

Asia Flash

Asia

Despite mixed readings in Japan, outlook remains favorable

A set of mixed indicators from Japan today is likely to raise new questions about the outlook amidst ongoing concerns about the implementation of the government's structural reform agenda. Industrial output for June fell by -3.3% m/m, s.a. (consensus: -1.5%; previous: 1.9%) and household spending declined by -0.4% y/y (consensus: 1.4%). On the positive side, the unemployment rate fell to 3.9% y/y from 4.1% in May, suggesting improving labor market trends. After steep declines since July 23, the Nikkei rose today by 1.5% and the yen remained stable at 98.0 per USD. Despite today's mixed data, we continue to believe the economy is picking up on the strength of the aggressive monetary and fiscal easing, in line with our full-year growth projection of 1.7%.

RBI keeps rates on hold, and cuts growth projections

The RBI today kept its benchmark repo rate unchanged at 7.25% as expected. In the RBI's words, "moderating wholesale price inflation... and decelerating growth would have provided a reasonable case for continuing on the easing stance." (The RBI last cut rates on May 3.) But the decision to stay on hold was guided by external sector concerns, which caused the RBI to tighten liquidity conditions, "over the past two weeks aimed at checking undue volatility in the foreign exchange market." The RBI also revised its growth projection downwards from 5.7% to 5.5% for fiscal year 2014 (ending in March) due to persistent weakness in industrial activity and the effect of tepid global growth on India's exports. While we expect the RBI to keep rates unchanged at its next policy meeting in September, we continue to see room for one more rate cut before the end of the year in view of easing inflation trends and downside risks to growth.

Briefly Noted:

PBoC injects liquidity to ease tightness in the interbank market

The People's Bank of China today conducted reverse repo operations of RMB 17 billion to inject liquidity to the interbank market, seeking to check a rise in short-term rates (the 7-day repo rate climbed has risen to 4-5% in the past week compared to 3-4% previously). The rise in rates illustrates the impact of capital outflows and the lingering effects of the June liquidity squeeze, as banks have become more cautious in guarding their liquidity. Looking ahead, we expect the PBoC to rely on a number of monetary policy tools (such as reverse repos, short-term liquidity facility, short-term liquidity operations, and even required reserve ratio adjustments) to sustain interbank liquidity.

South Korea June industrial production expands by 0.4% m/m, s.a., in line with consensus expectations, from -0.1% the previous month. The June IP outturn comes after last week's better-than-expected preliminary Q2 GDP of 1.1% q/q, s.a.. We maintain our projection of 2.7% for full-year growth in 2013 and expect the Bank of Korea (BOK) to cut interest rates by another 25 bps in the coming months in view of headwinds to growth.

Taiwan's Cabinet announced a reshuffle yesterday, in a sign of a possible acceleration of financial liberalization. The reshuffle includes a new Chairman of the Financial Supervisory Commission (FSC). Earlier this year, the government proposed a pilot program of Free Economics Demonstration Zone (FEDZ), aiming to attract more foreign investors.

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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%	3.90%
Industrial Production (MoM)	30 Jul	Jun P	1.90%	-1.50%	-3.30%
Overall Household Spending YoY	30 Jul	Jun	-1.60%	1.40%	-0.40%
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	-1.30%	-1.10%	-2.60%
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	Cons.	New
7.25%	7.25%	7.25%

India - Cash Reserve Ratio, Jul 30

We expect the benchmark rate to remain unchanged

Current	Cons.	New
4.00%	4.00%	4.00%

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.	1990.1	0.7	-2.6	-12.3	-5.7
Hong Kong - Hang Seng	21954.0	0.5	0.2	-3.1	12.1	
Taiwan - Weighted	8163.6	1.0	-0.6	6.0	14.0	
Japan - Nikkei 225	13869.8	1.5	-6.1	33.4	60.6	
Korea - Kospi	1917.1	0.9	0.7	-4.0	4.0	
India - Sensex 30	19348.3	-1.3	-4.7	-0.4	12.9	
Australia - SPX/ASX 200	5047.2	0.0	0.6	8.6	18.9	
Singapore - Strait Times	3245.5	0.3	-0.3	2.5	7.0	
Indonesia - Jakarta Comp	4608.5	0.6	-3.3	6.8	12.4	
Thailand - SET	1435.4	-1.3	-5.1	3.1	20.3	
Malaysia - KLCI	1795.1	-0.2	-0.6	6.3	10.0	
Philippines - Manila Comp.	6728.0	0.2	-0.2	15.7	27.5	

