

## Asia

# Weekly Watch

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### Economic Analysis

#### Asia

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## Asia's robust growth indicators begin to moderate...

In a week that was light on data releases, our attention was focused on Taiwan's export orders which, while still robust, show signs of slowing. This is in line with our expectations of a slower H2 for the region as the global inventory cycle and impact of policy stimulus wears off. Last week's release of China's strong, but slowing, Q2 GDP reinforces this view.

### ...while inflation temporarily eases

A number of recent inflation releases for June show moderation for the time being. China, Korea, Thailand and Singapore, for example, have all posted lower-than-expected inflation over the past month. Nevertheless, many central banks in the region appear ready to continue normalizing interest rates from very low levels in order to preempt rising underlying inflationary trends.

### Markets rebound on improving European sentiment

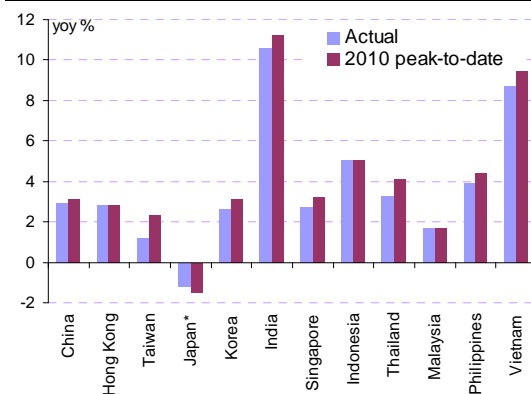
Asian currencies and equities were supported by a modest decline in global risk premiums.

### In the coming week....

Korea's Q2 GDP outturn is expected to reveal another strong quarter of growth, while markets will watch for CPI releases in Australia and Japan as a guide to the future course of monetary policy. The Reserve Bank of India will hold its next scheduled policy meeting on July 27, with expectations of another rate hike.

Chart 1

### Inflation is easing in most of the Asian countries

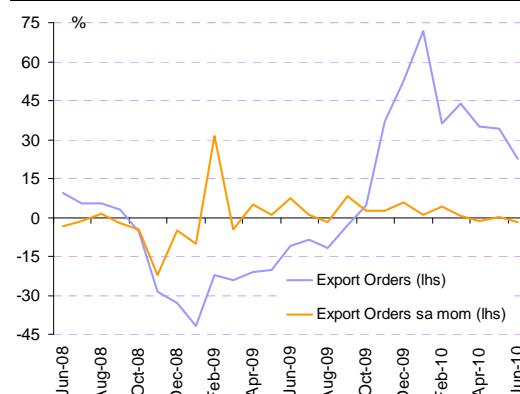


\*Deflation peak for Japan

Source: BBVA Research and Bloomberg

Chart 2

### Taiwan export orders still robust, but slowing



Source: BBVA Research and Ministry of Trade and Industry

## Highlights

Markets

Highlights

Calendar

Markets Data

**Asian inflation temporarily eases**

**Exports still strong, but is a slowdown in store?**

**Australia's central bank stays cautious on further rate hikes**

## Markets Analysis

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## Fears of a double-dip ease

Asian currencies and equities were supported by a modest decline in global risk premiums. In scheduled public debt auctions, Spain, Ireland and Greece managed to raise almost EUR10 bn, with CDS on Spain coming off from its peak. Eurozone industrial orders and PMI indices also came in better than expected, allaying fears of double-dips and counteracting negative assessments of the U.S. economy by Fed Chairman Bernanke. Overall, the market remained cautious ahead of the releases of the European bank stress tests at the end of the week. The Asian economic data calendar was extremely light this past week, with Taiwan's export orders providing one indicator of interest, giving tentative signs of a slowdown in external demand in 2H10.

The Australian Dollar strengthened (AUDUSD rose sharply) this week on optimistic remarks about Australia's economy by the RBA Governor. It was also supported by a surge in commodity prices, on positive data from Europe. Although there has been growing expectation for an RBA rate hike in August, the decision is still far from certain, as suggested by the RBA minutes, and will be critically dependent on market reaction to the stress test and 2Q inflation results.

