

Daily Flash

Asia

The theme on investors' minds in Asia today could be summed up in two words: slowing growth. After a weak outturn for US payrolls on Friday, Japan's machine orders and Taiwan's exports both fell unexpectedly (see below). Meanwhile, falling inflation in China, which was otherwise good news for prospects of further policy easing, served up another reminder of weakening demand. Asian markets sold off, with the biggest declines for the day in China (Shanghai: -2.4%), Hong Kong (-1.9%), and Japan (-1.4%).

China's June inflation falls, providing room for further policy easing

The first important release in a data-packed week in China showed a steeper-than-expected decline in June headline inflation to 2.2% y/y from 3.0% y/y in May (BBVA: 2.4%; consensus: 2.3%) on falling food prices (*for further details, please find the link to our [China Flash](#)*). Based on current trends, we believe inflation will decline to around 2%, if not lower, in July/August before gradually trending up during the rest of the year to around 3% by December. Last week's interest rate cut – the second in a month – has generated market expectations that the current round of activity indicators may be weaker than previously expected. We expect up to two more 25bp cuts in interest rates and 150bp cuts in the RRR during the rest of the year.

Japan's current account surplus shrinks; machinery orders drop significantly

Japan's current account surplus fell 63% m/m in May to 215.1 billion yen (consensus: 493.1 billion yen), from 574.4 billion yen in the previous month. Japan retained an overall deficit in the trade balance, with investment income weaker due to the strong yen. Meanwhile, core machinery orders dropped -14.8% m/m, well below expectations (consensus: -2.6% m/m) and the largest decline since 2011. The substantial drop in machinery orders contrasts with the BoJ's recent upgrade of Japan's economic forecast on improving domestic conditions, and increases the likelihood that authorities will decide to ease monetary policy at the BoJ's upcoming meeting on Thursday.

Taiwan: Trade data shows ongoing weakness

Taiwan's exports and imports both contracted by -3.2% and -8.4% y/y respectively in June, surprising to the downside (consensus: 2.3% and -1.5% y/y). Exports to the EU and US recorded double digit y/y contractions, as external demand to developed markets remains weak. Looking ahead, declining business sentiment and a sluggish external environment will likely create further challenges to Taiwan's growth prospects

The Philippines strengthens ties with EU through landmark agreement

The Philippines announced today that it will sign a landmark Partnership Cooperation Agreement (PCA) with the EU, providing a foundation for bilateral relations. According to the head of the EU delegation, the agreement, which will be signed on July 12th, will establish relations in trade and investment, as well as energy. It is also expected to advance negotiations on an eventual free-trade agreement that would increase the Philippines' access to European markets. The announcement is one more in a recent spate of positive news for the Philippines, as the country continues to make progress towards an investment grade rating.

