

Daily Flash

Asia

Note to readers: the Daily Flash will not be published next Monday due to a national holiday here in Hong Kong, but will resume on Tuesday, July 3rd.

Optimism spread to Asia after European leaders reached several agreements designed to alleviate pressures on Europe's peripheral countries. Stock markets rose across the region (Sensex: +2.6%; Hang Seng: +2.2%; Nikkei: +1.5%) after the news, and in FX the Indian rupee and the Korean won appreciated against the US dollar (by +1.5% and +.08% respectively). The focus in Asia now moves to China with the release of June PMI this Sunday (see Weekly Indicator below), which (along with any further developments in Europe) will set the tone when markets open next week.

Details released on new economic initiatives as President Hu Jintao visits Hong Kong

Details were released regarding several initiatives between Hong Kong and China that are expected to be announced during President Hu Jintao's visit, which began today and runs through Sunday. According to the NDRC, the Qianhai special zone in Shenzhen will be developed as a pilot zone for financial services, in a move that will deepen economic integration between Hong Kong and Shenzhen. It has also been reported that the China Securities Regulatory Commission (CSRC) has approved two ETF products tracking Hong Kong's stock index to be listed on China's bourses, while the Securities and Futures Commission (SFC) in Hong Kong will also allow the listing of a RMB ETF product tracking the A-share index on the HKSE. Also today, Hong Kong signed Supplement IX of the Closer Economic Partnership Agreement (CEPA) with China, which included a number of measures that are expected to provide Hong Kong's services sector greater access to the mainland market. Further details on these initiatives will likely come before the President departs on July 1st.

Vietnam's 2Q GDP improves, but remains below target

Vietnam posted a second quarter GDP growth rate of 4.7% y/y, up from 4.0% y/y the previous quarter. For the first half of the year, GDP growth came in above estimations at 4.4% y/y (consensus: 4.3% y/y). However, the outturn remains far from the government's official target of 6% growth for the whole of 2012. To support growth, the central bank has been active thus far in 2012, cutting rates by a total of 400 bps, and recently the government pledged stimulus of USD 1 bn per month until the end of the year, starting in July. We expect that these measures will produce a more upbeat second half of the year for Vietnam.

South Korea's records better-than-expected industrial production in May

Industrial production grew by a better-than-expected 2.6% y/y in May (consensus: 0.4% y/y, BBVA: 1.6% y/y), one day after the government lowered its growth outlook for the year to 3.3%, from 3.7%. Consumption remains relatively strong in Korea, supporting industrial output despite weakening external demand. While the outturn is encouraging for Korea, weakening forward-looking indicators suggest ongoing sluggishness in the economy in the coming months.

Briefly noted:

- **Looking ahead, investors will be watching closely the release of China's official PMI for June this Sunday** as well as the HSBC manufacturing PMI on Monday. Australia and Malaysia hold their regular policy meetings on Tuesday and Thursday respectively, while inflation data in Indonesia, Philippines, South Korea, Taiwan and Thailand will be released, and Korea, India, Indonesia and Malaysia will post trade data.

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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%	4.40%
Natl CPI YoY	29-Jun	MAY	0.40%	0.20%	0.20%
Natl CPI Ex-Fresh Food YoY	29-Jun	MAY	0.20%	0.00%	-0.10%
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%	1.10%
Industrial Production (YoY)	29-Jun	MAY	0.00%	0.50%	2.60%
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	-\$853M	-\$1540M
Vietnam	Date	Period	Prior	Cons.	Actual
GDP Constant Prices YTD (YoY)	28-29 JUN	2Q	4.00%	4.30%	4.40%
Exports YTD (YoY)	24-30 JUN	JUN	24.10%	--	22.20%

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.	2225.4	1.3	-1.6	1.2	-18.4
	Hong Kong - Hang Seng	19441.5	2.2	2.3	5.5	-11.9
	Taiwan - Weighted	7296.3	1.8	1.0	3.2	-14.9
	Japan - Nikkei 225	9006.8	1.5	2.4	6.5	-8.1
	Korea - Kospi	1854.0	1.9	0.4	1.5	-11.5
	India - Sensex 30	17432.5	2.6	2.7	12.8	-6.7
	Australia - SPX/ASX 200	4094.6	1.2	1.1	0.9	-9.6
	Singapore - Strait Times	2878.5	1.1	1.8	8.8	-6.5
	Indonesia - Jakarta Comp	3955.6	1.7	1.7	3.5	3.3
	Thailand - SET	1174.2	0.2	1.8	14.5	13.6
	Malaysia - KLCI	1599.2	0.3	-0.2	4.5	1.5
	Philippines - Manila Comp.	5246.4	-0.2	2.5	20.0	23.5

