

**BBVA**

RESEARCH

Economic Analysis
6 March 2012

Daily Flash

Asia

The retracement in Asian equity markets continued for a second straight day, led by declines of -2% in Hong Kong and Singapore. Currencies were also weaker, and the Australia dollar declined after the RBA held interest rates unchanged (normally a positive for the currency), but issued a less hawkish statement on the future course of interest rates than expected by some market participants.

Australia keeps interest rate unchanged at 4.25%, as expected

The RBA kept interest rates unchanged for a second straight month, noting that inflation remains within the 2-3% target range and that growth remains close to trend. It expressed confidence in the external outlook, but noted that there is room for interest rate cuts if the external situation worsens. The latter took some market participants by surprise, and may have been a factor for a decline in the AUD to 1.06 per USD. Markets will be awaiting the release of Q4 GDP due out tomorrow (consensus: 0.8% q/q s.a.).

The Philippines' February inflation falls sharply

Inflation fell to 2.7% y/y (consensus: 3.2%) from 3.9% the previous month, primarily due to declines in food prices and transportation. The decline could prompt the central bank to continue cutting interest rates at the policy meeting next month. However, with two rate cuts already this year, bringing the policy rate to 4.00%, we expect rates to be kept on hold due to inflationary risks of rising oil prices.

China mulling over a widening of the RMB daily band

According to PBoC governor Zhou Xiaochuan, in a statement circulated with the 2012 government work report released yesterday, China is considering a to enhance two-way flexibility in the currency by widening the daily +/- 0.5% trading band. China last widened the band in 2007, when it was increased from +/- 0.3%.

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Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
TD Securities Inflation MoM%	05-Mar	FEB	0.20%	--	0.10%
Current Account Balance	06-Mar	4Q	-5637M	-8050M	-8374M
Gross Domestic Product (QoQ)	07-Mar	4Q	1.00%	0.80%	--
Gross Domestic Product (YoY)	07-Mar	4Q	2.50%	2.40%	--
Unemployment Rate	08-Mar	FEB	5.10%	5.20%	--
Trade Balance	09-Mar	JAN	1709M	1500M	--
China	Date	Period	Prior	Cons.	Actual
Consumer Price Index (YoY)	09-Mar	FEB	4.50%	3.40%	--
Industrial Production YTD YoY	09-Mar	FEB	13.90%	12.30%	--
Industrial Production (YoY)	09-Mar	FEB	12.80%	12.50%	--
Retail Sales YTD YoY	09-Mar	FEB	17.10%	17.60%	--
Retail Sales (YoY)	09-Mar	FEB	18.10%	17.30%	--
Exports YoY%	10-Mar	FEB	-0.50%	32.00%	--
Imports YoY%	10-Mar	FEB	-15.30%	30.20%	--
New Yuan Loans	11-15 MAR	FEB	738.1B	750.0B	--
Money Supply - M2 (YoY)	11-15 MAR	FEB	12.40%	12.80%	--
Hong Kong	Date	Period	Prior	Cons.	Actual
Purchasing Managers Index	05-Mar	FEB	51.9	--	52.8
India	Date	Period	Prior	Cons.	Actual
India February Markit Services PMI	05-Mar	FEB	58.0	--	56.5
Japan	Date	Period	Prior	Cons.	Actual
GDP Deflator YoY	08-Mar	4Q F	-1.60%	-1.60%	--
GDP Annualized	08-Mar	4Q F	-2.30%	-0.60%	--
Gross Domestic Product (QoQ)	08-Mar	4Q F	-0.60%	-0.20%	--
Current Account Total	08-Mar	JAN	¥303.5B	¥320.0B	--
Machine Tool Orders (YoY)	08-Mar	FEB P	-6.90%	--	--
Malaysia	Date	Period	Prior	Cons.	Actual
Exports YoY%	07-Mar	JAN	6.10%	2.00%	--
Philippines	Date	Period	Prior	Cons.	Actual
Consumer Price Index (YoY)	06-Mar	FEB	3.90%	3.20%	2.70%
Singapore	Date	Period	Prior	Cons.	Actual
Purchasing Managers Index	05-Mar	FEB	48.7	49.4	50.4
Taiwan	Date	Period	Prior	Cons.	Actual
CPI YoY%	05-Mar	FEB	2.37%	1.30%	0.25%
Total Exports (YoY)	07-Mar	FEB	-16.80%	9.50%	--
Thailand	Date	Period	Prior	Cons.	Actual
Total Exports (YoY%)	09-14 MAR	JAN	-2.10%	--	--
Current Account Balance (USD)	09-14 MAR	JAN	\$1940M	\$1500M	--