The Japanese Yen strengthened further (USDJPY tested new lows) to around 86 per USD, largely due to dollar weakness, especially after Bernanke's comment that US economic outlook was "unusually uncertain". But positive European data and fears of intervention at the 85 level have provided some offset. In the near term, JPY will still be shaped by global risk premium rather than domestic data.

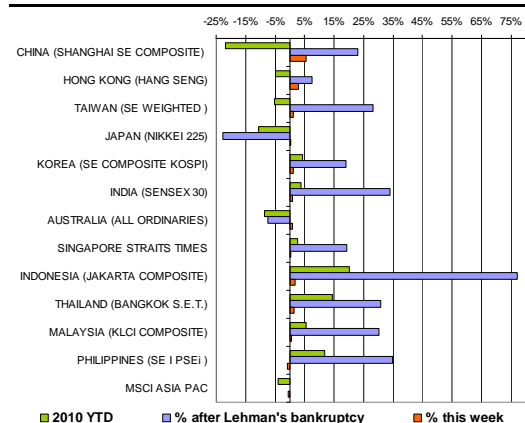
USDCNY continued to move sideways, and its movements so far did not correspond closely with the directions of the euro and the yen. The PBOC said it may announce estimates of the yuan's nominal effective exchange rate. If implemented, the basket against which the exchange was set could become more transparent, which in turn would enhance the credibility of the PBOC's commitment to exchange rate flexibility.

USDTWD traded tightly around 32.1 this week as data came largely within expectations – unemployment fell and export orders slowed. We think the sequential slowdown in export orders may indicate that we have already passed the cyclical peak of the export cycle. Export growth set to slow in 2H10 amidst fiscal consolidation of the developed countries, which may cap the upside of TWD in the near term.

Most Asian markets rallied last week led by China, on market speculation—so far denied by the authorities—that property sector tightening measures and loan targets may be eased. Elsewhere in the region, Asian stock markets benefitted from better-than-expected profits in some US companies (e.g., Apple), and strengthening confidence in Europe's bank stress test results. The Indonesian composite index posted a record high last week, given political stability and robust domestic demand.

Chart 3

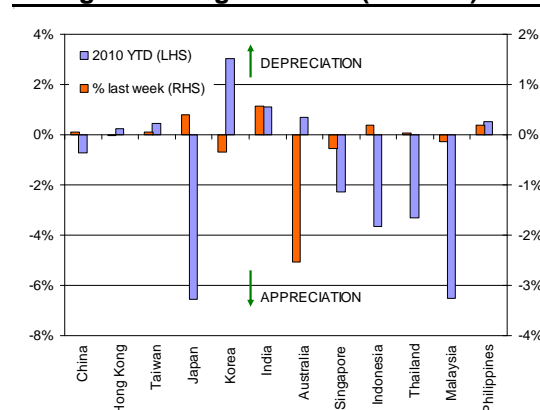
## Stock Markets



Source: BBVA Research

Chart 4

## Foreign Exchange Markets (vs. USD)



Source: BBVA Research

## Economics Analysis

## Highlights

**Asian inflation temporarily eases**

Despite rising inflationary trends over the past year on base effects, food prices, and robust domestic and external demand, recent outturns appear to have moderated for the time being. China, Korea, Thailand and Singapore, for example, all posted lower-than-expected inflation over the past month. This leveling off of inflation in some countries is taking pressure off central banks to engage in aggressive rate hikes amid uncertainties in the global outlook. Nevertheless, as reported in recent editions of the Weekly, monetary tightening has resumed across the region as policymakers seek to normalize rates from exceptionally low levels to preempt rising inflation later in the year. While there is considerable variation across countries, and core rates of inflation have remained more stable, a moderation in food prices in China and India are part of the story behind the leveling off of inflation. Nevertheless, India has continued to post high inflation (10.55% for the WPI in June) on higher fuel prices following the government's removal of subsidies; in China, inflation moderated for the month to just 2.9% y/y. Elsewhere in the region food prices are still continuing to put upward pressure on inflation (especially Indonesia and a lesser extent Malaysia). In other cases, fuel prices are slowing across the region (Korea, Thailand and the Philippines are the most remarkable cases in this regard). Japan, which will release June CPI inflation next week, remains mired in deflation, although in May price declines slowed.

