

# Asia Flash

## Asia

*In line with the reaction in other global emerging markets to the Fed's unexpected decision to delay QE tapering, Asian markets saw a sharp rebound today. The bounce was especially strong in Indonesia and India, the region's two hardest-hit economies in recent months. The rupiah surged by 4.4% against the USD, to 10,800, while the rupee rebounded to by 2.5% to 61.8 per USD, creating further distance from the low it reached on August 28 of 68.8 per USD. Stock markets similarly advanced, led by Indonesia (+4.7%), India (+3.8%) and Thailand (+3.4%). (Markets in China, Korea and Taiwan were closed today for a holiday, and will remain so for the rest of the week.). The question now is, how long will the rebound last? With the Fed having postponed, but of course not cancelled its inevitable tapering, today's decision provides a respite for the region's economies, but does not eliminate the need for policy makers to stay vigilant by advancing structural reforms and maintaining tight liquidity (see below on India's monetary policy meeting scheduled for tomorrow).*

### India gets a respite ahead of Friday's monetary policy decision

The Fed's decision may provide only limited room for the RBI to ease up on tight liquidity conditions at tomorrow's policy meeting. The liquidity measures were put in place since mid July to contain currency depreciation. In the past two weeks, external financing concerns have partially eased, boosted now by the Fed's postponement of QE tapering. This should allow the RBI to ease up on its liquidity measures, and perhaps adjust its forward guidance for monetary policy in line with a more growth-supportive stance. That said, given the signals of the new Governor so far on the need to maintain a steady hand, and the recent pickup in WPI inflation (6.1% y/y in August), we expect the RBI to keep interest rates unchanged tomorrow. For further details, see our India Flash [here](#). Meanwhile, the government announced measures yesterday to keep the fiscal deficit in control (FY14 target at 4.8% of GDP), including through a 10% cut in non-capital spending, restrictions on air travel and purchase of new vehicles for government employees, and a hiring freeze across ministries.

### Japan exports rise as expected, as government prepares for tax hike

August exports rose by 14.7% y/y (consensus: 14.5% y/y), extending a positive trend, boosted by competitive gains from the yen's weakness and improving external demand.. Together with a 16.0% y/y (consensus: 18.5%) rise in imports in August, the merchandise trade deficit narrowed slightly to ¥0.96 trillion (consensus: ¥1.1 trillion) from ¥1.0 trillion in July. Meanwhile, the all industry activity index was reported today to have risen by 0.5% m/m in July (consensus: 0.3%) from -0.7% in June. The improving growth momentum has boosted the government's confidence in going ahead with the planned consumption tax hike in 2014 (from 5% to 8%, and from 8% to 10% in 2015). The government has reportedly agreed to offset the contractionary impact of the consumption tax hike with a cut in the corporate taxes. The government faces a daunting challenge of reigning in the fiscal deficit to bring the public debt (240% of GDP) back on a sustainable path. For details, see our Economic Watch on Japan.

### China housing prices continue to climb in August

China's property prices, reported yesterday, increased by 6.8% y/y in August from 6.3% in July, according to our estimates based on the National Bureau of Statistics (NBS) data. New home prices rose in 69 of the 70 cities on yearly basis, the same as the previous month. Growth among

major tier 1 cities continue to rise rapidly, including Beijing (19.3% y/y), Guangzhou (19.0% y/y), Shanghai (18.5% y/y) and Shenzhen (18.4% y/y). On a sequential basis, overall housing prices accelerated by 0.89% m/m nsa compared to 0.87% in the previous month. The new leadership has been maintaining the existing housing policy without new measures, although policies have diverged at a local level. The rapid rise in housing prices is a concern to the government given its efforts to maintain housing affordability and avoid price bubbles.

#### **Briefly noted:**

**Malaysia August headline inflation dips to 1.9% y/y** (consensus: 2.0%) from 2.0% in July as food prices ease. The government has just announced to raise fuel prices early this month, in an effort to reduce the subsidy burden, which will boost inflationary pressures in the near term. We expect the central bank to keep interest rates unchanged for the rest of the year, at 3.0%. Growth momentum has been slowing, despite upbeat July industrial output data, and the central bank recently revised down its 2013 growth projection to 4.5%-5.0% from 5.0%-6.0% previously, in line with our projection of 4.8%.

