

Asia Flash

Asia

Asian markets were generally higher today on news of the US debt ceiling agreement. Predictably, risk-sensitive assets performed best, exemplified by the AUD, rising to 0.96 against the USD. Equity gains were led by the Philippines (1.2%), the Nikkei (0.8%), and Indonesia (0.6%). Overall, stock market gains were relatively light given that Asian markets had not sold off as the US debt deadline approached, and as many investors may still fear that the political stalemate in the US will continue for some time. Meanwhile, in China the currency hit a new high at 6.09 per USD, but the Shanghai equity market closed down ahead of tomorrow's release of Q3 GDP and September activity indicators (see below).

China and the UK boost financial ties, lifting London as offshore RMB center

In a visit to China by Britain's chancellor George Osborne that concluded last Tuesday, a number of financial agreements were announced between the two countries. The highlights include the establishment of direct trading between the RMB and British pound (previously available only for the USD, JPY, AUD, and RUB), access by London investors in the onshore RMB equity and bond market (with a quota of RMB 80 billion under the RQFII scheme previously only available to Hong Kong and Taiwan), and greater access for Chinese bank branches in the UK market. We view these steps as of the latest in a series to boost RMB internationalization. It also helps to establish London as the key European RMB trading center. The announcement comes just days after the establishment of a Bilateral Swap Agreement (BSA) between the PBoC and the ECB.

China Q3 GDP expected to rise to 7.7% y/y with moderate recovery on track

GDP and activity indicators will be released tomorrow. We expect them to show an improving trend after the slowdown in the first half of the year. Recent data, including PMIs and industrial production, have showed an improvement in growth momentum from stronger private manufacturing investment and strengthening external demand (despite last month's weaker than expected export outturn of -0.3% y/y). The improvement has been facilitated by "mini" stimulus measures and continued strong credit growth. We expect Q3 GDP growth to rise to 7.7% y/y (consensus: 7.8% y/y) after bottoming out in Q2 at 7.5% y/y. We expect industrial production (consensus: 10.2% y/y), retail sales (consensus: 13.5% y/y), and investment (consensus: 20.3% ytd) to show a slight cooling trend after strong growth in August. Looking ahead, we expect full year growth in 2013 of around 7.7%, and 7.6% in 2014 with downside risks from rising financial fragilities and limited scope for further policy easing. After tomorrow's data release, the focus will be on the November Plenary meeting where an outline of economic reforms over the coming 5-10 years is expected.

Briefly noted:

China's FDI inflows increased by 4.9% y/y (consensus: 5.7% y/y) in September after flattening out in August (0.6% y/y). For the third quarter, FDI inflows grew by 9.4% y/y compared to 4.9% y/y in 1H 2013. Meanwhile, outward FDI (non-financial sector) remained resilient, expanding by 17.4% ytd y/y (vs. 12.6% in 2012). China's overseas investment in the mining, construction and wholesale & retail trade sectors has seen strong growth so far this year.

Singapore's non-oil domestic exports (NODX) edged down by -1.2% y/y in September (consensus: -2.8%; prior: -6.8%), recording an eighth straight year-over-year decline. However, on a sequential basis after seasonal adjustment, NODX expanded (5.7% m/m sa) after contracting by -6.6% in the previous month. As reported earlier this week, 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, and the Monetary Authority of Singapore (MAS) kept its monetary stance unchanged at its semi-annual policy meeting.

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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	17 Oct	Sep	0.60%	5.70%	4.90%
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%	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%	6.80%
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	-6.80%	-2.80%	-1.20%
South Korea	Date	Period	Prior	Cons.	Actual
Unemployment rate SA	16 Oct	Sep	3.10%	3.10%	3.00%

Calendar Events

Thailand – BoT Benchmark Interest Rate, Oct 16	Current	Cons.	New
We expect the benchmark rate to remain unchanged	2.50%	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.	2188.5	-0.2	-0.1	-3.6	3.9
	Hong Kong – Hang Seng	23094.9	-0.6	0.3	1.9	7.8
	Taiwan – TAIEX	8374.7	0.5	0.4	8.8	12.2
	Japan – Nikkei 225	14586.5	0.8	3.9	40.3	65.6
	Korea – Kospi	2040.6	0.3	2.0	2.2	4.4
	India – Sensex 30 *	20415.5	-0.6	0.8	5.1	9.9
	Australia – SPX/ASX 200	5283.1	0.4	2.6	13.6	16.7
	Singapore – Strait Times	3186.6	0.4	1.0	0.6	4.6
	Indonesia – Jakarta Comp	4518.9	0.6	1.9	4.7	4.2
	Thailand – SET	1469.1	0.3	1.2	5.5	12.9
	Malaysia – KLCI	1797.4	0.3	1.2	6.4	8.2
	Philippines – Manila Comp.	6560.9	1.2	2.9	12.9	20.6

