

# Daily Flash

## Asia

*Today's focus was on a weakening environment in India (see below) and a downward revision to Australia's GDP forecast by the RBA which, interestingly enough, contrasted with bullish statements from Thailand's central bank regarding the country's 2012 GDP forecast. Most of Asia's markets were weaker, with the SENSEX losing 1.9% on the day. Ahead of a batch of important data releases next week, including CPI and exports, China's markets have rallied to a seven-week high, with media reports citing a possible easing in the reserve requirement ratio forthcoming as the key reason.*

### Rupee weakness continues

The Indian rupee touched a fresh four month low against the US dollar today. For the week, the rupee fell by more than 2% (and is down by more than 10% over the past quarter) amid waning FII flows due to a global risk off environment, domestic policy uncertainties, and worries over India's widening current account deficit. Perhaps more importantly, the recent outlook downgrade (to negative) by S&P has put the rupee under pressure, as has sustained dollar buying by importers. Looking ahead, while the INR could remain under pressure in the near-term, positive news flow, especially regarding the FII taxation issue (expected next week), could serve as a catalyst for an eventual rebound.

### China to increase foreign investor limits in securities joint ventures

According to Bloomberg, a US official reported that China will increase the stake limit of foreign investors in securities joint ventures (JVs) in China from 33% to 49%. In addition, the JVs will be allowed to trade commodities and financial futures. Details and exact timeframes for these changes have not yet been confirmed by the government, but if true, these measures would be in line with China's stated decision to relax restrictions with regards to its capital account.

### Reserve Bank of Australia cuts GDP growth, inflation forecasts

Three days after cutting interest rates by 50bps, the Reserve Bank of Australia (RBA) lowered its 2012 GDP forecast to 3.0% from 3.5% due to weakening exports and subdued housing activity. The RBA also lowered its inflation forecast for 2012 to 2.25% y/y, from 2.75% y/y. These revisions are well in line with our own views, and reflect weakening exports and subdued housing activity.

### Rate cuts on hold in Thailand as the economy continues to rebound

Thailand's central bank governor confirmed today that the recent easing cycle in policy rates is over for the time being (they have cut by 50bps since November). The country's recovery from last year's flooding has taken hold faster than previously expected, with the governor now expecting the country to expand by 6% this year (though for now, the official forecast is for 5.7% y/y growth).

### Briefly noted:

- **In the Philippines, inflation accelerated to 3.0% y/y in April** (consensus 2.6% y/y) from 2.6% y/y the previous month, due to rising fuel and food prices. Inflation may rise further in the coming months as lag effects from two interest rate cuts pass through the economy.
- **Next week will feature three monetary policy meetings:** Indonesia, Korea (both on Thursday) and Malaysia (Friday). We expect rates will remain unchanged for all. In

addition, a number of important indicators will be released in China (see Weekly Indicator below), while India and Malaysia will release industrial output data, and Q1 GDP data will be reported by Hong Kong and Indonesia.

