

# Daily Flash

## Asia

*Markets in Asia were down sharply today, on a combination of concerns about slowing growth in China and, more significantly, financial tensions in Europe. The Hang Seng finished the day down 3.0%, while the Nikkei and Kospi both shed 1.9%. Adding to the dark mood in Hong Kong today was Typhoon Vincente, which bore down on the city and forced the closure of all businesses and public services at 6pm local time.*

### Korea announces more measures to prop up the economy

Korea's government announced it is preparing new measures to spur growth, following a surprise 25bps interest rate cut on July 12<sup>th</sup>. The most important announcement relates to a possible easing of debt-to-income limits on mortgages (currently the ceiling is between 40%-60%), in a bid to revive a sluggish property market (home values have fallen by 0.7% this year). Other measures being considered include the abolishment of both a punitive capital gains tax on multiple home owners as well as a price cap on new apartments. Despite these measures, policymakers will likely still exercise caution due to Korea's already-high level of household debt, which presents a medium term risk to the economy.

### Singapore's inflation remains high in June...

Singapore's inflation in June rose to 5.3% y/y (from 5.0% in May; consensus: 5.1% y/y), as housing (10.8% y/y) and transportation costs (8.7% y/y) continue to keep inflation elevated. High inflation was the key reason behind the Monetary Authority of Singapore's decision to tighten monetary policy in April. While inflation is expected to moderate in the second half of the year, it will likely continue to remain above its historical average, presenting an ongoing problem given Singapore's sluggish growth (1.9% y/y in the second quarter).

### ...while Hong Kong's eases

Hong Kong's inflation eased to 3.7% y/y in June (consensus: 4.0% y/y) from 4.3% y/y last month, as both food and rental prices, which constitute the two main drivers behind inflation, slowed in June to 7.1% y/y and 5.8% y/y respectively (compared to 8.4% y/y and 6.3% y/y in May). The outlook for inflation remains murky, as on the one hand pressures from rising rental prices may persist due to a tight labor market and ongoing shortages in housing supply, while on the other hand the difficult external environment is prone to weigh on import prices, helping to stabilize local inflation.

### Vietnam approves state-owned enterprise reform plan

Vietnam's Prime Minister has approved a plan to reform state-owned enterprises (SOEs), according to a statement posted on Saturday on Vietnam's government website. The plan outlines the process to restructure SOEs by putting an end to non-core businesses by 2015. SOEs identified by the central or local governments will have to submit a restructuring plan by the third quarter of 2012 for approval.

### Briefly noted:

- **Taiwan's industrial production surprised to the downside in June**, declining by -2.4% y/y (consensus: +0.5%) from -0.2% in May. Taiwan's manufacturing sector activity is highly correlated with the country's exports performance, therefore weakening machinery equipment and consumer electronics output data suggest that domestic business sentiment continues to deteriorate along with the slowdown in external demand.
- In another sign of the RMB's increasing internationalization, **the PBoC announced today that Indonesia's central bank has begun investing in China's interbank bond market**, though details regarding the amount and tenor were not disclosed.

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

<b>Australia</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Consumer Prices (QoQ)	25-Jul	2Q	0.10%	0.60%	--
Consumer Prices (YoY)	25-Jul	2Q	1.60%	1.30%	--
<b>China</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
HSBC Flash Manufacturing PMI	24-Jul	Jul	48.2	--	--
Industrial Profits YTD YoY	27-Jul	Jun	-2.40%	--	--
<b>Hong Kong</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
CPI - Composite Index (YoY)	23-Jul	Jun	4.30%	4.00%	3.70%
Exports YoY%	24-Jul	Jun	5.20%	1.80%	--
Imports YoY%	24-Jul	Jun	4.60%	1.50%	--
<b>Japan</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Merchnds Trade Balance Total	25-Jul	Jun	-¥907.3B	-¥140.0B	--
Merchnds Trade Exports YoY	25-Jul	Jun	10	-3	--
Merchnds Trade Imports YoY	25-Jul	Jun	9.3	1.1	--
Natl CPI YoY	27-Jul	Jun	0.20%	0.00%	--
Natl CPI Ex-Fresh Food YoY	27-Jul	Jun	-0.10%	0.00%	--
<b>Philippines</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Trade Balance	25-Jul	May	-\$135M	--	--
<b>Singapore</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
CPI (MOM) - NSA	23-Jul	Jun	0.20%	-0.10%	0.00%
CPI (YoY)	23-Jul	Jun	5.00%	5.10%	5.30%
Industrial Production MoM SA	26-Jul	Jun	1.80%	-0.80%	--
Industrial Production YoY	26-Jul	Jun	6.60%	2.80%	--
<b>South Korea</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
GDP (QoQ)	26-Jul	2Q P	0.90%	0.50%	--
GDP (YoY)	26-Jul	2Q P	2.80%	2.50%	--
Current Account in US\$ Million	27-Jul	Jun	\$3611.8M	--	--
<b>Taiwan</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Unemployment Rate - sa	23-Jul	Jun	4.25%	4.30%	4.24%
Industrial Production (YoY)	23-Jul	Jun	-0.21%	0.50%	-2.44%
<b>Thailand</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Customs Exports (YoY)	25-Jul	Jun	7.68%	4.50%	--
<b>Vietnam</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
CPI (YoY)	24-Jul	Jul	6.90%	5.70%	--
Exports YTD (YoY)	24-31 JUL	Jul	22.20%	--	--

