

Asia Flash

Asia

The selloff in Asian markets took a respite today as fears of an imminent escalation in the Syria crisis seemed to ease temporarily, and as policymakers in Indonesia and India took more steps to stem pressures in their currency markets (see below). Stock market gains were led today by the Philippines (+3.6%) on positive Q2 GDP (see below), followed by India (+2.2%) and Indonesia (+1.9%).

Bank Indonesia hikes interest rates to stem currency depreciation

Amidst further downward currency pressures, the central bank hiked interest rates today by 50bps to 7.00%, the highest level since June 2009. The move comes exactly two weeks after BI kept rates on hold at its regularly scheduled policy meeting on August 15. BI has now hiked rates by a cumulative 125bps since June in response to both a surge in inflation (8.6% y/y in July) from an administered fuel price increase on June 24, and currency pressures. On August 23 the government announced a policy package to address the widening current account deficit (4.4% of GDP in Q2), but the measures were long-term in nature and proved insufficient to boost investor sentiment and stem capital outflows. With growth slowing and core inflation still manageable (4.5% y/y in July) further interest rate hikes are unlikely in our view, but will depend on the evolution of capital flows and currency pressures. The rupiah appreciated to 10,900 per USD today, but is still down by 10.4% for the year.

India expands measures to stem currency pressures

In a bid to curb the downward currency spiral – the rupee yesterday reached a fresh low of 68.8 per USD – the Reserve Bank of India yesterday opened a special window to supply dollars to public sector oil companies. The latest measure comes on top of steps taken in recent weeks that include tightening short term rupee liquidity, curbs on gold imports, restrictions on residents' capital outflows, easier norms for overseas borrowing, and higher foreign investment limits across key sectors including multi-brand retail. Policymakers are reportedly mulling over currency swap arrangements with trading partners, including China and the Euro-zone to help augment rupee stability while strengthening economic and financial cooperation. The rupee today strengthened to 67.0 per USD from yesterday's weak point. The key to achieving a more durable boost to investor confidence, however, will be bolder structural reforms to reduce fuel subsidies, improve land acquisition for infrastructure development, and open additional sectors to foreign investment such as insurance and pension. In the meantime, markets will be watching for tomorrow's Q2 GDP release (BBVA: 5.3% y/y, consensus: 4.6%, prior: 4.8%), in which we expect a mild upside surprise from government spending and favourable agricultural output, despite risks to the outlook for the remainder of the year.

Philippines Q2 GDP beats expectations

In contrast to relatively disappointing Q2 GDP outturns in Indonesia (5.8%), Malaysia (4.3%), and Thailand (2.8%), the Philippines today posted an impressive 7.5% y/y (consensus: 7.2%; Q1: 7.7%) reading. Growth was led by domestic demand, especially private consumption and government spending. Given the strong first-half outturn, growth is likely to exceed our 6.1% full-year projection. However, the Philippines has not been spared recent emerging market currency and stock market turmoil, which may weigh on investment and growth during the remainder of the year.

China expands asset securitization in latest financial liberalization step

The State Council announced on Wednesday an expansion of a pilot securitization program, to reduce capital constraints and enable banks to expand their business activities. The existing pilot program was initiated in 2005 but was halted in 2008 at the onset of the global financial crisis, and resumed in 2011 on a limited scale. In addition to alleviating capital constraints, an

expansion of securitization would have a number of benefits including risk mitigation and an increased range of asset products for investors. Based on the experience in other countries, we would expect securitization to benefit financial institutions engaged in retail businesses such as credit cards, auto-finance, mortgages and consumer finance. The authorities appear to be moving gradually in order to monitor risks inherent in the complexity of securitized products, such as occurred with the US subprime crisis in 2008.

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Calendar Indicators

| China | Date | Period | Prior | Cons. | Actual |
|--------------------------------|-------------|---------------|--------------|--------------|---------------|
| Industrial Profits YTD YoY | 27 Aug | Jul | 11.10% | -- | 11.10% |
| 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% | 0.10% | -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 | 7.70% | 7.20% | 7.50% |
| 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% | -- |
| 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

Indonesia – Reference rate, Aug 29

Current
6.50%

Cons.
--

New
7.00%

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. | 2097.2 | -0.2 | 1.5 | -7.6 | 2.1 |
| Hong Kong – Hang Seng | 21704.8 | 0.8 | -0.9 | -4.2 | 9.7 | |
| Taiwan – Weighted | 7917.7 | 1.2 | 1.3 | 2.8 | 7.1 | |
| Japan – Nikkei 225 | 13459.7 | 0.9 | 0.7 | 29.5 | 48.4 | |
| Korea – Kospi | 1907.5 | 1.2 | 3.2 | -4.5 | -1.1 | |
| India – Sensex 30 | 18401.0 | 2.2 | 0.5 | -5.3 | 5.2 | |
| Australia – SPX/ASX 200 | 5092.4 | 0.1 | 0.3 | 9.5 | 16.9 | |
| Singapore – Strait Times | 3038.0 | 1.1 | -1.7 | -4.1 | -0.1 | |
| Indonesia – Jakarta Comp | 4103.6 | 1.9 | -1.6 | -4.9 | 0.3 | |
| Thailand – SET | 1292.5 | 1.3 | -4.4 | -7.1 | 5.9 | |
| Malaysia – KLCI | 1703.8 | 1.0 | -1.0 | 0.9 | 3.5 | |
| Philippines – Manila Comp. | 5944.2 | 3.6 | -8.9 | 2.3 | 14.4 | |

