

Daily Flash

Asia

The Fed's announcement of QE3 was received positively in Asia today, with a strong rally in equity and currency markets, led by the Kospi (2.9%), Hang Seng (2.9%), and Sensex (2.4%). The Fed's decision comes on the back of recent positive steps in Europe, all of which have improved market sentiment. Given renewed expectations of capital inflows into the region, this third round of QE will likely result in increased investment and higher asset prices, providing positive momentum to the region's growth prospects (see our Asia Flash for further details regarding its impact on Asia), although it could also lead to asset bubbles, as feared in Hong Kong due to rising property prices (see below). Meanwhile, the strengthening yen is leading to renewed speculation of intervention, boosted by statements today by Japan's Finance Minister.

India's high August WPI inflation limits RBI's policy options

India's wholesale price inflation jumped in August to 7.6% y/y (consensus: 7.1%) from 6.9% in July, driven by a broad based pick up in prices. Core inflation rose for a fifth straight month (5.7% y/y vs 5.4% previously) as a rise in global commodity prices fueled input cost pressures (see our *India Flash* for further details). Looking ahead, upside risks to our 7.3% inflation projection for 2012 have increased, particularly in light of yesterday's decision by the government to hike diesel prices, and a probable extension of the liquidity-led rally in global commodities following QE3. We expect the RBI to keep rates steady at its next policy meeting on September 17th given India's still-high inflation rate, but a 25bp cut in the cash reserve ratio to 4.5% is possible in order to help reduce funding costs for banks. We continue to expect 50bps in rate cuts in the last quarter of 2012 to address growth concerns.

Japan downgrades economic outlook and warns of a strong yen

The Japanese government cut its assessment of the economy today for the second consecutive month. According to the government, "Japan's economic recovery appears to be pausing due to the global slowdown." Meanwhile, the Japanese government today also warned about the strong yen (which is currently 78.0/USD). According to Japan's Finance Minister Jun Azumi, "recent one-sided yen gains clearly do not reflect Japan's economic fundamentals." While we do not expect an immediate intervention in the currency by Japan's government, on the monetary policy front we expect the BoJ to ease its monetary policy further, likely as soon as in its next policy meeting on Sept 18-19.

Hong Kong unveils new property tightening measures

Following a 13% rise so far this year in property prices and yesterday's QE3 announcement, the Hong Kong Monetary Authority today announced a new round of tightening measures to contain the housing market. The new measures include: i) increasing the down payment ratio to 60% from the current 50% for second home purchases; ii) capping the maximum mortgage period to 30 years; and iii) tightening the mortgage approval requirements for non-resident applicants.

Singapore's retail sales decline in sign of flagging domestic demand

Singapore's retail sales fell by -2.9% y/y (consensus: -1.7% y/y) on weaker demand for motor vehicles and lower department stores sales. Given weakening domestic demand, we think there is an increasing likelihood that the Monetary Authority of Singapore will ease policy when it holds its semi-annual meeting in October, especially after the SGD's recent rapid appreciation (currently it is 1.22/USD).

Briefly noted:

S&P followed recent upgrades by Moody's and Fitch in upgrading Korea's sovereign rating today, to A+, S&P's fifth-highest rating, citing lower risks coming from North Korea as well as Korea's increasing resilience following the financial crisis.

