

Asia Flash

Asia

Japanese financial markets continued reacting to yesterday's bold move by the Bank of Japan to revamp its policy paradigm and step up monetary easing (see below). The Nikkei reached a 4½-year high, rising by another 1.6% today, the yen slid to 96 per USD (a depreciation of more than 3% since the announcement), and the yield on government bonds fell further, with the 10yr government bond yield at just 0.52%. Elsewhere in the region, however, markets were mixed (Taiwan and China were closed for a two-day holiday) on fears of the spread of a new bird flu in eastern China that has reportedly claimed 6 lives, rising tensions with North Korea, and speculation of measures to stem capital inflows in some markets. Declines were led by the Hang Seng (-2.7%) as airline stocks were hit by concerns over the bird flu, followed by the Korean Kospi (-1.6%). The big market movers next week will be monthly indicators in China (inflation, trade, and credit aggregates; see Weekly Indicator below) and monetary policy meetings in Indonesia (no change expected) and Korea (we expect a 25bp rate cut).

Bank of Japan's new Governor pulls out all the stops

As widely reported in the financial press, the Bank of Japan yesterday exceeded expectations by announcing a shift in its monetary policy paradigm and a huge expansion of its balance sheet. In a sharp departure with the caution of his predecessor, newly appointed Governor Haruhiko Kuroda announced plans to double the monetary base over the next two years by doubling the Bank's monthly asset purchases, which will now include longer maturity bonds and an increase in the purchase of risky assets (for further details see [BOJ announcement](#)). The new policy aims to achieve the 2% inflation target over the coming two years, and passes the ball back to the government to implement the two other elements of Prime Minister Abe's 3-pronged strategy to reinvigorate growth, namely fiscal stimulus and structural reforms. While financial markets have cheered the BOJ's move, some observers have voiced scepticism, ranging from whether the inflation target can be achieved, to worries over the risks of destabilizing currency and bond markets and the implications of an eventual unwinding of the massive monetary stimulus (à la concerns voiced with QE by the Fed). For now, we are inclined to give the BOJ the benefit of the doubt, and we will also watch for the impact on regional economies given the new tail winds generated by the BOJ policy to cross-border capital flows.

China's Annual Boao Forum to begin this weekend

The Boao Forum for Asia (BFA) will be held from April 6-8 in Boao, a coastal town in south China's Hainan Province. According to the official website, the annual Forum brings together leaders in government, business and academia to, "share visions on the most pressing issues... [and] is committed to promoting regional economic integration and bringing Asian countries even closer to their development goals" More than 10 national leaders from Asia and other regions, including Australia Prime Minister Julia Gillard (see below), Mexican president Enrique Peña Nieto and Peru's president Ollanta Humala, will participate in this three-day forum, focusing on how to restructure economy in a more sustainable and innovative way.

Australian PM Gillard visits China; may help deepen RMB internationalization

Australian Prime Minister Julia Gillard began five-day visit to China today, seeking to further strengthen trade and financial ties. Gillard is expected to seek direct trading for the Australian dollar with the RMB (currently available only for the USD and JPY), to augment the currency swap agreement (AUD 30 bn/RMB 200 bn) implemented last year and create additional business opportunities for Australian financial institutions. Such agreements would also advance China's efforts to facilitate RMB internationalization. Separately, Mexican President Enrique Peña Nieto arrived in Hong Kong today at the start of a four-day visit to China, seeking to expand trade with Hong Kong and the mainland and also attract more investment to Mexico.

Briefly noted:

Australia's retails sales in February recorded 22 billion AUD, rising 1.3% seasonally adjusted from previous month (consensus: 0.3%). The stronger-than-expected retail sales point to an improvement in the soft domestic economy, which is gaining support from the past 175 bps rate reduction by the RBA since November 2011. The upbeat retail sales outturn in February reduces the likelihood of further rates in the following months.

Malaysian exports in February drop by -7.7% y/y (consensus: -4.8%) from 3.5% gain in January due to the distortion of Lunar New Year. Imports fell surprisingly by -4.4% y/y (consensus: 3.5%), resulting in an increased trade surplus of USD 2.7 bn. Although growth momentum is holding up in Malaysia, the weak export outturn is the latest sign of continued weak external demand (following recent disappointing outturns in Korea and Taiwan, among others).

Philippine March inflation edges down to 3.2% y/y (consensus: 3.4%) from 3.4% in February, with the growth of housing and fuel prices slowed to 2.1% from 2.6% in previous month. While encouraging, the economy is at risk of overheating given strong growth momentum (GDP growth reached 6.6% in 2012) and lax fiscal and monetary policies.

