

Asia Flash

Asia

It was a perfect storm for Asian markets today, with news of the Fed's FOMC statement on QE3 tapering, a negative lead from Wall Street, and a weaker-than-expected Flash HSBC PMI reading for China (see below) conspiring to send share prices and currencies sharply lower. The most notable currency moves were the AUD, which depreciated by -1.2% to 0.92 against the USD (its lowest since September 2010), and the JPY resuming its depreciating trend, to stand at 98.0 per USD; the INR has been trading near record lows at 59.8 per USD. Throughout the recent bout of currency weakness, the CNY, in contrast, has stood firm at 6.13 per USD. Stock market declines today were led by Indonesia (-3.7%), Hong Kong (-2.9%) and the Philippines (-2.9%). Currency weakness and stock market volatility could be a harbinger of things to come for the remainder of the year, as pressures on EM markets continue on expectations of Fed tapering.

China HSBC flash PMI declines, raising new concerns of slowing growth

The private sector HSBC flash PMI for June fell by more than expected, to 48.3 (consensus: 49.1) from 49.2 in May, the lowest since October. The production, new orders, and export order sub-components all fell. The outturn has reinforced expectations of slowing growth momentum, amidst a domestic liquidity squeeze designed to slow credit growth and pressure banks from engaging in risky lending. The HSBC PMI has been running below the official PMI outturns for the past two months, and covers a smaller sample size of primarily export-oriented firms. We therefore await the broader official NBS PMI due on July 1, when the final HSBC outturn will also be released.

China liquidity squeeze intensifies, with some easing late in the day

The liquidity squeeze in China's interbank market intensified today when the overnight repo rate surged to a record-high 25% at one point (compared to an average of around 3-4% in previous months). Subsequently, the rate fell back to 4.3% on rumors of PBoC liquidity injections. The liquidity squeeze, which began on June 6, increasingly appears intentional as the authorities send a signal to banks to curtail risk lending behavior, as part of the government's efforts to address shadow banking and other financial fragilities. We do not expect the tight liquidity conditions to last much longer, as it would threaten China's growth momentum, which is already slowing.

Briefly noted:

Japan May exports beat expectations, on further signs of recovery as export growth in May, released yesterday, increased to 10.1% y/y (consensus: 6.4%) from 3.8% in April, providing further evidence of competitiveness gains in the wake of the yen's depreciation. Meanwhile, imports rose by 10.0% y/y, resulting in an eleventh monthly trade deficit, at -993.9 bn yen. The Japanese economy, growing by 4.1% saar in Q1, is expected to recover further and expand 1.7% in 2013.

Taiwan May export orders dipped by -0.4% y/y from -1.1% in April, better than market expectations (BBVA: -1.5%; Consensus: -1.2%). Orders increased by 0.1% m/m after seasonal adjustment, showing fresh signs of stabilizing external demand underway. Orders from the ASEAN countries show resilience on sequential basis. Demand from the US and China/HK held up well, while orders from the Europe weakened. Taiwan's growth outlook remains fragile after weak first quarter, as a meaningful external recovery has yet to come.

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Calendar Indicators

China	Date	Period	Prior	Cons.	Actual
Actual FDI (YoY)	18 Jun	May	0.40%	--	0.30%
Hong Kong	Date	Period	Prior	Cons.	Actual
Unemployment Rate SA	18 Jun	May	3.50%	3.50%	3.40%
Composite Interest Rate	19 Jun	May	0.25%	--	0.26%
CPI - Composite Index (YoY)	20 Jun	May	4.00%	3.90%	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%	--	0.90%
Merchnds Trade Exports YoY	19 Jun	May	3.8	6.4	10.1
Merchnds Trade Balance Total	19 Jun	May	¥881.9B	¥1220.0B	¥993.9B
Malaysia	Date	Period	Prior	Cons.	Actual
CPI YoY	19 Jun	May	1.70%	1.70%	1.80%
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%	-1.20%	-0.40%

Calendar Events

India - Repo Cutoff Yld, Jun 17

We expect the benchmark rate to remain unchanged

Current	Cons.	New
7.25%	7.25%	7.25%

India - Cash Reserve Ratio, Jun 17

We expect the benchmark rate to remain unchanged

Current	Cons.	New
4.00%	4.00%	4.00%

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.	2084.0	-2.8	-3.0	-8.2	-9.1
Hong Kong - Hang Seng	20382.9	-2.9	-2.4	-10.0	4.4	
Taiwan - Weighted	7898.9	-1.4	-0.7	2.6	7.7	
Japan - Nikkei 225	13014.6	-1.7	4.6	25.2	48.7	
Korea - Kospi	1850.5	-2.0	-1.7	-7.3	-2.8	
India - Sensex 30	18712.9	-2.8	-0.6	-3.7	10.7	
Australia - SPX/ASX 200	4758.4	-2.1	1.3	2.4	15.1	
Singapore - Strait Times	3133.3	-2.5	0.1	-1.1	9.7	
Indonesia - Jakarta Comp	4630.0	-3.7	0.5	7.3	17.4	
Thailand - SET	1401.6	-2.5	-0.1	0.7	19.5	
Malaysia - KLCI	1762.3	-0.6	1.1	4.3	9.8	
Philippines - Manila Comp.	6326.7	-2.9	3.5	8.8	22.9	

