

Daily Flash

Asia

As we send out today's Daily Flash, news has just come of a 25bps interest rate cut in China. We had previously flagged the possibility of up to two rate cuts in light of the weakening external environment, although today's move is likely to come as a surprise to markets. Otherwise, before the move, Asian stocks rallied for a third consecutive day, taking a cue from overseas markets. The day's biggest advancer was Korea (+2.6%), one day ahead of the Bank of Korea's monthly policy meeting, where policymakers are under increasing pressures to cut interest rates after a third consecutive month of contraction in exports was reported last week. While the probability of a rate cut in the coming months is rising, we still expect rates to stay unchanged (at 3.25%) at tomorrow's meeting given the BOK's reluctance to ease just yet due to still high inflation expectations and reasonably robust growth momentum despite external headwinds.

Taiwan's exports contract in May; outlook remains challenging

Taiwan's trade data came in somewhat below expectations, with exports and imports contracting by -6.3% y/y and -10.5% y/y, respectively, in May (consensus: -5.3% y/y and -4.7% y/y). Weak demand was observed across several of Taiwan's major trade partners, including China, Hong Kong, the US and EU. However, exports to ASEAN countries held up well, especially to Singapore, which surpassed Japan to become Taiwan's largest export destination in 2012. Challenges remain for Taiwan's exports due to the ongoing European crisis, leaving Taiwan's growth forecast subject to downside risks.

Upbeat jobs data in Australia follows positive first quarter GDP outturn

Australia's economy was reported to have added a better-than-expected 38,900 jobs in May (consensus: 0), one day after the release of Australia's positive Q1 quarter GDP of 1.3% q/q, s.a. Though Australia's unemployment rate in May edged higher to 5.1%, in line with consensus, from a revised 5.0% in April, this was due to an increase in the labor force participation rate, which suggests that Australia's economy may be gaining momentum. Looking ahead, Australia's growth in 2012 is expected to reach 3%.

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Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
Current Account Balance	05-Jun	1Q	-8374M	-14650M	-14892M
Gross Domestic Product (QoQ)	06-Jun	1Q	0.40%	0.60%	1.30%
Gross Domestic Product (YoY)	06-Jun	1Q	2.30%	3.30%	4.30%
Unemployment Rate	07-Jun	MAY	4.90%	5.10%	5.10%
Trade Balance	08-Jun	APR	-1587M	-900M	--
China	Date	Period	Prior	Cons.	Actual
China HSBC Services PMI	05-Jun	MAY	54.1	--	54.7
Consumer Price Index (YoY)	09-Jun	MAY	3.40%	3.20%	--
Producer Price Index (YoY)	09-Jun	MAY	-0.70%	-1.20%	--
Industrial Production YTD YoY	09-Jun	MAY	11.00%	10.70%	--
Industrial Production (YoY)	09-Jun	MAY	9.30%	9.80%	--
Fixed Assets Inv Excl. Rural YTD YoY	09-Jun	MAY	20.20%	20.00%	--
Retail Sales YTD YoY	09-Jun	MAY	14.70%	14.60%	--
Retail Sales (YoY)	09-Jun	MAY	14.10%	14.20%	--
Trade Balance (USD)	10-Jun	MAY	\$18.43B	\$17.55B	--
Exports YoY%	10-Jun	MAY	4.90%	7.00%	--
Imports YoY%	10-Jun	MAY	0.30%	4.00%	--
Hong Kong	Date	Period	Prior	Cons.	Actual
Purchasing Managers Index	05-Jun	MAY	50.3	--	49.4
India	Date	Period	Prior	Cons.	Actual
India May Markit Services PMI	05-Jun	MAY	52.8	--	54.7
Japan	Date	Period	Prior	Cons.	Actual
Monetary Base (YoY)	04-Jun	MAY	-0.30%	--	2.40%
GDP Annualized	08-Jun	1Q F	4.10%	4.40%	--
Gross Domestic Product (QoQ)	08-Jun	1Q F	1.00%	1.10%	--
Trade Balance - BOP Basis	08-Jun	APR	¥4.2B	¥450.7B	--
Current Account Balance YOY%	08-Jun	APR	-8.60%	7.50%	--
Malaysia	Date	Period	Prior	Cons.	Actual
Unemployment Rate	04-Jun	1Q	3.00%	--	3.00%
Exports YoY%	06-Jun	APR	-0.10%	1.10%	-0.1%
Philippines	Date	Period	Prior	Cons.	Actual
Consumer Price Index (YoY)	05-Jun	MAY	3.00%	3.00%	2.90%
Singapore	Date	Period	Prior	Cons.	Actual
Purchasing Managers Index	05-Jun	MAY	49.7	49.5	--
South Korea	Date	Period	Prior	Cons.	Actual
GDP (QoQ)	07-Jun	1Q F	0.90%	--	0.90%
GDP (YoY)	07-Jun	1Q F	2.80%	--	2.80%
Taiwan	Date	Period	Prior	Cons.	Actual
CPI YoY%	05-Jun	MAY	1.44%	1.40%	1.74%
Total Exports (YoY)	07-Jun	MAY	-6.40%	-5.30%	-6.30%

