

**BBVA**

RESEARCH

Economic Analysis
17 April 2012

Daily Flash

Asia

Weaker FDI inflows to China and concerns about the European debt crisis sent markets lower again today, although a larger-than-expected rate cut by the RBI lifted shares in India. Meanwhile, the RMB strengthened to 6.30 following a stronger fixing today, as traders try to evaluate the implications of the wider daily trading band announced last Saturday.

India's central bank surprises with a 50 bps rate cut

The Reserve Bank of India (RBI) cut its benchmark repo rate by 50 bps to 8.0%, marking the beginning of an easing cycle. We had expected a rate cut today of 25bps, in line with the market consensus. The RBI's decision was due to an ongoing deceleration in the pace of growth, along with a moderating trend in inflation, particularly core. We expect a further 50 bps in easing in the second half of 2012 to support investment activity. While hinting at further rate cuts, the RBI emphasized that there is limited room for significant rate cuts given upside risks to inflation, a weak currency, and fiscal and BOP pressures.

A decline in foreign investment inflows to China continues in March

Foreign direct investment to China declined by -6.1% y/y, the fifth straight monthly decline in year-on-year terms. FDI inflows actually increased sequentially, to USD11.8 billion in March from USD7.7 billion in February. Investment from Europe dropped by -31.3% y/y. In addition, recent tightening policies in the real estate market have also reduced foreign investment in the housing market, which traditionally has accounted for around one quarter of FDI inflows.

Reserve Bank of Australia minutes hint further rate cuts likely

The RBA today released the minutes of its monthly policy meeting held on April 3, when it decided to keep its policy rate unchanged at 4.25%. At that meeting, the RBA hinted that it will be watching for whether sluggish demand is the primary factor driving inflation lower, which would provide room for further policy rate cuts. First quarter inflation is to be released next week (April 24), which will be an important determinant of the next rate decision by the RBA, scheduled for May 1, when we expect the central bank to deliver a 25bp rate cut.

Briefly noted:

- **Domestic banks in China have been given the authority to hold short positions in foreign currencies, effective yesterday.** Banks will be subject to limits based on their size. Banks were previously prohibited from holding such short positions in order to prevent them from speculating on RMB appreciation. The move comes fresh on the heels of a widening of the currency band.

Stephen Schwartz
Chief Economist for Asia
stephen.schwartz@bbva.com.hk
+852 2582 3218

Jeffrey Cantwell
Economist
jeffrey.cantwell@bbva.com.hk
+852 2582 3173

William Fitchett
Economist
william.fitchett@bbva.com.hk
+852 2582 3246

With contributions from the BBVA Research Asia Team

Calendar Indicators

China	Date	Period	Prior	Cons.	Actual
Actual FDI (YoY)	17-Apr	MAR	-0.90%	-13.60%	-6.10%
Hong Kong	Date	Period	Prior	Cons.	Actual
Unemployment Rate SA	19-Apr	MAR	3.40%	3.50%	--
India	Date	Period	Prior	Cons.	Actual
Monthly Wholesale Prices YoY%	16-Apr	MAR	6.95%	6.65%	6.89%
Japan	Date	Period	Prior	Cons.	Actual
Industrial Production (MoM)	17-Apr	FEB F	-1.20%	--	-1.60%
Industrial Production YOY%	17-Apr	FEB F	1.50%	--	1.50%
Capacity Utilization (MoM)	17-Apr	FEB F	3.40%	--	-1.70%
Merchandise Trade Balance Total	19-Apr	MAR	¥32.9B	-¥223.2B	--
Tertiary Industry Index (MoM)	20-Apr	FEB	-1.70%	0.70%	--
Malaysia	Date	Period	Prior	Cons.	Actual
CPI YoY	20-Apr	MAR	2.20%	2.10%	--
Philippines	Date	Period	Prior	Cons.	Actual
Overseas Remittances (YoY)	16-Apr	FEB	5.40%	--	5.80%
Singapore	Date	Period	Prior	Cons.	Actual
Non-oil Domestic Exports (YoY)	17-Apr	MAR	30.50%	7.10%	-4.30%
Taiwan	Date	Period	Prior	Cons.	Actual
Export Orders (YoY)	20-Apr	MAR	17.60%	-2.81%	--
Thailand	Date	Period	Prior	Cons.	Actual
Customs Exports (YoY)	17-19 APR	MAR	0.90%	-2.30%	--
Customs Imports (YoY)	17-19 APR	MAR	8.30%	3.50%	--

