

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.

Jeffrey Cantwell
Economist
jeffrey.cantwell@bbva.com.hk
+852 2582 3173

William Fitchett
Economist
william.fitchett@bbva.com.hk
+852 2582 3246

With contributions from the BBVA Research Asia Team

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 | Current | Consensus | New |
| We expect the benchmark rate to remain unchanged | 8.00% | 8.00% | -- |
| Japan - BOJ Target Rate, September 19 | Current | Consensus | New |
| We expect the benchmark rate to remain unchanged | 0.10% | 0.10% | -- |
| Taiwan - Benchmark Interest Rate, September 20 | Current | Consensus | New |
| We expect the benchmark rate to remain unchanged | 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 | |

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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) | 6.32 | 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 | |

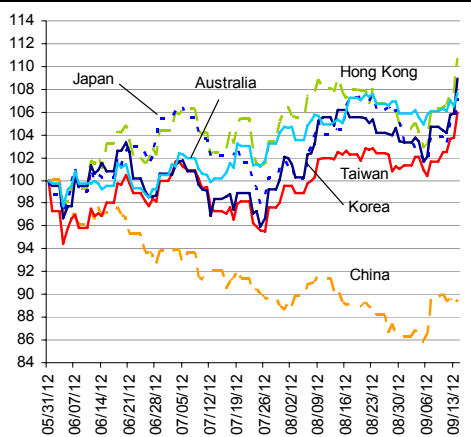
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| INTERBANK RATES | INDEX | Rate | net change over a day | net change over a week | net change over a month |
|-----------------|-------------------------|------|-----------------------|------------------------|-------------------------|
| | China (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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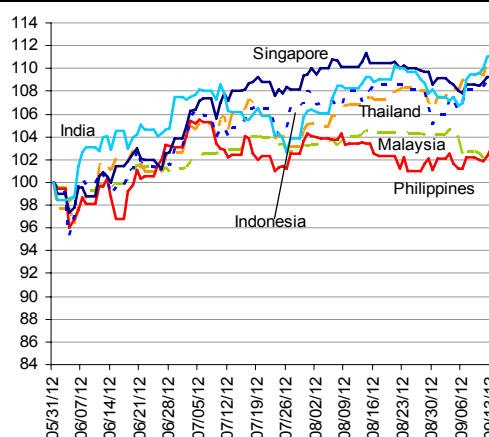
Charts

Chart 9
Stock Markets



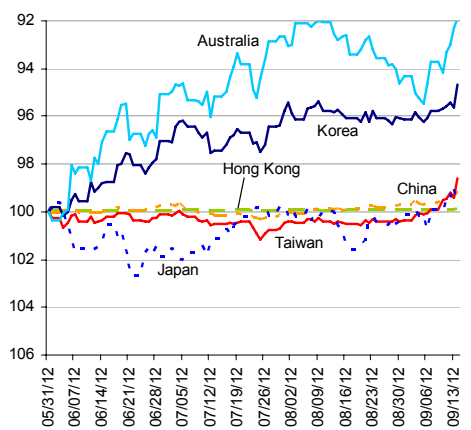
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



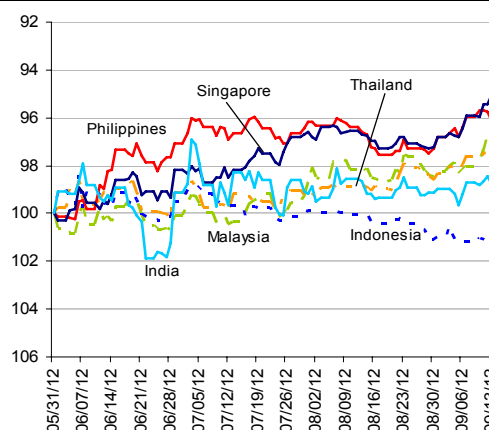
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Stephen Schwartz
Chief Economist for Asia
stephen.schwartz@bbva.com.hk

Fielding Chen
Senior Economist
fielding.chen@bbva.com.hk

Le Xia
Senior Economist (China)
xia.le@bbva.com.hk

Zhigang Li
Senior Economist (China)
zhigang.li@bbva.com.hk


Sumedh Deorukhkar
Senior Economist (India, Mumbai)
sumedh.deorukhkar@grupobbva.com

Jeffrey Cantwell
Economist
jeffrey.cantwell@bbva.com.hk

George Xu
Economist
george.xu@bbva.com.hk

Richard Li
Asian FX Chief Strategist
richard.li@bbva.com.hk

William Fitchett
Economist
william.fitchett@bbva.com.hk

BBVA | RESEARCH  | 43/F., Two IFC, 8 Finance Street, Central, Hong Kong | Tel.: +852 2582 3111 | www.bbva.com.hk

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