

Daily Flash

Asia

Australia keeps policy rate unchanged on an improving global economy

Today the Reserve Bank of Australia kept its policy rate unchanged at 3.25% at its November's monetary policy meeting, in line with our expectation but against the market's consensus of a 25bps rate cut. The Australian dollar rose strongly after the surprise decision (by +0.6% to 1.042 against the USD). RBA Governor Glenn Stevens said in a statement, "with prices data slightly higher than expected and recent information on the world economy slightly more positive, the Board judged that the stance of monetary policy was appropriate for the time being." Risks to the global economy, particularly in the US and China, seem more balanced recently in spite of downside risks posed by the European debt crisis, the RBA said. On the other hand, the RBA estimates that Australia's economy has grown close to trend before resources investment, Australia's main growth driver, likely peaks in 2013. On the monetary policy front, the RBA said that monetary policy has become more accommodative over the past year as borrowing costs remain low. Taken as a whole, we think that Australia's easing cycle may have ended, especially if the global economy continues to improve.

Philippines inflation slows sharply on lower food prices

In the Philippines, inflation fell in October to 3.1% y/y (consensus: 3.5% y/y) from 3.6% y/y in September, a much lower than expected outturn largely driven by lower food prices. Today's inflation outturn supports the central bank's decision in late October to cut interest rates by 25bps to a record-low 3.5% in order to support an economy which has seen a sharp slowdown in exports. That said, we expect GDP growth to remain robust for the Philippines this year at around 5.5% y/y, up from 3.9% y/y in 2011. Our current outlook for monetary policy is that the Philippines will remain on hold for the time being, allowing the effects of 100bps in total cuts since the beginning of this year to filter through to the economy.

Indian rupee reverses most of its gains post-policy reforms

The Indian rupee has reversed almost all of its gains since September, slipping to its lowest levels in 7 weeks against the US dollar today (54.78/USD). The pullback has been mainly driven by a combination of dollar buying by domestic oil importers and fundamental concerns over India's widening current account and fiscal deficits. Looking ahead, an uncertain domestic and global macro environment is expected to keep the rupee under pressure.

Briefly noted:

- **The PBoC injected RMB 277 bn into the banking system via reverse repo today, down from RMB 395bn last week.** The PBoC has been injecting liquidity in recent weeks rather than cutting the required reserve ratio, in a form of de facto policy support. The PBoC is expected to continue with sizable reverse repo operations in order to manage liquidity for the foreseeable future. Also regarding China, at the Asia-Europe Meeting currently being held in Laos, Premier Wen expressed confidence in China's economy, both in terms of achieving the official growth target for this year (7.5%) as well as the quality of development over the longer-term. With this in mind, the upcoming monthly indicators released on Nov 9th will be closely watched for signs of further economic stabilization.
- **Indonesia announced that it has successfully returned to the Samurai bond market** by issuing 60bn yen worth of 10-year bonds, with a coupon of 1.13%. The move is part of a broader effort to help diversify Indonesia's investor base, and was well received by the market.

