

krungsri Research

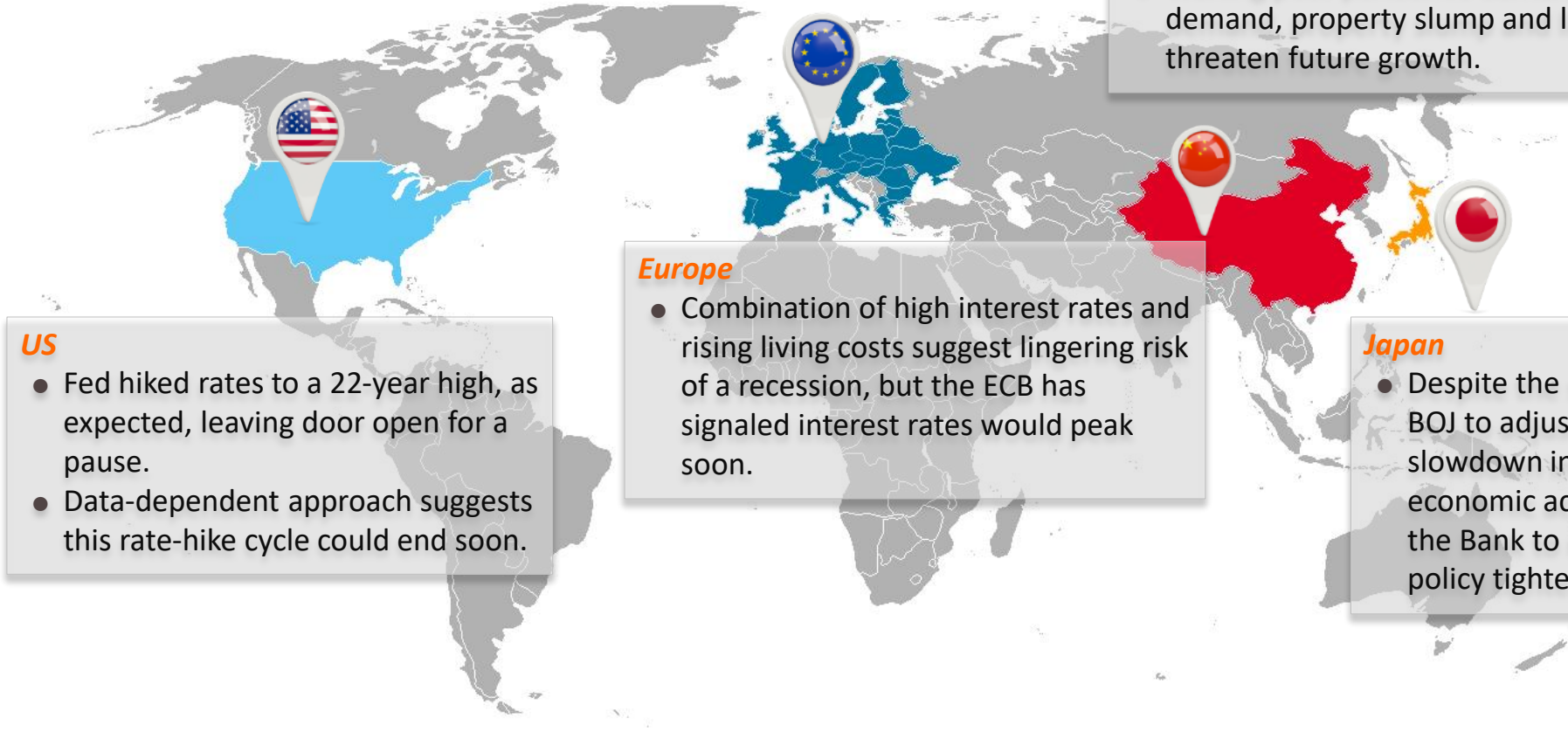
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MONTHLY ECONOMIC BULLETIN

August 2023

Krungsri Research

Global: Rate hike cycle will end soon; restrictive policies will continue to dampen growth



China

- Growth of business activity has decelerated to close to lows seen during early stage of reopening.
- Waning post-pandemic demand, slowing external demand, property slump and limited policy space threaten future growth.

US

- Fed hiked rates to a 22-year high, as expected, leaving door open for a pause.
- Data-dependent approach suggests this rate-hike cycle could end soon.

Europe

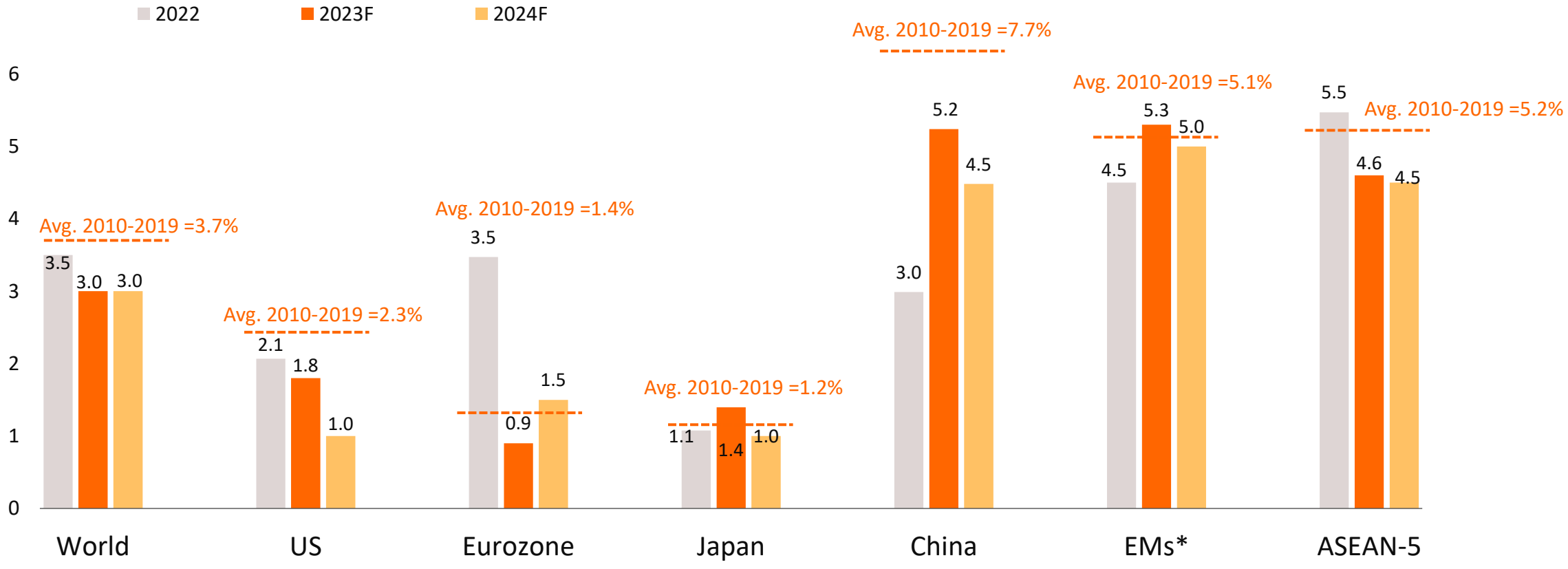
- Combination of high interest rates and rising living costs suggest lingering risk of a recession, but the ECB has signaled interest rates would peak soon.

Japan

- Despite the surprise move by the BOJ to adjust the YCC, a slowdown in inflation and economic activity will convince the Bank to refrain from further policy tightening.

Despite lower risk of recession, global growth would remain weak by historical standards with slowing growth in advanced economies and China

Global Economic Growth Projection by IMF (%)

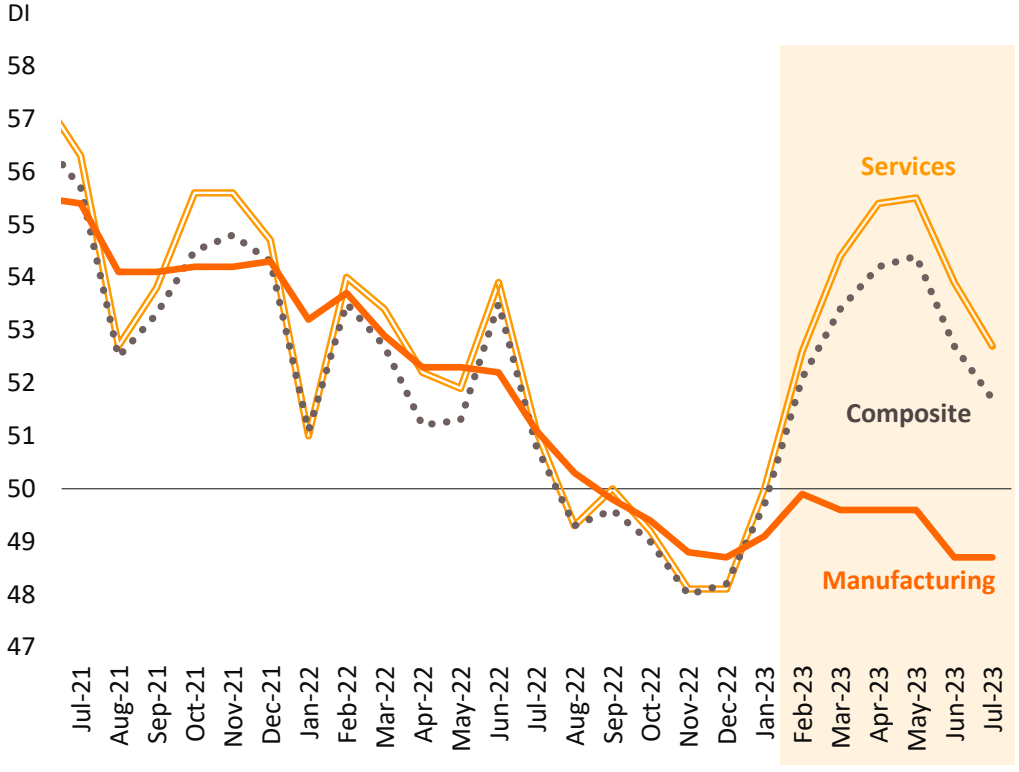


Note: EMs represents Emerging and Developing Asia
Source: IMF (World Economic Outlook, July 2023), Krungsri Research

Global growth is weakest since February, with a further contraction in manufacturing activity and slower growth in the services sector; Rate-hike expectation is lowest in 2 years

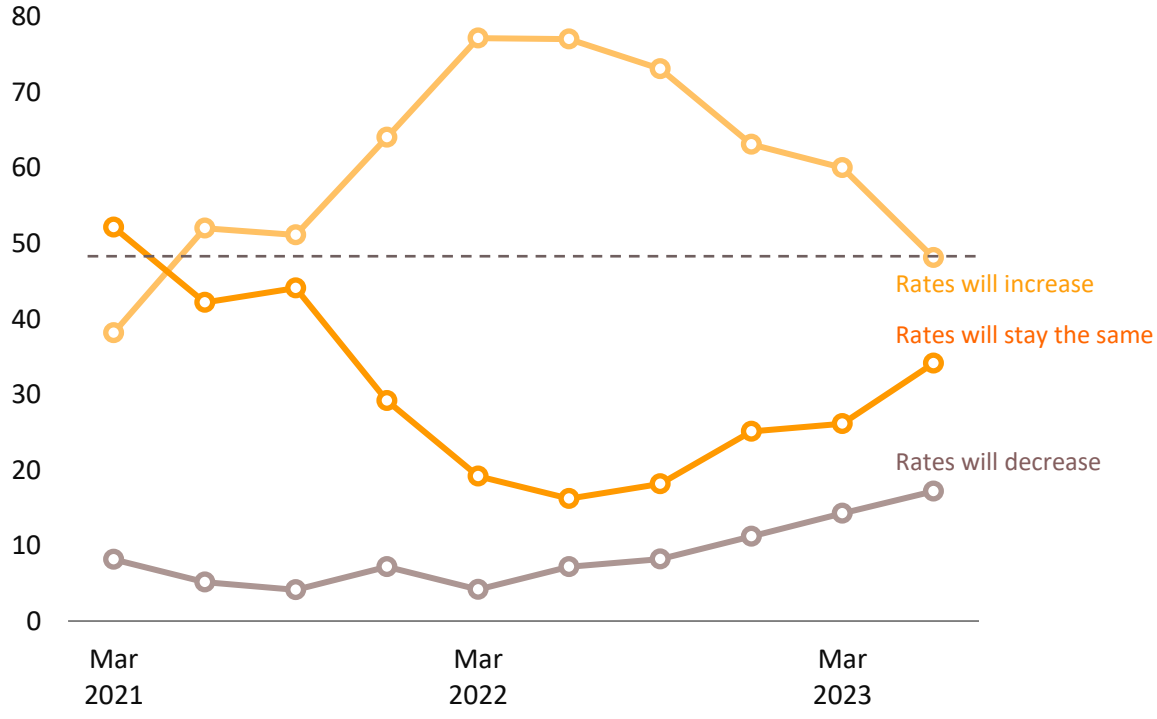
Global PMI

- In July, there was a noticeable slowdown in the services sector, which had been a major driver of economic growth worldwide. Services PMI data has dropped to a 5-month low in the US, 6-month low in Eurozone, and 4-month low in Japan.
- Global Manufacturing PMI fell below 50-level for the 11th consecutive month, reflecting a further contraction in manufacturing activity.



