

# Asia Flash

## Asia

*China's stock markets declined sharply today on renewed concern about the ongoing squeeze in the interbank market and its impact on smaller banks (see below). The Shanghai Composite fell by -5.3% led by declines in small- and mid-sized banks, and the overall index has now declined by 15.5% since the end of May when the current selloff began. Other Asian markets fell in tandem, led by the Philippines (-3.4%) and Thailand (-2.6%), on concerns about slowing growth in China and lingering ripple effects from last week's US Fed statement on QE tapering.*

### **China's central bank rattles markets with statement on cash squeeze**

The central bank issued a statement today on its website explicitly linking the squeeze in the interbank market, which began on June 6, to banks' liquidity management practices, believed to relate to activities in the shadow banking market which the authorities are trying to curtail. As such, the statement confirmed market speculation that the cash squeeze is being tolerated by the PBoC as a warning to banks to curtail their aggressive lending practices and reduce risky activities in the shadow banking market. Interest rates in the money market remain elevated at around 7%, compared to an average of 3-4% prior to June 6. While we expect the PBoC to ease the liquidity shortage soon to prevent damage to the real economy, the statement on the website gave no indications to this effect, giving rise to risks that the tightness may persist for a while longer.

### **China and UK sign swap line, boosting London as offshore RMB center**

The Bank of England (BOE) and People's Bank of China (PBoC) announced over the weekend a 3-year Bilateral Swap Agreement (BSA) worth RMB 200 billion, the latest step toward RMB internationalization. China has now implemented 20 such BSAs including the likes of Hong Kong, South Korea, Australia, and Singapore in its efforts to promote the usage of the RMB in international trade and investment settlements. The latest BSA with the UK will help boost London's prospects in adding the RMB to its portfolio as a leading FX trading center.

### **Indonesia implements long-awaited fuel price increase to reduce subsidies**

After receiving approval on June 17 from Indonesia's legislature for revisions to the 2013 budget, Indonesia's Energy Ministry on Friday announced a 44% increase in low octane gasoline prices (to Rp 6,500 per liter, equivalent to around US\$0.65) and a 22% increase in diesel prices (to Rp 5,500 per liter). The plan was unexpectedly delayed last year due to political resistance, and is the first fuel price increase since 2008. We expect the fuel price increase to add around 2-3 ppts temporarily to headline inflation, which came in at 5.5% y/y in May, just within the official target range of 3.5-5.5%). Though Indonesia maintains low fiscal deficit and debt levels (-1.8% and 24.0% of GDP, respectively), fuel subsidies have diverted spending from higher priorities such as infrastructure and poverty alleviation, and have added pressure on a widening current account deficit. To soften the impact on low income segments, the government plans to implement a cash transfer scheme as it did successfully in 2005-06 and 2008-09.

### **India takes steps to address domestic coal shortage**

India last Friday took steps to address a domestic coal shortage by allowing Coal India (the largest public sector coal company) to sign additional fuel supply agreements and bridge shortages through imports, and permitting higher imported coal costs to be passed on to consumers. A rising energy shortage has, led to frequent power outages and undermined domestic output. Although inflationary over the near term, we expect the recent steps will boost foreign investments in India's power sector.

## Briefly noted:

**Taiwan's industrial output growth was flat in May**, but better than market expectations (consensus: -1.2% y/y), after three consecutive months of declines. On sequential basis after seasonal adjustment, IP increased by 0.98% m/m sa, showing some mild improvement thanks to resilient growth of semiconductor sector (10.3% y/y).

**Singapore's headline inflation picked up modestly in May to 1.6% y/y** (consensus: 1.7%) compared to 1.5% y/y in April. The positive news on the inflation front was obscured (literally) by thick smog that has covered the city-state and disrupted commerce for the past week from fires in Indonesia.

