

Asia Flash

Asia

Investor sentiment across Asia weakened today ahead of the US Congressional stalemate and a possible government shutdown. Stock market losses were led by the Philippines, Indonesia, and Thailand, which were all down by over 2%. Also weighing on sentiment were weaker-than-expected data outturns in China and Japan (see below). A week-long holiday begins in China tomorrow, and with Hong Kong markets closed on October 1, we will report on a number of important data releases with a slight delay, on Wednesday. On tap for tomorrow is China's official PMI (consensus: 51.6), Korea September exports, and a monetary policy meeting in Australia (no change expected).

China HSBC PMI disappoints, as we await tomorrow's official data

After an unexpectedly strong flash HSBC PMI released on September 23 (51.2 up from 50.1 the previous month), today's final reading was much lower than expected, coming in at 50.2. The outturn was surprising given that the flash PMI is believed to account for 85-90% of the full sample. Nevertheless, the final outturn was still slightly higher than the previous month, and with most recent indicators suggesting stabilizing growth momentum, we expect tomorrow's release of the official PMI for September to show further strength, above the 51.0 outturn for August, and in line with the ongoing pickup in growth momentum.

Shanghai Free Trade Zone meets cool reaction as further details emerge

Following a partial set of details released last Friday, the Shanghai Free Trade Zone (FTZ) was launched yesterday as scheduled (see our [Flash](#)). Expectations had been running high that the FTZ would be launched as a breeding ground for investment and financial sector reforms. But the reaction so far has been cool, especially given the absence of senior officials at yesterday's opening ceremony and the lack of details on financial sector reforms (which are expected over the coming 1-3 years). Moreover, today's release of a promised "negative-list" for foreign investment, while sound in principle for its effort to streamline approvals, may be a disappointment for those expecting big breakthroughs. The list includes 190 areas that are off-limits to foreign investors, including 18 industries in manufacturing and services. Foreign investment in the FTZ is also not allowed in investment banks, finance companies, trust companies and money brokering companies. Nevertheless, it is too early to assess prospects for the zone, which could eventually prove to be a testing ground and catalyst for broader reforms.

Japan August manufacturing disappoints, but tax hike will proceed

Industrial production declined by -0.2% y/y (consensus: 0.5%) from 1.8% y/y increase in July, as automobile makers cut production due to sluggish demand after the expiry of the government's car purchasing incentives last year. The disappointing data may raise doubts about the sustainability of Japan's economic pickup after a strong expansion in H1 on aggressive monetary and fiscal stimulus measures. Nevertheless, manufacturing PMI released today for September (52.5 vs. 52.2 in August) and retail sales for August (1.1% y/y vs. -0.3% y/y in July), may help to alleviate such concerns. Japan's Prime Minister Abe is to announce his decision tomorrow to proceed with a planned sales tax hike accompanied by some offsetting short-term stimulus measures.

Briefly noted:

South Korea's industrial production accelerated to 1.80% s.a m/m in August (consensus: 0.5% s.a. m/m versus July -0.3% s.a. m/m), marking a nine-month high. On a year-on-year basis, it grew by 3.3% y/y in August (July: 0.9% y/y), above the market consensus of 2.1% y/y. The better-than-expected outturn of industrial production is driven by robust car and mobile phone production, as major trade partners (including China, US and Europe) have stabilized recently. With the rise of growth momentum, we think that South Korea can achieve a 2.7% full-year growth in 2013, up from 2.0% in 2012 and project that the likelihood of further interest cut is diminishing during the rest of the year.