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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	0.05	0.31	6.13	6.15
	Hong Kong (HKD/USD)	7.75	0.01	0.01	7.75	7.75
	Taiwan (TWD/USD)	29.4	0.24	0.13	29.17	28.90
	Japan (JPY/USD)	98.03	0.75	0.13	97.97	97.71
	Korea (KRW/USD)	1064	0.20	0.95	1070	1082
	India (INR/USD)	61.3	0.88	0.09	62.76	66.17
	Australia (USD/AUD)	0.96	0.60	1.65	1.05	1.07
	Singapore (SGD/USD)	1.24	0.19	0.56	1.24	1.24
	Indonesia (IDR/USD)	11125	0.63	0.21	11356	12011
	Thailand (THB/USD)	31.0	0.66	0.98	31.16	31.66
	Malaysia (MYR/USD)	3.15	0.73	1.32	3.17	3.21
	Philippines (PHP/USD)	43.1	0.29	0.20	42.70	42.72

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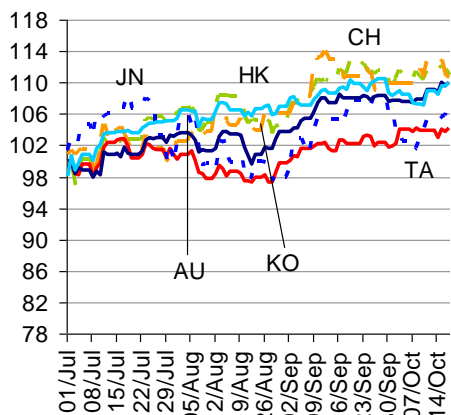
INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.35	0.03	-0.95	-0.25
	Hong Kong (HIBOR/1W)	0.14	0.00	0.00	0.02
	Taiwan (TAIBOR/1W)	0.51	0.00	0.00	0.00
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	2.56	0.00	0.00	0.00
	India (MIBOR/7D)	3.36	0.05	-1.27	-0.22
	Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00
	Indonesia (JIBOR/1W)	6.10	0.00	0.01	0.10
	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

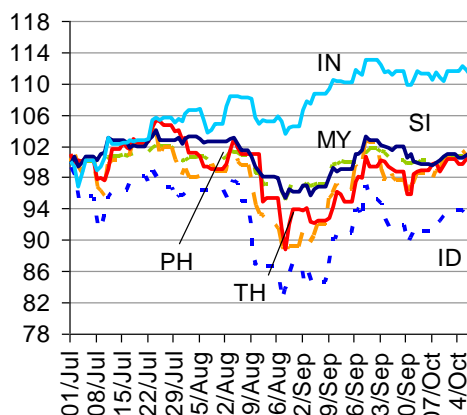
Stock Markets



Source: BBVA Research and Bloomberg

Chart 2

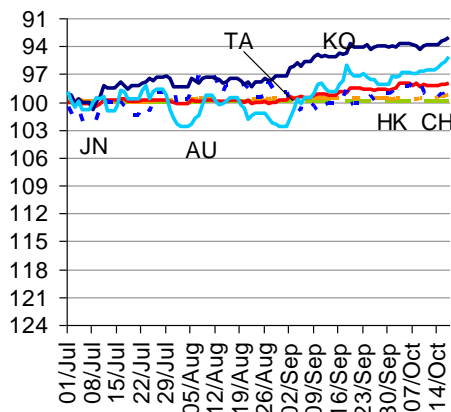
Stock Markets



Source: BBVA Research and Bloomberg

Chart 3

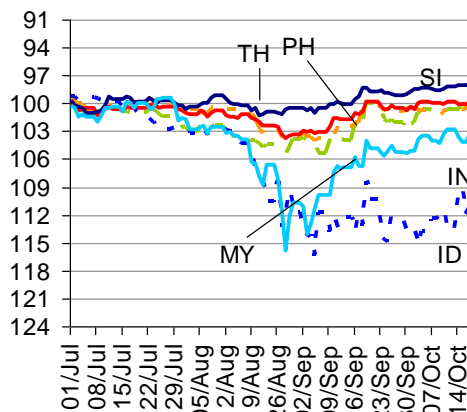
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4

Foreign Exchange Markets



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