

Daily Flash

Asia

Hong Kong announces measures to enhance its role as an RMB center

The HKMA today announced a relaxation on RMB conversion limits for non-residents. Until now, a two-way daily conversion limit was in place of RMB 20,000. However, limits still apply to Hong Kong residents. The relaxation for non-residents will put Hong Kong on a level playing field with its RMB offshore competitors, such as London and Singapore, where no conversion limits apply. We had recently flagged that measures along these lines were needed in view of the recent headwinds to the growth of RMB deposits in Hong Kong owing to reduced appreciation expectations (*see our recent Economic Watch on RMB internationalization*).

Australia Q2 inflation edges down; no immediate rate cut expected

Today, Australia released a lower-than-expected Q2 inflation outturn of 1.2% y/y (consensus: 1.3% y/y), the lowest on an over-year basis in 14 years. The RBA has an annual inflation target of 2-3%, and today's low inflation outturn appears to open room for further policy easing. However, we are not expecting a rate cut by the RBA at its August monetary policy meeting, after the current policy rate was deemed appropriate by the RBA in its July meeting. For the rest of 2012, we expect one more rate cut of 25 bps by the RBA, following two rate cuts of 75 bps in total in May and June.

Japan's exports slowed in June on global downturn

Japan's exports declined by -2.3% y/y (consensus: -3.0% y/y) in June, the first fall in four months, as exports to Europe fell sharply by -21.3% y/y, while exports to China fell -7.3% y/y. On the other hand, imports fell by -2.2% y/y (consensus: -1.2% y/y), thanks to the fall in oil prices. This decline in imports resulted in an unexpected trade surplus of 61.7 billion yen (equivalent to 789 million USD) for the month. Japan's economy, bolstered by the post quake reconstruction, has recovered at a quicker than expected pace in the first quarter. Looking ahead, however, the economy is likely to slow in H2 due to the weak global environment.

Thailand keeps rates on hold while exports surprisingly fall

Today the Bank of Thailand (BOT) decided to hold interest rates at the current 3% level, as was widely expected. In its statement, the central bank highlighted increasing risks to the global economy; however, "with economic growth close to potential and inflation remaining within its target," the Bank decided the current monetary policy was adequate. The statement also said that the worsening external outlook has begun to impact exports, with June exports (released today) confirming this, declining by -2.5% y/y (consensus: a 4.5% y/y rise) compared with a 7.7% jump the previous month. The exports outturn sends a warning that the weak external outlook may hamper Thailand's recovery; in light of this, the BOT said it will monitor global economic developments and stands "ready to take appropriate action as warranted," hinting at a possible rate cut in the coming months.

Korea's consumer confidence shows decline prior to release of 2Q GDP data

Consumer confidence in July fell to a five month low, signaling that the outlook for Korea's economy remains under pressure. Policymakers have been stepping up measures to boost the economy recently, with the Bank of Korea cutting interest rates for the first time since 2009 on July 12th, and the government announcing US\$7bn in stimulus at the end of June. Tomorrow Korea will announce its second quarter GDP outturn, where we expect to see a further moderation in growth from the first quarter (see Weekly Indicator below).

Briefly noted:

- **Foreign direct investment in Indonesia rose 30.2% y/y to a record** IDR56.1 trillion (US\$5.9 billion) in the second quarter, as investors continue to be drawn to the country's strong growth prospects. FDI was driven by Singapore (US\$800 million), the US (US\$700 million), and US\$600 million each from Japan and Australia.

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Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
Consumer Prices (QoQ)	25-Jul	2Q	0.10%	0.60%	0.50%
Consumer Prices (YoY)	25-Jul	2Q	1.60%	1.30%	1.20%
China	Date	Period	Prior	Cons.	Actual
HSBC Flash Manufacturing PMI	24-Jul	Jul	48.2	--	49.5
Industrial Profits YTD YoY	27-Jul	Jun	-2.40%	--	--
Hong Kong	Date	Period	Prior	Cons.	Actual
CPI - Composite Index (YoY)	23-Jul	Jun	4.30%	4.00%	3.70%
Exports YoY%	24-Jul	Jun	5.20%	1.80%	-4.80%
Imports YoY%	24-Jul	Jun	4.60%	1.50%	-2.90%
Japan	Date	Period	Prior	Cons.	Actual
Merchnds Trade Balance Total	25-Jul	Jun	-¥907.3B	-¥140.0B	¥61.7B
Merchnds Trade Exports YoY	25-Jul	Jun	10.0%	-3.0%	-2.3%
Merchnds Trade Imports YoY	25-Jul	Jun	9.3%	1.1%	-2.2%
Natl CPI YoY	27-Jul	Jun	0.20%	0.00%	--
Natl CPI Ex-Fresh Food YoY	27-Jul	Jun	-0.10%	0.00%	--
Philippines	Date	Period	Prior	Cons.	Actual
Trade Balance	25-Jul	May	-\$135M	--	-\$454M
Singapore	Date	Period	Prior	Cons.	Actual
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%	--
South Korea	Date	Period	Prior	Cons.	Actual
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	--	--
Taiwan	Date	Period	Prior	Cons.	Actual
Unemployment Rate - sa	23-Jul	Jun	4.25%	4.30%	4.24%
Industrial Production (YoY)	23-Jul	Jun	-0.21%	0.50%	-2.44%
Thailand	Date	Period	Prior	Cons.	Actual
Customs Exports (YoY)	25-Jul	Jun	7.68%	4.50%	-2.50%
Vietnam	Date	Period	Prior	Cons.	Actual
CPI (YoY)	24-Jul	Jul	6.90%	5.70%	5.35%
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 expected the benchmark rate to remain unchanged

