

Daily Flash

Asia

China and Japan announce yuan-yen direct trading

Today, China and Japan announced they will begin direct trading of their currencies in Shanghai and Tokyo on June 1st. The yen will thus become the second currency (after the USD) to have a direct exchange rate against the yuan in the onshore market of China. Currently, all non-USD currency exchange rates against the yuan in China's onshore market are calculated indirectly by their rates against the USD and USDRMB. The move strengthens Japan-China economic ties, in addition to reducing transaction costs and settlement risk. The direct trading of yuan and yen has other important implications, including enabling both countries to facilitate trade more easily by allowing importers/exporters to accept or make payments in either currency, and therefore over the longer-term could help reduce dependence on USD.

More subsidies, reforms announced as China seeks to support economy

Following yesterday's announcement regarding subsidies for air conditioners and TVs, today the government announced plans to spend between RMB 1-to-2 billion per year to support R&D in energy-saving vehicles, according to an official from the Ministry of Finance (MOF). The announcement comes as the follow-up to the State Council's auto industry development plan for 2012-2020 that was originally released in April. It is also being reported that a new automobile trade-in subsidy program is under discussion, similar to that which previously caused a surge in auto sales back in 2009/10. Separately, starting from July 1 the local tax office of Beijing announced that it will commence a pilot program to replace the current turnover tax (which causes double taxation) with a value-added tax (which does not), following a trial in Shanghai in 2011. In addition to Beijing, ten other provinces and cities have applied to conduct similar tax reform, including Tianjin, Chongqing, Jiangsu and Fujian.

Philippines rating outlook upgraded by Moody's; momentum building

Moody's raised its outlook for the Philippines sovereign rating today, to positive from stable. Authorities in the country are seeking an eventual upgrade to investment grade status (the Philippines' current rating is Ba2, two levels below investment grade), and improving debt levels, prudent fiscal management and brightening medium term economic prospects are creating positive momentum.

Briefly noted:

Bank Indonesia will begin selling dollar term deposits in two weeks, with the intention of increasing onshore dollar supply, as many local exporters currently hold dollars in foreign accounts. Ostensibly, the move is designed to help stabilize the rupiah by increasing liquidity in onshore foreign exchange markets

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Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
Retail Sales s.a. (MoM)	30-May	APR	0.90%	0.20%	--
Private Sector Credit MoM%	31-May	APR	0.40%	0.30%	--
Building Approvals (MoM)	31-May	APR	7.40%	0.30%	--
China	Date	Period	Prior	Cons.	Actual
PMI Manufacturing	01-Jun	MAY	53.3	52	--
HSBC Manufacturing PMI	01-Jun	MAY	49.3	--	--
Hong Kong	Date	Period	Prior	Cons.	Actual
Retail Sales - Value (YoY)	31-May	APR	17.30%	16.40%	--
Indonesia	Date	Period	Prior	Cons.	Actual
Inflation (YoY)	01-Jun	MAY	4.50%	4.63%	--
Exports (YoY)	01-Jun	APR	5.50%	2.60%	--
India	Date	Period	Prior	Cons.	Actual
Qtrly GDP YoY%	31-May	1Q	6.10%	6.10%	--
Exports YoY%	01-Jun	APR	-5.70%	--	--
Imports YoY%	01-Jun	APR	24.30%	--	--
India May Markit Manufacturing PMI	01-04 JUN	MAY			
Japan	Date	Period	Prior	Cons.	Actual
Jobless Rate	29-May	APR	4.50%	4.50%	4.60%
Industrial Production (MoM)	31-May	APR P	1.30%	0.50%	--
Industrial Production YOY%	31-May	APR P	14.20%	13.70%	--
Capital Spending	01-Jun	1Q	7.60%	1.00%	--
Malaysia	Date	Period	Prior	Cons.	Actual
Unemployment Rate	31-May	1Q	3.00%	--	--
Philippines	Date	Period	Prior	Cons.	Actual
GDP sa (QoQ)	31-May	1Q	0.90%	2.40%	--
GDP (YoY)	31-May	1Q	3.70%	4.30%	--
South Korea	Date	Period	Prior	Cons.	Actual
Industrial Production (MoM)	31-May	APR	-3.10%	-0.40%	--
Industrial Production (YoY)	31-May	APR	0.30%	0.70%	--
Consumer Price Index (MoM)	01-Jun	MAY	0.00%	0.20%	--
Consumer Price Index (YoY)	01-Jun	MAY	2.50%	2.50%	--
HSBC Manufacturing PMI	01-Jun	MAY	51.9	--	--
Ext Trade - Export (YoY)	01-Jun	MAY	-4.70%	-1.10%	--
Ext Trade - Imports (YoY)	01-Jun	MAY	-0.20%	-2.30%	--
Taiwan	Date	Period	Prior	Cons.	Actual
HSBC Manufacturing PMI	01-Jun	MAY	51.2	--	--
Thailand	Date	Period	Prior	Cons.	Actual
Consumer Price Index (YoY)	01-Jun	MAY	2.47%	2.52%	--

Indicator of the Week

China: PMI for May (June 1)

Forecast: 51.5

Consensus: 52.0

Prior: 53.3

Weaker-than-expected activity outturns in April are causing the market to reassess expectations regarding the pace of China's growth. The official manufacturing PMI in May is thus expected to provide important signs regarding China's growth momentum. Thursday's flash estimate for private sector PMI (Markit) registered a slight downturn in May, to 48.7% from 49.1% the previous month, showing weak sentiment persists in the economy. Considering this flash outturn, as well as seasonal effects, we expect a decrease in the official PMI for May, however we expect it will remain above the +50 expansion/contraction threshold. That said, the government's recent comments emphasizing that it will help stabilize China's growth through further policy support, along with a stronger PMI outturn for May, could signal a rebound in growth momentum over the course of rest of this year.

