

**BBVA**

RESEARCH

Economic Analysis
4 October 2012

Daily Flash

Asia

Bank of Japan preview: further QE not likely for now

The Bank of Japan is scheduled to meet tomorrow, and we expect the central bank to refrain for now from a further increase in its asset purchase program, following the expansionary move at its last meeting on September 19 (when it increased the program by ¥10 trillion to ¥80 trillion). We do, however, expect further easing in the coming months, even as soon as the next policy meeting scheduled for October 30. Such policy support by the BoJ would also dovetail with actions by Japan's newly appointed Finance Minister, Koriki Jojima, who appears to have assumed his predecessor's concern about yen strength and its impact on Japan's export sector.

India readies for further reforms to spur growth

Building further on recent positive reform momentum, the Indian authorities are expected to put several pieces of legislation before the Cabinet for clearance later today. Chief among these is a lifting of the foreign direct investment limit on the insurance and pension sectors to 49% (from 26% currently), and to revamp the Companies as well as the Competition Act. Also on the agenda is the approval of the 12th five year plan (for 2013 to 2017). These decisions will need to be ratified by Parliament before being implemented. There is suddenly strong momentum behind the reforms, which has buoyed domestic equities as well as the rupee. The Sensex touched its highest level since April 2011 while the rupee hit a 5-month high against the US dollar (51.68/USD). Lifting sentiment further today was the release of India's September services PMI, which edged up to 55.8 from 55.0.

Retail sales sluggish in Australia, some improvement in Hong Kong

Australia reported that retail sales for August rose by 0.2% m/m (consensus: 0.4% m/m) after contracting by -0.8% in July. It had been hoped that the retail sector, which accounts for 18% of GDP, would show a pick up in activity to help offset recent weakness in exports. However, today's lower-than-expected outturn will keep expectations high of another RBA rate cut, after a surprise 25bps cut on Tuesday, although this is not yet in our baseline. Meanwhile, in Hong Kong, retail sales in August were reported to have increased by 4.5% y/y, up from 3.9% y/y in the previous month but falling short of expectations (consensus: 5.8% y/y).

South Korea's inbound FDI at a record thus far in 2012

Korea's Ministry of Knowledge Economy reported today that Korea's inbound foreign direct investment hit a record high of US\$11.2bn for the first nine months of the year, driven by a surge in tourism-related investment from Hong Kong and Singapore, as well as the effects of a free trade agreement with the US. Despite slowing GDP growth, recent ratings upgrades (by S&P, Moody's, and Fitch) have increased foreign investor confidence and underscore Korea's attractiveness as an investment destination.

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With contributions from the BBVA Research Asia Team

Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
Trade Balance	03-Oct	Aug	-556M	-685M	-2027M
Retail Sales s.a. (MoM)	04-Oct	Aug	-0.80%	0.40%	0.20%
China	Date	Period	Prior	Cons.	Actual
HSBC Manufacturing PMI	29-Sep	Sep	47.6	--	47.9
Manufacturing PMI	01-Oct	Sep	49.2	50.1	49.8
Non-manufacturing PMI	03-Oct	Sep	56.3	--	53.7
Hong Kong	Date	Period	Prior	Cons.	Actual
Retail Sales - Value (YoY)	04-Oct	Aug	3.80%	5.80%	4.50%
Indonesia	Date	Period	Prior	Cons.	Actual
Inflation (YoY)	01-Oct	Sep	4.58%	4.60%	4.31%
Inflation NSA (MoM)	01-Oct	Sep	0.95%	0.29%	0.01%
Core Inflation (YoY)	01-Oct	Sep	4.16%	4.18%	4.12%
Exports (YoY)	01-Oct	Aug	-7.30%	-12.60%	-24.30%
India	Date	Period	Prior	Cons.	Actual
Exports YoY%	01-Oct	Aug	-14.80%	--	-9.70%
Imports YoY%	01-Oct	Aug	-7.60%	--	-5.10%
Japan	Date	Period	Prior	Cons.	Actual
Monetary Base (YoY)	02-Oct	Sep	6.50%	--	9.00%
Malaysia	Date	Period	Prior	Cons.	Actual
Exports YoY%	05-Oct	Aug	-1.90%	-1.00%	--
Philippines	Date	Period	Prior	Cons.	Actual
Consumer Price Index (YoY)	05-Oct	Sep	3.80%	3.80%	--
Singapore	Date	Period	Prior	Cons.	Actual
Purchasing Managers Index	02-Oct	Sep	49.1	49.5	48.7
South Korea	Date	Period	Prior	Cons.	Actual
Ext Trade - Export (YoY)	01-Oct	Sep	-6.20%	-5.50%	-1.80%
Consumer Price Index (YoY)	02-Oct	Sep	1.20%	1.80%	2.00%
HSBC Manufacturing PMI	02-Oct	Sep	47.5	--	45.7
Taiwan	Date	Period	Prior	Cons.	Actual
CPI YoY%	05-Oct	Sep	3.42%	--	--
Thailand	Date	Period	Prior	Cons.	Actual
Consumer Price Index (YoY)	01-Oct	Sep	2.69%	3.29%	3.38%
Core CPI (YoY)	01-Oct	Sep	1.76%	1.80%	1.89%

