

Daily Flash

Asia

The possibility that pro-growth measures will be on the table at tomorrow's EU summit lifted Asia's markets today, with the region's biggest gains coming from the Kospi (+1.6%). Sentiment has been given a further boost by China's comments yesterday regarding growth, with the Hang Seng China Enterprises Index rising by 1.2%. Elsewhere within the region, the Bank of Japan ends its two-day monetary policy meeting tomorrow, and given the yen's recent strength the BoJ may decide to support its economy by announcing further easing measures.

Japan's sovereign credit rating lowered by Fitch

Today, Fitch downgraded both Japan's long-term, foreign currency credit rating and its long-term, local currency rating to A+ with a negative outlook, citing poor implementation of its fiscal consolidation plan. The yen fell on the news, finishing the day down -0.5%, at 79.7/USD. Japan's fiscal debt, exceeding 200% of GDP, continues to create serious risks for Japan's economy. The fiscal consolidation plan of achieving a balanced budget by 2020 was interrupted by last year's earth quake, which prompted the government to pass four post-quake reconstruction bills amounting to 20.5 trillion yen (about 4% of GDP). Government's plan to pay its reconstruction bills by doubling the consumption tax rate from its current 5% to 10% by October 2015 has faced strong opposition from lawmakers, who are afraid that the tax hike would hamper Japan's growth. Regardless of whether lawmakers eventually agree to the tax hike, Japan's rising debt burden will continue to weigh on growth in the coming years.

RBI announces fresh measures to curb arbitrage as the INR's fall continues

The Reserve Bank of India announced new measures to stem losses in the rupee, which slipped to all time low of 55.39/USD at the time of this writing. The latest round of measures is aimed at curbing arbitrage between the interbank OTC market, the domestic exchange market and the larger external NDF market. The measures include capping the position limit in the exchanges for trading currency futures and options at \$100 million, or 15% of the OTC market. These new measures may provide temporary relief to the rupee, but we expect the currency to remain under pressure amid high dollar demand by India's oil importers, global risk-off conditions, and India's widening current account deficit.

Briefly noted:

- **Hong Kong's inflation eases in line with expectations:** CPI for April was 4.7% y/y (consensus: 4.7% y/y), down from 4.9% y/y the previous month. Food prices and private housing rentals continue to be the main drivers of inflation.
- **Malaysia has signed a free-trade agreement (FTA) with Australia,** its sixth bilateral FTA to date, which will come into effect on January 1, 2013. The agreement covers trade in goods and services, as well as investment.

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With contributions from the BBVA Research Asia Team

Calendar Indicators

China	Date	Period	Prior	Cons.	Actual
HSBC Flash China Manufacturing PMI	24-May	MAY	49.3	--	--
Hong Kong	Date	Period	Prior	Cons.	Actual
CPI - Composite Index (YoY)	22-May	APR	4.90%	4.70%	4.70%
Exports YoY%	24-May	APR	-6.80%	6.60%	--
Imports YoY%	24-May	APR	-4.70%	4.10%	--
Japan	Date	Period	Prior	Cons.	Actual
All Industry Activity Index (MoM)	21-May	MAR	-0.10%	-0.10%	-0.30%
Merchnds Trade Balance Total	23-May	APR	-¥82.5B	-¥470.8B	--
Merchnds Trade Exports YoY	23-May	APR	5.90%	11.80%	--
Natl CPI YoY	25-May	APR	0.50%	0.40%	--
Natl CPI Ex-Fresh Food YoY	25-May	APR	--	0.10%	--
Natl CPI Ex Food, Energy YoY	25-May	APR	-0.50%	-0.40%	--
Malaysia	Date	Period	Prior	Cons.	Actual
CPI YoY	23-May	APR	2.10%	2.10%	--
GDP YoY%	23-May	1Q	5.20%	4.70%	--
Singapore	Date	Period	Prior	Cons.	Actual
CPI (MOM) - NSA	23-May	APR	0.80%	0.30%	--
CPI (YoY)	23-May	APR	5.20%	5.20%	--
Industrial Production MoM SA	25-May	APR	2.70%	0.40%	--
Industrial Production YoY	25-May	APR	-3.40%	4.40%	--
Taiwan	Date	Period	Prior	Cons.	Actual
Export Orders (YoY)	21-May	APR	-1.58%	0.50%	-3.52%
Unemployment Rate - sa	22-May	APR	4.14%	4.13%	4.19%
Industrial Production (YoY)	23-May	APR	-3.42%	-1.60%	--
GDP - Constant Prices (YoY)	25-May	1Q F	0.36%	0.40%	--
Thailand	Date	Period	Prior	Cons.	Actual
Gross Domestic Product SA (QoQ)	21-May	1Q	-10.70%	10.00%	11.00%
Gross Domestic Product (YoY)	21-May	1Q	-9.00%	-0.50%	0.30%
Customs Exports (YoY)	23-May	APR	-6.50%	6.40%	--
Vietnam	Date	Period	Prior	Cons.	Actual
CPI (YoY)	24-May	MAY	10.50%	--	--
Exports YTD (YoY)	24-31 MAY	MAY	22.10%	--	--

