

# Asia Flash

## Asia

### China takes steps to slow down 'hot money' inflows

China's State Administration of Foreign Exchange (SAFE) announced a set of new regulations over the weekend to put a brake on capital inflows, which have been putting appreciation pressure on the currency since early this year. The key measures include an increase in banks' required holdings of USD (in relation to their USD loans), and strengthened monitoring of illegal capital inflows through trade or other channels. Capital inflows through disguised exports had become evident in recent months due to a suspicious surge in exports to Hong Kong. While the authorities may have been uncomfortable with the accelerating pace of appreciation in recent weeks, we continue to expect further gradual appreciation of the RMB through end-year to around 6.1 per USD. In the meantime, the RMB depreciated today to close at 6.16, off slightly from its recent highs.

### Indonesia's Q1 GDP growth still solid, though below expectations

Indonesia's economy is the latest in Asia to show a disappointing first quarter outturn, of 6.0% y/y, just missing expectations of 6.1%. Recent Q1 GDP outturns in China, Taiwan, and Singapore have also missed expectations as a result of sluggish exports and slowing investment. Nevertheless, domestic demand in Indonesia remains strong, and we maintain our full-year forecast of 6.3%. Risks, however, are to the downside given uncertain external prospects, and investor unease over a widening current account deficit and uncertainty with the government's approach to an expected fuel price hike.

### Investors cheer Malaysian ruling party's re-election

Malaysia's ruling coalition, in power for the past 55 years, fended off its biggest challenge so far by winning yesterday's General Election yesterday. Prime Minister Najib Razak won 133 seats in Parliament compared with the opposition's 89. While a setback for those wishing for political reform, the result came as a relief to investors by ensuring economic policy continuity. The stock market rose by 3.4% and the ringgit gained by 1.8% to the strongest level since September 2011. Malaysia's economy expanded 5.6% in 2012 on robust domestic demand and we expect its growth momentum to remain strong at 4.8% in 2013.

### Hong Kong authorities warn of overheating risks

The Head of the Hong Kong Monetary Authority (HKMA), Norman Chan, warned in his briefing to the Legal Council last Friday that the economy is at risk of overheating as household debt rose to a record 61% of GDP as of end-2012. The warning echoes the themes of the HKMA's latest Financial Stability Report, which flagged the risk of rising interest rates and its potential impact on household repayment capacity, with spillovers to consumption and economic growth.

### India's April services sector PMI fell for the third consecutive month to 50.7

from 51.4 in March, its lowest since October 2011. Limited public spending, bottlenecks in executing infrastructure investments and a weak external outlook has slowed the services sector while hurting business sentiment. Reassuringly, input and output prices continue to ease, leaving room for further monetary stimulus to support growth following a 25 bps repo rate cut last week (to 7.25%). We see room for a final 25 bps cut in 2013, perhaps as early as the next policy meeting on June 17th unless delays in government policy execution or renewed inflationary pressures prompt the RBI to wait longer.

Briefly noted:

**Australia retail sales come in weaker than expected ahead of RBA meeting**

Retail sales fell by -0.40% m/m s.a. in March (consensus: +0.10%), the latest sign of sluggish domestic demand. The outturn could increase the chances of a rate cut by the Reserve Bank of Australia at its next policy meeting tomorrow, although we are sticking to our baseline of no further rate cuts this year, after the cumulative cuts of 175 bps from November 2011 - December 2012.

**Taiwan headline inflation eases by more than expected to 1.0% y/y** (Consensus: 1.26%) in April from 1.37% in March, the lowest pace since February 2012, well below the government's 2% comfort zone.

