

**BBVA**

RESEARCH

Economic Analysis
9 March 2012

Daily Flash

Asia

Investor sentiment was upbeat again today, on positive spillovers from the Greek debt exchange and data in China that reinforces expectations of policy loosening. Regarding the latter, the outcome of today's inflation and activity indicators came out in a sweet spot for markets: moderating enough to reinforce expectations of policy easing, but not enough to generate worries about the growth outlook.

Moderating indicators in China reinforce expectations of policy loosening

Headline inflation for February declined to 3.2% y/y, at the lower end of expectations (BBVA: 3.2%, consensus: 3.4%), on falling food prices and strong base effects from the Chinese New Year (which occurred in February this year as opposed to January last year). Meanwhile, retail sales and industrial production for the combined months of January/February (released together to strip out New Year seasonality) moderated by more than expected, while fixed asset investment also moderated, but beat expectations. Taken together, the outturns reinforce our expectations of further policy loosening (*see China Flash for details*).

Briefly noted:

- **Malaysia's central bank keeps interest rates on hold at 3%.** The decision to hold rates unchanged at 3%, the level since May 2011, was expected. The central bank noted that downside risks to growth have eased somewhat and that further monetary stimulus is not needed at this time.
- **Australia posts trade deficit in January as exports slow.** Australia unexpectedly posted its largest trade deficit in two years in January, (A\$673 million deficit vs. consensus: A\$1.4 billion surplus). Exports fell by 8.2% from the previous month as commodity exports to China dropped sharply because of the Chinese New Year. The worse-than-expected trade data may reinforce concerns about Australia's growth outlook. The AUD was little affected, remaining around 1.06 per USD.
- **Focus on China's NPC and India's budget next week.** After the conclusion of China's National Peoples' Congress next Wednesday, attention will shift to India with February inflation due out on Wednesday, followed by the RBI's monetary policy meeting on Thursday, and the government's FY2012's budget on Friday (see Weekly Indicator below).

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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%	0.40%
Gross Domestic Product (YoY)	07-Mar	4Q	2.50%	2.40%	2.30%
Unemployment Rate	08-Mar	FEB	5.10%	5.20%	5.20%
Trade Balance	09-Mar	JAN	1709M	1500M	-673M
China	Date	Period	Prior	Cons.	Actual
Consumer Price Index (YoY)	09-Mar	FEB	4.50%	3.40%	3.20%
Industrial Production YTD YoY	09-Mar	FEB	13.90%	12.30%	11.40%
Retail Sales YTD YoY	09-Mar	FEB	17.10%	17.60%	14.70%
Exports YoY%	10-Mar	FEB	-0.50%	31.10%	--
Imports YoY%	10-Mar	FEB	-15.30%	31.80%	--
New Yuan Loans	09-Mar	FEB	738.1B	750.0B	710.7B
Money Supply - M2 (YoY)	09-Mar	FEB	12.40%	12.80%	13.00%
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%	-1.80%
GDP Annualized	08-Mar	4Q F	-2.30%	-0.60%	-0.70%
Gross Domestic Product (QoQ)	08-Mar	4Q F	-0.60%	-0.30%	-0.5%
Current Account Total	08-Mar	JAN	¥303.5B	¥320.0B	¥437.3B
Machine Tool Orders (YoY)	08-Mar	FEB P	-6.90%	--	-8.60%
Malaysia	Date	Period	Prior	Cons.	Actual
Exports YoY%	07-Mar	JAN	6.10%	2.10%	0.40%
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%	10.30%

Indicator of the Week

India: WPI Inflation for February (March 14)

Forecast: 6.4% y/y

Consensus: 6.7% y/y

Prior: 6.6% y/y

The coming week will be crucial for investor sentiment in India, with February WPI inflation be watched for cues on the RBI's March 15 monetary policy meeting. This will be followed by the central government budget due on March 16, in which we will be looking for bold measures on fiscal consolidation and growth supportive policy reforms. We expect inflation to continue moderating on strong base effects, softer food prices and, and lower price pressures from slowing growth. A sustained moderation in inflation, especially core, would increase the probability of a 25 bps interest rate cut by the Reserve Bank of India (RBI) in its March 15 policy meeting, which remains our base case. We also expect the RBI to enact a 50bps cut in the cash reserve ratio given the tightness in interbank liquidity. We expect RBI to cut policy rates by 100-150 bps in 2012

