

Asia Flash

Asia

There was a sense of relief in Asian markets today as China's Q2 GDP growth came in line with expectations at 7.5% y/y. While the slowdown continues, the outturn could have been worse given recent mixed data outturns and questions about the authorities' willingness to use policy instruments to prop up near-term growth (see below and [China Flash](#)). Asian equity markets rose and the China-sensitive Australia dollar appreciated by 0.5% to 0.91 USD.

China's Q2 growth slows to 7.5%, in line with official full-year growth target

Q2 GDP growth registered 7.5% y/y (BBVA: 7.6%; consensus: 7.5%; previous 7.7%), continuing the gradual slowdown. The outturn brings growth for the first half of the year to 7.6% y/y, just above the official full-year target of 7.5%. Meanwhile, a set of monthly activity indicators for June released today showed that industrial production (8.9% y/y vs consensus: 9.1%) continues to weaken, while investment (20.1% y/y ytd; consensus: 20.2%) and retail sales (13.3% y/y; consensus: 12.9%) are holding up. Looking ahead, we expect full-year growth to remain at or slightly above the government's target on continued public spending and a gradual improvement in external demand and exports (which have weakened so far). Policies are expected to remain mildly supportive of growth, and if growth slows further, we would expect the balance to shift slightly in favor of support for near-term growth. With inflation low (2.7% y/y in June), there is also room for monetary easing, although we do not expect it in our baseline. We will look for further details of the government's policy intentions in the forthcoming Mid-Year Economic Conference later this month (not yet scheduled) and the Annual Party Meeting in October. See our [China Flash](#) for further details about Q2 GDP outturn.

China's June credit aggregates slow, but remain healthy

In data reported on Friday, new bank loans in June came out at RMB 861 billion (consensus: RMB 800 billion versus May: 667 RMB billion), implying a 15.1% y/y increase in bank credit growth. Total social financing (TSF), a broader gauge of credit including both bank and non-bank credits, moderated to RMB 1.04 trillion in June from 1.17 trillion in the previous month, while M2 growth eased to 14.0% y/y from 15.8% in May, still above the official target of 13.0% y/y. The credit figures were influenced by the temporary interbank liquidity squeeze in June, which has now ended. Looking ahead, we envisage that the PBoC is likely to continue its clampdown on shadow banking activities but will exercise caution in order to avoid another liquidity squeeze, and to maintain market stability.

Singapore preliminary Q2 GDP surprises to the upside

Also on Friday, Singapore's advance Q2 GDP estimate, which is based on data for April and May, showed strong gains on a sequential basis (15.2% q/q saar vs. 1.8% q/q saar in Q1), the fastest pace since Q2 2011. The upbeat reading represents a year-over-year increase of 3.7%, above our and market expectations (BBVA: 1.8% y/y; Consensus: 2.0% y/y). The manufacturing sector led the pickup, growing by 37.6% q/q saar after a contraction of -12.7% in the previous quarter, thanks to strong performance of the biomedical and electronics products. Considering the usual volatility of Singapore's sequential GDP growth, we maintain our cautious view on its economic outlook, due to external uncertainties and a further slowdown in China, in line with the government's 1%-3% target range. In data reported today, retail sales for May increased by 3.2% y/y from -0.3% in April. However, growth momentum moderated on sequential basis, and if retail sales and other indicators for June weaken, the unexpectedly strong Q2 GDP estimate could be revised down.

India June inflation remains tame, but RBI is unlikely to cut rates just yet

India's WPI inflation edged up in June although at a lower-than-expected pace of 4.9% y/y (consensus: 5.0%; prior 4.7%) as higher food inflation and a pick up in input prices offset easing

demand pressures. The jump in food prices was led by temporary supply distortions and should ease going forward as favourable monsoon trends boost agriculture output. Meanwhile, core inflation fell for the tenth successive month to 2.0% y/y from 2.4% in May amid weak domestic pricing power. Looking ahead, we expect WPI inflation to inch higher and average 5.5% y/y over 2H13 as upward energy price adjustments, the impact of rupee depreciation (-8% against the USD since May) and pre-election fiscal spending offset weak final demand and lower food inflation. Despite sluggish growth and improved inflation dynamics, we think ongoing external vulnerability concerns and accompanied currency pressures will probably keep RBI on hold at its July 30th meeting. That said, we continue to see scope for another 25 bps policy cut in the coming months, once external market pressures subside. See our [India Flash](#) for further details.