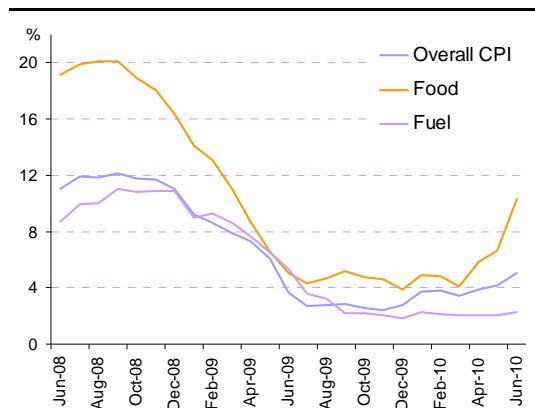
**Exports still strong, but is a slowdown in store?**

During the past few weeks, Asia has continued to post strong export outturns, especially for China, which has exceeded expectations by a wide margin (43.9% y/y in June; consensus: 38.0%). Exports in other economies such as Korea (32.4%y/y), Singapore (28.7%y/y) and Thailand (46.3%y/y) were well above market forecasts, despite signs of a worsening global environment. Taiwan's export orders for June were released the past week. They are a good leading indicator of exports trends in the coming 1-3 months. The good news is that the headline figure beat expectations at a robust 22.5% y/y (consensus 21.7%). However, that outturn is down from 34.0% y/y in May, and on a seasonally adjusted sequentially basis, export orders fell by more than 2%, after a small gain in May. Most significantly, Taiwan's export orders from China fell by a seasonally adjusted 7.2% m/m. The US and Europe also recorded negative readings in June (-0.3% and -1.7%, respectively). Meanwhile, Korean exports for the first 20-days of July rose by a strong 36.3% y/y. Taken together, the data are within our expectations, but they do point to a slowdown in H2, as expected.

**Australia's central bank stays cautious on further rate hikes**

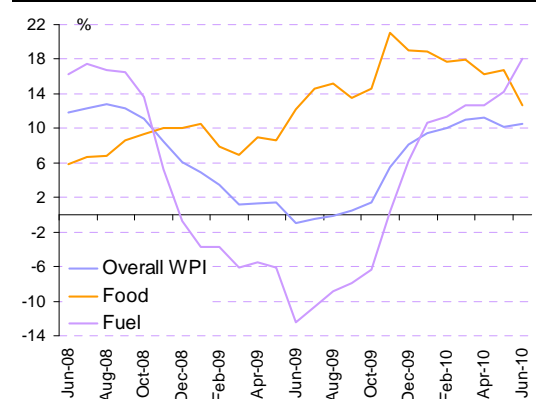
The Reserve Bank of Australia has arguably been the region's most aggressive central bank in tightening monetary policy. It raised interest rates 6 times from October 2009-May 2010 by a cumulative 150 basis points, to 4.5% in line with the historical average. However, the RBA has been on hold since May 4th, and the latest minutes from the Reserve Bank of Australia (RBA) from its policy meeting on July 6 expresses further caution about rate hikes, even though it expects headline inflation to have exceeded its target range in Q2 due to tax increases. The RBA notes that core inflation is likely to have remained below 3% and that further rate hikes may be postponed as long as inflationary expectations remain within check. Inflation for Q2 will be released on July 28, and the next policy meeting is scheduled for August 3. We currently expect on more rate hike by the end of the year.

