

# Asia Flash

## Asia

### Subdued December inflation in China widens room for monetary policy

December inflation came in lower than expected at 2.5% y/y (consensus and BBVA: 2.7%), on lower food price inflation (4.0% y/y from 5.9% in November) which more than offset a small uptick in non-food inflation (to 1.8% y/y from 1.6% in November). Producer price inflation was unchanged at -1.4% y/y, as lower commodity prices and excess capacity cause PPI deflation to continue. The outturn brings full-year inflation for 2013 to 2.6%, well below the official 3.5% tolerance level. Looking ahead, we expect inflation to trend up on stronger demand pressures, but to remain broadly within the 3.5% tolerance level through 2014. We do however, expect a temporary uptick in January year-over-year inflation to around 3.0% y/y due to base effects from the shift in Chinese New Year timing (which will begin in January this year, compared to February last year). Overall, we expect average inflation of 3.3% in 2014. This should provide some room for monetary policy to ease if needed, although we do not expect changes in benchmark interest rates or reserve requirement ratios during the year. The authorities are seeking to contain a further rise in financial fragilities and shadow banking credit growth, which could keep monetary policy on an even keel for 2014.

### Indonesia and Korea keep interest rates on hold as expected

At its monthly policy meeting today, Bank Indonesia kept its benchmark interest rate unchanged at 7.50% for a second straight month. Evidence of easing inflation and currency stability are enabling the central bank to focus on the growth outlook, which has taken a hit since the middle of last year – growth is expected to have slowed to 5.6% in 2013 from 6.2% in 2012. Meanwhile, the Bank of Korea (BOK) today also kept its policy rate unchanged, at 2.50% for an eighth straight month (the BOK last cut rates in May 2013). In its policy statement, the BOK continued to express optimism about the growth outlook. In a separately released updated economic outlook, the BOK projected today GDP growth to rise from 2.8% in 2013 to 3.8% and 4.0% in 2014 and 2015 driven by an expected upturn in investment. That said, Korea will continue to face growth headwinds from high household debt and increasing competition from Japan as the yen continues to weaken. Very low inflation (1.2% y/y in December) could provide room for further rate cuts if needed, although they are not currently in our baseline.

### Briefly noted:

#### Australia retail sales reduce likelihood of rate cuts

Retail sales increased at a quicker-than-expected pace (0.7% m/m sa vs consensus: 0.4%) in November, marking the seventh consecutive monthly rise. Private consumption has been supported by low interest rates, higher asset prices, and improving sentiment. The Reserve Bank of Australia has kept policy rates at record low 2.50% since last August to support growth amidst sluggish mining investment.

Stephen Schwartz  
Chief Economist for Asia  
stephen.schwartz@bbva.com.hk  
+852 2582 3218

George Xu  
Economist  
george.xu@bbva.com.hk  
+852 2582 3121

With contributions from the BBVA Research Asia Team

## Calendar Indicators

<b>Australia</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Retail Sales MoM	09 Jan	Nov	0.50%	0.40%	0.70%
<b>China</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
CPI YoY	09 Jan	Dec	3.00%	2.70%	2.50%
PPI YoY	09 Jan	Dec	-1.40%	-1.30%	-1.40%
Imports YoY	10 Jan	Dec	5.30%	5.00%	--
Exports YoY	10 Jan	Dec	12.70%	5.00%	--
Aggregate Financing RMB	10-15 Jan	Dec	1227.8B	1150.0B	--
New Yuan Loans	10-15 Jan	Dec	624.6B	575.0B	--
Money Supply M2 YoY	10-15 Jan	Dec	14.20%	13.90%	--
<b>India</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Exports YoY	10-15 Jan	Dec	5.90%	5.70%	--
<b>Malaysia</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Exports YoY	08 Jan	Nov	9.60%	10.30%	6.70%
Industrial Production YoY	09 Jan	Nov	1.80%	2.90%	4.40%
<b>Philippines</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
CPI YoY	07 Jan	Dec	3.30%	3.90%	4.10%
Exports YoY	10 Jan	Nov	14.00%	11.50%	--
<b>Taiwan</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
CPI YoY	06 Jan	Dec	0.67%	0.80%	0.33%
Exports YoY	07 Jan	Dec	0.0%	0.5%	-1.9%

