

Asia Flash

Asia

Signs of a further easing in China's interbank cash squeeze are helping to revive the battered equity market, with the Shanghai Composite rising for a second straight day, by 0.6%. Improving liquidity in the interbank market helped offset the impact on sentiment of a disappointing June PMI outturn (released yesterday; see below) and signs of slowing growth elsewhere in the region (see below).

Reserve Bank of Australia keeps rates unchanged, with easing bias in tact

At its monthly policy meeting today, the RBA kept its policy rate unchanged at a record low of 2.75% as expected. In its statement, the RBA noted that the domestic economy has been growing at "a bit below trend", but that the easing of monetary policy over the past 18 months (a cumulative 200 bps in rate cuts) is supporting interest-sensitive spending and asset values. Of particular note, it said that the currency, which has depreciated by around 10% since April "remains at a high level," and that further depreciation remains possible, "which would help to foster a rebalancing of growth in the economy." With the RBA leaving the door open to further easing in view of the benign inflation outlook, we expect at least one more rate cut, as early as next month, and the more so in view of the uncertain growth outlook in China, on which Australia depends for its commodity demand.

In line with expectations, China June PMI shows further slowdown

China's official NBS manufacturing PMI, released yesterday, came in line with expectations, falling to 50.1 (BBVA: 50.2; consensus: 50.1) from 50.8 in May. The decline was broad based, with production, new orders, and new export orders all declining -- the latter fell sharply to 47.7 from 49.4 previously, raising fresh concerns about the export outlook. The NBS PMI nevertheless managed to stay above the 50-expansion threshold despite the recent liquidity squeeze in the inter-bank market, suggesting an imminent economic hard-landing is unlikely. In the meantime, the private HSBC PMI, released the same day, fell to 48.2 as expected from previous 49.2. The official PMI, which has a broader sample size and includes larger firms, has been running above the HSBC PMI for the past quarter, suggesting relative weakness among smaller and more export-oriented firms. We await a batch of indicators over the next week, including inflation (July 9), and Q2 GDP (July 15) for further readings on the state of the economy.

Signs of further easing in China's interbank cash squeeze

The cash squeeze has continued to ease since last Friday, in line with the central bank's stepped-up efforts to stabilize the market. The one- and seven-day repo rates declined further today, to 4.00% and 4.75% respectively, well off their double-digit highs of June 20.

Regional manufacturing activity weakens, as inflation remains contained

Besides China, manufacturing PMIs released yesterday in several other Asian economies also point to slowing growth. Two export-oriented economies, Korea (49.4) and Taiwan (49.5), saw their headline PMI readings enter contraction territory and new export orders underperformed the overall indices, reinforcing concerns of sluggish external demand. India's HSBC PMI (50.3), albeit improving slightly from May (50.1), also remains soft. Meanwhile, with the exception of Indonesia (where headline inflation rose to 5.9% y/y in June) price pressures in the region remain contained, providing scope for further policy easing if growth outlooks deteriorate.

Briefly noted:

Korea June exports fall for the first time since February

Korea's export outturns, the first monthly release in Asia, are closely watched as a bellwether of

external demand in the region. In that regard, yesterday's release of June data was disappointing, with export growth turning negative at -0.9% y/y (consensus: 0.1% y/y) compared to 3.2% y/y growth posted in May.

South Korea's President Park Geun-hye has wrapped up her four-day visit to China (June 27-30). The trip aimed to boost bilateral economic, political and cultural ties, at a time when the two neighbor countries are negotiating a free trade agreement. China is Korea's largest export market.

Hong Kong's retail sales growth in May moderates to 12.8% y/y from 20.7% y/y in April, surprising the market (consensus: 19.4% y/y) to the downside. By category, sales in luxury goods, buoyed by tourists' demand, still perform well while domestic consumption moderated as the economic outlook remains weak.

