

Daily Flash

Asia

Yesterday's monetary easing by the central banks of China, the Eurozone and Great Britain failed to lift investor sentiment in most of Asia, as stock markets in the region fell today. However, markets in China ended higher on a rebound late in the day (Shanghai +1.0%). China will remain in the spotlight next week with the release of 2Q GDP growth data along with other important economic indicators.

China's rate cut signals authorities' resolve in arresting growth slowdown

As reported in yesterday's Daily Flash, China's central bank announced an asymmetric cut in its benchmark one-year deposit and lending rates by 25bps and 31 bps respectively, along with a further widening of the allowable lending rate discount to 30% (from 20%), the second interest rate cut within a month (see today's [China Flash](#) for further details). We had been expecting another rate cut during the course of Q3, although the advanced timing of the cut, rather than an RRR cut as has been widely anticipated, came as a surprise. As such, it may signal the authorities' awareness that the economic indicators to be released next week may be on the weak side. The timing of the rate cut, alongside the easing moves announced by the ECB and BoE, has raised speculation of possible policy coordination, though we believe that explicit coordination is unlikely to have taken place as the high-level and political decision-making nature of rate cuts in China make inter-central bank coordination difficult. However, it is possible that the authorities took advantage of the time window of the ECB's and BoE's policy meetings to make their announcement.

Singapore ready to trade RMB-denominated securities

According to China Daily, Singapore has announced that it is 'ready to list, quote, trade, clear and settle securities denominated in Chinese RMB,' as it seeks to increase its role as an offshore RMB market. The Singapore exchange (SGX) will give issuers the option to offer 'dual currency' trading, which would allow investors to trade such securities in either RMB or Singapore dollars. Also according to today's announcement, the SGX will be the world's first exchange to offer the clearing of OTC FX forwards for RMB. Singapore's announcement highlights its competition with Hong Kong and London for a share of the offshore RMB market, as China seeks to expand the role of the RMB internationally.

Briefly noted:

- **Vietnam's budget revenues for the first half of 2012 declined by 1.7% y/y** according to a statement by the Ministry of Finance today. The country posted a lackluster 4.4% y/y GDP growth rate in the first half of the year, raising concerns about a growth slowdown. The government and central bank have been easing policy to support growth, but the drop in revenues may constrain fiscal spending plans.
- **Next week's major announcement will be the release of China's 2Q GDP growth data** on Friday. China will also release a number of important economic indicators for the month of June, including industrial production, inflation, credit, investment, sales and trade, with most coinciding with the GDP release. For the rest of Asia, India will release industrial production and inflation data, Singapore will publish its 2Q GDP and Japan will post its trade and current account balance. South Korea, Japan and Indonesia will all hold monetary policy meetings on Thursday.

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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

3.50%

Consensus

3.50%

New

3.50%

Malaysia - Overnight Rate, July 5

We expected the benchmark rate to remain unchanged

Current

3.00%

Consensus

3.00%

New

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.	2223.6	1.0	-0.1	1.1	-20.9
	Hong Kong - Hang Seng	19800.6	0.0	4.1	7.4	-12.1
	Taiwan - Weighted	7368.6	-0.3	1.0	4.2	-16.5
	Japan - Nikkei 225	9020.8	-0.7	0.2	6.7	-10.5
	Korea - Kospi	1858.2	-0.9	0.2	1.8	-14.4
	India - Sensex 30	17526.4	-0.1	0.6	13.4	-6.4
	Australia - SPX/ASX 200	4157.8	-0.3	1.5	2.5	-9.7
	Singapore - Strait Times	2978.6	0.2	3.5	12.6	-4.4
	Indonesia - Jakarta Comp	4055.2	-0.4	2.5	6.1	3.7
	Thailand - SET	1198.2	-0.3	2.2	16.9	11.7
	Malaysia - KLCI	1620.6	0.4	1.3	5.9	1.8
	Philippines - Manila Comp.	5362.7	-0.1	2.2	22.7	21.9

