

# Global Weekly Flash

Madrid, 31 May 2013  
Economic Analysis

Financial Scenarios

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## No major changes expected in upcoming round of central banks' meetings

- **Next week seems too early for the ECB to announce new measures regarding support to SME's loans, something that Draghi hinted after their previous meeting when opening the possibility of ABS purchases**
  - Since then, he has given mixed signals: "We looked at a variety of things, one of which was this ABS ..." and "We don't have a position, certainly, on that." That said, according to the media, a majority of the ECB's Governing Council may well be in favor of buying ABS. Similarly, there is no consensus on reducing the deposit rate to negative territory. The ECB Vice-President Vitor Constancio has signaled that the central bank has not yet decided whether or not to cut deposit rates into negative territory, as it is a measure which "is very difficult to assess the potential effect of." We expect the ECB to remain on hold as we do not foresee major changes in the quarterly macroeconomic projections (GDP likely unchanged while inflation probably revised slightly to the downside). Nonetheless, a further worsening of the economic prospects could trigger an additional rate cut.
- **Next week, Banxico will announce their monetary policy decision for June**
  - No change is expected in their policy rate. However, it is probable that the central bank will maintain a slightly dovish bias due to economic activity. Given the strong depreciation of the peso and the weight the central bank's communication has given to the relative tightening of monetary conditions, it will be important to know Banxico's view on the monetary conditions. Inflation above the high range of the objective interval has been seen by the market as the main factor for not reducing the rate, as a result, any information on inflation perspectives becomes highly relevant.
- **In Brazil, the Monetary Policy Committee (COPOM) has unanimously decided to increase its SELIC rate by 50bp to 8.0%**
  - Their decision has been in line with our call, but has surprised most analysts, who had been expecting a 25bp hike. By taking a tougher monetary stance, the monetary authority has gained credibility to try to anchor expectations and prevent high inflation from eroding private consumption (and therefore growth). We expect another 50bp hike in July and then a final adjustment of 25bp in August.
  - **On the other hand, the Bank of Thailand has cut their main interest rate** by 25bp, joining other regional central banks that have eased over the past month to support growth (India) and to reduce currency appreciation pressures (Australia and South Korea).

- **The European Commission has released its Country-Specific Recommendations (CSRs) for all member states**
  - The main highlights are that: the EC has extended the deadlines for correcting the excessive deficit in six countries –Spain (two more years, until 2016), France (two more years, until 2015), the Netherlands (one more year, until 2014), Poland (two more years, until 2014), Portugal (one more year, until 2015) and Slovenia (two more years, until 2015). By focusing in structural fiscal targets, these announcements have been in line with the expected relaxation of fiscal targets in those countries that have recently missed them due to lower than expected growth. On the other hand, the EC has abrogated the Excessive Deficit Procedure (EDP) for five countries (Italy, Latvia, Hungary, Lithuania and Romania) and has opened an EDP for Malta. The economic ministers will discuss the CSRs at June's ECOFIN meeting, and at June's EU Council meeting the head of the States will adopt the final CSRs. The EC has established October 1st, 2013 as the deadline for Spain, France, the Netherlands, Poland and Slovenia to take effective action (i.e. to publicly announce or take measures that seem sufficient to ensure adequate progress towards the correction of the excessive deficit) and to report a detailed consolidation strategy on how they expect to reach their targets. Markets' reaction to this announcement has been mute, as European officials had been hinting this move for a time.
- **Economic uncertainties about Asia's growth continue**
  - Despite industrial profit growing more than expected, the potential slowdown of China's manufacturing continues to disquiet markets – as a result, the official PMI to be released on June 1 will be closely watched. The IMF has reduced its 2013 growth expectation for the Chinese economy to 7.75% (8% previously forecasted). The OECD has also cut China's growth forecast to 7.8% (8.5% previously forecasted). In other Asian countries, indicators brought positive news: in the Philippines, 1Q13 GDP expanded by 7.8% YoY (consensus: 6.0% y/y), bucking the trend of slowing regional growth as investment and government spending offset sluggish external demand; and in Korea, April's industrial production grew more than expected, despite continuing to face headwinds from sluggish external demand, yen depreciation, and high levels of household debt. In response, the Korean government has implemented fiscal stimulus measures, and the Bank of Korea has cut interest rates earlier this month (for the first time since October).
  - The OECD sees global economic momentum gaining track, but at slow pace. It has also warned about the increasing divergence between countries, highlighting remaining downside risks. The OECD has reduced 2013 world GDP growth to 3.1% (from 4% previously reported). They have also increased the pace of contraction in the euro zone to 0.6% (from 0.1%).
- **US has updated downwards its real macro figures for the first quarter, although expectations have continue to improve**
  - The preliminary growth estimate for real GDP has been revised slightly downward to 2.4%. Government consumption and private inventory investment have been revised down, while personal consumption has improved (but overshadowed by aforementioned headwinds). April's personal income has disappointed – it remained flat while personal spending declined. Labour market and housing figures have also disappointed: jobless claims climbed more than expected last week and pending home sales inched up in April but below expectations. On the other hand, the Case-Shiller index of property value soared in March, hitting a seven years record (10.9% YoY) and consumers' confidence has jumped to a five-year high in May, beating expectations (76.2). In addition, Richmond manufacturing index has also beat forecasts. University of Michigan consumer sentiment jumped in May to a level not seen since October 2012 (before fiscal-cliff concerns). Moreover, Chicago PMI has also surged in May, with increases across all subindices.

