

Daily Flash

Asia

Bank of Japan holds off on further policy easing – for now

As expected, the BoJ kept monetary policy on hold at its meeting today, following last month's expansion of the asset purchase program. The BoJ remains under intense political pressure to ease policy further – as evidenced today by the unusual attendance of incoming Economic Minister Maehara attending the BoJ meeting, which was rare as usually only a subordinate from the cabinet office participates -given ongoing deflation and a weakening economic environment. Further easing is likely in the coming months, in our view, possibly as soon as the next policy meeting scheduled on October 30, through a further expansion of the existing asset purchase program.

Taiwan's inflation moderates, but remains above central bank comfort level

Taiwan's September headline inflation moderated to 3.0% y/y after hitting a four-year high in August (3.4% y/y). However, inflation remains above the central bank's 2% comfort level, on rising oil prices and domestic electricity rate hikes. Core inflation (headline CPI excluding food and energy) remained flat at 0.9%. Looking ahead, we expect inflation to moderate further, although we expect interest rates to stay on hold.

Philippines inflation moderates to 3.6% y/y in September

Inflation fell to 3.6% in September from 3.8% in August on falling fuel prices. Despite the relatively benign inflation (it remains near the low end of policymakers' 3%-5% target range), we think it is unlikely the central bank will cut policy rates for now given still-strong growth momentum.

The Week Ahead: policy meetings in Korea, Indonesia, and Singapore

Next week policymakers in Korea and Indonesia will decide how to counter the current global malaise. Korea's weakening exports sector has had a significant impact on growth, which we think will cause authorities to decide to lower interest rates at their meeting on Thursday. Indonesia will likely continue to remain on hold, given still-strong growth momentum. The Monetary Authority of Singapore will hold its policy meeting on October 12th, where it is widely expected to ease in order to support the economy (see Weekly Indicator below). In China, new RMB loans will be closely watched for signs of a pickup in growth momentum, which has remained muted before the upcoming leadership transition.

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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%	-4.50%
Philippines	Date	Period	Prior	Cons.	Actual
Consumer Price Index (YoY)	05-Oct	Sep	3.80%	3.80%	3.60%
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%	2.77%	2.96%
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%

Indicator of the Week

Singapore third quarter GDP (October 12th)

Forecast: 0.1% q/q sa

Consensus: --

Prior: -0.7% q/q sa

Comment: The third quarter GDP release will be closely watched, in tandem with the Monetary Authority of Singapore's (MAS) next semi-annual meeting in mid-October. Singapore's growth momentum has slowed sharply since Q4 2011 as weak exports have been having knock-on effects to domestic demand. There is risk of a technical recession, following a -0.7% q/q, s.a. GDP contraction in the second quarter on both weak external and domestic demand. We expect the MAS to ease monetary policy at their upcoming meeting, through a re-centering of the exchange rate band at a more depreciated level and/or a flattening of the appreciation slope (the MAS uses the exchange rate as its principal monetary policy instrument). At its last meeting in April the MAS tightened policy to contain inflation by increasing the appreciation slope (to 2% per year based on our estimates). An easing of the monetary stance, however, is not without risks given that inflation is still somewhat high (3.9% y/y in August).

Calendar Events

Australia - RBA Cash Target, October 2

We expect the benchmark rate to remain unchanged

Current

3.50%

Consensus

3.50%

New

3.25%

Japan - BOJ Target Rate, October 5

We expect the benchmark rate to remain unchanged

Current

0.10%

Consensus

0.10%

New

0.10%

Upcoming Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
Unemployment Rate	11-Oct	Sep	5.10%	5.30%	--
China	Date	Period	Prior	Cons.	Actual
HSBC Services PMI	8-Oct	Sep	52	--	--
New Yuan Loans	11-15 OCT	Sep	703.9B	660.0B	
Money Supply - M2 (YoY)	11-15 OCT	Sep	13.50%	13.60%	--
Hong Kong	Date	Period	Prior	Cons.	Actual
Purchasing Managers Index	8-Oct	Sep	50.5	--	--
India	Date	Period	Prior	Cons.	Actual
Industrial Production YoY	12-Oct	Aug	0.10%	--	--
Japan	Date	Period	Prior	Cons.	Actual
Current Account Total	9-Oct	Aug	¥625.4B	¥421.1B	--
Trade Balance - BOP Basis	9-Oct	Aug	-¥373.6B	-¥628.6B	--
Machine Tool Orders (YoY)	10-Oct	Sep P	-2.70%	--	--
Machine Orders (MoM)	11-Oct	Aug	4.60%	-2.30%	--
Japan Money Stock M2 YoY	12-Oct	Sep	2.40%	2.40%	--
Tertiary Industry Index (MoM)	12-Oct	Aug	-0.80%	0.40%	--
Malaysia	Date	Period	Prior	Cons.	Actual
Industrial Production YoY	11-Oct	Aug	1.40%	-1.30%	--
Philippines	Date	Period	Prior	Cons.	Actual
Total Exports (YoY)	10-Oct	Aug	7.80%	4.70%	--
Singapore	Date	Period	Prior	Cons.	Actual
GDP (annualized) (QoQ)	11-18 OCT	3Q A	-0.70%	--	--
GDP (YoY)	11-18 OCT	3Q A	2.00%	--	--
Retail Sales (YoY)	12-Oct	Aug	-2.90%	--	--
South Korea	Date	Period	Prior	Cons.	Actual
Unemployment Rate (SA)	10-Oct	Sep	3.10%	3.20%	--
Taiwan	Date	Period	Prior	Cons.	Actual
Total Exports (YoY)	8-Oct	Sep	-4.20%	1.00%	--