Predicted change in interest rates in the next 6 months, % of respondents

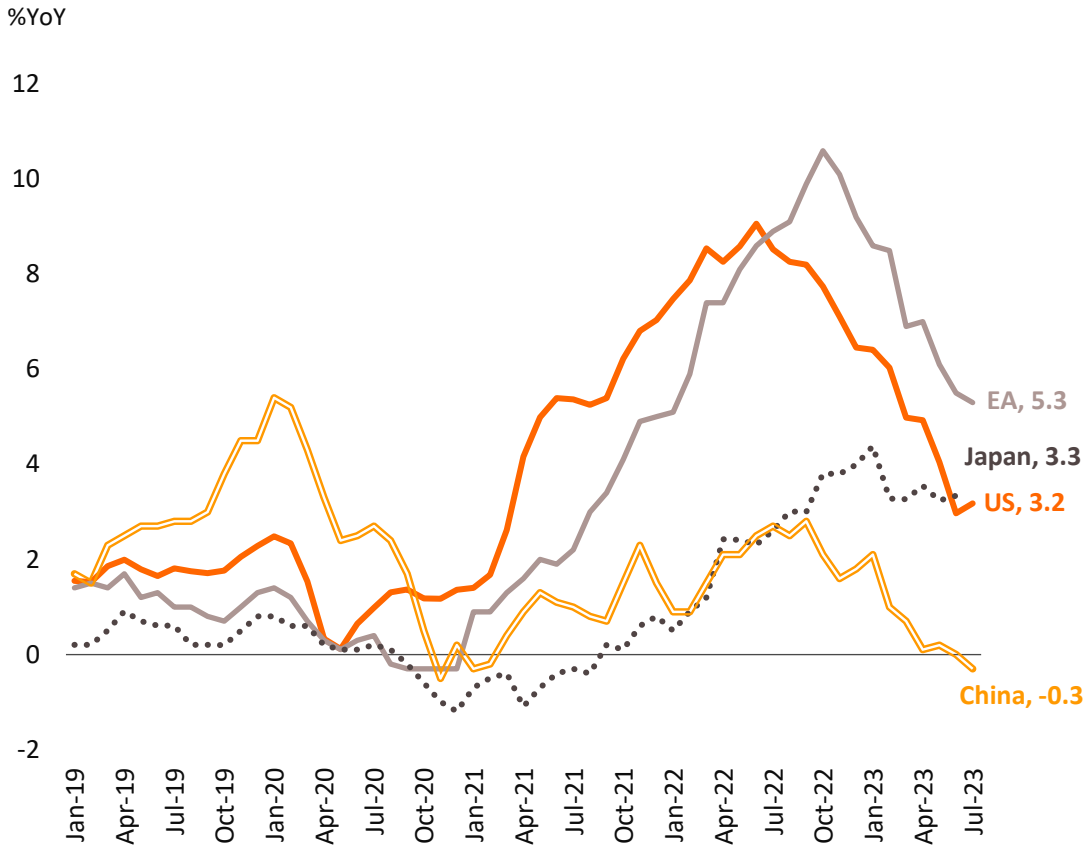
- The smallest share of respondents in two years believe interest rates will continue to rise in their respective countries, according to McKinsey's survey.
- For the first time since June 2021, less than half of respondents believe interest rates will rise in the coming months in their home countries.



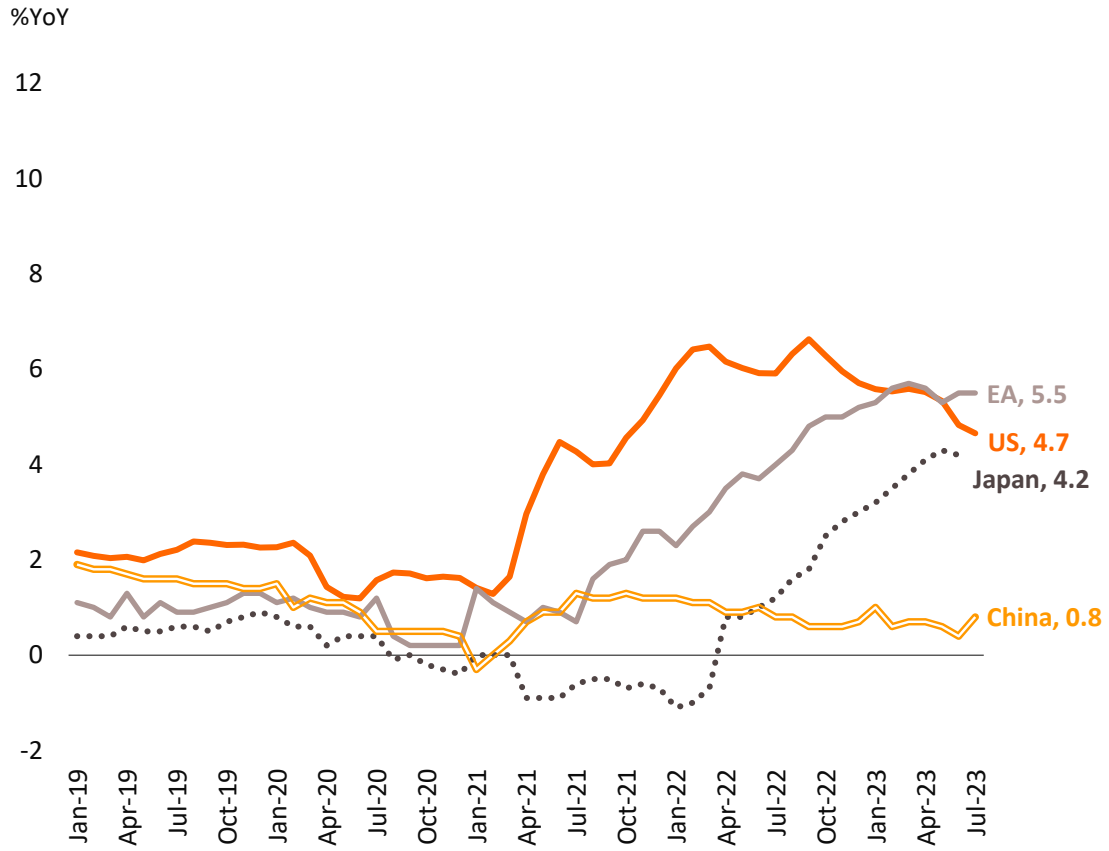
Source: S&P Global, Markit Economics, McKinsey, CEIC, Krungsri Research

Headline inflation is softening in key countries with deflation concerns in China; core inflation remains high in advanced countries, suggesting their still-restrictive policies to continue

Inflation in major countries



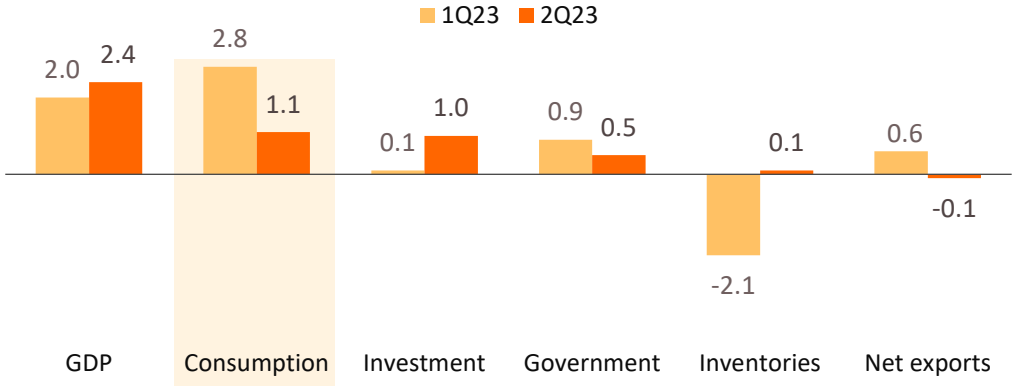
Core inflation in major countries



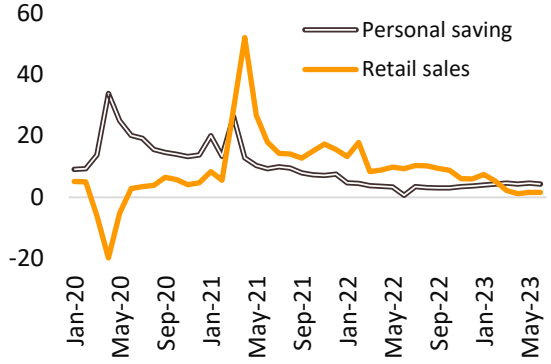
Source: CEIC, Krungsri Research

US: Fed has hiked rates to a 22-year high, as expected, leaving door open for a pause; data-dependent approach suggests the current rate-hike cycle would end soon

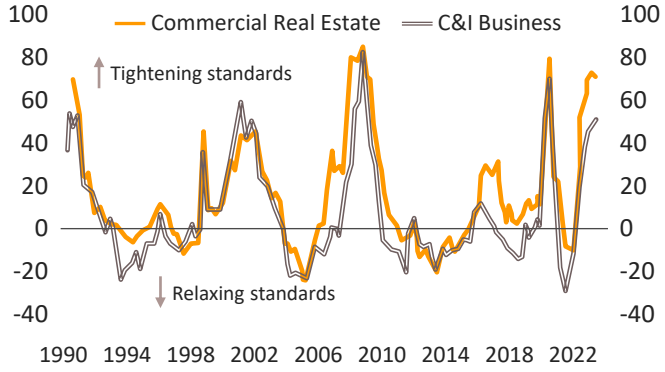
Weaker consumption despite higher GDP growth: 2Q23 GDP and contribution to GDP growth



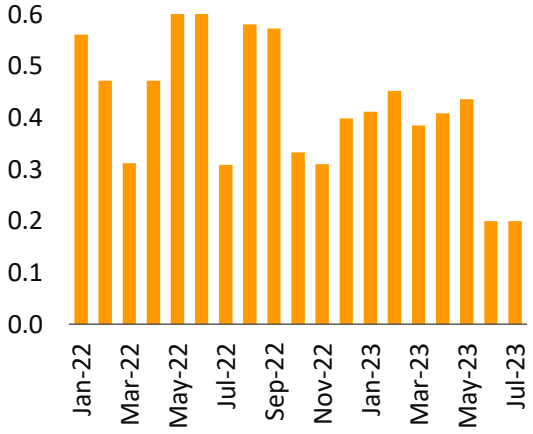
Retail sales (%YoY) and Personal Savings (% of disposal income)



