DOW JONES NEWSWIRES

HD **China Shares Flat in Morning; HSBC PMI Misses Estimate -- Market Talk**

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0243 GMT [Dow Jones] China shares are largely flat in the morning after a major manufacturing index slightly missed its flash estimate. The Shanghai Composite Index is down 0.1% at 2046.34, and is expected to consolidate around its 20-day moving average near 2040. HSBC's final China manufacturing PMI for June rises to 50.7, lower than its flash estimate of 50.8, but confirming earlier data showing a rebound in Chinese industry. "Trading of stocks remains tepid as the data didn't offer an upside surprise," says Capital Securities analyst Li Bin. Also, he notes that China's relaxation of banks' loan-to-deposit ratio falls short of expectations for monetary easing. Heavyweight banks are mixed following the new rules. China Minsheng Bank (600016.SH), which is expected to benefit from the relaxation, rises 0.3% to CNY6.23, China Construction Bank (601939.SH) is flat at CNY4.13 and Ping An Bank (000001.SZ) is down 0.3% at CNY9.88. The smaller Shenzhen Composite Index rises 0.1% to 1098.10. (rose.yu@dowjones.com)

0241 GMT [Dow Jones] Weaker-than-expected South Korea economic data show increasing obstacles to growth, ING says. Consumer-price inflation and trade data disappoint while the manufacturing PMI is the weakest in 10 months. "The weak domestic spending, wide current-account surplus dynamic remains in play and we expect it to produce a wider surplus this year than 2013's $80 billion," ING says. "We see no evidence of spending-driven inflation...Supply shocks to the food component are the most likely source of inflation pressure." Sovereign bonds outperformed in May and June and ING says that signals "the balance of risks remains tilted toward growth not inflation." It may also reflect hopes of a surprise rate cut this year from the Bank of Korea. It meets July 10. The KOSPI slides 0.3% to 1997.15. (gregor.hunter@wsj.com; Twitter: @gregorhunter)

0239 GMT [Dow Jones] Vietnam's manufacturing sector is expected to continue to perform well thanks to low inventories and robust new orders, says HSBC. The bank's HSBC Vietnam Manufacturing Purchasing Managers' Index was 52.3 in June, the tenth-straight month the index has been in expansion territory. HSBC says the impact from the recent tensions is fading, referring to last month's riots in several industrial parks that left hundreds of foreign-owned factories damaged. External demand decelerated in June, though HSBC says it expects this to be temporary. (trong-khanh.vu@wsj.com)

0232 GMT [Dow Jones] China's economy looks set for a better 2014 than naysayers expected earlier this year, says J.P. Morgan's top China economist, Haibin Zhu. The bank has just revised its forecast for second-quarter growth up to 7.4%, thanks to better exports and a surge in government infrastructure investment. That chimes with an improvement in the manufacturing purchasing managers' index, which rose to 51 in June from 50.8 in May. But "it's still a challenge for China to achieve the [government's] 7.5% growth target," says Zhu. (richard.silk@dowjones.com)

0220 GMT [Dow Jones] Low volatility stemming from the commitment of the big-four central banks to keeping interest rates at record lows is AUD/USD positive, as it increases the significance of the improving current account deficit as a driver of the exchange rate, according to CBA chief currency strategist Richard Grace. "Further trend improvements in Australia's trade surplus are likely as capital import volumes decline in response to a decrease in mining investment and as Australia's resource export volumes lift in response to the (recent) mining investment boom," Grace says. "Further trend improvements in Australia's net income deficit are also likely the longer Australian interest rates remain low. Relatively low and stable Australian interest rates, as well as having the effect of crushing interest rate volatility, also help reduce payments on Australia's foreign debt, lowering the net income deficit." AUD/USD last 0.9422. (david.rogers@wsj.com; Twitter: @DavidRogersWSJ)

0210 GMT [Dow Jones] China's latest targeted credit easing measures should help prop up economic growth, says HSBC, but may disappoint expectations of a full-blown cut to reserve requirement ratios. The China Banking Regulatory Commission yesterday eased loan-to-deposit ratios on certain loans issued by commercial banks, and tweaked the type of deposits that can be used to calculate this measure. "Today's announcement may have fallen slightly short of market expectations, given interbank deposits were not added to the denominator," says HSBC. "However, we think the overall message is still relatively clear. Policy makers will maintain their accommodative stance to support the economy, and meanwhile continue with financial reforms." The move should increase the quantity of lending, countering risk-aversion on the part of banks as the economy slows, HSBC says. Its impact on borrowing costs "may be more ambiguous", the bank adds. (gregor.hunter@wsj.com; Twitter: @gregorhunter)

