

Asia Flash

Asia

China government publishes details of the Shanghai Free Trade Zone

The government today published partial details of the Free Trade Zone (FTZ), due to become operational on September 29. As flagged yesterday in our *China Flash*, the FTZ showcases trade, investment and financial sector liberalization, which can be replicated over time on a national basis. According to the publication, foreign investment within zone will now be allowed in a number of previously restricted service industries, including "shipping management", telecommunications, medical care, and professional services. Without providing a timetable or specifics (expected to be forthcoming in the next few months), the publication stresses that the FTZ will pilot interest rate liberalization and capital account convertibility. Today's announcement does, however, include that foreign banks may open branches within the FTZ, and that domestic banks can engage in offshore businesses from within the Zone, presumably with restrictions on their activities in the rest of the Mainland, and in a similar manner in which they currently conduct such operations from Hong Kong.

Japan August inflation reaches five-year high

Headline inflation inched higher to 0.9% y/y (consensus: 0.8%; Prior: 0.7%), on a continued rise in energy prices. While the BoJ's 2.0% inflation target may still be difficult to achieve (excluding food and energy, year-on-year inflation is still negative at -0.1%), today's outturn does suggest further progress in combating deflation. We project inflation to rise gradually towards 1.8% until 2017 (excluding the impact of an expected consumption tax hike in 2014-15).

Briefly noted:

Taiwan holds interest rates steady

As expected, the central bank kept its benchmark rate steady at 1.875% at its quarterly monetary policy meeting held yesterday. The interest rate has been left unchanged for 9 straight quarters, after a cumulative 62.5 bps rate hikes during 2Q 2010 – 3Q 2011 period. The policy statement highlighted improving external demand from both developed markets and China. Inflation remains subdued, at -0.8% in August.

Vietnam Q3 GDP growth accelerates on improving exports

GDP growth picked up to 5.5% y/y from 5.0% in Q2, as rising exports offset weak domestic demand. Exports increased 16% y/y in the first nine months of the year, and FDI commitments rose by 20% y/y (first eight months); in contrast, the domestic sector is weak, underscored by an indebted SOE sector and a poor asset quality, with a bank NPL ratio of 15%. We expect Vietnam's growth to register 5.2% for full-year 2013.

China industrial profits accelerate in August, on economic pickup

Profits growth for large industrial firms (annual revenues over RMB 20 million) accelerated in August to 24.2% y/y from 11.6% in July, partly due to favorable base effects. The upbeat outturn, following the recent upturn in China's PMI readings, suggests the growth industrial sector continue to improve.

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Calendar Indicators

China	Date	Period	Prior	Cons.	Actual
HSBC/Markit Flash Mfg PMI	23 Sep	Sep	50.1	50.9	51.2
Industrial Profits YTD YoY	27 Sep	Aug	11.10%	--	12.80%
Hong Kong	Date	Period	Prior	Cons.	Actual
CPI Composite YoY	23 Sep	Aug	6.90%	4.40%	4.50%
Exports YoY	26 Sep	Aug	10.60%	4.40%	-1.30%
Japan	Date	Period	Prior	Cons.	Actual
Machine Tool Orders YoY	25 Sep	Aug F	-1.80%	--	-1.70%
Natl CPI YoY	27 Sep	Aug	0.70%	0.80%	0.90%
Malaysia	Date	Period	Prior	Cons.	Actual
Foreign Reserves	23 Sep	13-Sep	\$134.8B	--	\$135.1B
Singapore	Date	Period	Prior	Cons.	Actual
CPI YoY	23 Sep	Aug	1.90%	2.00%	2.00%
Industrial Production YoY	26 Sep	Aug	3.00%	4.90%	3.50%
Taiwan	Date	Period	Prior	Cons.	Actual
Unemployment Rate	23 Sep	Aug	4.18%	4.20%	4.19%
Export Orders YoY	25 Sep	Aug	0.50%	1.30%	0.50%
Industrial Production YoY	26 Sep	Aug	2.08%	2.00%	-0.70%
Commercial Sales YoY	26 Sep	Aug	-0.28%	0.10%	-0.60%
Thailand	Date	Period	Prior	Cons.	Actual
Customs Exports YoY	26 Sep	Aug	-1.48%	0.75%	3.92%
Foreign Reserves	27 Sep	20-Sep	\$169.1B	--	\$171.1B
Vietnam	Date	Period	Prior	Cons.	Actual
CPI YoY	24 Sep	Sep	7.50%	6.70%	6.30%
Retail Sales YTD YoY	27 Sep	Sep	12.30%	--	12.50%
Exports YTD YoY	25 SEP	Sep	14.70%	--	15.70%
Industrial Production YoY	27 Sep	Sep	4.40%	--	5.60%
GDP YTD YoY	27 Sep	3Q	4.90%	5.10%	5.10%

