

Daily Flash

Asia

China's interest rate cut announced late yesterday failed to buoy markets today, as concerns over global growth appear to be dominating investor sentiment. Nearly all markets finished down today, ending a three day rally, with the Nikkei declining by 2.1%. This weekend will feature important data out of China, which could set the tone for next week's market moves. In the meantime, speculation has risen that China's May activity indicators will be weak given the timing of China's rate cut (see Weekly Indicator below).

China's bank lending rates fall on the PBoC's rate cut

On the heels of the PBoC's rate cut announced yesterday (see our latest [China Economic Flash](#)), China's five largest commercial banks adjusted their one-year lending rate downwards by 25 bps. At the same time, they appear to be taking advantage of the new flexibility allowed in deposit rates (in light of the new permissible 10% discount from the benchmark rate) by keeping their deposit rates unchanged. This has led to a narrowing of lending spreads. Other medium and small-sized banks may adopt the same approach in the coming days (or even raise deposit rates above current levels) as they compete for deposits.

Korea leaves rates unchanged, as expected

For the 12th straight month, the Bank of Korea left interest rates on hold at 3.25% (consensus: 3.25%). With inflation remaining well-contained in May (2.5% y/y, towards the bottom of policymakers' 2%-4% target range), upcoming exports and domestic demand data will need to be watched closely, as the probability of a rate cut continues to increase given the sluggish global environment. If inflation expectations ease from their current level (of 3.7% y/y), this may provide further support for a rate cut in the coming months.

Japan's current account surplus shrinks on global downturn

Japan's current account surplus fell in April to a seasonally adjusted 288.6 billion yen (consensus: 615.6 billion yen) from previous 785.5 billion yen in March. Japan's exports have been falling due to the global slowdown and a strong yen, while imports have been steady because of the ongoing reconstruction efforts. Looking ahead, we expect Japan's current account surplus to remain at around 2-3% of GDP over the medium term, due to strong investment income inflows.

Briefly noted:

- **Following the recent decline in oil prices, China announced** it will cut gasoline and diesel prices by the most since 2008. Gasoline prices will be 530 yuan less per ton, while diesel prices will fall by 510 yuan/ton.
- **Vietnam cut the discount rate and the refinancing rate today, by 100 bps to 9% and 11% respectively.** Also, Vietnam will also lower the deposit rate cap to 9% from 11% in a bid to lower banks' funding costs and encourage lending amidst a credit crunch that is hurting many SMEs.
- **After this week's interest rate cuts in Australia and China, next week will be packed with monetary policy meetings** (Indonesia, Thailand, Philippines and Japan), though we don't expect to see any monetary easing. Also, next week China's credit data for May will be released.

