Bloomberg BRIEF

Economics Asia

NEWS, ANALYSIS AND COMMENTARY

THURSDAY 07.31.14

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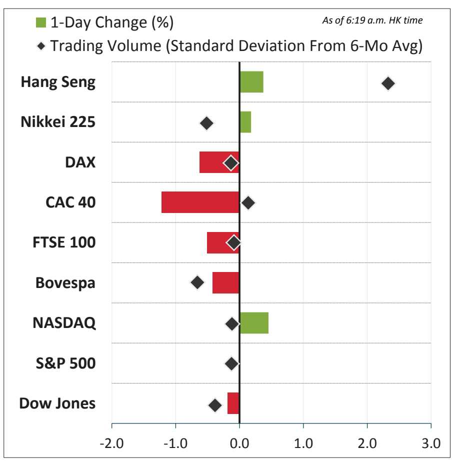
QUOTE OF THE DAY

On China's financial risks: "When one channel fills up and investors become anxious about the associated risks, the risk bounces to another channel. . . . There's every incentive to make bad loans and no incentive to write them off."

— Anne Stevenson-Yang, co-founder of J Capital Research

EQUITY MARKET



CALENDAR (HONG KONG TIME)

	TIME	EVENT	SURVEY	PRIOR
TA	8:30	GDP YoY	3.2%	3.14%
AU	9:30	Building Approvals MoM	0%	9.9%
SI	10:00	Unemployment Rate SA	2%	2%
NZ	11:00	Money Supply M3 YoY	—	5.2%
JN	13:00	Housing Starts YoY	-11.5%	-15%
TH	15:30	Exports YoY	—	-1.2%
TH	15:30	BoP Current Acc Balance	$70M	-$664M
TH	15:30	Business Sentiment Index	—	48.6
PH	16:00	BSP O/night Borrow Rate	3.75%	3.5%
HK	16:30	Retail Sales Value YoY	-4.9%	-4.1%

BCAL<GO>

ONE ON ONE

Cheng Li, an authority on China's leadership, talks to Tom Orlik about the investigation of Zhou Yongkang. (See page 9.)

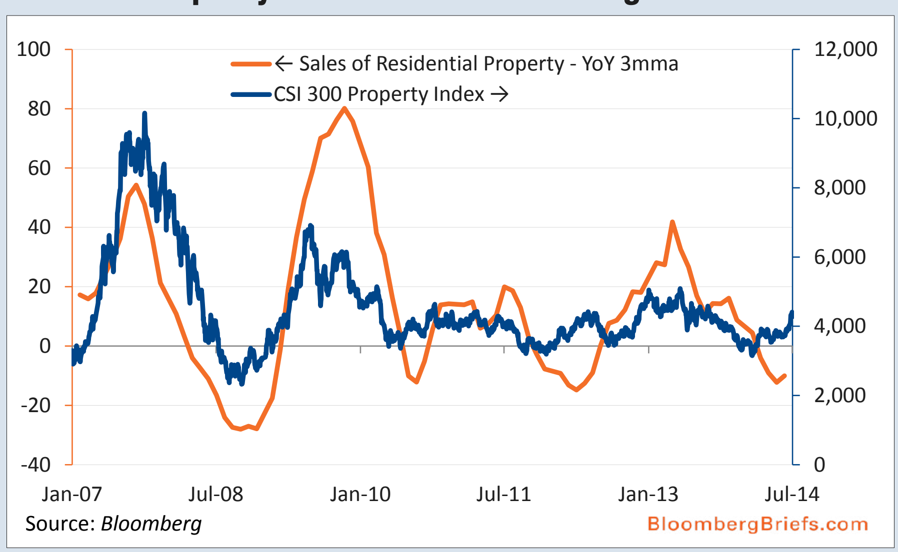
Taper, Philippine Rates, Taiwan GDP, Snapchat

ASIA DAYBOOK:
Taylor Riggs

- **WHAT TO WATCH:** The **U.S. Federal Reserve** tapered monthly bond buying to $25 billion in their sixth consecutive $10-billion cut, staying on pace to end the purchase program in October. The **Philippine central bank** may raise its overnight borrowing rate to 3.75 percent, 4 p.m. (See page 5.) **Taiwan GDP** may expand 3.2 percent year over year in the second quarter, analysts forecast, 8:30 a.m. **Singapore's unemployment rate** will probably hold flat at 2 percent, 10 a.m.
- **ECONOMICS: BOJ's Takahide Kiuchi** speaks with business leaders in Hyogo then holds a press conference, 9:30 a.m. **Australia building approvals** and **private sector credit**, 9:30 a.m. **Japan vehicle production**, 10:30 a.m. **New Zealand money supply M3**, 11 a.m. **Japan housing starts**, 1 p.m. **Thai trade balance**, 3:30 p.m. **Hong Kong retail sales**, 4:30 p.m. **Sri Lanka CPI**, 5:30 p.m. **Macau trade. Philippine bank lending.**
- **GOVERNMENT:** U.S. Secretary of State **John Kerry** travels to **India** for an annual strategic dialogue. Japanese Foreign Minister **Fumio Kishida** travels to **Vietnam**. **China** will stop classifying its people as urban or rural residents as it relaxes its hukou system.
- **COMPANIES: Snapchat** is reportedly in talks with investors including **Alibaba** for a round of financing that may value the company at $10 billion.

(All times are in local time for Hong Kong.)

China's Property Stocks Point to Stronger Second Half



Stock prices in China's bellwether property sector are pointing to a stronger second half, with the CSI 300 Real Estate Index up 20 percent from its mid-May low. In 2008 and 2012, a turnaround in property stocks heralded an improvement in real estate sales and construction. A repeat performance in the second half would buoy growth toward the government's 7.5 percent target.

