

Asia Flash

Asia

Australia's central bank cuts policy rate, but shifts to neutral stance

As widely expected, the Reserve Bank of Australia today cut its cash rate to a new historic low of 2.50%. The RBA delivered the cut given modest inflation and weak domestic demand as the mining boom wears off. The central bank has now cut rates by a cumulative 225 bps since November 2011. The accompanying policy statement has widely been interpreted as shifting now to a neutral stance, saying, "The Board will continue to assess the outlook and adjust policy as needed to foster sustainable growth in demand and inflation outcomes consistent with the inflation target over time." The RBA did, however, continue to assess the value of the Australia dollar, which "has depreciated by around 15% since early April" as "high" and that, "It is possible the exchange rate will depreciate further over time." Looking ahead, we do not expect any further rate cuts through the rest of the year as the RBA evaluates the impact of its previous rate cuts and as China's growth rate stabilizes and the external environment improves.

Indian currency hits new record lows with new measures expected

The Indian rupee touched fresh record lows today of 61.8 against the US dollar. The sharp pullback comes despite recent measures to tighten domestic rupee liquidity. The continued decline in the currency has raised expectations of possible new measures. Much of the rupee's weakness lies in India's weakening macro fundamentals, including a high current account deficit, sluggish growth, and delays in the reform agenda which have undermined business sentiment.

A change of guard at the Reserve Bank of India - Raghuram Rajan

Dr. Raghuram Rajan, currently India's Chief Economic Advisor, has been appointed as the next RBI governor to replace the incumbent Dr. Subbarao from September 4. Dr Rajan has previously served as professor of finance at Booth School of Business - University of Chicago, IMF and Federal Reserve Board. He will assume office at a time of pressing macro economic challenges, with growth slowing and the rupee hitting new lows. We believe that Dr. Rajan's rich global experience puts him in good stead, particularly at a time when attracting foreign capital inflows is of top priority for India.

Briefly Noted:

Inflation in the Philippines reached the lowest level since Sept 2009 at 2.5% y/y in July (consensus: 2.9%), and below the central bank's target of 3-5%. Despite the weakening currency (the peso has depreciated by 6.2% against the US dollar this year), price pressures remain contained and growth momentum is still robust (1Q GDP: 7.8% y/y, the fastest in Asia). The central bank has maintained the policy rate at record-low of 3.5% for the past four meetings and on July 29th the governor of the central bank commented that the current situation gives them the scope to keep policy rate on hold through 2014.

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Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
Retail Sales MoM	05 Aug	Jun	0.20%	0.40%	0.00%
Trade Balance	06 Aug	Jun	507M	804M	602M
Unemployment Rate	08 Aug	Jul	5.70%	5.80%	--
China	Date	Period	Prior	Cons.	Actual
Non-manufacturing PMI	03 Aug	Jul	53.9	--	54.1
Trade Balance	08 Aug	Jul	\$27.12B	\$25.95B	--
Exports YoY	08 Aug	Jul	-3.10%	1.50%	--
Imports YoY	08 Aug	Jul	-0.70%	1.00%	--
Industrial Production YoY	09 Aug	Jul	8.90%	9.00%	--
Fixed Assets Ex Rural YTD YoY	09 Aug	Jul	20.10%	20.00%	--
Retail Sales YoY	09 Aug	Jul	13.30%	13.50%	--
CPI YoY	09 Aug	Jul	2.70%	2.80%	--
Hong Kong	Date	Period	Prior	Cons.	Actual
HSBC/Markit PMI	05 Aug	Jul	48.7	--	49.7
India	Date	Period	Prior	Cons.	Actual
HSBC/Markit Services PMI	05 Aug	Jul	51.7	--	47.9
Japan	Date	Period	Prior	Cons.	Actual
BOJ 2014 Monetary Base Target	08 Aug	08-Aug	¥270T	--	--
Tertiary Industry Index MoM	09 Aug	Jun	1.20%	-0.40%	--
Malaysia	Date	Period	Prior	Cons.	Actual
Exports YoY	05 Aug	Jun	-5.10%	-7.40%	-6.90%
Industrial Production YoY	07 Aug	Jun	3.40%	3.70%	--
Philippines	Date	Period	Prior	Cons.	Actual
CPI YoY	06 Aug	Jul	2.70%	2.90%	2.50%
Singapore	Date	Period	Prior	Cons.	Actual
GDP SAAR QoQ	09-16 AUG	2Q F	15.20%	14.20%	--
GDP YoY	09-16 AUG	2Q F	3.70%	3.40%	--
Taiwan	Date	Period	Prior	Cons.	Actual
CPI YoY	05 Aug	Jul	0.60%	0.60%	0.08%
Wholesale Price Index YoY	05 Aug	Jul	-2.02%	-1.88%	-2.13%
Exports YoY	08 Aug	Jul	8.60%	5.00%	--

