

# Asia Flash

## Asia

*A combination of disappointment over Japan's structural reform plans (see below), worries about US Fed tapering, and a less-than-stellar Q1 GDP outturn in Australia (below) led to market jitters across Asia today. In volatile trading, the Nikkei closed down by -3.8% (for a cumulative loss of 18.2% since the peak on May 22), followed by the Philippines (-1.7%) and Korea (-1.5%). While today's market plunge in Tokyo was not especially noteworthy given the heightened volatility of the past couple of weeks (today was the fifth time the index has swung by +/-3% since May 23), the decline was widely attributed by the financial news media to disappointment over the lack of specifics in the government's structural reform plans.*

*Note to readers: As many readers have noticed, in recent weeks we have experimented with a new release schedule for our Asia Flash by no longer distributing it on a daily basis. Our aim is to produce timely summaries of the most noteworthy developments, without overloading your mailboxes on days of light news flow. We hope you will continue to find the Asia Flash of interest.*

### **Abe reform blueprint is a step forward, but lack of detail disappoints markets**

As anticipated, in a speech today Prime Minister Shinzo Abe outlined a blueprint for the third, and arguably most important "arrow" of his 3-prolonged strategy to revive Japan's growth. The speech came ahead of an expected cabinet meeting scheduled on June 14. While the Bank of Japan and government have already made progress in implementing the first and second "arrows" of the strategy -- monetary and fiscal stimulus, respectively -- markets are rightly focused on forthcoming structural reforms, which are crucial to reviving Japan's growth over the medium term. The blueprint announced today is a step forward in the structural reform agenda which aims to improve productivity, enhance labor market flexibility, and develop new markets domestically and overseas. While details were sketchy at the time of this writing, among the measures reported to have been announced were the establishment of special economic zones to attract foreign investment, enhance labor mobility, and increase competition in the agricultural sector. For its part, the IMF last week emphasized the importance of further reforms to deregulate the agricultural and services sectors, enhance market-based financing for SMEs, and enhance labor market flexibility. We expect further details to be announced after Parliamentary elections in July.

### **A less-than-stellar outturn for Australia Q1 GDP growth**

Australian GDP growth registered 0.6% q/q sa (consensus: 0.8%), broadly flat from Q4 2012, adding to signs that the waning mining boom is dampening investment spending. Yesterday the RBA kept interest rates on hold as it evaluates the impact of its 25bp cut in May, which brought the cumulative rate cuts to 200 bps cuts since November 2011. At 2.75% the policy rate is at a historic low, which has caused the AUD to weaken to 0.96 against the USD. Looking ahead, we expect the economy to gain some momentum from the supportive policy stance and sustained growth in China (albeit subject to downside risk), which would bring full-year growth to around 3.0%.

### **Currency pressures cause RBI to take more steps to curb gold imports**

The Reserve Bank of India yesterday took additional measures to curb gold imports, which have

been a driver of India's high trade deficit, after oil. The INR has fallen by 5% against the USD since mid-April to stand at 56.4. Meanwhile, news reports suggest that the government may also increase the investment limit on government bonds for foreign institutional investors.

### **Briefly Noted:**

**India's May services PMI jumped to 53.6 from 50.7 in April**, led by higher new business flows. Easier monetary policy amid moderating inflation pressures and recent fiscal and investment reforms have helped improve India's growth prospects. However, the May manufacturing PMI, released last week, slipped to a 4 year low. We maintain our expectations of a 25 bps repo rate cut by the RBI at the June 17th policy, which would probably be the last cut for 2013.

**Philippines inflation in May stays flat at 2.6% y/y** (consensus: 2.8%), well below the central bank's target of 3-5%. The economy posted the fastest Q1 GDP growth in Asia by increasing 7.8% y/y on the back of strong investment and government spending. If the growth momentum remains strong, and the peso continues to depreciate (-2.6% so far this year), it may put upward pressure on the price level. We expect the CPI to rise by 3.5% in year 2013.

**Taiwan headline inflation in May moderates to 0.74% y/y** (consensus: 0.8%) from 1.05% in April, hitting a new low since February 2012. Inflationary pressures remain benign, the central bank is likely to hold its accommodating monetary policy bias and keep the benchmark rate unchanged at the coming Q2 board meeting on 27th June.

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

<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	-14.8B	-9.0B	-8.5B
Gross Domestic Product (YoY)	05 Jun	1Q	3.10%	2.70%	2.50%
Gross Domestic Product (QoQ)	05 Jun	1Q	0.60%	0.70%	0.60%
<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	--	49.8
<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%	--	31.60%
<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%	2.60%
<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	51.1
<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	1.05%	0.80%	0.74%
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%	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.	2270.9	0.0	-2.3	0.1	-1.8
Hong Kong – Hang Seng	22069.2	-1.0	-2.2	-2.6	20.9	
Taiwan – Weighted	8181.9	-0.1	-1.9	6.3	16.9	
Japan – Nikkei 225	13014.9	-3.8	-9.2	25.2	55.3	
Korea – Kospi	1959.2	-1.5	-2.1	-1.9	8.7	
India – Sensex 30	19568.2	0.1	-2.9	0.7	22.1	
Australia – SPX/ASX 200	4835.2	-1.3	-2.8	4.0	19.6	
Singapore – Strait Times	3243.4	-1.5	-3.7	2.4	19.6	
Indonesia – Jakarta Comp	5001.2	-0.4	-3.8	15.9	34.5	
Thailand – SET	1522.7	-2.1	-4.9	9.4	38.5	
Malaysia – KLCI	1774.4	-0.1	-0.5	5.1	13.7	
Philippines – Manila Comp.	6557.9	-1.7	-9.3	12.8	33.1	