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Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
Current Account Balance	05-Jun	1Q	-8374M	-14650M	-14892M
Gross Domestic Product (QoQ)	06-Jun	1Q	0.40%	0.60%	1.30%
Gross Domestic Product (YoY)	06-Jun	1Q	2.30%	3.30%	4.30%
Unemployment Rate	07-Jun	MAY	4.90%	5.10%	5.10%
Trade Balance	08-Jun	APR	-1587M	-900M	--
China	Date	Period	Prior	Cons.	Actual
China HSBC Services PMI	05-Jun	MAY	54.1	--	54.7
Consumer Price Index (YoY)	09-Jun	MAY	3.40%	3.20%	--
Producer Price Index (YoY)	09-Jun	MAY	-0.70%	-1.20%	--
Industrial Production YTD YoY	09-Jun	MAY	11.00%	10.70%	--
Industrial Production (YoY)	09-Jun	MAY	9.30%	9.80%	--
Fixed Assets Inv Excl. Rural YTD YoY	09-Jun	MAY	20.20%	20.00%	--
Retail Sales YTD YoY	09-Jun	MAY	14.70%	14.60%	--
Retail Sales (YoY)	09-Jun	MAY	14.10%	14.20%	--
Trade Balance (USD)	10-Jun	MAY	\$18.43B	\$17.55B	--
Exports YoY%	10-Jun	MAY	4.90%	7.00%	--
Imports YoY%	10-Jun	MAY	0.30%	4.00%	--
Hong Kong	Date	Period	Prior	Cons.	Actual
Purchasing Managers Index	05-Jun	MAY	50.3	--	49.4
India	Date	Period	Prior	Cons.	Actual
India May Markit Services PMI	05-Jun	MAY	52.8	--	54.7
Japan	Date	Period	Prior	Cons.	Actual
Monetary Base (YoY)	04-Jun	MAY	-0.30%	--	2.40%
GDP Annualized	08-Jun	1Q F	4.10%	4.40%	4.70%
Gross Domestic Product (QoQ)	08-Jun	1Q F	1.00%	1.10%	1.20%
Trade Balance - BOP Basis	08-Jun	APR	¥4.2B	¥450.7B	¥463.9B
Current Account Balance YOY%	08-Jun	APR	-8.60%	7.50%	-21.20%
Malaysia	Date	Period	Prior	Cons.	Actual
Unemployment Rate	04-Jun	1Q	3.00%	--	3.00%
Exports YoY%	06-Jun	APR	-0.10%	1.10%	-0.1%
Philippines	Date	Period	Prior	Cons.	Actual
Consumer Price Index (YoY)	05-Jun	MAY	3.00%	3.00%	2.90%
Singapore	Date	Period	Prior	Cons.	Actual
Purchasing Managers Index	05-Jun	MAY	49.7	49.5	50.4
South Korea	Date	Period	Prior	Cons.	Actual
GDP (QoQ)	07-Jun	1Q F	0.90%	--	0.90%
GDP (YoY)	07-Jun	1Q F	2.80%	--	2.80%
Taiwan	Date	Period	Prior	Cons.	Actual
CPI YoY%	05-Jun	MAY	1.44%	1.40%	1.74%
Total Exports (YoY)	07-Jun	MAY	-6.40%	-5.30%	-6.30%

Indicator of the Week

China: Industrial output for May (June 9)

Forecast: 10.5% y/y

Consensus: 9.8% y/y

Prior: 9.3% y/y

China's growth momentum moderated further in April, prompting the government to increase policy support recently. New measures have been geared towards increasing consumption and investment in infrastructure, while the central bank also decided to cut the reserve requirement ratio by 50bps on May 12th. Taking these supportive policies into account, we expect the industrial production index, a key gauge of China's growth momentum, to improve slightly in May to 10.5% in year-on-year terms, up from 9.3% in April. In addition to IP, several other important indicators will also be released next week, including inflation, retail sales, investment, and credit aggregates. Headline inflation is expected to remain low at 3.3%/y/y in May (from 3.4%/y/y in April) due to easing food and fuel prices, providing room for further policy easing in the coming months, if necessary.

Calendar Events

Australia - RBA Cash Target, June 5

We expected the benchmark rate to remain unchanged

Current	Consensus	New
3.75%	3.50%	3.50%

South Korea - 7-Day Repo Rate, June 8

We expected the benchmark rate to remain unchanged

Current	Consensus	New
3.25%	3.25%	3.25%

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.	2281.4	-0.5	-3.9	3.7	-17.0
	Hong Kong - Hang Seng	18502.3	-0.9	-0.3	0.4	-18.4
	Taiwan - Weighted	6999.7	-1.1	-1.5	-1.0	-22.3
	Japan - Nikkei 225	8459.3	-2.1	0.2	0.0	-10.5
	Korea - Kospi	1835.6	-0.7	-0.4	0.5	-11.9
	India - Sensex 30	16718.9	0.4	4.7	8.2	-9.1
	Australia - SPX/ASX 200	4063.7	-1.1	0.0	0.2	-10.4
	Singapore - Strait Times	2737.9	-0.8	-0.3	3.5	-11.8
	Indonesia - Jakarta Comp	3825.3	-0.4	0.7	0.1	0.0
Thailand - SET	1127.1	0.8	-1.3	9.9	11.1	
Malaysia - KLCI	1570.6	-0.3	-0.2	2.6	1.2	
Philippines - Manila Comp.	4994.1	-0.6	-1.4	14.2	17.4	