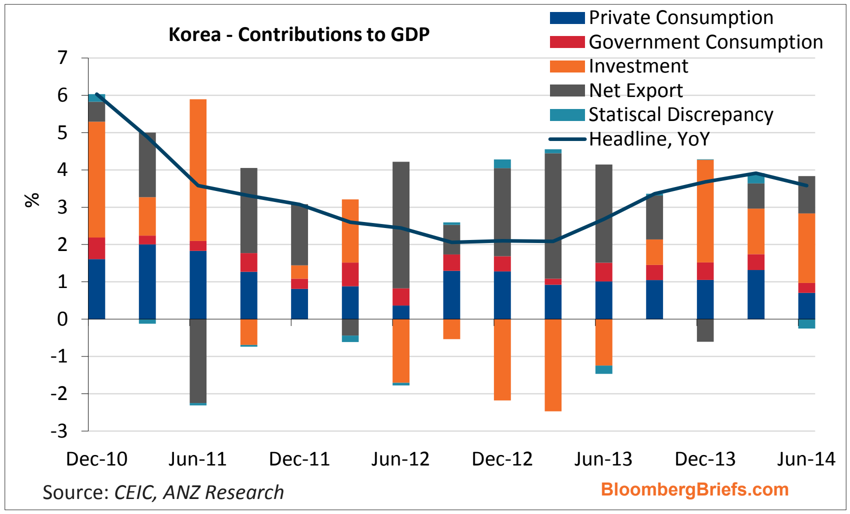
— Tom Orlik, Bloomberg Economist

BIG PICTURE

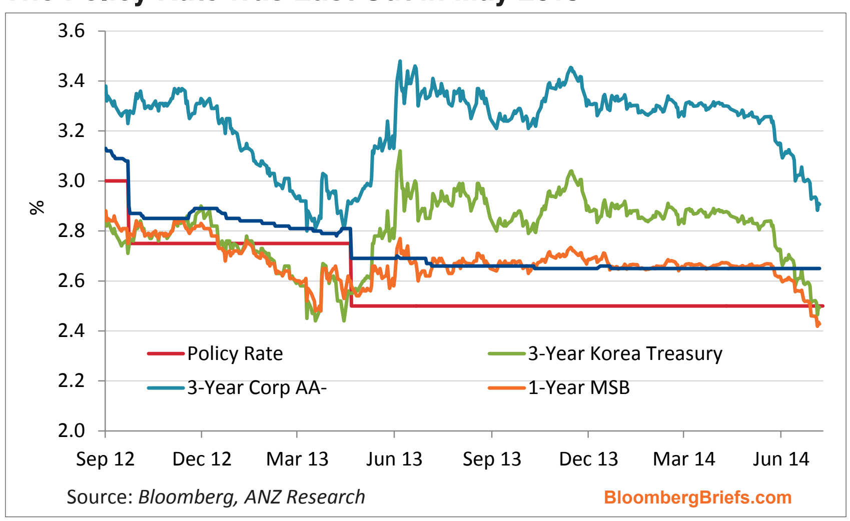
GUEST COMMENTARY BY RAYMOND YEUNG, AUSTRALIA & NEW ZEALAND BANKING GROUP

Korea May Cut Rate on Political Reality

Private Consumption Declined in 2Q



The Policy Rate Was Last Cut in May 2013



All of a sudden, many economists have changed their view on the Bank of Korea's policy interest rate. In July's Monetary Policy Committee meeting, all forecasters correctly predicted the rate would stay at 2.5 percent. However, with one MPC member dissenting from the previously unanimous decision and Governor Lee Ju-yeol regretting his optimistic view on the economy he held in April, more economists began to believe the BOK will cut the policy rate by 25 basis points as early as August.

There is nothing more explicit than what recently leaked from the lips of Governor Lee: "you can signal a move 23 months prior, but if something unexpected happens in even a month's time, that could change policy." The last rate cut was in May 2013. While we do not see that economic fundamentals have worsened to an extent that warrants a shift in Korea's monetary policy, we believe there is now a 50 percent chance the central bank will succumb to political reality and cut rates.

The Korean economy was still expanding at the decent pace of 3.6 percent year on year in the second quarter of 2014. Although it was lower than the 3.9 percent in the first quarter and market expectations of 3.7 percent, for an advanced economy the growth number should be considered robust. Unsurprisingly, private consumption declined from the first quarter's 0.2 percent quarter on quarter to the second quarter's minus 0.3 percent as the Sewol ferry disaster dampened spending appetites. But facilities investments turned positive and grew 1.3 percent quarter on quarter. With a trade surplus rising to $5.5 billion in June, in our view, economic data alone can hardly justify the claim that the economy will backslide from the recovery path.

The BOK is under pressure to act in light of the appointment of new finance minister Choi Hyung-hwan who has been asked by President Park Geun-hye to boost the country's economic sentiment. Similar to the pump-priming by Choi's predecessor Hyun Oh-Seok before May's rate cut last year, the so-called "Choinomics" also involves an additional spending of 11.7 trillion won and an extra 29 trillion won for policy financing. In principle, the central bank's decision should be made independently. The reality is that Korea's collectivist culture will still favor an amenable action. The newly appointed Choi-Lee team is expected to work together much like the way Prime Minister Shinzo Abe and Bank of Japan Governor Haruhiko Kuroda do.

Cutting the policy rate will not address Korea's structural economic issues. Low birth rate and a shrinking work force have clouded the real estate outlook. Mounting household debts of 1,025 trillion won continue to rise. Without resolving the household leverage problem, it's hard to vitalize private consumption.

Another issue is inflation. Price pressure remains moderate, but the CPI headline rate is 0.5 percentage point higher than at the same period last year. Although June's 1.7 percent has yet to enter the BOK's target band of 2.5 to 3.5 percent, the risk is probably tilted to the upside. This is the main reason for the BOK to avoid broad-based easing.

Our policy preference is for Korea to increase rates in the second quarter of 2015, with the Fed normalizing interest rates next year.

Raymond Yeung is a senior economist at Australia & New Zealand Banking Group Ltd. in Hong Kong.

CHINA ECONOMICS ROUNTABLE

TOM ORLIK AND FIELDING CHEN, BLOOMBERG ECONOMISTS

Second Half Rebound Seems Assured, Outlook for 2015 Less Clear

On July 21, Bloomberg Economics hosted a seminar in Hong Kong with leading China economists. This is an edited summary of the main points from their discussion on the outlook for China.

China's 7-to-8 Percent Growth Is Sustainable for Next 20 Years

LIAO QUN, CHIEF ECONOMIST AND GENERAL MANAGER OF RESEARCH DEPARTMENT, CITIC BANK INTERNATIONAL

China's economy will rebound in the second half. I am more optimistic than the others. I expect third quarter growth to be 7.6 percent and fourth quarter GDP to be 7.8 percent. So 7.7 for the second half and 7.6 for 2014, which is already higher than the government target.

In the long-term, China can maintain 7 percent to 8 percent growth in the coming 20 years, because China is still a developing country and per capita GDP is still below $10,000. There's a long way to go to catch up with the U.S., and I believe that China will catch up. It will take a long time — 20, 30, even 50 years — for China to catch up with the average level of developed countries.

Pessimists talk about constraints like the demographic shift. In my view, the aging population issue may be exaggerated. There is abundant rural labor to migrate to the urban area.

China Has Rare Opportunity to Tolerate Slower Growth, Promote Reform Agenda

SHUANG DING, SENIOR CHINA ECONOMIST, CITIGROUP INC.

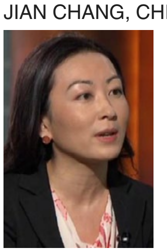
There will be a moderate rebound in the second half. Liquidity and monetary conditions have become more accommodative and is likely to have more positive impact. Combined with robust exports, that should offset the downside from the property sector. Property weakness — reflected in negative new starts — will take some time to affect overall investment.

After the mild rebound there will be another downturn in growth next year. This is a rare opportunity for China to tolerate slower growth and boost reform.

External conditions are quite resilient. The U.S. recovery is on track. The euro zone is still weak, but at least this year we expect positive growth. China's employment is also very stable. Hopefully the government can lower the growth target next year to 7 percent.

Broad-Based Rate Cut, Not Targeted Measures, Required

JIAN CHANG, CHIEF CHINA ECONOMIST, BARCLAY'S CAPITAL ASIA LTD.



My growth forecast is 7.4 percent for this year and 6.9 percent next year. The government has been announcing stimulus to stabilize growth, but there is a limit to how much it could do. In my view, potential growth is at the lower end of the 7-to-8 percent range, and I think China's new normal during the cyclical and structural adjustment period is "no pain no gain."