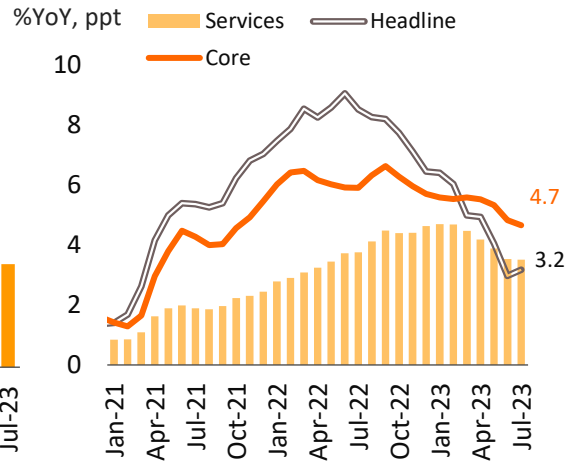
Net % of Banks Tightening Lending Standards



Core CPI (%MoM)



Headline and core CPI (%YoY)



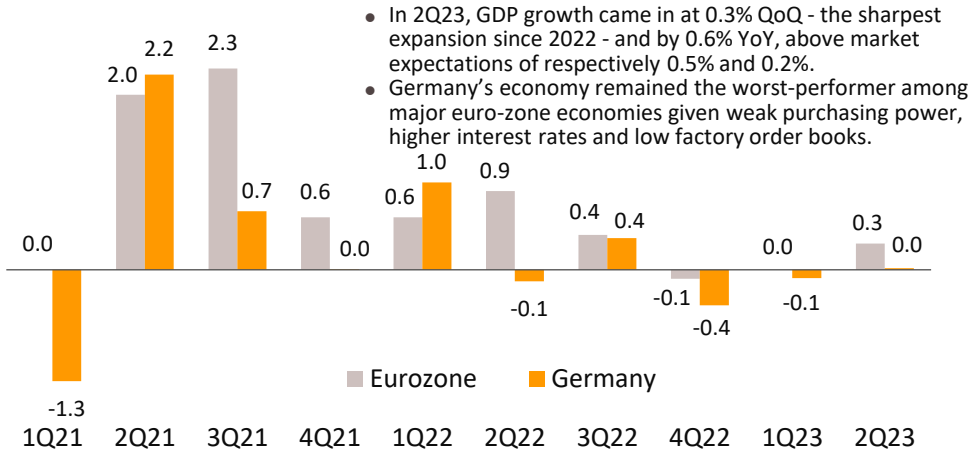
Source: Bureau of Labor Statistics (BLS), Federal Reserve, Capital Economics, CEIC, Bloomberg, Krungsri Research

Krungsri Research's view

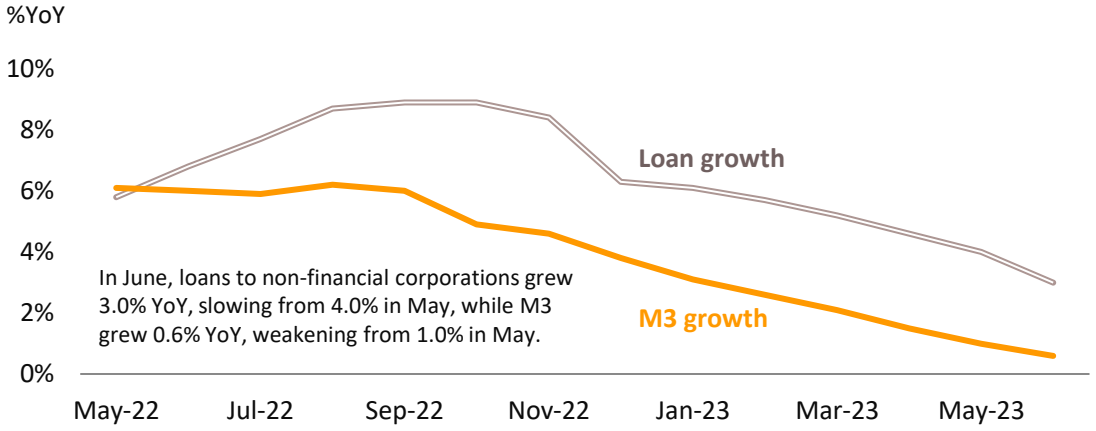
- **The US Fed has raised rates by 25bps to a 22-year high of 5.25-5.50%.** But at the same time, the Fed has changed its outlook from a 'likely recession' to a 'noticeable slowdown'. The Fed is adopting a data-dependent approach for future rate decision.
- **This is likely to be the last hike in the current cycle, for the following reasons:**
  - I. **Signs of easing growth momentum:** In 2Q23, **growth in consumer spending** -- 68% share of economic activity – decelerated to +1.6% from +4.2% in 1Q23, with less contribution to GDP growth (+1.1% vs +2.8%). Consumer spending could suffer from higher borrowing costs and **depletion in excess savings** (built up during pandemic-aid program). **July Composite PMI, which tracks manufacturing and services sectors,** is at its weakest since February. **Leading Economic Index (LEI)** for June dropped to the lowest reading since July 2020 and fell for the 15th straight month, the longest streak since 2009.
  - II. **Unusually tight credit standards:** Tightening indicator for business C&I loans hit a new cyclical high with a significant new percentage still tightening lending standards for credit cards, auto loans and other type of consumer loans.
  - III. **(iii) Dissipating inflationary pressure:** Core consumer price index rose 0.2% MoM in July, marking the smallest rise in more than 2 years for a second straight month. Core inflation softened to 4.7% YoY, the slowest since October 2021. That suggests current Fed Funds rate at 5.25-5.50% is restrictive.
- **With inflation still above the 2% target, we expect policy rates to remain elevated but unchanged through to mid-2024, to keep inflation in check.**

Eurozone: Combination of high interest rates and rising living costs suggest lingering recession risk, but ECB has signaled interest rates would peak soon

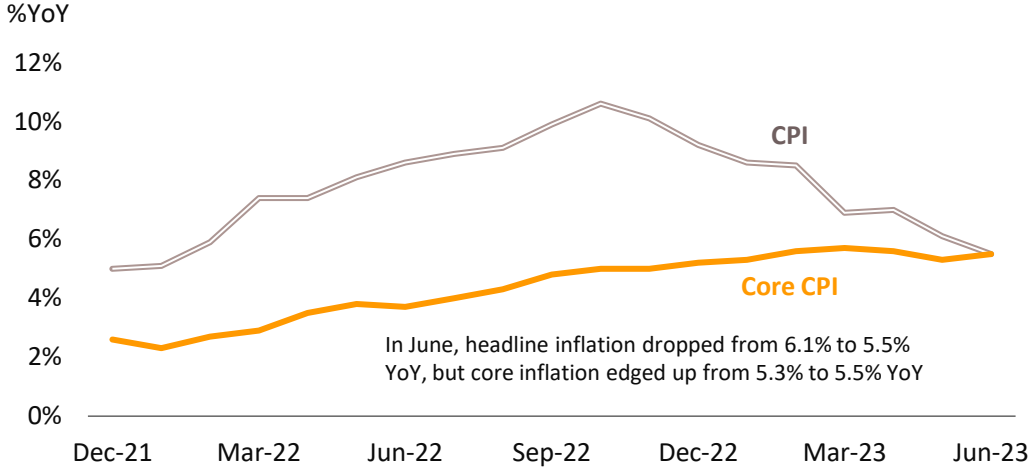
GDP Growth Rate (%QoQ)



Euro-zone Money Aggregate (M3) & Loan Growth



Euro-zone CPI Growth



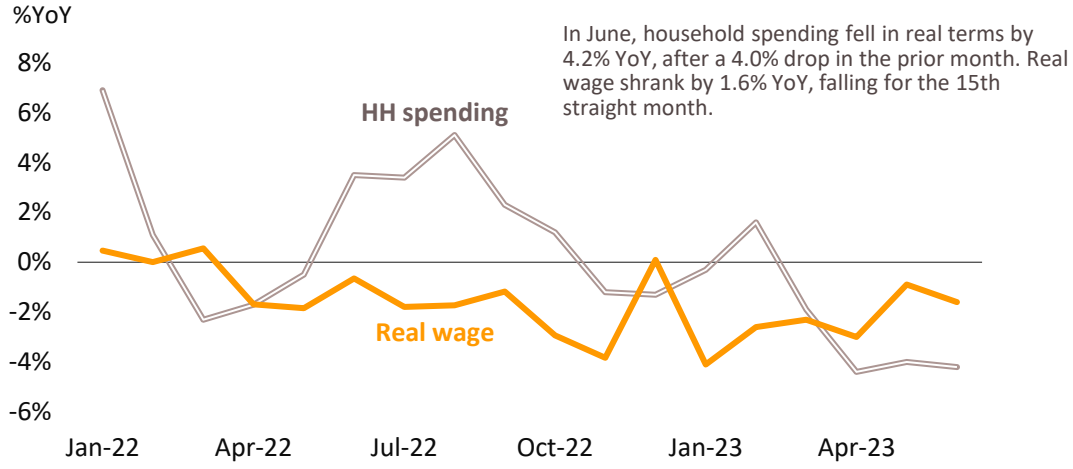
Source: ECB, CEIC, BLS, investing.com, Eurostat, Bloomberg, Krungsri Research

Krungsri Research's view

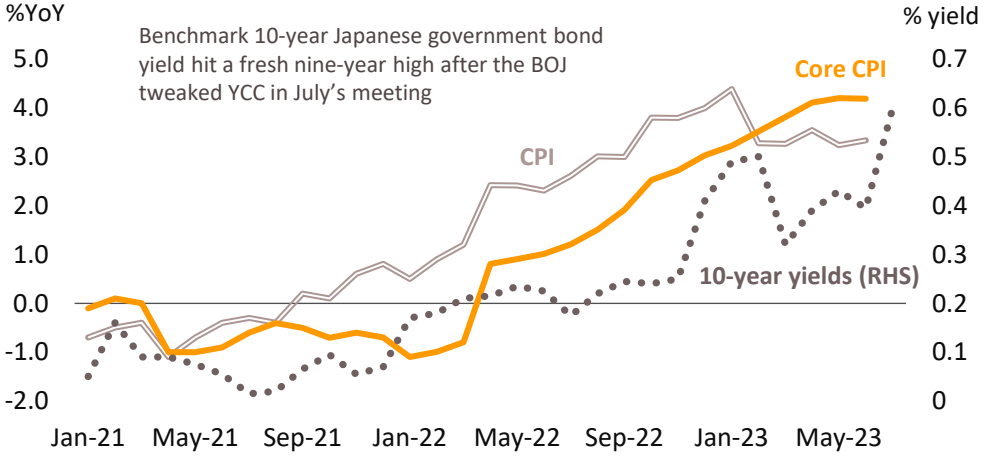
- The Eurozone economy surprisingly dodged a recession in Q2 thanks to surprise growth in France (+0.5% QoQ) and Ireland (+3.3% QoQ). **However, both data were distorted by one-off factors that gave the impression of economic strength**: (i) delivery of a cruise ship which accounted for nearly all contribution to France's Q2 GDP growth, (ii) volatile data in Ireland. **Excluding these, Eurozone GDP growth would be less than 0.1%**. **Germany was the worst-performer among major eurozone economies,** stagnating at zero growth in Q2, dragged by weak purchasing power, higher interest rates, and low factory order books.
- **There is still risk of a recession in the second half of this year**. Eurozone PMI data for July reveal business activity had contracted the most since November last year. Meanwhile, higher interest rates will continue to tighten financial conditions, which would lead to weaker economic activity ahead, reflected by: (i) slowdown in money liquidity and lending growth, (ii) third straight month of decline in ZEW Economic Sentiment Index, (iii) slower housing market activity, and (iv) retail sales falling for the ninth consecutive month. **Nevertheless, normalized energy costs and tight labour market conditions are expected to mitigate the downside risks**.
- Slower inflation in July suggests the energy crisis in Europe is easing but also indicates domestic demand could weaken given broader-base stalling of economic activities. Core inflation remained stubbornly high in July and is way off the 2% target due to tight labour market conditions with wage growth pressure. Hence, there easing pressure in the second half of the year **as the tighter monetary policy would dampen the labour market in the next phase**.
- Against this backdrop, inflation staying above the 2% target with **the overall weak Eurozone economy could encourage the ECB to raise rates once more this year, to hike deposit facility rate by 25bps to 4% and hold rate at that level** through to mid-2024.

