

Asia Flash

Asia

Against market expectations, the Bank of Korea cut interest rates today, becoming the latest central bank in the region to ease policy amidst lagging growth and weak external demand (see below). Earlier this week the Reserve Bank of Australia cut rates, as did India on May 3. Rates are nearing, or in some cases surpassing (e.g., Australia) the lows reached in 2008-09. Other than India, we do not expect further rate cuts this year (as expected, Malaysia stayed on hold today for a 13th consecutive meeting), although subdued inflation across the region provides room if needed. On that score, China's April inflation, albeit above expectations, remains subdued according to data released today (see below).

Bank of Korea surprises with its first rate cut since October

The Bank of Korea (BOK) cut its benchmark interest rate by 25 bps to 2.50%. The move was a surprise to most analysts who had expected the BOK to stay on hold after a better than expected Q1 GDP outturn and concerns about further stoking household borrowing, which remains high. In its accompanying policy statement, the BOK cited weak domestic growth, a sluggish global economy, influence of the yen weakening, and geopolitical risks. It also noted subdued inflation (1.2% y/y in April), which is well below the official target range of 2.5%-3.5%. Despite headwinds, we expect growth to pick up during the course of the year, to 2.7% in 2013. On this basis, we expect the BOK to stay on hold, but we would not rule out further cuts if growth remains weak.

China's April inflation remains subdued

April inflation came in at 2.4% y/y (BBVA: 2.2%; consensus: 2.3%) from 2.1% the previous month, on a pickup in vegetable prices (see China Flash). Inflation nevertheless remains subdued and is well below the government's target of 3.5%. Looking ahead, we expect inflation to trend up gradually over 2013, reaching 3.0% average for the year and 3.8% by end-year on rising demand for further discussion.

Fitch flags asset quality and funding imbalances as risks for Indian banks

Fitch Ratings yesterday cautioned that Indian banks' asset quality pressures are unlikely to ease in the near term amid limited scope for further monetary easing and bottlenecks in executing infrastructure projects. Fitch expects gross non-performing loans (NPL) ratio of Indian banks to rise from 4.2% in FY13 (year ending March 2013) to 4.4% in FY14. The ratings agency flagged the infrastructure sector, which accounts for 23% of corporate debt restructuring, to be the biggest risk for Indian banks going forward unless key structural impediments - such as the availability of fuel, rising input costs and government clearances - are effectively addressed. We broadly share Fitch's assessment. While we believe these challenges will persist for some time, over the medium term, we expect renewed investment reform momentum and a pickup in growth to alleviate balance sheet stress of the banks.

Briefly noted:

Australia dollar rises on upbeat jobs data

Employment increased by a better-than-expected 50,1k (consensus: 11.0k) in April from a month earlier. The participation rate rose to 65.3% from previous 65.2%, resulting in a lower unemployment rate of 5.5% from previous 5.6%. The Australia dollar, which had fallen after the RBA's surprise rate cut on May 7, rose by 0.6% to 1.02 against the USD.

Malaysia's exports and industrial production for March disappointed to the downside (-2.9% y/y in March and -0.2%, respectively). The central bank nevertheless kept rates on hold today for a 13th straight meeting. Despite the weak March readings, on the basis of expectations of policy continuity after this week's re-election of the ruling government, and tight labor markets, we maintain our full-year GDP projection of 4.8% in 2013.

Stephen Schwartz
Chief Economist for Asia
stephen.schwartz@bbva.com.hk
+852 2582 3218

