

# Daily Flash

## Asia

### **A proposed change to Hong Kong's peg: tempest in a tea cup?**

A newly published academic paper by Mr. Joseph Yam, former head of the Hong Kong Monetary Authority (HKMA), has made a stir in Hong Kong. In the paper Yam says the authorities should consider eventually delinking Hong Kong's currency peg from the USD in order to curb inflation and asset bubbles. The paper suggests three alternatives: i) a floating exchange rate; ii) having the HKD pegged to China's RMB; or iii) having the HKD pegged to a basket of currencies. The paper provoked strong rebuttals from Hong Kong's senior government officials, including the forthcoming new Chief Executive, Mr. C.Y Leung. We believe any changes to the HKD peg are unlikely in at least the next 3-5 years, given problems with the alternatives. And while not new, Yam's views nevertheless, have validity from a longer term perspective.

### **Fitch affirms Australia's AAA rating, highlights solid medium-term prospects**

Fitch published its annual analysis of Australia today, concluding that the country's outlook for its AAA sovereign rating remains stable. According to Fitch, Australia's AAA ratings are supported by its economic and institutional strength, public finance soundness, and low susceptibility to event risk. Fitch also projected that Australia's growth would return to trend levels of 3.0-3.5% in the medium term, thanks to its mining boom. That said, Fitch also warned of risks to Australia's economy, namely its dependence on external finance. These views are broadly similar to our own recent assessment (see our [Australia Economic Watch](#)).

### **Thailand keeps interest rates at 3% in line with expectations**

The Bank of Thailand (BoT) today held interest rates at 3.0% for the third consecutive meeting, in line with expectations. Although headline inflation appears to be manageable (May: 2.5% y/y), and core inflation remains within the BoT's target range of 0.5% - 3.0% (May: 1.9% y/y), the BoT stated that inflationary pressures remain due to an increase in the minimum wage along with reforms in energy price subsidies.

### **Briefly noted:**

- **Korea's unemployment fell to 3.2% in May** from 3.4% in April (consensus: 3.4%). Tight labor markets are contrasting with slowing exports and weakening confidence indicators, and are likely factoring into the Bank of Korea's ongoing policy of keeping interest rates steady.
- **Japan's core machinery orders increased by more than expected in April** by 5.7% y/y (consensus: 2.1% y/y). The rise in core machinery orders, a leading indicator of capital spending, underscores Japan's economic resilience despite global headwinds and the strong yen.
- **According to the Ministry of Finance, Indonesia will tap part of last year's US\$2.5bn fiscal surplus to stimulate the economy**, with infrastructure and domestic consumption to be targeted.
- **The Philippines holds its policy meeting tomorrow**, where we expect interest rates to remain on hold at 4.0%

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## Calendar Indicators

<b>China</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
New Yuan Loans	11-Jun	MAY	681.8B	700.0B	793.2B
Money Supply - M2 (YoY)	11-Jun	MAY	12.80%	12.90%	13.20%
Actual FDI (YoY)	14-18 JUN	MAY	-0.70%	-1.60%	--
<b>Hong Kong</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Industrial Production (YoY)	14-Jun	1Q	-2.20%	--	--
<b>India</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Industrial Production YoY	12-Jun	APR	-3.50%	1.70%	0.10%
Monthly Wholesale Prices YoY%	14-Jun	MAY	7.23%	7.50%	--
<b>Japan</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Japan Money Stock M2 YoY	11-Jun	MAY	2.60%	2.50%	2.10%
Japan Money Stock M3 YoY	11-Jun	MAY	2.30%	2.20%	1.90%
Machine Tool Orders (YoY)	11-Jun	MAY P	0.40%	--	-2.90%
Tertiary Industry Index (MoM)	12-Jun	APR	-0.60%	0.30%	-0.30%
Machine Orders (MoM)	13-Jun	APR	-2.80%	1.60%	5.70%
Machine Orders YOY%	13-Jun	APR	-1.10%	4.90%	6.60%
Capacity Utilization (MoM)	14-Jun	APR F	1.30%	--	--
Industrial Production (MoM)	14-Jun	APR F	0.20%	--	--
Industrial Production YOY%	14-Jun	APR F	13.40%	--	--
<b>Malaysia</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Industrial Production YoY	11-Jun	APR	0.60%	2.00%	3.20%
<b>Philippines</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Total Exports (YoY)	14-Jun	APR	-1.20%	0.60%	--
Unemployment Rate	15-Jun	APR	7.20%	--	--
Overseas Remittances (YoY)	15-Jun	APR	5.00%	--	--
<b>Singapore</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Non-oil Domestic Exports (YoY)	11-Jun	MAY	8.30%	3.00%	3.20%
Retail Sales (YoY)	15-Jun	APR	9.10%	6.10%	--
<b>South Korea</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Unemployment Rate (SA)	13-Jun	MAY	3.40%	3.40%	3.20%

