

## Economic Review

### Annual inflation below forecast

- ▶ Commerce Ministry reported that Consumer Price Index (CPI) for January was 106.02, a 0.59% drop from December 2014, and a 0.41% decrease YoY.
- ▶ Core inflation was 1.64% YoY, rising from 1.58% in December.
- ▶ BOT has switched inflation target from core to headline (2.5+/-1.5%).

### Deflation danger?

CPI was 106.02 in January, decreasing 0.59% from December and 0.41% YoY. The YoY change was both a new five-year low following +0.60% in December and continued the trend of disinflation (falling inflation) where headline CPI has decreased every month since May's 2.62%. Furthermore, data showed this is the first deflation (negative inflation) Thailand experienced since September 2009, when energy prices were also leading the fall.

The fall in CPI, compiled from a basket of 450 goods and services, came about largely because of the falling retail price of fuel, which adjusted down in line with the downward global trend in oil prices. This also led to falling electricity charges. There was also downwards pressure from falling fresh food prices, with fresh vegetables and fruits, poultry and meat, all experiencing price declines. Rent, NGV and taxi fares adjusted up.

**Comment:** *The BOT says the price decline was not broad-based but concentrated in energy-related products.*

*The world's biggest independent oil trader, Vitol Group, said on February 10, 2015, US output is still increasing steadily, making it "very difficult to be sure you've seen the bottom". As such, crude is likely to slip further, or at least very unlikely to recover much ground in 1H15 and headline CPI is likely to remain tepid.*

*The BOT has expressed the view that while inflation is expected to stay negative throughout 1H15, should oil prices pick up in the second half as projected, headline inflation would pick up. As noted by Mathee Supapongse, secretary of the Monetary Policy Committee, the threat of deflation was not particularly worrying as it was brought about by tumbling crude prices, and not from tepid domestic demand.*

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## Core inflation holding steady

Core inflation in Thailand was 1.64%, rising from 1.58% in December. The Commerce Ministry maintained its 2015 inflation forecast of 1.8-2.5%, based on an assumption of global crude prices holding in the range of US\$90-110/barrel.

The Ministry also stated that its forecast assumes GDP growth of 3.5-4.5% and USD/THB 32-35.

**Comment:** *There has emerged a clear divergence in the path of core and non-core inflation. While the latter has experienced disinflation for seven straight months, with increasingly large falls over November-January, core inflation has held steady, and remained between 1.60-1.69% over the past four readings. Indeed, the BOT has said it will likely review its inflation forecast, but it remains committed to the projected core inflation for 2015 of 1.20%.*

*On January 6, 2015, the Cabinet approved the BOT's proposal to switch from targeting core inflation (0.5-3.0%) to targeting headline inflation (2.5+/-1.5%). The switch affords MPC more policy space to lower rate further throughout 1H15.*

*During its meeting on January 28, the MPC voted 5-2 in favor of holding the one-day repurchase rate at 2.0%, with the two dissenting votes calling for a reduction of 25bps. It appears the BOT is, amongst other things, waiting to see the effect of fiscal stimulus, and the widely touted mega infrastructure projects – with MOIs recently being signed with China and Japan. Nonetheless, with government budget disbursement and GDP growth falling behind schedule, there remains pressure on the MPC to accommodate.*

*Globally, however, there are factors to keep the MPC from any trigger-happy monetary accommodation. The fall in the price of oil itself, is of course, a boon to Thai economic growth. US labor market data has shown steady progress towards recovery, with January's 257K new jobs and the upwards revisions of the prior two months' figures capping off the best three month stretch of hiring since 1997. All this makes a Fed rise in the second half of the year considerably likelier, and may give the BOT some cause for caution in lowering rates. In Europe however, QE could hurt Thai Euro-bound exports. In light of all of this, we expect rates to be on hold during 1Q15, with a not inconsiderable possibility the rate would be cut by 25bps in 2Q15.*

