

Asia Flash

Asia

Asian equity markets remain under downward pressure, but partially stabilized today after the selloff of recent days. While losses were heavy in Taiwan (-1.6%) and Australia (-1.3%), the Shanghai Composite drifted higher (+0.3%). Sentiment in China was boosted by news that a pending high profile default of a wealth management product has been averted (see below), and that the PBOC again injected liquidity into the interbank market ahead of seasonal demand in advance of the Chinese New Year holiday that begins on January 31.

Note to readers: in view of the forthcoming Chinese New Year holiday, we will suspend publication of the Asia Flash until February 6.

Last minute deal averts default in China's shadow banking market

A high-profile case involving the repayment of a RMB 3 billion (\$496 million) wealth management product (WPM) issued through a bank on behalf of the China Credit Trust Company was settled yesterday when funds from an "unknown" source came to the rescue. Under the arrangement, investors will reportedly recoup their principal, but may forgo some interest payments. The case attracted attention in recent days and added to market jitters because of its potential impact on confidence in the shadow banking market. The regulatory authorities have been trying to curtail the build-up of fragilities in the shadow banking system, which has grown rapidly to over 60% of GDP at present. They increasingly face a dilemma between avoiding moral hazard by injecting greater market discipline into the system and allowing defaults (there have been none so far), and risking undermining confidence in the broader financial system. While outwardly sitting on the sidelines, it appears that behind-the-scenes the authorities have sought a balance in allowing warnings to be issued to investors, but without sanctioning a full-blown default that could have been destabilizing to market confidence. Given this approach, we expect banks to take losses on these products in the months ahead, which will weigh on their profits.

Reserve Bank of India shores up its anti-inflation credentials with a surprise rate hike

Against expectations, the Reserve Bank of India (RBI) today hiked its benchmark repo rate by 25bps, to 8.0%. In its statement, the RBI flagged high core inflation pressures and the need to stabilize expectations. The decision, which follows a pause at its December policy meeting, brings the cumulative rate hikes to 75bps since September. We had expected the RBI to stay pat in view of weakening growth momentum and a recent moderation in headline inflation (9.9% for the CPI in December vs. 11.1% in November). However, RBI noted that a policy rate hike was warranted with "aggregate demand pressures still imparting an upside to overall inflation" and to achieve CPI inflation of below 8.0% by January 2015, in line with the recommendations of a recent expert panel that proposed to adopt a CPI inflation target as a nominal anchor for policy. Looking ahead, RBI's baseline projections reflect moderating inflation with no further policy tightening anticipated in the near term. Our base case forecast expects policy rates to stay stable at 8.0% over 1H14 with scope for a 50 bps policy easing in 2H14 amid weakening demand pressures and a softening inflation

Briefly noted:

Taiwan Q4 GDP surprises to the upside

Taiwan's advanced Q4 GDP estimate came in at 2.9% y/y (consensus and BBVA: 1.8% y/y) from 1.7% in the previous quarter, in the latest sign of the positive impact of improving external demand. The outturn brings Taiwan's full-year GDP growth to 2.2% from 1.5% in 2012. Asia's trade-dependent economies, such as Taiwan, Korea, and Hong Kong, stand to benefit from the pickup in growth in the US and EU. Looking ahead, improving external and domestic demand should facilitate a further economic pickup in 2014, in line with our projection of 3.6%.

China industrial profits growth slows in December

Industrial profits increased by 6.0% y/y from 9.7% y/y in November, dragged down by sluggish sales, rising interest payment, and base effects. The outturn is another sign of slowing growth momentum, since December as stimulus measures wind down and the authorities seek to curtail rising financial fragilities. In January, the HSBC flash PMI for January (49.6 from previous 50.5) disappointed, and we will watch for the official NBS PMI due on February 1 (consensus: 50.4; December: 51.0). Nevertheless, we will interpret January data cautiously in light of distortions from the forthcoming Chinese New Year holiday which begins on January 31. We maintain our projection of 7.6% growth for 2014 (from 7.7% in 2013), in anticipation of an improving external sector and continued growth-supportive policies.

