

Asia Flash

Asia

After re-opening today from a holiday in Hong Kong, Japan, and Indonesia yesterday, most Asian markets closed higher. In particular, currencies have reacted to positive news flow of progress in the US Congressional debt negotiations. Most notably, the Chinese RMB hit a record high today of 6.10 per USD, already reaching our year-end projection. The currency's strength was propelled by yesterday's release of strong reserves data, which increased by \$160 billion in Q3, to stand at \$3.66 trillion at end-September. Meanwhile, consistent with the "risk-on" tone to markets, the AUD strengthened (0.95 against the USD, its strongest level since June), and the yen weakened to 98.6 per USD.

Mixed data in China: robust domestic demand amidst external uncertainty

A series of data prints since Saturday confirm that domestic demand remains strong, but that caution is in order for projecting the strength of the external environment. In particular, while imports remained strong (7.4% y/y vs consensus: 7.0%), exports disappointed (-0.3% y/y vs consensus: 5.5%) due to a sharp slowdown in demand from ASEAN economies, which have been rattled in recent months by capital flow pressures from expectations of QE tapering. Interpreting the export data is tricky, however, due to base effects from over-invoicing last year. After stripping out this effect, we estimate that the "true" level of export growth is in the 3-4% y/y range, a slowdown from around 10% in August. Meanwhile, inflation accelerated to 3.1% y/y in September (consensus: 2.8%) on higher food prices (6.1% y/y), but remained within the 3.5% official target. We therefore do not see inflation as an issue for the time being. Finally, credit aggregates were generally positive, showing robust new bank loan growth (RMB 787 bn vs consensus: 675 bn RMB), and some slowing of shadow bank lending. Overall, we view the data as consistent with our expectation of a pickup in Q3 growth to 7.7% y/y. The GDP outturn will be released on October 18, along with September industrial production, retail sales, and investment.

Singapore preliminary Q3 GDP beats expectations on resilient service sector

Advance Q3 GDP (based on data for the first two months of the quarter) rose by 5.1% y/y (consensus: 3.8%) compared to 4.2% in the previous quarter. On a sequential basis, the economy contracted less than expected (Q3: -1.0% q/q saar vs. consensus: -4.0%) after a surge gain in Q2 of 16.9% q/q saar. At its semi annual policy meeting held yesterday, the Monetary Authority of Singapore (MAS), as expected, maintained its current monetary stance with no change to the "modest and gradual appreciation path" of the exchange rate band. The MAS also maintained its 2½%-3½% growth projection for 2013 (BBVA: 2.8%) and a similar pace for 2014, highlighting a continued global recovery on the back of improving outlook in G3 and China's stabilizing momentum.

Hong Kong monetary authority reaffirms plans to keep currency peg

Amidst on-again, off-again market chatter of a possible change to the "Linked Exchange Rate System" (LERS) in place since October 17, 1983, the Chief Executive of the Hong Kong Monetary Authority (HKMA) issued an article on the official website (see [Linked Exchange Rate System](#)) reaffirming that, after careful review, "there is neither the need nor the intention to change the LERS." The article acknowledges that there are pros and cons to the present system, under which

the currency is pegged to the USD, but argues that it has “served as the cornerstone for Hong Kong’s monetary and financial stability over the past 30 years, and that proposed alternatives, such as a peg to a basket or the RMB, are premature. While we expect the RMB to play a more important role in the determination of Hong Kong’s exchange rate over time, we believe that significant changes are still 5-10 years away, pending full convertibility of China’s capital account.

Rising inflation in India complicates monetary policy decision

While the external environment has calmed for the time being, the Reserve Bank of India’s task at its next policy meeting scheduled for October 29 remains difficult amidst slowing growth. The September WPI inflation outturn, released yesterday, rose to 6.5% y/y (consensus: 6.0%) from 6.1% in August, following the impact of recent currency depreciation and a spike in food prices. The September CPI outturn, in which food has a larger weight, inched up to 9.8% y/y from 9.5% in August. Nevertheless, core WPI inflation remained soft at 2.0% y/y. With headline inflation likely to moderate on the back of a strong summer crop and recent stability in the rupee alongside an improving external balance, we expect RBI to keep the repo rate on hold (at 7.5%) at its upcoming policy meeting. That said, we do not rule out the possibility of a rate hike in the coming months if external financing pressures re-surface.

