

Daily Flash

Asia

Japan's Nikkei index led declines in the region today (-2.0%), followed by the Kospi (-1.6%), on weak auto sales in China, as worries continue over the China-Japan diplomatic spat and sluggish global growth (the latter is taking center stage at the IMF/World Bank Annual meetings underway in Tokyo). In the meantime, Asia-watchers will also be following tomorrow's monetary policy meetings in Indonesia and South Korea, especially the latter, where we expect a rate cut (see below).

S&P's caution over potential downgrade hits Indian markets

Repeating its previous statements, ratings agency S&P today noted that India's investment grade rating (BBB-) faces a possible downgrade amid high fiscal and current account deficits and lack of government action. The comments come despite recent steps by the government to accelerate growth supportive reforms and increase fiscal prudence, which had led to a strong rebound in the rupee over the past month. The rupee reversed course today, falling by nearly 1% against the USD, and the Sensex declined by 0.5%.

Korea's unemployment rate holds steady; BoK rate cut expected

South Korea's seasonally adjusted unemployment rate remained steady at 3.1% (consensus: 3.2%) as job creation remained strong. The report comes a day ahead of the Bank of Korea's monthly policy meeting, where we expect a 25bp interest rate cut to 2.75% in light of slowing growth and low inflation. This would be the second rate cut since July, when the easing cycle began. Though today's unemployment number provides some comfort – in line with surprisingly strong labor market trends across the region – the details showed some softness as self-employed workers increased by 111,000, and youth unemployment (under the age of 29) rose to 6.7% from 6.4%.

Indonesia and Japan agree to infrastructure master plan for Jakarta

The Indonesian and Japanese governments have announced an agreement on a US\$43 billion master plan to upgrade Jakarta's infrastructure from 2013 - 2020. The plan involves the participation of the private sector and government, with official financing from Japan, including from JBIC. Among the projects are the construction of a sorely-needed Mass Rapid Transit (MRT) system for Jakarta, as well as a new airport, roads, and an upgrading of the city's sewage system.

Briefly noted:

- **The Philippines' exports declined by a worse-than-expected -9.0% y/y in August** (consensus: -5.8% y/y), with electronic shipments down by -14.9% y/y. Authorities also hinted that their 10% export target for 2012 may not be reached, which would increase the chances of an interest rate cut in the coming months (they last cut rates by 25bps in July).

Stephen Schwartz
Chief Economist for Asia
stephen.schwartz@bbva.com.hk
+852 2582 3218

Jeffrey Cantwell, CFA
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

Australia	Date	Period	Prior	Cons.	Actual
Unemployment Rate	11-Oct	Sep	5.10%	5.30%	--
China	Date	Period	Prior	Cons.	Actual
HSBC Services PMI	08-Oct	Sep	52.0	--	54.3
New Yuan Loans	11-15 OCT	Sep	703.9B	680.0B	--
Money Supply - M2 (YoY)	11-15 OCT	Sep	13.50%	13.70%	--
Hong Kong	Date	Period	Prior	Cons.	Actual
Purchasing Managers Index	08-Oct	Sep	50.5	--	49.6
India	Date	Period	Prior	Cons.	Actual
Industrial Production YoY	12-Oct	Aug	0.10%	--	--
Japan	Date	Period	Prior	Cons.	Actual
Current Account Total	09-Oct	Aug	¥625.4B	¥421.1B	¥454.7B
Trade Balance - BOP Basis	09-Oct	Aug	¥373.6B	¥628.6B	¥-644.5B
Machine Tool Orders (YoY)	10-Oct	Sep P	-2.70%	--	-3.00%
Machine Orders (MoM)	11-Oct	Aug	4.60%	-2.30%	--
Japan Money Stock M2 YoY	12-Oct	Sep	2.40%	2.40%	--
Tertiary Industry Index (MoM)	12-Oct	Aug	-0.80%	0.40%	--
Malaysia	Date	Period	Prior	Cons.	Actual
Industrial Production YoY	11-Oct	Aug	1.40%	-2.00%	--
Philippines	Date	Period	Prior	Cons.	Actual
Total Exports (YoY)	10-Oct	Aug	7.80%	5.50%	-9.00%
Singapore	Date	Period	Prior	Cons.	Actual
GDP (annualized) (QoQ)	12-Oct	3Q A	-0.70%	-1.70%	--
GDP (YoY)	12-Oct	3Q A	2.00%	0.90%	--
Retail Sales (YoY)	12-Oct	Aug	-2.90%	--	--
South Korea	Date	Period	Prior	Cons.	Actual
Unemployment Rate (SA)	10-Oct	Sep	3.10%	3.20%	3.10%
Taiwan	Date	Period	Prior	Cons.	Actual
Total Exports (YoY)	08-Oct	Sep	-4.20%	1.00%	10.40%