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

China	Date	Period	Prior	Cons.	Actual
Industrial Profits YTD YoY	28 Jan	Dec	13.20%	--	12.20%
HSBC/Markit Manufacturing PMI	30 Jan	Jan	50.5	49.6	--
Manufacturing PMI	01 Feb	Jan	51.0	50.5	--
Hong Kong	Date	Period	Prior	Cons.	Actual
Exports YoY	27 Jan	Dec	5.80%	3.60%	0.00%
Japan	Date	Period	Prior	Cons.	Actual
Exports YoY	27 Jan	Dec	18.4	18.0	15.3
Jobless Rate	31 Jan	Dec	4.00%	3.90%	--
Industrial Production YoY	31 Jan	Dec P	4.80%	7.30%	--
Natl CPI YoY	31 Jan	Dec	1.50%	1.50%	--
Philippines	Date	Period	Prior	Cons.	Actual
GDP SA QoQ	30 Jan	4Q	1.10%	0.80%	--
GDP YoY	30 Jan	4Q	7.00%	6.00%	--
GDP Annual YoY	30 Jan	2013	6.60%	7.00%	--
Singapore	Date	Period	Prior	Cons.	Actual
Unemployment rate SA	29 Jan	4Q P	1.80%	1.80%	--
Korea	Date	Period	Prior	Cons.	Actual
Industrial Production YoY	29 Jan	Dec	-1.30%	-0.20%	--
Exports YoY	01 Feb	Jan	7.00%	1.50%	--
Taiwan	Date	Period	Prior	Cons.	Actual
GDP YoY	28 Jan	4Q P	1.66%	1.83%	2.92%
GDP Annual YoY	28 Jan	2013	1.48%	1.92%	2.19%
Thailand	Date	Period	Prior	Cons.	Actual
Customs Exports YoY	29-30 Jan	Dec	-4.08%	1.80%	--

Calendar Events

India – RBI Cash Reserve Ratio, Jan 28	Current	Cons.	New
We expect the benchmark rate to remain unchanged	4.00%	4.00%	4.00%
India – RBI Repurchase Rate, Jan 28	Current	Cons.	New
We expect the benchmark rate to remain unchanged	7.75%	7.75%	8.00%
Malaysia – BNM Overnight Policy Rate, Jan 29	Current	Cons.	New
We expect the benchmark rate to remain unchanged	3.00%	3.00%	--

Markets Data

INDEX	Last price	% change	% change	Year to	% change
		over a day	over a week	date	over 1 Y
China – Shanghai Comp.	2038.5	0.3	1.5	-3.7	-13.1
Hong Kong – Hang Seng	21960.6	-0.1	-4.7	-5.8	-7.2
Taiwan – TAIEX	8462.6	-1.6	-1.8	-1.7	9.7
Japan – Nikkei 225	14980.2	-0.2	-5.2	-8.0	38.4
Korea – Kospi	1916.9	0.3	-2.4	-4.7	-1.2
India – Sensex 30 *	20669.9	-0.2	-2.7	-2.4	2.8
Australia – SPX/ASX 200	5175.1	-1.3	-2.3	-3.3	7.0
Singapore – Strait Times	3062.4	0.7	-2.3	-3.3	-6.5
Indonesia – Jakarta Comp	4341.7	0.4	-2.5	1.6	-1.7
Thailand – SET	1271.9	-1.3	-1.6	-2.1	-13.6
Malaysia – KLCI	1781.3	0.1	-1.9	-4.6	8.8
Philippines – Manila Comp.	6022.8	-1.0	0.1	2.3	-2.7

