

Asia Flash

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Regional sentiment was lifted today by positive surprises from China's official manufacturing PMI (see below and [China Flash](#)) and US Q2 GDP outturn. The Japanese yen reversed some of its recent appreciation, declining by almost 1% against the USD to 98.7, sending the Nikkei up by +2.5% today, followed by the Shanghai Composite Index (+1.8%) and the Thai SE index (+1.2%). Looking ahead, we await tomorrow's Q2 GDP outturn in Indonesia (consensus: 5.9% y/y).

A positive surprise to China's July PMI eases worries of slowing growth

The official NBS PMI for July rose to 50.3 (BBVA: 50.0; consensus: 49.8) from 50.1 in June, maintaining a +50 reading for a 10th consecutive month (see [China Flash](#) for details). The increase was broad-based, as readings for both large and small firms rose, reflecting an improvement in both domestic and external demand. However, some caution is in order as the private HSBC (Markit) PMI, also released today, fell to 47.7 (exactly in line with last week's Flash estimate) from 48.2 in June, recording a sub-50 reading for a third month in a row. Nevertheless, the positive official PMI outturn is a sign that the growth slowdown is not especially severe (Q2 GDP growth, after all, was 7.5% y/y), and together with policy support measures announced in recent days, adds confidence that growth should remain at the official 7.5% target in 2013, although uncertainty lingers for 2014.

DBS drops bid to acquire Bank Danamon in Indonesia

Singapore-based bank DBS yesterday announced it would drop its US\$7 billion bid to acquire Bank Danamon, which ranks 11th by assets among Indonesia's 120 commercial banks. DBS had hoped to gain a 99% stake in the bank, but was blocked last May by Bank Indonesia (BI) under new rules issued in July 2012. The rules limit domestic and foreign ownership in a single bank to 40%, with majority stakes allowed if the acquirer meets certain standards for corporate governance and financial health. In May BI said it would approve DBS to exceed the 40% limit only if Singapore offered reciprocity by allowing Indonesian banks greater access to its local market. The scrapping of the deal could dent Indonesia's image for openness among foreign investors at a time when FDI inflows have reached new record highs. After cancelling the deal, DBS head Piyush Gupta said his bank remains bullish on Indonesia's prospects, and that it would redouble its efforts in to achieve growth organically in the domestic market.

Korea July exports beat expectations as inflation edges up

July exports rose by 2.6% (consensus: 2.1% y/y) from a decline of -1.0% y/y in June. As an important barometer of the region's trade prospects (due to its early availability and Korea's place in the global supply chain), the better-than-expected outturn, together with today's PMI export orders in China, could suggest that external demand is picking up (although Taiwan export orders, another closely watched barometer, have recently weakened). Meanwhile, headline inflation in July rose by 0.2% m/m, or 1.4% y/y (versus: -0.1% m/m or 1.0% y/y in June), in line with market expectations and continuing to suggest room for further monetary easing if needed. We maintain our projection that the Bank of Korea (BOK) will cut its benchmark interest rate by another 25bp in the coming months, and that the economy will grow by 2.7% in 2013.

Taiwan Q2 GDP growth picks up as expected, but outlook remains fragile

The Q2 GDP preliminary estimate, released yesterday, came out at 2.3% y/y (BBVA: 2.4% y/y, Consensus: 2.1% y/y) from 1.7% y/y in the previous quarter. The pickup was led by strong private consumption and higher contributions from net exports. On sequential basis after seasonal adjustment, GDP grew by 2.4% q/q saar compared to -2.8% q/q saar in Q1. However, the growth outlook remains fragile on weak manufacturing, as seen in today's July HSBC PMI (48.6 in July vs. 49.5 in June), posing downside risks to our full-year 2.7% growth forecast.