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

Australia - RBA Cash Target, June 5

We expected the benchmark rate to remain unchanged

Current

3.75%

Consensus

3.50%

New

3.50%

South Korea - 7-Day Repo Rate, June 8

We expect the benchmark rate to remain unchanged

Current

3.25%

Consensus

3.25%

New

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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.	2293.1	-0.7	-3.3	4.3	-16.4
	Hong Kong - Hang Seng	18678.3	0.9	0.3	1.3	-18.3
	Taiwan - Weighted	7080.3	0.3	-3.0	0.1	-21.8
	Japan - Nikkei 225	8639.7	1.2	1.1	2.2	-8.5
	Korea - Kospi	1848.0	2.6	0.2	1.2	-12.6
	India - Sensex 30	16649.1	1.2	2.7	7.7	-10.0
	Australia - SPX/ASX 200	4108.6	1.3	0.8	1.3	-10.0
	Singapore - Strait Times	2759.3	-0.1	-0.5	4.3	-11.4
	Indonesia - Jakarta Comp	3840.6	0.0	0.2	0.5	-0.1
	Thailand - SET	1118.5	0.1	-1.8	9.1	8.1
	Malaysia - KLCI	1575.3	0.4	-0.3	2.9	1.5
	Philippines - Manila Comp.	5023.0	1.1	-1.3	14.9	18.6

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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)	6.36	0.00	0.07	6.36	6.41
	Hong Kong (HKD/USD)	7.76	-0.01	0.05	7.76	7.75
	Taiwan (TWD/USD)	29.9	0.03	-0.13	29.78	29.49
	Japan (JPY/USD)	79.37	-0.23	-1.32	79.29	78.81
	Korea (KRW/USD)	1171	0.27	0.76	1175	1186
	India (INR/USD)	55.1	0.44	1.80	56.19	58.30
	Australia (USD/AUD)	0.99	0.22	2.21	1.01	1.03
	Singapore (SGD/USD)	1.28	-0.23	0.85	1.28	1.27
	Indonesia (IDR/USD)	9459	-1.37	0.22	9614	10036
	Thailand (THB/USD)	31.5	-0.44	0.92	31.71	32.13
	Malaysia (MYR/USD)	3.16	0.35	0.37	3.18	3.22
	Philippines (PHP/USD)	43.2	0.07	0.57	43.32	43.76

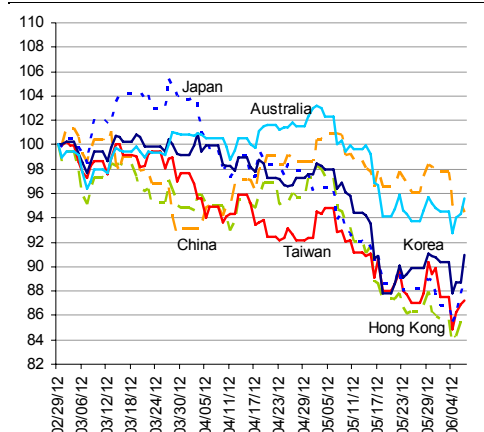
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	2.70	0.10	0.36	-1.05
	Hong Kong (HIBOR/1W)	0.13	0.00	0.00	-0.02
	Taiwan (TAIBOR/1W)	0.67	0.00	0.00	0.00
	Japan (TIBOR/1Y)	0.76	0.00	0	0
	Korea (KORIBOR/1M)	3.36	0.00	-0.01	-0.01
	India (MIBOR/7D)	2.88	0.31	0.64	-1.08
	Singapore (SIBOR/1W)	0.31	0.00	0.06	0.06
	Indonesia (JIBOR/1W)	4.08	-0.01	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)	3.38	-0.06	0.06	-0.06

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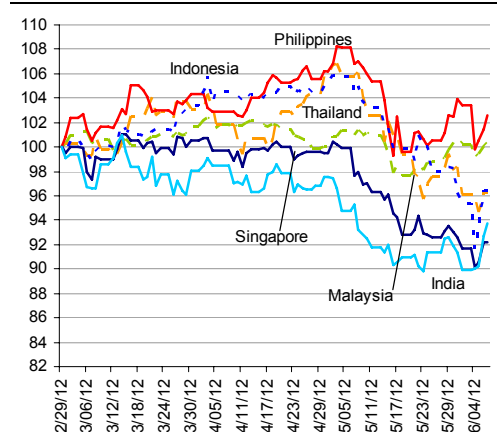
Charts

Chart 9
Stock Markets



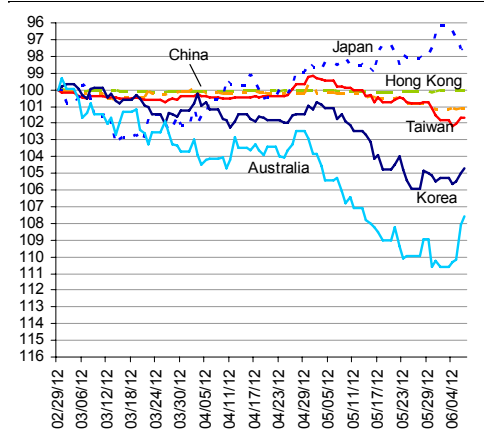
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



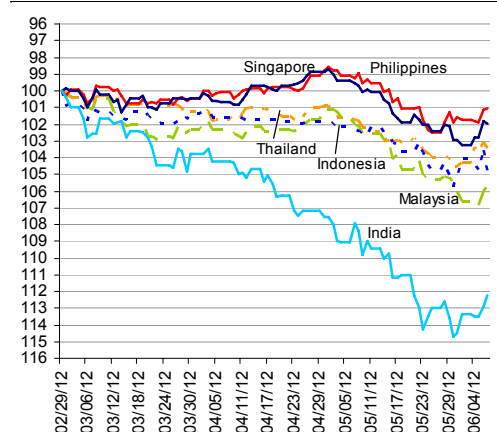
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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