

Asia Flash

Asia

Interest rate hike in Indonesia underscores divergence with the Philippines

At its monthly policy meeting today, Bank Indonesia unexpectedly hiked interest rates, for a fourth time since June. The move brings the benchmark policy rate to 7.25%, a cumulative increase of 150bps since June, in response to high inflation (8.8% in August, well above the official target of 3.5-5.5%) and downward currency pressures -- the rupiah has depreciated against the USD by 15% since early June, although it has stabilized in recent days at around 11,000 per USD. Meanwhile, the central bank in the Philippines (BPS) kept rates on hold at 3.50% in view of its benign assessment of the inflation outlook. The divergent moves reflect Indonesia's relative vulnerability to macro instability following an administered fuel price increase in June, widening current account deficit, and capital outflows on expectations of QE Fed tapering. We expect financial markets to stabilize in Indonesia on the back of BI's rate hikes and government efforts to improve the investment climate. But growth during the remainder of 2013 will surely take a hit, and will likely fall below our projection of 5.9%.

Bank of Korea keeps interest rates on hold

As anticipated, the Bank of Korea (BOK) today kept its benchmark interest rate unchanged at 2.50% for a fourth straight month, following its last rate cut of 25bps in May. Recent better-than-expected activity indicators, including Q2 GDP, August exports and PMI, have bolstered confidence in the growth outlook: in its policy statement, the BOK assessed that "the moderate economic growth to be continuing, with exports and consumption improving." The BOK also said it expects the negative output gap will gradually narrow, making further rate cuts unlikely. Looking ahead, we maintain our projection that South Korea can achieve a 2.7% full-year growth in 2013 from 2.0% in 2012.

Disappointing machinery orders provides a reality check on Japan's upturn

Japan's core machinery orders, a leading indicator for capital spending in the coming periods, was flat (0.0% vs consensus: 2.4% m/m sa) in July after contracting by -2.7% in June. The downbeat data suggest the corporate sector may still be cautious, despite a healthy pickup in investment seen in the upwardly revised Q2 GDP outturn (3.8% saar). Nevertheless, with overall growth momentum and confidence indicators improving, we expect full-year 2013 GDP to exceed our previous projection of 1.7% by a modest margin.

Briefly noted:

Australia's unemployment rate rose to a four-year high of 5.8% (consensus: 5.8%) in August on disappointing job creation -- the economy lost -10.8 thousand jobs (consensus: +10.0k). The disappointing data point to further sluggishness in the domestic economy. The Australia dollar retreated to .92 against USD after a steady appreciation in recent days, on prospects that the RBA might cut rates again before the end of the year.

Malaysia's July industrial production beat expectations, increasing by 7.6% y/y (consensus: 4.9% y/y) from 3.7% in June. On a sequential basis after seasonal adjustment, industrial output advanced by 1.9% m/m sa, mainly driven by the manufacturing sector (+2.5% m/m sa). Malaysia's

central bank has revised down its 2013 growth forecast to 4.5%-5.0% last month on tepid Q2 GDP outturn (4.3% y/y) due to weak public investment and exports. The encouraging July IP suggest growth still on the track, while downside risks remain given the deterioration in its current account surplus and rising public debt.

