

Daily Flash

Asia

China's central bank announces another interest rate cut

The PBoC late today announced a 25bp cut in its benchmark one-year deposit rate to be effective July 6. This is the second such move since June 6, reflecting the authorities' increasing efforts to support growth. Today's announcement also includes a 31bp cut in the one-year lending rate, along with a wider discount that banks are allowed to charge on their lending rates – to 30% from 20%. This latter move is a further step toward interest rate flexibility, although it largely symbolic as the lending rate cap is not binding. Last month greater interest rate flexibility was introduced on both lending and deposit rates. Today's move came after regional markets closed, while European markets appeared to rally on the announcement. We have expected further monetary easing along these lines. A batch of important activity data for June will be released next week (see Weekly Indicator below).

S&P upgrades the Philippines; now one notch away from investment grade

S&P late yesterday raised the Philippines' sovereign rating to BB+, from BB, with a stable outlook, placing the country just one notch away from investment grade. S&P reported that its decision to upgrade was due to the Philippines' sound fiscal policies, declining debt burden, and improving level of foreign currency reserves. S&P's rating now matches that of Fitch, while Moody's has the Philippines two notches below investment grade, though they recently upgraded the country's outlook to 'positive' in May. Medium-term prospects for the Philippines are favorable as current policies continue to promote economic growth and fiscal prudence, causing many to speculate the Philippines remains in line for an eventual upgrade to investment grade.

Malaysia holds interest rates at 3%

Today Bank Negara Malaysia (BNM) left its benchmark interest rate unchanged for a seventh straight meeting at 3%, as expected. In its statement the bank highlighted the resilience of the domestic economy, while acknowledging the risks to its exports due to weak external demand. Inflation, meanwhile, is expected to stay low despite this strong domestic demand, due to some excess capacity remaining in the economy. However, "upside risks to inflation could emerge should disruptions to global supply result in higher global prices for commodities," according to BNM. The move is similar to other central banks throughout the region, with the exception of China and Australia, which have been cutting rates.

Taiwan's inflation edges up, as expected

Taiwan's headline inflation climbed to 1.77% in June from 1.74% in May, in line with expectations. Inflationary pressures in Taiwan remain mild, increasing from 1.29% in Q1 to 1.65% in Q2. Given low inflation and the current weak growth environment, the central bank of Taiwan is likely to leave benchmark rates unchanged in the 2H 2012.

Bank of Japan upgrades its assessment of Japan's regional outlook

The Bank of Japan revised up its assessment of the outlook for all nine of Japan's regions for the first time in three years, citing "a pick up on firm domestic demand due to reconstruction spending." After today's upgrade, the BoJ is expected to hold off on further monetary easing at its monthly meeting next Thursday.

Jeffrey Cantwell
Economist
jeffrey.cantwell@bbva.com.hk
+852 2582 3173

William Fitchett
Economist
william.fitchett@bbva.com.hk
+852 2582 3246

With contributions from the BBVA Research Asia Team

Calendar Indicators

| | | | | | |
|----------------------------|-------------|---------------|--------------|--------------|---------------|
| Australia | Date | Period | Prior | Cons. | Actual |
| Retail Sales s.a. (MoM) | 04-Jul | May | -0.20% | 0.20% | 0.50% |
| Trade Balance | 05-Jul | May | -203M | -500M | -285M |
| China | Date | Period | Prior | Cons. | Actual |
| HSBC Manufacturing PMI | 02-Jul | Jun | 48.4 | -- | 48.2 |
| HSBC Services PMI | 04-Jul | Jun | 54.7 | -- | 52.3 |
| Hong Kong | Date | Period | Prior | Cons. | Actual |
| Retail Sales - Value (YoY) | 03-Jul | May | 11.40% | 9.70% | 8.80% |
| Purchasing Managers Index | 05-Jul | Jun | 49.4 | -- | 49.8 |
| Indonesia | Date | Period | Prior | Cons. | Actual |
| Inflation (YoY) | 02-Jul | Jun | 4.45% | 4.38% | 4.53% |
| Core Inflation (YoY) | 02-Jul | Jun | 4.14% | 4.10% | 4.15% |
| Exports (YoY) | 02-Jul | May | -3.50% | -9.00% | -8.50% |
| India | Date | Period | Prior | Cons. | Actual |
| Exports YoY% | 02-Jul | May | 3.20% | -- | -4.20% |
| Japan | Date | Period | Prior | Cons. | Actual |
| Monetary Base (YoY) | 03-Jul | Jun | 2.40% | -- | 5.90% |
| Malaysia | Date | Period | Prior | Cons. | Actual |
| Exports YoY% | 04-Jul | May | -0.10% | 4.80% | 6.70% |
| Philippines | Date | Period | Prior | Cons. | Actual |
| Consumer Price Index (YoY) | 05-Jul | Jun | 2.90% | 2.80% | 2.80% |
| Singapore | Date | Period | Prior | Cons. | Actual |
| Purchasing Managers Index | 03-Jul | Jun | 50.4 | 50.1 | 50.4 |
| South Korea | Date | Period | Prior | Cons. | Actual |
| Consumer Price Index (MoM) | 02-Jul | Jun | 0.20% | 0.20% | -0.10% |
| Consumer Price Index (YoY) | 02-Jul | Jun | 2.50% | 2.50% | 2.20% |
| Taiwan | Date | Period | Prior | Cons. | Actual |
| CPI YoY% | 05-Jul | Jun | 1.74% | 1.78% | 1.77% |
| Thailand | Date | Period | Prior | Cons. | Actual |
| Consumer Price Index (YoY) | 02-Jul | Jun | 2.53% | 2.60% | 2.56% |
| Core CPI (YoY) | 02-Jul | Jun | 1.95% | 2.00% | 1.92% |

