

Asia Flash

Asia

Hopes of economic reforms in China rise after release of think tank report

Expectations for the new leadership's reform agenda have been running high ahead of the Third Plenary meeting in November (specific dates have not been announced). In a meeting last week with international business leaders, President Xi Jinping was reported to have said that the Third Plenary meeting will set out a roadmap for "broad and deep reforms." And over the weekend a published report of the State Council's think tank, The Development Research Center (DRC), entitled "The Strategy and Roadmap for the New Round of Reform" received wide press attention. The report may be a precursor to reforms to be announced at the November Plenary meeting, and highlights three areas: "marketization" of the economic system, government administration reform, and innovation of enterprises. Within these broad areas, the report emphasizes policies to promote competition through monopoly and antitrust rules, land reform, financial reform, fiscal reform, SOE reform, and environmental policies, promotion of the service sector and boosting foreign investment. The breadth of the reforms are encouraging, although it remains to be seen whether key elements of the report will survive the final outcome of the Plenary meeting; moreover, implementation will be key given well-known resistance of vested interest groups. In the meantime, a positive concrete step was taken last Friday by the State Council to eliminate minimum capital requirements for business registration, aimed at lowering the threshold for business startups.

In India, RBI rate decision awaited amidst high inflation and slowing growth

The Reserve Bank of India's monetary policy meeting is scheduled for tomorrow, and will be closely watched after it's new Governor, Raghuram Rajan, raised the repo rate by 25bp in September to 7.50% to stem inflation. Since then, inflation has continued to rise, with the WPI and CPI up by 6.5% y/y 9.8% y/y respectively in September. While market expectations of a rate increase have risen, we are inclined to think the RBI will maintain and wait-and-see approach given signs of slowing growth and, more positively, evidence of stabilizing external trends (the currency has stabilized at 61.5 per USD, well off its weak point of 68 in August). Inflation pressures, while still elevated, are likely to moderate as food supply bottlenecks are resolved in the coming months. That said, we would not rule out a 25 bp rate hike in December if inflation and rupee fail to stabilize.

Briefly noted:

China industrial profits growth stays resilient in September

Profit growth of China's large industrial firms (annual revenues above RMB 20 million) increased by 18.4% in September after recording its fastest pace so far this year in August (24.2% y/y). The outturn adds to evidence of improving business conditions following stronger PMI readings and some easing of producer price deflation.

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Calendar Indicators

China	Date	Period	Prior	Cons.	Actual
Industrial Profits YTD YoY	27 Oct	Sep	12.80%	--	13.50%
Manufacturing PMI	01 Nov	Oct	51.1	51.2	--
HSBC/Markit Manufacturing PMI	01 Nov	Oct	50.2	50.6	--
Non-manufacturing PMI	03 Nov	Oct	55.4	--	--
Hong Kong	Date	Period	Prior	Cons.	Actual
Retail Sales Value YoY	31 Oct	Sep	8.10%	7.50%	--
Retail Sales Volume YoY	31 Oct	Sep	7.20%	7.80%	--
Indonesia	Date	Period	Prior	Cons.	Actual
Imports YoY	01 Nov	Sep	-5.70%	-4.50%	--
Exports YoY	01 Nov	Sep	-6.30%	-5.50%	--
CPI YoY	01 Nov	Oct	8.40%	8.50%	--
Japan	Date	Period	Prior	Cons.	Actual
Retail Sales MoM	29 Oct	Sep	0.90%	0.50%	--
Jobless Rate	29 Oct	Sep	4.10%	4.00%	--
Industrial Production MoM	30 Oct	Sep P	-0.90%	1.80%	--
Industrial Production YoY	30 Oct	Sep P	-0.40%	5.50%	--
Singapore	Date	Period	Prior	Cons.	Actual
Unemployment rate SA	31 Oct	3Q P	2.10%	2.10%	--
South Korea	Date	Period	Prior	Cons.	Actual
Industrial Production SA MoM	30 Oct	Sep	1.80%	-0.40%	--
Industrial Production YoY	30 Oct	Sep	3.30%	1.50%	--
Imports YoY	01 Nov	Oct	-3.60%	1.90%	--
Exports YoY	01 Nov	Oct	-1.50%	3.00%	--
CPI YoY	01 Nov	Oct	0.80%	1.00%	--
Taiwan	Date	Period	Prior	Cons.	Actual
GDP YoY	31 Oct	3Q P	2.49%	2.60%	--
Thailand	Date	Period	Prior	Cons.	Actual
CPI YoY	01 Nov	Oct	1.42%	1.50%	--

