

Daily Flash

Asia

India's 1Q GDP growth slows sharply; is there room for policy maneuver?

India's economy slowed sharply in the first quarter as real GDP growth fell to 5.3% y/y from 6.1% y/y in the fourth quarter, marking the slowest growth in over a decade. The latest outturn was well short of the consensus (6.1%) as well as our expectation (6.3%), and was driven by a slowdown in the services sector, along with a contraction in manufacturing activity. Private consumption, traditionally India's major growth engine, has weakened considerably due to a challenging investment climate, widening twin deficits, rising inflation and a global risk-off environment. The weak GDP outturn supports our expectation of 50bps in interest rate cuts over the course of 2012, but also suggests our 6.8% y/y growth expectation for this year will likely need to be revised downwards. An increase in government initiatives may help revive growth momentum, and policymakers have begun introducing new measures (as seen in yesterday's decision to allow foreign retail investors to purchase domestic corporate bonds). Recent weakness in the rupee presents a challenge, however, as inflation remains high, thus limiting the government's options.

Hong Kong retail sales fall sharply in April as volumes decline

Hong Kong's retail sales growth surprised to the downside, slowing to 11.4% y/y in April (consensus: 16.4% y/y) from 17.3% the previous month. While tourism inflows increased month-on-month, overall volumes declined, as heightened uncertainty over the economic outlook made shoppers more reluctant to spend. Looking ahead, the moderation in retail sales is expected to continue as the uncertain economic outlook weighs on consumer spending.

Japan's industrial production slows in April

Japan's industrial production rose by 0.2% m/m in April, slightly below expectations (consensus: 0.5% m/m). Japan's economy has been boosted this year by post-quake reconstruction efforts (GDP growth rebounded sharply at a seasonally adjusted annualized rate of 4.1% in the first quarter, after growth of barely above zero (0.1%) in the fourth quarter of last year), but the weak outturn underscores the impact of the current uncertainties surrounding Europe.

Briefly noted:

- **Boosted by government spending, the Philippines posted better-than-expected first quarter GDP growth of 6.4% y/y** (consensus: 4.3% y/y). Positive momentum in the economy is supporting the country's case as it seeks an investment grade rating (Fitch rates the Philippines one notch below investment grade, while Moody's and S&P both have the Philippines two notches below - though Moody's upgraded the country's sovereign outlook to positive from stable on Tuesday).

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Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
Retail Sales s.a. (MoM)	30-May	APR	0.90%	0.20%	-0.20%
Private Sector Credit MoM%	31-May	APR	0.40%	0.30%	0.40%
Building Approvals (MoM)	31-May	APR	7.40%	0.30%	-8.70%
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%	11.40%
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%	5.30%
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%	0.20%
Industrial Production YOY%	31-May	APR P	14.20%	13.70%	13.40%
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%	2.50%
GDP (YoY)	31-May	1Q	3.70%	4.30%	6.40%
South Korea	Date	Period	Prior	Cons.	Actual
Industrial Production (MoM)	31-May	APR	-3.10%	-0.40%	0.90%
Industrial Production (YoY)	31-May	APR	0.30%	0.70%	0.00%
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%	2.50%	--

Indicator of the Week

China: PMI for May (June 1)

Forecast: 51.5	Consensus: 52.0	Prior: 53.3
<p>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.</p>		

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.	2372.2	-0.5	0.9	7.9	-13.5
	Hong Kong - Hang Seng	18629.5	-0.3	-0.2	1.1	-21.3
	Taiwan - Weighted	7301.5	0.5	2.5	3.2	-18.8
	Japan - Nikkei 225	8542.7	-1.0	-0.2	1.0	-11.9
	Korea - Kospi	1843.5	-0.1	1.9	1.0	-14.0
	India - Sensex 30	16218.5	-0.6	0.0	4.9	-12.3
	Australia - SPX/ASX 200	4076.3	-0.4	0.5	0.5	-13.4
	Singapore - Strait Times	2772.5	-0.4	-0.3	4.8	-12.3
	Indonesia - Jakarta Comp	3832.8	-2.2	-3.8	0.3	-0.1
	Thailand - SET	1141.5	0.3	1.4	11.3	6.3
	Malaysia - KLCI	1580.7	0.3	2.1	3.3	1.4
	Philippines - Manila Comp.	5091.2	1.5	3.8	16.5	19.9