Weiwei Liu
Economist
carrie.liu@bbva.com.hk
+852 2582 3243

With contributions from the BBVA Research Asia Team

Calendar Indicators

| Australia | Date | Period | Prior | Cons. | Actual |
|----------------------------|-----------|--------|---------|----------|--------|
| Retail Sales s.a. (MoM) | 06 May | Mar | 1.30% | 0.10% | -0.40% |
| Unemployment Rate | 09 May | Apr | 5.60% | 5.60% | 5.50% |
| China | Date | Period | Prior | Cons. | Actual |
| Exports YoY% | 08 May | Apr | 9.20% | 10.00% | 14.70% |
| Imports YoY% | 08 May | Apr | 14.10% | 13.00% | 16.80% |
| Consumer Price Index (YoY) | 09 May | Apr | 2.10% | 2.30% | 2.40% |
| Aggregate Financing | 10-15 MAY | Apr | 2544.3B | 1480.0B | -- |
| New Yuan Loans | 10-15 MAY | Apr | 1060.0B | 767.5B | -- |
| Money Supply - M2 (YoY) | 10-15 MAY | Apr | 15.70% | 15.50% | -- |
| Hong Kong | Date | Period | Prior | Cons. | Actual |
| GDP (YoY) | 10 May | 1Q | 2.50% | 2.70% | -- |
| Indonesia | Date | Period | Prior | Cons. | Actual |
| GDP Constant Price (YoY) | 06 May | 1Q | 6.11% | 6.10% | 6.02% |
| India | Date | Period | Prior | Cons. | Actual |
| Industrial Production YoY | 10 May | Mar | 0.60% | -- | -- |
| Exports YoY% | 10-15 MAY | Apr | 7.00% | -- | -- |
| Japan | Date | Period | Prior | Cons. | Actual |
| Current Account Total | 10 May | Mar | ¥637.4B | ¥1216.3B | -- |
| Malaysia | Date | Period | Prior | Cons. | Actual |
| Exports YoY% | 08 May | Mar | -7.70% | -1.50% | -2.90% |
| Industrial Production YoY | 09 May | Mar | -5.20% | 0.20% | -0.20% |
| Philippines | Date | Period | Prior | Cons. | Actual |
| Consumer Price Index (YoY) | 07 May | Apr | 3.20% | 2.90% | 2.60% |
| Total Exports (YoY) | 10 May | Mar | -15.60% | -3.70% | -- |
| Taiwan | Date | Period | Prior | Cons. | Actual |
| CPI YoY% | 06 May | Apr | 1.37% | 1.26% | 1.04% |
| Total Exports (YoY) | 07 May | Apr | 3.30% | 3.10% | -1.90% |

Calendar Events

| | | | |
|--|----------------|--------------|------------|
| Australia - RBA Cash Target, May 07 | Current | Cons. | New |
| We expect the benchmark rate to remain unchanged | 3.00% | 3.00% | 2.75% |
| Malaysia - Overnight Rate, May 09 | Current | Cons. | New |
| We expect the benchmark rate to remain unchanged | 3.00% | 3.00% | 3.00% |
| Korea - 7-Day Repo Rate, May 09 | Current | Cons. | New |
| We expect the benchmark rate to remain unchanged | 2.75% | 2.75% | 2.50% |

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. | 2233.0 | -0.6 | 2.7 | -1.6 | -7.3 |
| | Hong Kong - Hang Seng | 23211.5 | -0.1 | 2.4 | 2.4 | 14.2 |
| | Taiwan - Weighted | 8285.9 | 0.2 | 1.9 | 7.6 | 10.8 |
| | Japan - Nikkei 225 | 14191.5 | -0.7 | 2.4 | 36.5 | 56.9 |
| | Korea - Kospi | 1979.5 | 1.2 | 1.1 | -0.9 | 1.5 |
| | India - Sensex 30 | 19961.9 | -0.1 | 1.1 | 2.8 | 21.1 |
| | Australia - SPX/ASX 200 | 5198.4 | 0.0 | 1.3 | 11.8 | 21.6 |
| | Singapore - Strait Times | 3431.6 | 0.5 | 0.9 | 8.4 | 18.3 |
| | Indonesia - Jakarta Comp | 5089.3 | 0.9 | 0.6 | 17.9 | 23.3 |
| | Thailand - SET | 1624.7 | 0.7 | 1.7 | 16.7 | 34.6 |
| | Malaysia - KLCI | 1766.1 | -0.4 | 3.1 | 4.6 | 11.4 |
| | Philippines - Manila Comp. | 7194.4 | 0.2 | 1.4 | 23.8 | 38.0 |

Last update: today, 17:00 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) | 6.13 | 0.17 | 0.40 | 6.18 | 6.20 |
| | Hong Kong (HKD/USD) | 7.76 | -0.01 | -0.01 | 7.76 | 7.75 |
| | Taiwan (TWD/USD) | 29.4 | 0.08 | 0.45 | 29.37 | 29.13 |
| | Japan (JPY/USD) | 98.75 | 0.26 | -0.82 | 98.70 | 98.44 |
| | Korea (KRW/USD) | 1091 | -0.44 | 0.93 | 1095 | 1104 |
| | India (INR/USD) | 54.3 | -0.24 | -0.88 | 54.98 | 57.45 |
| | Australia (USD/AUD) | 1.02 | 0.52 | -0.24 | 0.98 | 1.00 |
| | Singapore (SGD/USD) | 1.23 | -0.12 | 0.51 | 1.23 | 1.23 |
| | Indonesia (IDR/USD) | 9718 | 0.09 | 0.21 | 9776 | 10145 |
| | Thailand (THB/USD) | 29.4 | -0.41 | 0.03 | 29.59 | 29.94 |
| | Malaysia (MYR/USD) | 2.97 | -0.38 | 2.58 | 2.99 | 3.03 |
| | Philippines (PHP/USD) | 40.8 | -0.10 | 0.27 | 40.82 | 40.78 |

Last update: today, 17:00 Hong Kong time.

