

Daily Flash

Asia

On a day when global investors were focused on the closure of the New York Stock Exchange and the damage inflicted by Hurricane Sandy on the US East Coast, two monetary policy outcomes in Asia made headlines, although they tended to disappoint markets which had hoped for more aggressive easing. The Bank of Japan eased policy, as expected, through an increase in its asset purchase program, while India kept interest rates unchanged (see below). Equity markets in both countries fell by about 1%, while markets elsewhere in the region were mixed (Taiwan: +1.3%, Hang Seng: -0.4%).

India's RBI holds benchmark rate, but cuts cash reserve ratio by 25 bps

As reported in today's *India Flash*, the Reserve Bank of India left its benchmark repo rate unchanged at 8.0% (BBVA: 7.75%; Consensus: 8.0%), but cut the Cash Reserve Ratio (CRR) by 25 bps to 4.25% (BBVA: 4.25%). The decision was based on the RBI's "objective of containing inflation and anchoring inflation expectations." The move disappointed government policymakers who had hoped their recent efforts to reinvigorate reforms and ensure fiscal consolidation would provide room for the RBI to lower rates today. And indeed, the RBI conceded in its policy statement that such government moves may provide such room in the months ahead. We now foresee only limited scope for the rate easing cycle to commence during the remainder of 2012 (against our earlier expectations of an aggregate 50 bps cut to 7.5%), but we still expect a rate cut in the first quarter of 2013.

The Bank of Japan eases, as expected, but still disappoints markets

In a widely expected move, the Bank of Japan (BoJ) announced an expansion of its asset purchase program by ¥11 trillion to ¥91 trillion. The BoJ also introduced a new bank lending facility to provide banks collateralized loans at an overnight call rate of 0.1%, while also announcing no change in its policy rate of 0-0.1%. Finally, the BoJ also lowered its economic outlook: of particular note, the growth forecast for fiscal year 2012 (ending in March 2013) was cut to 1.5% from 2.2% (last forecasted in July), while inflation for 2012 was lowered to -0.1% from 0.2%. We expect further easing in the months ahead, due to weakening growth prospects as post-quake reconstruction winds down, and growth momentum faces headwinds from weak external demand (see below).

Japan reports a decline in IP, points towards yearly growth contraction

Also today, Japan's industrial production for September was released, showing a sharper-than-expected decline of -4.1% m/m sa (consensus: -3.1% m/m), the biggest monthly decline since last year's earthquake, when IP fell by -16.2%. The industrial production data, together with worse-than-expected September exports and inflation released earlier this month, reaffirm that Japan's economic recovery has stalled due to a combination of the global downturn, the strong yen, and the recent territorial dispute with China – Japan's biggest export market. Looking ahead, we expect Japan's economy to contract in the second half year. Our current growth forecasts for Japan are 2.2% and 1.2%, respectively in 2012 and 2013.

Briefly noted:

- **In China, the PBoC injected a total amount of RMB 395 bn into the banking system via reverse repo operations today**, in an effort to alleviate excess liquidity demand by commercial banks as they approach the end of October.

