

Asia Flash

Asia

The first in a series of upcoming data releases in China came out today, with inflation for June exceeded mildly exceeding expectations at 2.7% y/y (see below). The news was taken in stride, as the outturn is still within the government's 3.5% target and, if anything shows that consumer demand remains buoyant. Most Asian stocks inched up today, led by the Nikkei (+2.6%), and Shanghai closed higher (+0.4%), partially reversing yesterday's steep decline (-2.4%). (still, the index is down 13% year-to-date). We await trade data tomorrow, with the June export outturn in focus (BBVA: +5.0%y/y, consensus: 3.7% y/y) after recent weakness.

Rise in China June inflation: no need to worry

June headline inflation rose to 2.7% y/y (BBVA: 2.4%; consensus: 2.5%) from 2.1% in May on higher-than-expected food prices (pork and vegetable prices). Food price inflation ticked up to 4.9% y/y (3.2% in May), while non-food inflation remained flat at 1.6% y/y. Meanwhile, producer price inflation remained negative at -2.7% y/y, but was up from -2.9% in May. Besides food prices, the rise in headline inflation was due to a low base effect from last year. With growth momentum slowing, we do not interpret the outturn as reflecting underlying inflationary pressures and, moreover, it is still well within the government's 3.5% comfort range. As such, there continues to be room for monetary policy easing if needed, although we do not currently expect such stimulus in view of the authorities' emphasis on curtailing financial fragilities. We expect inflation to rise gradually over the course of 2013 on base effects and a cyclical upswing in food prices. Full-year inflation should average 2.8% for the year, and is unlikely to rise above 3.5%.

China's PBoC announces steps to improve interbank bond trading

The People's Bank of China (PBoC) today announced measures to improve transparency in the interbank bond market by clamping down on illegal bond trading. The measures require all bond transactions to be conducted through the National Interbank Funding Center (rather than over-the-counter). Last April, several market participants were arrested or put under investigation on suspicion of circumventing trading restrictions to boost profits. We do not believe today's announcement is directly linked to efforts to curb shadow banking activity and the related squeeze in the interbank market.

Indian tightens rules on forex derivatives to curb rupee weakness

With the Indian rupee testing fresh historical lows against the USD (60.2 at present), the Reserve Bank of India and the Securities Exchange Board of India (SEBI) have tightened rules on currency derivatives trading to curb speculation. Measures include prohibiting dealers from carrying out proprietary trading in FX futures/exchange traded options, tighter limits on gross open positions, and doubling of the margin requirements on USD/INR currency derivatives. We expect the measures to provide a modest near term support to the rupee, however, given elevated foreign currency repayments by Indian companies (USD 8 bn over the rest of 2013).

Briefly Noted:

Taiwan's exports jumped 8.6% y/y in June from +0.9% in May, beating expectations for a

second straight month (Consensus: 1.2% y/y), representing a sequential gain of 6.0% m/m, on resilient shipments of electronic products. The upbeat outturn suggests recent external demand from Taiwan's major trading partners have improved, led by intra-regional shipments (to China, ASEAN, Japan etc.) and exports to the Europe (the first year-over-year gain in the past five months). However, exports to the US weakened. Export trends in the region have still been mixed, given the disappointing reading from Korea in June.

Stephen Schwartz
Chief Economist for Asia
stephen.schwartz@bbva.com.hk
+852 2582 3218

George Xu
Economist
george.xu@bbva.com.hk
+852 2582 3121

With contributions from the BBVA Research Asia Team

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%	2.70%
PPI YoY	09 Jul	Jun	-2.90%	-2.60%	-2.70%
Imports YoY%	10 Jul	Jun	-0.30%	6.00%	--
Exports YoY%	10 Jul	Jun	1.00%	3.70%	--
Trade Balance (USD)	10 Jul	Jun	\$20.42B	\$27.80B	--
Aggregate Financing	9-15 JUL	Jun	1185.6B	1275.0B	--
Foreign Reserves	9-15 JUL	Jun	\$3442.6B	\$3470.0B	--
New Yuan Loans	9-15 JUL	Jun	667.4B	800.0B	--
Money Supply - M2 (YoY)	9-15 JUL	Jun	15.80%	15.20%	--
India	Date	Period	Prior	Cons.	Actual
Industrial Production YoY	12 Jul	May	2.30%	1.50%	--
Japan	Date	Period	Prior	Cons.	Actual
Current Account Total	08 Jul	May	¥750.0B	¥600.0B	¥540.7B
Tertiary Industry Index (MoM)	10 Jul	May	0.00%	0.70%	--
BOJ 2014 Monetary Base Target	11 Jul	11-Jul	¥270T	¥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	-11.10%	-14.10%	--
Singapore	Date	Period	Prior	Cons.	Actual
GDP (annualized) (QoQ)	12 Jul	2Q A	1.80%	8.10%	--
GDP YoY	12 Jul	2Q A	0.20%	2.00%	--
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	\$3.30B	\$3.25B
Total Exports (YoY)	08 Jul	Jun	0.90%	1.20%	8.60%
Thailand	Date	Period	Prior	Cons.	Actual
Foreign Reserves	12 Jul	05-Jul	\$170.8B	--	--

