

Asia

Weekly Watch

Hong Kong, July 19, 2010

Economic Analysis

Asia

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Asian growth stays strong, with signs of a soft-landing

The key data releases over the past week were China and Singapore second quarter GDP. Markets generally reacted positively to signs of a soft-landing in China and continued robust growth in Singapore, despite expectations of a weaker second half as global demand declines.

China's second quarter GDP growth eases...

Recent tightening measures appear to be working, as China's Q2 GDP growth came in slightly lower-than expected at 10.3% y/y, in line with other slowing indicators such as industrial production, M2, retail sales, and fixed assets (see Highlight). Inflation for June came in much lower than expected (2.9% y/y), helping to ease concerns of overheating, and reducing the likelihood of additional tightening measures in the near term. Other export-oriented economies in the region are still booming, such as Singapore which posted another quarter of rapid GDP growth (see Highlight). Both Singapore and Japan raised their official economic growth forecasts for 2010 to 13-15% (from 7-9%) and 2.6% (from 1.8%), respectively. India posted an inflation outturn of 10.55% in June, rising expectations of further interest rates hikes in the next monetary policy meeting scheduled on July 27th.

...monetary tightening continues

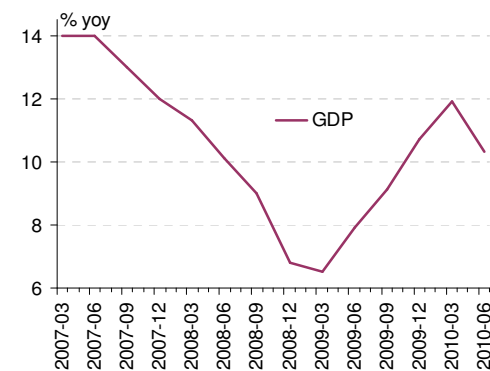
As expected, Thailand raised its policy rate by 25bps to 1.50% last week, following similar moves in recent weeks by Korea, Malaysia, Taiwan, and India. On the other hand, Japan and Philippines remained on hold. Tightening measures reveal the region's confidence in the growth outlook (see IMF Highlight).

In the coming week....

The coming week is relatively light on data releases. Markets will focus on June's CPI inflation for Hong Kong, Singapore and Malaysia, and exports orders for June in Taiwan.

Chart 1

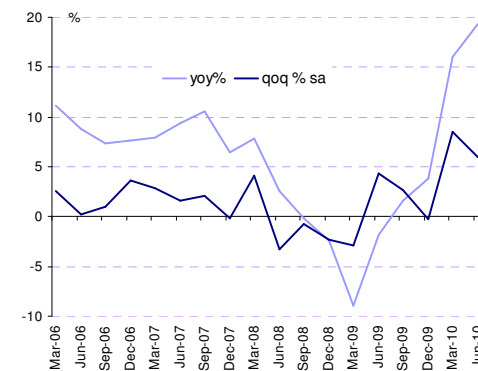
China's Q2 GDP suggests a soft-landing



Source: BBVA Research and Bloomberg

Chart 2

Singapore's Q2 GDP surges



Source: BBVA Research and Ministry of Trade and Industry

Highlights

Markets

Highlights

Calendar

Markets Data

China's slowing Q2 GDP confirms a soft-landing is underway

Singapore Q2 GDP (advanced estimate) shows further strength

IMF seeks to engage Asia in global policy debates

Markets Analysis

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Asian currencies maintain a positive bias

Global risk aversion subsided over the past week, which supported gains in Asian currencies. Risk appetite has been whetted by the successful T-bill auction by Greece, positive US earning reports and the strong eurozone output growth in May. Overall, the positive news helped mitigate the negative, including a ratings downgrade in Portugal and a weaker-than-expected German Zew survey. The dovish tone in the FOMC statement and slower-than-expected US retail sales and industrial output sustained USD weakness, with DXY (dollar index) testing a resistance level of 82.45. In Asia, the central banks in Korea and Thailand began to hike rates, which offered further support to their currencies. China's 2Q GDP slowed at a gradual pace. The markets have taken the data in stride, as the figures helped allay fears of a hard landing.

