

Daily Flash

Asia

Disappointing growth and production outturns were the headlines of the day, with Taiwan turning in a disappointing 2Q GDP contraction and Korea posting a contraction in industrial production for the month of June (see below). The outturns are fanning speculation of further policy easing, including in Taiwan. Stock markets in Asia were up today on prospects of further easing (Kospi: +2.1%; Taiwan: +1.6%). However, for a second straight day, China's main stock market was an outlier (Shanghai Composite: -0.3%) ahead of tomorrow's release of China's official PMI, which we expect to edge up (see Weekly Indicator below), showing further signs of stabilization in the economy.

Taiwan's 2Q GDP contracts, raising possibility of rate cuts

Taiwan's preliminary Q2 GDP estimates surprised to the downside, shrinking by -0.2% y/y (consensus: 0.5% y/y; BBVA: 0.3% y/y), the first year-on-year contraction since Q3 2009. Sequentially, there was a slight pick-up to 0.8% q/q from 0.3% q/q in the first quarter. Exports and investment were the key areas of weakness. In May, the government cut its 2012 growth forecast to 2.1% from 3.0%. For the rest of the year, risks remain tilted to the downside. In the past few weeks the central bank has begun using open market operations to expand liquidity, raising expectations of an interest rate cut.

Korea's industrial output falls as economy remains under pressure

Korea's industrial production showed a surprise contraction in June (-0.4% y/y, consensus: 0.1% y/y), as the European crisis and weak external demand continue to weigh on the economy. The outturn places further pressure on Korea's policymakers, who have recently cut interest rates to counter weakening growth momentum (0.4% q/q in 2Q after 0.9% q/q in the first quarter). We think the probability of another rate cut is likely before the end of this year.

India keeps rates on hold, but growth outlook revised downwards

Bucking the recent regional trend of policy easing, the Reserve Bank of India left the benchmark repo rate unchanged at 8.0% today, as expected, citing heightened inflation risks even as growth continues to slow. With this in mind, the RBI raised its WPI inflation forecast for fiscal year 2013 (ending in March 2013) from 6.5% y/y to 7.0% y/y (BBVA: 7.1%). The RBI also revised downward its growth forecast for the same period from 7.3% to 6.5% (BBVA: 6.0%), due to a combination of the weak monsoon season, faltering industrial activity and elevated tensions in the global economy. Looking ahead, due to the significant deterioration in India's growth prospects, we expect another 50bps of cuts in the repo rate (bringing it to 7.5%) towards the end of 2012.

Briefly noted:

- **Singapore's 2Q jobless rate unexpectedly fell to 2.0%** (consensus: 2.2%) from 2.1% last quarter, as the number of employed rose by 29,200. Most of the new jobs were added in the services industry, along with increases in hiring by manufacturing and construction companies

Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
Trade Balance	02-Aug	Jun	-285M	-375M	--
Retail Sales s.a. (MoM)	02-Aug	Jun	0.50%	0.70%	--
China	Date	Period	Prior	Cons.	Actual
Manufacturing PMI	01-Aug	Jul	50.2	50.5	--
HSBC Manufacturing PMI	01-Aug	Jul	48.2	--	--
Non-manufacturing PMI	03-Aug	Jul	56.7	--	--
HSBC Services PMI	03-Aug	Jul	52.3	--	--
Hong Kong	Date	Period	Prior	Cons.	Actual
Retail Sales - Value (YoY)	02-Aug	Jun	8.80%	9.10%	--
Purchasing Managers Index	03-Aug	Jul	49.8	--	--
Indonesia	Date	Period	Prior	Cons.	Actual
Inflation (YoY)	01-Aug	Jul	4.53%	4.59%	--
Exports (YoY)	01-Aug	Jun	-8.50%	--	--
India	Date	Period	Prior	Cons.	Actual
Reverse Repo Rate	31-Jul	31-Jul	7.00%	7.00%	7.00%
Cash Reserve Ratio	31-Jul	31-Jul	4.75%	4.75%	4.75%
India July Markit Manufacturing PMI	01-Aug	Jul			
Exports YoY%	01-Aug	Jun	-4.20%	--	--
Imports YoY%	01-Aug	Jun	-7.40%	--	--
India July Markit Services PMI	03-Aug	Jul			
Japan	Date	Period	Prior	Cons.	Actual
Industrial Production (MoM)	30-Jul	Jun P	-3.40%	1.50%	-0.10%
Industrial Production YOY%	30-Jul	Jun P	6.00%	-0.10%	-2.00%
Markit/JMMA Manufacturing PMI	31-Jul	Jul	49.9	--	--
Jobless Rate	31-Jul	Jun	4.40%	4.40%	--
Singapore	Date	Period	Prior	Cons.	Actual
Unemployment Rate (sa)	31-Jul	2Q P	2.10%	2.10%	2.0%
Purchasing Managers Index	01-Aug	Jul	50.4	50.4	--
South Korea	Date	Period	Prior	Cons.	Actual
Industrial Production (MoM)	31-Jul	Jun	1.10%	0.10%	-0.40%
Industrial Production (YoY)	31-Jul	Jun	2.60%	1.80%	1.60%
Consumer Price Index (MoM)	01-Aug	Jul	-0.10%	0.20%	--
Consumer Price Index (YoY)	01-Aug	Jul	2.20%	2.00%	--
HSBC Manufacturing PMI	01-Aug	Jul	49.4	--	--
Ext Trade - Export (YoY)	01-Aug	Jul	1.30%	-3.70%	--
Taiwan	Date	Period	Prior	Cons.	Actual
GDP - Constant Prices (YoY)	31-Jul	2Q P	0.39%	0.50%	-0.20%
HSBC Manufacturing PMI	01-Aug	Jul	49.2	--	--
Thailand	Date	Period	Prior	Cons.	Actual
Consumer Price Index (YoY)	01-Aug	Jul	2.56%	2.60%	--

