

Asia Flash

Asia

China issues statement on policies to facilitate growth and restructuring

The central government (State Council) today published financial sector guidelines for public sector agencies on ways to bolster growth and facilitate economic restructuring. The guidelines come against concerns about slowing growth and the productivity of credit flows. In today's guidelines, the government reemphasized its "prudent" monetary policy stance -- i.e., expect no change in the policy stance. To improve the allocation of credit, the guidelines urged financial institutions to enhance the efficiency of credit flows by ensuring their use in the real sector (rather than through the shadow banking system) and reduce flows to industries with overcapacity. On economic reforms, the guidelines indicate the government will press ahead with interest rate liberalization (no timetable given) and will encourage greater private sector participation in the banking sector. We interpret today's guidelines as another directive by the government to curtail financial sector risks and support growth.

India moves ahead on ambitious 'Food Security Bill' to reduce poverty

The government this week issued an executive order approving the Food Security Bill -- a framework that assures subsidized food grains to eligible citizens, cover around two-thirds of the population. The order awaits passage into law at the Parliament's upcoming session that begins on July 26. Once passed, addressing infrastructure bottlenecks will be a key for successful implementation of the bill. It is currently budgeted at 0.8% of GDP for FY14 (year ending March 2014). To keep a check on the fiscal deficit, the government will need to cut back on other expenditures, including a reduction in fuel and fertilizer subsidies. In this context, recent steps towards fuel price deregulation are a positive.

Briefly Noted:

Taiwan headline inflation remains subdued, easing to 0.60% y/y in June from 0.74% in May. The outturn is the second consecutive month of year-over-year increases below 1%, and the slowest gain since March 2012. Despite low inflation and sluggish growth, the central bank has held the benchmark interest rate unchanged at 1.875% since July 2011, and no further cuts are expected.

Philippines June inflation rose in June to 2.8% y/y (consensus: 2.7%) from 2.6% in May, still below the central bank's target of 3-5%. The economy expanded 7.8% in the first quarter of the year, registering the fastest growth in the region, as investment and government spending offset sluggish external demand. The central bank has maintained the policy rate at record-low of 3.5% for the past four meetings and if growth remains strong while the peso continues to weaken (the currency has depreciated -5.8% against US dollar this year), it will put upward pressure on inflation, and rate hikes may be in the cards by the end of the year.

Malaysia's exports in May continue to disappoint, falling by -5.8% y/y in May, posting a fourth consecutive contraction (consensus of -3.0%). The disappointing reading is mainly due to weaker shipments of crude oil and electronic products. Malaysia's economy expanded at a much slower pace of 4.1% in the first quarter of the year on slowing government spending and weaker external demand. Nevertheless, we maintain our full-year GDP forecast at 4.8% in 2013 given the resilient private consumption and investment.

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Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
Trade Balance	03 Jul	May	171M	53M	670M
Retail Sales s.a. (MoM)	03 Jul	May	-0.10%	0.30%	0.10%
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	--	48.7
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%	-3.00%	-5.80%
Philippines	Date	Period	Prior	Cons.	Actual
Consumer Price Index (YoY)	05 Jul	Jun	2.60%	2.70%	2.80%
Singapore	Date	Period	Prior	Cons.	Actual
Purchasing Managers Index	03 Jul	Jun	51.1	51.0	51.7
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%	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%

