

Daily Flash

Asia

Asian equities continued to trend downward today (Taiwan: -1.9%; Kospi: -0.8%) on concerns about the global growth outlook, the economic fallout of the diplomatic dispute between China and Japan, and spillovers from the S&P downgrade of Spain. Although the Shanghai Composite also fell (-0.7%), the Chinese yuan continued to strengthen – a trend in place since early August -- hitting an intraday record high of 6.275 against the USD, before closing at 6.277. Today's move was spurred by a stronger fixing by the PBoC. More generally, the currency has been trading toward the stronger end of the +/-1% daily fixing in recent weeks on rising capital inflows, perhaps due to the onshore interest differential and optimism about the leadership transition scheduled in November. Elsewhere, interest rate decisions today in Korea (25bp cut) and Indonesia (on hold) came as no surprise (see below).

Bank of Korea's interest rate cut likely to be the last in 2012

As expected, the Bank of Korea cut its benchmark interest rate by 25bps for the second time this year, to 2.75% today. The BoK noted that economic growth has been weak, and also said that "the negative output gap in the domestic economy will persist for a considerable time." The BoK also lowered its growth outlook for 2012 and 2013 to 2.4% and 3.2% respectively, from 3.0% and 3.8%. Remarks by the BoK Governor were somewhat hawkish, indicating that the rate cut decision was not unanimous. We therefore do not expect further rate cuts this year, all the more so with presidential elections looming in December. However, given slowing growth momentum and low inflation, we would not rule out another rate cut in early 2013. The central bank also released its target inflation range for the years 2013-2015, which it set at 2.5%-3.5% - a narrower range than the previous 2%-4% that was established for the 2010-2012 time period.

Bank Indonesia leaves rates unchanged

As expected, Bank Indonesia left interest rates unchanged for an eighth straight month today at 5.75%. The stance of monetary policy remains accommodative, and credit growth is still strong, helping the economy weather a protracted slowdown in exports. Meanwhile, domestic demand has been resilient, and GDP growth has been strong (6.4% y/y in the second quarter).

Australia's September labor report underscores healthy job creation

Australia's economy created 14,500 new jobs in September (consensus: 3,750), with full time jobs increasing by 32,100. The unemployment rate, nonetheless, increased to 5.4% (consensus: 5.3%) in September from 5.1% in August because of a higher labor participation rate. Overall, today's job data should reduce the likelihood of a rate cut in November, after the Reserve Bank of Australia cut interest rates by 25 bps to 3.25% in its October meeting.

Briefly noted:

- **Malaysia's industrial production fell less-than-expected in August (-0.7% y/y; consensus: -2.0% y/y).** The outturn, however, marks the first over-year decline in industrial output in 12 months.
- **Japan's core machinery orders fell -3.3% m/m (consensus: -2.5% m/m) in August,** the first decline in three months. The worse-than-expected data points to a stalling economy, which has been undermined by the global slowdown, the strong yen, and more recently the deteriorating relationship with China due to the island dispute.
- **In India, the RBI yesterday continued with its recent reforms momentum** by relaxing rules for foreign owned non-banking financial companies (NBFCs) to open subsidiaries: NBFCs with foreign investment of between 75%-100%, with a minimum capitalization of USD 50mn, can set up subsidiaries for specific activities. Earlier, only 100% foreign-owned NBFCs were allowed to do so. Separately, India's announced its trade deficit widened to US\$18bn in September, from US\$15.6bn last month.

