

# Asia Flash

## Asia

*Positive manufacturing PMI readings released yesterday in China lifted regional sentiment, with stock market gains led by Thailand (+2.3%) and Hong Kong (+2.0%). Sentiment was further lifted by a raft of benign indicators for inflation (Thailand and Korea), exports (Korea), and capital spending (Japan). However, the news was not so good in India and Indonesia, the region's two economies most affected by the recent market selloff and currency turbulence, with disappointing Q2 GDP growth in the former, and a much larger-than-expected trade deficit and persistent inflation in the latter (see below). Looking ahead, we await tomorrow's monetary policy meeting in Australia, where we expect the RBA to stay on hold.*

### **China August manufacturing PMI solidifies, confirming economic rebound**

China's official NBS manufacturing PMI for August, released yesterday, rose to 51.0 (consensus: 50.6; BBVA: 50.5) its highest level since May 2012. The outturn suggests that manufacturing activity is continuing to improve after a set of robust indicators for July released last month. The improvement was broad-based, as the production sub-index rose to 51.0 from 50.3 in July and new orders jumped to 52.4 from 50.6. On the external front, new exports rose to 50.2 from 49.0, as import orders rose to 50.0 from 48.4. Separately, the private HSBC manufacturing PMI, covering smaller and export-oriented firms, was also released today, at 50.1, bringing both PMI indicators back to above the 50-expansion threshold (and the first time the HSBC PMI has risen to above 50 since May). The PMI outturns bode well for Q3 GDP, and are well in line with our full-year projection of 7.6% GDP growth in 2013. Separately, the NBS today revised down China's 2012 GDP growth to 7.7% from a preliminary reading of 7.8%.

### **India Q2 GDP disappoints at 4.4% y/y, its slowest in more than four years**

Adding to the dismal mood amidst slowing growth and currency depreciation, India's GDP growth, released late on Friday, slowed to a disappointing 4.4% y/y (BBVA: 5.3%, Consensus: 4.8%) from 4.8% in 1Q13 weighed by a contraction in investment and a pullback in private consumption, offsetting higher public spending. The GDP outturn is the slowest since Q1 2009. Agriculture output saw a pick up, as expected along with improving external demand, amid favorable weather conditions. Looking ahead, we expect overall growth momentum to weaken further in Q3, given renewed pressures from currency turbulence and weakening sentiment, elevated oil prices, and delays in executing structural reforms. Confirming the slowdown, the August PMI, released today, hit a 2½ year low of 48.5. With limited scope for further monetary and fiscal support, expediting bold structural reforms including sharper diesel price hikes, unclogging food and raw material supply bottlenecks and easing foreign investment limits across insurance and pension sector is critical to revive India's growth prospects. In this context, we see downside risks of a least a full percentage point to our 5.7% y/y and 6.4% y/y full year growth projection for this year and the next.

### **Briefly noted:**

### **Indonesia's July trade deficit widens, as inflation stays high**

Indonesia headline inflation accelerated to 8.79% y/y in August (consensus: 9.0%) from 8.61% in July, the highest pace since January 2009 after a June fuel price increase. To contain inflation and

dampen currency pressures, Bank Indonesia has hiked its benchmark rate by a cumulative 125bps since May, with the most recent move (+50bps) delivered last Thursday. Meanwhile, exports unexpectedly decelerated to -6.1% y/y in July (Consensus: -5.4%; June: -4.4%) and imports remained strong at +6.5% y/y (consensus: -3.5%), leading to a trade deficit of a record -USD 2.3 bn. The Jakarta stock market declined by -2.2% today, and the rupiah slid by -1.6% to 11,300 per USD.

#### **Korea sees improving exports and production in July**

Korea's July exports – a bellwether for the region as the first monthly export release – rose by 7.7% y/y (consensus: 3.8% y/y) from 2.6% in the previous month. At the same time, July manufacturing PMI rose to 51.0 (consensus: 50.6%) from 50.3 in June. The improvement in exports was led by rebounds to both the US and China (17.9% y/y and 12.8% y/y respectively). The data, together with previously reported industrial production (0.9% y/y in July vs. consensus: -0.9% y/y) and accelerating Q2 GDP growth (2.3% y/y), underlie the economy's resilience even in the face of market turbulence from QE tapering. Separately, headline inflation moderated to 1.3% y/y in July from 1.4% y/y in the previous month, well below the official target of 2.5%. We maintain our full-year growth projection of 2.7% in 2013.

**Japan posts better-than-expected capital spending in Q2** (1.0% y/y vs. consensus: -2.1%; prior: -3.9%) suggesting that the preliminary Q2 GDP reading (2.6% saar) may have been underestimated, and providing an encouraging sign that investment spending, the missing link so far in Japan's improving growth trends, may be starting to pick up.

**Hong Kong retail sales rose by 9.5% y/y** (consensus: 15.0% y/y) in July, down from a 14.3% y/y growth registered in the previous month. The outturn, albeit short of expectation, is still solid, reflecting the strong mainland tourists visiting and local consumer sentiment buoyed by tight labor market. Looking ahead, we expect that retail sales will fare well in the coming months as the economy in Mainland China gained momentum.