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Calendar Indicators

China	Date	Period	Prior	Cons.	Actual
Exports YoY	12 Oct	Sep	7.20%	5.50%	-0.30%
Imports YoY	12 Oct	Sep	7.00%	7.00%	7.40%
Trade Balance	12 Oct	Sep	\$28.52B	\$26.25B	\$15.21B
Foreign Reserves	14 Oct	Sep	\$3496.7B	\$3520.0B	\$3660.0B
New Yuan Loans	14 Oct	Sep	711.3B	675.0B	787.0B
Money Supply M2 YoY	14 Oct	Sep	14.70%	14.20%	14.20%
Aggregate Financing RMB	14 Oct	Sep	1570.0B	1350.0B	1400.0B
CPI YoY	14 Oct	Sep	2.60%	2.80%	3.10%
PPI YoY	14 Oct	Sep	-1.60%	-1.40%	-1.30%
Foreign Direct Investment YoY	15-18 Oct	Sep	0.60%	5.70%	--
GDP SA QoQ	18 Oct	3Q	1.70%	2.10%	--
GDP YoY	18 Oct	3Q	7.50%	7.80%	--
GDP YTD YoY	18 Oct	3Q	7.60%	7.70%	--
Industrial Production YoY	18 Oct	Sep	10.40%	10.20%	--
Fixed Assets Ex Rural YTD YoY	18 Oct	Sep	20.30%	20.30%	--
Retail Sales YoY	18 Oct	Sep	13.40%	13.50%	--
Hong Kong	Date	Period	Prior	Cons.	Actual
Unemployment Rate SA	17 Oct	Sep	3.30%	3.30%	--
India	Date	Period	Prior	Cons.	Actual
CPI YoY	14 Oct	Sep	9.52%	9.50%	9.84%
Wholesale Prices YoY	14 Oct	Sep	6.10%	6.00%	6.46%
Japan	Date	Period	Prior	Cons.	Actual
Industrial Production YoY	15 Oct	Aug F	-0.20%	--	-0.40%
Philippines	Date	Period	Prior	Cons.	Actual
Overseas Remittances YoY	16 Oct	Aug	6.60%	5.90%	--
Singapore	Date	Period	Prior	Cons.	Actual
GDP SAAR QoQ	14 Oct	3Q A	16.90%	-4.00%	-1.00%
GDP YoY	14 Oct	3Q A	4.20%	3.80%	5.10%
Retail Sales YoY	14 Oct	Aug	-8.20%	-5.40%	-7.80%
Non-oil Domestic Exports YoY	17 Oct	Sep	-6.20%	-2.20%	--
South Korea	Date	Period	Prior	Cons.	Actual
Unemployment rate SA	16 Oct	Sep	3.10%	3.10%	--

Calendar Events

Thailand – BoT Benchmark Interest Rate, Oct 16	Current	Cons.	New
We expect the benchmark rate to remain unchanged	2.50%	2.50%	--

Indicator of the Week

China: Q3 GDP growth (October 18th)

Forecast: 7.7% y/y

Consensus: 7.8% y/y

Prior: 7.5% y/y

China's economy is likely to have accelerated in Q3, based on recent activity indicators pointing to a stronger growth momentum after a slowdown in H1. The pickup is attributable improving private manufacturing investment and external demand. The former has been facilitated by enhanced policy clarity, which lifted confidence in the 7.5% growth target for 2013, as well as "mini" stimulus measures, including tax cuts for small businesses, accelerated infrastructure spending, and streamlining of exports customs procedures. On sequential terms, Q3 growth is likely to rise to 2.1% q/q sa, from 1.7% in Q2. We expect growth momentum to continue in early 2014, but lose some steam in the second half of the year as stimulus wears off and as the authorities address rising financial fragilities and reforms to rebalance growth. A batch of monthly activity indicators for September will also be released, including trade (Oct 12), credit aggregates (Oct 12-15), inflation (Oct 14), industrial production, investment, and retail sales (Oct 18).

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.	2233.4	-0.2	1.6	-1.6	6.4
	Hong Kong – Hang Seng	23336.5	0.5	1.6	3.0	10.4
	Taiwan – TAIEX	8367.9	1.1	0.4	8.7	12.8
	Japan – Nikkei 225	14441.5	0.3	4.2	38.9	69.2
	Korea – Kospi	2041.0	1.0	2.3	2.2	6.0
	India – Sensex 30 *	20547.6	-0.3	2.8	5.8	9.8
	Australia – SPX/ASX 200	5259.1	1.0	2.1	13.1	17.3
	Singapore – Strait Times	3165.3	-0.5	0.9	-0.1	4.0
	Indonesia – Jakarta Comp	4519.9	0.7	3.0	4.7	4.8
	Thailand – SET	1472.9	0.9	2.7	5.8	14.1
	Malaysia – KLCI	1784.8	-0.1	0.4	5.7	7.9
	Philippines – Manila Comp.	6442.7	-0.7	0.0	10.8	19.7

