

Asia Flash

Asia

China flash PMI shows further weakness, but bottom may be in sight

The HSBC flash manufacturing PMI for July declined to 47.7 against consensus expectations of no change from last month's reading (48.2). If the outturn stands after the final revision (to be released August 1, the same day as the more comprehensive official PMI), it would mark the lowest reading since September 2012. Today's flash estimate points to further weak manufacturing output. Nevertheless, on the positive side, new export orders improved to 47.7 from 44.9 in June. Looking ahead, we expect output to pick up an improvement in external demand and supportive government policies. Regarding the latter, the authorities are increasingly giving signs they will gauge policies in order to meet this year's 7.5% growth target, as indicated in widely published reports yesterday on Premier Li Keqiang's most recent remarks. In contrast to recent HSBC PMI outturns (which cover a smaller and more export-oriented set of firms), we expect the official NBS PMI to remain above 50.

Additional measures in India to curb currency volatility

The Reserve Bank of India (RBI), yesterday took additional steps to tighten liquidity and promote currency stability. The latest measures include an additional cap on banks' access to overnight liquidity from RBI's repo facility (at 7.25%) at 0.5% of individual bank deposits and tighter implementation of the daily cash reserve ratio on non-reporting days. The latest measures come on top of recent efforts to curb rupee volatility. After reaching a weak point of 60.7 per USD in late June, the rupee has strengthened to 59.1 at present. At its next policy meeting on July 30 we expect the RBI to keep interest rates on hold in view of recent currency volatility, despite easing inflation and slowing growth momentum.

Japan exports rise in June on further signs of economic improvement

Exports rose for a fourth consecutive month, by 7.4% y/y in June (consensus: 10.0%) on rising demand from the US, EU and China, boosted by competitive gains from the yen's weakness. Imports, meanwhile, rose by 11.8% y/y (consensus: 13.8%) from 10.1% in May, resulting in a trade deficit of USD 1.8 bn. Recent trade outturns have been watched as an indicator of the effectiveness of government steps to stimulate GDP growth ("Abenomics"). In this regard, yesterday's monthly economic assessment by the government was upbeat, noting "the economy is picking up steadily and shows some movements on the way to recovery." Optimism has also been boosted by the government's victory in last Sunday's upper house elections. While signs are positive, there is, however, still a long road ahead, as investment remains weak, doubts persist about the structural reform agenda, and the 2% inflation target will be difficult to achieve by early 2015 as planned.

Indonesia investment rises in second quarter

The Investment Coordinating Board (BKPM) reported yesterday that overall investment in the second quarter increased by 29.8% y/y. Foreign direct investment reached a record \$7.1 billion (15.0% y/y) for the quarter. While Indonesia's growth momentum is facing headwinds after an administered fuel price increase in June and recent interest rate hikes to dampen inflation (75bps in June and July), the FDI data show that investors remain optimistic about long-term growth prospects. We expect the economy to grow by 6.0% in 2013 and 6.5% in 2014.

Briefly noted:

Australia's Q2 inflation was in line with expectations, declining to 2.4% y/y (consensus: 2.5% y/y) from 2.5% in Q1, and underlying inflation (trimmed mean) was a bit above expectations at

2.6% (consensus: 2.4% y/y; prior: 2.6% y/y). With inflation still within the Reserve Bank of Australia's 2-3% target range, we expect another 25bp rate cut by the RBA on August 6th.

Taiwan's industrial output disappointed by falling for a fifth straight month (consensus: 2.8%; June: -0.4%). On a sequential basis, IP dipped by -1.4% m/m sa after stabilizing at +1.3% m/m sa the previous month.

Vietnam's inflation in July increased to 7.29% y/y (consensus: 7.10%) from 6.69% in June, the highest since May 2012. The State Bank of Vietnam has lowered interest rates 8 times since the beginning of 2012 by a cumulative 700 bps to revive the growth (2Q GDP: 5.0% y/y). An elevated price level may limit the scope for further rate cuts and we expect no change of benchmark rate by the end of this year.