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## Calendar Indicators

China	Date	Period	Prior	Cons.	Actual
Foreign Direct Investment YoY	17 SEP	Aug	24.10%	12.50%	0.60%
China August Property Prices	18 Sep	Aug	--	--	--
Hong Kong	Date	Period	Prior	Cons.	Actual
Unemployment Rate SA	17 Sep	Aug	3.30%	3.30%	3.30%
India	Date	Period	Prior	Cons.	Actual
Wholesale Prices YoY	16 Sep	Aug	5.79%	5.70%	6.10%
Japan	Date	Period	Prior	Cons.	Actual
All Industry Activity Index MoM	19 Sep	Jul	-0.70%	0.30%	0.50%
Exports YoY	19 Sep	Aug	12.2%	14.5%	14.7%
Imports YoY	19 Sep	Aug	19.6%	18.5%	16.0%
Trade Balance	19 Sep	Aug	-¥1027.9B	-¥1113.8B	-¥960.3B
Malaysia	Date	Period	Prior	Cons.	Actual
CPI YoY	18 Sep	Aug	2.00%	2.00%	1.90%
Philippines	Date	Period	Prior	Cons.	Actual
Overseas Remittances YoY	17 Sep	Jul	5.80%	5.70%	6.60%
Singapore	Date	Period	Prior	Cons.	Actual
Non-oil Domestic Exports YoY	17 Sep	Aug	-1.90%	2.40%	-6.20%
Thailand	Date	Period	Prior	Cons.	Actual
Foreign Reserves	20 Sep	13-Sep	\$168.9B	--	--

## Calendar Events

<b>India – RBI Cash Reserve Ratio, Sep 20</b>	<b>Current</b>	<b>Cons.</b>	<b>New</b>
We expect the benchmark rate to remain unchanged	4.00%	4.00%	--
<b>India – RBI Repurchase Rate, Sep 20</b>	<b>Current</b>	<b>Cons.</b>	<b>New</b>
We expect the benchmark rate to remain unchanged	7.25%	7.25%	--

## Indicator of the Week

Taiwan Export Orders (Aug, September 25<sup>th</sup>)

Forecast: 0.9% y/y

Consensus: 1.3% y/y

Prior: 0.5% y/y

Taiwan's export orders are closely watched as a leading indicator of Asian export trends given the economy's position in the global supply chain. Export orders surprised to the upside in July, ending five straight months of year-over-year contraction. We expect export orders continue to improve in August at a gradual pace, on signs of a further strengthening of external demand, especially in developed markets in the US and Europe. This trend would also be consistent with recent improvements in exports from China, Korea, and Japan.

## Markets Data

STOCK MARKETS	INDEX	% change				
		Last price	over a day	over a week	Year to date	% change over 1 Y
	China – Shanghai Comp.*	2191.9	0.3	-2.2	-3.4	6.0
	Hong Kong – Hang Seng	23502.5	1.7	2.4	3.7	12.8
	Taiwan – Weighted *	8209.2	-0.5	-0.2	6.6	5.5
	Japan – Nikkei 225	14766.2	1.8	2.4	42.0	59.9
	Korea – Kospi *	2005.6	-0.4	0.6	0.4	0.0
	India – Sensex 30	20646.6	3.4	4.4	6.3	11.6
	Australia – SPX/ASX 200	5295.6	1.1	1.0	13.9	19.9
	Singapore – Strait Times	3251.8	1.8	4.2	2.7	5.7
	Indonesia – Jakarta Comp	4670.7	4.6	7.2	8.2	10.0
	Thailand – SET	1489.1	3.5	6.5	7.0	15.8
	Malaysia – KLCI	1792.9	1.2	1.4	6.2	8.9
	Philippines – Manila Comp.	6511.7	2.8	5.1	12.0	22.5

