

Asia Flash

Asia

Market sentiment across the region was favorable today, following the victory of Japan's governing coalition in Sunday's upper house election (below) and China's announcement of further interest rate liberalization measures (below and see today's [China Flash](#) for details). Looking ahead this week, the focus will be on China's HSBC flash PMI due this Wednesday, inflation readings in Australia and Japan (due on Wed and Fri, respectively), Korea's Q2 GDP (due on Thursday, see [Weekly Indicator](#) below), and the Philippines' monetary policy meeting on Thursday, where we expect the policy rate to stay on hold.

China takes another step toward interest rate liberalization

The People's Bank of China late on Friday announced the removal of the lending rate floor, an important, but by no means final, step toward interest rate liberalization in China. A binding deposit rate cap remains in place. The announcement removes: (i) the lending rate floor on bank loans (which had been set at 70% of the benchmark lending rate); (ii) controls on the price setting of banks' bill discounting; and (iii) lending rate caps (previously set at 2.3x the benchmark lending rate) on rural credit unions. Importantly, the PBoC kept the floor on mortgage rates unchanged (70% of benchmark rates) in a sign of its continued concern about rising housing prices. We expect the removal of the lending rate floor to have a beneficial effect on borrowers, albeit very limited as the floor was not currently binding. For further details and analysis, please see today's [China Flash](#).

Will hopes for structural reforms in Japan be met after the LDP's victory?

Japan's governing coalition, consisting of the Liberal Democratic Party (LDP) and the New Komeito Party (NKP), was victorious in the upper house election held yesterday. The victory provides political stability, which has been lacking over the past six years, by giving the coalition control of both houses of parliament. Reformers are hopeful such control will increase the likelihood of pushing through an ambitious program of structural reforms including opening up the agricultural sector, enhancing labor market flexibility, and a credible plan for medium-term fiscal consolidation, the so-called "third arrow of Abenomics." Success, however, remains to be seen, and some were disappointed that coalition fell short of a two-thirds majority. In a press conference during the day Prime Minister Abe pledged to speed up implementation, and on the much-anticipated consumption tax hike he said, "we will make the final decision this autumn... based on the economic indices from April to June." With the election outcome already priced in, the market response was mixed, as the Nikkei gained +0.5%, and the Japanese yen strengthened by 0.6% today (rather than depreciating as one would have expected) to around 100.0 per US dollar. In the meantime, the economic indicators are continuing to improve, and the outlook is good provided that structural reforms will be forthcoming.

Briefly noted:

Taiwan export orders in disappoint in June, declining by -3.5% y/y (consensus: 0.6% y/y) after dipping by -0.4% y/y in May, marking a fifth straight month of declines since February. Exports orders softened on sequential basis across Taiwan's major export markets, including China/HK, ASEAN and US. Taken together with Korea's disappointing June outturn (-0.9% y/y), it appears that the outlook for external demand in Asia's export-oriented economies is challenging.

Hong Kong's headline inflation in June rose in line with expectations to 4.1% y/y from 3.9% in the previous month. The increase was mainly due to food and housing prices, which rose by 4.3% and 6.3% in June respectively. Looking ahead, we expect inflation to remain at this range

during the remainder of the year due to tight labor market conditions and still-frothy residential housing costs. Our full year projection of inflation for 2013 is 4.2%.

