

Asia Flash

Asia

A combination of tepid US payrolls data from Friday and stronger PMI readings from China (see below) helped lift most Asian currencies stronger against US dollar, (the Japanese yen appreciated by +0.6% to around 98.4 per USD). The markets focus is now turning to tomorrow's RBA meeting, where we and the consensus are expecting a 25 bps cut in the policy rate to 2.50%. The RBA has cut rates by a cumulative 200bps since November 2011. In anticipation of tomorrow's rate cut, the Australia dollar has depreciated to 0.89 against the USD, and has now fallen by 14.5% so far this year, a decline on par with the yen, for the region's worst performing currencies.

China non-manufacturing PMI advances in July

Following last Thursday's better-than-expected official PMI (50.3), the NBS non-manufacturing PMI was reported on Saturday to have edged up to 54.1 in July from 53.9 in June. This is the first pickup for the non-manufacturing PMI in four months. The positive official PMI outturns may suggest that growth momentum is stabilizing, although caution is in order given mixed readings from the private sector HSBC PMIs, which have not seen a similar increase for July (the manufacturing PMI declined to 47.7 and the services PMI was flat at 51.3). We await monthly activity indicators due out on August 8-9 for a better reading on the state of growth momentum (see Weekly Indicator below).

India's services PMI falls to a four year low in July

Growth woes for the Indian economy deepened in July with the HSBC services PMI slipping to a four year low of 47.9 (51.7 in June) weighed by a contraction in new business and downbeat business confidence. Looking ahead, downside risks to India's growth have aggravated amid a contraction in services activity, which accounts for 64% share in GDP, tepid industrial growth (July manufacturing PMI at 50.1), external vulnerability concerns and spillovers from RBI's recent liquidity tightening measures to stabilize the weak rupee.

Indonesian Q2 GDP falls below 6%

Second quarter GDP came in at a lower-than-expected 5.8% (BBVA: 6.0%; consensus: 5.9%) on weaker private consumption and investment. The outturn is the fourth consecutive quarter of slowing growth, after peaking at 6.4% in Q2 last year. The slowdown reflects the impact of uncertainty about the timing of an administered fuel price that took effect in June and subsequent inflation (8.6% y/y in July), hikes in interest rates by Bank Indonesia (75 bps in May and June), and weaker commodity prices. The currency has also been under downward pressure from capital inflows, and at 10,250 per USD is at its lowest level since September 2009. We still expect growth to reach around 6% in 2013 and 6.2% in 2014 on the strength of domestic demand.

China officials are reported to consider a loosening of the "One Child Policy"

It has been widely reported by Chinese News Agencies that the "One Child Policy", in place since 1978, may be loosened by end-2013 to help counter the aging population problem. The reports indicate that if one parent is an only child, the couple will be allowed to have two children (currently, both parents must be only-children). China's working age population in 2012 fell for the first time, underscoring the disappearing "population dividend". The loosening of the "one child policy" is likely to have important demographic changes over time, and shifts in consumption and savings patterns. Together with improvements in the social safety net, we would anticipate a decline in the economy's overall savings rate, which would lead to a narrowing of China's structural current surplus.

Briefly Noted:

Weak Australia retail sales clinch the case for a rate cut

Retail sales growth unexpectedly stalled in June (0.0% m/m sa; consensus: 0.4%; prior: 0.2%). Weak domestic data and the slowdown in China are likely to tilt the RBA in favor of another rate cut at tomorrow's policy meeting.

Taiwan's headline inflation remains subdued, moderating to 0.1% y/y in July (consensus: 0.6%; June: 0.6%), recording the slowest pace since August 2010. On a sequential basis, the CPI index fell by -0.1% m/m sa, dragged down by food prices. With growth momentum starting to improve (Q2 GDP growth rose to 2.3% y/y), we expect the central bank to keep the benchmark interest rate unchanged at 1.875% for the rest of the year, despite low inflation.

Malaysia's exports contracted for a fifth consecutive month in June by -6.9% y/y (consensus: -7.4%) on fewer shipment of electronic products and palm oil. The decline in exports was mainly due to weaker demand from China, Japan and the US.

