

Daily Flash

Asia

Monetary policy was the center of attention today, ahead of the Federal Reserve's decision on further easing measures. Within the region, the Bank of Korea's decision to leave rates unchanged came as a surprise given low inflation and weakening growth (see below). Meanwhile, as expected, the Philippines and Indonesia kept rates steady due to strong growth momentum in both countries.

China announces policy initiatives to promote international trade

On the heels of tepid August activity outturns, the State Council yesterday unveiled a package of policy initiatives to support exports. The new measures include: i) accelerating tax rebates for exporters; ii) expanding coverage of export credit and insurance; iii) simplifying procedures for exports and imports; iv) encouraging imports of advanced equipment; and v) helping domestic exporters in settling trade disputes with other countries. Although details of these policy initiatives have not yet been released, we expect them to be implemented soon in order to support the economy's growth momentum.

Bank of Korea surprises by staying on hold

Korea's central bank defied expectations of a rate cut today, leaving its policy rate unchanged at 3.00% for a second straight month, despite slowing economic activity, low inflation, and an uncertain global environment. According to the central bank's statement, "the Committee expects the pace of global economic recovery to be very modest going forward and judges the downside risks to growth to be large," but did not feel a rate cut was required at this juncture. We believe the decision reflects the monetary policy committee's desire to leave room for stimulus later in the year, and also to allow fiscal policy to work following the government's announcement this week of a US\$5.2bn stimulus package. More generally, the BOK has been reluctant to cut rates for fear of fueling a further rise in consumer borrowing. We still expect a rate cut in the coming month or two.

The Philippines and Indonesia hold rates on robust growth and inflation

The Philippines and Indonesia also kept their respective policy rates steady today, in line with expectations. Further rate cuts in the near-term appear unlikely given both countries' strong growth momentum as well as the likelihood that robust domestic demand will drive inflation higher in the coming months. In this light, the Philippines raised its official inflation forecasts today, to 3.4% y/y and 4.1% y/y in 2012 and 2013, respectively (BBVA: 3.4% y/y and 3.9% y/y).

Briefly noted:

The PBoC continues to inject liquidity into the interbank market, with another RMB 55bn today including RMB20bn of new 28-day reverse repos. This was the first time the 28-day reverse repo was issued since the PBoC started its regular OMOs nearly a decade ago (the PBoC typically uses 7-day reverse repos), and was done primarily to help banks smooth their liquidity given growing cash demands before the National holiday, which starts September 30th.

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Calendar Indicators

| China | Date | Period | Prior | Cons. | Actual |
|--------------------------------------|-------------|---------------|--------------|--------------|---------------|
| Consumer Price Index (YoY) | 09-Sep | Aug | 1.80% | 2.00% | 2.00% |
| Producer Price Index (YoY) | 09-Sep | Aug | -2.90% | -3.20% | -3.50% |
| Industrial Production YTD YoY | 09-Sep | Aug | 10.30% | 10.20% | 10.10% |
| Industrial Production (YoY) | 09-Sep | Aug | 9.20% | 9.00% | 8.90% |
| Fixed Assets Inv Excl. Rural YTD YoY | 09-Sep | Aug | 20.40% | 20.40% | 20.20% |
| Retail Sales (YoY) | 09-Sep | Aug | 13.10% | 13.20% | 13.20% |
| Trade Balance (USD) | 10-Sep | Aug | \$25.15B | \$19.50B | \$26.66B |
| Exports YoY% | 10-Sep | Aug | 1.00% | 2.90% | 2.70% |
| Imports YoY% | 10-Sep | Aug | 4.70% | 3.50% | -2.60% |
| New Yuan Loans | 10-15 SEP | Aug | 540.1B | 600.0B | 703.9B |
| Money Supply - M2 (YoY) | 10-15 SEP | Aug | 13.90% | 14.00% | 13.50% |
| Hong Kong | Date | Period | Prior | Cons. | Actual |
| Industrial Production (YoY) | 13-Sep | 2Q | -1.60% | % | -2.90% |
| India | Date | Period | Prior | Cons. | Actual |
| Industrial Production YoY | 12-Sep | Jul | -1.80% | 0.50% | 0.10% |
| Monthly Wholesale Prices YoY% | 14-Sep | Aug | 6.87% | 7.05% | -- |
| Japan | Date | Period | Prior | Cons. | Actual |
| GDP Annualized | 10-Sep | 2Q F | 1.40% | 1.00% | 0.70% |
| Gross Domestic Product (QoQ) | 10-Sep | 2Q F | 0.30% | 0.30% | 0.20% |
| Current Account Total | 10-Sep | Jul | ¥433.3B | ¥485.6B | ¥625.4B |
| Trade Balance - BOP Basis | 10-Sep | Jul | ¥112.0B | ¥439.5B | ¥373.6B |
| Japan Money Stock M2 YoY | 11-Sep | Aug | 2.20% | 2.30% | 2.40% |
| Machine Orders (MoM) | 12-Sep | Jul | 5.60% | 2.00% | 4.60% |
| Machine Orders YOY% | 12-Sep | Jul | -9.90% | -3.60% | 1.70% |
| Tertiary Industry Index (MoM) | 12-Sep | Jul | 0.10% | -0.50% | -0.80% |
| Malaysia | Date | Period | Prior | Cons. | Actual |
| Industrial Production YoY | 10-Sep | Jul | 3.70% | 3.00% | 1.40% |
| Philippines | Date | Period | Prior | Cons. | Actual |
| Total Exports (YoY) | 11-Sep | Jul | 4.20% | -1.00% | 7.80% |
| Singapore | Date | Period | Prior | Cons. | Actual |
| Unemployment Rate (sa) | 14-Sep | 2Q F | 2.00% | -- | -- |
| Retail Sales (YoY) | 14-Sep | Jul | -0.90% | -2.40% | -- |
| South Korea | Date | Period | Prior | Cons. | Actual |
| Unemployment Rate (SA) | 12-Sep | Aug | 3.10% | 3.20% | 3.10% |