Japan: Despite surprise move by BOJ to adjust YCC, slowing inflation and economic activity will convince the BoJ to refrain from further policy tightening

Japan Household Spending & Real Wage Growth

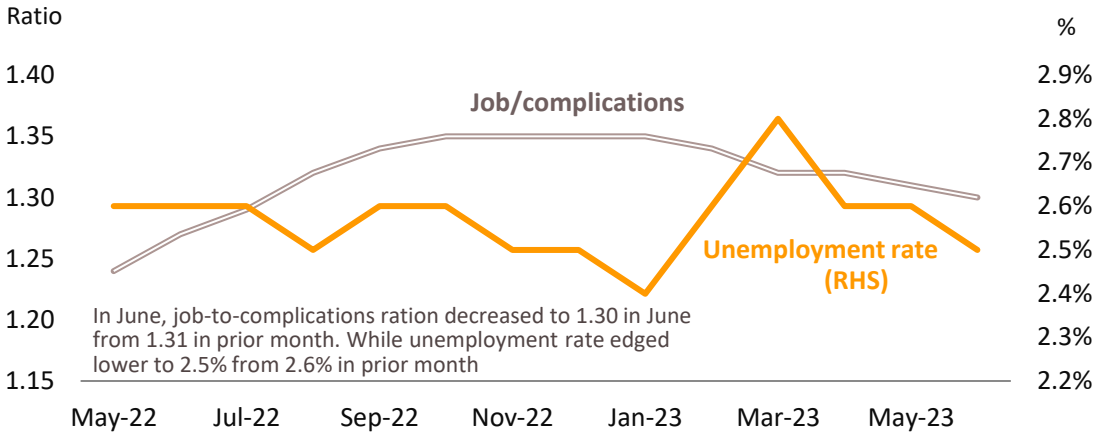


10-Year Japan Government Bond Yield



Source: Japan's Cabinet Office, BOJ, CEIC, investing.com, Bloomberg, Krungsri Research

Japan Job/complications & Unemployment Rate

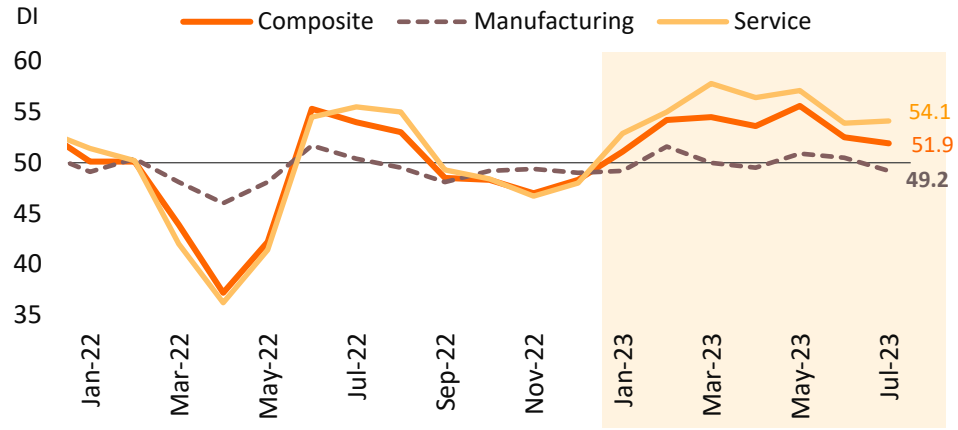


Krungsri Research's view

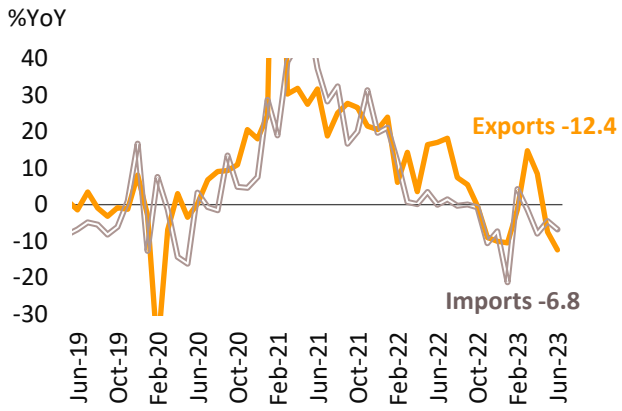
- **In June, household spending remained sluggish as wage growth slowed unexpectedly and depressed real wage, which dropped for the 15th consecutive month, by 1.6% YoY.** That is a far cry from the BOJ's sustainable growth target of 2%. Job-to-applicant ratio also fell to its lowest in a year in June, despite unemployment rate remaining at the year's low, indicating labour market conditions are easing.
- **Looking forwards, economic activity in Japan could slow further in response to weaker external demand, softening labour market conditions, and subdued private investment**. Nevertheless, there is low risk of a recession in Japan because of the return inbound tourists, still-accommodative monetary policy, and prospects for higher wages across its workforce: **A labour ministry advisory panel agreed in late-July to consider raising national average minimum wage by 4.3% to above 1,000 yen possibly effective October; that would be the largest hike since 1978**.
- **The BOJ surprised the financial market by adjusting the YCC by loosening the trading band for 10-year government bond yields** to +/- 1.0%, from +/- 0.5%, to make its ultra-loose monetary policy program more flexible given higher-than-expected inflation and market pressure but kept short-term interest rate at -0.1%. This was despite headline inflation running at 3.3% YoY in June, as core inflation was still far lower than elsewhere at 4.2% YoY. This leaves the question of whether it needs to rush with another formal adjustment to the YCC or whether the negative interest rate policy is still appropriate.
- Moreover, given tumbling import prices and weak economic activities, we expect inflation will soon drop below the BOJ's 2% target. The surprise move by the BOJ to adjust its YCC policy could increase the probability of the Bank raising short-term policy rate or and adjusting YCC again soon, **but the gradual slowdown in inflation and economic activities will convince the Bank to refrain from further policy tightening the rest of this year.**

China: Growth is weak like during initial reopening; waning post-covid demand, slowing external demand, property slump and limited policy space could threaten future growth

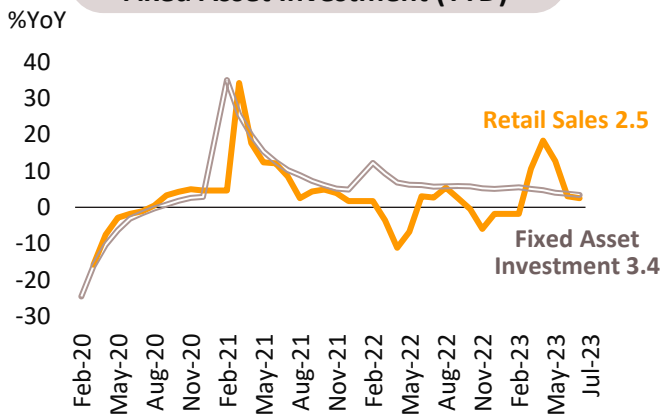
Caixin: Composite, Manufacturing and Services PMI



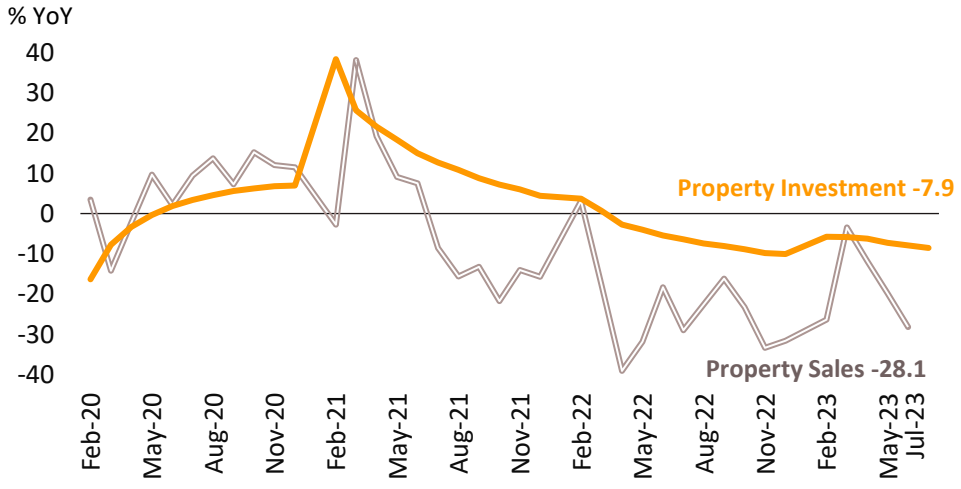
Exports and Imports



Retail Sales (monthly) and Fixed Asset Investment (YTD)



Property Sales (monthly) and Property Investment (YTD)



Source: S&P Global, Markit Economics, CEIC, Bloomberg, Krungsri Research

Krungsri Research's view

- **China is losing its growth momentum amid external headwinds, unwinding post-pandemic rebound, and concerns about a deeper property crisis. China's recent policy supports might help prevent a deep downturn but would not be sufficient to avert and economic slowdown ahead.**
- **China is losing steam in both domestic and external economic activity.**
  - I. **Slowing external demand: Exports** marked the largest contraction since the pandemic, at -14.5% YoY in July vs -12.5% in May. The drop in foreign orders suggests exports will also continue to drop.
  - II. **Waning post-covid rebound:** July Caixin Composite PMI reported **overall business activity** grew at its weakest magnitude since January. Although Services PMI inched up from a 5-month low, Manufacturing PMI fell to a half-year low with weakness in new orders, export sales, employment, output and sentiment.
  - III. **Weak domestic demand:** It is the first time since November 2020 that **consumer and producer prices** dropped in the same month (July), raising concerns over deflation and weak domestic activity.
  - IV. **Property crisis: Country Garden, one of China's largest private building conglomerates, missed interest payments for two of its bonds.** Also, July new home sales by the 100 biggest developers plunged 33% YoY in July, marking the steepest monthly decline since July 2022.
- **Despite more policy supports since June, including rate cuts, new lending fell to a 14-year low in July, and broad credit growth dropped to a record low. In response, the PBOC on August 15 unexpectedly cut the 7-day reverse repurchase rate** by 10bps to 1.8% and the 1-year loan (medium-term lending facility: MLF) by 15bps to 2.5%. Recently, **China has intensified its drive to support economic recovery,** unveiling 28 measures in five areas (including promoting fair market access) and 20 measures to boost consumption (including sale of 'new energy vehicles' and construction of new EV charging points). **However, it remains unclear whether this will be sufficient to offset the slowing economy and to function as an effective counter-cyclical policy.**

Thailand: Post-election uncertainty could threaten post-pandemic recovery

- In 2H23, delays in forming the next government could disrupt disbursement of the government's current & capital budget as well as investments by state-owned enterprises.
- In the tourism sector, July data show Chinese tourists made up the largest arrivals since reopening. We raised 2023 full-year foreign tourist arrivals forecast to 28-29 mn but remain cautious of tourism receipts.
- Thai exports shrank for the ninth consecutive month in June. Full-year export growth might miss our +0.5% forecast.
- Private sector might delay investments given the bleak export outlook, disruption in public investment, and weaker business sentiment amid the still-fragile domestic political scene.
- Private consumption has been expanding following growth in the services sector and improving employment. However, private consumption might slow down ahead with the end of election activity, weakening confidence, drought impact, and higher borrowing costs amid high household debt.
- Headline inflation remained low at 0.4% in July, below BOT's target range for the third month, but it is expected to rise again towards the target range the rest of the year.
- BOT is expected to downgrade its 2023 economic growth forecast, which would open the door for it to maintain policy interest rate at 2.25% at the September meeting.

