

Daily Flash

Asia

Fresh on the heels of the Fed's boost to investor sentiment last week with QE3, a flare-up in anti-Japan protests across China over the weekend (see below) undermined confidence and contributed to a decline today in the Shanghai composite (-2.1%) on worries of a possible economic fallout on trade and investment flows. Elsewhere in the region, stock markets finished mixed. Developments in India, meanwhile, were more upbeat, as the government announced a set of long-awaited reforms to open the economy to foreign investment, although the Reserve Bank of India disappointed some observers today by not cutting interest rates (see below).

Escalating island dispute between China and Japan poses risks

Tensions between China and Japan are escalating after moves by the Japanese government to "purchase" the disputed islands caused large-scale protests in cities across China over the weekend. The last such protests of a similar scale occurred in 2005 over a disputed Japanese history textbook. The latest tensions come at an awkward time, just ahead of China's leadership transition expected in October. It is quite possible that trade and investment flows between China and Japan could be undermined in the coming months, and could prove to be a further drag on Japan's export-dependent economy. The latest dispute is a reminder of the geopolitical risks confronting the Asia region.

India's government seeks to reinvigorate reforms, as RBI reacts with caution

As noted in our *India Flash* today, the Reserve Bank of India (RBI) left its key repo rate unchanged at 8.0% in light of persistent inflation, but reduced the cash reserve ratio (CRR) by 25 bps to help ease liquidity and lower funding costs for banks. Meanwhile, on the government's part, policy makers announced late on Friday a series of significant reforms in the fiscal and investment space. These include; 1) hikes in regulated fuel prices 2) permitting partial foreign direct investment in multi-brand retail (up to 51%), civil aviation (49%), broadcasting (74%) and power (49%), and 3) divestment in four state owned enterprises. While growth momentum remains weak, the recent policy measures should cushion the slowdown by boosting sentiment, contributing to greater capital inflows and over the long run lead to higher productivity, particularly in the food supply chain.

China unveils five year financial sector plan

China's authorities today unveiled the 12th Five-Year Plan for the financial sector for 2011-2015 – a follow-up document to the umbrella Five-Year Plan released last year. Our early reading of the Plan is that it is essentially a re-statement of plans already under way. In particular, it aims to continue ongoing financial sector liberalization by gradually abolishing interest rate controls, opening the capital account, encouraging financial innovation and strengthening the financial regulatory framework. However, there is no timetable for the achievement of these objectives. A new feature of the Plan is the establishment of two quantitative targets: i) value-added of the financial sector should be 5% of GDP (up from 4.4% in the past decade); and ii) direct financing (bond and equity issuance) should account for 15% of "total social financing (TSF) by the end of 2015 (up from 11% at present).

Singapore's August exports fall sharply; what will the MAS do in October?

Singapore's exports fell by -10.6% y/y (consensus: -4.0% y/y) in August, primarily due to a sharp decline in demand from Europe (-28.7% y/y), its largest export market. Along with recent domestic weaknesses (last week Singapore reported that retail sales contracted by -2.7% y/y in July), today's outturn increases the likelihood that the Monetary Authority of Singapore will ease policy at its semi-annual meeting in mid-October.

Briefly noted:

According to Yonhap News, Finance Minister Bahk Jaewan stated that Korea will seek to increase the number of transactions with China (Korea's largest trading partner) that are settled in won, as part of renewed efforts to 'internationalize' the won.

