

Daily Flash

Asia

China's PMI disappoints, raising expectations of more policy easing

China's official PMI, released on September 1, declined to a weaker-than-expected 49.2% (BBVA: 49.6%; Consensus: 50.0%), from 50.1% in July (click here for details). The index fell to below 50 for the first time since November 2011, reflecting weaker production, as well as both domestic and external demand components. Meanwhile, the private-sector (Markit) PMI, released today, also weakened sharply, to 47.6 (compared to a flash estimate on August 23 of 47.8) from 49.3 in July. Taken together, the data releases reveal that China's growth momentum has yet to rebound, raising the likelihood of further policy in the form of further cuts in the RRR and interest rates—with inflation well contained at around 2%, we anticipate 100-150bps cuts in the former and up to 50bp cuts in the latter by year-end. Most regional markets, including Shanghai (0.6%), were up on expectations of more policy easing.

Exports on a weakening trend: Korea, India and Indonesia...

Korea's exports for August (the first monthly outturn in the region) posted a -6.2% y/y decline (consensus: -6.8%) after a -8.8% y/y decline in July. Meanwhile, July exports in Indonesia also fell (-7.3% y/y), although the outturn was better than expected (consensus: -9.7% y/y) and is an improvement from the previous month (June: -16.4% y/y). India also released revised exports data for July showing a sharp decline (-14.8% y/y). The outturns are in line with the recent weakening in exports across the region due to global headwinds in Europe.

...while inflation remains subdued: Korea, Indonesia and Thailand

Korea's August inflation fell to 1.2% y/y (consensus: 1.4%), the slowest pace in 12 years. Taken together with the weak the export outturn and other indicators of slowing growth, the BOK should have room to cut interest rates for a second time at the next policy meeting on September 13th. Bank Indonesia will meet on the same day, although inflationary pressures remain and will limit the room for a rate cut. Data released today showed that Indonesia's inflation was broadly flat in August at 4.58% y/y compared to 4.56% y/y one month earlier. Meanwhile, Thailand's inflation remained flat at 2.7% y/y in August. Easing inflation, along with dovish comments by the BOT are raising expectations of an interest rate cut, although we expect rates to stay on hold at the BOT's policy meeting this Wednesday.

Surprising drop in Australia's retail sales, but no rate cut expected tomorrow

Australia's retail sales unexpectedly fell -0.8% m/m (consensus: +0.2%), down from +1.0% m/m in June. This outturn reaffirms domestic weakness but is expected to add only limited pressure on the RBA, more focused on the external sector (mining investment, exports). The Reserve Bank of Australia stressed in its August minutes that "the stance of monetary policy remained appropriate" and is expected to keep its policy rate unchanged at 3.50% in its monthly meeting tomorrow, with 2Q GDP data due to be released on Wednesday.

India takes steps to address tax-related uncertainty over foreign investments

An expert panel set up by the Indian Prime Minister has suggested deferring implementation of the controversial anti-avoidance tax rules (GAAR) by another three years. Uncertainty over tax issues related on foreign investment and retrospective tax laws had hit investor confidence in India in recent months.

