

# Asia Flash

## Asia

*A week of volatile equity trading was capped today by moves in Asian currencies, ahead of this weekend's release of China May activity indicators (below) and US payrolls data due out later today. Reflecting a combination of market volatility—the Nikkei is now down by 19% since its peak on May 22 – and USD weakness, the yen has strengthened beyond the 96-level to stand at 95.8 against US dollar, its strongest level since early April. At the other end of the spectrum, recent big currencies moves include depreciations of the AUD (10% down against the USD since early April) to 0.95 at present on concerns about China's growth momentum, and the INR which crossed 57 per USD today, close to its all-time low of 57.3 in June 2012, on continuing concerns about India's external vulnerability. Next week markets will be closed for holidays in China (June 10-12), Australia (June 10), and Hong Kong (June 12), and monetary policy meetings will be held in Japan, Indonesia, the Philippines, and Korea.*

### **China data preview: a firming picture?**

Markets are on edge given recent mixed indicators of China's growth momentum. First quarter GDP disappointed to the downside (7.7% y/y), and April investment and industrial production lost steam. More recently, May PMI readings were mixed, with the official PMI rising to a better-than-expected 50.8, while the private sector HSBC PMI fell to a disappointing 49.2. Against this background, a batch of monthly activity and price indicators for May will be released in the coming days, including trade (on Saturday), inflation, industrial production, investment, retail sales (all on Sunday), and credit data (June 10-15). On the whole, we expect the May data to show a firming picture of the economy, albeit with mixed signs. In particular, we expect industrial production to tick up slightly based on the official PMI outturn and a modestly improving trend in electricity consumption. On the other hand, we expect export growth to slow, although this will be due to the imposition of stricter regulations on over-invoicing that has caused export growth to be inflated in recent months. Inflation should remain subdued, at 2.5% y/y (2.4% y/y in April), although rising food prices (especially pork prices) are expected to gradually push inflation up over the coming months.

### **China annual financial stability report assesses risks as manageable**

The People's Bank of China (PBoC) today released its annual financial stability report, stressing that, despite rising risks from lending in the real estate sector and growth of shadow banking, the overall financial system remains healthy. In particular, the PBoC flagged banks' high capital levels and its own positive stress test results. While we would agree with the assessment of a healthy financial system at present, we do expect bank profits and non-performing loans to rise gradually over the next few years. Going forward, the report recommends a further strengthening of regulations in the shadow banking sector and the establishment of a deposit insurance scheme to facilitate a planned liberalization of interest rates. Such steps have been factored into our baseline expectations of reforms over the coming 3-5 years.

## Japan's public pension fund to raise investment in the stock market

As anticipated, according to press reports Japan's Health and Welfare Ministry has announced plans for a small adjustment of assets managed by the Government Pension Investment Fund (GPIF) away from government bonds toward the stock market. The GPIF is the world's largest manager of retirement savings. Under the plans announced today, it will reduce Japanese bond holdings to 60% of total assets from 67% at present, and raise holdings of domestic equities to 12% from 11%, with the remaining increase consisting of holdings of foreign stocks and bonds. While analysts do not expect a large impact on domestic equities, the impact on government bonds yields could be more significant. 10-year JGB bond yields have traded in a range of 0.8-0.9 over the past week, after a sharp increase in mid-May.

### Briefly noted:

**Taiwan May exports beat expectations, growing by 0.9% y/y** (consensus: -0.8%) from -1.9% y/y in April. The outturn follows improving exports in Korea, as released last Monday (3.2% y/y). By destination, the improved outturn for Taiwan was broad based, including demand from China/HK and the ASEAN countries, although exports to Japan and Europe remain weak.

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

George Xu  
Economist  
george.xu@bbva.com.hk  
+852 2582 3121

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%	0.40%	-3.30%
<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%	--	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%	-0.80%	0.90%
<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%