Calendar Events

India - India REPO cutoff yield, April 17

We expected a 25bps cut in the repo rate

Current	Consensus	New
8.50%	8.25%	8.00%

Philippines - Overnight borrowing rate, April 19

We expect the overnight rate to remain unchanged

Current	Consensus	New
4.00%	4.00%	- -

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.	2335.0	-0.9	1.3	6.2	-23.5
	Hong Kong - Hang Seng	20562.3	-0.2	1.0	11.5	-14.4
	Taiwan - Weighted	7585.9	-1.9	-0.7	7.3	-13.0
	Japan - Nikkei 225	9464.7	-0.1	-0.8	11.9	-1.3
	Korea - Kospi	1985.3	-0.4	-0.6	8.7	-7.3
	India - Sensex 30	17345.0	1.1	0.6	12.2	-10.5
	Australia - SPX/ASX 200	4288.8	-0.3	-0.1	5.7	-11.6
	Singapore - Strait Times	2986.6	-0.2	0.1	12.9	-5.3
	Indonesia - Jakarta Comp	4157.4	0.3	0.2	8.8	11.4
	Thailand - SET	1158.4	-0.9	-3.3	13.0	6.8
	Malaysia - KLCI	1596.2	-0.1	-0.1	4.3	4.9
	Philippines - Manila Comp.	5157.3	0.8	2.7	18.0	21.3

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)	6.30	0.21	0.14	6.32	6.34
	Hong Kong (HKD/USD)	7.76	-0.04	0.05	7.76	7.75
	Taiwan (TWD/USD)	29.5	0.05	0.12	29.41	29.16
	Japan (JPY/USD)	80.64	-0.29	0.04	80.56	80.12
	Korea (KRW/USD)	1141	-0.17	-0.08	1144	1158
	India (INR/USD)	51.5	0.34	-0.05	52.51	54.61
	Australia (USD/AUD)	1.04	0.10	1.12	0.97	1.00
	Singapore (SGD/USD)	1.25	-0.21	0.94	1.25	1.25
	Indonesia (IDR/USD)	9174	0.15	-0.07	9250	9585
	Thailand (THB/USD)	30.8	0.07	0.68	30.93	31.32
	Malaysia (MYR/USD)	3.07	0.07	0.32	3.08	3.12
	Philippines (PHP/USD)	42.6	0.33	0.40	42.84	43.22

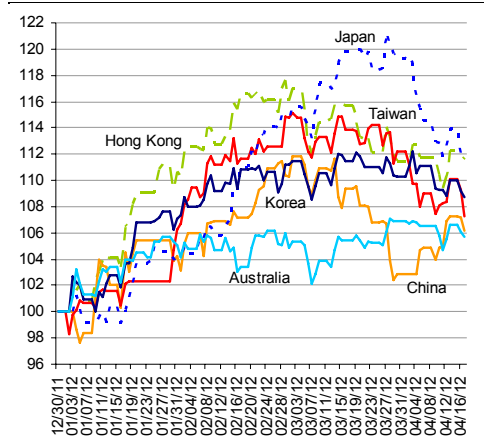
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.77	-0.03	-0.03	0.87
	Hong Kong (HIBOR/1W)	0.11	0.00	0.00	0.00
	Taiwan (TAIBOR/1W)	0.65	0.00	0.01	0.01
	Japan (TIBOR/1Y)	0.76	0.00	0	0
	Korea (KORIBOR/1M)	3.38	0.00	0.00	0.00
	India (MIBOR/7D)	3.76	-0.55	-0.34	0.86
	Singapore (SIBOR/1W)	0.25	0.00	0.00	-0.06
	Indonesia (JIBOR/1W)	3.81	0.00	0	0
	Thailand (BIBOR/1W)	3.02	0.00	0.00	0.00
	Malaysia (KLIBOR/1W)	2.90	0.00	0.00	0.00
	Philippines (PHIBOR/1W)	3.75	0.06	0.13	0.06

