

Daily Flash

Asia

Markets in Asia were broadly lower for a second day in a row, leading some observers to wonder what ever happened to the QE3 rally that appeared so strong just a few days ago? Market participants are pointing to a variety of reasons for the selloff, including a downtrend in global markets, the rising tensions between Japan and China (which are already having an effect on trade and production, as flagged in yesterday's [Flash](#)), and speculation that anticipated policy easing may not be as aggressive as previously thought. Declines were led by Shanghai (-0.9%) and Jakarta (-0.7%). In the coming days, markets will be influenced by the outcome of tomorrow's Bank of Japan monetary policy decision - we expect more easing through an expansion in the asset purchase program - and by the release of the HSBC's flash PMI for China on Thursday.

China housing prices rise for a third straight month

According to NBS data released today, housing prices increased marginally in August by 0.07% m/m from 0.06% last month, marking the third consecutive month of price increases. Residential housing prices also contracted at a slower pace on an over-year basis for the month, at -1.8% y/y from -2.0% in July, according to our index aggregating the prices of the 70 major cities (including both new and secondary housing). Since May, housing prices at the national level are now up by 0.2%. The uptrend in housing prices comes as a relief to concerns about a hard landing in the important housing sector, but may also act as a constraint on the pace of monetary easing, as the authorities continue to express concern about maintaining housing affordability.

Indonesia's parliament to vote on electricity price increase

According to press reports, a parliamentary commission has approved a bill to raise electricity prices by 15%. The bill now moves to the full parliament for approval. Approval of the bill would be a long-awaited positive step in reducing costly subsidies and preventing upgrades to the country's power infrastructure.

India's CPI inflation hits double digits in August

India's CPI inflation edged higher to 10.0%y/y in August from 9.9% in July, driven by rising food prices. Last week, the more closely watched benchmark WPI inflation outturn for August showed a jump in inflation to 7.6% y/y from 6.9% previously, suggesting persistent price pressures, particularly with respect to commodities. Even after the RBI's decision yesterday to leave interest rates unchanged in view of the persistent inflationary pressures, we still expect another 50 bps of interest rate cuts over the rest of 2012 amid rising growth concerns and recent positive steps toward policy reforms..

Briefly noted:

Highlighting ASEAN's growing ties, Singapore's and Malaysia's stock exchanges announced the debut of cross-border trading yesterday, with Thailand to join them in October.

The Reserve Bank of Australia released minutes from its September 4th policy meeting today which hinted at a further rate cut if there is "significant deterioration in the outlook for growth" due to China's slowdown and global uncertainty. Looking ahead, we expect the RBA to lower policy rate to 3.25% by the end of 2012 from the current 3.50%. Market participants also read the minutes as the RBA was expressing concern about the strong value of the AUD, which declined today following the release of the minutes.

In Hong Kong, the latest 3m (June-August 2012) average unemployment rate came in at 3.2% (consensus: 3.3%), unchanged from the previous outturn of May-July. The outturn is yet another stronger-than-expected employment outturn in Asia, although with ongoing sluggishness in external trade and retail sales, we still expect negative spillovers into the job market in the coming months.

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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%	4.50%
Reverse Repo Rate	17-Sep	17-Sep	7.00%	7.00%	7.00%
CPI (YoY)	18-Sep	Aug	9.86%	--	10.03%
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%	--	5.40%
Unemployment Rate	18-Sep	Jul	6.90%	--	7.00%
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%	-10.60%
Taiwan	Date	Period	Prior	Cons.	Actual
Export Orders (YoY)	20-Sep	Aug	-4.40%	-2.00%	--

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

India - REPO Cutoff Yld, September 17

We expect the benchmark rate to remain unchanged

Current

8.00%

Consensus

8.00%

New

8.00%

Japan - BOJ Target Rate, September 19

We expect the benchmark rate to remain unchanged

Current

0.10%

Consensus

0.10%

New

--

Taiwan - Benchmark Interest Rate, September 20

We expect the benchmark rate to remain unchanged

Current

1.88%

Consensus

1.88%

New

--

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.	2059.5	-0.9	-2.9	-6.4	-17.0
	Hong Kong - Hang Seng	20601.9	-0.3	3.7	11.8	5.9
	Taiwan - Weighted	7734.3	-0.4	3.3	9.4	2.1
	Japan - Nikkei 225	9123.8	-0.4	2.9	7.9	2.9
	Korea - Kospi	2005.0	0.1	4.4	9.8	9.0
	India - Sensex 30	18496.0	-0.2	3.6	19.7	9.2
	Australia - SPX/ASX 200	4394.7	-0.2	1.6	8.3	5.9
	Singapore - Strait Times	3068.0	-0.3	1.7	15.9	10.0
	Indonesia - Jakarta Comp	4223.9	-0.7	1.6	10.5	10.1
	Thailand - SET	1272.9	-0.4	2.0	24.1	23.2
	Malaysia - KLCI	1640.3	-0.2	1.2	7.2	14.6
	Philippines - Manila Comp.	5331.1	-0.4	2.8	21.9	24.3

