

# Asia Flash

## Asia

*Better-than-expected manufacturing and export data released over the weekend in China and Korea (see below) failed to prevent another broad sell-off in Asian equity markets today. Volatility continues in Japan's financial markets, and the Nikkei witnessed its third largest decline for the year (-3.7%), bringing the cumulative decline in the index to -16.8% since it peaked on May 22. Meanwhile, the yen has strengthened and is threatening to break back below the psychologically important 100-per USD threshold. Tomorrow's focus will be on the next policy meeting of the Reserve Bank of Australia, where we expect rates to stay on hold after last month's surprise 25 bp cut to 2.75%.*

### **A mixed picture of growth in China as the official May PMI turns up**

China's official manufacturing PMI for May, released on Saturday (June 1), beat expectations by unexpectedly rising to 50.8 (BBVA: 49.9; consensus: 50.0) from 50.6 in April. The output subcomponent increased to 53.3 from 52.6 last month, while new orders also ticked up to 51.8 from previous 51.7; at the same time, new export orders also picked up to 49.4 from 48.6 previously. The upbeat official PMI outturn stands in contrast to a much weaker final outturn from the private sector HSBC PMI, which declined to 49.2, below the 49.6 reported earlier in the flash estimate. It is difficult to reconcile the divergence in the two PMI outturns. Setting aside issues of possible seasonality, it is likely that the official PMI is picking up improving output trends among larger, more domestically oriented firms, while the HSBC indicator is picking up weakness among smaller, more export-oriented firms, on which its sample is based. As such, we continue to be presented with a mixed picture of growth momentum, and we await a batch of May activity indicators next week, including trade (June 8), inflation, industrial production, investment, retail sales (due out June 9), and credit aggregates (June 10-15) for a sharper picture. For now, we maintain our 8.0% growth outlook for 2013.

### **Korea posts better-than-expected May exports**

Korea's monthly export data are closely watched as a bellwether for the region, given the economy's leading position in the global supply chain and as the first monthly export print in Asia. Export growth ticked up to 3.2% y/y in May (consensus: -0.9% y/y) from 0.4% y/y in April, due to shipments of smart phones and resilient demand from the US and China. The data follows a better-than-expected outturn for April industrial (0.8% m/m, s.a.) released last Thursday. Nevertheless, growth in Korea continues to face headwinds from the fallout of the depreciation of the yen and high level of consumer indebtedness. The authorities have responded with fiscal stimulus, and the BOK cut interest rates last month to 2.50%. We see room for further rate cuts if needed, after May CPI inflation came out at a lower-than-expected 1.0%/y/y.

### **Briefly Noted:**

#### **Australia retail sales stay sluggish in April, ahead of the RBA's policy meeting tomorrow.**

Retail sales rose by 0.2% m/m sa (consensus: 0.3%) from a March decline of -0.4%. Economic growth has decelerated with the winding down of the mining boom. The Reserve Bank of Australia, lowered interest rates to a historic low of 2.75% in May, for a cumulative 200 bps in

easing since November 2011. We expect the RBA to stay on hold at its policy meeting tomorrow, as it digests the impact of these rate cuts. Q1 GDP growth is to be released on June 5th (consensus: 2.7% y/y; prior: 3.1%).

#### **Indonesia's exports disappoint while inflation pressure eases**

Indonesia's exports in April fell by -9.1% y/y, (consensus: -7.4%; March: -12.9%) due to falling commodity prices, and the trade balance slumped back into deficit for the month, putting new downward pressure on the rupiah. Meanwhile, headline inflation eased modestly to 5.47% y/y (consensus: 5.6%) in May from 5.57% in April.

**Thailand's April inflation eases in April to 2.27% y/y** (consensus: 2.35%) from 2.42% in March, with core inflation at 0.94% (well within the Central Bank's target of 0.5-3.0%). The Bank of Thailand cut its policy rate by 25 bps to 2.50% last Wednesday given a weaker growth momentum and subdued inflation. The government, however, had urged for a bigger move of at least 50 bps in order to hit the planned growth target of 4.2% - 5.2% in 2013 (BBVA forecast: 4.7%). We would not rule out further rate cuts if domestic demand stays weak and/or the currency appreciation resumes.