USDJPY increased at the beginning of the week after the ruling DPJ party lost in the Upper House election. The results raised concerns about the fiscal consolidation plan ahead, especially given the threat of potential downgrades by rating agencies. But the dollar weakness reversed the uptrend and USDJPY closed at 87.07.

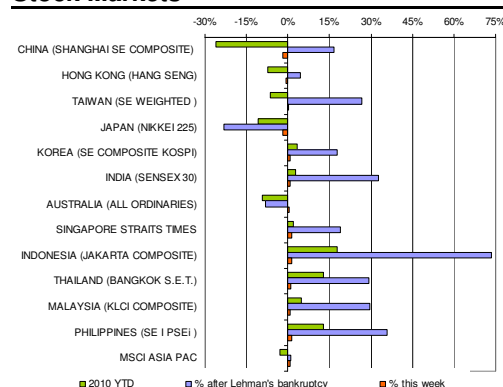
USDCNY has largely moved side-ways after an almost 1.0% CNY appreciation since the change of fx regime on June 22nd. Despite the gradual slowdown in Q2 GDP, export growth remained buoyant in June, which kept trade surplus wide. In addition, euro broke the key resistance level of 1.278, which made the currency basket that CNY is set stronger. We continue to see CNY to appreciate by 4.0-5.0% this year.

USDKRW was also largely unchanged when compared to last week's close. Singapore's 26% SAAR in 2Q GDP released on Wednesday provided a strong boost to KRW, but the strength waned after China's 2Q GDP came in lower than expected. USD-KRW closed at 1203 on Friday.

USDAUD consolidated at the range of 0.8780-0.8800 after seeing a new 8-week high of 0.8839 on Wednesday. Australian data flow this week generally supported Aussie's strength. For example, July Westpac/MI consumer confidence rebounded, and NAB business sentiment rose. Stronger domestic confidence has raised market expectations of rate hike resumption in 2H2010. Yet softer China's 2Q GDP growth has capped AUD's strength. AUD closed at 0.88 against the dollar on Friday.

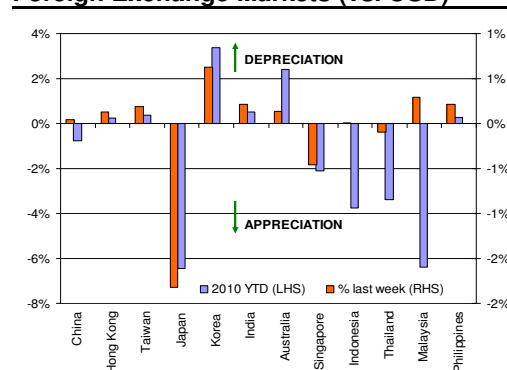
China, Japan and Hong Kong saw early gains evaporate at the end of the week. Nevertheless, the other Asian stock markets were up last week, triggered by strong regional indicators as Singapore's GDP for the second quarter, solid Chinese exports figures and further gains in metal prices.

Chart 3
Stock Markets



Source: BBVA Research

Chart 4
Foreign Exchange Markets (vs. USD)



Source: BBVA Research

Economics Analysis

Highlights

China's slowing Q2 GDP confirms a soft-landing is underway

China's release of Q2 macro data signal the economy is slowing at a gradual pace, as the authorities' recent tightening measures continue to take effect. Second quarter GDP slowed to 10.3% yoy (BBVA: 10.8%), broadly consistent with our 9.8% annual growth projection for 2010, which builds in a further slowdown in H2. Meanwhile June's CPI inflation eased to 2.9% yoy, well below expectations (BBVA: 3.7%, Consensus: 3.3%), as abundant agricultural supplies helped keep food prices in check. Other significant data released over the last week on exports (43.9% yoy, consensus: 38.0%), credit (18.5% yoy, consensus: 18.8%), property prices (11.4% yoy), retail sales (18.3% yoy, consensus: 18.8%), urban fixed asset investment (25.5% yoy, consensus: 25.2%) and industrial production (13.7% yoy, consensus: 15.1%), provide further support for our soft-landing scenario. The slowing data reduces the likelihood of further tightening measures during the remainder of the year, except in the property sector where the authorities continue to monitor price developments.