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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	1.20%	0.30%	1.30%
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	--	55.6
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	--	50.5
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	--	51.4
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%	-4.80%	-7.70%
Philippines	Date	Period	Prior	Cons.	Actual
Consumer Price Index (YoY)	05 Apr	Mar	3.40%	3.40%	3.20%
Singapore	Date	Period	Prior	Cons.	Actual
Purchasing Managers Index	03 Apr	Mar	49.4	49.8	50.6
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%	0.10%

Thailand - Benchmark Interest Rate, Apr 03

We expect the benchmark rate to remain unchanged

Current	Cons.	New
2.75%	2.75%	2.75%

Upcoming Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
Unemployment Rate	11 Apr	Mar	5.40%	5.40%	--
China	Date	Period	Prior	Cons.	Actual
Consumer Price Index (YoY)	09 Apr	Mar	3.20%	2.50%	--
Exports YoY%	10 Apr	Mar	21.80%	11.70%	--
Imports YoY%	10 Apr	Mar	-15.20%	6.00%	--
New Yuan Loans	10-15 APR	Mar	620.0B	890.0B	--
Money Supply - M2 (YoY)	10-15 APR	Mar	15.20%	14.60%	--
Aggregate Financing	10-15 APR	Mar	1070.0B	1800.0B	--
India	Date	Period	Prior	Cons.	Actual
Exports YoY%	10-15 APR	Mar	4.20%	--	--
Industrial Production YoY	12 Apr	Feb	2.40%	--	--
Japan	Date	Period	Prior	Cons.	Actual
Current Account Total	08 Apr	Feb	-¥364.8B	¥457.5B	--
Tertiary Industry Index (MoM)	12 Apr	Feb	-1.10%	0.70%	--
Malaysia	Date	Period	Prior	Cons.	Actual
Industrial Production YoY	11 Apr	Feb	4.60%	-1.70%	--
Philippines	Date	Period	Prior	Cons.	Actual
Total Exports (YoY)	10 Apr	Feb	-2.70%	-5.70%	--
Singapore	Date	Period	Prior	Cons.	Actual
GDP (YoY)	12 Apr	1Q A	1.50%	0.50%	--
South Korea	Date	Period	Prior	Cons.	Actual
FDI (YoY)	12 Apr	1Q	-16.90%	--	--
Unemployment Rate (SA)	10 Apr	Mar	3.50%	3.20%	--
Taiwan	Date	Period	Prior	Cons.	Actual
CPI YoY%	08 Apr	Mar	2.97%	1.82%	--
Total Exports (YoY)	08 Apr	Mar	-15.80%	2.00%	--

Upcoming Calendar Events

Indonesia - Reference Rate, Apr 11

We expect the benchmark rate to remain unchanged

Current	Cons.	New
5.75%	5.75%	--

Korea - 7-day Repo Rate, Apr 11

We expect the benchmark rate to be cut by 25bps

Current	Cons.	New
2.75%	2.75%	--

Indicator of the Week

China: Exports for March (April 10th)

Forecast: 14.0% y/y

Consensus: 10.0% y/y

Prior: 21.8% y/y

We expect export growth to decline from last month's unexpectedly high outturn, but to stay strong at about 14% y/y. Export growth for the first two months of the year averaged 23.5% y/y, contributing to an improving trend since last September as demand picked up from the US, other Asian economies (especially ASEAN) and, to a lesser extent, the EU. The strong figures have led many analysts to question the reliability of the data due to a combination of Lunar New Year distortions, volatility in the monthly data, and the presence of over-invoicing (to circumvent capital inflow restrictions). Nevertheless, an overall improvement in export trends appears robust, as seen in recent PMI outturns, including for March which showed an increase in the new export order component (50.9, up from 47.3 in February). A strong export outturn for March would boost confidence in Q1 GDP growth (to be released on April 15), which has been undermined by weaker-than-expected domestic demand indicators for January/February. In that regard, March inflation (April 9) and credit data due out during the week will also be closely watched.

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.	2225.3	-0.1	-3.3	-1.9	-1.7
Hong Kong - Hang Seng	21726.9	-2.7	-2.6	-4.1	4.5	
Taiwan - Weighted	7942.4	0.4	0.6	3.2	2.3	
Japan - Nikkei 225	12833.6	1.6	3.5	23.5	31.4	
Korea - Kospi	1927.2	-1.6	-3.3	-3.5	-5.0	
India - Sensex 30	18442.3	-0.4	-2.1	-5.1	5.5	
Australia - SPX/ASX 200	4891.4	-0.4	-2.1	5.2	13.2	
Singapore - Strait Times	3299.8	-0.2	-0.3	4.2	10.5	
Indonesia - Jakarta Comp	4926.1	0.1	-0.3	14.1	18.2	
Thailand - SET	1490.5	-2.5	-4.5	7.1	26.1	
Malaysia - KLCI	1688.7	0.0	1.0	0.0	6.0	
Philippines - Manila Comp.	6727.1	-0.8	-1.8	15.7	33.5	