Chart 5  
**Food prices still rising in Indonesia**



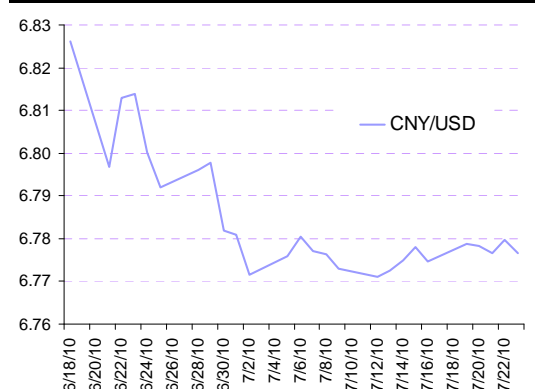
Source: BBVA Research and Bloomberg

Chart 6  
**... while in India, food prices are moderating**



Source: BBVA Research and Bloomberg

Chart 7  
**The CNY has remained flat against the USD since early July**



Source: BBVA Research and Bloomberg

## What to watch

### Korea: GDP growth (July 26)

Forecast: 6.7% (yoy)

Consensus: 7.1%

Previous: 8.1%

Given robust external demand, a recovering labor market and rising consumer confidence, we expect growth momentum in Q2 to be strong. A higher-than-expected GDP outturn could increase expectations of further interest rate hikes, following the BOK's first hike in the current tightening cycle earlier this month. Nonetheless, stronger GDP growth would be interpreted positively as a sign of strength in the global economy, despite expectations of a slowing H2 in Korea and elsewhere in Asia.

## Calendar

<b>AUSTRALIA</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>
Consumer Prices (QoQ)	28-Jul	2Q	0.90%	--
Consumer Prices (YoY)	28-Jul	2Q	2.90%	2.9
<b>HONG KONG</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>
Trade Balance	27-Jul	JUN	-25.1B	--
<b>JAPAN</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>
Trade Balance Total	26-Jul	JUN	¥324.2B	¥720.0B
Exports YoY	26-Jul	JUN	32.1	27.1
Imports YoY	26-Jul	JUN	33.4	24.8
Retail Trade MoM SA	29-Jul	JUN	-2.00%	0.40%
Nomura/JMMA Manufacturing PMI	30-Jul	JUL	53.9	--
Unemployment Rate	30-Jul	JUN	5.20%	5.20%
CPI YoY	30-Jul	JUN	-0.90%	-0.80%
Industrial Production (MoM)	30-Jul	JUN P	0.10%	0.20%
<b>KOREA</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>
GDP at Constant Price (YoY)	26-Jul	2Q P	8.10%	6.90%
GDP at Constant Price (QoQ)	26-Jul	2Q P	2.10%	1.30%
SK Consumer Confidence	27-Jul	JUL	112	--
Current Account in US\$ Million	28-Jul	JUN	\$3829.0M	--
Business Survey- Manufacturing	29-Jul	AUG	104	--
Service Industry Output YoY	30-Jul	JUN	3.80%	--
Industrial Production Mfg(YoY)	30-Jul	JUN	22.30%	--
Industrial Production (YoY)	30-Jul	JUN	21.50%	--
<b>PHILIPPINES</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>
Trade Balance	27-Jul	MAY	-\$846M	--
<b>SINGAPORE</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>
Industrial Production MoM SA	26-Jul	JUN	5.20%	-17.90%
Unemployment Rate (sa)	30-Jul	2Q	2.20%	--
<b>THAILAND</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>
Total Exports YOY%	30-Jul	JUN	42.50%	--
Total Imports YOY%	30-Jul	JUN	53.50%	--
Total Trade Balance	30-Jul	JUN	\$2299M	--
Manufacturing Production (YoY)	30-Jul	JUN	17.20%	--
Current Account Balance (USD)	30-Jul	JUN	\$1039M	--
Business Sentiment Index	30-Jul	JUN	49.9	--
<b>VIETNAM</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>
CPI (YoY)	23-28 Jul	JUL	8.70%	--
Exports YTD (YoY)	26-30 Jul	JUL	15.70%	--
Imports YTD (YoY)	26-30 Jul	JUL	29.40%	--
Industrial Output YTD (YoY)	27-30 Jul	JUL	13.60%	--
Retail Sales YTD (YoY)	27-30 Jul	JUL	26.70%	--