Krungsri Research Forecasts for 2023

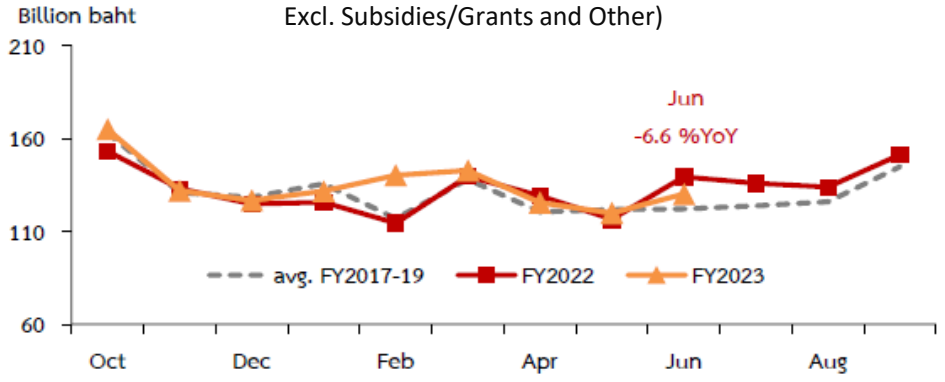
Krungsri Research Forecast		2021	2022	2023F
GDP growth	YoY (%)	1.5	2.6	3.3
Private Consumption Expenditure	YoY (%)	0.6	6.3	3.3
Government Consumption Expenditure	YoY (%)	3.7	0.2	-1.0
Private Investment	YoY (%)	3.0	5.1	2.7
Public Investment	YoY (%)	3.4	-4.9	1.5
Nominal Exports in USD (f.o.b.)*	YoY (%)	19.2	5.5	0.5
Nominal Imports in USD (f.o.b.)*	YoY (%)	27.7	15.3	1.0
Current Account Balance	USD, bn	-10.6	-16.9	8.0
Tourist Arrivals	Mn, persons	0.4	11.2	28.5
Headline Inflation	YoY (%)	1.2	6.1	1.9
Policy Interest rate (end of period)	(%)	0.50	1.25	2.25
Dubai crude price - period average	USD/bbl	69	96	82

Note: * base on BOT data
Source: NESDC, BOT, MOC, MOTS, Bloomberg, Krungsri Research

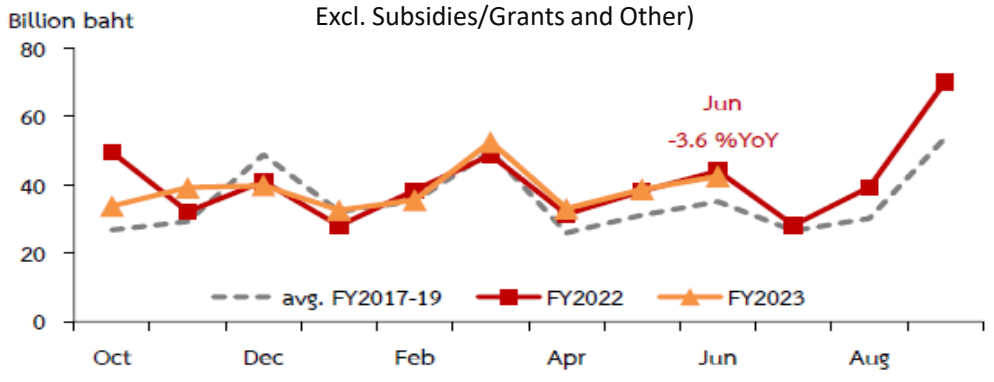
Public spending: In 2H23, delay in government formation will disrupt disbursement of the current & capital budget and investments by state-owned enterprises

In June, public spending was weaker than in the same period in previous years, attributed to (i) accelerated disbursement of civil servants' compensation in the previous period and high base last year due to extra budget to relieve the pandemic impact; (ii) acceleration of capital budget disbursements by transport and irrigation agencies in the previous period; and (iii) smaller investments by state-owned enterprises in energy and transportation projects. **The NESDC (National Economic and Social Development Council) is preparing to consider approving state-owned enterprises' investment budgets amounting to THB342 bn, to inject money into the economy in the fourth quarter (Oct- Dec) of this year if the FY2024 budget bill is not approved by then**. The THB342 bn budget include (i) THB142.7 bn state enterprises' budget for the calendar year, and (ii) THB200 bn investment budgets for the fiscal year, which might need Cabinet approval.

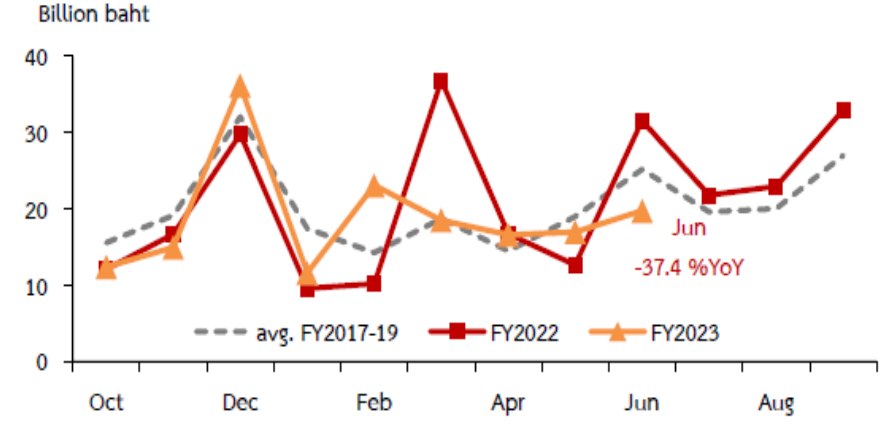
Central Government Current Expenditure



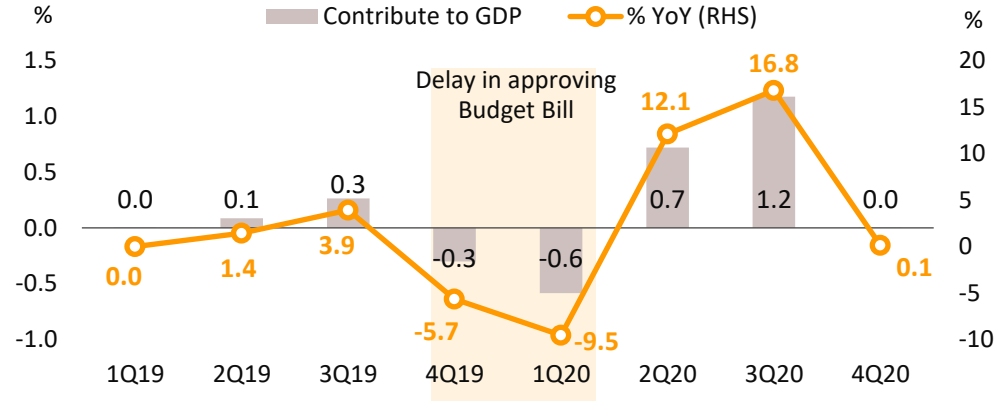
Central Government Capital Expenditure



State-owned Enterprises Capital Expenditure



Public Investment and contribution to GDP growth after 2019 election

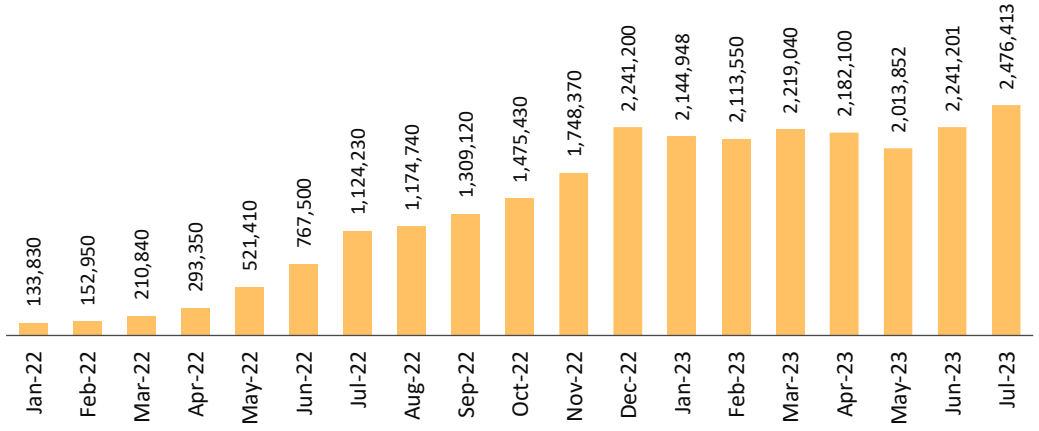


Source: Comptroller General's Department, Fiscal Policy Office, BOT, NESDC, Krungsri Research

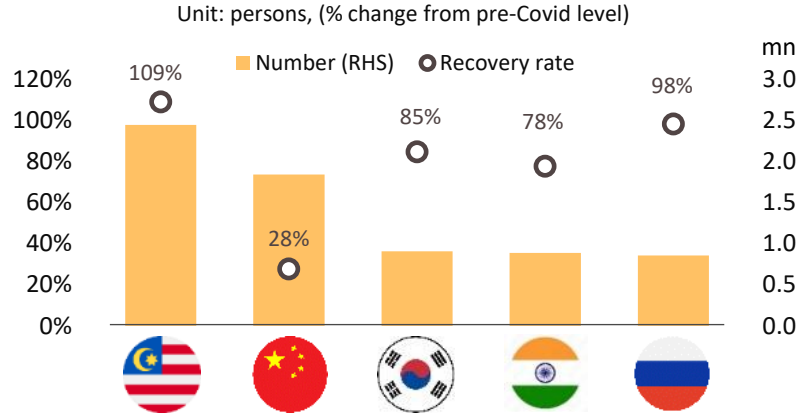
Tourism sector: July data show Chinese tourists hit the highest since reopening; we raised 2023 foreign tourist arrivals forecast to 28-29 mn but are concerned about tourism receipts

The Tourism Authority of Thailand's data shows the country welcomed 2.48 mn foreign tourists in July, the highest since reopening and higher than 2.24 mn in June. In July, arrivals from China topped the list and exceeded 0.4 mn for the first time since Thailand reopened. **In the first seven months of this year, tourist arrivals reached 15.39 mn (67% of pre-Covid/2019 level) and generated THB638 bn receipts (59% of pre-Covid level).** For the full-year 2023, we revised up foreign tourist arrivals forecast to 28-29 mn from 27 mn previously, supported by more flights to Thailand, especially from China. However, the higher arrivals number is not expected to have a significant impact on total tourism revenue as the average receipt in the first 7 months of 2023 averaged only 41,000 baht/pax compared to 48,000 baht in 2019.

