

Asia Flash

Asia

Investors returning from the Easter holiday had a large set of data to digest, including a number of PMI releases that, for the most part, revealed encouraging, albeit mixed, output trends across Asia (see below). Looking ahead, the big event of the week will be the Bank of Japan's two-day policy meeting on April 3-4, the first under newly appointed Governor Haruhiko Kuroda. Markets have been positioned for an aggressive step-up in the BoJ's quantitative easing campaign in line with the new Governor's commitment to hit the 2% inflation target. Nevertheless, the Nikkei and the yen have reversed course in recent days, with the former falling since March 27 by a cumulative -3.9% (-1.1% today), and the latter trading at around 93 per USD after peaking at above 96 just two weeks ago.

PMI readings, led by China, point to improving, albeit modest, growth trends

China's official NBS PMI in March was released on April 1, rising to 50.9 (consensus: 50.2) from 50.1 in February. While slightly below expectations, the outturn was the 6th consecutive month above the critical 50-expansion level and, encouragingly, all sub-components rose except for the input price and raw material inventory indicators. Notably, new export orders jumped to 50.9 from 47.3 previously, reflecting improving external demand. In addition, the private sector HSBC/Markit PMI, covering smaller and exported oriented manufacturers, also rose, to 51.6 in March from 50.4 previously. We interpret the outturns as consistent with our projection of 8.2% in Q1, and 8.0% for the full year. Elsewhere in the region, March PMIs released yesterday in Korea, Indonesia, Taiwan and Vietnam showed improving trends, although India was a notable disappointment to the downside. Also, Korean exports for March – the first monthly reading in the region – missed expectations as well (0.4% vs. consensus: 1.8%).

More property tightening measures announced in China

There was a scramble over the weekend among China's local governments to comply with a central government end-March deadline to implement property tightening measures announced last February. The measures have received mixed market reviews at best, as there are doubts about their implementation and effectiveness in containing price increases. The measures are clearest in Beijing, including a new restriction for non-married persons from purchasing a second home. Elsewhere, the measures are a reaffirmation of existing purchase restrictions and the establishment of local housing price growth targets to within projected real household income growth (which, at 10% exceeds the central government's comfort range for housing price increases). Meanwhile, questions remain about how a new 20% capital gains tax will be implemented in practice. The latest monthly statistics on housing prices were released today by the private sector firm Soufun, showing a further acceleration in housing prices of 3.9% y/y in March from 2.5% in February, led by the tier 1 cities of Beijing, Guangzhou and Shenzhen. The official NBS housing price index for March will be released on April 18.

March inflation readings are mostly subdued, despite pressures in Indonesia

March inflation readings released on April 1 for Korea (1.3% y/y vs. consensus: 1.8%) and Thailand (2.7% y/y vs. consensus: 3.0%) were subdued, creating room for further interest rate cuts if needed, especially in Korea where growth momentum has been slowing. We expect the Bank of Thailand to stay on hold at tomorrow's policy meeting, and the Bank of Korea to cut interest rates at its next policy meeting on April 11, after staying on hold for the past 5 months. In Indonesia, however, inflation surprised to the upside at 5.9% y/y (consensus: 5.6%) in March following February's 5.3% due to increased food prices and power tariffs. Inflationary pressures will keep the pressure on Bank Indonesia to tighten policy, mostly likely through upward adjustments in the FASBI (the bottom of the interest rate corridor) rather than an adjustment of the policy rate, which we expect to remain at 5.75% through 2013.

The RBA keeps interest rates unchanged as expected

The Reserve Bank of Australia kept its policy rate on hold at 3.00% in line with expectations. In its accompanying statement the RBA largely reaffirmed its views from recent policy meetings, saying that downside risks to the global economy appear to be reduced, and on the domestic front that the rate cuts of late 2011 and 2012 (cumulative cuts of 175bps) are, "having an expansionary effect on the economy". The RBA continues to hint at possible rate cuts, saying that, "the inflation outlook, as assessed at present, would afford scope to ease policy further, should that be necessary to support demand." That said, we continue to expect rates to remain on hold for the remainder of 2013 under our baseline of an improving global trends and GDP growth of around 3.0% in Australia.

Mainland China and Taiwan: another step toward cross-strait economic ties

Officials from the China Banking Regulatory Commission (CBRC) and Taiwan's Financial Supervisory Commission announced the signing of an MOU on easing restrictions to boost cooperation and supervision in the financial sector. The MOU is one of a series of initiative under the Economic Cooperation Framework Agreement signed in 2010. The latest MOU eases investment caps on Mainland banks in Taiwan. Meanwhile, CBRC also pledged to accelerate approvals for Taiwanese banks to open or add branches in the Mainland.