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Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
Retail Sales s.a. (MoM)	03-Sep	Jul	1.00%	0.20%	-0.80%
Current Account Balance	04-Sep	2Q	-14892M	-12200M	--
Gross Domestic Product (QoQ)	05-Sep	2Q	1.30%	0.80%	--
Gross Domestic Product (YoY)	05-Sep	2Q	4.30%	3.70%	--
Unemployment Rate	06-Sep	Aug	5.20%	5.30%	--
Trade Balance	07-Sep	Jul	9M	-300M	--
China	Date	Period	Prior	Cons.	Actual
Non-manufacturing PMI	03-Sep	Aug	55.6	--	56.3
HSBC Manufacturing PMI	03-Sep	Aug	49.3	--	47.6
Consumer Price Index (YoY)	09-Sep	Aug	1.80%	2.00%	--
Producer Price Index (YoY)	09-Sep	Aug	-2.90%	-3.20%	--
Industrial Production YTD YoY	09-Sep	Aug	10.30%	--	--
Industrial Production (YoY)	09-Sep	Aug	9.20%	9.20%	--
Fixed Assets Inv Excl. Rural YTD YoY	09-Sep	Aug	20.40%	20.40%	--
Retail Sales (YoY)	09-Sep	Aug	13.10%	13.00%	--
Hong Kong	Date	Period	Prior	Cons.	Actual
Purchasing Managers Index	03-05 SEP	Aug	50.3	--	--
India	Date	Period	Prior	Cons.	Actual
Exports YoY%	03-Sep	Jul	-5.50%	--	-14.80%
Imports YoY%	03-Sep	Jul	-13.50%	--	-7.60%
India August Markit Services PMI	05-Sep	Aug	--	--	--
Indonesia	Date	Period	Prior	Cons.	Actual
Inflation (YoY)	03-Sep	Aug	4.56%	4.42%	4.58%
Exports (YoY)	03-Sep	Jul	-16.40%	-9.70%	-7.30%
Malaysia	Date	Period	Prior	Cons.	Actual
Exports YoY%	07-Sep	Jul	5.40%	4.80%	--
Philippines	Date	Period	Prior	Cons.	Actual
Consumer Price Index (YoY)	05-Sep	Aug	3.20%	3.50%	--
Singapore	Date	Period	Prior	Cons.	Actual
Purchasing Managers Index	04-Sep	Aug	49.8	--	--
South Korea	Date	Period	Prior	Cons.	Actual
Consumer Price Index (MoM)	03-Sep	Aug	-0.20%	0.50%	0.40%
Consumer Price Index (YoY)	03-Sep	Aug	1.50%	1.40%	1.20%
Taiwan	Date	Period	Prior	Cons.	Actual
CPI YoY%	05-Sep	Aug	2.46%	2.60%	--
Total Exports (YoY)	07-Sep	Aug	-11.60%	-2.40%	--
Thailand	Date	Period	Prior	Cons.	Actual
Consumer Price Index (YoY)	03-Sep	Aug	2.73%	2.62%	2.69%

Calendar Events

Australia - RBA Cash Target, September 4

We expect the benchmark rate to remain unchanged

Current	Consensus	New
3.50%	3.50%	--

Thailand - Benchmark Interest Rate, September 5

We expect the benchmark rate to remain unchanged

Current	Consensus	New
3.00%	3.00%	--

Malaysia - Overnight Rate, September 6

We expect the benchmark rate to remain unchanged

Current	Consensus	New
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.	2059.1	0.6	0.2	-6.4	-18.6
	Hong Kong - Hang Seng	19559.2	0.4	-1.2	6.1	-3.2
	Taiwan - Weighted	7450.5	0.7	-0.2	5.4	-4.0
	Japan - Nikkei 225	8783.9	-0.6	-3.3	3.9	-1.9
	Korea - Kospi	1912.7	0.4	-0.3	4.8	2.4
	India - Sensex 30	17384.4	-0.3	-1.7	12.5	3.3
	Australia - SPX/ASX 200	4329.7	0.3	-0.3	6.7	2.0
	Singapore - Strait Times	3017.2	-0.3	-0.9	14.0	6.1
	Indonesia - Jakarta Comp	4117.9	1.4	-0.7	7.7	7.2
	Thailand - SET	1235.5	0.7	0.1	20.5	16.0
	Malaysia - KLCI	1653.9	0.5	0.3	8.0	14.3
	Philippines - Manila Comp.	5219.1	0.4	1.5	19.4	18.8

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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)	6.34	0.13	0.26	6.37	6.45
	Hong Kong (HKD/USD)	7.76	-0.01	-0.01	7.75	7.75
	Taiwan (TWD/USD)	29.9	0.18	0.21	29.84	29.58
	Japan (JPY/USD)	78.33	0.08	0.52	78.27	77.94
	Korea (KRW/USD)	1131	0.32	0.38	1138	1148
	India (INR/USD)	55.5	0.08	0.37	56.38	58.84
	Australia (USD/AUD)	1.03	-0.67	-1.12	0.98	1.00
	Singapore (SGD/USD)	1.25	-0.02	0.37	1.25	1.25
	Indonesia (IDR/USD)	9535	0.39	-0.01	9678	10106
	Thailand (THB/USD)	31.2	0.19	0.10	31.39	31.81
	Malaysia (MYR/USD)	3.11	0.22	-0.08	3.14	3.16
	Philippines (PHP/USD)	42.0	0.17	0.63	42.02	42.24

