

Asia Flash

Asia

A number of Asian markets reopened today on a mixed footing after holidays last week (China, Korea, Taiwan, and Hong Kong were all closed on Friday; Japan was closed today). China led advances (+1.3%) on some catch-up after a two-day holiday and positive flash PMI data (see below). But others were down after last week's Fed-inspired bounce (Thailand at -2.8% and India at -1.9%).

China September flash HSBC PMI beats expectations

The HSBC flash manufacturing PMI for September jumped to 51.2 (consensus: 50.9), for a second straight month in the +50-expansion zone (the official PMI has been above 50 for 11 months). The outturn adds to signs of a pickup in the manufacturing sector, and makes it quite likely that Q3 GDP will exceed our previous expectation of 7.5% y/y. The improvement in today's flash estimate was broad-based, with production (51.1) and new orders (52.6) subcomponents rising, along with new export orders (50.8 vs. 47.2 in August). The upbeat flash PMI reading may suggest an improvement in growth momentum among smaller firms, which are now catching up with the robust trends seen in recent months among the larger SOEs (which are better captured in the official PMI). The official manufacturing PMI will be released on October 1, and is expected to rise further from 51.0 in August; the final HSBC reading is due on September 30. Current economic trends are broadly in line with our projection of a moderate recovery in H2, with some upside potential to our full-year 7.6% GDP projection.

RBI sends tough message on inflation with unexpected rate hike

RBI's new Governor, Raghuram Rajan, delivered a surprise 25bp rate hike in his debut policy meeting on Friday. The hike brings the benchmark repo rate to 7.5%, after cumulative cuts of 125 bps since April 2012. At the same time, the RBI took advantage of recent stabilizing trends in the rupee—aided by the Fed's decision last week to delay QE tapering—to ease exceptional liquidity measures by cutting the overnight lending rate for banks to 9.5% (the so-called MSF rate was raised to 10.25% in July amidst strong currency depreciation pressures). The decision to raise the benchmark lending rate is a clear signal by the RBI that it aims to contain inflation expectations (August WPI and CPI inflation stand at 6.1% y/y and 9.5% y/y, respectively), even at the expense of near-term GDP growth, which fell to a disappointing 4.4% y/y in Q2. Going forward, we would not rule out another rate hike before year-end if inflation and the rupee fail to stabilize, although the RBI appears to be adopting a neutral stance for the time being: "The need to anchor inflation and inflation expectations has to be set against the fragile state of the industrial sector and urban demand." In the meantime, with higher interest rates and limited fiscal space we see significant downside risk to our 2013 and 2014 growth projections of 5.7% y/y and 6.4% respectively.

Briefly noted:

Hong Kong's August inflation has eased in line with expectations, to 4.5% y/y (consensus: 4.4% y/y) after July's outturn of 6.9% y/y, that was distorted by base effects from a one-off government waiver of housing rents. Netting out the effects of all government one-off relief measures, the August inflation rate was 4.3% y/y, compared to 4.2% y/y in July. The main driver of inflation in August continued to be private housing rentals, despite a recent easing in property price increases on tighter property sector measures. We expect inflation to remain steady

through end-year, for a full-year average of 4.2%.

Singapore headline inflation inched up to 2.0% y/y in August from 1.9% y/y in July, exactly in line with expectations (2.0% y/y). Accommodation costs (4.2% y/y), service (2.7% y/y) and food price (2.4% y/y) led the pickup. With core inflation (excluding accommodation and private road transport costs) also low at just 1.8% y/y, we expect the Monetary Authority of Singapore to leave its policy stance unchanged at its 6-monthly meeting in October.

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Calendar Indicators

China	Date	Period	Prior	Cons.	Actual
HSBC/Markit Flash Mfg PMI	23 Sep	Sep	50.1	50.9	51.2
Industrial Profits YTD YoY	27 Sep	Aug	11.10%	--	--
Hong Kong	Date	Period	Prior	Cons.	Actual
CPI Composite YoY	23 Sep	Aug	6.90%	4.40%	4.50%
Exports YoY	26 Sep	Aug	10.60%	4.30%	--
Japan	Date	Period	Prior	Cons.	Actual
Machine Tool Orders YoY	25 Sep	Aug F	-1.80%	--	--
Natl CPI YoY	27 Sep	Aug	0.70%	0.80%	--
Malaysia	Date	Period	Prior	Cons.	Actual
Foreign Reserves	23 Sep	13-Sep	\$134.8B	--	\$135.1B
Singapore	Date	Period	Prior	Cons.	Actual
CPI YoY	23 Sep	Aug	1.90%	2.00%	2.00%
Industrial Production YoY	26 Sep	Aug	2.70%	5.10%	--
Taiwan	Date	Period	Prior	Cons.	Actual
Unemployment Rate	23 Sep	Aug	4.18%	4.20%	4.19%
Export Orders YoY	25 Sep	Aug	0.50%	1.50%	--
Industrial Production YoY	26 Sep	Aug	2.07%	1.90%	--
Commercial Sales YoY	26 Sep	Aug	-0.67%	0.10%	--
Thailand	Date	Period	Prior	Cons.	Actual
Customs Exports YoY	25 Sep	Aug	-1.48%	0.75%	--
Foreign Reserves	27 Sep	20-Sep	\$169.1B	--	--
Vietnam	Date	Period	Prior	Cons.	Actual
CPI YoY	24 Sep	Sep	7.50%	6.70%	--
Retail Sales YTD YoY	25 Sep	Sep	12.30%	--	--
Exports YTD YoY	25 Sep	Sep	14.70%	--	--
Industrial Production YoY	25 Sep	Sep	4.40%	--	--
GDP YTD YoY	25 Sep	3Q	4.90%	5.10%	--

