

# 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.

Stephen Schwartz  
Chief Economist for Asia  
[stephen.schwartz@bbva.com.hk](mailto:stephen.schwartz@bbva.com.hk)  
+852 2582 3218

Weiwei Liu  
Economist  
[carrie.liu@bbva.com.hk](mailto:carrie.liu@bbva.com.hk)  
+852 2582 3243

George Xu  
Economist  
[george.xu@bbva.com.hk](mailto:george.xu@bbva.com.hk)  
+852 2582 3121

With contributions from the BBVA Research Asia Team

## 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<br>over a day | % change<br>over a week | Year to<br>date | % change<br>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<br>over a day | % change<br>over a week | Forward<br>3-month | Forward<br>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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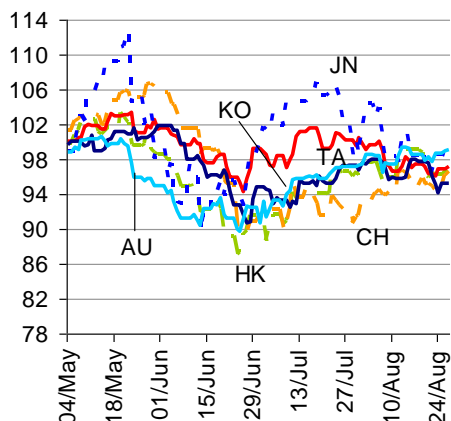
| INTERBANK RATES | INDEX                   | Rate | net change over<br>a day | net change<br>over a week | net change<br>over a month |
|-----------------|-------------------------|------|--------------------------|---------------------------|----------------------------|
|                 | China (SHIBOR/7D)       | 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

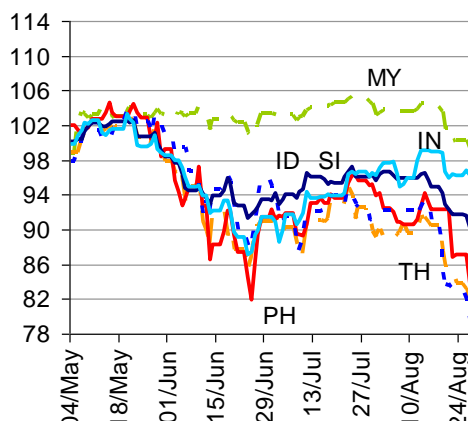
## Stock Markets



Source: BBVA Research and Bloomberg

Chart 2

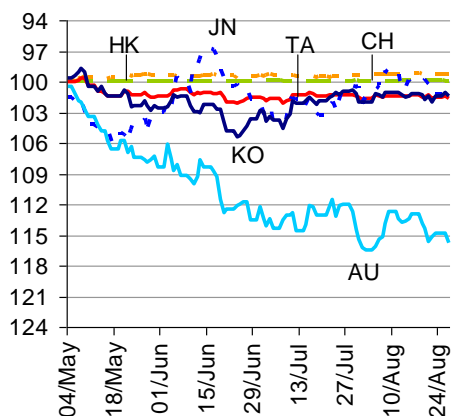
## Stock Markets



Source: BBVA Research and Bloomberg

Chart 3

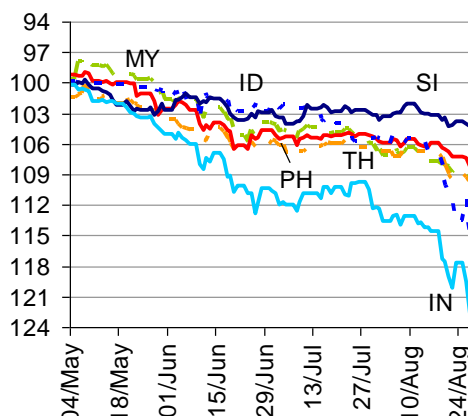
## Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4

## Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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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