

Daily Flash

Asia

Asian markets were down today, led by the the Kospi (-1.7%) and the Hang Seng (-1.5%), following disappointing ISM data in the US, and ahead of tomorrow's important ECB meeting.

Australia's GDP growth slows in line with expectations

Australia's economy grew by 0.6% sa q/q (consensus: 0.7% sa q/q) in Q2, or by 3.7% y/y, down from 1.4% sa q/q (4.5% y/y) in the first quarter. Q2 growth reflected robust export growth (which did not yet reflect a decline in commodity prices that took place in Q3), along with resilient domestic demand. The outturn comes a day after the RBA held interest rates unchanged in view of a stable growth outlook. Nevertheless, we expect growth to decline significantly in the second half of the year on slowing private consumption and investment amidst the global downturn, which should lead to one more rate cut by the RBA before year end.

Thailand holds interest rates, as expected

Today the Bank of Thailand (BOT) held its overnight interest rate at 3.0%, as expected. The bank mentioned that "the impact of slower global demand on the Thai economy had increased to some extent." Therefore, the chances of a rate cut in the coming months are rising as the impact from the global downturn in Thailand's economy becomes apparent, and as the BOT is facing increasing political pressure to ease policy.

Inflation rises in both the Philippines and Taiwan

In the Philippines, inflation rose to 3.8% y/y (consensus: 3.5% y/y) in August from 3.2% y/y in July. Similar to Indonesia, strong domestic demand in the Philippines is putting upward pressure on inflation. While today's outturn was higher than expected, inflation for now remains comfortably within policymakers' 3%-5% target range. In Taiwan, August headline inflation climbed to 3.4% y/y (consensus: 2.6%) from 2.5% in July. Food prices remain the main driver behind the notable pick up. Recent rising inflation will further dampen expectations that the central bank will cut interest rates during its quarterly policy meeting held late this month.

China rumored to reveal "domestic trade five-year plan" to aid consumption

China will launch its first-ever five-year plan for domestic trade to stimulate consumption, according to reports by the Shanghai Securities News today. The major target of the plan is to boost retail sales of consumer goods by 80% by the end of 2015. Detailed measures might include a new round of subsidy programs and sales tax adjustments on certain consumer goods.

China's first-half bank profit results are strong, but likely to fall

First-half 2012 financial results released over the past two weeks by China's 16 listed banks show slower, but still strong profit growth (see China Flash on the BBVA Research website for details). Aggregate net profits registered year-on-year growth of 18.1% in H1 2012, down from 23.4% in H2 2011. Although the NPL ratio is still low (0.9% at end-June), a significant rise in overdue loans signals a further deterioration in credit quality in the coming months, in line with a trend that we expect to continue in the next 1-2 years due to slowing economic growth and the legacy of high local government debt. Moreover, profit growth is expected to decline further from narrowing interest margins, rising provisions, and implementation of Basel III regulatory requirements.

Briefly noted:

- **The HSBC PMI for India's service sector, which accounts for 60% of GDP, moved higher** in August to 55.0 from 54.2 in July, driven by a rise in new business flows and improvement in service quality. That said, the recent Q2 GDP outturn (at 5.5% y/y vs 5.3% previously) indicated a moderation in the services sector amid rising macroeconomic headwinds.
- **Korea's foreign reserves reached a record high** of US\$316.9bn in August. Reserves were up by \$2.5 billion from the previous month, primarily due to valuation effects from a weaker US dollar vs other major currencies. Reserves bottomed out at around \$200 billion during the Lehman crisis, and the dramatic increase since then is a factor behind the August 27 Moody's upgrade of Korea's sovereign rating to Aa3 (the fourth-highest possible rating).

Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
Retail Sales s.a. (MoM)	03-Sep	Jul	1.00%	0.20%	-0.80%
Current Account Balance	04-Sep	2Q	-14892M	-12200M	-11801M
Gross Domestic Product (QoQ)	05-Sep	2Q	1.30%	0.70%	0.60%
Gross Domestic Product (YoY)	05-Sep	2Q	4.30%	3.70%	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	--	56.3
HSBC Manufacturing PMI	03-Sep	Aug	49.3	--	47.6
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	05-Sep	Aug	50.3	--	50.5
India	Date	Period	Prior	Cons.	Actual
Exports YoY%	03-Sep	Jul	-5.50%	--	-14.80%
Imports YoY%	03-Sep	Jul	-13.50%	--	-7.60%
India August Markit Services PMI	05-Sep	Aug	54.2	--	55.0
Indonesia	Date	Period	Prior	Cons.	Actual
Inflation (YoY)	03-Sep	Aug	4.56%	4.42%	4.58%
Exports (YoY)	03-Sep	Jul	-16.40%	-9.70%	-7.30%
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%	3.80%
Singapore	Date	Period	Prior	Cons.	Actual
Purchasing Managers Index	04-Sep	Aug	49.8	--	49.1
South Korea	Date	Period	Prior	Cons.	Actual
Consumer Price Index (MoM)	03-Sep	Aug	-0.20%	0.50%	0.40%
Consumer Price Index (YoY)	03-Sep	Aug	1.50%	1.40%	1.20%
Taiwan	Date	Period	Prior	Cons.	Actual
CPI YoY%	05-Sep	Aug	2.46%	2.60%	3.42%
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%	2.69%

