

Daily Flash

Asia

Over the past few days, policymakers in Asia have begun introducing new initiatives to support their economies. While just a coincidence, India's announcement regarding QFIs (discussed below) comes one day after Indonesia's decision to begin selling dollar term deposits onshore, both of which are noteworthy due to the growing pressures these countries have been feeling after recent currency weakness.

India, seeking capital inflows, relaxes investment rules on QFIs

To help stem the rupee's recent losses (currently 56.09/USD, down 6.4% this month) and revive capital inflows, India announced it will allow foreign individuals to buy up to USD 1 bn worth of local corporate bonds. Also announced was the removal of a rule which established a five day time limit between the time FII's remitted funds into India and when they were invested (there is now no time limit). Further, India relaxed rules on retail investors from the EU and gulf countries, according them with QFI status and therefore making them eligible for equity investing. We believe that while these moves are positive over the longer-term, they may not have a significant impact on the markets in the near term, as the Indian rupee has been trading near historical lows versus the dollar due to concerns regarding India's fundamentals and general global risk aversion.

Australia's retail sales data contracts, underscoring domestic slowdown

Australia's retail sales unexpectedly fell -0.2% m/m in April (consensus: +0.2% m/m), the first decline in ten months. The weaker-than-expected sales data could increase the chances of another rate cut by the Reserve Bank of Australia during its June 5th's monetary policy meeting (though this is not in our baseline). The RBA cut the policy rate by 50bps (to its current 3.75%) in May after two cuts of 25bps apiece in November and December. We expect at least one more 25bps cut by the RBA in 2012.

Briefly noted:

- **Tomorrow brings several important data outturns**, including first quarter GDP results from India and the Philippines; industrial production from Japan and South Korea (April); and Hong Kong retail sales (April).

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Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
Retail Sales s.a. (MoM)	30-May	APR	0.90%	0.20%	-0.20%
Private Sector Credit MoM%	31-May	APR	0.40%	0.30%	--
Building Approvals (MoM)	31-May	APR	7.40%	0.30%	--
China	Date	Period	Prior	Cons.	Actual
PMI Manufacturing	01-Jun	MAY	53.3	52	--
HSBC Manufacturing PMI	01-Jun	MAY	49.3	--	--
Hong Kong	Date	Period	Prior	Cons.	Actual
Retail Sales - Value (YoY)	31-May	APR	17.30%	16.40%	--
Indonesia	Date	Period	Prior	Cons.	Actual
Inflation (YoY)	01-Jun	MAY	4.50%	4.63%	--
Exports (YoY)	01-Jun	APR	5.50%	2.60%	--
India	Date	Period	Prior	Cons.	Actual
Qtrly GDP YoY%	31-May	1Q	6.10%	6.10%	--
Exports YoY%	01-Jun	APR	-5.70%	--	--
Imports YoY%	01-Jun	APR	24.30%	--	--
India May Markit Manufacturing PMI	01-04 JUN	MAY			
Japan	Date	Period	Prior	Cons.	Actual
Jobless Rate	29-May	APR	4.50%	4.50%	4.60%
Industrial Production (MoM)	31-May	APR P	1.30%	0.50%	--
Industrial Production YOY%	31-May	APR P	14.20%	13.70%	--
Capital Spending	01-Jun	1Q	7.60%	1.00%	--
Malaysia	Date	Period	Prior	Cons.	Actual
Unemployment Rate	31-May	1Q	3.00%	--	--
Philippines	Date	Period	Prior	Cons.	Actual
GDP sa (QoQ)	31-May	1Q	0.90%	2.40%	--
GDP (YoY)	31-May	1Q	3.70%	4.30%	--
South Korea	Date	Period	Prior	Cons.	Actual
Industrial Production (MoM)	31-May	APR	-3.10%	-0.40%	--
Industrial Production (YoY)	31-May	APR	0.30%	0.70%	--
Consumer Price Index (MoM)	01-Jun	MAY	0.00%	0.20%	--
Consumer Price Index (YoY)	01-Jun	MAY	2.50%	2.50%	--
HSBC Manufacturing PMI	01-Jun	MAY	51.9	--	--
Ext Trade - Export (YoY)	01-Jun	MAY	-4.70%	-1.10%	--
Ext Trade - Imports (YoY)	01-Jun	MAY	-0.20%	-2.30%	--
Taiwan	Date	Period	Prior	Cons.	Actual
HSBC Manufacturing PMI	01-Jun	MAY	51.2	--	--
Thailand	Date	Period	Prior	Cons.	Actual
Consumer Price Index (YoY)	01-Jun	MAY	2.47%	2.50%	--

Indicator of the Week

China: PMI for May (June 1)

Forecast: 51.5

Consensus: 52.0

Prior: 53.3

Weaker-than-expected activity outturns in April are causing the market to reassess expectations regarding the pace of China's growth. The official manufacturing PMI in May is thus expected to provide important signs regarding China's growth momentum. Thursday's flash estimate for private sector PMI (Markit) registered a slight downturn in May, to 48.7% from 49.1% the previous month, showing weak sentiment persists in the economy. Considering this flash outturn, as well as seasonal effects, we expect a decrease in the official PMI for May, however we expect it will remain above the +50 expansion/contraction threshold. That said, the government's recent comments emphasizing that it will help stabilize China's growth through further policy support, along with a stronger PMI outturn for May, could signal a rebound in growth momentum over the course of rest of this year.

Calendar Events

There are no events scheduled for this week.