Briefly noted:

Hong Kong February retail sales beat expectations. Retail sales rose by 22.7% y/y in February (consensus: 15.7%) from 10.5% in the previous month, driven by a stable labor market and vibrant tourism inflows.

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Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
AiG Performance of Mfg Index	02 Apr	Mar	45.6	--	44.4
Retail Sales s.a. (MoM)	04 Apr	Feb	0.90%	0.30%	--
China	Date	Period	Prior	Cons.	Actual
Manufacturing PMI	01 Apr	Mar	50.1	51.2	50.9
Non-manufacturing PMI	03 Apr	Mar	54.5	--	--
Hong Kong	Date	Period	Prior	Cons.	Actual
Retail Sales - Value (YoY)	02 Apr	Feb	10.50%	15.70%	22.70%
Purchasing Managers Index	03 Apr	Mar	51.2	--	--
Indonesia	Date	Period	Prior	Cons.	Actual
HSBC-Markit Manufacturing PMI	01 Apr	Mar	50.5	--	51.3
Inflation (YoY)	01 Apr	Mar	5.31%	5.56%	5.90%
Exports (YoY)	01 Apr	Feb	-1.30%	-1.70%	-4.50%
India	Date	Period	Prior	Cons.	Actual
HSBC-Markit Manufacturing PMI	01 Apr	Mar	54.2	--	52.0
HSBC-Markit Services PMI	03 Apr	Mar	54.2	--	--
Japan	Date	Period	Prior	Cons.	Actual
Tankan Lge Manufacturers Index	01 Apr	1Q	-12	-7	-8
Tankan Non-Manufacturing	01 Apr	1Q	4	8	6
Malaysia	Date	Period	Prior	Cons.	Actual
Exports YoY%	05 Apr	Feb	3.50%	-4.40%	--
Philippines	Date	Period	Prior	Cons.	Actual
Consumer Price Index (YoY)	05 Apr	Mar	3.40%	3.40%	--
Singapore	Date	Period	Prior	Cons.	Actual
Purchasing Managers Index	03 Apr	Mar	49.4	49.8	--
GDP (YoY)	05-13 APR	1Q A	1.50%	0.60%	--
South Korea	Date	Period	Prior	Cons.	Actual
Consumer Price Index (YoY)	01 Apr	Mar	1.40%	1.80%	1.30%
Ext Trade - Export (YoY)	01 Apr	Mar	-8.60%	1.80%	0.40%
HSBC Manufacturing PMI	01 Apr	Mar	50.9	--	52.0
Taiwan	Date	Period	Prior	Cons.	Actual
HSBC Manufacturing PMI	01 Apr	Mar	50.2	--	51.2
Thailand	Date	Period	Prior	Cons.	Actual
Consumer Price Index (YoY)	01 Apr	Mar	3.23%	3.00%	2.69%
Vietnam	Date	Period	Prior	Cons.	Actual
HSBC Manufacturing PMI	01 Apr	Mar	48.3	--	50.8

Calendar Events

Australia - RBA Cash Target, Apr 02

We expect the benchmark rate to remain unchanged

Current	Cons.	New
3.00%	3.00%	3.00%

Japan - BoJ Target Rate, Apr 04

We expect the benchmark rate to remain unchanged

Current	Cons.	New
0.10%	0.10%	--

Thailand - Benchmark Interest Rate, Apr 03

We expect the benchmark rate to remain unchanged

Current	Cons.	New
2.75%	2.75%	--

Markets Data

STOCK MARKETS	INDEX	Last price	% change over a day	% change over a week	Year to date	% change over 1 Y
	China - Shanghai Comp.	2227.7	-0.3	-3.0	-1.8	-1.5
Hong Kong - Hang Seng	22367.8	0.3	1.1	-1.3	8.5	
Taiwan - Weighted	7913.2	0.2	0.7	2.8	0.6	
Japan - Nikkei 225	12003.4	-1.1	-3.8	15.5	18.7	
Korea - Kospi	1986.2	-0.5	1.9	-0.5	-2.1	
India - Sensex 30	19041.0	0.9	1.6	-2.0	8.9	
Australia - SPX/ASX 200	4985.5	0.4	0.4	7.2	14.9	
Singapore - Strait Times	3317.6	0.3	1.5	4.8	10.0	
Indonesia - Jakarta Comp	4957.3	0.4	3.3	14.8	19.0	
Thailand - SET	1550.5	0.1	0.4	11.4	29.3	
Malaysia - KLCI	1685.0	1.0	1.9	-0.2	5.1	
Philippines - Manila Comp.	6748.4	-1.3	3.5	16.1	32.0	

