



Daily Flash

Asia

As ongoing worries about Europe's growth outlook continue to weigh on market sentiment in Asia, a much lower inflation outturn released today in Australia is adding to expectations of a 25bp interest rate cut by the RBA on Friday (see below), and extending the AUD's recent decline to 1.028. Beyond Australia, we continue to expect further monetary easing in China and India in the months ahead to support domestic growth.

Australia's lower-than-expected Q1 inflation supports another rate cut

Australia's headline inflation for the first quarter declined sharply, to 1.6% y/y (BBVA: 2.4%; consensus: 2.2%) from 3.1% y/y the previous quarter (Australia only releases inflation on a quarterly basis). The decline was mainly due to falling food and housing prices, as well as base effects. Meanwhile, underlying inflation (trimmed-mean inflation), which is closely monitored by the RBA, also fell to 2.2% y/y from 2.6% y/y in the previous quarter. Together with sluggish domestic (non-mining) activity, the lower inflation outturn increases the likelihood of a 25 bps rate cut by the RBA at its next policy meeting on May 1. At its last meeting in early April, the central bank said, "if slower growth in demand could be expected to result in a more moderate inflation outcome, then a case could be made for a further easing of monetary policy." It appears these conditions have been met, and we anticipate a cut in the policy rate to 4.00% on May 1, and for the RBA to remain on hold thereafter during the remainder of the year.

A disappointment in Indonesia as S&P passes on an upgrade

As foreshadowed in the Daily Flash last week, S&P ratings agency decided to pass on an expected sovereign upgrade. After upgrades by Fitch and Moody's in previous months to investment grade, S&P had been widely expected to follow suit this month during its annual review. However, S&P announced yesterday that it would keep its sovereign rating unchanged at BB+, one notch below investment grade, with a positive outlook. The agency cited "policy slippages", which include the postponement of planned fuel and electricity price hikes, along with a rise in "policy uncertainties" as factors in its decision. Investors nevertheless remain bullish, with first quarter FDI inflows accelerating, and strong appetite last week for the latest Indonesian sovereign bond sale.

Briefly noted:

- **Hong Kong's March exports disappointed, falling by -6.8% y/y** (consensus: +4.0%), due to declining demand from major Asian markets. Exports to US and the EU were also weak, underscoring the uncertain outlook. Slowing exports will weigh on HK's economy, which we expect to decelerate to 3.0% growth in 2012 from 5.0% in 2011.
- **The Korean government announced the outlines of its 2013 budget**, aiming for fiscal balance and focusing on job creation, welfare and education spending. The budget will be submitted to Parliament in September.
- **Vietnam may lower its official GDP growth target from 6.0-6.5%, according to media reports**, with speculation that the new target may be 5.0-5.5%
- **The Wall Street Journal reports that India may establish a strategy energy fund** – the country's first attempt at a government-backed investment fund – designed to purchase raw materials which will help support the country's growth.

