

Daily Flash

Asia

China's May PMI surprises to the downside, still showing expansion

China's official Purchasing Managers Index (PMI) for May, released today, surprised to the downside at 50.4% (BBVA: 51.5%; Consensus: 52.0%), down from 53.3% in April, but remained above the +50 expansion/contraction threshold. Similarly, private-sector (Markit) PMI also weakened from the previous month, confirming a moderating trend of the underlying growth momentum. These outturns suggest that, despite a recent reserve requirement ratio cut (of 50bps) and an increase in growth-supportive fiscal policies since mid-May, domestic demand remains weak, while at the same time external demand also remains sluggish. That said, the benefits from the previously mentioned policy support should start to have a gradual effect on growth in the coming months, and we would not rule out further policy easing; in particular, we expect another 100-150bp in cuts in the RRR in the coming quarters, and up to two interest rate cuts.

Throughout the region, weak exports outturns adding to growth concerns...

Exports in Korea fell for a third consecutive month, by -0.4% y/y in May (consensus: -1.1%), as exports to China (-10.3%), the US (-16.5% y/y), and Europe (-16.4% y/y) all contracted on an over-year basis. The trade surplus grew to US\$2.4bn in May from US\$2.1bn in April, however, due to imports contracting by -1.2% y/y. In Indonesia, exports surprised by contracting -3.5% y/y in April (consensus: +2.6% y/y), the first drop since September 2009, as oil and coal exports slowed due to weakening global demand. Imports grew by 11.7% y/y, resulting in a trade deficit of US\$641.1mn, the first such deficit since July 2010. The slowdown in exports adds to mounting worries about growth and the external outlook, and in Korea's case, increase the probability of a rate cut in the coming months.

...as inflation pressures recede

Inflationary pressures appear subdued in many parts of the region, particularly in the three countries that reported May outturns today - South Korea, Indonesia and Thailand. Korea's inflation outturn remained flat from April, rising by 2.5% y/y in May (well within policymakers' 2-4% target range). Indonesia's May inflation outturn was slightly lower (4.45% y/y in May, consensus: 4.62%), compared with April (4.5% y/y), while Thailand's inflation was broadly in line with expectations (2.53% y/y vs. consensus: 2.50% y/y), little changed from the previous month (2.47% y/y). Easing inflationary pressures will allow policymakers in these countries to focus on growth, particularly as falling oil prices should help further with regards to inflation - Brent oil finished today at US\$100.11 a barrel, down 19.8% since reaching its high for 2012 (US\$124.75) on March 16th.

Briefly noted:

- **Several important economic indicators will be released in China next week**, including industrial production (see Weekly Indicator below), inflation, investment, retail sales and external trade - though most will not be released until next weekend (June 9-10). Australia (Tuesday) and South Korea (Friday) hold policy meetings, and Australia will also announce first quarter GDP on Wednesday.

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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	52.0	50.4
HSBC Manufacturing PMI	01-Jun	MAY	49.3	--	48.4
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%	4.45%
Exports (YoY)	01-Jun	APR	5.50%	2.60%	-3.50%
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%	--	3.20%
Imports YoY%	01-Jun	APR	24.30%	--	3.80%
India May Markit Manufacturing PMI	01-04 JUN	MAY	54.9	--	54.8
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%	3.30%
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%	0.20%
Consumer Price Index (YoY)	01-Jun	MAY	2.50%	2.50%	2.50%
HSBC Manufacturing PMI	01-Jun	MAY	51.9	--	51.0
Ext Trade - Export (YoY)	01-Jun	MAY	-4.70%	-1.10%	-0.40%
Ext Trade - Imports (YoY)	01-Jun	MAY	-0.20%	-2.30%	-1.20%
Taiwan	Date	Period	Prior	Cons.	Actual
HSBC Manufacturing PMI	01-Jun	MAY	51.2	--	50.5
Thailand	Date	Period	Prior	Cons.	Actual
Consumer Price Index (YoY)	01-Jun	MAY	2.47%	2.50%	2.53%

Indicator of the Week

China: Industrial output for May (June 9)

Forecast: 10.5% y/y

Consensus: 9.8% y/y

Prior: 9.3% y/y

China's growth momentum moderated further in April, prompting the government to increase policy support recently. New measures have been geared towards increasing consumption and investment in infrastructure, while the central bank also decided to cut the reserve requirement ratio by 50bps on May 12th. Taking these supportive policies into account, we expect the industrial production index, a key gauge of China's growth momentum, to improve slightly in May to 10.5% in year-on-year terms, up from 9.3% in April. In addition to IP, several other important indicators will also be released next week, including inflation, retail sales, investment, and credit aggregates. Headline inflation is expected to remain low at 3.3%/y/y in May (from 3.4%/y/y in April) due to easing food and fuel prices, providing room for further policy easing in the coming months, if necessary.