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Calendar Indicators

China	Date	Period	Prior	Cons.	Actual
Actual FDI (YoY)	14-18 SEP	Aug	-8.70%	-5.80%	--
HSBC Flash Manufacturing PMI	20-Sep	Sep	47.6	--	--
Hong Kong	Date	Period	Prior	Cons.	Actual
Unemployment Rate SA	18-Sep	Aug	3.20%	3.30%	--
CPI - Composite Index (YoY)	20-Sep	Aug	1.60%	3.70%	--
India	Date	Period	Prior	Cons.	Actual
Cash Reserve Ratio	17-Sep	17-Sep	4.75%	4.75%	
Reverse Repo Rate	17-Sep	17-Sep	7.00%	7.00%	
CPI (YoY)	18-Sep	Aug	9.86%	--	
Japan	Date	Period	Prior	Cons.	Actual
Merchnds Trade Balance Total	20-Sep	Aug	¥517.4B	¥829.3B	
Merchnds Trade Exports YoY	20-Sep	Aug	-8.10%	-7.50%	
All Industry Activity Index (MoM)	20-Sep	Jul	0.20%	-0.50%	
Machine Tool Orders (YoY)	20-Sep	Aug F	-2.60%		
Malaysia	Date	Period	Prior	Cons.	Actual
CPI YoY	19-Sep	Aug	1.40%	1.40%	
Philippines	Date	Period	Prior	Cons.	Actual
Overseas Remittances (YoY)	17-Sep	Jul	4.20%		
Unemployment Rate	18-Sep	Jul	6.90%		
Balance of Payments	19-Sep	Aug	\$3182M		--
Singapore	Date	Period	Prior	Cons.	Actual
Non-oil Domestic Exports (YoY)	17-Sep	Aug	5.80%	-3.30%	--
Taiwan	Date	Period	Prior	Cons.	Actual
Export Orders (YoY)	20-Sep	Aug	-4.40%	-2.00%	

Indicator of the Week

Taiwan Export Orders for August (September 20th)

Forecast: -1.5% y/y

Consensus: -2.0% y/y

Prior: -4.4% y/y

As a forward indicator for near-term export prospects in the region, Taiwan's export orders will be watched to gauge the extent of the ongoing slump in global trade. The economy's export performance has been very weak in the past two months, as manufacturing PMI dropped to a nine month low (46.1 in August). The recent slowdown in China's economy, as evidenced by sluggish activity and trade, has further intensified concerns about Taiwan's export outlook. We expect year-on-year growth of export orders continue to decline in August, albeit at a slower pace. Orders from major export partners might show some signs of stabilization, although a meaningful recovery has yet to come.

Calendar Events

India - REPO Cutoff Yld, September 17

We expect the benchmark rate to remain unchanged

Current	Consensus	New
8.00%	8.00%	8.00%

Japan - BOJ Target Rate, September 19

We expect the benchmark rate to remain unchanged

Current	Consensus	New
0.10%	0.10%	--

Taiwan - Benchmark Interest Rate, September 20

We expect the benchmark rate to remain unchanged

Current	Consensus	New
1.88%	1.88%	--

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.	2078.5	-2.1	-2.6	-5.5	-16.3
	Hong Kong - Hang Seng	20658.1	0.1	4.2	12.1	6.2
	Taiwan - Weighted	7762.2	0.3	3.7	9.8	2.4
	Japan - Nikkei 225	9159.4	1.8	3.2	8.3	3.3
	Korea - Kospi	2002.4	-0.3	4.0	9.7	8.8
	India - Sensex 30	18547.8	0.5	4.4	20.0	9.5
	Australia - SPX/ASX 200	4402.5	0.3	1.6	8.5	6.1
	Singapore - Strait Times	3078.7	0.3	2.3	16.3	10.4
	Indonesia - Jakarta Comp	4255.3	0.0	2.3	11.3	11.0
	Thailand - SET	1277.6	0.1	2.1	24.6	23.6
	Malaysia - KLCI	1643.0	0.9	1.1	7.3	14.8
Philippines - Manila Comp.	5350.9	0.5	3.1	22.4	24.7	