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Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
Consumer Prices (QoQ)	24 Jul	2Q	0.40%	0.50%	--
CPI YoY	24 Jul	2Q	2.50%	2.50%	--
China	Date	Period	Prior	Cons.	Actual
HSBC Flash Manufacturing PMI	24 Jul	Jul	48.2	48.3	--
Hong Kong	Date	Period	Prior	Cons.	Actual
CPI - Composite Index (YoY)	22 Jul	Jun	3.90%	4.10%	4.10%
Trade Balance	25 Jul	Jun	-44.3B	-46.6B	--
Exports YoY%	25 Jul	Jun	-1.00%	2.20%	--
Imports YoY%	25 Jul	Jun	1.70%	2.30%	--
Japan	Date	Period	Prior	Cons.	Actual
Merchnds Trade Imports YoY	24 Jul	Jun	10.1	13.8	--
Merchnds Trade Exports YoY	24 Jul	Jun	10.1	10.0	--
Natl CPI YoY	26 Jul	Jun	-0.30%	0.10%	--
Tokyo CPI YoY	26 Jul	Jul	0.00%	0.20%	--
Philippines	Date	Period	Prior	Cons.	Actual
Total Imports (YoY)	25 Jul	May	7.40%	--	--
Trade Balance	25 Jul	May	-\$1020M	--	--
Singapore	Date	Period	Prior	Cons.	Actual
CPI YoY	23 Jul	Jun	1.60%	1.60%	--
Industrial Production YoY	26 Jul	Jun	2.10%	-3.50%	--
South Korea	Date	Period	Prior	Cons.	Actual
GDP YoY	25 Jul	2Q P	1.50%	1.90%	--
GDP (QoQ)	25 Jul	2Q P	0.80%	0.80%	--
Taiwan	Date	Period	Prior	Cons.	Actual
Unemployment Rate - sa	22 Jul	Jun	4.19%	4.19%	4.17%
Export Orders (YoY)	22 Jul	Jun	-0.40%	0.60%	-3.50%
Commercial Sales (YoY)	23 Jul	Jun	-1.85%	-0.25%	--
Industrial Production (YoY)	23 Jul	Jun	-0.07%	3.00%	--
Thailand	Date	Period	Prior	Cons.	Actual
Customs Exports (YoY)	26 Jul	Jun	-5.25%	1.35%	--
Customs Imports (YoY)	26 Jul	Jun	-2.14%	8.35%	--
Vietnam	Date	Period	Prior	Cons.	Actual
CPI YoY	24 Jul	Jul	6.69%	7.10%	--
Exports YTD (YoY)	25-31 JUL	Jul	16.10%	--	--
Industrial Production Index YoY	25-31 JUL	Jul	6.50%	--	--
Retail Sales YTD (YoY)	25-31 JUL	Jul	11.90%	--	--

Calendar Events

Philippines - Overnight Borrowing Rate, Jul 25
We expect the benchmark rate to remain unchanged

Current
3.50%

Cons.
3.50%

New
--

Indicator of the Week

South Korea: Q2 Preliminary GDP (July 25th)

Forecast: 2.0% y/y; 0.9% q/q

Consensus: 1.9% y/y; 0.8% q/q

Prior: 1.5% y/y; 0.8% q/q

We expect quarterly GDP growth, albeit still quite modest, to show a further improving trend for a second straight quarter. While private consumption has been weak due to the burden of high levels of household debt, recent export and investment trends have improved, along with a boost from the government's 1.3% of GDP fiscal stimulus package in April and an interest rate cut by the BoK in May (the first since October, bringing the policy rate to 2.5%). Nevertheless, we remain cautious due to headwinds from slowing growth in China, Korea's largest export market, some loss of competitiveness from the depreciating Yen, and volatile capital flows due to QE tapering. Our full-year GDP projection stands at 2.7% for 2013, up from the outturn of 2.0% in 2012, but is subject to downside risks.

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.	2004.8	0.6	-2.7	-11.7	-7.6
Hong Kong - Hang Seng	21416.5	0.3	0.5	-5.5	9.0	
Taiwan - Weighted	8105.5	0.5	-1.8	5.3	13.1	
Japan - Nikkei 225	14658.0	0.5	1.0	41.0	69.1	
Korea - Kospi	1880.4	0.5	0.3	-5.8	3.1	
India - Sensex 30	20154.3	0.0	0.6	3.7	17.5	
Australia - SPX/ASX 200	5001.9	0.6	0.4	7.6	19.1	
Singapore - Strait Times	3234.4	0.7	-0.1	2.1	7.3	
Indonesia - Jakarta Comp	4679.0	-1.0	0.9	8.4	14.6	
Thailand - SET	1481.8	-0.4	1.9	6.5	22.6	
Malaysia - KLCI	1797.7	0.0	0.6	6.4	9.4	
Philippines - Manila Comp.	6627.4	0.1	0.1	14.0	27.2	