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CURRENCY	Spot	% change	% change	Forward	Forward
		over a day	over a week	3-month	12-month
China (CNY/USD)	6.05	-0.06	-0.01	6.10	6.12
Hong Kong (HKD/USD)	7.76	0.04	-0.08	7.76	7.76
Taiwan (TWD/USD)	30.4	0.14	-0.43	30.28	30.12
Japan (JPY/USD)	103.12	-0.55	1.14	103.07	102.81
Korea (KRW/USD)	1081	0.23	-1.46	1082	1093
India (INR/USD)	62.6	0.73	-1.20	63.99	67.82
Australia (USD/AUD)	0.88	0.68	-0.09	1.14	1.16
Singapore (SGD/USD)	1.27	0.27	0.42	1.27	1.27
Indonesia (IDR/USD)	12190	0.39	-0.46	12417	13137
Thailand (THB/USD)	32.9	-0.03	-0.02	33.21	33.75
Malaysia (MYR/USD)	3.33	0.36	-0.28	3.35	3.40
Philippines (PHP/USD)	45.2	0.29	0.04	45.39	45.65

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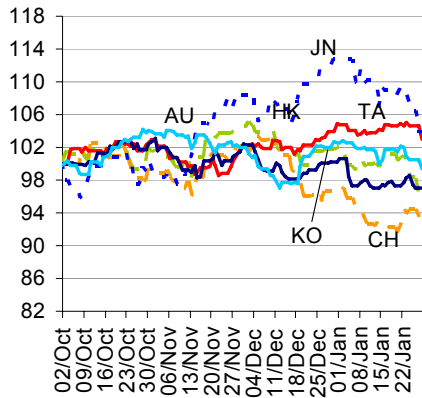
INDEX	Rate	net change over	net change	net change
		a day	over a week	over a month
China (SHIBOR/7D)	4.96	0.31	-0.33	-0.10
Hong Kong (HIBOR/1W)	0.13	0.00	0.00	-0.01
Taiwan (TAIBOR/1W)	0.50	0.00	0.00	-0.01
Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
Korea (KORIBOR/1M)	2.55	0.00	0.00	-0.02
India (MIBOR/7D)	4.90	-2.00	-0.70	-0.20
Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00
Indonesia (JIBOR/1W)	6.48	0.00	0.02	-0.03
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

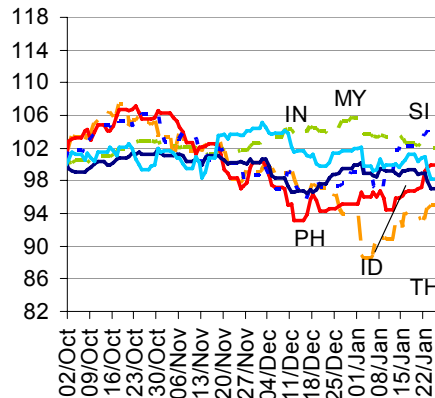
Stock Markets



Source: BBVA Research and Bloomberg

Chart 2

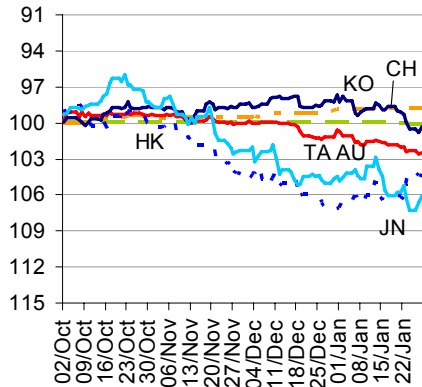
Stock Markets



Source: BBVA Research and Bloomberg

Chart 3

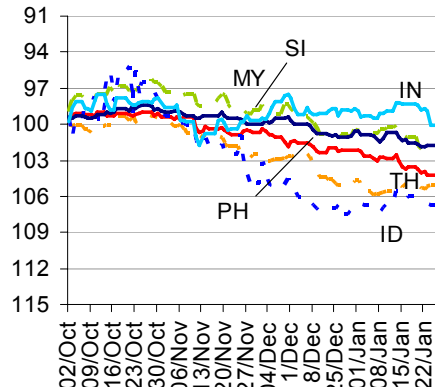
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4

Foreign Exchange Markets



Source: BBVA Research and Bloomberg


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

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

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