

Asia Flash

Asia

Indonesia gets closer to fuel price hike after Parliamentary approval

Indonesia's legislature yesterday approved revisions to the 2013 budget that would clear the way for President Yudhoyono's government to raise fuel prices and cut the subsidy bill. A fuel price increase – the first since 2008 – has been on the table since last year when it was unexpectedly delayed due to political resistance. The price hike could take effect in the coming days, resulting in a 44% increase in low-octane gasoline and 22% increase in diesel. Such an increase may temporarily add 2-3 ppts to headline inflation (which came in at 5.5% y/y in May, just within the official target range of 3.5-5.5%). Indonesia has continued to run conservative fiscal policies, with public debt at only 24% of GDP and the deficit of -1.8% of GDP in 2012, but fuel subsidies have diverted spending from higher priorities such as infrastructure spending and poverty alleviation, and have added pressure on a widening current account deficit. To soften the impact on lower income segments of the population, the government plans to implement a cash transfer scheme as it did successfully in 2005-06 and 2008-09.

Rising housing prices in China may constrain scope for monetary easing

According to official (NBS) data released today, property prices rose in 69 of the 70 cities in the monthly NBS housing price survey. Based on the data, we estimate that prices rose by 5.3% y/y from 4.4% in April; on a sequential basis, prices rose by 1.0% m/m nsa, similar to the pace of the previous month. Major tier 1 cities such as Guangzhou, Beijing, Shenzhen and Shanghai saw double-digit increases of around 10-13% y/y. Nationwide prices have now risen by a cumulative 7.0% since bottoming out in May 2012. Rising housing prices are being closely watched by the government to preserve affordability and prevent asset bubbles. As such, they may constrain the central bank's scope for monetary policy easing in response to the current economic slowdown, and reinforce the government's efforts to implement existing house purchase restrictions.

Australian central bank minutes hint at further AUD weakness

The Reserve Bank of Australia released minutes from its June 4 monetary policy meeting, when it kept policy rates unchanged at 2.75%, after a 25bp cut in May. In the minutes, the monetary board saw mixed economic signals, "with indicators for the household sector generally remaining stronger than those for the business sector," with the current growth pace a bit below trend. On the currency front, the minutes welcomed the recent weakening of the Australia dollar, which it attributed to a combination of USD strength, declining commodity prices, the weaker outlook for China's growth, and recent policy rate cuts.

Briefly noted:

China's FDI growth moderates in May

China's May FDI inflows amounted to \$9.26 billion, reflecting a 0.3% y/y increase, the fourth straight month of positive year-over-year gains. Inward FDI from the US and EU held up well, at 22.6% and 24.1%, respectively, in the first five months compared to same period last year. Outward FDI (non-financial sector) growth has remained more resilient, up by 20% y/y ytd, as firms seek to boost overseas investment.

Japan's April industrial production growth for April was revised down to 0.9% m/m sa from 1.7% on unexpected contraction in shipments (revised from 1.1% to -1.4%). Nevertheless, IP still recorded a 5th consecutive month of positive growth, adding to signs that the economy is picking up following the aggressive monetary and fiscal policies of the Abe. May industrial output is due on June 28.

Hong Kong's unemployment rate during March-May edged down to 3.4% sa from the previous three months, reflecting continued tight labor market conditions. On current growth trends, we expect unemployment to average around 3.6% for 2013.