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Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
Retail Sales s.a. (MoM)	05-Nov	Sep	0.20%	0.40%	0.50%
Unemployment Rate	08-Nov	Oct	5.40%	5.50%	--
China	Date	Period	Prior	Cons.	Actual
Non-manufacturing PMI	03-Nov	Oct	53.7	--	55.5
HSBC Services PMI	05-Nov	Oct	54.3	--	53.5
Consumer Price Index (YoY)	09-Nov	Oct	1.90%	1.90%	--
Producer Price Index (YoY)	09-Nov	Oct	-3.60%	-2.70%	--
Industrial Production (YoY)	09-Nov	Oct	9.20%	9.40%	--
Industrial Production YTD YoY	09-Nov	Oct	10.00%	9.90%	--
Fixed Assets Inv Excl. Rural YTD YoY	09-Nov	Oct	20.50%	20.60%	--
Retail Sales (YoY)	09-Nov	Oct	14.20%	14.40%	--
Retail Sales YTD YoY	09-Nov	Oct	14.10%	14.10%	--
Hong Kong	Date	Period	Prior	Cons.	Actual
Purchasing Managers Index	05-Nov	Oct	49.6	--	50.5
Indonesia	Date	Period	Prior	Cons.	Actual
GDP Constant Price (YoY)	05-Nov	3Q	6.37%	6.17%	6.17%
GDP Constant Price (QoQ)	05-Nov	3Q	2.80%	3.26%	3.21%
Japan	Date	Period	Prior	Cons.	Actual
Machine Orders (MoM)	08-Nov	Sep	-3.30%	-2.10%	--
Machine Orders YOY%	08-Nov	Sep	-6.10%	-4.90%	--
Current Account Total	08-Nov	Sep	¥454.7B	¥761.8B	--
Trade Balance - BOP Basis	08-Nov	Sep	-¥644.5B	-¥413.5B	--
Japan Money Stock M2 YoY	09-Nov	Oct	2.40%	2.40%	--
Malaysia	Date	Period	Prior	Cons.	Actual
Industrial Production YoY	08-Nov	Sep	-0.70%	0.00%	--
Manufacturing Sales Value YoY%	08-Nov	Sep	1.80%	--	--
Exports YoY%	09-Nov	Sep	-4.50%	-3.00%	--
Philippines	Date	Period	Prior	Cons.	Actual
Consumer Price Index (YoY)	06-Nov	Oct	3.60%	3.50%	3.10%
Singapore	Date	Period	Prior	Cons.	Actual
Purchasing Managers Index	05-Nov	Oct	48.7	49.5	48.3
Taiwan	Date	Period	Prior	Cons.	Actual
CPI YoY%	05-Nov	Oct	2.96%	2.39%	2.36%
Total Exports (YoY)	08-Nov	Oct	10.40%	1.90%	--

Indicator of the Week

China: Industrial output for October (November 9)

Forecast: 9.6% y/y

Consensus: n/a

Prior: 9.2% y/y

Recent indicators, including the October PMI released on November 1, show broad signs that China's growth momentum is stabilizing. In particular, manufacturing PMI has increased for two consecutive months, reaching 50.2% in October. The upcoming batch of monthly indicators will be closely watched for further evidence of stabilization. The data includes inflation, industrial production, retail sales, investment, and trade (to be released between November 9-15). We expect industrial production to strengthen further from the previous month. Given benign inflation (1.9% in September) and risks to external demand, however, we still expect further cuts in the RRR and the policy rate in the coming months, along with stepped up infrastructure spending.

Calendar Events

Australia - RBA Cash Target, November 6

We expected the benchmark rate to remain unchanged

Current	Consensus	New
3.25%	3.00%	3.25%

Malaysia - Overnight Rate, November 8

We expect the benchmark rate to remain unchanged

Current	Consensus	New
3.00%	3.00%	--

Indonesia - BI Reference Rate, November 8

We expect the benchmark rate to remain unchanged

Current	Consensus	New
5.75%	5.75%	--

South Korea - 7-Day Repo Rate, November 9

We expect the benchmark rate to remain unchanged

Current	Consensus	New
2.75%	2.75%	--

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.	2106.0	-0.4	2.1	-4.2	-16.7
	Hong Kong - Hang Seng	21944.4	-0.3	2.4	19.0	10.6
	Taiwan - Weighted	7236.7	0.7	0.8	2.3	-4.8
	Japan - Nikkei 225	8975.2	-0.4	1.5	6.1	2.0
	Korea - Kospi	1928.2	1.0	1.5	5.6	0.0
	India - Sensex 30	18770.2	0.0	1.8	21.5	6.9
	Australia - SPX/ASX 200	4484.8	0.2	0.0	10.6	4.8
	Singapore - Strait Times	3024.3	-0.2	-0.5	14.3	6.2
	Indonesia - Jakarta Comp	4314.3	0.3	-1.2	12.9	14.0
	Thailand - SET	1303.6	-0.2	0.7	27.1	36.2
	Malaysia - KLCI	1645.6	-0.5	-1.7	7.5	11.4
Philippines - Manila Comp.	5473.6	0.3	1.3	25.2	28.1	