Calendar Events

India – RBI Cash Reserve Ratio, Oct 29	Current	Cons.	New
We expect the benchmark rate to remain unchanged	4.00%	4.00%	--
India – RBI Repurchase Rate, Oct 29	Current	Cons.	New
We expect the benchmark rate to remain unchanged	7.50%	7.75%	--
Japan – BOJ Target Rate, Oct 31	Current	Cons.	New
We expect the benchmark rate to remain unchanged	0.10%	0.10%	--

Indicator of the Week

China: NBS manufacturing PMI for October (November 1st)

Forecast: 51.3% y/y

Consensus: 51.2% y/y

Prior: 51.1% y/y

After a pickup in Q3 GDP to 7.8%y/y from 7.5% in Q2, induced in part by mini stimulus measures, the lingering question is how sustainable the rise in growth momentum will be in the coming quarters. Indeed September activity indicators show a slight moderating trend. Against this background, the official manufacturing PMI will be closely watched as an early indicator of growth momentum in Q4. Based on the latest HSBC flash PMI for October, which rose to 50.9 from 50.2 the previous month, we expect to see a further rise in momentum. Looking further ahead, however, the strength of the recovery may be constrained by the government's efforts to slow down credit growth and curtail financial risks. On this basis, we expect a modest slowdown in GDP growth to 7.6% y/y in Q4, bringing full-year growth for 2013 to 7.7%. We expect growth of 7.6% in 2014, with downside risks.

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.	2133.9	0.0	-4.3	-6.0	3.3
Hong Kong – Hang Seng	22806.6	0.5	-2.7	0.7	5.9	
Taiwan – TAIEX	8407.8	0.7	-0.1	9.2	17.9	
Japan – Nikkei 225	14396.0	2.2	-2.0	38.5	61.2	
Korea – Kospi	2048.1	0.7	-0.2	2.6	8.3	
India – Sensex 30 *	20570.3	-0.5	-1.5	5.9	10.4	
Australia – SPX/ASX 200	5441.4	1.0	1.7	17.0	21.7	
Singapore – Strait Times	3207.9	0.1	0.4	1.3	4.9	
Indonesia – Jakarta Comp	4590.5	0.2	0.3	6.3	5.8	
Thailand – SET	1449.6	-0.4	-2.4	4.1	13.1	
Malaysia – KLCI	1818.4	0.0	0.9	7.7	8.8	
Philippines – Manila Comp.	6539.8	-0.7	-1.0	12.5	21.0	

Last update: today, 18:30 Hong Kong time

FOREIGN EXCHANGE MARKETS	CURRENCY	Spot	% change over a day	% change over a week	Forward 3-month	Forward 12-month
	China (CNY/USD)	6.09	-0.04	0.14	6.13	6.15
Hong Kong (HKD/USD)	7.75	0.00	-0.01	7.75	7.75	
Taiwan (TWD/USD)	29.4	-0.16	-0.04	29.26	28.99	
Japan (JPY/USD)	97.64	-0.23	0.56	97.58	97.34	
Korea (KRW/USD)	1061	0.10	0.12	1067	1079	
India (INR/USD)	61.5	-0.01	0.09	62.88	66.60	
Australia (USD/AUD)	0.96	0.37	-0.35	1.05	1.06	
Singapore (SGD/USD)	1.24	-0.02	0.46	1.24	1.24	
Indonesia (IDR/USD)	11055	-0.36	-1.83	11249	11859	
Thailand (THB/USD)	31.1	-0.18	0.24	31.21	31.67	
Malaysia (MYR/USD)	3.14	0.67	1.09	3.15	3.19	
Philippines (PHP/USD)	43.0	0.00	0.23	42.74	42.75	

