

Daily Flash

Asia

China's July indicators weaken, bolstering case for more policy support

Today's batch of inflation and activity indicators in China were on the weak side, indicating that the hoped-for pickup in growth momentum has not yet occurred. Growth of industrial production and retail sales for July were lower-than-expected at 9.2% y/y and 13.1% y/y respectively (consensus: 9.7% and 13.5%), while other indicators were closer to expectations, including fixed asset investment (20.4% vs. consensus: 20.6%) and CPI inflation (1.8% vs. consensus: 1.7%). Looking ahead, we believe that inflation has now bottomed out, and should gradually pick up to 2-3% during the remainder of the year, still below the authorities' 4% tolerance level. Together with weak growth momentum, this should provide space for further policy easing, including 150bps of further cuts in the RRR, up to two more interest rate cuts, and a step-up in public investment projects. These policies should sustain GDP growth in line with our full-year 7.8% projection, as detailed in our just-released [Asia Outlook](#).

Central banks stay on hold in Japan, Korea and Indonesia, as expected

Policy meetings were held today in Japan, South Korea and Indonesia, and all three central banks decided to keep policy on hold. In Japan and Korea, recent declines in inflation and growth momentum have strengthened the case for further policy easing, which we expect in the months ahead. In contrast, Indonesia's growth momentum has been strong second quarter GDP (6.4% y/y), inflation is trending upwards, and the currency has been weak, leaving policymakers content to hold rates at the current level of 5.75%.

India – growth concerns deepen as IP growth contracts in June

India's growth concerns deepened as industrial production contracted by -1.8% y/y in June (consensus: +0.4%) driven mainly by a decline in manufacturing activity and base effects. Despite significant growth concerns, room for monetary easing is constrained by stubborn inflationary pressures and a lack of action regarding fiscal consolidation. In this context, the upcoming July WPI inflation outturn will be closely watched for cues on the central bank's future policy response. We expect the RBI to ease the repo rate by an additional 50 bps, to 7.5%, by the end of 2012.

Australia's better-than-expected employment data underscores its resilience

Today, Australia released its employment data, showing the economy generated 14,000 new jobs in July (consensus: 10,000). Accordingly, Australia's unemployment stayed unchanged at 5.2%. Australia has one of the lowest unemployment rates in the developed world; while mining investment remains robust, the government has adopted a set of monetary and fiscal stimulus policies to counter the effects of external shocks since the later part of 2011, which is supporting the domestic economy. Looking ahead, we expect the economy to grow by about 3% in 2012, although there will be headwinds from slowing global growth, which makes one more rate cut likely before end-year.

Briefly noted:

- **Malaysia's industrial production growth slowed down to 3.7% y/y in June** (consensus: 4.8% y/y) from 7.8% y/y the previous month, as the mining sector was the main drag on the index, reversing its 11.4% y/y rebound in May with a decline of -0.4% y/y in June.