Briefly Noted:

Indonesian headline inflation jumped to 8.6% y/y (consensus: 8.0%; May: 5.9%), the highest pace since January 2009, after May's fuel price increase. Bank Indonesia hiked interest rates by a cumulative 75bps in May and June to contain the impact, and we expect inflation to gradually return to the government's target path of 3.5%-5.5% by mid-2014. Meanwhile, exports for June disappointed (-4.5% y/y vs. consensus: 1.0%), causing a slight increase in the trade deficit and putting further downward pressure on the rupiah.

Thailand's inflation in July fell to 2.0% y/y (consensus: 2.1%), the lowest level since Nov 2009. Core inflation remained in the lower half of the target band (0.5-3.0%), sliding to 0.85% y/y from 0.88% in June. Separately, **Thailand's exports in June continued to contract, by -3.5% y/y**, after May's decline of -5.1% on reduced shipment of agricultural products, whereas imports edged up by 0.9% y/y, resulting in a narrowed trade deficit of 664 mn USD.

Hong Kong reported a better-than-expected outturn of retail sales at 14.7% y/y in July (consensus 11.7% y/y), up from 12.9% y/y in June. The strong performance in the consumer market is due to robust labor market conditions (local unemployment rate remained below 3.5% in the past two years) and purchases by visitors from Mainland China.

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Calendar Indicators

| China | Date | Period | Prior | Cons. | Actual |
|--------------------------------|--------|--------|--------|--------|--------|
| Industrial Profits YTD YoY | 27 Jul | Jun | 12.30% | -- | 11.10% |
| Manufacturing PMI | 01 Aug | Jul | 50.1 | 49.8 | 50.3 |
| HSBC Manufacturing PMI | 01 Aug | Jul | 48.2 | 47.7 | 47.7 |
| Hong Kong | Date | Period | Prior | Cons. | Actual |
| Retail Sales - Value (YoY) | 01 Aug | Jun | 12.90% | 11.70% | 14.70% |
| Indonesia | Date | Period | Prior | Cons. | Actual |
| HSBC-Markit Manufacturing PMI | 01 Aug | Jul | 51.0 | -- | 50.7 |
| CPI YoY | 01 Aug | Jul | 5.90% | 8.04% | 8.61% |
| Exports (YoY) | 01 Aug | Jun | -4.10% | 1.00% | -4.50% |
| GDP Constant Price (QoQ) | 02 Aug | 2Q | 1.41% | 2.80% | -- |
| GDP YoY | 02 Aug | 2Q | 6.02% | 5.90% | -- |
| India | Date | Period | Prior | Cons. | Actual |
| HSBC-Markit Manufacturing PMI | 01 Aug | Jul | 50.3 | -- | 50.1 |
| Japan | Date | Period | Prior | Cons. | Actual |
| Retail Trade YoY | 29 Jul | Jun | 0.80% | 2.10% | 1.60% |
| Jobless Rate | 30 Jul | Jun | 4.10% | 4.00% | 3.90% |
| Industrial Production (MoM) | 30 Jul | Jun P | 1.90% | -1.50% | -3.30% |
| Overall Household Spending YoY | 30 Jul | Jun | -1.60% | 1.40% | -0.40% |
| Markit/JMMA Manufacturing PMI | 31 Jul | Jul | 52.3 | -- | 50.7 |
| Monetary Base Avg Amount YoY | 02 Aug | Jul | 36.00% | -- | -- |
| Singapore | Date | Period | Prior | Cons. | Actual |
| Unemployment Rate (sa) | 31 Jul | 2Q P | 1.90% | 1.90% | 2.10% |
| Purchasing Managers Index | 01 Aug | Jul | 51.7 | 51.3 | -- |
| South Korea | Date | Period | Prior | Cons. | Actual |
| Industrial Production (YoY) | 30 Jul | Jun | -1.30% | -1.10% | -2.60% |
| CPI YoY | 01 Aug | Jul | 1.00% | 1.40% | 1.40% |
| Ext Trade - Export (YoY) | 01 Aug | Jul | -1.00% | 2.10% | 2.60% |
| HSBC Manufacturing PMI | 01 Aug | Jul | 49.4 | -- | 47.2 |
| Taiwan | Date | Period | Prior | Cons. | Actual |
| GDP YoY | 31 Jul | 2Q P | 1.67% | 2.10% | 2.27% |
| HSBC Manufacturing PMI | 01 Aug | Jul | 49.5 | -- | 48.6 |
| Thailand | Date | Period | Prior | Cons. | Actual |
| Total Exports YOY% | 31 Jul | Jun | -5.10% | -- | -3.50% |
| CPI YoY | 01 Aug | Jul | 2.25% | 2.10% | 2.00% |
| Vietnam | Date | Period | Prior | Cons. | Actual |
| HSBC Manufacturing PMI | 01 Aug | Jul | 46.4 | -- | 48.5 |

