

Asia Flash

Asia

A series of strong activity indicators released in recent days are cause for renewed optimism in Asia's growth momentum. PMI readings from China (below) to Indonesia increased in October, and Korean exports – a bellwether for the region – surprised to the upside (below). However, we are keeping our optimism in check given mixed readings in recent months (see below on Taiwan's disappointing Q3 GDP reading), the still-weak recoveries in advanced economies, and uncertain impact of QE tapering.

China PMI readings point to continued growth momentum in Q4

Official manufacturing PMI for October, released last Friday, rose by more than expected (51.4 vs. consensus: 51.2 and prior: 51.1). The main improvement was in the production sub-index (54.4 vs. prior: 52.9), which offset small declines in the new order and export order sub-indices. The private HSBC/Markit manufacturing PMI (based on a survey of smaller and more export-oriented firms) confirmed the overall improvement, rising to 50.9 from 50.2 in September. The official services PMI, released yesterday, showed an even stronger pickup, to 56.3 in October from 55.4 in September. The readings bode well for our 7.7% full-year growth projection for 2013. The next batch of activity indicators will be released later in the week, including trade (November 8), industrial production, retail sales, investment, and inflation (November 9).

Korean exports surprise to the upside in October

Korea's October exports swung back to growth on a year-on-year basis in October (7.3% y/y vs consensus: 2.3% y/y), compared to a decline of -1.5% y/y the previous month. Exports to the US and Europe saw significant improvements. Despite the strong export reading in October, we believe that the Korean growth recovery remains fragile as the effects of fiscal stimulus implemented earlier this year wear off (Q3 GDP growth of 1.1% q/q, s.a. released last week was flat compared to the previous quarter, with weak external demand offsetting a pickup in private consumption and investment). We maintain our full-year growth projection of 2.7% in 2013 and 3.7% in 2014 on improving external demand.

Briefly noted:

Taiwan's Q3 GDP growth slows on soft exports and consumption

The advanced estimate of Taiwan's Q3 GDP, released last Friday, disappointed to the downside at 1.6% y/y (consensus: 2.6% y/y; Q2: 2.5% y/y). On a sequential basis after seasonal adjustment, real GDP eased notably to 0.35% q/q saar compared to 2.34% in the previous quarter. The outturn is an outlier against otherwise improving Q3 growth trends around the region, including so far in China, Korea, and Singapore. We expect full-year growth in Taiwan of 2.3% and 3.7% in 2014.

Improving retail sales in Australia suggest that RBA rate cuts are working

Retail sales improved by more than expected in September, at 0.8% m/m sa (consensus: 0.4%; prior: 0.5%). The upbeat data suggest that the cumulative 225bps of rate cuts by the RBA since November 2011 may be helping to restore life to the sluggish domestic economy. The RBA last cut rates in August, and we expect rates to stay on hold at tomorrow's monthly policy meeting.

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Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
Retail Sales MoM	04 Nov	Sep	0.50%	0.40%	0.80%
Unemployment Rate	07 Nov	Oct	5.60%	5.70%	--
China	Date	Period	Prior	Cons.	Actual
HSBC/Markit Services PMI	05 Nov	Oct	52.4	--	--
Exports YoY	08 Nov	Oct	-0.30%	1.70%	--
Imports YoY	08 Nov	Oct	7.40%	7.40%	--
Trade Balance	08 Nov	Oct	\$15.21B	\$23.50B	--
Industrial Production YoY	09 Nov	Oct	10.20%	10.00%	--
Retail Sales YoY	09 Nov	Oct	13.30%	13.40%	--
Fixed Assets Ex Rural YTD YoY	09 Nov	Oct	20.20%	20.20%	--
CPI YoY	09 Nov	Oct	3.10%	3.30%	--
PPI YoY	09 Nov	Oct	-1.30%	-1.40%	--
Aggregate Financing RMB	10-15 Nov	Oct	1404.9B	--	--
New Yuan Loans	10-15 Nov	Oct	787.0B	--	--
Money Supply M2 YoY	10-15 Nov	Oct	14.20%	--	--
Indonesia	Date	Period	Prior	Cons.	Actual
GDP QoQ	06 Nov	3Q	2.61%	3.08%	--
GDP YoY	06 Nov	3Q	5.81%	5.60%	--
Malaysia	Date	Period	Prior	Cons.	Actual
Exports YoY	08 Nov	Sep	12.40%	5.10%	--
Philippines	Date	Period	Prior	Cons.	Actual
CPI YoY	05 Nov	Oct	2.70%	3.20%	--
Singapore	Date	Period	Prior	Cons.	Actual
GDP SAAR QoQ	10-17 Nov	3Q F	-1.00%	--	--
GDP YoY	10-17 Nov	3Q F	5.10%	5.00%	--
Taiwan	Date	Period	Prior	Cons.	Actual
CPI YoY	05 Nov	Oct	0.83%	1.05%	--
Exports YoY	07 Nov	Oct	-7.00%	-1.00%	--

Calendar Events

Australia – RBA Cash Rate Target, Nov 05	Current	Cons.	New
We expect the benchmark rate to remain unchanged	2.50%	2.50%	--
Malaysia – BNM Overnight Policy Rate, Nov 07	Current	Cons.	New
We expect the benchmark rate to remain unchanged	3.00%	3.00%	--

Indicator of the Week

China: Exports for October (November 8th)

Forecast: 1.5% y/y

Consensus: 1.7% y/y

Prior: -0.3% y/y

An improvement in external demand has been one of the factors leading to an upturn in China's near term growth momentum. However, September exports were disappointing, with a surprise contraction of -0.3% y/y due in part to weaker demand from ASEAN economies which were hit hard in previous months by expectations of QE tapering in the US. Beyond that, exports have become increasingly difficult to interpret due to a distorted base effect from over-invoicing last year, which has given rise to lower year-over- export growth rates. Looking ahead, we expect exports to improve gradually in line with our outlook for the global economy. The coming week will also feature important monthly indicators, including industrial production, retail sales, investment, and inflation (November 9) and credit aggregates (November 10-15).