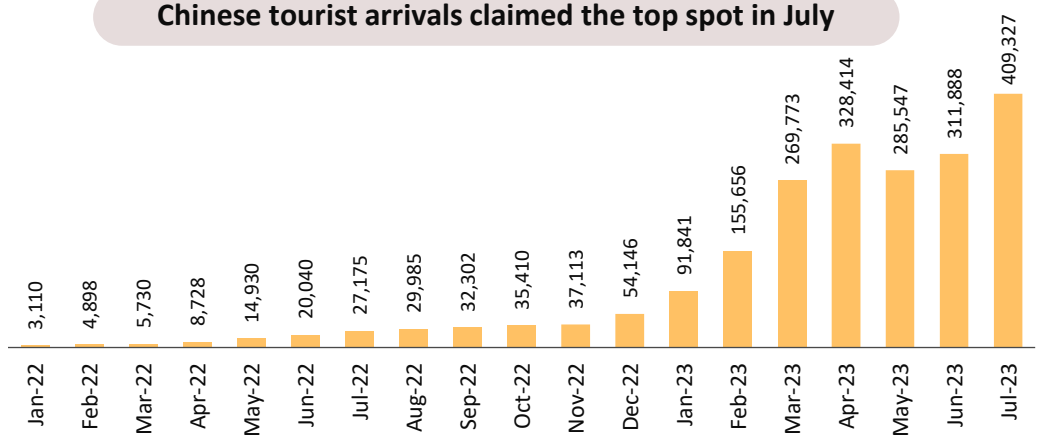
Foreign tourist arrivals reached 15.39 mn in 7M2023



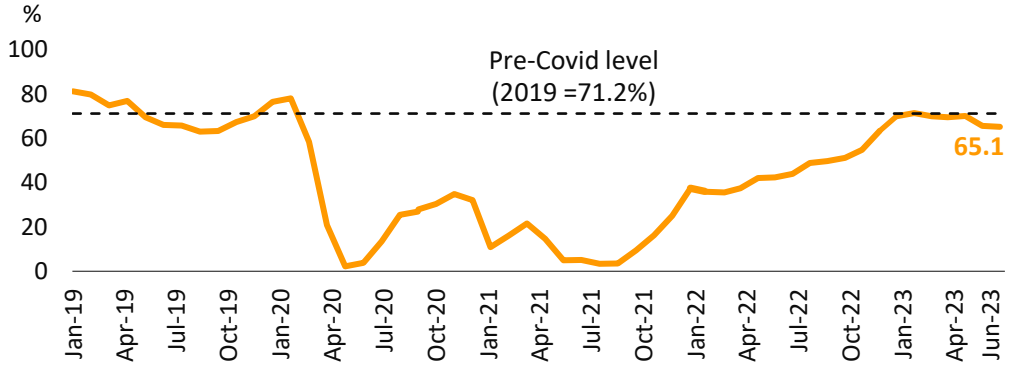
Top 5 foreign tourist arrivals by country (1 Jan-31 July, 2023)



Chinese tourist arrivals claimed the top spot in July



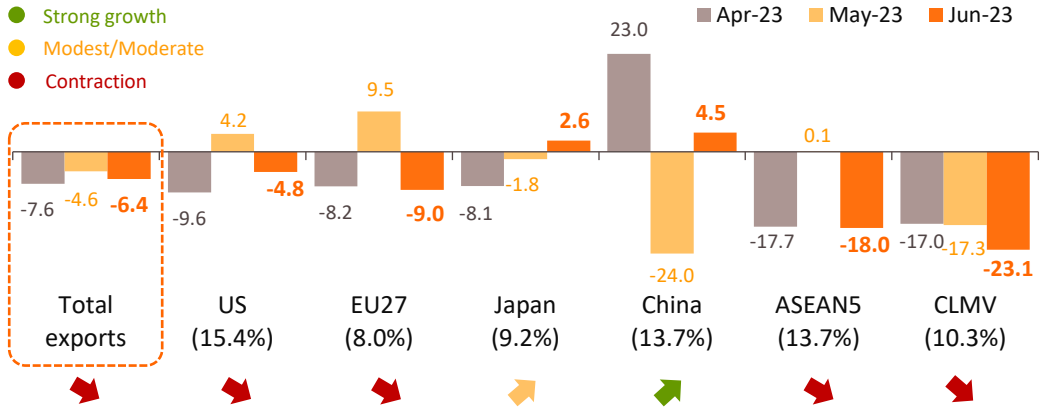
National average occupancy rate has dropped slightly



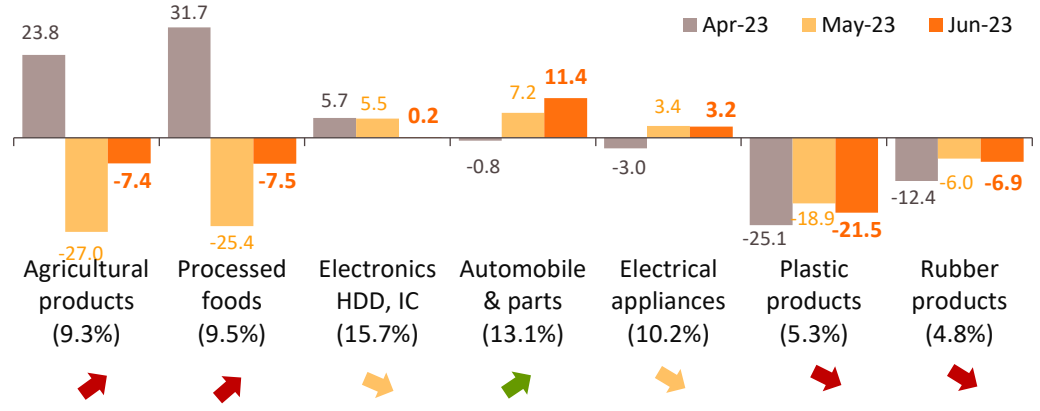
Source: MOTS, CEIC, Krungsri Research

Exports: Contracts for ninth consecutive month in June; expect full-year growth to drop below our +0.5% forecast

Exports by major destination (%YoY)

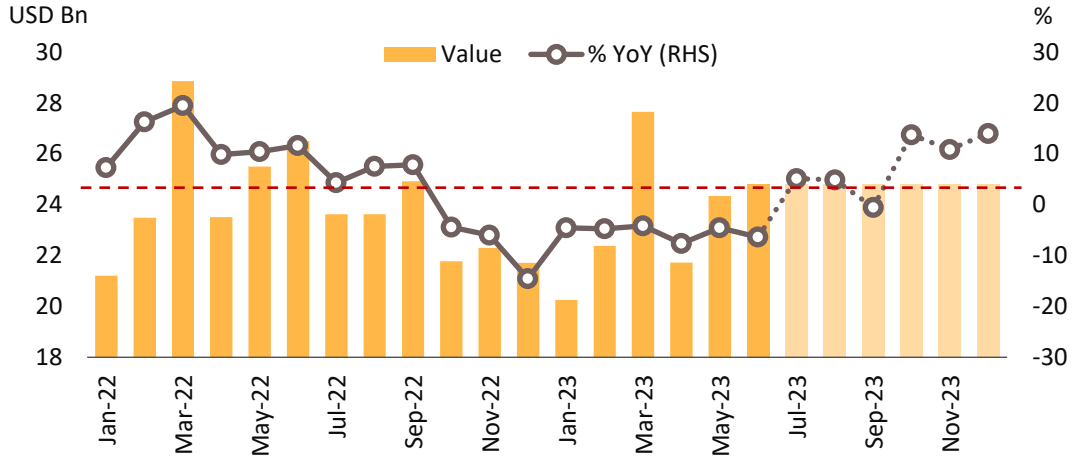


Exports by major product (%YoY)



Note: (% share in 2022)
Source: MOC, Krungsri Research

Based on zero month-on-month growth for the rest of this year, full-year exports will grow 0.9%



Krungsri Research's view

- **In June, Thailand's merchandise export value fell for the ninth consecutive month, by 6.4% YoY to USD24.8 bn.** This missed market expectation of a 7.3% drop. Excluding oil, gold and weapons, exports fell by only 2.9%. Exports to the US, EU and ASEAN-5 countries contracted in June after growing in the previous month, but exports to China and Japan picked-up. Exports of agricultural and agro-industrial goods fell by 8.6%, falling for the second month. Exports of industrial goods reversed to contract by 4.6%. For 1H23, Thai export value fell by 5.4%.
- Although export value shrank year-on-year for the ninth consecutive month in June, it was higher than a month earlier and average for the first 5 months of this year. In 2H23, if monthly export values are similar to June's at USD 24.8bn, total exports would grow by almost 8% YoY because of the low-base last year because China was in lockdown then.
- Nevertheless, economic growth in Thailand's major export markets remain fragile, including China where the post-Covid recovery has been weaker than expected, and the EU where soft domestic demand and extended Russia-Ukraine war are dragging growth. Additionally, Manufacturing PMI data have been below-50 in recent months the US, the EU, China and Japan, which reflect sluggish manufacturing sectors and recessionary conditions in those countries. And, China's imports fell faster than expected in July (-12.4% YoY) as weaker demand threatened recovery in the world's second-largest economy. ***These could increase the risk of Thailand's 2023 export growth turning out slower than our expectation of +0.5%.***

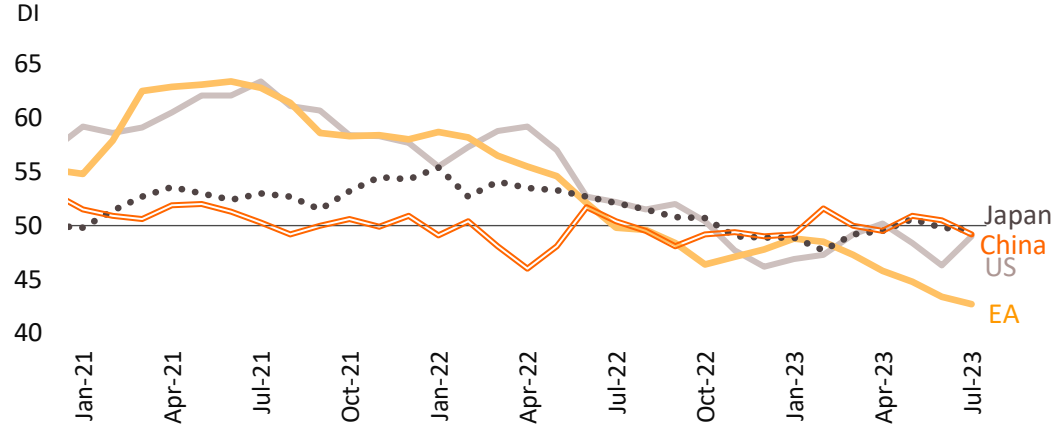
Overall exports remained weak. Exports of some products grew, driven by specific factors.

In the first half of this year, Thai exports contracted by -5.4% YoY led by a -5.3% decline in orders for industrial products such as computers & parts and plastic resin, and a -2.8% decline in agricultural & agro-industrial products such as rubber and tapioca products. The recovery in the global tourism and services sectors boosted demand for fresh-frozen & dried fruits, while easing chip shortage encouraged exports of cars & parts and electrical appliances. ***However, Thailand's exports remain fragile given the slower-than-expected economic recovery in China, weak global demand premised on sluggish manufacturing activity in major countries, and slower exports by key Asian countries.***

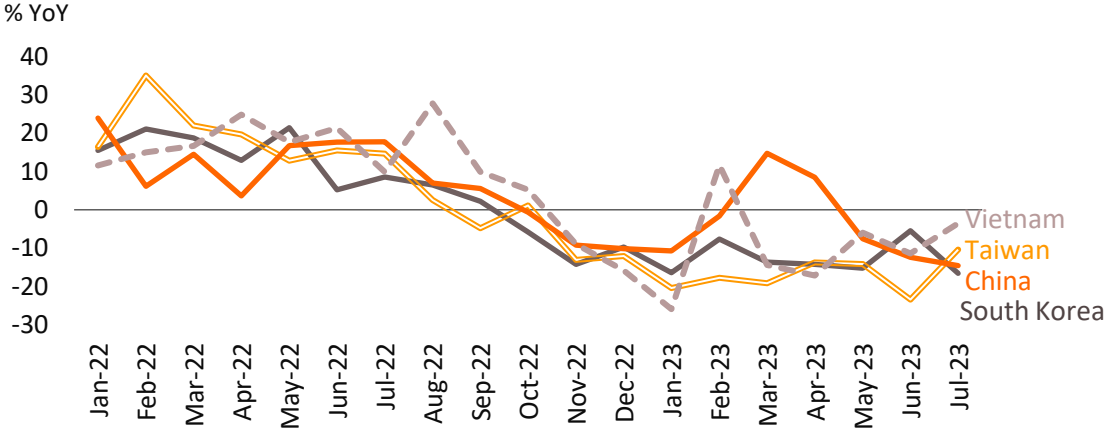
Thai exports by major product and destination

