

Thailand Macro Flash

Core Disinflation Accelerates in July

- **Better than expected core 'disinflation' (1.87%yoy) in July** (Survey: 1.96%yoy /Citi: 1.85%yoy) — We estimate core CPI registered 0.07%MoM SA during the month for an annualized rate of 0.8%, down from the preceding month's rate of 1.15%. For Jan-July, core inflation eased to 2.3%yoy from a high of 2.75%yoy in Jan. With core accounting for roughly 80% of the components of headline CPI and its downtrend intact despite the upbeat 1H12 macro momentum, we sense there's more flexibility awaiting the MPC for the rest of 2H on intensification of global downside risk. Likelihood of a QE3 environment that can weaken USD/Asia and thus contribute to benign inflation prospects regionally and in Thailand would also support MPC's flexibility to opt for rate easing in its scheduled Sep policy rate meeting. Negative export surprise in June was in line with MPC's warning of weak external demand starting to impact exports. We expect a 25bp rate cut to 2.75% in the MPC's Sep meeting as a pre-emptive move against heightened global headwinds that can affect banks' credit risk appetite and interest rates. We expect the overnight rate to end-FY12 at 2.5%.
- **Core diverged with headline inflation of 2.73%yoy in July, higher than survey** (Survey: 2.6%yoy/Citi: 2.53%yoy) — This divergence in which headline outpaced core was accounted for by higher non-core inflation (rest of the 20% or so accounted for by volatile food and energy prices) which rose by 4.88%yoy (vs 4.14%yoy in June). Raw food CPI registered higher inflation of 6.35%yoy (vs 4.74%yoy in June) perhaps consistent with higher global food prices driven by US wheat, soya bean and corn prices. Meanwhile, the broad energy price index eased to 2.14%yoy in July (2.98%yoy in June), underpinned by steady oil prices.
- **Inflation expectations in July probably retreated as well** — This could be a key implication one can derive from the components of core CPI 'collectively' trending down and at the same time ignoring higher non-core CPI. Higher food prices based on one-off weather shocks might not figure prominently in affecting expectations unlike oil price hikes. Timing of inflation expectations dropping lower seems in step with faster core disinflation if we look at past monthly data. In BoT's survey, inflation expectations (median) fell to 3.41%yoy in June from a recent high of 3.7% in March.
- **Food CPI up by 5.4%yoy while non-food CPI eased back to 1%yoy** — CPI fruits and vegetables posted the largest gain of 21.4%yoy in July alongside modest increments posted by CPI non-alcoholic beverage (2.9%yoy) and seasonings and condiments (4.78%yoy). Most of these probably made their way to CPI prepared food outside the household (3.4%yoy) and prevented disinflation in this category. As such, food CPI posted a 5.4%yoy increase vs +4.7%yoy in June. CPI housing that includes HH utilities retreated to 2.56%yoy (vs 3.42%yoy in June) in support of benign non-food inflation and faster core disinflation. Except for tobacco's modest upticks, the rest of the non-food CPI basket registered lackluster YoY price increases.

Jun Trinidad

+63-2-894-7270

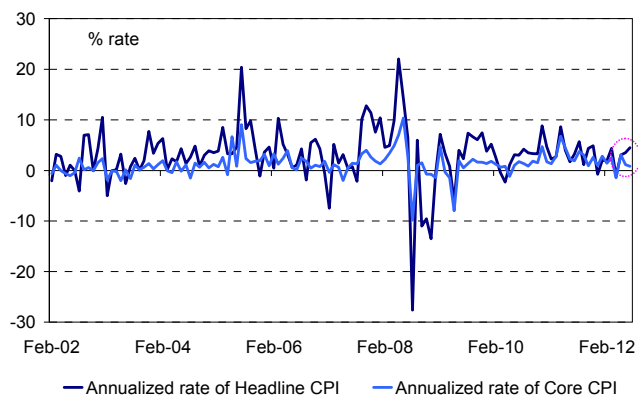
jun.trinidad@citi.com

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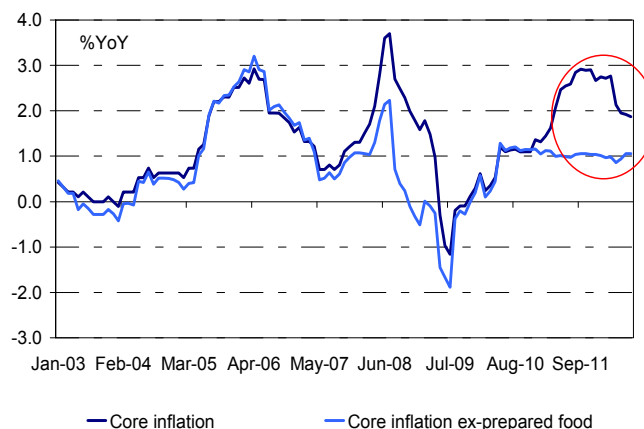
Core disinflation accelerates in July

Figure 1. Divergence of headline and core inflation was reflected by opposing directions in their respective annualized rates



Source: Bloomberg, Citi Research, CEIC

Figure 2. Still some room for core inflation to fall if CPI prepared food (within and outside the home) were to correct further as inflation expectations drop



Source: Bloomberg, Citi Research, CEIC

Appendix A-1

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