Calendar Events

Taiwan – CBC Benchmark Interest Rate, Sep 26	Current	Cons.	New
We expect the benchmark rate to remain unchanged	1.875%	1.875%	--

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.	2221.0	1.3	-1.5	-2.1	7.4
	Hong Kong – Hang Seng	23371.5	-0.6	2.0	3.2	13.5
	Taiwan – Weighted	8292.8	1.0	1.5	7.7	6.6
	Japan – Nikkei 225 *	14742.4	-0.2	2.5	41.8	61.8
	Korea – Kospi	2009.4	0.2	0.3	0.6	0.2
	India – Sensex 30	19901.0	-1.8	0.8	2.4	6.1
	Australia – SPX/ASX 200	5252.5	-0.5	0.1	13.0	19.1
	Singapore – Strait Times	3214.3	-0.7	1.1	1.5	4.4
	Indonesia – Jakarta Comp	4562.9	-0.5	0.9	5.7	7.5
	Thailand – SET	1436.7	-3.4	-0.6	3.2	11.7
	Malaysia – KLCI	1796.4	-0.3	1.4	6.4	10.6
	Philippines – Manila Comp.	6477.9	0.8	2.8	11.4	22.4

Last update: today, 18:30 Hong Kong time

* Close today

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	6.15	6.19
	Hong Kong (HKD/USD)	7.75	0.00	0.01	7.75	7.75
	Taiwan (TWD/USD)	29.6	-0.15	0.25	29.41	29.13
	Japan (JPY/USD)	98.92	0.44	0.16	98.87	98.60
	Korea (KRW/USD)	1074	0.11	0.75	1082	1094
	India (INR/USD)	62.6	-0.45	0.46	64.37	67.85
	Australia (USD/AUD)	0.94	0.34	1.16	1.07	1.09
	Singapore (SGD/USD)	1.25	-0.03	0.81	1.25	1.25
	Indonesia (IDR/USD)	11445	-3.53	-0.57	11880	12630
	Thailand (THB/USD)	31.3	-0.51	1.47	31.43	31.95
	Malaysia (MYR/USD)	3.20	-1.04	1.14	3.21	3.25
	Philippines (PHP/USD)	43.3	-0.52	0.77	43.12	43.18

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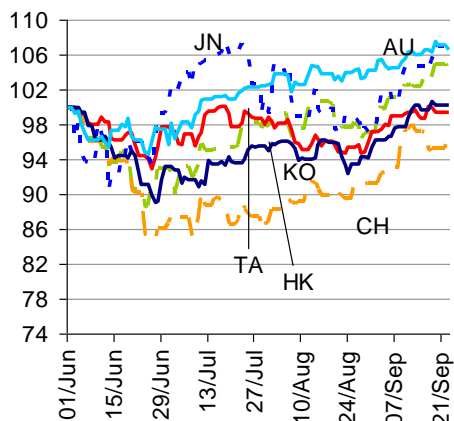
INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	4.20	0.20	0.45	0.06
	Hong Kong (HIBOR/1W)	0.12	0.00	0.00	0.00
	Taiwan (TAIBOR/1W)	0.51	0.00	0.00	0.00
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	2.56	0.00	0.00	0.00
	India (MIBOR/7D)	4.26	0.26	0.86	0.08
	Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00
	Indonesia (JIBOR/1W)	6.01	0.00	0.01	0.71
	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

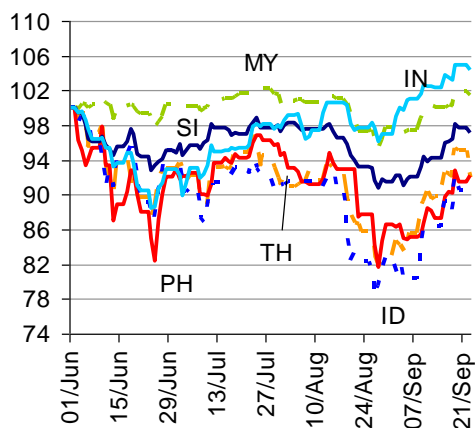
Stock Markets



Source: BBVA Research and Bloomberg

Chart 2

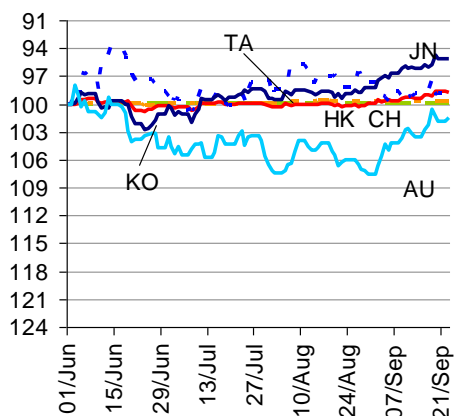
Stock Markets



Source: BBVA Research and Bloomberg

Chart 3

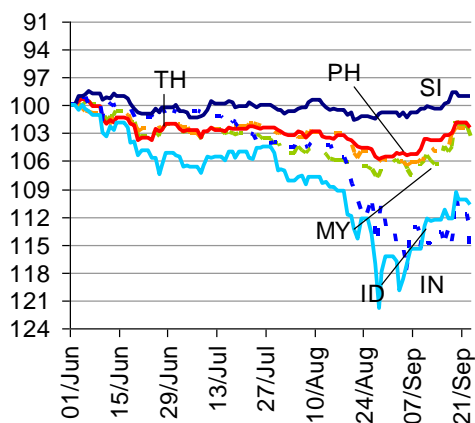
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4

Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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