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Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
Unemployment Rate	11-Oct	Sep	5.10%	5.30%	5.40%
China	Date	Period	Prior	Cons.	Actual
HSBC Services PMI	08-Oct	Sep	52.0	--	54.3
New Yuan Loans	11-15 OCT	Sep	703.9B	680.0B	--
Money Supply - M2 (YoY)	11-15 OCT	Sep	13.50%	13.70%	--
Hong Kong	Date	Period	Prior	Cons.	Actual
Purchasing Managers Index	08-Oct	Sep	50.5	--	49.6
India	Date	Period	Prior	Cons.	Actual
Industrial Production YoY	12-Oct	Aug	0.10%	--	--
Japan	Date	Period	Prior	Cons.	Actual
Current Account Total	09-Oct	Aug	¥625.4B	¥421.1B	¥454.7B
Trade Balance - BOP Basis	09-Oct	Aug	-¥373.6B	-¥628.6B	-¥644.5B
Machine Tool Orders (YoY)	10-Oct	Sep P	-2.70%	--	-3.00%
Machine Orders (MoM)	11-Oct	Aug	4.60%	-2.30%	-3.30%
Japan Money Stock M2 YoY	12-Oct	Sep	2.40%	2.40%	--
Tertiary Industry Index (MoM)	12-Oct	Aug	-0.80%	0.40%	--
Malaysia	Date	Period	Prior	Cons.	Actual
Industrial Production YoY	11-Oct	Aug	1.40%	-2.00%	-0.70%
Philippines	Date	Period	Prior	Cons.	Actual
Total Exports (YoY)	10-Oct	Aug	7.80%	5.50%	-9.00%
Singapore	Date	Period	Prior	Cons.	Actual
GDP (annualized) (QoQ)	12-Oct	3Q A	-0.70%	-1.70%	--
GDP (YoY)	12-Oct	3Q A	2.00%	0.90%	--
Retail Sales (YoY)	12-Oct	Aug	-2.90%	--	--
South Korea	Date	Period	Prior	Cons.	Actual
Unemployment Rate (SA)	10-Oct	Sep	3.10%	3.20%	3.10%
Taiwan	Date	Period	Prior	Cons.	Actual
Total Exports (YoY)	08-Oct	Sep	-4.20%	1.00%	10.40%

Indicator of the Week

Singapore third quarter GDP (October 12th)

Forecast: 0.1% q/q sa

Consensus: -1.7% q/q sa

Prior: -0.7% q/q sa

The third quarter GDP release will be closely watched, in tandem with the Monetary Authority of Singapore's (MAS) next semi-annual meeting in mid-October. Singapore's growth momentum has slowed sharply since Q4 2011 as weak exports have been having knock-on effects to domestic demand. There is risk of a technical recession, following a -0.7% q/q, s.a. GDP contraction in the second quarter on both weak external and domestic demand. We expect the MAS to ease monetary policy at their upcoming meeting, through a re-centering of the exchange rate band at a more depreciated level and/or a flattening of the appreciation slope (the MAS uses the exchange rate as its principal monetary policy instrument). At its last meeting in April the MAS tightened policy to contain inflation by increasing the appreciation slope (to 2% per year based on our estimates). An easing of the monetary stance, however, is not without risks given that inflation is still somewhat high (3.9% y/y in August).

Calendar Events

South Korea - 7-Day Repo Rate, October 11

We expected a 25 bps cut in the benchmark rate

Current

3.00%

Consensus

2.75%

New

2.75%

Indonesia - Bank Indonesia Reference Rate, October 11

We expected the benchmark rate to remain unchanged

Current

5.75%

Consensus

5.75%

New

5.75%

Singapore - Monetary Authority policy meeting, October 12

We expect policy easing

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.	21029	-0.8	2.3	-4.4	-10.5
	Hong Kong - Hang Seng	20999.1	0.4	0.4	13.9	15.8
	Taiwan - Weighted	7451.7	-1.8	-3.0	5.4	3.3
	Japan - Nikkei 225	8546.8	-0.6	-2.3	1.1	-2.6
	Korea - Kospi	1933.1	-0.8	-3.0	5.9	7.7
	India - Sensex 30	18788.9	0.8	-1.4	21.6	13.6
	Australia - SPX/ASX 200	4483.5	-0.2	0.7	10.5	6.1
	Singapore - Strait Times	3032.7	0.0	-1.7	14.6	12.6
	Indonesia - Jakarta Comp	4285.0	0.1	0.3	12.1	21.3
Thailand - SET	1294.0	0.4	-1.0	26.2	37.0	
Malaysia - KLCI	1655.5	-0.2	-0.4	8.1	17.3	
Philippines - Manila Comp.	5353.5	-0.3	-1.7	22.5	30.3	