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	-0.02	0.26	6.36	6.42
	Hong Kong (HKD/USD)	7.75	-0.01	0.03	7.75	7.75
	Taiwan (TWD/USD)	29.3	-0.11	1.12	29.27	29.01
	Japan (JPY/USD)	78.60	0.14	-1.06	78.55	78.27
	Korea (KRW/USD)	1118	-0.22	0.87	1125	1137
	India (INR/USD)	54.0	-0.03	2.44	54.67	56.91
	Australia (USD/AUD)	1.04	-0.53	-0.13	0.97	0.99
	Singapore (SGD/USD)	1.23	-0.20	0.23	1.23	1.23
	Indonesia (IDR/USD)	9505	-0.43	0.80	9609	9981
	Thailand (THB/USD)	30.9	-0.19	0.49	31.03	31.46
	Malaysia (MYR/USD)	3.06	-0.49	0.94	3.08	3.12
	Philippines (PHP/USD)	41.7	-0.38	-0.48	41.72	41.87

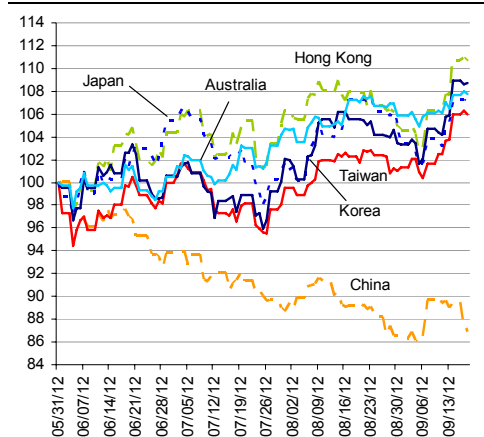
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.10	-0.14	-0.33	-0.85
	Hong Kong (HIBOR/1W)	0.15	0.00	0.02	0.02
	Taiwan (TAIBOR/1W)	0.62	-0.01	-0.01	-0.01
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	3.02	0.00	0.00	-0.02
	India (MIBOR/7D)	3.22	-0.02	0.22	-1.18
	Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00
	Indonesia (JIBOR/1W)	4.23	0.00	-0.01	-0.26
	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)	0.31	0.06	-1.00	-0.50

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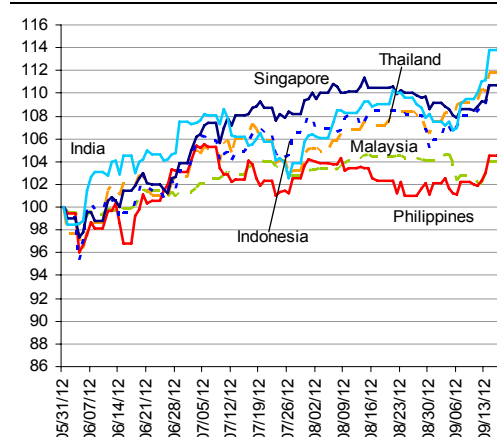
Charts

Chart 9
Stock Markets



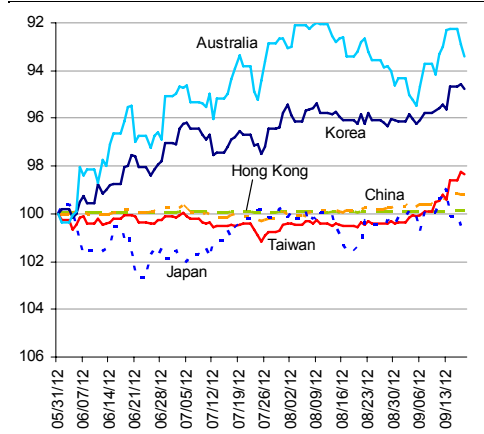
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



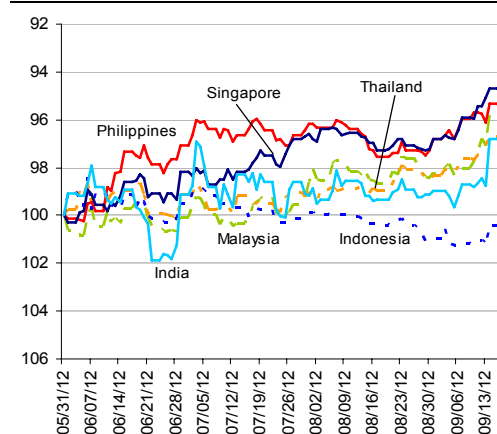
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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