Calendar Events

Australia - RBA Cash Rate Target, Aug 06 We expect the benchmark rate to be cut by 25 bps	Current 2.75%	Cons. 2.50%	New 2.50%
Japan - BoJ Target Rate, Aug 08 We expect the benchmark rate to remain unchanged	Current 0.10%	Cons. --	New --
Korea - BoK 7-Day Repo Rate, Aug 08 We expect the benchmark rate to remain unchanged	Current 2.50%	Cons. 2.50%	New --

Indicator of the Week

China: Industrial Production (July, Aug 9th)

Forecast: 9.0% y/y	Consensus: 9.0% y/y	Prior: 8.9% y/y
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We expect China's growth deceleration to moderate, as suggested by the better-than-expected official NBS PMI for July (50.3 vs consensus: 49.8; prior 50.1). Domestic demand is gaining support from a series of new, albeit small, stimulus measures, while external demand should benefit from a gradually improving global economy. Hence, we expect industrial production to improve slightly in July. Nonetheless, in view constraints to growth from rising financial risks, manufacturing activity will remain soft and improve only slowly during the course of H2 (note that the HSBC PMI for July was considerably lower, at 47.7). In the coming week, we will also watch closely for additional July activity indicators, including trade (due out Aug 8th), inflation, investment, and retail sales (due out Aug 9th).

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.	2060.5	0.5	3.5	-9.2	-4.4
	Hong Kong – Hang Seng	21923.7	-1.3	-0.1	-3.2	9.6
	Taiwan – Weighted	8038.9	-1.2	-1.5	4.4	10.3
	Japan – Nikkei 225	14401.1	1.0	3.8	38.5	65.0
	Korea – Kospi	1906.6	-0.5	-0.5	-4.5	1.1
	India – Sensex 30	18733.0	-2.3	-3.2	-3.6	7.6
	Australia – SPX/ASX 200	5105.6	-0.1	1.2	9.8	19.5
	Singapore – Strait Times	3224.9	-0.5	-0.6	1.8	5.0
	Indonesia – Jakarta Comp	4640.8	0.4	-0.4	7.5	13.2
	Thailand – SET	1429.4	0.4	-0.4	2.7	18.3
	Malaysia – KLCI	1784.6	0.0	-0.6	5.7	8.9
	Philippines – Manila Comp.	6420.8	-1.4	-4.6	10.5	21.5

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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)	6.12	0.05	0.16	6.20	6.28
	Hong Kong (HKD/USD)	7.76	0.01	-0.01	7.75	7.75
	Taiwan (TWD/USD)	30.0	-0.13	-0.01	29.93	29.78
	Japan (JPY/USD)	98.13	0.17	-0.10	98.09	97.79
	Korea (KRW/USD)	1116	-0.15	-0.15	1120	1129
	India (INR/USD)	61.4	-0.84	-1.47	63.00	66.60
	Australia (USD/AUD)	0.90	0.58	-0.89	1.12	1.14
	Singapore (SGD/USD)	1.27	0.07	0.22	1.27	1.27
	Indonesia (IDR/USD)	10286	-0.36	-0.12	10634	11314
	Thailand (THB/USD)	31.4	-0.10	-0.48	31.58	31.96
	Malaysia (MYR/USD)	3.25	-0.49	-0.67	3.26	3.31
	Philippines (PHP/USD)	43.5	-0.16	-0.34	43.51	43.74