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

George Xu
Economist
george.xu@bbva.com.hk
+852 2582 3121

With contributions from the BBVA Research Asia Team

Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
Unemployment Rate	12 Sep	Aug	5.70%	5.80%	5.80%
China	Date	Period	Prior	Cons.	Actual
Exports YoY	08 Sep	Aug	5.10%	5.50%	7.20%
Imports YoY	08 Sep	Aug	10.90%	11.30%	7.00%
Trade Balance	08 Sep	Aug	\$17.82B	\$20.00B	\$28.52B
CPI YoY	09 Sep	Aug	2.70%	2.60%	2.60%
Fixed Assets Ex Rural YTD YoY	10 Sep	Aug	20.10%	20.20%	20.30%
Industrial Production YoY	10 Sep	Aug	9.70%	9.90%	10.40%
Retail Sales YoY	10 Sep	Aug	13.20%	13.30%	13.40%
New Yuan Loans	10 Sep	Aug	699.9B	730.0B	711.3B
Money Supply M2 YoY	10 Sep	Aug	14.50%	14.60%	14.70%
Aggregate Financing RMB	10 Sep	Aug	808.8B	950.0B	1570.0B
Foreign Direct Investment YoY	14-18 SEP	Aug	24.10%	10.00%	--
Hong Kong	Date	Period	Prior	Cons.	Actual
Industrial Production YoY	12 Sep	2Q	0.50%	--	0.30%
India	Date	Period	Prior	Cons.	Actual
Industrial Production YoY	12 Sep	Jul	-2.20%	-0.80%	--
Exports YoY	10 Sep	Aug	11.60%	--	13.00%
Wholesale Prices YoY	16 Sep	Aug	5.79%	5.70%	--
Japan	Date	Period	Prior	Cons.	Actual
BoP Current Account Balance	09 Sep	Jul	¥336.3B	¥507.7B	¥577.3B
GDP Annualized SA QoQ	09 Sep	2Q F	2.60%	3.90%	3.80%
GDP SA QoQ	09 Sep	2Q F	0.60%	1.00%	0.90%
Tertiary Industry Index MoM	10 Sep	Jul	-0.30%	-0.50%	-0.40%
Machine Orders MoM	12 Sep	Jul	-2.70%	2.40%	0.00%
Industrial Production MoM	13 Sep	Jul F	3.20%	--	--
Malaysia	Date	Period	Prior	Cons.	Actual
Industrial Production YoY	11 Sep	Jul	3.70%	4.90%	7.60%
Philippines	Date	Period	Prior	Cons.	Actual
Unemployment Rate	10 Sep	Jul	7.50%	--	7.30%
Exports YoY	10 Sep	Jul	4.10%	-1.00%	2.30%
Singapore	Date	Period	Prior	Cons.	Actual
Retail Sales YoY	13 Sep	Jul	-4.00%	-1.50%	--
Unemployment rate SA	13 Sep	2Q F	2.10%	--	--
South Korea	Date	Period	Prior	Cons.	Actual
Unemployment rate SA	11 Sep	Aug	3.20%	3.20%	3.10%
Taiwan	Date	Period	Prior	Cons.	Actual
Exports YoY	09 Sep	Aug	1.60%	4.00%	3.60%

Calendar Events

Indonesia – RI Reference Rate, Sep 12	Current	Cons.	New
	7.00%	7.00%	7.25%
Philippines – BSP overnight Borrowing Rate, Sep 12	Current	Cons.	New
	3.50%	3.50%	3.50%
Korea – BoK 7-day Repo Rate, Sep 12	Current	Cons.	New
	2.50%	2.50%	2.50%

Indicator of the Week

India: August WPI Inflation (September 16th)

Forecast: 5.6% y/y

Consensus: 5.7% y/y

Prior: 5.8% y/y

Despite slowing growth, inflation pressures have recently resurfaced from rising oil prices and a sharp depreciation of the rupee. Against this backdrop, along with capital outflow pressures, the August WPI inflation outturn will be an important input to the RBI's September 20th monetary policy decision, where we expect rates to remain on hold. We expect easing demand, weak pricing power for producers and a high base effect to keep inflation contained. That said we expect RBI to signal an eventual shift towards a growth supportive policy stance early next year once external pressures ease and inflation risks subside.

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.	2255.6	0.6	6.3	-0.6	6.1
Hong Kong – Hang Seng	22953.7	0.1	1.6	1.3	14.3	
Taiwan – Weighted	8225.4	0.2	0.7	6.8	8.7	
Japan – Nikkei 225	14387.3	-0.3	2.3	38.4	60.6	
Korea – Kospi	2004.1	0.0	2.7	0.4	2.8	
India – Sensex 30	19781.9	-1.1	6.5	1.8	9.9	
Australia – SPX/ASX 200	5242.5	0.2	1.9	12.8	20.2	
Singapore – Strait Times	3121.1	0.4	2.7	-1.5	3.0	
Indonesia – Jakarta Comp	4356.6	0.2	7.5	0.9	4.4	
Thailand – SET	1397.9	-0.9	6.4	0.4	10.9	
Malaysia – KLCI	1772.4	0.2	3.0	4.9	9.8	
Philippines – Manila Comp.	6195.6	-0.3	4.0	6.6	19.0	