On the property sector, we expect the current correction to continue into 2015. Structurally, the good years for China's property market have already passed.

Urbanization and relaxing the Hukou will not be able to resolve the significant oversupply and overinvestment in many lower-tier cities. June sales were stronger, so there are positive signs for the second half, but that is unlikely to change the picture in the medium term.

On monetary policy, the People's Bank of China is resisting broad-based easing or cutting the reserve requirement ratio. Financing costs remain elevated for both official and unofficial sectors. That is a big constraint on growth and adds to debt burden and financial risks. The central bank should work toward lowering financial costs. Targeted measures seem to be what the government is trying to promote. In my view, a broad-based interest rate cut is probably a better policy for China's deleveraging.

Real Estate, Trade Dominate Second Half Outlook

TOM ORLIK, BLOOMBERG ECONOMIST

China's first quarter growth was off target, which prompted a concerted response from the government. From May, we saw easing across monetary, fiscal and real estate policy. That was effective, and a combination of stronger lending, accelerated public spending and a pause in declining home sales pushed the economy back on track in the second quarter.

The main questions for the second half of the year are what will happen to exports and to real estate.

The headline data for exports look encouraging, with an acceleration to 7 percent growth in May and June from zero growth at the start of the year. In fact, taking account of distortions from last years' inflated sales, growth is probably stable around mid-single digits. Concerns that global demand will soften mean risks for exports are on the downside.

On real estate, in the medium term it's hard to be optimistic. Supply is already outstripping genuine demand, and a more diverse financial system is offering households other investment choices — eating into speculative demand. In the short term though, accelerating credit growth and removal of house purchases restrictions should help put a line under falling sales and construction. That acceleration in credit should be enough to take the government close to its 7.5 percent GDP growth target for the year, though at the expense of adding to stresses in the financial system.

FX TECHNICALS

TAMARA HENDERSON, BLOOMBERG ECONOMIST

Near-Term Technicals Favor the AUD and IDR

TICKER	LAST PRICE	RANK OVERALL	TECHNICAL SIGNAL								
			ADX	BOLLINGER BAND	DMI 14	MACD	RSI 9	STOCHASTICS	50-DAY SMA	200-DAY SMA	50D VS 200D SMA
USDMYR	3.1825	1.2	range		sell	buy			3.202	3.245	-1.3%
AUDUSD	0.9325	0.9		buy	sell	sell			0.936	0.919	1.9%
USDKRW	1024.4	0.2	trending		buy				1020	1048	-2.7%
USDSGD	1.2441	0.1			buy	buy			1.248	1.257	-0.7%
USDJPY	102.82	0.1	range	sell	buy	buy	sell	sell	101.9	102.1	-0.2%
USDCNH	6.1739	0.0	trending	buy	sell	sell	buy		6.218	6.144	1.2%
USDINR	60.0575	0.0			buy	sell			59.73	61.08	-2.2%
USDPHP	43.405	0.0			sell	buy			43.64	44.20	-1.3%
USDTWD	29.982	0.0			buy				30.00	30.04	-0.1%
USDTHB	31.95	0.0	strong trend		sell	buy			32.338	deadcross	0.0%
EURUSD	1.3397	-0.2	trending		sell	sell	buy	buy	1.357	1.367	-0.7%
USDIDR	11578	-1.0			sell	sell			11739	11690	0.4%
NZDUSD	0.8486	-1.6	trending		sell	sell	buy		0.864	0.845	2.2%

Click here to view dynamic weights and the best performing rules.

Source: Bloomberg Updated: 6:13 a.m. Hong Kong time.

- Six popular technical trading rules, weighted by performance during the last month, favor the **AUD** and **IDR** against the **NZD**, **MYR** and **USD**.
- Bollinger Bands signal buying in **AUDUSD**; this rule has earned 1.9 percent since June 30.
- DMI and MACD suggest selling **NZDUSD**; together these rules have earned a cumulative 5.8 percent in the last 31 days.

NOTE: Technical signals are aggregated using weights based on daily "performance" over the last one month. Performance is assessed based on the trading rule's 1-month return, Sortino Ratio and "win" rate. The return must be above 2 percent; the Sortino Ratio must be above 0.25; and the win rate must exceed 66 percent. Hover mouse over columns for **TECHNICAL NOTES**, including the triggers for "buy" and "sell" signals. (Open in browser: *http://bit.ly/technical_notes.*). To re-create or customize this table: ***XLTP Historical Technical Analysis Screener <GO>***. Click "Open" to download into Excel.

WORD CHOICE

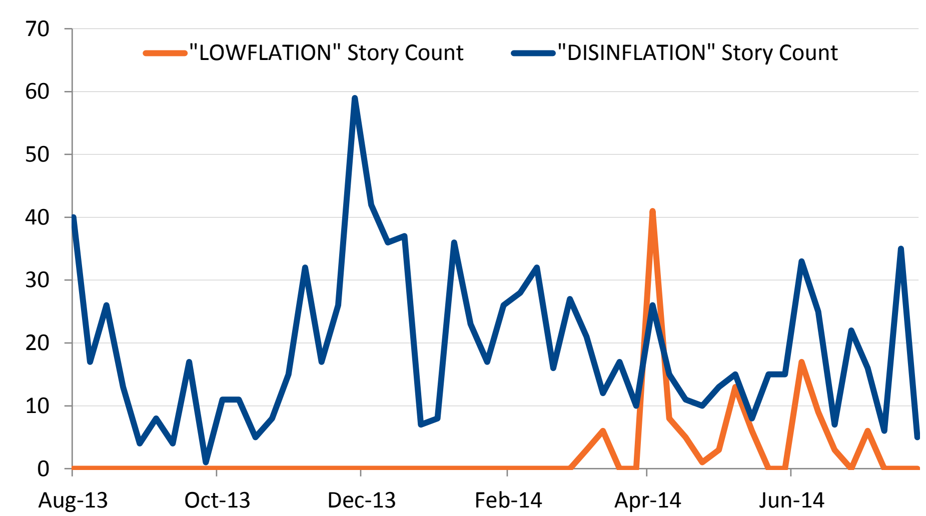
JENNIFER ROSSA, BLOOMBERG BRIEF EDITOR

'Lowflation' Gains Ground After IMF Reference

The term "lowflation" has been catching on as a way to describe Europe's persistent low price growth. In its current incarnation, the word appears to trace to an International Monetary Fund post (*http://bit.ly/1q4lurf*) from March 4 describing the perils of very low inflation. Since then, "lowflation" has been picked up and used widely by others, including Silvio Contessi, an economist at the St. Louis Fed, who wrote that the euro area is not the only region facing this challenge (*http://bit.ly/1qmVWoQ*).

But the IMF did not coin the phrase. In 1984, a New York Times article contained the following: "Indeed, the concept of a lower rate of inflation has become so accepted that analysts at Prudential-Bache Securities Inc. in New York no longer refer to disinflation. "We've come up with a new label — 'lowflation,'" said Greg A. Smith, director of research." The article goes on to say that Prudential-Bache was predicting the consumer price index would advance "only" 4 percent in 1985. How times have changed.

