marieke Blom**  
Chief Economist and Global Head of Research  
[marieke.blom@ing.com](mailto:marieke.blom@ing.com)

**Raoul Leering**  
Senior Macro Economist  
[raoul.leering@ing.com](mailto:raoul.leering@ing.com)

**Maarten Leen**  
Head of Global IFRS9 ME Scenarios  
[maarten.leen@ing.com](mailto:maarten.leen@ing.com)

**Maureen Schuller**

Head of Financials Sector Strategy

[Maureen.Schuller@ing.com](mailto:Maureen.Schuller@ing.com)

**Warren Patterson**

Head of Commodities Strategy

[Warren.Patterson@asia.ing.com](mailto:Warren.Patterson@asia.ing.com)

**Rafal Benecki**

Chief Economist, Poland

[rafal.benecki@ing.pl](mailto:rafal.benecki@ing.pl)

**Philippe Ledent**

Senior Economist, Belgium, Luxembourg

[philippe.ledent@ing.com](mailto:philippe.ledent@ing.com)

**Peter Virovacz**

Senior Economist, Hungary

[peter.virovacz@ing.com](mailto:peter.virovacz@ing.com)

**Inga Fechner**

Senior Economist, Germany, Global Trade

[inga.fechner@ing.de](mailto:inga.fechner@ing.de)

**Dimitry Fleming**

Senior Data Analyst, Netherlands

[Dimitry.Fleming@ing.com](mailto:Dimitry.Fleming@ing.com)

**Ciprian Dascalu**

Chief Economist, Romania

+40 31 406 8990

[ciprian.dascalu@ing.com](mailto:ciprian.dascalu@ing.com)

**Muhammet Mercan**

Chief Economist, Turkey

[muhammet.mercan@ingbank.com.tr](mailto:muhammet.mercan@ingbank.com.tr)

**Iris Pang**

Chief Economist, Greater China

[iris.pang@asia.ing.com](mailto:iris.pang@asia.ing.com)

**Sophie Freeman**

Writer, Group Research

+44 20 7767 6209

[Sophie.Freeman@uk.ing.com](mailto:Sophie.Freeman@uk.ing.com)

**Padhraic Garvey, CFA**

Regional Head of Research, Americas



[padhraic.garvey@ing.com](mailto:padhraic.garvey@ing.com)

**James Knightley**

Chief International Economist, US

[james.knightley@ing.com](mailto:james.knightley@ing.com)

**Tim Condon**

Asia Chief Economist

+65 6232-6020

**Martin van Vliet**

Senior Interest Rate Strategist

+31 20 563 8801

[martin.van.vliet@ing.com](mailto:martin.van.vliet@ing.com)

**Karol Pogorzelski**

Senior Economist, Poland

[Karol.Pogorzelski@ing.pl](mailto:Karol.Pogorzelski@ing.pl)

**Carsten Brzeski**

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

**Viraj Patel**

Foreign Exchange Strategist

+44 20 7767 6405

[viraj.patel@ing.com](mailto:viraj.patel@ing.com)

**Owen Thomas**

Global Head of Editorial Content

+44 (0) 207 767 5331

[owen.thomas@ing.com](mailto:owen.thomas@ing.com)

**Bert Colijn**

Chief Economist, Netherlands

[bert.colijn@ing.com](mailto:bert.colijn@ing.com)

**Peter Vanden Houte**

Chief Economist, Belgium, Luxembourg, Eurozone

[peter.vandenhoute@ing.com](mailto:peter.vandenhoute@ing.com)

**Benjamin Schroeder**

Senior Rates Strategist

[benjamin.schroeder@ing.com](mailto:benjamin.schroeder@ing.com)

**Chris Turner**

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@ing.com)

**Gustavo Rangel**

Chief Economist, LATAM

+1 646 424 6464

[gustavo.rangel@ing.com](mailto:gustavo.rangel@ing.com)

**Carlo Cocuzzo**

Economist, Digital Finance

+44 20 7767 5306

[carlo.cocuzzo@ing.com](mailto:carlo.cocuzzo@ing.com)