## Calendar Events

<b>Indonesia – Bank Indonesia Reference Rate, Jan 09</b>	<b>Current</b>	<b>Cons.</b>	<b>New</b>
We expect the benchmark rate to remain unchanged	7.50%	7.50%	7.50%
<b>Korea – BoK 7-Day Repo Rate, Jan 09</b>	<b>Current</b>	<b>Cons.</b>	<b>New</b>
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.	2027.6	-0.8	-3.9	-4.2	-10.9
Hong Kong – Hang Seng	22787.3	-0.9	-2.4	-2.2	-1.9	
Taiwan – TAIEX	8514.7	-0.5	-1.1	-1.1	10.0	
Japan – Nikkei 225	15880.3	-1.5	-1.8	-2.5	50.1	
Korea – Kospi	1946.1	-0.7	-1.1	-3.2	-2.3	
India – Sensex 30 *	20713.4	-0.1	-0.8	-2.2	5.3	
Australia – SPX/ASX 200	5324.4	0.2	-0.8	-0.5	13.1	
Singapore – Strait Times	3145.4	-0.2	-0.9	-0.7	-2.3	
Indonesia – Jakarta Comp	4201.2	0.0	-2.9	-1.7	-3.7	
Thailand – SET	1258.3	0.0	2.2	-3.1	-11.6	
Malaysia – KLCI	1828.2	-0.2	-1.3	-2.1	8.2	
Philippines – Manila Comp.	5937.5	-0.8	-0.8	0.8	-2.5	

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)	6.06	-0.07	-0.08	6.11	6.12
Hong Kong (HKD/USD)	7.75	-0.01	-0.01	7.75	7.75	
Taiwan (TWD/USD)	30.2	0.01	-0.71	30.10	29.92	
Japan (JPY/USD)	105.02	-0.15	-0.20	104.98	104.71	
Korea (KRW/USD)	1063	0.17	-1.17	1069	1079	
India (INR/USD)	62.0	0.08	0.39	63.21	66.92	
Australia (USD/AUD)	0.89	-0.28	-0.39	1.13	1.15	
Singapore (SGD/USD)	1.27	0.18	-0.33	1.27	1.27	
Indonesia (IDR/USD)	12193	0.34	-0.27	12499	13224	
Thailand (THB/USD)	33.0	0.06	-0.23	33.38	33.92	
Malaysia (MYR/USD)	3.28	0.02	0.30	3.29	3.34	
Philippines (PHP/USD)	44.7	0.04	-0.51	44.71	44.77	

Last update: today, 18:30 Hong Kong time.

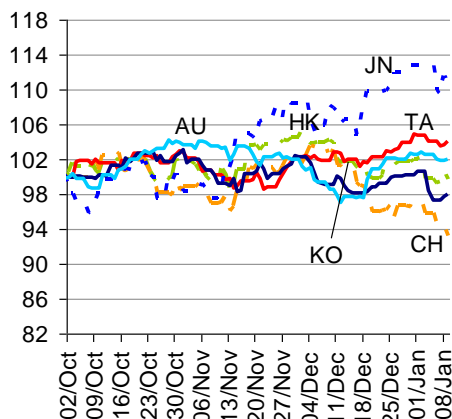
INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	4.02	-0.11	-0.69	-0.46
Hong Kong (HIBOR/1W)	0.13	0.00	-0.01	0.00	
Taiwan (TAIBOR/1W)	0.50	0.00	0.00	-0.01	
Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01	
Korea (KORIBOR/1M)	2.55	0.00	-0.02	-0.01	
India (MIBOR/7D)	4.71	-0.35	-0.27	1.10	
Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00	
Indonesia (JIBOR/1W)	6.40	0.00	-0.07	-0.06	
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	