Indicator of the Week

China: PMI for July (August 1)

Forecast: 50.7

Consensus: 50.4

Prior: 50.2

While growth momentum continued to slow in the second quarter, recent indicators suggest that the slowdown may be stabilizing on increasing policy support. Loan growth and the latest flash HSBC PMI (49.5 vs. 48.2 in June) have both improved on rising production, new orders, and new export orders. Official PMI has been trending above 50, but has weakened since April. We expect this trend to reverse in July, with a pick up to 50.7%, from 50.2% in June. Despite the weak external environment, we expect China's overall growth momentum to rise through in the second half of 2012 on increasing monetary and fiscal measures.

Calendar Events

India - India REPO Cutoff Yld, July 31

We expect the benchmark rate to remain unchanged

Current

8.00%

Consensus

8.00%

New

8.00%

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.	2103.6	-0.3	-2.0	-4.4	-22.1
	Hong Kong - Hang Seng	19796.8	1.1	4.7	7.4	-11.8
	Taiwan - Weighted	7270.5	1.6	3.7	2.8	-15.9
	Japan - Nikkei 225	8695.1	0.7	2.4	2.8	-11.6
	Korea - Kospi	1882.0	2.1	4.9	3.1	-11.8
	India - Sensex 30	17236.2	0.5	1.9	11.5	-5.3
	Australia - SPX/ASX 200	4269.2	0.6	3.3	5.2	-3.5
	Singapore - Strait Times	3036.4	0.1	1.3	14.7	-4.8
	Indonesia - Jakarta Comp	4142.3	1.1	3.8	8.4	0.3
	Thailand - SET	1199.3	0.5	1.0	17.0	5.8
	Malaysia - KLCI	1631.6	0.0	-0.1	6.6	5.3
Philippines - Manila Comp.	5307.7	0.6	2.9	21.4	17.9	

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)	6.36	0.28	0.38	6.36	6.43
	Hong Kong (HKD/USD)	7.75	0.02	0.05	7.75	7.75
	Taiwan (TWD/USD)	30.0	0.25	0.42	29.91	29.62
	Japan (JPY/USD)	78.24	-0.08	-0.08	78.16	77.81
	Korea (KRW/USD)	1131	0.62	1.38	1131	1142
	India (INR/USD)	55.6	0.04	1.00	56.45	58.90
	Australia (USD/AUD)	1.05	0.21	2.97	0.96	0.98
	Singapore (SGD/USD)	1.24	0.20	1.52	1.24	1.24
	Indonesia (IDR/USD)	9467	0.26	0.44	9557	9902
	Thailand (THB/USD)	31.5	0.38	1.02	31.64	32.05
	Malaysia (MYR/USD)	3.13	0.72	1.55	3.15	3.17
Philippines (PHP/USD)	41.8	0.26	0.66	41.80	42.04	