Calendar Events

Australia - RBA Cash Target, October 2

We expect the benchmark rate to remain unchanged

Current	Consensus	New
3.50%	3.50%	3.25%

Japan - BOJ Target Rate, October 5

We expect the benchmark rate to remain unchanged

Current	Consensus	New
0.10%	0.10%	--

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.	2086.2	1.5	2.9	-5.1	-11.6
	Hong Kong - Hang Seng	20908.0	0.1	1.0	13.4	28.7
	Taiwan - Weighted	7682.3	0.0	0.0	8.6	9.0
	Japan - Nikkei 225	8824.6	0.9	-1.4	4.4	4.4
	Korea - Kospi	1992.7	-0.2	0.1	9.1	12.6
	India - Sensex 30	19058.2	1.0	2.3	23.3	20.1
	Australia - SPX/ASX 200	4452.4	0.3	1.6	9.8	15.0
	Singapore - Strait Times	3086.6	0.3	0.9	16.6	22.0
	Indonesia - Jakarta Comp	4271.5	0.5	1.1	11.8	30.6
	Thailand - SET	1306.6	-0.1	1.6	27.4	52.7
	Malaysia - KLCI	1661.5	0.7	2.1	8.5	22.0
	Philippines - Manila Comp.	5443.7	1.3	2.7	24.5	42.1

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)	6.32	-0.61	-0.29	6.35	6.41
	Hong Kong (HKD/USD)	7.75	0.00	-0.01	7.75	7.75
	Taiwan (TWD/USD)	29.3	0.04	0.23	29.25	29.01
	Japan (JPY/USD)	78.56	-0.09	-1.21	78.49	78.19
	Korea (KRW/USD)	1114	0.15	0.23	1118	1130
	India (INR/USD)	51.7	0.90	2.57	52.44	54.67
	Australia (USD/AUD)	1.02	0.08	-2.09	0.99	1.00
	Singapore (SGD/USD)	1.23	0.25	-0.17	1.23	1.23
	Indonesia (IDR/USD)	9595	0.04	0.04	9675	10032
	Thailand (THB/USD)	30.6	0.29	1.01	30.74	31.16
	Malaysia (MYR/USD)	3.06	0.10	0.59	3.07	3.11
	Philippines (PHP/USD)	41.5	0.20	0.95	41.52	41.57

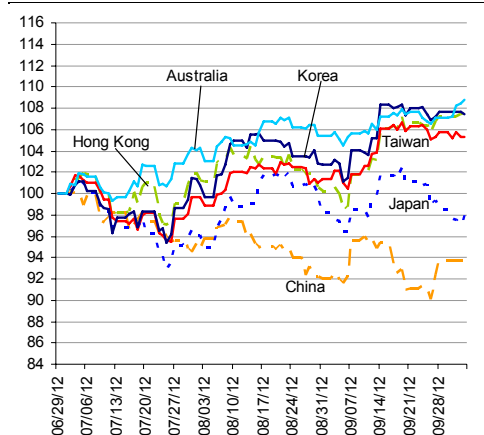
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.30	0.50	-1.20	-0.23
	Hong Kong (HIBOR/1W)	0.17	-0.03	-0.03	0.04
	Taiwan (TAIBOR/1W)	0.62	0.00	0.00	-0.01
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	3.02	0.00	0.00	-0.01
	India (MIBOR/7D)	3.51	0.51	-1.87	0.11
	Singapore (SIBOR/1W)	0.31	0.00	0.06	0.06
	Indonesia (JIBOR/1W)	4.25	0.00	0.00	-0.03
	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)	1.94	-0.13	0.13	0.44

Last update: today, 17.45 Hong Kong time

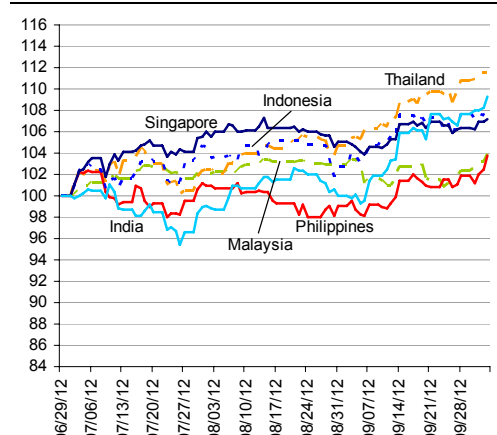
Charts

Chart 1
Stock Markets



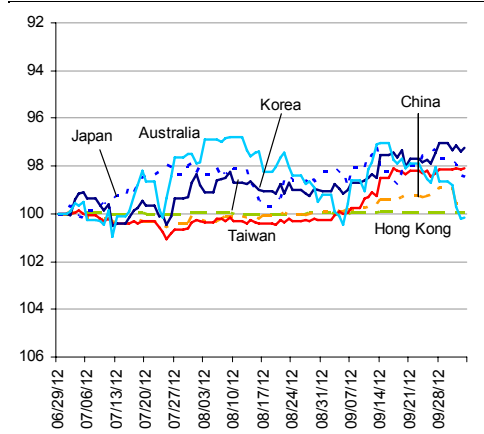
Source: BBVA Research and Bloomberg

Chart 2
Stock Markets



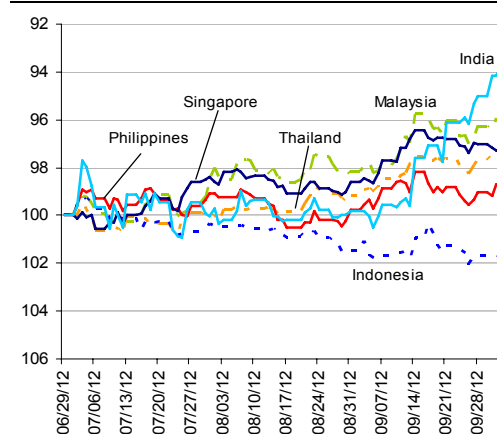
Source: BBVA Research and Bloomberg

Chart 3
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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