

Asia Flash

Asia

The selloff in Asian markets resumed today, as tensions over Syria added to the weight of QE tapering expectations. ASEAN equities were down most sharply, led by the Philippines (-4.0%) and Indonesia (-3.7%). Markets also continued to slump in India, as the rupee fell to a new record low of 65.7 per USD (see below).

Passage of Food Security Bill in India aggravates fiscal concerns

The lower house of parliament yesterday approved the government's ambitious 'Food Security Bill' aiming to ensure low-cost food grains to a vast segment of the population through fiscal subsidies. Notwithstanding its admirable goals of poverty alleviation and more equitable growth, the initiative poses upside risks to the overall food subsidy bill (budgeted at 0.8% of GDP for FY14), at a time when fiscal concerns are adding to weak investor sentiment and contributing to a further weakening of the rupee. To stay within its budget targets (a deficit of 4.8% of GDP in FY14), the rising food subsidy burden may necessitate a cut back in other expenditure items, including fuel and fertilizer subsidies. The weakening rupee and renewed concerns among global rating agencies have intensified pressure on the authorities to undertake bolder structural reforms, including greater fuel price liberalization, land acquisition reforms and easier foreign investment limits in insurance and pension sector.

More signs of a bounce back in regional exports?

Hong Kong's July exports, released today, beat markets expectation, jumping by 10.6% y/y (consensus: 3.5% y/y), after declining by -0.2% y/y in June. The outturn reflects improving exports to China, the US, and Europe. A number of other Asian economies have recently seen improving export trends, including China, Japan, Korea, Singapore, and the Philippines. However, commodity exporters such as Indonesia and Malaysia have seen weaker trends, reflecting the commodity composition of their exports. In a nutshell, final goods producers, as opposed to commodity producers in Asia, are faring better amidst improving demand conditions in developed economies. Looking ahead, South Korea will release its trade data for August on September 1 – the first monthly release in the region (consensus: 3.5% y/y vs. July: 2.6%).

Will upcoming Q2 GDP data confirm a slowdown in the Philippines and India?

Q2 GDP outturns are scheduled to be released in the Philippines and India this week (Thursday and Friday, respectively). The outturns will be keenly watched amidst ongoing market volatility and weakening currencies and equity markets. In the Philippines, we expect growth to slow (BBVA: 6.5% y/y, consensus: 7.2%) from the red-hot first quarter outturn (7.8% y/y) as domestic demand gradually weakens to more sustainable levels. Meanwhile, India's growth woes have deepened, exacerbated by a rapidly weakening currency; nevertheless, we expect Q2 GDP growth to rise slightly (BBVA: 5.3% y/y, consensus: 4.6%, prior: 4.8%) led by public spending and a pick up in agricultural output on the back of favorable weather conditions. That said, we see downside risks to our 5.7% full year growth projection.

Briefly noted:

Strong China industrial profits are the latest signs of economic stabilization

Following the recent upturn in China's PMI outturns, today's release of July industrial profits (+11.6% y/y in July vs. 6.3% y/y in June) provides further evidence of a stabilizing trend in growth momentum. The next important data point in China will be the release on September 1 of the official PMI outturn for August. We expect PMI to register 50.5, up from 50.3 in July.

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Calendar Indicators

China	Date	Period	Prior	Cons.	Actual
Industrial Profits YTD YoY	27 Aug	Jul	11.10%	--	11.10%
Manufacturing PMI	01 Sep	Aug	50.3	50.5	--
Hong Kong	Date	Period	Prior	Cons.	Actual
Exports YoY	27 Aug	Jul	-0.20%	3.50%	10.60%
Imports YoY	27 Aug	Jul	1.40%	5.00%	8.30%
Trade Balance	27 Aug	Jul	-49.7B	-45.0B	-37.2B
India	Date	Period	Prior	Cons.	Actual
GDP YoY	30 Aug	2Q	4.80%	4.60%	--
Japan	Date	Period	Prior	Cons.	Actual
Retail Trade YoY	29 Aug	Jul	1.60%	0.30%	--
Tokyo CPI YoY	30 Aug	Aug	0.40%	0.50%	--
Natl CPI YoY	30 Aug	Jul	0.20%	0.70%	--
Jobless Rate	30 Aug	Jul	3.90%	3.90%	--
Markit/JMMA Manufacturing PMI	30 Aug	Aug	50.7	--	--
Industrial Production MoM	30 Aug	Jul P	-3.10%	3.60%	--
Overall Household Spending YoY	30 Aug	Jul	-0.40%	0.20%	--
Construction Orders YoY	30 Aug	Jul	21.90%	--	--
Philippines	Date	Period	Prior	Cons.	Actual
Trade Balance	27 Aug	Jun	-\$365M	-\$500M	-\$370M
GDP YoY	29 Aug	2Q	7.80%	7.20%	--
Singapore	Date	Period	Prior	Cons.	Actual
Industrial Production YoY	26 Aug	Jul	-4.20%	1.80%	2.70%
South Korea	Date	Period	Prior	Cons.	Actual
Industrial Production YoY	30 Aug	Jul	-2.60%	-1.00%	--
Exports YoY	01 Sep	Aug	2.60%	3.50%	--
Thailand	Date	Period	Prior	Cons.	Actual
Customs Exports YoY	26 Aug	Jul	-3.38%	0.80%	-1.48%
BoP Current Account Balance	30 Aug	Jul	-\$664M	-\$710M	--
Vietnam	Date	Period	Prior	Cons.	Actual
Industrial Production YoY	26 Aug	Aug	7.00%	--	4.40%
Retail Sales YTD (YoY)	26 Aug	Aug	12.00%	--	12.30%
Exports YTD YoY	26 Aug	Aug	14.30%	--	14.70%

Calendar Events

There are no calendar events scheduled for this week.

