

Daily Flash

Asia

Investor sentiment in Asia was influenced today by the release during the weekend of weak trade data in China (which need to be interpreted cautiously given the effects of seasonality from the Chinese New Year). Slowing exports and industrial production are increasing prospects of policy easing and reducing expectations of RMB appreciation. The other big currency story is the Japanese yen, which continues to trade above 82/USD. We await tomorrow's BOJ policy meeting for signals of whether additional policy easing will be forthcoming, although this is unlikely given the policy stimulus already announced last month..

China's posts a trade deficit on weak February exports

China recorded a record trade deficit in February, which is adding to market concerns about a slowdown and further reducing expectations of currency appreciation in the near term. Taking the first two months' data together (to strip out the effects of the Chinese New Year), exports and imports moderated to 6.9% y/y and 7.7% y/y respectively for January/February compared with 13.4% y/y and 11.8% y/y growth in December. PBOC Governor Zhou Xiaochuan said in a press briefing today that the value of the currency will increasingly be determined by market forces. Today's daily fixing for the RMB was significantly weaker, at 6.33 (from 6.29 at the end of February). We continue to expect policy easing in the form of further cuts in the RRR and up to two rate cuts around mid-year, along with modest currency appreciation in the second half of the year.

India's industrial production jumps in January; RBI announces CRR cut

India's industrial production growth jumped by 6.8% y/y in January (consensus: 2.1% y/y). The robust IP outturn in January was mainly driven by a record 42% y/y spike in the non-durables sector, with overall industrial activity remaining weak. The data release comes after India's surprise move late Friday, cutting the Cash Reserve Ratio (CRR) by 75bps, in a move to ease tight liquidity conditions. We await the RBI's policy meeting on Thursday (where we forecast a 25bps cut in the interest rate) and the government's release of its Union Budget on March 16.

Briefly noted:

- **Vietnam cuts interest rates.** The move was announced last week, and will become effective tomorrow according to the State Bank of Vietnam. It will cut the refinancing rate and the discount rate both by 100bps (from 15% and 13% respectively) aiming to support growth as inflationary pressures have eased, according to a statement in its website.
- **Indonesia plans to reform land ownership laws for foreigners.** A report in the Jakarta Post states that a new law scheduled for implementation in May will allow foreigners to own property in Indonesia (condominiums only). The move would be a step forward in encouraging foreign investment and supporting the property market.

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Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
Home Loans MoM	13-Mar	JAN	2.30%	-0.60%	--
Consumer Inflation Expectation	15-Mar	MAR	2.50%	--	--
China	Date	Period	Prior	Cons.	Actual
China February Property Prices	18-Mar				
Hong Kong	Date	Period	Prior	Cons.	Actual
Industrial Production (YoY)	13-Mar	4Q	0.20%	--	--
India	Date	Period	Prior	Cons.	Actual
Industrial Production YoY	12-Mar	JAN	1.80%	2.10%	6.80%
Monthly Wholesale Prices YoY%	14-Mar	FEB	6.55%	6.69%	--
Japan	Date	Period	Prior	Cons.	Actual
Machine Orders (MoM)	12-Mar	JAN	-7.10%	2.30%	3.40%
Machine Orders YOY%	12-Mar	JAN	6.30%	4.40%	5.70%
Tertiary Industry Index (MoM)	13-Mar	JAN	1.40%	0.20%	--
Industrial Production (MoM)	14-Mar	JAN F	2.00%	--	--
Industrial Production YOY%	14-Mar	JAN F	-1.20%	--	--
Malaysia	Date	Period	Prior	Cons.	Actual
Industrial Production YoY	12-Mar	JAN	3.00%	0.90%	0.20%
Philippines	Date	Period	Prior	Cons.	Actual
Total Exports (YoY)	13-Mar	JAN	-20.70%	-18.50%	--
Overseas Remittances (YoY)	15-Mar	JAN	6.20%	--	--
Singapore	Date	Period	Prior	Cons.	Actual
Unemployment Rate (sa)	15-Mar	4Q F	2.00%	--	--
Retail Sales (YoY)	15-Mar	JAN	4.20%	2.00%	--
Retail Sales (MoM) sa	15-Mar	JAN	-2.40%	-1.90%	--
Non-oil Domestic Exports (YoY)	16-Mar	FEB	-2.10%	15.40%	--
Non-oil Domestic Exp SA (MoM)	16-Mar	FEB	0.90%	1.40%	--
South Korea	Date	Period	Prior	Cons.	Actual
Unemployment Rate (SA)	14-Mar	FEB	3.20%	3.20%	--
Thailand	Date	Period	Prior	Cons.	Actual
Total Exports YOY%	14-16 MAR	JAN	-2.10%	--	--
Total Imports YOY%	14-16 MAR	JAN	19.60%	--	--