Upcoming Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
Unemployment Rate	11 Jul	Jun	5.50%	5.60%	--
China	Date	Period	Prior	Cons.	Actual
CPI YoY	09 Jul	Jun	2.10%	2.50%	--
Imports YoY%	10 Jul	Jun	-0.30%	6.20%	--
Exports YoY%	10 Jul	Jun	1.00%	3.90%	--
Trade Balance (USD)	10 Jul	Jun	\$20.42B	\$30.20B	--
Aggregate Financing	10-15 JUL	Jun	1185.6B	1400.0B	--
Foreign Reserves	10-15 JUL	Jun	\$3442.6B	\$3485.0B	--
New Yuan Loans	10-15 JUL	Jun	667.4B	800.0B	--
Money Supply - M2 (YoY)	10-15 JUL	Jun	15.80%	15.20%	--
Indonesia	Date	Period	Prior	Cons.	Actual
Foreign Reserves	05-08 JUL	Jun	\$105.15B	--	--
India	Date	Period	Prior	Cons.	Actual
Industrial Production YoY	12 Jul	May	2.30%	--	--
Imports YoY%	10-15 JUL	Jun	7.00%	--	--
Exports YoY%	10-15 JUL	Jun	-1.10%	--	--
Japan	Date	Period	Prior	Cons.	Actual
Current Account Total	08 Jul	May	¥750.0B	¥600.0B	--
Tertiary Industry Index (MoM)	10 Jul	May	0.00%	0.80%	--
BOJ 2014 Monetary Base Target	11 Jul	11-Jul	¥270T	--	--
Industrial Production (MoM)	12 Jul	May F	2.00%	--	--
Malaysia	Date	Period	Prior	Cons.	Actual
Industrial Production YoY	11 Jul	May	4.70%	2.00%	--
Philippines	Date	Period	Prior	Cons.	Actual
Total Exports (YoY)	10 Jul	May	-12.80%	--	--
Singapore	Date	Period	Prior	Cons.	Actual
GDP (annualized) (QoQ)	12 Jul	2Q A	1.80%	8.40%	--
GDP YoY	12 Jul	2Q A	0.20%	1.90%	--
South Korea	Date	Period	Prior	Cons.	Actual
Unemployment Rate (SA)	10 Jul	Jun	3.20%	3.20%	--
Taiwan	Date	Period	Prior	Cons.	Actual
Total Trade Bal in US\$ Billion	08 Jul	Jun	\$4.46B	\$3.20B	--
Total Exports (YoY)	08 Jul	Jun	0.90%	1.10%	--
Thailand	Date	Period	Prior	Cons.	Actual
Foreign Reserves	12 Jul	05-Jul	\$170.8B	--	--

Upcoming Calendar Events

Indonesia - Reference Rate, Jul 11	Current	Cons.	New
We expect the benchmark rate to remain unchanged	6.00%	6.25%	--
Japan - BoJ Target Rate, Jul 11	Current	Cons.	New
We expect the benchmark rate to remain unchanged	--	--	--
Malaysia - Overnight Rate, Jul 11	Current	Cons.	New
We expect the benchmark rate to remain unchanged	3.00%	3.00%	--
South Korea - 7-day Repo Rate, Jul 11	Current	Cons.	New
We expect the benchmark rate to remain unchanged	2.50%	2.50%	--
Thailand - Benchmark Interest Rate, Jul 10	Current	Cons.	New
We expect the benchmark rate to remain unchanged	2.50%	2.50%	--

Indicator of the Week

China: Exports (June, July 10th)

Forecast: 5.0% y/y	Consensus: 4.0% y/y	Prior: 1.0% y/y
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After growing strongly during the first quarter of the year, export figures have weakened in the past two months, especially after the authorities clamped down on over-invoicing, that was had been used by some traders to disguise capital inflows, inflating export figures to Hong Kong in particular. Weakening exports have been one of the factors behind the recent economic slowdown. We expect exports in June to remain subdued but to show a slight rebound in year-on-year terms due to favourable base effects. Going forward we expect some improvement in export trends during the year as external demand recovers, in line with our full-year export growth forecast of 8-10% in 2013. The coming 1-2 weeks will feature a number of important data releases that will be closely watched to gauge growth momentum (especially after the recent interbank liquidity squeeze) including inflation (July 9), credit aggregates (July 10-15), and Q2 GDP and monthly activity indicators for June (July 15).

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.	2007.2	0.1	1.4	-11.5	-8.8
	Hong Kong - Hang Seng	20854.7	1.9	2.0	-8.0	5.3
	Taiwan - Weighted	8001.8	1.4	-0.7	3.9	8.3
	Japan - Nikkei 225	14310.0	2.1	4.6	37.7	57.6
	Korea - Kospi	1833.3	-0.3	-1.6	-8.2	-2.2
	India - Sensex 30	19495.8	0.4	0.5	0.4	11.2
	Australia - SPX/ASX 200	4841.7	1.0	0.8	4.1	16.1
	Singapore - Strait Times	3169.7	0.7	0.6	0.1	6.7
	Indonesia - Jakarta Comp	4602.8	0.5	-4.5	6.6	13.1
	Thailand - SET	1441.3	0.7	-0.4	3.5	19.9
	Malaysia - KLCI	1772.3	0.1	-0.1	4.9	9.8
	Philippines - Manila Comp.	6500.5	0.6	0.5	11.8	21.1