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Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
Producer Price Index (QoQ)	23-Apr	1Q	0.30%	0.40%	-0.30%
Producer Price Index (YoY)	23-Apr	1Q	2.90%	2.20%	1.40%
Consumer Prices (QoQ)	24-Apr	1Q	0.00%	0.60%	0.10%
Consumer Prices (YoY)	24-Apr	1Q	3.10%	2.20%	1.60%
China	Date	Period	Prior	Cons.	Actual
HSBC Flash China Manufacturing PMI	23-Apr	APR	48.3	--	49.1
Hong Kong	Date	Period	Prior	Cons.	Actual
CPI - Composite Index (YoY)	23-Apr	MAR	4.70%	4.90%	4.90%
Exports YoY%	24-Apr	MAR	14.00%	4.00%	-6.80%
Imports YoY%	24-Apr	MAR	20.80%	5.00%	-4.70%
Japan	Date	Period	Prior	Cons.	Actual
Machine Tool Orders (YoY)	25-Apr	MAR F	2.40%	--	--
All Industry Activity Index (MoM)	26-Apr	FEB	-1.00%	-0.20%	--
Jobless Rate	27-Apr	MAR	4.50%	4.50%	--
Natl CPI YoY	27-Apr	MAR	0.30%	0.40%	--
Natl CPI Ex-Fresh Food YoY	27-Apr	MAR	0.10%	0.10%	--
Natl CPI Ex Food, Energy YoY	27-Apr	MAR	-0.60%	-0.50%	--
Industrial Production (MoM)	27-Apr	MAR P	-1.60%	2.30%	--
Industrial Production YOY%	27-Apr	MAR P	1.50%	15.60%	--
Singapore	Date	Period	Prior	Cons.	Actual
CPI (MOM) - NSA	23-Apr	MAR	-0.30%	0.30%	0.80%
CPI (YoY)	23-Apr	MAR	4.60%	4.70%	5.20%
Industrial Production MoM SA	26-Apr	MAR	-1.10%	-1.40%	--
Industrial Production YoY	26-Apr	MAR	12.10%	-5.80%	--
South Korea	Date	Period	Prior	Cons.	Actual
GDP (QoQ)	26-Apr	1Q P	0.30%	0.90%	--
GDP (YoY)	26-Apr	1Q P	3.30%	3.00%	--
Taiwan	Date	Period	Prior	Cons.	Actual
Industrial Production (YoY)	23-Apr	MAR	8.40%	-6.05%	-3.42%
Unemployment Rate - sa	23-Apr	MAR	4.15%	4.18%	4.14%
Thailand	Date	Period	Prior	Cons.	Actual
Customs Exports (YoY)	26-Apr	MAR	0.90%	0.10%	--
Customs Imports (YoY)	26-Apr	MAR	8.30%	6.30%	--
Foreign Reserves	27-Apr	20-Apr	\$178.6B	--	--
Vietnam	Date	Period	Prior	Cons.	Actual
CPI (YoY)	23-Apr	APR	14.20%	11.90%	10.50%
Exports YTD (YoY)	24-30 APR	APR	23.60%	--	--

Indicator of the Week

Australia: CPI Inflation for Q1 (April 24)

Forecast: 2.4% y/y

Consensus: 2.2%y/y

Prior: 3.1% y/y

Australia's Q1 inflation will be watched as a guide to the Reserve Bank of Australia's interest rate decision at its forthcoming monetary policy meeting on May 1. Expectations of an interest rate cut have been growing following the release of minutes from the last policy meeting on April 3, in which Board members indicated that a moderate inflation outturn for Q1 could make a case for further easing of monetary policy in view of weak domestic conditions, especially in the non-mining sector. The outlook is for both headline and core inflation to fall within the central bank's target of 2-3% in the coming year. Based on our outlook for inflation, we expect the RBA to cut interest rates by 25bps on May 1. The RBA last cut interest rates in November and December, but signalled at that time that further cuts were unlikely given improving global conditions.

Calendar Events

Japan - Bank of Japan target rate, April 27

We expect the target rate to remain unchanged

Current

0.10%

Consensus

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New

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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.	2388.8	0.0	2.3	8.6	-20.7
	Hong Kong - Hang Seng	20677.2	0.3	0.6	12.2	-14.3
	Taiwan - Weighted	7498.8	0.2	-1.1	6.0	-16.4
	Japan - Nikkei 225	9468.0	-0.8	0.0	12.0	-2.2
	Korea - Kospi	1963.4	-0.5	-1.1	7.5	-10.7
	India - Sensex 30	17207.3	0.6	-0.9	11.3	-12.2
	Australia - SPX/ASX 200	4360.4	0.2	1.7	7.5	-11.3
	Singapore - Strait Times	2974.4	0.4	-0.4	12.4	-6.9
	Indonesia - Jakarta Comp	4170.4	0.4	0.3	9.1	9.7
	Thailand - SET	1199.9	0.9	3.4	17.0	8.6
	Malaysia - KLCI	1582.3	-0.1	-0.9	3.4	3.9
	Philippines - Manila Comp.	5169.6	0.1	0.2	18.2	20.9