Last update: today, 18:30 Hong Kong time

# Charts

Chart 1

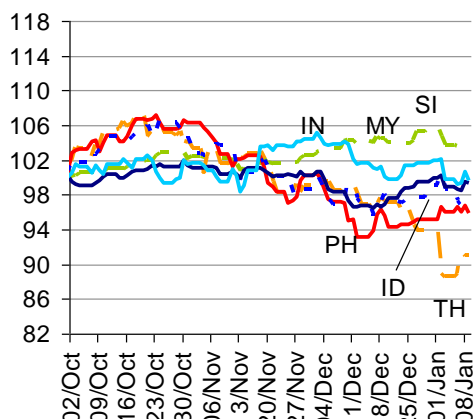
## Stock Markets



Source: BBVA Research and Bloomberg

Chart 2

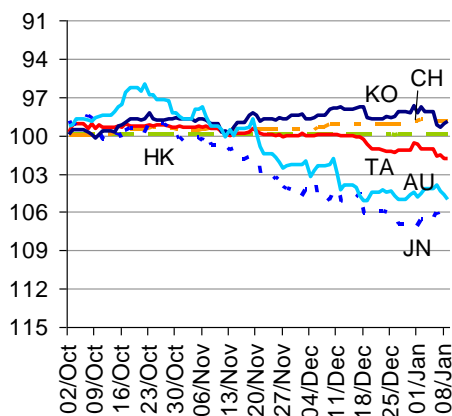
## Stock Markets



Source: BBVA Research and Bloomberg

Chart 3

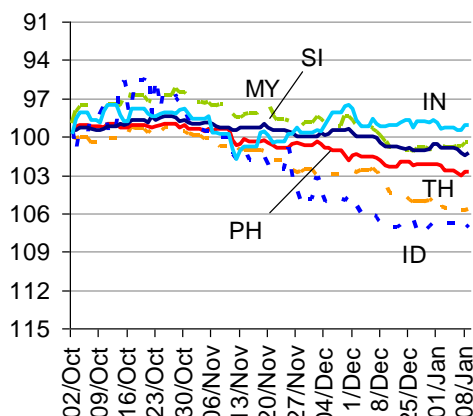
## Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4

## Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Stephen Schwartz  
Chief Economist for Asia  
stephen.schwartz@bbva.com.hk

Fielding Chen  
Senior Economist  
fielding.chen@bbva.com.hk

Le Xia  
Senior Economist  
xia.le@bbva.com.hk

Sumedh Deorukhkar  
Senior Economist (India, Mumbai)  
sumedh.deorukhkar@bbva.com

George Xu  
Economist  
george.xu@bbva.com.hk



RESEARCH



95/F, International Commerce Centre, One Austin Road West, Kowloon, Hong Kong | Tel.: +852 2582 3111 | www.bbva.com.hk

Before you print this message please consider if it is really necessary.

This email and its attachments are subject to the confidentiality terms established in the corresponding regulations and are intended for the sole use of the person or persons indicated in the header. They are for internal use only and cannot be distributed, copied, conveyed or furnished to third parties without prior written consent from BBVA. If this message has been received erroneously, it is forbidden to read, use or copy any of the contents and you are asked to inform BBVA immediately by forwarding the email to the sender and eliminating it thereafter.

BBVA will continue to provide our readers up-to-date reports by emails, but you can also register directly on our website where you can find a full list of our latest reports & presentations <http://serviciodeestudios.bbva.com/KETD/ketd/ing/index.jsp>

If you wish to be excluded from this mailing list, please write to us on [research.emergingmarkets@bbva.com.hk](mailto:research.emergingmarkets@bbva.com.hk) and we shall immediately take you off the list.