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Calendar Indicators

China	Date	Period	Prior	Cons.	Actual
Consumer Price Index (YoY)	09-Sep	Aug	1.80%	2.00%	2.00%
Producer Price Index (YoY)	09-Sep	Aug	-2.90%	-3.20%	-3.50%
Industrial Production YTD YoY	09-Sep	Aug	10.30%	10.20%	10.10%
Industrial Production (YoY)	09-Sep	Aug	9.20%	9.00%	8.90%
Fixed Assets Inv Excl. Rural YTD YoY	09-Sep	Aug	20.40%	20.40%	20.20%
Retail Sales (YoY)	09-Sep	Aug	13.10%	13.20%	13.20%
Trade Balance (USD)	10-Sep	Aug	\$25.15B	\$19.50B	\$26.66B
Exports YoY%	10-Sep	Aug	1.00%	2.90%	2.70%
Imports YoY%	10-Sep	Aug	4.70%	3.50%	-2.60%
New Yuan Loans	10-15 SEP	Aug	540.1B	600.0B	703.9B
Money Supply - M2 (YoY)	10-15 SEP	Aug	13.90%	14.00%	13.50%
Hong Kong	Date	Period	Prior	Cons.	Actual
Industrial Production (YoY)	13-Sep	2Q	-1.60%	--	-2.90%
India	Date	Period	Prior	Cons.	Actual
Industrial Production YoY	12-Sep	Jul	-1.80%	0.50%	0.10%
Monthly Wholesale Prices YoY%	14-Sep	Aug	6.87%	7.10%	7.55
Japan	Date	Period	Prior	Cons.	Actual
GDP Annualized	10-Sep	2Q F	1.40%	1.00%	0.70%
Gross Domestic Product (QoQ)	10-Sep	2Q F	0.30%	0.30%	0.20%
Current Account Total	10-Sep	Jul	¥433.3B	¥485.6B	¥625.4B
Trade Balance - BOP Basis	10-Sep	Jul	¥112.0B	-¥439.5B	-¥373.6B
Japan Money Stock M2 YoY	11-Sep	Aug	2.20%	2.30%	2.40%
Machine Orders (MoM)	12-Sep	Jul	5.60%	2.00%	4.60%
Machine Orders YOY%	12-Sep	Jul	-9.90%	-3.60%	1.70%
Tertiary Industry Index (MoM)	12-Sep	Jul	0.10%	-0.50%	-0.80%
Malaysia	Date	Period	Prior	Cons.	Actual
Industrial Production YoY	10-Sep	Jul	3.70%	3.00%	1.40%
Philippines	Date	Period	Prior	Cons.	Actual
Total Exports (YoY)	11-Sep	Jul	4.20%	-1.00%	7.80%
Singapore	Date	Period	Prior	Cons.	Actual
Unemployment Rate (sa)	14-Sep	2Q F	2.00%	--	2.00%
Retail Sales (YoY)	14-Sep	Jul	-0.90%	-1.70%	-2.90%
South Korea	Date	Period	Prior	Cons.	Actual
Unemployment Rate (SA)	12-Sep	Aug	3.10%	3.20%	3.10%

Indicator of the Week

Taiwan Export Orders for August (September 20th)

Forecast: -1.5% y/y

Consensus: -2.0% y/y

Prior: -4.4% y/y

As a forward indicator for near-term export prospects in the region, Taiwan's export orders will be watched to gauge the extent of the ongoing slump in global trade. The economy's export performance has been very weak in the past two months, as manufacturing PMI dropped to a nine month low (46.1 in August). The recent slowdown in China's economy, as evidenced by sluggish activity and trade, has further intensified concerns about Taiwan's export outlook. We expect year-on-year growth of export orders continue to decline in August, albeit at a slower pace. Orders from major export partners might show some signs of stabilization, although a meaningful recovery has yet to come.

