China Adds Scope to Cut Rates as Japan, S. Korea Hold: Economy

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China’s inflation and industrial production growth cooled in July, and central banks in Japan and South Korea saw little sign of price pressures, underscoring the scope for monetary stimulus should the European crisis deepen.

Consumer prices in China rose 1.8 percent in July from a year earlier and factory output increased the least since 2009, the National Bureau of Statistics said today in Beijing. The Bank of Korea said inflation will stay subdued, and the Bank of Japan anticipated that its benchmark gauge of prices will remain unchanged “for the time being.”

The reports from three of Asia’s four largest economies signaled that the jump in price of commodities from wheat and soybeans to corn in recent weeks has yet to constrain the consideration of further monetary stimulus. The BOK and BOJ stopped short of easing today, while reiterating that they are taking steps to strengthen demand.

“Inflation isn’t a major issue for Asian central bankers right now,” said Satoshi Osanai, an economist at the Daiwa Institute of Research in Tokyo. “Compared with advanced nations, Asian countries and emerging nations have more scope to cut interest rates or apply monetary easing.”

The MSCI Asia Pacific Index of stocks gained 0.8 percent as of 3:28 p.m. in Tokyo, while China’s benchmark Shanghai Composite Index rose 0.6 percent. South Korea’s Kospi stock index rose for a fourth day, gaining 2 percent, and Japan’s Nikkei climbed 1.1 percent.

Australian Jobs

Elsewhere in the Asia-Pacific region, Australian employers boosted payrolls in July and the unemployment rate unexpectedly fell, sending the local dollar near a 4 1/2-month high. New Zealand’s unemployment rate rose to a two-year high last quarter.

Indonesia also decided to hold its benchmark interest rate today. The State Bank of Pakistan is scheduled to decide on borrowing costs tomorrow.

In Europe, the Czech Republic and Netherlands are both forecast to report consumer inflation slowed in July, based on the median estimate in analyst surveys. The U.K.’s trade deficit may have widened in June from May, according to economists surveyed by Bloomberg News.

The U.S.’s trade gap probably narrowed to $47.5 billion in June from $48.7 billion in May, while Canada’s housing starts slowed in July, based on separate surveys. Mexico’s consumer inflation may have picked up in July to 4.42 percent from 4.34 percent in June.

Stability Pledge

In China, leaders of the ruling Communist Party last week pledged to keep adjusting policies to ensure a stable expansion this year.

The gain in Chinese industrial production in July was less than forecast by all 32 economists surveyed by Bloomberg News. Passenger-vehicle sales also trailed analysts’ estimates for the first time in five months. Wholesale deliveries, including multipurpose and sport utility vehicles, gained 11 percent to 1.12 million units last month, the China Association of Automobile Manufacturers said in a statement today. That compares with the 1.16 million average estimate of 10 analysts.

China’s consumer inflation was the lowest since January 2010. Food inflation of 2.4 percent last month from a year earlier was the slowest since October 2009.
The slowdown shows China has yet to register an impact from a U.S. drought that’s boosting prices of soybeans and corn used to feed China’s pigs, risking higher costs for pork, a staple meat. Pork prices fell 19 percent in July from a year earlier, dragging down inflation by 0.71 percentage point. In July 2011, pork jumped 57 percent.

Opens Room

“Slowing inflation opens the room for further and more significant policy easing,” said Shen Jianguang, Hong Kong-based chief Asia economist for Mizuho Securities Asia Ltd., who previously worked for the International Monetary Fund and European Central Bank. Shen forecasts one more rate reduction and at least two more cuts in banks’ reserve requirements this year, including one this month.

The BOK today kept borrowing costs at a 14-month low after a surprise cut in July, with Governor Kim Choong Soo and his board leaving the benchmark seven-day repurchase rate unchanged at 3 percent. The decision was unanimous, Kim told reporters, adding that policy will focus on boosting domestic demand.

“Growth momentum, as reflected in domestic economic activity, appears to be slackening, on the sluggishness of both exports and domestic demand stemming from mounting external uncertainties,” the BOK said in an English-language statement today after the decision.

Drag From Europe

Finance Minister Bahk Jae Wan said this week that Europe’s woes are causing a global contraction, a view bolstered by the Bank of England paring forecasts for the U.K. economy yesterday and German industrial production falling more than expected.

“The rate pause today raises the possibility of a cut next month,” said Sun Yoo, an economist at Woori Investment & Securities Co. in Seoul. “There is a shared understanding that the European fiscal crisis will be a lasting one and that a slowdown in the domestic economy needs some policy support.”

The Bank of Japan refrained from loosening monetary policy at its first meeting with two new board members as it assessed the effect on the economy of an appreciating currency and Europe’s debt woes.

The BOJ kept its asset-purchase fund at 45 trillion yen ($573 billion) and lending facility at 25 trillion yen, according to a statement released in Tokyo today. Governor Masaaki Shirakawa and his board won’t be compelled to add stimulus unless the yen’s appreciation intensifies or politicians step up calls for easing like they did earlier this year, according to Kiichi Murashima, chief economist at Citigroup in Tokyo.

Indonesia’s Stance

In Indonesia, Governor Darmin Nasution and his central bank board kept the reference rate unchanged at a record-low 5.75 percent. The decision was predicted by all but one of 26 economists surveyed by Bloomberg News.

Growth in Southeast Asia’s largest economy unexpectedly accelerated last quarter as rising investments helped the nation withstand Europe’s sovereign-debt crisis, which has hurt more export-dependent neighbors from Singapore to Taiwan.

“There’s no urgent need to lower interest rates this month,” David Sumual, an economist at PT Bank Central Asia in Jakarta, said before the decision. “Cutting rates can trigger asset bubbles in certain sectors, and the current rate is adequate to support the economy amid the global turmoil that won’t be resolved in the short term.”

Indonesia’s gross domestic product rose 6.37 percent in the three months through June, making the country the fastest growing among the Group of 20 nations after China.

To contact the reporter on this story: Zheng Lifei in Beijing at lzheng32@bloomberg.net

To contact the editors responsible for this story: Scott Lanman at slanman@bloomberg.net