Calendar Events

South Korea - 7-Day Repo Rate, September 13

We expect a 25 bps cut in the benchmark rate

| Current | Consensus | New |
|----------------|------------------|------------|
| 3.00% | 2.75% | 3.00% |

Philippines - Overnight Borrowing Rate, September 13

We expect the benchmark rate to remain unchanged

| Current | Consensus | New |
|----------------|------------------|------------|
| 3.75% | 3.75% | 3.75% |

Indonesia -Reference Rate, September 13

We expect the benchmark rate to remain unchanged

| Current | Consensus | New |
|----------------|------------------|------------|
| 5.75% | 5.75% | 5.75% |

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. | 2110.4 | -0.8 | 2.8 | -4.0 | -14.6 |
| | Hong Kong - Hang Seng | 20047.6 | -0.1 | 4.4 | 8.8 | 5.3 |
| | Taiwan - Weighted | 7578.8 | 0.1 | 3.4 | 7.2 | 2.5 |
| | Japan - Nikkei 225 | 8995.2 | 0.4 | 3.6 | 6.4 | 4.4 |
| | Korea - Kospi | 1950.7 | 0.0 | 3.7 | 6.8 | 7.6 |
| | India - Sensex 30 | 18021.2 | 0.1 | 3.9 | 16.6 | 9.4 |
| | Australia - SPX/ASX 200 | 4339.4 | -0.5 | 0.6 | 7.0 | 6.5 |
| | Singapore - Strait Times | 3030.1 | 0.0 | 1.4 | 14.5 | 11.0 |
| | Indonesia - Jakarta Comp | 4170.6 | -0.1 | 1.7 | 9.1 | 7.6 |
| | Thailand - SET | 1257.7 | -0.2 | 1.1 | 22.7 | 21.9 |
| | Malaysia - KLCI | 1628.4 | 0.9 | 0.6 | 6.4 | 12.5 |
| Philippines - Manila Comp. | 5240.5 | 0.6 | 1.8 | 19.9 | 22.1 | |

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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) | 6.33 | -0.05 | 0.21 | 6.36 | 6.43 |
| | Hong Kong (HKD/USD) | 7.76 | -0.01 | 0.02 | 7.75 | 7.75 |
| | Taiwan (TWD/USD) | 29.7 | -0.16 | 0.68 | 29.55 | 29.30 |
| | Japan (JPY/USD) | 77.72 | 0.18 | 1.47 | 77.66 | 77.38 |
| | Korea (KRW/USD) | 1128 | -0.17 | 0.48 | 1134 | 1146 |
| | India (INR/USD) | 55.4 | -0.38 | 0.38 | 56.34 | 58.72 |
| | Australia (USD/AUD) | 1.04 | -0.33 | 1.43 | 0.97 | 0.99 |
| | Singapore (SGD/USD) | 1.23 | -0.08 | 0.99 | 1.23 | 1.23 |
| | Indonesia (IDR/USD) | 9599 | -0.23 | -0.08 | 9705 | 10104 |
| | Thailand (THB/USD) | 31.0 | -0.10 | 0.48 | 31.19 | 31.60 |
| | Malaysia (MYR/USD) | 3.08 | -0.28 | 1.15 | 3.10 | 3.13 |
| | Philippines (PHP/USD) | 41.7 | -0.37 | 0.26 | 41.79 | 41.99 |

