

Asia Flash

Asia

PBoC and ECB sign swap line in boost to RMB internationalization

A three-year bilateral swap agreement (BSA) was signed yesterday between the People's Bank of China (PBoC) and European Central Bank (ECB), worth RMB 350 billion/Euro 450 billion. According to ECB, the swap arrangement will be available to all Eurosystem national central banks. The BSA would facilitate the use of RMB for international trade settlement. China has now signed 21 BSAs, including most recently with the UK in March, as well as with Australia and Brazil, among others. The EU is China's largest trade partner. The timing of the deal is especially symbolic coming against the backdrop of the US fiscal debate and risk of default. As the largest foreign holder of US Treasuries (\$1.3 trillion), China has expressed its displeasure and has called on the US to protect its investments.

Bank of Korea keeps rates on hold as "moderate" growth continues

As expected, the Bank of Korea (BOK) today kept its policy rate unchanged at 2.50% for a fifth consecutive month (the last cut was in May). In its policy statement, while the BOK flagged the US fiscal debate and expected QE tapering as downside risks to global growth, it expressed confidence that for the domestic economy, "moderate economic growth [is] continuing", on buoyant exports and improving domestic demand. Meanwhile, in their thrice-annual update of the economic outlook, the BOK kept its growth outlook for 2013 unchanged at 2.8%, but lowered the outlook for 2014 to 3.8% from 4.0% previously. The outlook is slightly above our projection of 2.7% and 3.7%, respectively. In our view, given exceptionally low inflation (0.8% y/y in September) and a negative output gap, there continues to be room for further interest rate cuts. However, the BOK appears unlikely to make use of this room given concern about fueling high household debt and expectations of tighter global monetary conditions.

Australia unemployment rate falls in September on mixed signs of strength

The unemployment fell by more than expected to 5.6% (consensus: 5.8%; prior: 5.8%) on new job creation and a disappointing fall in the participation rate. New job creation amounted to 9.1K (consensus: 15.0K). Meanwhile, the participation continued to fall, to 64.9% in August from previous 65.0%, in a sign that labor market conditions may be weaker than the fall in headline unemployment would indicate. The domestic economy continues to be sluggish as the mining investment boom winds down. The RBA has kept policy rates at a historic low of 2.50% since August (after 225 bps in cuts from November 2011), and has adopted a neutral stance. Under our baseline, we do not expect further rate cuts, although a strengthening Australia dollar (94.4 cents against the USD at present) could prompt the RBA to shift to an easing bias once again. We expect the economy to grow by 2.6% in 2013, rising to 3.0% in 2014.

Briefly noted:

Japan core machinery orders point to further signs of a pickup

A leading indicator of capital spending, machine orders rose by a faster-than-expected 5.4% m/m sa (consensus: 2.0%) in August, in the latest sign of improving investment.

India's September trade balance improves

Data released yesterday showed that the trade deficit shrank to a 30-month low of USD 6.7 billion from USD 10.9 billion in August, as imports contracted sharply and exports posted a third straight month of double-digit growth. The improving external balance should help ease fears of capital account pressures. The rupee now stands at 62.1 per USD, off its lows of 68.8 in late August.

World Bank to issue rupee-linked bonds to fund Indian investment

The International Finance Corporation (IFC, the World Bank's private sector arm) has announced plans to issue \$1 billion of rupee-linked bonds to international investors, and to use the proceeds to fund its investments in India.

Malaysia August industrial output disappoints, moderating to 2.3% y/y (consensus: 7.5% y/y) from 7.5% in July. On a sequential basis after seasonal adjustment, industrial production declined (-4.6% m/m sa) for the first time since June, mainly dragged by manufacturing activity (-5.4% m/m sa). Monthly industrial production data are quite volatile, and momentum in the Malaysian economy has been reasonably strong. We expect the economy to grow by 4.6% in 2013. Nevertheless, outside of the Philippines, there is a trend of weakening growth in Southeast Asia, and the weak industrial production could be a sign of headwinds to come.

