

Daily Flash

Asia

Moody's upgrades Korea's sovereign rating on sound fundamentals

Moody's upgraded Korea's sovereign rating to Aa3 from A1 today, a move which places Korea at the same ratings threshold as China and Japan. In its statement, Moody's praised Korea's resilience to external shocks and noted that "the large size of Korea's domestic capital market, low inflation, low risk premium on government securities, and a relatively favorable long-term outlook for economic growth mean that fundamental pressures on the government's debt-carrying capacity are notably absent." The report also cited a recent decrease in tensions with North Korea. It did not, however, mention the increase in tensions with Japan over territorial disputes in the East Sea, which risk spilling over into economics relations (as seen by statements from a Korean trade negotiator that negotiations free trade negotiations with Japan would be 'difficult' given the ongoing dispute). While today's decision by Moody's is welcome and highlights Korea's strong medium-term outlook, our forecast for Korea's GDP this year currently calls for growth to slow to 2.5% y/y, from 3.6% last year, due to the weak external environment. The won, which had been down -0.3% on the day, rallied after Moody's announcement before ending the day down -0.1% at 1,135/USD.

Premier Wen Jiabao addresses China's slowdown, hints at policy support

Several media outlets today picked up on Premier Wen Jiabao's statements over the weekend, and detected a sense of urgency by the leadership in seeking to stabilize the economy's slowing growth momentum. In a visit to export-oriented Guangdong province in the south of China during August 24-25, Premier Wen reportedly acknowledged that China's exports continue to face difficulties. Nonetheless, he emphasized that the full-year target of export growth remained achievable with extra measures to support producers. Markets were down sharply in China today, with the Shanghai Index closing down by -1.7%.

Briefly noted:

- **Vietnam's export growth in August slowed to 6.0% y/y** from 9.3% y/y in July. Vietnam's trade balance swung to a USD 150 mn deficit, after two months of surpluses, on relatively strong import growth.

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Calendar Indicators

China	Date	Period	Prior	Cons.	Actual
Industrial Profits YTD YoY	27-Aug	Jul	-2.20%	--	-2.70%
Manufacturing PMI	01-Sep	Aug	50.1	49.8	--
Hong Kong	Date	Period	Prior	Cons.	Actual
Exports YoY%	28-Aug	Jul	-4.80%	-3.30%	--
Imports YoY%	28-Aug	Jul	-2.90%	-1.10%	--
Retail Sales - Value (YoY)	30-Aug	Jul	11.00%	9.00%	--
India	Date	Period	Prior	Cons.	Actual
Qtrly GDP YoY%	31-Aug	2Q	5.30%	5.30%	--
Fiscal Deficit INR Crore	31-Aug	Jul	48873	--	--
Japan	Date	Period	Prior	Cons.	Actual
Retail Trade YoY	30-Aug	Jul	0.20%	-0.10%	--
Jobless Rate	31-Aug	Jul	4.30%	4.30%	--
Natl CPI YoY	31-Aug	Jul	-0.20%	-0.30%	--
Natl CPI Ex-Fresh Food YoY	31-Aug	Jul	-0.20%	-0.30%	--
Industrial Production (MoM)	31-Aug	Jul P	0.40%	1.70%	--
Industrial Production YOY%	31-Aug	Jul P	-1.50%	1.80%	--
Malaysia	Date	Period	Prior	Cons.	Actual
Unemployment Rate	30-Aug	2Q	3.00%	--	--
Philippines	Date	Period	Prior	Cons.	Actual
Trade Balance	28-Aug	Jun	-\$454M	--	--
GDP sa (QoQ)	30-Aug	2Q	2.50%	1.10%	--
GDP (YoY)	30-Aug	2Q	6.40%	5.50%	--
South Korea	Date	Period	Prior	Cons.	Actual
Current Account in US\$ Million	29-Aug	Jul	\$5835.8M	--	--
Industrial Production (MoM)	31-Aug	Jul	-0.40%	--	--
Industrial Production (YoY)	31-Aug	Jul	1.60%	0.40%	--
Ext Trade - Export (YoY)	01-Sep	Aug	-8.80%	--	--
Ext Trade - Imports (YoY)	01-Sep	Aug	-5.50%	--	--
Thailand	Date	Period	Prior	Cons.	Actual
Mfg. Production Index ISIC NSA (YoY)	28-Aug	Jul	-9.6	-4.25	--
Customs Exports (YoY)	29-Aug	Jul	-2.50%	-3.75%	--
Vietnam	Date	Period	Prior	Cons.	Actual
Exports YTD (YoY)	27-Aug	Aug	19.00%	--	17.80%
Retail Sales YTD (YoY)	27-Aug	Aug	18.70%	--	17.90%

Indicator of the Week

India: Q2 GDP Growth 2012 (August 31st)

Forecast: 5.1% y/y	Consensus: 5.3% y/y	Prior: 5.3% y/y
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India's economy continues to be plagued by slowing growth and elevated inflation. The outturn for Q2 GDP growth will be a key input for the Reserve Bank of India's next monetary policy decision in September, and another weak outturn, dragged down by waning fiscal support and slowing industrial and services activity, could raise the likelihood of an imminent interest rate cut, in line with our expectations of an additional 50bps in cuts by end-year.

Wholesale price inflation (6.9% in July), however, remains a constraint, exacerbated by a sub-par monsoon and supply bottlenecks. Overall, we expect India's GDP growth to decline to 5.6% for full year 2012, down from 7.5% in 2011.

Calendar Events

There are no calendar events scheduled for this week.