Calendar Events

Australia - RBA Cash Target, September 4

We expected the benchmark rate to remain unchanged

Current	Consensus	New
3.50%	3.50%	3.50%

Thailand - Benchmark Interest Rate, September 5

We expected the benchmark rate to remain unchanged

Current	Consensus	New
3.00%	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.	2037.7	-0.3	-0.8	-7.4	-17.8
	Hong Kong - Hang Seng	19145.1	-1.5	-3.3	3.9	-2.4
	Taiwan - Weighted	7367.4	-1.1	-0.3	4.2	-2.4
	Japan - Nikkei 225	8679.8	-1.1	-4.3	2.7	-1.2
	Korea - Kospi	1874.0	-1.7	-2.8	2.6	4.9
	India - Sensex 30	17301.2	-0.8	-1.1	11.9	3.5
	Australia - SPX/ASX 200	4278.8	-0.6	-1.8	5.5	3.3
	Singapore - Strait Times	2995.9	-0.5	-1.5	13.2	8.0
	Indonesia - Jakarta Comp	4075.4	-0.7	-0.4	6.6	5.4
	Thailand - SET	1232.5	-0.3	1.0	20.2	17.5
	Malaysia - KLCI	1641.0	-0.8	-0.4	7.2	12.2
	Philippines - Manila Comp.	5150.8	-0.5	-0.9	17.8	17.5

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	-0.03	0.04	6.37	6.45
	Hong Kong (HKD/USD)	7.76	0.00	-0.01	7.75	7.75
	Taiwan (TWD/USD)	29.9	-0.06	0.23	29.80	29.55
	Japan (JPY/USD)	78.45	-0.03	0.33	78.39	78.08
	Korea (KRW/USD)	1136	-0.23	-0.21	1143	1154
	India (INR/USD)	55.9	-0.41	-0.48	56.84	59.31
	Australia (USD/AUD)	1.02	-0.31	-1.54	0.99	1.01
	Singapore (SGD/USD)	1.25	-0.09	0.46	1.25	1.25
	Indonesia (IDR/USD)	9599	-0.11	-0.19	9742	10150
	Thailand (THB/USD)	31.3	-0.22	0.22	31.43	31.85
	Malaysia (MYR/USD)	3.12	-0.45	0.06	3.13	3.17
	Philippines (PHP/USD)	42.0	-0.35	0.72	42.05	42.27

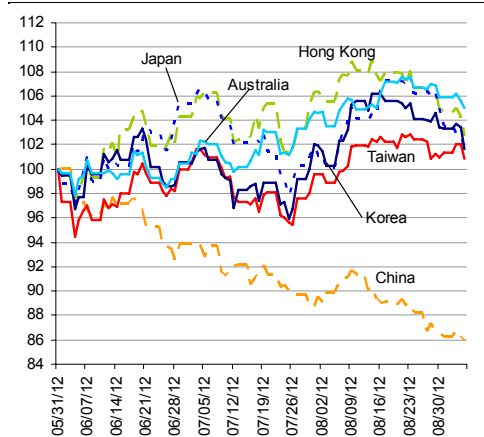
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.43	0.03	-0.02	0.03
	Hong Kong (HIBOR/1W)	0.13	0.00	0.00	0.00
	Taiwan (TAIBOR/1W)	0.63	0.00	0.00	-0.01
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	3.03	0.00	-0.01	0.00
	India (MIBOR/7D)	3.78	1.23	0.18	0.28
	Singapore (SIBOR/1W)	0.25	0.00	0.00	-0.06
	Indonesia (JIBOR/1W)	4.26	-0.01	-0.06	0.07
	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	0.56	-0.38	0.25

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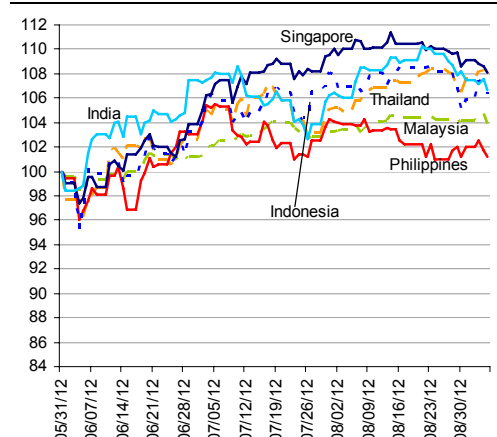
Charts

Chart 9
Stock Markets



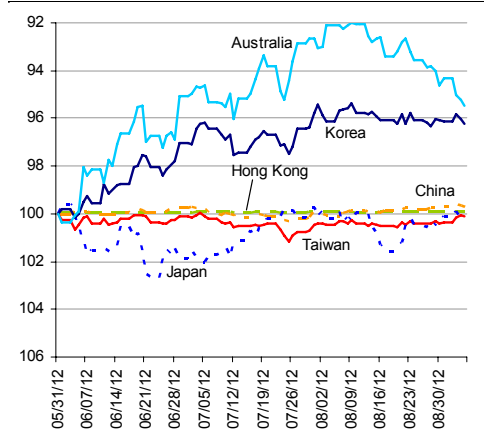
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



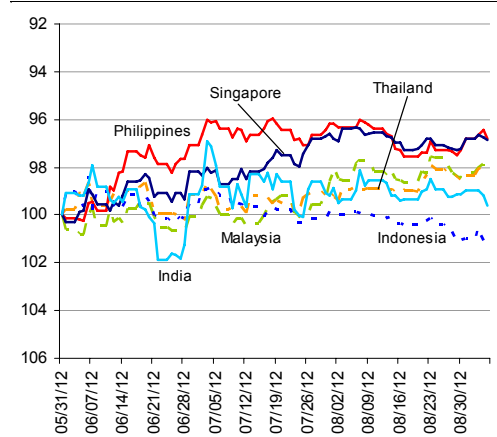
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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