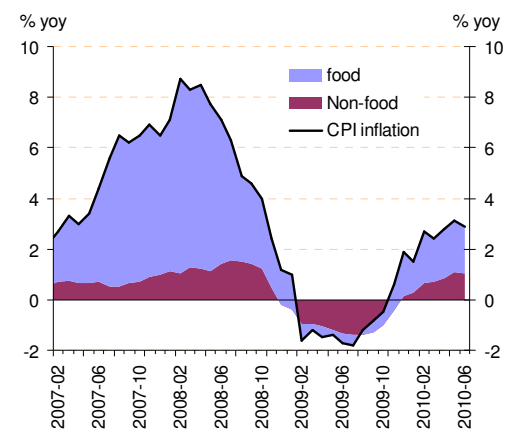
Singapore Q2 GDP (advanced estimate) shows further strength

Singapore's economy expanded at a rapid 26% qoq annualized pace in the second quarter of 2010 after a record surge (45.9% qoq annualized) in Q1. The stronger-than-expected figure was mainly driven by the manufacturing sector which is estimated to have grown by 45.5% yoy. Output in the biomedical manufacturing cluster, as well as a strong expansion in the electronics, underpinned the strong GDP outturn. Moreover, growth in the trade-related sectors was bolstered by healthy global trade flows, and the openings of the Integrated Resorts (casinos) generated higher visitor arrivals. Meanwhile, excluding motor vehicles, retail sales in May accelerated to 7.8% yoy from 7.6% in April. As a result, the Ministry of Trade and Industry (MTI) announced a sharp upward revision from the earlier forecast of 7.0-9.0 percent to 13.0-15.0 percent. Despite an expected slowdown in the second half of the year, the strong GDP outturn raises the likelihood of further monetary tightening at the MAS' next policy meeting in October. This could lead to further currency appreciation through an eventual re-centering of the band or steepening of the appreciation slope, within Singapore's exchange-rate based monetary policy framework.

IMF seeks to engage Asia in global policy debates

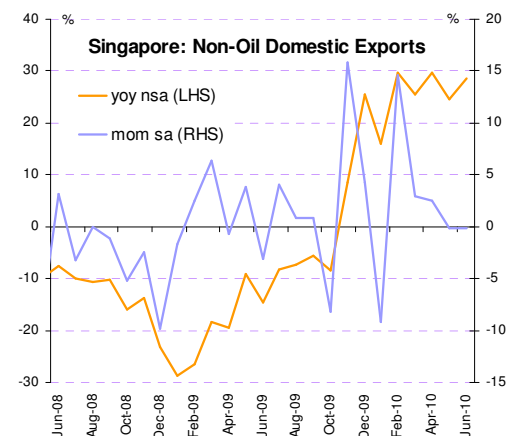
Korea played host to a high-level conference in Daejeon during July 12-13. The conference was attended by regional economists, bankers, analysts and the media. According to the IMF, the aim was to bring official recognition to the importance of Asia's role in the global economy, and to re-engage the region—which has largely distanced itself from IMF financial assistance since the crisis of 1997-98—in IMF-supported policy discussions. The IMF said it would do so by making the institution's analysis more useful to Asian member countries, tailoring the IMF's tools for mitigating shocks to the region's needs, and further strengthening Asia's role and voice in the IMF's voting structure. Highlights reported from the conference included the IMF's support for regional financial safety nets, such as the Chiang Mai Initiative (a multilateral regional swap agreement to boost central banks' fx reserves). On the economic outlook, the IMF emphasized Asia's resilience during the global financial crisis and the strength of its growth momentum. As in the past, it emphasized the importance for the region to build a "second engine of growth" based on domestic demand—investment and consumption, rather than exports given the anticipated low growth rates in export markets, especially the US and Europe. In the near term, the IMF cautioned that, given its strong growth prospects, the region will likely face the challenge of dealing with capital inflows that could trigger economic overheating.

