

Asia Flash

Asia

The Japanese stock market recovered somewhat today (+0.9%), after a 2-day roller-coaster ride that saw losses of -7.3% yesterday on worries of a possible QE exit by the Fed and a much weaker-than-expected outturn of China's HSBC Flash PMI for May. The volatility in Japanese equity and bond markets underscores risks of the BoJ's dramatic easing campaign and the importance that markets attach to the not-as-yet delivered structural reforms, which encompass the "third arrow" of Prime Minister Abe's strategy to end deflation and reinvigorate growth. Stock market performances across the rest of Asia were mixed today, with small gains in China (+0.6%), but losses in Australia (-1.6%) and Hong Kong (-0.2%). In the coming week, market attention will focus on India's Q1 GDP (see Weekly Indicator below), activity indicators in Japan and the Philippines, and the Bank of Thailand's monetary policy meeting, where the possibility of 25 bps rate cut has increased (although not in our baseline) given subdued inflation and currency appreciation pressure.

China's disappointing flash PMI weakens market sentiment

The HSBC flash PMI for May, released yesterday, fell below the 50 expansion threshold for the first time in seven months to 49.6 (consensus: 50.4), from April's 50.4. The new orders subcomponent led the decline, falling to 49.5 the lowest since last September. The weak outturn underscores the challenge for the government to sustain growth without further exacerbating domestic financial fragilities in the property market, shadow bank lending, and local government debt. It also poses some downside risks to our 8.0% growth outlook for 2013. However, it should be noted that the HSBC PMI covers mainly smaller firms, and the data series is subject to seasonality. We await the official NBS PMI (due on June 1), which covers a large sample size, including bigger firms.

Singapore posts improved activity indicators

In contrast to the weaker reading in China, recent data for Singapore – whose growth momentum has been lagging its ASEAN neighbors – have been more encouraging. Final Q1 GDP released on 23rd May was revised up to +0.2% y/y compared to the preliminary reading of -0.6% y/y released in mid-April. On a sequential basis, GDP increased by 1.8% q/q saar from +3.3% in Q4 2012. At the same time, headline inflation released eased to 1.5% y/y in April (consensus: 3.0%) from 3.5% in March. Meanwhile, growth of industrial production in April surprised to the upside at 4.7% y/y (consensus: 1.6%) from a revised -3.8% y/y in March, driven by the biomedical manufacturing sector. Looking ahead, given the positive signs from the latest industrial production readings, Singapore's growth momentum is expected to improve amid stabilized external demand in the remainder of 2013. We expect growth to reach 2.3%, compared to the government's outlook of 1% to 3%.

Briefly noted:

Taiwan lowers 2013 GDP outlook on mixed set of indicators

Taiwan's industrial production in April fell by -0.9% y/y (consensus: -0.47% y/y) from -3.0% in March. The manufacturing sector remains weak, declining by -1.2% y/y. Meanwhile, final Q1 GDP has been revised up slightly to 1.67% y/y compared to the advanced reading of +1.54%. The forward looking indicator (export orders in April: -1.1% y/y) still points to a soft recovery of external demand, which will continue to bring challenges to Taiwan's export-dependent economy. The government has lowered this year's GDP outlook 2.4% from previous 3.59%, reflecting the weaker-than-expected recovery of the external environment. Our growth forecast is 3.5%, facing more downside risks given the soft recovery path.

Vietnam's inflation in May eased to 6.36% y/y (consensus: 6.60%) from 6.61% in April. Regarding the trade, since the beginning of the year, **exports have increased by 15.1%** from a year earlier while imports climbed by 16.8%, leaving a trade deficit at USD 1.9 bn.

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Calendar Indicators

China	Date	Period	Prior	Cons.	Actual
HSBC Flash Manufacturing PMI	23 May	May	50.4	50.4	49.6
Hong Kong	Date	Period	Prior	Cons.	Actual
Unemployment Rate SA	20 May	Apr	3.50%	3.50%	3.50%
Composite Interest Rate	20 May	Apr	0.25%	--	0.25%
CPI - Composite Index (YoY)	21 May	Apr	3.60%	3.70%	4.00%
Japan	Date	Period	Prior	Cons.	Actual
All Industry Activity Index (MoM)	21 May	Mar	0.60%	-0.40%	-0.30%
Merchnds Trade Imports YoY	22 May	Apr	5.6	6.7	9.4
Merchnds Trade Exports YoY	22 May	Apr	1.1	5.4	3.8
Merchnds Trade Balance Total	22 May	Apr	-¥364.0B	-¥620.6B	-¥879.9B
Malaysia	Date	Period	Prior	Cons.	Actual
CPI YoY	22 May	Apr	1.60%	1.70%	1.70%
Singapore	Date	Period	Prior	Cons.	Actual
CPI (YoY)	23 May	Apr	3.50%	3.00%	1.50%
Industrial Production YoY	23 May	Apr	-3.80%	1.60%	4.70%
GDP (YoY)	23 May	1Q F	-0.60%	-0.60%	0.20%
Taiwan	Date	Period	Prior	Cons.	Actual
Export Orders (YoY)	20 May	Apr	-6.60%	-1.00%	-1.10%
Current Account Balance (USD)	20 May	1Q	15925M	--	11087M
Unemployment Rate - sa	22 May	Apr	4.18%	4.19%	4.19%
Commercial Sales (YoY)	23 May	Apr	-1.00%	1.31%	1.01%
Industrial Production (YoY)	23 May	Apr	-3.00%	-0.47%	-0.88%
GDP - Constant Prices (YoY)	24 May	1Q F	1.54%	1.50%	1.67%
Thailand	Date	Period	Prior	Cons.	Actual
Gross Domestic Product (YoY)	20 May	1Q	19.10%	6.00%	5.30%
Vietnam	Date	Period	Prior	Cons.	Actual
CPI (YoY)	24 May	May	6.61%	6.60%	6.36%
Exports YTD (YoY)	24 May	May	16.90%	--	15.10%