**Vietnam's inflation in June drifted up for the first time this year to 6.69% y/y** (consensus: 6.65%) from 6.36% in May, on rising prices of textiles and household appliances. The central bank has lowered policy interest rates 8 times since March 2012 to support economic growth, which reached a decade low of 5.0% in 2012 and the Q1 outturn in 2013 continued to disappoint at 4.9%. GDP growth for the first half of the year will be announced during this week (date not confirmed yet), where markets expect to reach 5.0% y/y.

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## Calendar Indicators

| China                             | Date      | Period | Prior     | Cons.     | Actual |
|-----------------------------------|-----------|--------|-----------|-----------|--------|
| Industrial Profits YTD YoY        | 27 Jun    | May    | 11.40%    | --        | --     |
| Hong Kong                         | Date      | Period | Prior     | Cons.     | Actual |
| Exports YoY                       | 25 Jun    | May    | 9.00%     | 5.00%     | --     |
| Trade Balance                     | 25 Jun    | May    | -42.7B    | -38.4B    | --     |
| India                             | Date      | Period | Prior     | Cons.     | Actual |
| Current Account Balance           | 28 Jun    | 1Q     | --        | -\$21.00B | --     |
| Japan                             | Date      | Period | Prior     | Cons.     | Actual |
| All Industry Activity Index (MoM) | 27 Jun    | Apr    | -0.30%    | 0.40%     | --     |
| Markit/JMMA Manufacturing PMI     | 28 Jun    | Jun    | 51.5      | --        | --     |
| Jobless Rate                      | 28 Jun    | May    | 4.10%     | 4.00%     | --     |
| Natl CPI YoY                      | 28 Jun    | May    | -0.70%    | -0.40%    | --     |
| Tokyo CPI YoY                     | 28 Jun    | Jun    | -0.20%    | 0.10%     | --     |
| Industrial Production (MoM)       | 28 Jun    | May P  | 0.90%     | 0.20%     | --     |
| Retail Trade YoY                  | 28 Jun    | May    | -0.20%    | 0.00%     | --     |
| Singapore                         | Date      | Period | Prior     | Cons.     | Actual |
| CPI (YoY)                         | 24 Jun    | May    | 1.50%     | 1.70%     | 1.60%  |
| Industrial Production YoY         | 26 Jun    | May    | 4.70%     | 0.10%     | --     |
| South Korea                       | Date      | Period | Prior     | Cons.     | Actual |
| Current Account in US\$ Million   | 27 Jun    | May    | \$3972.2M | --        | --     |
| Industrial Production (YoY)       | 28 Jun    | May    | 1.70%     | -1.10%    | --     |
| Taiwan                            | Date      | Period | Prior     | Cons.     | Actual |
| Unemployment Rate - sa            | 24 Jun    | May    | 4.19%     | 4.20%     | 4.19%  |
| Industrial Production (YoY)       | 24 Jun    | May    | -0.80%    | -1.20%    | -0.07% |
| Commercial Sales (YoY)            | 24 Jun    | May    | 1.01%     | -1.47%    | -1.85% |
| Thailand                          | Date      | Period | Prior     | Cons.     | Actual |
| Customs Exports (YoY)             | 26 Jun    | May    | 2.89%     | -4.00%    | --     |
| Vietnam                           | Date      | Period | Prior     | Cons.     | Actual |
| CPI (YoY)                         | 24 Jun    | Jun    | 6.36%     | 6.65%     | 6.69%  |
| Retail Sales YTD (YoY)            | 25-30 JUN | Jun    | 11.90%    | --        | --     |
| Industrial Production Index YoY   | 25-30 JUN | Jun    | 5.60%     | --        | --     |
| GDP Constant Prices YTD (YoY)     | 25-30 JUN | 2Q     | 4.90%     | 5.00%     | --     |
| Exports YTD (YoY)                 | 25-30 JUN | Jun    | 15.10%    | --        | --     |

## Calendar Events

| Taiwan - Benchmark Interest Rate, Jun 27         | Current | Cons.  | New |
|--|---------|--------|-----|
| We expect the benchmark rate to remain unchanged | 1.875%  | 1.875% | --  |