### India- Repo Rate (27<sup>th</sup> July)

We expect interest rate will increase by 25bps

Current	Expected
5.50	5.75

## Asia Market Data

Table 1

STOCK MARKETS	INDEX	Last price	% change over a week	Year to date	% Change over 1 Y
	China – Shanghai Comp.	2572.0	6.1	-21.5	-22.7
	Hong Kong – Hang Seng	20762.3	2.5	-5.1	4.8
	Taiwan – Weighted	7761.2	1.3	-5.2	11.2
	Japan – Nikkei 225	9431.0	0.2	-10.6	-3.7
	Korea – KOSPI	1758.1	1.1	4.5	17.5
	India – Sensex 30	18157.2	1.1	4.0	19.2
	Australia – SPX/ASX 200	4458.4	0.8	-8.5	9.7
	Singapore – Strait Times	2967.1	0.3	2.4	19.4
	Indonesia – Jakarta Comp	3039.3	1.6	19.9	40.7
	Thailand – SET	840.4	1.5	14.4	37.3
	Malaysia – KLCI	1342.2	0.4	5.5	16.5
	Philippines – Manila Comp.	3416.1	-0.8	11.9	30.8

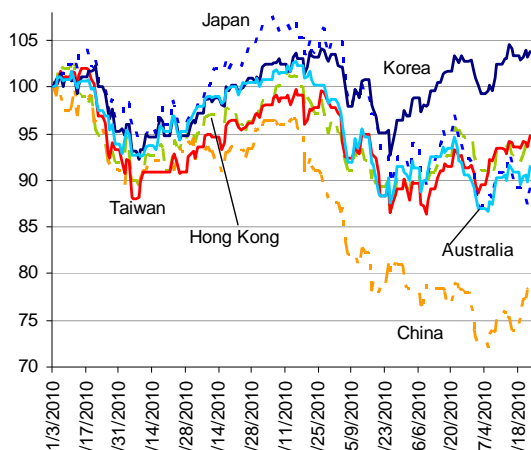
Source: BBVA Research and Bloomberg

Table 2

FOREIGN EXCHANGE MARKETS	CURRENCY	Spot	% change over a week	Forward 3-month	Forward 12-month
	China (CNY/USD)	6.78	-0.06	-0.01	-0.08
	Hong Kong (HKD/USD)	7.77	0.02	-52.0	-195
	Taiwan (TWD/USD)	32.1	0.00	-0.13	-0.59
	Japan (JPY/USD)	87.0	-0.48	-9.7	-48.5
	Korea (KRW/USD)	1199	0.35	2.25	10.85
	India (INR/USD)	47.0	-0.45	60.7	182
	Australia (USD/AUD)	0.89	2.85	126	n.a.
	Singapore (SGD/USD)	1.37	0.28	-3.63	-17.0
	Indonesia (IDR/USD)	9054	-0.13	104	479
	Thailand (THB/USD)	32.3	0.00	3.63	14.5
	Malaysia (MYR/USD)	3.20	0.16	140.5	507
	Philippines (PHP/USD)	46.4	-0.08	0.39	1.39

