

Daily Flash

Asia

In Asia today several high-frequency indicators surprised to the downside (see below), while on the positive side India's second quarter GDP beat expectations. Markets are now focused on Chairman Bernanke's speech at Jackson Hole. Investors will also be watching for an unusually busy weekend of data releases, including China's official PMI (see Weekly Indicator below) as well as Korea's August exports outturn, both due out on Saturday.

India's Q2 GDP growth edges higher but outlook remains cautious

As we reported in today's India Flash ([click here for details](#)), India's GDP growth picked up in 2Q12 to 5.5% y/y (BBVA: 5.1%, Consensus 5.3%), as favorable base effects and an increase in construction helped support year-on-year industrial output, even as services continued to slow. While the GDP outturn beat expectations, downside risks to the outlook continue to linger given the global slowdown, slack domestic investment, and concerns over fiscal policy and the pace of economic reforms. We maintain our call for a 50 bps cut in interest rates during the remainder of 2012, although a cut at the next policy meeting in September seems unlikely given high inflation and the absence of fiscal reforms. Today's outturn is in line with our full-year projection of 5.6% GDP growth in 2012.

Japan's industrial output declined unexpectedly in July as deflation persists...

Japan's industrial production dropped unexpectedly in July by -1.2% y/y (consensus: +1.7% y/y) from a +0.4% y/y gain in June, as external demand fell sharply, particularly from China and Europe. Meanwhile, Japan's PMI, released yesterday, points to further weakening in the economy, falling to 47.7 in August from 47.9 in July. Separately, today's data also showed that consumer prices slid at a faster pace in July, by -0.4% y/y (consensus: -0.3% y/y) from -0.2% y/y in June. The Bank of Japan is under growing pressure to ease monetary policy to support a stalling recovery.

...while Korea's industrial production slows

Korea's industrial production slowed to 0.3% y/y in July (consensus: 0.7% y/y) from 1.6% y/y the prior month, as the economy remains under pressure from the weak global environment. Korea will announce August exports tomorrow (the first August outturn in the region). We think there is an increasing likelihood authorities will decide to cut interest rates again at the BOK's next policy meeting on September 13 after a surprise cut of 25bps in July brought the policy rate to its current 3.0%.

Taiwan and China's central banks sign currency settlement agreement

The central banks in China and Taiwan have signed a memorandum of understanding (MOU) today on a cross-strait currency settlement mechanism. The MOU will come into effect within the next 60 days after final steps have been prepared on both sides. After the mechanism is set up, domestic banks in Taiwan will be allowed to handle RMB deposit and loans, further expanding their businesses with related financial products. Given its close ties with mainland China, Taiwan is likely to become a significant offshore RMB center (see our working paper *RMB Internationalization: What is in it for Taiwan?*).

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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%	3.80%
India	Date	Period	Prior	Cons.	Actual
Qtrly GDP YoY%	31-Aug	2Q	5.30%	5.20%	5.50%
Fiscal Deficit INR Crore	31-Aug	Jul	48873	--	--
Japan	Date	Period	Prior	Cons.	Actual
Retail Trade YoY	30-Aug	Jul	0.20%	-0.10%	-0.80%
Jobless Rate	31-Aug	Jul	4.30%	4.30%	4.30%
Natl CPI YoY	31-Aug	Jul	-0.20%	-0.30%	-0.40%
Natl CPI Ex-Fresh Food YoY	31-Aug	Jul	-0.20%	-0.30%	-0.30%
Industrial Production (MoM)	31-Aug	Jul P	0.40%	1.70%	-1.20%
Industrial Production YOY%	31-Aug	Jul P	-1.50%	1.80%	-1.00%
Malaysia	Date	Period	Prior	Cons.	Actual
Unemployment Rate	30-Aug	2Q	3.00%	--	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%	0.20%
GDP (YoY)	30-Aug	2Q	6.40%	5.50%	5.90%
South Korea	Date	Period	Prior	Cons.	Actual
Current Account in US\$ Million	29-Aug	Jul	\$5835.8M	--	\$6103.8M
Industrial Production (MoM)	31-Aug	Jul	-0.40%	-0.90%	-1.60%
Industrial Production (YoY)	31-Aug	Jul	1.60%	0.70%	0.30%
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%	-4.46%
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

China: PMI for August (September 1)

Forecast: 49.6

Consensus: 50.0

Prior: 50.1

In contrast to previous expectations, we expect growth momentum to show a further slowdown in August. The flash estimate for the private sector PMI (Markit) was disappointing in August, registering a significant decline to 47.8% from 49.5% the previous month as production and new orders weakened. We expect the official manufacturing PMI (which has a greater composition of larger, domestic-oriented firms) to fall below the 50% expansion-contraction threshold for the first time since November 2011. We expect further policy easing during the remainder of the year to support growth in line with our full-year 7.8% GDP growth projection, including stepped up infrastructure spending and further cuts in the RRR and interest rates. Upcoming monthly data on retail sales, investment, and industrial production due to be released on September 9 will be key to assessing the pace of current growth momentum.

