

# Asia Flash

## Asia

*Market volatility was in full force across Asian markets today, amidst a broader global EM selloff. The downdraft in equity markets was led by the Nikkei (-6.4%), which has now declined by more than 20% since its peak in May, and the Philippines (-6.7%). Meanwhile, the yen has appreciated to 94.2 against the USD, its strongest since the April 4 monetary easing announcement by the BoJ. The dramatic reversal in sentiment of recent days can be attributed to rising market concerns of an early Fed exit from QE, a reaction to China's weaker-than-expected monthly indicators (released last weekend), and disappointment with Japan's latest policy steps. In the meantime, the region's central banks are taking steps to cope with the sudden downward currency pressures, including fx intervention and even rate hikes, such as occurred unexpectedly today in Indonesia (below). For those looking for a silver lining, we can take some comfort that the shift in liquidity-driven sentiment is occurring early, which could help relieve some of the pressure when policy tightening by the Fed does eventually occur, which we still believe is some time away – we expect tapering to begin in Q3 this year, and outright interest rate hikes not until September 2015.*

### **Bank Indonesia delivers an unexpected “pre-emptive” rate hike**

In contrast to policy easing by other central banks in the past month (Australia, Korea, Thailand, and India), Bank Indonesia today raised its benchmark interest rate by 25 bps to 6.0%. The move follows a surprise 25bp hike in the overnight deposit rate (FASBI) announced last Tuesday, and marks the first rate move in more than a year, when BI cut rates to a record low in February 2012. The timing of the rate hike, which caught market participants by surprise, was influenced by severe downward currency pressures and rising inflation expectations ahead of a possible increase in subsidized fuel prices later this month. The rate hike signals a more hawkish stance by the BI under its newly appointed Governor, Agus Martowardojo (who was previously Finance Minister). We had not expected rate hikes to begin until later this year, and today's move is an indication that further rate hikes may be likely in the coming months, depending on the inflationary impact of any fuel price increases, and could be a welcome step toward consolidating BI's credibility in the midst of currency volatility.

### **Fitch upgrades India's outlook to stable; foreign bond investment limit raised**

Fitch ratings yesterday raised India's outlook to stable from negative while affirming its BBB- credit rating (one notch above investment grade). Among other things, Fitch based the improvement to its outlook on India's fiscal consolidation measures and progress in addressing structural hurdles to investment (see our Economic Watch on India's reforms). The move may help relieve market pressures on the rupee which have intensified in recent days, with the currency hitting an all time low against the USD of 58.9, a depreciation of 8% since April. In that regard, to attract more inflows the RBI yesterday raised the foreign investment limit in government debt securities from USD 25 billion to USD 30 bn, although the limit is currently binding.

### **Briefly noted:**

**Australia unexpectedly created more jobs in May**, reducing the likelihood of a rate cut by the Reserve Bank of Australia (RBA) at its next policy meeting on July 2. Employment increased by 1,100 (consensus: -10,000). But with the participation rate declining, the employment stayed flat

at 5.5% (consensus: 5.6%). The RBA cut the policy rate to a historic low of 2.75% in May, for a total of 200 bps rate cut since November 2011.

**India's industrial production growth slows in April** to 2.0% y/y (consensus: 2.6% y/y) from 3.4% y/y in March. Meanwhile, elevated retail inflation ( May CPI at 9.3% y/y vs 9.4% in April) combined with the sharp depreciation of the rupee has dampened prospects of a RBI policy rate cut on June 17<sup>th</sup>. In this context, Friday's May WPI inflation outturn will be important to watch for cues on monetary policy amid signs of easing demand pressures.

**The Bank of Korea keeps interest rates on hold at 2.50% as expected**, after a 25-bps cut in May. In the accompanying statement, the BOK stressed that the economic recovery remains weak, and that a negative output gap may persist "for a considerable time". Overall, while the BOK appears open to further rate cuts, all the more so given benign inflation (1% in May versus BOK's target range of 2.5-3.5%), the current bout of market volatility may give it pause in the near-term. We expect GDP growth of 2.7% in 2013 from 2.0% in 2012.

