

Asia Flash

Asia

Market sentiment in Asia remained weak for a second straight day on a combination of weak earnings results and industrial profits in Japan and China, respectively. Losses were led by the Nikkei (-3.3%) which has now declined by a cumulative -7.6% since July 23, just after the ruling coalition's Upper House election victory which was supposed to have bode well for the economic outlook and implementation of Prime Minister Abe's growth strategy.

China gears up for urgent audit of local government debt

The National Audit Office (NAO) announced over the weekend that it will initiate a new audit of local government debt, to be published in October-November. The last nation-wide audit was two years ago, in which the NAO reported total local government debt of RMB 10.7 trillion (27% of GDP). We believe that local government debt probably increased to RMB 16.5 trillion as of end-2012, based on figures from the People's Bank of China (PBoC) and the China Banking Regulatory Commission (CBRC). The audit reflects the central government's continued concern about the level of local government debt, which has recently been heightened by a parallel build up of corporate sector debt, all of which pose risks to financial stability. The announcement may have contributed today's decline of the Shanghai Composite (-1.7%), even though a comprehensive audit would be welcome in clarifying the magnitude of the local government debt burden.

China's industrial profit growth moderates in June

Profit growth declined to 6.3% y/y from 15.5% y/y in May, resulting in first half growth of 11.1% y/y. The decline in June was partially due to a higher base effect last year, but was also dragged down by weakness in the coal mining, petroleum & natural gas acquisition and non-ferrous metals mining/smelting sectors. The modest industrial profit growth outturn and disappointing July HSBC Flash PMI reading (47.7) reinforce worries over an economic slowdown. We await the official manufacturing PMI outturn on Thursday (BBVA: 50.0; consensus: 49.8).

Mixed readings on the Japanese economy

Retail sales in June surprised to the downside, contracting by -0.2% m/m sa (consensus: 0.8% m/m) after gains of 1.5% m/m in May, mainly due to a drop in fuel sales on rising oil prices. On a year-over-year basis, retail sales growth still managed to record a positive 1.6% y/y in June after 0.8% in May. Separately, the June CPI data released last Friday registered positive inflation of 0.2% y/y (consensus: 0.1%) for the first time since June 2012, on signs that the aggressive monetary easing and yen weakness are working to end deflation, albeit still well short of the BoJ's 2% target. All in all, the government's growth strategy appears to be working, although uncertain prospects for the implementation and depth of structural reforms continue to weigh on market sentiment.

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Calendar Indicators

China	Date	Period	Prior	Cons.	Actual
Industrial Profits YTD YoY	27 Jul	Jun	12.30%	--	11.10%
Manufacturing PMI	01 Aug	Jul	50.1	49.8	--
HSBC Manufacturing PMI	01 Aug	Jul	48.2	47.7	--
Hong Kong	Date	Period	Prior	Cons.	Actual
Retail Sales - Value (YoY)	01 Aug	Jun	12.80%	12.00%	--
Indonesia	Date	Period	Prior	Cons.	Actual
HSBC-Markit Manufacturing PMI	01 Aug	Jul	51.0	--	--
CPI YoY	01 Aug	Jul	5.90%	8.08%	--
Exports (YoY)	01 Aug	Jun	-4.50%	1.50%	--
GDP Constant Price (QoQ)	02 Aug	2Q	1.41%	2.80%	--
GDP YoY	02 Aug	2Q	6.02%	5.90%	--
India	Date	Period	Prior	Cons.	Actual
HSBC-Markit Manufacturing PMI	01 Aug	Jul	50.3	--	--
Japan	Date	Period	Prior	Cons.	Actual
Retail Trade YoY	29 Jul	Jun	0.80%	2.10%	1.60%
Jobless Rate	30 Jul	Jun	4.10%	4.00%	--
Industrial Production (MoM)	30 Jul	Jun P	1.90%	-1.50%	--
Markit/JMMA Manufacturing PMI	31 Jul	Jul	52.3	--	--
Monetary Base Avg Amount YoY	02 Aug	Jul	36.00%	--	--
Singapore	Date	Period	Prior	Cons.	Actual
Unemployment Rate (sa)	31 Jul	2Q P	1.90%	1.90%	--
Purchasing Managers Index	01 Aug	Jul	51.7	51.4	--
South Korea	Date	Period	Prior	Cons.	Actual
Industrial Production (YoY)	30 Jul	Jun	-1.40%	-1.10%	--
CPI YoY	01 Aug	Jul	1.00%	1.40%	--
Ext Trade - Export (YoY)	01 Aug	Jul	-1.00%	2.10%	--
HSBC Manufacturing PMI	01 Aug	Jul	49.4	--	--
Taiwan	Date	Period	Prior	Cons.	Actual
GDP YoY	31 Jul	2Q P	1.67%	2.20%	--
HSBC Manufacturing PMI	01 Aug	Jul	49.5	--	--
Thailand	Date	Period	Prior	Cons.	Actual
Total Exports YOY%	31 Jul	Jun	-5.10%	--	--
CPI YoY	01 Aug	Jul	2.25%	2.15%	--
Vietnam	Date	Period	Prior	Cons.	Actual
HSBC Manufacturing PMI	01 Aug	Jul	46.4	--	--

Calendar Events

India - Repurchase Rate, Jul 30

We expect the benchmark rate to remain unchanged

Current

7.25%

Cons.

7.25%

New

--

India - Cash Reserve Ratio, Jul 30

We expect the benchmark rate to remain unchanged

Current

4.00%

Cons.

