

Daily Flash

Asia

Asian markets responded positively to comments made yesterday by ECB President Mario Draghi on the central bank's commitment to do whatever it takes to save the euro. The Hang Seng (2.0%), Kospi (2.6%) and Nikkei (1.5%) all advanced, ending the week on a positive note after another difficult week for Asian equities. Asian FX broadly rallied as well, with the AUD (+0.3% on the day) now 1.04 versus the US dollar. The yen, which has strengthened enough in recent weeks that prospects of further quantitative easing have once again been bandied about, advanced by 0.1%, to 78.2/USD. With signs that the "Draghi" effect were already beginning to wane in afternoon trading in Europe, it remains to be seen whether this positive momentum will continue into Monday. In Asia, next week will feature the release of a number of important economic indicators, including China's official PMI which will be released on Wednesday (see Weekly Indicator below).

Japan's deflation continues, while consumer spending holds up in June

Japan's inflation fell to -0.2% y/y (consensus: 0.0%; May: 0.2%) in June, while core inflation (excluding food and energy) declined by -0.6% y/y (consensus: -0.5%; May: -0.6%). Falling gasoline and fuel prices were the main factors for the decline in headline inflation. The lower than expected outturn increases the likelihood that the BoJ will ease monetary policy further in the coming months by expanding the size of its asset purchase program. Separately, Japan also released retail sales data, which rose by 0.2% y/y in June as a result of a pick up in private consumption due to the government's subsidy program and reconstruction spending. We expect Japan's economy to expand by 2.4% in 2012, although the growth pace is expected to slow in the second half of the year.

Thailand's manufacturing production slumps in June – rate cut forthcoming?

Thailand's manufacturing output declined in June by -9.6% y/y (consensus: -0.8%), according to data released today, reversing a positive reading in the previous month (when the index rose for the first time this year by 6% y/y). The prolonged uncertainty in the external environment is weighing on Thailand's recovery, as was both flagged this week by the Bank of Thailand (BOT) and seen in an unexpected decline in exports posted on Wednesday (-2.5% y/y). The BOT has cut its GDP growth forecast for this year from 6.0% to 5.7%, and has reacted to recent developments by signaling possible monetary easing in future meetings, following the trend set by its Asian peers in recent weeks.

Briefly noted:

- **Vietnam's exports growth slowed to 3% y/y** according to data released yesterday, a considerable slowdown compared with 16.9% y/y the previous month. However, the country posted a surprise trade surplus of US\$0.1 billion.
- **Along with the release of China's official PMI, other countries publishing their PMI data next week include Singapore, South Korea and Taiwan.** Japan and South Korea will publish their industrial production figures, while Indonesia, South Korea and Thailand will release inflation data. In India, investors will closely watch RBI's monetary policy meeting on Wednesday for signs of further easing, while on Thursday trade balance data will be released.

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%	--	-2.20%
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%	-0.20%
Natl CPI Ex-Fresh Food YoY	27-Jul	Jun	-0.10%	0.00%	-0.20%
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%	3.90%
Industrial Production YoY	26-Jul	Jun	6.60%	2.80%	7.60%
South Korea	Date	Period	Prior	Cons.	Actual
GDP (QoQ)	26-Jul	2Q P	0.90%	0.50%	0.40%
GDP (YoY)	26-Jul	2Q P	2.80%	2.50%	2.40%
Current Account in US\$ Million	27-Jul	Jun	\$3611.8M	--	\$5835.8M
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)	26-Jul	Jul	22.20%	--	19.00%

Indicator of the Week

China: PMI for July (August 1)

Forecast: 50.4

Consensus: 50.4

Prior: 50.2

While growth momentum continued to slow in the second quarter, recent indicators suggest that the slowdown may be stabilizing on increasing policy support. Loan growth and the latest flash HSBC PMI (49.5 vs. 48.2 in June) have both improved on rising production, new orders, and new export orders. Official PMI has been trending above 50, but has weakened since April. We expect this trend to reverse in July, with a pick up to 50.7%, from 50.2% in June. Despite the weak external environment, we expect China's overall growth momentum to rise through in the second half of 2012 on increasing monetary and fiscal measures.

