

# Daily Flash

## Asia

*A flurry of data outturns today shows the region continuing to slow, weighed down by the weak external environment. The weak set of data included July exports in Korea (a bellwether for the region) and a lower-than-expected PMI outturn in China (see below), and highlighted the challenge for policymakers in maintaining growth momentum in the face of increasingly stiff external headwinds. The market focus now will turn to events elsewhere, as the Federal Reserve wraps up its two-day meeting today, and the ECB prepares to meet tomorrow. Asian markets moved upwards at the end of the day after China's policymakers pledged more policy support - the Hang Seng finished up by 0.1% after being down by -0.8% earlier.*

### China's weak PMI underscores challenge to restore growth momentum

The official NBS Purchasing Managers Index (PMI) declined to a weaker-than expected 50.1% in July (BBVA: 50.7%; Consensus: 50.5%), from 50.2% in June. On the balance, we continue to believe that growth momentum is stabilizing as other indicators are more positive recently, but further policy support will likely be needed to maintain growth at near 8% for the full year. On the monetary side, such support is likely to include another 150bp cuts in the RRR in the coming months, and up to two interest rate cuts. Fiscal support is also being stepped up at both the local and national level through increased infrastructure spending.

### More signs of a growth slowdown in Korea increase odds of stimulus

One day after a disappointing June IP outturn, Korea reported today that July exports fell by more than expected (-8.8% y/y, consensus: -3.7% y/y) as demand for major exports including steel and ships declined sharply. Meanwhile, Korea's inflation fell to 1.5% y/y in July (consensus: 2.0% y/y), its lowest level since 2000. The outturns show a rapidly slowing Korean economy, putting further pressure on policymakers to provide support in the coming months. We expect at least one more rate cut before the end of the year (probably in August), and given recent weakness in the domestic environment along with the tepid external environment, we cannot rule out further fiscal stimulus, despite some domestic political resistance.

### Latest Indonesian trade data highlights current account stress

Indonesia's exports contracted by in June (-16.4% y/y, consensus: -7.9% y/y), the third consecutive month of over-year declines as demand for Indonesia's oil and gas remains very weak (-22.3% y/y). More importantly, Indonesia posted a record trade deficit of US\$1.3bn as imports rose by 10.7% y/y due to ongoing resilience in domestic demand. Given ongoing weakness externally, the rupiah is likely to remain under pressure, causing potential problems if growth were to slow significantly. Monetary policymakers appear to be on hold for now, especially as inflation is ticking upwards (to 4.56% y/y in July, up slightly from 4.53% y/y the previous month on rising food prices) and appears to be set to rise further in the coming months.

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## Calendar Indicators

<b>Australia</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Trade Balance	02-Aug	Jun	-285M	-375M	--
Retail Sales s.a. (MoM)	02-Aug	Jun	0.50%	0.70%	--
<b>China</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Manufacturing PMI	01-Aug	Jul	50.2	50.5	50.1
HSBC Manufacturing PMI	01-Aug	Jul	48.2	--	49.3
Non-manufacturing PMI	03-Aug	Jul	56.7	--	--
HSBC Services PMI	03-Aug	Jul	52.3	--	--
<b>Hong Kong</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Retail Sales - Value (YoY)	02-Aug	Jun	8.80%	9.10%	--
Purchasing Managers Index	03-Aug	Jul	49.8	--	--
<b>Indonesia</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Inflation (YoY)	01-Aug	Jul	4.53%	4.59%	4.56%
Exports (YoY)	01-Aug	Jun	-8.50%	-7.90%	-16.4%
<b>India</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Reverse Repo Rate	31-Jul	31-Jul	7.00%	7.00%	7.00%
Cash Reserve Ratio	31-Jul	31-Jul	4.75%	4.75%	4.75%
India July Markit Manufacturing PMI	01-Aug	Jul	55.0	--	52.9
Exports YoY%	01-Aug	Jun	-4.20%	--	-5.50%
Imports YoY%	01-Aug	Jun	-7.40%	--	-13.50%
India July Markit Services PMI	03-Aug	Jul	--	--	--
<b>Japan</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Industrial Production (MoM)	30-Jul	Jun P	-3.40%	1.50%	-0.10%
Industrial Production YOY%	30-Jul	Jun P	6.00%	-0.10%	-2.00%
Markit/JMMA Manufacturing PMI	31-Jul	Jul	49.9	--	47.9
Jobless Rate	31-Jul	Jun	4.40%	4.40%	4.30%
<b>Singapore</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Unemployment Rate (sa)	31-Jul	2Q P	2.10%	2.10%	2.0%
Purchasing Managers Index	01-Aug	Jul	50.4	50.4	--
<b>South Korea</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Industrial Production (MoM)	31-Jul	Jun	1.10%	0.10%	-0.40%
Industrial Production (YoY)	31-Jul	Jun	2.60%	1.80%	1.60%
Consumer Price Index (MoM)	01-Aug	Jul	-0.10%	0.20%	-0.20%
Consumer Price Index (YoY)	01-Aug	Jul	2.20%	2.00%	1.50%
HSBC Manufacturing PMI	01-Aug	Jul	49.4	--	47.2
Ext Trade - Export (YoY)	01-Aug	Jul	1.30%	-3.70%	-8.80%
<b>Taiwan</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
GDP - Constant Prices (YoY)	31-Jul	2Q P	0.39%	0.50%	-0.20%
HSBC Manufacturing PMI	01-Aug	Jul	49.2	--	47.5
<b>Thailand</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Consumer Price Index (YoY)	01-Aug	Jul	2.56%	2.60%	2.73%

