

Asia Flash

Asia

BoJ expansion of lending facilities to support growth: largely symbolic?

At its monthly policy meeting yesterday, the Bank of Japan (BoJ) left the pace of quantitative easing unchanged, as expected, at an annual expansion of ¥60-70 trillion in the monetary base. However, the BoJ unexpectedly announced a doubling in the size of two lending programs, the “Fund-provisioning Measure to Stimulate Bank Lending” and the “Fund-provision Measure to Support Strengthening the Foundations for Economic Growth”. These programs were established in 2012 and 2010, respectively. In response, the Nikkei rose yesterday by 3.1%, before partially paring the gains today (-0.5%). According to BoJ balance sheet data, a total of ¥8.4 trillion has been extended under the two programs, of which ¥5.1 trillion is attributed to the “Bank Lending” program and the remainder to the “Economic Growth” facility. These amounts are quite small when measured against either total outstanding banks credit or GDP, at just below 2%. The limited uptake reflects weak domestic credit demand, as underscored by Monday’s release of weaker-than-expected Q4 GDP growth (1.0% saar) and still tepid investment growth. We therefore view the BoJ’s latest move as largely symbolic, in signaling a further easing bias. We expect a more meaningful increase in its asset purchase program in the next few months, especially given the expected drag on growth from April’s scheduled consumption tax hike.

Although mixed, Asian Q4 GDP outturns point to improving trends

As anticipated in our [China/Asia Outlook](#) released last week, recent Q4 GDP releases paint a picture of steady or improving growth as the external environment picks up. Following China’s lead of steady Q4 growth (7.7% y/y), outturns in Korea (3.9% y/y) and Taiwan (2.95% y/y) were in line with expectations on sustained domestic demand and improving exports. Somewhat more surprising, Q4 outturns in ASEAN, marked by the Philippines (6.5% y/y), Indonesia (5.7% y/y), and Malaysia (5.1% y/y) were better than expected on sustained domestic demand. However, there have been some disappointments, most notably in Japan where Monday’s Q4 GDP release was below expectations (1.0% saar vs. consensus: 2.8%) on sluggish export growth. Also, growth in Thailand has weakened, as expected, on ongoing political unrest. Looking ahead, we believe the export-oriented economies of North Asia are better positioned to benefit from a pickup in external demand. On the other hand, we expect growth in the ASEAN and South Asia regions to be mixed under the weight of tighter financial conditions from Fed tapering, as well as domestic political factors (e.g., elections in Indonesia and India).

Briefly noted:

Malaysia inflation accelerates in January

Headline inflation rose as expected in January, to 3.4% y/y (consensus: 3.3%) from 3.2% in December, its fastest pace since July 2011. Rising food prices (4.3% y/y) remain the main driver. We expect CPI to grow by 2.9% in 2014 from 2.1% in 2013, with upside risks from lingering impacts of government’s recent cuts in subsidies for sugar, fuel and natural gas in pursuit of fiscal consolidation. With sustained growth momentum and rising inflationary pressures, the central bank is likely to be among the first in Asia to raise interest rates, most likely in the H2 2014 (apart from India and Indonesia which have tightened in response to inflation and external pressures in recent months).

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Calendar Indicators

China	Date	Period	Prior	Cons.	Actual
Foreign Direct Investment YoY	17 Feb	Jan	3.30%	2.50%	16.10%
HSBC/Markit Flash Mfg PMI	20 Feb	Feb	49.5	49.5	--
Hong Kong	Date	Period	Prior	Cons.	Actual
Unemployment Rate SA	18 Feb	Jan	3.20%	3.20%	3.10%
CPI Composite YoY	21 Feb	Jan	4.30%	4.40%	--
Japan	Date	Period	Prior	Cons.	Actual
GDP Annualized SA QoQ	17 Feb	4Q P	1.10%	2.80%	1.00%
GDP SA QoQ	17 Feb	4Q P	0.30%	0.70%	0.30%
Industrial Production MoM	17 Feb	Dec F	1.10%	--	0.90%
All Industry Activity Index MoM	19 Feb	Dec	0.40%	0.10%	-0.10%
Exports YoY	20 Feb	Jan	15.3	12.7	--
Malaysia	Date	Period	Prior	Cons.	Actual
CPI YoY	19 Feb	Jan	3.20%	3.30%	3.40%
Philippines	Date	Period	Prior	Cons.	Actual
Overseas Remittances YoY	17 Feb	Dec	7.50%	7.00%	9.10%
Singapore	Date	Period	Prior	Cons.	Actual
Non-oil Domestic Exports YoY	17 Feb	Jan	6.00%	-1.20%	-3.30%
GDP SAAR QoQ	20 Feb	4Q F	-2.70%	0.80%	--
GDP YoY	20 Feb	4Q F	4.40%	5.30%	--
Taiwan	Date	Period	Prior	Cons.	Actual
GDP YoY	18 Feb	4Q F	2.92%	2.90%	2.95%
Export Orders YoY	20 Feb	Jan	7.40%	1.30%	--
Thailand	Date	Period	Prior	Cons.	Actual
GDP Annual YoY	17 Feb	2013	6.50%	2.80%	2.90%
GDP SA QoQ	17 Feb	4Q	1.40%	0.40%	0.60%
GDP YoY	17 Feb	4Q	2.70%	0.30%	0.60%