- **In the euro area, confidence has improved in line with expectations**

- In May, the economic confidence index has increased by 0.8, industrial sentiment has climbed by 0.8 and consumer confidence has also, though barely, risen. M3 money supply grew more than expected in April, while private loans declined for the 11th consecutive month (0.9% , previously: -0.7%). By country, the French consumer confidence index (INSEE) has plunged to the record-low level observed in July 2008. Meanwhile, German unemployment rate has remained steady, despite the increase in the number of people out of work. The Spanish statistics institute has confirmed a GDP contraction of 0.5% QoQ for 1Q13 -- the sixth contractionary quarter in a row.

- **Economic indicators have shown signs of moderation in major Latin American economies**

- In Mexico, the trade deficit was larger than expected in April, driven by a sharp drop in broad-base non-oil exports. In Brazil, GDP expanded less than expected in 1Q13, as the significant slowdown in consumption and export offset the strong rise in investment. Brazil's figures should trigger a new round of downward revisions to 2013 GDP (which will be below 3.0%, and probably around 2.5%). They also add pressure on the government, with a new round of fiscal measures especially likely. Meanwhile, credit growth has remained (growing at 16% YoY in April) but is providing less support to domestic demand. In Peru, growth output moderated to 4.8% in 1Q13, due to weaker exports, leading the Peruvian government to announce measures to boost investment. On the other hand, Colombia's industrial and trade confidence indices increased in April, while retail sales and industrial production in Chile increased more than expected in April.

- **Rising volatility in financial markets, particularly in Japan**

- Uncertainty about the Fed's strategy has continued to weigh on financial markets, especially after the strong readings for US confidence indicators. Markets for emerging local-currency bonds have remained among the worst performers, while the pressure to sell European bonds has focused in core bonds rather than peripheral ones. Yields in 10Y local-currency bonds have surged: 55 bps in Turkey, 30 bps in Mexico, 18 bps in S. Korea, 11 bps in Brazil, 14 bps in France and 11 bps in the Netherlands (14 bps in European core). As for safe-haven bonds, yields for the US Treasury and the German Bund have also gone up (by 16 bps and 7 bps, respectively). In FX markets, the US dollar has remained flat against major developed-country currencies, but it has continued to gain momentum against EM currencies and commodity-linked currencies. The Mexican peso and the Brazilian real have fallen more than 3%. Equity indices have ended the week showing mixed signals while the implied volatility has continued to rise.

**Next week**, investors will focus on the ECB monetary policy meeting, the Eurozone 1Q13 GDP, US ISM index and the US nonfarm payrolls for May.

