12 June 2024

Global Economics & Market Strategy

Thailand: Policy Rate to Stay Unchanged in 2024

- **We keep our forecast for the Bank of Thailand (BoT) to maintain its benchmark rate at 2.50% for 2024.**
- **Our view is supported by three key factors: (1) inflation pressures are likely to rise as the year progresses, (2) the positive outlook on Thailand's economic growth on the back of a continued recovery in private consumption, and (3) rate cuts are not be a macro prudent move given elevated global inflation.**
- **The Bank of Thailand (BoT) voted 6-1 to keep its benchmark rate at 2.50% in today's MPC meeting, extending its pause for the fourth straight meeting. This aligns with our and the market's outlook for BoT to leave policy unchanged.**

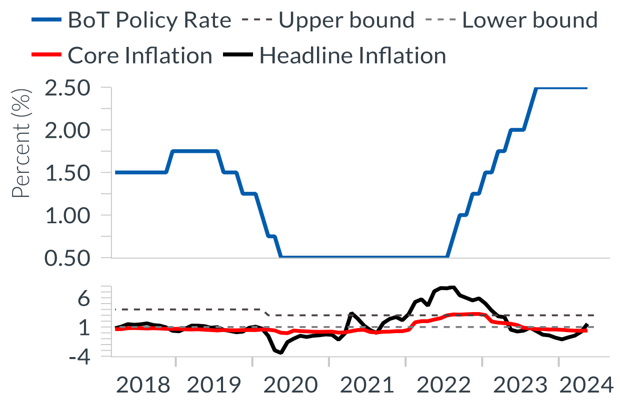
Acting Group Chief Economist & Head, Market Research

Barnabas Gan
+65 6320 0804
barnabas.gan@rhbgroup.com

Associate Research Analyst

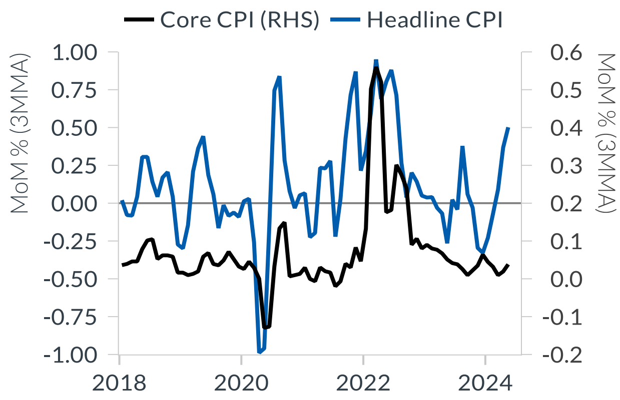
Laalitha Raveenthar
+603 9280 2165
laalitha.raveenthar@rhbgroup.com

Figure 1: Thailand's headline inflation is still soft and remains within the official guidance



Source: Macrobond, RHB Economics & Market Strategy

Figure 2: Headline & Core inflation continued to expand in May and may continue to do so in the upcoming quarters



Source: Macrobond, RHB Economics & Market Strategy

We See No Rate Cuts throughout the Year

We keep our forecast for the Bank of Thailand (BoT) to maintain its benchmark rate at 2.50% in 2024. We view the current benchmark rate as neutral and appropriate in ensuring price stability and supporting long-term sustainable growth. The Monetary Policy Committee (MPC) of Thailand viewed that the current policy rate is at an appropriate level for maintaining the macroeconomic and financial stability in the country. The rate is suitable to maintain the central bank's policy space in coping with future uncertainties.

Our view is supported by three key factors: (1) inflation pressures are likely to rise as the year progresses, (2) the positive outlook on Thailand's economic growth on the back of a continued recovery in private consumption, and (3) rate cuts are not be a macro prudent move given elevated global inflation.

We anticipate Thailand's headline inflation to expand at 1.0% YoY and core inflation to grow by 0.7% YoY in 2024. Thailand's CPI is expected to gradually increase momentum throughout 2024, with the expectations of higher global food and oil prices on the horizon. Our global inflation models, which closely track global crude oil, metals and food prices, suggest that commodity prices will support global import and producer prices, which may elevate the domestic prices of ASEAN's import-reliant economies.

