

Daily Flash

Asia

China's spending stimulus to focus on investment rather than consumption

On China's Central Government website yesterday and as widely reported in the media, Premier Wen Jiabao has stressed the importance of investment, rather than consumption, as the key lever for stabilizing growth in the near term. As such, the government has signaled that stimulating short-term growth takes priority over longer term measures to rebalance China's growth model by boosting consumption. This stance is consistent with our expectations of likely stimulus measures, which will include infrastructure and social housing construction as key components. This is good news for the world's commodity producers, as it will likely support China's commodity demand.

Malaysia's industrial output surprises to the upside

Malaysia's industrial production surprised to the upside in May, growing by 7.6% y/y (consensus: 4.6% y/y) from 3.2% y/y the previous month. All three components of the index, namely mining, electricity and manufacturing output, increased from a year earlier with mining accounting for the highest rise (11.4% y/y). Manufacturing sales data for June were also released today, showing a 10.0% y/y rise from 5.3% y/y a month earlier. Recent outturns including today's underscore the resilience of Malaysia's domestic economy, which has helped offset weak external demand.

Tomorrow: South Korea, Indonesia and Japan hold policy meetings

We expect rates to stay on hold for each. Though prospects of a rate cut have been growing in South Korea, given a healthy labor market (unemployment remains low at 3.2%, as reported today - we think the Bank of Korea will hold off on cutting rates just yet, despite the ongoing slowdown in exports. We also expect the Bank of Japan will hold off on any further monetary policy easing measures, after they upgraded the growth outlook for all nine regions of the economy last week. We think it remains likely there will be further easing measures (through the asset purchase program primarily) in the coming months, however, as Japan continues to fight deflation.

Briefly noted:

- **Following several recent positive news items regarding the country**, the Philippines government announced a proposal to increase its fiscal budget by 10% next year, to US\$47.8 billion. The budget, if passed, will emphasize social services such as education and public works projects.

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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%	0.70%
Machine Tool Orders (YoY)	11-Jul	JUN P	-3.00%	--	-15.50%
Malaysia	Date	Period	Prior	Cons.	Actual
Industrial Production YoY	11-Jul	MAY	3.20%	4.60%	7.60%
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%	3.20%
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.	2175.4	0.5	-2.3	-1.1	-22.4
	Hong Kong - Hang Seng	19419.9	0.1	-1.5	5.3	-13.1
	Taiwan - Weighted	7257.9	0.1	-2.2	2.6	-16.2
	Japan - Nikkei 225	8851.0	-0.1	-2.8	4.7	-12.1
	Korea - Kospi	1826.4	-0.2	-2.6	0.0	-15.3
	India - Sensex 30	17489.1	-0.7	0.2	13.2	-6.6
	Australia - SPX/ASX 200	4096.5	0.0	-1.8	1.0	-10.6
	Singapore - Strait Times	2989.3	0.8	1.4	13.0	-4.1
	Indonesia - Jakarta Comp	4019.1	0.2	-1.4	5.2	0.6
	Thailand - SET	1208.7	0.4	1.2	17.9	12.2
	Malaysia - KLCI	1629.5	0.3	1.0	6.4	2.6
Philippines - Manila Comp.	5235.4	-0.1	-2.2	19.8	19.6	

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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	-0.05	-0.33	6.35	6.42
	Hong Kong (HKD/USD)	7.75	-0.01	0.01	7.75	7.75
	Taiwan (TWD/USD)	29.9	0.06	-0.36	29.87	29.57
	Japan (JPY/USD)	79.27	0.20	0.77	79.18	78.76
	Korea (KRW/USD)	1141	0.25	-0.46	1148	1159
	India (INR/USD)	55.4	0.00	-1.62	56.30	58.51
	Australia (USD/AUD)	1.03	0.64	-0.18	0.98	1.00
	Singapore (SGD/USD)	1.26	0.36	0.12	1.26	1.26
	Indonesia (IDR/USD)	9436	-0.03	-0.73	9537	9912
	Thailand (THB/USD)	31.7	0.03	-0.63	31.85	32.26
	Malaysia (MYR/USD)	3.18	0.05	-0.82	3.20	3.23
Philippines (PHP/USD)	41.9	-0.07	-0.31	42.02	42.32	

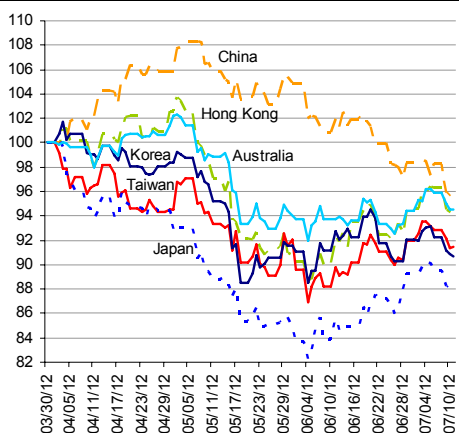
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.27	-0.04	-0.15	0.87
	Hong Kong (HIBOR/1W)	0.15	0.00	0.02	0.02
	Taiwan (TAIBOR/1W)	0.67	0.00	0.00	0.00
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	3.33	0.00	-0.01	-0.03
	India (MIBOR/7D)	3.37	0.02	-0.63	0.94
	Singapore (SIBOR/1W)	0.25	0.00	0.00	-0.06
	Indonesia (JIBOR/1W)	4.16	0.00	0.01	0.08
	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)	2.75	0.06	0.00	-0.69

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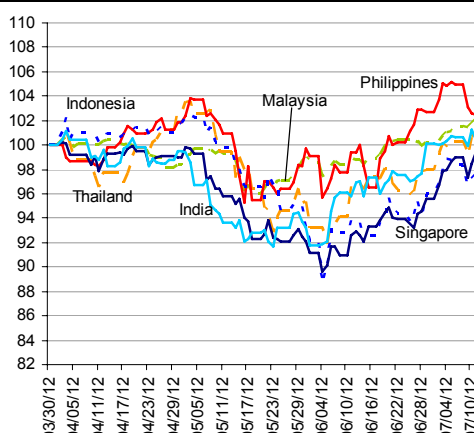
Charts

Chart 9
Stock Markets



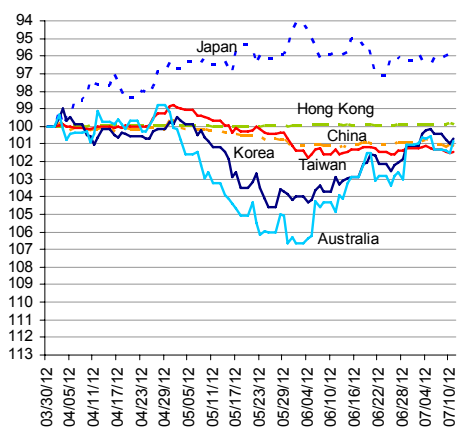
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



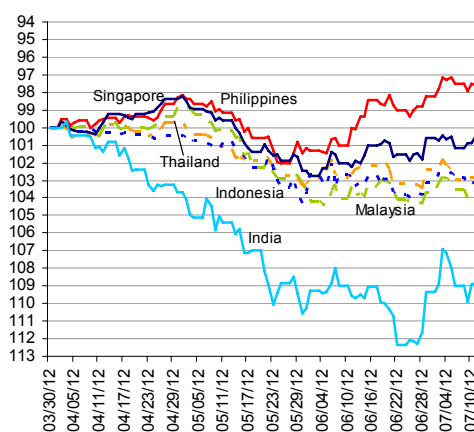
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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