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## Calendar Indicators

| <b>Australia</b>                     | <b>Date</b> | <b>Period</b> | <b>Prior</b> | <b>Cons.</b> | <b>Actual</b> |
|--------------------------------------|-------------|---------------|--------------|--------------|---------------|
| TD Securities Inflation MoM%         | 30-Apr      | APR           | 0.50%        | --           | 0.30%         |
| <b>China</b>                         | <b>Date</b> | <b>Period</b> | <b>Prior</b> | <b>Cons.</b> | <b>Actual</b> |
| PMI Manufacturing                    | 01-May      | APR           | 53.1         | 53.6         | 53.3          |
| HSBC Manufacturing PMI               | 02-May      | APR           | 48.3         | --           | 49.3          |
| China Non-manufacturing PMI          | 03-May      | APR           | 58           | --           | 56.1          |
| China HSBC Services PMI              | 04-May      | APR           | 53.3         | --           | 54.1          |
| <b>Hong Kong</b>                     | <b>Date</b> | <b>Period</b> | <b>Prior</b> | <b>Cons.</b> | <b>Actual</b> |
| Retail Sales - Volume (YoY)          | 03-May      | MAR           | 10.10%       | 8.90%        | 13.40%        |
| Purchasing Managers Index            | 04-May      | APR           | 52.0         | --           | 50.3          |
| <b>Indonesia</b>                     | <b>Date</b> | <b>Period</b> | <b>Prior</b> | <b>Cons.</b> | <b>Actual</b> |
| Inflation (YoY)                      | 01-May      | APR           | 3.97%        | 4.46%        | 4.50%         |
| Inflation NSA (MoM)                  | 01-May      | APR           | 0.07%        | 0.20%        | 0.21%         |
| Core Inflation (YoY)                 | 01-May      | APR           | 4.25%        | 4.20%        | 4.24%         |
| Exports (YoY)                        | 01-May      | MAR           | 8.50%        | 3.80%        | 5.50%         |
| <b>India</b>                         | <b>Date</b> | <b>Period</b> | <b>Prior</b> | <b>Cons.</b> | <b>Actual</b> |
| Exports YoY%                         | 01-May      | MAR           | 4.30%        | --           | -5.70%        |
| Imports YoY%                         | 01-May      | MAR           | 20.70%       | --           | 24.30%        |
| India April Markit Manufacturing PMI | 02-May      | APR           | 54.7         | --           | 54.9          |
| India April Markit Services PMI      | 03-May      | APR           | 52.3         | --           | 52.8          |
| <b>Japan</b>                         | <b>Date</b> | <b>Period</b> | <b>Prior</b> | <b>Cons.</b> | <b>Actual</b> |
| Monetary Base (YoY)                  | 02-May      | APR           | -0.20%       | --           | -0.30%        |
| <b>Philippines</b>                   | <b>Date</b> | <b>Period</b> | <b>Prior</b> | <b>Cons.</b> | <b>Actual</b> |
| Consumer Price Index (YoY)           | 04-May      | APR           | 2.60%        | 2.60%        | 3.00%         |
| Consumer Price Index NSA (MoM)       | 04-May      | APR           | 0.20%        | 0.40%        | 0.80%         |
| <b>Singapore</b>                     | <b>Date</b> | <b>Period</b> | <b>Prior</b> | <b>Cons.</b> | <b>Actual</b> |
| Unemployment Rate (sa)               | 30-Apr      | 1Q P          | 2.00%        | 2.00%        | 2.10%         |
| Purchasing Managers Index            | 03-May      | APR           | 50.2         | 50.4         | 49.7          |
| <b>South Korea</b>                   | <b>Date</b> | <b>Period</b> | <b>Prior</b> | <b>Cons.</b> | <b>Actual</b> |
| Industrial Production (MoM)          | 30-Apr      | MAR           | 0.80%        | 0.20%        | -3.10%        |
| Industrial Production (YoY)          | 30-Apr      | MAR           | 14.40%       | 2.20%        | 0.30%         |
| Consumer Price Index (MoM)           | 01-May      | APR           | -0.10%       | 0.30%        | 0.00%         |
| Consumer Price Index (YoY)           | 01-May      | APR           | 2.60%        | 2.80%        | 2.50%         |
| Ext Trade - Export (YoY)             | 01-May      | APR           | -1.40%       | -1.10%       | -4.70%        |
| Ext Trade - Imports (YoY)            | 01-May      | APR           | -1.20%       | 1.70%        | -0.20%        |
| <b>Taiwan</b>                        | <b>Date</b> | <b>Period</b> | <b>Prior</b> | <b>Cons.</b> | <b>Actual</b> |
| GDP - Constant Prices (YoY)          | 30-Apr      | 1Q P          | 1.89%        | 0.91%        | 0.36%         |
| HSBC Manufacturing PMI               | 02-May      | APR           | 54.1         | --           | 51.2          |
| <b>Thailand</b>                      | <b>Date</b> | <b>Period</b> | <b>Prior</b> | <b>Cons.</b> | <b>Actual</b> |
| Consumer Price Index (YoY)           | 01-May      | APR           | 3.45%        | 2.90%        | 2.47%         |
| Core CPI (YoY)                       | 01-May      | APR           | 2.77%        | 2.40%        | 2.13%         |

## Indicator of the Week

### China: Industrial output for April (May 11)

Forecast: 10.0%

Consensus: 12.1%

Prior: 11.9%

Following a string of positive PMI readings, markets have grown more confident in China's near-term growth outlook. Nevertheless, the next monthly batch of activity indicators will be closely watched for indications of the pace and sustainability of the pickup in momentum. In the coming week key indicators include inflation, retail sales, investment, and credit aggregates. We focus here on industrial output, where we expect a slight decline in year-on-year growth terms due to largely to base effects. We continue to expect further policy easing in the months ahead to support domestic demand, with room for provided by contained inflation, although we expect a small uptick in headline inflation to 3.7%y/y in April (from 3.6% in March) due to the lingering effect of recent oil price increases (CPI inflation will be released on May 11).

