

# Asia Flash

## Asia

### Japan confident on ending deflation, and talks down corporate tax cut

In its monthly economic report for August released today, Japan's Cabinet expressed confidence that the economy no longer faced chronic price declines. CPI inflation turned positive in June for the first time in a year, rising to 0.2% y/y. Despite a slightly weaker-than-expected Q2 GDP outturn (2.6% saar), the Cabinet judged that the economy is, "picking up steadily and shows some movements on the way to recovery", evidenced by rising exports, private consumption and industrial production. The Cabinet also expressed confidence that improving corporate earnings will help boost business investment, which contracted in Q2. While we agree that the economic indicators are picking up, the lack of rising investment so far is a concern, and market are still looking for implementation of robust structural reforms (the "third arrow" of Abenomics). We expect growth of 1.7% in 2013. Separately, the Finance Minister denied reports from yesterday that a corporate tax cut is under consideration. The Nikkei fell -2.1% today while the yen was broadly flat at around 98 per USD.

### India intensifies measures to stem capital outflows and stabilize the rupee

The Reserve Bank of India yesterday introduced new measures to stem capital outflows including tighter restrictions on overseas direct investments (to 100% of companies' net worth, down from 400% previously), capping outward remittances by individuals to USD 75,000 per year from USD 200,000 previously, and prohibiting outflows on acquisition of overseas property. The measures come after the Government's latest measures announced early this week to reduce the current account deficit through hikes in import duties and fuel price reforms, along with measures to boost capital inflows. The latest steps are an indication of the difficulties the government is facing in attracting capital inflows and reverse a sharp decline in the value of the currency. While the latest patchwork of measures may provide temporary relief, they are no substitute for more fundamental reforms needed to remove supply side bottlenecks to manufacturing and lift investor sentiment. Markets in India were closed today in observance of Independence Day.

### Bank Indonesia keeps interest rates on hold at monthly policy meeting

The central bank left its policy rate unchanged at 6.50% today, in line with our expectations, after back-to-back rate increases in the previous two months (75bps in total). Inflation soared in July to 8.6% y/y from the direct effects of an increase in administered fuel prices in June. In deciding to keep rates on hold, BI noted that growth is slowing (to 5.8% y/y in Q2 from 6.0% the previous quarter), and that its policy stance will keep inflation within the 3.5%-5.5% target range for next year. Given the slowdown in growth and BI's pre-emptive rate hikes in June and July, we expect rates to stay on hold for the remainder of the year. That said, with the pickup in inflation and capital outflows from QE tapering by the Fed, the currency has come under pressure (the rupiah depreciated today to a new multi-year low of 10,400 per USD). If such pressures fail to subside, more rate hikes could be in the cards.

### Briefly Noted:

**Singapore retail sales in June contracted by -4.0% y/y** (consensus: 2.3% y/y) from 3.1% in May on plummeting sales of motor vehicles (-26.9% y/y). Excluding auto sales, retail sales held up

relatively well, increasing by 2.6% y/y compared to 3.0% in the previous month. Weak auto sales in June is due to financing restrictions on auto loans introduced by the MAS (Monetary Authority of Singapore) in February 2013.

**South Korea unemployment, reported yesterday, remained unchanged at 3.2% in July** (consensus: 3.2%) from the previous month, indicating that the labor market remains firm as growth shows signs of picking up.

**Philippines overseas inward remittances in June rose by 5.8% y/y** (consensus: 5.6% y/y) from 5.3% in May. Cash remittances are closely watched as they amount to around 10% of Philippines' GDP.