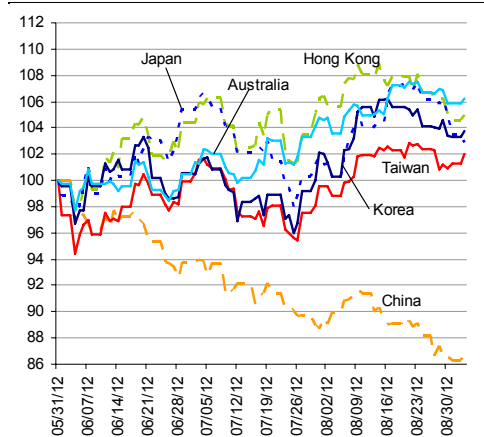
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.45	0.00	-0.08	0.05
	Hong Kong (HIBOR/1W)	0.13	0.00	0.00	0.00
	Taiwan (TAIBOR/1W)	0.63	0.00	0.00	-0.01
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	3.03	-0.01	-0.01	-0.01
	India (MIBOR/7D)	3.40	1.55	-0.15	-0.10
	Singapore (SIBOR/1W)	0.25	0.00	0.00	-0.06
	Indonesia (JIBOR/1W)	4.28	-0.02	-0.05	0.09
	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)	2.19	0.13	0.69	0.38

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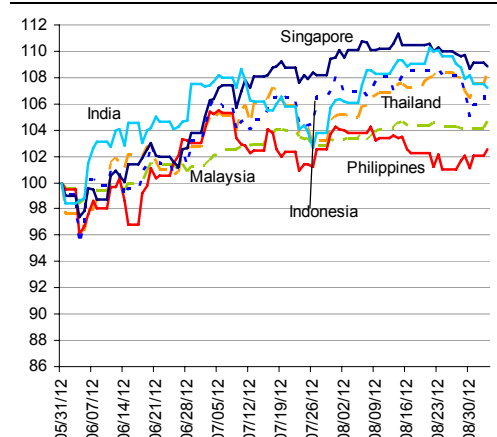
Charts

Chart 9
Stock Markets



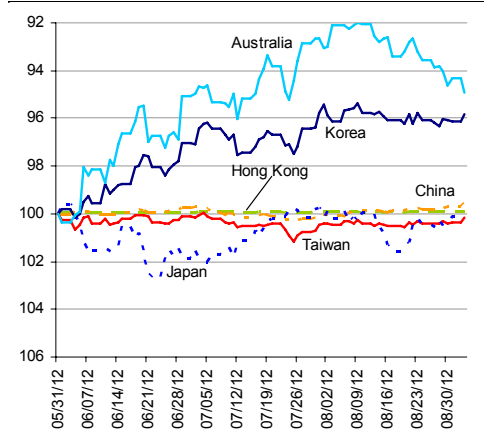
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



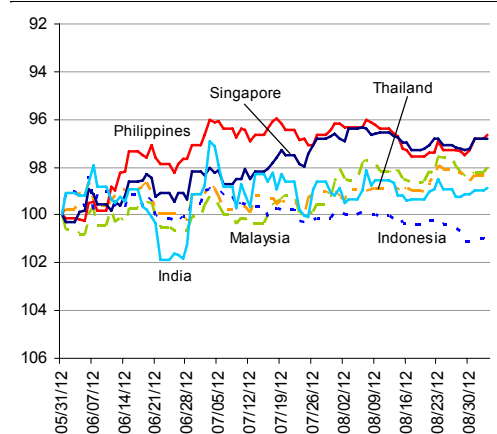
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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