## Indicator of the Week

### Korea: 2Q GDP (July 26)

Forecast: 2.6% y/y

Consensus: 2.4% y/y

Prior: 2.8% y/y

Being heavily export-dependent, Korea's economy is highly exposed to weakening external demand. With the economy slowing and inflation (2.2% y/y in June) remaining well within the official 2-4% target range, the Bank of Korea cut interest rates on July 12th by 25bps, the first easing move since 2009. The move came against weakening external demand, which resulted in a half percentage point lowering of the BoK's full year forecast to 3.0% y/y (BBVA: 2.9% y/y). We expect a further slowdown in Korea's second quarter GDP. Given recent fiscal stimulus measures and the likelihood of another rate cut during the year, we expect Q2 to reflect a bottoming out of growth momentum, although there are downside risks due to the weak external environment.

## Calendar Events

### Thailand - Benchmark Interest Rate, July 25

We expect the benchmark rate to remain unchanged

**Current**

3.00%

**Consensus**

3.00%

**New**

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### Philippines - Overnight Borrowing Rate, July 26

We expect the benchmark rate to remain unchanged

**Current**

4.00%

**Consensus**

4.00%

**New**

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## 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.	2141.4	-1.3	-0.3	-2.6	-22.7
	Hong Kong - Hang Seng	19053.5	-3.0	-0.4	3.4	-15.1
	Taiwan - Weighted	7028.7	-1.9	-0.9	-0.6	-19.8
	Japan - Nikkei 225	8508.3	-1.9	-2.5	0.6	-16.0
	Korea - Kospi	1789.4	-1.8	-1.6	-2.0	-17.6
	India - Sensex 30	16867.2	-1.7	-1.4	9.1	-9.9
	Australia - SPX/ASX 200	4128.9	-1.7	0.6	1.8	-10.3
	Singapore - Strait Times	2980.5	-1.2	-0.6	12.6	-6.4
	Indonesia - Jakarta Comp	4009.8	-1.7	-0.9	4.9	-2.4
	Thailand - SET	1188.9	-1.6	-2.1	15.9	6.0
	Malaysia - KLCI	1636.2	-0.4	0.0	6.9	4.5
	Philippines - Manila Comp.	5139.4	-1.4	-3.0	17.6	14.8

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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)	6.39	-0.19	-0.11	6.36	6.43
	Hong Kong (HKD/USD)	7.76	0.00	0.01	7.75	7.75
	Taiwan (TWD/USD)	30.0	-0.26	-0.15	30.02	29.72
	Japan (JPY/USD)	78.06	0.55	1.04	77.96	77.58
	Korea (KRW/USD)	1147	-0.47	0.04	1154	1164
	India (INR/USD)	55.9	-1.10	-1.10	56.97	59.35
	Australia (USD/AUD)	1.03	-0.94	0.30	0.98	1.00
	Singapore (SGD/USD)	1.26	-0.27	0.37	1.26	1.26
	Indonesia (IDR/USD)	9503	-0.47	-0.15	9623	9988
	Thailand (THB/USD)	31.8	-0.35	-0.63	31.95	32.33
	Malaysia (MYR/USD)	3.17	-0.71	0.12	3.19	3.22
	Philippines (PHP/USD)	42.0	-0.44	-0.47	42.18	42.46