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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	-0.14	-0.17	6.36	6.41
	Hong Kong (HKD/USD)	7.75	0.02	0.05	7.75	7.75
	Taiwan (TWD/USD)	29.9	-0.08	-0.07	29.82	29.53
	Japan (JPY/USD)	79.90	0.03	-0.14	79.80	79.38
	Korea (KRW/USD)	1138	-0.25	0.65	1145	1157
	India (INR/USD)	55.5	-0.94	0.29	56.42	58.75
	Australia (USD/AUD)	1.03	-0.31	0.17	0.98	1.00
	Singapore (SGD/USD)	1.27	-0.35	-0.31	1.27	1.27
	Indonesia (IDR/USD)	9405	-0.26	0.30	9495	9850
	Thailand (THB/USD)	31.7	-0.22	-0.28	31.81	32.21
	Malaysia (MYR/USD)	3.17	-0.37	0.10	3.19	3.22
	Philippines (PHP/USD)	41.9	-0.36	0.70	41.89	42.18

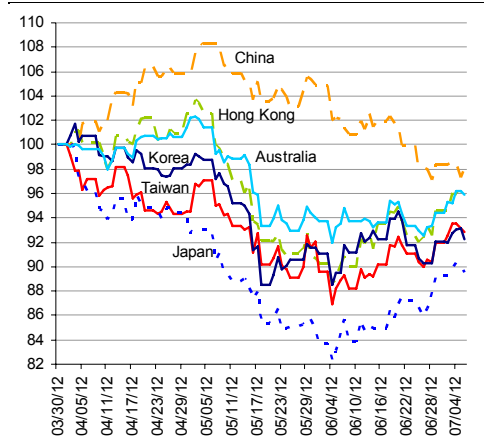
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.44	-0.58	-0.67	0.84
	Hong Kong (HIBOR/1W)	0.15	0.01	0.02	0.02
	Taiwan (TAIBOR/1W)	0.67	0.00	0.00	0.00
	Japan (TIBOR/1Y)	0.76	0.00	0	0
	Korea (KORIBOR/1M)	3.34	0.00	0.00	-0.02
	India (MIBOR/7D)	3.73	-0.33	-0.37	1.16
	Singapore (SIBOR/1W)	0.25	0.00	0.00	-0.06
	Indonesia (JIBOR/1W)	4.15	0.04	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)	3.13	0.25	-0.06	-0.31

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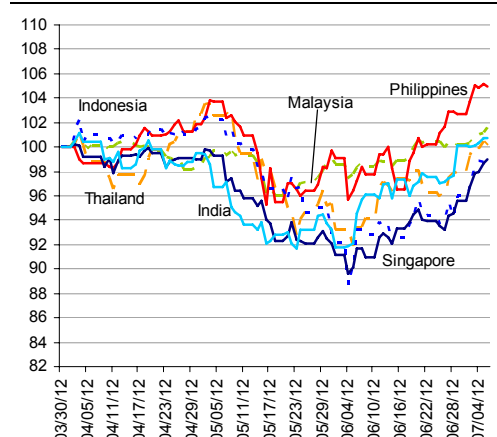
Charts

Chart 9
Stock Markets



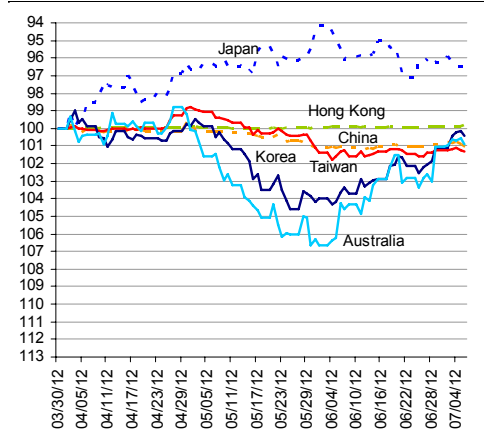
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



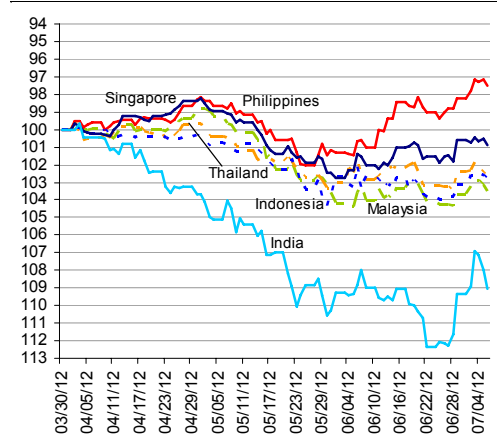
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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