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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	-0.12	0.08	6.22	6.30
	Hong Kong (HKD/USD)	7.75	-0.01	0.03	7.75	7.75
	Taiwan (TWD/USD)	30.0	0.01	-0.19	30.03	29.89
	Japan (JPY/USD)	99.96	0.08	-0.82	99.91	99.55
	Korea (KRW/USD)	1143	-0.35	-0.04	1147	1155
	India (INR/USD)	60.4	-0.50	-1.73	61.52	64.24
	Australia (USD/AUD)	0.92	0.17	0.27	1.10	1.12
	Singapore (SGD/USD)	1.27	-0.09	-0.54	1.27	1.27
	Indonesia (IDR/USD)	9945	-0.02	0.59	10357	10942
	Thailand (THB/USD)	31.1	-0.16	-0.26	31.31	31.70
	Malaysia (MYR/USD)	3.19	-0.11	-0.85	3.20	3.24
	Philippines (PHP/USD)	43.4	0.12	-0.55	43.47	43.70

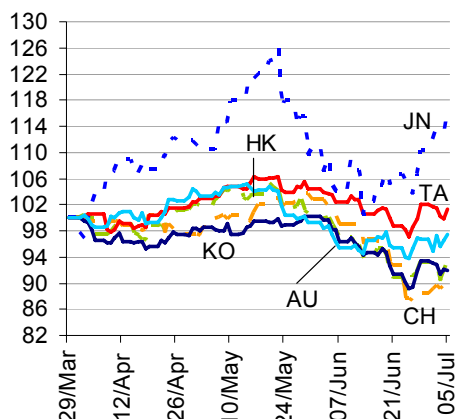
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.80	-0.12	-2.35	-0.95
	Hong Kong (HIBOR/1W)	0.12	0.00	0.00	0.03
	Taiwan (TAIBOR/1W)	0.53	0.00	0.00	0.00
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	2.57	0.00	-0.02	-0.01
	India (MIBOR/7D)	4.42	0.77	-1.83	-0.32
	Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00
	Indonesia (JIBOR/1W)	4.55	0.00	-0.05	0.28
	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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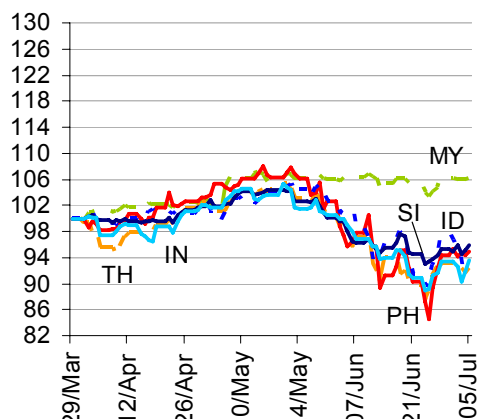
Charts

Chart 1
Stock Markets



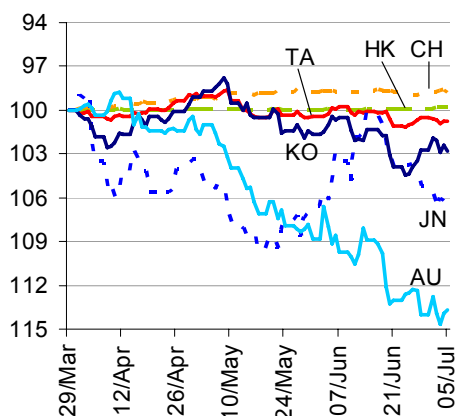
Source: BBVA Research and Bloomberg

Chart 2
Stock Markets



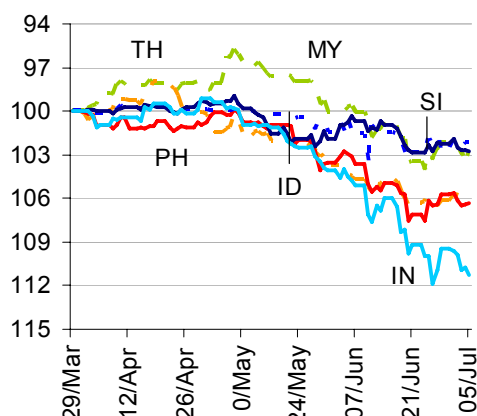
Source: BBVA Research and Bloomberg

Chart 3
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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