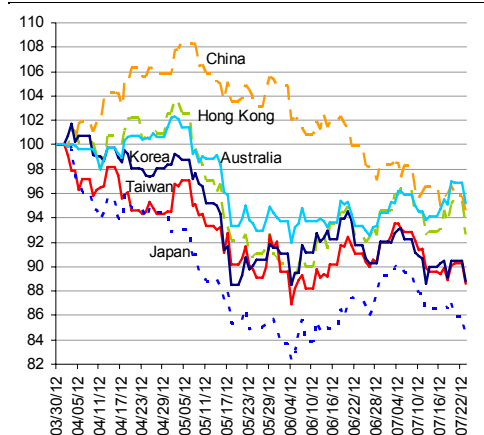
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.55	0.00	0.11	-0.95
	Hong Kong (HIBOR/1W)	0.13	0.00	-0.02	0.00
	Taiwan (TAIBOR/1W)	0.64	0.00	-0.01	-0.03
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	3.07	-0.01	-0.03	-0.27
	India (MIBOR/7D)	3.57	0.00	0.22	-0.77
	Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00
	Indonesia (JIBOR/1W)	4.17	0.00	-0.01	0.05
	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)	2.13	-0.25	0.44	-1.63

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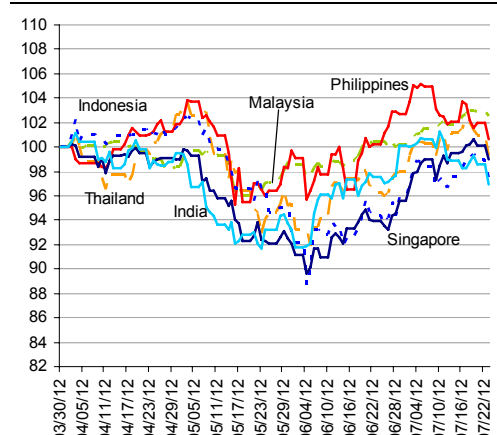
# Charts

Chart 9  
Stock Markets



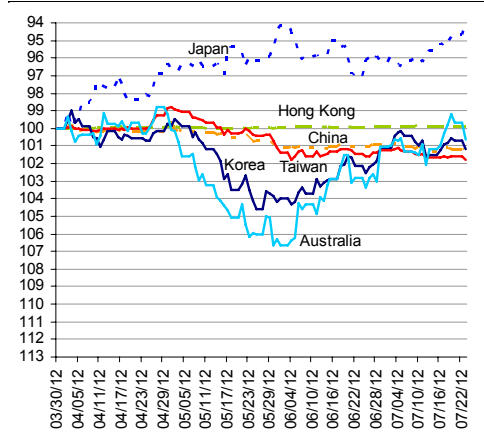
Source: BBVA Research and Bloomberg

Chart 10  
Stock Markets



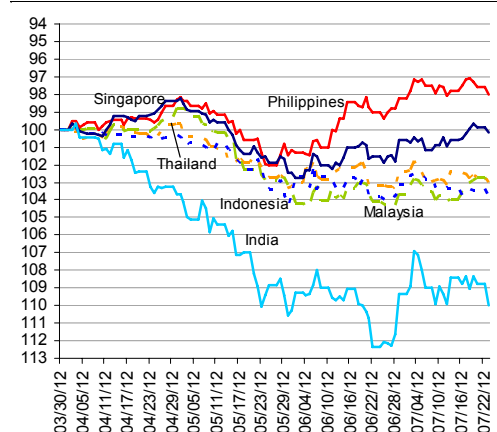
Source: BBVA Research and Bloomberg

Chart 11  
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12  
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Stephen Schwartz  
Senior Economist for Asia  
[stephen.schwartz@bbva.com.hk](mailto:stephen.schwartz@bbva.com.hk)

Fielding Chen  
Senior Economist  
[fielding.chen@bbva.com.hk](mailto:fielding.chen@bbva.com.hk)

Le Xia  
Senior Economist (China)  
[xia.le@bbva.com.hk](mailto:xia.le@bbva.com.hk)

Zhigang Li  
Senior Economist (China)  
[zhigang.li@bbva.com.hk](mailto:zhigang.li@bbva.com.hk)

Sumedh Deorukhkar  
Senior Economist (India, Mumbai)  
[sumedh.deorukhkar@grupobbva.com](mailto:sumedh.deorukhkar@grupobbva.com)

Jeffrey Cantwell  
Economist  
[jeffrey.cantwell@bbva.com.hk](mailto:jeffrey.cantwell@bbva.com.hk)

George Xu  
Economist  
[george.xu@bbva.com.hk](mailto:george.xu@bbva.com.hk)

Richard Li  
Asian FX Chief Strategist  
[richard.li@bbva.com.hk](mailto:richard.li@bbva.com.hk)

William Fitchett  
Economist  
[william.fitchett@bbva.com.hk](mailto: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](http://www.bbva.com.hk)

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