## Calendar Events

### **Indonesia - Bank Indonesia Reference Rate, June 12**

We expected the benchmark rate to remain unchanged

<b>Current</b>	<b>Consensus</b>	<b>New</b>
5.75%	5.75%	5.75%

### **Thailand - Benchmark Interest Rate, June 13**

We expected the benchmark rate to remain unchanged

<b>Current</b>	<b>Consensus</b>	<b>New</b>
3.00%	3.00%	3.00%

### **Philippines - Overnight Borrowing Rate, June 14**

We expect the benchmark rate to remain unchanged

<b>Current</b>	<b>Consensus</b>	<b>New</b>
4.00%	4.00%	--

### **Japan - Bank of Japan Target Rate, June 15**

We expect the benchmark rate to remain unchanged

<b>Current</b>	<b>Consensus</b>	<b>New</b>
0.10%	0.10%	--

## 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.	2318.9	1.3	0.4	5.4	-14.1
	Hong Kong - Hang Seng	19026.5	0.8	2.7	3.2	-15.5
	Taiwan - Weighted	7088.8	0.2	0.5	0.2	-18.6
	Japan - Nikkei 225	8587.8	0.6	0.6	1.6	-9.1
	Korea - Kospi	1859.3	0.2	3.2	1.8	-9.2
	India - Sensex 30	16883.4	0.1	2.6	9.2	-7.6
	Australia - SPX/ASX 200	4063.8	-0.2	0.5	0.2	-10.9
	Singapore - Strait Times	2786.9	-0.4	0.9	5.3	-8.9
	Indonesia - Jakarta Comp	3860.5	0.2	0.5	1.0	3.0
	Thailand - SET	1158.2	-0.4	3.6	13.0	14.1
	Malaysia - KLCI	1576.2	0.0	0.4	3.0	2.0
Philippines - Manila Comp.	5109.6	0.7	3.7	16.9	21.1	

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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	0.03	-0.08	6.37	6.42
	Hong Kong (HKD/USD)	7.76	0.00	0.00	7.75	7.75
	Taiwan (TWD/USD)	30.0	0.04	-0.23	29.87	29.58
	Japan (JPY/USD)	79.64	-0.14	-0.57	79.55	79.08
	Korea (KRW/USD)	1168	0.19	0.54	1173	1183
	India (INR/USD)	55.6	0.47	-0.35	56.66	58.81
	Australia (USD/AUD)	1.00	0.27	0.59	1.01	1.03
	Singapore (SGD/USD)	1.28	0.24	-0.31	1.28	1.27
	Indonesia (IDR/USD)	9430	0.20	-1.07	9606	10016
	Thailand (THB/USD)	31.6	-0.06	-0.57	31.75	32.17
	Malaysia (MYR/USD)	3.18	0.16	-0.15	3.19	3.23
Philippines (PHP/USD)	42.6	0.76	1.31	42.76	43.18	

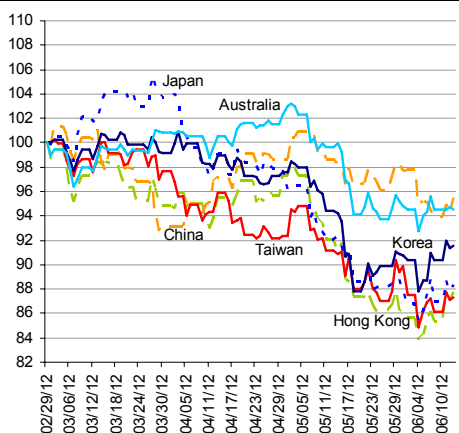
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	2.70	0.17	0.00	-0.50
	Hong Kong (HIBOR/1W)	0.13	0.00	0.00	-0.02
	Taiwan (TAIBOR/1W)	0.67	0.00	0.00	0.00
	Japan (TIBOR/1Y)	0.76	0.00	0	0
	Korea (KORIBOR/1M)	3.36	0.00	0.00	-0.01
	India (MIBOR/7D)	3.19	0.64	0.62	0.55
	Singapore (SIBOR/1W)	0.31	0.00	0.00	0.06
	Indonesia (JIBOR/1W)	4.10	0.00	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	0.00	0.00	-0.06

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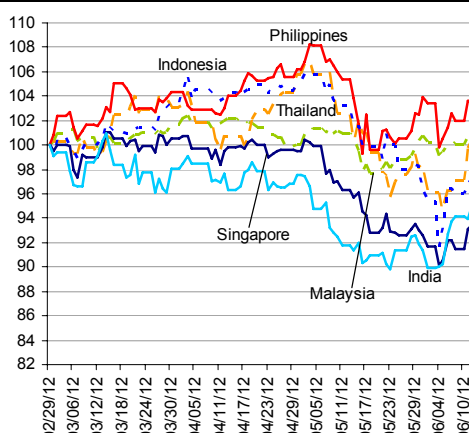
# Charts

Chart 9  
Stock Markets



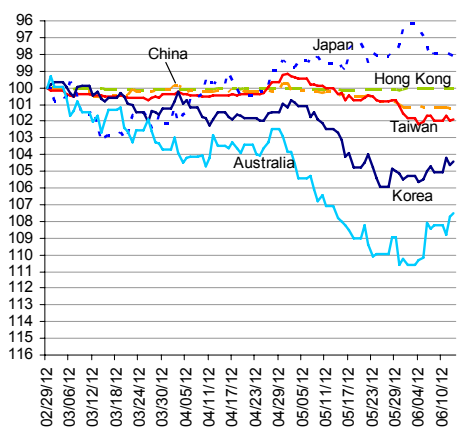
Source: BBVA Research and Bloomberg

Chart 10  
Stock Markets



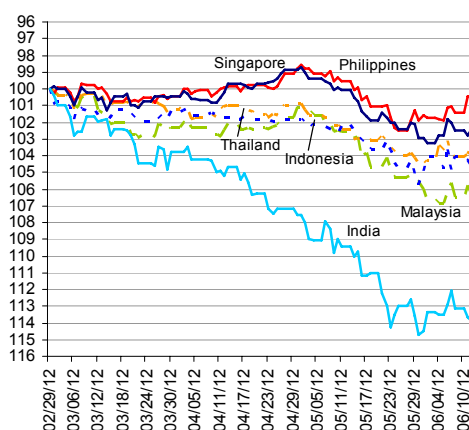
Source: BBVA Research and Bloomberg

Chart 11  
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12  
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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