Stephen Schwartz  
Chief Economist for Asia  
stephen.schwartz@bbva.com.hk  
+852 2582 3218

Weiwei Liu  
Economist  
carrie.liu@bbva.com.hk  
+852 2582 3243

George Xu  
Economist  
george.xu@bbva.com.hk  
+852 2582 3121

With contributions from the BBVA Research Asia Team

## Calendar Indicators

<b>Australia</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
BoP Current Account Balance	03 Sep	2Q	-8.5B	-8.5B	--
Retail Sales MoM	03 Sep	Jul	0.00%	0.40%	--
GDP SA QoQ	04 Sep	2Q	0.60%	0.60%	--
GDP YoY	04 Sep	2Q	2.50%	2.50%	--
Trade Balance	05 Sep	Jul	602M	150M	--
<b>China</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Manufacturing PMI	01 Sep	Aug	50.3	50.6	51.0
HSBC/Markit Manufacturing PMI	02 Sep	Aug	47.7	50.2	50.1
Non-manufacturing PMI	03 Sep	Aug	54.1	--	--
HSBC/Markit Services PMI	04 Sep	Aug	51.3	--	--
<b>Hong Kong</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Retail Sales Value YoY	02 Sep	Jul	14.70%	15.00%	9.50%
HSBC/Markit PMI	04 Sep	Aug	49.7	--	--
<b>Indonesia</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
HSBC/Markit Manufacturing PMI	02 Sep	Aug	50.7	--	48.5
CPI YoY	02 Sep	Aug	8.61%	8.95%	8.79%
Exports YoY	02 Sep	Jul	-4.50%	-5.40%	-6.10%
Foreign Reserves	03-09 SEP	Aug	\$92.67B	--	--
<b>India</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
HSBC/Markit Manufacturing PMI	02 Sep	Aug	50.1	--	48.5
HSBC/Markit Services PMI	04 Sep	Aug	47.9	--	--
<b>Japan</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Capital Spending YoY	02 Sep	2Q	-3.90%	-2.10%	0.00%
Monetary Base YoY	03 Sep	Aug	38.00%	--	--
<b>Malaysia</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Exports YoY	06 Sep	Jul	-6.90%	--	--
<b>Philippines</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
CPI YoY	05 Sep	Aug	2.50%	2.40%	--
Foreign Reserves	06 Sep	Aug	\$83.2B	--	--
<b>Singapore</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Purchasing Managers Index	03 Sep	Aug	51.8	51.9	--
<b>South Korea</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Exports YoY	01 Sep	Aug	2.60%	3.80%	7.70%
CPI YoY	02 Sep	Aug	1.40%	1.50%	1.30%
HSBC/Markit Manufacturing PMI	02 Sep	Aug	47.2	--	47.5
GDP SA QoQ	05 Sep	2Q F	1.10%	--	--
GDP YoY	05 Sep	2Q F	2.30%	--	--
<b>Taiwan</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
HSBC/Markit Manufacturing PMI	02 Sep	Aug	48.6	--	50.0
CPI YoY	05 Sep	Aug	0.08%	-0.25%	--
Wholesale Price Index YoY	05 Sep	Aug	-2.13%	--	--
<b>Thailand</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
CPI YoY	02 Sep	Aug	2.00%	1.80%	1.59%
<b>Vietnam</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
HSBC/Markit Manufacturing PMI	03 Sep	Aug	48.5	--	--

## Calendar Events

<b>Australia – RBA Cash Target, Sep 3</b>	<b>Current</b>	<b>Cons.</b>	<b>New</b>
We expect the benchmark rate to remain unchanged	2.50%	2.50%	--

**Japan – BoJ Target Target, Sep 5**

We expect the benchmark rate to remain unchanged

**Current**

0.10%

**Cons.**

0.10%

**New**

--

**Malaysia – Overnight Policy Rate, Sep 5**

We expect the benchmark rate to remain unchanged

**Current**

3.00%

**Cons.**

3.00%

**New**

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## 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.	2098.4	0.0	0.1	-7.5	2.5
	Hong Kong – Hang Seng	22175.3	2.0	0.8	-2.1	13.8
	Taiwan – Weighted	8038.9	0.2	1.8	4.4	8.7
	Japan – Nikkei 225	13572.9	1.4	-0.5	30.6	53.5
	Korea – Kospi	1924.8	-0.1	2.0	-3.6	1.0
	India – Sensex 30	18886.1	1.4	1.8	-2.8	8.4
	Australia – SPX/ASX 200	5188.3	1.0	1.0	11.6	20.2
	Singapore – Strait Times	3055.7	0.9	-0.9	-3.5	1.0
	Indonesia – Jakarta Comp	4101.2	-2.2	-0.5	-5.0	1.0
	Thailand – SET	1323.7	2.3	-0.4	-4.9	7.8
	Malaysia – KLCI	1717.6	-0.6	-0.3	1.7	4.3
	Philippines – Manila Comp.	6061.8	-0.2	-1.6	4.3	16.7