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Calendar Indicators

China	Date	Period	Prior	Cons.	Actual
Manufacturing PMI	01-Nov	Oct	49.8	50.5	--
HSBC Manufacturing PMI	01-Nov	Oct	47.9	49.1	--
Hong Kong	Date	Period	Prior	Cons.	Actual
Retail Sales - Value (YoY)	01-Nov	Sep	4.50%	7.30%	--
India	Date	Period	Prior	Cons.	Actual
Cash Reserve Ratio	30-Oct	30-Oct	4.50%	4.25%	4.25%
Indonesia	Date	Period	Prior	Cons.	Actual
Inflation (YoY)	01-Nov	Oct	4.31%	4.60%	--
Inflation NSA (MoM)	01-Nov	Oct	0.01%	0.15%	--
Core Inflation (YoY)	01-Nov	Oct	4.12%	4.40%	--
Exports (YoY)	01-Nov	Sep	-24.30%	-15.30%	--
Japan	Date	Period	Prior	Cons.	Actual
Jobless Rate	30-Oct	Sep	4.20%	4.20%	4.20%
Industrial Production (MoM)	30-Oct	Sep P	-1.60%	-3.10%	-4.10%
Industrial Production YOY%	30-Oct	Sep P	-4.60%	-7.10%	-8.10%
Singapore	Date	Period	Prior	Cons.	Actual
Unemployment Rate (sa)	31-Oct	3Q P	2.00%	1.90%	--
South Korea	Date	Period	Prior	Cons.	Actual
Industrial Production (MoM)	31-Oct	Sep	-0.70%	1.30%	--
Industrial Production (YoY)	31-Oct	Sep	0.30%	1.00%	--
Consumer Price Index (MoM)	01-Nov	Oct	0.70%	-0.10%	--
Consumer Price Index (YoY)	01-Nov	Oct	2.00%	2.10%	--
Ext Trade - Export (YoY)	01-Nov	Oct	-1.80%	0.00%	--
Ext Trade - Imports (YoY)	01-Nov	Oct	-6.10%	1.10%	--
HSBC Manufacturing PMI	01-Nov	Oct	45.7	--	--
Taiwan	Date	Period	Prior	Cons.	Actual
GDP - Constant Prices (YoY)	31-Oct	3Q P	-0.18%	1.50%	--
Thailand	Date	Period	Prior	Cons.	Actual
Consumer Price Index (YoY)	01-Nov	Oct	3.38%	3.35%	--
Core CPI (YoY)	01-Nov	Oct	1.89%	2.00%	--

Indicator of the Week

China: PMI for October (November 1)

Forecast: 50.1

Consensus: 50.5

Prior: 49.8

The official PMI reading for October will be closely watched following positive activity data for September and an improved HSBC/Market flash PMI estimate for October. Though Q3 GDP growth slowed further, September activity indicators such as industrial production, retail sales, and investment surprised to the upside; meanwhile, the October flash HSBC/Markit PMI estimate improved to 49.1% from last month's outturn of 47.8% on improved production and new orders. We expect the October official PMI (covering larger and more domestically-oriented companies) to rise back above the 50 expansion/contraction threshold which, if confirmed, would be further evidence of stabilizing growth trends after two consecutive months of sub-50 official PMI readings. Given risks to the growth outlook, however, we still expect further policy easing in the months ahead, especially after the leadership selection process is completed in November.

Calendar Events

India - India REPO Cutoff Yield, October 30

We expected a 25bps cut in the benchmark rate

Current

8.00%

Consensus

8.00%

New

8.00%

Japan - Bank of Japan Target Rate, October 30

We expected unconventional easing, no rate change

Current

0.10%

Consensus

0.10%

New

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.	2062.3	0.2	-2.5	-6.2	-16.6
	Hong Kong - Hang Seng	21428.6	-0.4	-1.2	16.2	7.0
	Taiwan - Weighted	7182.6	1.3	-2.1	1.6	-5.7
	Japan - Nikkei 225	8842.0	-1.0	-1.9	4.6	-2.3
	Korea - Kospi	1899.6	0.4	-1.4	4.0	-1.5
	India - Sensex 30	18434.6	-1.1	-1.9	19.3	3.5
	Australia - SPX/ASX 200	4485.7	0.2	-1.3	10.6	3.0
	Singapore - Strait Times	3038.7	0.3	-0.2	14.8	4.6
	Indonesia - Jakarta Comp	4364.6	0.8	0.5	14.2	14.0
	Thailand - SET	1292.7	1.0	-1.4	26.1	32.8
	Malaysia - KLCI	1674.7	0.1	0.6	9.4	13.0
	Philippines - Manila Comp.	5426.7	0.5	0.0	24.1	25.2

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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)	6.24	0.06	0.18	6.31	6.36
	Hong Kong (HKD/USD)	7.75	0.00	0.00	7.75	7.74
	Taiwan (TWD/USD)	29.2	0.05	0.09	29.15	28.89
	Japan (JPY/USD)	79.39	0.52	0.58	79.31	79.02
	Korea (KRW/USD)	1092	0.40	1.05	1096	1108
	India (INR/USD)	54.1	-0.01	-0.63	54.91	57.12
	Australia (USD/AUD)	1.04	0.42	1.07	0.97	0.99
	Singapore (SGD/USD)	1.22	0.08	0.38	1.22	1.22
	Indonesia (IDR/USD)	9623	-0.14	-0.06	9741	10128
	Thailand (THB/USD)	30.7	-0.03	0.10	30.87	31.28
	Malaysia (MYR/USD)	3.05	0.29	0.05	3.07	3.10
	Philippines (PHP/USD)	41.2	0.26	0.29	41.21	41.21