Indicator of the Week

China: Industrial output for January-February (March 9)

Forecast: 11.5%

Consensus: 12.5%

Prior: 12.8%

It is difficult this week to choose a single indicator given a number of important data releases scheduled this coming week in China, including inflation, industrial production, retail sales, exports and new loans. We select industrial production for the combined months of January and February given existing uncertainties about recent growth momentum (the data are to be released for the combined months given distortions from the Chinese New Year). Data so far this year has generally been encouraging, with PMI outturns in January and February remaining above the 50-level expansion/contraction threshold, although other indicators, such as electricity consumption suggest weakness. We expect industrial production to moderate slightly, but remain strong given signs of robust manufacturing orders. At the same time, we expect inflation to moderate further, to around 3.2% y/y in February (from 4.5% in January), which should provide room for further policy support such as cuts in the required reserve ratio.

Calendar Events

Australia - RBA cash target, March 6

The benchmark cash target remained unchanged

Current

4.25%

Consensus

4.25%

New

4.25%

South Korea - 7-day repo rate, March 8

We expect the 7-day repo rate to remain unchanged

Current

3.25%

Consensus

3.25%

New

--

Indonesia - Bank Indonesia Reference rate, March 8

We expect the reference rate to remain unchanged

Current

5.75%

Consensus

--

New

--

Malaysia - Overnight rate, March 9

We expect the overnight rate to remain unchanged

Current

3.00%

Consensus

3.00%

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.	2410.4	-1.4	-1.7	9.6	-18.1
	Hong Kong - Hang Seng	20806.3	-2.2	-3.5	12.9	-11.1
	Taiwan - Weighted	7938.0	-0.8	-2.3	12.2	-9.6
	Japan - Nikkei 225	9637.6	-0.6	-0.9	14.0	-9.9
	Korea - Kospi	2000.4	-0.8	0.5	9.6	-0.2
	India - Sensex 30	17132.7	-1.3	-3.4	10.9	-7.3
	Australia - SPX/ASX 200	4204.7	-1.4	-1.4	3.7	-13.6
	Singapore - Strait Times	2932.0	-2.0	-1.3	10.8	-4.2
	Indonesia - Jakarta Comp	3967.1	-0.4	1.6	3.8	12.0
	Thailand - SET	1153.2	-0.4	0.6	12.5	15.8
	Malaysia - KLCI	1589.9	0.0	2.1	3.9	4.4
	Philippines - Manila Comp.	4967.4	-1.3	3.0	13.6	27.9

Last update: today, 17.45 Hong Kong time

FOREIGN EXCHANGE MARKETS	CURRENCY	Spot	% change over a day	% change over a week	Forward 3-month	Forward 12-month
	China (CNY/USD)	6.31	-0.02	-0.14	6.32	6.31
	Hong Kong (HKD/USD)	7.76	0.01	-0.09	7.76	7.76
	Taiwan (TWD/USD)	29.5	-0.07	0.19	29.50	29.23
	Japan (JPY/USD)	80.96	0.74	-0.62	80.89	80.50
	Korea (KRW/USD)	1123	-0.36	0.16	1131	1143
	India (INR/USD)	50.3	-0.83	-2.37	51.30	53.27
	Australia (USD/AUD)	1.06	-0.61	-1.49	0.95	0.98
	Singapore (SGD/USD)	1.26	-0.39	-0.91	1.26	1.26
	Indonesia (IDR/USD)	9189	-0.71	-0.66	9281	9646
	Thailand (THB/USD)	30.7	-0.29	-1.27	30.88	31.26
	Malaysia (MYR/USD)	3.02	-0.12	-0.39	3.04	3.07
	Philippines (PHP/USD)	43.0	-0.53	-0.37	43.18	43.50