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.	2055.7	-1.7	-2.4	-6.5	-21.3
	Hong Kong - Hang Seng	19798.7	-0.4	-1.5	7.4	1.1
	Taiwan - Weighted	7468.2	-0.1	0.5	5.6	0.3
	Japan - Nikkei 225	9085.4	0.2	-0.9	7.5	3.3
	Korea - Kospi	1917.9	-0.1	-1.5	5.0	7.8
	India - Sensex 30	17673.4	-0.6	-0.1	14.4	11.5
	Australia - SPX/ASX 200	4343.7	-0.1	-0.5	7.1	3.4
	Singapore - Strait Times	3044.5	-0.2	-0.6	15.0	10.8
	Indonesia - Jakarta Comp	4145.9	0.0	0.6	8.5	7.9
	Thailand - SET	1235.1	-0.2	0.5	20.5	19.1
	Malaysia - KLCI	1648.1	0.0	-0.1	7.7	14.1
	Philippines - Manila Comp.	5143.4	-1.1	-2.3	17.6	19.5

Last update: today, 17.45 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)	6.36	-0.03	0.04	6.37	6.45
	Hong Kong (HKD/USD)	7.76	0.01	0.01	7.75	7.75
	Taiwan (TWD/USD)	30.0	0.02	0.16	29.93	29.66
	Japan (JPY/USD)	78.69	-0.03	0.94	78.63	78.30
	Korea (KRW/USD)	1135	-0.11	0.01	1142	1153
	India (INR/USD)	55.6	-0.24	0.21	56.58	59.08
	Australia (USD/AUD)	1.04	-0.13	-0.52	0.97	0.99
	Singapore (SGD/USD)	1.25	-0.06	0.14	1.25	1.25
	Indonesia (IDR/USD)	9534	-0.16	-0.18	9675	10118
	Thailand (THB/USD)	31.3	-0.16	0.80	31.43	31.84
	Malaysia (MYR/USD)	3.11	-0.35	0.65	3.12	3.16
	Philippines (PHP/USD)	42.2	-0.01	0.30	42.31	42.59

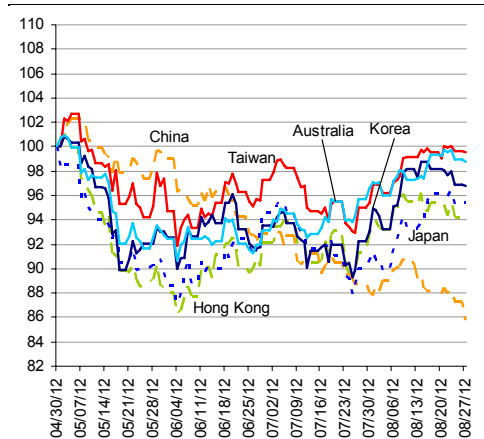
Last update: today, 17.45 Hong Kong time.

INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.48	-0.17	-0.27	0.38
	Hong Kong (HIBOR/1W)	0.13	0.00	0.00	0.00
	Taiwan (TAIBOR/1W)	0.63	0.00	0.00	-0.01
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	3.04	0.00	0.00	-0.02
	India (MIBOR/7D)	3.55	-0.11	-0.02	0.35
	Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00
	Indonesia (JIBOR/1W)	4.33	0.00	-0.16	0.17
	Thailand (BIBOR/1W)	3.02	0.00	0.00	0.00
	Malaysia (KLIBOR/1W)	2.90	0.00	0.00	0.00
	Philippines (PHIBOR/1W)	1.50	-0.19	0.69	-0.25

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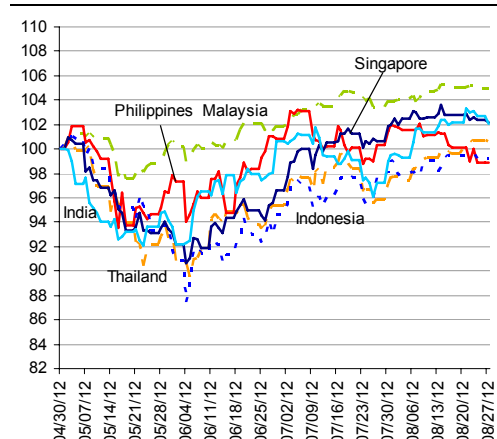
Charts

Chart 9
Stock Markets



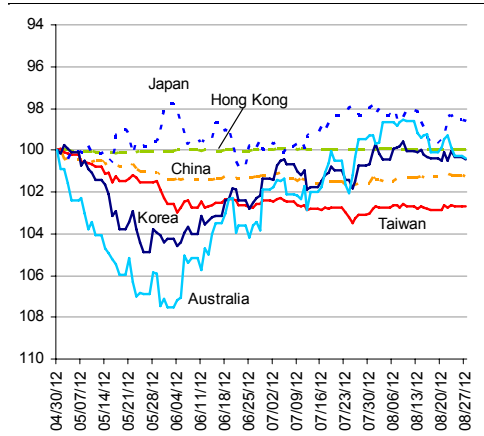
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



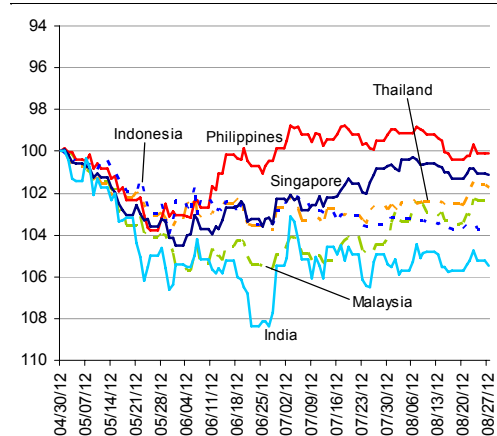
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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