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Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
Trade Balance	03 Jul	May	28M	53M	--
Retail Sales s.a. (MoM)	03 Jul	May	0.20%	0.30%	--
China	Date	Period	Prior	Cons.	Actual
Manufacturing PMI	01 Jul	Jun	50.8	50.1	50.1
HSBC Manufacturing PMI	01 Jul	Jun	49.2	48.3	48.2
Hong Kong	Date	Period	Prior	Cons.	Actual
Retail Sales - Value (YoY)	02 Jul	May	20.70%	19.40%	12.80%
Purchasing Managers Index	04 Jul	Jun	49.8	--	--
Indonesia	Date	Period	Prior	Cons.	Actual
Exports (YoY)	01 Jul	May	-8.70%	-8.80%	-4.50%
Total Trade Balance	01 Jul	May	-\$1703M	-\$607M	-\$590M
HSBC-Markit Manufacturing PMI	01 Jul	Jun	51.6	--	51.0
Inflation (YoY)	01 Jul	Jun	5.47%	6.02%	5.90%
India	Date	Period	Prior	Cons.	Actual
HSBC-Markit Manufacturing PMI	01 Jul	Jun	50.1	--	50.3
Japan	Date	Period	Prior	Cons.	Actual
Tankan Lge Manufacturers Index	01 Jul	2Q	-8	3	4
Tankan Large All Indust Capex	01 Jul	2Q	-2.00%	2.90%	5.50%
Monetary Base Avg Amount YoY	02 Jul	Jun	31.60%	--	36.00%
Malaysia	Date	Period	Prior	Cons.	Actual
Exports YoY%	05 Jul	May	-3.30%	-2.80%	--
Philippines	Date	Period	Prior	Cons.	Actual
Consumer Price Index (YoY)	05 Jul	Jun	2.60%	2.70%	--
Singapore	Date	Period	Prior	Cons.	Actual
Purchasing Managers Index	03 Jul	Jun	51.1	51.0	--
South Korea	Date	Period	Prior	Cons.	Actual
Ext Trade - Export (YoY)	01 Jul	Jun	3.20%	0.10%	-0.90%
Consumer Price Index (YoY)	01 Jul	Jun	1.00%	1.10%	1.00%
HSBC Manufacturing PMI	01 Jul	Jun	51.1	--	49.4
Taiwan	Date	Period	Prior	Cons.	Actual
HSBC Manufacturing PMI	01 Jul	Jun	47.1	--	49.5
CPI YoY%	05 Jul	Jun	0.74%	0.60%	--
Thailand	Date	Period	Prior	Cons.	Actual
Consumer Price Index (YoY)	01 Jul	Jun	2.27%	2.39%	2.25%
Vietnam	Date	Period	Prior	Cons.	Actual
HSBC Manufacturing PMI	01 Jul	Jun	48.8	--	46.4

Calendar Events

Australia - RBA Cash Target, Jul 2

We expect the benchmark rate to remain unchanged

Current

2.75%

Cons.

2.75%

New

2.75%

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.	2006.6	0.6	2.4	-11.6	-9.9
Hong Kong - Hang Seng	20658.7	-0.7	4.3	-8.8	6.3	
Taiwan - Weighted	8015.9	-0.3	4.6	4.1	9.1	
Japan - Nikkei 225	14098.7	1.8	8.7	35.6	56.6	
Korea - Kospi	1855.0	0.0	4.2	-7.1	0.2	
India - Sensex 30	19463.8	-0.6	4.5	0.2	11.9	
Australia - SPX/ASX 200	4834.0	2.6	3.8	4.0	17.0	
Singapore - Strait Times	3173.3	1.0	2.7	0.2	9.0	
Indonesia - Jakarta Comp	4728.7	-1.0	7.0	9.5	18.5	
Thailand - SET	1464.0	0.8	7.3	5.2	24.9	
Malaysia - KLCI	1771.9	-0.2	2.5	4.9	10.7	
Philippines - Manila Comp.	6448.2	-1.2	11.4	10.9	21.7	