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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)	6.37	-0.10	-0.01	6.37	6.42
	Hong Kong (HKD/USD)	7.76	0.01	0.04	7.75	7.75
	Taiwan (TWD/USD)	30.0	-0.29	-0.16	29.89	29.62
	Japan (JPY/USD)	79.34	0.37	-1.66	79.25	78.77
	Korea (KRW/USD)	1175	-0.33	0.22	1181	1191
	India (INR/USD)	55.5	-0.94	0.22	56.54	58.65
	Australia (USD/AUD)	0.99	-0.44	1.54	1.02	1.04
	Singapore (SGD/USD)	1.29	-0.63	0.56	1.29	1.28
	Indonesia (IDR/USD)	9388	0.76	0.02	9691	10113
Thailand (THB/USD)	31.7	-0.09	0.22	31.86	32.28	
Malaysia (MYR/USD)	3.19	-0.82	0.13	3.20	3.24	
Philippines (PHP/USD)	43.3	-0.39	0.30	43.45	43.89	

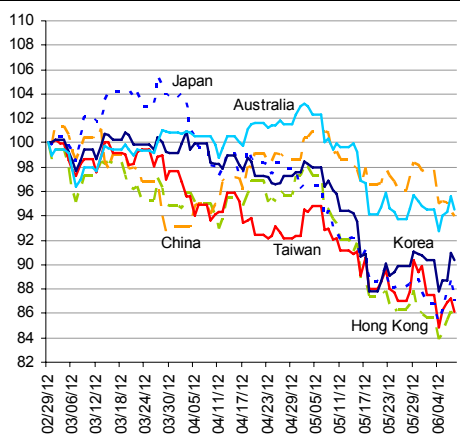
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	2.70	0.00	0.36	-1.00
	Hong Kong (HIBOR/1W)	0.13	0.00	0.00	-0.02
	Taiwan (TAIBOR/1W)	0.67	0.00	0.00	0.00
	Japan (TIBOR/1Y)	0.76	0.00	0	0
	Korea (KORIBOR/1M)	3.36	0.00	-0.01	-0.01
	India (MIBOR/7D)	2.45	-0.43	-0.40	-1.25
	Singapore (SIBOR/1W)	0.31	0.00	0.06	0.06
	Indonesia (JIBOR/1W)	4.10	0.02	0	0
	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)	3.44	0.06	0.19	-0.06	

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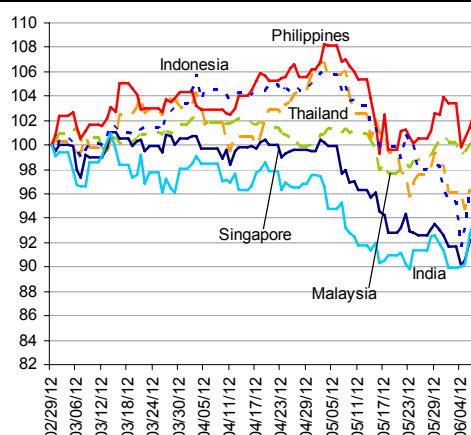
Charts

Chart 9
Stock Markets



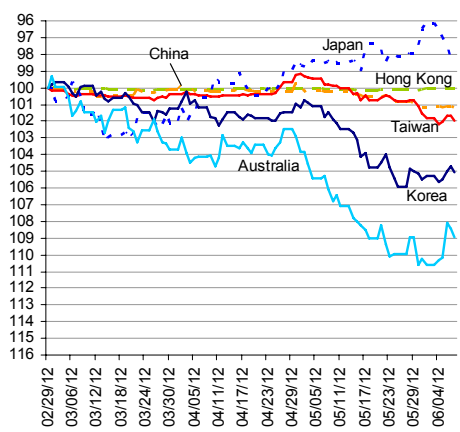
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



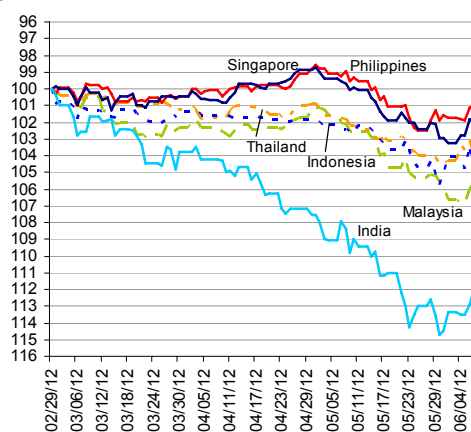
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
Foreign Exchange Markets



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