

Asia Flash

Asia

Markets in Asia ended the week on a strong upturn due to signs that China's interbank cash squeeze is easing (See our *China Flash*) and on positive economic data in Japan. Gains were led by Japan's Nikkei (+3.5%), Indonesia's Jakarta Composite (+3.1%) and India's Sensex (+2.8%). Looking ahead, Monday will feature the release of China's official PMI outturn for June, which will be closely watched after the accumulating signs of slowing growth (see *Weekly Indicator* below). Exports, PMI and inflation outturns will also be released in Korea and Indonesia. Given a public July 1 holiday here in Hong Kong, we will report on these outturns the following day.

Japan May indicators point to ongoing recovery under Abenomics

May activity indicators improved in May, adding to evidence that the BoJ's aggressive monetary easing and fiscal stimulus under Abenomics are bearing fruit. Industrial production improved more than expected 2.0% m/m sa (consensus: 0.2%; prior: 0.9%). That said, household spending fell by -1.6% y/y (consensus: 1.3%; prior: 1.5%) and private investment remains sluggish. On balance, we believe the economy's growth momentum will be stable in Q2 after a better-than-expected 4.1% GDP growth outturn (saar) in Q1. Inflation (-0.3% y/y) remains negative, but with inflationary expectations picking up we expect deflation to end by the end of the year, although it will be a challenge to reach the BoJ's 2% inflation target within the next two years.

Korea industrial production declines in May on external headwinds

While Japan's IP beat expectations, Korea's fell short at -0.4% m/m (consensus: +1.0% m/m) from +0.6% increase in April. On a year-on-year basis, the May reading declined by -1.4% (consensus: -1.2% y/y), from a growth of 1.6% in the previous month. The outturn reflects headwinds from the sluggish external environment, and will cast attention on the impact of the yen's depreciation on Korea's exporters. Looking ahead, we expect GDP growth of 2.7% in 2013 on supportive fiscal and monetary policies (the BoK cut rates in May for the first time since October 2012).

India's current account deficit eases in Q1

Matching our expectations but positively surprising the consensus, India's current account deficit (CAD) improved significantly in Q1 2013 to USD -18.1 bn (3.6% of GDP) from a record high of USD 31.9 bn (6.7% of GDP) in the previous quarter (BBVA est: 3.6% at USD 18.4 bn; Consensus : USD 21 bn). The rupee rebounded to 59.4 against the USD from its historic low of 60.7 earlier this week. The favourable outturn was driven by a lower trade deficit, led by a pick up in exports and slight contraction in imports - weighed by weak domestic demand, seasonal closure of oil refineries and increases in locally regulated fuel prices. Overall, despite easing, India's current account deficit still remains elevated, which combined with rising external debt, will likely keep the rupee under pressure.

Vietnam takes further steps to revive growth

Vietnam's GDP growth in Q2 was reported yesterday to have risen to 5.0% y/y from 4.9% in Q1. After years of rapid growth, Vietnam's growth in 2012, at 5.0%, slowed to its lowest level since 2000, due to soft domestic consumption and slower credit growth. The State Bank of Vietnam (SBV) has cut interest rates 8 times since the beginning of 2012 by a cumulative 700bps, and in May the government approved the Vietnam Asset Management Company to resolve non-performing loans in the banking system. The SBV also announced a devaluation of the currency this week by 1% to 21,036. Overall, we expect growth in 2013 of around 5½%.

Briefly noted:

Moody's lowers the outlook for Hong Kong banks to negative from stable. The downgrade, announced today, was based on the rating agency's concerns over potential asset bubbles (property market), and banks' growing exposure the Mainland China which is in a process of growth slowdown.

Profit growth of Chinese major industrial firms increased by 15.5% y/y in May from 9.3% y/y in April, partially due to favorable base effects. The outturn is largely in line with expectations, and we await Monday's PMI release for the next reading on growth momentum.

Taiwan's central bank holds the benchmark rate steady at 1.875% after the quarterly monetary policy meeting yesterday, as widely expected. Policymakers maintained a wait-and-see approach for an 8th straight quarter amid signs of weakening growth. The central bank expects growth to improve in the second half and has pledged to maintain an accommodative stance. Despite low inflation (0.74% in May), we do not anticipate further rate cuts during the remainder of this year given ample liquidity conditions.

