

Thursday, 10 March 2011

# Flash Notes

## Thailand: Policy Rate Increased 25 bps To 2.50%

Bank of Thailand raised its 1 day repo rate by 25 bps to 2.50%, as largely expected by the market. With inflation now on the uptrend in Thailand and much of Asia, owing to higher commodity and oil price, the policy rates should continue to be hiked in the coming months. The latest core CPI numbers in Feb went up to 1.45% from 1.32% in Jan, the highest in nearly 2 years, even though headline inflation dipped to 2.9%, from 3.0% in Jan.

Besides externally-driven supply factors, domestic demand is also driving inflation higher, stemming from private consumption, which grew 3.8% in 4Q, and continuing to improve. Private investment should also continue to expand. Overall, the Thai economy should grow at a sustainable albeit lower rate this year, at around 4.0% or higher this year, which would indicate strong domestic pressure.

The BoT seemed positive on external demand, stating that US, Europe and the Asian economies are continuing to improve, which would indicate that Thai exports will moderate but not excessively this year. The Thai central bank also noted that the current unrest in the Middle East and the resultant spike in oil price would not have a significant impact on the global recovery unless the political upheaval spreads.

Given these factors, we are projecting higher CPI inflation numbers for this year. We see CPI going up to around 3.7% for the whole of 2011. We are projecting the BoT to raise rates steadily, and not by a large magnitude, as external concerns still remain in the form of the Middle East unrest as well as Europe's persisting debt problems which could destabilize global recovery. We are now expecting rates to reach 3.25% by end 2011, from our earlier forecast of 3.0% .

The expected rate hikes should result in more inflows into the THB and lift the local currency. Coupled with the strong economy, we're looking at the THB strengthening against the USD. We are maintaining our USD/THB forecasts at around 28.10 by end-2011.

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