

Asia Flash

Asia

Following the installment of India's new central bank Governor, Raghuram Rajan, the Indian rupee strengthened today to 66.2 per USD, about 4% stronger than its record low on August 28. The appreciation reflects a positive market reception to the new Governor, especially after his market-friendly remarks yesterday during his first day on the job. While hopes are high, Dr. Rajan has his work cut out for him given the slowdown in growth and external pressures. He'll need supporting policies from the government side if he is to succeed in restoring investor confidence. For details see our [India Flash](#).

Bank of Japan upgrades economic assessment

At its monthly policy meeting today, the Bank of Japan, as expected, maintained its policy stance underlined by annual asset purchases of ¥60-70 trillion yen per year. The BoJ upgraded its assessment of economic conditions, consistent with the recent pick-up in activity indicators (including July industrial production, exports, inflation and household spending). In a media conference after the meeting, BoJ Governor Haruhiko Kuroda reiterated his view that the planned consumption tax in 2014 should proceed as scheduled (the government is expected to make a final decision in early October), and said that the central bank is willing to ease further if needed to achieve its 2% inflation target in the next two years. We expect GDP growth of 1.7% in 2013.

Australia Q2 GDP in line with expectations, ahead of Saturday's election

Australia Q2 GDP, released yesterday, came in at 0.6% q/q sa growth (non-annualized) (consensus: 0.5%; BBVA: 0.7%), from a revised 0.5% growth in Q1, led by private consumption. The outturn follows the RBA's decision to keep rates on hold earlier this week, prompting a modest appreciation in the AUD to 0.91 USD at present. Looking ahead, we expect Australia's growth to gain momentum on the impact of previous monetary easing and improving external demand, especially from China. Meanwhile, Australians are gearing up for federal elections on September 7, with polls pointing to a lead by the opposition Liberal-National coalition under Tony Abbott against the ruling Labor government of Prime Minister Kevin Rudd. The pro-business opposition Liberal-National coalition has vowed to repeal the "super profits" mining tax, a carbon tax, and create a one-stop shop for project approvals.

Bank of Malaysia keeps policy rates on hold as expected

The central bank held its benchmark rate at 3.00%, a level that has been steady since May 2011. The Malaysian economy has lost growth momentum this year, as GDP growth decelerated to below the 5% level (Q1: 4.1% y/y, Q2: 4.3% y/y) on sluggish external demand. Inflation has been contained (July inflation: 2.0% y/y) with upward pressure in the rest of the year and into 2014 due to subsidy adjustment. The government raised subsidized fuel prices this week and some infrastructure projects are to be delayed to contain fiscal deficit, which will weigh on growth outlook. The central bank in late August revised down its full-year GDP forecast to 4.5%-5.0% from previous 5.0%-6.0%, in line with our projection of 4.8%.

Briefly noted:

Philippines inflation decelerates to 2.1% y/y in August (consensus: 2.4%, prior: 2.5% y/y), the lowest level since Sept 2009 and well below the central bank's target of 3-5%. In spite of the currency depreciation (the peso has weakened by -8.5% against US dollar this year), price pressures remain subdued while growth momentum is still robust, with an impressive Q2 GDP growth of 7.5% y/y driven by strong domestic demand. The central bank will hold its monetary policy meeting next Thursday (Sept 12th) where we expect the benchmark rate to stay on hold at 3.5% given the current situation.

Taiwan headline inflation turns negative at -0.79% in August (consensus: -0.27%; July: 0.06%), due to base effects from last year's typhoon that had sent food prices soaring temporarily. Both industrial production and export orders beat expectations in July, while retail sales unexpectedly softened. We expect a gradual pickup of Taiwan's economy in 2H 2013, for full-year growth of 2.7%, with inflationary pressures remaining subdued.

