



Daily Flash

Asia

India's June WPI inflation softens, but RBI may remain cautious on rate cuts

India's wholesale price inflation softened in June to 7.25% y/y from 7.55% in May as a let up in fuel and non food articles offset elevated food inflation (see today's India Flash for details). The outturn was below expectations (consensus: 7.6% y/y) and, reassuringly, easing demand pressures kept core inflation contained at 4.9% y/y. Looking ahead, inflation risks remain as high food prices, upside pressures from a sub-par monsoon, and imminent hikes in regulated fuel prices offset easing demand pressures. We thus expect the RBI to keep rates unchanged at its meeting on July 31st, all the more so as the monetary authorities await further actions by the government to rein in the fiscal deficit. We continue to expect further rate cuts of 50 bps in 2012, pushed towards 4Q12.

More policy easing expected in China, with mid-year economic meeting

According to media reports, China's State Council will hold a regular mid-year economic meeting on July 18 to assess the country's macroeconomic situation. The meeting is likely to focus on fiscal measures to stimulate growth. Repeated statements by China's Premier Wen Jiabao, as recently as the past weekend suggest that further stimulus measures may be forthcoming.

China clarifies cuts in withholding taxes on foreign investor profits

The Financial Times and Wall Street Journal reported today that, according to executives of the accounting firm KPMG, China has clarified its rules on the withholding of foreign investment profits. According to the reports, this could result in a halving of the tax rate for qualified foreign investors, from 10% to 5%. The change in policy is aimed at attracting FDI.

China's central bank says the time is right for more interest rate liberalization

In its annual financial stability report released last Friday, the People's Bank of China (PBoC) said that the timing is 'ripe' for establishing a deposit insurance system. A deposit insurance system is widely considered to be necessary before the full liberalization of interest rates, and the PBoC's statement hinted that the authorities are poised to accelerate this step. Separately, a number of Chinese news outlets reported that the PBoC will urge banks to establish a prime lending rate, to serve as the benchmark interest rate in pricing various financial products.

Briefly noted:

- **Moody's affirmed Indonesia's stable sovereign rating outlook**, citing its strong growth prospects and low government debt level. Today's affirmation was part of Moody's regular annual credit analysis of Indonesia. Previously, Moody's had upgraded Indonesia's sovereign to investment grade (Baa3) on January 18th of this year.

Calendar Indicators

China	Date	Period	Prior	Cons.	Actual
Actual FDI (YoY)	16-18 JUL	Jun	0.10%	-2.00%	--
China June Property Prices	18-Jul	Jun			
Hong Kong	Date	Period	Prior	Cons.	Actual
Unemployment Rate SA	19-Jul	Jun	3.20%	3.30%	--
India	Date	Period	Prior	Cons.	Actual
Monthly Wholesale Prices YoY%	16-Jul	Jun	7.55%	7.61%	7.25%
CPI (YoY)	18-Jul	Jun	10.36%	--	--
Japan	Date	Period	Prior	Cons.	Actual
All Industry Activity Index (MoM)	19-Jul	May	0.10%	-0.30%	--
Malaysia	Date	Period	Prior	Cons.	Actual
CPI YoY	18-Jul	Jun	1.70%	1.70%	--
Philippines	Date	Period	Prior	Cons.	Actual
Overseas Remittances (YoY)	16-Jul	May	5.30%	--	5.10%
Balance of Payments	19-Jul	Jun	\$138M	--	--
Singapore	Date	Period	Prior	Cons.	Actual
Electronic Exports (YoY)	17-Jul	Jun	3.90%	4.00%	--
Non-oil Domestic Exports (YoY)	17-Jul	Jun	3.20%	1.90%	--
Non-oil Domestic Exp SA (MoM)	17-Jul	Jun	-2.10%	2.30%	--
Taiwan	Date	Period	Prior	Cons.	Actual
Export Orders (YoY)	20-Jul	Jun	-3.04%	-2.20%	--
Thailand	Date	Period	Prior	Cons.	Actual
Customs Exports (YoY)	20-23 JUL	Jun	7.68%	0.25%	--

Indicator of the Week

Taiwan: Export Orders (June, July 20th)

Forecast: -2.9% y/y	Consensus: -2.20% y/y	Prior: -3.0% y/y
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As an important leading indicator for the Asia region's export demand, Taiwan's export orders for June will be watched for further signs of a slowdown. Taiwan's semi-conductor and electronics-intensive production place the economy at the forefront of the global supply chain. Due to weakening external demand, Taiwan's exports dropped through the first two quarters of 2012, down -4.0% yoy in Q1 and -5.4% yoy in Q2, resulting in slowing production. PMI fell back to within the contraction zone (below 50) in June, at 49.2. We expect export orders to remain sluggish in June, mainly due to weakening orders from the EU and, increasingly, weaker imports in China.