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Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
Unemployment Rate	10 Oct	Sep	5.80%	5.80%	5.60%
China	Date	Period	Prior	Cons.	Actual
Foreign Reserves	10-15 Oct	Sep	\$3496.7B	\$3520.0B	--
New Yuan Loans	10-15 Oct	Sep	711.3B	675.0B	--
Money Supply M2 YoY	10-15 Oct	Sep	14.70%	14.20%	--
Aggregate Financing RMB	10-15 Oct	Sep	1570.0B	1350.0B	--
Trade Balance	12 Oct	Sep	\$28.52B	\$26.17B	--
Exports YoY	12 Oct	Sep	7.20%	5.50%	--
Imports YoY	12 Oct	Sep	7.00%	7.00%	--
Indonesia	Date	Period	Prior	Cons.	Actual
Foreign Reserves	07 Oct	Sep	\$93.0B	--	\$95.7B
India	Date	Period	Prior	Cons.	Actual
Exports YoY	09 Oct	Sep	13.00%	--	11.20%
Industrial Production YoY	11 Oct	Aug	2.60%	2.10%	--
Japan	Date	Period	Prior	Cons.	Actual
BoP Current Account Balance	08 Oct	Aug	¥577.3B	¥520.0B	¥161.5B
Machine Tool Orders YoY	09 Oct	Sep P	-1.70%	--	-6.30%
Tertiary Industry Index MoM	10 Oct	Aug	-0.40%	0.40%	0.70%
Machine Orders MoM	10 Oct	Aug	0.00%	2.50%	5.40%
Machine Orders YOY	10 Oct	Aug	6.50%	8.50%	10.30%
Malaysia	Date	Period	Prior	Cons.	Actual
Industrial Production YoY	10 Oct	Aug	7.50%	7.50%	2.30%
Philippines	Date	Period	Prior	Cons.	Actual
Exports YoY	10 Oct	Aug	2.30%	20.00%	20.20%
Taiwan	Date	Period	Prior	Cons.	Actual
CPI YoY	07 Oct	Sep	-0.80%	0.10%	0.83%
Exports YoY	07 Oct	Sep	3.60%	-1.20%	-7.00%

Calendar Events

Indonesia – Bank Indonesia Reference Rate, Oct 8	Current	Cons.	New
We expect the benchmark rate to remain unchanged	7.25%	7.25%	7.25%
Korea – BoK 7-Day Repo Rate, Oct 10	Current	Cons.	New
We expect the benchmark rate to remain unchanged	2.50%	2.50%	2.50%

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.	2190.9	-0.9	1.6	-3.4	3.3
Hong Kong – Hang Seng	22951.3	-0.4	-1.1	1.3	9.7	
Taiwan – TAIEX *	8344.7	-0.4	1.6	8.4	9.9	
Japan – Nikkei 225	14194.7	1.1	0.3	36.6	65.1	
Korea – Kospi	2001.4	-0.1	0.1	0.2	1.1	
India – Sensex 30 *	20272.9	0.1	1.9	4.4	8.8	
Australia – SPX/ASX 200	5147.1	-0.1	-1.7	10.7	14.6	
Singapore – Strait Times	3169.9	0.5	0.8	0.1	4.5	
Indonesia – Jakarta Comp	4486.7	0.7	1.5	3.9	4.8	
Thailand – SET	1451.9	1.2	1.6	4.3	12.6	
Malaysia – KLCI	1775.9	0.4	0.3	5.1	7.0	
Philippines – Manila Comp.	6436.0	0.9	0.8	10.7	19.9	

