

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 | |

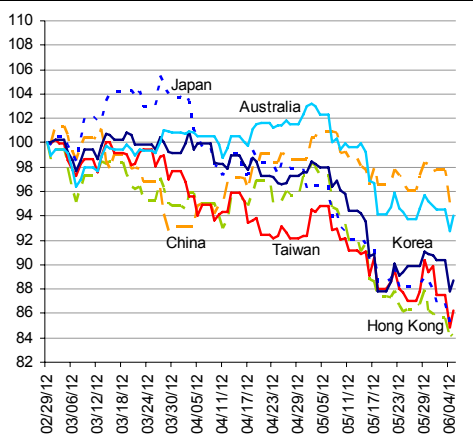
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| INTERBANK RATES | INDEX | Rate | net change over a day | net change over a week | net change over a month |
|-------------------------|----------------------|------|-----------------------|------------------------|-------------------------|
| | China (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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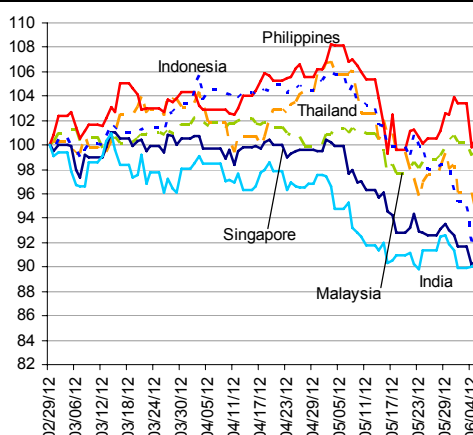
Charts

Chart 9
Stock Markets



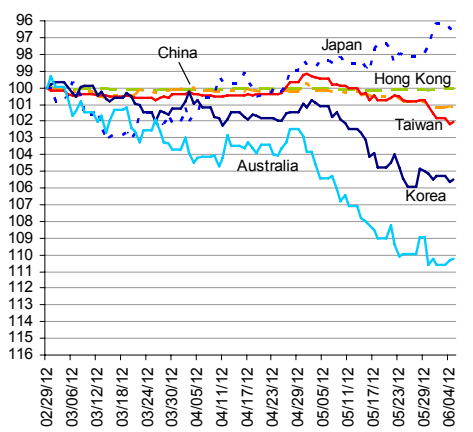
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



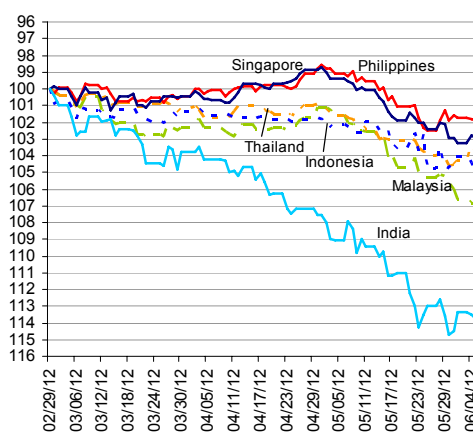
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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