

Daily Flash

Asia

India prepares new reforms as Moody's affirms the country's stable outlook

Over the weekend, India's finance minister noted that the government is likely to announce measures shortly in order to boost the country's economic growth as well as support the weakened rupee. New measures include the introduction of bonds for non-resident Indians, changes to foreign bond investment limits, and allowing oil importers to buy their dollars directly from the Reserve Bank of India (RBI) rather than via the foreign exchange market. Meanwhile, today Moody's Investors Service decided to maintain its stable outlook on India's Baa3 rating (one level above speculative grade), a decision which contrasts with that of S&P and Fitch, who recently put India on negative watch. Moody's noted that India's growth may continue to be below trend for the next few quarters, but also said that recent negative trends were unlikely to become permanent.

More details on Indonesia's plans for domestic bank stakes

According to the Wall Street Journal, one of Bank Indonesia's Deputy Governors has provided more details on the requirements for ownership of domestic banks, which are expected to take effect by the end of July (as reported in *June 20th's Daily Flash*). According to the Deputy Governor, the purchasers must be healthy, publicly listed and agree to buy contingent-convertible (also known as CoCo) bonds from the domestic banks they are purchasing. Further, all buyers must be committed to developing Indonesia's economy, and also agree not to sell their stakes for a defined period. Those meeting such requirements would be allowed to buy up to 99% equity in domestic banks. Otherwise, the following caps will be enforced on domestic bank ownership: for financial institutions: 40%; nonfinancial institutions: 30%; and for families: 20%.

Singapore's inflation edges down: for how long will pressures persist?

Inflation fell to 5.0% y/y in May (consensus: 5.1% y/y) from 5.2% y/y in April as falling oil prices offset still-strong domestic demand. Though the global slowdown has resulted in easing inflationary pressures for most countries throughout the region, Singapore has been a noteworthy outlier, as a tight domestic labor market has caused a surge in rental prices and transportation costs, resulting in persistent inflation. We expect Singapore's inflation to moderate gradually throughout the remainder of 2012.

Thailand's May exports rebound strongly

Thailand's May exports rebounded to 7.7% y/y (consensus: 0.5% y/y) from a -3.7% y/y contraction in April. Despite a strong rebound in Thailand's GDP in the first quarter (12.6% q/q), exports up until May had remained subdued, prompting the country's central bank to hold rates at a level supportive of growth (3.0%). Looking ahead, we expect the global environment to weigh down Thailand exports, and thus interest rates should remain at 3% for the next few months.

Briefly noted:

- **Vietnam's inflation rate eased to 6.9% y/y in June (consensus: 7.5% y/y), the lowest since 2009**, from 8.3% the month before, providing room for further interest rate cuts aimed at supporting growth after a total of 400 bps in cuts already delivered this year. We expect further reductions of a total 100-200 bps in the coming months.

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Calendar Indicators

China	Date	Period	Prior	Cons.	Actual
Manufacturing PMI	01-Jul	JUN	50.4	49.8	--
Hong Kong	Date	Period	Prior	Cons.	Actual
Exports YoY%	26-Jun	MAY	5.60%	0.50%	--
Imports YoY%	26-Jun	MAY	5.00%	1.80%	--
India	Date	Period	Prior	Cons.	Actual
Current Account Balance	30-Jun	1Q	--	--	--
Japan	Date	Period	Prior	Cons.	Actual
Retail Trade YoY	28-Jun	MAY	5.80%	2.90%	--
Jobless Rate	29-Jun	MAY	4.60%	4.50%	--
Natl CPI YoY	29-Jun	MAY	0.40%	0.20%	--
Natl CPI Ex-Fresh Food YoY	29-Jun	MAY	0.20%	0.00%	--
Philippines	Date	Period	Prior	Cons.	Actual
Trade Balance	26-Jun	APR	-\$1049M	--	--
Singapore	Date	Period	Prior	Cons.	Actual
CPI (MOM) - NSA	25-Jun	MAY	0.50%	0.30%	0.20%
CPI (YoY)	25-Jun	MAY	5.40%	5.10%	5.00%
Industrial Production MoM SA	26-Jun	MAY	-3.50%	2.60%	--
Industrial Production YoY	26-Jun	MAY	-0.30%	6.10%	--
South Korea	Date	Period	Prior	Cons.	Actual
Current Account in US\$ Million	28-Jun	MAY	\$1776.6M	--	--
Industrial Production (MoM)	29-Jun	MAY	0.90%	0.50%	--
Industrial Production (YoY)	29-Jun	MAY	0.00%	0.50%	--
Ext Trade - Export (YoY)	01-Jul	JUN	-0.40%	0.10%	--
Thailand	Date	Period	Prior	Cons.	Actual
Customs Exports (YoY)	25-Jun	MAY	-3.67%	0.50%	7.68%
Mfg. Production Index ISIC NSA (YoY)	28-Jun	MAY	0.54	2.2	--
Current Account Balance (USD)	29-Jun	MAY	-\$1516M	-\$900M	--
Vietnam	Date	Period	Prior	Cons.	Actual
GDP Constant Prices YTD (YoY)	25-29 JUN	2Q	4.00%	4.30%	--
Exports YTD (YoY)	24-30 JUN	JUN	24.10%	--	--

Indicator of the Week

China: PMI for June (July 1)

Forecast: 50.1

Consensus: 49.8

Prior: 50.4

Activity indicators for May showed continued weakness in growth momentum, albeit with mixed signs due to much stronger than expected exports. We expect growth momentum to remain somewhat sluggish in June, as the just released flash estimate for the private sector PMI (Markit) registered a further moderation, to 48.1% from 48.4% in the previous month. We expect the official manufacturing PMI (with a greater focus on larger and domestic-oriented firms) to show moderation as well to 50.1, still above the +50 expansion/contraction threshold. Going forward, increasing monetary and fiscal policy stimulus should lead to a pick up in growth momentum in the second half of the year.

