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Incoming Data Will Support A More Patient BOT Stance

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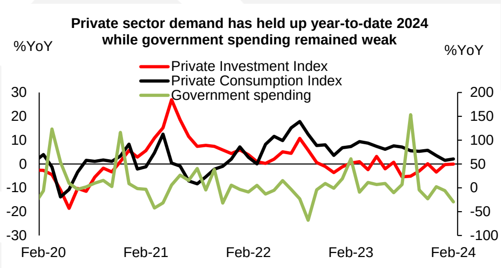
- Although headline inflation remained negative for the sixth consecutive month in March, it narrowed to -0.5% YoY versus -0.8% in February. We revise lower our 2024 average headline inflation forecast to 1.2% YoY from 2% previously.
- The activity data for January and February supports our view of modestly 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.

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.

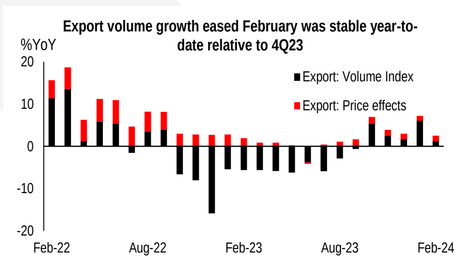
Drivers of inflation, %YoY	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24
Headline CPI	**0.3**	**-0.3**	**-0.4**	**-0.8**	**-1.1**	**-0.8**	**-0.5**
Food & Non Alcoholic Beverages	-0.1	-0.6	0.2	-0.6	-1.1	-1.0	-0.6
Apparel & Footwears	0.3	0.1	0.0	0.0	-0.1	-0.2	-0.1
Housing & Furnishing	-0.7	-0.7	-0.8	-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.



Source: CEIC, OCBC



Source: CEIC, OCBC

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 January[1]. 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".

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