

Daily Flash

Asia

Japan's government cuts economic assessment

Japan's government lowered its assessment of the economy today for the first time since October 2011. While acknowledging that "the Japanese economy is gradually recovering partly due to an increase in demand (led by the reconstruction projects)," the government highlighted weak activity in major segments in the economy, including exports. Furthermore, the government downgraded its assessment of consumer spending, housing construction and imports. The downgrade comes after a recent batch of economic indicators pointing to a slower-than-expected recovery under the weight of weak external demand and a strong yen that has been further dampening exports. Looking ahead, we expect Japan's growth to remain flat in the second half of the year (BBVA GDP Forecast: 2.4% y/y in 2012). The economic slowdown also makes it more likely that the BoJ will ease further in September or October.

ASEAN considers whether to add Hong Kong to free trade agreement

In a meeting of economic ministers from ASEAN that began yesterday, officials are reportedly considering a request by Hong Kong to join the ASEAN-China free trade agreement (ACFTA), which went into full effect on January 1, 2010. Hong Kong is currently the second biggest trading partner of ASEAN, just behind China, as well as a key facilitator of trade between Southeast Asia and the Mainland. Challenges lie ahead though, as there are some legal provisions that will need to be solved, and there could be potential opposition from other ASEAN members.

Hong Kong's July exports improve, but remain in negative territory

Hong Kong's total exports in July registered a year-on-year decline of -3.5% (consensus: -3.9% y/y), a slight improvement over June (-4.8% y/y). The decline in exports continues to reflect stresses from the European debt crisis. However, demand from key Asian countries such as India, Thailand and Singapore has also softened, in line with recent disappointing regional trade outturns. With global uncertainties remaining high, the performance of Hong Kong's exports sector may face further difficulties in the coming months.

Thailand's industrial output shows ongoing weakness

Thailand's industrial production fell again in July by -5.8% y/y after a -9.6% y/y drop one month earlier. The outturn was worse than expected (consensus: -4.3% y/y). The government's efforts to prop up the economy after the disastrous floods near the end of last year, which have included tax cuts, subsidy extensions and infrastructure projects, are proving insufficient to boost production to offset weakening external demand. Growth momentum has slowed in Thailand after a better-than-expected second quarter GDP outturn (of 4.2% y/y), increasing the possibility that the Bank of Thailand may cut interest rates to support the economy.

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Calendar Indicators

China	Date	Period	Prior	Cons.	Actual
Industrial Profits YTD YoY	27-Aug	Jul	-2.20%	--	-2.70%
Manufacturing PMI	01-Sep	Aug	50.1	49.8	--
Hong Kong	Date	Period	Prior	Cons.	Actual
Exports YoY%	28-Aug	Jul	-4.80%	-3.90%	-3.50%
Imports YoY%	28-Aug	Jul	-2.90%	-1.10%	-1.80%
Retail Sales - Value (YoY)	30-Aug	Jul	11.00%	9.00%	--
India	Date	Period	Prior	Cons.	Actual
Qtrly GDP YoY%	31-Aug	2Q	5.30%	5.30%	--
Fiscal Deficit INR Crore	31-Aug	Jul	48873	--	--
Japan	Date	Period	Prior	Cons.	Actual
Retail Trade YoY	30-Aug	Jul	0.20%	-0.10%	--
Jobless Rate	31-Aug	Jul	4.30%	4.30%	--
Natl CPI YoY	31-Aug	Jul	-0.20%	-0.30%	--
Natl CPI Ex-Fresh Food YoY	31-Aug	Jul	-0.20%	-0.30%	--
Industrial Production (MoM)	31-Aug	Jul P	0.40%	1.70%	--
Industrial Production YOY%	31-Aug	Jul P	-1.50%	1.80%	--
Malaysia	Date	Period	Prior	Cons.	Actual
Unemployment Rate	30-Aug	2Q	3.00%	--	--
Philippines	Date	Period	Prior	Cons.	Actual
Trade Balance	28-Aug	Jun	-\$454M	--	-\$787M
GDP sa (QoQ)	30-Aug	2Q	2.50%	1.10%	--
GDP (YoY)	30-Aug	2Q	6.40%	5.50%	--
South Korea	Date	Period	Prior	Cons.	Actual
Current Account in US\$ Million	29-Aug	Jul	\$5835.8M	--	--
Industrial Production (MoM)	31-Aug	Jul	-0.40%	--	--
Industrial Production (YoY)	31-Aug	Jul	1.60%	0.40%	--
Ext Trade - Export (YoY)	01-Sep	Aug	-8.80%	--	--
Ext Trade - Imports (YoY)	01-Sep	Aug	-5.50%	--	--
Thailand	Date	Period	Prior	Cons.	Actual
Mfg. Production Index ISIC NSA (YoY)	28-Aug	Jul	-9.60%	-4.25%	-5.82%
Customs Exports (YoY)	29-Aug	Jul	-2.50%	-3.75%	--
Vietnam	Date	Period	Prior	Cons.	Actual
Exports YTD (YoY)	27-Aug	Aug	19.00%	--	17.80%
Retail Sales YTD (YoY)	27-Aug	Aug	18.70%	--	17.90%

Indicator of the Week

India: Q2 GDP Growth 2012 (August 31st)

Forecast: 5.1% y/y	Consensus: 5.3% y/y	Prior: 5.3% y/y
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India's economy continues to be plagued by slowing growth and elevated inflation. The outturn for Q2 GDP growth will be a key input for the Reserve Bank of India's next monetary policy decision in September, and another weak outturn, dragged down by waning fiscal support and slowing industrial and services activity, could raise the likelihood of an imminent interest rate cut, in line with our expectations of an additional 50bps in cuts by end-year.