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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)	6.13	-0.01	0.19	6.21	6.29
Hong Kong (HKD/USD)	7.75	0.03	0.06	7.75	7.75	
Taiwan (TWD/USD)	30.0	-0.04	0.34	30.00	29.87	
Japan (JPY/USD)	99.81	-0.15	-2.00	99.76	99.41	
Korea (KRW/USD)	1134	-0.15	2.26	1140	1148	
India (INR/USD)	59.7	-0.24	0.02	60.71	63.29	
Australia (USD/AUD)	0.92	-0.70	-0.94	1.10	1.12	
Singapore (SGD/USD)	1.27	-0.24	0.17	1.27	1.27	
Indonesia (IDR/USD)	9935	-0.07	-0.15	10229	10769	
Thailand (THB/USD)	31.0	-0.10	0.00	31.12	31.51	
Malaysia (MYR/USD)	3.17	-0.10	0.47	3.18	3.22	
Philippines (PHP/USD)	43.3	-0.46	0.03	43.35	43.50	

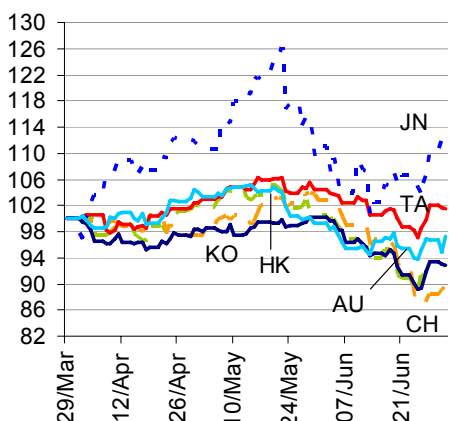
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	4.75	-0.67	-1.95	-0.02
Hong Kong (HIBOR/1W)	0.12	0.00	0.00	0.02	
Taiwan (TAIBOR/1W)	0.53	0.00	0.00	0.00	
Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01	
Korea (KORIBOR/1M)	2.58	0.00	-0.01	0.00	
India (MIBOR/7D)	4.76	-1.06	-2.93	-0.22	
Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00	
Indonesia (JIBOR/1W)	4.56	-0.01	0.00	0.29	
Thailand (BIBOR/1W)	2.77	0.00	0.00	0.00	
Malaysia (KLIBOR/1W)	2.90	0.00	0.00	0.00	
Philippines (PHIBOR/1W)	1.25	0.00	-0.31	0.31	

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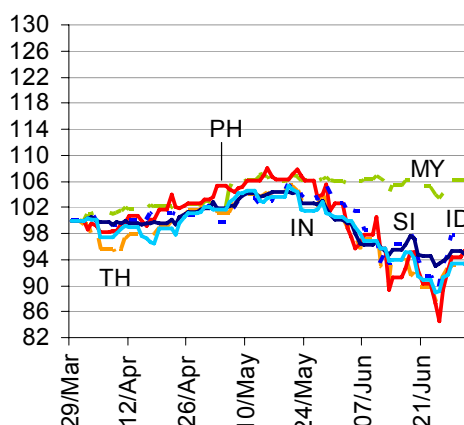
Charts

Chart 1
Stock Markets



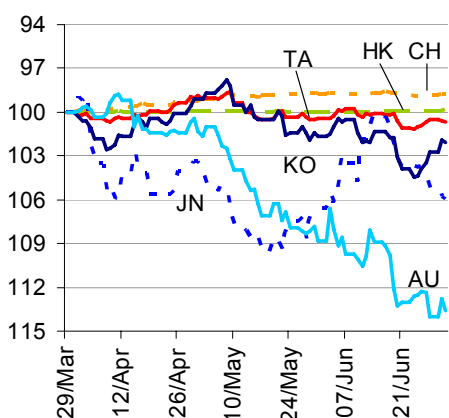
Source: BBVA Research and Bloomberg

Chart 2
Stock Markets



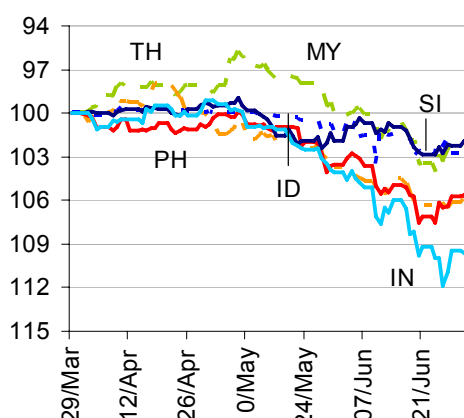
Source: BBVA Research and Bloomberg

Chart 3
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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