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Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
Retail Sales MoM	01 Oct	Aug	0.10%	0.30%	--
China	Date	Period	Prior	Cons.	Actual
HSBC/Markit Manufacturing PMI	30 Sep	Sep	50.1	51.2	50.2
Manufacturing PMI	01 Oct	Sep	51.0	51.6	--
Non-manufacturing PMI	03 Oct	Sep	53.9	--	--
HSBC/Markit Services PMI	04 Oct	Sep	52.8	--	--
Hong Kong	Date	Period	Prior	Cons.	Actual
Retail Sales Volume YoY	03 Oct	Aug	8.90%	9.60%	--
Retail Sales Value YoY	03 Oct	Aug	9.50%	10.20%	--
Indonesia	Date	Period	Prior	Cons.	Actual
Exports YoY	01 Oct	Aug	-6.10%	4.70%	--
CPI YoY	01 Oct	Sep	8.79%	9.00%	--
Foreign Reserves	03-07 Oct	Sep	\$93.0B	--	--
Japan	Date	Period	Prior	Cons.	Actual
Markit/JMMA Manufacturing PMI	30 Sep	Sep	52.2	--	52.5
Industrial Production YoY	30 Sep	Aug P	1.80%	0.50%	-0.20%
Retail Trade YoY	30 Sep	Aug	-0.30%	1.00%	1.10%
Jobless Rate	01 Oct	Aug	3.80%	3.80%	--
Tankan Large All Industry Capex	01 Oct	Sep	5.50%	6.00%	--
Malaysia	Date	Period	Prior	Cons.	Actual
Exports YoY	04 Oct	Aug	4.50%	4.60%	--
Philippines	Date	Period	Prior	Cons.	Actual
CPI YoY	04 Oct	Sep	2.10%	2.40%	--
South Korea	Date	Period	Prior	Cons.	Actual
Industrial Production YoY	30 Sep	Aug	0.90%	2.10%	3.30%
Industrial Production SA MoM	30 Sep	Aug	-0.30%	0.50%	1.80%
CPI YoY	01 Oct	Sep	1.30%	1.20%	--
Exports YoY	01 Oct	Sep	7.70%	2.50%	--
Taiwan	Date	Period	Prior	Cons.	Actual
HSBC/Markit Manufacturing PMI	01 Oct	Sep	50.0	--	--
Thailand	Date	Period	Prior	Cons.	Actual
Exports YoY	30 Sep	Aug	-1.30%	--	2.50%
CPI YoY	01 Oct	Sep	1.59%	1.56%	--

Calendar Events

Australia – RBA Cash Rate Target, Oct 1	Current	Cons.	New
We expect the benchmark rate to remain unchanged	2.50%	2.50%	--
Japan – BOJ Target Rate, Oct 4	Current	Cons.	New
We expect the benchmark rate to remain unchanged	0.10%	0.10%	--

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.	2174.7	0.7	-2.1	-4.2	4.2
	Hong Kong – Hang Seng	22859.9	-1.5	-2.2	0.9	9.7
	Taiwan – Weighted	8173.9	-0.7	-1.4	6.2	5.9
	Japan – Nikkei 225	14455.8	-2.1	-1.9	39.1	63.0
	Korea – Kospi	1997.0	-0.7	-0.6	0.0	0.0
	India – Sensex 30	19379.8	-1.8	-2.6	-0.2	3.3
	Australia – SPX/ASX 200	5218.9	-1.7	-0.6	12.3	19.0
	Singapore – Strait Times	3167.9	-1.3	-1.4	0.0	3.5
	Indonesia – Jakarta Comp	4316.2	-2.4	-5.4	0.0	1.3
	Thailand – SET	1383.2	-2.4	-3.7	-0.6	6.5
	Malaysia – KLCI	1768.6	-0.4	-1.5	4.7	8.1
	Philippines – Manila Comp.	6191.8	-2.9	-4.4	6.5	15.8