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Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
Unemployment Rate	12-Jul	JUN	5.10%	5.20%	--
China	Date	Period	Prior	Cons.	Actual
Consumer Price Index (YoY)	09-Jul	JUN	3.00%	2.30%	2.20%
Producer Price Index (YoY)	09-Jul	JUN	-1.40%	-2.00%	-2.10%
Trade Balance (USD)	10-Jul	JUN	\$18.70B	\$24.00B	--
Exports YoY%	10-Jul	JUN	15.30%	10.60%	--
Imports YoY%	10-Jul	JUN	12.70%	11.00%	--
New Yuan Loans	11-15 JUL	JUN	793.2B	880.0B	--
Money Supply - M2 (YoY)	11-15 JUL	JUN	13.20%	13.50%	--
Industrial Production YTD YoY	13-Jul	JUN	10.70%	10.50%	--
Industrial Production (YoY)	13-Jul	JUN	9.60%	9.80%	--
Fixed Assets Inv Excl. Rural YTD YoY	13-Jul	JUN	20.10%	20.00%	--
Real GDP (QoQ)	13-Jul	2Q	1.80%	1.60%	--
Real GDP (YoY)	13-Jul	2Q	8.10%	7.70%	--
Retail Sales (YoY)	13-Jul	JUN	13.80%	13.50%	--
India	Date	Period	Prior	Cons.	Actual
Industrial Production YoY	12-Jul	MAY	0.10%	--	--
Monthly Wholesale Prices YoY%	13-Jul	JUN	7.55%	--	--
Japan	Date	Period	Prior	Cons.	Actual
Machine Orders (MoM)	09-Jul	MAY	5.70%	-2.60%	-14.80%
Current Account Total	09-Jul	MAY	¥333.8B	¥493.1B	¥215.1B
Trade Balance - BOP Basis	09-Jul	MAY	-¥463.9B	-¥836.8B	-¥848.2B
Japan Money Stock M2 YoY	10-Jul	JUN	2.10%	2.10%	--
Tertiary Industry Index (MoM)	11-Jul	MAY	-0.30%	0.20%	--
Machine Tool Orders (YoY)	11-Jul	JUN P	-3.00%	--	--
Malaysia	Date	Period	Prior	Cons.	Actual
Industrial Production YoY	11-Jul	MAY	3.20%	4.70%	--
Philippines	Date	Period	Prior	Cons.	Actual
Total Exports (YoY)	10-Jul	MAY	7.60%	6.80%	--
Singapore	Date	Period	Prior	Cons.	Actual
GDP (QoQ)	13-Jul	2Q A	10.00%	0.80%	--
GDP (YoY)	13-Jul	2Q A	1.60%	2.20%	--
Retail Sales (YoY)	13-Jul	MAY	2.20%	3.30%	--
South Korea	Date	Period	Prior	Cons.	Actual
Unemployment Rate (SA)	11-Jul	JUN	3.20%	3.30%	--
Taiwan	Date	Period	Prior	Cons.	Actual
Total Exports (YoY)	09-Jul	JUN	-6.30%	2.30%	-3.20%

Indicator of the Week

China: GDP for Q2 (July 13)

Forecast: 7.4% y/y

Consensus: 7.8% y/y

Prior: 8.1% y/y

China's Q2 GDP outturn will be watched in order to gauge the extent of the ongoing growth slowdown. Recent high frequency indicators such as PMI and industrial production have been somewhat weaker-than-expected, prompting downward revisions to the growth outlook. We currently expect Q2 GDP growth to have weakened to 7.4% y/y from 8.1% in Q1. Nevertheless, we expect growth momentum to pick up during the rest of the year on supportive fiscal and monetary policies—including further cuts in the RRR and interest rates—leading to full-year GDP growth of around 8%, although the outlook is, admittedly, subject to downside risks due to the weak external environment. In addition to GDP, a number of important monthly indicators will also be released next week, including industrial production, investment, retail sales, and credit aggregates.

Calendar Events

South Korea - 7-Day Repo Rate, July 12

We expect the benchmark rate to remain unchanged

Current	Consensus	New
3.25%	3.25%	--

Japan - BOJ Target Rate, July 12

We expect the benchmark rate to remain unchanged

Current	Consensus	New
0.10%	0.10%	--

Indonesia - Bank Indonesia Reference Rate, July 12

We expect the benchmark rate to remain unchanged

Current	Consensus	New
5.75%	5.75%	--

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.	2170.8	-2.4	-2.5	-1.3	-22.4
	Hong Kong - Hang Seng	19428.1	-1.9	-0.1	5.4	-14.5
	Taiwan - Weighted	7310.0	-0.8	-0.5	3.4	-16.5
	Japan - Nikkei 225	8896.9	-1.4	-1.2	5.2	-12.2
	Korea - Kospi	1836.1	-1.2	-0.8	0.6	-15.8
	India - Sensex 30	17392.0	-0.7	0.0	12.5	-7.8
	Australia - SPX/ASX 200	4118.3	-1.0	-0.4	1.5	-11.5
	Singapore - Strait Times	2929.1	-1.7	0.6	10.7	-7.1
	Indonesia - Jakarta Comp	3985.0	-1.7	-0.2	4.3	-0.5
	Thailand - SET	1187.0	-1.1	-0.2	15.8	9.0
	Malaysia - KLCI	1620.3	0.0	1.2	5.9	1.6
Philippines - Manila Comp.	5263.7	-1.8	-0.7	20.4	19.9	