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Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
Consumer Prices (QoQ)	24 Jul	2Q	0.40%	0.50%	0.40%
CPI YoY	24 Jul	2Q	2.50%	2.50%	2.40%
China	Date	Period	Prior	Cons.	Actual
HSBC Flash Manufacturing PMI	24 Jul	Jul	48.2	48.3	47.7
Hong Kong	Date	Period	Prior	Cons.	Actual
CPI - Composite Index (YoY)	22 Jul	Jun	3.90%	4.10%	4.10%
Trade Balance	25 Jul	Jun	-44.3B	-46.6B	--
Exports YoY%	25 Jul	Jun	-1.00%	2.20%	--
Imports YoY%	25 Jul	Jun	1.70%	2.30%	--
Japan	Date	Period	Prior	Cons.	Actual
Merchnds Trade Imports YoY	24 Jul	Jun	10.1	13.8	11.8
Merchnds Trade Exports YoY	24 Jul	Jun	10.1	10.0	7.4
Natl CPI YoY	26 Jul	Jun	-0.30%	0.10%	--
Tokyo CPI YoY	26 Jul	Jul	0.00%	0.20%	--
Philippines	Date	Period	Prior	Cons.	Actual
Total Imports (YoY)	25 Jul	May	7.40%	--	--
Trade Balance	25 Jul	May	-\$1020M	--	--
Singapore	Date	Period	Prior	Cons.	Actual
CPI YoY	23 Jul	Jun	1.60%	1.80%	1.80%
Industrial Production YoY	26 Jul	Jun	2.10%	-3.50%	--
South Korea	Date	Period	Prior	Cons.	Actual
GDP YoY	25 Jul	2Q P	1.50%	1.90%	--
GDP (QoQ)	25 Jul	2Q P	0.80%	0.80%	--
Taiwan	Date	Period	Prior	Cons.	Actual
Unemployment Rate - sa	22 Jul	Jun	4.19%	4.19%	4.17%
Export Orders (YoY)	22 Jul	Jun	-0.40%	0.60%	-3.50%
Commercial Sales (YoY)	23 Jul	Jun	-1.72%	-0.25%	-0.27%
Industrial Production (YoY)	23 Jul	Jun	-0.27%	2.81%	-0.43%
Thailand	Date	Period	Prior	Cons.	Actual
Customs Exports (YoY)	26 Jul	Jun	-5.25%	1.35%	--
Customs Imports (YoY)	26 Jul	Jun	-2.14%	8.35%	--
Vietnam	Date	Period	Prior	Cons.	Actual
CPI YoY	24 Jul	Jul	6.69%	7.10%	7.29%
Exports YTD (YoY)	25-31 JUL	Jul	16.10%	--	--
Industrial Production Index YoY	25-31 JUL	Jul	6.50%	--	--
Retail Sales YTD (YoY)	25-31 JUL	Jul	11.90%	--	--

Calendar Events

Philippines - Overnight Borrowing Rate, Jul 25
We expect the benchmark rate to remain unchanged

Current
3.50%

Cons.
3.50%

New
--

Indicator of the Week

South Korea: Q2 Preliminary GDP (July 25th)

Forecast: 2.0% y/y; 0.9% q/q

Consensus: 2.0% y/y; 0.8% q/q

Prior: 1.5% y/y; 0.8% q/q

We expect quarterly GDP growth, albeit still quite modest, to show a further improving trend for a second straight quarter. While private consumption has been weak due to the burden of high levels of household debt, recent export and investment trends have improved, along with a boost from the government's 1.3% of GDP fiscal stimulus package in April and an interest rate cut by the BoK in May (the first since October, bringing the policy rate to 2.5%). Nevertheless, we remain cautious due to headwinds from slowing growth in China, Korea's largest export market, some loss of competitiveness from the depreciating Yen, and volatile capital flows due to QE tapering. Our full-year GDP projection stands at 2.7% for 2013, up from the outturn of 2.0% in 2012, but is subject to downside risks.

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.	2033.3	-0.5	-0.6	-10.4	-5.3
Hong Kong - Hang Seng	21968.9	0.2	2.8	-3.0	16.2	
Taiwan - Weighted	8196.2	-0.2	-0.8	6.5	16.9	
Japan - Nikkei 225	14731.3	-0.3	0.8	41.7	73.6	
Korea - Kospi	1912.1	0.4	1.3	-4.3	6.6	
India - Sensex 30	20116.5	-0.9	0.8	3.6	18.9	
Australia - SPX/ASX 200	5035.1	0.4	1.1	8.3	21.8	
Singapore - Strait Times	3274.8	0.6	2.1	3.4	9.2	
Indonesia - Jakarta Comp	4718.1	-1.0	0.8	9.3	18.2	
Thailand - SET	1501.4	-0.8	3.4	7.9	26.4	
Malaysia - KLCI	1810.0	0.3	1.2	7.2	10.9	
Philippines - Manila Comp.	6804.2	0.9	3.5	17.1	31.9	