## Calendar Events

### Australia - RBA cash target, May 1

We expected a 25 bps cut in the benchmark rate

| Current | Consensus | New   |
|---------|-----------|-------|
| 4.25%   | 4.00%     | 3.75% |

### Thailand - Benchmark interest rate, May 2

We expected the benchmark rate to remain unchanged

| Current | Consensus | New   |
|---------|-----------|-------|
| 3.00%   | 3.00%     | 3.00% |

## Markets Data

| STOCK MARKETS              | INDEX                    | Last price | % change<br>over a day | % change<br>over a week | Year to<br>date | % change<br>over 1 Y |
|----------------------------|--------------------------|------------|------------------------|-------------------------|-----------------|----------------------|
|                            | China - Shanghai Comp.   | 2452.0     | 0.5                    | 1.9                     | 11.5            | -14.4                |
|                            | Hong Kong - Hang Seng    | 21086.0    | -0.8                   | 1.3                     | 14.4            | -9.6                 |
|                            | Taiwan - Weighted        | 7701.0     | 0.5                    | 2.4                     | 8.9             | -13.9                |
|                            | Japan - Nikkei 225       | 9380.3     | 0.3                    | -0.9                    | 10.9            | -6.2                 |
|                            | Korea - Kospi            | 1989.2     | -0.3                   | 1.3                     | 9.0             | -8.8                 |
|                            | India - Sensex 30        | 16831.1    | -1.9                   | -1.7                    | 8.9             | -8.9                 |
|                            | Australia - SPX/ASX 200  | 4396.0     | -0.7                   | 0.8                     | 8.4             | -7.3                 |
|                            | Singapore - Strait Times | 2990.6     | -0.3                   | 0.3                     | 13.0            | -4.0                 |
|                            | Indonesia - Jakarta Comp | 4216.7     | -0.2                   | 1.3                     | 10.3            | 10.5                 |
| Thailand - SET             | 1227.4                   | -1.0       | 1.5                    | 19.7                    | 14.3            |                      |
| Malaysia - KLCI            | 1591.0                   | 0.5        | 0.7                    | 3.9                     | 4.1             |                      |
| Philippines - Manila Comp. | 5297.6                   | -0.1       | 1.5                    | 21.2                    | 23.3            |                      |

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| FOREIGN EXCHANGE MARKETS | CURRENCY            | Spot  | % change<br>over a day | % change<br>over a week | Forward<br>3-month | Forward<br>12-month |
|--------------------------|---------------------|-------|------------------------|-------------------------|--------------------|---------------------|
|                          | China (CNY/USD)     | 6.31  | -0.01                  | 0.06                    | 6.32               | 6.35                |
|                          | Hong Kong (HKD/USD) | 7.76  | -0.03                  | -0.03                   | 7.76               | 7.76                |
|                          | Taiwan (TWD/USD)    | 29.2  | -0.08                  | 0.21                    | 29.11              | 28.82               |
|                          | Japan (JPY/USD)     | 80.21 | -0.04                  | 0.07                    | 80.14              | 79.73               |
|                          | Korea (KRW/USD)     | 1132  | -0.22                  | 0.32                    | 1140               | 1153                |
|                          | India (INR/USD)     | 53.8  | -0.78                  | -2.40                   | 54.92              | 57.26               |
|                          | Australia (USD/AUD) | 1.02  | -0.23                  | -2.21                   | 0.99               | 1.01                |
|                          | Singapore (SGD/USD) | 1.24  | 0.17                   | -0.35                   | 1.24               | 1.24                |
|                          | Indonesia (IDR/USD) | 9214  | 0.18                   | -0.27                   | 9443               | 9815                |
| Thailand (THB/USD)       | 30.9                | 0.03  | -0.61                  | 31.10                   | 31.52              |                     |
| Malaysia (MYR/USD)       | 3.04                | -0.29 | 0.18                   | 3.06                    | 3.09               |                     |
| Philippines (PHP/USD)    | 42.4                | -0.32 | -0.03                  | 42.64                   | 42.99              |                     |

