

Asia Flash

Asia

Inflation remains tame in China

January headline inflation stayed flat at 2.5% y/y (consensus: 2.4% y/y; previous: 2.5% y/y) on a further moderation in food prices. Food inflation declined to 3.7% y/y from 4.1% y/y in December on favourable weather conditions, while non-food inflation inched up to 1.9% y/y from 1.7% y/y previously given the lunar New Year timing (which imparted an upward bias having started on January 31 this year compared to February 10 last year). Meanwhile, producer prices continue to fall (-1.6% y/y in January vs. -1.4% y/y in December), suggesting downward pressure from existing overcapacity in some sectors. Looking forward, inflation is likely to trend up gradually through 2014 on rising wages and higher utility prices, but should remain broadly within the government's 3.5% tolerance level. This should provide scope for policies to remain growth-supportive. For further details, see our latest Quarterly *China/Asia Economic Outlook*, released today.

India inflation softens in January but underlying pressures remain

January WPI inflation, released today, eased to a seven month low of 5.1% y/y (consensus: 5.6%; December: 6.2%) on the back of a bumper agriculture output. However, as expected core WPI inched higher to 2.9% y/y from 2.7% in December, reflecting pass-through effects of currency depreciation and underlying wage pressures. Similar trends were seen in January CPI inflation, released earlier this week. Despite the favourable inflation outturns, we believe RBI will remain vigilant against inflation pressures, having implemented a surprise 25bp hike in January. That said, we expect rates to remain on hold through H1 year at 8.0%.

Central banks in Korea and Indonesia keep rates on hold

In line with expectations, the Bank of Korea (BOK) and Bank Indonesia (BI) yesterday kept policy rates on hold at their respective policy meetings. In Korea's case, the policy rate has remained unchanged at 2.50% for nine consecutive months since a rate cut last May. While growth moderated in Q4 (3.9% y/y, bringing full year growth to 2.8%) and inflation remains low (1.1% y/y in January), the BoK expressed satisfaction that "the economic recovery [continues] in line with the trend of growth", benefiting from improving external demand. We expect rates to stay on hold for the foreseeable future, although we would not rule out a rate hike before end-year if growth picks up in line with our expectations of 3.7% for 2014. In Indonesia, BI kept rates unchanged for a third consecutive month at 7.5% after 175bps in cumulative hikes since June. Inflation and the current account deficit have been declining, shielding Indonesia from the turmoil it encountered last year on talk of QE tapering.

Briefly noted:

Australia unemployment rate rises to five-year high

In data released yesterday, Australia's unemployment rate rose by more than expected to 6.0% (consensus: 5.9%; previous: 5.8%), underscoring the sluggish labor market and a soft domestic economy. Total employment unexpectedly declined by -3.7 thousand in January (consensus: +15 thousand), and the labor participation rate declined to 64.5% from previous 65.3%. Nevertheless, it is cautious not to over-interpret the data which is subjected to high seasonality in January. Looking ahead, the labor market may remain sluggish, despite the economy may improve due to lower interest rates as well as a brighter global economy. We expect Australian GDP growth to rise to 2.9% in 2014 from 2.4% last year.