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 expected the benchmark rate to remain unchanged

Current

4.00%

Consensus

4.00%

New

3.75%

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.	2128.8	0.1	-1.8	-3.2	-21.8
	Hong Kong - Hang Seng	19275.0	2.0	-1.9	4.6	-14.5
	Taiwan - Weighted	7124.5	2.2	-0.6	0.7	-19.2
	Japan - Nikkei 225	8566.6	1.5	-1.2	1.3	-14.7
	Korea - Kospi	1829.2	2.6	0.3	0.2	-15.9
	India - Sensex 30	16839.2	1.2	-1.9	9.0	-8.6
	Australia - SPX/ASX 200	4209.8	1.5	0.3	3.8	-7.2
	Singapore - Strait Times	2998.5	-0.2	-0.6	13.3	-6.1
	Indonesia - Jakarta Comp	4084.2	2.0	0.1	6.9	-2.2
	Thailand - SET	1178.0	0.4	-2.5	14.9	4.2
	Malaysia - KLCI	1624.9	0.1	-1.1	6.2	4.3
	Philippines - Manila Comp.	5219.6	1.3	0.2	19.4	16.4

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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)	6.38	0.05	-0.11	6.36	6.43
	Hong Kong (HKD/USD)	7.76	0.02	-0.01	7.76	7.75
	Taiwan (TWD/USD)	30.1	0.15	-0.35	30.01	29.73
	Japan (JPY/USD)	78.14	0.09	0.45	78.05	77.68
	Korea (KRW/USD)	1138	0.76	0.26	1145	1154
	India (INR/USD)	55.4	0.18	-0.16	56.33	58.69
	Australia (USD/AUD)	1.04	0.34	0.52	0.97	0.99
	Singapore (SGD/USD)	1.25	-0.06	0.36	1.25	1.25
	Indonesia (IDR/USD)	9494	0.09	-0.38	9604	9965
	Thailand (THB/USD)	31.6	0.03	0.38	31.72	32.14
	Malaysia (MYR/USD)	3.16	0.31	-0.38	3.18	3.21
	Philippines (PHP/USD)	42.0	0.43	-0.25	42.04	42.32

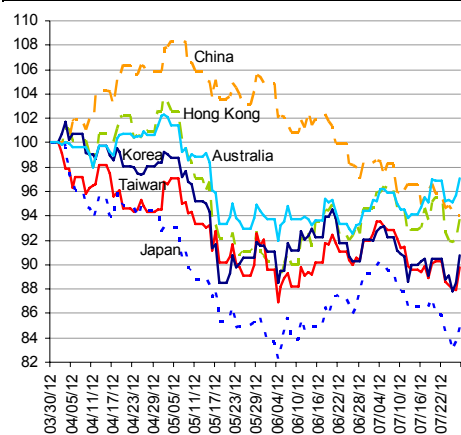
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.10	-0.28	-0.45	-1.10
	Hong Kong (HIBOR/1W)	0.13	0.00	0.00	0.00
	Taiwan (TAIBOR/1W)	0.64	0.00	0.00	-0.03
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	3.05	0.00	-0.03	-0.29
	India (MIBOR/7D)	3.20	-0.40	-0.37	-1.10
	Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00
	Indonesia (JIBOR/1W)	4.16	0.00	-0.01	0.02
	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)	1.31	-1.13	-1.06	-2.38

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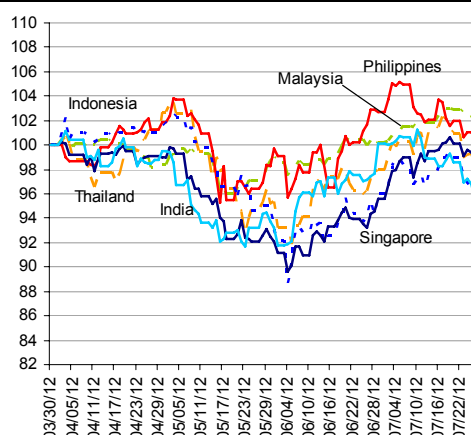
Charts

Chart 9
Stock Markets



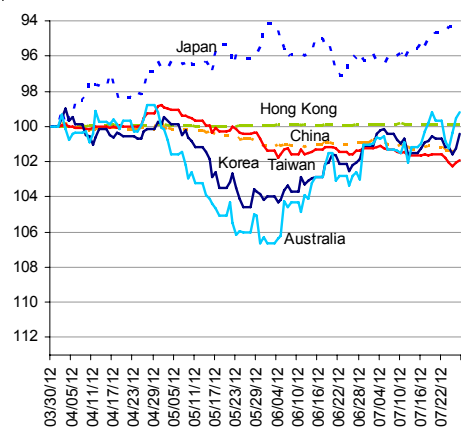
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



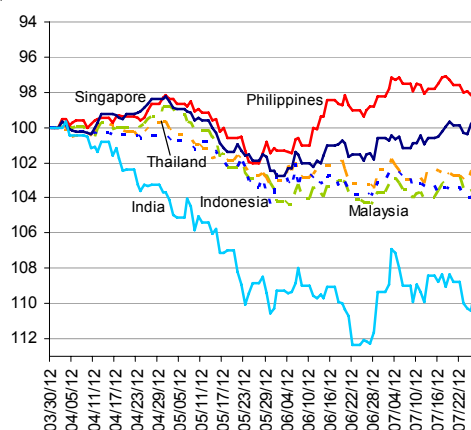
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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