

Asia Flash

Asia

Inflation picks up in Australia, further reducing rate cut possibility

Australia inflation (which is released quarterly) rose by more than expected, to 2.7% y/y in Q4 (consensus: 2.4%; Q3:2.2%). The closely-watched underlying "trimmed mean" measure of inflation also rose by more than expected, to 2.6% y/y (consensus: 2.3%; Q3: 2.3%). The rise in inflation is somewhat surprising given weak domestic demand and relatively high unemployment (5.8% in December), a rise in imported prices had been anticipated given recent currency weakness. The outturn is still with the Reserve Bank of Australia's 2-3% inflation target range. The RBA has held rates constant at 2.50% since August 2013, after reducing rates by a cumulative 225 bps from November 2011. According to the RBA's recent policy statements, the substantial easing has been working to revive interest-sensitive sectors of the economy, in the midst of weak mining activity. The pickup in inflation, while modest, could reduce room for further rate cuts – as anticipated already in our baseline outlook for no further cuts this year -- and could complicate the RBA's efforts to keep the value of the currency on the weak side. The AUD rose in value today to about 89 per USD. We expect growth this year to pick up to 2.9% from an estimated 2.4% in 2013.

Bank of Thailand keeps holds rates at 2.25% as political crisis deepens

In a close call, and against market expectations, the Bank of Thailand (BoT) today kept its benchmark repo rate unchanged at 2.25%. A range of economic indicators have weakened in recent months, as tourists and investors stay on the sidelines due to continuing protests against the incumbent government of Prime Minister Yingluck Shinawatra. The government yesterday declared a state of emergency to restrain anti-government protests ahead of national elections scheduled for February 2 (which the opposition vows to boycott). The BOT last cut rates in November, and we would not rule out another cut in the months ahead given the downside risks to growth and benign inflation.

Bank of Japan policy meeting concludes with no changes on policy stance

As expected, the Bank of Japan today maintained its Quantitative and Qualitative Easing stance unchanged at the conclusion of its two-day monthly policy meeting. The BoJ aims to increase the monetary base at an annual pace of ¥60-70 trillion to achieve its 2% inflation target. Abenomics will face challenges in the coming year on headwinds to growth from a forthcoming increase in the sales tax scheduled in April (from 5% to 8%). It will become increasingly important for structural reforms to gain traction to sustain market confidence and growth momentum. We expect the economy to grow by 1.5% in the coming year, down from an estimated 1.7% in 2013.

Expert panel in India recommends CPI as the nominal anchor for policy

An expert panel has recommended that the Central Bank adopt headline Consumer Price Index (CPI) as its nominal anchor for policy communication. Such a monetary policy regime shift, away from the current multiple indicator approach based output, inflation, trade and fiscal indicators, would help ground inflation expectations by enhancing the RBI's focus on price stability. The panel has recommended a two year headline CPI target of 4.0% y/y while aiming to lower CPI inflation from the current level of 10% to 8% over 2014 and to 6% in 2015. The report also proposed several other measures to strengthen monetary policy. While we expect the RBI to take on board most of the recommendations, the transition in monetary policy approach is likely to be a gradual process over the medium term.

