

Asia Flash

Asia

India and Indonesia seek to calm investor jitters

India and Indonesia are the region's two economies most affected so far by the global EM selloff. Their currencies have each depreciated by around 7-8% against the USD so far this month. Outflows have been exacerbated by country-specific factors, including widening current account deficits, lagging structural reforms and, in the case of India, recent policy missteps. In that context, India's Finance Minister and central bank Governor yesterday reiterated that they have no plans to introduce capital controls, after investor fears were sparked by last week's decision to introduce tighter restrictions on outward remittances of domestic companies and individuals. Meanwhile, in Indonesia, the government today announced a package of measures to address the widening current account deficit and ease inflation pressures (see below). Volatility in these markets is likely to persist while global investors assess prospects for QE tapering, but we expect outflow pressures to subside eventually given adequate fx reserve levels and strong medium-term growth prospects. Equity and currency markets in both economies were relatively calm today.

Indonesia government announces measures to restore macro stability

As anticipated, the government today announced a policy package to address the widening current account deficit and high inflation. Monday's release of an unexpectedly large Q2 current account deficit (\$9.8 billion, or 4.4% of GDP), and July's high inflation outturn (8.6% y/y) have undermined investor sentiment, exacerbating capital outflows. The thrust of today's four-part package aims to reduce the current account deficit and stem currency pressures by reducing fuel imports (through the promotion of domestically-generated biodiesel products) and the elimination of mineral export quotas. It also seeks to support growth momentum through tax incentives for labor-intensive industry, to ease inflation pressures through the elimination of import quotas on beef and horticulture products, and to increase investment by streamlining approvals and revising the negative investment list. Our bottom line: the package itself is likely to do little to calm currency pressures in the near term; nevertheless, some of the measures announced today represent a welcome reversal of protectionist measures implemented over the past year – in the Finance Minister's words, "Good times make for bad policy, while bad times make for good policies."

Briefly noted:

China July FDI inflows beat expectations, increasing by 24.1% y/y (consensus: 14.0%) after June's jump to 20.1% y/y. The July outturn marks the sixth straight month of year-over-year gains (7.1% ytd y/y) on improving investor sentiment as growth begins to stabilize. Outward FDI (non-financial sector) also remains resilient, growing by 20% y/y ytd (vs. 12.6% in 2012).

Taiwan industrial output rose in July, for the first time in six months, by 2.1% y/y (consensus: -0.5% y/y) compared to -0.4% y/y in June. The growth was led by improved manufacturing output. Together with positive export orders, the IP outturn suggests that growth momentum may continue to improve after a better-than-expected Q2 GDP outturn of 2.5%. Our full-year GDP projection stands at 2.7%.

Singapore headline inflation edged up to 1.9% y/y in July from 1.8% y/y in June, below market expectations (2.1% y/y). Higher private road transport costs due to the introduction of an emissions-related surcharge, was the main driver behind the pickup. We expect inflationary pressure in Singapore to remain largely contained through the remainder of this year, which should enable the MAS to maintain a supportive monetary stance at its next policy meeting in October.

