

Asia Flash

Asia

Asian markets today witnessed a widespread sell-off, led by steep declines in Japan (-5.2%) and the Philippines (-3.8%) despite a better-than-expected Q1 GDP outturn for the latter (see below). The Nikkei has fallen by -14.3% since its selloff began last Thursday, a steep correction after the +52.8% cumulative gain from the December 26 election of Prime Minister Abe to the market peak on May 22. Today's declines in the Japanese stock market may have been triggered by continuing concerns about volatility in the Japanese government bond market and prospects for the success of the "Abenomics" strategy as well as the yen appreciation (101.5 per USD at present). Markets will be watching for tomorrow's release of April activity indicators in Japan (PMI, IP and employment) and May inflation, in addition to India's Q1 GDP reading (see Data Preview below).

Red-hot growth in the Philippines as Q1 GDP beats expectations

GDP expanded by 7.8% y/y in Q1 (consensus: 6.0% y/y), the third consecutive +7% quarterly outturn. The Philippines has bucked the trend of slowing regional growth as investment and government spending offset sluggish external demand. Recall also that the Philippines reached investment grade status from Fitch and S&P this year in view of its growth resilience and improved fiscal management. The central bank has maintained the policy rate at record-low of 3.5% for the past four meetings and if growth remains strong it could put upward pressure on the currently low rate of inflation (2.6% y/y in April), and rate hikes may be in the cards by the end of the year (though not in our baseline). Our full-year growth projection stands at 6.0% for 2013, which now looks conservative in view of the strong Q1 outturn.

Korea posts better-than-expected April industrial production

Finally, some good news for Korea's growth outlook: after a better-than-expected Q1 GDP outturn (+0.9% q/q, s.a.) industrial production increased in April by 0.8% m/m, s.a. (consensus: 0.5%) the first monthly increase since January. (On a year-on-year basis, production rose by 1.7% in April vs. consensus:-0.5%). Nevertheless, the economy continues to face headwinds from sluggish external demand, yen depreciation, and high levels of household debt. In response, the government has implemented fiscal stimulus measures, and the Bank of Korea cut interest rates earlier this month for the first time since October. We expect the economy to grow by 2.7% in 2013, compared with the Ministry of Finance's and BoK's more conservative projections of 2.3% and 2.6%, respectively.

India data preview: Q1 GDP to rise slightly, but still at subpar levels

Q1 GDP, to be released on May 31, will be closely watched after growth fell to a decade-low of 5.1% y/y in 2012. We expect only a slight upturn to 4.7% y/y (consensus: 4.8%) from 4.5% y/y in 4Q12, as a favorable base effect and a modest pick up in manufacturing offsets sluggish services sector growth. While weak final demand and limited fiscal spending will likely weigh on services, we expect higher export growth and industrial output thanks boosted by recent investment reforms (see our *Economic Watch*) and interest rate cuts. With inflation moderating (WPI inflation in April fell to 4.9% y/y from 6/0% in March), the Reserve Bank of India has cut rates at its last three consecutive policy meetings, for a cumulative 75 bps since January; we expect at least one more 25bp cut this year. Full year GDP growth in 2013 is expected to improve to 5.7% y/y, led by an investment pickup in 2H13 amid looser monetary policy, a step-up in reform momentum, and higher capital spending ahead of the national elections in 2014.

Briefly noted:

Hong Kong April retail sales for April picked up to 20.7% y/y (consensus: 14.5% y/y) from 9.8% y/y in March. The better-than-expected outturn, however, was distorted by an upsurge in sales of luxury goods, especially gold, to foreign buyers (especially from the Mainland).

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Calendar Indicators

China	Date	Period	Prior	Cons.	Actual
Industrial Profits YTD YoY	27 May	Apr	12.10%	--	11.40%
Hong Kong	Date	Period	Prior	Cons.	Actual
Exports YoY%	27 May	Apr	11.20%	9.60%	9.00%
Retail Sales - Value (YoY)	30 May	Apr	9.80%	14.50%	20.70%
India	Date	Period	Prior	Cons.	Actual
Qtrly GDP YoY%	31 May	1Q	4.50%	4.80%	--
Japan	Date	Period	Prior	Cons.	Actual
Retail Trade YoY	29 May	Apr	-0.30%	-0.40%	-0.10%
Jobless Rate	31 May	Apr	4.10%	4.10%	--
Markit/JMMA Manufacturing PMI	31 May	May	51.1	--	--
Natl CPI YoY	31 May	Apr	-0.90%	-0.70%	--
Tokyo CPI YoY	31 May	May	-0.70%	-0.40%	--
Industrial Production (MoM)	31 May	Apr P	0.90%	0.60%	--
Philippines	Date	Period	Prior	Cons.	Actual
GDP YoY	30 May	1Q	7.10%	6.00%	7.80%
Korea	Date	Period	Prior	Cons.	Actual
Current Account in US\$ Million	29 May	Apr	\$4927.2 M	--	\$3972.2 M
Industrial Production (YoY)	30 May	Apr	-2.90%	-0.50%	1.70%
Vietnam	Date	Period	Prior	Cons.	Actual
Industrial Production Index YoY	27 May	May	5.80%	--	6.70%
Retail Sales YTD (YoY)	27 May	May	11.80%	--	11.90%

Calendar Events

Thailand - Benchmark Interest Rate, May 29	Current	Cons.	New
We expect the benchmark rate to remain unchanged	2.75%	2.50%	2.50%