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Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
Unemployment Rate	13 Feb	Jan	5.80%	5.90%	6.00%
China	Date	Period	Prior	Cons.	Actual
Exports YoY	12 Feb	Jan	4.30%	0.10%	10.60%
Imports YoY	12 Feb	Jan	8.30%	4.00%	10.00%
PPI YoY	14 Feb	Jan	-1.40%	-1.60%	-1.60%
CPI YoY	14 Feb	Jan	2.50%	2.40%	2.50%
Money Supply M2 YoY	14-15 Feb	Jan	13.60%	13.20%	--
Aggregate Financing RMB	14-15 Feb	Jan	1232.2B	1900.0B	--
New Yuan Loans	14-15 Feb	Jan	482.5B	1100.0B	--
Foreign Direct Investment YoY	14-18 Feb	Jan	3.30%	2.50%	--
India	Date	Period	Prior	Cons.	Actual
Exports YoY	11 Feb	Jan	3.50%	--	3.80%
CPI YoY	12 Feb	Jan	9.87%	9.20%	8.79%
Industrial Production YoY	12 Feb	Dec	-1.30%	-1.20%	-0.60%
Wholesale Prices YoY	14 Feb	Jan	6.16%	5.60%	5.05%
Japan	Date	Period	Prior	Cons.	Actual
Machine Tool Orders YoY	12 Feb	Jan P	28.10%	--	39.60%
Tertiary Industry Index MoM	12 Feb	Dec	0.80%	-0.30%	-0.40%
Machine Orders MoM	12 Feb	Dec	9.30%	-4.00%	-15.70%
Malaysia	Date	Period	Prior	Cons.	Actual
Industrial Production YoY	10 Feb	Dec	3.80%	5.30%	4.80%
GDP YoY	12 Feb	4Q	5.00%	4.80%	5.10%
GDP Annual YoY	12 Feb	2013	5.60%	4.70%	4.70%
Philippines	Date	Period	Prior	Cons.	Actual
Exports YoY	11 Feb	Dec	18.90%	10.40%	15.80%
Singapore	Date	Period	Prior	Cons.	Actual
Retail Sales YoY	14 Feb	Dec	-8.60%	-6.80%	-5.50%
Korea	Date	Period	Prior	Cons.	Actual
Unemployment rate SA	12 Feb	Jan	3.10%	3.00%	3.20%
Taiwan	Date	Period	Prior	Cons.	Actual
Exports YoY	10 Feb	Jan	1.20%	-0.50%	-5.30%

Calendar Events

Indonesia - Bank Indonesia Reference Rate, Feb 13	Current	Cons.	New
We expect the benchmark rate to remain unchanged	7.50%	7.50%	7.50%
Korea - BoK 7-Day Repo Rate, Feb 13	Current	Cons.	New
We expect the benchmark rate to remain unchanged	2.50%	2.50%	2.50%

Indicator of the Week

Japan: Q4 GDP growth (February 17th)

Forecast: 3.2% saar

Consensus: 2.8% saar

Prior: 1.1% saar

Fourth quarter GDP will be closely watched to gauge the success of Abenomics in restoring growth to the Japanese economy. After a robust first half when stimulus measures were at their peak, growth registered around 4%, but activity weakened in Q3. Headwinds to growth are rising as stimulus wears off and questions remain about the strength of structural reforms needed to boost medium-term growth; corporate investment has yet to exhibit a convincing pickup. Nevertheless, we expect growth to have rebounded in Q4 on improving external demand (boosted by yen depreciation) and higher consumer spending ahead of the planned sales tax hike in April (from 5% to 8%) which is needed to ensure fiscal sustainability (Japan's public debt is around 250% of GDP). We expect full-year growth of 1.7% in 2013, slowing to 1.5% in 2014. On the policy front, further monetary easing is anticipated and deeper structural reforms will be key to sustaining higher growth over the medium term (beyond current potential of around 1%).

Markets Data

INDEX	Last price	% change		Year to date	% change over 1 Y
		over a day	over a week		
China - Shanghai Comp.	2115.8	0.8	3.5	0.0	-13.0
Hong Kong - Hang Seng	22298.4	0.6	3.1	-4.3	-4.8
Taiwan - TAIX	8513.7	0.5	1.5	-1.1	7.7
Japan - Nikkei 225	14313.0	-1.5	1.1	-12.1	26.6
Korea - Kospi	1940.3	0.7	0.9	-3.5	-2.0
India - Sensex 30 *	20366.8	0.9	0.0	-3.8	4.5
Australia - SPX/ASX 200	5356.3	0.9	3.7	0.1	6.3
Singapore - Strait Times	3038.7	0.0	0.8	-4.1	-7.7
Indonesia - Jakarta Comp	4508.0	0.4	0.9	5.5	-1.8
Thailand - SET	1311.9	-0.2	1.3	1.0	-14.1
Malaysia - KLCI	1819.4	0.1	0.6	-2.5	11.6
Philippines - Manila Comp.	6113.7	0.2	1.7	3.8	-6.1