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Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
Unemployment Rate	09-Aug	Jul	5.20%	5.30%	5.20%
China	Date	Period	Prior	Cons.	Actual
Consumer Price Index (YoY)	09-Aug	Jul	2.20%	1.70%	1.80%
Producer Price Index (YoY)	09-Aug	Jul	-2.10%	-2.50%	-2.90%
Industrial Production YTD YoY	09-Aug	Jul	10.50%	10.40%	10.30%
Industrial Production (YoY)	09-Aug	Jul	9.50%	9.70%	9.20%
Fixed Assets Inv Excl. Rural YTD YoY	09-Aug	Jul	20.40%	20.60%	20.40%
Retail Sales (YoY)	09-Aug	Jul	13.70%	13.50%	13.10%
Trade Balance (USD)	10-Aug	Jul	\$31.72B	\$35.00B	--
Exports YoY%	10-Aug	Jul	11.30%	8.00%	--
Imports YoY%	10-Aug	Jul	6.30%	7.40%	--
New Yuan Loans	11-15 AUG	Jul	919.8B	700.0B	--
Money Supply - M2 (YoY)	11-15 AUG	Jul	13.60%	13.80%	--
Hong Kong	Date	Period	Prior	Cons.	Actual
GDP (YoY)	10-Aug	2Q	0.40%	1.20%	--
Indonesia	Date	Period	Prior	Cons.	Actual
GDP Constant Price (YoY)	06-Aug	2Q	6.30%	6.10%	6.40%
GDP Constant Price (QoQ)	06-Aug	2Q	1.40%	2.51%	2.80%
India	Date	Period	Prior	Cons.	Actual
Industrial Production YoY	09-Aug	Jun	2.40%	0.40%	-1.80%
Japan	Date	Period	Prior	Cons.	Actual
Current Account Total	08-Aug	Jun	¥215.1B	¥415.4B	¥433.3B
Trade Balance - BOP Basis	08-Aug	Jun	-¥848.2B	¥120.0B	¥112.0B
Japan Money Stock M2 YoY	09-Aug	Jul	2.20%	2.20%	2.20%
Machine Orders (MoM)	09-Aug	Jun	-14.80%	12.00%	5.60%
Machine Orders YOY%	09-Aug	Jun	1.00%	-4.50%	-9.90%
Malaysia	Date	Period	Prior	Cons.	Actual
Exports YoY%	08-Aug	Jun	6.70%	3.10%	5.40%
Industrial Production YoY	09-Aug	Jun	7.80%	4.80%	3.70%
Philippines	Date	Period	Prior	Cons.	Actual
Consumer Price Index (YoY)	08-Aug	Jul	2.80%	3.10%	3.20%
South Korea	Date	Period	Prior	Cons.	Actual
Producer Price Index (YoY)	10-Aug	Jul	0.80%	--	--
Taiwan	Date	Period	Prior	Cons.	Actual
CPI YoY%	06-Aug	Jul	1.77%	1.95%	2.46%
Total Exports (YoY)	07-Aug	Jul	-3.20%	-7.70%	-11.60%

Indicator of the Week

China: Industrial output for July (August 9)

Forecast: 9.9% y/y

Consensus: 9.7% y/y

Prior: 9.5% y/y

With the government tuning up its stimulus measures to counter the economic slowdown, July industrial production will be watched for further signs of stabilization in the growth outlook. Manufacturing PMI released for July presented a mixed picture, showing a weak outlook for large enterprises but strengthening for SMEs. In line with our expectations of a gradual rebound in growth during the second half of the year, we expect industrial production to pick up slightly from the previous month, as the authorities' recent policy measures boost domestic demand. Similarly, we expect other indicators to be released during the coming week, including credit growth, to show similar trends. Markets will also be watching for data in the coming week on July inflation, retail sales, and investment.

Calendar Events

Australia - RBA Cash Target, August 7

We expected the benchmark rate to remain unchanged

Current	Consensus	New
3.50%	3.50%	3.50%

South Korea - 7-Day Repo Rate, August 9

We expected the benchmark rate to remain unchanged

Current	Consensus	New
3.00%	3.00%	3.00%

Japan - BOJ Target Rate, August 9

We expected the benchmark rate to remain unchanged

Current	Consensus	New
0.10%	0.10%	0.10%

Indonesia - Bank Indonesia Reference Rate, August 9

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.	2174.1	0.6	3.0	-1.2	-13.9
	Hong Kong - Hang Seng	20269.5	1.0	2.9	10.0	4.9
	Taiwan - Weighted	7433.7	1.6	2.3	5.1	-0.8
	Japan - Nikkei 225	8978.6	1.1	3.8	6.2	0.4
	Korea - Kospi	1940.6	2.0	3.8	6.3	7.7
	India - Sensex 30	17537.4	-0.4	1.8	13.5	4.0
	Australia - SPX/ASX 200	4308.3	-0.1	0.9	6.2	6.8
	Singapore - Strait Times	3052.3	-0.5	0.0	15.3	5.8
	Indonesia - Jakarta Comp	4131.2	1.0	0.9	8.1	10.6
	Thailand - SET	1215.7	0.1	1.2	18.6	16.6
	Malaysia - KLCI	1642.5	0.4	0.6	7.3	11.6
Philippines - Manila Comp.	5256.6	-1.0	-0.8	20.2	26.5	