Indicator of the Week

China: GDP for Q2 (July 13)

Forecast: 7.4% y/y

Consensus: 7.8% y/y

Prior: 8.1% y/y

China's Q2 GDP outturn will be watched in order to gauge the extent of the ongoing growth slowdown. Recent high frequency indicators such as PMI and industrial production have been somewhat weaker-than-expected, prompting downward revisions to the growth outlook. We currently expect Q2 GDP growth to have weakened to 7.4% y/y from 8.1% in Q1. Nevertheless, we expect growth momentum to pick up during the rest of the year on supportive fiscal and monetary policies—including further cuts in the RRR and interest rates—leading to full-year GDP growth of around 8%, although the outlook is, admittedly, subject to downside risks due to the weak external environment. In addition to GDP, a number of important monthly indicators will also be released next week, including industrial production, investment, retail sales, and credit aggregates.

Calendar Events

Australia - RBA Cash Target, July 3

We expected the benchmark rate to remain unchanged

| Current | Consensus | New |
|---------|-----------|-------|
| 3.50% | 3.50% | 3.50% |

Malaysia - Overnight Rate, July 5

We expected the benchmark rate to remain unchanged

| Current | Consensus | New |
|---------|-----------|-------|
| 3.00% | 3.00% | 3.00% |

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. | 22014 | -1.2 | 0.3 | 0.1 | -21.8 |
| | Hong Kong - Hang Seng | 19809.1 | 0.5 | 3.3 | 7.5 | -12.9 |
| | Taiwan - Weighted | 7387.8 | -0.5 | 3.0 | 4.5 | -15.9 |
| | Japan - Nikkei 225 | 9079.8 | -0.3 | 2.3 | 7.4 | -9.0 |
| | Korea - Kospi | 1875.5 | 0.1 | 3.1 | 2.7 | -13.2 |
| | India - Sensex 30 | 17538.7 | 0.4 | 3.2 | 13.5 | -6.4 |
| | Australia - SPX/ASX 200 | 4169.2 | -0.1 | 3.1 | 2.8 | -9.3 |
| | Singapore - Strait Times | 2971.5 | 0.8 | 4.4 | 12.3 | -5.1 |
| | Indonesia - Jakarta Comp | 4069.8 | -0.1 | 4.7 | 6.5 | 3.7 |
| | Thailand - SET | 1201.8 | 0.6 | 2.6 | 17.2 | 10.8 |
| | Malaysia - KLCI | 1614.4 | 0.0 | 1.3 | 5.5 | 2.1 |
| Philippines - Manila Comp. | 5370.0 | 0.3 | 2.2 | 22.8 | 21.0 | |

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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) | 6.36 | -0.13 | 0.02 | 6.35 | 6.40 |
| | Hong Kong (HKD/USD) | 7.75 | 0.00 | 0.06 | 7.75 | 7.75 |
| | Taiwan (TWD/USD) | 29.9 | -0.12 | 0.18 | 29.78 | 29.47 |
| | Japan (JPY/USD) | 79.63 | 0.31 | -0.21 | 79.53 | 79.13 |
| | Korea (KRW/USD) | 1135 | 0.05 | 1.70 | 1142 | 1154 |
| | India (INR/USD) | 55.1 | -1.17 | 3.02 | 56.11 | 58.56 |
| | Australia (USD/AUD) | 1.03 | 0.04 | 2.34 | 0.98 | 1.00 |
| | Singapore (SGD/USD) | 1.27 | 0.06 | 1.19 | 1.26 | 1.26 |
| | Indonesia (IDR/USD) | 9381 | -0.15 | 1.20 | 9460 | 9819 |
| | Thailand (THB/USD) | 31.5 | -0.16 | 1.14 | 31.70 | 32.10 |
| | Malaysia (MYR/USD) | 3.16 | -0.31 | 1.08 | 3.18 | 3.21 |
| Philippines (PHP/USD) | 41.7 | 0.09 | 1.64 | 41.78 | 42.10 | |

