

Daily Flash

Asia

Investors in Asia welcomed the outcome of yesterday's elections in Greece, with regional stock markets broadly higher today. The biggest gains were found in Australia (+2.0%), Japan, Taiwan and Korea (with all three up by +1.8%). India's central bank surprised many today by leaving its benchmark rate unchanged (below), causing the Sensex to shed 1.7%. This week has several important international events, including the G-20 in Mexico which starts today, as well as a meeting of EU finance ministers on Friday, and a meeting between leaders of Italy, Germany, France and Spain the same day.

Citing high inflation risks, RBI keep policy rate on hold

Citing near-term risks of higher inflation, the Reserve Bank of India kept its benchmark repo rate unchanged at 8.0% at its mid-quarter policy review today. The RBI in its statement noted that upside risks to inflation persist due to the sharp depreciation in the rupee, which has touched historic lows in recent months. The move surprised our and market expectations of a 25 bps cut, which was based on a significant recent deceleration in India's growth prospects. RBI's inaction weighed heavily on local equity and bond markets, with sentiment markedly lower after the decision. We believe that today's decision marks a pause, rather than an end, to RBI's rate cutting cycle – and therefore we maintain our expectations of another 50 bps in easing during 2012. One way to view today's move is that it may have been designed to add pressure on the Indian government to act – it is worth mentioning that the RBI also stated that India's rising subsidy burden was crowding out public investments at a time when reviving investment is a critical imperative to improving India's medium-term growth prospects.

Housing prices in China continue to fall but at a slower pace

According to the latest statistics, the prices of new housing in China fell sequentially in May in 43 out of 70 cities, while staying unchanged in 21. Our calculations show that China's nationwide housing prices further contracted by 2.0% y/y, the fifth consecutive decline this year. On a sequential basis, prices edged down by a smaller margin (0.11% m/m). Housing prices have declined a total of 1.76% since July 2011. Some property developers have recently cut prices in order to prop up sales, resulting in the falling trend in prices with trading volumes picking up. We expect the government's tightening policy stance on the real estate sector to remain for the time being.

Briefly noted:

- **Hong Kong's seasonally adjusted unemployment rate edged down to 3.2%** over the period of March to May, from 3.3% previously. Hong Kong's local labor market continues to be tight, which may support consumption in the coming months. This would provide a partial offset to Hong Kong's ongoing slowdown, which has primarily been due to its high exposure to Europe through both the trade and finance channels.

Calendar Indicators

China	Date	Period	Prior	Cons.	Actual
China May Property Prices	18-Jun	MAY			
HSBC Flash China Manufacturing PMI	22-25 JUN	JUN	48.7	--	--
Hong Kong	Date	Period	Prior	Cons.	Actual
Unemployment Rate SA	18-Jun	MAY	3.30%	3.40%	3.20%
CPI - Composite Index (YoY)	21-Jun	MAY	4.70%	4.30%	--
India	Date	Period	Prior	Cons.	Actual
Cash Reserve Ratio	18-Jun	18-Jun	4.75%	4.75%	4.75%
Reverse Repo Rate	18-Jun	18-Jun	7.00%	6.75%	7.00%
CPI (YoY)	18-Jun	MAY	10.36%	--	10.36%
Japan	Date	Period	Prior	Cons.	Actual
Merchnds Trade Balance Total	20-Jun	MAY	-¥520.3B	-¥544.4B	--
Merchnds Trade Exports YoY	20-Jun	MAY	7.9	9.7	--
All Industry Activity Index (MoM)	20-Jun	APR	-0.30%	0.10%	--
Malaysia	Date	Period	Prior	Cons.	Actual
CPI YoY	22-Jun	MAY	1.90%	1.70%	--
Philippines	Date	Period	Prior	Cons.	Actual
Balance of Payments	19-Jun	MAY	-\$79M	--	--
Taiwan	Date	Period	Prior	Cons.	Actual
Export Orders (YoY)	20-Jun	MAY	-3.52%	-3.40%	--
Unemployment Rate - sa	22-Jun	MAY	4.19%	4.20%	--
Thailand	Date	Period	Prior	Cons.	Actual
Customs Exports (YoY)	19-20 JUN	MAY	-3.67%	0.20%	--
Vietnam	Date	Period	Prior	Cons.	Actual
CPI (YoY)	24-Jun	JUN	8.34%	--	--

Indicator of the Week

Taiwan: Taiwan Export Orders (June 20)

Forecast: -2.2% y/y

Consensus: -3.0% y/y

Prior: -3.5% y/y

As a 3-month leading indicator of Taiwan's exports, export orders will be watched for further signs of weakening external demand, both for Taiwan and for the region. April export orders were disappointing (-3.5% y/y), and suggest that near-term external demand might remain sluggish, despite a surprisingly encouraging export outturn for China in the month of May (+15.3% y/y). We expect Taiwan's export orders to decline again, but at a decelerating rate. Export orders to China should begin to stabilize, especially following stimulus policies to support growth. The Taiwanese central bank will likely keep its wait-and-see approach to further interest rate cuts at its next quarterly policy meeting, a day after the export orders release.