## Weekly Indicators

Week May, 27 - May, 31

CC	Indicator	Period	Cons. E	Prior		Obs. *
United States	S&P Case Shiller	Mar	1.0%	1.2%	↑	1.1%
	Jobless claims(th)	24-May	340	340	↑	354.00
	U. Michigan Consumer Sentiment	May	83.70	83.70	↑	84.50
	Chicago PMI	May	50.00	49.00	↑	58.70
	Dallas Fed Manufacturing	May	-10.00	-15.60	↓	-10.50
	GDP	1Q13P	2.5%	2.5%	↓	2.4%
	Pending Home Sales	Apr	1.5%	1.5%	↓	0.3%
	Personal Income	Apr	0.1%	0.2%	↓	0.0%
	Personal Spending	Apr	0.0%	0.2%	↓	-0.2%
Euro zone	Euro-Zone Economic Confidence	May	89.40	88.60	→	89.40
	Business Climate Indicator	May	-0.9	-0.9	↓	-0.8
	Consumer Confidence	May F	-21.9	-21.9	→	-21.9
	Industrial Confidence	May	-13.0	-13.8	→	-13.0
	Services Confidence	May	-10.60	-11.10	↑	-9.3
	CPI Estimate (YoY)	May	1.4%	1.2%	→	1.4%
	Unemployment rate	April	12.2%	12.1%	→	12.2%
	M3 s.a. (YoY)	Apr	3.0%	2.6%	↑	3.2%
Germany	Retail Sales (MoM)	Apr	20.0%	-0.3%	↓	-0.4%
	Unemployment Rate (s.a)	May	6.9%	6.9%	→	6.9%
	Consumer Price Index (MoM)	May P	0.2%	-1%	↑	0.4%
	CPI - EU Harmonised (YoY)	May P	1.4%	1.1%	↑	1.7%
Spain	Retail Sales (MoM)	Apr	--	-10.9%	↓	-2.6%
	GDP (QoQ)	1Q13	-0.5%	-0.5%	→	-0.5%
	Current account (Eur bn)	Mar	--	-1.3		
China	Industrial Profits YTD YoY	Apr	--	12.1%	→	11.4%
Japan	Jobless Rate	Apr	4.1%	4.1%	→	4.1%
	Industrial production (YoY)	Apr	-3.4%	-6.7%	↑	-2.3%
	Tokyo CPI (YoY)	May	-0.4%	-0.7%	↑	-0.2%
	Manufacturing PMI	May		51.10		51.10
Mexico	Trade Balance (Million US\$)	Apr P	190	1,706	↓	1,225.
Brazil	GDP (IBGE) QoQ	1Q13	0.90%	0.6%	↓	0.6%
	SELIC Target - Central Bank	May	7.75%	7.5%	↓	8.0%
Chile	Manufacturing Index	Apr	2.5%	-3%	↓	3.4%
	Retail Sales (YoY)	Apr	10%	10.2%	↑	11.2%
	Unemployment Rate	Apr	6.3%	6.2%	↓	6.4%
Peru	GDP YoY	1Q13	4.80%	5.90%	→	4.8%

\* e. Forecast/ \* Magenta- Below consensus forecast. Green-Above consensus forecast. Yellow- In line consensus forecast.  
Source: Bloomberg and BBVA Research

## Calendar: Indicators

### Eurozone: Retail sales (April, June 5<sup>th</sup>)

Forecast: -0.3% m/m	Consensus: -0.2% m/m	Previous: -0.1% m/m
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We expect retail sales to have fallen slightly in April after having remained almost flat in March. Despite the brief dip expected in April, we expect flat private consumption in the second quarter. Consumer confidence indicators, released by the European Commission, still reflect the uncertainty surrounding the European economy, as they remain at low levels (more than a standard deviation below its long term average). Across countries, the divergent trend in households' spending will continue for the rest of the year, declining considerably in the periphery and mildly supporting growth in core countries, though in France they are also showing a faltering behaviour.

### Eurozone: GDP (1Q13, June 5<sup>th</sup>)

Forecast: -0.2% q/q	Consensus: -0.2% q/q	Previous: -0.6% q/q
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The second estimate of GDP growth for Q1 will be released next week, including the decomposition by components. The preliminary estimate was of a fall in activity by 0.2%, surprising on the downside, but better than the recession in Q4 (-0.6%), and we expect those results to be confirmed. Recent data available for France and Germany suggest that the negative surprise stems from a lower-than-expected contribution to growth from the external sector, though domestic demand could have also drained growth, mainly due to the construction sector (partly linked to bad weather), but also because of the weakness of the investment component.