Briefly noted:

[A welcome narrowing of India's trade deficit on easing gold and oil imports](#)

The June trade deficit narrowed to USD 12.24 bn from 20.14 bn in May as easing imports of gold and oil offset a contraction in exports (-3.0% m/m). While the improvement in the June trade deficit is a positive and should provide near term support for the weakened rupee, absence of a pick up in exports is a concern going forward.

[After signing a Free Trade Agreement with New Zealand](#) last Wednesday, talks with Singapore are nearing a final stage, and two more potential FTAs with India and Indonesia are reported to be underway. These agreements may reflect the government's efforts to diversify its strong export reliance from Mainland China.

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Calendar Indicators

China	Date	Period	Prior	Cons.	Actual
Retail Sales (YoY)	15 Jul	Jun	12.90%	12.90%	13.30%
Fixed Assets Inv Excl. Rural YTD YoY	15 Jul	Jun	20.40%	20.20%	20.10%
Industrial Production (YoY)	15 Jul	Jun	9.20%	9.10%	8.90%
Real GDP (QoQ)	15 Jul	2Q	1.60%	1.80%	1.70%
GDP YoY	15 Jul	2Q	7.70%	7.50%	7.50%
Actual FDI (YoY)	17 Jul	Jun	0.30%	0.70%	--
China June Property Prices	18 Jul	Jun	--	--	--
Hong Kong	Date	Period	Prior	Cons.	Actual
Unemployment Rate SA	18 Jul	Jun	3.40%	3.40%	--
Composite Interest Rate	18 Jul	Jun	0.26%	--	--
India	Date	Period	Prior	Cons.	Actual
Monthly Wholesale Prices YoY%	15 Jul	Jun	4.70%	4.94%	4.86%
Japan	Date	Period	Prior	Cons.	Actual
All Industry Activity Index (MoM)	19 Jul	May	0.40%	1.20%	--
Malaysia	Date	Period	Prior	Cons.	Actual
CPI YoY	17 Jul	Jun	1.80%	1.90%	--
Philippines	Date	Period	Prior	Cons.	Actual
Overseas Remittances (YoY)	15 Jul	May	6.10%	6.20%	5.30%
Singapore	Date	Period	Prior	Cons.	Actual
Retail Sales (YoY)	15 Jul	May	-0.30%	1.80%	3.20%
Non-oil Domestic Exports (YoY)	17 Jul	Jun	-4.60%	-5.00%	--
South Korea	Date	Period	Prior	Cons.	Actual
South Korea FDI (YoY)	15 Jul	2Q	44.70%	--	-3.30%

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.	2059.4	1.0	5.2	-9.2	-5.8
Hong Kong - Hang Seng	21303.3	0.1	3.5	-6.0	11.6	
Taiwan - Weighted	8254.7	0.4	4.7	7.2	16.2	
Japan - Nikkei 225	14506.3	0.2	1.4	39.5	66.3	
Korea - Kospi	1875.2	0.3	3.2	-6.1	3.4	
India - Sensex 30	20034.5	0.4	3.7	3.1	16.4	
Australia - SPX/ASX 200	4981.1	0.1	3.6	7.1	22.0	
Singapore - Strait Times	3236.8	0.0	2.6	2.2	8.1	
Indonesia - Jakarta Comp	4635.7	0.1	4.6	7.4	15.3	
Thailand - SET	1455.4	0.1	3.6	4.6	20.3	
Malaysia - KLCI	1786.7	0.1	1.4	5.8	9.9	
Philippines - Manila Comp.	6620.0	0.7	4.8	13.9	27.0	