Current

3.00%

Consensus

3.00%

New

3.00%

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.	2136.2	-0.5	-1.5	-2.9	-20.6
	Hong Kong - Hang Seng	18877.3	-0.1	-1.9	2.4	-15.3
	Taiwan - Weighted	6979.1	-0.4	-1.0	-1.3	-19.6
	Japan - Nikkei 225	8365.9	-1.4	-4.1	-1.1	-16.8
	Korea - Kospi	1769.3	-1.4	-1.4	-3.1	-17.7
	India - Sensex 30	16844.1	-0.4	-2.0	9.0	-10.7
	Australia - SPX/ASX 200	4123.9	-0.2	0.0	1.7	-9.0
	Singapore - Strait Times	2990.9	-0.3	-0.9	13.0	-5.7
	Indonesia - Jakarta Comp	4000.8	0.2	-2.0	4.7	-2.1
	Thailand - SET	1188.6	0.1	-2.6	15.9	5.4
	Malaysia - KLCI	1635.1	0.2	-0.6	6.8	4.8
Philippines - Manila Comp.	5161.8	0.0	-1.1	18.1	15.2	

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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	-0.04	-0.30	6.37	6.44
	Hong Kong (HKD/USD)	7.76	0.00	-0.02	7.76	7.75
	Taiwan (TWD/USD)	30.2	-0.26	-0.64	30.14	29.86
	Japan (JPY/USD)	78.18	0.00	0.79	78.09	77.72
	Korea (KRW/USD)	1151	-0.42	-0.73	1154	1163
	India (INR/USD)	56.2	-0.22	-1.33	57.27	59.60
	Australia (USD/AUD)	1.03	0.53	-0.85	0.98	1.00
	Singapore (SGD/USD)	1.26	0.33	-0.08	1.26	1.25
	Indonesia (IDR/USD)	9508	0.01	-0.58	9639	10015
	Thailand (THB/USD)	31.7	0.28	-0.03	31.88	32.30
	Malaysia (MYR/USD)	3.18	0.11	-0.57	3.19	3.22
Philippines (PHP/USD)	42.1	-0.25	-1.12	42.21	42.50	

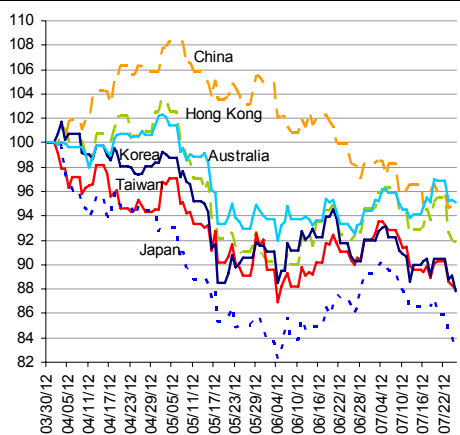
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.33	-0.03	-0.24	-0.77
	Hong Kong (HIBOR/1W)	0.13	0.00	0.00	0.00
	Taiwan (TAIBOR/1W)	0.64	0.00	0.00	-0.03
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	3.06	-0.01	-0.03	-0.28
	India (MIBOR/7D)	6.04	2.66	2.24	1.84
	Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00
	Indonesia (JIBOR/1W)	4.17	0.00	0.00	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)	1.75	0.00	-1.13	-2.00

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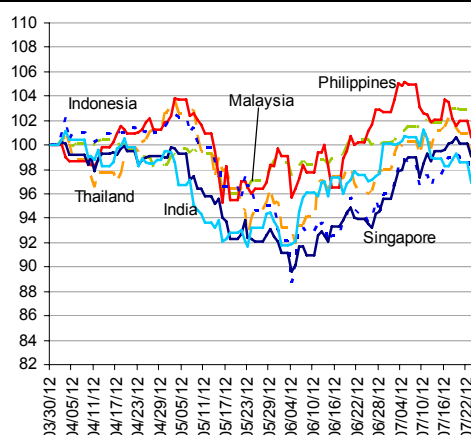
Charts

Chart 9
Stock Markets



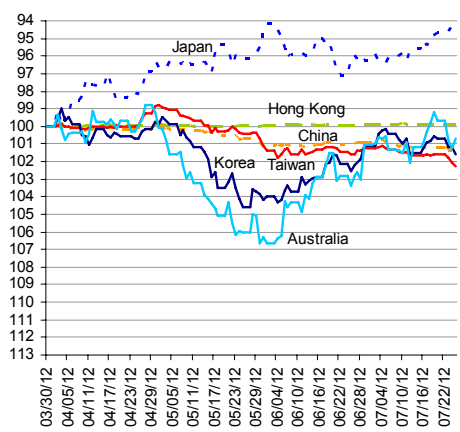
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



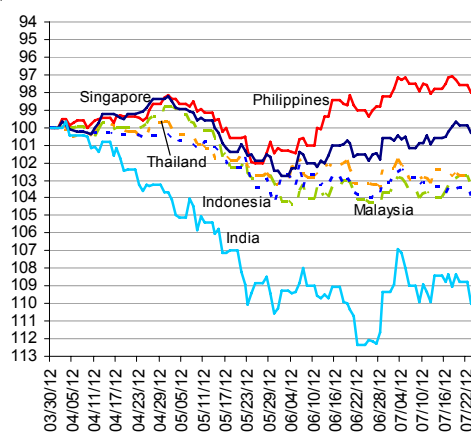
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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