Stephen Schwartz
Chief Economist for Asia
stephen.schwartz@bbva.com.hk
+852 2582 3218

Weiwei Liu
Economist
carrie.liu@bbva.com.hk
+852 2582 3243

With contributions from the BBVA Research Asia Team

Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
Retail Sales MoM	05 Aug	Jun	0.20%	0.40%	0.00%
Trade Balance	06 Aug	Jun	670M	800M	--
Unemployment Rate	08 Aug	Jul	5.70%	5.80%	--
China	Date	Period	Prior	Cons.	Actual
Non-manufacturing PMI	03 Aug	Jul	53.9	--	54.1
Trade Balance	08 Aug	Jul	\$27.12B	\$25.95B	--
Exports YoY	08 Aug	Jul	-3.10%	1.50%	--
Imports YoY	08 Aug	Jul	-0.70%	1.00%	--
Industrial Production YoY	09 Aug	Jul	8.90%	9.00%	--
Fixed Assets Ex Rural YTD YoY	09 Aug	Jul	20.10%	20.00%	--
Retail Sales YoY	09 Aug	Jul	13.30%	13.50%	--
CPI YoY	09 Aug	Jul	2.70%	2.80%	--
Hong Kong	Date	Period	Prior	Cons.	Actual
HSBC/Markit PMI	05 Aug	Jul	48.7	--	49.7
India	Date	Period	Prior	Cons.	Actual
HSBC/Markit Services PMI	05 Aug	Jul	51.7	--	47.9
Japan	Date	Period	Prior	Cons.	Actual
BOJ 2014 Monetary Base Target	08 Aug	08-Aug	¥270T	--	--
Tertiary Industry Index MoM	09 Aug	Jun	1.20%	-0.40%	--
Malaysia	Date	Period	Prior	Cons.	Actual
Exports YoY	05 Aug	Jun	-5.10%	-7.40%	-6.90%
Industrial Production YoY	07 Aug	Jun	3.40%	3.70%	--
Philippines	Date	Period	Prior	Cons.	Actual
CPI YoY	06 Aug	Jul	2.80%	2.90%	--
Singapore	Date	Period	Prior	Cons.	Actual
GDP SAAR QoQ	09-16 AUG	2Q F	15.20%	14.20%	--
GDP YoY	09-16 AUG	2Q F	3.70%	3.40%	--
Taiwan	Date	Period	Prior	Cons.	Actual
CPI YoY	05 Aug	Jul	0.60%	0.60%	0.08%
Wholesale Price Index YoY	05 Aug	Jul	-2.02%	-1.88%	-2.13%
Exports YoY	08 Aug	Jul	8.60%	5.00%	--

Calendar Events

Australia - RBA Cash Rate Target, Aug 06

We expect the benchmark rate to be cut by 25 bps

Current	Cons.	New
2.75%	2.50%	--

Japan - BoJ Target Rate, Aug 08

We expect the benchmark rate to remain unchanged

Current	Cons.	New
0.10%	--	--

Korea - BoK 7-Day Repo Rate, Aug 08

We expect the benchmark rate to remain unchanged

Current	Cons.	New
2.50%	2.50%	--

Indicator of the Week

China: Industrial Production (July, Aug 9th)

Forecast: 9.0% y/y

Consensus: 9.0% y/y

Prior: 8.9% y/y

We expect China's growth deceleration to moderate, as suggested by the better-than-expected official NBS PMI for July (50.3 vs consensus: 49.8; prior 50.1). Domestic demand is gaining support from a series of new, albeit small, stimulus measures, while external demand should benefit from a gradually improving global economy. Hence, we expect industrial production to improve slightly in July. Nonetheless, in view constraints to growth from rising financial risks, manufacturing activity will remain soft and improve only slowly during the course of H2 (note that the HSBC PMI for July was considerably lower, at 47.7). In the coming week, we will also watch closely for additional July activity indicators, including trade (due out Aug 8th), inflation, investment, and retail sales (due out Aug 9th).

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.	2050.5	1.0	3.8	-9.6	-3.9
Hong Kong - Hang Seng	22222.0	0.1	1.7	-1.9	13.0	
Taiwan - Weighted	8138.6	0.5	0.7	5.7	12.8	
Japan - Nikkei 225	14258.0	-1.4	4.4	37.2	66.7	
Korea - Kospi	1916.2	-0.4	0.9	-4.0	3.7	
India - Sensex 30	19188.8	0.1	-2.1	-1.2	11.6	
Australia - SPX/ASX 200	5111.3	-0.1	1.3	9.9	21.1	
Singapore - Strait Times	3241.8	-0.4	0.1	2.4	6.2	
Indonesia - Jakarta Comp	4640.8	0.4	-0.4	7.5	13.2	
Thailand - SET	1424.3	0.2	-2.1	2.3	18.9	
Malaysia - KLCI	1785.1	0.1	-0.8	5.7	9.2	
Philippines - Manila Comp.	6509.7	-0.4	-3.1	12.0	23.2	

