

Daily Flash

Asia

Politicians are taking center stage at the end of the week, as European leaders began two days of summit meetings today, while over in Hong Kong preparations continue before President Hu Jintao's arrival tomorrow to mark the 15th anniversary of Hong Kong's return to mainland China. Stimulus appears to be the main focal point for Asia; just today, Korea's government announced new spending (see below), while rumors persist that China may also announce initiatives to bolster its own economy.

Korea cuts 2012 GDP growth forecast; increases spending to boost economy

Korea's Finance Ministry cut its official 2012 growth forecast for Korea to 3.3% y/y from 3.7% y/y at its biannual economic review today, while the government also revealed US\$7 billion in public spending to support the economy. The Finance Ministry also revised downwards its forecast for inflation this year, to 2.8% y/y from 3.2% y/y previously. Korea's economy has been under pressure due to weak external demand, and recent consumer and business confidence outturns have also been weakening, dampening hopes of a strong rebound in the second half. The additional government spending is expected to boost growth by up to a quarter of a percentage point, and in light of the Finance Ministry's revisions today, we also think there is an increasing possibility that the central bank may decide to further support the economy by cutting rates at least once this year.

Thailand's May IP increases as rebound gains momentum

Thailand's industrial production in May rose by a non-seasonally adjusted 5.5% y/y from a revised contraction of 0.1% y/y in April, beating market expectations (consensus: 2.5% y/y). It is the first monthly rise in industrial output on a year-on-year basis since August 2011, before the disastrous floods last October disrupted production chains. Importantly, the production of motor vehicles - a key sector for Thailand - rebounded strongly (136.2% y/y). Today's outturn indicates that the recovery in Thailand is gaining momentum, and is in line with a strong 1Q GDP outturn (+12.6% q/q) as well as increasing exports (May: +7.7% y/y). Strong risks to the downside remain, however, due to the uncertainties over in Europe.

Briefly noted:

- **Japan's retail sales increased by a better-than-expected 3.6% y/y** (consensus: 2.9% y/y) in another positive sign for the economy, after May exports also surprised to the upside last week (10.0% y/y, consensus: 9.3% y/y).

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Calendar Indicators

China	Date	Period	Prior	Cons.	Actual
Manufacturing PMI	01-Jul	JUN	50.4	49.8	--
Hong Kong	Date	Period	Prior	Cons.	Actual
Exports YoY%	26-Jun	MAY	5.60%	0.50%	5.20%
Imports YoY%	26-Jun	MAY	5.00%	2.20%	4.60%
India	Date	Period	Prior	Cons.	Actual
Current Account Balance	30-Jun	1Q	--	--	--
Japan	Date	Period	Prior	Cons.	Actual
Retail Trade YoY	28-Jun	MAY	5.80%	2.90%	3.60%
Jobless Rate	29-Jun	MAY	4.60%	4.50%	--
Natl CPI YoY	29-Jun	MAY	0.40%	0.20%	--
Natl CPI Ex-Fresh Food YoY	29-Jun	MAY	0.20%	0.00%	--
Philippines	Date	Period	Prior	Cons.	Actual
Trade Balance	26-Jun	APR	-\$1049M	--	-\$135M
Singapore	Date	Period	Prior	Cons.	Actual
CPI (MOM) - NSA	25-Jun	MAY	0.50%	0.30%	0.20%
CPI (YoY)	25-Jun	MAY	5.40%	5.10%	5.00%
Industrial Production MoM SA	26-Jun	MAY	-3.50%	2.60%	1.80%
Industrial Production YoY	26-Jun	MAY	-0.30%	6.10%	6.60%
South Korea	Date	Period	Prior	Cons.	Actual
Current Account in US\$ Million	28-Jun	MAY	\$1776.6M	--	\$3611.8M
Industrial Production (MoM)	29-Jun	MAY	0.90%	0.50%	--
Industrial Production (YoY)	29-Jun	MAY	0.00%	0.50%	--
Ext Trade - Export (YoY)	01-Jul	JUN	-0.40%	0.10%	--
Thailand	Date	Period	Prior	Cons.	Actual
Customs Exports (YoY)	25-Jun	MAY	-3.67%	0.50%	7.68%
Mfg. Production Index ISIC NSA (YoY)	28-Jun	MAY	-0.06%	2.50%	5.53%
Current Account Balance (USD)	29-Jun	MAY	-\$1516M	-\$900M	--
Vietnam	Date	Period	Prior	Cons.	Actual
GDP Constant Prices YTD (YoY)	28-29 JUN	2Q	4.00%	4.30%	--
Exports YTD (YoY)	24-30 JUN	JUN	24.10%	--	--

Indicator of the Week

China: PMI for June (July 1)

Forecast: 50.1	Consensus: 49.8	Prior: 50.4
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Activity indicators for May showed continued weakness in growth momentum, albeit with mixed signs due to much stronger than expected exports. We expect growth momentum to remain somewhat sluggish in June, as the just released flash estimate for the private sector PMI (Markit) registered a further moderation, to 48.1% from 48.4% in the previous month. We expect the official manufacturing PMI (with a greater focus on larger and domestic-oriented firms) to show moderation as well to 50.1, still above the +50 expansion/contraction threshold. Going forward, increasing monetary and fiscal policy stimulus should lead to a pick up in growth momentum in the second half of the year.

Calendar Events

There are no calendar events scheduled for this week.