Indicator of the Week

India: WPI Inflation for February (March 14)

Forecast: 6.4% y/y

Consensus: 6.7% y/y

Prior: 6.6% y/y

The coming week will be crucial for investor sentiment in India, with February WPI inflation be watched for cues on the RBI's March 15 monetary policy meeting. This will be followed by the central government budget due on March 16, in which we will be looking for bold measures on fiscal consolidation and growth supportive policy reforms. We expect inflation to continue moderating on strong base effects, softer food prices and, and lower price pressures from slowing growth. A sustained moderation in inflation, especially core, would increase the probability of a 25 bps interest rate cut by the Reserve Bank of India (RBI) in its March 15 policy meeting, which remains our base case. We also expect the RBI to enact a 50bps cut in the cash reserve ratio given the tightness in interbank liquidity. We expect RBI to cut policy rates by 100-150 bps in 2012

Calendar Events

Australia - Reserve Bank Board - Bulletin March Quarter 2012, March 15

India - India REPO Cutoff Yld, March 15

We expect a 25bps cut in the benchmark repo rate

Current	Consensus	New
8.50%	8.50%	--

Japan - BOJ Target Rate, March 13

We expect the BOJ target 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.	2434.9	-0.2	-0.4	10.7	-17.0
	Hong Kong - Hang Seng	21134.2	0.2	-0.6	14.6	-9.1
	Taiwan - Weighted	7927.6	-1.1	-1.0	12.1	-7.5
	Japan - Nikkei 225	9889.9	-0.4	2.0	17.0	-3.6
	Korea - Kospi	2002.5	-0.8	-0.7	9.7	2.4
	India - Sensex 30	17586.7	0.5	-0.3	13.8	-3.2
	Australia - SPX/ASX 200	4196.7	-0.4	-1.6	3.5	-9.6
	Singapore - Strait Times	2962.2	0.0	-1.0	11.9	-2.7
	Indonesia - Jakarta Comp	3987.3	-0.1	0.1	4.3	12.6
Thailand - SET	1150.7	-0.7	-1.2	12.2	14.3	
Malaysia - KLCI	1564.8	-0.9	-1.5	2.2	4.6	
Philippines - Manila Comp.	4975.2	-0.1	-1.1	13.8	26.8	

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)	6.33	-0.24	-0.31	6.32	6.32
	Hong Kong (HKD/USD)	7.76	0.00	0.07	7.76	7.75
	Taiwan (TWD/USD)	29.5	-0.09	-0.07	29.45	29.18
	Japan (JPY/USD)	82.28	0.22	-0.88	82.21	81.82
	Korea (KRW/USD)	1124	-0.53	-0.47	1130	1142
	India (INR/USD)	49.9	-0.14	-0.14	51.03	52.92
	Australia (USD/AUD)	1.05	-0.43	-1.31	0.96	0.99
	Singapore (SGD/USD)	1.26	-0.48	-0.21	1.26	1.26
	Indonesia (IDR/USD)	9169	-0.36	-0.49	9248	9567
Thailand (THB/USD)	30.6	-0.26	0.03	30.78	31.16	
Malaysia (MYR/USD)	3.03	-0.80	-0.41	3.05	3.08	
Philippines (PHP/USD)	42.7	-0.15	0.23	42.88	43.23	