New Phrase Picks Up Speed in Second Half



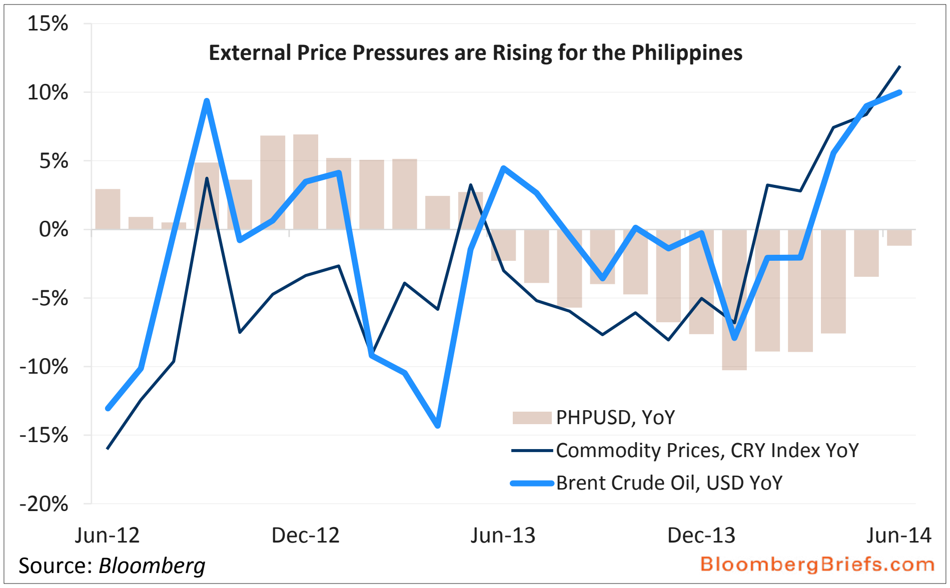
Source: *Bloomberg* NT <GO> BloombergBriefs.com

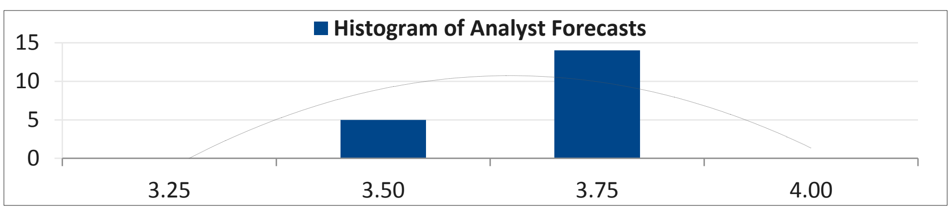
INSIDE THE CONSENSUS

TAMARA HENDERSON, BLOOMBERG ECONOMIST

Analysts See the Philippine Central Bank Raising Rates

The Philippine central bank may raise its benchmark interest rate by 25 basis points, according to the median estimate in a Bloomberg poll. Three-fourths of the surveyed economists expect this outcome. Last month, the Bangko Sentral ng Pilipinas increased the rate on special deposit accounts by 25 basis points and BSP Governor Amando Tetangco said a favorable interest-rate differential and strong fundamentals might spur capital flows and create asset bubbles. The reserve ratio has been raised twice this year.





TOP RANKED ECONOMISTS FOR PHILIPPINE OVERNIGHT BORROWING RATE

RANK	ANALYST	FIRM	FORECAST	AS OF	DIFFERENCE
1	Gareth Leather	Capital Economics	3.75	7/28/14	0.0
3	Jeff Ng	Standard Chartered Bank	3.75	7/25/14	0.0

MOST RECENT FORECASTS

ANALYST	FIRM	FORECAST	AS OF	DIFFERENCE
Dariusz Kowalczyk	Credit Agricole CIB	3.75	7/28/14	0.0
Euben Paracuelles	Nomura Singapore Ltd	3.75	7/28/14	0.0
Ryan Brecht	Action Economics	3.75	7/28/14	0.0
Bernard Aw	Forecast Pte Ltd	3.75	7/25/14	0.0
Edward Teather	UBS	3.75	7/25/14	0.0
Trinh Nguyen	HSBC	3.75	7/25/14	0.0
Emilio Neri	Bank of the Philippine Islands	3.75	7/24/14	0.0
Gundy Cahyadi	DBS Bank	3.50	7/24/14	-0.25
Median	Number of Economists: 12	23.3		
High Toru Nishihama	Dai-Ichi Life Research Inst	3.75	7/24/14	0
Low Michael Wan	Credit Suisse AG	3.50	7/24/14	-0.25

Source: *Bloomberg*

MARKET CALLS

- **Geoffrey Yu**, a senior currency strategist at **UBS**, said New Zealand's overvalued dollar is at risk of further declines after its central bank warned that the currency's level is "unjustified." "There could still be a long way to go," he said. The central bank's caution on the exchange rate "sounds like an intervention warning to the market."

- **TD Securities** predicts New Zealand's dollar will drop to 80 U.S. cents by the end of this year. "The RBNZ was a lot more vocal on where they think the kiwi dollar should be going," said **Prashant Newnaha**, a macro strategist. "Inflationary pressures are still there, but they remain relatively well under control and the RBNZ is not going to be taking as hawkish a view."

- **HSBC** forecasts the AUD will fall to 1 against the NZD amid an eventual widening of Australia and New Zealand's interest-rate gap. Traders will be looking for opportunities to sell the Aussie versus the kiwi "once it becomes clear that the RBNZ's rate hike story is very much intact," said **Paul Mackel**, head of Asian currency research.

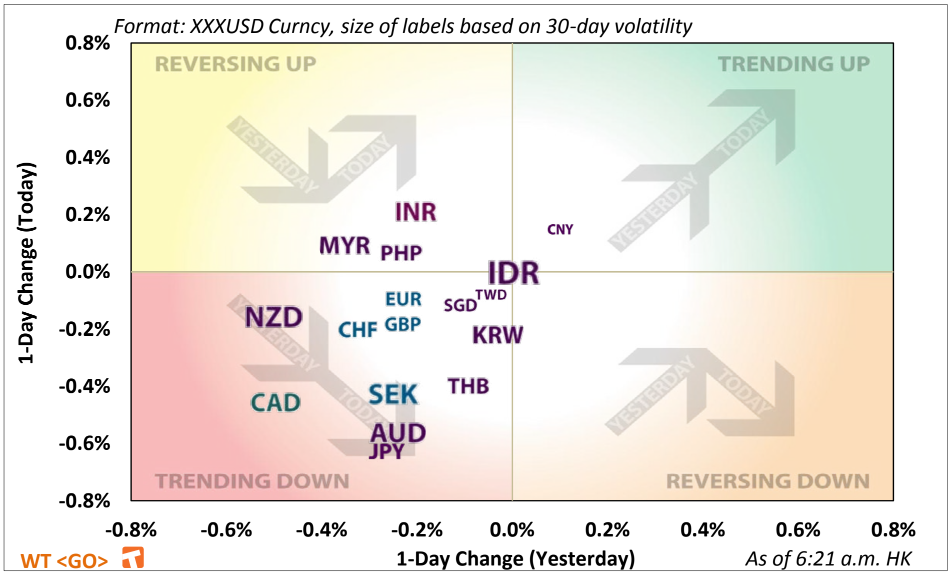
- **Goldman Sachs** cut its outlook on Japan's 10-year government bond yield by 25 basis points to 0.75 percent this year and to 1 percent by the end of 2015, according to **Silvia Ardagna**, a managing director.