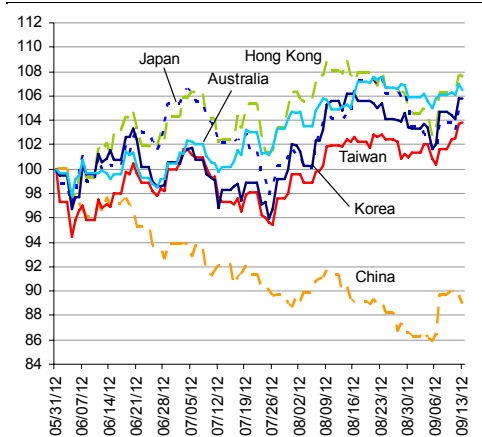
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| INTERBANK RATES | INDEX | Rate | net change over a day | net change over a week | net change over a month |
|-----------------|-------------------------|------|-----------------------|------------------------|-------------------------|
| | China (SHIBOR/7D) | 3.43 | -0.09 | 0.07 | 0.08 |
| | Hong Kong (HIBOR/1W) | 0.13 | 0.00 | 0.00 | 0.00 |
| | Taiwan (TAIBOR/1W) | 0.63 | 0.00 | 0.00 | -0.01 |
| | Japan (TIBOR/1Y) | 0.76 | 0.00 | 0.01 | 0.01 |
| | Korea (KORIBOR/1M) | 3.02 | 0.00 | -0.01 | -0.02 |
| | India (MIBOR/7D) | 3.44 | -0.03 | 0.01 | 0.10 |
| | Singapore (SIBOR/1W) | 0.25 | 0.00 | 0.00 | 0.00 |
| | Indonesia (JIBOR/1W) | 4.24 | -0.01 | -0.02 | -0.04 |
| | 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) | 0.94 | -0.38 | -1.13 | 0.31 |

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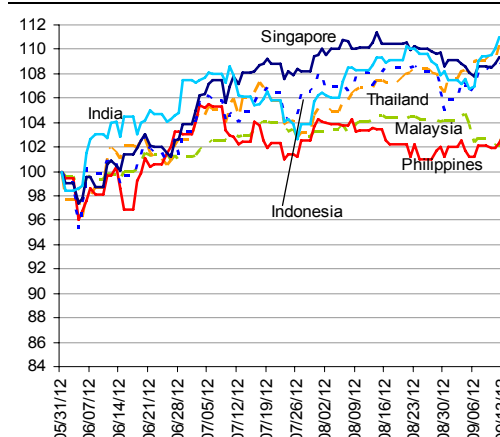
Charts

Chart 9
Stock Markets



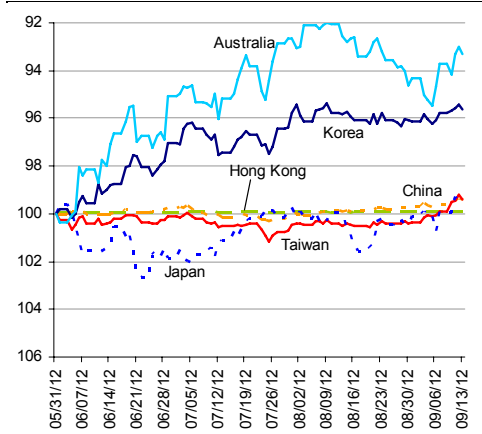
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



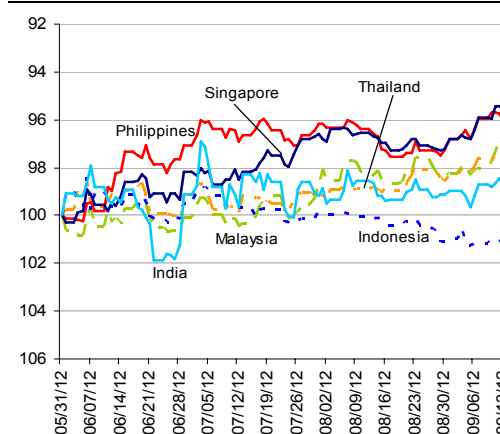
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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