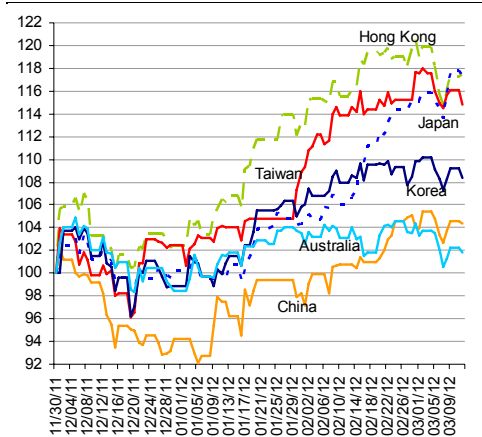
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	2.80	-0.20	-0.30	-0.84
	Hong Kong (HIBOR/1W)	0.11	0.00	-0.01	-0.05
	Taiwan (TAIBOR/1W)	0.64	0.00	0.00	0.00
	Japan (TIBOR/1Y)	0.76	0.00	0	0
	Korea (KORIBOR/1M)	3.38	0.00	0.00	-0.01
	India (MIBOR/7D)	3.10	0.13	-0.05	-0.40
	Singapore (SIBOR/1W)	0.31	0.00	0.00	0.00
	Indonesia (JIBOR/1W)	3.81	0.00	0	0
	Thailand (BIBOR/1W)	3.01	0.00	0.00	0.00
Malaysia (KLIBOR/1W)	2.90	0.00	0.00	0.00	
Philippines (PHIBOR/1W)	3.69	0.13	0.00	-0.25	

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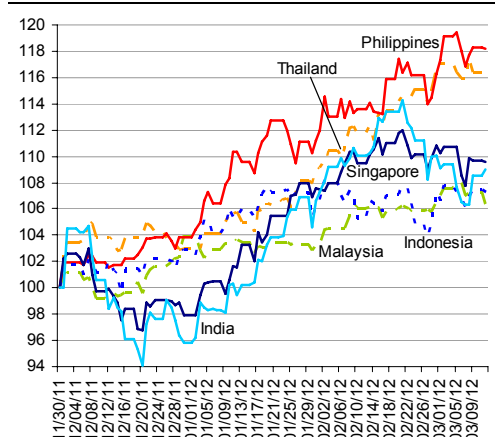
Charts

Chart 9
Stock Markets



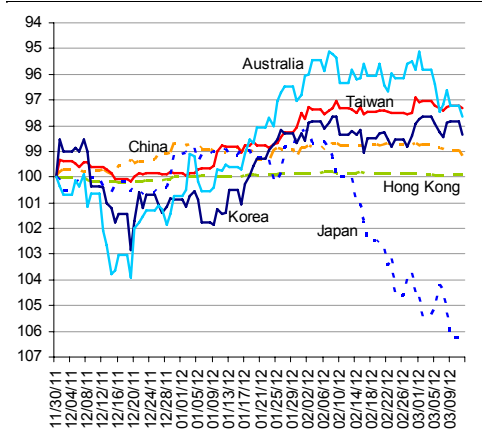
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



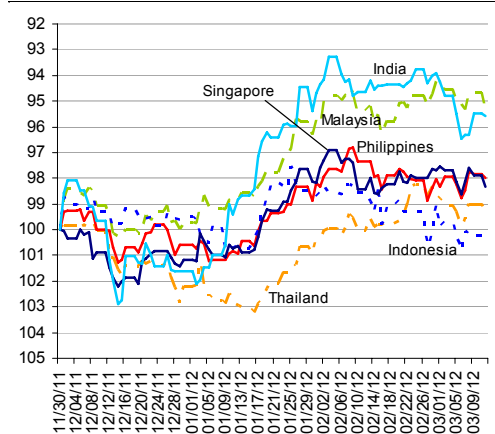
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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