

Asia Flash

Asia

China HSBC flash PMI ticks up on rising production and new orders

The private sector HSBC/Markit flash manufacturing PMI estimate rose to 50.9 for October (consensus: 50.4), up from a disappointing 50.2 in September. The outturn, while preliminary – we await the final HSBC outturn and official PMI reading on November 1 – may suggest that growth momentum is continuing into the fourth quarter, after Q3 GDP growth came in at a robust 7.8% (see our [China Flash](#) for details). Nevertheless, questions remain about the sustainability of the growth pickup given signs of a moderating trend in September activity indicators, and market jitters of signs of monetary tightening (see below). Given improving external demand and the government's current growth targets, we expect full-year growth of 7.7% in 2013 and 7.6% in 2014.

Rise in China interbank rates signals minor effort to tighten liquidity

A 100+ basis point rise in China's interbank rates this rise week has caught the attention of market observers. The 7-day repo rate rose to 4.8% today from 3.5% last week. Memories are still fresh of the PBoC's ill-advised liquidity squeeze last June, which was engineered to slow the growth of shadow bank lending. For the time being, the current rise appears to reflect a combination of seasonal factors and the PBoC's effort to tighten liquidity and slow credit growth. However, we view this as only a marginal tightening, and far from the scale of the liquidity squeeze of last June. On the positive side, the authorities' willingness to tighten, even if only marginally, may also reveal their confidence in the current growth momentum, as evidenced by the pickup in Q3 GDP growth and today's strong HSBC Flash estimate.

Briefly noted:

The Philippines central bank today kept rates on hold as expected at 3.50%. Despite strong economic growth (7.5% y/y in Q2), inflation has been subdued at 2.7% September, below the 3-5% target range. We expect the central bank to raise interest rates by 50bps in the second half of 2014 to prevent overheating.

Australia Q3 headline inflation rises to a higher-than-expected 2.2% (consensus: 1.8%); due to rising housing costs. While still within the central banks' 2-3% target range, the outturn (reported yesterday) could reduce expectations of further monetary easing. The RBA last cut interest rates in August to 2.50%, for a cumulative reduction of 225 bps since November 2011. The RBA has maintained a neutral monetary policy stance since in recent months as it evaluates the impact of its cuts on economic activity. Meanwhile, an appreciation of the AUD to 0.97 against the USD (+8.0% since the beginning of September) may create a dilemma for the RBA given their statements that a weaker currency would be helpful to support the non-mining domestic economy.

Hong Kong September exports rose by 1.5% y/y in September (consensus: -3.0%; prior: -1.3%). The better-than-expected outturn was mainly due to strong demand from China, where growth regained momentum in the third quarter. Exports to the US also held up well, but were relatively weak to Japan and the EU. Recent export outturns around the region have been mixed on

improving, but still sluggish external demand.

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Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
CPI QoQ	23 Oct	3Q	0.40%	0.80%	1.20%
CPI YoY	23 Oct	3Q	2.40%	1.80%	2.20%
China	Date	Period	Prior	Cons.	Actual
September Property Prices	22 Oct	Sep	--	--	--
HSBC/Markit Flash Mfg PMI	24 Oct	Oct	50.2	50.4	50.9
Industrial Profits YTD YoY	27 Oct	Sep	12.80%	--	--
Hong Kong	Date	Period	Prior	Cons.	Actual
CPI Composite YoY	21 Oct	Sep	4.50%	4.40%	4.60%
Exports YoY	24 Oct	Sep	-1.30%	-3.00%	1.50%
Japan	Date	Period	Prior	Cons.	Actual
Imports YoY	21 Oct	Sep	16.0%	19.9%	16.5%
Exports YoY	21 Oct	Sep	14.6%	15.6%	11.5%
All Industry Activity Index MoM	21 Oct	Aug	0.40%	0.20%	0.30%
Natl CPI YoY	25 Oct	Sep	0.90%	0.90%	--
Malaysia	Date	Period	Prior	Cons.	Actual
CPI YoY	25 Oct	Sep	1.90%	2.50%	--
Philippines	Date	Period	Prior	Cons.	Actual
Imports YoY	25 Oct	Aug	8.70%	3.60%	--
Singapore	Date	Period	Prior	Cons.	Actual
CPI YoY	23 Oct	Sep	2.00%	2.00%	1.60%
Industrial Production SA MoM	25 Oct	Sep	-1.40%	0.50%	--
Industrial Production YoY	25 Oct	Sep	3.50%	5.70%	--
South Korea	Date	Period	Prior	Cons.	Actual
GDP SA QoQ	25 Oct	3Q P	1.10%	0.80%	--
GDP YoY	25 Oct	3Q P	2.30%	3.10%	--
Taiwan	Date	Period	Prior	Cons.	Actual
Export Orders YoY	21 Oct	Sep	0.50%	0.40%	2.00%
Unemployment Rate	22 Oct	Sep	4.19%	4.20%	4.18%
Commercial Sales YoY	23 Oct	Sep	-0.60%	-0.65%	1.31%
Industrial Production YoY	23 Oct	Sep	-0.57%	0.10%	1.06%
Thailand	Date	Period	Prior	Cons.	Actual
Customs Exports YoY	25 Oct	Sep	3.90%	0.50%	--
Customs Imports YoY	25 Oct	Sep	-2.10%	3.60%	--
Vietnam	Date	Period	Prior	Cons.	Actual
CPI YoY	24 Oct	Oct	6.30%	6.50%	5.92%
Exports YTD YoY	25-31 Oct	Oct	15.70%	--	--