- **Adrian Mowat**, chief Asia and emerging-market strategist at **JPMorgan Chase**, raised his rating on Chinese stocks to neutral from underweight and said shares will rally through October. He recommends buying "high beta" stocks including brokerages and property companies with low valuations, along with construction and railroad companies. "Our China model portfolio is structured for a bull market, he said.

OVERNIGHT

BLOOMBERG NEWS

CURRENCIES



Americas

- **U.S. GDP** rose at a 4 percent annualized rate from April through June after shrinking 2.1 percent in the first quarter, Commerce Department figures showed. The first-quarter reading was revised up to negative 2.1 percent from a previously reported 2.9 percent rate of contraction.
- **U.S. companies added 218,000 workers** in July, exceeding the average for the year, the ADP Research Institute said. The gain this month followed a 281,000 increase in June that was the strongest since November 2012.
- The U.S. **Mortgage Bankers Association's index** dropped 2.2 percent in the period ended July 25, the fifth drop in seven weeks, after rising 2.4 percent in the prior period.
- **Former Fed Chairman Alan Greenspan** said equity markets will see a decline at some point after surging for the past several years. "The stock market has recovered so sharply for so long, you have to assume somewhere along the line we will get a significant correction," he said.
- **Canada's June industrial product prices** fell 0.1 percent month over month, short of estimates of a 0.2 percent gain.
- **Mexico** reported a 246.5 billion peso budget deficit through June, the finance ministry said. Non-oil tax revenue rose 7.3 percent year over year. Oil tax revenue in the first half fell 2.7 percent year over year.
- **Chile's June manufacturing output** fell 0.7 percent year over year versus estimates of a 1 percent increase.

Europe

- **German inflation**, calculated using a harmonized European Union method, slowed to 0.8 percent in July from 1 percent in June, coming in line with expectations. Prices rose 0.3 percent on the month.
- **Ukraine's economy shrank** more than analysts predicted. GDP contracted 4.7 percent from a year earlier in the second quarter, the biggest decline since 2009.
- **Belgium's economy** expanded 0.1 percent quarter over quarter in the second quarter, after expanding 0.4 percent in the first quarter. GDP rose 1 percent year over year in the second quarter.
- **Russia consumer prices** rose 5.4 percent year to date through July 28 and were unchanged for the week.
- **Russia's central bank** said it's ready to help lenders targeted by the U.S. and Europe in their latest round of sanctions.

AROUND THE CLOCK

(All times are Hong Kong time.)

Europe

2 p.m. **Germany** releases data for retail sales in June. Sales fell 0.6 percent in May from April, when they dropped 1.5 percent.

2:45 p.m. **France** reports consumer spending for June. Spending climbed 1 percent in May from April, when it fell 0.2 percent.

3:55 p.m. **Germany** releases jobless data for July. Unemployment unexpectedly increased in June for a second month amid signs of a slowdown in Europe's largest economy.

5 p.m. The European Union's statistics office publishes **consumer prices for the euro area** in July and **jobless data** in June. The inflation rate held steady at 0.5 percent in June, as weak energy and food costs continued to subdue prices. The unemployment rate was unchanged at 11.6 percent in May as the currency bloc struggled to shake off the legacy of the debt crisis.

7 p.m. The **Czech central bank** will probably hold its benchmark interest rate at what it calls the "technical zero" of 0.05 percent and maintain a limit on koruna gains, according to a Bloomberg survey.

10 p.m. The **International Grains Council** in London publishes its monthly supply and demand report for corn, wheat, soybeans and rice.

Americas

8:30 p.m. The **U.S.** reports jobless claims for the week ended July 26. Claims fell by 19,000 to 284,000 in the week ended July 19.

10:30 p.m. The **U.S. Energy Information Administration** releases its weekly natural gas supply report.

OUTSIDE ASIA

NIRAJ SHAH, BLOOMBERG ECONOMIST

Record-Low European Yields May Highlight Deflation Risk

Record-low bond yields in the euro area may underscore deflation concerns as borrowing costs in core countries drop closer toward levels seen in Japan.

Bond yields in at least nine euro-area nations closed at new lows July 29, including in Germany, France, Italy and Spain. The four account for 76.9 percent of euro-area output and have combined government debt of 5.42 trillion euros.

Germany's 10-year yield closed at 1.12 percent July 29, according to data compiled by Bloomberg dating back to 1989. The yield has almost halved since Jan. 1.

While rising geopolitical risk may be drawing investors to the haven of German bonds, yields may be falling mainly because of growing investor expectations that the European Central Bank will be forced to take further action to stave off deflation and boost growth. Ten-year bond yields from Austria to the Netherlands slid to record lows. The French 10-yield closed at 1.505 percent July 29. Eight euro-area nations had yields below those of equivalent U.S. bonds.

Some investors may also be betting sanctions introduced against Russia increase the chances of the ECB introducing more measures as the growth outlook worsens. The European Commission estimates that sanctions will cut European GDP by 0.3 percentage point this year and 0.4 percentage point next year.

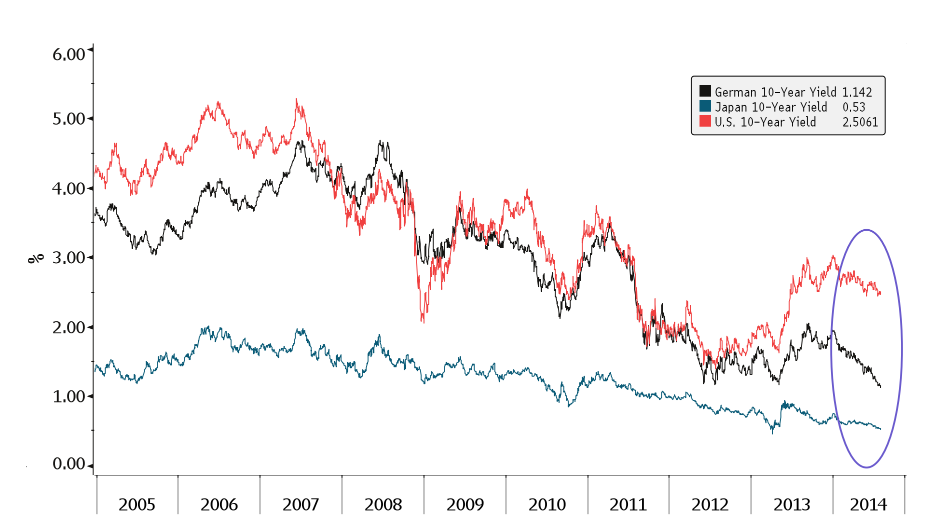
Yields in peripheral nations have drifted lower since July 26, 2012, when ECB President Mario Draghi pledged to do whatever it takes to defend the euro. Spain's 10-year closed near the U.S. equivalent at 2.47 percent July 29, having peaked at 7.75 percent on July 25, 2012. Only yields in Greece and Portugal crept higher July 29, highlighting greater perceived risks by investors in those countries.

