

Asia Flash

Asia

Asian stock markets were sharply lower today, led by Indonesia (-5.6%), Thailand (-3.3%), and India (-1.8%) on capital outflows and concerns about the growth outlook. Indonesia's selloff mirrors recent developments in India, and appears to have been triggered by a widening of the Q2 current account deficit, which reached a record -\$9.8 billion (4.4% of GDP). The rupiah hit a four-year low today of 10,500 per USD. Among the region's economies, Indonesia and India (see below) are bearing the brunt of the reversal of capital flows in anticipation of QE tapering, exacerbated by domestic factors. Elsewhere, recent Q2 GDP outturns confirm a mixed growth picture for the region, as highlighted in our recent Q3 [China/Asia Outlook](#). Hong Kong and Taiwan are seeing a pickup in growth, while Thailand's growth is decelerating on weaker domestic demand (see below).

India's capital outflows accelerate amid fears of capital controls

Investor sentiment towards India has weakened further over the past week due to a mix of slowing growth momentum, renewed inflation pressures, rising external risks and fears of capital control measures to stem the slide in the currency. The latest trigger was a set of measures announced by the central bank last Wednesday to reduce capital outflows through tighter restrictions on outward remittances of domestic companies and individuals. The measures were perceived by market participants as a possible precursor to broader capital control measures, which the central bank immediately denied. Nevertheless, the rupee tumbled today to a fresh historic low of 62.8 per USD, 10-year bond yields spiked to a 3-year high, and the stock market sank to a new 52-week low. Looking ahead, bolder structural reforms, including greater fuel price liberalization, land acquisition reforms, and higher foreign investment limits in insurance, pension and the pharmaceuticals industry are crucial to regain investor confidence and shore up the rupee. We believe that the risks to India's balance of payments, remain manageable given the high level of FX reserves (USD 279 bn or 7 months of imports) and an improving trade deficit amid rising external demand in the US and Eurozone.

Japan posts sluggish July exports, as hope rises on conclusion of trade talks

While the July export outturn - 12.2% y/y (consensus: 12.8%) - may look good on paper, in volume terms (after stripping out price and currency valuation effects) exports fell by -1.8% y/y in July, reversing an improving trend that had been in place since the end of last year. Together with a 19.6% y/y (consensus: 16.0%) rise in imports in July, the trade deficit widened to ¥1.02 trillion in July (consensus: 773.5 bn). The downbeat trade data, together with disappointing indicators in June and a weaker-than-expected Q2 GDP outturn, underscores the headwinds to Japan's economic pickup. Looking ahead, we remain optimistic that growth momentum will be sustained, albeit somewhat softer than H1, for a full-year outturn of 1.7% in 2013. Separately, media reports indicate that Japan has agreed with US counterparts to conclude its Trans-Pacific Partnership (TPP) free trade talks by end-2013, a component of structural reforms under Abenomic's "third arrow".

Thailand Q2 GDP outturn disappoints, pointing to mild recession

Thailand's economic growth decelerated in Q2 to 2.8% y/y (consensus: 3.3%) from 5.4% y/y in Q1 on softer domestic demand. On a quarterly basis, the economy contracted for a second consecutive quarter, by -0.3% q/q after the previous -1.7% q/q in Q1. The main drags come from a slowdown in household consumption and investment as well as a still sluggish external demand. The outturn caused the National Economic and Social Development Board today to cut its forecast of 2013 full-year growth to 3.8-4.3% from a previous 4.2-5.2%, in line with the central bank's projection of 4.2% in July (revised down from 5.1%). While the weaker Q2 GDP outturn puts more pressure on the Bank of Thailand to cut interest rates at its next policy meeting on August 21 (after a 25bp cut in May to 2.50%), we expect the central bank to stay on

hold given its aversion to exacerbating rising household debt and downward currency pressures.

China's housing prices accelerate in July

Despite ongoing curbs on housing purchases, residential property prices increased by 6.3% y/y in July from 5.9% in June, according to our estimates based on monthly price data released today by the National Bureau of Statistics (NBS). On a sequential basis, overall housing prices increased by 0.9% m/m nsa compared to 0.8% in the previous month. New home prices rose in 69 of the 70 cities on yearly basis, surveyed by the NBS. Major tier 1 cities including Guangzhou, Shenzhen, Beijing and Shanghai continue to lead the price rises, averaging around 14-17% y/y. China's new leadership has maintained existing curbs to limit speculation and maintain housing affordability amid economic slowdown. (That said, some municipal governments, such as Wenzhou, have eased restrictions in recent weeks.) Concerns about the rise in housing prices, along with other domestic financial fragilities, has acted as a constraint to monetary easing by the central bank.