Thailand's headline CPI jumped to 1.54% YoY in May, up from 0.19% YoY in the previous month and expanded more than market forecasts of 1.19% YoY. This rise was primarily due to a low base effect from last year's electricity tariff and surging food prices. It was the first time since April 2023 that inflation fell within the Bank of Thailand's target range of 1%-3%. With inflation returning to the target range earlier than expected, rather than at the end of 2024, and supply-side disruptions along with geopolitical tensions, coupled with the present rise in energy prices throughout the year. Consequently, we see no incentives for BOT to cut interest rate this year.

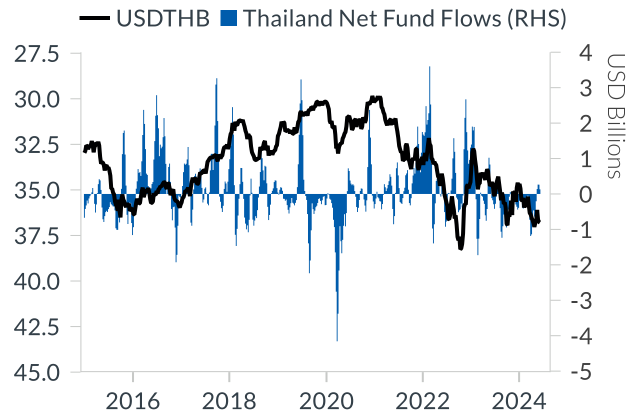
We still keep our optimistic view on private consumption to continue recover in the upcoming quarters ahead, thus making it a dominant contributor to overall growth. Private consumption stayed solid at 6.9% in 1Q24 versus (7.4% in 4Q23) potentially could be supported by firm tourism that might boost the services sector. Moreover, we expect tourism arrivals to return to pre-COVID level in 2024, further contributing to demand-pull inflation. The recovering tourism levels are expected to lift Thailand's consumption and wages in 2024. The global external economic environment has remained resilient year-to-date, in line with our above-consensus US (2.5%) and China (5.0%) GDP growth forecasts for 2024. We keep our positive view on China's economy, quoted in the previous thematic paper, which suggests primarily that ASEAN-6 inbound tourism demand from China will pick up in 2024.

Furthermore, lower interest rates will reduce the return on investments in Thailand, making it less attractive to investors and dampening capital formation. The decrease in demand for THB may depress THB strength, and may translate into softer investor confidence in the year ahead. A consistent policy rate reduces uncertainty, making the Thai baht more predictable and less susceptible to sharp fluctuations. This stability supports the competitiveness of Thai exports and prevents sudden capital outflows that could devalue the currency.

We keep our base case view for the US FFR to see a cut only in December 2024, with the balance of risks tilted towards no cuts for the year. Recent FOMC minutes suggest some subtle calls for FFR hikes, given the lack of confidence for inflation to move towards the Fed's 2.0% objective. A higher US FFR can lead to capital outflows from Thailand as investors seek better returns in the US, potentially depreciating the Thai baht. We expect that global inflation will likely persist in 3Q24 and China's recovery will help base metal prices, while poor harvesting conditions will support food prices. ASEAN (especially Malaysia, Indonesia, and Thailand) rates will stay in tune with the US FFR and potentially stay where they are at current levels until we see further clarity on FFR moves.

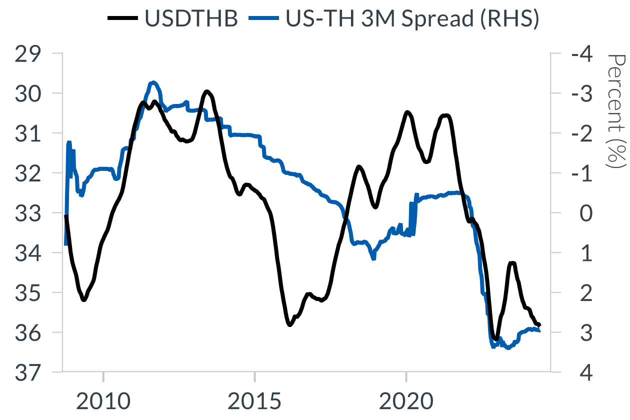
The Bank of Thailand (BoT) voted 6-1 to keep its benchmark rate at 2.50% in today's MPC meeting, extending its pause for the fourth straight meeting. This aligns with our and the market's outlook for BoT to leave policy unchanged. Most committee members deem that the policy rate remains consistent with the improving growth and inflation outlook while fostering macro-financial stability in the longer term. The Thai economy is projected to expand by 2.6% in 2024 and 3% in 2025. This year's growth is driven by stronger-than-expected domestic demand in the first quarter, continued recovery in tourism, and acceleration in government disbursement during the second quarter. We perceive the current rate in neutral gear and is appropriate given upside inflation risks on the back of high commodity prices and global demand-pull price pressures.