Calendar Events

Japan - BOJ Target Rate, May 22

We expect the benchmark rate to remain unchanged

Current
0.10%

Cons.
0.10%

New
0.10%

Upcoming Calendar Indicators

China	Date	Period	Prior	Cons.	Actual
Industrial Profits YTD YoY	27 May	Apr	12.10%	--	--
Hong Kong	Date	Period	Prior	Cons.	Actual
Exports YoY%	27 May	Apr	11.20%	9.50%	--
Retail Sales - Value (YoY)	30 May	Apr	9.80%	14.60%	--
India	Date	Period	Prior	Cons.	Actual
Qtrly GDP YoY%	31 May	1Q	4.50%	4.80%	--
Japan	Date	Period	Prior	Cons.	Actual
Retail Trade YoY	29 May	Apr	-0.30%	-0.50%	--
Jobless Rate	31 May	Apr	4.10%	4.10%	--
Markit/JMMA Manufacturing PMI	31 May	May	51.1	--	--
Natl CPI YoY	31 May	Apr	-0.90%	-0.70%	--
Tokyo CPI YoY	31 May	May	-0.70%	-0.40%	--
Industrial Production (MoM)	31 May	Apr P	0.90%	0.60%	--
Philippines	Date	Period	Prior	Cons.	Actual
GDP YoY	30 May	1Q	6.80%	6.10%	--
Korea	Date	Period	Prior	Cons.	Actual
Current Account in US\$ Million	29 May	Apr	\$4978.5M	--	--
Industrial Production (YoY)	30 May	Apr	-3.00%	-0.30%	--
Vietnam	Date	Period	Prior	Cons.	Actual
Industrial Production Index YoY	25-31 MAY	May	5.80%	--	--
Exports YTD (YoY)	25-31 MAY	May	16.90%	--	--

Upcoming Calendar Events

Thailand - Benchmark Interest Rate, May 29	Current	Cons.	New
We expect the benchmark rate to remain unchanged	2.75%	2.50%	--

Indicator of the Week

India: 2013 Q1 GDP Growth (May 31st)

Forecast: 4.7% y/y	Consensus: 4.9% y/y	Prior: 4.5% y/y
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India's growth headwinds, which dragged the economy to a decadal low pace in 2012, have seen little respite so far in 2013 as recent consumption and investment indicators continue to remain soft. Subdued growth and improving inflation has prompted the RBI to cut rates by a cumulative 75 bps at three straight policy meetings since January. Against this backdrop, Q1 2013 GDP will be watched for signs of an improving growth outlook as a favorable base effect and a tepid pick up in manufacturing offsets sluggish services sector growth. While weak final demand and limited fiscal spending will likely weigh on services, we expect higher export growth and ongoing investment reforms to support industrial output. A weaker than expected growth outturn would increase the scope of aggressive monetary easing by the RBI beyond our expectations of another 25 bps rate cut in June. We expect India's GDP growth to improve from 5.1% y/y for full year 2012 to 5.7% y/y in 2013 led by an investment pickup in 2H13 amid looser monetary policy, continued reform momentum and higher capital spending ahead of the national elections in 2014.

Markets Data

STOCK MARKETS	INDEX	% change				
		Last price	over a day	over a week	Year to date	% change over 1 Y
	China - Shanghai Comp.	2288.5	0.6	0.2	0.9	-2.7
	Hong Kong - Hang Seng	22618.7	-0.2	-2.0	-0.2	21.2
	Taiwan - Weighted	8209.8	-0.3	-1.9	6.6	15.2
	Japan - Nikkei 225	14612.5	0.9	-3.5	40.6	70.6
	Korea - Kospi	1973.5	0.2	-0.7	-1.2	8.8
	India - Sensex 30	19704.3	0.2	-2.9	1.4	21.5
	Australia - SPX/ASX 200	4983.5	-1.6	-3.8	7.2	22.9
	Singapore - Strait Times	3393.2	-1.8	-1.7	7.1	22.1
	Indonesia - Jakarta Comp	5155.1	0.7	0.2	19.4	29.4
	Thailand - SET	1607.5	-1.5	-0.6	15.5	42.8
	Malaysia - KLCI	1773.1	-0.6	0.4	5.0	14.5
	Philippines - Manila Comp.	7268.9	-0.6	-0.2	25.1	48.2