Calendar Events

South Korea - 7-Day Repo Rate, September 13

We expect a 25 bps cut in the benchmark rate

Current

3.00%

Consensus

2.75%

New

3.00%

Philippines - Overnight Borrowing Rate, September 13

We expect the benchmark rate to remain unchanged

Current

3.75%

Consensus

3.75%

New

3.75%

Indonesia -Reference Rate, September 13

We expect the benchmark rate to remain unchanged

Current

5.75%

Consensus

5.75%

New

5.75%

Upcoming Calendar Indicators

China	Date	Period	Prior	Cons.	Actual
Actual FDI (YoY)	14-18 SEP	Aug	-8.70%	-5.80%	--
HSBC Flash Manufacturing PMI	20-Sep	Sep	47.6	--	--
Hong Kong	Date	Period	Prior	Cons.	Actual
Unemployment Rate SA	18-Sep	Aug	3.20%	3.30%	--
CPI - Composite Index (YoY)	20-Sep	Aug	1.60%	3.70%	--
India	Date	Period	Prior	Cons.	Actual
Cash Reserve Ratio	17-Sep	17-Sep	4.75%	4.75%	
Reverse Repo Rate	17-Sep	17-Sep	7.00%	7.00%	
CPI (YoY)	18-Sep	Aug	9.86%	--	
Japan	Date	Period	Prior	Cons.	Actual
Merchnds Trade Balance Total	20-Sep	Aug	¥517.4B	¥829.3B	
Merchnds Trade Exports YoY	20-Sep	Aug	-8.10%	-7.50%	
All Industry Activity Index (MoM)	20-Sep	Jul	0.20%	-0.50%	
Machine Tool Orders (YoY)	20-Sep	Aug F	-2.60%		
Malaysia	Date	Period	Prior	Cons.	Actual
CPI YoY	19-Sep	Aug	1.40%	1.40%	
Philippines	Date	Period	Prior	Cons.	Actual
Overseas Remittances (YoY)	17-Sep	Jul	4.20%		
Unemployment Rate	18-Sep	Jul	6.90%		
Balance of Payments	19-Sep	Aug	\$3182M		--
Singapore	Date	Period	Prior	Cons.	Actual
Non-oil Domestic Exports (YoY)	17-Sep	Aug	5.80%	-3.30%	--
Taiwan	Date	Period	Prior	Cons.	Actual
Export Orders (YoY)	20-Sep	Aug	-4.40%	-2.00%	

Upcoming Calendar Events

India - REPO Cutoff Yld, September 17

We expect the benchmark rate to remain unchanged

Current	Consensus	New
8.00%	8.00%	--

Japan - BOJ Target Rate, September 19

We expect the benchmark rate to remain unchanged

Current	Consensus	New
0.10%	0.10%	--

Taiwan - Benchmark Interest Rate, September 20

We expect the benchmark rate to remain unchanged

Current	Consensus	New
1.88%	1.88%	--

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.	2123.8	0.6	-0.2	-3.4	-14.5
	Hong Kong - Hang Seng	20629.8	2.9	4.2	11.9	8.3
	Taiwan - Weighted	7738.1	2.1	4.2	9.4	7.0
	Japan - Nikkei 225	9159.4	1.8	3.2	8.3	7.5
	Korea - Kospi	2007.6	2.9	4.0	10.0	14.8
	India - Sensex 30	18464.3	2.5	4.4	19.5	10.5
	Australia - SPX/ASX 200	4390.0	1.2	1.5	8.2	9.6
	Singapore - Strait Times	3070.4	1.3	1.9	16.0	12.1
	Indonesia - Jakarta Comp	4257.0	2.1	2.7	11.4	12.1
	Thailand - SET	1276.1	1.5	2.4	24.5	24.7
	Malaysia - KLCI	1643.0	0.9	1.1	7.3	14.3
	Philippines - Manila Comp.	5322.5	1.6	2.3	21.7	25.0

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)	6.32	0.24	0.44	6.35	6.40
	Hong Kong (HKD/USD)	7.75	0.02	0.04	7.75	7.75
	Taiwan (TWD/USD)	29.4	0.81	1.31	29.30	29.04
	Japan (JPY/USD)	78.03	-0.69	0.27	77.97	77.69
	Korea (KRW/USD)	1117	1.00	1.17	1121	1133
	India (INR/USD)	54.3	2.03	1.99	55.01	57.31
	Australia (USD/AUD)	1.06	0.44	2.00	0.95	0.97
	Singapore (SGD/USD)	1.22	0.39	1.28	1.22	1.22
	Indonesia (IDR/USD)	9520	0.83	0.75	9559	9925
	Thailand (THB/USD)	30.7	0.49	1.07	30.88	31.30
	Malaysia (MYR/USD)	3.04	1.30	2.29	3.06	3.09
	Philippines (PHP/USD)	41.4	0.85	0.68	41.28	41.49