4.00%

New

--

Indicator of the Week

China: NBS PMI (July, Aug 1st)

Forecast: 50.0

Consensus: 49.8

Prior: 50.1

China's manufacturing activities likely slow further in July, as suggested by the weaker-than-expected flash HSBC PMI (47.7; consensus and prior: 48.2). That said, bigger firms and SOEs, which the official NBS PMI surveys, may hold up relatively well, especially in view that the government has introduced growth-supportive measures late in the month. Therefore, the NBS manufacturing PMI could manage to stay around the 50-expansion threshold, and we expect output to pick up gradually on an improvement in external demand and supportive government policies.

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.	1976.3	-1.7	-1.4	-12.9	-7.2
Hong Kong - Hang Seng	21850.2	-0.5	2.0	-3.6	13.4	
Taiwan - Weighted	8084.5	-0.8	-0.3	5.0	13.5	
Japan - Nikkei 225	13661.1	-3.3	-6.8	31.4	59.5	
Korea - Kospi	1899.9	-0.6	1.0	-4.9	3.9	
India - Sensex 30	19593.3	-0.8	-2.8	0.9	16.4	
Australia - SPX/ASX 200	5046.3	0.1	0.9	8.5	19.9	
Singapore - Strait Times	3237.0	0.0	0.1	2.2	8.0	
Indonesia - Jakarta Comp	4580.5	-1.7	-2.1	6.1	12.2	
Thailand - SET	1454.3	-1.5	-1.9	4.5	23.5	
Malaysia - KLCI	1798.8	-0.5	0.1	6.5	10.7	
Philippines - Manila Comp.	6717.7	-0.7	1.4	15.6	28.7	

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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	0.15	6.21	6.29
Hong Kong (HKD/USD)	7.76	0.00	0.02	7.75	7.75	
Taiwan (TWD/USD)	29.9	-0.08	-0.04	29.88	29.73	
Japan (JPY/USD)	97.76	0.46	1.95	97.71	97.40	
Korea (KRW/USD)	1111	0.06	0.73	1117	1127	
India (INR/USD)	59.3	-0.47	0.68	60.62	63.98	
Australia (USD/AUD)	0.92	-0.19	-0.09	1.09	1.11	
Singapore (SGD/USD)	1.27	-0.17	-0.47	1.27	1.27	
Indonesia (IDR/USD)	10275	0.16	-1.07	10694	11374	
Thailand (THB/USD)	31.2	-0.10	-0.77	31.33	31.69	
Malaysia (MYR/USD)	3.23	-0.57	-1.41	3.24	3.29	
Philippines (PHP/USD)	43.3	-0.07	-0.14	43.25	43.45	

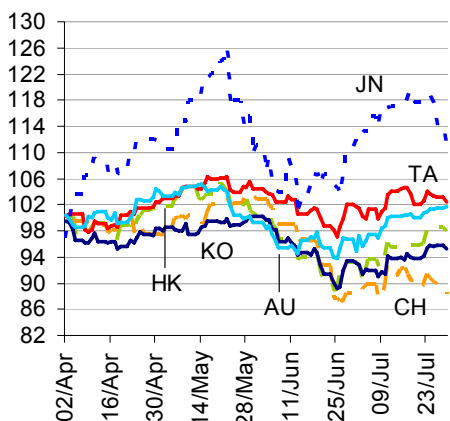
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	4.99	0.64	0.97	-1.16
Hong Kong (HIBOR/1W)	0.12	0.00	0.00	0.00	
Taiwan (TAIBOR/1W)	0.53	0.00	0.00	-0.01	
Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01	
Korea (KORIBOR/1M)	2.56	0.00	0.00	-0.03	
India (MIBOR/7D)	5.16	-0.64	0.52	-1.09	
Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00	
Indonesia (JIBOR/1W)	5.18	0.01	0.02	0.58	
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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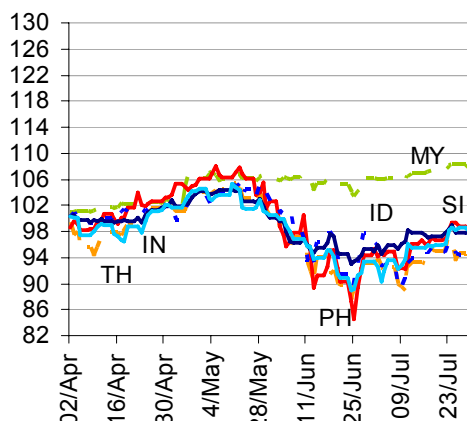
Charts

Chart 1
Stock Markets



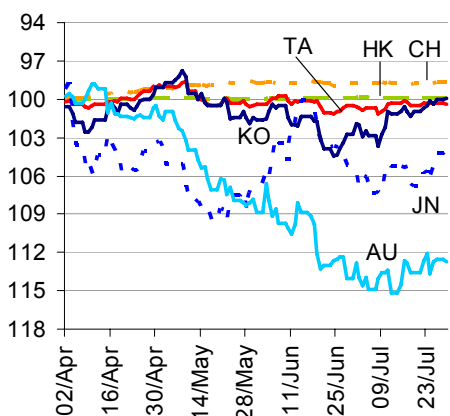
Source: BBVA Research and Bloomberg

Chart 2
Stock Markets



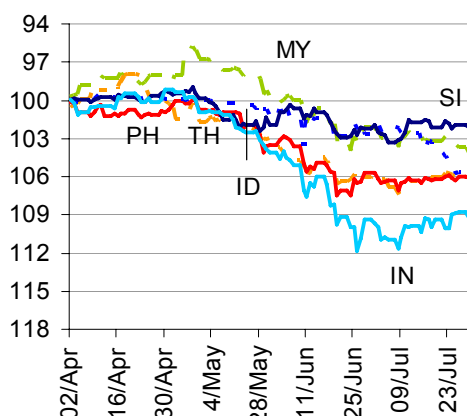
Source: BBVA Research and Bloomberg

Chart 3
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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