

Daily Flash

Asia

China's announcement over the weekend of a 50bps cut in the reserve requirement ratio - following a batch of weak April data released on Friday - helped lift market sentiment early today. But the rally fizzled out over worries of slowing economic growth and renewed concerns about the crisis in Europe, with the Hang Seng and Shanghai finishing the day down by -1.2% and -0.6%, respectively.

Rising food prices drive up India's inflation

As we discussed in today's [India Flash](#), India's wholesale price inflation edged up in April, to 7.2% y/y from 6.9% y/y the previous month (BBVA: 7.0%, Consensus: 6.7%), driven by higher food prices. Looking ahead, inflation risks remain broadly balanced as weakening demand-side pressures are being offset by impending energy price hikes and a weak rupee. That said, with core inflation relatively contained (4.8% y/y in April) and downside risks to growth exacerbated by a slump in March industrial production, we expect the RBI to ease policy rates by another 50 bps to 7.50% by the end of 2012. For the year, we expect India's growth and inflation to average 6.8% y/y and 6.9% y/y, respectively.

China, South Korea and Japan to begin talks towards a free-trade agreement

In a story widely reported in Asian media, the President of South Korea and the Prime Ministers of China and Japan agreed in a summit in Beijing yesterday to begin talks this year towards a free-trade agreement. The nations also signed a trilateral investment agreement, designed to promote and protect investments between them. China is the biggest trade partner of Japan and South Korea, while Japan and South Korea are China's fourth and sixth biggest trade partners. Xinhua, the official news agency of China, reported that a free-trade agreement between China, Japan and South Korea could boost GDP in each country by 2.9%, 0.5% and 3.1% respectively. The free-trade agreement has been on the agenda for several years, but yesterday's announcement is the first firm step towards its realization, though a long negotiation process lies ahead.

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Calendar Indicators

China	Date	Period	Prior	Cons.	Actual
Actual FDI (YoY)	15-18 MAY	APR	-6.10%	2.80%	--
China April Property Prices	18-May	APR			
Hong Kong	Date	Period	Prior	Cons.	Actual
Unemployment Rate SA	17-May	APR	3.40%	3.50%	--
India	Date	Period	Prior	Cons.	Actual
Monthly Wholesale Prices YoY%	14-May	APR	6.89%	6.67%	7.23%
Japan	Date	Period	Prior	Cons.	Actual
Machine Orders (MoM)	16-May	MAR	4.80%	-3.50%	--
Machine Orders YOY%	16-May	MAR	8.90%	4.40%	--
Tertiary Industry Index (MoM)	16-May	MAR	0.00%	-0.40%	--
GDP Annualized	17-May	1Q P	-0.70%	3.50%	--
Gross Domestic Product (QoQ)	17-May	1Q P	-0.20%	0.90%	--
Nominal GDP (QoQ)	17-May	1Q P	-0.50%	1.00%	--
GDP Deflator YoY	17-May	1Q P	-1.80%	-1.40%	--
Capacity Utilization (MoM)	17-May	MAR F	-1.70%	--	--
Industrial Production (MoM)	17-May	MAR F	1.00%	--	--
Industrial Production YOY%	17-May	MAR F	13.90%	--	--
Philippines	Date	Period	Prior	Cons.	Actual
Overseas Remittances (YoY)	15-May	MAR	5.80%	--	--
Overseas Workers Remittances	15-May	MAR	\$1587.4M	--	--
Balance of Payments	18-May	APR	-\$209M	--	--
Singapore	Date	Period	Prior	Cons.	Actual
Retail Sales (YoY)	15-May	MAR	19.00%	7.20%	--
Retail Sales (MoM) sa	15-May	MAR	-2.00%	0.40%	--
GDP (QoQ)	17-May	1Q F	9.90%	10.30%	--
GDP (YoY)	17-May	1Q F	1.60%	1.90%	--
Non-oil Domestic Exports (YoY)	17-May	APR	-4.30%	6.60%	--
Non-oil Domestic Exp SA (MoM)	17-May	APR	-16.80%	6.70%	--
South Korea	Date	Period	Prior	Cons.	Actual
Unemployment Rate (SA)	16-May	APR	3.40%	3.40%	--

Indicator of the Week

Japan: Q1 GDP growth (May 17)

Forecast: 0.7% q/q sa

Consensus: 0.9%q/q sa

Prior: -0.2% q/q sa

After a disappointing fourth quarter in 2011 on supply disruptions from floods in Thailand, Japan's economy is expected to have rebounded in the first quarter of this year on improving exports and increased capital spending. Recent activity indicators such as industrial production and exports also point to a normalization of supply chains and production from last year's devastating earthquake and tsunami. A succession of four supplementary reconstruction budgets (totaling about 4% of GDP) continue to boost investment, and the BOJ is continuing to ease monetary policy through quantitative easing. Looking ahead, we expect the economy to expand about 2% in 2012 despite ongoing power shortages from the closure of nuclear plants and global headwinds.

Calendar Events

There are no events scheduled for this week.