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.	2195.8	-1.0	-4.2	-0.2	-20.4
	Hong Kong - Hang Seng	19025.3	-0.8	-1.2	3.2	-13.8
	Taiwan - Weighted	7169.6	-0.2	-1.5	1.4	-15.4
	Japan - Nikkei 225	8874.1	1.6	0.6	5.0	-8.0
	Korea - Kospi	1819.2	0.1	-3.7	-0.4	-11.8
	India - Sensex 30	16987.6	0.1	-0.3	9.9	-8.1
	Australia - SPX/ASX 200	4044.8	0.0	-1.0	-0.3	-9.6
	Singapore - Strait Times	2846.8	0.2	0.6	7.6	-6.7
	Indonesia - Jakarta Comp	3887.6	-1.2	-0.4	1.7	1.5
	Thailand - SET	1174.7	0.8	1.4	14.6	15.9
	Malaysia - KLCI	1594.2	-0.5	-0.4	4.1	1.5
	Philippines - Manila Comp.	5256.2	0.0	2.9	20.2	22.5

Last update: today, 17.45 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)	6.36	0.00	0.12	6.37	6.42
	Hong Kong (HKD/USD)	7.76	0.00	0.03	7.76	7.75
	Taiwan (TWD/USD)	29.9	-0.01	-0.18	29.85	29.55
	Japan (JPY/USD)	79.32	0.50	1.21	79.22	78.80
	Korea (KRW/USD)	1154	0.15	-0.24	1164	1175
	India (INR/USD)	57.0	0.28	-1.17	58.15	60.49
	Australia (USD/AUD)	1.01	-0.08	0.38	1.00	1.02
	Singapore (SGD/USD)	1.28	-0.20	-0.02	1.28	1.28
	Indonesia (IDR/USD)	9494	-0.04	-0.13	9671	10106
	Thailand (THB/USD)	31.9	-0.13	-0.25	32.04	32.44
	Malaysia (MYR/USD)	3.20	-0.07	-0.58	3.21	3.24
	Philippines (PHP/USD)	42.4	0.02	-0.02	42.59	43.02

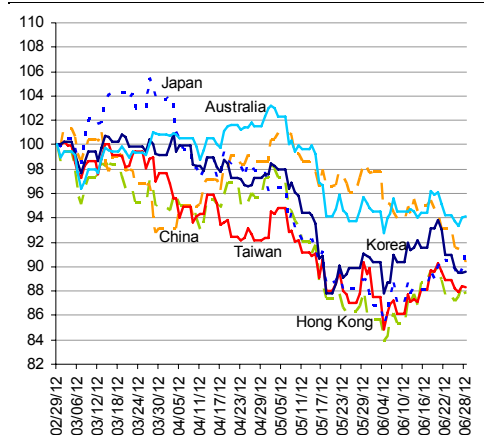
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.84	-0.36	-0.66	1.34
	Hong Kong (HIBOR/1W)	0.13	0.00	0.00	0.00
	Taiwan (TAIBOR/1W)	0.67	0.00	0.00	0.01
	Japan (TIBOR/1Y)	0.76	0.00	0	0
	Korea (KORIBOR/1M)	3.34	0.00	0.00	-0.03
	India (MIBOR/7D)	3.55	-0.75	0.15	0.55
	Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00
	Indonesia (JIBOR/1W)	4.15	0.01	0	0
	Thailand (BIBOR/1W)	3.02	0.00	0.00	0.00
	Malaysia (KLIBOR/1W)	2.90	0.00	0.00	0.00
	Philippines (PHIBOR/1W)	3.25	-0.44	-0.38	0.00

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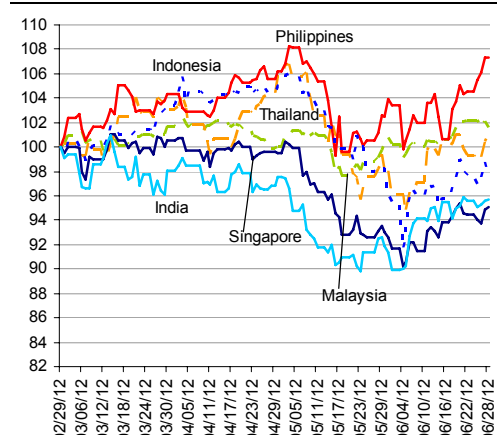
Charts

Chart 9
Stock Markets



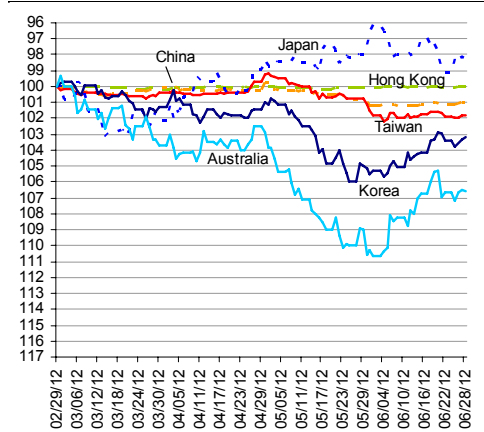
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



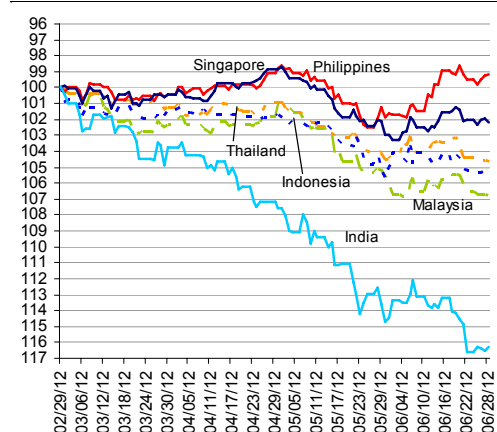
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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