**India's HSBC manufacturing PMI fell in May to 50.1** from 51 in April, its lowest since March 2009 led by continued slowdown in output and new orders. Reassuringly, gradually improving global growth prospects boosted new export orders (54 vs 51.1 in April) while input and output prices eased, which leaves room for the RBI to address growth concerns. We expect the RBI to ease rates by 25 bps at its June 17th meeting, which would probably be the last rate cut for 2013.

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## Calendar Indicators

<b>Australia</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Retail Sales s.a. (MoM)	03 Jun	Apr	-0.40%	0.30%	0.20%
Current Account Balance	04 Jun	1Q	-14678M	-9000M	--
Gross Domestic Product (YoY)	05 Jun	1Q	3.10%	2.70%	--
Gross Domestic Product (QoQ)	05 Jun	1Q	0.60%	0.80%	--
<b>China</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Manufacturing PMI	01 Jun	May	50.6	50.0	50.8
<b>Hong Kong</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Purchasing Managers Index	05 Jun	May	49.9	--	--
<b>Indonesia</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Exports (YoY)	03 Jun	Apr	-12.90%	-7.40%	-9.10%
Inflation (YoY)	03 Jun	May	5.57%	5.60%	5.47%
HSBC-Markit Manufacturing PMI	03 Jun	May	51.7	--	51.6
<b>India</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
HSBC-Markit Manufacturing PMI	03 Jun	May	51.0	--	50.1
<b>Japan</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Monetary Base Avg Amount YoY	04 Jun	May	23.10%	--	--
<b>Malaysia</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Exports YoY%	07 Jun	Apr	-2.90%	0.50%	--
<b>Philippines</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Consumer Price Index (YoY)	05 Jun	May	2.60%	2.80%	--
<b>Singapore</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Purchasing Managers Index	03 Jun	May	50.3	50.5	--
<b>Korea</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Ext Trade - Export (YoY)	01 Jun	May	0.40%	-0.90%	3.20%
Consumer Price Index (YoY)	03 Jun	May	1.20%	1.20%	1.00%
HSBC Manufacturing PMI	03 Jun	May	52.6	--	51.1
GDP (YoY)	07 Jun	1Q F	1.50%	--	--
<b>Taiwan</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
HSBC Manufacturing PMI	03 Jun	May	50.7	--	47.1
CPI YoY%	05 Jun	May	1.04%	0.80%	--
Total Exports (YoY)	07 Jun	May	-1.90%	-0.50%	--
<b>Thailand</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Consumer Price Index (YoY)	03 Jun	May	2.42%	2.35%	2.27%
<b>Vietnam</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
HSBC Manufacturing PMI	03 Jun	May	51.0	--	48.8

## Calendar Events

<b>Australia – RBA Cash Target, Jun 04</b>	<b>Current</b>	<b>Cons.</b>	<b>New</b>
We expect the benchmark rate to remain unchanged	2.75%	2.75%	--

## 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.	2299.3	0.0	0.3	1.3	-3.1
	Hong Kong – Hang Seng	22282.2	-0.5	-1.8	-1.7	20.1
	Taiwan – Weighted	8201.0	-0.7	-1.0	6.5	15.4
	Japan – Nikkei 225	13261.8	-3.7	-6.2	27.6	57.1
	Korea – Kospi	1989.6	-0.6	0.5	-0.4	8.5
	India – Sensex 30	19610.5	-0.8	-2.1	0.9	22.8
	Australia – SPX/ASX 200	4888.3	-0.8	-1.4	5.1	20.3
	Singapore – Strait Times	3291.1	-0.6	-3.0	3.9	19.9
	Indonesia – Jakarta Comp	4971.4	-1.9	-2.2	15.2	30.8
	Thailand – SET	1539.3	-1.5	-3.4	10.6	38.0
	Malaysia – KLCI	1766.3	-0.2	0.0	4.6	12.2
	Philippines – Manila Comp.	6763.4	-3.7	-4.7	16.4	33.6