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.	2384.7	-0.2	0.9	8.4	-11.9
	Hong Kong - Hang Seng	18690.2	-1.9	-0.5	1.4	-19.4
	Taiwan - Weighted	7261.8	-1.1	1.6	2.7	-17.7
	Japan - Nikkei 225	8633.2	-0.3	0.9	2.1	-9.2
	Korea - Kospi	1844.9	-0.3	0.9	1.0	-11.9
	India - Sensex 30	16298.3	-0.9	2.2	5.5	-10.6
	Australia - SPX/ASX 200	4094.2	-0.5	0.7	0.9	-12.3
	Singapore - Strait Times	2784.0	-0.6	0.1	5.2	-11.4
	Indonesia - Jakarta Comp	3917.9	0.0	-1.6	2.5	2.4
Thailand - SET	1138.2	-1.3	2.5	11.0	5.7	
Malaysia - KLCI	1575.2	0.6	2.3	2.9	2.1	
Philippines - Manila Comp.	5018.3	-0.1	1.8	14.8	16.8	

Last update: today, 17.45 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)	6.36	-0.16	-0.37	6.37	6.42
	Hong Kong (HKD/USD)	7.76	0.01	0.02	7.76	7.76
	Taiwan (TWD/USD)	29.7	-0.34	-0.56	29.69	29.43
	Japan (JPY/USD)	79.11	0.48	0.46	79.03	78.53
	Korea (KRW/USD)	1176	-0.12	-0.30	1186	1196
	India (INR/USD)	56.1	-0.73	-0.15	57.31	59.59
	Australia (USD/AUD)	0.98	-0.84	0.20	1.03	1.05
	Singapore (SGD/USD)	1.28	-0.22	-0.27	1.28	1.28
	Indonesia (IDR/USD)	9453	-0.06	-0.99	10011	10458
Thailand (THB/USD)	31.9	-0.41	-1.04	32.03	32.47	
Malaysia (MYR/USD)	3.16	-0.40	-0.52	3.18	3.22	
Philippines (PHP/USD)	43.5	-0.60	-0.10	43.85	44.31	

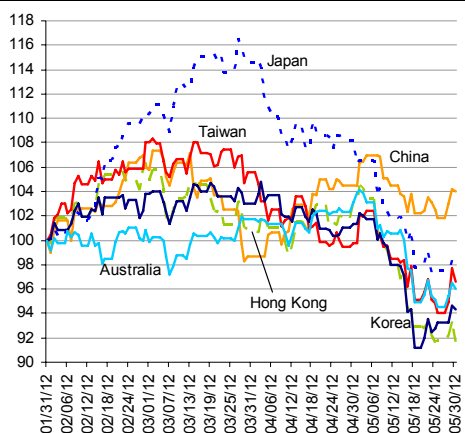
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	2.32	-0.23	-0.18	-1.48
	Hong Kong (HIBOR/1W)	0.13	0.00	0.00	0.02
	Taiwan (TAIBOR/1W)	0.67	0.00	0.00	0.00
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	3.37	0.00	0.00	-0.01
	India (MIBOR/7D)	2.40	-0.30	-1.10	-1.48
	Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00
	Indonesia (JIBOR/1W)	3.90	0.04	0.07	0.10
	Thailand (BIBOR/1W)	3.02	0.00	0.00	0.00
Malaysia (KLIBOR/1W)	2.90	0.00	0.00	0.00	
Philippines (PHIBOR/1W)	3.31	0.06	-0.13	-0.13	

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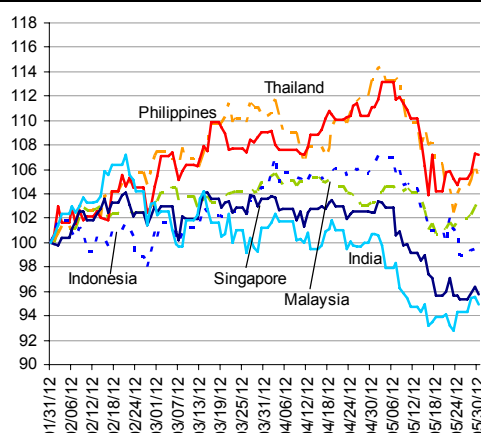
Charts

Chart 9
Stock Markets



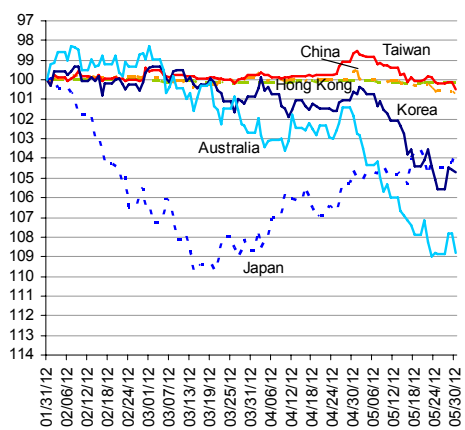
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



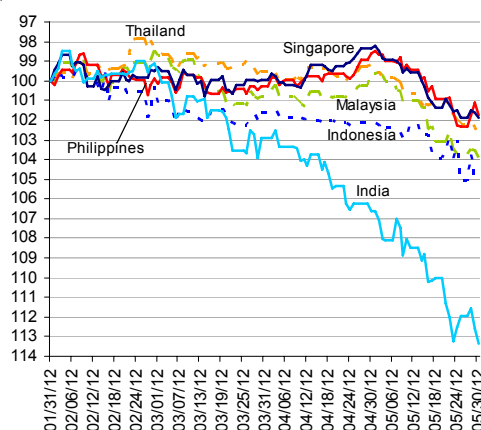
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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