Briefly noted:

Hong Kong's Q2 GDP accelerates on strong investment

Hong Kong Q2 GDP, released last Friday, was broadly in line with expectations at 3.3% y/y (BBVA: 3.4% y/y vs consensus 3.2% y/y), up from 2.9% y/y in Q1. By expenditure, the pickup in Q2 GDP is attributed to strong investment, which offset easing private consumption and exports in line with China's Q2 slowdown. Looking ahead, we expect tight labor market conditions (today's outturn for May-July unemployment remained at a low 3.3%), to support private consumption. Moreover, the performance of export sector has potential to improve as China's growth stabilized in the second half of the year. Overall, we maintain our full year GDP projection of 3.3% y/y in 2013.

Taiwan's final Q2 GDP reading, reported last Friday, came in at 2.49% y/y, better than the preliminary estimate (2.3%). The pace of sequential growth advanced by 2.3% q/q saar after a -2.5% q/q saar contraction in the first quarter. The pickup is led by a better private consumption (5.1% q/q saar vs. -0.2% in Q1) and higher contributions from net exports. Economic growth momentum in Taiwan has stabilized to some extent in Q2, although the outlook remains fragile. Disappointing July exports (1.6% y/y; Consensus: 4.9% y/y) is the latest evidence of external pressures which poses downside risks to our full-year 2.7% growth forecast.

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Calendar Indicators

China	Date	Period	Prior	Cons.	Actual
Foreign Direct Investment YoY	19-23 AUG	Jul	20.10%	14.00%	--
HSBC/Markit Flash Mfg PMI	22 Aug	Aug	47.7	48.1	--
Hong Kong	Date	Period	Prior	Cons.	Actual
Composite Interest Rate	19 Aug	Jul	0.32%	--	0.32%
Unemployment Rate SA	19 Aug	Jul	3.30%	3.30%	3.30%
CPI Composite YoY	20 Aug	Jul	4.10%	4.80%	--
Japan	Date	Period	Prior	Cons.	Actual
Exports YoY	19 Aug	Jul	7.40%	12.80%	12.20%
Imports YoY	19 Aug	Jul	11.80%	16.00%	19.60%
Trade Balance	19 Aug	Jul	¥182.3B	¥773.5B	¥1024.0B
All Industry Activity Index MoM	20 Aug	Jun	1.10%	-0.70%	--
Malaysia	Date	Period	Prior	Cons.	Actual
GDP YoY	21 Aug	2Q	4.10%	4.70%	--
CPI YoY	21 Aug	Jul	1.80%	2.00%	--
Singapore	Date	Period	Prior	Cons.	Actual
CPI YoY	23 Aug	Jul	1.80%	2.10%	--
Taiwan	Date	Period	Prior	Cons.	Actual
Export Orders YoY	20 Aug	Jul	-3.50%	-1.00%	--
Unemployment Rate	22 Aug	Jul	4.17%	4.18%	--
Commercial Sales YoY	23 Aug	Jul	-0.27%	-0.26%	--
Industrial Production YoY	23 Aug	Jul	-0.43%	-0.53%	--
Thailand	Date	Period	Prior	Cons.	Actual
GDP YoY	19 Aug	2Q	5.40%	3.30%	2.80%
GDP SA QoQ	19 Aug	2Q	-1.70%	0.20%	-0.30%
Vietnam	Date	Period	Prior	Cons.	Actual
CPI YoY	24 Aug	Aug	7.29%	--	--

Calendar Events

Thailand - Benchmark Interest Rate , Aug 21

We expect the benchmark rate to remain unchanged

Current

2.50%

Cons.

2.50%

New

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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.	2085.6	0.8	-0.7	-8.1	-1.4
Hong Kong - Hang Seng	22463.7	-0.2	3.0	-0.9	11.7	
Taiwan - Weighted	7900.2	-0.3	0.0	2.6	5.8	
Japan - Nikkei 225	13758.1	0.8	1.8	32.4	50.2	
Korea - Kospi	1917.6	-0.1	2.0	-4.0	-1.5	
India - Sensex 30	18307.5	-1.6	-2.6	-5.8	3.5	
Australia - SPX/ASX 200	5112.5	0.0	0.1	10.0	17.0	
Singapore - Strait Times	3173.3	-0.8	-1.8	0.2	3.6	
Indonesia - Jakarta Comp	4313.5	-5.6	-6.2	-0.1	3.7	
Thailand - SET	1398.5	-3.3	-2.4	0.5	14.3	
Malaysia - KLCI	1778.4	-0.6	-0.3	5.3	7.8	
Philippines - Manila Comp.	6526.0	-0.8	1.9	12.3	25.3	