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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)	6.10	0.15	0.31	6.13	6.15
	Hong Kong (HKD/USD)	7.75	0.00	0.00	7.75	7.75
	Taiwan (TWD/USD)	29.4	0.12	-0.13	29.21	28.92
	Japan (JPY/USD)	98.59	-0.02	-1.73	98.52	98.24
	Korea (KRW/USD)	1067	0.45	0.66	1072	1085
	India (INR/USD)	61.9	-0.62	-0.22	63.50	66.81
	Australia (USD/AUD)	0.95	0.35	1.03	1.06	1.08
	Singapore (SGD/USD)	1.24	0.06	0.52	1.24	1.24
	Indonesia (IDR/USD)	10904	0.40	3.19	11171	11831
	Thailand (THB/USD)	31.3	0.00	0.32	31.44	31.95
	Malaysia (MYR/USD)	3.16	0.72	1.19	3.18	3.23
	Philippines (PHP/USD)	43.2	-0.24	-0.09	42.78	42.84

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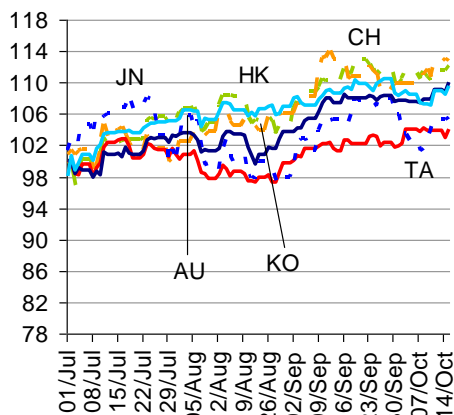
INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.85	0.00	-0.63	0.29
	Hong Kong (HIBOR/1W)	0.14	0.00	0.00	0.02
	Taiwan (TAIBOR/1W)	0.51	0.00	0.00	0.00
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	2.56	0.00	0.00	0.00
	India (MIBOR/7D)	4.33	0.51	-0.06	0.76
	Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00
	Indonesia (JIBOR/1W)	6.10	0.01	0.02	0.39
	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

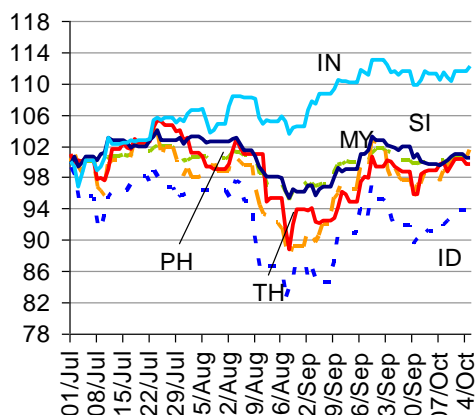
Stock Markets



Source: BBVA Research and Bloomberg

Chart 2

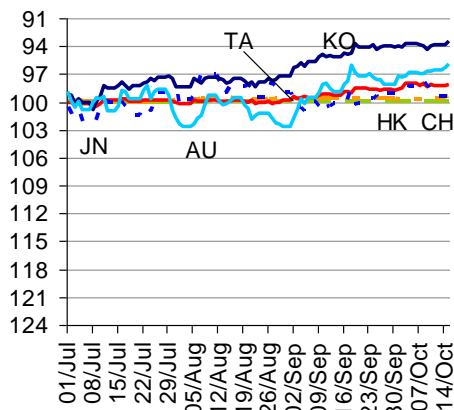
Stock Markets



Source: BBVA Research and Bloomberg

Chart 3

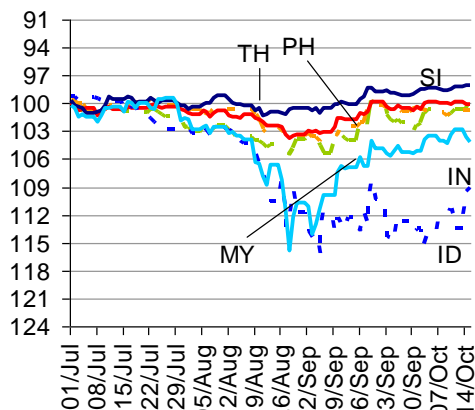
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4

Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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