### US: ISM Manufacturing Index (May, June 3<sup>rd</sup>)

Forecast: 50.2	Consensus: 50.5	Previous: 50.7
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The ISM Manufacturing index for May is expected to rest near the 50 mark again as few signs point toward a recovery in the sector. Similar to last year's trend, the industry began the year on a strong heading but lost steam into the second quarter. This has been evidenced already as the index fell in April to 50.7, 3.5 points below 2013's high reached in February. Recent Federal Reserve surveys do little to impart much optimism in the industry as most show a neutral or declining trajectory. The Texas manufacturing survey's general business activity index recovered slightly but remains in negative territory in May at -2.2. The New York Fed's survey also showed declines in both new orders and shipments. Another heavily followed index, the Philly Fed survey, plunged in May, falling to -5.2 as new orders and shipments put strong downward pressure on the current outlook for businesses. Overall, the situation is much in line with the 2Q13 swoon that pundits pointed to as a headwind for the sectors growth 2013. However, given the resilience of certain aspects within the manufacturing survey such as energy and construction, the ISM manufacturing index is unlikely to fall below the 50 mark in May.

### US: Nonfarm Payrolls & Unemployment Rate (May, June 7<sup>th</sup>)

Forecast: 176K, 7.5%	Consensus: 168K, 7.5%	Previous: 176K, 7.5%
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Continuing to recover from its slight deceleration in March, we expect nonfarm payrolls to rise as overall economic conditions continue to improve, albeit at a leisurely rate. Initial jobless and continued claims have fallen at a quicker pace since April, hinting at better employment conditions throughout the economy in May. However, given the weakening manufacturing sector and feeble retail sales growth, there is little evidence to support payroll growth surpassing April's 165K by an exorbitant amount. Despite some of the difficulties plaguing the construction market, we continue to expect the industry to grow in terms of employment as spring housing activity blooms and easing credit standards promote housing starts. In general, we expect that payroll growth will remain comparatively weaker than the 200K mark per month, recovering in 2H13 as our forecasts point toward a pickup in manufacturing and consumer activity.

### China: NBS PMI (May, June 1<sup>st</sup>)

Forecast: 49.9	Consensus: 50.0	Previous: 50.6
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The official NBS manufacturing PMI for May will be closely watched given signs of slowing growth in China. The May HSBC flash PMI estimate (released on May 23) came in much weaker than expected (49.6 vs consensus: 50.4) due to sluggish new orders. In addition, April activity indicators were mixed, with investment and industrial production somewhat weaker than expected. On this basis, we expect the official PMI to be weaker than in April, and to decline to slightly below the 50-expansion threshold. The sluggish indicators have put our 8.0% full-year GDP projection at risk, and we await a batch of May activity indicators (including trade, industrial production, retail sales, investment, and credit data) to be released during the second week of June to reassess the outlook. While growth slowed in Q1 to 7.7% y/y from 7.9% in Q4 2012, credit has been strong and growth is still within the official 7.5% target for the year.

