

Economic Review

Annual inflation below forecast

- ▶ Commerce Ministry reported that the Consumer Price Index (CPI) for December was 106.65, a 0.50% decrease from November and a 0.60% increase YoY.
- ▶ Core CPI was 105.39, increasing 0.18% from November, and 1.69% YoY.
- ▶ For FY14, CPI inflation was 1.89%, versus a forecast of 2.00-2.80%, while core inflation was 1.59%.
- ▶ Commerce Ministry forecasts FY15 CPI inflation to range between 1.8-2.5%.

Strengthening disinflation

CPI was 106.65 for December, increasing 0.60% YoY, but down 0.50% from November's 107.19. The YoY change marked a new five-year low following November's 1.26% figure and December's disinflation continued the trend of headline inflation decreasing every month since May's 2.62%. The drop in CPI inflation from November to December was considerably larger than that between October and November.

The headline CPI undershot expectations – with The Wall Street Journal poll of economists yielding a median forecast of 1.075% YoY increase and a 0.16% contraction MoM.

The Commerce Ministry attributed the CPI slowdown largely to falling retail prices of fuel, which have moved downwards in line with plunging global oil prices and the consequent adjustment in government policy. Other commodities whose prices dropped were a large number of fresh food from eggs to pork and poultry, as well as fruits and vegetables. Rent, and taxi fares adjusted up, the former due to the usual seasonal adjustment and the latter due to new laws coming into place.

The index for food rose by 3.16% YoY while non-food prices fell by 0.74%. Energy prices moved down by 7.4% YoY, versus a drop of just 2.0% in November.

Comment: Over the past month oil persisted in its downwards trend, continuing to reach a new five-year low – with Brent hovering over US\$50 and WTI trading well below that level. On 21 Dec, Saudi Arabia's oil minister stated the country will not cut output while on 7 Jan, UAE Energy Minister said positive correction of oversupply during 2015 would require "rational action" by non-OPEC members.

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Such comments highlight the increasing likelihood of oil falling further still, before settling at just above US\$40 – the estimated cost of US shale producers.

In line with this, the Commerce Minister has said it expects further disinflation due to the persistent downward trend in global oil prices, and will revise its 2015 projection down from 1.8-2.5%.

Continued strengthening in core inflation

Core CPI was 105.39, increasing 0.18% from November, and 1.69% YoY. The core CPI overshot expectations, with the Reuters poll predicting a 1.56% increase YoY, and 0.04% MoM.

After three straight months of core disinflation December saw core inflation speeding up again, while CPI inflation continued to fall, and at a faster pace.

Comment: *With government budget disbursement and GDP growth falling behind schedule, the policy question seems to no longer be whether the Bank of Thailand (BOT) will raise the base rate soon, but whether it will lower the rate further. At the 17 Dec meeting, the MPC voted 5-2 to maintain rates, but this is a notable shift from the prior meeting where only one member voted for further easing of rates. While rates will likely not be lowered at the next meeting on 28 Jan, the meeting will be particularly interesting to see the potential signs of further shift away from the status quo where the benchmark 1-day repurchase rate is currently at 2.0%.*

The BOT is looking to switch from targeting core inflation (current target range 0.5-3.0%) to targeting headline inflation. The implication would likely be greater volatility in CPI inflation, translating to greater policy volatility over the long run, but over the short run this could expand the BOT's policy space – as core inflation is demonstrating more resilience than headline. That headline inflation has undershot expectations while core inflation has exceeded them, reflects the unexpected drag from energy prices. To the extent that this downside risk remains, the BOT would have greater room for accommodative policy once it switches its inflation target.

In any case, the recent spate of underperforming US data released in December, reflecting weaknesses in industries ranging from construction to manufacturing, as well as services, make any 1Q15 tightening by the Fed very unlikely. This was reinforced by the minutes released by the Fed on 7 Jan detailing how Fed officials think a rate rise before April is “unlikely”. In terms of Europe, a full-blown QE has gone from a possibility to a near-certainty – especially following December's 0.2% YoY price contraction. The immediate result – expected and actual depreciation of

the euro – would serve as additional reason for the BOT to maintain or even lower rates so as to maintain the competitiveness of Thai exports into Europe.

In light of all of this, we expect that rates would be on hold during 1Q15, and would likely be lowered by 25bps in 2Q15.

Table 1: Inflation patterns

2014 Inflation	Jun	Jul	Aug	Sep	Oct
Headline inflation	2.35	2.16	2.09	1.75	1.48
Core inflation	1.71	1.81	1.83	1.73	1.67

Source: Bank of Thailand

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (IOD) in 2013.



