

Daily Flash

Asia

Australia cuts interest rates amidst global uncertainties

In line with expectations, the Reserve Bank of Australia cut its policy rate by 25 bps to 3.50%, citing modest domestic growth and a weak global environment. Recent data shows soft retail sales and a subdued housing market, underscoring ongoing difficulties in the domestic economy. The move follows May's unexpected 50bp rate cut; since then, the outlook for the global economy has further deteriorated, with recent indicators pointing to slowdowns not only in the US and Europe, but also in China, on which Australian commodity exporters are heavily dependent. Though not in our previous baseline, should economic conditions remain weak, the RBA may continue to cut rates (interest rates bottomed out at 3.0% in 2009). Meanwhile, the focus tomorrow will be on Australia's 1Q GDP (consensus: +0.6% s.a. q/q; BBVA: +0.8% s.a. q/q), which is expected to show an improvement from the previous quarter (+0.4% s.a. q/q).

India's central bank deputy governor hints at rate cut

RBI's deputy governor Subir Gokarn has noted that India's disappointing growth performance in 1Q12 and recent softness in crude prices provides greater room for monetary policy easing. However, he also noted that further corrective actions to contain budget and current account deficits were warranted, and that high food prices, twin deficits and a weak rupee would continue to fuel inflationary pressures. RBI's last policy statement had expressed limited room for further policy easing amid suppressed inflationary pressures and modest downside risk to growth. However, the deputy governor's dovish signal is in line with our expectations of 50 bps policy of further easing over the course of 2012. We expect the RBI to ease interest rates by at least 25 bps at the upcoming policy meeting on June 18th.

Briefly noted:

- **Inflation in the Philippines fell below policymakers' 3%-5% target**, to 2.9% y/y in May from 3.0% in April, due to lower transportation costs. Easing inflationary pressures are yet another positive for the Philippines, which has been buoyed recently by strong first quarter GDP growth (6.4% y/y) as well as by Moody's upgrade of the Philippines' sovereign outlook, to positive from stable (the Philippines has a current rating of Ba2, two levels below investment grade).
- **India's services PMI rose to 54.7 in May from 52.8 in the previous month**, driven mainly by an acceleration in new orders. The weak rupee is supporting India's export-oriented services industry, with rising expectations of decisive actions on policy reforms also stirring hopes of a gradual rebound.
- **Taiwan's May CPI was 1.7% yoy, slight higher than expected (consensus: 1.4%)**. Though inflationary pressures remained mild, the central bank is likely to remain on hold at its coming quarterly monetary meeting, to be held in late June.

Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
Current Account Balance	05-Jun	1Q	-8374M	-14650M	-14892M
Gross Domestic Product (QoQ)	06-Jun	1Q	0.40%	0.50%	--
Gross Domestic Product (YoY)	06-Jun	1Q	2.30%	3.20%	--
Unemployment Rate	07-Jun	MAY	4.90%	5.10%	--
Trade Balance	08-Jun	APR	-1587M	-900M	--
China	Date	Period	Prior	Cons.	Actual
China HSBC Services PMI	05-Jun	MAY	54.1	--	54.7
Consumer Price Index (YoY)	09-Jun	MAY	3.40%	3.20%	--
Producer Price Index (YoY)	09-Jun	MAY	-0.70%	-1.20%	--
Industrial Production YTD YoY	09-Jun	MAY	11.00%	10.70%	--
Industrial Production (YoY)	09-Jun	MAY	9.30%	9.80%	--
Fixed Assets Inv Excl. Rural YTD YoY	09-Jun	MAY	20.20%	20.00%	--
Retail Sales YTD YoY	09-Jun	MAY	14.70%	14.60%	--
Retail Sales (YoY)	09-Jun	MAY	14.10%	14.20%	--
Trade Balance (USD)	10-Jun	MAY	\$18.43B	\$17.55B	--
Exports YoY%	10-Jun	MAY	4.90%	7.00%	--
Imports YoY%	10-Jun	MAY	0.30%	4.00%	--
Hong Kong	Date	Period	Prior	Cons.	Actual
Purchasing Managers Index	05-Jun	MAY	50.3	--	49.4
India	Date	Period	Prior	Cons.	Actual
India May Markit Services PMI	05-Jun	MAY	52.8	--	54.7
Japan	Date	Period	Prior	Cons.	Actual
Monetary Base (YoY)	04-Jun	MAY	-0.30%	--	2.40%
GDP Annualized	08-Jun	1Q F	4.10%	4.40%	--
Gross Domestic Product (QoQ)	08-Jun	1Q F	1.00%	1.10%	--
Trade Balance - BOP Basis	08-Jun	APR	¥4.2B	¥450.7B	--
Current Account Balance YOY%	08-Jun	APR	-8.60%	7.50%	--
Malaysia	Date	Period	Prior	Cons.	Actual
Unemployment Rate	04-Jun	1Q	3.00%	--	3.00%
Exports YoY%	06-Jun	APR	-0.10%	1.60%	--
Philippines	Date	Period	Prior	Cons.	Actual
Consumer Price Index (YoY)	05-Jun	MAY	3.00%	3.00%	2.90%
Singapore	Date	Period	Prior	Cons.	Actual
Purchasing Managers Index	05-Jun	MAY	49.7	49.5	--
South Korea	Date	Period	Prior	Cons.	Actual
GDP (QoQ)	07-Jun	1Q F	0.90%	--	--
GDP (YoY)	07-Jun	1Q F	2.80%	--	--
Taiwan	Date	Period	Prior	Cons.	Actual
CPI YoY%	05-Jun	MAY	1.44%	1.40%	1.74%
Total Exports (YoY)	07-Jun	MAY	-6.40%	-5.50%	--

Indicator of the Week

China: Industrial output for May (June 9)

Forecast: 10.5% y/y

Consensus: 9.8% y/y

Prior: 9.3% y/y

China's growth momentum moderated further in April, prompting the government to increase policy support recently. New measures have been geared towards increasing consumption and investment in infrastructure, while the central bank also decided to cut the reserve requirement ratio by 50bps on May 12th. Taking these supportive policies into account, we expect the industrial production index, a key gauge of China's growth momentum, to improve slightly in May to 10.5% in year-on-year terms, up from 9.3% in April. In addition to IP, several other important indicators will also be released next week, including inflation, retail sales, investment, and credit aggregates. Headline inflation is expected to remain low at 3.3%/y/y in May (from 3.4%/y/y in April) due to easing food and fuel prices, providing room for further policy easing in the coming months, if necessary.

Calendar Events

Australia - RBA Cash Target, June 5

We expected the benchmark rate to remain unchanged

Current	Consensus	New
3.75%	3.50%	3.50%

South Korea - 7-Day Repo Rate, June 8

We expect the benchmark rate to remain unchanged

Current	Consensus	New
3.25%	3.25%	--

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.	2311.9	0.1	-3.3	5.1	-15.3
	Hong Kong - Hang Seng	18259.0	0.4	-4.2	-1.0	-20.4
	Taiwan - Weighted	7000.5	1.5	-4.7	-1.0	-22.6
	Japan - Nikkei 225	8382.0	1.0	-3.2	-0.9	-11.7
	Korea - Kospi	1801.9	1.0	-2.6	-1.3	-14.7
	India - Sensex 30	16017.6	0.2	-2.6	3.6	-12.8
	Australia - SPX/ASX 200	4043.7	1.5	-1.7	-0.3	-11.8
	Singapore - Strait Times	2712.3	0.5	-3.2	2.5	-13.8
	Indonesia - Jakarta Comp	3717.9	1.7	-5.1	-2.7	-3.3
Thailand - SET	1099.2	-1.4	-3.6	7.2	3.9	
Malaysia - KLCI	1560.4	0.3	-0.3	1.9	0.0	
Philippines - Manila Comp.	4925.7	0.7	-1.9	12.7	14.6	