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FOREIGN EXCHANGE MARKETS	CURRENCY	Spot	% change over a day	% change over a week	Forward 3-month	Forward 12-month
	China (CNY/USD)	6.20	0.14	0.20	6.27	6.29
Hong Kong (HKD/USD)	7.76	0.01	-0.03	7.76	7.75	
Taiwan (TWD/USD)	29.9	0.04	-0.07	29.79	29.50	
Japan (JPY/USD)	93.33	-0.11	1.19	93.27	92.94	
Korea (KRW/USD)	1118	-0.29	-1.11	1123	1134	
India (INR/USD)	54.3	0.01	0.17	55.30	57.86	
Australia (USD/AUD)	1.05	0.39	-0.20	0.96	0.98	
Singapore (SGD/USD)	1.24	0.21	0.26	1.24	1.24	
Indonesia (IDR/USD)	9739	0.00	-0.01	9860	10252	
Thailand (THB/USD)	29.4	-0.17	-0.14	29.49	29.85	
Malaysia (MYR/USD)	3.09	0.19	0.20	3.10	3.15	
Philippines (PHP/USD)	40.9	-0.11	0.10	40.77	40.71	

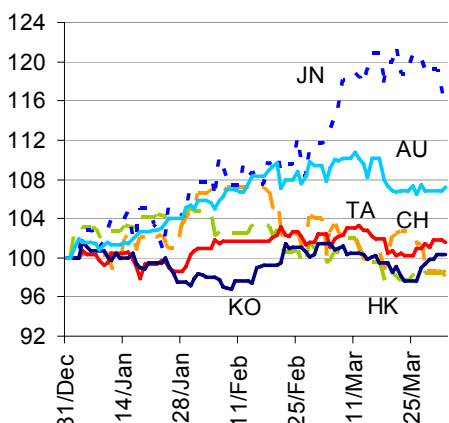
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.40	0.00	0.20	-1.10
Hong Kong (HIBOR/1W)	0.10	0.00	0.00	0.00	
Taiwan (TAIBOR/1W)	0.55	0.00	0.00	-0.01	
Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01	
Korea (KORIBOR/1M)	2.75	0.00	0.00	-0.01	
India (MIBOR/7D)	3.32	-0.39	-0.22	-1.18	
Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00	
Indonesia (JIBOR/1W)	4.28	0.00	0.00	0.00	
Thailand (BIBOR/1W)	2.77	0.00	0.00	0.00	
Malaysia (KLIBOR/1W)	2.90	0.00	0.00	0.00	
Philippines (PHIBOR/1W)	0.25	0.19	1.06	-0.94	

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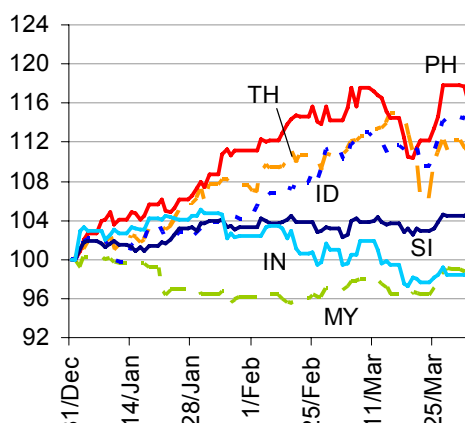
Charts

Chart 1
Stock Markets



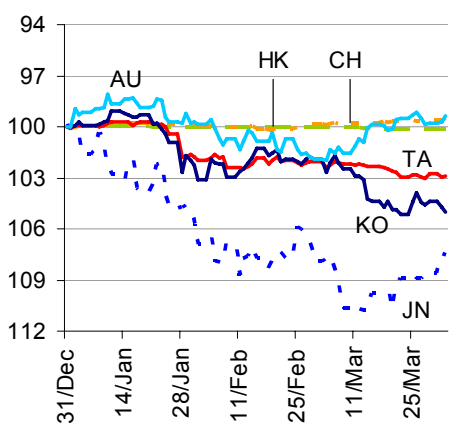
Source: BBVA Research and Bloomberg

Chart 2
Stock Markets



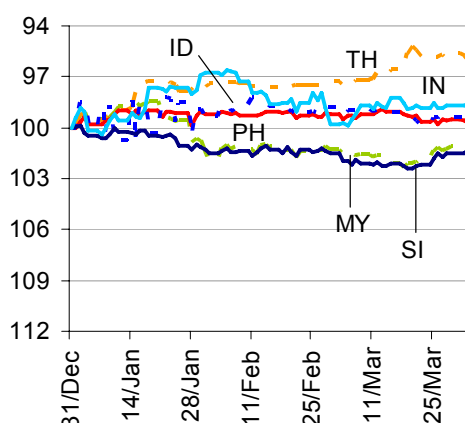
Source: BBVA Research and Bloomberg

Chart 3
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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