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.	2149.6	0.0	0.7	-5.3	1.5
	Hong Kong – Hang Seng	23189.6	-0.3	1.7	2.4	4.9
	Taiwan – TAIEX	8354.1	-0.4	-0.6	8.5	15.9
	Japan – Nikkei 225	14201.6	-0.9	0.8	36.6	56.9
	Korea – Kospi	2025.2	-0.7	-1.1	1.4	5.5
	India – Sensex 30 *	21239.4	0.2	3.3	9.3	13.2
	Australia – SPX/ASX 200	5390.5	-0.4	-0.9	16.0	20.9
	Singapore – Strait Times	3203.9	0.1	-0.1	1.2	5.4
	Indonesia – Jakarta Comp	4423.3	-0.2	-3.6	2.5	1.9
	Thailand – SET	1388.4	-2.8	-4.2	-0.3	6.3
	Malaysia – KLCI	1807.5	-0.2	-0.6	7.0	9.1
	Philippines – Manila Comp.	6543.4	-0.6	-0.6	12.6	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	0.02	-0.20	6.14	6.16
	Hong Kong (HKD/USD)	7.75	0.00	0.02	7.75	7.75
	Taiwan (TWD/USD)	29.5	-0.07	-0.09	29.32	29.06
	Japan (JPY/USD)	98.67	0.00	-1.00	98.61	98.36
	Korea (KRW/USD)	1063	-0.20	-0.18	1069	1081
	India (INR/USD)	61.7	-0.38	-0.44	63.65	67.29
	Australia (USD/AUD)	0.95	0.57	-0.84	1.06	1.08
	Singapore (SGD/USD)	1.24	-0.06	-0.50	1.24	1.24
	Indonesia (IDR/USD)	11356	-0.18	-2.65	11662	12327
	Thailand (THB/USD)	31.3	-0.19	-0.67	31.42	31.86
	Malaysia (MYR/USD)	3.17	-0.10	-1.21	3.19	3.24
	Philippines (PHP/USD)	43.3	-0.23	-0.62	43.07	43.03

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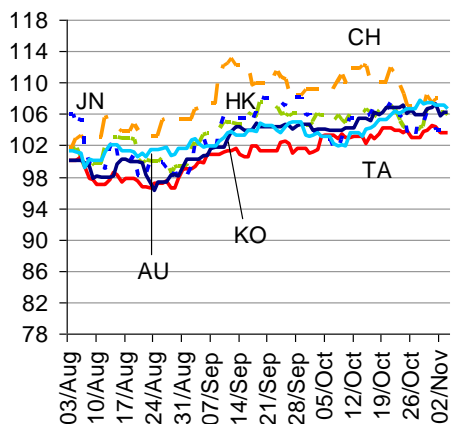
INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	4.42	-0.19	-1.28	0.22
	Hong Kong (HIBOR/1W)	0.14	0.00	0.00	0.00
	Taiwan (TAIBOR/1W)	0.51	0.00	0.00	0.00
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	2.56	0.00	0.00	0.00
	India (MIBOR/7D)	6.00	0.69	0.00	1.75
	Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00
	Indonesia (JIBOR/1W)	6.10	0.00	0.00	0.02
	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

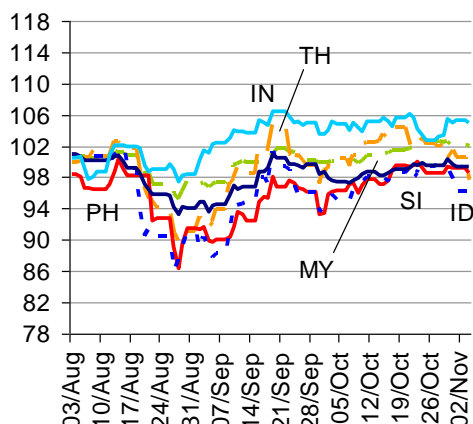
Stock Markets



Source: BBVA Research and Bloomberg

Chart 2

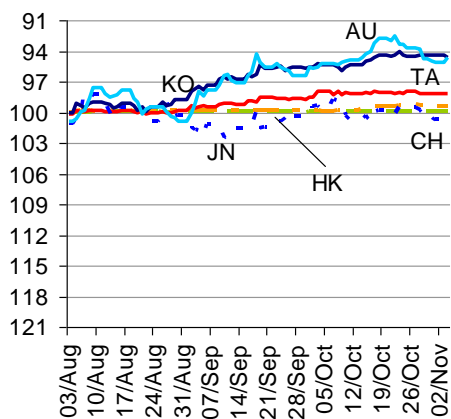
Stock Markets



Source: BBVA Research and Bloomberg

Chart 3

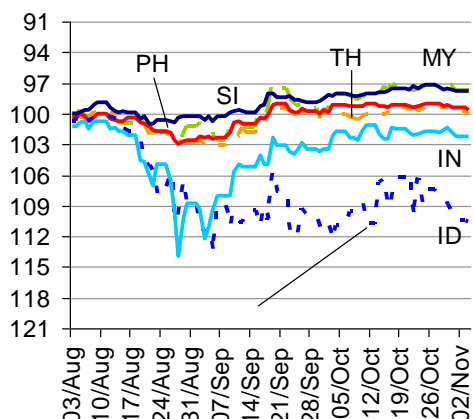
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4

Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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