

Daily Flash

Asia

Asian markets reacted nervously today ahead of tomorrow's release of Q2 GDP in China. Negative market sentiment was widespread, despite further signs of monetary easing in the region (especially Korea; see below) and strong China loan growth data for June. The Kospi was down -2.2%, followed by the Hang Seng (-2.0%) and the Nikkei (-1.5%). We expect tomorrow's GDP release in China to be on the weak end of market expectations, at 7.4% y/y (see Weekly indicator below). The announcement will be accompanied by other important activity indicators including industrial production, retail sales and urban investment.

A surprise rate cut in Korea

The Bank of Korea cut rates by 25bps for the first time in three years today, a move that surprised markets. The move came after lower-than-expected inflation in June (2.2% y/y, well within the official target range of 2-4%), and indicators of slowing growth. In support of its decision, the Bank of Korea said that downside risks had intensified due to the European crisis. The rate cut follows a US\$7 billion fiscal stimulus package announced at the end of June, and was in line with other recent policy easing measures in the region, including last week's rate cut in China. We had expected Korea's central bank to cut rates in the coming months, and the faster timing of today's decision underscores the authorities' concerns about slowing growth. We expect another cut to follow in the coming months.

Bank of Japan adjusts policy; recovery remains intact

While the Bank of Japan announced today that it has increased its asset purchase program by 5 trillion yen, it offset this by decreasing its credit loan facility by the same amount. The net effect of these moves by the BoJ was that monetary policy remained unchanged, as according to the BoJ, 'domestic demand remains firm, mainly supported by reconstruction-related demand.' Today's moves underscore the central bank's prior assessment that the country's recovery remains intact.

China's June credit growth expands

New loans expanded by a better-than-expected RMB 920 billion from RMB 793 billion the previous month (consensus: RMB 880 billion), bringing total new loans in 1H 2012 to RMB 4.86 trillion, broadly consistent with the full-year informal target of RMB 8.0-8.5 trillion (the bulk of lending is done in the first half). Meanwhile, the amount of Total Social Financing (TSF), a broader measure of credit growth, also pointed to an easing of credit conditions. TSF increased sequentially in June by 62%, reaching RMB 1.78 trillion. The new loan data, along with two recent rate cuts, shows that policymakers are easing financial conditions, in line with Premier Wen Jiabao's statements yesterday on efforts to provide short-term support for the economy.

India's May industrial production beats expectations, but remains subdued

India's industrial production grew 2.4% y/y in May from -0.9% in April (consensus: 1.8%), driven by the consumer goods segment. Despite the encouraging outturn, growth momentum remains muted for now, and room for policy easing remains constrained by inflationary pressures. In this context, tomorrow's June WPI inflation outturn will be a key input in RBI's decision on interest rates when it meets on July 31st.

Briefly noted:

- **Australia's unemployment rate increased to 5.2% sa from 5.1% in May.** The 27,000 decrease in the number of employed comes mostly from full-time employment. The softening outturn increases the chances of further rate cuts in the coming months.
- **Bank Indonesia kept its policy rate on hold today at 5.75%**, though authorities did lower the country's growth forecast for this year slightly to 6.1%-6.5% (BBVA: 6.1%) from a previous 6.3%-6.7% estimate.

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Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
Unemployment Rate	12-Jul	JUN	5.10%	5.20%	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	12-Jul	JUN	793.2B	880.0B	919.8B
Money Supply - M2 (YoY)	12-Jul	JUN	13.20%	13.50%	13.60%
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%	--	2.40%
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: 7.7% 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 expected the benchmark rate to remain unchanged

Current	Consensus	New
3.25%	3.25%	3.00%

Japan - BOJ Target Rate, July 12

We expected the benchmark rate to remain unchanged

Current	Consensus	New
0.10%	0.10%	0.10%

Indonesia - Bank Indonesia Reference Rate, July 12

We expected the benchmark rate to remain unchanged

Current	Consensus	New
5.75%	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.	2185.5	0.5	-0.7	-0.6	-20.7
	Hong Kong - Hang Seng	19025.1	-2.0	-4.0	3.2	-12.2
	Taiwan - Weighted	7130.9	-1.7	-3.5	0.8	-16.0
	Japan - Nikkei 225	8720.0	-1.5	-4.0	3.1	-12.1
	Korea - Kospi	1785.4	-2.2	-4.8	-2.2	-15.4
	India - Sensex 30	17218.5	-1.5	-1.8	11.4	-6.5
	Australia - SPX/ASX 200	4068.0	-0.7	-2.4	0.3	-9.5
	Singapore - Strait Times	2972.0	-0.6	0.0	12.3	-3.4
	Indonesia - Jakarta Comp	3984.1	-0.9	-2.1	4.2	1.2
	Thailand - SET	1193.1	-1.3	-0.7	16.4	12.3
	Malaysia - KLCI	1625.5	-0.2	0.7	6.2	3.0
Philippines - Manila Comp.	5205.2	-0.6	-3.1	19.1	19.7	

