

Asia Flash

Asia

RBA surprises with a rate cut, sending the currency sharply lower

At its monthly policy meeting today, the Reserve Bank of Australia cut interest rates to a record low of 2.75%. While anticipated by a number of market participants, the consensus was for no change, after the RBA had kept the rate unchanged at 3.00% since December. The accompanying policy statement suggests the cut was aimed at curbing the strength of the AUD: "The exchange rate... has been little changed at a historically high level over the past 18 months, which is unusual given the decline in export prices and interest rates during that time." With the inflation outlook well within the official 2-3% medium-term target range, the RBA had flagged the scope for further rate cuts and "decided to use some of that scope." Today's action brings the cumulative rate reductions to 200bps since November 2011 as the RBA seems to stimulate growth in Australia's non-mining domestic sectors. While further rate cuts cannot be ruled out, under our baseline of 3.0% growth in 2013, we expect rates to remain at their new level through the rest of the year. The AUD depreciated sharply following the announcement, to below 1.02 against the USD, its weakest level since mid-2012.

China's government shows its seriousness toward reforms

Reinforcing expectations that China's new leadership will press ahead with reforms, the State Council yesterday laid out plans for implementation during the rest of the year. In addition to spurring private investment by streamlining the approvals process, the authorities emphasized their plans to press ahead with the reforms on the financial and fiscal fronts. The authorities vowed to push ahead with interest rate liberalization, increase the flexibility of the exchange rate, and further open the capital account by allowing individuals to invest overseas. Regarding urbanization, the authorities pledged to reform the "Hukou" system (the rigid resident registry system) which should increase mobility to urban centers. The overall takeaway is a clear and welcome message of reform-oriented policies.

China data preview – steady as she goes

A batch of monthly activity and price indicators for April will be released in the coming days, including trade data (tomorrow), inflation on Thursday, and industrial production, investment, and retail sales on Monday. As always, the data will be closely watched, all the more so after the unexpectedly weak Q1 GDP outturn released on April 15, followed by a tepid PMI reading for the month (50.6 vs. 50.9 in March). On the whole, we expect the April data to show a further modest expansion, in line with our 8.0% full-year GDP growth projection. In particular, we expect exports to grow by 10.1% y/y (10.0% in March) as demand from ASEAN remains strong and as exports to the US and EU have been on an gradual improving trend. Industrial production should also tick up slightly, to 9.1% y/y (8.9% in March) based on the latest PMI production subcomponent and electricity consumption. Importantly, we expect inflation to remain subdued, at 2.2% y/y (2.1% in March), although recent volatility in food prices could generate some upside risk. With inflation still within the government's 3.5% comfort level, there is room for policies to stay growth-supportive.

Briefly noted:

Philippines inflation fell to a 12-month low of 2.6% y/y (consensus: 2.9%) in April, down from 3.2% in March. The central bank has kept rates unchanged at 3.5% since October. Despite the lower-than-expected inflation outturn, we do not anticipate additional rate cuts given the strong growth momentum and risks of overheating.

Taiwan April exports disappointed on weak demand from Europe and China,

declining by -1.9% y/y (consensus: 3.1%) from +3.3% in March. The outturn is the latest sign of the headwinds faced by North Asian economies, following Korea's disappointing April export outturn of 0.4% y/y.

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Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
Retail Sales s.a. (MoM)	06 May	Mar	1.30%	0.10%	-0.40%
Unemployment Rate	09 May	Apr	5.60%	5.60%	--
China	Date	Period	Prior	Cons.	Actual
Exports YoY%	08 May	Apr	10.00%	10.00%	--
Imports YoY%	08 May	Apr	14.10%	13.00%	--
Consumer Price Index (YoY)	09 May	Apr	2.10%	2.30%	--
Aggregate Financing	10-15 MAY	Apr	2544.3B	1480.0B	--
New Yuan Loans	10-15 MAY	Apr	1060.0B	767.5B	--
Money Supply - M2 (YoY)	10-15 MAY	Apr	15.70%	15.50%	--
Hong Kong	Date	Period	Prior	Cons.	Actual
GDP (YoY)	10 May	1Q	2.50%	2.70%	--
Indonesia	Date	Period	Prior	Cons.	Actual
GDP Constant Price (YoY)	06 May	1Q	6.11%	6.10%	6.02%
India	Date	Period	Prior	Cons.	Actual
Industrial Production YoY	10 May	Mar	0.60%	--	--
Exports YoY%	10-15 MAY	Apr	7.00%	--	--
Japan	Date	Period	Prior	Cons.	Actual
Current Account Total	10 May	Mar	¥637.4B	¥1216.3B	--
Malaysia	Date	Period	Prior	Cons.	Actual
Exports YoY%	08 May	Mar	-7.70%	-1.40%	--
Industrial Production YoY	09 May	Mar	-4.50%	1.00%	--
Philippines	Date	Period	Prior	Cons.	Actual
Consumer Price Index (YoY)	07 May	Apr	3.20%	2.90%	2.60%
Total Exports (YoY)	10 May	Mar	-15.60%	-3.70%	--
Taiwan	Date	Period	Prior	Cons.	Actual
CPI YoY%	06 May	Apr	1.37%	1.26%	1.04%
Total Exports (YoY)	07 May	Apr	3.30%	3.10%	-1.90%

Calendar Events

Australia - RBA Cash Target, May 07 We expect the benchmark rate to remain unchanged	Current 3.00%	Cons. 3.00%	New 2.75%
Malaysia - Overnight Rate, May 09 We expect the benchmark rate to remain unchanged	Current 3.00%	Cons. 3.00%	New --
Korea - 7-Day Repo Rate, May 09 We expect the benchmark rate to remain unchanged	Current 2.75%	Cons. 2.75%	New --