Yet real yields in peripheral nations did not drop as much as the nominal values suggest. Last June, 10-year Spanish bonds ended the month at 4.76 percent and an inflation rate of 2.2 percent, compared with a yield of 2.47 percent July 29 and a June inflation rate of zero percent. That leaves a nine basis point difference in the real yield, accounting for the lower inflation rate.

Forty-five percent of economists expect euro-area consumer-price inflation to have decelerated below 0.5 percent in July, according to a Bloomberg survey. The region's economy is projected to grow by 1.16 percent this year compared with 2.77 percent in the U.S., according to the IMF.

While the spread between 10-year German and U.S. bonds widened to 134.7 basis points from 109.9 basis points at the start of the year, the spread between 10-year German and Japanese bonds narrowed to a record low of 59.6 basis points from 118.8 basis points in the same period. European yields may be passing the disinflation stage and edging toward levels that have been associated with deflation in Japan.

German Yield Moves Closer to Japan's



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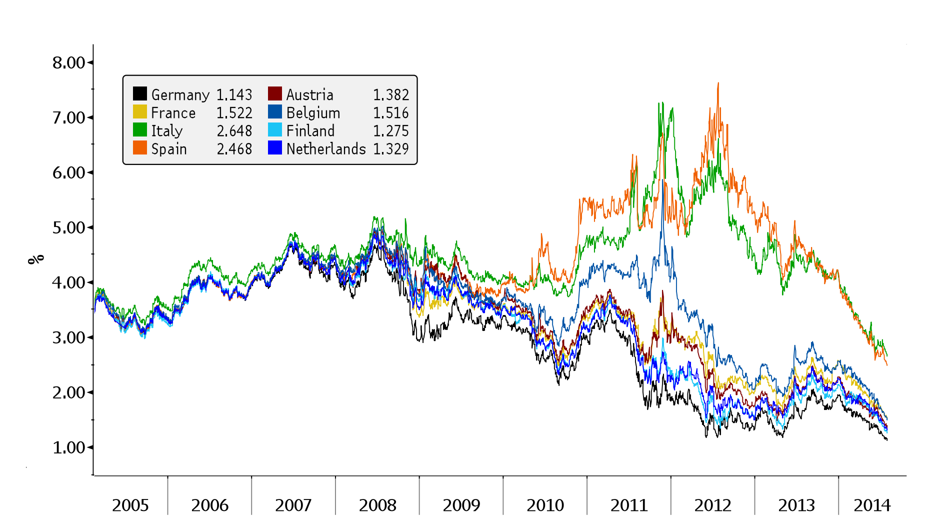
European Bond Yields Slip to New Lows



Source: Bloomberg ECWB P 53D8CB450F1C0036<GO> BloombergBriefs.com

MARKET INDICATORS

TICKER	COUNTRY	LAST PRICE	1D %Chg	YoY %Chg	52W Min	52W Max	FORW. PE 12M
ASIA/PACIFIC							
MXAU Index	Australia	1144.15	0.2%	10.7%	1,025	1144	14.2
MXCN Index	China	66.15	0.5%	16.0%	56	66	8.8
MXHK Index	Hong Kong	13262.67	0.6%	15.6%	11,129	13263	14.7
MXID Index	Indonesia	6043.06	-0.4%	12.8%	4,487	6126	14.0
MXIN Index	India	980.97	0.4%	29.2%	699	986	16.4
MXJP Index	Japan	792.98	0.2%	11.4%	685	808	13.9
MXKR Index	Korea	608.42	1.2%	11.5%	530	608	9.3
MXMY Index	Malaysia	663.05	0.0%	1.6%	603	669	15.3
MXPH Index	Philippines	1168.30	0.1%	3.2%	941	1193	18.4
MXSG Index	Singapore	1793.54	0.0%	4.3%	1,579	1794	na
MXLK Index	Sri Lanka	720.57	0.0%	1.3%	598	736	na
TAMSCI Index	Taiwan	341.35	0.6%	18.8%	275	348	na
MXTH Index	Thailand	524.76	0.1%	3.0%	432	536	12.9
MXVI Index	Vietnam	611.16	-1.0%	15.1%	509	662	na
AMERICAS							
MXUS Index	U.S	1884.51	0.0%	17.0%	1,560	1901	16.0
MXBR Index	Brazil	2497.90	-1.4%	15.0%	1,916	2587	10.1
MXMX Index	Mexico	7252.79	-1.0%	8.2%	6,159	7372	17.6
MIDDLE EAST & AFRICA							
MXZA Index	South Africa	1275.04	-1.1%	27.5%	1,009	1289	14.4
EUROPE (Euro Area)							
MXAT Index	Austria	104.53	-0.2%	-3.9%	105	127	11.3
MXBE Index	Belgium	78.47	-0.8%	19.4%	68	81	17.0
MXFI Index	Finland	103.87	-0.5%	32.5%	79	105	16.0
MXFR index	France	121.00	-1.1%	8.8%	110	129	13.8
MXDE Index	Germany	127.88	-0.6%	12.7%	111	134	12.9
MXGR Index	Greece	18.29	-0.3%	34.9%	14	22	30.9
MXIE Index	Ireland	36.19	-0.8%	21.8%	30	43	18.1
MXIT Index	Italy	60.62	-1.0%	27.5%	48	66	13.8
MXNL Index	Netherlands	99.85	0.5%	8.5%	91	103	14.3
MXPT Index	Portugal	48.78	-3.1%	-4.4%	47	59	18.0
MXES Index	Spain	123.17	0.5%	34.6%	90	125	15.4
EUROPE (Non-Euro EU)							
MXDK Index	Denmark	6309.58	0.1%	33.1%	4,771	6349	18.2
MXHU Index	Hungary	816.24	0.0%	-17.7%	749	1009	10.0
MXPL Index	Poland	1685.45	-2.0%	2.9%	1,565	1852	13.4
MXSE Index	Sweden	10597.10	0.0%	12.0%	9,316	10715	15.5
MXGB Index	U.K	1999.97	-0.5%	2.9%	1,874	2029	13.6
EUROPE (Non EU)							
MXNO Index	Norway	2870.80	-0.6%	19.5%	2,414	2963	na
MXRU Index	Russia	664.51	1.0%	-8.4%	591	841	na
MXCH Index	Switzerland	1104.29	-0.5%	9.2%	1,002	1136	15.8
MXTR Index	Turkey	1214792	0.6%	19.3%	866K	1215K	10.5