Table 1: Inflation Pattern

2014-15 Inflation	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Headline inflation	2.16	2.09	1.75	1.48	1.26	0.60	-0.41
Core inflation	1.81	1.83	1.73	1.67	1.60	1.69	1.64

Source: BOT

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



BAFS	EGCO	IRPC	KTB	PTTEP	SAT	SIM	TOP
BCP	GRAMMY	IVL	MINT	PTTGC	SC	SPALI	
BTS	HANA	KBANK	PSL	SAMART	SCB	TISCO	
CPN	INTUCH	KKP	PTT	SAMTEL	SE-ED	TMB	








AAV	BIGC	DELTA	HMPRO	NBC	PJW	SAMCO	SVI	TOG
ACAP	BKI	DRT	ICC	NCH	PM	SCC	TCAP	TRC
ADVANC	BLA	DTAC	KCE	NINE	PPS	SINGER	TF	TRUE
ANAN	BMCL	DTC	KSL	NKI	PR	SIS	THAI	TSTE
AOT	BROOK	EASTW	LANNA	NMG	PRANDA	SITHAI	THANI	TSTH
ASIMAR	CENTEL	EE	LH	NSI	PS	SNC	THCOM	TTA
ASK	CFRESH	ERW	LHBANK	OCC	PT	SNP	TIP	TTW
ASP	CIMBT	GBX	LOXLEY	OFM	QH	SPI	TIPCO	TVO
BANPU	CK	GC	LPN	PAP	RATCH	SSF	TK	UAC
BAY	CNT	GFPT	MACO	PE	ROBINS	SSI	TKT	VGI
BBL	CPF	GUNKUL	MC	PG	RS	SSSC	TNITY	VNT
BECL	CSL	HEMRAJ	MCOT	PHOL	S&J	STA	TNL	WACOAL



2S	BEAUTY	CSS	IHL	MFEC	PPM	SKR	TBSP	TSC	ZMICO
AF	BEC	DCC	INET	MJD	PPP	SMG	TEAM	TSC	
AH	BFIT	DEMCO	IRC	MODERN	PREB	SMK	TFD	TTCL	
AHC	BH	DNA	IRCP	MONO	PRG	SMPC	TFI	TUF	
AIT	BJC	EA	ITD	MOONG	PRIN	SMT	THANA	TVD	
AJ	BJCHI	ESSO	KBS	MPG	PTG	SOLAR	THIP	TWFP	
AKP	BOL	FE	KGI	MTI	QLT	SPC	THREL	UMI	
AKR	BTNC	FORTH	KKC	NC	QTC	SPCG	TIC	UP	
AMANAH	BWG	FPI	KTC	NTV	RCL	SPPT	TICON	UPF	
AMARIN	CCET	GENCO	L&E	NUSA	SABINA	SST	TIW	UPOIC	
AMATA	CGD	GL	LRH	NWR	SALEE	STANLY	TKS	UT	
AP	CGS	GLOBAL	LST	NYT	SCBLIF	STEC	TLUXE	UV	
APCO	CHOW	GLOW	MAJOR	OGC	SCCC	STPI	TMI	UWC	
APCS	CI	GOLD	MAKRO	OISHI	SCG	SUC	TMT	VIH	
AQUA	CKP	HOTPOT	MATCH	PACE	SEAFCO	SWC	TNDT	WAVE	
ARIP	CM	HTC	MBK	PATO	SEAOIL	SYMC	TPC	WHA	
AS	CMR	HTECH	MBKET	PB	SFP	SYNEX	TPCORP	WIN	
ASIA	CSC	HYDRO	MEGA	PDI	SIAM	SYNTEC	TRT	WINNER	
AYUD	CSP	IFS	MFC	PICO	SIRI	TASCO	TRU	YUASA	

Source: Thai Institute of Directors (IOD)

Score	Range Number of Logo	Description
90 – 100		Excellent
80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 59		Pass
Below 50	No logo given	N/A

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