

Daily Flash

Asia

The negative data outturns released in China today, especially the slowdown in exports, abruptly ended a week-long rally in Asian equities. The week had started on a positive note around the world on investors' optimism due to ECB President Mario Draghi's pledge to do 'whatever it takes' to save the euro. Throughout Asia, however, it is clear that exports are slowing sharply, as confirmed by China and the Philippines today (see below), as well as by Korea and Taiwan over the past two weeks. The slowdown is increasing prospects of further policy easing in the form of fiscal support to bolster growth, along with selective rate cuts.

Weak China data increases the likelihood of policy easing

Following the weaker-than-expected IP outturn for July (9.2% vs. consensus 9.7%), today's July data on trade and credit further confirmed that China's growth momentum remains weak. July exports were much weaker than expected, at 1.0% (consensus: 9.0%), mainly due to the sluggish European economy. Domestic demand also remains soft, with imports growing by 4.7% y/y, slightly weaker than expected. On the credit side, new loans in July were also well below expectations (actual: 540.1 billion RMB vs. consensus: 700 billion RMB). On the balance, we anticipate that today's outturns will result in authorities stepping up policy measures, including monetary easing and fiscal spending, to support domestic demand and stabilize growth momentum (see our just-released *China Outlook* for more details).

Hong Kong second quarter GDP falls short of expectations

Hong Kong's real GDP grew by 1.1% y/y in the second quarter of 2012 over a year ago (consensus: 1.2% y/y), after mild growth of 0.7% y/y in the first quarter. In sequential terms, GDP slightly contracted by 0.1% q/q in the second quarter, after growth of 0.6% q/q in the previous quarter. Looking ahead, we anticipate that Hong Kong's economy, especially its export sector, will remain under persistent pressure due to a number of external factors including the European debt crisis, sluggish growth in the US, and China's slowdown. In light of this, we maintain our full year GDP forecast of 2.1% for Hong Kong (which would be significantly lower than last year's 5.0% growth) and emphasize that risks are tilted to the downside.

Briefly noted:

- **The Philippines reported sharply lower exports growth in June** (4.2% y/y, consensus: 12.0% y/y, May: 19.7% y/y), on weak demand for its manufactured goods. Today's outturn was in line with other, similarly disappointing trade outturns from the several of the region's other economies.
- **Today Japan's upper house passed a bill to raise the sales tax from current 5% to 8% in April 2014** and further to 10% in October 2015. Japan's lower house had previously approved the bill in June.
- **Next week the economic calendar will be on the light side.** The main focus will be Japan's 2Q GDP, released on Monday, which we expect to be 0.8% saar (see Weekly Indicator below). Investors will also watch the release of India's wholesale price inflation on Tuesday. China will publish FDI and property prices, and Malaysia will post its 2Q GDP growth and inflation data on Wednesday.

Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
Unemployment Rate	09-Aug	Jul	5.20%	5.30%	5.20%
China	Date	Period	Prior	Cons.	Actual
Consumer Price Index (YoY)	09-Aug	Jul	2.20%	1.70%	1.80%
Producer Price Index (YoY)	09-Aug	Jul	-2.10%	-2.50%	-2.90%
Industrial Production YTD YoY	09-Aug	Jul	10.50%	10.40%	10.30%
Industrial Production (YoY)	09-Aug	Jul	9.50%	9.70%	9.20%
Fixed Assets Inv Excl. Rural YTD YoY	09-Aug	Jul	20.40%	20.60%	20.40%
Retail Sales (YoY)	09-Aug	Jul	13.70%	13.50%	13.10%
Trade Balance (USD)	10-Aug	Jul	\$31.72B	\$35.00B	\$25.15B
Exports YoY%	10-Aug	Jul	11.30%	8.00%	1.00%
Imports YoY%	10-Aug	Jul	6.30%	7.00%	4.70%
New Yuan Loans	10-Aug	Jul	919.8B	700.0B	540.1B
Money Supply - M2 (YoY)	10-Aug	Jul	13.60%	13.80%	13.90%
Hong Kong	Date	Period	Prior	Cons.	Actual
GDP (YoY)	10-Aug	2Q	0.40%	1.20%	1.10%
Indonesia	Date	Period	Prior	Cons.	Actual
GDP Constant Price (YoY)	06-Aug	2Q	6.30%	6.10%	6.40%
GDP Constant Price (QoQ)	06-Aug	2Q	1.40%	2.51%	2.80%
India	Date	Period	Prior	Cons.	Actual
Industrial Production YoY	09-Aug	Jun	2.40%	0.40%	-1.80%
Japan	Date	Period	Prior	Cons.	Actual
Current Account Total	08-Aug	Jun	¥215.1B	¥415.4B	¥433.3B
Trade Balance - BOP Basis	08-Aug	Jun	-¥848.2B	¥120.0B	¥112.0B
Japan Money Stock M2 YoY	09-Aug	Jul	2.20%	2.20%	2.20%
Machine Orders (MoM)	09-Aug	Jun	-14.80%	12.00%	5.60%
Machine Orders YOY%	09-Aug	Jun	1.00%	-4.50%	-9.90%
Malaysia	Date	Period	Prior	Cons.	Actual
Exports YoY%	08-Aug	Jun	6.70%	3.10%	5.40%
Industrial Production YoY	09-Aug	Jun	7.80%	4.80%	3.70%
Philippines	Date	Period	Prior	Cons.	Actual
Consumer Price Index (YoY)	08-Aug	Jul	2.80%	3.10%	3.20%
Total Exports (YoY)	10-Aug	Jun	19.70%	12.00%	4.20%
South Korea	Date	Period	Prior	Cons.	Actual
Producer Price Index (YoY)	10-Aug	Jul	0.80%	--	-0.10%
Taiwan	Date	Period	Prior	Cons.	Actual
CPI YoY%	06-Aug	Jul	1.77%	1.95%	2.46%
Total Exports (YoY)	07-Aug	Jul	-3.20%	-7.70%	-11.60%