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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	-0.05	-0.06	6.21	6.28
Hong Kong (HKD/USD)	7.76	0.00	0.01	7.76	7.75	
Taiwan (TWD/USD)	29.9	0.13	0.01	29.89	29.74	
Japan (JPY/USD)	99.96	0.69	-0.10	99.91	99.60	
Korea (KRW/USD)	1119	0.27	0.28	1124	1132	
India (INR/USD)	59.6	-0.36	0.55	60.79	63.92	
Australia (USD/AUD)	0.92	0.28	1.10	1.09	1.11	
Singapore (SGD/USD)	1.26	0.32	-0.02	1.26	1.26	
Indonesia (IDR/USD)	10165	-0.35	-0.90	10607	11287	
Thailand (THB/USD)	31.0	0.26	0.52	31.10	31.47	
Malaysia (MYR/USD)	3.18	0.37	0.31	3.20	3.24	
Philippines (PHP/USD)	43.2	0.20	0.48	43.21	43.43	

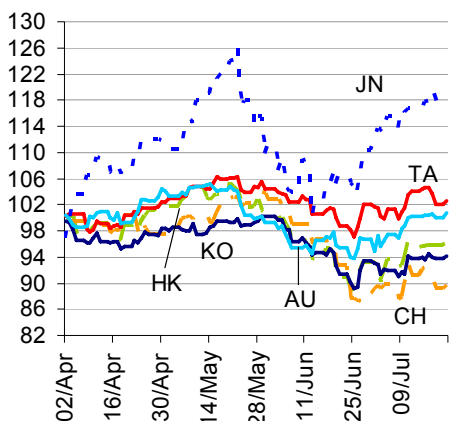
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.90	0.15	0.30	-4.60
Hong Kong (HIBOR/1W)	0.12	0.00	0.00	0.01	
Taiwan (TAIBOR/1W)	0.52	0.00	0.00	0.00	
Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01	
Korea (KORIBOR/1M)	2.56	0.00	-0.01	-0.02	
India (MIBOR/7D)	4.64	0.90	0.84	-4.76	
Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00	
Indonesia (JIBOR/1W)	5.16	0.01	-0.01	0.60	
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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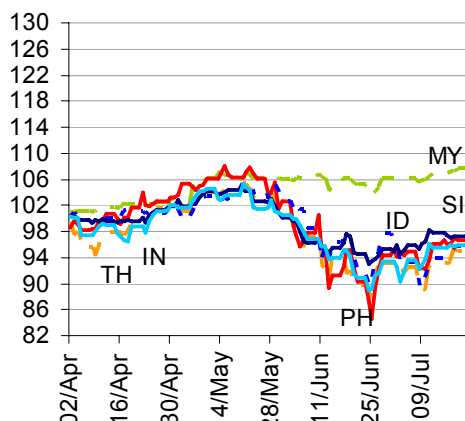
Charts

Chart 1
Stock Markets



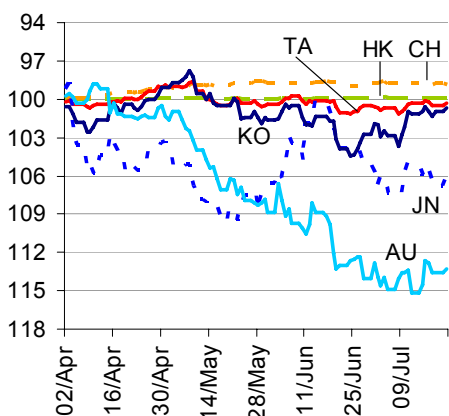
Source: BBVA Research and Bloomberg

Chart 2
Stock Markets



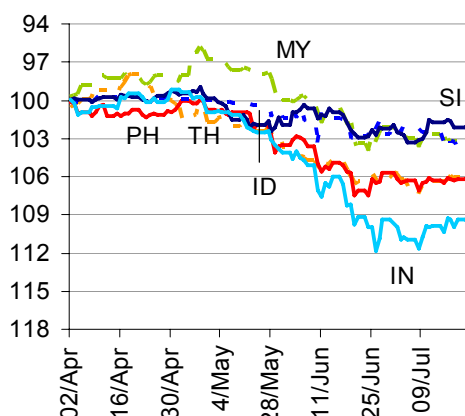
Source: BBVA Research and Bloomberg

Chart 3
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4
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