

Daily Flash

Asia

Despite improving sentiment in Europe, investors remained bearish in Asia on continued concerns about a slowdown in China. While June trade data released today in China showed that exports held up better than expected (see below), weaker imports reinforced market concerns of a slowdown in domestic demand.

China's trade surplus widens on weak imports, sending out mixed signals

China's trade data for June revealed that exports held up better than expected (11.3% y/y, consensus: 10.6% y/y), but that import growth weakened (6.3% y/y, consensus: 11.0% y/y), resulting in a widening trade surplus to US\$31.7 billion, the highest since January 2009. Underlying the export outturn is a continuing trend of weak demand from the EU (-1.1% y/y) and Japan (0.1% y/y), with still-strong demand from emerging Asia (18.6% y/y) and the US (10.6% y/y). Meanwhile, the sluggish import outturn probably reflects the combined effect of weaker commodity demand and prices, as well as softer processing imports due to weakening export orders. While the data were not well received by the market, we believe that, taken together, the June outturns provide some comfort that external demand has not yet weakened too sharply.

Philippines exports rise strongly

The Philippines reported May exports today which came in well above expectations (19.7% y/y, consensus: 6.5% y/y). Intraregional demand was the key factor behind the strong performance, as shipments to China and Japan rose sharply. Strong economic momentum in the Philippines has caused authorities to tighten rules on capital inflows last week, as the Philippines peso has been Asia's strongest performing currency against the US dollar thus far this year.

EU, China conclude two-day EU-China Strategic Dialogue

China also continued to enhance its international presence – it concluded two days of talks at the EU-China Strategic Dialogue by expressing confidence that the EU will solve its crisis, and reiterated its ongoing support for the region. The high-level meetings at the EU-China Strategic Dialogue, an annual event, are designed to increase “understanding, trust and cooperation between Europe and China” through discussions about how to strengthen bilateral relationships (in trade, investment, defense, etc.) as well as about current global conditions.

Briefly noted:

- **China cuts fuel prices again, providing a boost to domestic consumption**
China's NDRC announced a cut in the price of retail gasoline (by 420 RMB/ton) and diesel prices (by 400 RMB/ton), the third round of cuts in 2012 thus far, reflecting the recent decrease in international fuel prices.

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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	\$31.73B
Exports YoY%	10-Jul	JUN	15.30%	10.60%	11.30%
Imports YoY%	10-Jul	JUN	12.70%	11.00%	6.30%
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%	2.20%
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%	19.70%
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.	2164.4	-0.3	-2.9	-1.6	-22.6
	Hong Kong - Hang Seng	19396.4	-0.2	-1.7	5.2	-14.7
	Taiwan - Weighted	7251.4	-0.8	-2.3	2.5	-17.1
	Japan - Nikkei 225	8857.7	-0.4	-2.3	4.8	-12.6
	Korea - Kospi	1829.5	-0.4	-2.1	0.2	-16.1
	India - Sensex 30	17623.4	1.3	1.1	14.0	-6.5
	Australia - SPX/ASX 200	4098.0	-0.5	-0.7	1.0	-12.0
	Singapore - Strait Times	2964.6	1.2	0.7	12.0	-5.9
	Indonesia - Jakarta Comp	4009.7	0.6	-1.0	4.9	0.1
	Thailand - SET	1200.8	1.2	0.2	17.1	10.3
	Malaysia - KLCI	1624.3	0.2	1.0	6.1	1.9
Philippines - Manila Comp.	5240.3	-0.4	-2.3	19.9	19.3	

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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)	6.37	0.09	-0.21	6.36	6.42
	Hong Kong (HKD/USD)	7.75	0.01	0.01	7.75	7.75
	Taiwan (TWD/USD)	30.0	-0.07	-0.33	29.91	29.62
	Japan (JPY/USD)	79.38	0.23	0.52	79.29	78.86
	Korea (KRW/USD)	1144	-0.20	-0.48	1147	1158
	India (INR/USD)	55.5	0.81	-2.01	56.43	58.66
	Australia (USD/AUD)	1.02	0.32	-0.41	0.98	1.01
	Singapore (SGD/USD)	1.27	0.21	-0.26	1.27	1.26
	Indonesia (IDR/USD)	9433	0.17	-0.57	9537	9925
	Thailand (THB/USD)	31.7	0.19	-0.82	31.82	32.22
	Malaysia (MYR/USD)	3.18	0.24	-0.90	3.20	3.23
Philippines (PHP/USD)	41.8	0.43	-0.36	41.92	42.22	