## Upcoming Calendar Indicators

<b>Australia</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Unemployment Rate	13 Jun	May	5.50%	--	--
<b>China</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Exports YoY%	08 Jun	May	14.70%	7.40%	--
Imports YoY%	08 Jun	May	16.80%	6.60%	--
Trade Balance (USD)	08 Jun	May	\$18.16B	\$20.90B	--
Consumer Price Index (YoY)	09 Jun	May	2.40%	2.50%	--
Industrial Production (YoY)	09 Jun	May	9.30%	9.40%	--
Fixed Assets Inv Excl. Rural YTD YoY	09 Jun	May	20.60%	20.40%	--
Retail Sales (YoY)	09 Jun	May	12.90%	12.80%	--
Money Supply - M2 (YoY)	8-15 JUN	May	16.10%	15.90%	--
New Yuan Loans	8-15 JUN	May	792.9B	815.0B	--
Aggregate Financing	8-15 JUN	May	1747.0B	1600.0B	--
Actual FDI (YoY)	14-18 JUN	May	0.40%	--	--
<b>Hong Kong</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Industrial Production (YoY)	14 Jun	1Q	1.30%	--	--
Composite Interest Rate	14-18 JUN	May	0.25%	--	--
<b>India</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Industrial Production YoY	12 Jun	Apr	2.50%	2.20%	--
Monthly Wholesale Prices YoY%	14 Jun	May	4.89%	4.92%	--
Exports YoY%	10-17 JUN	May	1.70%	--	--
<b>Japan</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Current Account Balance YOY%	10 Jun	Apr	-4.30%	6.10%	--
Gross Domestic Product (QoQ)	10 Jun	1Q F	0.90%	0.90%	--
GDP Annualized	10 Jun	1Q F	3.50%	3.50%	--
BOJ 2014 Monetary Base Target	11 Jun	11-Jun	¥270T	--	--
<b>Malaysia</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Industrial Production YoY	11 Jun	Apr	-0.20%	1.50%	--
<b>Philippines</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Unemployment Rate	11 Jun	Apr	7.10%	--	--
Total Exports (YoY)	11 Jun	Apr	0.10%	-3.50%	--
<b>Singapore</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Retail Sales (YoY)	14 Jun	Apr	-7.40%	--	--
Unemployment Rate (sa)	14 Jun	1Q F	1.90%	--	--
<b>Korea</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Unemployment Rate (SA)	12 Jun	May	3.10%	3.10%	--

## Upcoming Calendar Events

<b>Japan – BoJ Target Rate, Jun 11</b>	<b>Current</b>	<b>Cons.</b>	<b>New</b>
We expect the benchmark rate to remain unchanged	0.10%	--	--
<b>Indonesia – Bank Indonesia Target Rate, Jun 13</b>	<b>Current</b>	<b>Cons.</b>	<b>New</b>
We expect the benchmark rate to remain unchanged	5.75%	5.75%	--
<b>Philippines – Overnight Borrowing Rate, Jun 13</b>	<b>Current</b>	<b>Cons.</b>	<b>New</b>
We expect the benchmark rate to remain unchanged	3.50%	3.50%	--
<b>South Korea – 7-day Repo Rate, Jun 13</b>	<b>Current</b>	<b>Cons.</b>	<b>New</b>
We expect the benchmark rate to remain unchanged	2.50%	2.50%	--

## Indicator of the Week

China: Industrial production (May, June 9<sup>th</sup>)

Forecast: 9.5% y/y

Consensus: 9.4% y/y

Prior: 9.3% y/y

Markets are on edge given recent mixed indicators on China's growth momentum. First quarter GDP disappointed to the downside (7.7% y/y), and April investment and industrial production lost steam. More recently, May PMI readings were mixed, with the official PMI rising to a better-than-expected 50.8, while the private sector HSBC PMI fell to a disappointing 49.2. Against this background, May industrial production will be closely watched, as forecasters update their outlook for GDP growth. We expect industrial production to tick up slightly based on the official PMI outturn and a modestly improving trend in electricity consumption. An outturn in this range would be consistent with our GDP growth projection of 7.9% y/y in Q2, and full-year projection of 8.0%. Along with industrial production, the coming week will bring a set of other May activity indicators, including trade (June 8), inflation, retail sales, investment (June 9<sup>th</sup>), and credit aggregates (June 10-15<sup>th</sup>).

## 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.	2210.9	-1.3	-3.9	-2.6	-3.6
Hong Kong – Hang Seng	21575.3	-1.2	-3.6	-4.8	15.5	
Taiwan – Weighted	8095.2	0.0	-1.9	5.1	14.3	
Japan – Nikkei 225	12877.5	-0.2	-6.5	23.9	49.1	
Korea – Kospi	1923.9	-1.8	-3.8	-3.7	6.8	
India – Sensex 30	19429.2	-0.5	-1.7	0.0	16.7	
Australia – SPX/ASX 200	4737.7	-0.9	-3.8	1.9	15.3	
Singapore – Strait Times	3184.7	-0.3	-3.8	0.6	15.4	
Indonesia – Jakarta Comp	4865.3	-2.7	-5.2	12.7	26.7	
Thailand – SET	1516.2	1.7	-2.9	8.9	35.6	
Malaysia – KLCI	1775.6	0.3	0.4	5.1	12.7	
Philippines – Manila Comp.	6702.0	1.4	-4.6	15.3	33.4	

