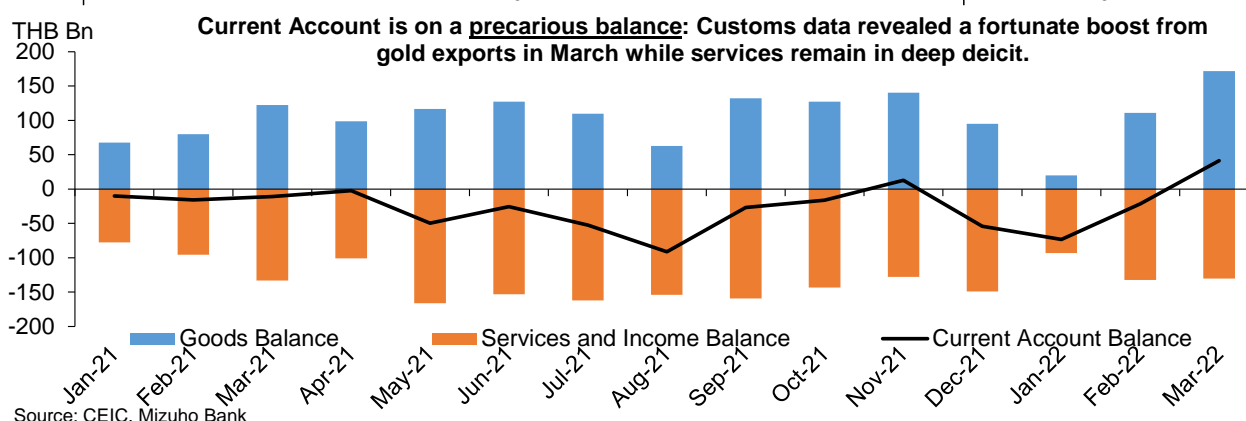
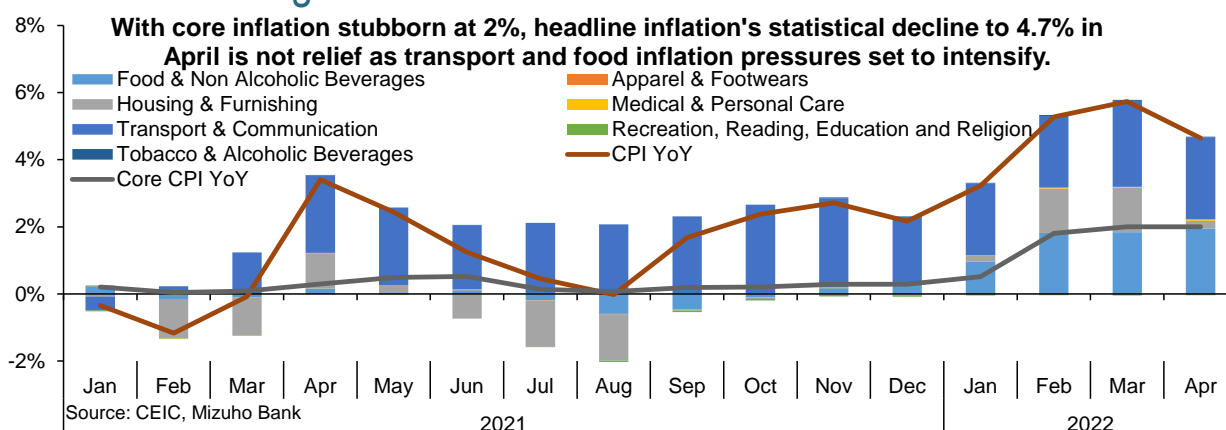


Thailand CPI: Easing is No Relief



- Thailand's April headline inflation has printed at 4.7% YoY, a step down from 5.7% in March, in part due to favourable base effects while food prices rose and transportation cost remain elevated. Rising global food prices and diesel price ceiling's gradual rise will edge headline inflation higher in Q2.
- Core inflation persisting at 2% YoY underlies the simmering price pressures. The issue of **persistence** being that **adaptive expectations** (behaviour based on past expectations) will increasingly **nudge and anchor household's inflation expectations higher** and challenge the BoT's dovish disposition.
- The **fortuitous current account boost in March** was brought about by **bumper revenue from gold exports (at 7 times of 2021 monthly average)** and bought a window of time for the THB which is fast running out as it faces Fed headwinds and has depreciated 2.7% YTD and 2.6% since end-March.
- The benign situation here requires the coincidence of a tourism recovery, uptick in good exports on the manufacturing front coupled with a recovery of domestic incomes to alleviate debt worries and these in turn allowing the BoT to proceed with gradual calibrated normalisation of policy in early Q3.
- The issue here being that an absence of these conditions sharpens trade-offs of the BoT as inflation stays elevated while the THB remains pounded by external headwinds and may also necessitate the BoT to then move on **policy rates which are now deeply negative in real terms**.
- Being on a **precarious balance** consequently implies an **accentuated volatile transition to recovery for the THB**. A delay or a more muted tourism turnaround which drags monetary policy normalisation in consideration of debt servicing burdens (households and corporates) amid expiring fiscal buffers (e.g. diesel price ceiling) will compound THB worries on multiple fronts.

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