

Daily Flash

Asia

Today's focus was on a weakening environment in India (see below) and a downward revision to Australia's GDP forecast by the RBA which, interestingly enough, contrasted with bullish statements from Thailand's central bank regarding the country's 2012 GDP forecast. Most of Asia's markets were weaker, with the SENSEX losing 1.9% on the day. Ahead of a batch of important data releases next week, including CPI and exports, China's markets have rallied to a seven-week high, with media reports citing a possible easing in the reserve requirement ratio forthcoming as the key reason.

Rupee weakness continues

The Indian rupee touched a fresh four month low against the US dollar today. For the week, the rupee fell by more than 2% (and is down by more than 10% over the past quarter) amid waning FII flows due to a global risk off environment, domestic policy uncertainties, and worries over India's widening current account deficit. Perhaps more importantly, the recent outlook downgrade (to negative) by S&P has put the rupee under pressure, as has sustained dollar buying by importers. Looking ahead, while the INR could remain under pressure in the near-term, positive news flow, especially regarding the FII taxation issue (expected next week), could serve as a catalyst for an eventual rebound.

China to increase foreign investor limits in securities joint ventures

According to Bloomberg, a US official reported that China will increase the stake limit of foreign investors in securities joint ventures (JVs) in China from 33% to 49%. In addition, the JVs will be allowed to trade commodities and financial futures. Details and exact timeframes for these changes have not yet been confirmed by the government, but if true, these measures would be in line with China's stated decision to relax restrictions with regards to its capital account.

Reserve Bank of Australia cuts GDP growth, inflation forecasts

Three days after cutting interest rates by 50bps, the Reserve Bank of Australia (RBA) lowered its 2012 GDP forecast to 3.0% from 3.5% due to weakening exports and subdued housing activity. The RBA also lowered its inflation forecast for 2012 to 2.25% y/y, from 2.75% y/y. These revisions are well in line with our own views, and reflect weakening exports and subdued housing activity.

Rate cuts on hold in Thailand as the economy continues to rebound

Thailand's central bank governor confirmed today that the recent easing cycle in policy rates is over for the time being (they have cut by 50bps since November). The country's recovery from last year's flooding has taken hold faster than previously expected, with the governor now expecting the country to expand by 6% this year (though for now, the official forecast is for 5.7% y/y growth).

Briefly noted:

- **In the Philippines, inflation accelerated to 3.0% y/y in April** (consensus 2.6% y/y) from 2.6% y/y the previous month, due to rising fuel and food prices. Inflation may rise further in the coming months as lag effects from two interest rate cuts pass through the economy.
- **Next week will feature three monetary policy meetings:** Indonesia, Korea (both on Thursday) and Malaysia (Friday). We expect rates will remain unchanged for all. In

addition, a number of important indicators will be released in China (see Weekly Indicator below), while India and Malaysia will release industrial output data, and Q1 GDP data will be reported by Hong Kong and Indonesia.