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

China	Date	Period	Prior	Cons.	Actual
Foreign Direct Investment YoY	23 Aug	Jul	20.10%	14.00%	24.10%
HSBC/Markit Flash Mfg PMI	22 Aug	Aug	47.7	48.2	50.1
Hong Kong	Date	Period	Prior	Cons.	Actual
Composite Interest Rate	19 Aug	Jul	0.32%	--	0.32%
Unemployment Rate SA	19 Aug	Jul	3.30%	3.30%	3.30%
CPI Composite YoY	20 Aug	Jul	4.10%	4.90%	6.90%
Japan	Date	Period	Prior	Cons.	Actual
Exports YoY	19 Aug	Jul	7.40%	12.80%	12.20%
Imports YoY	19 Aug	Jul	11.80%	16.00%	19.60%
Trade Balance	19 Aug	Jul	-¥182.3B	-¥773.5B	-¥1024.0B
All Industry Activity Index MoM	20 Aug	Jun	1.20%	-0.70%	-0.60%
Malaysia	Date	Period	Prior	Cons.	Actual
GDP YoY	21 Aug	2Q	4.10%	4.70%	4.30%
CPI YoY	21 Aug	Jul	1.80%	2.00%	2.00%
BoP Current Account Balance	21 Aug	2Q	8.7B	0.9B	2.6B
Singapore	Date	Period	Prior	Cons.	Actual
CPI YoY	23 Aug	Jul	1.80%	2.10%	1.90%
Taiwan	Date	Period	Prior	Cons.	Actual
Export Orders YoY	20 Aug	Jul	-3.50%	-1.00%	0.50%
Unemployment Rate	22 Aug	Jul	4.17%	4.18%	4.18%
Commercial Sales YoY	23 Aug	Jul	-0.27%	-0.26%	-0.67%
Industrial Production YoY	23 Aug	Jul	-0.40%	-0.53%	2.07%
Thailand	Date	Period	Prior	Cons.	Actual
GDP YoY	19 Aug	2Q	5.40%	3.30%	2.80%
GDP SA QoQ	19 Aug	2Q	-1.70%	0.20%	-0.30%
Vietnam	Date	Period	Prior	Cons.	Actual
CPI YoY	24 Aug	Aug	7.29%	7.35%	--

Calendar Events

Thailand – Benchmark Interest Rate , Aug 21	Current	Cons.	New
We expect the benchmark rate to remain unchanged	2.50%	2.50%	2.50%

Upcoming Calendar Indicators

China	Date	Period	Prior	Cons.	Actual
Industrial Profits YTD YoY	27 Aug	Jul	11.10%	--	--
Manufacturing PMI	01 Sep	Aug	50.3	50.5	--
Hong Kong	Date	Period	Prior	Cons.	Actual
Trade Balance	27 Aug	Jul	-49.7B	-44.9B	--
Imports YoY	27 Aug	Jul	1.40%	5.00%	--
Exports YoY	27 Aug	Jul	-0.20%	4.00%	--
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%	-0.10%	--
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%	3.70%	--
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
Imports YoY	27 Aug	Jun	-2.40%	1.90%	--
Trade Balance	27 Aug	Jun	-\$364M	-\$512M	--
GDP YoY	29 Aug	2Q	7.80%	7.30%	--
Singapore	Date	Period	Prior	Cons.	Actual
Industrial Production YoY	26 Aug	Jul	-5.90%	1.80%	--
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%	--
Imports YoY	01 Sep	Aug	3.20%	2.40%	--
Trade Balance	01 Sep	Aug	\$2540M	\$2000M	--
Thailand	Date	Period	Prior	Cons.	Actual
Customs Exports YoY	26-28 AUG	Jul	-3.38%	1.00%	--
Vietnam	Date	Period	Prior	Cons.	Actual
Industrial Production YoY	25-31 AUG	Aug	7.00%	--	--
Retail Sales YTD (YoY)	25-31 AUG	Aug	12.00%	--	--
Exports YTD YoY	25-31 AUG	Aug	14.30%	--	--

Upcoming 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 date	Year to date	% change over 1 Y
	China – Shanghai Comp.	2057.5		-0.5	-0.5	-9.3
Hong Kong – Hang Seng	21863.5		-0.1	-2.9	-3.5	8.6
Taiwan – Weighted	7873.3		0.8	-0.2	2.3	4.9
Japan – Nikkei 225	13660.6		2.2	0.1	31.4	48.8
Korea – Kospi	1870.2		1.1	-2.6	-6.4	-3.7
India – Sensex 30	18519.4		1.1	-0.4	-4.7	3.7
Australia – SPX/ASX 200	5123.4		0.9	0.2	10.2	16.9
Singapore – Strait Times	3088.9		0.0	-3.4	-2.5	1.1
Indonesia – Jakarta Comp	4169.8		0.0	-8.7	-3.4	0.2
Thailand – SET	1338.1		-1.0	-7.4	-3.9	8.1
Malaysia – KLCI	1721.1		0.0	-3.8	1.9	4.2
Philippines – Manila Comp.	6161.2		0.4	-6.0	6.0	18.4