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Calendar Indicators

China	Date	Period	Prior	Cons.	Actual
Actual FDI (YoY)	18 Jun	May	0.40%	--	0.30%
Hong Kong	Date	Period	Prior	Cons.	Actual
Unemployment Rate SA	18 Jun	May	3.50%	3.50%	3.40%
Composite Interest Rate	19 Jun	May	0.25%	--	--
CPI - Composite Index (YoY)	20 Jun	May	4.00%	3.90%	--
India	Date	Period	Prior	Cons.	Actual
Exports YoY%	17 Jun	May	1.70%	--	-1.10%
Japan	Date	Period	Prior	Cons.	Actual
Tertiary Industry Index (MoM)	17 Jun	Apr	-0.20%	0.20%	0.00%
Industrial Production (MoM)	18 Jun	Apr F	1.70%	--	0.90%
Merchnds Trade Exports YoY	19 Jun	May	3.8	6.4	--
Merchnds Trade Balance Total	19 Jun	May	¥881.9B	¥1211.4B	--
Malaysia	Date	Period	Prior	Cons.	Actual
CPI YoY	19 Jun	May	1.70%	1.70%	--
Philippines	Date	Period	Prior	Cons.	Actual
Overseas Remittances (YoY)	17 Jun	Apr	3.00%	4.20%	6.10%
Singapore	Date	Period	Prior	Cons.	Actual
Non-oil Domestic Exports (YoY)	17 Jun	May	-1.00%	-0.20%	-4.60%
Taiwan	Date	Period	Prior	Cons.	Actual
Export Orders (YoY)	20 Jun	May	-1.10%	-1.30%	--

Calendar Events

India - Repo Cutoff Yld, Jun 17	Current	Cons.	New
We expect the benchmark rate to remain unchanged	7.25%	7.25%	7.25%
India - Cash Reserve Ratio, Jun 17	Current	Cons.	New
We expect the benchmark rate to remain unchanged	4.00%	4.00%	4.00%

Indicator of the Week

Taiwan: Export Orders (May, June 20th)

Forecast: -1.5% y/y

Consensus: -1.30% y/y

Prior: -1.1% y/y

Taiwan's export orders are closely watched as a leading indicator of regional export trends given the economy's position in the global supply chain. Recent export readings for Asia have been mixed, with China surprising to the downside in May (1.0% y/y), Taiwan remaining weak (0.9% y/y) and Korea faring slightly better (3.2% y/y). We expect growth of Taiwan's export orders to remain weak, but to inch up marginally on a sequential basis. Demand from the US is improving, but China's processing imports and manufacturing activity in May were disappointing, which may weigh on new orders. A weaker-than-expected outturn would reinforce concerns of a fragile recovery of external demand for the remainder of this year, posing downside risks to our full year growth forecast.

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.	2159.3	0.4	-3.7	-4.8	-6.8
	Hong Kong - Hang Seng	21225.9	0.0	-1.8	-6.3	9.3
	Taiwan - Weighted	8011.0	0.2	-1.8	4.0	10.0
	Japan - Nikkei 225	13007.3	-0.2	-2.3	25.1	49.1
	Korea - Kospi	1900.6	0.9	-1.0	-4.8	0.5
	India - Sensex 30	19223.3	-0.5	0.4	-1.0	15.1
	Australia - SPX/ASX 200	4814.4	-0.2	1.2	3.6	16.4
	Singapore - Strait Times	3229.6	1.4	1.9	2.0	14.4
	Indonesia - Jakarta Comp	4840.5	1.4	5.0	12.1	25.4
	Thailand - SET	1427.4	-3.0	-1.7	2.5	22.7
	Malaysia - KLCI	1774.1	0.1	-0.3	5.0	12.1
	Philippines - Manila Comp.	6518.8	2.8	-5.2	12.1	29.1

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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)	6.13	-0.07	0.08	6.20	6.28
	Hong Kong (HKD/USD)	7.76	0.02	0.08	7.76	7.75
	Taiwan (TWD/USD)	29.9	-0.05	0.16	29.84	29.68
	Japan (JPY/USD)	95.35	-0.88	0.71	95.31	95.03
	Korea (KRW/USD)	1131	-0.42	0.27	1136	1145
	India (INR/USD)	58.7	-1.41	-0.51	59.71	62.08
	Australia (USD/AUD)	0.95	-0.95	0.27	1.06	1.08
	Singapore (SGD/USD)	1.26	-0.45	-0.51	1.26	1.26
	Indonesia (IDR/USD)	9908	-0.20	-0.81	10219	10666
	Thailand (THB/USD)	30.9	-0.58	0.26	31.05	31.42
	Malaysia (MYR/USD)	3.15	-0.67	-0.11	3.17	3.22
	Philippines (PHP/USD)	43.1	-0.53	-0.07	43.38	43.61

