

Asia Flash

Asia

Asian markets started the week on an upturn, following last week's dramatic selloff that saw Japan's Nikkei and the Philippines each down by 5% and 10%, respectively. In contrast, these two indices led today's advances (+2.7% and +1.6%, respectively). More volatility could be in store, however, as investors digest clues on the course of US monetary policy from this week's scheduled US FOMC meeting (Tuesday/Wednesday). Meanwhile, the Reserve Bank of India became the latest central bank in the region (after last week's move by Bank Indonesia to hike rates) to respond to downward currency pressures and the recent shift in sentiment against EM assets by staying on hold at today's policy meeting (see below).

Currency pressures keep the Reserve Bank of India on hold

As we anticipated, the RBI kept its repo rate unchanged at 7.25% today amidst downward pressures on the rupee triggered by external vulnerabilities and the recent broad-based sell-off in EM assets on concerns of a possible tapering of QE by the US Fed. The RBI cut rates by 25bps in each of its previous three successive policy meetings in January, March and May. Although WPI inflation, at 4.7% y/y in May, moderated to its lowest level in almost four years, in today's policy statement the RBI cautioned about the impact that recent currency weakness (minus 7.4% since end-April) could have on inflation in the period ahead. Given subsiding inflation and weakening activity indicators (Q1 GDP growth was subdued at 4.8%), we see scope for another 25 bps policy cut in the coming months if and when exogenous market pressures subside.

Japan's cabinet approves Abe's growth strategy

This past Friday Japan's cabinet approved Prime Minister Abe's "growth strategy", Abenomics' third "arrow" of structural reforms, which was first introduced in a June 7 speech to investors. The much anticipated package of reforms has received a cool reception from market, however, as it lacks critical details breadth; the absence of deep reforms in the labor and agricultural sectors, for example, are notable. The overall strategy of reforms aims to boost private investment and international trade, and contains some reforms in the health care and energy sectors. An additional round of reforms is expected to be announced later in the year, following upper house elections in July.

How to interpret the tightening of China interbank liquidity?

While money market liquidity eased today (the 1-day repo rate fell to 4.80% from 6.92% last Friday), repo rates at other tenors remain elevated since a June 6 spike from around 3-4% to over 6%. Seasonal factors are part of the story, as the increase in money market rates preceded the 3-day Dragon Boat holidays that began on June 10. But it also reflects official efforts to tighten shadow bank lending and clamp down on hot money flows. The People's Bank of China (PBoC) appears willing to tolerate tightness in the market, as judged by the pace of liquidity-absorbing central bank bill issuance. This could be a sign that, despite weakening growth momentum, the PBoC intends to maintain a relatively restrictive monetary policy stance to avoid exacerbating domestic financial fragilities.

Briefly noted:

Singapore May exports (non-oil domestic, NODX) disappoint on sluggish tech and electronics.

May non-oil domestic exports (NODX) declined by -4.6% y/y (Consensus: -0.2%; April: -1.0%). Electronics exports dropped by -13.2% y/y from -9.0% in April, offsetting an improvement in the performance of pharmaceuticals. The disappointing outturn suggests Singapore's recovery outlook in the course of this year remains fragile, amid uncertainties in the external environment.

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Calendar Indicators

China	Date	Period	Prior	Cons.	Actual
Actual FDI (YoY)	18 Jun	May	0.40%	--	--
China May Property Prices	18 Jun	May	--	--	--
Hong Kong	Date	Period	Prior	Cons.	Actual
Unemployment Rate SA	18 Jun	May	3.50%	3.50%	--
Composite Interest Rate	19 Jun	May	0.25%	--	--
CPI - Composite Index (YoY)	20 Jun	May	4.00%	3.90%	--
India	Date	Period	Prior	Cons.	Actual
Exports YoY%	17 Jun	May	1.70%	--	-1.10%
Japan	Date	Period	Prior	Cons.	Actual
Tertiary Industry Index (MoM)	17 Jun	Apr	-0.20%	0.20%	0.00%
Industrial Production (MoM)	18 Jun	Apr F	1.70%	--	--
Merchnds Trade Exports YoY	19 Jun	May	3.8	6.4	--
Merchnds Trade Balance Total	19 Jun	May	¥881.9B	¥1211.4B	--
Malaysia	Date	Period	Prior	Cons.	Actual
CPI YoY	19 Jun	May	1.70%	1.70%	--
Philippines	Date	Period	Prior	Cons.	Actual
Overseas Remittances (YoY)	17 Jun	Apr	3.00%	4.20%	6.10%
Singapore	Date	Period	Prior	Cons.	Actual
Non-oil Domestic Exports (YoY)	17 Jun	May	-1.00%	-0.20%	-4.60%
Taiwan	Date	Period	Prior	Cons.	Actual
Export Orders (YoY)	20 Jun	May	-1.10%	-1.30%	--

Calendar Events

India - Repo Cutoff Yld, Jun 17 We expect the benchmark rate to remain unchanged	Current 7.25%	Cons. 7.25%	New 7.25%
India - Cash Reserve Ratio, Jun 17 We expect the benchmark rate to remain unchanged	Current 4.00%	Cons. 4.00%	New 4.00%

Indicator of the Week

Taiwan: Export Orders (May, June 20th)

Forecast: -1.5% y/y

Consensus: -1.30% y/y

Prior: -1.1% y/y

Taiwan's export orders are closely watched as a leading indicator of regional export trends given the economy's position in the global supply chain. Recent export readings for Asia have been mixed, with China surprising to the downside in May (1.0% y/y), Taiwan remaining weak (0.9% y/y) and Korea faring slightly better (3.2% y/y). We expect growth of Taiwan's export orders to remain weak, but to inch up marginally on a sequential basis. Demand from the US is improving, but China's processing imports and manufacturing activity in May were disappointing, which may weigh on new orders. A weaker-than-expected outturn would reinforce concerns of a fragile recovery of external demand for the remainder of this year, posing downside risks to our full year growth forecast.