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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)	6.37	-0.05	-0.30	6.38	6.43
	Hong Kong (HKD/USD)	7.76	0.00	0.07	7.76	7.75
	Taiwan (TWD/USD)	30.0	0.18	-1.23	29.91	29.65
	Japan (JPY/USD)	78.19	0.19	1.66	78.10	77.59
	Korea (KRW/USD)	1180	0.16	-0.46	1187	1197
	India (INR/USD)	55.7	-0.12	-0.10	56.87	58.96
	Australia (USD/AUD)	0.97	0.00	-1.22	1.04	1.05
	Singapore (SGD/USD)	1.29	-0.12	-0.81	1.29	1.28
	Indonesia (IDR/USD)	9449	-0.23	-0.02	9634	10058
Thailand (THB/USD)	31.7	-0.51	0.25	31.82	32.25	
Malaysia (MYR/USD)	3.20	-0.01	-1.60	3.22	3.25	
Philippines (PHP/USD)	43.5	-0.06	-0.61	43.79	44.21	

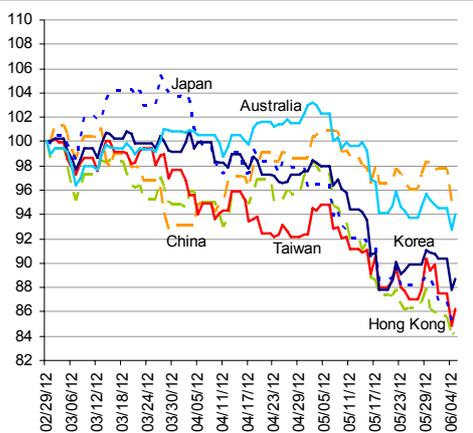
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	2.60	0.12	0.47	-1.25
	Hong Kong (HIBOR/1W)	0.13	0.00	0.00	-0.02
	Taiwan (TAIBOR/1W)	0.67	0.00	0.00	0.00
	Japan (TIBOR/1Y)	0.76	0.00	0	0
	Korea (KORIBOR/1M)	3.36	0.00	-0.01	-0.01
	India (MIBOR/7D)	2.65	-0.26	-0.05	-1.30
	Singapore (SIBOR/1W)	0.31	0.00	0.06	0.06
	Indonesia (JIBOR/1W)	4.05	0.04	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	0.00	0.06	0.00	

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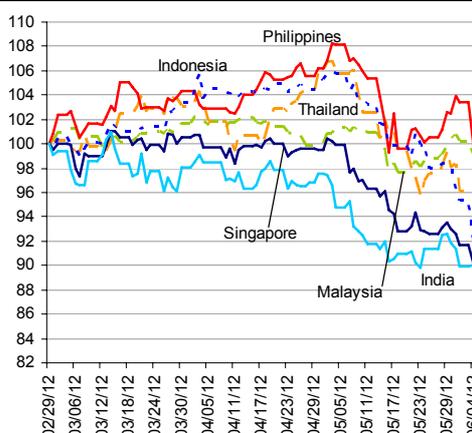
Charts

Chart 9
Stock Markets



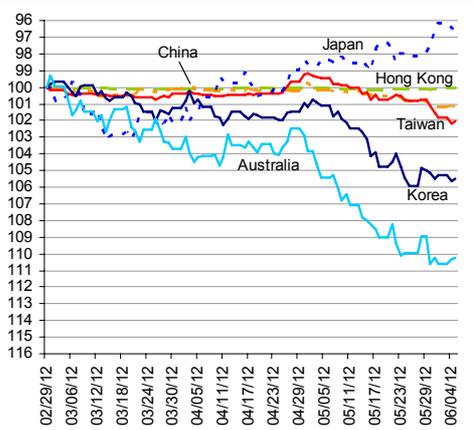
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



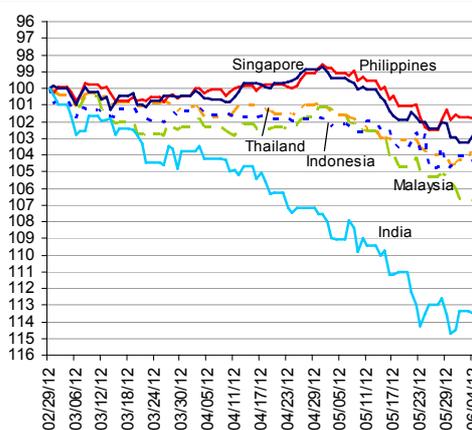
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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