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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	0.02	6.19	6.26
Hong Kong (HKD/USD)	7.76	0.01	0.00	7.76	7.75	
Taiwan (TWD/USD)	29.8	0.13	0.60	29.70	29.52	
Japan (JPY/USD)	95.90	1.12	4.74	95.85	95.55	
Korea (KRW/USD)	1117	0.18	1.15	1125	1134	
India (INR/USD)	57.1	-0.35	-0.96	58.05	60.50	
Australia (USD/AUD)	0.95	-1.11	-0.85	1.06	1.08	
Singapore (SGD/USD)	1.24	0.04	1.64	1.24	1.24	
Indonesia (IDR/USD)	9886	0.09	-0.09	10176	10603	
Thailand (THB/USD)	30.6	-0.16	-0.95	30.83	31.18	
Malaysia (MYR/USD)	3.10	-0.41	0.01	3.11	3.16	
Philippines (PHP/USD)	42.3	-0.48	-0.07	42.57	42.79	

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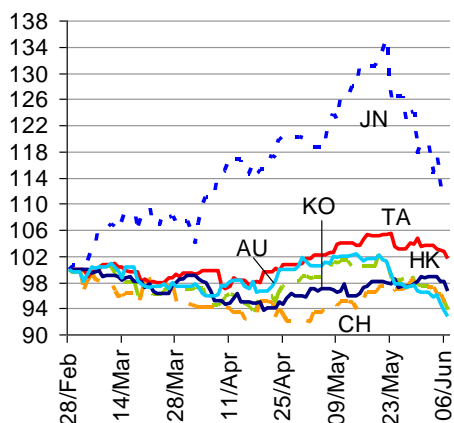
INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	6.70	1.70	1.93	3.52
Hong Kong (HIBOR/1W)	0.09	0.00	0.00	0.00	
Taiwan (TAIBOR/1W)	0.53	0.00	0.00	-0.02	
Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01	
Korea (KORIBOR/1M)	2.58	0.00	0.00	-0.17	
India (MIBOR/7D)	9.00	3.32	4.02	5.82	
Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00	
Indonesia (JIBOR/1W)	4.27	4.27	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

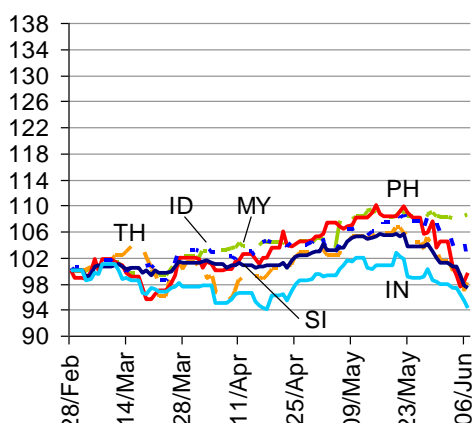
## Stock Markets



Source: BBVA Research and Bloomberg

Chart 2

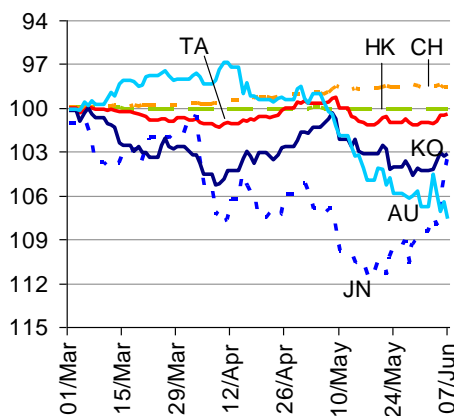
## Stock Markets



Source: BBVA Research and Bloomberg

Chart 3

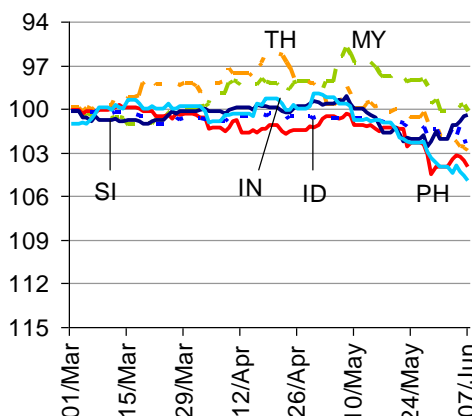
## Foreign Exchange Markets



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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