

Daily Flash

Asia

Chinese authorities may relax regulations to spur bank lending

A Chinese media outlet reported today that China's Banking Regulation Committee (CBRC) may relax restrictions on new bank lending to local government financing vehicles (LGFVs), in order to facilitate local government spending on infrastructure projects and help stabilize GDP growth. If true, it would be the second time in the past four months that the CBRC has applied regulatory forbearance to LGFVs, as earlier this year banks were allowed to roll over existing loans, effectively buying time by extending the maturity of LGFV obligations. The authorities were successful this past year in preventing a further rise in local government borrowing, but with growth now the priority they may allow such debt to rise modestly. Such a move could be very effective in stimulating growth through a number of "shovel-ready" projects at the local government level, but could also add to concerns about future risks to the quality of bank lending.

Indonesia hints at 90% ownership cap in Indonesian banks

Bloomberg reported today that Indonesia's Deputy Governor of banking regulations stated in a speech that commercial (including foreign) ownership of Indonesian banks 'could be as high' as 90% (currently it is 99%). Bank Indonesia is set to formally announce the ownership rule before July, but if true this level would be well above previous expectations that outside ownership would be capped at 50%.

Japan's trade deficit widens, likely to remain under pressure

Japan's greater-than-expected May trade deficit highlighted its ongoing difficulties due to rising energy imports and weak European demand for Japan's exports. Despite a 10.0% y/y rise in exports (consensus: 9.3%) on strong demand from the US, Japan posted a trade deficit of 907.3 billion yen (USD 11.5 billion) for the month (consensus: 561.1 billion yen). Imports increased by 9.3% y/y (consensus: 3.3%) as mineral fuels, which account for 1/3 of total Japan's imports, surged by 19.6% y/y, underscoring Japan's increasing need for external energy sources after shutting its nuclear reactors. We expect Japan's exports to rise in the coming months due to an expected recovery in the US economy along with China's efforts to support growth; however, the trade balance may remain under pressure due to a strong yen and Japan's ongoing need for external energy supplies.

Briefly noted:

- **Taiwan: Export orders in May contracted by 3.0% yoy**, slightly better than expected (consensus: -3.7% yoy) but below our forecast (BBVA: -2.2% y/y). Demand from European and ASEAN countries worsened notably, but demand from the US held up well and improved slightly from mainland China. The central bank of Taiwan will have its second quarter monetary policy meeting tomorrow, where authorities are likely to leave the benchmark rate unchanged at 1.875%.

Jeffrey Cantwell
Economist
jeffrey.cantwell@bbva.com.hk
+852 2582 3173

William Fitchett
Economist
william.fitchett@bbva.com.hk
+852 2582 3246

With contributions from the BBVA Research Asia Team

Calendar Indicators

China	Date	Period	Prior	Cons.	Actual
China May Property Prices	18-Jun	MAY			
HSBC Flash China Manufacturing PMI	21-Jun	JUN	48.4	--	--
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	-¥907.3B
Merchnds Trade Exports YoY	20-Jun	MAY	7.9	9.7	10.0
All Industry Activity Index (MoM)	20-Jun	APR	-0.30%	0.10%	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	--	\$138M
Taiwan	Date	Period	Prior	Cons.	Actual
Export Orders (YoY)	20-Jun	MAY	-3.52%	-3.70%	-3.04%
Unemployment Rate - sa	22-Jun	MAY	4.19%	4.20%	--
Vietnam	Date	Period	Prior	Cons.	Actual
CPI (YoY)	24-Jun	JUN	8.34%	--	--

Calendar Events

India - India Repo Cutoff Yield, June 18

We expected a 25 bps cut in the benchmark rate

Current	Consensus	New
8.00%	7.75%	8.00%

Taiwan - Benchmark Interest Rate, June 21

We expect the benchmark rate to remain unchanged

Current	Consensus	New
1.88%	1.88%	--

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.	2292.9	-0.3	-1.1	4.2	-12.5
	Hong Kong - Hang Seng	19518.9	0.5	2.6	5.9	-9.6
	Taiwan - Weighted	7334.6	0.8	3.5	3.7	-14.0
	Japan - Nikkei 225	8752.3	1.1	1.9	3.5	-6.4
	Korea - Kospi	1904.1	0.7	2.4	4.3	-5.7
	India - Sensex 30	16920.4	0.4	0.2	9.5	-3.3
	Australia - SPX/ASX 200	4132.4	0.2	1.7	1.9	-7.2
	Singapore - Strait Times	2855.7	0.5	2.5	7.9	-5.2
	Indonesia - Jakarta Comp	3943.9	1.6	2.2	3.2	5.8
	Thailand - SET	1173.2	0.0	1.3	14.4	15.8
	Malaysia - KLCI	1604.4	0.6	1.8	4.8	2.9
Philippines - Manila Comp.	5146.5	1.3	0.7	17.7	23.9	