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	0.03	0.13	6.36	6.42
	Hong Kong (HKD/USD)	7.76	-0.01	-0.03	7.75	7.75
	Taiwan (TWD/USD)	29.9	0.17	0.16	29.85	29.54
	Japan (JPY/USD)	78.53	-0.13	-0.37	78.46	78.09
	Korea (KRW/USD)	1125	0.25	0.55	1133	1144
	India (INR/USD)	55.2	0.32	1.08	56.18	58.59
	Australia (USD/AUD)	1.06	0.12	1.14	0.95	0.98
	Singapore (SGD/USD)	1.25	-0.01	0.26	1.25	1.24
	Indonesia (IDR/USD)	9478	0.01	-0.02	9553	9918
	Thailand (THB/USD)	31.5	0.00	0.48	31.65	32.05
	Malaysia (MYR/USD)	3.10	-0.08	0.71	3.12	3.15
Philippines (PHP/USD)	41.8	-0.10	0.11	41.80	42.05	

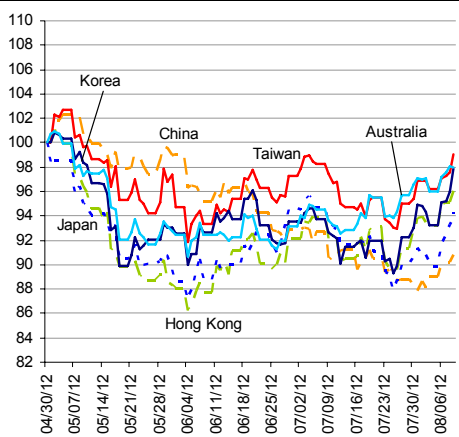
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.36	0.06	-0.04	0.02
	Hong Kong (HIBOR/1W)	0.13	0.00	0.00	-0.02
	Taiwan (TAIBOR/1W)	0.64	0.00	0.00	-0.03
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	3.03	0.00	0.00	-0.31
	India (MIBOR/7D)	3.81	0.56	0.20	0.45
	Singapore (SIBOR/1W)	0.25	0.00	-0.06	0.00
	Indonesia (JIBOR/1W)	4.20	0.01	0.01	0.04
	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)	0.75	-0.69	-0.88	-2.44

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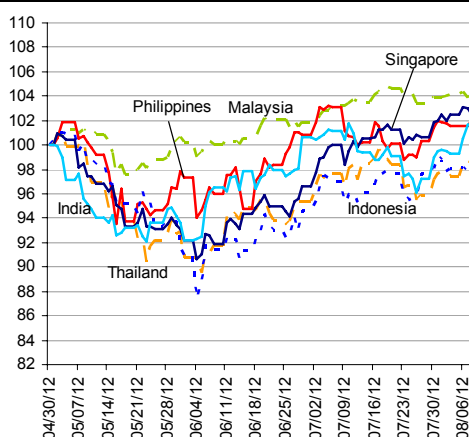
Charts

Chart 9
Stock Markets



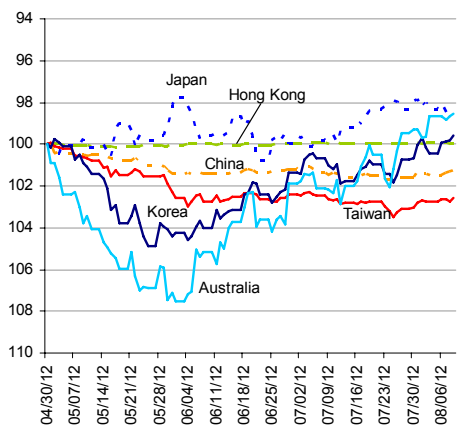
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



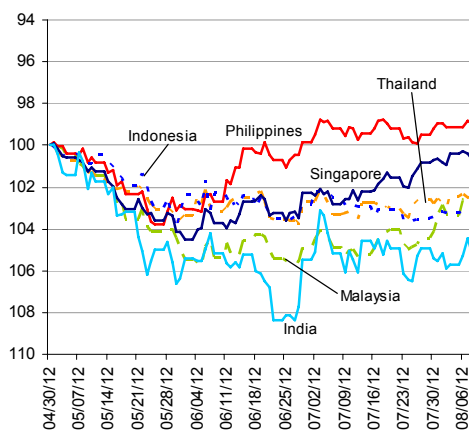
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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