

Asia Flash

Asia

Australia announces plans to diversify FX holdings in RMB

In a speech today in Shanghai, Reserve Bank of Australia Deputy Governor Philip Lowe was reported to have said that the central bank plans to invest 5% of its foreign currency reserves in Chinese assets for diversification. He did not specify a timeframe. The RBA's foreign exchange reserves amount to around US\$40 billion and are allocated in USD (42%), EUR (39%), JPY (13%) and others (6%). In early April Australia and China established direct currency trading between their two currencies (as is already the case with the USD and JPY). A number of other central banks, including in South Korea, Malaysia and Singapore have already invested in China's domestic bond market to diversify their portfolios although the size has not been disclosed. While the RBA's plans are likely to reinforce confidence in the outlook for RMB internationalization, we would not expect the RMB to become a significant international reserve currency until it becomes fully convertible, which is still at least 5-10 years away in all likelihood.

Australia's lower-than-expected Q1 inflation raises chances of a rate cut

Q1 inflation registered only 2.5% y/y (consensus: 2.8%), a slight increase from Q4 (2.2%) due to falling food and clothing prices. The trimmed-mean, which the RBA uses to gauge underlying inflation, also came in below expectations at 2.2% y/y (consensus: 2.4%). The outturn is well within the RBA's 2-3% target range and, together with softness in China's commodity demand (on which Australia's economy depends heavily) could reinforce expectations of another rate cut, in line with recent statements by the RBA that low inflation, "would afford scope to ease policy further, should that be necessary to support demand". The AUD was little changed today, at around 1.027 against the USD. For the time being, our baseline remains of no more rate cuts. The RBA cut rates by a cumulative 175 bps from November 2011 - December 2012 to 3.00% at present. The RBA will hold its next monthly policy meeting on May 7.

Vietnam inflation eases on lower food prices

April inflation edged down to 6.61% y/y (consensus: 6.95%) from 6.64% in March, the lowest level since last September. The State Bank of Vietnam cut policy rates last month as the economy expanded at a slower pace of 4.9% in Q1, dragged down by the contracted bank lending which dented business expansion and household spending. Looking ahead, we expect another rate cut in the second half of this year and a full-year GDP growth at 5.5% in 2013.

On tap for tomorrow:

South Korea 1Q GDP (consensus: 1.4% y/y; prior 1.5%; see weekly indicator below), Hong Kong March exports (consensus: 9.3% y/y; prior -16.9%) and the Philippines' monetary policy meeting, where we expect the benchmark rate remain on hold.

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Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
Consumer Prices (YoY)	24 Apr	1Q	2.20%	2.80%	2.50%
China	Date	Period	Prior	Cons.	Actual
HSBC Flash Manufacturing PMI	23 Apr	Apr	51.6	51.4	50.5
Hong Kong	Date	Period	Prior	Cons.	Actual
CPI - Composite Index (YoY)	22 Apr	Mar	4.40%	3.70%	3.60%
Exports YoY%	25 Apr	Mar	-16.90%	9.30%	--
Japan	Date	Period	Prior	Cons.	Actual
Markit/JMMA Manufacturing PMI	26 Apr	Apr	50.4	--	--
Natl CPI YoY	26 Apr	Mar	-0.70%	-0.80%	--
Tokyo CPI YoY	26 Apr	Apr	-1.00%	-0.80%	--
Singapore	Date	Period	Prior	Cons.	Actual
CPI (YoY)	23 Apr	Mar	4.90%	3.60%	3.50%
Industrial Production YoY	26 Apr	Mar	-16.60%	-3.10%	--
South Korea	Date	Period	Prior	Cons.	Actual
GDP (QoQ)	25 Apr	1Q P	0.30%	0.60%	--
Taiwan	Date	Period	Prior	Cons.	Actual
Unemployment Rate - sa	22 Apr	Mar	4.16%	4.18%	4.18%
Export Orders (YoY)	22 Apr	Mar	-14.50%	1.90%	-6.60%
Industrial Production (YoY)	23 Apr	Mar	-11.61%	1.80%	-3.28%
Commercial Sales (YoY)	23 Apr	Mar	-6.00%	1.00%	-0.70%
Thailand	Date	Period	Prior	Cons.	Actual
Customs Exports (YoY)	23 Apr	Mar	-5.83%	2.34%	4.55%
Vietnam	Date	Period	Prior	Cons.	Actual
CPI (YoY)	24 Apr	Apr	6.64%	6.95%	6.61%
Exports YTD (YoY)	25-30 APR	Apr	19.70%	19.50%	--
Retail Sales YTD (YoY)	25-30 APR	Apr	11.70%	--	--
Industrial Production Index YoY	25-30 APR	Apr	5.60%	--	--

Calendar Events

Japan - BOJ Target Rate, Apr 26

We expect the benchmark rate to remain unchanged

Current

0.10%

Cons.

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New

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Philippines - Overnight Borrowing Rate, Apr 25

We expect the benchmark rate to remain unchanged

Current

3.50%

Cons.

3.50%

New

--

Indicator of the Week

South Korea: Q1 Preliminary GDP (April 25th)

Forecast: 0.4% q/q, s.a.	Consensus: 0.6 % q/q, s.a.	Prior: 0.3 % q/q, s.a.
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Q1 GDP growth is expected to remain subdued in the face of weak external demand, loss of competitiveness from the depreciation of the Japanese Yen, and falling business confidence from tensions with North Korea. Full-year growth in 2012 registered a modest 2.0%, as domestic demand, especially investment, remained weak. More recently, high frequency indicators of industrial production and exports have been on the weak side, while retail sales have held up somewhat better. To stimulate demand, the government has announced a 1.3% of GDP fiscal stimulus package estimated to add 0.3ppts to growth in 2013. We also expect the Bank of Korea to lower interest rates by 25bps in the remainder of the first half of this year. Taking account of the policy stimulus effects, we maintain our full-year projection of 2.7% in 2013 with downside risks from the uncertain external environment and tensions with the North.