Indicator of the Week

Singapore third quarter GDP (October 12th)

Forecast: 0.1% q/q sa

Consensus: -1.7% q/q sa

Prior: -0.7% q/q sa

The third quarter GDP release will be closely watched, in tandem with the Monetary Authority of Singapore's (MAS) next semi-annual meeting in mid-October. Singapore's growth momentum has slowed sharply since Q4 2011 as weak exports have been having knock-on effects to domestic demand. There is risk of a technical recession, following a -0.7% q/q, s.a. GDP contraction in the second quarter on both weak external and domestic demand. We expect the MAS to ease monetary policy at their upcoming meeting, through a re-centering of the exchange rate band at a more depreciated level and/or a flattening of the appreciation slope (the MAS uses the exchange rate as its principal monetary policy instrument). At its last meeting in April the MAS tightened policy to contain inflation by increasing the appreciation slope (to 2% per year based on our estimates). An easing of the monetary stance, however, is not without risks given that inflation is still somewhat high (3.9% y/y in August).

Calendar Events

South Korea - 7-Day Repo Rate, October 11

We expect a 25 bps cut in the benchmark rate

Current

3.00%

Consensus

2.75%

New

--

Indonesia - Bank Indonesia Reference Rate, October 11

We expect the benchmark rate to remain unchanged

Current

5.75%

Consensus

5.75%

New

--

Singapore - Monetary Authority policy meeting, October 12

We expect policy easing

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.	2119.9	0.2	5.8	-3.6	-9.6
	Hong Kong - Hang Seng	20919.6	-0.1	0.1	13.5	18.1
	Taiwan - Weighted	7592.0	-0.3	-1.6	7.4	5.3
	Japan - Nikkei 225	8596.2	-2.0	-2.2	1.7	-0.1
	Korea - Kospi	1948.2	-1.6	-2.4	6.7	10.3
	India - Sensex 30	18660.2	-0.7	-1.1	20.7	12.7
	Australia - SPX/ASX 200	4490.7	-0.3	1.2	10.7	6.9
	Singapore - Strait Times	3036.3	-1.0	-1.3	14.7	13.8
	Indonesia - Jakarta Comp	4280.0	0.0	0.7	12.0	24.0
	Thailand - SET	1289.4	-0.2	-1.4	25.8	39.7
	Malaysia - KLCI	1659.4	-0.2	0.6	8.4	18.8
Philippines - Manila Comp.	5369.6	-0.5	-0.1	22.8	32.9	

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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)	6.30	-0.17	-0.23	6.34	6.40
	Hong Kong (HKD/USD)	7.75	0.00	0.03	7.75	7.75
	Taiwan (TWD/USD)	29.3	-0.02	-0.02	29.26	29.02
	Japan (JPY/USD)	78.30	-0.05	0.24	78.22	77.91
	Korea (KRW/USD)	1115	-0.35	0.06	1119	1130
	India (INR/USD)	53.0	-0.44	-1.52	53.72	55.98
	Australia (USD/AUD)	1.02	0.28	0.18	0.98	1.00
	Singapore (SGD/USD)	1.23	0.12	0.20	1.23	1.23
	Indonesia (IDR/USD)	9594	0.21	0.05	9762	10138
	Thailand (THB/USD)	30.7	-0.07	-0.10	30.87	31.30
	Malaysia (MYR/USD)	3.07	-0.08	-0.47	3.09	3.13
Philippines (PHP/USD)	41.5	-0.22	0.08	41.54	41.59	