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Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
CPI QoQ	22 Jan	4Q	1.20%	0.40%	0.80%
CPI YoY	22 Jan	4Q	2.20%	2.40%	2.70%
China	Date	Period	Prior	Cons.	Actual
GDP SA QoQ	20 Jan	4Q	2.20%	2.00%	1.80%
GDP YoY	20 Jan	4Q	7.80%	7.60%	7.70%
GDP YTD YoY	20 Jan	4Q	7.70	7.70	7.70%
Fixed Assets Ex Rural YTD YoY	20 Jan	Dec	19.90%	19.80%	19.60%
Retail Sales YoY	20 Jan	Dec	13.70%	13.60%	13.60%
Industrial Production YoY	20 Jan	Dec	10.00%	9.80%	9.70%
HSBC/Markit Flash Mfg PMI	23 Jan	Jan	50.5	50.3	--
Hong Kong	Date	Period	Prior	Cons.	Actual
Unemployment Rate SA	20 Jan	Dec	3.30%	3.30%	3.20%
CPI Composite YoY	21 Jan	Dec	4.30%	4.30%	4.30%
Japan	Date	Period	Prior	Cons.	Actual
Industrial Production YoY	20 Jan	Nov F	5.00%	--	4.80%
All Industry Activity Index MoM	22 Jan	Nov	-0.40%	0.30%	0.30%
Malaysia	Date	Period	Prior	Cons.	Actual
CPI YoY	22 Jan	Dec	2.90%	3.10%	3.20%
Philippines	Date	Period	Prior	Cons.	Actual
Imports YoY	24 Jan	Nov	-8.60%	-2.10%	--
Singapore	Date	Period	Prior	Cons.	Actual
CPI YoY	23 Jan	Dec	2.60%	2.00%	--
Industrial Production YoY	24 Jan	Dec	4.00%	-1.40%	--
Korea	Date	Period	Prior	Cons.	Actual
GDP YoY	23 Jan	4Q P	3.30%	3.90%	--
GDP SA QoQ	23 Jan	4Q P	1.10%	0.90%	--
Taiwan	Date	Period	Prior	Cons.	Actual
Export Orders YoY	20 Jan	Dec	0.80%	2.00%	7.40%
Unemployment Rate	22 Jan	Dec	4.15%	4.15%	4.12%
Commercial Sales YoY	23 Jan	Dec	2.25%	1.60%	--
Industrial Production YoY	23 Jan	Dec	-0.12%	2.00%	--
Vietnam	Date	Period	Prior	Cons.	Actual
CPI YoY	24 Jan	Jan	6.04%	6.10%	--
Exports YTD YoY	25-29 Jan	Jan	15.40%	--	--
Retail Sales YTD YoY	25-29 Jan	Jan	12.60%	--	--
Industrial Production YoY	25-29 Jan	Jan	7.00%	--	--

Calendar Events

Thailand – BoT Benchmark Interest Rate, Jan 22	Current	Cons.	New
We expect the benchmark rate to remain unchanged	2.25%	2.00%	2.25%

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.	2051.7	2.2	1.4	-3.0	-11.4
Hong Kong – Hang Seng	23082.3	0.2	0.8	-1.0	-2.4	
Taiwan – TAIEX	8625.3	0.3	0.3	0.2	11.2	
Japan – Nikkei 225	15821.0	0.2	0.1	-2.9	47.7	
Korea – Kospi	1970.4	0.3	0.9	-2.0	-1.3	
India – Sensex 30 *	21315.8	0.3	0.1	0.7	6.7	
Australia – SPX/ASX 200	5319.8	-0.2	1.4	-0.6	11.3	
Singapore – Strait Times	3133.7	0.0	-0.3	-1.1	-2.7	
Indonesia – Jakarta Comp	4477.5	0.6	0.8	4.8	1.4	
Thailand – SET	1290.4	-0.2	1.0	-0.6	-10.0	
Malaysia – KLCI	1814.1	-0.1	-1.1	-2.8	11.4	
Philippines – Manila Comp.	6139.9	2.0	3.1	4.2	0.6	

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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)	6.05	-0.02	-0.09	6.10	6.11
Hong Kong (HKD/USD)	7.76	0.00	-0.04	7.76	7.76	
Taiwan (TWD/USD)	30.2	-0.04	-0.41	30.18	30.02	
Japan (JPY/USD)	104.33	-0.03	0.22	104.29	104.02	
Korea (KRW/USD)	1067	-0.20	-0.44	1073	1084	
India (INR/USD)	61.8	0.08	-0.48	63.06	66.69	
Australia (USD/AUD)	0.89	0.75	-0.49	1.13	1.15	
Singapore (SGD/USD)	1.28	0.02	-0.41	1.28	1.28	
Indonesia (IDR/USD)	12143	-0.07	-0.48	12388	13118	
Thailand (THB/USD)	32.9	0.11	-0.03	33.14	33.73	
Malaysia (MYR/USD)	3.32	0.05	-1.12	3.34	3.39	
Philippines (PHP/USD)	45.2	0.11	-0.44	45.37	45.56	