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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)	6.21	0.00	0.07	6.27	6.29
Hong Kong (HKD/USD)	7.76	-0.02	-0.01	7.76	7.75	
Taiwan (TWD/USD)	29.9	-0.01	-0.41	29.88	29.59	
Japan (JPY/USD)	96.27	0.07	-2.13	96.21	95.89	
Korea (KRW/USD)	1132	-0.71	-1.80	1137	1147	
India (INR/USD)	54.8	0.14	-0.97	55.87	58.51	
Australia (USD/AUD)	1.04	-0.14	0.03	0.97	0.99	
Singapore (SGD/USD)	1.24	0.06	0.07	1.24	1.24	
Indonesia (IDR/USD)	9753	-0.04	-0.18	9864	10262	
Thailand (THB/USD)	29.3	0.00	-0.20	29.46	29.81	
Malaysia (MYR/USD)	3.06	0.74	1.20	3.07	3.11	
Philippines (PHP/USD)	41.2	0.13	-0.90	41.17	41.12	

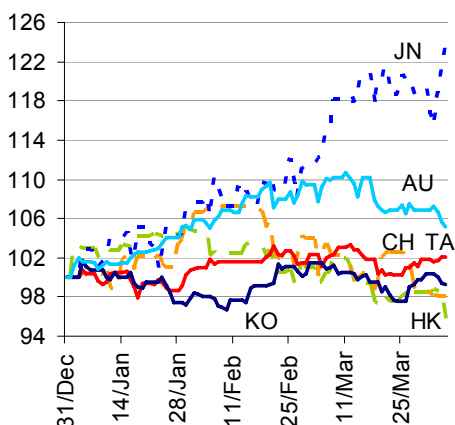
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.30	-0.10	0.10	-1.20
Hong Kong (HIBOR/1W)	0.09	0.00	0.00	0.00	
Taiwan (TAIBOR/1W)	0.55	0.00	0.00	-0.01	
Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01	
Korea (KORIBOR/1M)	2.74	0.00	-0.01	-0.02	
India (MIBOR/7D)	6.00	2.68	2.74	1.39	
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)	1.56	0.63	5.44	0.25	

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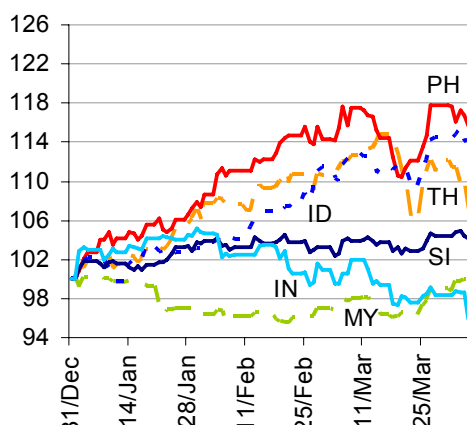
Charts

Chart 1
Stock Markets



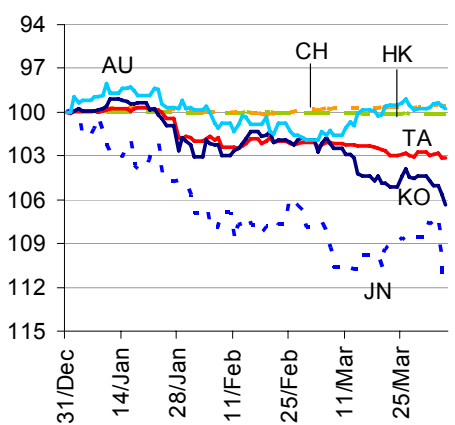
Source: BBVA Research and Bloomberg

Chart 2
Stock Markets



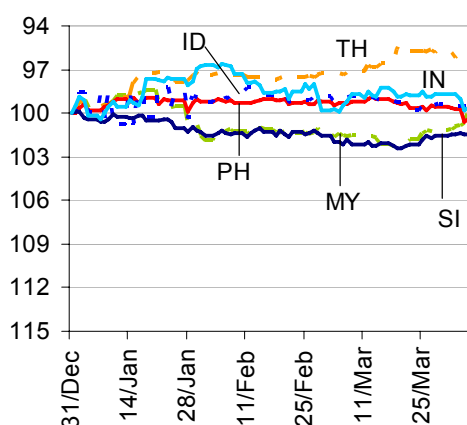
Source: BBVA Research and Bloomberg

Chart 3
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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