Indicator of the Week

Japan: Q2 GDP growth (August 13)

Forecast: 0.8% q/q saar

Consensus: 2.0% q/q saar

Prior: 4.7% q/q saar

Japan's economy is expected to have decelerated in the second quarter after expanding 4.7% q/q saar in Q1. Recent activity indicators, especially industrial production and exports point to a slowdown from global headwinds that are suppressing exports. At the same time, post-quake reconstruction as well as rising domestic auto sales due to government subsidies should sustain growth in the coming quarters. We expect full-year growth to reach 2.4% in 2012, as the economy bounces back from last year's disruptions from the earthquake and tsunami, with risks on the downside due to global uncertainties.

Calendar Events

Australia - RBA Cash Target, August 7

We expected the benchmark rate to remain unchanged

Current

3.50%

Consensus

3.50%

New

3.50%

South Korea - 7-Day Repo Rate, August 9

We expected the benchmark rate to remain unchanged

Current

3.00%

Consensus

3.00%

New

3.00%

Japan - BOJ Target Rate, August 9

We expected the benchmark rate to remain unchanged

Current

0.10%

Consensus

0.10%

New

0.10%

Indonesia - Bank Indonesia Reference Rate, August 9

We expected the benchmark rate to remain unchanged

Current

5.75%

Consensus

5.75%

New

5.75%

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.	2168.8	-0.2	1.7	-1.4	-14.9
	Hong Kong - Hang Seng	20136.1	-0.7	2.4	9.2	1.8
	Taiwan - Weighted	7441.1	0.1	3.1	5.2	-3.8
	Japan - Nikkei 225	8891.4	-1.0	3.9	5.2	-1.6
	Korea - Kospi	1946.4	0.3	5.3	6.6	7.8
	India - Sensex 30	17545.9	-0.1	2.0	13.5	2.4
	Australia - SPX/ASX 200	4277.3	-0.7	1.3	5.4	3.3
	Singapore - Strait Times	3054.2	0.1	0.6	15.4	5.9
	Indonesia - Jakarta Comp	4141.6	0.3	1.0	8.4	7.2
	Thailand - SET	1215.0	-0.2	1.5	18.5	14.6
	Malaysia - KLCI	1645.4	0.2	0.6	7.5	11.1
	Philippines - Manila Comp.	5263.4	0.1	-0.6	20.4	22.7

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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)	6.36	-0.01	0.19	6.37	6.43
	Hong Kong (HKD/USD)	7.76	-0.02	-0.03	7.76	7.75
	Taiwan (TWD/USD)	30.0	-0.14	0.05	29.91	29.62
	Japan (JPY/USD)	78.45	0.15	0.03	78.37	77.99
	Korea (KRW/USD)	1130	-0.44	0.39	1137	1148
	India (INR/USD)	55.3	-0.08	0.75	56.30	58.68
	Australia (USD/AUD)	1.05	-0.52	-0.42	0.96	0.98
	Singapore (SGD/USD)	1.25	-0.13	-0.35	1.25	1.24
	Indonesia (IDR/USD)	9485	-0.07	-0.09	9554	9921
	Thailand (THB/USD)	31.5	-0.06	-0.03	31.66	32.07
	Malaysia (MYR/USD)	3.12	-0.39	0.40	3.13	3.16
	Philippines (PHP/USD)	41.9	-0.18	-0.06	41.92	42.16