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* close today

FOREIGN EXCHANGE MARKETS	CURRENCY	Spot	% change over a day	% change over a week	Forward 3-month	Forward 12-month
	China (CNY/USD)	6.12	0.06	0.08	6.15	6.18
Hong Kong (HKD/USD)	7.75	0.00	0.00	7.75	7.75	
Taiwan (TWD/USD)	29.4	0.29	-0.06	29.27	29.03	
Japan (JPY/USD)	97.84	-0.51	-0.58	97.77	97.47	
Korea (KRW/USD)	1074	0.32	-0.37	1079	1091	
India (INR/USD)	62.1	-0.29	-0.60	63.71	67.01	
Australia (USD/AUD)	0.94	-0.12	0.43	1.07	1.09	
Singapore (SGD/USD)	1.25	-0.14	-0.18	1.25	1.25	
Indonesia (IDR/USD)	11148	0.58	3.43	11399	12104	
Thailand (THB/USD)	31.4	0.11	-0.37	31.59	32.09	
Malaysia (MYR/USD)	3.19	0.23	0.09	3.21	3.26	
Philippines (PHP/USD)	43.2	-0.03	-0.11	43.08	43.14	

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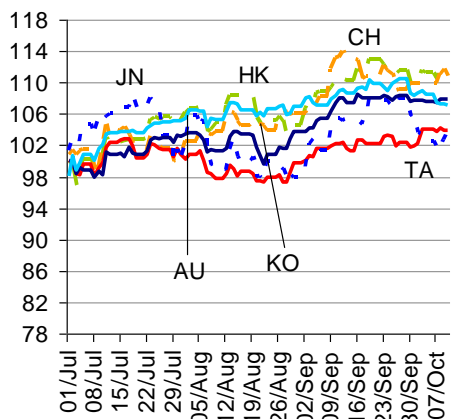
INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	4.48	-0.04	0.28	0.83
Hong Kong (HIBOR/1W)	0.13	0.00	0.00	0.01	
Taiwan (TAIBOR/1W)	0.51	0.00	0.00	0.00	
Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01	
Korea (KORIBOR/1M)	2.56	0.00	0.00	0.00	
India (MIBOR/7D)	4.63	0.10	0.37	0.93	
Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00	
Indonesia (JIBOR/1W)	6.09	0.00	0.02	0.38	
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

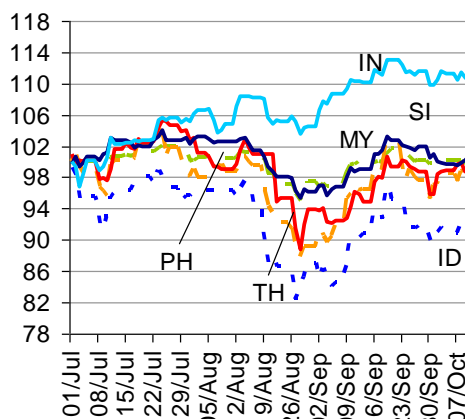
Stock Markets



Source: BBVA Research and Bloomberg

Chart 2

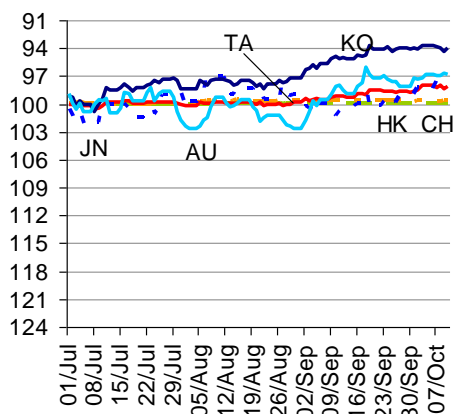
Stock Markets



Source: BBVA Research and Bloomberg

Chart 3

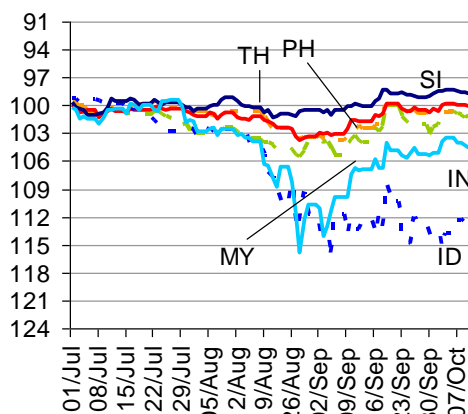
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4

Foreign Exchange Markets



Source: BBVA Research and Bloomberg


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