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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)	6.12	0.08	0.13	6.20	6.27
Hong Kong (HKD/USD)	7.76	-0.01	0.01	7.75	7.75	
Taiwan (TWD/USD)	29.9	0.39	0.04	29.88	29.74	
Japan (JPY/USD)	98.37	0.58	-0.42	98.32	98.03	
Korea (KRW/USD)	1114	0.90	-0.28	1119	1128	
India (INR/USD)	61.0	0.23	-2.52	62.42	65.89	
Australia (USD/AUD)	0.89	0.07	-3.20	1.13	1.15	
Singapore (SGD/USD)	1.27	0.31	-0.06	1.27	1.27	
Indonesia (IDR/USD)	10249	0.82	0.25	10699	11384	
Thailand (THB/USD)	31.3	-0.26	-0.51	31.51	31.89	
Malaysia (MYR/USD)	3.23	0.81	-0.17	3.25	3.30	
Philippines (PHP/USD)	43.5	0.37	-0.39	43.48	43.74	

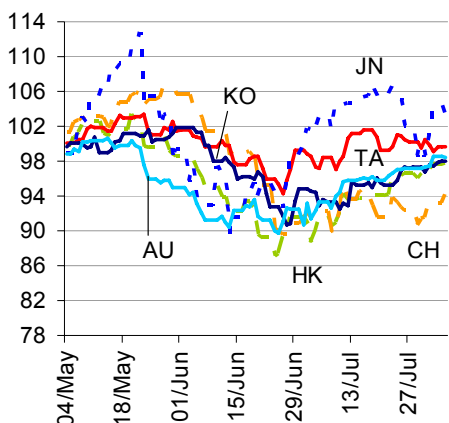
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	4.33	-0.02	-0.65	0.53
Hong Kong (HIBOR/1W)	0.12	0.00	0.00	0.00	
Taiwan (TAIBOR/1W)	0.52	0.00	-0.01	-0.01	
Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01	
Korea (KORIBOR/1M)	2.56	0.00	0.00	-0.02	
India (MIBOR/7D)	4.35	-0.10	-0.81	-0.07	
Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00	
Indonesia (JIBOR/1W)	5.25	0.01	0.06	0.70	
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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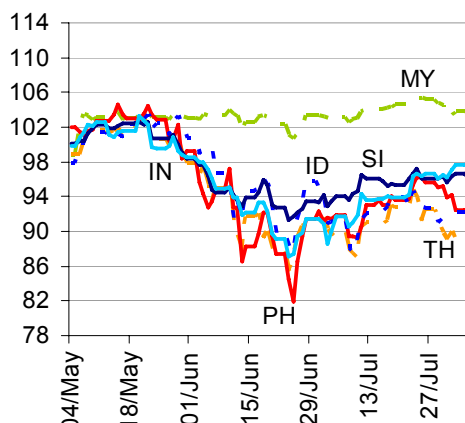
Charts

Chart 1
Stock Markets



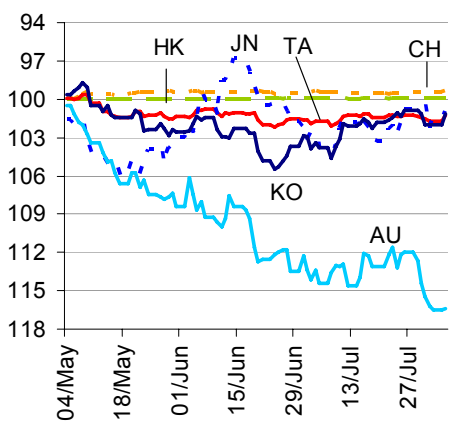
Source: BBVA Research and Bloomberg

Chart 2
Stock Markets



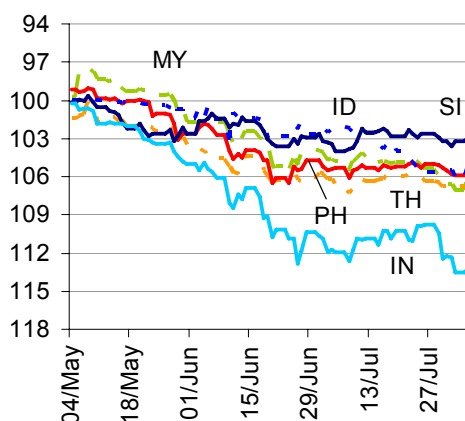
Source: BBVA Research and Bloomberg

Chart 3
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4
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Source: BBVA Research and Bloomberg

Stephen Schwartz
Chief Economist for Asia
stephen.schwartz@bbva.com.hk


Fielding Chen
Senior Economist
fielding.chen@bbva.com.hk

Le Xia
Senior Economist
xia.le@bbva.com.hk

Sumedh Deorukhkar
Senior Economist (India, Mumbai)
sumedh.deorukhkar@bbva.com

George Xu
Economist
george.xu@bbva.com.hk

Weiwei Liu
Economist
carrie.liu@bbva.com.hk

BBVA | RESEARCH  | 10/F., Two IFC, 8 Finance Street, Central, Hong Kong | Tel.: +852 2582 3111 | www.bbva.com.hk

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