

Asia Flash

Asia

India issues more liberal rules for foreign banks

The Reserve Bank of India yesterday issued new rules as part of its efforts to liberalize and increase the efficiency of the banking sector. The rules are in line with expectations, as described more fully in our recent *Banking Watch*. Specifically, the new rules aim to provide greater flexibility and extend “near national treatment” to foreign banks that choose to operate under the existing wholly owned subsidiary structure rather than as a branch-of-the-parent. Among other things, the guidelines allow for more liberal branch expansion policies in light of the new rules. The measures might improve foreign bank expansion into retail banking, which remains largely untapped in India. While the announced measures are helpful, in our view it would also be useful to liberalize existing restrictions on mergers and acquisitions (currently under review by RBI) in order to enable foreign banks to gain sufficient scale to enter the retail space more deeply.

S&P affirms negative outlook on India

Notwithstanding the positive developments described above, S&P ratings today, affirmed its negative outlook on India and maintained its rating at BBB-, just one notch above junk status. S&P noted, “The negative outlook on India indicates that we may lower the rating to speculative grade next year, if the Government reform measures after general elections are not capable of reversing India's slow economic growth.” While all three major rating agencies currently maintain India's rating at just one notch above junk, only S&P now has a negative outlook, with Fitch and Moody's holding a stable outlook.

Taiwan signs free trade pact with Singapore

Taiwan has signed its second free trade pact, after an agreement reached with New Zealand in July of this year. With the Mainland's blessing – made possible by improved political and economic ties -- Taiwan has stepped up its involvement in free trade negotiations as a way of diversifying its export markets and possibly gaining access to the Trans Pacific Partnership (TPP) underway between the US and 11 other countries. The agreement is also considered an important step for Taiwan's economic integration with Southeast Asia. Singapore is Taiwan's fourth largest export market. Separately, October export data released today was disappointing, declining by -1.5% y/y (consensus: -1.0% y/y) after a -7.0% y/y fall in the previous month. Demand held up relatively well in the US and Europe, while shipments to Japan and ASEAN countries weakened noticeably.

Briefly noted:

Australia jobs market disappoints in October

Just days after the release of positive data on retail sales and the housing market, today's job market release was on the sluggish side. The economy added only 1.1k new jobs (consensus: 10.0k; previous: 9.1k) in October, and the unemployment rate edged up to 5.7% from 5.6% in September. While we do not expect further rate cuts in our baseline of improving growth and external demand, today's weak jobs report might increase the likelihood of further monetary easing in the coming months, especially if the currency remains uncomfortably strong.

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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	5.70%	5.70%	5.70%
China	Date	Period	Prior	Cons.	Actual
HSBC/Markit Services PMI	05 Nov	Oct	52.4	--	52.6
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	\$24.80B	--
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	1137.5B	--
New Yuan Loans	10-15 Nov	Oct	787.0B	580.0B	--
Money Supply M2 YoY	10-15 Nov	Oct	14.20%	14.20%	--
Indonesia	Date	Period	Prior	Cons.	Actual
GDP QoQ	06 Nov	3Q	2.61%	3.01%	2.96%
GDP YoY	06 Nov	3Q	5.83%	5.60%	5.62%
Malaysia	Date	Period	Prior	Cons.	Actual
Exports YoY	08 Nov	Sep	12.40%	5.00%	--
Philippines	Date	Period	Prior	Cons.	Actual
CPI YoY	05 Nov	Oct	2.70%	3.20%	2.90%
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	0.84%	1.05%	0.64%
Exports YoY	07 Nov	Oct	-7.00%	-1.00%	-1.50%

Calendar Events

Australia – RBA Cash Rate Target, Nov 05	Current	Cons.	New
We expect the benchmark rate to remain unchanged	2.50%	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%	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.	2129.4	-0.5	-0.6	-6.2	1.1
Hong Kong – Hang Seng	22881.0	-0.7	-1.4	1.0	3.5	
Taiwan – TAIEX	8283.7	0.0	-2.0	7.6	13.7	
Japan – Nikkei 225	14228.4	-0.8	-1.9	36.9	58.6	
Korea – Kospi	2004.0	-0.5	-1.3	0.4	3.4	
India – Sensex 30 *	20822.8	-0.3	-1.0	7.2	10.2	
Australia – SPX/ASX 200	5422.0	-0.2	-0.1	16.6	20.1	
Singapore – Strait Times	3202.1	-0.1	-0.3	1.1	5.2	
Indonesia – Jakarta Comp	4486.1	0.8	-1.9	3.9	3.1	
Thailand – SET	1425.2	-0.7	-1.2	2.4	9.7	
Malaysia – KLCI	1806.6	0.2	-0.6	7.0	9.8	
Philippines – Manila Comp.	6436.5	-0.6	-2.4	10.7	18.4	