Last update: today, 17:30 Hong Kong time

\* Close today

FOREIGN EXCHANGE MARKETS	CURRENCY	Spot	% change			
			over a day	over a week	Forward 3-month	Forward 12-month
	China (CNY/USD)	6.12	0.00	-0.05	6.16	6.19
	Hong Kong (HKD/USD)	7.75	0.00	0.01	7.75	7.75
	Taiwan (TWD/USD)	29.5	0.58	0.66	29.36	29.09
	Japan (JPY/USD)	98.89	-0.96	0.66	98.84	98.58
	Korea (KRW/USD)	1071	1.01	1.33	1079	1091
	India (INR/USD)	61.8	2.53	2.77	63.32	66.52
	Australia (USD/AUD)	0.95	-0.11	2.57	1.06	1.08
	Singapore (SGD/USD)	1.24	0.14	1.82	1.24	1.24
	Indonesia (IDR/USD)	10847	4.40	4.64	11127	11767
	Thailand (THB/USD)	31.0	0.99	2.34	31.12	31.55
	Malaysia (MYR/USD)	3.15	2.69	4.06	3.17	3.22
	Philippines (PHP/USD)	43.1	1.10	1.89	42.93	42.95

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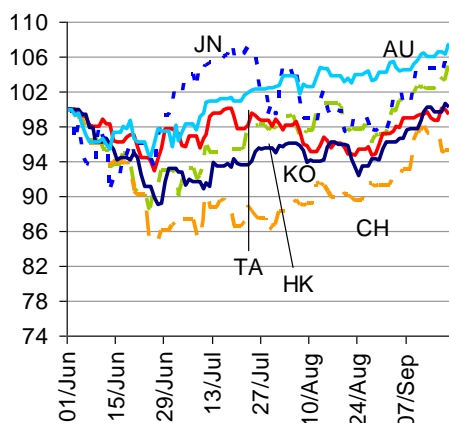
INTERBANK RATES	INDEX	Rate	net change over		
			a day	over a week	over a month
	China (SHIBOR/7D)	3.75	0.15	0.19	0.00
	Hong Kong (HIBOR/1W)	0.12	0.00	0.00	0.00
	Taiwan (TAIBOR/1W)	0.51	0.00	0.00	-0.01
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	2.56	0.00	0.00	0.00
	India (MIBOR/7D)	3.83	0.25	0.35	0.00
	Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00
	Indonesia (JIBOR/1W)	6.00	0.00	0.30	0.67
	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

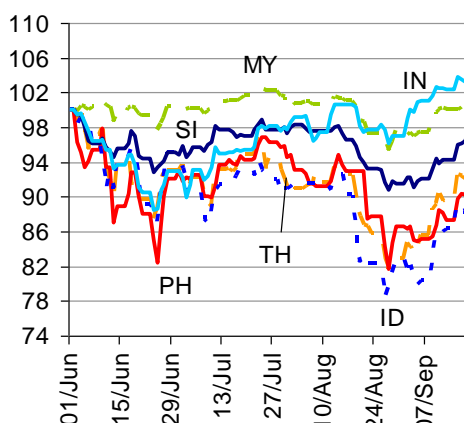
## Stock Markets



Source: BBVA Research and Bloomberg

Chart 2

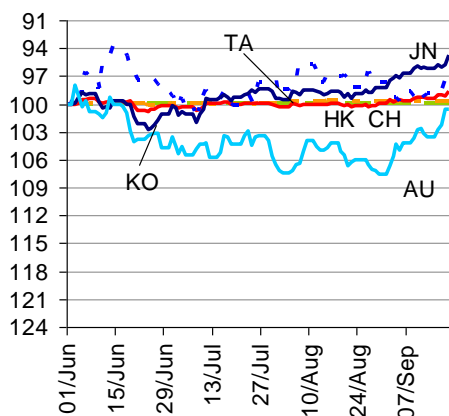
## Stock Markets



Source: BBVA Research and Bloomberg

Chart 3

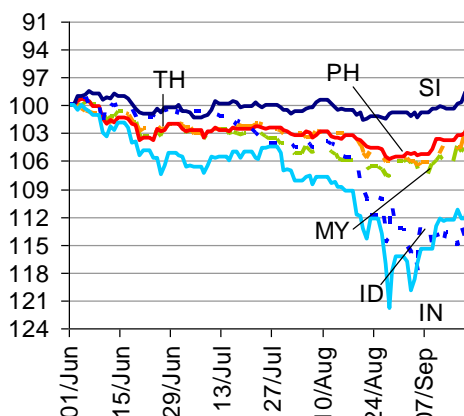
## Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4

## Foreign Exchange Markets



Source: BBVA Research and Bloomberg


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