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.	2373.4	0.1	1.7	7.9	-13.5
	Hong Kong - Hang Seng	18558.3	-0.4	-0.8	0.7	-21.5
	Taiwan - Weighted	7106.1	-2.7	0.5	0.5	-21.6
	Japan - Nikkei 225	8440.3	-1.2	-1.6	-0.2	-13.2
	Korea - Kospi	1834.5	-0.5	1.1	0.5	-14.3
	India - Sensex 30	15948.0	-1.7	-1.7	3.2	-14.3
	Australia - SPX/ASX 200	4063.9	-0.3	0.9	0.2	-13.7
	Singapore - Strait Times	2745.7	-1.0	-1.0	3.8	-13.5
	Indonesia - Jakarta Comp	3799.8	-0.9	-2.6	-0.6	-1.0
	Thailand - SET	1118.3	-2.0	-1.3	9.1	4.9
	Malaysia - KLCI	1573.6	-0.4	1.4	2.8	1.1
Philippines - Manila Comp.	5062.4	-0.6	2.8	15.8	18.1	

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	-0.02	-0.40	6.38	6.44
	Hong Kong (HKD/USD)	7.76	0.02	0.03	7.76	7.75
	Taiwan (TWD/USD)	29.9	-0.26	-0.98	29.86	29.60
	Japan (JPY/USD)	78.14	0.23	1.97	78.05	77.52
	Korea (KRW/USD)	1178	0.21	0.65	1189	1198
	India (INR/USD)	56.0	0.21	-1.10	57.21	59.39
	Australia (USD/AUD)	0.96	-0.89	-1.14	1.04	1.06
	Singapore (SGD/USD)	1.29	-0.40	-0.94	1.29	1.29
	Indonesia (IDR/USD)	9390	0.11	0.68	9564	10001
	Thailand (THB/USD)	31.9	-0.22	-0.72	32.07	32.50
	Malaysia (MYR/USD)	3.19	-0.59	-1.26	3.21	3.25
Philippines (PHP/USD)	43.5	-0.13	0.71	43.81	44.24	

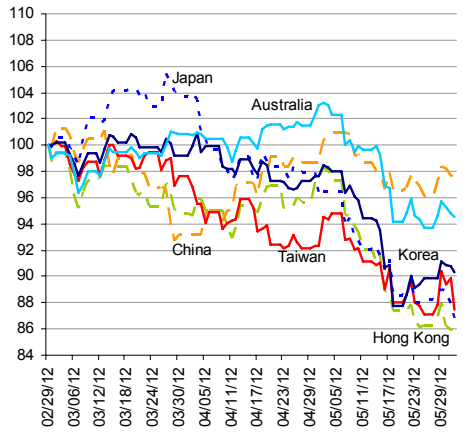
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	2.34	0.21	-0.16	-1.46
	Hong Kong (HIBOR/1W)	0.13	0.00	0.00	0.02
	Taiwan (TAIBOR/1W)	0.67	0.00	0.00	0.01
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	3.37	0.00	0.00	0.00
	India (MIBOR/7D)	2.85	0.61	0.38	-1.03
	Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00
	Indonesia (JIBOR/1W)	3.99	0.02	0.16	0.19
	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	-0.13	-0.19

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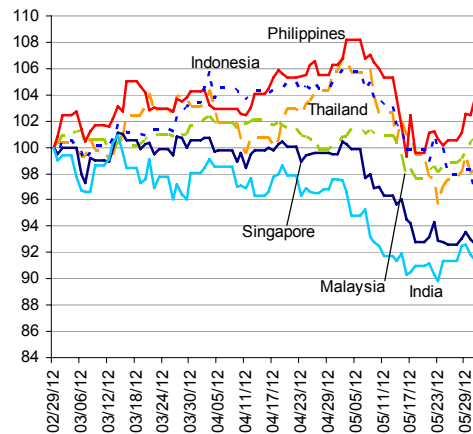
Charts

Chart 9
Stock Markets



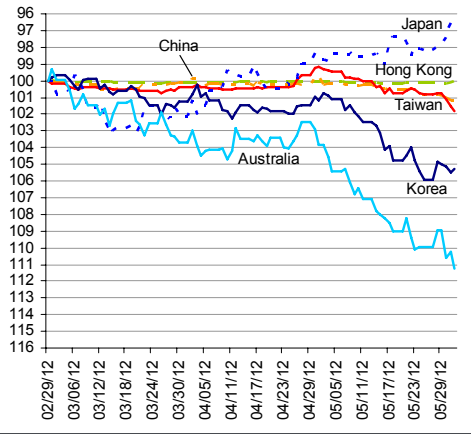
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



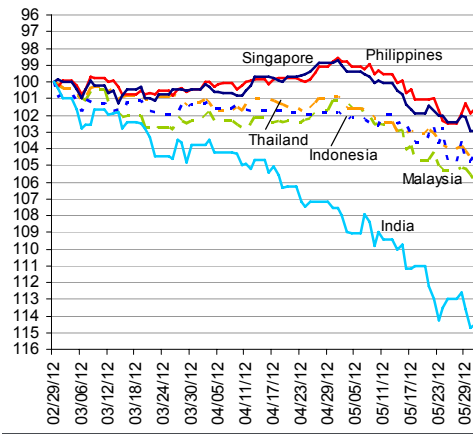
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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