

Asia Flash

Asia

Markets across Asia were mostly calm for a second straight day, on positive global trends and a decline in geopolitical tensions with Syria. Recent steps by the region's policymakers have also helped, including yesterday's 50bp rate hike in Indonesia and efforts in India to reinvigorate investment reforms (see below). A raft of important data lies ahead, beginning with India's Q2 GDP to be released today (too late to make this issue of the Asia Flash), China's August official manufacturing PMI (consensus: 50.6) and Korea's August exports (consensus: 3.8% y/y) on September 1. Next week will also feature monetary policy meetings in Australia, Japan and Malaysia, where we expect all three to stay the course.

Japan inflation and activity indicators are moving in the right direction

In a positive sign that deflation is ending, Japanese CPI inflation picked up in line with expectations, to 0.7% y/y in July (consensus: 0.7%; prior: 0.2%) its highest rate since end-2008, although still well short of the official 2% target. In addition, after a dip in June, July activity indicators picked up, providing further evidence that the expansionary monetary and fiscal policies are working in the right direction. In particular, industrial production rebounded by 3.6% sa m/m after a -3.1% contraction in June, and household spending rose by 0.1% y/y (consensus: 0.3%; prior: -0.4%). Meanwhile, the unemployment rate declined to 3.8% (consensus: 3.9%; prior: 3.9%). Today's positive data are broadly in line with our GDP growth projection of 1.7% in 2013 (consensus: 1.9%), and should help make the case for the government to proceed with its planned consumption tax hike in 2014-15. Nevertheless, there is still uncertainty given fears among policymakers that the economic pickup is not yet on a strong footing. In that regard, investment has remained disappointingly weak. A final decision on the tax hike is expected by the government in September or October.

Chinese bank profits still strong, but moderate in the first half

First-half 2013 financial results of the 16 listed banks released over the past two weeks (covering around 70% of total bank loans) show that aggregate profit growth slowed to 13.6% y/y from 18.9% in full-year 2012. The first half outturn was generally better-than-expected, as fee and commission income helped offset a decline in interest rate margins (NIMs) after last year's steps by the authorities to increase deposit and interest rate flexibility. However, a significant rise in overdue loans could suggest that underlying profit trends may be worse than it appears. That said, given the positive first half outturn, profit growth for 2013 is likely to exceed our 2% growth projection (see [Banking Watch](#) from June 2013 for details). In the meantime, we continue to expect profit growth to decline in the coming quarters due to slowing credit growth, narrower interest margins, and deteriorating asset quality.

India's Parliament moves closer to approving important land acquisition bill

Amidst pressure to accelerate investment reforms in view of recent capital outflows and currency pressures, India's lower house of parliament voted yesterday to approve the crucial land acquisition bill, which aims to facilitate infrastructure development while protecting the rights of displaced people through timely compensation and rehabilitation. It now awaits upper house approval. Although the bill has faced industry criticism and its effective implementation remains in doubt, passage should help revive the overall momentum of reform, which is crucial to the government's efforts to regain investor confidence.

Briefly noted:

South Korea's industrial production rose in year-over-year terms in July (0.9% y/y in July vs. consensus: -0.9% y/y), underlying the economy's resilience even in the face of market turbulence from QE tapering. On a month-on-month basis, however, the result was less

impressive (-0.1% sa m/m vs. consensus: 0.3%). Korea has so far fared well in the current turmoil as investor inflows continue, in recognition of the steps taken in recent years to reduce external short-term debt, which had been a key vulnerability. Recall that Q2 GDP growth accelerated in Q2 (2.3% y/y) on a pickup in private consumption and fiscal stimulus measures, boosted by a May interest rate cut. We expect full-year growth of 2.7% in 2013.

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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%
Natl CPI YoY	30 Aug	Jul	0.20%	0.70%	0.70%
Tokyo CPI YoY	30 Aug	Aug	0.40%	0.50%	0.50%
Jobless Rate	30 Aug	Jul	3.90%	3.90%	3.80%
Markit/JMMA Manufacturing PMI	30 Aug	Aug	50.7	--	52.2
Industrial Production MoM	30 Aug	Jul P	-3.10%	3.60%	3.20%
Overall Household Spending YoY	30 Aug	Jul	-0.40%	0.30%	0.10%
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	-2.50%	-0.90%	0.90%
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	-\$475M	-\$709M
Foreign Reserves	30 Aug	Aug 23	\$172.0B	--	\$170.5B
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	Cons.	New
6.50%	--	7.00%

Indicator of the Week

China: NBS Manufacturing PMI (Aug, Sept 1st)

Forecast: 50.5

Consensus: 50.6

Prior: 50.3

We expect the official NBS manufacturing PMI for August to improve modestly, as a number of recent economic indicators have showed signs of a pickup. In particular July industrial production and exports strengthened, and the flash HSBC manufacturing PMI for August (released on August 22) rose to above 50 for the first time since April (50.2 vs 47.7 in July). These strengthening indicators have provided some confidence that growth momentum is finally stabilizing after a slowdown during the first half of the year. We expect growth momentum to continue during the rest of the year on supportive policy measures, for a full-year growth projection of 7.6%. External demand is also expected to improve, although there are renewed downside risks from the current financial turmoil emerging markets from Fed QE tapering and geo-political tensions in the Middle East.