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

Australia	Date	Period	Prior	Cons.	Actual
TD Securities Inflation MoM%	30-Apr	APR	0.50%	--	0.30%
China	Date	Period	Prior	Cons.	Actual
PMI Manufacturing	01-May	APR	53.1	53.6	53.3
HSBC Manufacturing PMI	02-May	APR	48.3	--	49.3
China Non-manufacturing PMI	03-May	APR	58	--	56.1
China HSBC Services PMI	04-May	APR	53.3	--	54.1
Hong Kong	Date	Period	Prior	Cons.	Actual
Retail Sales - Volume (YoY)	03-May	MAR	10.10%	8.90%	13.40%
Purchasing Managers Index	04-May	APR	52.0	--	50.3
Indonesia	Date	Period	Prior	Cons.	Actual
Inflation (YoY)	01-May	APR	3.97%	4.46%	4.50%
Inflation NSA (MoM)	01-May	APR	0.07%	0.20%	0.21%
Core Inflation (YoY)	01-May	APR	4.25%	4.20%	4.24%
Exports (YoY)	01-May	MAR	8.50%	3.80%	5.50%
India	Date	Period	Prior	Cons.	Actual
Exports YoY%	01-May	MAR	4.30%	--	-5.70%
Imports YoY%	01-May	MAR	20.70%	--	24.30%
India April Markit Manufacturing PMI	02-May	APR	54.7	--	54.9
India April Markit Services PMI	03-May	APR	52.3	--	52.8
Japan	Date	Period	Prior	Cons.	Actual
Monetary Base (YoY)	02-May	APR	-0.20%	--	-0.30%
Philippines	Date	Period	Prior	Cons.	Actual
Consumer Price Index (YoY)	04-May	APR	2.60%	2.60%	3.00%
Consumer Price Index NSA (MoM)	04-May	APR	0.20%	0.40%	0.80%
Singapore	Date	Period	Prior	Cons.	Actual
Unemployment Rate (sa)	30-Apr	1Q P	2.00%	2.00%	2.10%
Purchasing Managers Index	03-May	APR	50.2	50.4	49.7
South Korea	Date	Period	Prior	Cons.	Actual
Industrial Production (MoM)	30-Apr	MAR	0.80%	0.20%	-3.10%
Industrial Production (YoY)	30-Apr	MAR	14.40%	2.20%	0.30%
Consumer Price Index (MoM)	01-May	APR	-0.10%	0.30%	0.00%
Consumer Price Index (YoY)	01-May	APR	2.60%	2.80%	2.50%
Ext Trade - Export (YoY)	01-May	APR	-1.40%	-1.10%	-4.70%
Ext Trade - Imports (YoY)	01-May	APR	-1.20%	1.70%	-0.20%
Taiwan	Date	Period	Prior	Cons.	Actual
GDP - Constant Prices (YoY)	30-Apr	1Q P	1.89%	0.91%	0.36%
HSBC Manufacturing PMI	02-May	APR	54.1	--	51.2
Thailand	Date	Period	Prior	Cons.	Actual
Consumer Price Index (YoY)	01-May	APR	3.45%	2.90%	2.47%
Core CPI (YoY)	01-May	APR	2.77%	2.40%	2.13%

Indicator of the Week

China: Industrial output for April (May 11)

Forecast: 10.0%

Consensus: 12.1%

Prior: 11.9%

Following a string of positive PMI readings, markets have grown more confident in China's near-term growth outlook. Nevertheless, the next monthly batch of activity indicators will be closely watched for indications of the pace and sustainability of the pickup in momentum. In the coming week key indicators include inflation, retail sales, investment, and credit aggregates. We focus here on industrial output, where we expect a slight decline in year-on-year growth terms due to largely to base effects. We continue to expect further policy easing in the months ahead to support domestic demand, with room for provided by contained inflation, although we expect a small uptick in headline inflation to 3.7%y/y in April (from 3.6% in March) due to the lingering effect of recent oil price increases (CPI inflation will be released on May 11).

Calendar Events

Australia - RBA cash target, May 1

We expected a 25 bps cut in the benchmark rate

Current

4.25%

Consensus

4.00%

New

3.75%

Thailand - Benchmark interest rate, May 2

We expected the benchmark rate to remain 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.	2452.0	0.5	1.9	11.5	-14.4
	Hong Kong - Hang Seng	21086.0	-0.8	1.3	14.4	-9.6
	Taiwan - Weighted	7701.0	0.5	2.4	8.9	-13.9
	Japan - Nikkei 225	9380.3	0.3	-0.9	10.9	-6.2
	Korea - Kospi	1989.2	-0.3	1.3	9.0	-8.8
	India - Sensex 30	16831.1	-1.9	-1.7	8.9	-8.9
	Australia - SPX/ASX 200	4396.0	-0.7	0.8	8.4	-7.3
	Singapore - Strait Times	2990.6	-0.3	0.3	13.0	-4.0
	Indonesia - Jakarta Comp	4216.7	-0.2	1.3	10.3	10.5
	Thailand - SET	1227.4	-1.0	1.5	19.7	14.3
	Malaysia - KLCI	1591.0	0.5	0.7	3.9	4.1
	Philippines - Manila Comp.	5297.6	-0.1	1.5	21.2	23.3