Calendar Events

South Korea 7-Day Repo Rate, October 11

We expect a 25bps cut in the repo rate

Current	Consensus	New
3.00%	2.75%	2.75%

Bank Indonesia Reference Rate, October 5

We expect the benchmark rate to remain unchanged

Current	Consensus	New
5.75%	5.75%	5.75

Singapore Monetary Authority policy meeting, October 12

We expect policy easing

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	21012.4	0.5	2.4	14.0	29.3
	Taiwan - Weighted	7690.7	0.1	-0.3	8.7	10.0
	Japan - Nikkei 225	8863.3	0.4	-0.1	4.8	5.7
	Korea - Kospi	1995.2	0.1	0.7	9.3	19.7
	India - Sensex 30	18918.5	-0.7	1.8	22.4	19.8
	Australia - SPX/ASX 200	4494.4	0.9	2.4	10.8	14.5
	Singapore - Strait Times	3107.9	0.7	1.6	17.4	22.9
	Indonesia - Jakarta Comp	4311.3	0.9	1.1	12.8	30.9
	Thailand - SET	1311.4	0.4	1.0	27.9	52.0
	Malaysia - KLCI	1660.2	-0.1	1.4	8.5	20.7
	Philippines - Manila Comp.	5439.8	-0.1	1.8	24.4	42.3

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	6.40
	Hong Kong (HKD/USD)	7.75	0.02	0.03	7.75	7.76
	Taiwan (TWD/USD)	29.3	0.07	0.11	29.19	28.94
	Japan (JPY/USD)	78.46	0.03	-0.64	78.39	78.09
	Korea (KRW/USD)	1111	0.21	0.00	1115	1127
	India (INR/USD)	51.8	-0.11	2.04	52.56	54.83
	Australia (USD/AUD)	1.03	0.11	-1.21	0.98	1.00
	Singapore (SGD/USD)	1.23	0.07	-0.01	1.23	1.23
	Indonesia (IDR/USD)	9594	0.01	-0.03	9678	10035
	Thailand (THB/USD)	30.6	0.03	0.88	30.71	31.12
	Malaysia (MYR/USD)	3.05	0.07	0.15	3.07	3.11
	Philippines (PHP/USD)	41.5	0.08	0.70	41.47	41.53

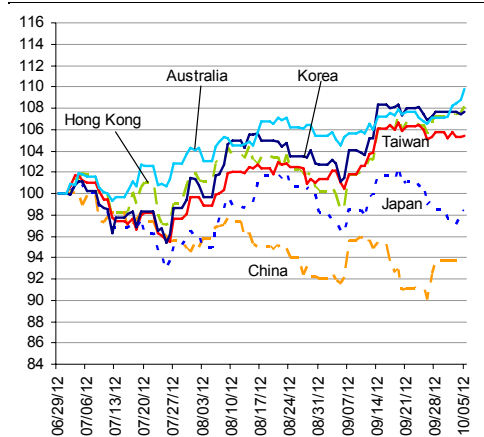
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.30	0.50	-1.20	-0.23
	Hong Kong (HIBOR/1W)	0.17	0.00	-0.03	0.04
	Taiwan (TAIBOR/1W)	0.62	0.00	0.00	-0.01
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	3.02	0.00	0.00	-0.01
	India (MIBOR/7D)	--	--	-1.87	0.96
	Singapore (SIBOR/1W)	0.25	-0.06	-0.06	0.00
	Indonesia (JIBOR/1W)	4.25	0.00	-0.01	-0.02
	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	0.00	0.50	-0.13

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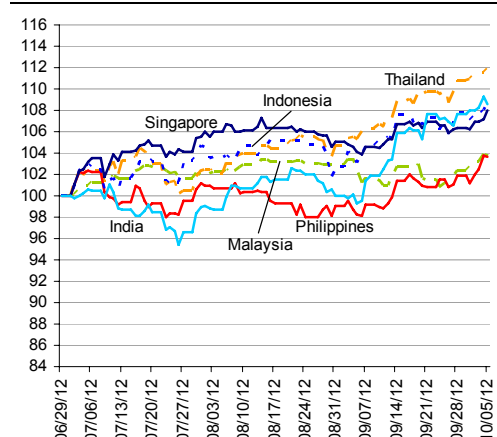
Charts

Chart 9
Stock Markets



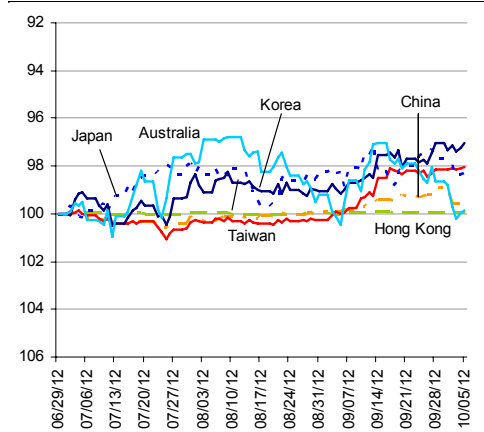
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



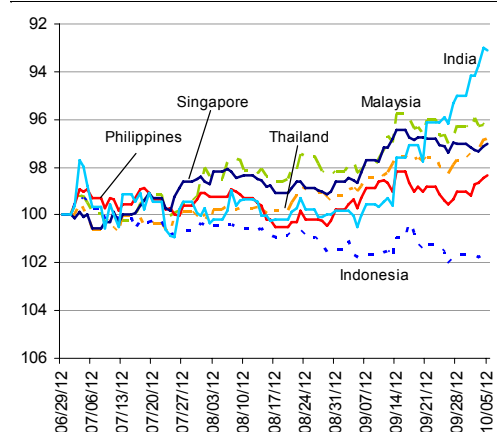
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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