**The central bank of the Philippines, as expected, left interest rates unchanged at 3.5% in today's policy meeting**, for a fifth straight month. Headline inflation remained flat at 2.6% y/y in May, well below the central bank's target of 3-5%. Given strong growth momentum, we do not expect further rate cuts this year.

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

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>
Unemployment Rate	13 Jun	May	5.50%	5.60%	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%	1.00%
Imports YoY%	08 Jun	May	16.80%	6.60%	-0.30%
Trade Balance (USD)	08 Jun	May	\$18.16B	\$20.00B	\$20.43B
Consumer Price Index (YoY)	09 Jun	May	2.40%	2.50%	2.10%
Industrial Production (YoY)	09 Jun	May	9.30%	9.40%	9.20%
Fixed Assets Inv Excl. Rural YTD YoY	09 Jun	May	20.60%	20.50%	20.40%
Retail Sales (YoY)	09 Jun	May	12.80%	12.90%	12.90%
Money Supply - M2 (YoY)	09 Jun	May	16.10%	15.90%	15.80%
New Yuan Loans	09 Jun	May	792.9B	815.0B	667.4B
Aggregate Financing	09 Jun	May	1747.0B	1600.0B	1190.0B
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%	2.40%-	2.00%-
Monthly Wholesale Prices YoY%	14 Jun	May	4.89%	4.87%	--
Exports YoY%	14-17 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%	5.70%	100.80%
Gross Domestic Product (QoQ)	10 Jun	1Q F	0.90%	0.90%	1.00%
GDP Annualized	10 Jun	1Q F	3.50%	3.50%	4.10%
Machine Orders (MoM)	12 Jun	Apr	14.20%	-8.10%	-8.80%
<b>Malaysia</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Industrial Production YoY	11 Jun	Apr	-0.10%	1.60%	4.70%
<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%	--	7.50%
Total Exports (YoY)	11 Jun	Apr	0.10%	-5.30%	-12.80%
<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%	-3.00%	--
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%	3.20%

## Calendar Events

<b>Japan – BoJ Target Rate, Jun 11</b>	<b>Current</b> 0.10%	<b>Cons.</b> 0.10%	<b>New</b> 0.10%
<b>Indonesia – Bank Indonesia Target Rate, Jun 13</b>	<b>Current</b> 5.75%	<b>Cons.</b> 5.75%	<b>New</b> 6.00%
<b>Philippines – Overnight Borrowing Rate, Jun 13</b>	<b>Current</b> 3.50%	<b>Cons.</b> 3.50%	<b>New</b> 3.50%
<b>South Korea – 7-day Repo Rate, Jun 13</b>	<b>Current</b> 2.50%	<b>Cons.</b> 2.50%	<b>New</b> 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.	2148.4	-2.7	-6.6	-5.3	-5.8
Hong Kong – Hang Seng	20887.0	-2.2	-5.4	-7.8	10.7	
Taiwan – Weighted	7951.7	-2.0	-2.8	3.3	12.4	
Japan – Nikkei 225	12445.4	-6.4	-3.6	19.7	44.9	
Korea – Kospi	1882.7	-1.4	-3.9	-5.7	1.3	
India – Sensex 30	18827.2	-1.1	-3.5	-3.1	11.5	
Australia – SPX/ASX 200	4695.8	-0.6	-2.9	1.0	15.6	
Singapore – Strait Times	3130.7	-0.7	-2.0	-1.1	12.3	
Indonesia – Jakarta Comp	4607.7	-1.9	-7.9	6.7	19.4	
Thailand – SET	1403.3	-2.1	-5.8	0.8	21.2	
Malaysia – KLCI	1742.9	-1.8	-1.5	3.2	10.6	
Philippines – Manila Comp.	6114.1	-6.7	-6.8	5.2	20.5	