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.	2156.2	-0.3	-5.1	-5.0	-6.5
Hong Kong - Hang Seng	21225.9	1.2	-1.6	-6.3	10.4	
Taiwan - Weighted	7992.9	0.7	-1.3	3.8	11.7	
Japan - Nikkei 225	13033.1	2.7	-3.6	25.4	52.1	
Korea - Kospi	1883.1	-0.3	-2.6	-5.7	1.3	
India - Sensex 30	19330.9	0.8	-0.6	-0.5	14.0	
Australia - SPX/ASX 200	4825.9	0.7	1.9	3.8	18.9	
Singapore - Strait Times	3183.4	0.7	-0.5	0.5	13.2	
Indonesia - Jakarta Comp	4774.5	0.3	-0.1	10.6	25.0	
Thailand - SET	1471.4	0.4	-3.7	5.7	26.2	
Malaysia - KLCI	1772.2	0.6	-0.9	4.9	12.2	
Philippines - Manila Comp.	6339.4	1.6	-5.4	9.1	28.6	

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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)	6.12	0.11	0.14	6.19	6.26
Hong Kong (HKD/USD)	7.76	0.03	0.06	7.76	7.75	
Taiwan (TWD/USD)	29.9	-0.04	-0.02	29.80	29.68	
Japan (JPY/USD)	94.88	-0.60	4.09	94.83	94.55	
Korea (KRW/USD)	1126	0.00	0.11	1132	1140	
India (INR/USD)	57.7	-0.35	0.70	58.68	61.07	
Australia (USD/AUD)	0.96	0.44	1.56	1.05	1.07	
Singapore (SGD/USD)	1.25	-0.17	0.32	1.25	1.25	
Indonesia (IDR/USD)	9888	-0.13	2.01	10131	10573	
Thailand (THB/USD)	30.7	-0.26	0.42	30.84	31.22	
Malaysia (MYR/USD)	3.13	-0.56	-0.13	3.13	3.18	
Philippines (PHP/USD)	42.9	-0.17	-0.07	42.99	43.20	

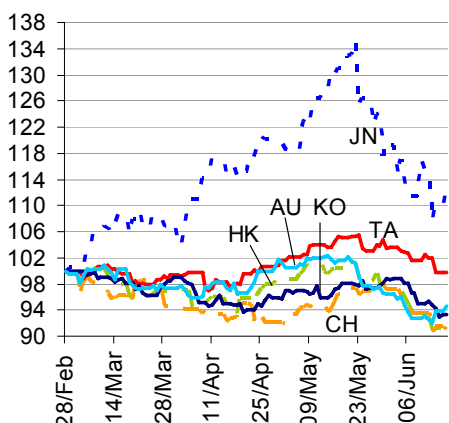
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	7.00	0.20	0.00	3.45
Hong Kong (HIBOR/1W)	0.09	0.00	0.00	0.00	
Taiwan (TAIBOR/1W)	0.53	0.00	0.00	-0.01	
Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01	
Korea (KORIBOR/1M)	2.58	0.00	0.00	0.02	
India (MIBOR/7D)	8.65	1.75	3.91	5.02	
Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00	
Indonesia (JIBOR/1W)	4.53	0.00	0.25	0.26	
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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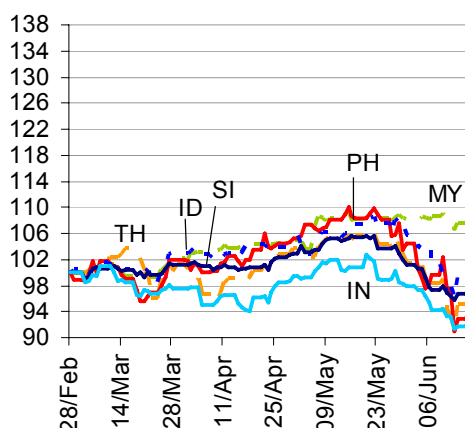
Charts

Chart 1
Stock Markets



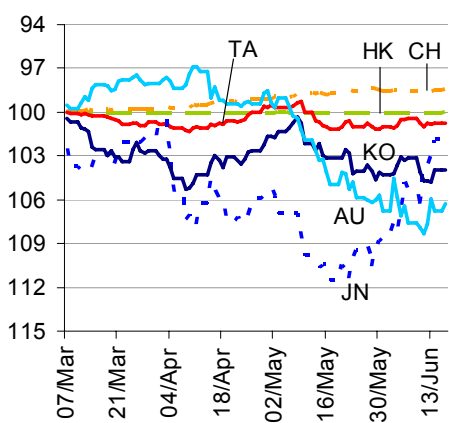
Source: BBVA Research and Bloomberg

Chart 2
Stock Markets



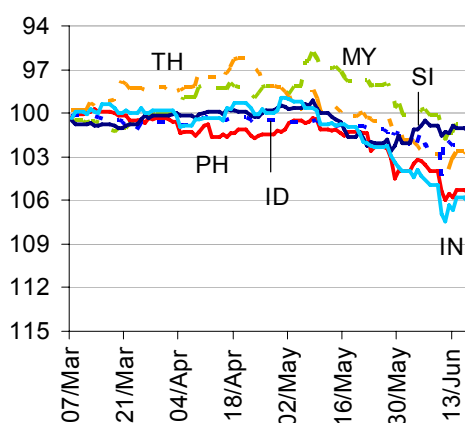
Source: BBVA Research and Bloomberg

Chart 3
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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