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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)	6.14	0.02	-0.01	6.20	6.27
Hong Kong (HKD/USD)	7.76	0.01	0.00	7.75	7.75	
Taiwan (TWD/USD)	29.9	-0.05	-0.12	29.90	29.80	
Japan (JPY/USD)	100.05	-0.62	-0.46	100.00	99.69	
Korea (KRW/USD)	1113	0.39	0.79	1119	1128	
India (INR/USD)	59.1	1.08	0.38	60.45	63.97	
Australia (USD/AUD)	0.92	-0.86	-0.23	1.09	1.11	
Singapore (SGD/USD)	1.27	-0.22	-0.42	1.27	1.27	
Indonesia (IDR/USD)	10263	-0.61	-2.12	10707	11392	
Thailand (THB/USD)	31.0	-0.03	0.06	31.10	31.47	
Malaysia (MYR/USD)	3.19	-0.34	0.09	3.19	3.24	
Philippines (PHP/USD)	43.3	-0.18	0.11	43.27	43.48	

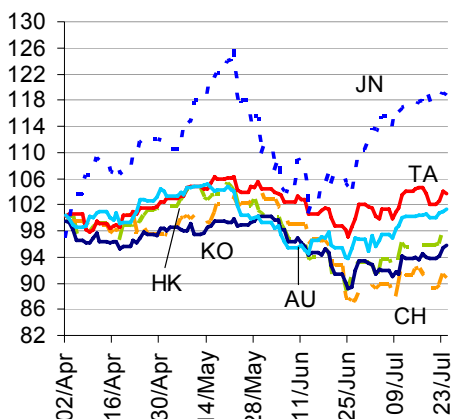
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	4.02	0.07	0.27	-3.08
Hong Kong (HIBOR/1W)	0.12	0.00	0.00	0.01	
Taiwan (TAIBOR/1W)	0.53	0.00	0.00	-0.01	
Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01	
Korea (KORIBOR/1M)	2.56	0.00	0.00	-0.02	
India (MIBOR/7D)	6.00	2.02	2.30	-4.40	
Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00	
Indonesia (JIBOR/1W)	5.17	0.00	0.02	0.61	
Thailand (BIBOR/1W)	2.77	0.00	0.00	0.00	
Malaysia (KLIBOR/1W)	2.90	0.00	0.00	0.00	
Philippines (PHIBOR/1W)	1.25	0.00	-0.31	0.31	

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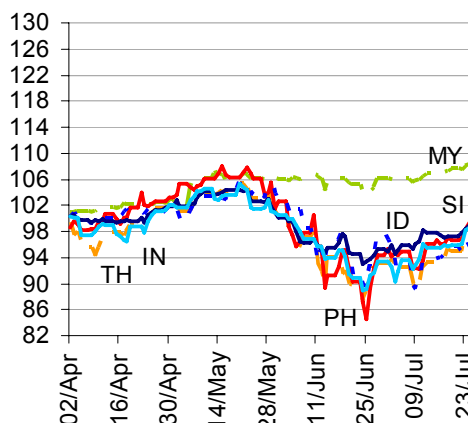
Charts

Chart 1
Stock Markets



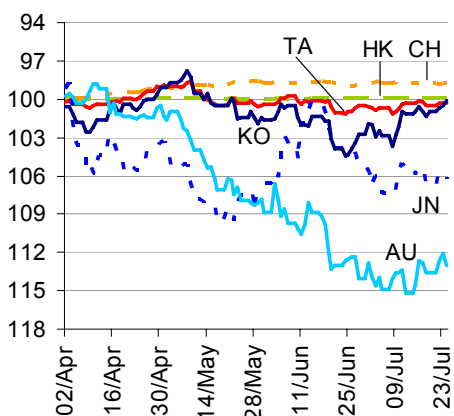
Source: BBVA Research and Bloomberg

Chart 2
Stock Markets



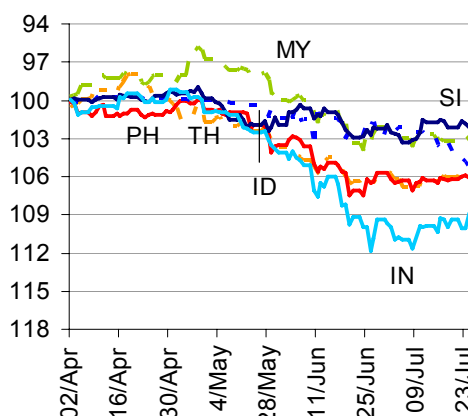
Source: BBVA Research and Bloomberg

Chart 3
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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