Calendar Events

Philippines – BSP Overnight Borrowing Rate, Oct 24	Current	Cons.	New
We expect the benchmark rate to remain unchanged	3.50%	3.50%	3.50%

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.	2164.3	-0.9	-1.1	-4.6	2.3
	Hong Kong – Hang Seng	22835.8	-0.7	-1.1	0.8	4.9
	Taiwan – TAIEX	8413.7	0.2	0.5	9.3	15.0
	Japan – Nikkei 225	14486.4	0.4	-0.7	39.4	61.8
	Korea – Kospi	2046.7	0.5	0.3	2.5	6.9
	India – Sensex 30 *	20734.7	-0.2	1.6	6.7	10.8
	Australia – SPX/ASX 200	5372.9	0.3	1.7	15.6	19.2
	Singapore – Strait Times	3218.0	0.4	1.0	1.6	5.7
	Indonesia – Jakarta Comp	4594.8	1.1	1.7	6.4	6.0
	Thailand – SET	1461.2	0.3	-0.2	5.0	11.5
	Malaysia – KLCI	1818.9	0.3	1.2	7.7	9.0
	Philippines – Manila Comp.	6583.8	-0.8	0.3	13.3	22.0

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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)	6.08	0.07	0.25	6.13	6.15
	Hong Kong (HKD/USD)	7.75	0.00	0.01	7.75	7.75
	Taiwan (TWD/USD)	29.4	-0.06	-0.19	29.23	28.96
	Japan (JPY/USD)	97.36	0.02	0.56	97.30	97.05
	Korea (KRW/USD)	1061	-0.46	0.24	1067	1079
	India (INR/USD)	61.5	0.18	-0.42	62.97	66.69
	Australia (USD/AUD)	0.96	-0.05	-0.19	1.05	1.07
	Singapore (SGD/USD)	1.24	0.08	0.13	1.24	1.24
	Indonesia (IDR/USD)	11150	-2.22	-0.22	11344	11969
	Thailand (THB/USD)	31.1	0.16	-0.35	31.27	31.74
	Malaysia (MYR/USD)	3.16	0.22	-0.31	3.17	3.21
	Philippines (PHP/USD)	43.1	0.05	-0.06	42.73	42.74

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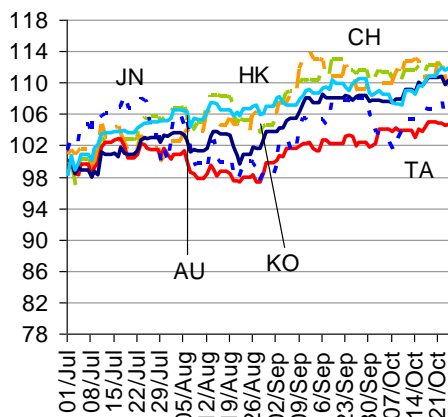
INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	4.70	0.70	1.23	0.30
	Hong Kong (HIBOR/1W)	0.13	0.00	0.00	0.00
	Taiwan (TAIBOR/1W)	0.51	0.00	0.00	0.00
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	2.55	-0.01	-0.01	0.00
	India (MIBOR/7D)	6.50	2.45	3.14	2.02
	Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00
	Indonesia (JIBOR/1W)	6.10	0.00	0.00	0.09
	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

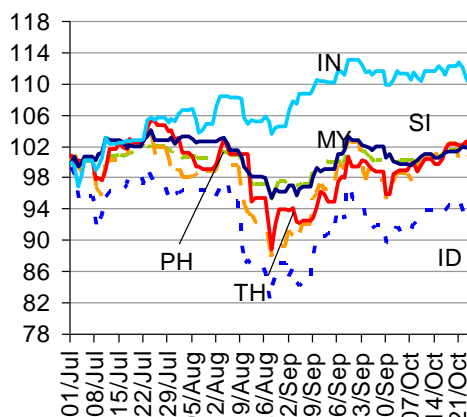
Stock Markets



Source: BBVA Research and Bloomberg

Chart 2

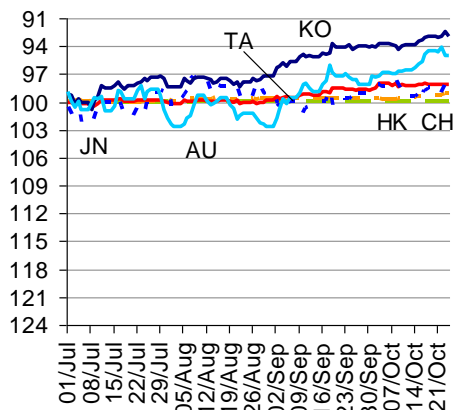
Stock Markets



Source: BBVA Research and Bloomberg

Chart 3

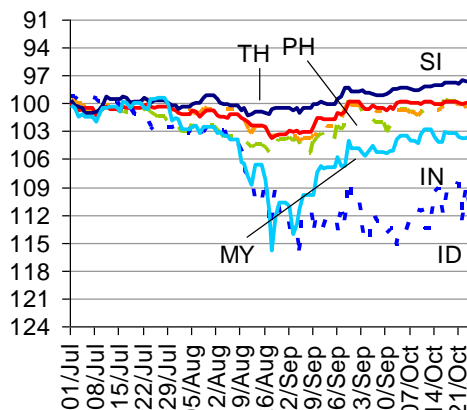
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4

Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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