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)	6.35	0.05	0.16	6.36	6.41
	Hong Kong (HKD/USD)	7.76	0.04	0.06	7.75	7.75
	Taiwan (TWD/USD)	29.9	0.17	0.23	29.79	29.48
	Japan (JPY/USD)	79.41	0.06	1.28	79.31	78.90
	Korea (KRW/USD)	1145	0.79	1.02	1152	1163
	India (INR/USD)	55.9	1.54	2.16	57.05	59.36
	Australia (USD/AUD)	1.02	1.23	1.04	0.99	1.01
	Singapore (SGD/USD)	1.27	0.79	0.53	1.27	1.27
	Indonesia (IDR/USD)	9433	0.65	0.65	9570	9977
	Thailand (THB/USD)	31.8	0.44	0.16	31.92	32.30
	Malaysia (MYR/USD)	3.18	0.60	0.43	3.20	3.23
	Philippines (PHP/USD)	42.1	0.57	0.84	42.30	42.72

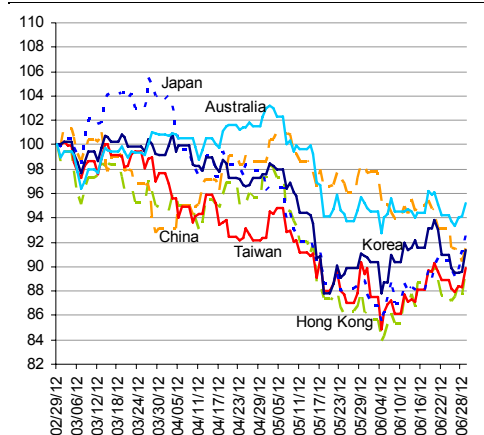
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	4.06	0.22	-0.44	1.51
	Hong Kong (HIBOR/1W)	0.13	0.00	0.00	0.00
	Taiwan (TAIBOR/1W)	0.67	0.00	0.00	0.00
	Japan (TIBOR/1Y)	0.76	0.00	0	0
	Korea (KORIBOR/1M)	3.34	0.00	0.00	-0.03
	India (MIBOR/7D)	4.10	0.55	-0.24	1.40
	Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00
	Indonesia (JIBOR/1W)	4.16	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)	3.19	-0.06	-0.56	-0.06

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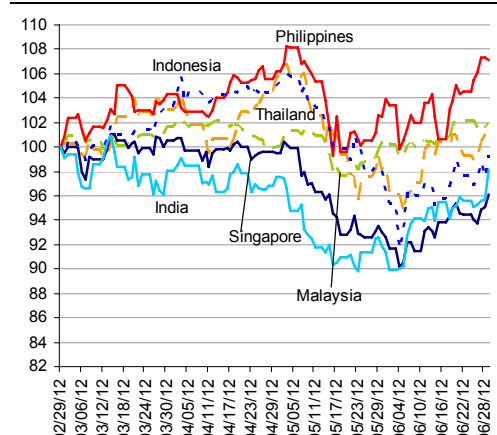
Charts

Chart 9
Stock Markets



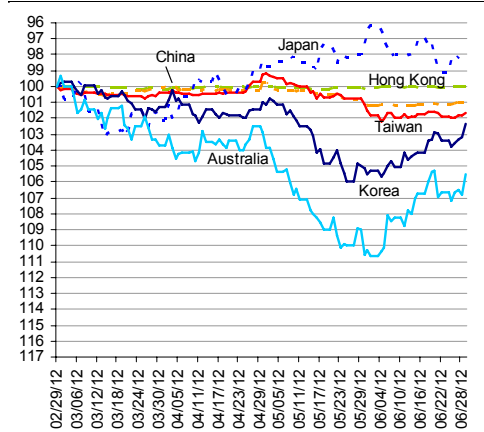
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



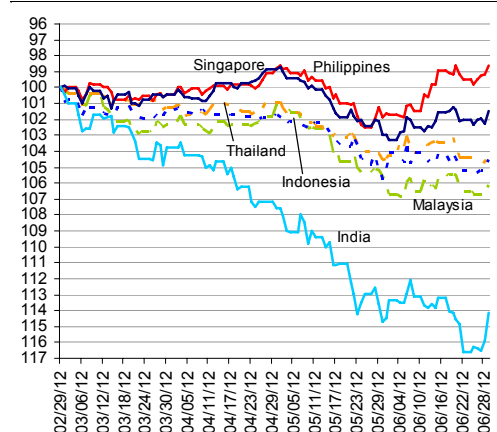
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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