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

Australia	Date	Period	Prior	Cons.	Actual
BoP Current Account Balance	03 Sep	2Q	-8.7B	-8.5B	-9.4B
Retail Sales MoM	03 Sep	Jul	0.00%	0.40%	0.10%
GDP SA QoQ	04 Sep	2Q	0.50%	0.50%	0.60%
GDP YoY	04 Sep	2Q	2.50%	2.40%	2.60%
Trade Balance	05 Sep	Jul	243M	100M	-765M
China	Date	Period	Prior	Cons.	Actual
Manufacturing PMI	01 Sep	Aug	50.3	50.6	51.0
HSBC/Markit Manufacturing PMI	02 Sep	Aug	47.7	50.2	50.1
Non-manufacturing PMI	03 Sep	Aug	54.1	--	53.9
HSBC/Markit Services PMI	04 Sep	Aug	51.3	--	52.8
Hong Kong	Date	Period	Prior	Cons.	Actual
Retail Sales Value YoY	02 Sep	Jul	14.70%	15.00%	9.50%
HSBC/Markit PMI	04 Sep	Aug	49.7	--	49.7
Indonesia	Date	Period	Prior	Cons.	Actual
HSBC/Markit Manufacturing PMI	02 Sep	Aug	50.7	--	48.5
CPI YoY	02 Sep	Aug	8.61%	8.95%	8.79%
Exports YoY	02 Sep	Jul	-4.50%	-5.40%	-6.10%
Foreign Reserves	06-10 SEP	Aug	\$92.7B	--	--
India	Date	Period	Prior	Cons.	Actual
HSBC/Markit Manufacturing PMI	02 Sep	Aug	50.1	--	48.5
HSBC/Markit Services PMI	04 Sep	Aug	47.9	--	47.6
Japan	Date	Period	Prior	Cons.	Actual
Capital Spending YoY	02 Sep	2Q	-3.90%	-2.10%	0.00%
Monetary Base YoY	03 Sep	Aug	38.00%	--	42.00%
Malaysia	Date	Period	Prior	Cons.	Actual
Exports YoY	06 Sep	Jul	-6.90%	0.30%	--
Philippines	Date	Period	Prior	Cons.	Actual
CPI YoY	05 Sep	Aug	2.50%	2.40%	2.10%
Foreign Reserves	06 Sep	Aug	\$83.2B	--	--
Singapore	Date	Period	Prior	Cons.	Actual
Purchasing Managers Index	03 Sep	Aug	51.8	51.9	50.5
South Korea	Date	Period	Prior	Cons.	Actual
Exports YoY	01 Sep	Aug	2.60%	3.80%	7.70%
CPI YoY	02 Sep	Aug	1.40%	1.50%	1.30%
HSBC/Markit Manufacturing PMI	02 Sep	Aug	47.2	--	47.5
GDP SA QoQ	05 Sep	2Q F	1.10%	--	1.10%
GDP YoY	05 Sep	2Q F	2.30%	--	2.30%
Taiwan	Date	Period	Prior	Cons.	Actual
HSBC/Markit Manufacturing PMI	02 Sep	Aug	48.6	--	50.0
CPI YoY	05 Sep	Aug	0.06%	-0.27%	-0.79%
Wholesale Price Index YoY	05 Sep	Aug	-2.24%	-2.52%	-2.85%
Thailand	Date	Period	Prior	Cons.	Actual
CPI YoY	02 Sep	Aug	2.00%	1.80%	1.59%
Vietnam	Date	Period	Prior	Cons.	Actual
HSBC/Markit Manufacturing PMI	03 Sep	Aug	48.5	--	49.4

Calendar Events

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

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.	2122.4	-0.2	1.2	-6.5	4.2
Hong Kong - Hang Seng	22598.0	1.2	4.1	-0.3	18.0	
Taiwan - Weighted	8169.1	1.1	3.2	6.1	10.9	
Japan - Nikkei 225	14064.8	0.1	4.5	35.3	62.0	
Korea - Kospi	1951.7	1.0	2.3	-2.3	4.1	
India - Sensex 30	18979.8	2.2	3.1	-2.3	9.6	
Australia - SPX/ASX 200	5142.5	-0.4	1.0	10.6	20.2	
Singapore - Strait Times	3039.5	0.8	0.0	-4.0	1.5	
Indonesia - Jakarta Comp	4050.9	-0.6	-1.3	-6.2	-0.6	
Thailand - SET	1313.5	0.8	1.6	-5.6	6.5	
Malaysia - KLCI	1721.0	0.2	1.0	1.9	4.9	
Philippines - Manila Comp.	5959.2	-0.2	0.3	2.5	15.7	