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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	0.00	0.01	6.17	6.23
	Hong Kong (HKD/USD)	7.75	0.01	0.02	7.75	7.75
	Taiwan (TWD/USD)	29.8	0.42	0.56	29.62	29.41
	Japan (JPY/USD)	99.24	-1.08	-0.74	99.20	98.89
	Korea (KRW/USD)	1101	0.86	1.09	1104	1115
	India (INR/USD)	66.1	-0.56	-2.68	68.10	71.80
	Australia (USD/AUD)	0.90	1.11	-0.33	1.12	1.14
	Singapore (SGD/USD)	1.27	0.13	0.60	1.27	1.27
	Indonesia (IDR/USD)	11371	-1.64	-4.60	11977	12842
	Thailand (THB/USD)	32.1	0.30	-0.23	32.36	33.06
	Malaysia (MYR/USD)	3.27	0.33	1.05	3.29	3.34
	Philippines (PHP/USD)	44.4	0.36	-0.41	44.41	44.73

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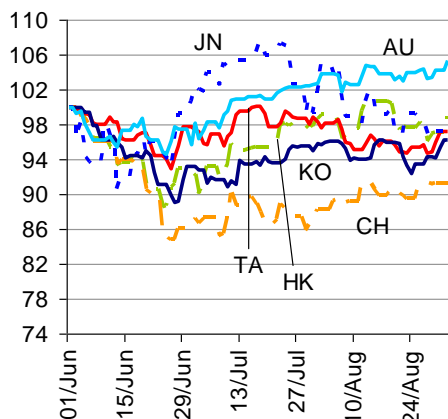
INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.75	0.01	-0.46	-0.60
	Hong Kong (HIBOR/1W)	0.12	0.00	0.00	0.00
	Taiwan (TAIBOR/1W)	0.51	0.00	0.00	0.00
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	2.56	0.00	0.00	0.00
	India (MIBOR/7D)	3.85	0.02	-0.17	-0.60
	Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00
	Indonesia (JIBOR/1W)	5.80	-0.02	0.50	0.56
	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

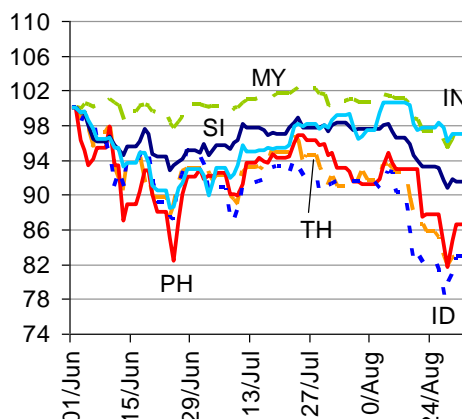
## Stock Markets



Source: BBVA Research and Bloomberg

Chart 2

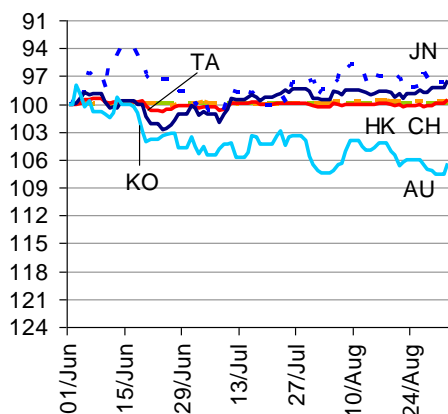
## Stock Markets



Source: BBVA Research and Bloomberg

Chart 3

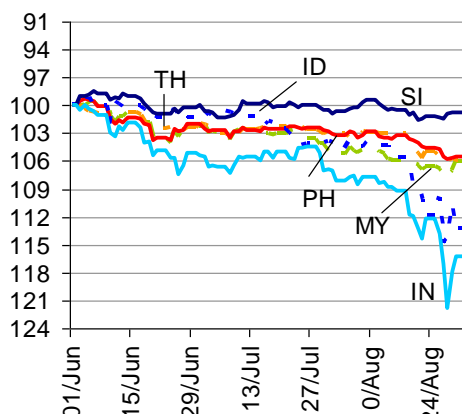
## Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4

## Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Stephen Schwartz  
Chief Economist for Asia  
[stephen.schwartz@bbva.com.hk](mailto:stephen.schwartz@bbva.com.hk)

Sumedh Deorukhkar  
Senior Economist (India, Mumbai)  
[sumedh.deorukhkar@bbva.com](mailto:sumedh.deorukhkar@bbva.com)

Fielding Chen  
Senior Economist  
[fielding.chen@bbva.com.hk](mailto:fielding.chen@bbva.com.hk)

George Xu  
Economist  
[george.xu@bbva.com.hk](mailto:george.xu@bbva.com.hk)

Le Xia  
Senior Economist  
[xia.le@bbva.com.hk](mailto:xia.le@bbva.com.hk)

Weiwei Liu  
Economist  
[carrie.liu@bbva.com.hk](mailto:carrie.liu@bbva.com.hk)



RESEARCH



10/F., Two IFC, 8 Finance Street, Central, Hong Kong | Tel.: +852 2582 3111 | [www.bbva.com.hk](http://www.bbva.com.hk)

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