Calendar Events

India - Repurchase Rate, Jul 30

We expect the benchmark rate to remain unchanged

| Current | Cons. | New |
|---------|-------|-------|
| 7.25% | 7.25% | 7.25% |

India - Cash Reserve Ratio, Jul 30

We expect the benchmark rate to remain unchanged

| Current | Cons. | New |
|---------|-------|-------|
| 4.00% | 4.00% | 4.00% |

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. | 2029.1 | 1.8 | 0.4 | -10.6 | -4.4 |
| Hong Kong - Hang Seng | 22088.8 | 0.9 | 0.9 | -2.5 | 11.4 | |
| Taiwan - Weighted | 8056.2 | -0.6 | -1.3 | 4.6 | 10.8 | |
| Japan - Nikkei 225 | 14005.8 | 2.5 | -3.8 | 34.7 | 62.1 | |
| Korea - Kospi | 1920.7 | 0.4 | 0.6 | -3.8 | 2.2 | |
| India - Sensex 30 | 19317.2 | -0.1 | -2.5 | -0.6 | 11.9 | |
| Australia - SPX/ASX 200 | 5061.5 | 0.2 | 0.5 | 8.9 | 18.7 | |
| Singapore - Strait Times | 3243.3 | 0.7 | 0.2 | 2.4 | 6.3 | |
| Indonesia - Jakarta Comp | 4624.3 | 0.3 | -1.1 | 7.1 | 12.0 | |
| Thailand - SET | 1437.5 | 1.0 | -1.3 | 3.3 | 19.7 | |
| Malaysia - KLCI | 1777.8 | 0.3 | -1.7 | 5.3 | 8.9 | |
| Philippines - Manila Comp. | 6661.4 | 0.3 | -2.0 | 14.6 | 25.7 | |

Last update: today, 19:00 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) | 6.13 | -0.02 | 0.07 | 6.21 | 6.30 |
| Hong Kong (HKD/USD) | 7.76 | 0.00 | 0.02 | 7.75 | 7.75 | |
| Taiwan (TWD/USD) | 30.0 | -0.20 | -0.40 | 30.04 | 29.90 | |
| Japan (JPY/USD) | 98.78 | -0.91 | 0.52 | 98.75 | 98.43 | |
| Korea (KRW/USD) | 1124 | -0.02 | -0.66 | 1128 | 1137 | |
| India (INR/USD) | 60.3 | 0.13 | -1.97 | 61.79 | 65.35 | |
| Australia (USD/AUD) | 0.90 | -0.09 | -2.94 | 1.12 | 1.14 | |
| Singapore (SGD/USD) | 1.27 | -0.13 | -0.65 | 1.27 | 1.27 | |
| Indonesia (IDR/USD) | 10271 | -0.14 | 0.29 | 10623 | 11328 | |
| Thailand (THB/USD) | 31.3 | -0.19 | -0.86 | 31.48 | 31.85 | |
| Malaysia (MYR/USD) | 3.24 | 0.05 | -1.36 | 3.26 | 3.31 | |
| Philippines (PHP/USD) | 43.6 | -0.29 | -0.49 | 43.49 | 43.72 | |