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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	-0.04	0.00	6.16	6.20
	Hong Kong (HKD/USD)	7.75	0.00	-0.01	7.75	7.75
	Taiwan (TWD/USD)	29.6	-0.21	-0.16	29.53	29.26
	Japan (JPY/USD)	97.79	0.46	1.08	97.72	97.44
	Korea (KRW/USD)	1075	-0.09	-0.05	1079	1091
	India (INR/USD)	62.6	-0.19	-0.03	64.47	68.14
	Australia (USD/AUD)	0.93	0.05	-1.16	1.08	1.10
	Singapore (SGD/USD)	1.26	0.02	-0.50	1.26	1.26
	Indonesia (IDR/USD)	11406	-1.07	0.34	11849	12604
	Thailand (THB/USD)	31.3	0.10	-0.35	31.45	31.96
	Malaysia (MYR/USD)	3.26	-0.98	-1.88	3.28	3.32
	Philippines (PHP/USD)	43.5	-0.25	-0.46	43.32	43.45

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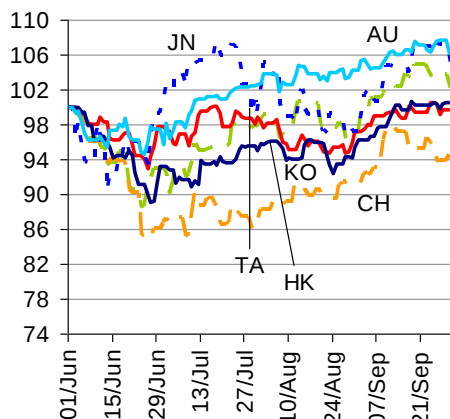
INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	4.20	0.55	0.35	0.46
	Hong Kong (HIBOR/1W)	0.14	0.00	0.01	0.02
	Taiwan (TAIBOR/1W)	0.51	0.00	0.00	0.00
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	2.56	0.00	0.00	0.00
	India (MIBOR/7D)	4.25	-0.92	-0.01	0.42
	Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00
	Indonesia (JIBOR/1W)	6.06	0.02	0.05	0.24
	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

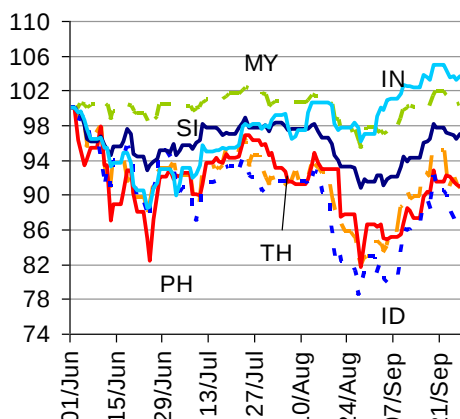
Stock Markets



Source: BBVA Research and Bloomberg

Chart 2

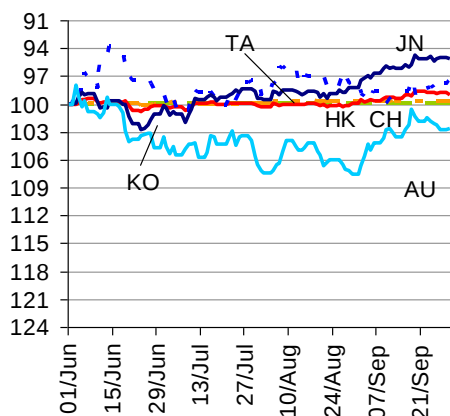
Stock Markets



Source: BBVA Research and Bloomberg

Chart 3

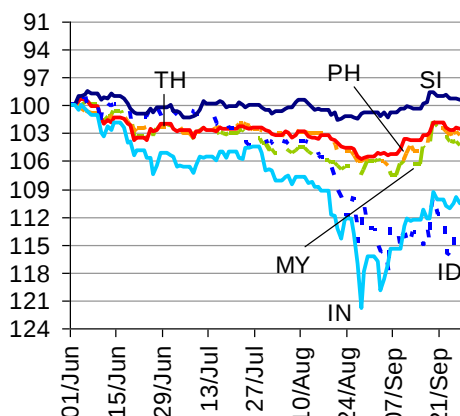
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4

Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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