Last update: today, 17.45 Hong Kong time

FOREIGN EXCHANGE MARKETS	CURRENCY	Spot	% change over a day	% change over a week	Forward 3-month	Forward 12-month
	China (CNY/USD)	6.32	-0.03	0.32	6.35	6.41
	Hong Kong (HKD/USD)	7.75	0.00	0.04	7.75	7.75
	Taiwan (TWD/USD)	29.3	0.38	1.29	29.25	28.98
	Japan (JPY/USD)	78.42	-0.04	-0.17	78.36	78.09
	Korea (KRW/USD)	1116	0.12	1.20	1123	1136
	India (INR/USD)	54.0	0.59	2.69	54.70	56.90
	Australia (USD/AUD)	1.05	-0.27	1.82	0.96	0.98
	Singapore (SGD/USD)	1.22	-0.26	1.10	1.22	1.22
	Indonesia (IDR/USD)	9464	0.59	1.22	9542	9910
	Thailand (THB/USD)	30.8	-0.10	0.94	30.95	31.37
	Malaysia (MYR/USD)	3.05	-0.14	1.86	3.06	3.10
Philippines (PHP/USD)	41.6	-0.47	-0.06	41.56	41.71	

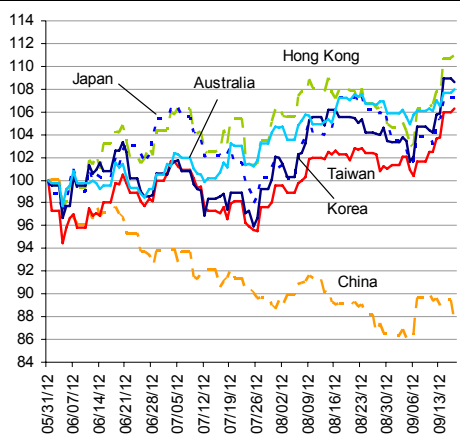
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.24	-0.16	-0.28	-0.71
	Hong Kong (HIBOR/1W)	0.15	0.00	0.02	0.02
	Taiwan (TAIBOR/1W)	0.63	0.00	0.00	-0.01
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	3.02	0.00	0.00	-0.02
	India (MIBOR/7D)	3.24	-0.47	0.23	-1.16
	Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00
	Indonesia (JIBOR/1W)	4.23	0.00	-0.01	-0.26
	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)	0.25	-0.94	-1.19	-0.56

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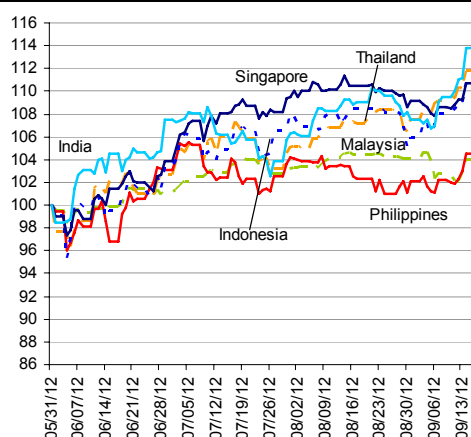
Charts

Chart 9
Stock Markets



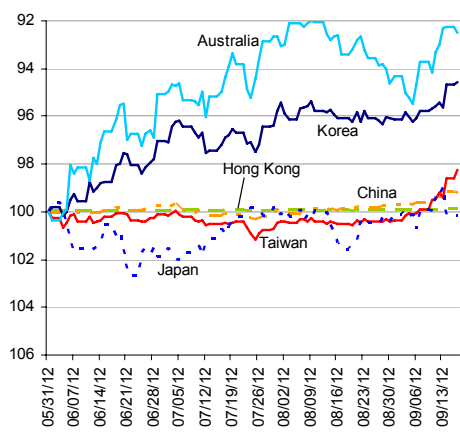
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



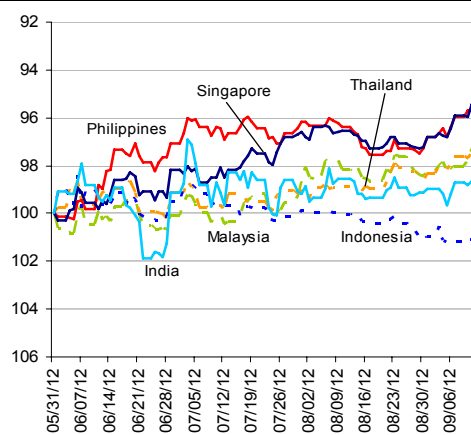
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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