Chart 5
China's CPI slowed in June, easing concerns on further monetary tightening



Source: BBVA Research and Bloomberg

Chart 6
Singapore exports surged in June, mainly due to previous year's basis effect



Source: BBVA Research and Bloomberg

What to watch

Taiwan: Export Orders (July 20)

Forecast: 22.1%

Consensus: 21.8%

Previous: 34.0%

Comment: Taiwan is well-integrated into the global supply chain and its export orders—a 1-3 months leading indicator of actual exports—is a good gauge of global demand. We expect export orders to ease in June weighed down by weaker global demand. Market Impact: A significantly weaker reading could jolt markets by intensifying concerns about a global slowdown.

Calendar

HONG KONG	Date	Period	Prior	Cons.
Unemployment Rate SA	20-Jul	JUN	4.60%	4.60%
CPI - Composite Index (YoY)	22-Jul	JUN	2.50%	2.70%
JAPAN	Date	Period	Prior	Cons.
Convenience Store Sales YoY	20-Jul	JUN	-3.20%	- -
All Industry Activity Index (MoM)	22-Jul	MAY	1.80%	-0.40%
MALAYSIA	Date	Period	Prior	Cons.
CPI YoY	21-Jul	JUN	1.60%	1.70%
PHILIPPINES	Date	Period	Prior	Cons.
Balance of Payments	19-Jul	JUN	\$388M	- -
SINGAPORE	Date	Period	Prior	Cons.
CPI (YoY)	23-Jul	JUN	3.20%	3.50%
TAIWAN	Date	Period	Prior	Cons.
Unemployment Rate - sa	22-Jul	JUN	5.22%	5.16%
Industrial Production (YoY)	23-Jul	JUN	30.67%	22.60%
THAILAND	Date	Period	Prior	Cons.
Customs Exports (YoY)	20-Jul	JUN	42.10%	34.30%
Customs Imports (YoY)	20-Jul	JUN	55.10%	34.70%
Customs Trade Balance	20-Jul	JUN	\$2211M	\$1266M

Hong Kong – Composite Interest Rate (19th July)

We expect interest rate will remain unchanged

Current	Expected
0.13	0.13

Global Market Data

Table 1:

Markets Data

			Close	Weekly change	Monthly change	Annual change
Interest Rates (changes in bps)	US	3-month Libor rate	0.52	0	-1	2
		2-yr yield	0.59	-3	-11	-39
		10-yr yield	2.98	-8	-21	-67
	EMU	3-month Euribor rate	0.86	4	13	-9
		2-yr yield	0.80	4	28	-45
		10-yr yield	2.67	3	0	-74
Exchange Rates (changes in %)	Europe	Dollar-Euro	1.297	2.5	5.0	-8.2
		Pound-Euro	0.84	0.2	0.9	-2.7
		Swiss Frano-Euro	1.35	0.9	-1.9	-11.2
	America	Argentina (peso-dollar)	3.93	-0.1	0.2	3.3
		Brazil (real-dollar)	1.76	0.3	-1.0	-8.5
		Colombia (peso-dollar)	1873	-0.1	-1.3	-6.7
		Chile (peso-dollar)	530	-1.7	-0.2	-0.5
		Mexico (peso-dollar)	12.79	0.0	1.5	-4.2
		Peru (Nuevo sol-dollar)	2.82	-0.1	-0.5	-6.2
	Asia	Japan (Yen-Dollar)	87.10	-1.6	-4.1	-7.4
		Korea (KRW-Dollar)	1203.39	0.4	-0.7	-4.5
		Australia (AUD-Dollar)	0.876	0.0	1.4	9.3
Comm. (chg %)		Brent oil (\$/b)	75.8	0.5	-3.6	16.0
		Gold (\$/ounce)	1204.8	-0.6	-3.2	28.5
		Base metals	472.4	-0.2	-1.0	14.0
Stock Markets (changes in %)	Euro	Ibex 35	10145	0.2	4.0	1.0
		EuroStoxx 50	2702	0.8	-1.0	9.4
		USA (S&P 500)	1096	1.7	-1.8	16.6
	America	Argentina (Merval)	2307	0.8	-0.3	42.2
		Brazil (Bovespa)	63489	0.0	-1.6	21.9
		Colombia (IGBC)	12958	3.3	4.4	31.0
		Chile (IGPA)	19553	1.1	3.5	28.4
		Mexico (CPI)	32381	1.2	-1.2	25.8
		Peru (General Lima)	14078	0.7	-1.9	7.7
		Venezuela (IBC)	64893	-1.0	0.3	41.4
	Asia	Nikkei225	9408	-1.8	-5.9	0.1
		HSI	20250	-0.6	0.6	7.7
Credit (changes in bps)	Ind.	Itraxx Main	115	1	-6	8
		Itraxx Xover	527	-2	-14	-181
		CDS Germany	41	-1	0	7
	Sovereign risk	CDS Portugal	293	15	-7	227
		CDS Spain	225	11	-18	147
		CDS USA	36	0	0	—
		CDS Emerging	242	-5	-19	-150
		CDS Argentina	908	2	-133	-1214
		CDS Brazil	124	-5	-8	-47
		CDS Colombia	133	-7	-19	-74
		CDS Chile	92	-3	0	-16
		CDS Mexico	124	-4	-4	-90
		CDS Peru	118	-7	-10	-65