## Markets Data

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.28	0	0	-19
		2-yr yield	0.30	5	10	6
		10-yr yield	2.17	16	54	72
	EMU	3-month Euribor rate	0.20	0	-1	-47
		2-yr yield	0.07	6	5	6
		10-yr yield	1.51	7	30	33
Exchange rates (changes in %)	Europe	Dollar-Euro	1.297	0.3	-1.6	4.3
		Pound-Euro	0.85	-0.1	0.9	5.6
		Swiss Franc-Euro	1.24	0.1	1.8	3.6
		Argentina (peso-dollar)	5.28	0.3	1.9	18.2
	America	Brazil (real-dollar)	2.14	4.2	6.9	4.8
		Colombia (peso-dollar)	1907	1.5	4.5	4.2
		Chile (peso-dollar)	500	2.4	5.8	-3.6
		Mexico (peso-dollar)	12.76	1.7	4.6	-10.9
		Peru (Nuevo sol-dollar)	2.73	1.9	3.3	1.0
	Asia	Japan (Yen-Dollar)	100.93	-0.4	3.6	29.4
		Korea (KRW-Dollar)	1129.64	0.2	2.6	-4.1
		Australia (AUD-Dollar)	0.959	-0.6	-6.7	-1.1
Comm. (chg %)		Brent oil (\$/b)	101.3	-1.3	1.4	2.9
		Gold (\$/ounce)	1396.8	0.7	-4.2	-14.0
		Base metals	522.4	-0.1	-0.2	2.4
Stock markets (changes in %)	Euro	Ibex 35	8321	0.7	-1.2	37.2
		EuroStoxx 50	2770	0.2	2.1	33.9
	America	USA (S&P 500)	1653	0.2	4.4	29.3
		Argentina (Merval)	3484	-0.7	-9.4	57.3
		Brazil (Bovespa)	53757	-4.7	-3.9	0.7
		Colombia (IGBC)	13600	1.0	1.6	-3.8
		Chile (IGPA)	20537	-0.7	-2.6	-0.5
		Mexico (CPI)	41021	1.2	-2.9	10.3
		Peru (General Lima)	15996	-2.8	-7.8	-22.7
		Venezuela (IBC)	810426	0.5	21.2	234.0
	Asia	Nikkei225	13775	-5.7	-0.2	63.2
		HSI	22392	-1.0	-1.5	20.7
Credit (changes in bps)	Ind.	Itraxx Main	100	2	0	-84
		Itraxx Xover	411	10	7	-327
	Sovereign risk	CDS Germany	28	-3	-7	-74
		CDS Portugal	318	10	-44	-866
		CDS Spain	230	-3	-11	-372
		CDS USA	29	-1	-5	---
		CDS Emerging	268	8	33	-54
		CDS Argentina	3250	138	700	1757
		CDS Brazil	142	9	32	-33
		CDS Colombia	102	8	18	-64
		CDS Chile	76	1	9	-58
		CDS Mexico	98	6	15	-71
		CDS Peru	104	3	16	-72

Source: Bloomberg and Datastream

## Weekly Publications

Country	Date	Description
Global	05/30/2013	> <b>Global Economic Outlook. Second Quarter 2013 (Chinese version)</b> Chinese version
Spain	05/30/2013	> <b>Flash España: Avance del IPC de mayo</b> La inflación se aceleró en mayo debido al crecimiento del precio de los alimentos y a la menor caída del precio de los productos energéticos.
	05/30/2013	> <b>Flash España: Confianza industrial y del consumidor en mayo</b> Las expectativas de los agentes económicos continúan arrojando señales mixtas.
	05/30/2013	> <b>Flash España: Contabilidad Nacional Trimestral del 1T13: el deterioro de la actividad se ralentiza</b> Tal y como se adelantaba en el último número de la revista Situación España, la economía española permaneció en recesión durante el 1T13.
	05/29/2013	> <b>Financial Systems Flash: Deposits held by households and businesses declined €7 billion in April for seasonal reasons</b> Seasonality is very strong in April, which explains the decline in both households and businesses. (Spanish version)
	05/29/2013	> <b>Flash España: Ejecución presupuestaria del Estado a abril de 2013</b> El déficit del Estado registrado en el primer cuatrimestre de 2013 se ha situado en el 2.4% del PIB, el mismo nivel que el registrado hasta abril de 2012
	05/29/2013	> <b>Flash España: Ventas reales del comercio al por menor de abril: mejores de lo previsto</b> Las ventas reales del comercio minorista aumentaron en abril más de lo esperado debido al crecimiento del consumo en estaciones de servicio y de equipo personal.
	05/28/2013	> <b>Flash España: Hipotecas sobre vivienda marzo 2013: fuerte contracción después de tres meses de recuperación transitoria</b> Durante el mes de marzo de 2013 se firmaron 16.270 hipotecas sobre vivienda, registrándose un mínimo histórico
US	05/30/2013	> <b>U.S. Economic Watch. An Update on Wage Pressures</b> Four Years Past the Recession yet Wage Growth Remains Subdued
	05/30/2013	> <b>U.S. GDP Flash. Lower Inventory Growth Offsets Gains in Consumption</b> Real GDP growth for 1Q13 was revised downward slightly to 2.4%. Government consumption and private inventory investment were revised down
	05/27/2013	> <b>U.S. Weekly Flash. Existing and New Home Sales Rise in April Despite Limited Supply</b> Existing homes sales for April showed some positive momentum, rising 0.6% to 4.97M (Spanish version)
Latam	05/31/2013	> <b>Latam Daily Flash: IP recovered in Chile while retail sales grew sharply; Fiscal surplus in Mexico</b>
	05/30/2013	> <b>Latam Daily Flash: Growth disappoints in Brazil, but the CB focuses on inflation and increases the pace of monetary tightening</b> Yesterday markets were disappointed by lower than expected 1Q growth in Brazil, due to a sharp slowdown in consumption.
	05/29/2013	> <b>Latam Daily Flash: Public investment grows sharply in Peru</b> Yesterday was a light day in terms of economic news, with just the publication of the figure for public investment in Peru in April.
	05/28/2013	> <b>Latam Daily Flash: Peru Central Bank keeps optimistic and sees no changes in the policy rate; confidence increases in Colombia</b>
	05/28/2013	> <b>Latam Economic Outlook. Second Quarter 2013</b> Latin America will increase its GDP growth from 2.9% in 2012, to 3.5% in 2013 and 3.7% in 2014, in line with its potential. The region has to undertake reforms to consolidate its long-term growth
	05/27/2013	> <b>Latam Daily Flash: In Peru growth moderated in 1Q13 and government announced measures to boost investment</b>