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	0.01	-0.09	6.32	6.35
	Hong Kong (HKD/USD)	7.76	0.01	-0.02	7.76	7.75
	Taiwan (TWD/USD)	29.5	0.02	0.02	29.42	29.15
	Japan (JPY/USD)	81.22	-0.05	-0.46	81.15	80.70
	Korea (KRW/USD)	1141	-0.11	-0.02	1147	1160
	India (INR/USD)	52.8	-0.46	-2.44	53.97	56.21
	Australia (USD/AUD)	1.03	-0.36	-1.04	0.98	1.01
	Singapore (SGD/USD)	1.25	-0.01	0.08	1.25	1.24
	Indonesia (IDR/USD)	9199	-0.13	-0.27	9275	9608
	Thailand (THB/USD)	31.0	0.06	-0.55	31.13	31.56
	Malaysia (MYR/USD)	3.06	0.13	0.10	3.08	3.12
	Philippines (PHP/USD)	42.7	-0.11	-0.20	42.89	43.26

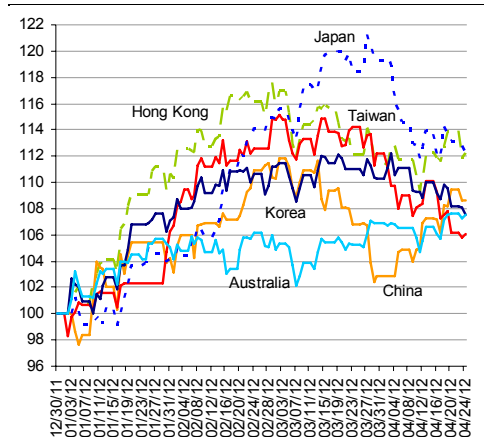
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.81	0.04	0.01	0.64
	Hong Kong (HIBOR/1W)	0.11	0.00	0.00	0.00
	Taiwan (TAIBOR/1W)	0.66	0.00	0.00	0.01
	Japan (TIBOR/1Y)	0.76	0.00	0	0
	Korea (KORIBOR/1M)	3.38	0.00	0.00	0.00
	India (MIBOR/7D)	3.95	0.09	0.19	0.96
	Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00
	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)	3.56	0.00	-0.19	0.00

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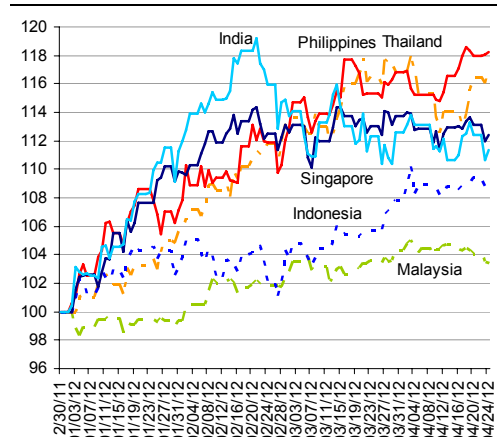
Charts

Chart 9
Stock Markets



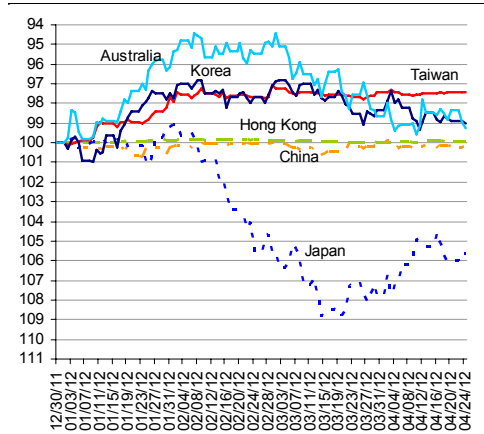
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



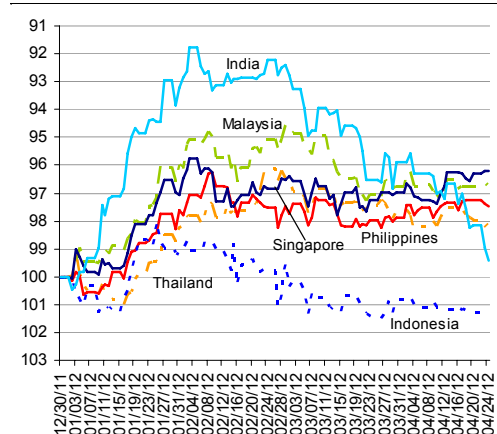
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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