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)	6.37	-0.10	-0.35	6.36	6.43
	Hong Kong (HKD/USD)	7.75	-0.01	0.04	7.75	7.75
	Taiwan (TWD/USD)	29.9	-0.15	-0.19	29.89	29.59
	Japan (JPY/USD)	79.52	0.18	-0.01	79.42	78.99
	Korea (KRW/USD)	1141	-0.30	0.40	1150	1161
	India (INR/USD)	55.9	-0.79	-0.84	56.88	59.10
	Australia (USD/AUD)	1.02	-0.31	-0.66	0.99	1.01
	Singapore (SGD/USD)	1.27	0.06	-0.35	1.27	1.27
	Indonesia (IDR/USD)	9449	-0.47	-0.71	9540	9893
	Thailand (THB/USD)	31.8	0.00	-0.63	31.91	32.31
	Malaysia (MYR/USD)	3.19	-0.42	-0.77	3.21	3.24
Philippines (PHP/USD)	42.0	-0.40	-0.12	42.16	42.49	

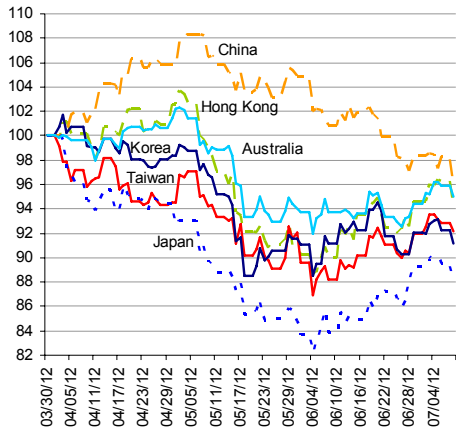
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.34	-0.08	-0.53	0.64
	Hong Kong (HIBOR/1W)	0.15	0.00	0.02	0.02
	Taiwan (TAIBOR/1W)	0.67	0.00	0.00	0.00
	Japan (TIBOR/1Y)	0.76	0.00	0	0
	Korea (KORIBOR/1M)	3.34	0.00	0.00	-0.02
	India (MIBOR/7D)	3.36	-0.37	-0.84	0.91
	Singapore (SIBOR/1W)	0.25	0.00	0.00	-0.06
	Indonesia (JIBOR/1W)	4.16	0.01	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)	3.19	0.06	-0.19	-0.25

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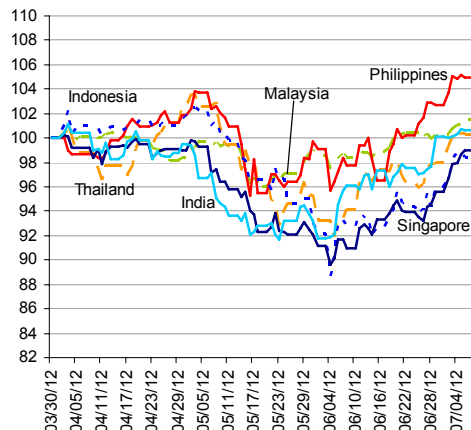
Charts

Chart 9
Stock Markets



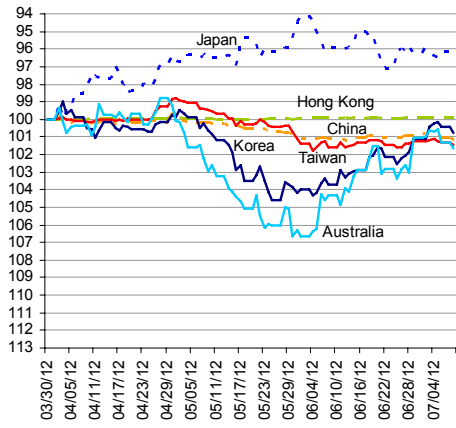
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



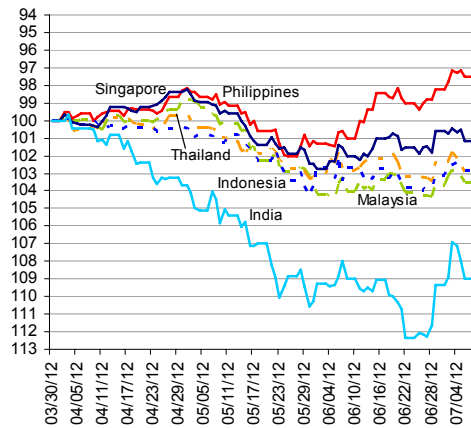
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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