Markets Data

STOCK MARKETS	INDEX	Last price	% change		Year to date	% change over 1 Y
			over a day	over a week		
	China - Shanghai Comp.	2317.7	-0.3	1.8	2.1	-2.8
	Hong Kong - Hang Seng	22484.3	-0.3	-0.8	-0.8	20.3
	Taiwan - Weighted	8243.3	-1.1	0.1	7.1	13.5
	Japan - Nikkei 225	13589.0	-5.1	-6.2	30.7	57.4
	Korea - Kospi	2000.1	-0.1	1.6	0.2	8.4
	India - Sensex 30	20215.4	0.3	2.8	4.1	23.9
	Australia - SPX/ASX 200	4930.7	-0.9	-2.6	6.1	20.4
	Singapore - Strait Times	3336.0	-0.9	-3.4	5.3	19.8
	Indonesia - Jakarta Comp	5129.6	-1.4	0.2	18.8	30.9
	Thailand - SET	1581.3	-1.3	-3.1	13.6	38.9
	Malaysia - KLCI	1774.9	-0.5	-0.5	5.1	12.7
	Philippines - Manila Comp.	6953.4	-3.8	-4.9	19.6	38.6

Last update: today, 18:00 Hong Kong time

FOREIGN EXCHANGE MARKETS	CURRENCY	Spot	% change		Forward	
			over a day	over a week	Forward 3-month	Forward 12-month
	China (CNY/USD)	6.13	-0.08	0.05	6.19	6.26
	Hong Kong (HKD/USD)	7.76	0.01	-0.01	7.76	7.75
	Taiwan (TWD/USD)	30.0	0.00	-0.19	30.00	29.83
	Japan (JPY/USD)	101.50	-0.34	0.51	101.45	101.16
	Korea (KRW/USD)	1127	0.49	0.09	1134	1142
	India (INR/USD)	56.2	-0.11	-1.16	57.13	59.57
	Australia (USD/AUD)	0.96	-0.03	-1.22	1.04	1.06
	Singapore (SGD/USD)	1.26	0.17	-0.04	1.26	1.26
	Indonesia (IDR/USD)	9808	-0.03	-0.25	9989	10389
	Thailand (THB/USD)	30.2	-0.07	-0.93	30.38	30.74
	Malaysia (MYR/USD)	3.07	0.25	-1.27	3.09	3.13
	Philippines (PHP/USD)	42.3	0.47	-1.35	42.53	42.66

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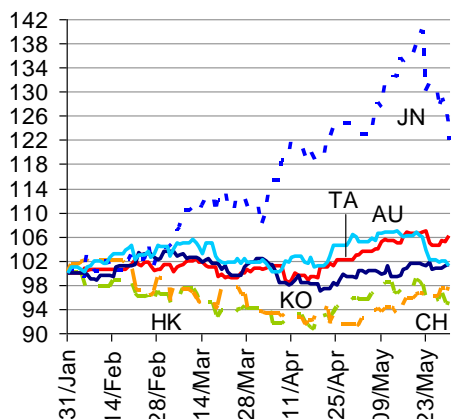
INTERBANK RATES	INDEX	Rate	net change		net change over a month
			over a day	over a week	
	China (SHIBOR/7D)	4.15	0.52	-0.05	1.05
	Hong Kong (HIBOR/1W)	0.09	0.00	0.00	0.00
	Taiwan (TAIBOR/1W)	0.53	0.00	0.00	-0.01
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	2.58	0.00	0.01	-0.18
	India (MIBOR/7D)	5.15	1.28	0.96	1.62
	Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00
	Indonesia (JIBOR/1W)	4.28	0.00	0.01	0.00
	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

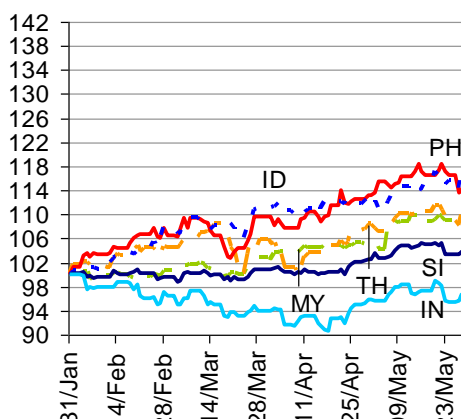
Stock Markets



Source: BBVA Research and Bloomberg

Chart 2

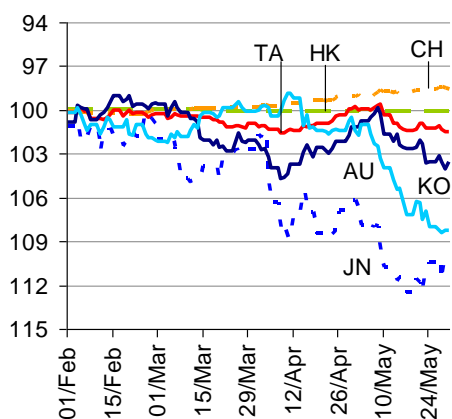
Stock Markets



Source: BBVA Research and Bloomberg

Chart 3

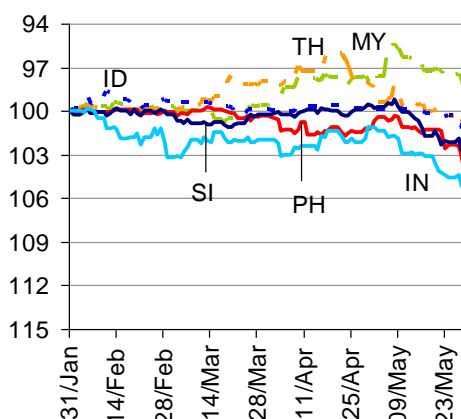
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4

Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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