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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	0.10	6.21	6.30
Hong Kong (HKD/USD)	7.76	0.02	0.03	7.75	7.75	
Taiwan (TWD/USD)	30.0	-0.08	-0.15	29.92	29.77	
Japan (JPY/USD)	97.99	-0.03	1.47	97.94	97.64	
Korea (KRW/USD)	1114	-0.28	0.30	1120	1129	
India (INR/USD)	60.3	-1.42	-0.85	61.62	65.08	
Australia (USD/AUD)	0.91	-1.50	-2.45	1.11	1.13	
Singapore (SGD/USD)	1.27	-0.23	-0.50	1.27	1.27	
Indonesia (IDR/USD)	10274	0.01	-0.72	10696	11401	
Thailand (THB/USD)	31.3	-0.29	-1.02	31.43	31.79	
Malaysia (MYR/USD)	3.23	0.02	-1.46	3.26	3.31	
Philippines (PHP/USD)	43.4	-0.21	-0.44	43.37	43.57	

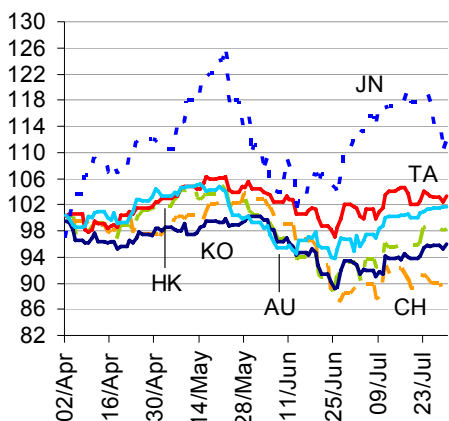
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	4.95	-0.04	0.55	-1.20
Hong Kong (HIBOR/1W)	0.12	0.00	0.00	0.00	
Taiwan (TAIBOR/1W)	0.52	0.00	0.00	-0.01	
Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01	
Korea (KORIBOR/1M)	2.56	0.00	0.00	-0.02	
India (MIBOR/7D)	5.00	-0.16	1.02	-1.25	
Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00	
Indonesia (JIBOR/1W)	5.19	0.01	0.02	0.59	
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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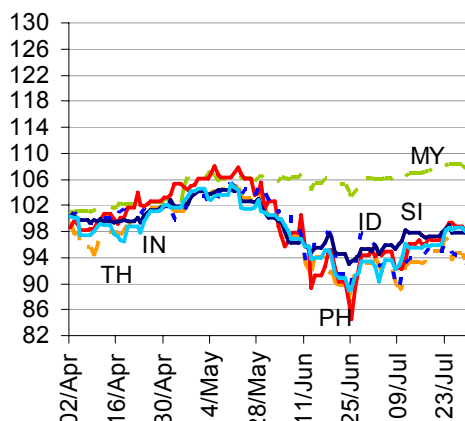
Charts

Chart 1
Stock Markets



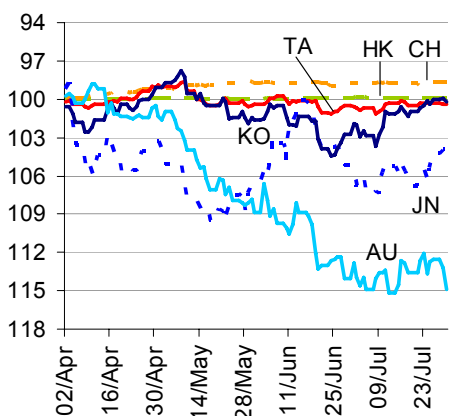
Source: BBVA Research and Bloomberg

Chart 2
Stock Markets



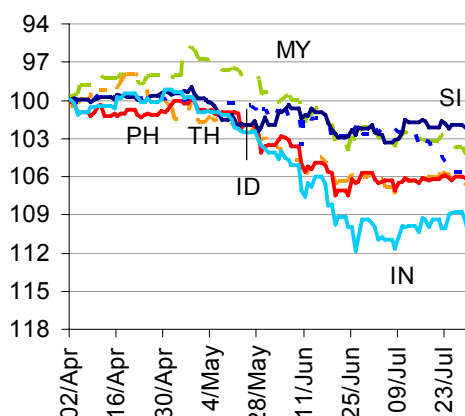
Source: BBVA Research and Bloomberg

Chart 3
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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