Stephen Schwartz
Chief Economist for Asia
stephen.schwartz@bbva.com.hk
+852 2582 3218

Carrie Liu
Economist
carrie.liu@bbva.com.hk
+852 2582 3243

With contributions from the BBVA Research Asia Team

Calendar Indicators

China	Date	Period	Prior	Cons.	Actual
Industrial Profits YTD YoY	27 Jun	May	11.40%	--	12.30%
Hong Kong	Date	Period	Prior	Cons.	Actual
Exports YoY%	25 Jun	May	9.00%	3.40%	-1.00%
Trade Balance	25 Jun	May	-42.7B	-38.0B	-44.3B
India	Date	Period	Prior	Cons.	Actual
Current Account Balance	27 Jun	1Q	-\$31.86B	-\$21.00B	-\$32.60B
Japan	Date	Period	Prior	Cons.	Actual
All Industry Activity Index (MoM)	27 Jun	Apr	0.20%	0.40%	0.40%
Markit/JMMA Manufacturing PMI	28 Jun	Jun	51.5	--	52.3
Jobless Rate	28 Jun	May	4.10%	4.00%	4.10%
Natl CPI YoY	28 Jun	May	-0.70%	-0.40%	-0.30%
Tokyo CPI YoY	28 Jun	Jun	-0.20%	0.10%	0.00%
Industrial Production (MoM)	28 Jun	May P	0.90%	0.20%	2.00%
Retail Trade YoY	28 Jun	May	-0.20%	0.00%	0.80%
Singapore	Date	Period	Prior	Cons.	Actual
CPI (YoY)	24 Jun	May	1.50%	1.70%	1.60%
Industrial Production YoY	26 Jun	May	5.00%	0.10%	2.10%
South Korea	Date	Period	Prior	Cons.	Actual
Current Account in US\$ Million	27 Jun	May	\$3926.9M	--	\$8638.8M
Industrial Production (YoY)	28 Jun	May	1.60%	-1.20%	-1.40%
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%	-4.15%	-5.25%
Vietnam	Date	Period	Prior	Cons.	Actual
CPI (YoY)	24 Jun	Jun	6.36%	6.65%	6.69%
Retail Sales YTD (YoY)	27 Jun	Jun	11.90%	--	11.90%
Industrial Production Index YoY	27 Jun	Jun	6.70%	--	6.50%
GDP Constant Prices YTD (YoY)	27 Jun	2Q	4.80%	5.00%	4.90%
Exports YTD (YoY)	27 Jun	Jun	15.10%	--	16.10%

Calendar Events

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

Indicator of the Week

China: NBS PMI (June, July 1st)

Forecast: 50.2

Consensus: 50.1

Prior: 50.8

Data outturns in China have increasingly showed a slowdown, mostly recently from weaker-than-expected May industrial production (9.2% y/y) and exports (1.0% y/y). Moreover, the latest HSBC flash PMI on June 20 came in at a disappointing 48.3 (from 49.2 in May). As such, China's official NBS manufacturing PMI will be closely watched. We expected PMI to decline after an unexpected rise in May, as activity slows due to weak investment, sluggish exports, and recent government measures to address domestic financial fragilities. Nevertheless, we expect the NBS PMI to remain above the expansion threshold in view of continued public infrastructure spending and stable consumer spending.