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)	6.12	0.01	0.03	6.18	6.24
Hong Kong (HKD/USD)	7.76	0.00	0.00	7.75	7.75	
Taiwan (TWD/USD)	29.8	0.08	0.60	29.66	29.43	
Japan (JPY/USD)	99.89	-0.15	-1.54	99.84	99.53	
Korea (KRW/USD)	1099	-0.36	1.02	1104	1116	
India (INR/USD)	66.1	1.44	0.69	68.29	71.85	
Australia (USD/AUD)	0.91	-0.28	2.43	1.10	1.12	
Singapore (SGD/USD)	1.28	-0.18	-0.16	1.28	1.28	
Indonesia (IDR/USD)	11649	-2.04	-6.13	12262	13132	
Thailand (THB/USD)	32.3	-0.37	-0.53	32.65	33.29	
Malaysia (MYR/USD)	3.31	-0.67	0.20	3.32	3.38	
Philippines (PHP/USD)	44.5	-0.28	0.26	44.48	44.77	

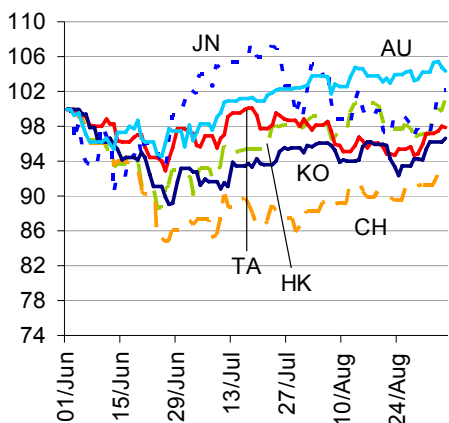
Last update: today, 18:30 Hong Kong time

INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.45	-0.05	-0.29	-0.88
Hong Kong (HIBOR/1W)	0.12	0.00	0.00	0.00	
Taiwan (TAIBOR/1W)	0.51	0.00	0.00	0.00	
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)	3.47	-0.01	-0.93	-0.88	
Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00	
Indonesia (JIBOR/1W)	5.73	0.00	0.39	0.48	
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

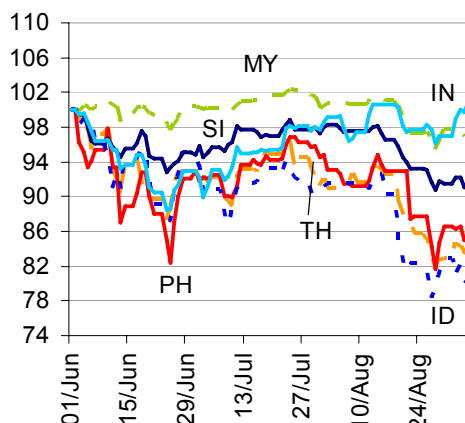
Charts

Chart 1
Stock Markets



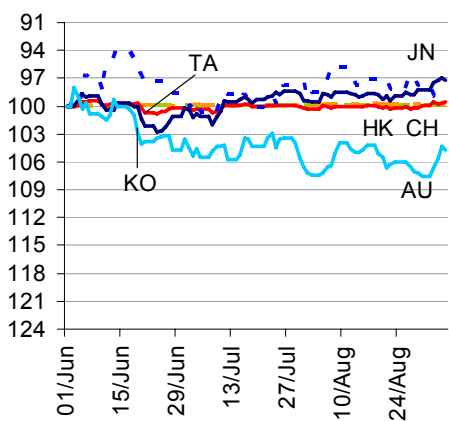
Source: BBVA Research and Bloomberg

Chart 2
Stock Markets



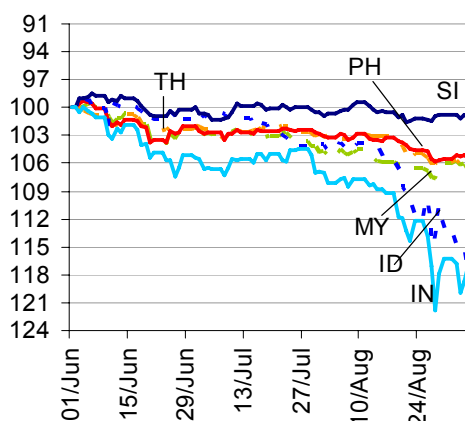
Source: BBVA Research and Bloomberg

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

BBVA | 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 and we shall immediately take you off the list.