TICKER	COUNTRY	LAST YIELD	1D CHG BPS	YoY BPS	52W Min	52W Max	5Y CDS
ASIA/PACIFIC							
GACGB10 Index	Australia	3.42%	-4.6	-27.9	3.4	4.4	32.8
GCNY10YR Index	China	4.30%	0.0	55.0	3.7	4.7	78.7
HKGG10Y Index	Hong Kong	1.98%	-0.8	-32.8	1.8	2.6	na
GIDN10YR Index	Indonesia	8.02%	-0.7	-8.8	7.0	9.2	144.0
GIND10YR Index	India	8.51%	7.8	26.9	8.1	9.2	na
GJGB10 Index	Japan	0.53%	0.6	-26.6	0.5	0.8	35.7
GVSK10YR Index	Korea	3.04%	0.3	-43.3	3.0	3.8	52.7
MGIY10Y Index	Malaysia	3.88%	0.1	7.1	3.6	4.3	85.1
PDSF10YR Index	Philippines	4.20%	-2.9	22.7	3.5	4.6	88.3
MASB10Y Index	Singapore	2.42%	0.0	-3.0	2.1	2.8	na
GGSL10YR Index	Sri Lanka	8.34%	1.5	-346.5	8.3	12.1	na
GVTW10YR Index	Taiwan	1.61%	-0.4	9.7	1.5	1.7	na
GVTL10YR Index	Thailand	3.71%	-4.0	4.9	3.4	4.4	101.8
AMERICAS							
USGG10YR Index	U.S	2.56%	9.7	-5.3	2.4	3.0	17.3
GEBR10Y Index	Brazil	11.92%	14.0	104.4	11.5	13.4	149.2
GMXN10YR Index	Mexico	5.75%	9.8	-32.2	5.6	6.7	82.7
MIDDLE EAST & AFRICA							
GSAB9YR Index	*South Africa (9Y)	8.24%	0.1	192.8	7.9	8.8	179.2
EUROPE (Euro Area)							
GAGB10YR Index	Austria	1.41%	4.7	-69.1	1.4	2.5	32.8
GBGB10YR Index	Belgium	1.55%	5.3	-100.0	1.5	2.9	42.7
GFIN10YR Index	Finland	1.30%	4.6	-64.4	1.3	2.3	26
GFRN10 Index	France	1.55%	4.5	-71.5	1.5	2.6	41.8
GDBR10 Index	Germany	1.17%	5.0	-49.8	1.1	2.0	21.0
GGGB10YR Index	Greece	5.91%	5.1	-413.7	5.6	10.5	na
GIGB10YR Index	Ireland	2.21%	5.0	na	2.2	4.2	53.2
GBTPGR10 Index	Italy	2.70%	5.9	-170.3	2.6	4.6	97.1
GNTH10YR Index	Netherlands	1.36%	4.6	-70.6	1.3	2.5	31
GSPT10YR Index	Portugal	3.57%	-1.2	-281.5	3.3	7.4	178.3
GSPG10YR Index	Spain	2.52%	5.2	-213.7	2.5	4.6	67.3
EUROPE (Non-Euro EU)							
GDGB10YR Index	Denmark	1.54%	5.3	-27.1	1.4	2.2	24.7
GHGB10YR Index	Hungary	4.42%	-1.0	-193.0	4.2	6.7	169.3
POGB10YR Index	Poland	3.24%	6.4	-78.9	3.2	4.9	58.1
GSGB10YR Index	Sweden	1.69%	4.0	-49.0	1.6	2.7	16.2
GUKG10 Index	U.K	2.60%	5.1	28.3	2.4	3.1	19.2
EUROPE (Non EU)							
GNOR10YR Index	Norway	2.35%	1.4	-32.9	2.3	3.3	13.5
MICXRU10 Index	Russia	9.46%	0.8	171.2	7.5	9.8	229.0
GSWISS10 Index	Switzerland	0.54%	4.4	-49.5	0.5	1.3	na

OTHER INDICATORS

TICKER	SPREAD/RATE/INDEX	LAST PRICE	1D Chg bps/%	YoY bps/%	52W Min	52W Max	1Y Z-SCORE
CHINA							
SHIF3M Index	3M SHIBOR	4.73%	-0.7	6.5	4.7	5.6	-0.9
CCSDO2 Curncy	2Y CNY IRS	2.94%	1.0	5.0	2.9	3.1	-0.5
BOCRYLD Index	Avg Dim Sum Yield	4.34%	-1.0		4.3	5.8	-1.2
JAPAN							
JY0003M Index	LIBOR 3M	0.13%	0.0	-2.7	0.1	0.2	-1.6
TI0003M Index	3M TIBOR	0.21%	0.0	-2.0	0.2	0.2	-1.1
JYSW2 Curncy	2Y Yen Swap	0.18%	0.1	-8.5	0.2	0.3	-1.1
OTHER							
HIHD03M Index	Hong Kong 3M HIBOR	0.37%	-0.1	-0.9	0.4	0.4	-0.8
JIIN3M Index	Indonesia 3M JIBOR	8.15%	0.1	209.4	6.1	8.2	0.8
NSERO3M Index	India 3M MIBOR	8.86%	-5.0	-188.0	8.6	11.6	-0.9
KLIB3M Index	Malaysia 3M KLIBOR	3.59%	0.0	39.0	3.2	3.6	2.3
PREF3MO Index	Philippines 3M PHIREF	0.96%	11.4	64.4	(1.1)	1.4	0.9
SIBF3M Index	Singapore SIBOR 3M	0.40%	0.0	2.8	0.4	0.4	0.6
KWSWOOC Curncy	S. Korea 3M OIS	2.38%	4.5	-12.5	2.3	2.5	-5.1
SLBR3MON Index	Sri Lanka 3M SLIBOR	7.96%	0.0	-342.0	8.0	11.4	-1.1
BOFX3M Index	Thailand 3M BIBOR	2.18%	0.0	-41.8	2.2	2.6	-1.1
VNCD3MO Index	Vietnam 3M VNIBOR	3.81%	2.8	-131.1	3.6	5.7	-1.5
OTHER (NON-ASIAN)							
.TED3M Index	3M Ted Spread	21.1	0.0	-1.9	14.2	25.7	0.1
.LIBORIOS F Index	3M LIBOR OIS Spread	13.7	0.0	-2.2	12.3	17.4	-0.7
JPEIPLSP Index	EMBI+ Spread	287.6	4.2	-37.3	272.2	405.2	-1.5

COMMODITIES

TICKER	COMMODITY	LAST PRICE	1D %Chg	YoY %Chg	52W Min	52W Max	RSI 30D
AGRICULTURAL							
SPGCAGTR Index	S&P GS Agricult. Index	562.0	0.1%	-13.6%	560	721.9	30.2
METALS							
SPGCINTR Index	S&P GS Ind Metal Index	1434.5	1.1%	10.0%	1,258	1439.8	60.8
GC1 Comdty	Gold	1295.2	0.0%	-1.3%	1,195	1421	48.7
ENERGY							
SPGCENTR Index	S&P GS Energy Index	1132.0	-0.7%	2.3%	1,056	1211	43.2
INDEXES							
CRY Index	CRB Index	296.1	-0.2%	5.1%	272.3	312.9	39.3
SPGSCITR Index	S&P Commodity Index	4877.7	-0.5%	1.6%	4,626	5185.2	42.4
DBLCDBAT Index	DBIQ Diversified Ag	221.1	0.1%	9.2%	199.6	242.9	42.6