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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)	6.12	-0.14	-0.01	6.19	6.25
Hong Kong (HKD/USD)	7.75	-0.01	0.02	7.75	7.75	
Taiwan (TWD/USD)	30.0	-0.18	-0.08	29.90	29.75	
Japan (JPY/USD)	97.92	-0.40	-1.04	97.87	97.56	
Korea (KRW/USD)	1116	-0.19	-0.19	1121	1131	
India (INR/USD)	62.7	-1.63	-2.32	64.44	68.16	
Australia (USD/AUD)	0.92	-0.20	0.21	1.10	1.12	
Singapore (SGD/USD)	1.27	-0.27	-0.87	1.27	1.27	
Indonesia (IDR/USD)	10533	-0.98	-2.28	11160	11980	
Thailand (THB/USD)	31.4	-0.32	-0.35	31.54	31.93	
Malaysia (MYR/USD)	3.29	-0.31	-1.18	3.31	3.35	
Philippines (PHP/USD)	43.8	-0.41	-0.30	43.82	44.05	

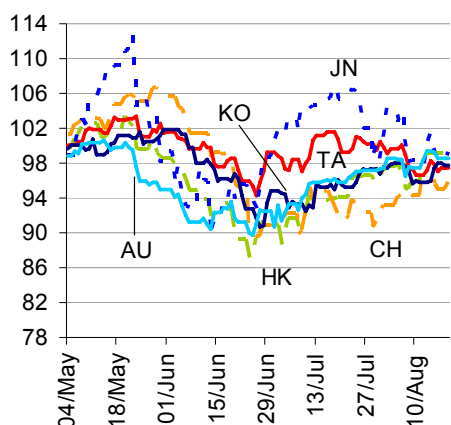
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	4.10	0.35	0.25	0.35
Hong Kong (HIBOR/1W)	0.12	0.00	0.00	0.00	
Taiwan (TAIBOR/1W)	0.52	0.00	0.00	-0.01	
Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01	
Korea (KORIBOR/1M)	2.56	0.00	0.00	0.00	
India (MIBOR/7D)	4.95	1.12	0.87	1.21	
Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00	
Indonesia (JIBOR/1W)	5.33	0.01	0.08	0.18	
Thailand (BIBOR/1W)	2.77	0.00	0.00	0.00	
Malaysia (KLIBOR/1W)	2.90	0.00	0.00	0.00	
Philippines (PHIBOR/1W)	1.25	0.00	-0.31	0.31	

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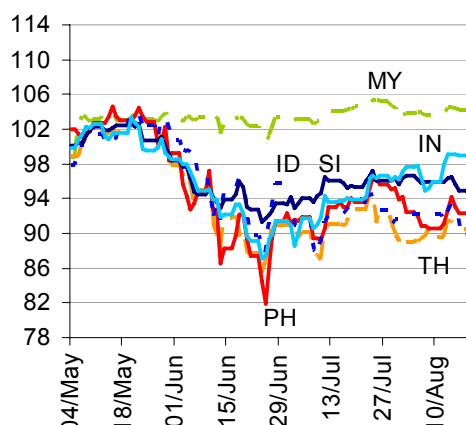
Charts

Chart 1
Stock Markets



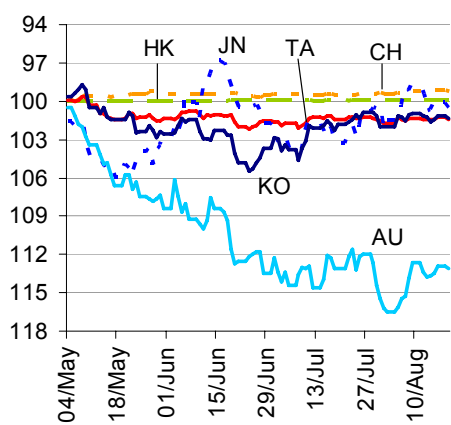
Source: BBVA Research and Bloomberg

Chart 2
Stock Markets



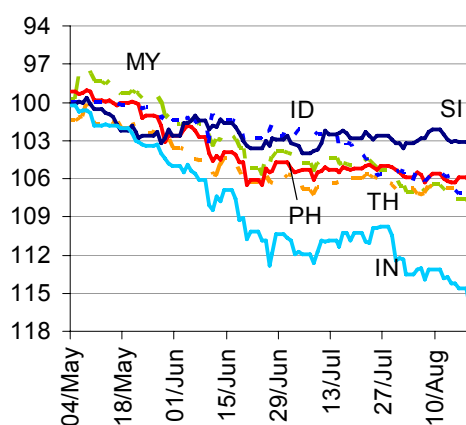
Source: BBVA Research and Bloomberg

Chart 3
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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