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.	2380.7	-0.6	-2.9	8.2	-17.1
	Hong Kong - Hang Seng	19735.0	-1.1	-3.9	7.1	-15.2
	Taiwan - Weighted	7377.2	-0.3	-2.1	4.3	-18.1
	Japan - Nikkei 225	8973.8	0.2	-1.6	6.1	-7.0
	Korea - Kospi	1913.7	-0.2	-2.2	4.8	-9.7
	India - Sensex 30	16202.4	-0.6	-4.2	4.8	-12.6
	Australia - SPX/ASX 200	4297.0	0.3	-0.1	5.9	-8.8
	Singapore - Strait Times	2864.1	-0.7	-2.1	8.2	-9.5
	Indonesia - Jakarta Comp	4053.1	-1.5	-2.5	6.0	5.8
Thailand - SET	1167.5	-2.0	-4.9	13.9	7.6	
Malaysia - KLCI	1575.1	-0.6	-0.6	2.9	2.2	
Philippines - Manila Comp.	5083.6	-1.4	-2.8	16.3	18.4	

Last update: today, 17.45 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)	6.32	-0.18	-0.22	6.34	6.37
	Hong Kong (HKD/USD)	7.77	-0.01	-0.03	7.76	7.76
	Taiwan (TWD/USD)	29.5	-0.33	-0.55	29.42	29.14
	Japan (JPY/USD)	80.01	-0.10	-0.11	79.94	79.46
	Korea (KRW/USD)	1149	-0.23	-0.93	1160	1173
	India (INR/USD)	53.8	-0.33	-1.67	54.91	57.02
	Australia (USD/AUD)	1.00	-0.39	-2.12	1.01	1.03
	Singapore (SGD/USD)	1.26	-0.33	-0.88	1.26	1.25
	Indonesia (IDR/USD)	9250	-0.56	-0.24	9481	9815
Thailand (THB/USD)	31.4	-0.48	-1.18	31.52	31.95	
Malaysia (MYR/USD)	3.08	-0.38	-0.91	3.10	3.14	
Philippines (PHP/USD)	42.7	-0.48	-0.83	43.04	43.45	

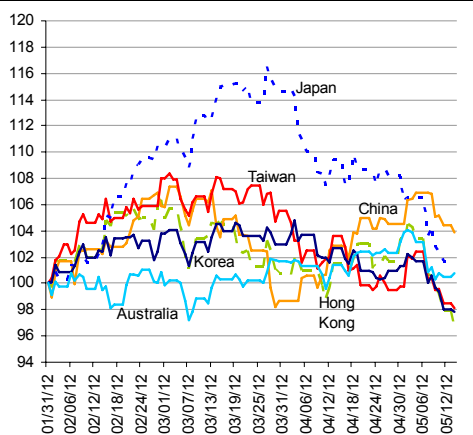
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.16	-0.04	-0.16	-0.64
	Hong Kong (HIBOR/1W)	0.13	-0.02	-0.02	0.02
	Taiwan (TAIBOR/1W)	0.66	0.00	0.00	0.02
	Japan (TIBOR/1Y)	0.76	0.00	0	0
	Korea (KORIBOR/1M)	3.37	0.00	0.00	-0.01
	India (MIBOR/7D)	3.45	0.81	-0.51	-0.30
	Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00
	Indonesia (JIBOR/1W)	3.81	0.00	0	0
	Thailand (BIBOR/1W)	3.02	0.00	0.00	0.00
Malaysia (KLIBOR/1W)	2.90	0.00	0.00	0.00	
Philippines (PHIBOR/1W)	3.69	0.19	0.25	0.00	

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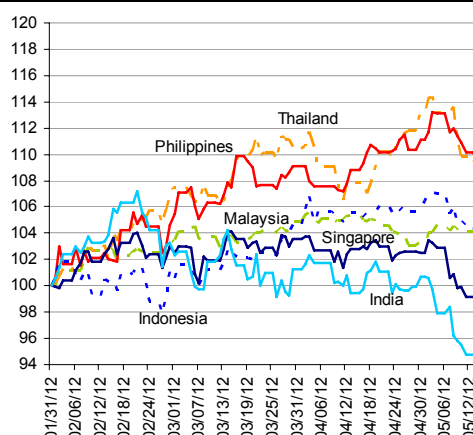
Charts

Chart 9
Stock Markets



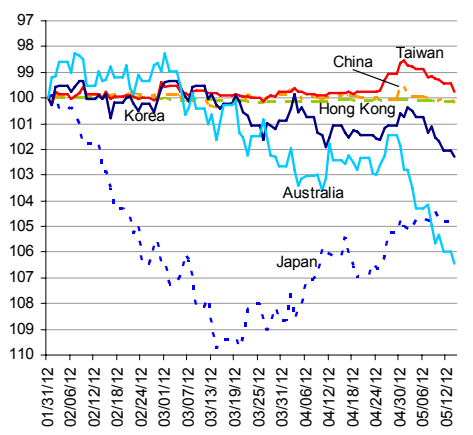
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



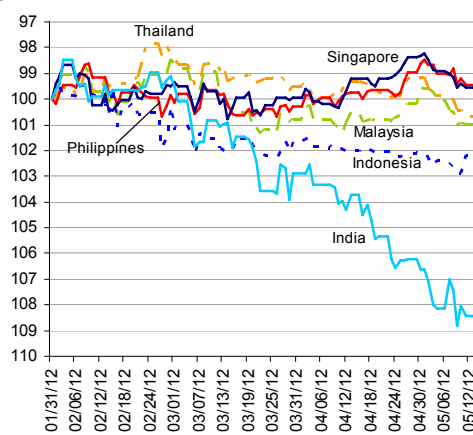
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
Foreign Exchange Markets



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