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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 | 0.01 | 6.18 | 6.24 |
| Hong Kong (HKD/USD) | 7.76 | 0.01 | 0.00 | 7.75 | 7.75 | |
| Taiwan (TWD/USD) | 30.0 | 0.04 | 0.16 | 29.88 | 29.70 | |
| Japan (JPY/USD) | 98.15 | -0.52 | 0.58 | 98.11 | 97.80 | |
| Korea (KRW/USD) | 1110 | 0.50 | 1.17 | 1120 | 1131 | |
| India (INR/USD) | 67.0 | 2.74 | -3.53 | 69.06 | 72.71 | |
| Australia (USD/AUD) | 0.89 | -0.12 | -0.87 | 1.13 | 1.15 | |
| Singapore (SGD/USD) | 1.28 | 0.02 | 0.53 | 1.28 | 1.28 | |
| Indonesia (IDR/USD) | 10935 | 3.02 | -0.55 | 11609 | 12469 | |
| Thailand (THB/USD) | 32.2 | -0.03 | -0.47 | 32.64 | 33.27 | |
| Malaysia (MYR/USD) | 3.31 | 0.64 | -0.11 | 3.33 | 3.38 | |
| Philippines (PHP/USD) | 44.7 | 0.18 | -1.09 | 44.69 | 45.01 | |

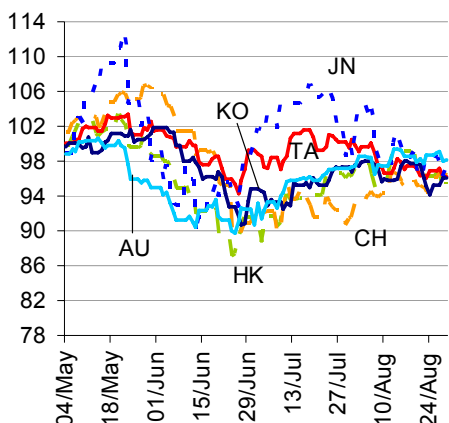
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| INTERBANK RATES | INDEX | Rate | net change over a day | net change over a week | net change over a month |
|-------------------------|-------------------|-------|-----------------------|------------------------|-------------------------|
| | China (SHIBOR/7D) | 4.32 | 0.11 | 0.18 | -0.67 |
| Hong Kong (HIBOR/1W) | 0.12 | 0.00 | 0.00 | 0.00 | |
| Taiwan (TAIBOR/1W) | 0.51 | 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 | -1.60 | -0.51 | -0.76 | |
| Singapore (SIBOR/1W) | 0.25 | 0.00 | 0.00 | 0.00 | |
| Indonesia (JIBOR/1W) | 5.34 | 0.02 | 0.03 | 0.15 | |
| 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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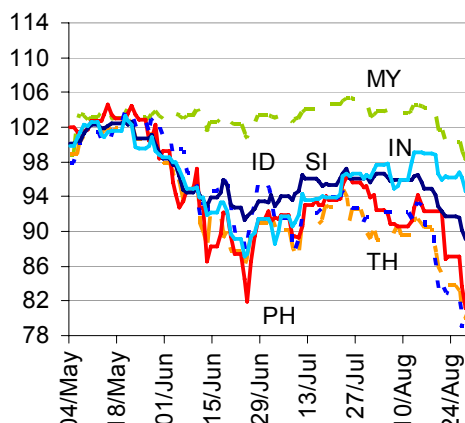
Charts

Chart 1
Stock Markets



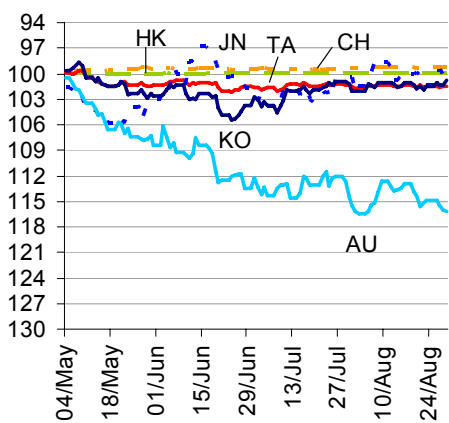
Source: BBVA Research and Bloomberg

Chart 2
Stock Markets



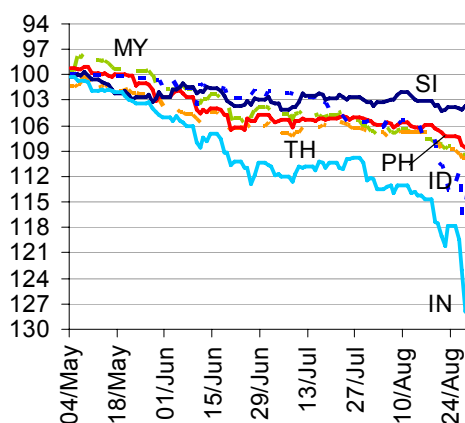
Source: BBVA Research and Bloomberg

Chart 3
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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