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## Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
Retail Sales s.a. (MoM)	06 May	Mar	1.30%	0.10%	-0.40%
Unemployment Rate	09 May	Apr	5.60%	5.60%	--
China	Date	Period	Prior	Cons.	Actual
Exports YoY%	08 May	Apr	10.00%	10.00%	--
Imports YoY%	08 May	Apr	14.10%	13.00%	--
Consumer Price Index (YoY)	09 May	Apr	2.10%	2.30%	--
Aggregate Financing	10-15 MAY	Apr	2544.3B	1480.0B	--
New Yuan Loans	10-15 MAY	Apr	1060.0B	767.5B	--
Money Supply - M2 (YoY)	10-15 MAY	Apr	15.70%	15.50%	--
Hong Kong	Date	Period	Prior	Cons.	Actual
GDP (YoY)	10 May	1Q	2.50%	2.70%	--
Indonesia	Date	Period	Prior	Cons.	Actual
GDP Constant Price (YoY)	06 May	1Q	6.11%	6.10%	6.02%
India	Date	Period	Prior	Cons.	Actual
Industrial Production YoY	10 May	Mar	0.60%	--	--
Exports YoY%	10-15 MAY	Apr	7.00%	--	--
Japan	Date	Period	Prior	Cons.	Actual
Current Account Total	10 May	Mar	¥637.4B	¥1216.3B	--
Malaysia	Date	Period	Prior	Cons.	Actual
Exports YoY%	08 May	Mar	-7.70%	-1.40%	--
Industrial Production YoY	09 May	Mar	-4.50%	1.00%	--
Philippines	Date	Period	Prior	Cons.	Actual
Consumer Price Index (YoY)	07 May	Apr	3.20%	2.80%	--
Total Exports (YoY)	10 May	Mar	-15.60%	-3.70%	--
Taiwan	Date	Period	Prior	Cons.	Actual
CPI YoY%	06 May	Apr	1.37%	1.26%	1.04%
Total Exports (YoY)	07 May	Apr	3.30%	3.30%	--

## Calendar Events

<b>Australia - RBA Cash Target, May 07</b> We expect the benchmark rate to remain unchanged	<b>Current</b> 3.00%	<b>Cons.</b> 3.00%	<b>New</b> --
<b>Malaysia - Overnight Rate, May 09</b> We expect the benchmark rate to remain unchanged	<b>Current</b> 3.00%	<b>Cons.</b> 3.00%	<b>New</b> --
<b>Korea - 7-Day Repo Rate, May 09</b> We expect the benchmark rate to remain unchanged	<b>Current</b> 2.75%	<b>Cons.</b> 2.75%	<b>New</b> --

## 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.	2231.2	1.2	0.6	-1.7	-9.0
Hong Kong - Hang Seng	22915.1	1.0	1.6	1.1	8.7	
Taiwan - Weighted	8169.1	0.4	1.8	6.1	6.1	
Japan - Nikkei 225	13694.0	-0.8	-1.1	31.7	46.0	
Korea - Kospi	19615	-0.2	0.9	-1.8	-1.4	
India - Sensex 30	19663.1	0.4	2.0	1.2	16.8	
Australia - SPX/ASX 200	5156.2	0.5	0.6	10.9	17.3	
Singapore - Strait Times	3382.6	0.4	1.0	6.8	13.1	
Indonesia - Jakarta Comp	4991.9	1.3	-0.2	15.6	18.4	
Thailand - SET	1579.0	-0.6	0.3	13.4	28.6	
Malaysia - KLCI	1752.0	3.4	2.4	3.7	10.1	
Philippines - Manila Comp.	7170.7	-0.6	2.1	23.4	35.4	

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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)	6.17	-0.17	-0.03	6.22	6.24
Hong Kong (HKD/USD)	7.76	-0.01	0.02	7.76	7.75	
Taiwan (TWD/USD)	29.5	-0.05	-0.10	29.51	29.21	
Japan (JPY/USD)	99.34	-0.35	-1.59	99.29	99.02	
Korea (KRW/USD)	1094	0.25	1.17	1101	1110	
India (INR/USD)	54.1	-0.31	0.26	54.80	57.34	
Australia (USD/AUD)	1.03	-0.62	-0.93	0.98	1.00	
Singapore (SGD/USD)	1.23	0.14	0.12	1.23	1.23	
Indonesia (IDR/USD)	9736	-0.01	-0.14	9841	10216	
Thailand (THB/USD)	29.6	0.30	-1.18	29.78	30.17	
Malaysia (MYR/USD)	2.98	1.82	1.79	2.99	3.03	
Philippines (PHP/USD)	40.9	-0.18	0.53	40.92	40.86	