Thailand: Jan-Jun's export growth (% YoY)	World	US (17%)	EU (8%)	Japan (9%)	China (12%)	ASEAN-5 (14%)	CLMV (11%)
Total	**-5.4**	**-3.6**	**-0.4**	**-1.3**	**-3.7**	**-7.5**	**-13.2**
Cars & parts (9.8%)	+5	-10	+46	+10	-42	+20	+6
Computer & parts (7.2%)	-15	-16	-14	-13	-46	+30	+15
Rubber products (4.8%)	-7	-18	-13	+1.2	+5	-7	-21
Plastic resin (3.7%)	-25	-21	-15.7	-7	-27	-31	-34
Chemical products (3.3%)	-18	-23	-25	-5	-21	-17	-19
Electronic IC (3.3%)	+1	+10	+21	+21	+10	-7	+16
Fresh, frozen & dried fruit (2.0%)	+18.9	+19	+6	-17	+24	-8	-29
Rubber (1.8%)	-39	-36	-50	-36	-19	-58	-30
Electrical appliances (1.7%)	+17	+25	+3	+16	-5	+5	+6
Plastic products (1.6%)	-16	-25	-15	-7	-17	-18	-8
Tapioca products (1.5%)	-19	-16	-20	-7	-20	-40	+13
Rice (1.4%)	+21	-6	-9	+37	-23	+297	+19
Preserved fish, crustaceans (1.3%)	-11	-25	-13	+3.7	+57	+15	+11
Sugar (1.1%)	+28	-29	+800	+3	-68	+46	-5

Manufacturing PMI in core countries remained weak



Exports of major Asian countries continued to contract in July

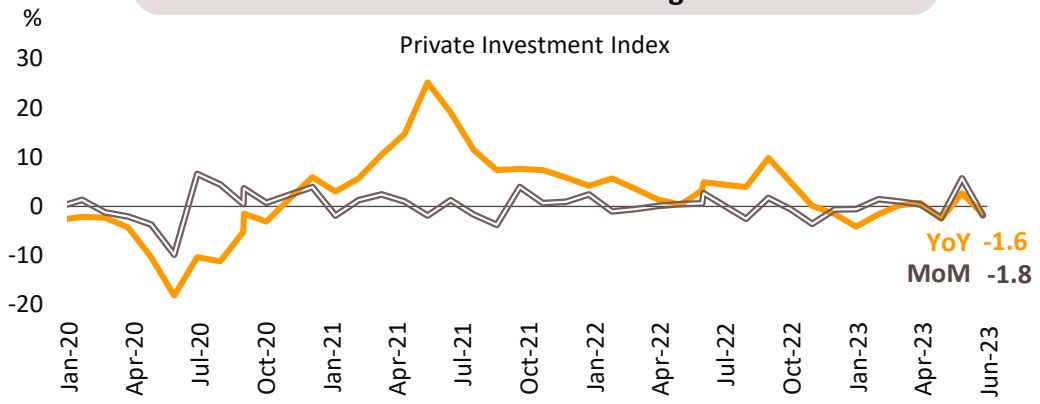


Note: (% share in 2022)
Source: MOC, S&P Global, Markit Economics, CEIC, Bloomberg, Krungsri Research

Private investment could be delayed due to bleak export outlook, delayed public investment, and weak sentiment amid fragile domestic political scene

Private Investment Index fell 1.6% YoY in June led by drops in investments in machinery & equipment as well as in the construction category. The Business Sentiment Index (BSI) dropped to a 7-month low of 49.3 from 51.0 in June, following weaker confidence in the manufacturing sector triggered by weak exports. In addition, uncertainty in Thailand's political scene could drag growth and weaken sentiment. Latest data by the Commerce Ministry show total investment value of applications had dropped to THB3.54 bn in June from THB6.69 bn in May and averaged THB9.08 bn per month in January-May period.

Private Investment contracted again in June

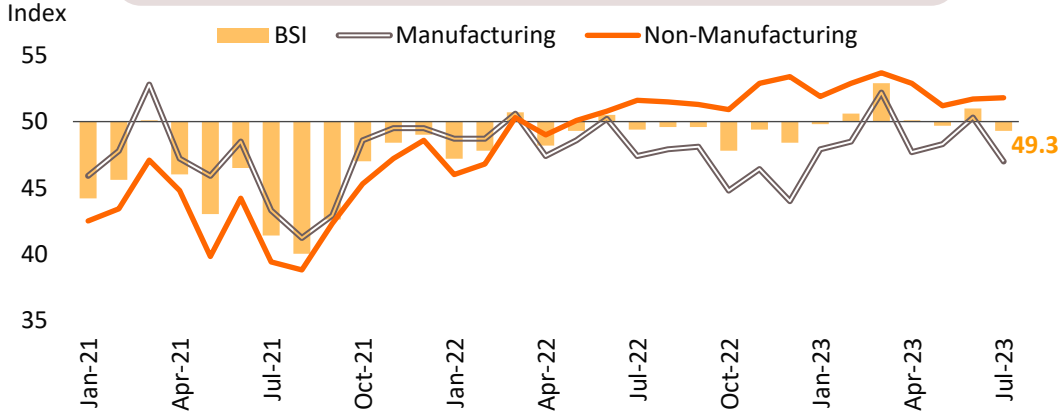


Private Investment by category

%YoY*	2021												2022												2023					
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J
Private investment																														**-1.6**
Construction area permitted																														-3.0
Construction material sales																														-2.7
Imports of capital goods																														+5.4
Machinery sales																														-3.7
Newly registered vehicles																														-20.0

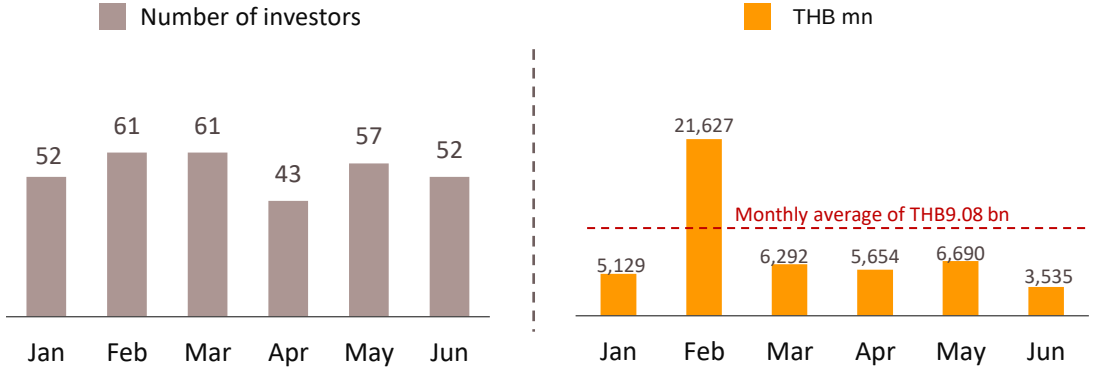
Green > 0%, Red < 0% / Darker green (red) indicates stronger (weaker) momentum

Business Sentiment Index fell to a 7-month low in July



Total foreign investments in Thailand (Jan-Jun 2023)

(reported by Commerce Ministry)

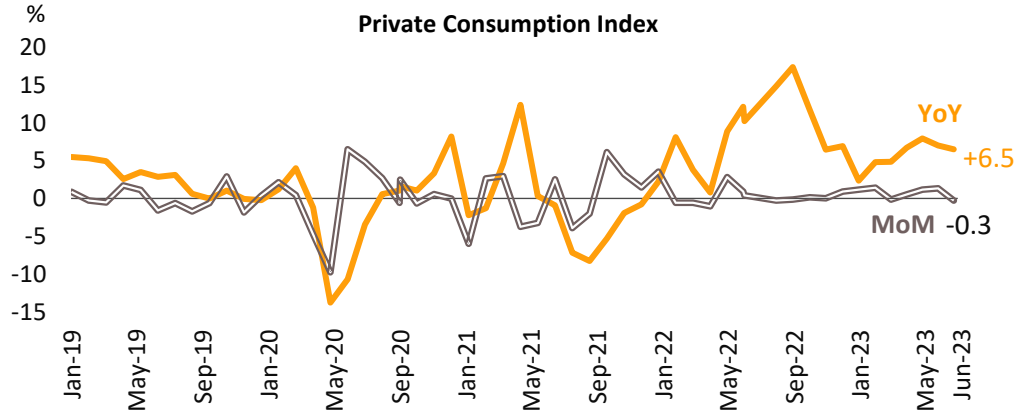


Source: BOT, MOC, Krungsri Research

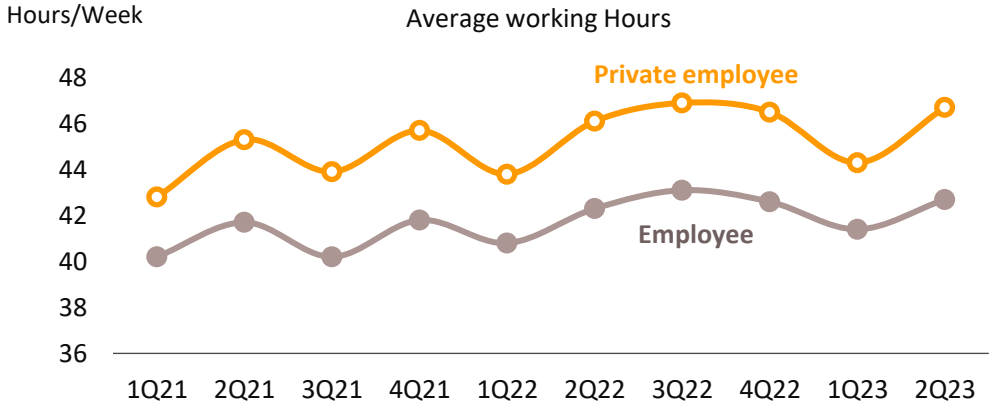
Private consumption tends to grow, led by recovering service sector and improving employment, but could slow down with the end of election activities, weaker confidence, and impact from drought

The Private Consumption Index rose 6.5% YoY in June, slowing down from +7.0% in May which received a temporary boost from election activity in May. However, there was still support from strong growth in spending on services. The improved employment situation is reflected in higher average weekly working hours of private employees, which has been rising over the past two years. However, the Consumer Confidence Index fell for the first time since June 2022, due to uncertainty in the formation of the new government nearly three months after the general election in May. In addition, ***private consumption continued to be pressured by elevated household debt, higher borrowing cost, lower agricultural income with the looming threat of smaller agriculture production triggered by drought.***

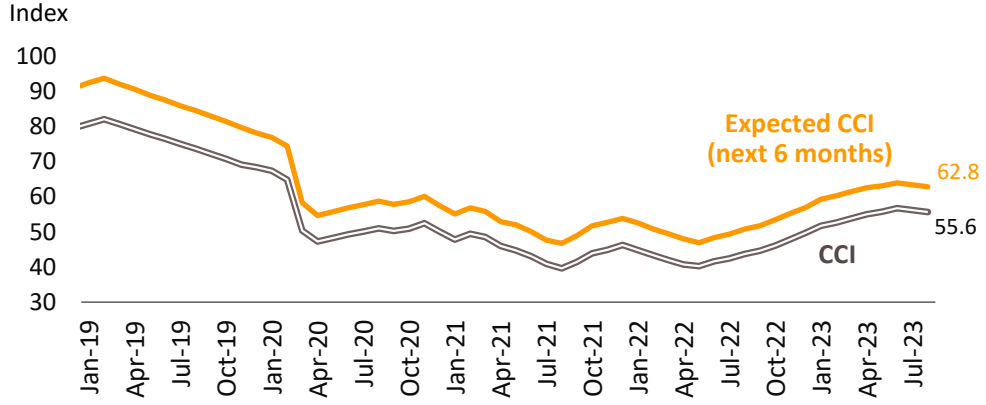
Private consumption improved from the previous month