Figure 3: THB remains pressured by fund outflows in 2023...



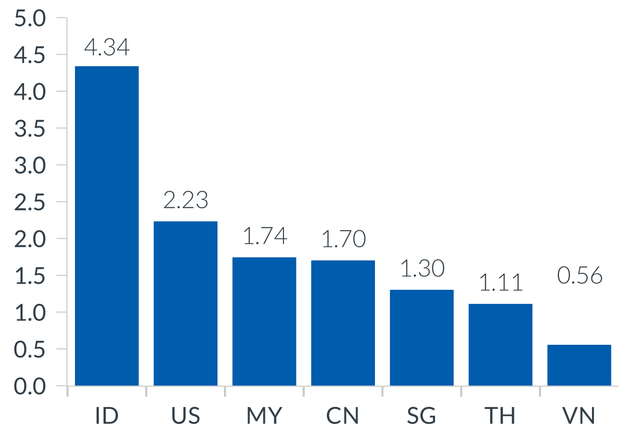
Source: Macrobond, RHB Economics & Market Strategy

Figure 4: ... although a narrower carry may be seen in 2024, which might support THB strength...



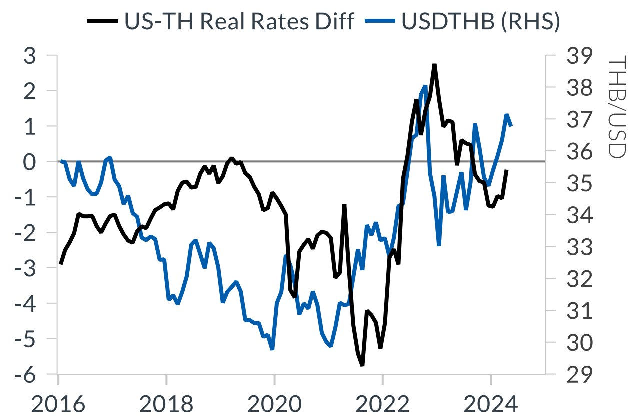
Source: Macrobond, RHB Economics & Market Strategy

Figure 5: Thailand is seeing decreasing real rates against its peers



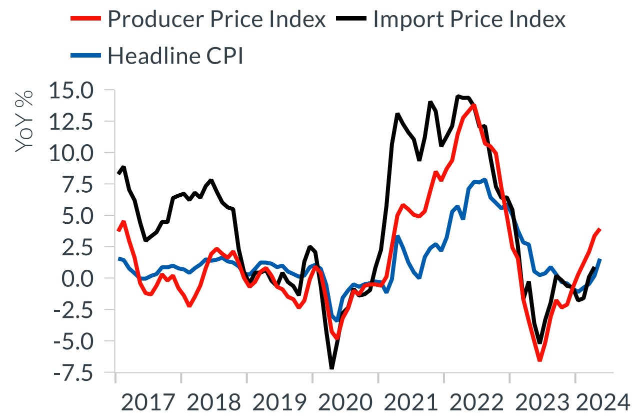
Source: Macrobond, RHB Economics & Market Strategy

Figure 6: THB has been weakening against the USD



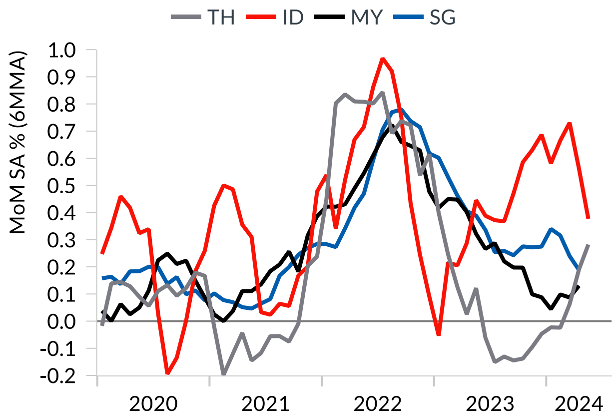
Source: Macrobond, RHB Economics & Market Strategy

Figure 7: Note a solid rebound in key price indices, suggesting a higher inflation climate in Thailand



Source: Macrobond, RHB Economics & Market Strategy

Figure 8: Food inflation is on the rise, which means supply conditions may eventually lift consumer prices



Source: Macrobond, RHB Economics & Market Strategy

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KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799