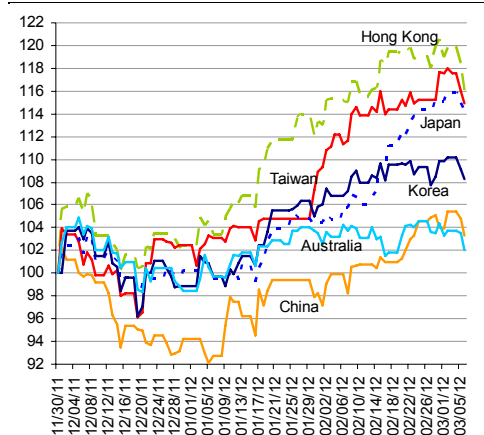
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.13	-0.02	-0.14	-0.27
	Hong Kong (HIBOR/1W)	0.12	0.00	0.00	-0.04
	Taiwan (TAIBOR/1W)	0.64	0.00	0.00	0.00
	Japan (TIBOR/1Y)	0.76	0.00	0	0
	Korea (KORIBOR/1M)	3.38	0.00	0.00	-0.01
	India (MIBOR/7D)	3.13	-0.02	-0.57	-0.32
	Singapore (SIBOR/1W)	0.31	0.00	0.00	0.00
	Indonesia (JIBOR/1W)	3.81	0.00	0	0
	Thailand (BIBOR/1W)	3.01	0.00	0.00	0.00
	Malaysia (KLIBOR/1W)	2.90	0.00	0.00	0.00
	Philippines (PHIBOR/1W)	3.81	0.13	0.38	0.06

Last update: today, 17.45 Hong Kong time

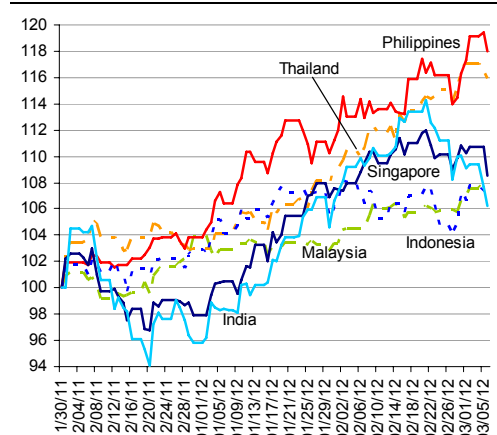
Charts

Chart 9
Stock Markets



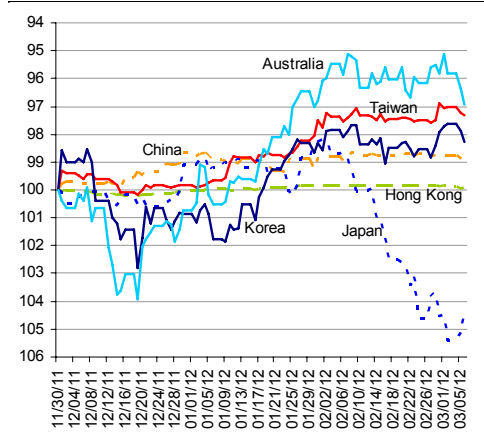
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



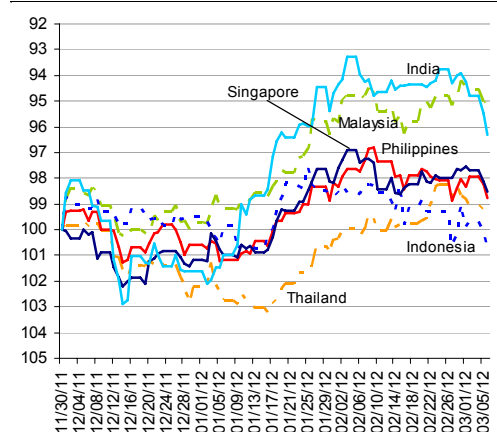
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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