Upcoming Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
Trade Balance	03 Jul	May	28M	53M	--
Retail Sales s.a. (MoM)	03 Jul	May	0.20%	0.30%	--
China	Date	Period	Prior	Cons.	Actual
Manufacturing PMI	01 Jul	Jun	50.8	50.1	--
HSBC Manufacturing PMI	01 Jul	Jun	49.2	48.3	--
Hong Kong	Date	Period	Prior	Cons.	Actual
Retail Sales - Value (YoY)	02 Jul	May	20.70%	21.20%	--
Purchasing Managers Index	04 Jul	Jun	49.8	--	--
Indonesia	Date	Period	Prior	Cons.	Actual
Exports (YoY)	01 Jul	May	-9.10%	-8.80%	--
Total Trade Balance	01 Jul	May	-\$1616M	-\$607M	--
HSBC-Markit Manufacturing PMI	01 Jul	Jun	51.6	--	--
Inflation (YoY)	01 Jul	Jun	5.47%	6.08%	--
India	Date	Period	Prior	Cons.	Actual
HSBC-Markit Manufacturing PMI	01 Jul	Jun	50.1	--	--
Japan	Date	Period	Prior	Cons.	Actual
Tankan Lge Manufacturers Index	01 Jul	2Q	-8	3	--
Tankan Large All Indust Capex	01 Jul	2Q	-2.00%	2.90%	--
Monetary Base Avg Amount YoY	02 Jul	Jun	31.60%	--	--
Malaysia	Date	Period	Prior	Cons.	Actual
Exports YoY%	05 Jul	May	-3.30%	-2.30%	--
Philippines	Date	Period	Prior	Cons.	Actual
Consumer Price Index (YoY)	05 Jul	Jun	2.60%	2.60%	--
Singapore	Date	Period	Prior	Cons.	Actual
Purchasing Managers Index	03 Jul	Jun	51.1	51.0	--
South Korea	Date	Period	Prior	Cons.	Actual
South Korea FDI (YoY)	01-05 JUL	2Q	44.70%	--	--
Ext Trade - Export (YoY)	01 Jul	Jun	3.20%	0.10%	--
Consumer Price Index (YoY)	01 Jul	Jun	1.00%	1.10%	--
HSBC Manufacturing PMI	01 Jul	Jun	51.1	--	--
Taiwan	Date	Period	Prior	Cons.	Actual
HSBC Manufacturing PMI	01 Jul	Jun	47.1	--	--
CPI YoY%	05 Jul	Jun	0.74%	0.60%	--
Thailand	Date	Period	Prior	Cons.	Actual
Consumer Price Index (YoY)	01 Jul	Jun	2.27%	2.39%	--
Vietnam	Date	Period	Prior	Cons.	Actual
HSBC Manufacturing PMI	01 Jul	Jun	48.8	--	--

Upcoming Calendar Events

Australia - RBA Cash Target, Jul 2

We expect the benchmark rate to remain unchanged

Current
2.75%

Cons.
2.75%

New
--

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.	1979.2	15	-4.5	-12.8	-9.9
Hong Kong - Hang Seng	20803.3	1.8	2.7	-8.2	9.3	
Taiwan - Weighted	8062.2	2.3	3.5	4.7	12.4	
Japan - Nikkei 225	13677.3	3.5	3.4	31.6	54.1	
Korea - Kospi	1863.3	1.6	2.2	-6.7	2.4	
India - Sensex 30	19395.8	2.8	3.3	-0.2	14.2	
Australia - SPX/ASX 200	4802.6	-0.2	1.3	3.3	18.7	
Singapore - Strait Times	3150.4	1.0	0.8	-0.5	10.7	
Indonesia - Jakarta Comp	4818.9	3.1	6.7	11.6	24.0	
Thailand - SET	1451.9	0.4	3.7	4.3	24.0	
Malaysia - KLCI	1773.5	1.3	1.0	5.0	11.2	
Philippines - Manila Comp.	6465.3	2.2	4.6	11.2	23.0	

Last update: today, 19:00 Hong Kong time

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	-0.07	6.21	6.29
Hong Kong (HKD/USD)	7.76	0.01	0.01	7.75	7.75	
Taiwan (TWD/USD)	30.0	0.14	0.52	29.92	29.76	
Japan (JPY/USD)	99.05	-0.71	-1.16	99.01	98.67	
Korea (KRW/USD)	1142	0.67	1.06	1147	1156	
India (INR/USD)	59.4	1.33	-0.24	60.44	63.00	
Australia (USD/AUD)	0.92	-0.41	0.20	1.09	1.11	
Singapore (SGD/USD)	1.27	0.09	0.85	1.27	1.26	
Indonesia (IDR/USD)	10004	-0.96	0.07	10395	10907	
Thailand (THB/USD)	31.0	0.45	0.35	31.19	31.58	
Malaysia (MYR/USD)	3.16	0.43	1.26	3.19	3.23	
Philippines (PHP/USD)	43.1	0.67	1.36	43.17	43.30	

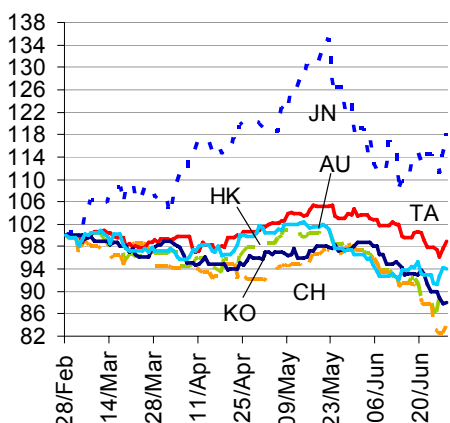
Last update: today, 19:00 Hong Kong time

INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	6.15	-0.55	-2.35	2.64
Hong Kong (HIBOR/1W)	0.12	0.01	0.01	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)	2.59	0.00	0.01	0.02	
India (MIBOR/7D)	6.25	-0.43	-3.15	2.51	
Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00	
Indonesia (JIBOR/1W)	4.60	0.02	0.04	0.33	
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	

Last update: today, 19:00 Hong Kong time

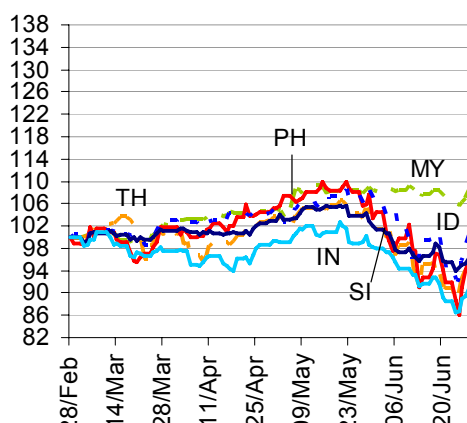
Charts

Chart 1
Stock Markets



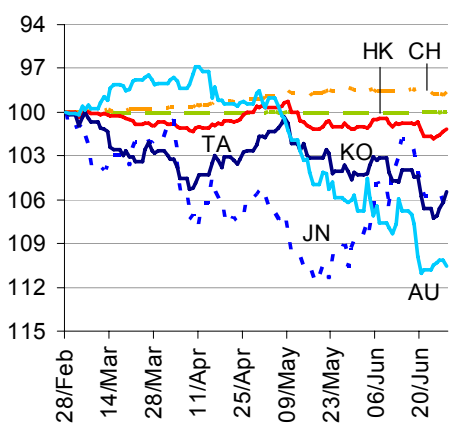
Source: BBVA Research and Bloomberg

Chart 2
Stock Markets



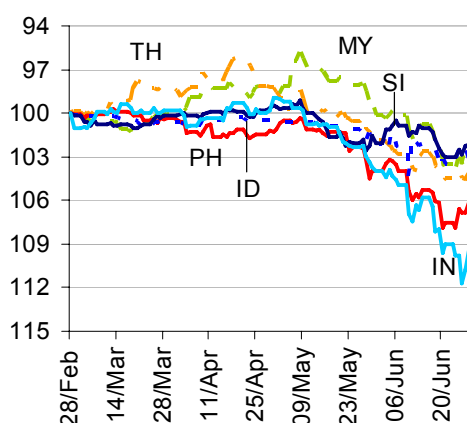
Source: BBVA Research and Bloomberg

Chart 3
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Stephen Schwartz
Chief Economist for Asia
stephen.schwartz@bbva.com.hk


Fielding Chen
Senior Economist
fielding.chen@bbva.com.hk

Le Xia
Senior Economist
xia.le@bbva.com.hk

Sumedh Deorukhkar
Senior Economist (India, Mumbai)
sumedh.deorukhkar@grupobbva.com

George Xu
Economist
george.xu@bbva.com.hk

Weiwei Liu
Economist
carrie.liu@bbva.com.hk

BBVA | RESEARCH  | 10/F., Two IFC, 8 Finance Street, Central, Hong Kong | Tel.: +852 2582 3111 | www.bbva.com.hk

Before you print this message please consider if it is really necessary.

This email and its attachments are subject to the confidentiality terms established in the corresponding regulations and are intended for the sole use of the person or persons indicated in the header. They are for internal use only and cannot be distributed, copied, conveyed or furnished to third parties without prior written consent from BBVA. If this message has been received erroneously, it is forbidden to read, use or copy any of the contents and you are asked to inform BBVA immediately by forwarding the email to the sender and eliminating it thereafter.

BBVA will continue to provide our readers up-to-date reports by emails, but you can also register directly on our website where you can find a full list of our latest reports & presentations <http://serviciodeestudios.bbva.com/KETD/ketd/ing/index.jsp>

If you wish to be excluded from this mailing list, please write to us on research.emergingmarkets@bbva.com.hk and we shall immediately take you off the list.