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	-0.08	0.14	6.36	6.40
	Hong Kong (HKD/USD)	7.76	0.00	0.00	7.76	7.75
	Taiwan (TWD/USD)	29.9	0.01	0.32	29.79	29.48
	Japan (JPY/USD)	78.95	0.00	0.67	78.86	78.44
	Korea (KRW/USD)	1151	0.46	1.50	1158	1169
	India (INR/USD)	56.0	-0.06	-0.57	57.14	59.36
	Australia (USD/AUD)	1.02	0.14	2.70	0.99	1.01
	Singapore (SGD/USD)	1.27	-0.06	1.24	1.27	1.26
	Indonesia (IDR/USD)	9430	-0.23	0.00	9660	10052
	Thailand (THB/USD)	31.5	-0.19	0.16	31.62	32.04
	Malaysia (MYR/USD)	3.16	-0.07	0.63	3.17	3.21
Philippines (PHP/USD)	42.1	0.56	1.20	42.28	42.71	

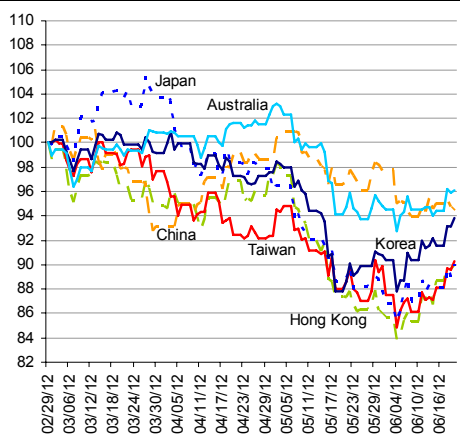
Last update: today, 17.45 Hong Kong time.

INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.50	0.59	0.77	0.80
	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)	3.34	-0.01	-0.02	-0.03
	India (MIBOR/7D)	3.40	0.40	0.21	0.65
	Singapore (SIBOR/1W)	0.25	0.00	-0.06	0.00
	Indonesia (JIBOR/1W)	4.12	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)	3.63	0.00	0.19	0.25

Last update: today, 17.45 Hong Kong time

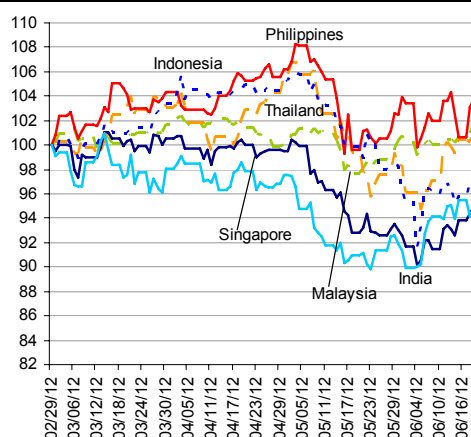
Charts

Chart 9
Stock Markets



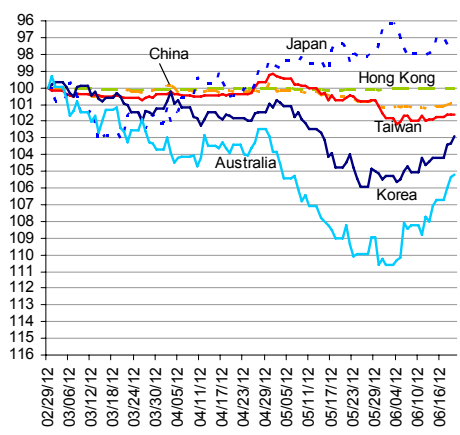
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



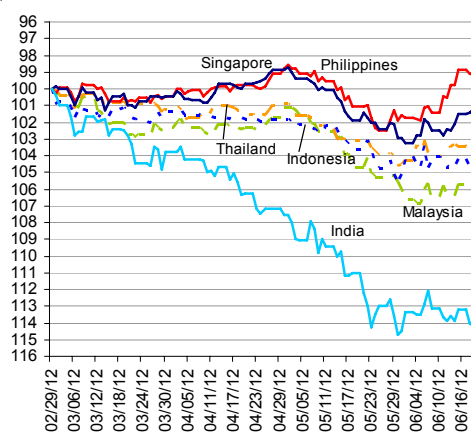
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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

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

Le Xia
Senior Economist (China)
xia.le@bbva.com.hk

Zhigang Li
Senior Economist (China)
zhigang.li@bbva.com.hk

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

Jeffrey Cantwell
Economist
jeffrey.cantwell@bbva.com.hk

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

Richard Li
Asian FX Chief Strategist
richard.li@bbva.com.hk

William Fitchett
Economist
william.fitchett@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.