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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)	6.14	0.01	-0.07	6.21	6.29
Hong Kong (HKD/USD)	7.76	0.01	-0.02	7.76	7.75	
Taiwan (TWD/USD)	29.9	-0.05	0.78	29.86	29.70	
Japan (JPY/USD)	99.95	-0.73	1.02	99.90	99.55	
Korea (KRW/USD)	1122	0.23	2.71	1129	1137	
India (INR/USD)	59.8	-0.33	1.32	60.91	63.67	
Australia (USD/AUD)	0.91	0.21	-0.72	1.11	1.13	
Singapore (SGD/USD)	1.27	-0.36	0.96	1.27	1.27	
Indonesia (IDR/USD)	10074	-0.82	-1.17	10486	11131	
Thailand (THB/USD)	31.2	-0.06	0.80	31.34	31.72	
Malaysia (MYR/USD)	3.19	-0.40	0.60	3.20	3.25	
Philippines (PHP/USD)	43.4	-0.12	0.61	43.47	43.68	

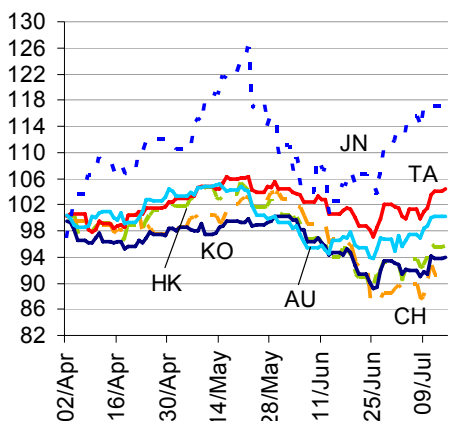
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.81	0.01	0.21	-2.99
Hong Kong (HIBOR/1W)	0.12	0.00	0.00	0.03	
Taiwan (TAIBOR/1W)	0.53	0.00	0.00	0.00	
Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01	
Korea (KORIBOR/1M)	2.57	0.01	0.01	-0.01	
India (MIBOR/7D)	3.80	0.00	0.04	-3.10	
Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00	
Indonesia (JIBOR/1W)	5.17	0.00	0.62	0.64	
Thailand (BIBOR/1W)	2.77	0.00	0.00	0.00	
Malaysia (KLIBOR/1W)	2.90	0.00	0.00	0.00	
Philippines (PHIBOR/1W)	1.25	0.00	-0.31	0.31	

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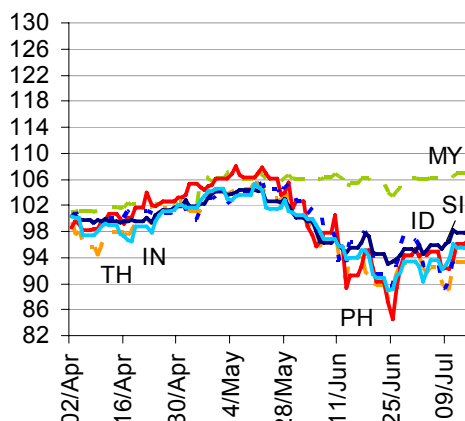
Charts

Chart 1
Stock Markets



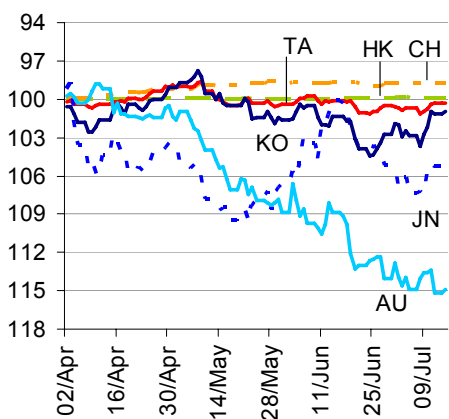
Source: BBVA Research and Bloomberg

Chart 2
Stock Markets



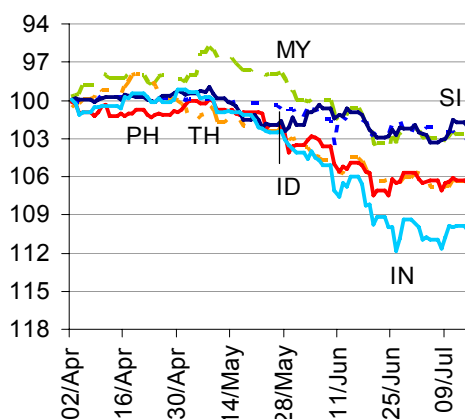
Source: BBVA Research and Bloomberg

Chart 3
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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