Upcoming Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
BoP Current Account Balance	03 Sep	2Q	-8.5B	-8.5B	--
Retail Sales MoM	03 Sep	Jul	0.00%	0.40%	--
GDP SA QoQ	04 Sep	2Q	0.60%	0.60%	--
GDP YoY	04 Sep	2Q	2.50%	2.50%	--
Trade Balance	05 Sep	Jul	602M	150M	--
China	Date	Period	Prior	Cons.	Actual
Manufacturing PMI	01 Sep	Aug	50.3	50.6	--
HSBC/Markit Manufacturing PMI	02 Sep	Aug	47.7	50.2	--
Non-manufacturing PMI	03 Sep	Aug	54.1	--	--
HSBC/Markit Services PMI	04 Sep	Aug	51.3	--	--
Hong Kong	Date	Period	Prior	Cons.	Actual
Retail Sales Value YoY	02 Sep	Jul	14.70%	--	--
HSBC/Markit PMI	04 Sep	Aug	49.7	--	--
Indonesia	Date	Period	Prior	Cons.	Actual
HSBC/Markit Manufacturing PMI	02 Sep	Aug	50.7	--	--
CPI YoY	02 Sep	Aug	8.61%	8.95%	--
Exports YoY	02 Sep	Jul	-4.50%	-5.00%	--
Foreign Reserves	03-09 SEP	Aug	\$92.67B	--	--
India	Date	Period	Prior	Cons.	Actual
HSBC/Markit Manufacturing PMI	02 Sep	Aug	50.1	--	--
HSBC/Markit Services PMI	04 Sep	Aug	47.9	--	--
Japan	Date	Period	Prior	Cons.	Actual
Capital Spending YoY	02 Sep	2Q	-3.90%	--	--
Monetary Base YoY	03 Sep	Aug	38.00%	--	--
Malaysia	Date	Period	Prior	Cons.	Actual
Exports YoY	06 Sep	Jul	-6.90%	--	--
Philippines	Date	Period	Prior	Cons.	Actual
CPI YoY	05 Sep	Aug	2.50%	2.40%	--
Foreign Reserves	06 Sep	Aug	\$83.2B	--	--
Singapore	Date	Period	Prior	Cons.	Actual
Purchasing Managers Index	03 Sep	Aug	51.8	51.9	--
South Korea	Date	Period	Prior	Cons.	Actual
Exports YoY	01 Sep	Aug	2.60%	3.80%	--
CPI YoY	02 Sep	Aug	1.40%	1.50%	--
HSBC/Markit Manufacturing PMI	02 Sep	Aug	47.2	--	--
GDP SA QoQ	05 Sep	2Q F	1.10%	--	--
GDP YoY	05 Sep	2Q F	2.30%	--	--
Taiwan	Date	Period	Prior	Cons.	Actual
HSBC/Markit Manufacturing PMI	02 Sep	Aug	48.6	--	--
CPI YoY	05 Sep	Aug	0.08%	-0.25%	--
Wholesale Price Index YoY	05 Sep	Aug	-2.13%	--	--
Thailand	Date	Period	Prior	Cons.	Actual
CPI YoY	02 Sep	Aug	2.00%	1.80%	--
Vietnam	Date	Period	Prior	Cons.	Actual
HSBC/Markit Manufacturing PMI	03 Sep	Aug	48.5	--	--

Upcoming Calendar Events

Australia - RBA Cash Target, Sep 3 We expect the benchmark rate to remain unchanged	Current 2.50%	Cons. 2.50%	New --
Japan - BoJ Target Target, Sep 5 We expect the benchmark rate to remain unchanged	Current 0.10%	Cons. 0.10%	New --
Malaysia - Overnight Policy Rate, Sep 5 We expect the benchmark rate to remain unchanged	Current 3.00%	Cons. 3.00%	New --

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.	2098.4	0.1	2.0	-7.5	2.2
Hong Kong - Hang Seng	21731.4	0.1	-0.6	-4.1	11.1	
Taiwan - Weighted	8021.9	1.3	1.9	4.2	8.8	
Japan - Nikkei 225	13388.9	-0.5	-2.0	28.8	49.0	
Korea - Kospi	1926.4	1.0	3.0	-3.5	1.0	
India - Sensex 30	18619.7	1.2	0.5	-4.2	6.1	
Australia - SPX/ASX 200	5135.0	0.8	0.2	10.5	19.0	
Singapore - Strait Times	3028.9	-0.3	-1.9	-4.4	0.6	
Indonesia - Jakarta Comp	4195.1	2.2	0.6	-2.8	4.2	
Thailand - SET	1294.3	0.1	-3.3	-7.0	6.6	
Malaysia - KLCI	1727.6	1.4	0.4	2.3	4.9	
Philippines - Manila Comp.	6075.2	2.2	-1.0	4.5	18.0	