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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)	6.28	0.34	0.12	6.33	6.38
	Hong Kong (HKD/USD)	7.75	0.01	0.03	7.75	7.75
	Taiwan (TWD/USD)	29.3	0.09	0.03	29.23	28.99
	Japan (JPY/USD)	78.12	0.08	0.46	78.05	77.75
	Korea (KRW/USD)	1114	0.03	-0.05	1118	1129
	India (INR/USD)	52.8	0.58	-1.91	53.45	55.68
	Australia (USD/AUD)	1.03	0.50	0.43	0.98	1.00
	Singapore (SGD/USD)	1.23	0.24	0.07	1.23	1.23
	Indonesia (IDR/USD)	9634	-0.42	-0.40	9758	10142
Thailand (THB/USD)	30.7	0.07	-0.42	30.86	31.28	
Malaysia (MYR/USD)	3.07	0.18	-0.39	3.08	3.12	
Philippines (PHP/USD)	41.6	-0.06	-0.18	41.54	41.58	

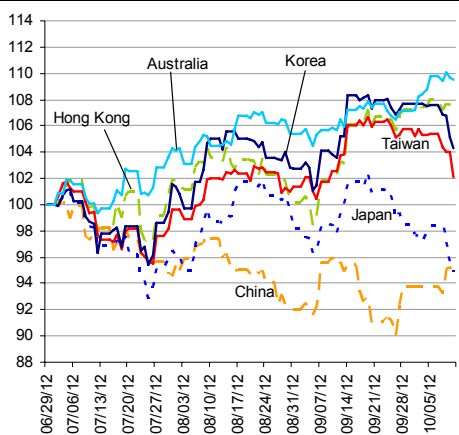
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.17	0.00	-0.13	0.17
	Hong Kong (HIBOR/1W)	0.15	-0.02	-0.02	0.02
	Taiwan (TAIBOR/1W)	0.62	0.00	0.00	-0.01
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	3.01	0.00	-0.01	-0.01
	India (MIBOR/7D)	3.19	0.03	-0.69	0.19
	Singapore (SIBOR/1W)	0.31	0.00	0.00	0.06
	Indonesia (JIBOR/1W)	4.26	0.00	0.01	0.01
	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)	2.06	0.00	0.13	0.75	

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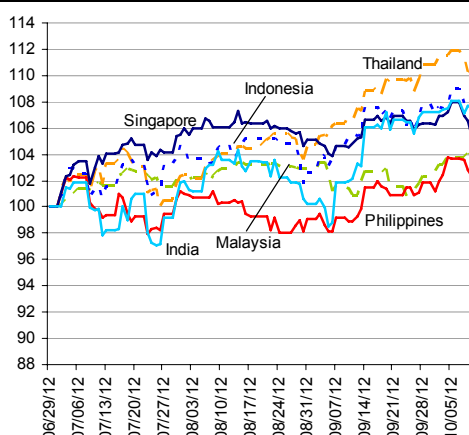
Charts

Chart 9
Stock Markets



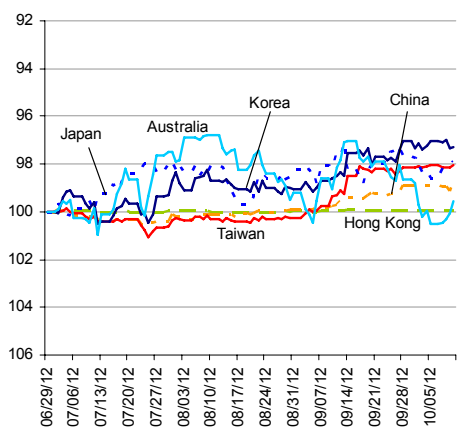
Source: BBVA Research and Bloomberg

Chart 10
Stock Markets



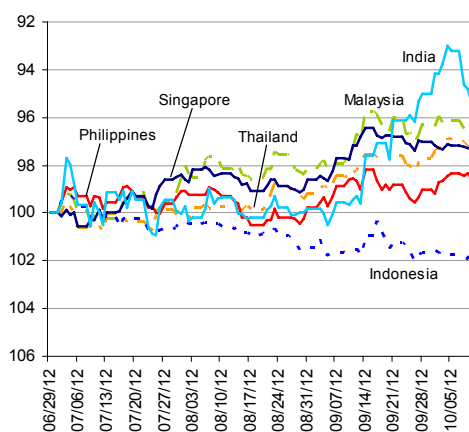
Source: BBVA Research and Bloomberg

Chart 11
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 12
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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