## Indicator of the Week

### Japan: Industrial production (May, June 28<sup>th</sup>)

Forecast: 0.5% m/m sa

Consensus: 0.2%

Prior: 0.9%

Along with retail sales, PMI, employment and inflation all due out on June 28, industrial production will be closely watched for further signs of an economic pickup under the "3-arrow" policy strategy of the Abe administration. Although markets have been disappointed by recent announcements of the structural reform agenda, recent data have shown encouraging signs that Japan's economy is gaining momentum, which we expect to have continued in May. We expect industrial production growth to remain robust under the positive influences of the ongoing fiscal and monetary stimulus. After the July upper house elections, markets will be looking for further measures on the structural reform front, which are needed to sustain the positive momentum.

## 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. | 1963.2     | -5.3                | -8.9                 | -13.5        | -13.2             |
| Hong Kong - Hang Seng      | 19814.0                | -2.2       | -6.7                | -12.5                | 4.3          |                   |
| Taiwan - Weighted          | 7758.0                 | -0.5       | -2.9                | 0.8                  | 7.4          |                   |
| Japan - Nikkei 225         | 13062.8                | -1.3       | 0.2                 | 25.7                 | 48.5         |                   |
| Korea - Kospi              | 1799.0                 | -1.3       | -4.5                | -9.9                 | -2.6         |                   |
| India - Sensex 30          | 18540.9                | -1.2       | -4.1                | -4.6                 | 9.2          |                   |
| Australia - SPX/ASX 200    | 4669.1                 | -1.5       | -3.2                | 0.4                  | 15.3         |                   |
| Singapore - Strait Times   | 3074.3                 | -1.6       | -3.4                | -2.9                 | 8.7          |                   |
| Indonesia - Jakarta Comp   | 4429.5                 | -1.9       | -7.2                | 2.6                  | 13.9         |                   |
| Thailand - SET             | 1364.1                 | -2.6       | -7.3                | -2.0                 | 18.3         |                   |
| Malaysia - KLCI            | 1738.2                 | -1.0       | -1.9                | 2.9                  | 8.4          |                   |
| Philippines - Manila Comp. | 5971.1                 | -3.4       | -5.8                | 2.7                  | 16.6         |                   |

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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) | 6.14  | -0.19               | -0.33                | 6.24            | 6.32             |
| Hong Kong (HKD/USD)      | 7.76            | 0.02  | 0.04                | 7.75                 | 7.75            |                  |
| Taiwan (TWD/USD)         | 30.2            | -0.12 | -1.00               | 30.20                | 30.05           |                  |
| Japan (JPY/USD)          | 97.96           | -0.06 | -3.52               | 97.90                | 97.47           |                  |
| Korea (KRW/USD)          | 1161            | -0.61 | -3.01               | 1165                 | 1171            |                  |
| India (INR/USD)          | 59.7            | -0.79 | -3.13               | 60.87                | 63.35           |                  |
| Australia (USD/AUD)      | 0.92            | -0.22 | -3.60               | 1.09                 | 1.12            |                  |
| Singapore (SGD/USD)      | 1.28            | -0.23 | -1.88               | 1.28                 | 1.28            |                  |
| Indonesia (IDR/USD)      | 10009           | 0.02  | -1.21               | 10621                | 11126           |                  |
| Thailand (THB/USD)       | 31.1            | 0.10  | -1.35               | 31.36                | 31.71           |                  |
| Malaysia (MYR/USD)       | 3.22            | -0.61 | -2.70               | 3.24                 | 3.28            |                  |
| Philippines (PHP/USD)    | 43.9            | -0.35 | -2.26               | 44.14                | 44.46           |                  |