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	-0.08	-0.28	6.36	6.42
	Hong Kong (HKD/USD)	7.76	-0.02	-0.01	7.75	7.75
	Taiwan (TWD/USD)	30.0	-0.20	-0.44	29.96	29.68
	Japan (JPY/USD)	79.31	0.57	0.77	79.22	78.82
	Korea (KRW/USD)	1151	-0.91	-1.41	1159	1169
	India (INR/USD)	55.7	-0.19	-1.41	56.70	59.12
	Australia (USD/AUD)	1.01	-1.06	-1.41	0.99	1.01
	Singapore (SGD/USD)	1.27	-0.61	-0.54	1.27	1.27
	Indonesia (IDR/USD)	9448	-0.13	-0.71	9564	9964
	Thailand (THB/USD)	31.8	-0.22	-0.69	31.97	32.34
	Malaysia (MYR/USD)	3.19	-0.34	-0.86	3.21	3.24
Philippines (PHP/USD)	42.1	-0.50	-0.89	42.23	42.53	

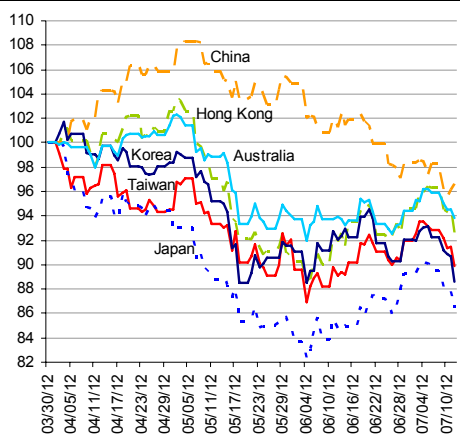
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.19	-0.08	-0.23	0.66
	Hong Kong (HIBOR/1W)	0.15	0.00	0.02	0.02
	Taiwan (TAIBOR/1W)	0.67	0.00	0.00	0.00
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	3.33	0.00	-0.01	-0.03
	India (MIBOR/7D)	3.19	-0.18	-0.87	0.64
	Singapore (SIBOR/1W)	0.25	0.00	0.00	-0.06
	Indonesia (JIBOR/1W)	4.17	0.01	0.05	0.07
	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)	2.81	0.06	-0.06	-0.63

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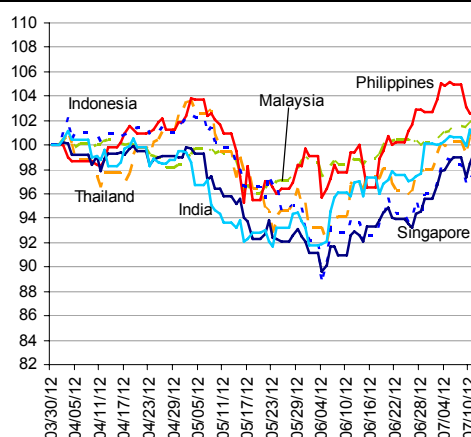
Charts

Chart 9
Stock Markets



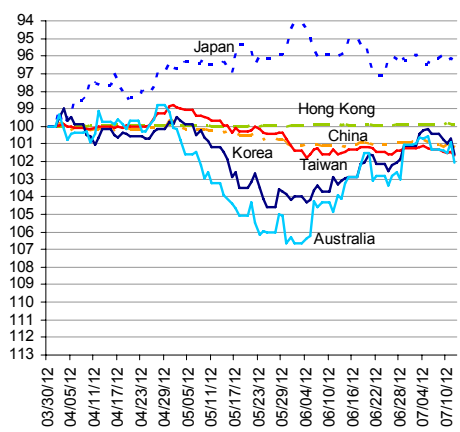
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



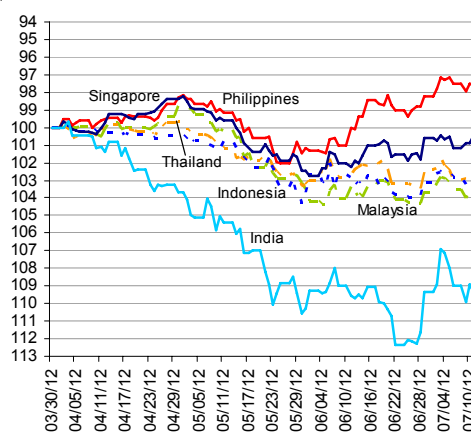
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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