Calendar Events

There are no calendar events scheduled for this week.

Upcoming Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
Retail Sales s.a. (MoM)	03-Sep	Jul	1,00%	0,20%	--
Current Account Balance	04-Sep	2Q	-14892M	-12200M	--
Gross Domestic Product (QoQ)	05-Sep	2Q	1,30%	0,80%	--
Gross Domestic Product (YoY)	05-Sep	2Q	4,30%	3,70%	--
Unemployment Rate	06-Sep	Aug	5,20%	5,30%	--
Trade Balance	07-Sep	Jul	9M	-300M	--
China	Date	Period	Prior	Cons.	Actual
Non-manufacturing PMI	03-Sep	Aug	55,6	--	--
HSBC Manufacturing PMI	03-Sep	Aug	49,3	--	--
Consumer Price Index (YoY)	09-Sep	Aug	1,80%	2,00%	--
Producer Price Index (YoY)	09-Sep	Aug	-2,90%	-3,20%	--
Industrial Production YTD YoY	09-Sep	Aug	10,30%	--	--
Industrial Production (YoY)	09-Sep	Aug	9,20%	9,20%	--
Fixed Assets Inv Excl. Rural YTD YoY	09-Sep	Aug	20,40%	20,40%	--
Retail Sales (YoY)	09-Sep	Aug	13,10%	13,00%	--
Hong Kong	Date	Period	Prior	Cons.	Actual
Purchasing Managers Index	03-05 SEP	Aug	50,3	--	--
India	Date	Period	Prior	Cons.	Actual
Exports YoY%	03-Sep	Jul	-5,50%	--	--
Imports YoY%	03-Sep	Jul	-13,50%	--	--
India August Markit Services PMI	05-Sep	Aug	--	--	--
Indonesia	Date	Period	Prior	Cons.	Actual
Inflation (YoY)	03-Sep	Aug	4,56%	4,42%	--
Exports (YoY)	03-Sep	Jul	-16,40%	-9,70%	--
Malaysia	Date	Period	Prior	Cons.	Actual
Exports YoY%	07-Sep	Jul	5,40%	4,80%	--
Philippines	Date	Period	Prior	Cons.	Actual
Consumer Price Index (YoY)	05-Sep	Aug	3,20%	3,50%	--
Singapore	Date	Period	Prior	Cons.	Actual
Purchasing Managers Index	04-Sep	Aug	49,8	--	--
South Korea	Date	Period	Prior	Cons.	Actual
Consumer Price Index (MoM)	03-Sep	Aug	-0,20%	0,50%	--
Consumer Price Index (YoY)	03-Sep	Aug	1,50%	1,40%	--
Taiwan	Date	Period	Prior	Cons.	Actual
CPI YoY%	05-Sep	Aug	2,46%	2,60%	--
Total Exports (YoY)	07-Sep	Aug	-11,60%	-2,40%	--
Thailand	Date	Period	Prior	Cons.	Actual
Consumer Price Index (YoY)	03-Sep	Aug	2,73%	2,62%	--

Upcoming Calendar Events

Australia - RBA Cash Target, September 4

We expect the benchmark rate to remain unchanged

Current	Consensus	New
3.50%	3.50%	--

Thailand - Benchmark Interest Rate, September 5

We expect the benchmark rate to remain unchanged

Current	Consensus	New
3.00%	3.00%	--

Malaysia - Overnight Rate, September 6

We expect the benchmark rate to remain unchanged

Current	Consensus	New
3.00%	3.00%	--

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.	2047.5	-0.2	-2.1	-6.9	-20.2
	Hong Kong - Hang Seng	19482.6	-0.4	-2.0	5.7	-5.1
	Taiwan - Weighted	7397.1	0.3	-1.1	4.6	-4.4
	Japan - Nikkei 225	8839.9	-1.6	-2.5	4.5	-1.3
	Korea - Kospi	1905.1	-0.1	-0.8	4.3	1.3
	India - Sensex 30	17401.6	-0.8	-2.1	12.6	4.3
	Australia - SPX/ASX 200	4316.1	0.0	-0.8	6.4	0.5
	Singapore - Strait Times	3025.5	0.5	-0.8	14.3	4.9
	Indonesia - Jakarta Comp	4060.3	0.9	-2.1	6.2	5.7
	Thailand - SET	1224.3	0.8	-1.0	19.4	14.4
	Malaysia - KLCI	1646.1	0.0	-0.3	7.5	13.7
Philippines - Manila Comp.	5196.2	0.9	-0.1	18.9	19.5	