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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	0.02	-0.01	6.19	6.25
Hong Kong (HKD/USD)	7.76	-0.01	0.06	7.76	7.75	
Taiwan (TWD/USD)	29.8	0.37	0.66	29.69	29.53	
Japan (JPY/USD)	99.55	0.48	1.62	99.50	99.21	
Korea (KRW/USD)	1116	0.57	1.53	1122	1132	
India (INR/USD)	56.7	-0.46	-0.96	57.65	60.08	
Australia (USD/AUD)	0.96	-0.94	-0.78	1.05	1.07	
Singapore (SGD/USD)	1.25	0.33	1.45	1.25	1.25	
Indonesia (IDR/USD)	9795	0.82	0.10	9981	10404	
Thailand (THB/USD)	30.5	-0.26	-1.18	30.75	31.10	
Malaysia (MYR/USD)	3.08	0.29	-0.17	3.10	3.14	
Philippines (PHP/USD)	42.0	-0.09	1.17	42.13	42.26	

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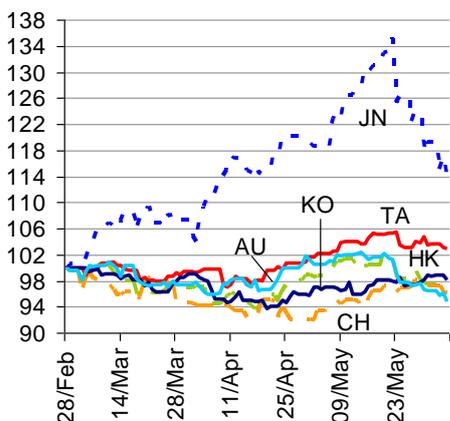
INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	4.75	0.03	-0.02	1.50
Hong Kong (HIBOR/1W)	0.09	0.00	0.00	0.00	
Taiwan (TAIBOR/1W)	0.53	0.00	0.00	-0.01	
Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01	
Korea (KORIBOR/1M)	2.58	0.00	0.00	-0.17	
India (MIBOR/7D)	4.74	-0.78	0.87	1.44	
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

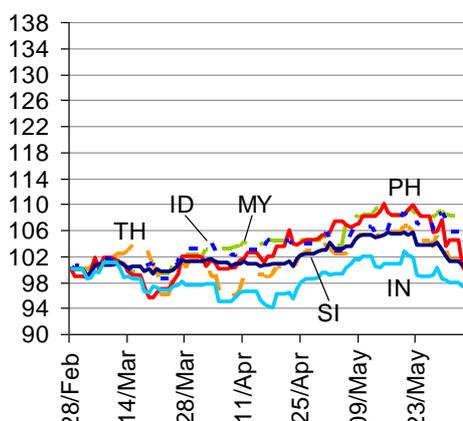
## Stock Markets



Source: BBVA Research and Bloomberg

Chart 2

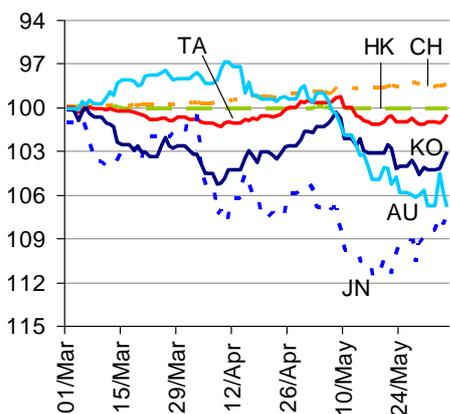
## Stock Markets



Source: BBVA Research and Bloomberg

Chart 3

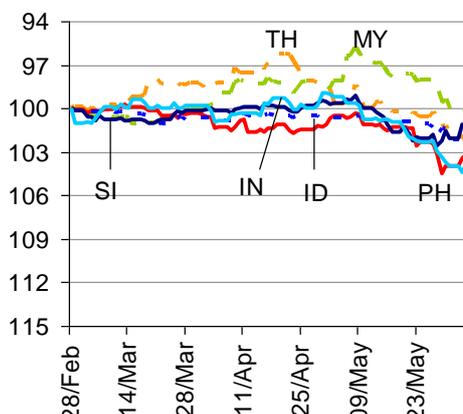
## Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4

## Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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

**BBVA** RESEARCH  | 10/F., Two IFC, 8 Finance Street, Central, Hong Kong | Tel.: +852 2582 3111 | [www.bbva.com.hk](http://www.bbva.com.hk)

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