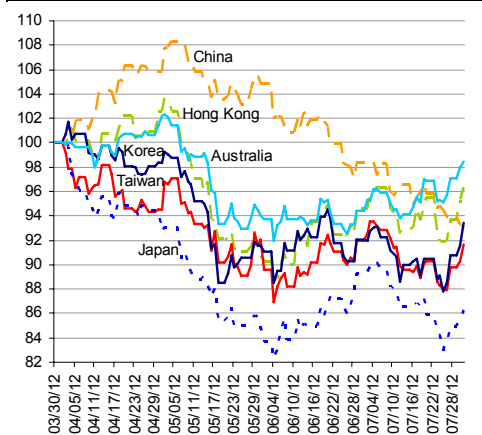
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.40	0.25	0.02	-0.66
	Hong Kong (HIBOR/1W)	0.13	0.00	0.00	0.00
	Taiwan (TAIBOR/1W)	0.64	0.00	0.00	-0.03
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	3.05	0.00	-0.02	-0.29
	India (MIBOR/7D)	3.35	0.23	-0.03	-0.75
	Singapore (SIBOR/1W)	0.31	0.06	0.06	0.06
	Indonesia (JIBOR/1W)	4.18	0.01	0.01	0.02
	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)	1.81	0.06	0.06	-1.38

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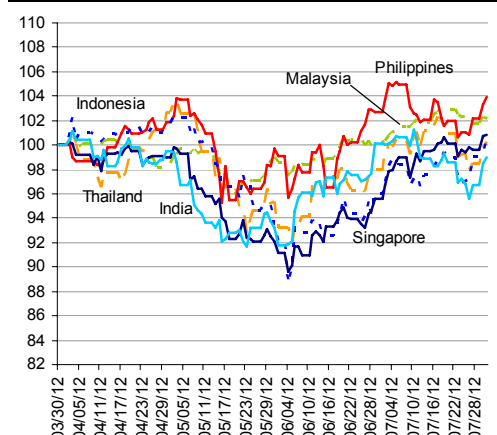
Charts

Chart 9
Stock Markets



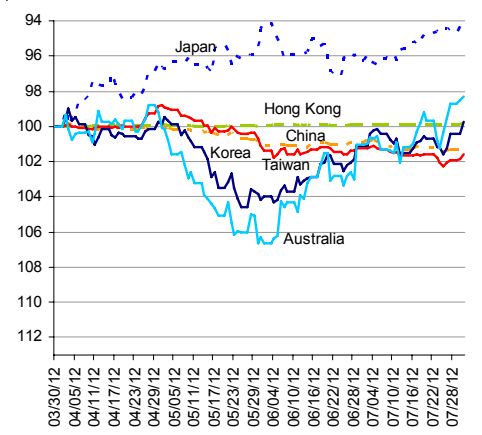
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



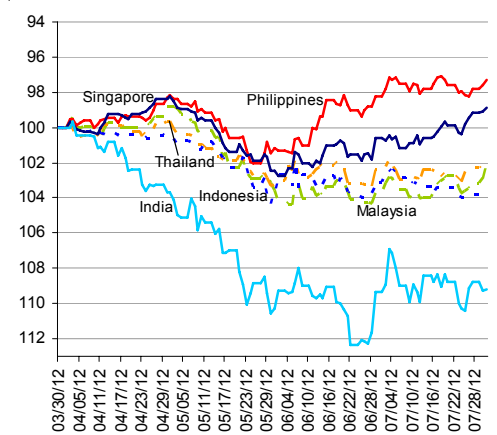
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Stephen Schwartz
Chief Economist for Asia
stephen.schwartz@bbva.com.hk

Fielding Chen
Senior Economist
fielding.chen@bbva.com.hk

Le Xia
Senior Economist (China)
xia.le@bbva.com.hk

Zhigang Li
Senior Economist (China)
zhigang.li@bbva.com.hk


Sumedh Deorukhkar
Senior Economist (India, Mumbai)
sumedh.deorukhkar@grupobbva.com

Jeffrey Cantwell
Economist
jeffrey.cantwell@bbva.com.hk

George Xu
Economist
george.xu@bbva.com.hk

Richard Li
Asian FX Chief Strategist
richard.li@bbva.com.hk

William Fitchett
Economist
william.fitchett@bbva.com.hk

BBVA RESEARCH  | 43/F., Two IFC, 8 Finance Street, Central, Hong Kong | Tel.: +852 2582 3111 | www.bbva.com.hk

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