Brazil	05/30/2013	➤ <b>Brazil Flash: COPOM focuses on inflation and increases the pace of monetary tightening</b> The Monetary Policy Committee (COPOM) decided to adjust the SELIC rate by 50bp to 8.0%. (Spanish version)
	05/29/2013	➤ <b>Brazil Flash: Growth surprises to the downside in 1Q13</b> Growth surprises to the downside in 1Q13, due to a sharp slowdown in consumption (Spanish version)
Chile	05/30/2013	➤ <b>Flash Chile. Proyectamos Imacec de abril en 5,1% a/a. Segundo trimestre se expandiría entre 4,1% y 4,5% a/a</b> Cifras sectoriales anticipan una expansión para el Imacec de 5,1% a/a en abril. Por su parte, sectores ligados a demanda interna continúan dinámicos
Peru	05/27/2013	➤ <b>La reforma pensionaria y la vulnerabilidad de los trabajadores independientes</b> La Ley de la Reforma del Sistema Privado de Pensiones, determinó la importancia de que los trabajadores independientes contribuyan a los sistemas de pensiones;

## Other Countries

Panama	05/27/2013	➤ <b>Panama Automobile Market Outlook 2013</b> In 2013 and 2014, 52,800 and 54,420 new vehicles will be sold, respectively.
EAGLEs	05/31/2013	➤ <b>Economic Watch: Asia-driven South-South trade intensifies specialization patterns in the rest of emerging regions</b> Rapid growth in emerging markets as the key driver, reinforced by trade liberalization and commodity flows
Asia	05/31/2013	➤ <b>India Flash: Q1 2013 GDP meets subdued expectations, making another 25 bps rate cut more likely</b> Q1 2013 GDP meets subdued expectations, making another 25 bps rate cut more likely.
	05/30/2013	➤ <b>Asia Flash   30 May 2013: Philippines Q1 GDP beats expectation; Korea's industrial production better than expected; India data preview</b> Asian markets today witnessed a widespread sell-off, led by steep declines in Japan (-5.2%) and the Philippines (-3.8%) despite a better-than-expected Q1 GDP outturn for the latter.
	05/29/2013	➤ <b>Asia Flash   29 May 2013: Thailand cuts rates; Japan's retail sales rise</b> The BoT today delivered a 25bp rate cut, joining other regional central banks have eased over the past month to support growth (India) and reduce currency appreciation pressures (Australia Korea).
	05/27/2013	➤ <b>China's RMB Bilateral Swap Agreements: What explains the choice of countries?</b> This paper analyzes empirically the determinants behind the choice of countries signing an RMB-denominated Bilateral Swap Agreement (BSA) with China
	05/27/2013	➤ <b>Asia Flash   27 May 2013: China's industrial profits rise; India data preview; New Zealand seeks direct RMB trading</b> Volatility in Japanese financial markets resumed today, as the Nikkei fell by 3.2% (for a cumulative decline of 10.2% since Thursday), and the Yen appreciated to 100.9 against the USD.

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