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.	2218.3	1.5	1.1	-2.2	-7.1
	Hong Kong - Hang Seng	22183.1	1.7	2.8	-2.1	7.3
	Taiwan - Weighted	8023.7	1.0	2.7	4.2	7.0
	Japan - Nikkei 225	13843.5	2.3	3.4	33.2	46.2
	Korea - Kospi	1935.3	0.9	0.6	-3.1	-1.4
	India - Sensex 30	19179.4	0.0	4.5	-1.3	11.5
	Australia - SPX/ASX 200	5102.4	1.7	2.0	9.8	17.0
	Singapore - Strait Times	3312.7	0.9	0.6	4.6	11.4
	Indonesia - Jakarta Comp	5011.6	0.7	0.3	16.1	20.2
	Thailand - SET	1553.0	0.2	2.1	11.6	29.4
	Malaysia - KLCI	1707.4	0.4	-0.2	1.1	7.9
	Philippines - Manila Comp.	6972.7	-0.1	1.8	20.0	34.9

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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)	6.18	0.01	-0.09	6.24	6.25
	Hong Kong (HKD/USD)	7.76	0.01	-0.01	7.76	7.75
	Taiwan (TWD/USD)	29.8	0.13	0.29	29.69	29.41
	Japan (JPY/USD)	99.53	-0.05	-1.42	99.48	99.17
	Korea (KRW/USD)	1118	0.29	0.07	1121	1131
	India (INR/USD)	54.4	-0.44	-0.44	55.16	57.77
	Australia (USD/AUD)	1.03	0.27	-0.11	0.98	1.00
	Singapore (SGD/USD)	1.24	0.04	-0.36	1.24	1.24
	Indonesia (IDR/USD)	9719	0.12	-0.08	9800	10184
	Thailand (THB/USD)	28.9	-0.28	-0.17	29.04	29.39
	Malaysia (MYR/USD)	3.05	0.29	-0.70	3.07	3.11
	Philippines (PHP/USD)	41.3	0.22	-0.12	41.26	41.20

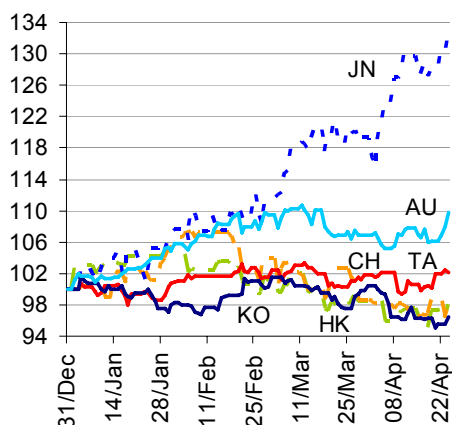
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	4.66	0.86	1.56	1.66
	Hong Kong (HIBOR/1W)	0.10	0.00	0.00	0.00
	Taiwan (TAIBOR/1W)	0.55	-0.01	-0.01	-0.01
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	2.76	0.01	0.01	0.01
	India (MIBOR/7D)	4.84	0.64	1.78	1.87
	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)	1.25	0.00	-0.31	0.31

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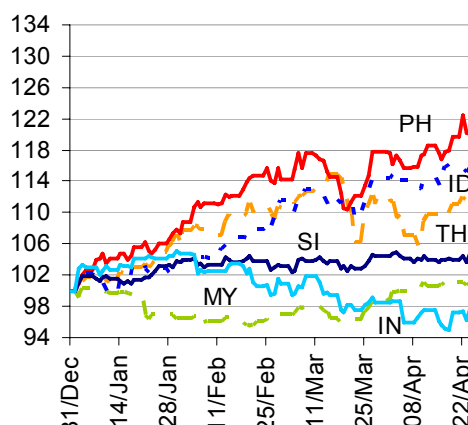
Charts

Chart 1
Stock Markets



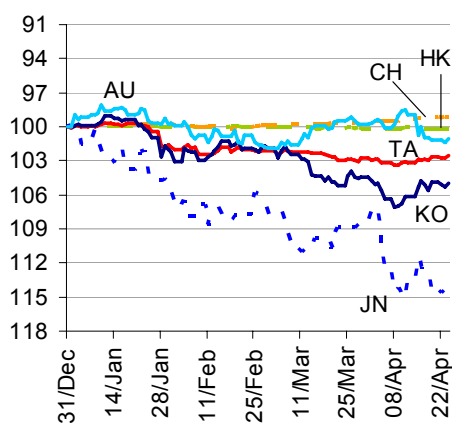
Source: BBVA Research and Bloomberg

Chart 2
Stock Markets



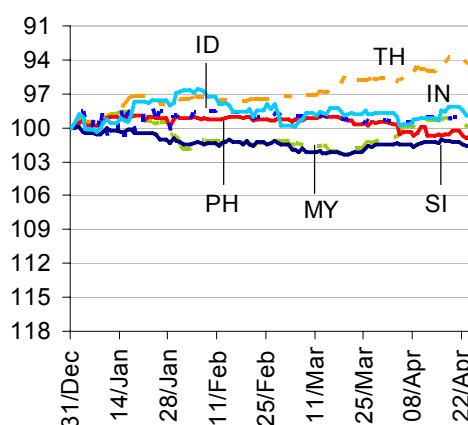
Source: BBVA Research and Bloomberg

Chart 3
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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