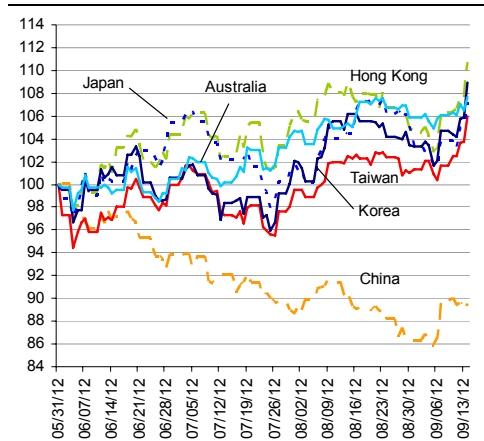
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.40	-0.03	0.04	0.07
	Hong Kong (HIBOR/1W)	0.15	0.02	0.02	0.02
	Taiwan (TAIBOR/1W)	0.63	0.00	0.00	-0.01
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	3.02	0.00	0.00	-0.02
	India (MIBOR/7D)	3.71	0.27	0.31	-0.13
	Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00
	Indonesia (JIBOR/1W)	4.24	0.00	-0.01	-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)	1.19	-0.19	-0.13	-0.94

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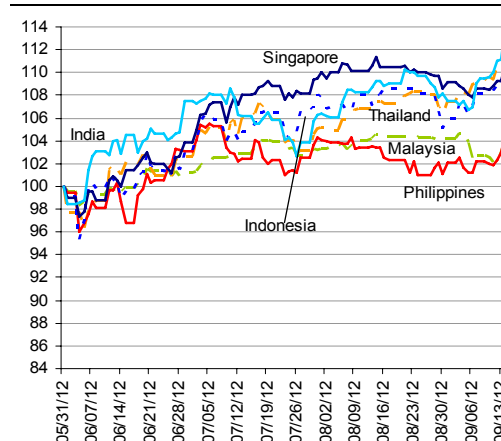
Charts

Chart 9
Stock Markets



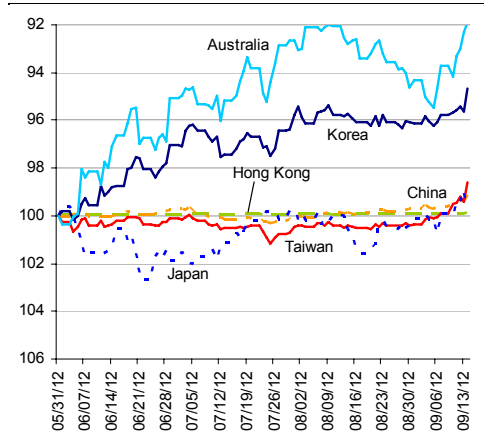
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



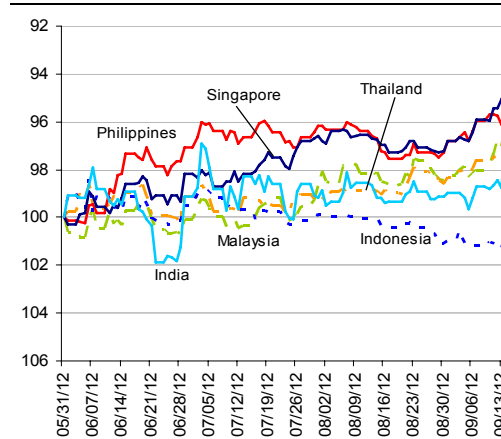
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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