Calendar Events

Taiwan – CBC Benchmark Interest Rate, Sep 26	Current	Cons.	New
We expect the benchmark rate to remain unchanged	1.875%	1.875%	1.875%

Indicator of the Week

China: NBS Manufacturing PMI (Sep, October 1st)

Forecast: 51.7

Consensus: 51.5

Prior: 51.0

Growth momentum has been picking up since July on growth-supportive policies and improving external demand. As such, we expect the official PMI for September to show a further improvement, especially after the flash HSBC manufacturing PMI for September (released September 23) jumped to a six-month high of 51.2 from 50.1 in August. The outturn was due to higher production and new orders, consistent with recent rising trends of industrial production and export growth. Given recent better-than-expected activity indicators, Q3 GDP growth (to be released October 18) is likely to exceed our previous 7.5% y/y projection, which would bring full-year growth to around 7.7% in 2013.

Upcoming Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
Retail Sales MoM	01 Oct	Aug	0.10%	0.30%	--
Trade Balance	02 Oct	Aug	-765M	-450M	--
China	Date	Period	Prior	Cons.	Actual
HSBC/Markit Manufacturing PMI	30 Sep	Sep	50.1	51.2	--
Manufacturing PMI	01 Oct	Sep	51.0	51.5	--
Non-manufacturing PMI	03 Oct	Sep	53.9	--	--
HSBC/Markit Services PMI	04 Oct	Sep	52.8	--	--
Hong Kong	Date	Period	Prior	Cons.	Actual
Retail Sales Value YoY	03 Oct	Aug	9.50%	12.00%	--
Retail Sales Volume YoY	03 Oct	Aug	8.90%	10.50%	--
Indonesia	Date	Period	Prior	Cons.	Actual
CPI YoY	01 Oct	Sep	8.79%	--	--
Exports YoY	01 Oct	Aug	-6.10%	--	--
Trade Balance	01 Oct	Aug	-\$2309M	--	--
Foreign Reserves	03 Oct	Sep	\$93.0B	--	--
India	Date	Period	Prior	Cons.	Actual
BoP Current Account Balance	30 Sep	2Q	-\$18.08B	-\$23.00B	--
Japan	Date	Period	Prior	Cons.	Actual
Retail Trade YoY	30 Sep	Aug	-0.30%	1.00%	--
Industrial Production YoY	30 Sep	Aug P	1.80%	0.40%	--
Jobless Rate	01 Oct	Aug	3.80%	3.80%	--
BOJ 2014 Monetary Base Target	04 Oct	4-Oct	¥270T	--	--
Malaysia	Date	Period	Prior	Cons.	Actual
Exports YoY	04 Oct	Aug	4.50%	4.60%	--
Philippines	Date	Period	Prior	Cons.	Actual
CPI YoY	04 Oct	Sep	2.10%	2.40%	--
South Korea	Date	Period	Prior	Cons.	Actual
Industrial Production YoY	30 Sep	Aug	0.90%	2.10%	--
Industrial Production SA MoM	30 Sep	Aug	-0.10%	0.50%	--
CPI YoY	01 Oct	Sep	1.30%	1.20%	--
Exports YoY	01 Oct	Sep	7.70%	2.40%	--
Thailand	Date	Period	Prior	Cons.	Actual
Exports YoY	30 Sep	Aug	-1.30%	--	--
CPI YoY	01 Oct	Sep	1.59%	1.58%	--

Upcoming Calendar Events

Australia – RBA Cash Rate Target , Oct 1	Current	Cons.	New
We expect the benchmark rate to remain unchanged	2.50%	2.50%	--
Japan – BOJ Target Rate, Oct 4	Current	Cons.	New
We expect the benchmark rate to remain unchanged	0.10%	--	--

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.	2160.0	0.2	-1.5	-4.8	5.0
Hong Kong – Hang Seng	23207.0	0.4	-1.3	2.4	11.8	
Taiwan – Weighted	8230.7	0.6	0.3	6.9	7.1	
Japan – Nikkei 225	14760.1	-0.3	0.0	42.0	64.9	
Korea – Kospi	2011.8	0.2	0.3	0.7	1.2	
India – Sensex 30	19727.3	-0.8	-2.6	1.5	6.2	
Australia – SPX/ASX 200	5307.1	0.2	0.6	14.2	21.1	
Singapore – Strait Times	3210.2	0.5	-0.8	1.4	4.9	
Indonesia – Jakarta Comp	4423.7	0.4	-3.5	2.5	4.7	
Thailand – SET	1417.5	-0.5	-4.7	1.8	10.2	
Malaysia – KLCI	1776.2	0.1	-1.4	5.2	9.1	
Philippines – Manila Comp.	6379.8	-0.4	-0.7	9.8	20.3	