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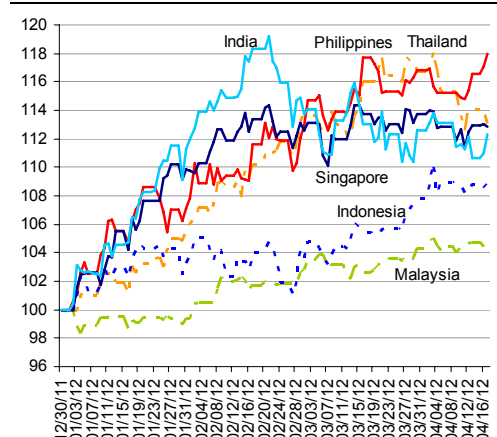
Charts

Chart 9
Stock Markets



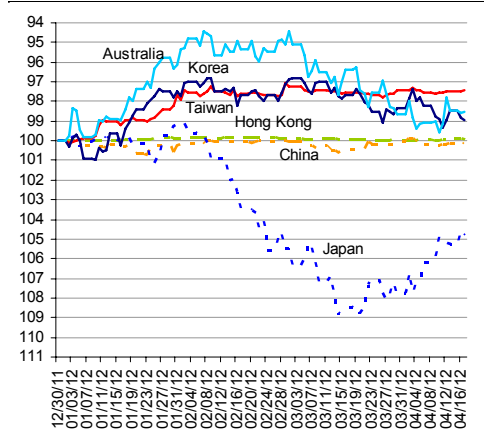
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



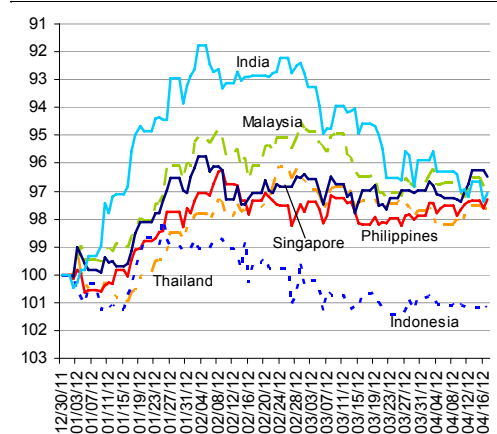
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
Foreign Exchange Markets



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Stephen Schwartz
Chief Economist for Asia
stephen.schwartz@bbva.com.hk

Fielding Chen
Senior Economist
fielding.chen@bbva.com.hk

Le Xia
Senior Economist (China)
xia.le@bbva.com.hk

Zhigang Li
Senior Economist (China)
zhigang.li@bbva.com.hk

Sumedh Deorukhkar
Senior Economist (India, Mumbai)
sumedh.deorukhkar@grupobbva.com

Jeffrey Cantwell
Economist
jeffrey.cantwell@bbva.com.hk

George Xu
Economist
george.xu@bbva.com.hk

Richard Li
Asian FX Chief Strategist
richard.li@bbva.com.hk

William Fitchett
Economist
william.fitchett@bbva.com.hk

BBVA

RESEARCH



43/F., Two IFC, 8 Finance Street, Central, Hong Kong | Tel.: +852 2582 3111 | www.bbva.com.hk

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