## Indicator of the Week

### China: PMI for July (August 1)

Forecast: 50.7

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

### India - India REPO Cutoff Yld, July 31

We expect the benchmark rate to remain unchanged

**Current**

8.00%

**Consensus**

8.00%

**New**

8.00%

## 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.	2123.4	0.9	-0.6	-3.5	-21.5
	Hong Kong - Hang Seng	19820.4	0.1	5.0	7.5	-12.5
	Taiwan - Weighted	7268.0	0.0	4.1	2.8	-16.5
	Japan - Nikkei 225	8641.9	-0.6	3.3	2.2	-13.3
	Korea - Kospi	1879.9	-0.1	6.3	3.0	-13.5
	India - Sensex 30	17257.4	0.1	2.4	11.7	-5.8
	Australia - SPX/ASX 200	4262.8	-0.1	3.4	5.1	-5.2
	Singapore - Strait Times	3051.1	0.5	2.0	15.3	-5.1
	Indonesia - Jakarta Comp	4130.5	-0.3	3.2	8.1	-1.5
	Thailand - SET	1201.1	0.2	1.1	17.1	5.0
	Malaysia - KLCI	1632.5	0.1	-0.2	6.6	4.8
Philippines - Manila Comp.	5298.7	-0.2	2.7	21.2	16.4	

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)	6.37	-0.11	0.31	6.36	6.43
	Hong Kong (HKD/USD)	7.75	0.01	0.06	7.75	7.75
	Taiwan (TWD/USD)	30.0	0.09	0.76	29.86	29.56
	Japan (JPY/USD)	78.15	-0.04	0.01	78.07	77.72
	Korea (KRW/USD)	1127	0.35	2.16	1133	1143
	India (INR/USD)	55.5	0.25	1.16	56.57	58.77
	Australia (USD/AUD)	1.05	0.26	2.16	0.96	0.98
	Singapore (SGD/USD)	1.24	0.02	0.88	1.24	1.24
	Indonesia (IDR/USD)	9469	-0.02	0.41	9541	9900
	Thailand (THB/USD)	31.5	0.16	0.44	31.64	32.06
	Malaysia (MYR/USD)	3.11	0.52	1.96	3.13	3.16
Philippines (PHP/USD)	41.8	-0.01	0.90	41.82	42.09	

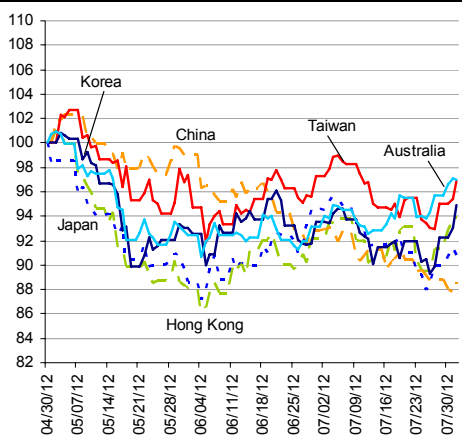
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.40	0.00	0.30	-0.66
	Hong Kong (HIBOR/1W)	0.13	0.00	0.00	0.00
	Taiwan (TAIBOR/1W)	0.64	0.00	0.00	-0.03
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	3.04	-0.01	-0.02	-0.30
	India (MIBOR/7D)	3.42	0.07	-2.62	-0.68
	Singapore (SIBOR/1W)	0.31	0.00	0.06	0.06
	Indonesia (JIBOR/1W)	4.19	0.00	0.02	0.03
	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)	1.00	-0.81	-0.75	-2.19

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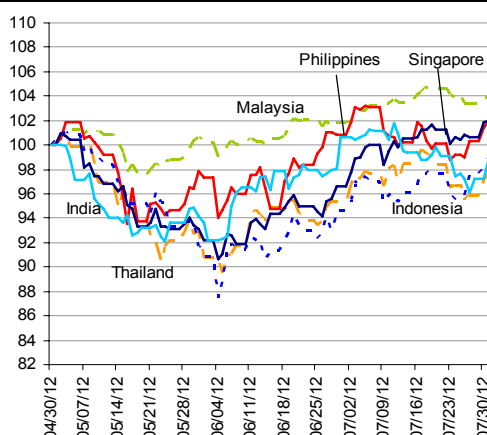
# Charts

Chart 9  
Stock Markets



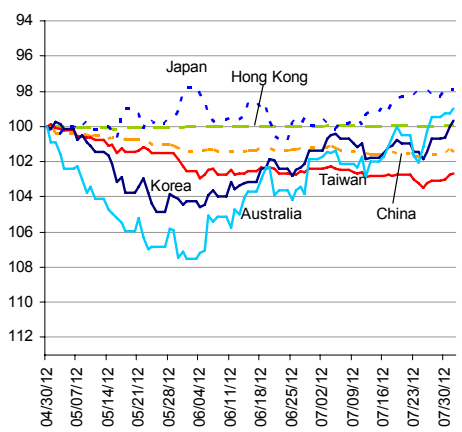
Source: BBVA Research and Bloomberg

Chart 10  
Stock Markets



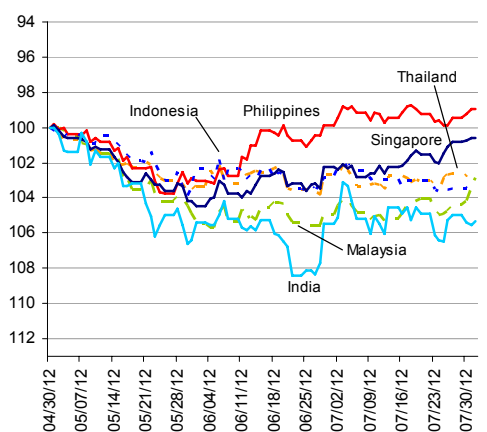
Source: BBVA Research and Bloomberg

Chart 11  
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12  
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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