CURRENCIES

TICKER	CURRENCY	LAST PRICE	1D %CHG	YoY %CHG	52W Min	52W Max	1Y Z-SCORE
ASIA/PACIFIC							
AUD Curncy	Australian Dollar	0.93	-0.1%	3.8%	0.9	1.0	0.6
CNY Curncy	Chinese Renminbi	6.17	-0.2%	-0.7%	6.0	6.3	0.4
HKD Curncy	Hong Kong Dollar	7.75	0.0%	0.1%	7.8	7.8	-1.3
INR Curncy	Indian Rupee	60.06	-0.1%	0.7%	58.5	68.8	-0.9
IDR Curncy	Indonesian Rupiah	11578.0	0.1%	-11.0%	10249	12261	0.1
JPY Curncy	Japanese Yen	102.83	0.0%	-4.8%	96.2	105.3	0.7
MYR Curncy	Malaysian Ringgit	3.18	0.2%	1.4%	3.1	3.3	-1.2
NZD Curncy	New Zealand Dollar	0.85	0.0%	6.3%	0.8	0.9	0.4
PHP Curncy	Philippine Peso	43.41	0.1%	0.0%	43.0	45.4	-1.1
SGD Curncy	Singapore Dollar	1.24	0.0%	2.2%	1.2	1.3	-1.2
KRW Curncy	South Korean Won	1024.40	0.0%	8.7%	1009	1124	-1.2
LKR Curncy	Sri Lankan Rupee	130.23	0.0%	1.2%	130.2	133.2	-1.1
TWD Curncy	Taiwan Dollar	29.98	0.0%	-0.1%	29.4	30.6	0.0
THB Curncy	Thai Baht	31.95	0.0%	-2.2%	31.0	33.1	-0.4
VND Curncy	Vietnamese Dong	21230	0.0%	-0.2%	21.1K	21.4K	1.7
AMERICAS							
BRL Curncy	Brazilian Real	2.25	0.6%	1.6%	2.2	2.5	-0.6
CAD Curncy	Canadian Dollar	1.09	0.0%	-5.7%	1.0	1.1	0.6
MXN Curncy	Mexican Peso	13.16	0.0%	-3.2%	12.6	13.5	0.6
MIDDLE EAST & AFRICA							
ZAR Curncy	South African Rand	10.67	0.1%	-7.4%	9.6	11.3	0.6
EUROPE (Euro Area)							
GBP Curncy	British Pound	1.69	0.0%	11.2%	1.5	1.7	1.0
DKK Curncy	Danish Krone	5.57	0.0%	0.7%	5.4	5.7	1.2
EUR Curncy	Euro	1.34	0.0%	0.7%	1.3	1.4	-1.2
HUF Curncy	Hungarian Forint	232.39	0.0%	-3.2%	211.7	232.4	2.3
NOK Curncy	Norwegian Krone	6.25	-0.1%	-5.8%	5.8	6.3	2.0
PLN Curncy	Polish Zloty	3.10	0.0%	3.0%	3.0	3.3	0.5
RUB Curncy	Russian Ruble	35.61	0.2%	-7.4%	31.7	36.6	1.2
SEK Curncy	Swedish Krona	6.88	0.0%	-5.3%	6.3	6.9	2.7
CHF Curncy	Swiss Franc	0.91	0.0%	1.9%	0.9	0.9	0.6
TRY Curncy	Turkish Lira	2.13	0.0%	-9.4%	1.9	2.3	0.4
OTHER CROSSES							
AUDJPY Curncy	AUD/JPY	95.90	0.0%	-8.3%	86.7	96.4	1.2
GBPJPY Curncy	GBP/JPY	173.9	0.0%	-14.4%	149.1	175.3	1.0
EURJPY Curncy	EUR/JPY	137.75	0.0%	-5.5%	128.4	145.1	0.0
CHFJPY Curncy	CHF/JPY	113.2	0.0%	-6.6%	104.3	118.5	0.2

Source: *Bloomberg*. Updated at 6:33 a.m. Hong Kong time

ONE ON ONE

TOM ORLIK, BLOOMBERG ECONOMIST

China's Corruption Crackdown More Than Factional Politics, Says Cheng Li

Chinese President Xi Jinping's anti-corruption campaign kicked into higher gear this week with an investigation of former Politburo Standing Committee member Zhou Yongkang. Bloomberg Economist **Tom Orlik** asked Brookings' **Cheng Li** — a leading authority on China's leadership and director of the John L. Thornton China Center at Brookings — for his insights.

Q: What can we tell from the announcement on the probe of Zhou Yongkang?

A: It raises more questions than it answers. First, why make the announcement of the investigation by the Central Commission for Discipline Inspection now when the investigation has been in fact under way for months? The Chinese public had expected the case would be transferred to prosecution. Second, the charge of "serious disciplinary violations" is very ambiguous — it could include anything from adultery to conspiracy. Third, why has the pace of investigation been so slow? Due to strong resistance from some political circles? Or to deliberately slow down the process to prevent an unintended domino effect? We can only speculate on the answers, but possibly the charge is ambiguous to leave room for negotiation with Zhou.

Q: What are the similarities and the differences between the Zhou case and the Bo Xilai case?

A: Both are heavyweight politicians. Both are part of the faction of former General Secretary Jiang Zemin. Both abused power and ignored the rule of law. At the same time there are important differences. Bo was not well known for corruption, but Zhou was. Bo was the head of a movement with a lot of public support. Zhou doesn't represent a movement, and doesn't have a swell of support from the public. That makes his case easier to deal with.

Q: Is this a genuine attempt to promote clean governance or another factional purge?

A: Corruption is ruining the Chinese Communist Party, causing a serious legitimacy crisis. This is the 25th anniversary of Tiananmen. If there was a similar event would the public and the military support the party? No, because they are too corrupt. So from day one Xi Jinping made fighting corruption the top priority.

Foreign observers might cynically conclude this is all factional infighting. The evidence points in another direction. Xi Jinping and Zhou Yongkang are former political allies of Jiang Zemin's faction.

Q: What's the impact of the corruption crackdown on growth?

A: Is fighting corruption the right thing to do or the wrong thing to do? It's the right thing to do. Could it go too far and destabilize the government? I don't think so. There are over 5,000 officials at the vice-ministerial level or above. So far only 35 have been arrested. That's about 0.7 percent. It's enough to change the behavior of officials, not enough to bring the government grinding to a halt.

On a very short-term time horizon, there might be some negative impact on luxury consumption. Sales of Rolex watches might go down. But that is trivial, especially set against the damage to the economy from large-scale official graft. The shift toward consumption in China should be driven by the middle class, not a few corrupt officials.

Q: How can China go beyond anti-corruption campaigns toward institutional changes?

A: Xi and Wang Qishan, who heads the anti-corruption campaign, recognize that dealing with corruption requires tackling causes and not just symptoms. The fourth plenum — a key meeting scheduled for October — will deal with legal reforms. Regulations requiring disclosure of official income and property and clamping down on conflicts of interest would all represent concrete progress.

More importantly, China needs more vigorous checks and balances in the system. Judicial independence should be near the top of the list of priorities. That would prevent abuses of power like that of Bo Xilai in Chongqing. Some of these reforms could take months, some could take years. The important thing is to start moving in the right direction to build public trust.

Political reform is not something you can choose or not choose. It is the direction of China's rapidly changing society. You can put it off for a few years but not for too long.

This interview was edited and condensed. The full version is at {NSN N9ICMP6JIJUQ<GO>}.

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