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

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

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

With contributions from the BBVA Research Asia Team

## Calendar Indicators

<b>China</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Foreign Direct Investment YoY	16-20 AUG	Jul	20.10%	14.00%	--
China Property Prices	18 Aug	Jul	--	--	--
<b>Hong Kong</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
GDP YoY	16 Aug	2Q	2.80%	3.20%	--
GDP SA QoQ	16 Aug	2Q	0.20%	0.50%	--
<b>India</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Exports YoY	12 Aug	Jul	-4.60%	--	11.60%
Imports YoY	12 Aug	Jul	-0.40%	--	-6.20%
Industrial Production YoY	12 Aug	Jun	-2.80%	-1.10%	-2.20%
CPI YoY	12 Aug	Jul	9.87%	9.71%	9.64%
Wholesale Prices YoY	14 Aug	Jul	4.86%	5.00%	5.79%
<b>Japan</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Industrial Production MoM	12 Aug	Jun F	-3.30%	--	-3.10%
GDP SA QoQ	12 Aug	2Q P	0.90%	0.90%	0.60%
GDP Annualized SA QoQ	12 Aug	2Q P	3.80%	3.60%	2.60%
Machine Orders MoM	13 Aug	Jun	10.50%	-7.00%	-2.70%
<b>Philippines</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Exports YoY	13 Aug	Jun	-0.80%	8.10%	4.10%
Overseas Remittances YoY	15 Aug	Jun	5.30%	5.60%	5.80%
<b>Singapore</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
GDP YoY	12 Aug	2Q F	3.70%	3.50%	3.80%
GDP SAAR QoQ	12 Aug	2Q F	15.20%	14.20%	15.50%
Retail Sales YoY	15 Aug	Jun	3.10%	2.30%	-4.00%
Non-oil Domestic Exports YoY	16 Aug	Jul	-8.80%	-2.90%	--
<b>South Korea</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Unemployment Rate	14 Aug	Jul	3.20%	3.20%	3.20%
<b>Taiwan</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
GDP YoY	16 Aug	2Q F	2.27%	2.30%	--

## Calendar Events

<b>Indonesia – BI Reference Rate, Aug 15</b>	<b>Current</b>	<b>Cons.</b>	<b>New</b>
We expect the benchmark rate to remain unchanged	6.50%	6.50%	6.50%

## 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.	2081.9	-0.9	1.8	-8.3	-1.7
Hong Kong – Hang Seng	22539.3	0.0	4.4	-0.5	11.1	
Taiwan – Weighted	7887.3	-0.8	-0.3	2.4	5.6	
Japan – Nikkei 225	13752.9	-2.1	1.1	32.3	54.1	
Korea – Kospi	1923.9	0.6	2.4	-3.7	-1.7	
India – Sensex 30	19367.6	0.7	3.4	-0.3	9.2	
Australia – SPX/ASX 200	5152.4	-0.1	1.7	10.8	20.3	
Singapore – Strait Times	3220.9	-0.9	-0.1	1.7	5.2	
Indonesia – Jakarta Comp	4685.1	-0.3	1.3	8.5	13.1	
Thailand – SET	1453.1	-0.5	1.6	4.4	18.4	
Malaysia – KLCI	1792.2	-0.1	0.4	6.1	8.4	
Philippines – Manila Comp.	6580.7	-1.1	2.5	13.2	25.0	

Last update: today, 18:30 Hong Kong time

FOREIGN EXCHANGE MARKETS	CURRENCY	Spot	% change over a day	% change over a week	Forward 3-month	Forward 12-month
	China (CNY/USD)	6.11	0.11	0.12	6.18	6.25
Hong Kong (HKD/USD)	7.75	0.01	0.02	7.75	7.75	
Taiwan (TWD/USD)	30.0	0.02	-0.06	29.90	29.75	
Japan (JPY/USD)	98.10	0.04	-1.46	98.05	97.75	
Korea (KRW/USD)	1117	0.12	-0.40	1124	1135	
India (INR/USD)	61.4	-0.40	-0.24	62.83	66.39	
Australia (USD/AUD)	0.92	0.39	0.58	1.10	1.12	
Singapore (SGD/USD)	1.27	-0.10	-0.89	1.27	1.27	
Indonesia (IDR/USD)	10409	-1.08	-0.95	10876	11566	
Thailand (THB/USD)	31.3	-0.06	-0.29	31.45	31.84	
Malaysia (MYR/USD)	3.28	-0.10	-0.93	3.30	3.35	
Philippines (PHP/USD)	43.8	-0.06	-0.43	43.81	44.07	

Last update: today, 18:30 Hong Kong time.