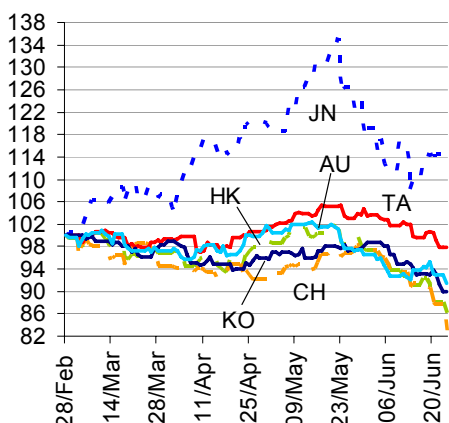
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| INTERBANK RATES         | INDEX             | Rate | net change over a day | net change over a week | net change over a month |
|-------------------------|-------------------|------|-----------------------|------------------------|-------------------------|
|                         | China (SHIBOR/7D) | 7.10 | -1.40                 | -0.96                  | 2.90                    |
| Hong Kong (HIBOR/1W)    | 0.11              | 0.00 | 0.02                  | 0.02                   |                         |
| Taiwan (TAIBOR/1W)      | 0.53              | 0.00 | 0.00                  | 0.00                   |                         |
| Japan (TIBOR/1Y)        | 0.76              | 0.00 | 0.01                  | 0.01                   |                         |
| Korea (KORIBOR/1M)      | 2.58              | 0.00 | 0.00                  | 0.01                   |                         |
| India (MIBOR/7D)        | 10.40             | 1.00 | 1.75                  | 6.25                   |                         |
| Singapore (SIBOR/1W)    | 0.25              | 0.00 | 0.00                  | 0.00                   |                         |
| Indonesia (JIBOR/1W)    | 4.56              | 0.00 | 0.03                  | 0.29                   |                         |
| 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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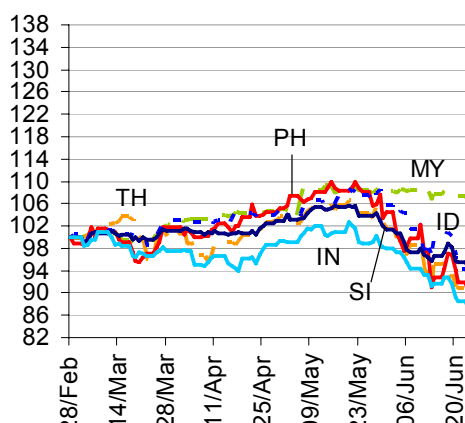
# Charts

Chart 1  
Stock Markets



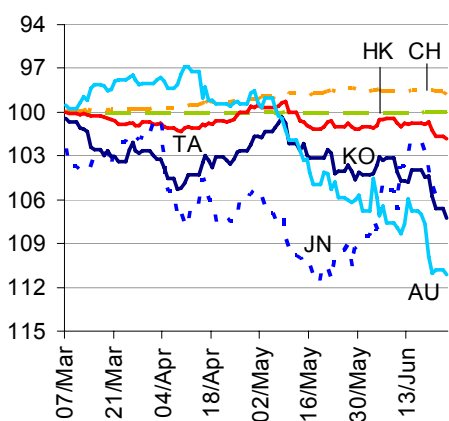
Source: BBVA Research and Bloomberg

Chart 2  
Stock Markets



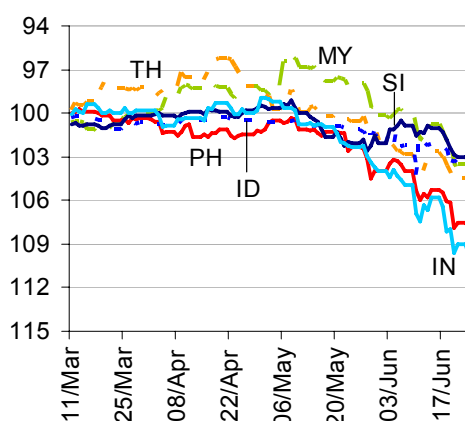
Source: BBVA Research and Bloomberg

Chart 3  
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4  
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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