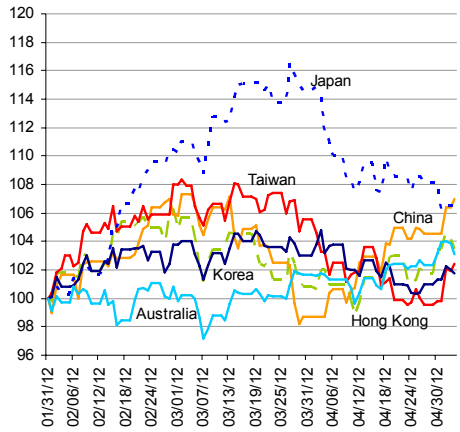
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| INTERBANK RATES         | INDEX                | Rate | net change<br>over a day | net change<br>over a week | net change<br>over a month |
|-------------------------|----------------------|------|--------------------------|---------------------------|----------------------------|
|                         | China (SHIBOR/7D)    | 3.85 | 0.00                     | 0.05                      | 0.40                       |
|                         | Hong Kong (HIBOR/1W) | 0.15 | 0.00                     | 0.04                      | 0.04                       |
|                         | Taiwan (TAIBOR/1W)   | 0.66 | 0.00                     | 0.00                      | 0.02                       |
|                         | Japan (TIBOR/1Y)     | 0.76 | 0.00                     | 0                         | 0                          |
|                         | Korea (KORIBOR/1M)   | 3.37 | 0.00                     | -0.01                     | -0.01                      |
|                         | India (MIBOR/7D)     | 3.95 | 0.08                     | -0.03                     | 0.24                       |
|                         | Singapore (SIBOR/1W) | 0.25 | 0.00                     | 0.00                      | 0.00                       |
|                         | Indonesia (JIBOR/1W) | 3.81 | 0.00                     | 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                 | 0.13 | -0.06                    | -0.50                     |                            |

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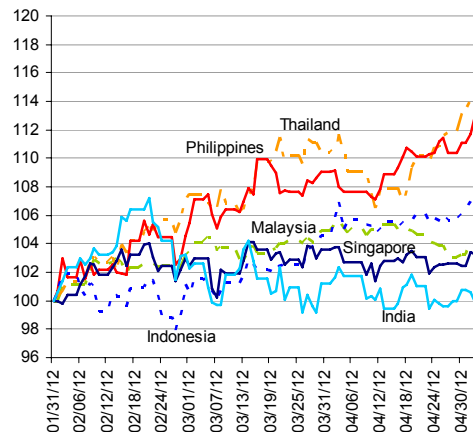
# Charts

Chart 9  
Stock Markets



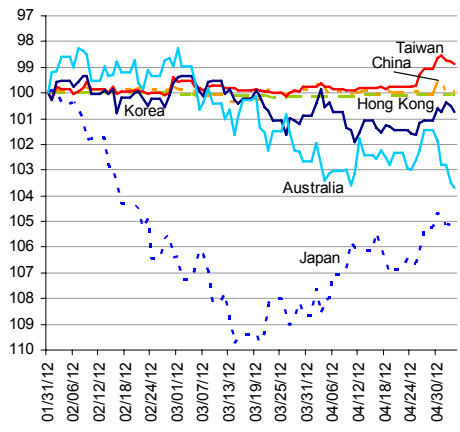
Source: BBVA Research and Bloomberg

Chart 10  
Stock Markets



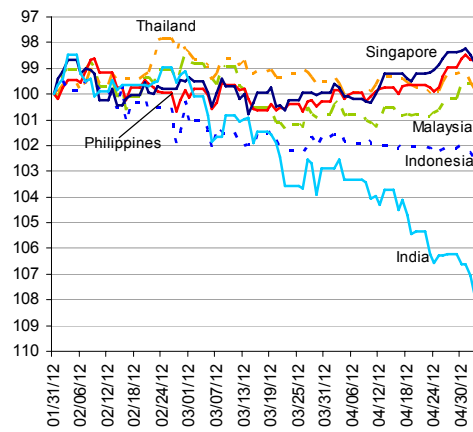
Source: BBVA Research and Bloomberg

Chart 11  
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12  
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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