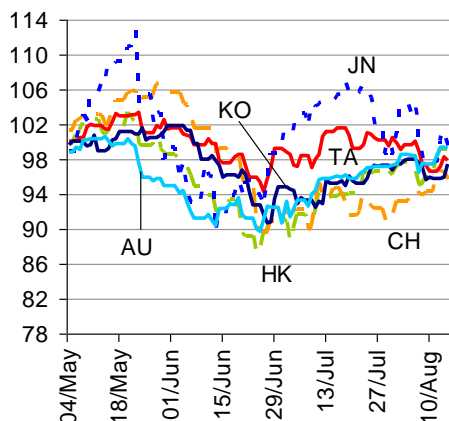
INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.95	0.10	0.32	0.14
Hong Kong (HIBOR/1W)	0.12	0.00	0.00	0.00	
Taiwan (TAIBOR/1W)	0.52	0.00	0.00	-0.01	
Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01	
Korea (KORIBOR/1M)	2.56	0.01	0.00	-0.01	
India (MIBOR/7D)	4.55	-1.45	0.70	0.75	
Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00	
Indonesia (JIBOR/1W)	5.30	0.01	-0.02	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	

Last update: today, 18:30 Hong Kong time

# Charts

Chart 1

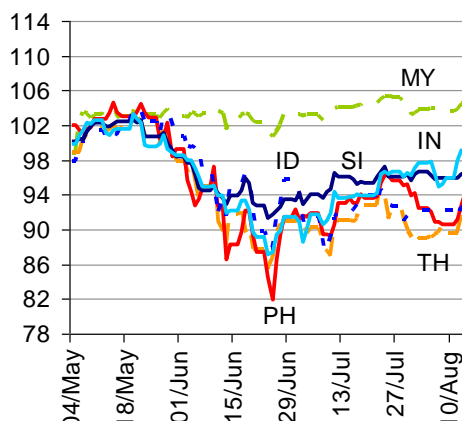
## Stock Markets



Source: BBVA Research and Bloomberg

Chart 2

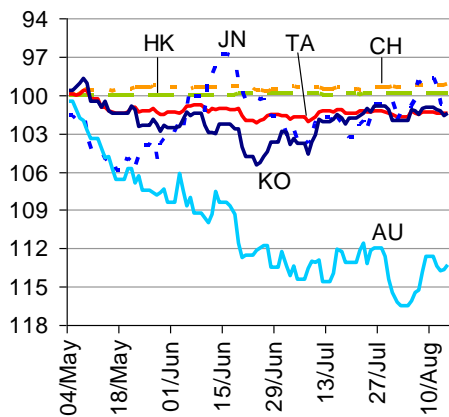
## Stock Markets



Source: BBVA Research and Bloomberg

Chart 3

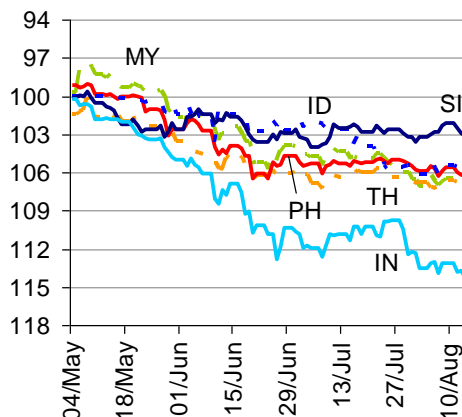
## Foreign Exchange Markets



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

Fielding Chen  
Senior Economist  
fielding.chen@bbva.com.hk

Le Xia  
Senior Economist  
xia.le@bbva.com.hk

Sumedh Deorukhkar  
Senior Economist (India, Mumbai)  
sumedh.deorukhkar@bbva.com

George Xu  
Economist  
george.xu@bbva.com.hk

Weiwei Liu  
Economist  
carrie.liu@bbva.com.hk



RESEARCH



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

Before you print this message please consider if it is really necessary.

This email and its attachments are subject to the confidentiality terms established in the corresponding regulations and are intended for the sole use of the person or persons indicated in the header. They are for internal use only and cannot be distributed, copied, conveyed or furnished to third parties without prior written consent from BBVA. If this message has been received erroneously, it is forbidden to read, use or copy any of the contents and you are asked to inform BBVA immediately by forwarding the email to the sender and eliminating it thereafter.

BBVA will continue to provide our readers up-to-date reports by emails, but you can also register directly on our website where you can find a full list of our latest reports & presentations <http://serviciodeestudios.bbva.com/KETD/ketd/ing/index.jsp>

If you wish to be excluded from this mailing list, please write to us on [research.emergingmarkets@bbva.com.hk](mailto:research.emergingmarkets@bbva.com.hk) and we shall immediately take you off the list.