Calendar Events

India - India Repo Cutoff Yield, June 18

We expected a 25 bps cut in the benchmark rate

Current

8.00%

Consensus

7.75%

New

8.00%

Taiwan - Benchmark Interest Rate, June 21

We expect the benchmark rate to remain unchanged

Current

1.88%

Consensus

1.88%

New

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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.	2316.1	0.4	0.4	5.3	-12.4
	Hong Kong - Hang Seng	19427.8	1.0	2.5	5.4	-10.5
	Taiwan - Weighted	7281.5	1.8	2.3	3.0	-15.7
	Japan - Nikkei 225	8721.0	1.8	1.1	3.1	-6.7
	Korea - Kospi	1891.7	1.8	1.3	3.6	-6.9
	India - Sensex 30	16674.1	-1.6	0.0	7.9	-6.7
	Australia - SPX/ASX 200	4136.9	2.0	1.8	2.0	-7.8
	Singapore - Strait Times	2824.2	0.5	1.3	6.7	-6.0
	Indonesia - Jakarta Comp	3860.2	1.1	-0.2	1.0	3.7
	Thailand - SET	1160.0	-0.5	0.2	13.1	13.8
	Malaysia - KLCI	1582.7	0.2	0.3	3.4	1.2
Philippines - Manila Comp.	5050.4	2.4	1.1	15.5	21.6	

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	0.12	0.18	6.36	6.41
	Hong Kong (HKD/USD)	7.76	0.01	0.01	7.76	7.75
	Taiwan (TWD/USD)	29.9	0.16	0.13	29.75	29.44
	Japan (JPY/USD)	79.14	-0.52	0.38	79.04	78.60
	Korea (KRW/USD)	1157	0.73	0.74	1168	1179
	India (INR/USD)	55.8	-0.61	-0.19	56.87	59.05
	Australia (USD/AUD)	1.01	0.37	2.32	1.00	1.02
	Singapore (SGD/USD)	1.27	-0.10	1.12	1.27	1.27
	Indonesia (IDR/USD)	9450	-0.55	-0.42	9616	10041
	Thailand (THB/USD)	31.5	0.13	0.60	31.63	32.06
	Malaysia (MYR/USD)	3.16	0.27	0.36	3.17	3.21
Philippines (PHP/USD)	42.3	-0.17	1.36	42.54	43.00	

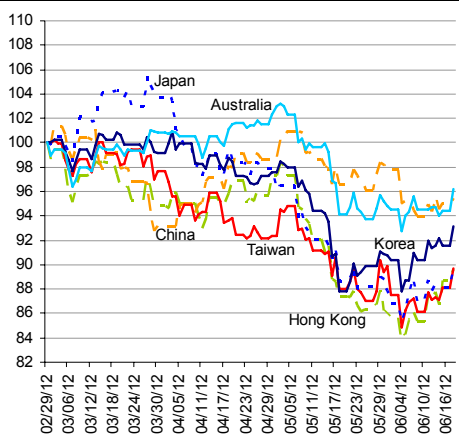
Last update: today, 17.45 Hong Kong time.

INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	2.60	-0.13	-0.10	-0.10
	Hong Kong (HIBOR/1W)	0.13	0.00	0.00	0.00
	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)	2.70	-0.05	0.27	-0.05
	Singapore (SIBOR/1W)	0.31	0.00	0.00	0.06
	Indonesia (JIBOR/1W)	4.11	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)	3.56	0.13	0.13	0.19

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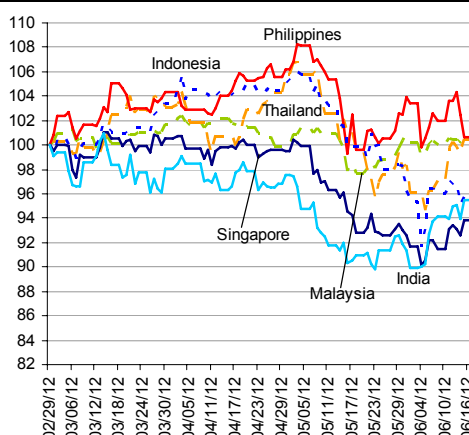
Charts

Chart 9
Stock Markets



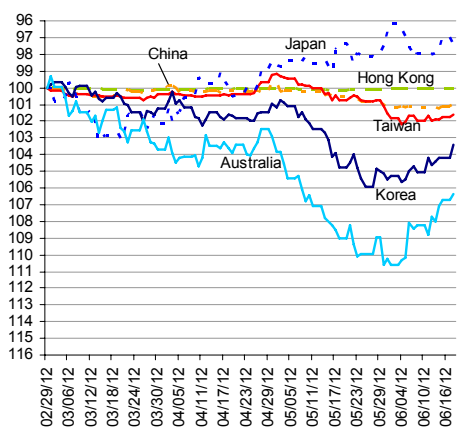
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



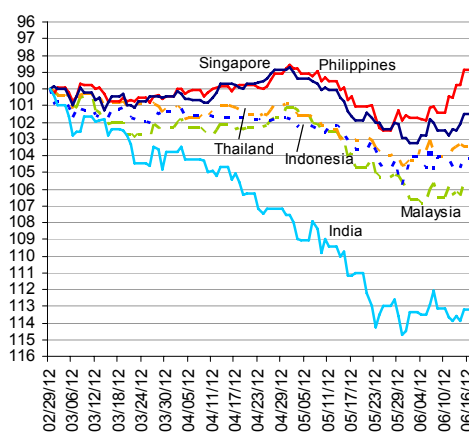
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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