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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)	6.09	0.03	0.04	6.14	6.16
Hong Kong (HKD/USD)	7.75	0.00	0.02	7.75	7.75	
Taiwan (TWD/USD)	29.4	0.08	0.01	29.32	29.04	
Japan (JPY/USD)	98.69	-0.03	-0.33	98.63	98.39	
Korea (KRW/USD)	1061	-0.05	-0.07	1068	1080	
India (INR/USD)	62.6	-0.30	-1.74	64.23	68.08	
Australia (USD/AUD)	0.95	-0.38	0.37	1.06	1.08	
Singapore (SGD/USD)	1.24	0.05	-0.03	1.24	1.24	
Indonesia (IDR/USD)	11393	0.15	-1.04	11700	12400	
Thailand (THB/USD)	31.3	-0.19	-0.43	31.51	31.99	
Malaysia (MYR/USD)	3.18	-0.07	-0.86	3.20	3.24	
Philippines (PHP/USD)	43.2	0.17	-0.01	43.05	42.98	

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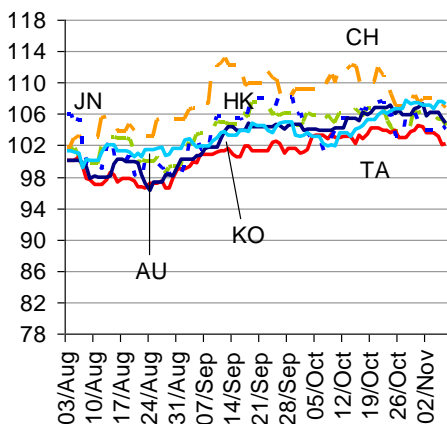
INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.88	0.00	-0.73	-0.32
Hong Kong (HIBOR/1W)	0.13	-0.01	0.00	-0.01	
Taiwan (TAIBOR/1W)	0.51	0.00	0.00	0.00	
Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01	
Korea (KORIBOR/1M)	2.56	0.00	0.00	0.00	
India (MIBOR/7D)	3.90	0.02	-0.60	-0.35	
Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00	
Indonesia (JIBOR/1W)	6.10	0.00	0.00	0.01	
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

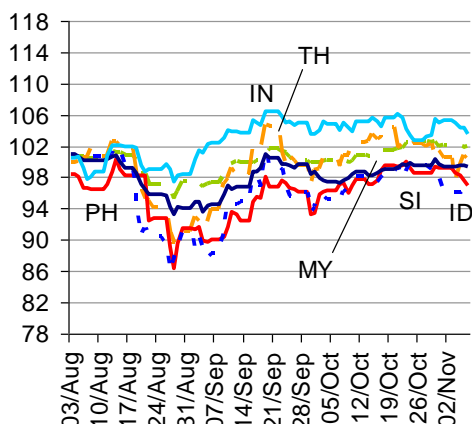
Stock Markets



Source: BBVA Research and Bloomberg

Chart 2

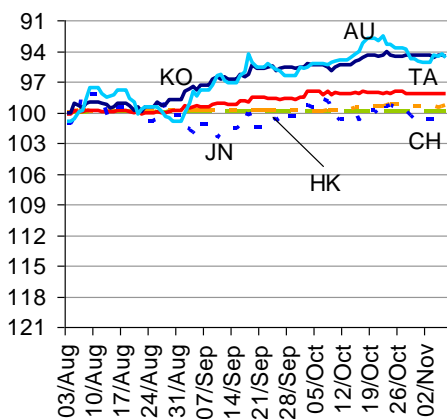
Stock Markets



Source: BBVA Research and Bloomberg

Chart 3

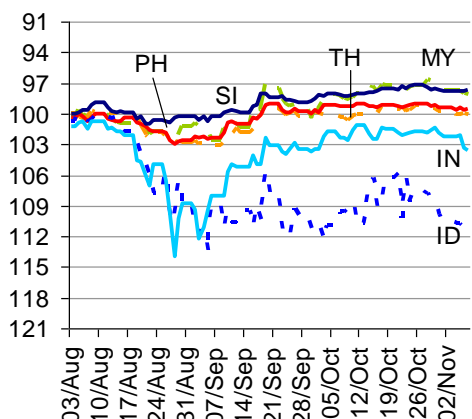
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4

Foreign Exchange Markets



Source: BBVA Research and Bloomberg


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