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	0.02	0.10	6.37	6.45
	Hong Kong (HKD/USD)	7.76	0.00	0.01	7.75	7.75
	Taiwan (TWD/USD)	29.9	0.04	0.05	29.90	29.64
	Japan (JPY/USD)	78.53	0.13	0.18	78.47	78.13
	Korea (KRW/USD)	1135	-0.05	-0.04	1140	1150
	India (INR/USD)	55.6	-0.02	-0.27	56.62	59.15
	Australia (USD/AUD)	1.03	0.37	-0.73	0.98	1.00
	Singapore (SGD/USD)	1.25	0.31	0.14	1.25	1.25
	Indonesia (IDR/USD)	9572	0.10	-0.55	9710	10141
	Thailand (THB/USD)	31.3	0.19	-0.32	31.48	31.90
	Malaysia (MYR/USD)	3.12	0.21	-0.65	3.13	3.17
Philippines (PHP/USD)	42.0	0.48	0.44	42.15	42.41	

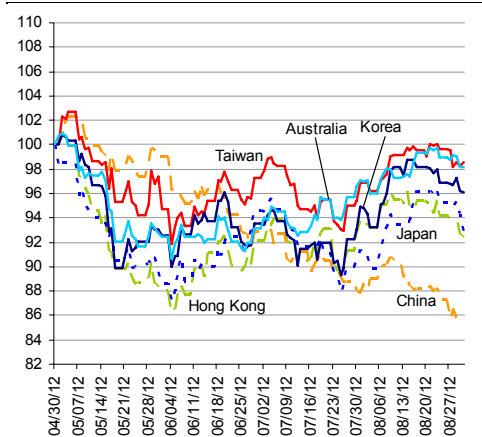
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.45	-0.10	-0.20	0.05
	Hong Kong (HIBOR/1W)	0.13	0.00	0.00	0.00
	Taiwan (TAIBOR/1W)	0.63	0.00	0.00	-0.01
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	3.04	0.00	0.00	-0.01
	India (MIBOR/7D)	1.85	-1.75	-1.81	-1.50
	Singapore (SIBOR/1W)	0.25	0.00	0.00	-0.06
	Indonesia (JIBOR/1W)	4.31	-0.01	-0.03	0.12
	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)	2.06	-0.38	0.56	0.25

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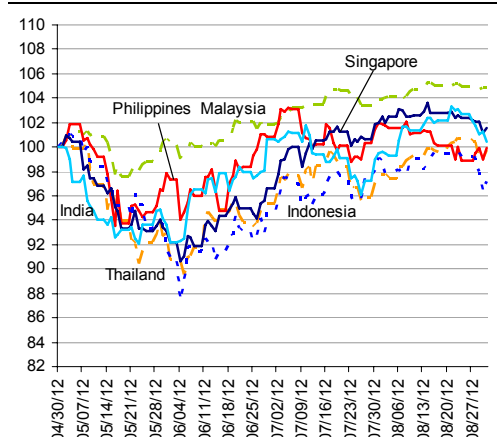
Charts

Chart 9
Stock Markets



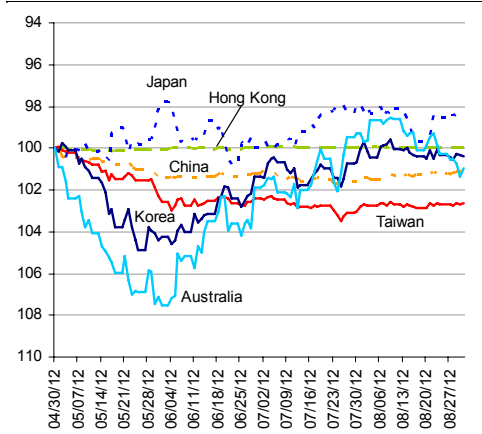
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



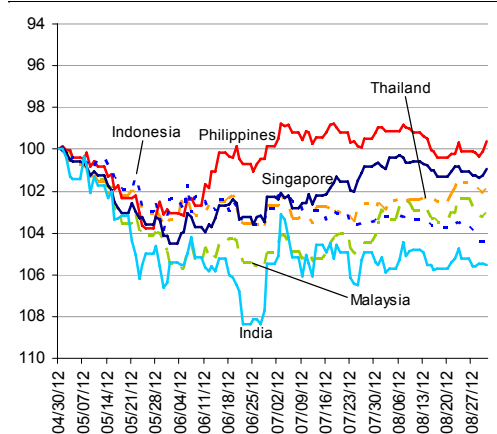
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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