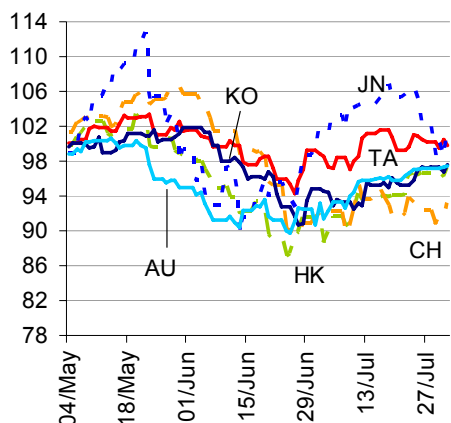
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| INTERBANK RATES | INDEX | Rate | net change over a day | net change over a week | net change over a month |
|-------------------------|-------------------|-------|-----------------------|------------------------|-------------------------|
| | China (SHIBOR/7D) | 4.51 | -0.47 | 0.16 | -0.91 |
| Hong Kong (HIBOR/1W) | 0.12 | 0.00 | 0.00 | 0.00 | |
| Taiwan (TAIBOR/1W) | 0.52 | -0.01 | -0.01 | -0.01 | |
| Japan (TIBOR/1Y) | 0.76 | 0.00 | 0.01 | 0.01 | |
| Korea (KORIBOR/1M) | 2.56 | 0.00 | 0.00 | -0.02 | |
| India (MIBOR/7D) | 5.55 | -0.46 | 1.44 | -0.27 | |
| Singapore (SIBOR/1W) | 0.25 | 0.00 | 0.00 | 0.00 | |
| Indonesia (JIBOR/1W) | 5.22 | 0.01 | 0.05 | 0.65 | |
| 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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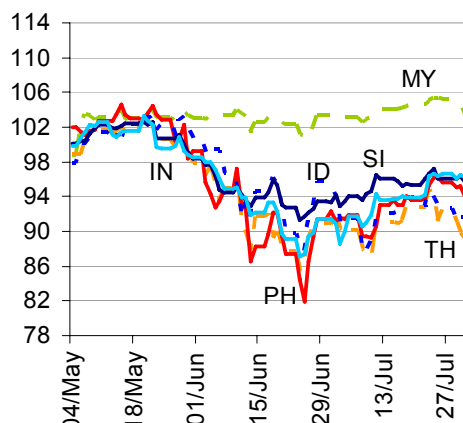
Charts

Chart 1
Stock Markets



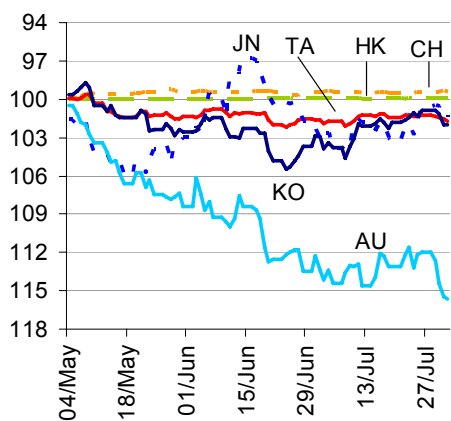
Source: BBVA Research and Bloomberg

Chart 2
Stock Markets



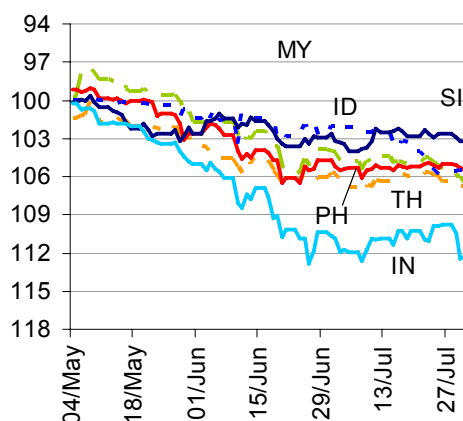
Source: BBVA Research and Bloomberg

Chart 3
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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