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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	0.03	0.03	6.16	6.20
Hong Kong (HKD/USD)	7.75	0.00	-0.02	7.75	7.75	
Taiwan (TWD/USD)	29.6	0.14	-0.09	29.44	29.17	
Japan (JPY/USD)	98.54	0.46	0.83	98.47	98.22	
Korea (KRW/USD)	1074	0.14	0.16	1083	1095	
India (INR/USD)	62.5	-0.66	-0.34	64.27	67.84	
Australia (USD/AUD)	0.93	-0.58	-0.90	1.08	1.10	
Singapore (SGD/USD)	1.26	-0.07	-0.35	1.26	1.25	
Indonesia (IDR/USD)	11284	-0.72	-2.15	11700	12405	
Thailand (THB/USD)	31.3	-0.34	-0.59	31.44	31.95	
Malaysia (MYR/USD)	3.23	-0.41	-1.94	3.26	3.30	
Philippines (PHP/USD)	43.4	-0.23	-0.73	43.23	43.35	

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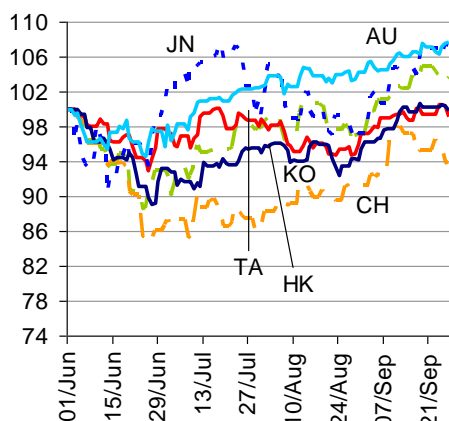
INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.62	-0.43	-0.38	-0.58
Hong Kong (HIBOR/1W)	0.13	0.00	0.01	0.01	
Taiwan (TAIBOR/1W)	0.51	0.00	0.00	0.00	
Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01	
Korea (KORIBOR/1M)	2.56	0.00	0.00	0.00	
India (MIBOR/7D)	3.69	-0.57	-0.14	-0.71	
Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00	
Indonesia (JIBOR/1W)	6.03	0.01	0.03	0.72	
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

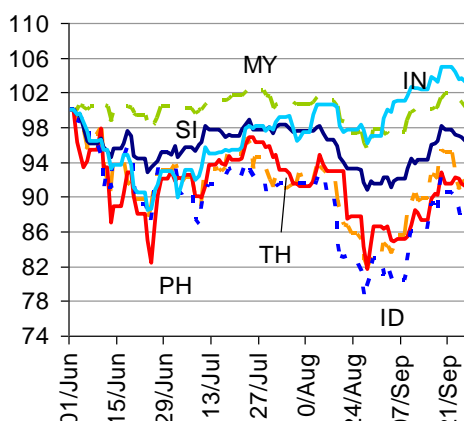
Stock Markets



Source: BBVA Research and Bloomberg

Chart 2

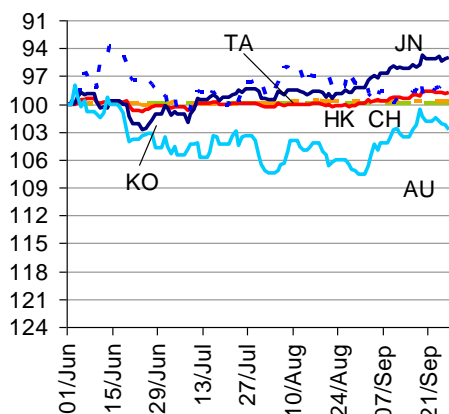
Stock Markets



Source: BBVA Research and Bloomberg

Chart 3

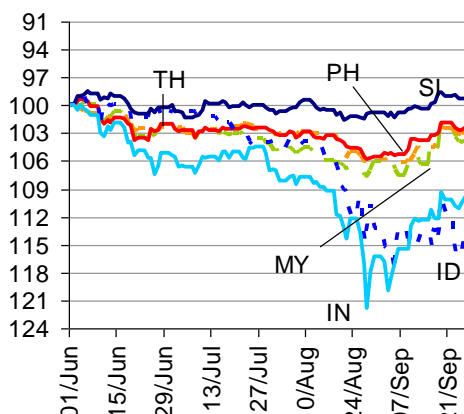
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4

Foreign Exchange Markets



Source: BBVA Research and Bloomberg


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