0208 GMT [Dow Jones] More gains can be expected for the Chinese yuan versus the U.S. unit if spot USD/CNY maintains its current level below the daily Ichimoku Cloud support zone. The next downside target for the dollar/yuan pair could be the psychological support at 6.1800. The rise of the official China manufacturing PMI for June--at 51.0 versus May's 50.8--coupled with the overnight decline of the U.S. dollar index has imparted downwards momentum to USD/CNY. With the daily Bollinger downtrend channel also in effect since Friday, the odds are now higher that the yuan will appreciate versus the U.S. dollar in the near term. USD/CNY is now 6.1995 from its Monday close of 6.2050. (ewen.chew@wsj.com)

0204 GMT [Dow Jones] BMD CPO may start lower due to an overnight selloff in soyoil and soybeans. Citi Futures specialist Sterling Smith says in an overnight report that the spread between soyoil and palm oil continues to be "very narrow" at $130.62/ton, which is adversely affecting palm as prices saw the largest quarterly decline since 3Q of 2012. AmBank says BMD will be a "big bear" if prices breach the MYR2,400/ton psychological support. Benchmark September BMD CPO ended 0.8% lower at MYR2,425/ton Monday. August CBOT soyoil is up 6 cents at 39.01 cents/lb after a 2.9% drop overnight. (huileng.tan@wsj.com; Twitter: @huileng_tan)

0204 GMT [Dow Jones] Focus now is whether the USD/JPY can maintain the 101 level, says Junichi Ishikawa, market analyst at IG Securities. Despite a slew of bids seen supporting the USD/JPY, there are stop-loss selling orders just below 101.20 and 101.00. Investors are closely monitoring U.S. ISM manufacturing PMI for June later Tuesday. Market consensus is the index will stand at 55.9 up from 55.4 the previous month. If the index shows improvement in economic fundamentals, the USD/JPY likely gain on short-covering. But lackluster numbers may pull down the USD/JPY, and if U.S. stocks weaken simultaneously, the pair may test 101.00. If that is the case, a year-low of 100.75 (February 4) again comes into sight. (hiroyuki.kachi@wsj.com)

0202 GMT [Dow Jones] A USD/MYR close below 3.2060 Tuesday would activate the bearish technical signal of the daily Bollinger downtrend channel and possibly lead USD/MYR down to the base of the weekly downtrend channel at 3.1840. The initial trigger for dollar weakness was once again the slide lower in the benchmark U.S. 10-year government bond yield, though the improvement in China's official manufacturing PMI data--at 51.0 in June from 50.8 in May--has helped riskier emerging market currencies to rally against the U.S. dollar. The benchmark U.S. 10-year Treasury yield slipped to 2.52% from 2.53% Monday. USD/MYR is now 3.2060 from its Monday close of 3.2095. (ewen.chew@wsj.com)

0154 GMT [Dow Jones] Tocom RSS3 rubber futures are higher in slow trade with just over 3,000 lots traded as final June PMI data readings from China are higher on-month, showing an expansion in manufacturing activity. However, physical rubber buying from China remains slow, as users in the country digest high stockpiles, capping any price gains, says a trader in Bangkok. Benchmark December rubber trades Y0.9 higher at Y211.6/kg. (huileng.tan@wsj.com; Twitter: @huileng_tan)

0154 GMT [Dow Jones] HSBC's final China manufacturing PMI for June rises to 50.7, slightly missing its flash estimate of 50.8, but confirming earlier data showing a rebound in Chinese industry. The gauge shows expansion for the first time since December and is up from 49.4 in May. "The economy continues to show more signs of recovery, and this momentum will likely continue over the next few months, supported by stronger infrastructure investments. However there are still downside risks from a slowdown in the property market," says HSBC. "We expect both fiscal and monetary policy to remain accommodative until the recovery is sustained." China's official manufacturing PMI released today rises for the fourth consecutive month to 51.0, hitting the highest level this year. CMC Markets sees the data "underscoring the stabilising of the Chinese economy in Q2, following the government's mini-stimulus measures." (gregor.hunter@wsj.com; Twitter: @gregorhunter)

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