Markets Data

INDEX	Last price	% change		Year to date	% change over 1 Y
		over a day	over a week		
China - Shanghai Comp.	2142.6	1.1	1.5	1.3	-10.1
Hong Kong - Hang Seng	22664.5	0.3	1.7	-2.8	-2.1
Taiwan - TAIEX	8577.0	0.2	0.8	-0.4	7.7
Japan - Nikkei 225	14766.5	-0.5	-0.2	-9.4	29.8
Korea - Kospi	1942.9	-0.2	0.4	-3.4	-2.2
India - Sensex 30 *	20723.0	0.4	1.3	-2.1	5.5
Australia - SPX/ASX 200	5408.2	0.3	1.8	1.0	6.4
Singapore - Strait Times	3088.8	0.6	1.8	-2.5	-6.3
Indonesia - Jakarta Comp	4592.7	0.8	2.1	7.5	-0.2
Thailand - SET	1321.0	-0.4	1.9	1.7	-13.8
Malaysia - KLCI	1829.5	0.2	0.2	-2.0	13.3
Philippines - Manila Comp.	6294.6	1.6	3.0	6.9	-4.9

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CURRENCY	Spot	% change		Forward 12-3-month	Forward 3-month
		over a day	over a week		
China (CNY/USD)	6.08	-0.15	-0.23	6.10	6.11
Hong Kong (HKD/USD)	7.76	-0.02	0.02	7.75	7.75
Taiwan (TWD/USD)	30.3	-0.02	0.05	30.21	29.99
Japan (JPY/USD)	102.12	0.24	0.40	102.07	101.84
Korea (KRW/USD)	1066	0.01	-0.28	1071	1083
India (INR/USD)	62.2	-0.58	0.00	63.40	67.13
Australia (USD/AUD)	0.90	0.11	0.11	1.11	1.13
Singapore (SGD/USD)	1.26	0.04	0.42	1.26	1.26
Indonesia (IDR/USD)	11778	0.59	2.63	11930	12520
Thailand (THB/USD)	32.5	-0.12	0.01	32.78	33.26
Malaysia (MYR/USD)	3.29	0.27	0.84	3.31	3.36
Philippines (PHP/USD)	44.6	-0.02	0.47	44.62	44.83

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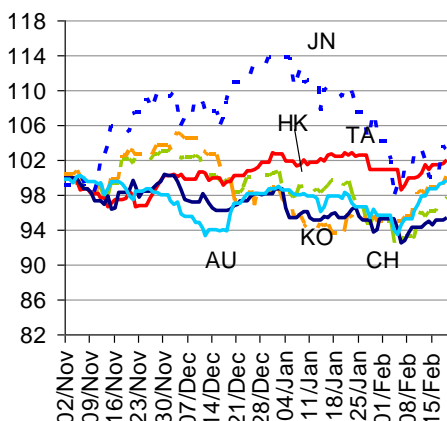
INDEX	Rate	net change		
		over a day	over a week	over a month
China (SHIBOR/7D)	3.76	0.02	-0.68	-1.00
Hong Kong (HIBOR/1W)	0.13	0.00	0.01	0.01
Taiwan (TAIBOR/1W)	0.50	0.00	0.00	0.00
Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
Korea (KORIBOR/1M)	2.55	0.00	0.00	0.00
India (MIBOR/7D)	3.56	-0.49	-1.63	-1.20
Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00
Indonesia (JIBOR/1W)	6.51	0.01	0.01	0.08
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

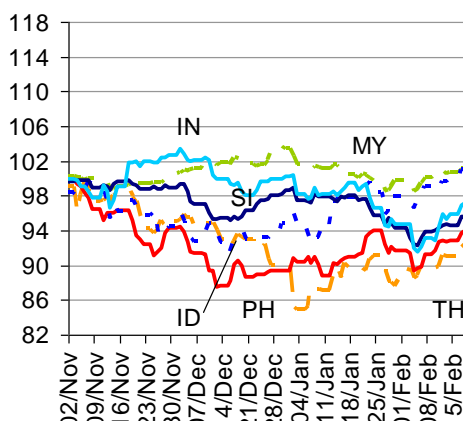
Stock Markets



Source: BBVA Research and Bloomberg

Chart 2

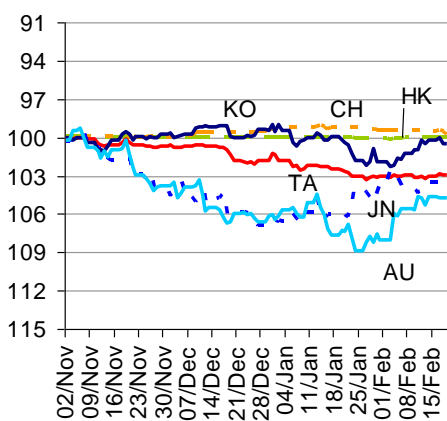
Stock Markets



Source: BBVA Research and Bloomberg

Chart 3

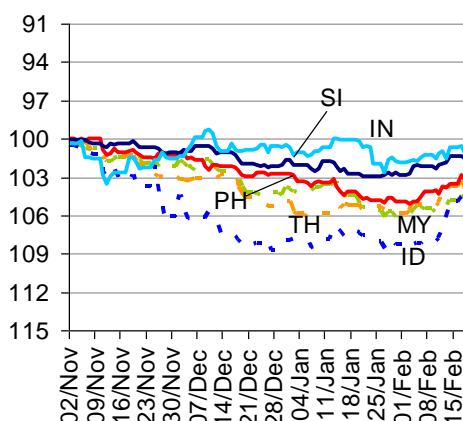
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4

Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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