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.	2235.6	0.2	1.6	-1.5	-8.8
Hong Kong – Hang Seng	23047.1	0.6	2.1	1.7	12.2	
Taiwan – Weighted	8163.1	-0.1	1.7	6.0	8.3	
Japan – Nikkei 225	14180.2	3.6	1.8	36.4	51.2	
Korea – Kospi	1954.4	-0.4	0.7	-2.1	-0.1	
India – Sensex 30	19889.0	1.1	2.6	2.4	17.6	
Australia – SPX/ASX 200	5143.7	-0.2	-0.9	10.6	19.6	
Singapore – Strait Times	3383.2	0.0	0.6	6.8	15.7	
Indonesia – Jakarta Comp	5042.8	1.0	0.2	16.8	21.3	
Thailand – SET	1601.2	1.4	1.2	15.0	30.4	
Malaysia – KLCI	1776.7	1.4	3.4	5.2	12.1	
Philippines – Manila Comp.	7146.1	-0.3	1.7	22.9	36.6	

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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)	6.15	0.21	0.20	6.21	6.23
Hong Kong (HKD/USD)	7.76	-0.02	-0.01	7.76	7.75	
Taiwan (TWD/USD)	29.5	0.11	0.08	29.47	29.18	
Japan (JPY/USD)	99.33	0.00	-1.89	99.28	99.02	
Korea (KRW/USD)	1091	0.28	0.90	1095	1104	
India (INR/USD)	54.1	0.11	-0.59	54.80	57.30	
Australia (USD/AUD)	1.02	-0.77	-1.89	0.99	1.01	
Singapore (SGD/USD)	1.23	-0.11	-0.07	1.23	1.23	
Indonesia (IDR/USD)	9730	0.06	0.04	9823	10198	
Thailand (THB/USD)	29.6	0.14	-1.05	29.75	30.16	
Malaysia (MYR/USD)	2.98	-0.01	2.10	3.00	3.04	
Philippines (PHP/USD)	40.9	0.07	0.72	40.85	40.81	

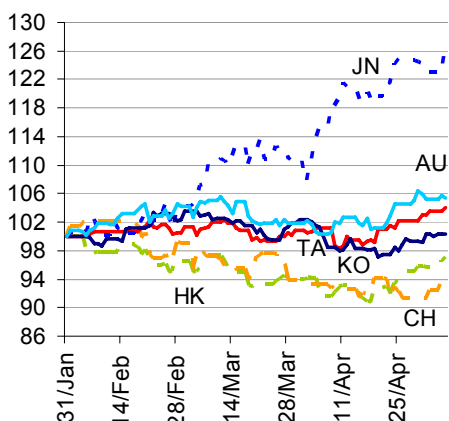
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.18	-0.12	0.18	-0.17
Hong Kong (HIBOR/1W)	0.10	0.00	0.00	0.00	
Taiwan (TAIBOR/1W)	0.54	0.00	0.00	-0.01	
Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01	
Korea (KORIBOR/1M)	2.75	0.00	-0.01	0.01	
India (MIBOR/7D)	3.18	-0.12	-1.32	-2.82	
Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00	
Indonesia (JIBOR/1W)	4.27	0.00	-0.01	-0.01	
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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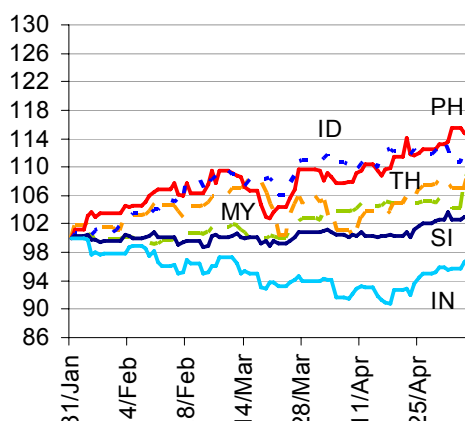
Charts

Chart 1
Stock Markets



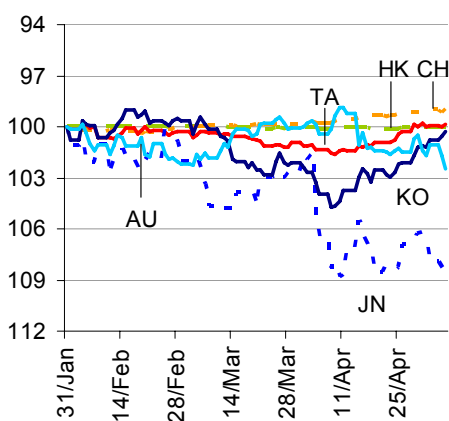
Source: BBVA Research and Bloomberg

Chart 2
Stock Markets



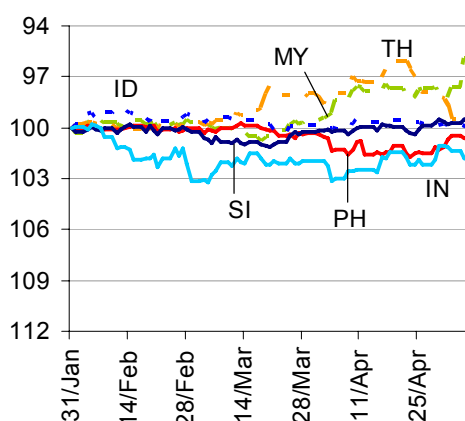
Source: BBVA Research and Bloomberg

Chart 3
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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