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.	2224.1	-1.6	-3.6	1.1	-16.0
	Hong Kong - Hang Seng	18897.5	-0.5	-2.7	2.5	-14.8
	Taiwan - Weighted	7166.4	-0.8	-1.6	1.3	-16.0
	Japan - Nikkei 225	8734.6	-0.7	0.2	3.3	-9.8
	Korea - Kospi	1825.4	-1.2	-3.5	0.0	-12.7
	India - Sensex 30	16860.0	-0.7	0.9	9.1	-7.6
	Australia - SPX/ASX 200	4027.8	-0.5	-2.6	-0.7	-10.7
	Singapore - Strait Times	2815.3	-0.5	-0.3	6.4	-8.2
	Indonesia - Jakarta Comp	3857.6	-0.8	-0.1	0.9	0.2
	Thailand - SET	1147.4	-0.5	-1.4	11.9	12.2
	Malaysia - KLCI	1603.1	0.0	1.3	4.7	2.5
Philippines - Manila Comp.	5167.2	0.9	2.3	18.2	20.4	

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)	6.36	0.01	-0.09	6.37	6.42
	Hong Kong (HKD/USD)	7.76	0.01	-0.01	7.76	7.75
	Taiwan (TWD/USD)	30.0	-0.09	-0.37	29.91	29.61
	Japan (JPY/USD)	79.88	0.69	-0.96	79.79	79.38
	Korea (KRW/USD)	1162	-0.39	-0.38	1170	1180
	India (INR/USD)	56.9	0.40	-1.77	58.23	60.56
	Australia (USD/AUD)	1.00	-0.65	-1.23	1.01	1.03
	Singapore (SGD/USD)	1.28	-0.43	-0.99	1.28	1.28
	Indonesia (IDR/USD)	9509	-0.16	-0.62	9734	10175
	Thailand (THB/USD)	31.9	-0.16	-1.29	32.02	32.42
	Malaysia (MYR/USD)	3.20	-0.13	-1.20	3.21	3.24
Philippines (PHP/USD)	42.6	-0.35	-0.75	42.85	43.27	

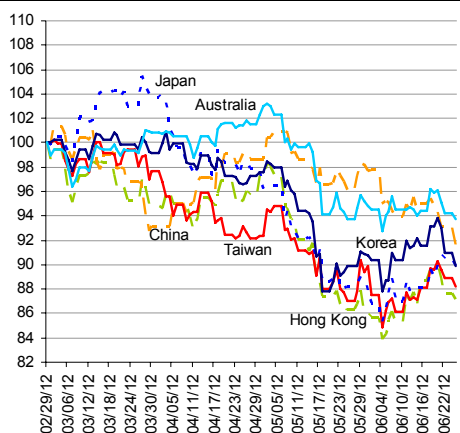
Last update: today, 17.45 Hong Kong time.

INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	4.40	-0.10	0.90	1.90
	Hong Kong (HIBOR/1W)	0.13	0.00	0.00	0.00
	Taiwan (TAIBOR/1W)	0.67	0.00	0.00	0.00
	Japan (TIBOR/1Y)	0.76	0.00	0	0
	Korea (KORIBOR/1M)	3.34	0.00	-0.02	-0.03
	India (MIBOR/7D)	4.20	-0.14	1.45	1.73
	Singapore (SIBOR/1W)	0.25	0.00	-0.06	0.00
	Indonesia (JIBOR/1W)	4.12	0.00	0	0
	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)	3.75	0.00	0.19	0.38

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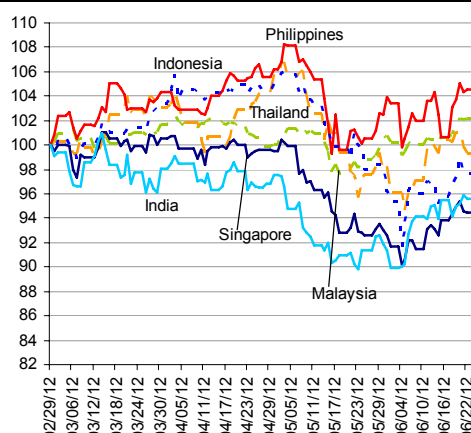
Charts

Chart 9
Stock Markets



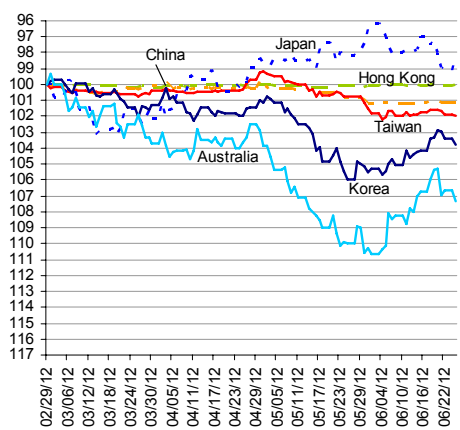
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



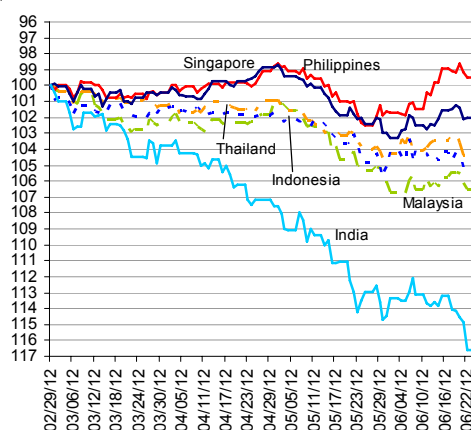
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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