Sources: Bloomberg, Datastream and J.P. Morgan

Asia Market Data

Table 2

STOCK MARKETS	INDEX	Last price	% change over a week	Year to date	% Change over 1 Y
	China – Shanghai Comp.	2424.3	-1.9	-26.0	-23.9
	Hong Kong – Hang Seng	20250.2	-0.6	-7.4	10.3
	Taiwan – Weighted	7664.6	0.2	-6.4	13.0
	Japan – Nikkei 225	9408.4	-1.8	-10.8	0.7
	Korea – Kospi	1738.5	0.9	3.3	21.4
	India – Sensex 30	17948.3	0.6	2.8	26.0
	Australia – SPX/ASX 200	4422.7	0.6	-9.2	10.7
	Singapore – Strait Times	2958.5	1.4	2.1	23.2
	Indonesia – Jakarta Comp	2992.5	1.6	18.1	41.3
	Thailand – SET	828.8	1.0	12.9	42.3
	Malaysia – KLCI	1336.7	0.9	5.0	20.5
	Philippines – Manila Comp.	3442.7	1.4	12.8	34.8

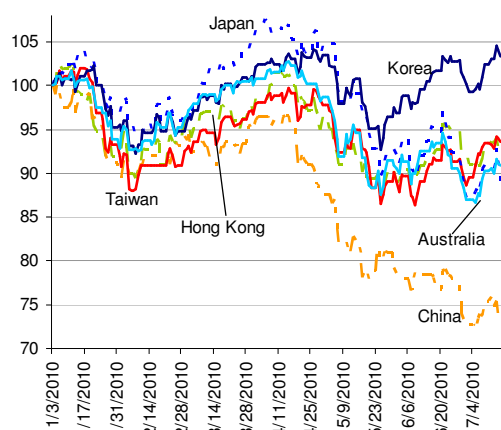
Source: BBVA Research and Bloomberg

Table 3

FOREIGN EXCHANGE MARKETS	CURRENCY	Spot	% change over a week	Forward 3-month	Forward 12-month
	China (CNY/USD)	6.77	-0.01	-0.01	-0.11
	Hong Kong (HKD/USD)	7.77	-0.13	-60.1	-245
	Taiwan (TWD/USD)	32.1	-0.19	-0.12	-0.58
	Japan (JPY/USD)	87.1	1.76	-11.0	-57.6
	Korea (KRW/USD)	1203	-0.63	3.06	9.58
	India (INR/USD)	46.8	-0.30	56.5	170
	Australia (USD/AUD)	0.88	-0.13	126	n.a.
	Singapore (SGD/USD)	1.37	0.49	-4.15	-19.5
	Indonesia (IDR/USD)	9042	0.07	108	488
	Thailand (THB/USD)	32.2	0.16	3.75	14.5
	Malaysia (MYR/USD)	3.21	-0.30	135.0	473
	Philippines (PHP/USD)	46.3	-0.29	0.37	1.37