Last update: today, 18:00 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	-0.02	0.02	6.20	6.28
Hong Kong (HKD/USD)	7.77	-0.01	-0.02	7.76	7.75	
Taiwan (TWD/USD)	29.9	-0.08	-0.30	29.83	29.68	
Japan (JPY/USD)	94.27	1.86	2.86	94.22	93.89	
Korea (KRW/USD)	1134	-0.06	-1.38	1135	1143	
India (INR/USD)	58.0	-0.44	-2.06	59.03	61.48	
Australia (USD/AUD)	0.96	1.04	-0.15	1.05	1.07	
Singapore (SGD/USD)	1.25	0.43	-0.50	1.25	1.25	
Indonesia (IDR/USD)	9885	-0.24	0.10	10125	10565	
Thailand (THB/USD)	30.8	0.68	-0.55	30.96	31.32	
Malaysia (MYR/USD)	3.13	-0.02	-1.63	3.15	3.20	
Philippines (PHP/USD)	43.0	-0.28	-2.20	43.19	43.46	

Last update: today, 18:00 Hong Kong time.

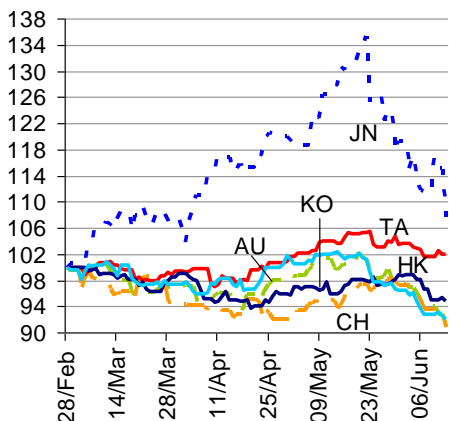
INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	6.70	-0.30	0.00	3.80
Hong Kong (HIBOR/1W)	0.09	0.00	0.00	0.00	
Taiwan (TAIBOR/1W)	0.53	0.00	0.00	-0.01	
Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01	
Korea (KORIBOR/1M)	2.58	0.00	0.00	0.03	
India (MIBOR/7D)	8.00	1.00	2.57	5.10	
Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00	
Indonesia (JIBOR/1W)	4.50	0.03	0.22	0.23	
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, 18:00 Hong Kong time

# Charts

Chart 1

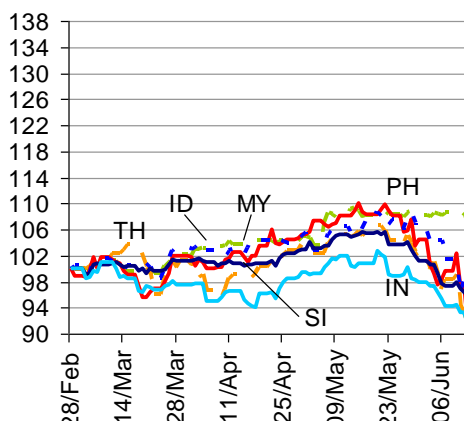
## Stock Markets



Source: BBVA Research and Bloomberg

Chart 2

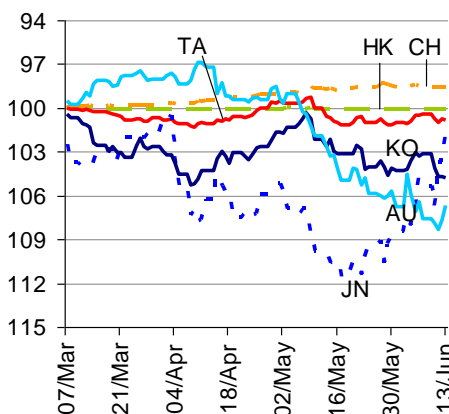
## Stock Markets



Source: BBVA Research and Bloomberg

Chart 3

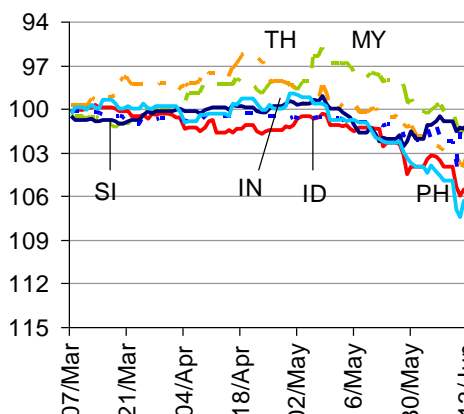
## Foreign Exchange Markets



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

**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)

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](mailto:research.emergingmarkets@bbva.com.hk) and we shall immediately take you off the list.