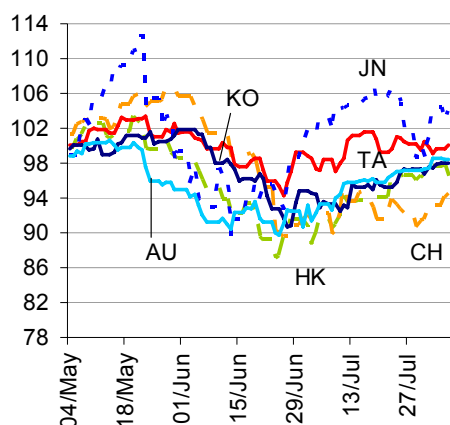
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	4.05	-0.28	-0.46	0.25
	Hong Kong (HIBOR/1W)	0.12	0.00	0.00	0.00
	Taiwan (TAIBOR/1W)	0.52	0.00	0.00	-0.01
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	2.56	0.00	0.00	0.00
	India (MIBOR/7D)	4.17	-0.18	-0.83	-0.25
	Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00
	Indonesia (JIBOR/1W)	5.32	0.08	0.13	0.77
	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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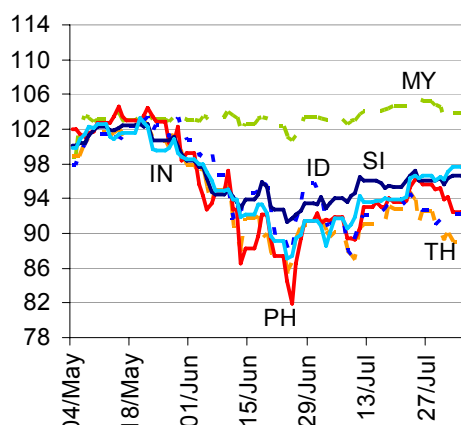
Charts

Chart 1
Stock Markets



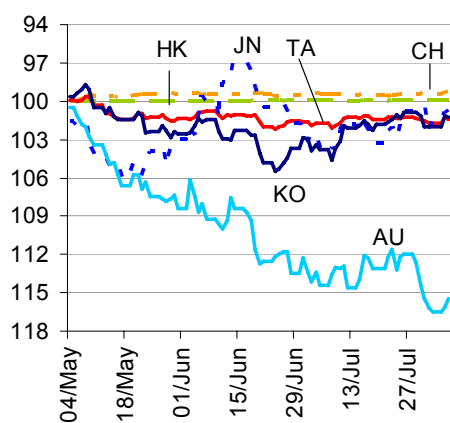
Source: BBVA Research and Bloomberg

Chart 2
Stock Markets



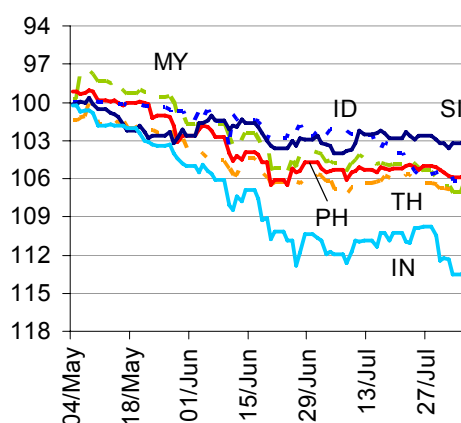
Source: BBVA Research and Bloomberg

Chart 3
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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