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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	0.00	0.03	6.18	6.24
Hong Kong (HKD/USD)	7.76	0.00	-0.01	7.75	7.75	
Taiwan (TWD/USD)	29.9	0.18	0.22	29.82	29.64	
Japan (JPY/USD)	98.24	0.11	0.49	98.19	97.89	
Korea (KRW/USD)	1110	-0.02	0.63	1115	1126	
India (INR/USD)	66.4	0.33	-4.55	68.31	72.04	
Australia (USD/AUD)	0.89	-0.09	-1.20	1.13	1.15	
Singapore (SGD/USD)	1.28	-0.04	0.27	1.28	1.27	
Indonesia (IDR/USD)	11184	-2.23	-1.13	11734	12524	
Thailand (THB/USD)	32.2	-0.16	-0.99	32.61	33.22	
Malaysia (MYR/USD)	3.28	0.87	0.48	3.31	3.36	
Philippines (PHP/USD)	44.6	0.16	-0.85	44.67	44.97	

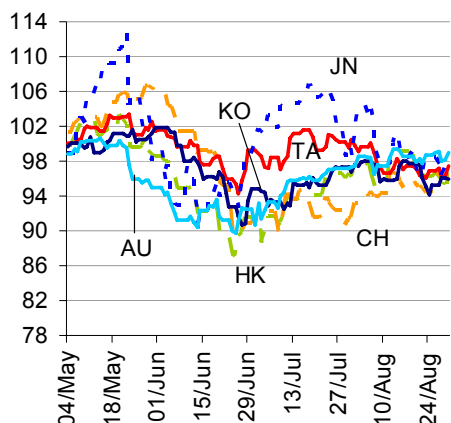
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.74	-0.58	-0.40	-1.21
Hong Kong (HIBOR/1W)	0.12	0.00	0.00	0.00	
Taiwan (TAIBOR/1W)	0.51	0.00	0.00	-0.01	
Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01	
Korea (KORIBOR/1M)	2.56	0.00	0.00	0.00	
India (MIBOR/7D)	3.83	-0.57	-0.35	-1.17	
Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00	
Indonesia (JIBOR/1W)	5.82	0.48	0.52	0.63	
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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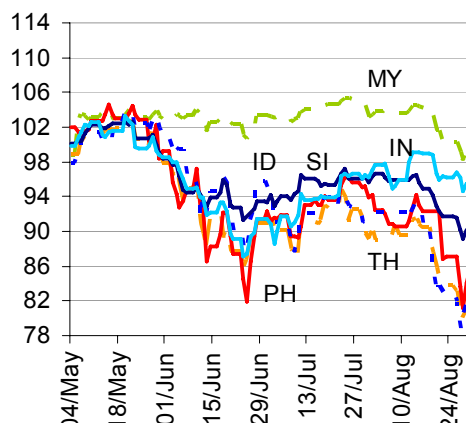
Charts

Chart 1
Stock Markets



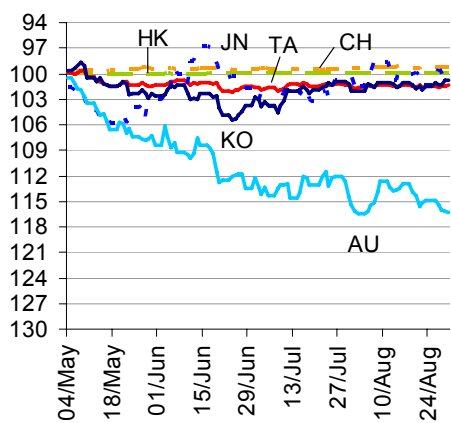
Source: BBVA Research and Bloomberg

Chart 2
Stock Markets



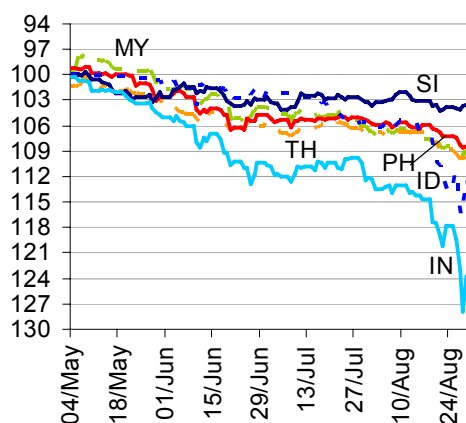
Source: BBVA Research and Bloomberg

Chart 3
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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