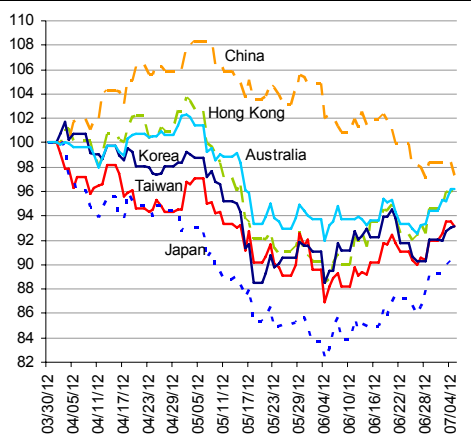
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| INTERBANK RATES | INDEX | Rate | net change over a day | net change over a week | net change over a month |
|-----------------|-------------------------|------|-----------------------|------------------------|-------------------------|
| | China (SHIBOR/7D) | 3.98 | 0.11 | -0.08 | 1.38 |
| | 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 | -0.02 |
| | India (MIBOR/7D) | 4.06 | 0.06 | 0.51 | 1.41 |
| | Singapore (SIBOR/1W) | 0.25 | 0.00 | 0.00 | -0.06 |
| | Indonesia (JIBOR/1W) | 4.12 | -0.03 | 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) | 2.88 | 0.13 | -0.38 | -0.44 |

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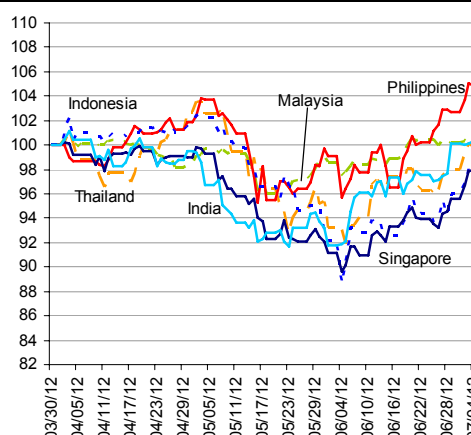
Charts

Chart 9
Stock Markets



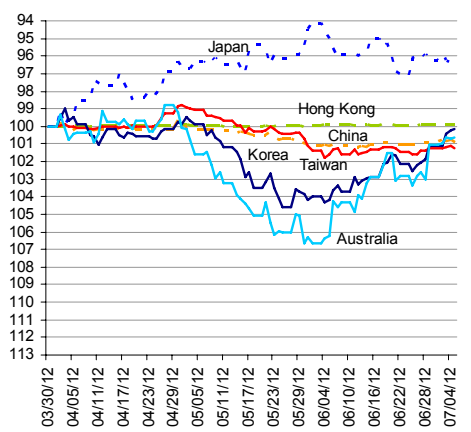
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



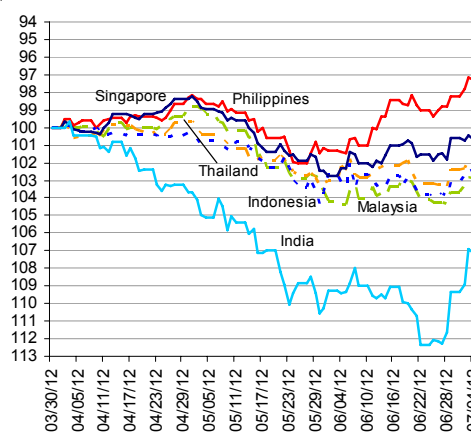
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Stephen Schwartz
Chief Economist for Asia
stephen.schwartz@bbva.com.hk

Fielding Chen
Senior Economist
fielding.chen@bbva.com.hk

Le Xia
Senior Economist (China)
xia.le@bbva.com.hk

Zhigang Li
Senior Economist (China)
zhigang.li@bbva.com.hk

Sumedh Deorukhkar
Senior Economist (India, Mumbai)
sumedh.deorukhkar@grupobbva.com

Jeffrey Cantwell
Economist
jeffrey.cantwell@bbva.com.hk

George Xu
Economist
george.xu@bbva.com.hk

Richard Li
Asian FX Chief Strategist
richard.li@bbva.com.hk

William Fitchett
Economist
william.fitchett@bbva.com.hk

BBVA | RESEARCH  | 43/F., Two IFC, 8 Finance Street, Central, Hong Kong | Tel.: +852 2582 3111 | www.bbva.com.hk

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