ADVANC	BTS	GRAMMY	MCOT	PTT	SC	SSI	TMB
AOT	CIMBT	HANA	MINT	PTTEP	SCB	SSSC	TNITY
ASIMAR	CK	HEMRAJ	NKI	PTTGC	SCC	SVI	TOP
BAFS	CPF	ICC	NOBLE	QH	SCSMG	SYMC	TRC
BANPU	CPN	INTUCH	PAP	RATCH	SE-ED	TCAP	TRUE
BAY	CSL	IRPC	PG	ROBINS	SIM	THAI	TTW
BBL	DRT	IVL	PHOL	RS	SIS	THCOM	TVO
BCP	DTAC	KBANK	PR	S&J	SITHAI	THRE	UV
BECL	EASTW	KKP	PRANDA	SAMART	SNC	TIP	VGI
BKI	EGCO	KTB	PS	SAMTEL	SPALI	TISCO	WACOAL
BROOK	ERW	LPN	PSL	SAT	SPI	TKT	



2S	ASP	CHOW	GBX	JUBILE	LRH	NMG	PPP	SINGER	TCP	TOG	UAC
ACAP	AYUD	CM	GC	KBS	LST	NSI	PREB	SIRI	TF	TPC	UMI
AF	BEC	CNT	GFPT	KCE	MACO	NWR	PRG	SKR	TFD	TPCORP	UMS
AHC	BFIT	CPALL	GL	KGI	MAJOR	OCC	PT	SMT	TFI	TPIPL	UP
AIT	BH	CSC	GLOW	KKC	MAKRO	OFM	PYLON	SNP	THANA	TRT	UPOIC
AKP	BIGC	DCC	GOLD	KSL	MBK	OGC	QTC	SPCG	THANI	TRU	UT
AMANAH	BJC	DELTA	GSTEL	KWC	MBKET	OISHI	RASA	SPPT	THIP	TSC	VIBHA
AMARIN	BLA	DTC	GUNKUL	L&E	MFC	PB	SABINA	SSF	TICON	TSTE	VIH
AMATA	BMCL	ECL	HMPRO	LANNA	MFEC	PDI	SAMCO	STANLY	TIPCO	TSTH	VNG
AP	BWG	EE	HTC	LH	MODERN	PE	SCCC	STEC	TK	TTA	VNT
APCO	CCET	EIC	IFEC	LHBANK	MTI	PF	SCG	SUC	TLUXE	TTCL	YUASA
APCS	CENTEL	ESSO	INET	LHK	NBC	PJW	SEAFCO	SUSCO	TMILL	TUF	ZMICO
ASIA	CFRESH	FE	ITD	LIVE	NCH	PM	SFP	SYNTEC	TMT	TWFP	
ASK	CGS	FORTH	JAS	LOXLEY	NINE	PPM	SIAM	TASCO	TNL	TYM	



A	ASIA	CITY	EASON	HTECH	KASET	MJD	PL	SF	SVOA	TMI	UOBKH
AAV	BAT-3K	CMR	EMC	HYDRO	KC	MK	POST	SGP	SWC	TNDT	UPF
AEC	BCH	CNS	EPCO	IFS	KCAR	MOONG	PRECHA	SIMAT	SYNEX	TNPC	UWC
AEONTS	BEAUTY	CPL	F&D	IHL	KDH	MPIC	PRIN	SLC	TBSP	TOPP	VARO
AFC	BGT	CRANE	FNS	ILING	KTC	MSC	Q-CON	SMIT	TCCC	TPAC	VTE
AGE	BLAND	CSP	FOCUS	INOX	KWH	NC	QLT	SMK	TEAM	TPP	WAVE
AH	BOL	CSR	FPI	IRC	LALIN	NIPPON	RCI	SOLAR	TGCI	TR	WG
AI	BROCK	CTW	FSS	IRCP	LEE	NNCL	RCL	SPC	TIC	TTI	WIN
AJ	BSBM	DEMCO	GENCO	IT	MATCH	NTV	ROJNA	SPG	TIES	TVD	WORK
AKR	CHARAN	DNA	GFM	JMART	MATI	OSK	RPC	SRICHA	TIW	TVI	
ALUCON	CHUO	DRACO	GJS	JMT	MBAX	PAE	SCBLIF	SSC	TKS	TWZ	
ANAN	CI	EA	GLOBAL	JTS	MDX	PATO	SCP	STA	TMC	UBIS	
ARIP	CIG	EARTH	HFT	JUTHA	PRINC	PICO	SENA	SUPER	TMD	UEC	

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80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 59		Pass
Below 50	No logo given	N/A

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