Source: BBVA Research and Bloomberg

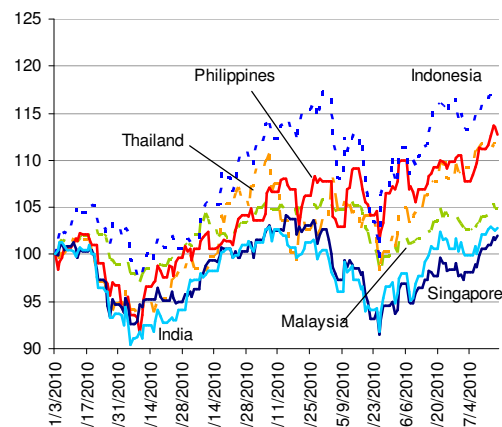
STOCK MARKETS



Source: BBVA Research and Bloomberg

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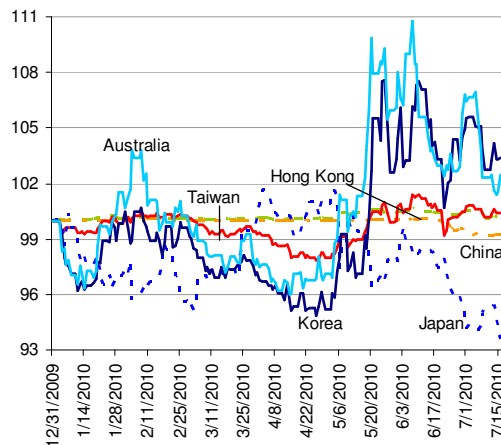
STOCK MARKETS



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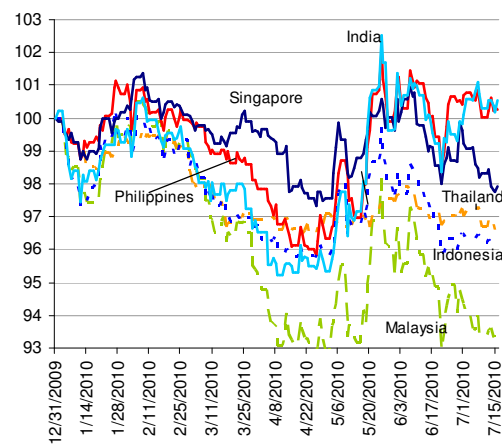
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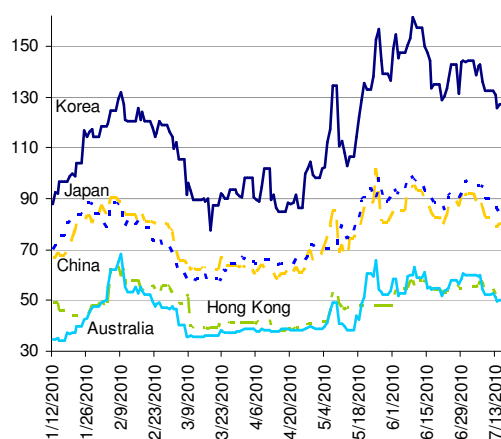
FOREIGN EXCHANGE MARKETS



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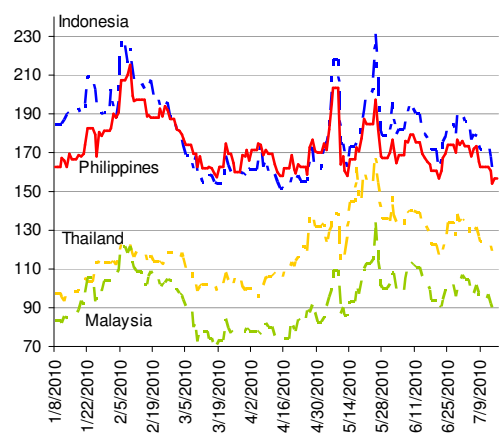
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