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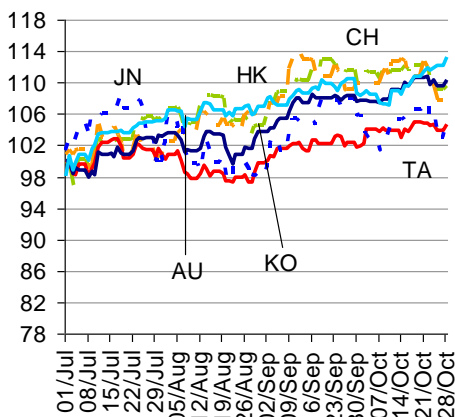
INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	4.90	0.10	0.90	1.28
Hong Kong (HIBOR/1W)	0.14	0.00	0.00	0.00	
Taiwan (TAIBOR/1W)	0.51	0.00	0.00	0.00	
Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01	
Korea (KORIBOR/1M)	2.56	0.00	0.01	0.00	
India (MIBOR/7D)	6.00	1.11	2.45	2.31	
Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00	
Indonesia (JIBOR/1W)	6.10	0.00	0.00	0.07	
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

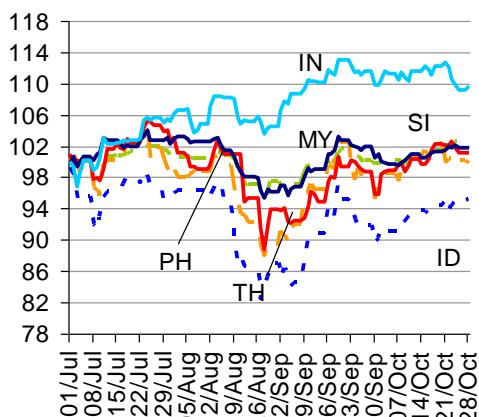
Stock Markets



Source: BBVA Research and Bloomberg

Chart 2

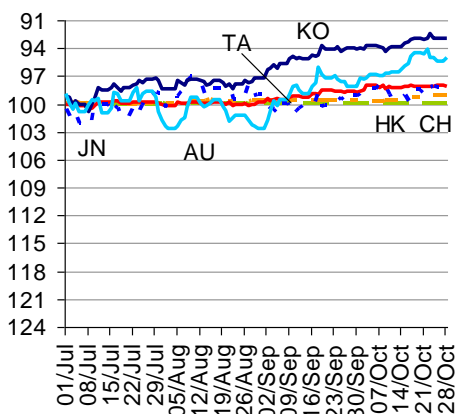
Stock Markets



Source: BBVA Research and Bloomberg

Chart 3

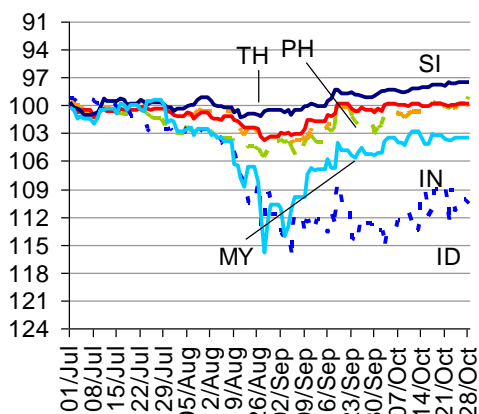
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4

Foreign Exchange Markets



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