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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	-0.13	6.18
Hong Kong (HKD/USD)	7.76		0.00	-0.02	7.75	7.75
Taiwan (TWD/USD)	30.0		0.12	-0.25	29.90	29.74
Japan (JPY/USD)	98.96		-0.24	-1.45	98.91	98.59
Korea (KRW/USD)	1117		0.52	-0.31	1120	1130
India (INR/USD)	64.0		1.00	-3.62	65.75	69.20
Australia (USD/AUD)	0.90		-0.09	-2.01	1.12	1.14
Singapore (SGD/USD)	1.28		0.16	-0.83	1.28	1.28
Indonesia (IDR/USD)	11058		-1.65	-5.68	11716	12541
Thailand (THB/USD)	31.9		0.41	-2.01	32.30	32.71
Malaysia (MYR/USD)	3.30		0.27	-0.71	3.32	3.38
Philippines (PHP/USD)	44.2		-0.08	-1.29	44.21	44.50

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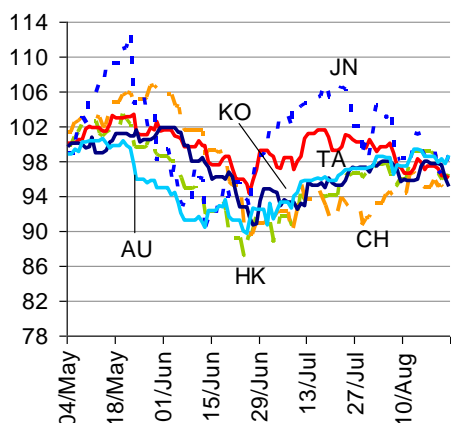
INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	4.14		0.03	0.39
Hong Kong (HIBOR/1W)	0.12		0.00	0.00	0.00
Taiwan (TAIBOR/1W)	0.52		0.00	0.00	-0.01
Japan (TIBOR/1Y)	0.76		0.00	0.01	0.01
Korea (KORIBOR/1M)	2.56		0.00	0.00	0.00
India (MIBOR/7D)	4.18		-0.74	0.35	0.20
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

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Charts

Chart 1

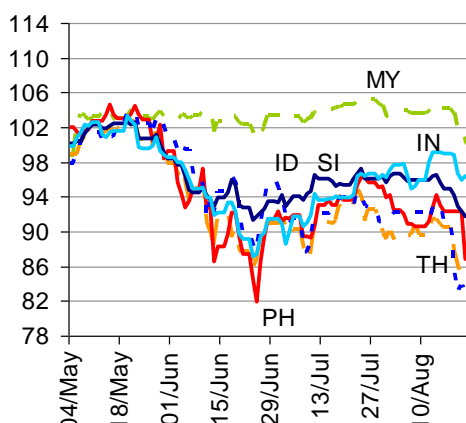
Stock Markets



Source: BBVA Research and Bloomberg

Chart 2

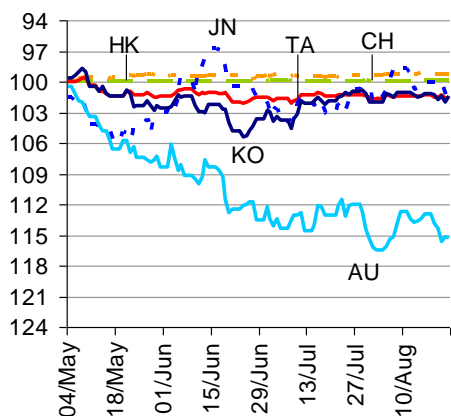
Stock Markets



Source: BBVA Research and Bloomberg

Chart 3

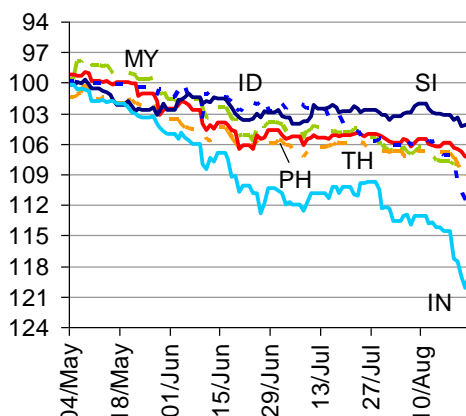
Foreign Exchange Markets



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


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

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

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