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	1.5	-7.3	2.3
	Hong Kong – Hang Seng	21874.8	-0.6	-0.4	-3.5	10.5
	Taiwan – Weighted	7820.8	-0.9	-1.0	1.6	4.7
	Japan – Nikkei 225	13542.4	-0.7	1.1	30.3	49.1
	Korea – Kospi	1885.8	-0.1	-0.1	-5.6	-1.7
	India – Sensex 30	17968.1	-3.2	-1.5	-7.5	1.6
	Australia – SPX/ASX 200	5141.2	0.1	1.2	10.6	18.4
	Singapore – Strait Times	3034.0	-1.6	-3.0	-4.2	-0.3
	Indonesia – Jakarta Comp	3967.8	-3.7	-5.0	-8.1	-4.3
	Thailand – SET	1294.0	-2.6	-5.6	-7.0	4.9
	Malaysia – KLCI	1701.2	-1.2	-2.5	0.7	3.2
	Philippines – Manila Comp.	5917.0	-4.0	-11.1	1.8	15.0

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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)	6.12	-0.01	0.06	6.18	6.24
	Hong Kong (HKD/USD)	7.76	-0.01	-0.03	7.75	7.75
	Taiwan (TWD/USD)	30.0	-0.16	-0.07	29.94	29.77
	Japan (JPY/USD)	97.81	0.72	-0.55	97.76	97.47
	Korea (KRW/USD)	1116	-0.33	0.41	1123	1134
	India (INR/USD)	66.0	-2.60	-4.23	67.95	71.65
	Australia (USD/AUD)	0.90	-0.83	-1.28	1.12	1.14
	Singapore (SGD/USD)	1.28	-0.26	-0.80	1.28	1.28
	Indonesia (IDR/USD)	11337	-4.31	-5.42	12142	13012
	Thailand (THB/USD)	32.2	-0.59	-1.65	32.66	33.15
	Malaysia (MYR/USD)	3.33	-0.60	-1.22	3.36	3.41
	Philippines (PHP/USD)	44.6	-0.77	-1.58	44.66	44.93

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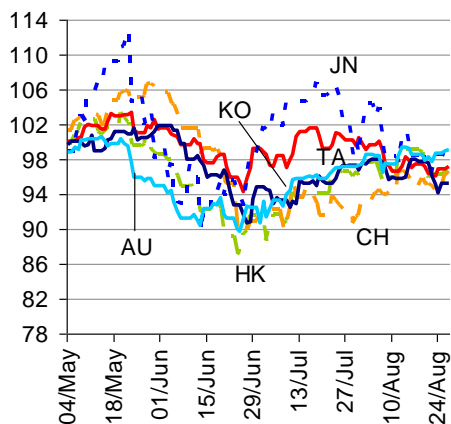
INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	4.20	0.20	0.09	-0.15
	Hong Kong (HIBOR/1W)	0.12	0.00	0.00	0.00
	Taiwan (TAIBOR/1W)	0.52	0.00	0.00	-0.01
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	2.56	0.00	0.00	0.00
	India (MIBOR/7D)	4.40	0.38	-0.40	-1.40
	Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00
	Indonesia (JIBOR/1W)	5.31	0.01	-0.01	0.13
	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

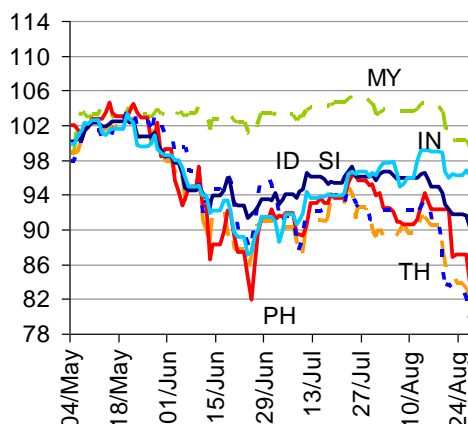
Stock Markets



Source: BBVA Research and Bloomberg

Chart 2

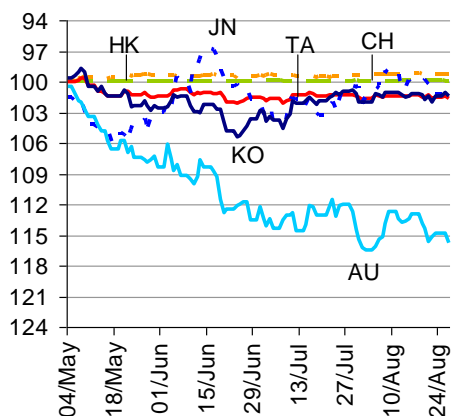
Stock Markets



Source: BBVA Research and Bloomberg

Chart 3

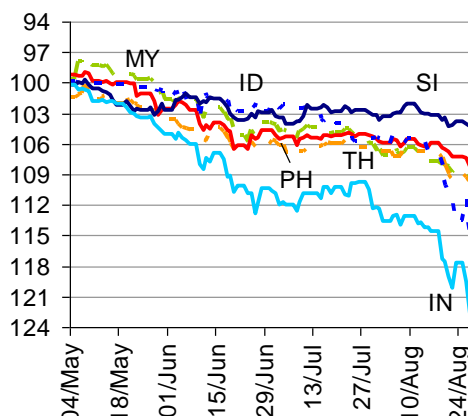
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4

Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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