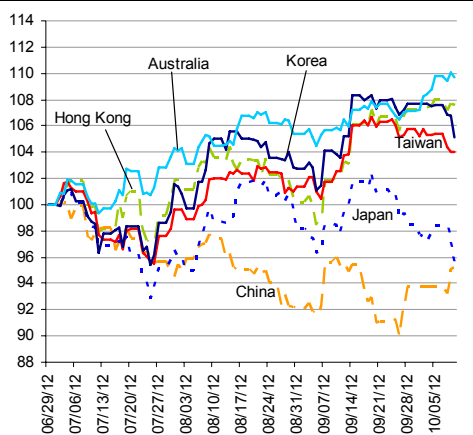
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.17	-0.59	-0.13	0.17
	Hong Kong (HIBOR/1W)	0.17	0.00	-0.03	0.04
	Taiwan (TAIBOR/1W)	0.62	0.00	0.00	-0.01
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	3.01	0.00	-0.01	-0.01
	India (MIBOR/7D)	3.16	-0.60	-0.69	0.15
	Singapore (SIBOR/1W)	0.31	0.06	0.00	0.06
	Indonesia (JIBOR/1W)	4.26	0.01	0.02	0.02
	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	-0.50	-0.31	0.19

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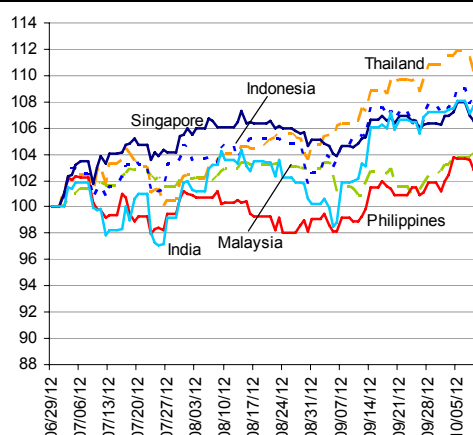
Charts

Chart 9
Stock Markets



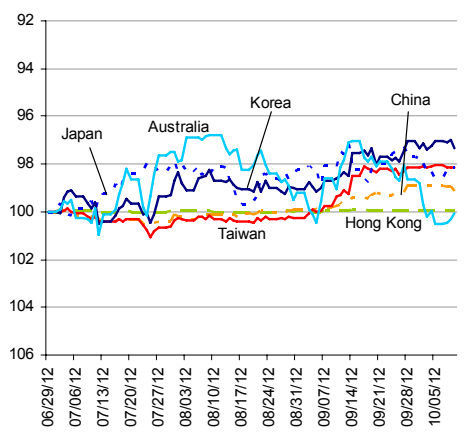
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



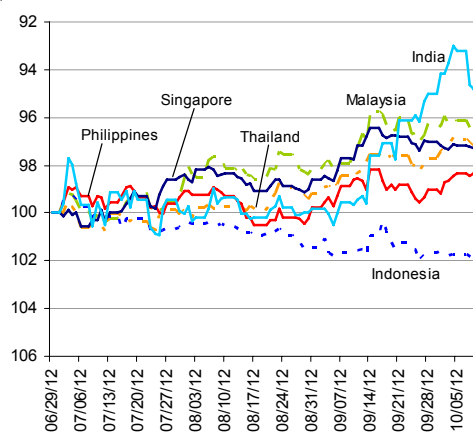
Source: BBVA Research and Bloomberg

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, CFA
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



RESEARCH



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

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