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)	6.37	-0.16	-0.37	6.38	6.43
	Hong Kong (HKD/USD)	7.76	0.04	-0.01	7.76	7.76
	Taiwan (TWD/USD)	29.8	-0.43	-0.76	29.77	29.49
	Japan (JPY/USD)	78.82	0.32	0.99	78.74	78.24
	Korea (KRW/USD)	1180	-0.35	-0.02	1186	1195
	India (INR/USD)	56.1	0.22	-0.81	57.32	59.42
	Australia (USD/AUD)	0.97	0.33	-0.28	1.04	1.05
	Singapore (SGD/USD)	1.29	0.21	-0.67	1.29	1.28
	Indonesia (IDR/USD)	9400	0.56	-1.40	9645	10097
	Thailand (THB/USD)	31.9	0.03	-0.72	32.02	32.45
	Malaysia (MYR/USD)	3.18	-0.41	-0.68	3.19	3.23
	Philippines (PHP/USD)	43.4	0.24	0.75	43.82	44.24

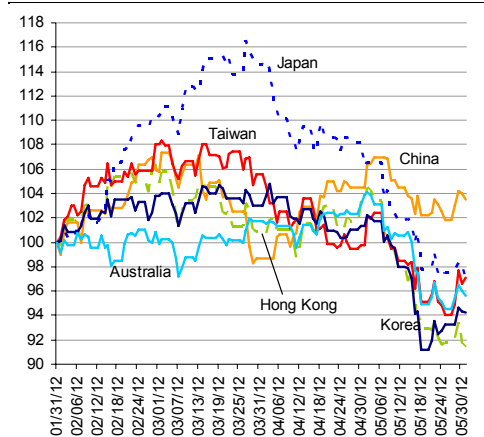
Last update: today, 17.45 Hong Kong time.

INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	2.13	-0.19	-0.37	-1.67
	Hong Kong (HIBOR/1W)	0.13	0.00	0.00	0.02
	Taiwan (TAIBOR/1W)	0.67	0.00	0.00	0.01
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	3.37	0.00	0.00	0.00
	India (MIBOR/7D)	2.24	-0.16	0.01	-1.64
	Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00
	Indonesia (JIBOR/1W)	3.97	0.07	0.14	0.16
	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)	3.31	0.00	-0.13	-0.13

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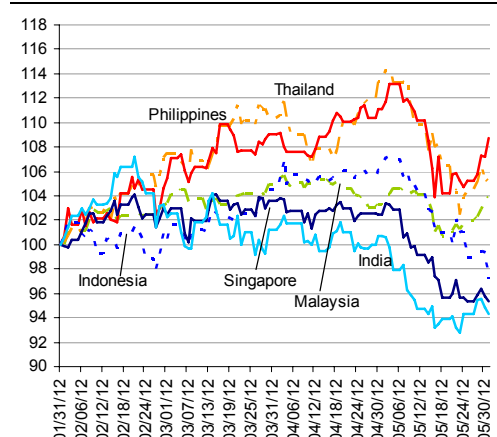
Charts

Chart 9
Stock Markets



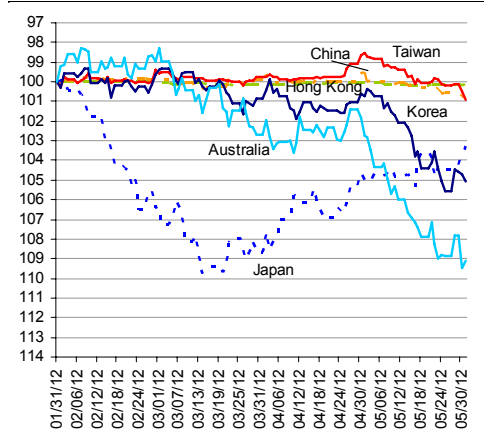
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



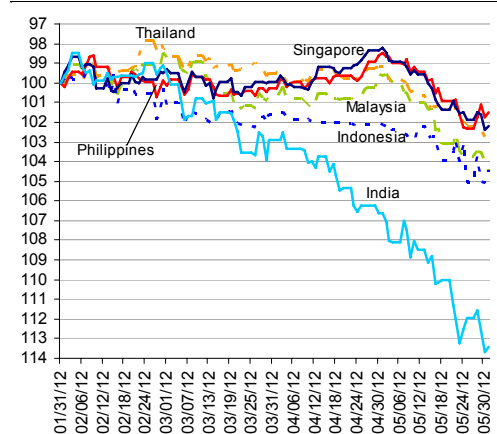
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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