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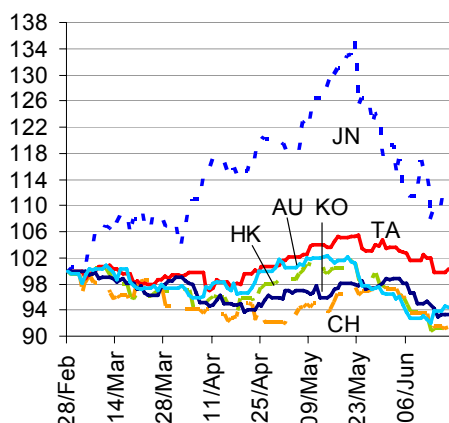
INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	6.70	-0.30	0.00	3.15
	Hong Kong (HIBOR/1W)	0.09	0.00	0.00	0.00
	Taiwan (TAIBOR/1W)	0.53	0.00	0.00	-0.01
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	2.58	0.00	0.00	0.01
	India (MIBOR/7D)	7.30	-1.35	1.62	3.67
	Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00
	Indonesia (JIBOR/1W)	4.53	0.00	0.25	0.26
	Thailand (BIBOR/1W)	2.77	0.00	0.00	0.00
	Malaysia (KLIBOR/1W)	2.90	0.00	0.00	0.00
	Philippines (PHIBOR/1W)	1.25	0.00	-0.31	0.31

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Charts

Chart 1

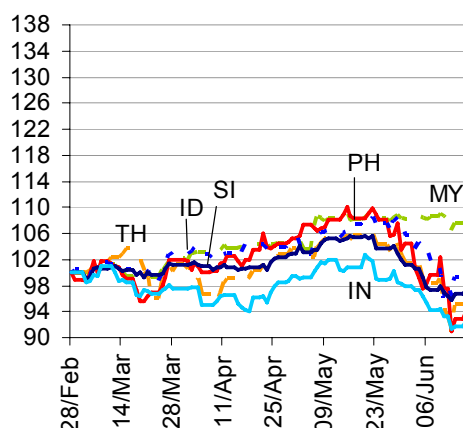
Stock Markets



Source: BBVA Research and Bloomberg

Chart 2

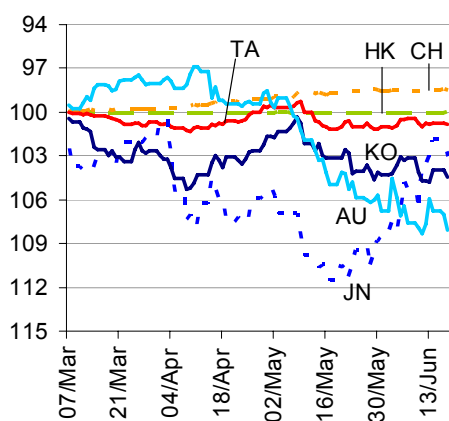
Stock Markets



Source: BBVA Research and Bloomberg

Chart 3

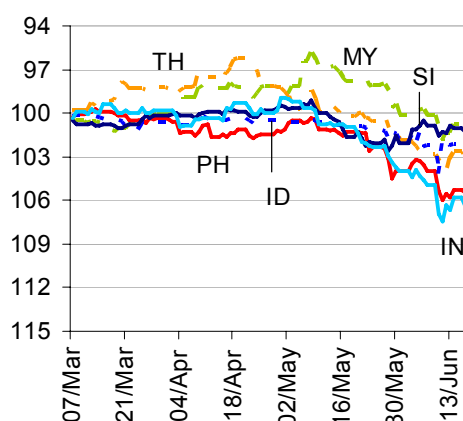
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4

Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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