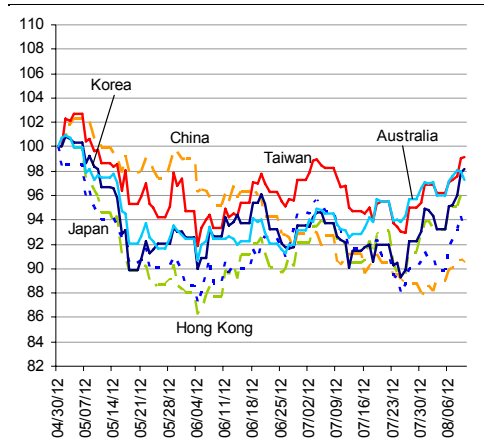
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.30	-0.06	-0.10	-0.01
	Hong Kong (HIBOR/1W)	0.13	0.00	0.00	-0.02
	Taiwan (TAIBOR/1W)	0.64	0.00	0.00	-0.03
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	3.04	0.01	0.01	-0.29
	India (MIBOR/7D)	3.30	-0.51	-0.20	-0.05
	Singapore (SIBOR/1W)	0.25	0.00	-0.06	0.00
	Indonesia (JIBOR/1W)	4.21	0.01	0.01	0.04
	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)	0.63	-0.13	-1.19	-2.06

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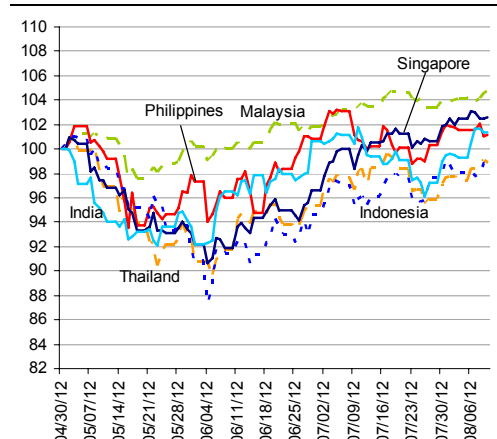
Charts

Chart 9
Stock Markets



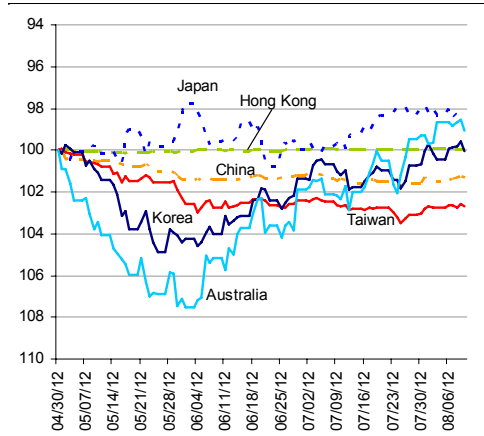
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



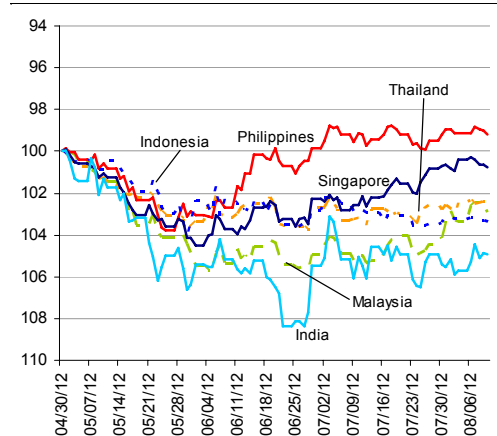
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Stephen Schwartz
Chief Economist for Asia
stephen.schwartz@bbva.com.hk

Fielding Chen
Senior Economist
fielding.chen@bbva.com.hk

Le Xia
Senior Economist (China)
xia.le@bbva.com.hk

Zhigang Li
Senior Economist (China)
zhigang.li@bbva.com.hk

Sumedh Deorukhkar
Senior Economist (India, Mumbai)
sumedh.deorukhkar@grupobbva.com

Jeffrey Cantwell
Economist
jeffrey.cantwell@bbva.com.hk

George Xu
Economist
george.xu@bbva.com.hk

Richard Li
Asian FX Chief Strategist
richard.li@bbva.com.hk

William Fitchett
Economist
william.fitchett@bbva.com.hk



RESEARCH



43/F., Two IFC, 8 Finance Street, Central, Hong Kong | Tel.: +852 2582 3111 | www.bbva.com.hk

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