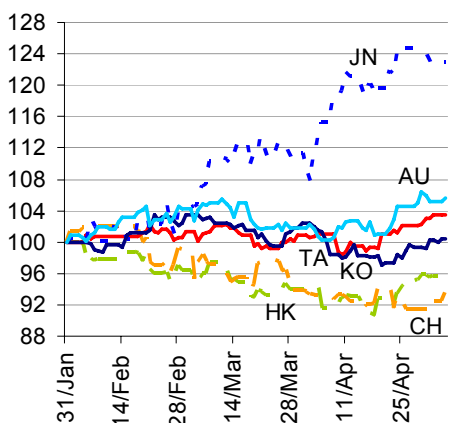
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.30	0.05	0.20	0.00
Hong Kong (HIBOR/1W)	0.10	0.00	0.00	0.00	
Taiwan (TAIBOR/1W)	0.54	0.00	0.00	-0.01	
Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01	
Korea (KORIBOR/1M)	2.75	0.00	-0.01	0.01	
India (MIBOR/7D)	3.30	0.00	-1.54	-2.70	
Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00	
Indonesia (JIBOR/1W)	4.28	0.00	0.00	0.00	
Thailand (BIBOR/1W)	2.77	0.00	0.00	0.00	
Malaysia (KLIBOR/1W)	2.90	0.00	0.00	0.00	
Philippines (PHIBOR/1W)	1.25	0.00	-0.31	0.31	

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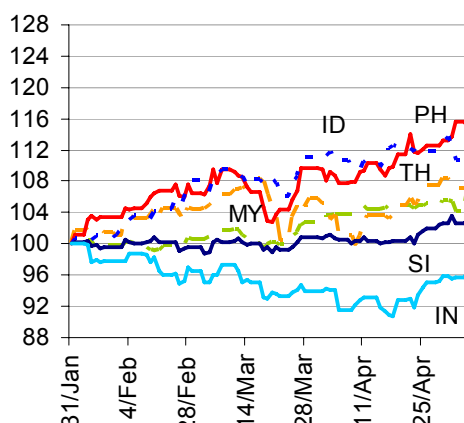
# Charts

Chart 1  
Stock Markets



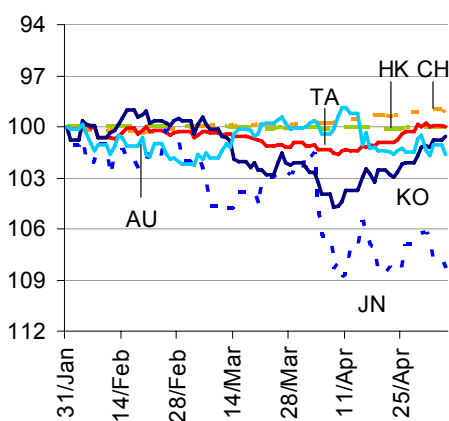
Source: BBVA Research and Bloomberg

Chart 2  
Stock Markets



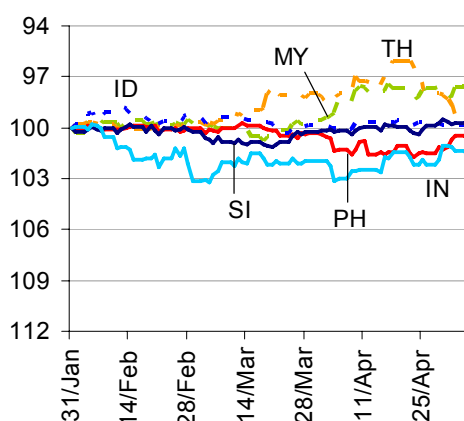
Source: BBVA Research and Bloomberg

Chart 3  
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4  
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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