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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)	6.31	-0.01	0.06	6.32	6.35
	Hong Kong (HKD/USD)	7.76	-0.03	-0.03	7.76	7.76
	Taiwan (TWD/USD)	29.2	-0.08	0.21	29.11	28.82
	Japan (JPY/USD)	80.21	-0.04	0.07	80.14	79.73
	Korea (KRW/USD)	1132	-0.22	0.32	1140	1153
	India (INR/USD)	53.8	-0.78	-2.40	54.92	57.26
	Australia (USD/AUD)	1.02	-0.23	-2.21	0.99	1.01
	Singapore (SGD/USD)	1.24	0.17	-0.35	1.24	1.24
	Indonesia (IDR/USD)	9214	0.18	-0.27	9443	9815
	Thailand (THB/USD)	30.9	0.03	-0.61	31.10	31.52
	Malaysia (MYR/USD)	3.04	-0.29	0.18	3.06	3.09
	Philippines (PHP/USD)	42.4	-0.32	-0.03	42.64	42.99

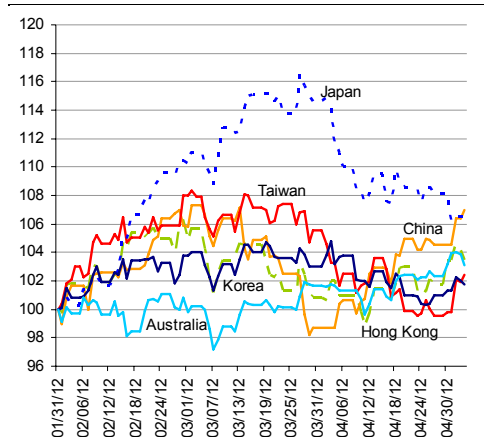
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.85	0.00	0.05	0.40
	Hong Kong (HIBOR/1W)	0.15	0.00	0.04	0.04
	Taiwan (TAIBOR/1W)	0.66	0.00	0.00	0.02
	Japan (TIBOR/1Y)	0.76	0.00	0	0
	Korea (KORIBOR/1M)	3.37	0.00	-0.01	-0.01
	India (MIBOR/7D)	3.95	0.08	-0.03	0.24
	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)	3.31	0.13	-0.06	-0.50

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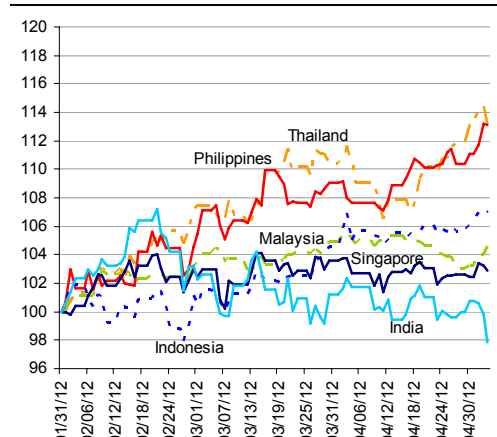
Charts

Chart 9
Stock Markets



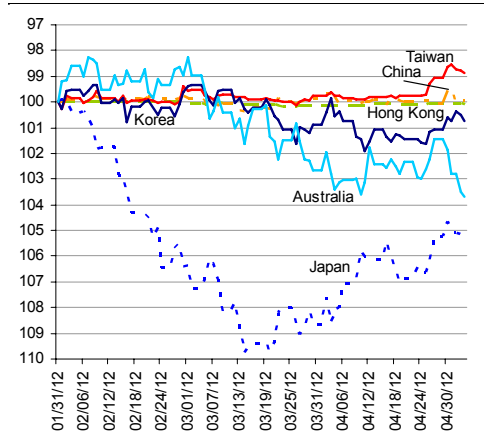
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



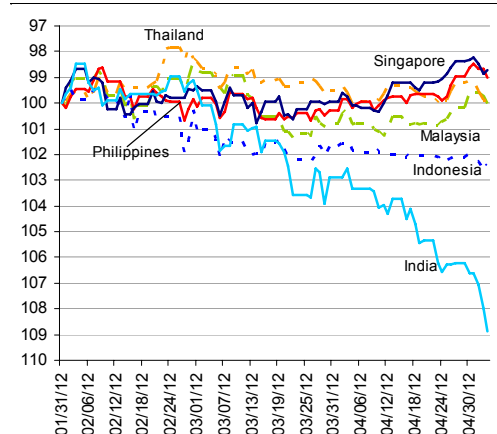
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
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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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