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

The 7-day repo rate remained unchanged

Current

3.25%

Consensus

3.25%

New

3.25%

Indonesia - Bank Indonesia Reference rate, March 8

The reference rate remained unchanged

Current

5.75%

Consensus

5.75%

New

5.75%

Malaysia - Overnight rate, March 9

The overnight rate remained unchanged

Current

3.00%

Consensus

3.00%

New

3.00%

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.	2439.5	0.8	-0.9	10.9	-18.7
	Hong Kong - Hang Seng	21086.0	0.9	-2.2	14.4	-11.4
	Taiwan - Weighted	8016.0	0.4	-1.2	13.3	-8.4
	Japan - Nikkei 225	9929.7	1.6	1.6	17.4	-6.2
	Korea - Kospi	2018.3	0.9	-0.8	10.5	0.8
	India - Sensex 30	17503.2	2.1	-0.5	13.3	-5.1
	Australia - SPX/ASX 200	4212.0	1.0	-1.4	3.8	-11.7
	Singapore - Strait Times	2963.2	-0.2	-1.0	12.0	-4.2
	Indonesia - Jakarta Comp	3991.5	0.6	-0.3	4.4	10.9
	Thailand - SET	1158.7	-0.8	-0.5	13.0	13.9
	Malaysia - KLCI	1579.0	0.0	-0.3	3.2	3.6
	Philippines - Manila Comp.	4980.7	0.5	-0.7	13.9	26.8

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	0.08	-0.20	6.30	6.30
	Hong Kong (HKD/USD)	7.76	-0.02	0.02	7.75	7.75
	Taiwan (TWD/USD)	29.5	0.05	-0.19	29.39	29.12
	Japan (JPY/USD)	81.79	-0.28	0.02	81.72	81.33
	Korea (KRW/USD)	1118	0.03	-0.20	1127	1140
	India (INR/USD)	49.9	0.77	-0.81	51.00	52.97
	Australia (USD/AUD)	1.06	-0.22	-1.04	0.95	0.98
	Singapore (SGD/USD)	1.25	-0.22	-0.13	1.25	1.25
	Indonesia (IDR/USD)	9136	-0.01	-0.53	9185	9486
	Thailand (THB/USD)	30.6	-0.10	-0.07	30.74	31.12
	Malaysia (MYR/USD)	3.01	0.09	-0.10	3.03	3.06
	Philippines (PHP/USD)	42.6	-0.11	0.12	42.74	43.07

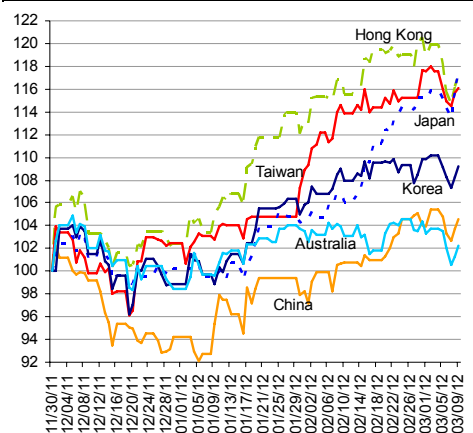
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	2.95	0.05	-0.31	-0.70
	Hong Kong (HIBOR/1W)	0.11	0.00	-0.01	-0.05
	Taiwan (TAIBOR/1W)	0.64	0.00	0.00	0.00
	Japan (TIBOR/1Y)	0.76	0.00	0	0
	Korea (KORIBOR/1M)	3.38	0.00	0.00	-0.01
	India (MIBOR/7D)	2.97	-0.02	0.43	-1.03
	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)	3.56	-0.06	-0.06	-0.38

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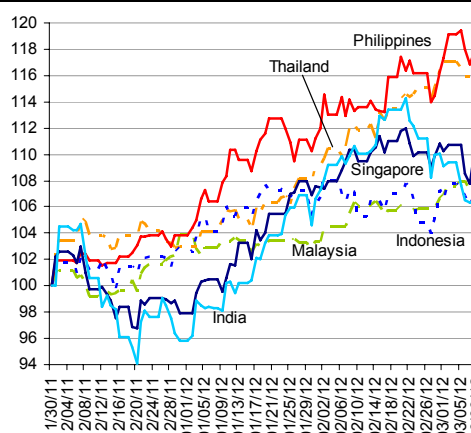
Charts

Chart 9
Stock Markets



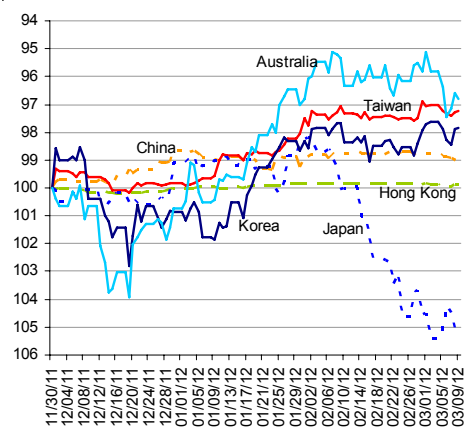
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



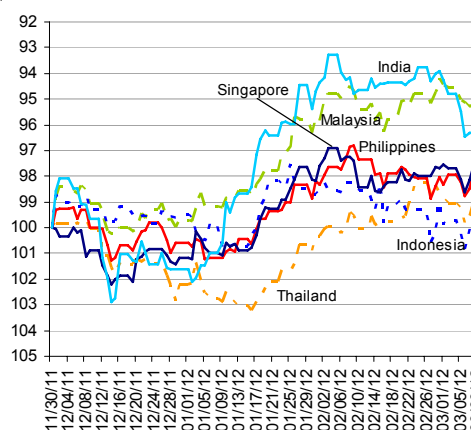
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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