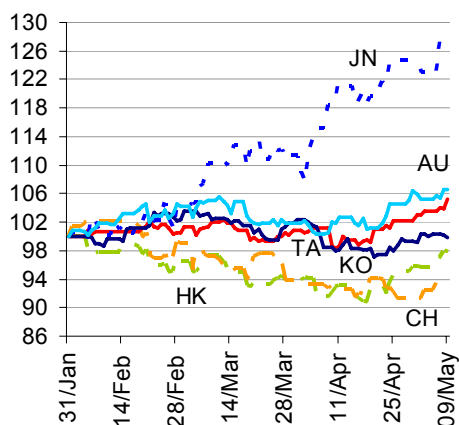
| INTERBANK RATES | INDEX | Rate | net change over a day | net change over a week | net change over a month |
|-----------------|-------------------------|------|-----------------------|------------------------|-------------------------|
| | China (SHIBOR/7D) | 3.14 | 0.14 | -0.11 | -0.16 |
| | Hong Kong (HIBOR/1W) | 0.09 | 0.00 | 0.00 | 0.00 |
| | Taiwan (TAIBOR/1W) | 0.54 | 0.00 | 0.00 | -0.01 |
| | Japan (TIBOR/1Y) | 0.76 | 0.00 | 0.01 | 0.01 |
| | Korea (KORIBOR/1M) | 2.76 | 0.00 | 0.00 | 0.03 |
| | India (MIBOR/7D) | 3.61 | 0.61 | 0.11 | 0.33 |
| | Singapore (SIBOR/1W) | 0.25 | 0.00 | 0.00 | 0.00 |
| | Indonesia (JIBOR/1W) | 0.00 | -4.27 | -4.28 | -4.28 |
| | 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 |

Last update: today, 17:00 Hong Kong time

Charts

Chart 1

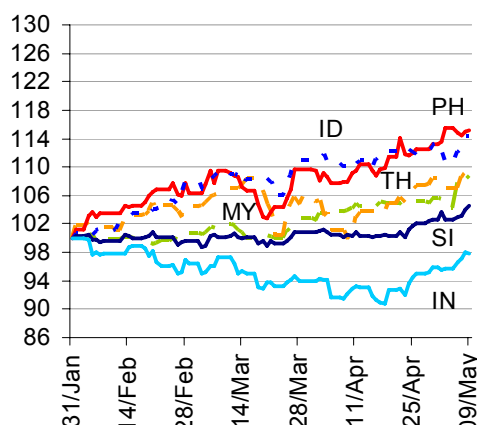
Stock Markets



Source: BBVA Research and Bloomberg

Chart 2

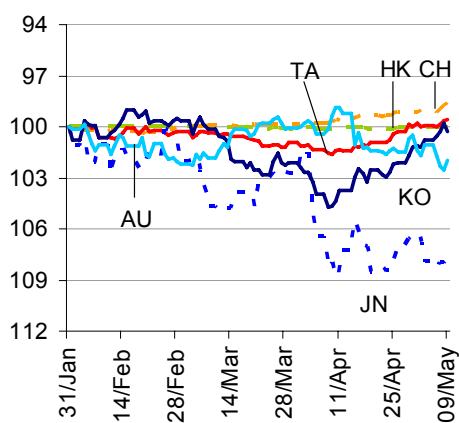
Stock Markets



Source: BBVA Research and Bloomberg

Chart 3

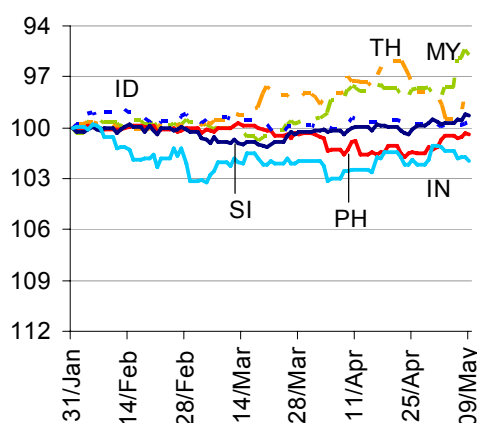
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4

Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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

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

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

Weiwei Liu
Economist
carrie.liu@bbva.com

Edward Wu
Economist
edward.wu@bbva.com



RESEARCH



10/F., Two IFC, 8 Finance Street, Central, Hong Kong | Tel.: +852 2582 3111 | www.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.