Last update: today, 18:30 Hong Kong time

CURRENCY	Spot	% change		Forward 12-3-month	Forward 3-month
		over a day	over a week		
China (CNY/USD)	6.07	-0.04	-0.04	6.10	6.11
Hong Kong (HKD/USD)	7.76	0.00	0.04	7.75	7.75
Taiwan (TWD/USD)	30.3	0.16	-0.07	30.20	29.99
Japan (JPY/USD)	101.84	0.32	0.45	101.79	101.56
Korea (KRW/USD)	1063	0.27	1.04	1067	1078
India (INR/USD)	62.2	0.45	0.20	63.33	67.09
Australia (USD/AUD)	0.90	0.52	0.75	1.11	1.14
Singapore (SGD/USD)	1.26	0.31	0.57	1.26	1.26
Indonesia (IDR/USD)	11831	1.26	2.79	11958	12573
Thailand (THB/USD)	32.4	0.68	1.38	32.55	33.11
Malaysia (MYR/USD)	3.31	0.49	0.71	3.32	3.37
Philippines (PHP/USD)	44.7	0.31	0.57	44.83	45.03

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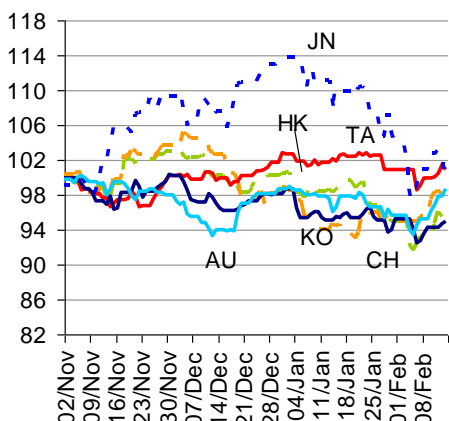
INDEX	Rate	net change		
		over a day	over a week	over a month
China (SHIBOR/7D)	4.44	-0.62	-0.81	0.43
Hong Kong (HIBOR/1W)	0.13	0.00	-0.01	0.00
Taiwan (TAIBOR/1W)	0.50	0.00	0.00	0.00
Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
Korea (KORIBOR/1M)	2.55	0.00	0.00	0.00
India (MIBOR/7D)	4.63	-0.60	-0.81	-0.07
Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00
Indonesia (JIBOR/1W)	6.50	0.00	0.00	0.09
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

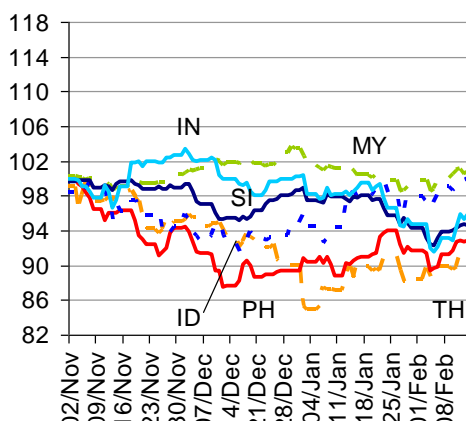
Stock Markets



Source: BBVA Research and Bloomberg

Chart 2

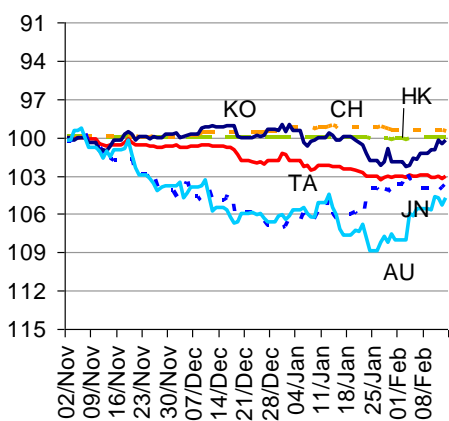
Stock Markets



Source: BBVA Research and Bloomberg

Chart 3

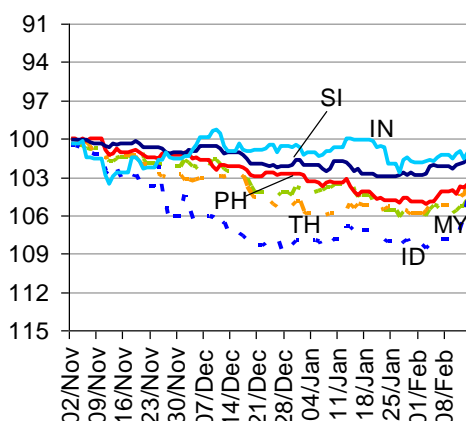
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4

Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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