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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	0.10	6.22	6.30
Hong Kong (HKD/USD)	7.76	0.02	0.11	7.76	7.75	
Taiwan (TWD/USD)	30.0	-0.54	-0.40	30.06	29.89	
Japan (JPY/USD)	98.08	-1.66	-2.76	98.03	97.71	
Korea (KRW/USD)	1146	-1.31	-0.98	1156	1162	
India (INR/USD)	59.8	-1.81	-3.02	60.88	63.36	
Australia (USD/AUD)	0.92	-1.29	-4.81	1.10	1.12	
Singapore (SGD/USD)	1.28	-0.52	-2.10	1.28	1.28	
Indonesia (IDR/USD)	9982	0.44	-0.97	10649	11139	
Thailand (THB/USD)	31.1	-0.39	-1.38	31.36	31.73	
Malaysia (MYR/USD)	3.20	-1.62	-2.19	3.22	3.27	
Philippines (PHP/USD)	43.9	-1.66	-1.91	44.14	44.48	

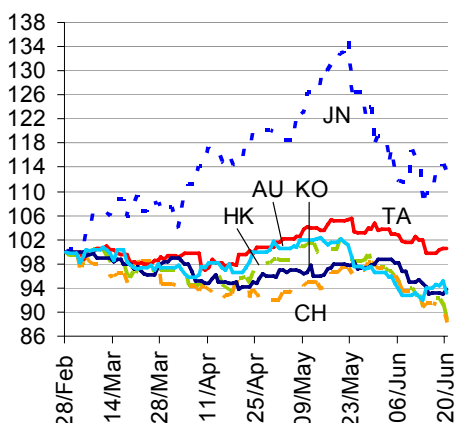
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	11.00	2.94	4.20	7.00
Hong Kong (HIBOR/1W)	0.10	0.00	0.00	0.00	
Taiwan (TAIBOR/1W)	0.53	0.00	0.00	-0.01	
Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01	
Korea (KORIBOR/1M)	2.58	0.00	0.00	0.01	
India (MIBOR/7D)	13.50	4.50	5.50	9.30	
Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00	
Indonesia (JIBOR/1W)	4.55	0.01	0.05	0.28	
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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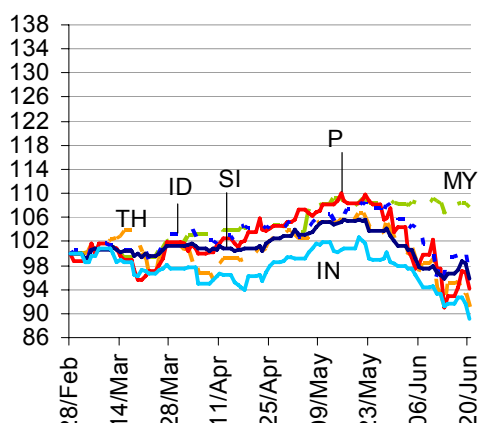
Charts

Chart 1
Stock Markets



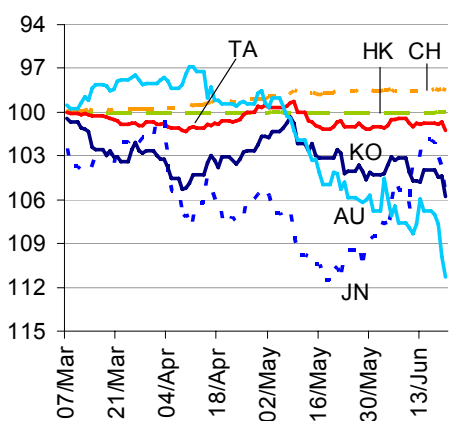
Source: BBVA Research and Bloomberg

Chart 2
Stock Markets



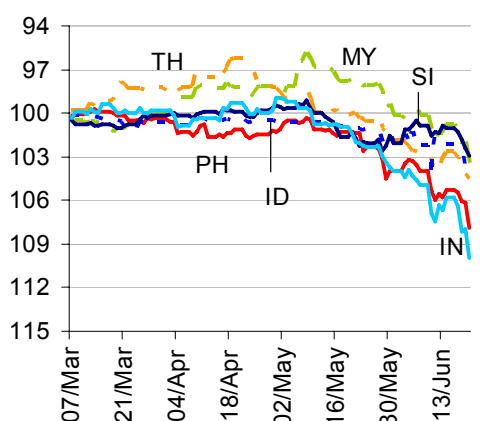
Source: BBVA Research and Bloomberg

Chart 3
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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