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%	--

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.	1965.5	0.4	-2.0	-13.4	-9.5
Hong Kong – Hang Seng	20683.0	0.5	0.1	-8.7	6.5	
Taiwan – Weighted	7971.2	1.1	-0.6	3.5	9.0	
Japan – Nikkei 225	14472.9	2.6	2.7	39.2	62.7	
Korea – Kospi	1830.4	0.7	-1.3	-8.3	-0.3	
India – Sensex 30	19439.5	0.6	-0.1	0.1	11.8	
Australia – SPX/ASX 200	4881.7	1.5	1.0	5.0	18.5	
Singapore – Strait Times	3178.6	0.7	0.2	0.4	8.5	
Indonesia – Jakarta Comp	4403.8	-0.7	-6.9	2.0	10.5	
Thailand – SET	1398.7	-0.4	-4.5	0.5	17.8	
Malaysia – KLCI	1766.5	0.2	-0.3	4.6	9.0	
Philippines – Manila Comp.	6327.0	0.1	-1.9	8.8	20.2	

Last update: today, 19:00 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)	6.13	0.07	0.06	6.21	6.29
Hong Kong (HKD/USD)	7.76	-0.01	-0.05	7.75	7.75	
Taiwan (TWD/USD)	30.1	0.16	-0.31	30.09	29.95	
Japan (JPY/USD)	101.18	-0.21	-0.54	101.13	100.77	
Korea (KRW/USD)	114.2	0.92	-0.67	114.7	115.5	
India (INR/USD)	60.2	0.51	-1.06	61.34	64.11	
Australia (USD/AUD)	0.92	0.26	0.12	1.10	1.12	
Singapore (SGD/USD)	1.28	0.02	-0.56	1.28	1.28	
Indonesia (IDR/USD)	9983	-0.27	-0.48	10447	11082	
Thailand (THB/USD)	31.3	0.29	-1.12	31.50	31.90	
Malaysia (MYR/USD)	3.19	0.68	-0.64	3.20	3.25	
Philippines (PHP/USD)	43.4	0.62	-0.29	43.57	43.75	

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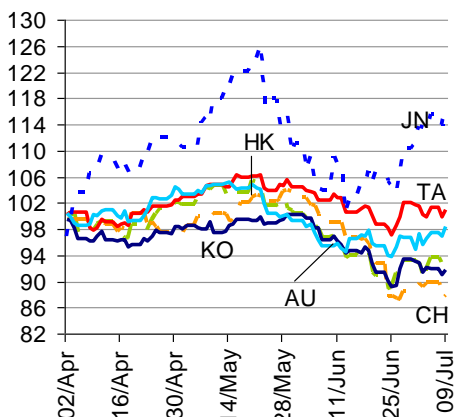
INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.60	-0.06	-0.32	-3.40
Hong Kong (HIBOR/1W)	0.12	0.00	0.00	0.03	
Taiwan (TAIBOR/1W)	0.53	0.00	0.00	0.00	
Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01	
Korea (KORIBOR/1M)	2.56	0.00	-0.02	-0.02	
India (MIBOR/7D)	5.08	1.32	0.32	-3.92	
Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00	
Indonesia (JIBOR/1W)	4.55	0.00	-0.01	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

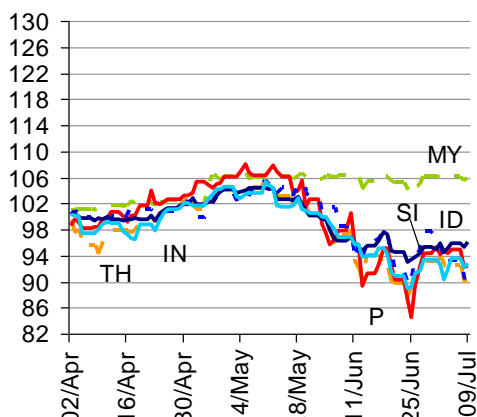
Stock Markets



Source: BBVA Research and Bloomberg

Chart 2

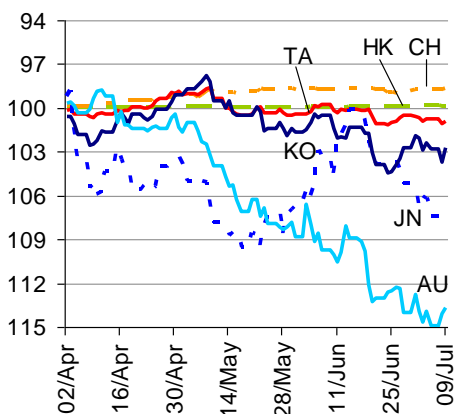
Stock Markets



Source: BBVA Research and Bloomberg

Chart 3

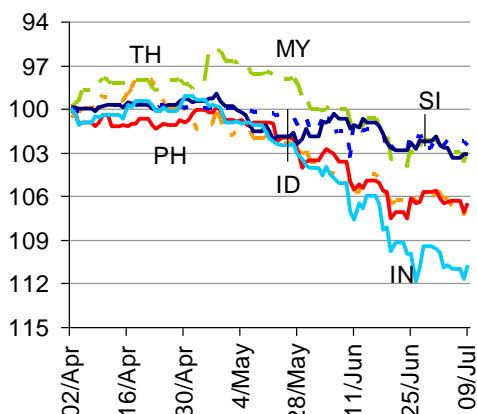
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4

Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Stephen Schwartz
Chief Economist for Asia
stephen.schwartz@bbva.com.hk


Fielding Chen
Senior Economist
fielding.chen@bbva.com.hk

Le Xia
Senior Economist
xia.le@bbva.com.hk

Sumedh Deorukhkar
Senior Economist (India, Mumbai)
sumedh.deorukhkar@bbva.com

George Xu
Economist
george.xu@bbva.com.hk

Weiwei Liu
Economist
carrie.liu@bbva.com.hk

BBVA RESEARCH  | 10/F., Two IFC, 8 Finance Street, Central, Hong Kong | Tel.: +852 2582 3111 | www.bbva.com.hk

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