Wholesale price inflation (6.9% in July), however, remains a constraint, exacerbated by a sub-par monsoon and supply bottlenecks. Overall, we expect India's GDP growth to decline to 5.6% for full year 2012, down from 7.5% in 2011.

Calendar Events

There are no calendar events scheduled for this week.

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.	2073.2	0.8	-2.1	-5.7	-20.6
	Hong Kong - Hang Seng	19811.8	0.1	-1.4	7.5	1.2
	Taiwan - Weighted	7361.9	-1.4	-1.9	4.1	-1.1
	Japan - Nikkei 225	9033.3	-0.6	-1.4	6.8	2.7
	Korea - Kospi	1916.3	-0.1	-1.4	5.0	7.7
	India - Sensex 30	17623.5	-0.3	-1.5	14.0	11.2
	Australia - SPX/ASX 200	4359.4	0.4	-0.5	7.5	3.8
	Singapore - Strait Times	3040.1	-0.1	-0.8	14.9	10.6
	Indonesia - Jakarta Comp	4142.8	-0.1	0.0	8.4	7.8
	Thailand - SET	1234.9	0.1	0.2	20.4	19.1
	Malaysia - KLCI	1647.1	-0.1	-0.2	7.6	14.0
	Philippines - Manila Comp.	5175.6	0.6	-0.8	18.4	20.2

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)	6.35	0.06	0.05	6.37	6.45
	Hong Kong (HKD/USD)	7.76	0.00	0.01	7.75	7.75
	Taiwan (TWD/USD)	30.0	-0.03	-0.07	29.94	29.68
	Japan (JPY/USD)	78.56	0.23	0.93	78.50	78.17
	Korea (KRW/USD)	1137	-0.12	-0.49	1142	1152
	India (INR/USD)	55.7	0.04	-0.16	56.64	59.11
	Australia (USD/AUD)	1.04	0.12	-1.01	0.97	0.99
	Singapore (SGD/USD)	1.25	0.02	-0.12	1.25	1.25
	Indonesia (IDR/USD)	9549	-0.16	-0.48	9710	10168
	Thailand (THB/USD)	31.3	-0.06	0.35	31.45	31.85
	Malaysia (MYR/USD)	3.12	-0.29	-0.04	3.13	3.16
	Philippines (PHP/USD)	42.3	-0.05	0.06	42.31	42.57

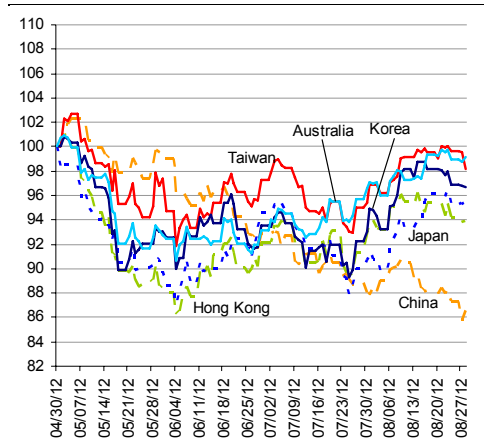
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.50	0.02	-0.30	0.40
	Hong Kong (HIBOR/1W)	0.13	0.00	0.00	0.00
	Taiwan (TAIBOR/1W)	0.63	0.00	0.00	-0.01
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	3.04	0.00	0.00	-0.01
	India (MIBOR/7D)	3.08	-0.47	-0.70	-0.12
	Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00
	Indonesia (JIBOR/1W)	4.32	-0.01	-0.17	0.15
	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)	1.88	0.38	1.06	0.56

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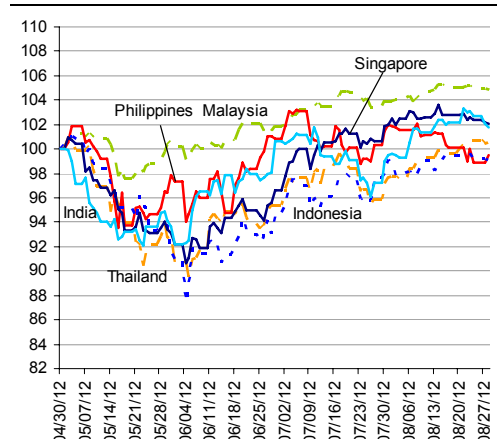
Charts

Chart 9
Stock Markets



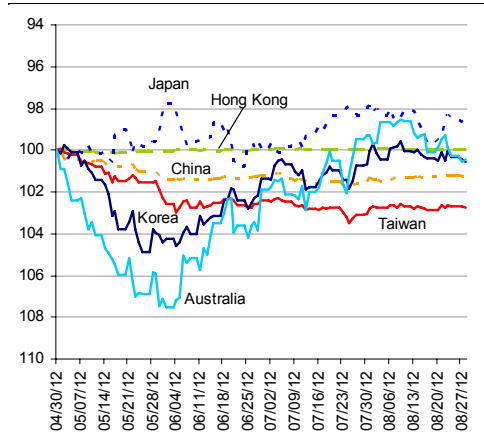
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



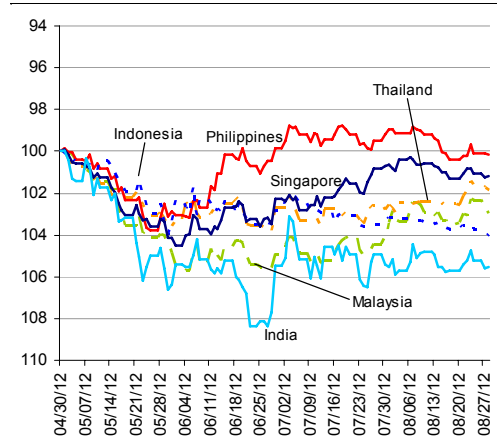
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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