

Which asset classes provide an effective hedge against inflation in Thailand?

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ABSTRACT

Investors faced a problem of how to maintain their purchasing power over the asset they have invested over time. While inflation linked bond has been widely implemented to cure this problem, it is still limited in supply and liquidity. This leads to an interesting topic to find an alternative asset class that can offer a hedge against inflation. Using monthly data covering 15 years period in Thailand, this paper elaborates the effectiveness of stocks, gold and T-bills as a hedging tools against inflation in both short run holding period and long run holding period. The effectiveness of hedging is a maximum reduction in variance of portfolio with asset and bond. We find that gold is the most powerful hedge against inflation in both long run and short run. For stocks, we found the efficiency of inflation hedging in energy and food sector. Even though T-bill is a good hedge in the short run, it could not be a hedge against inflation in the long run.