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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	0.05	-0.17	6.19	6.25
	Hong Kong (HKD/USD)	7.76	-0.01	0.00	7.76	7.75
	Taiwan (TWD/USD)	30.0	-0.05	-0.30	29.96	29.81
	Japan (JPY/USD)	100.30	0.15	0.66	100.25	99.97
	Korea (KRW/USD)	1128	0.13	-0.51	1134	1143
	India (INR/USD)	56.8	-0.43	-2.07	57.70	60.20
	Australia (USD/AUD)	0.97	0.86	0.20	1.04	1.06
	Singapore (SGD/USD)	1.26	0.54	0.27	1.26	1.26
	Indonesia (IDR/USD)	9808	0.70	-0.15	10043	10458
	Thailand (THB/USD)	30.5	-0.36	-1.94	30.65	31.01
	Malaysia (MYR/USD)	3.10	-0.14	-2.29	3.11	3.16
	Philippines (PHP/USD)	42.1	0.48	-1.00	42.31	42.41

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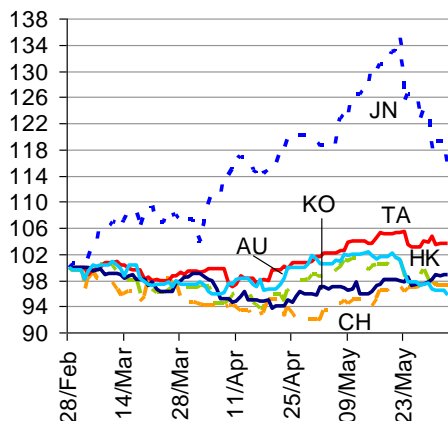
INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	4.70	-0.07	1.07	1.45
	Hong Kong (HIBOR/1W)	0.09	0.00	0.00	0.00
	Taiwan (TAIBOR/1W)	0.53	0.00	0.00	-0.01
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	2.58	0.00	0.00	-0.18
	India (MIBOR/7D)	5.43	0.45	1.25	2.13
	Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00
	Indonesia (JIBOR/1W)	4.27	0.00	0.00	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

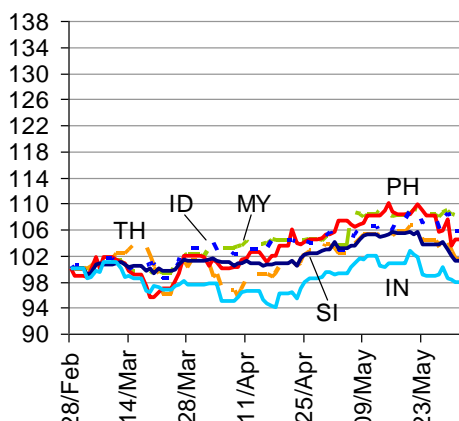
## Stock Markets



Source: BBVA Research and Bloomberg

Chart 2

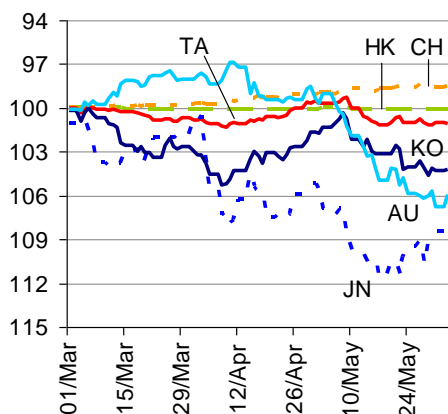
## Stock Markets



Source: BBVA Research and Bloomberg

Chart 3

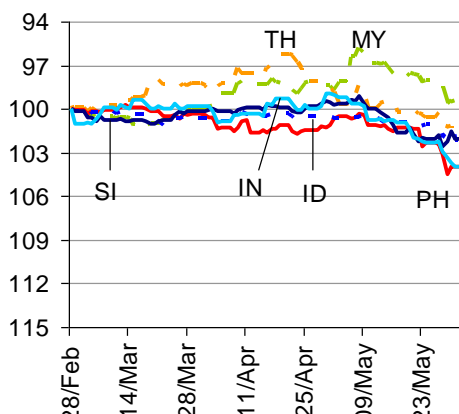
## Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4

## Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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