

Thailand

5 April 2024

Incoming Data Will Support A More Patient BOT Stance

- Although headline inflation remained negative for the sixth consecutive month in March, it narrowed to -0.5% YoY versus -0.8% in February. We revise lower our 2024 average headline inflation forecast to 1.2% YoY from 2% previously.
- The activity data for January and February supports our view of modestly improving GDP growth in 1Q24.
- This suggests that the Bank of Thailand (BOT) has time to deliver on rate cuts. We continue to expect the first 25bp rate cut to be in June rather than in April.

Lavanya Venkateswaran
Senior ASEAN Economist
+65 6530 6875
lavanyavenkateswaran@ocbc.com

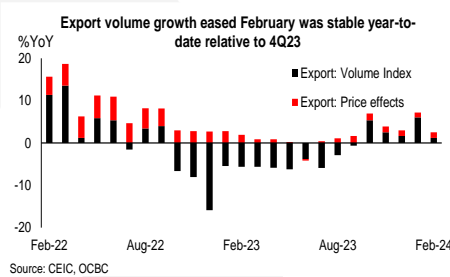
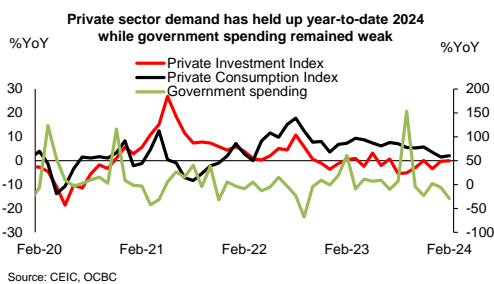
Jonathan Ng
ASEAN Economist
+65 6530 1778
JonathanNg4@ocbc.com

Although headline inflation remained negative for the sixth consecutive month in March, it narrowed to -0.5% YoY versus -0.8% in February. Core inflation was stable at 0.4% YoY in March, similar to February. The drivers of inflation remained subdued, with food and transportation inflation rising modestly.

Drivers of inflation, %YoY	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24
Headline CPI	0.3	-0.3	-0.4	-0.8	-1.1	-0.8	-0.5
Food & Non Alcoholic Beverages	-0.1	-0.6	0.2	-0.6	-1.1	-1.0	-0.6
Apparel & Footwears	0.3	0.1	0.0	0.0	-0.1	-0.2	-0.1
Housing & Furnishing	-0.7	-0.7	-0.8	-0.7	-0.7	-0.8	-0.9
Medical & Personal Care	1.2	1.3	0.9	0.9	0.9	0.9	0.3
Transport & Communication	1.7	0.0	-1.8	-2.2	-2.5	-1.2	-0.4
Recreation, Reading, Education and Religion	0.6	0.6	0.6	0.7	0.6	0.5	0.5
Tobacco & Alcoholic Beverages	0.6	1.1	1.0	1.0	0.9	1.2	1.4
Core Consumer Price Index	0.6	0.7	0.6	0.6	0.5	0.4	0.4

Source: Ministry of Commerce, CEIC, OCBC

We revise lower our 2024 average headline inflation forecast to 1.2% YoY from 2% previously. This not only reflects the lower-than-expected 1Q24 headline inflation outcome of -0.8% YoY but also government policies to keep the cost of living capped such as potentially extending the diesel price cap of THB30/litre beyond 19 April. Notwithstanding, our forecast is still for higher headline inflation in the coming quarters.



Meanwhile, economic activity remained mixed in February with private sector demand and export growth holding up but government spending remaining a drag. Specifically, the private consumption and private investment indices improved in

February versus January. Government spending remained the weakest link, dropping by 32.4% YoY in February versus -5.1% in January¹. However, the budget FY23-24 bill has passed legislative processes in late March and is awaiting royal endorsement. This implies some fiscal support starting in 2Q24.

Encouragingly, export growth remained supportive in February, albeit moderating to 2.5% YoY versus 7.2% YoY in January partly due to the moving Lunar New Year holidays (in January 2023 and February 2024). Average export volume growth was stable at 3.5% YoY year-to-date versus 3.2% in 4Q23. By contrast, import growth picked up to 3.1% YoY in February versus 1.5% in January, but average import volume growth moderated year-to-date to 4.2% YoY versus 5.3% in 4Q23. As a result, the trade balance flipped to a surplus of USD1.7bn from a deficit of USD1.1bn in January.

Tourism inflows continued to support the external balance. Tourist arrivals increased in February, exceeding 2019 levels, driven by increased tourist arrivals from China, Malaysia, and Japan. This supported the current account balance, which flipped to a surplus of USD2.0bn from a small deficit of USD0.2bn in January.

The latest activity data remains consistent with our 1Q24 GDP growth forecast of 2.5%, an improvement compared to 1.7% in 4Q23. We maintain our 2024 GDP growth forecast of 2.8% YoY versus 1.9% in 2023 driven by better export growth and increased tourism activities.

From a monetary policy standpoint, our base case is for BOT to keep its policy rate unchanged at 2.50% on 10 April given that the latest growth-inflation prints suggest some stabilisation. More importantly, we do not think the BOT will want to front run US Federal Reserve rate cuts, especially given recent THB underperformance relative to regional peers, seasonal dividend repatriation in 2Q and rising global oil prices. Our house view is for the US Federal Reserve to begin cutting its policy rate in June 2024.

Notwithstanding, it is a matter of time before the BOT cuts rates, but we maintain that the rate cutting cycle will be shallow. We expect the first 25bp rate cut in June followed by another 25bp in 3Q24.

¹ According to the BOT, the lower capital expenditure reflects “the delay of the 2024 budget” while lower current expenditure reflects “a high base last year from the advance disbursement of educational agencies together with disbursement related to electricity cost reduction measures as well as tourism stimulus projects”.

Macro Research

Selena Ling
Head of Strategy & Research
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau
Cindyckeung@ocbcwh.com

Herbert Wong
Hong Kong & Macau
HerberhtWong@ocbc.com

Lavanya Venkateswaran
Senior ASEAN Economist
LavanyaVenkateswaran@ocbc.com

Ahmad A Enver
ASEAN Economist
Ahmad.Enver@ocbc.com

Jonathan Ng
ASEAN Economist
JonathanNg4@ocbc.com

Ong Shu Yi
ESG Analyst
ShuyiOng1@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA
Rates Strategist
FrancesCheung@ocbc.com

Christopher Wong
FX Strategist
ChristopherWong@ocbc.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo, CFA
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei, CFA
Credit Research Analyst
WongHongWei@ocbc.com

Chin Meng Tee, CFA
Credit Research Analyst
MengTeeChin@ocbc.com

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products. This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

Co.Reg.no.: 193200032W