Source: BBVA Research and Bloomberg

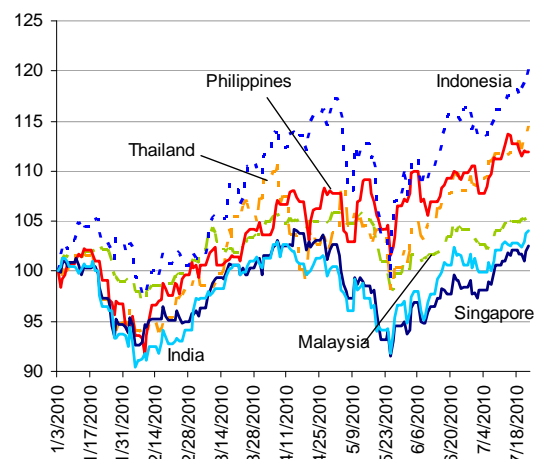
### STOCK MARKETS



Source: BBVA Research and Bloomberg

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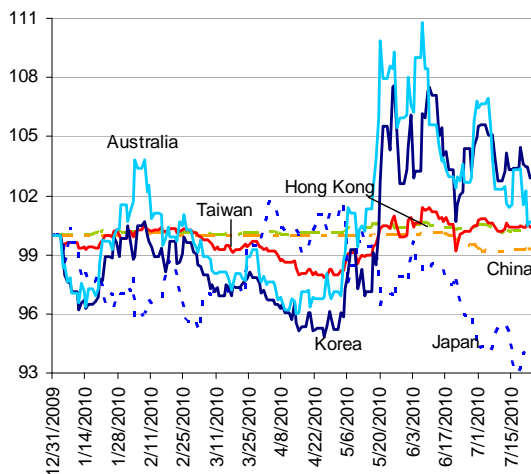
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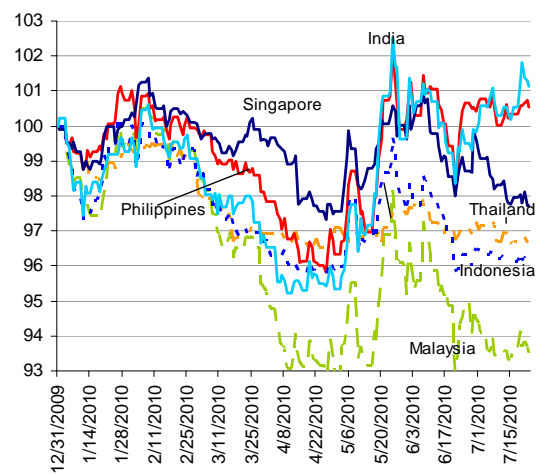
### FOREIGN EXCHANGE MARKETS



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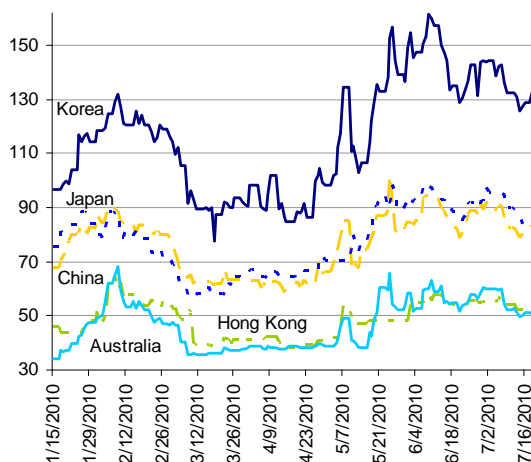
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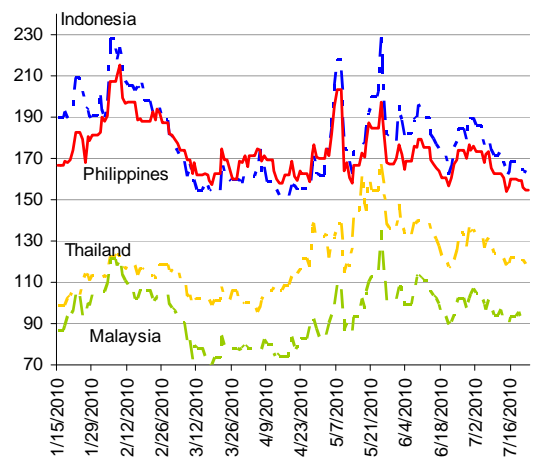
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Source: BBVA Research and Bloomberg

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