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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)	6.25	0.00	-0.09	6.30	6.36
	Hong Kong (HKD/USD)	7.75	0.00	0.00	7.75	7.75
	Taiwan (TWD/USD)	29.3	-0.02	-0.01	29.16	28.90
	Japan (JPY/USD)	80.17	0.15	-0.67	80.09	79.82
	Korea (KRW/USD)	1091	0.04	0.07	1096	1107
	India (INR/USD)	54.5	0.22	-0.95	55.36	57.64
	Australia (USD/AUD)	1.04	0.57	0.57	0.97	0.99
	Singapore (SGD/USD)	1.22	0.09	-0.37	1.22	1.22
	Indonesia (IDR/USD)	9626	0.07	-0.03	9733	10100
	Thailand (THB/USD)	30.8	0.10	-0.19	30.93	31.34
	Malaysia (MYR/USD)	3.06	-0.02	-0.39	3.08	3.12
Philippines (PHP/USD)	41.2	0.10	-0.05	41.21	41.21	

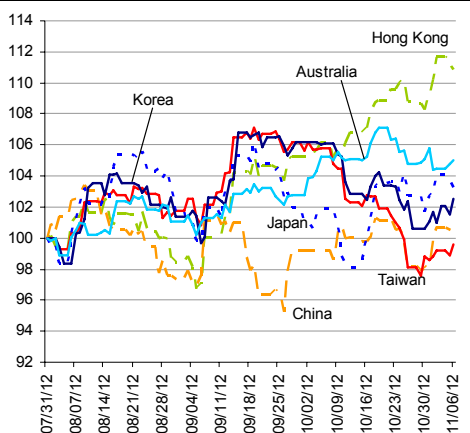
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.20	-0.17	-0.23	-0.10
	Hong Kong (HIBOR/1W)	0.13	0.00	0.00	-0.04
	Taiwan (TAIBOR/1W)	0.60	0.00	0.00	-0.02
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	2.78	0.00	0.00	-0.24
	India (MIBOR/7D)	3.24	-0.08	-0.36	0.24
	Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00
	Indonesia (JIBOR/1W)	4.29	0.00	0.00	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)	2.06	0.13	0.38	0.13

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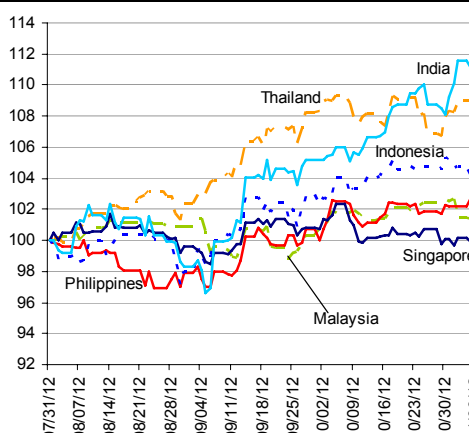
Charts

Chart 1
Stock Markets



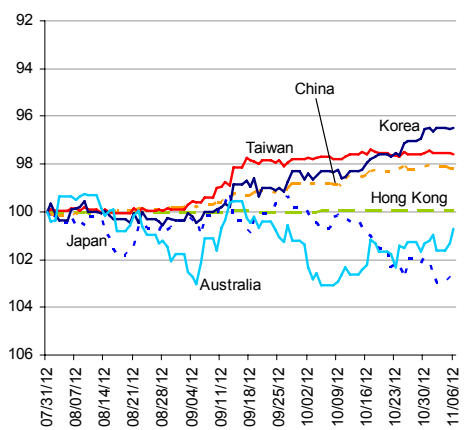
Source: BBVA Research and Bloomberg

Chart 2
Stock Markets



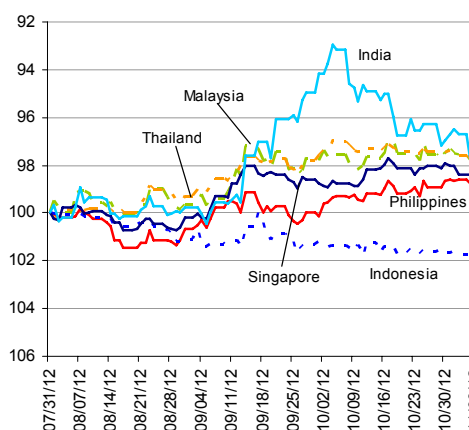
Source: BBVA Research and Bloomberg

Chart 3
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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