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.	2389.6	1.2	0.7	8.6	-11.8
	Hong Kong - Hang Seng	19055.5	1.4	0.1	3.4	-17.6
	Taiwan - Weighted	7342.3	2.9	0.9	3.8	-16.7
	Japan - Nikkei 225	8657.1	0.7	-0.8	2.4	-9.1
	Korea - Kospi	1849.9	1.4	2.8	1.3	-11.9
	India - Sensex 30	16426.5	0.1	2.5	6.3	-10.1
	Australia - SPX/ASX 200	4114.4	1.1	-0.2	1.4	-12.2
	Singapore - Strait Times	2801.9	0.5	-0.8	5.9	-10.6
	Indonesia - Jakarta Comp	3919.1	0.0	-2.5	2.5	2.3
	Thailand - SET	1152.1	1.1	1.8	12.4	8.0
	Malaysia - KLCI	1565.3	0.7	1.2	2.3	1.1
Philippines - Manila Comp.	5023.1	1.4	1.3	14.9	17.5	

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)	6.35	-0.04	-0.40	6.36	6.41
	Hong Kong (HKD/USD)	7.76	0.00	0.02	7.76	7.76
	Taiwan (TWD/USD)	29.6	0.01	-0.32	29.57	29.29
	Japan (JPY/USD)	79.54	-0.09	0.53	79.47	78.96
	Korea (KRW/USD)	1175	-0.14	-0.97	1183	1192
	India (INR/USD)	55.7	-0.90	-0.53	56.85	59.18
	Australia (USD/AUD)	0.98	-0.20	0.22	1.03	1.04
	Singapore (SGD/USD)	1.28	-0.07	-0.31	1.28	1.27
	Indonesia (IDR/USD)	9447	-1.21	-1.98	9895	10369
	Thailand (THB/USD)	31.7	-0.28	-1.01	31.89	32.31
	Malaysia (MYR/USD)	3.15	-0.07	-0.95	3.17	3.20
Philippines (PHP/USD)	43.3	0.65	-0.29	43.69	44.15	

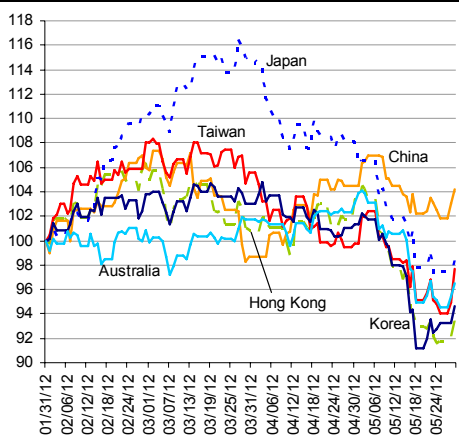
Last update: today, 17.45 Hong Kong time.

INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	2.55	0.05	0.32	-1.25
	Hong Kong (HIBOR/1W)	0.13	0.00	0.00	0.02
	Taiwan (TAIBOR/1W)	0.67	0.00	0.00	0.00
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	3.37	0.00	0.00	-0.01
	India (MIBOR/7D)	2.70	-0.30	0.00	-1.18
	Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00
	Indonesia (JIBOR/1W)	3.87	0.02	0.06	0.06
	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	-0.13	-0.06	-0.13

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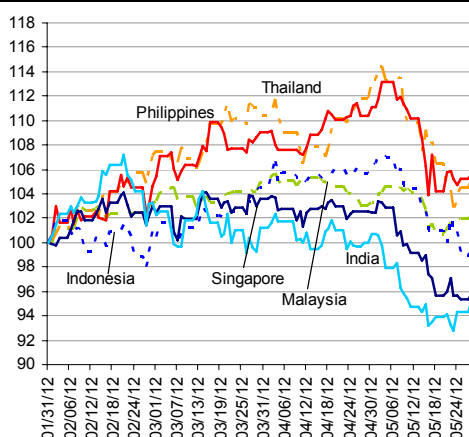
Charts

Chart 9
Stock Markets



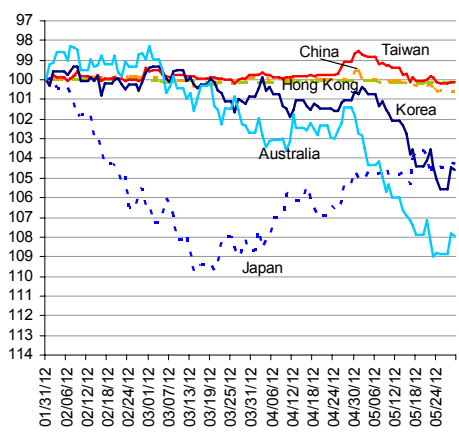
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



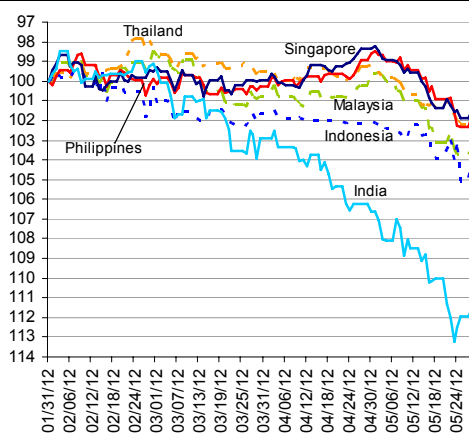
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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