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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)	6.12	0.02	0.01	6.17	6.21
Hong Kong (HKD/USD)	7.75	0.01	0.02	7.75	7.75	
Taiwan (TWD/USD)	29.7	0.03	0.26	29.60	29.33	
Japan (JPY/USD)	99.39	0.50	0.72	99.34	99.05	
Korea (KRW/USD)	1085	0.15	1.26	1091	1103	
India (INR/USD)	63.7	-0.53	3.79	65.71	68.98	
Australia (USD/AUD)	0.92	-0.89	1.36	1.09	1.11	
Singapore (SGD/USD)	1.27	-0.13	1.04	1.27	1.27	
Indonesia (IDR/USD)	11350	-0.04	2.63	11830	12660	
Thailand (THB/USD)	31.7	0.57	1.73	31.93	32.44	
Malaysia (MYR/USD)	3.28	-0.42	0.90	3.29	3.34	
Philippines (PHP/USD)	43.9	-0.16	1.52	43.79	44.06	

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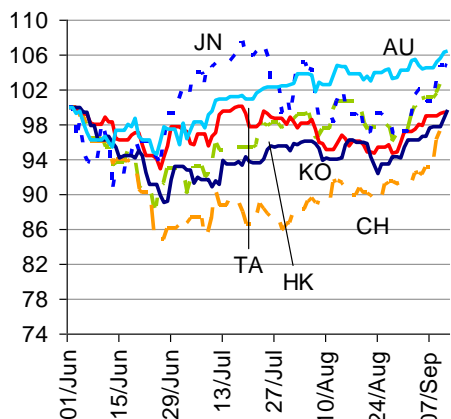
INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.48	0.00	0.01	-0.17
Hong Kong (HIBOR/1W)	0.12	0.00	0.00	0.00	
Taiwan (TAIBOR/1W)	0.51	0.00	0.00	0.00	
Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01	
Korea (KORIBOR/1M)	2.56	0.00	0.00	0.00	
India (MIBOR/7D)	3.40	-0.08	-0.07	-0.68	
Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00	
Indonesia (JIBOR/1W)	5.70	-0.01	-0.03	0.45	
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

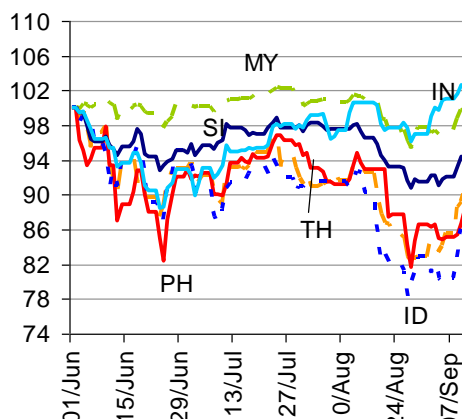
Stock Markets



Source: BBVA Research and Bloomberg

Chart 2

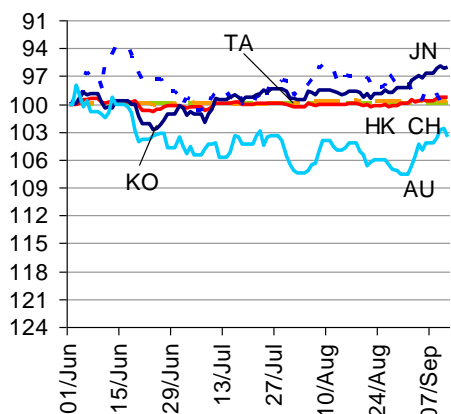
Stock Markets



Source: BBVA Research and Bloomberg

Chart 3

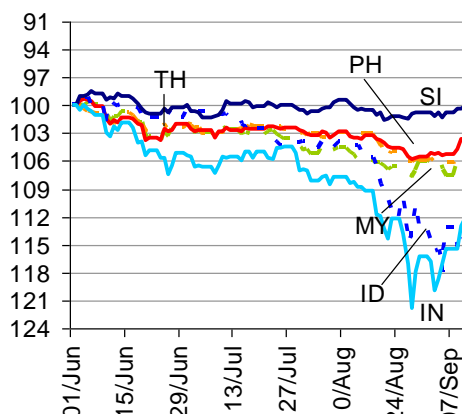
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4

Foreign Exchange Markets



Source: BBVA Research and Bloomberg


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

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

Le Xia
Senior Economist
xia.le@bbva.com.hk

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

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

BBVA RESEARCH  | 10/F., Two IFC, 8 Finance Street, Central, Hong Kong | Tel.: +852 2582 3111 | www.bbva.com.hk

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