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FOREIGN EXCHANGE MARKETS	CURRENCY	% change				
		Spot	over a day	over a week	Forward 3-month	Forward 12-month
	China (CNY/USD)	6.13	0.03	0.14	6.19	6.23
	Hong Kong (HKD/USD)	7.76	0.00	0.00	7.76	7.75
	Taiwan (TWD/USD)	29.9	0.03	0.16	29.92	29.76
	Japan (JPY/USD)	101.55	0.46	1.63	101.50	101.21
	Korea (KRW/USD)	1127	0.13	-0.88	1130	1138
	India (INR/USD)	55.6	-0.08	-1.33	56.48	58.99
	Australia (USD/AUD)	0.97	-0.81	-0.61	1.04	1.06
	Singapore (SGD/USD)	1.26	-0.05	-0.40	1.26	1.26
	Indonesia (IDR/USD)	9774	0.09	-0.17	9920	10310
	Thailand (THB/USD)	29.9	-0.03	-0.20	30.11	30.47
	Malaysia (MYR/USD)	3.03	0.03	-0.34	3.05	3.09
	Philippines (PHP/USD)	41.6	0.26	-0.99	41.81	41.81

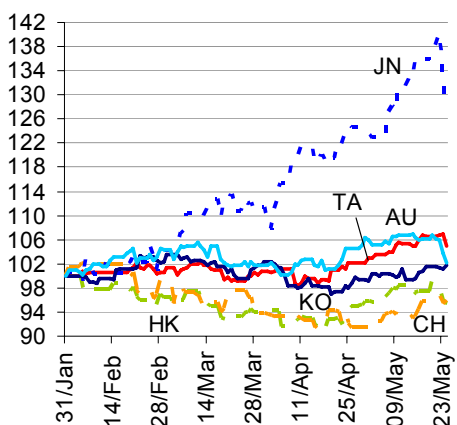
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INTERBANK RATES	INDEX	Rate	net change		
			over a day	over a week	over a month
	China (SHIBOR/7D)	4.20	0.00	0.65	-0.46
	Hong Kong (HIBOR/1W)	0.09	0.00	0.00	0.00
	Taiwan (TAIBOR/1W)	0.53	0.00	0.00	-0.01
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	2.58	0.01	0.01	-0.18
	India (MIBOR/7D)	4.15	-0.04	0.52	-0.69
	Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00
	Indonesia (JIBOR/1W)	4.27	0.00	0.00	-0.01
	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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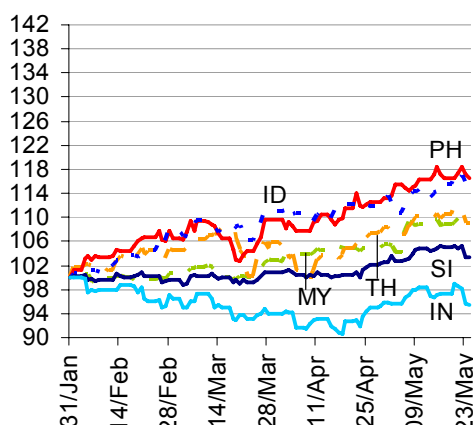
Charts

Chart 1
Stock Markets



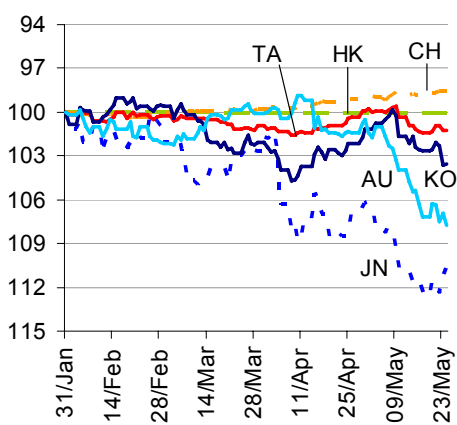
Source: BBVA Research and Bloomberg

Chart 2
Stock Markets



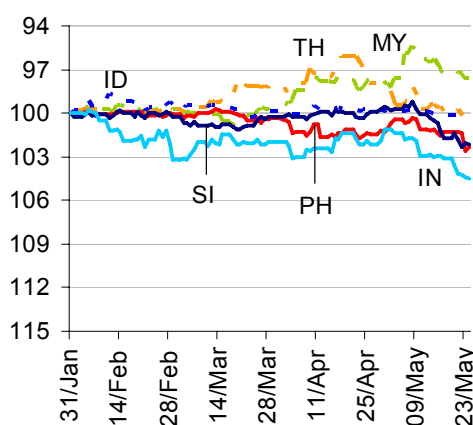
Source: BBVA Research and Bloomberg

Chart 3
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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