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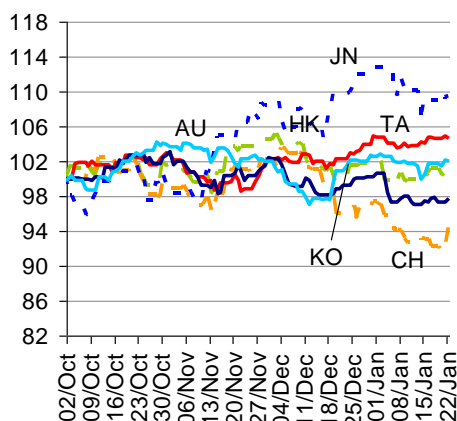
INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	5.20	-0.33	0.44	-1.80
Hong Kong (HIBOR/1W)	0.13	0.00	0.00	0.00	
Taiwan (TAIBOR/1W)	0.51	0.00	0.00	0.00	
Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01	
Korea (KORIBOR/1M)	2.55	0.00	0.00	-0.02	
India (MIBOR/7D)	5.22	-0.38	1.02	-2.68	
Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00	
Indonesia (JIBOR/1W)	6.46	0.00	0.04	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

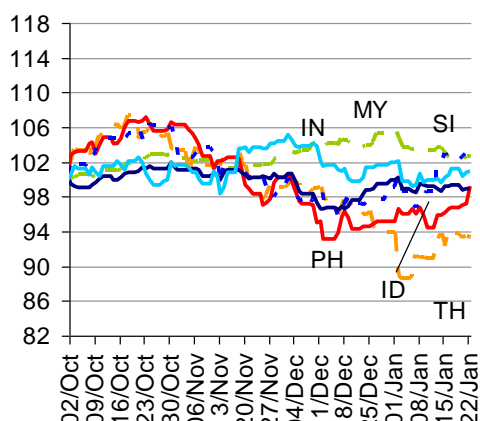
Stock Markets



Source: BBVA Research and Bloomberg

Chart 2

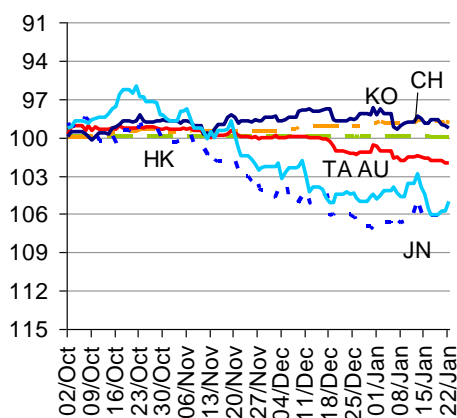
Stock Markets



Source: BBVA Research and Bloomberg

Chart 3

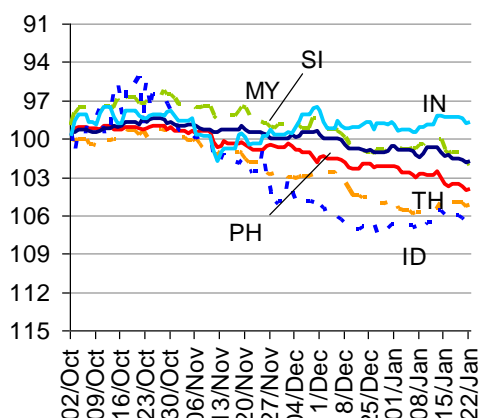
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4

Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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