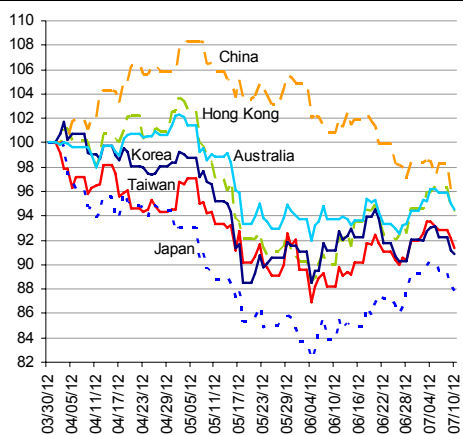
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.31	-0.03	-0.67	0.61
	Hong Kong (HIBOR/1W)	0.15	0.00	0.02	0.02
	Taiwan (TAIBOR/1W)	0.67	0.00	0.00	0.00
	Japan (TIBOR/1Y)	0.76	0.00	0	0
	Korea (KORIBOR/1M)	3.33	-0.01	-0.01	-0.03
	India (MIBOR/7D)	3.35	-0.01	-0.82	0.90
	Singapore (SIBOR/1W)	0.25	0.00	0.00	-0.06
	Indonesia (JIBOR/1W)	4.17	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)	2.69	-0.50	-0.81	-0.75

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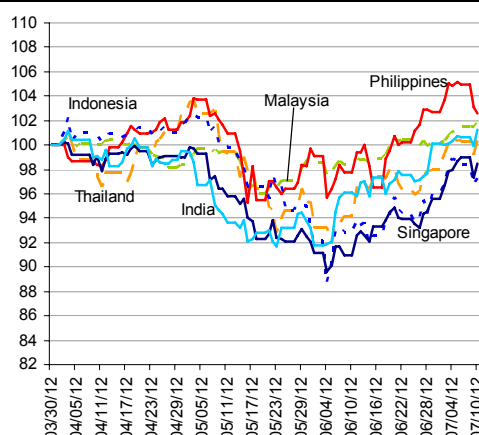
Charts

Chart 9
Stock Markets



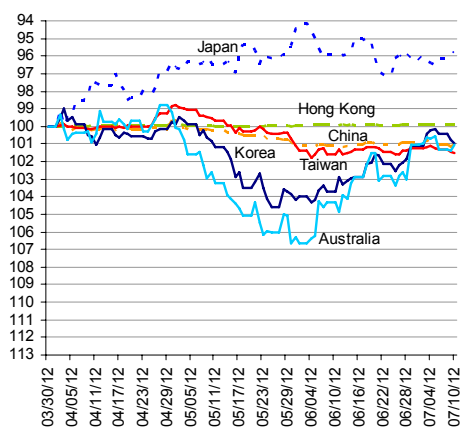
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



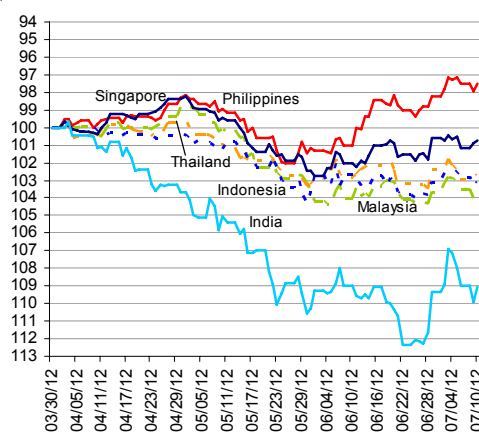
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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