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.	2148.0	-1.7	-1.1	-2.3	-23.8
	Hong Kong - Hang Seng	19121.3	0.2	-1.6	3.7	-12.6
	Taiwan - Weighted	7090.0	-0.2	-3.0	0.3	-17.3
	Japan - Nikkei 225	8724.1	0.0	-3.3	3.2	-12.5
	Korea - Kospi	1817.8	0.3	-1.0	-0.4	-15.3
	India - Sensex 30	17103.3	-0.6	-1.7	10.7	-7.9
	Australia - SPX/ASX 200	4105.1	0.6	-0.3	1.2	-8.2
	Singapore - Strait Times	2998.8	0.1	2.4	13.3	-2.8
	Indonesia - Jakarta Comp	4047.5	0.7	1.6	5.9	0.6
	Thailand - SET	1214.3	0.3	2.3	18.4	12.4
	Malaysia - KLCI	1636.0	0.6	1.0	6.9	3.7
	Philippines - Manila Comp.	5298.0	1.6	0.7	21.2	18.8

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)	6.38	0.01	-0.12	6.36	6.42
	Hong Kong (HKD/USD)	7.76	0.01	-0.02	7.75	7.75
	Taiwan (TWD/USD)	30.0	-0.01	-0.20	29.95	29.65
	Japan (JPY/USD)	79.00	0.23	0.71	78.91	78.52
	Korea (KRW/USD)	1147	0.28	-0.49	1155	1166
	India (INR/USD)	55.3	-0.19	1.24	56.12	58.46
	Australia (USD/AUD)	1.02	-0.07	0.11	0.99	1.01
	Singapore (SGD/USD)	1.27	-0.13	0.21	1.27	1.26
	Indonesia (IDR/USD)	9489	-0.43	-0.42	9605	10014
	Thailand (THB/USD)	31.6	-0.13	0.35	31.78	32.16
	Malaysia (MYR/USD)	3.18	0.31	0.37	3.19	3.22
	Philippines (PHP/USD)	41.9	0.25	0.40	41.99	42.29

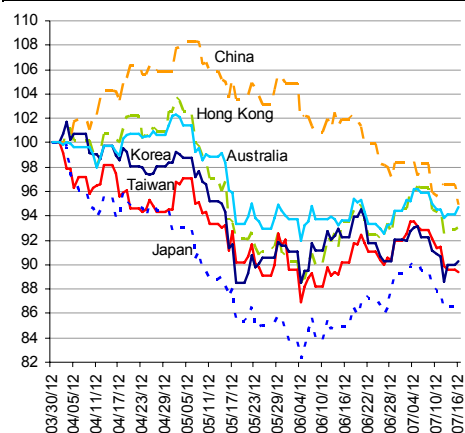
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.34	0.01	0.07	0.61
	Hong Kong (HIBOR/1W)	0.15	0.00	0.00	0.02
	Taiwan (TAIBOR/1W)	0.66	-0.01	-0.01	-0.01
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	3.10	-0.03	-0.24	-0.26
	India (MIBOR/7D)	3.35	0.01	-0.01	0.60
	Singapore (SIBOR/1W)	0.25	0.00	0.00	-0.06
	Indonesia (JIBOR/1W)	4.17	0.00	0.02	0.07
	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)	1.69	-1.19	-1.50	-1.75

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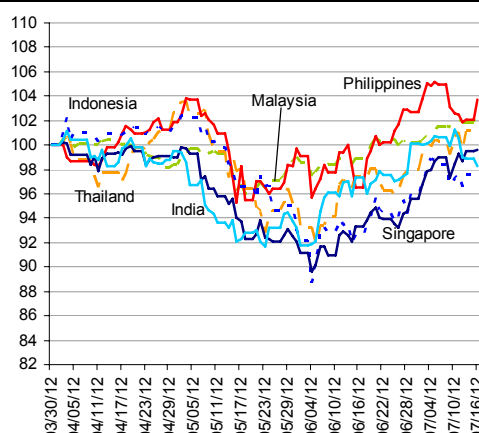
Charts

Chart 9
Stock Markets



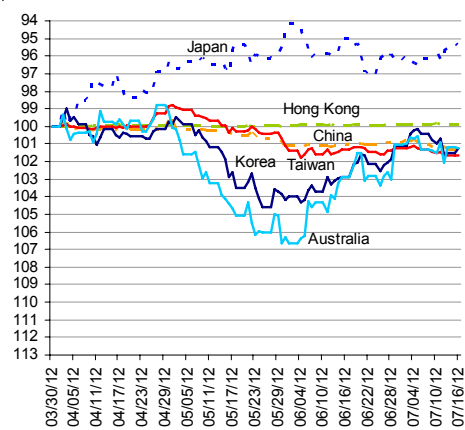
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



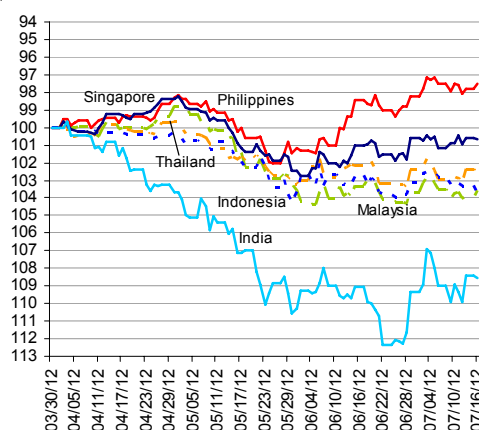
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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