Calendar Events

Japan - BOJ Target Rate, May 23
We expect the benchmark rate to remain unchanged

Current	Consensus	New
0.10%	--	--

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.	2373.3	1.1	-0.1	7.9	-17.0
	Hong Kong - Hang Seng	19039.2	0.6	-4.3	3.3	-17.9
	Taiwan - Weighted	7274.9	1.1	-1.6	2.9	-17.7
	Japan - Nikkei 225	8729.3	1.1	-1.9	3.2	-9.1
	Korea - Kospi	1828.7	1.6	-3.7	0.2	-13.4
	India - Sensex 30	16015.6	-1.0	-1.9	3.6	-12.6
	Australia - SPX/ASX 200	4121.0	1.2	-3.4	1.6	-12.9
	Singapore - Strait Times	2823.8	1.2	-1.8	6.7	-10.9
	Indonesia - Jakarta Comp	4021.1	2.1	-2.3	5.2	3.8
	Thailand - SET	1133.3	-0.2	-4.3	10.5	5.6
	Malaysia - KLCI	1546.8	0.5	-0.9	1.1	0.4
	Philippines - Manila Comp.	4958.4	0.1	-0.4	13.4	15.7

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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)	6.32	0.07	-0.08	6.34	6.38
	Hong Kong (HKD/USD)	7.77	-0.01	0.04	7.76	7.76
	Taiwan (TWD/USD)	29.5	0.18	-0.12	29.39	29.15
	Japan (JPY/USD)	79.70	-0.49	0.60	79.63	79.13
	Korea (KRW/USD)	1163	0.48	-0.81	1171	1180
	India (INR/USD)	55.3	-0.53	-2.77	56.51	58.69
	Australia (USD/AUD)	0.99	-0.39	-0.61	1.02	1.04
	Singapore (SGD/USD)	1.27	0.03	-0.59	1.27	1.27
	Indonesia (IDR/USD)	9260	0.53	-0.22	9598	9993
	Thailand (THB/USD)	31.4	-0.13	-0.06	31.53	31.95
	Malaysia (MYR/USD)	3.12	0.46	-1.23	3.14	3.18
	Philippines (PHP/USD)	43.1	0.09	-1.01	43.47	43.93

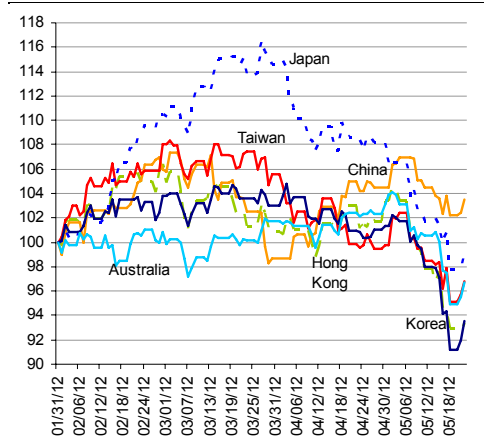
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	2.70	0.02	0.02	-1.30
	Hong Kong (HIBOR/1W)	0.13	0.00	0.00	0.02
	Taiwan (TAIBOR/1W)	0.66	0.00	0.00	0.01
	Japan (TIBOR/1Y)	0.76	0.00	0	0
	Korea (KORIBOR/1M)	3.37	0.00	0.00	-0.01
	India (MIBOR/7D)	2.70	-0.38	-0.16	-1.36
	Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00
	Indonesia (JIBOR/1W)	3.81	-0.02	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)	3.25	-0.06	-0.44	-0.50

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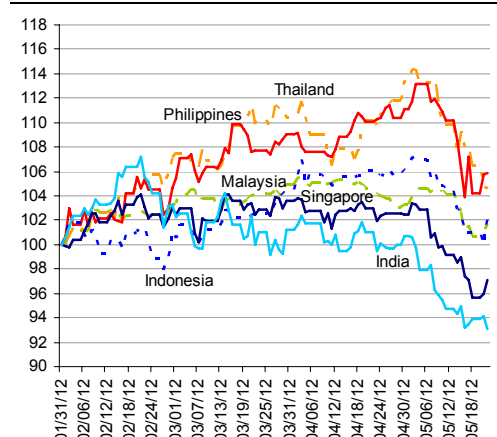
Charts

Chart 9
Stock Markets



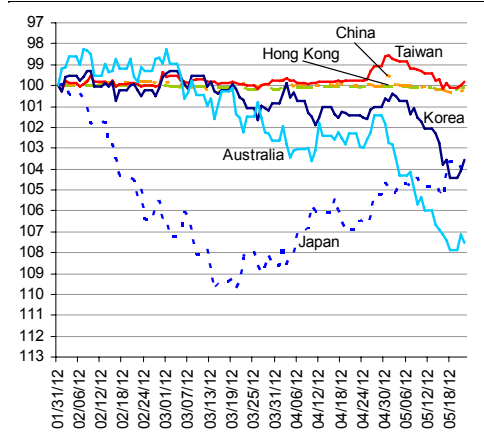
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



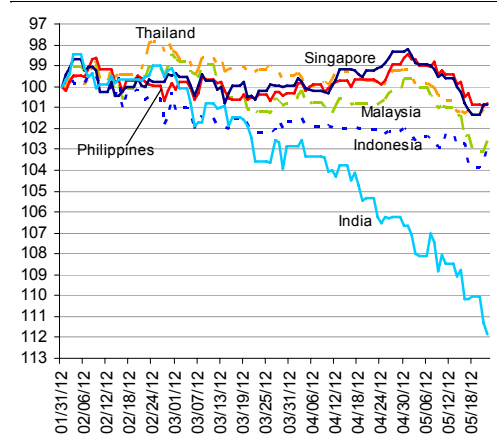
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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