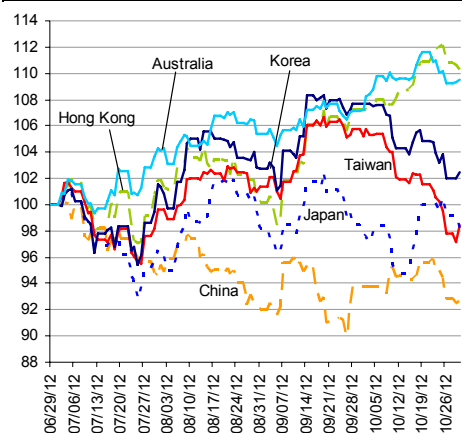
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.15	-1.95	-0.45	-0.15
	Hong Kong (HIBOR/1W)	0.13	0.00	-0.02	-0.07
	Taiwan (TAIBOR/1W)	0.60	0.00	0.00	-0.02
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	2.78	0.00	0.00	-0.24
	India (MIBOR/7D)	3.60	-0.71	0.70	0.60
	Singapore (SIBOR/1W)	0.25	0.00	0.00	-0.06
	Indonesia (JIBOR/1W)	4.29	0.01	0.01	0.04
	Thailand (BIBOR/1W)	2.78	0.00	0.00	-0.24
	Malaysia (KLIBOR/1W)	2.90	0.00	0.00	0.00
	Philippines (PHIBOR/1W)	1.69	0.31	1.19	0.25

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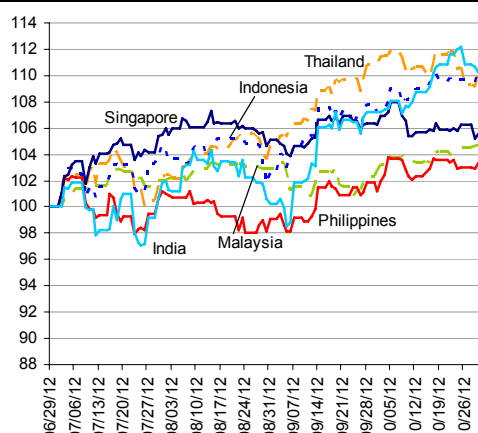
Charts

Chart 1
Stock Markets



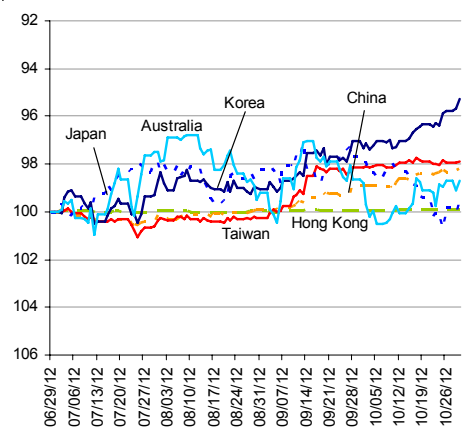
Source: BBVA Research and Bloomberg

Chart 2
Stock Markets



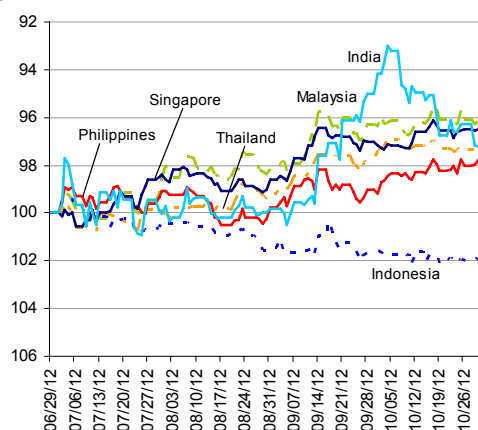
Source: BBVA Research and Bloomberg

Chart 3
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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