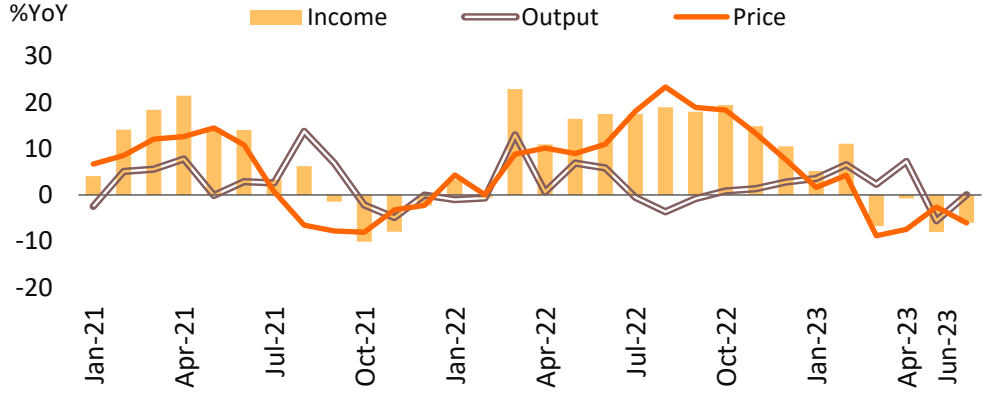
Private employment saw more working hours than 2 years ago



Consumer Confidence Index fell for the first time in 14 months in July



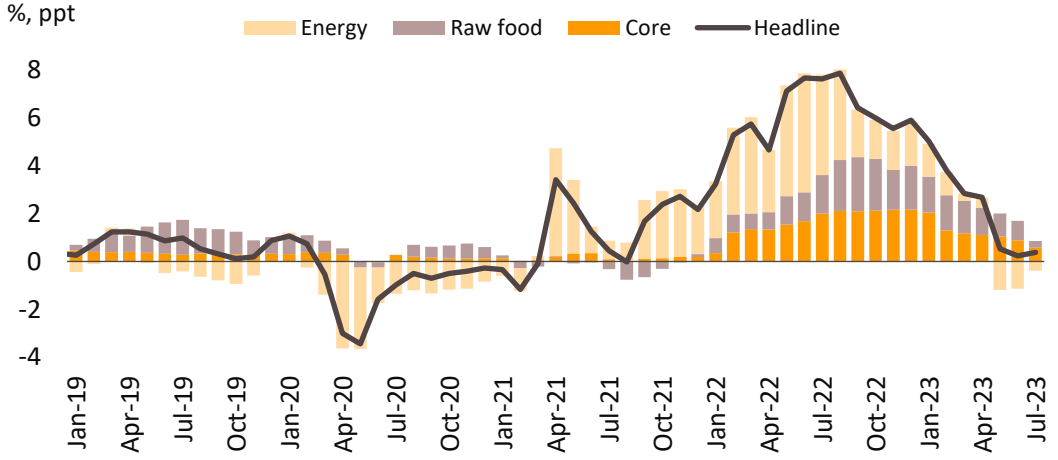
Falling farm prices dragged average farm income



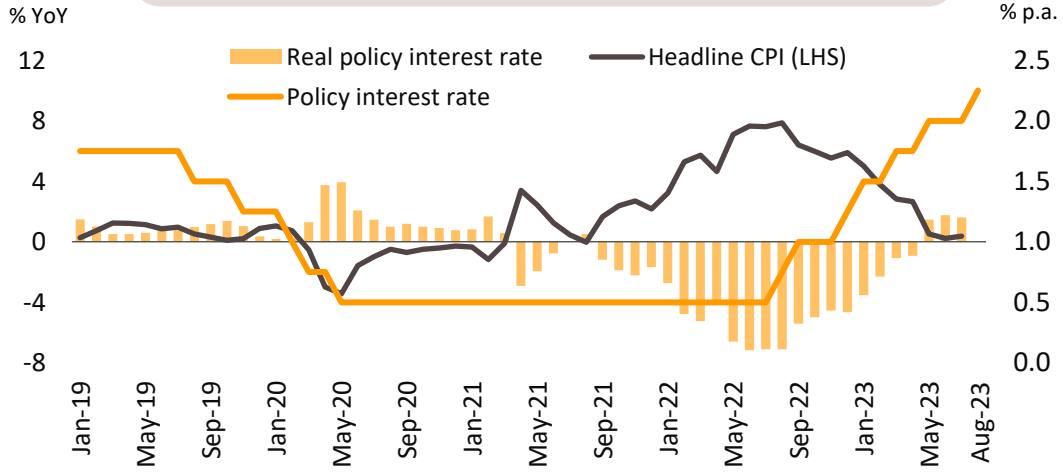
Source: BOT, UTCC, NSO, OAE, CEIC, Krungsri Research

Headline inflation remained low at 0.4% in July, below BOT's target for the third month, but will rise again to the target range during the rest of the year

Contributors to inflation



Real policy interest rate has turned positive since May



Source: MOC, BOT, Krungsri Research

Consumer Price Index: Major categories

Consumer Price Index (% YoY)*	Weight	2021 J F M A M J J A S O N D	2022 J F M A M J J A S O N D	2023 J F M A M J J	
Headline CPI	**100.00%**				**0.4**
Food & beverages	41.47%				1.5
Apparel & footwears	2.07%				0.3
Housing & furnishing	22.27%				1.9
Medical & personal care	5.44%				1.8
Transportation & communication	23.21%				-3.3
Recreation & education	4.21%				0.6
Tobacco & alcoholic beverages	1.33%				0.6
Raw food	20.91%				1.4
Energy	14.20%				-3.1
Core CPI	**64.89%**				0.9

** Red > 0%, Green < 0% / Darker colors indicate stronger momentum*

Krungsri Research's view

- **Headline inflation inched-up 0.38% YoY in July** from a 22-month low of 0.23% in June**.** It was still below the BOT's target for the third month, mainly attributed to falling prices of fuel and food. For the first seven months of 2023, headline and core inflation averaged 2.19% and 1.73%, respectively. The Ministry of Commerce expects inflation to come in at below 1% for the rest of the year.
- **For the rest of the year, we expect headline inflation to rise gradually,** partly attributed to the drought impact on certain agricultural products. Furthermore, cost of ready-to-eat food remains elevated. And, domestic retail fuel prices could rise to match global trends rejiggered by OPEC's production cuts and ongoing conflict between Russia and Ukraine.

BOT might downgrade 2023 economic growth forecast, opening door to *keep policy interest rate* at 2.25% at September meeting

At the August 2 meeting, the MPC voted unanimously to hike policy rate by 25bps to 2.25%. It said **Thai policy rates are now in a more neutral zone,** and the economy is returning to its growth potential but is not overheating, unlike some countries. Hence, **monetary policy should support growth that tracks the economy's potential in the current uncertain environment, which** includes: (i) a slowing world economy; (ii) political uncertainty which could delay FY2024 budget for longer than expected, which would hurt sentiment and investments; and (iii) the predicted El Niño conditions (drought) which are likely to drag growth in 2H23. **The MPC showed less-hawkist stance at its latest meeting**, and although the committee sees risk of El Niño pushing up world food prices, which would pressure domestic inflation**, the correlation between changes in global cost of food and domestic prices is relatively weak (see chart). And, with softer demand-pull inflation, we see limited impact.** In addition, the BOT might revise down 2023 growth and inflation forecasts at its September meeting as high risk and uncertainty would hurt the Thai economy.. ***Therefore, we expect the MPC will keep rate at 2.25% for the rest of 2023.***

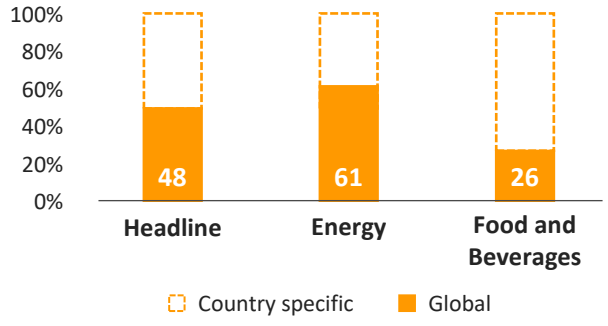
BOT signals less hawkish monetary tightening



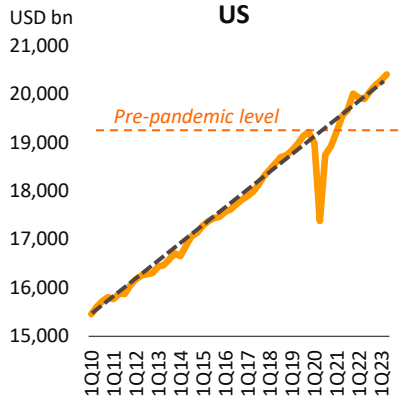
- The economy continued to recover, helped by tourism and consumption, ***but growth forecast might need to be revised down*** due to weak exports this year, according to BoT Governor Sethaput.
- He noted ***that inflation was falling faster than expected*** and interest rate decisions would focus on the economic outlook, not short-term data.

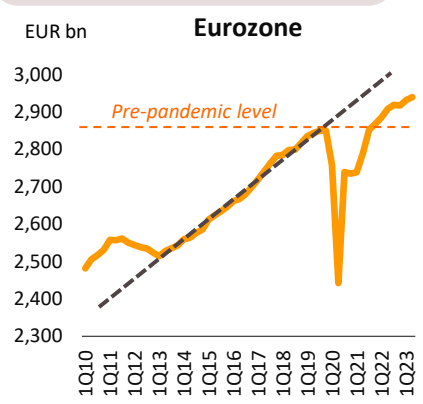
"For the next meeting, the central bank could either increase or maintain the policy rate depending on the economic situation. However, we will not make a move simply to follow other central banks".

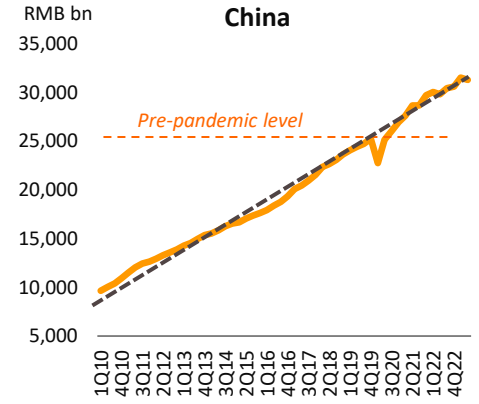
Variance in Thai inflation components explained by global factors

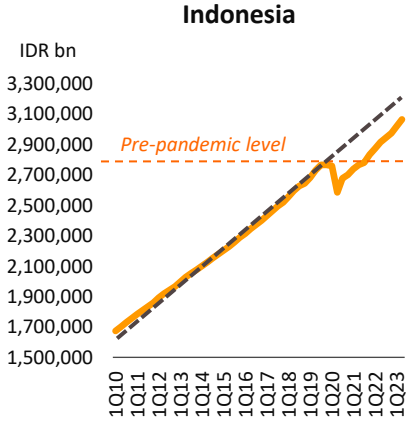


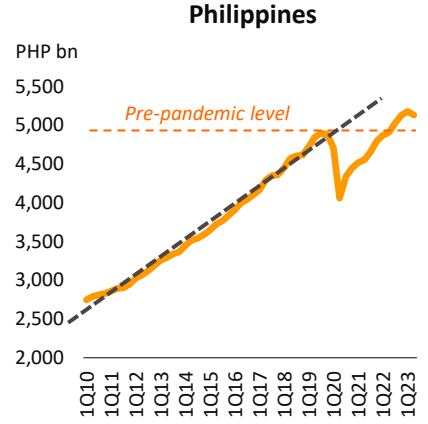
GDP Trends

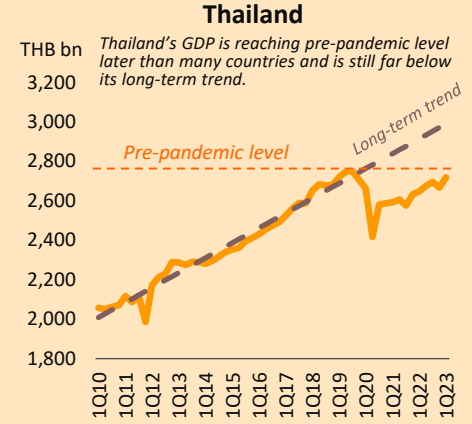












Source: BOT, CEIC, Krungsri Research

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