

Asia Flash

Asia

Why is the RMB depreciating all of the sudden?

After a sustained period of appreciation, in which the RMB reached record strength at 6.04 per USD on January 13, over the past week the currency has suddenly reversed course. All told, the onshore spot rate has depreciated by almost 1% since mid-January, its largest decline since mid-2012, standing at 6.09 at present (one-year forward NDFs have also depreciated). What accounts for this reversal? We believe it is largely due to temporary factors, and that appreciation will resume in due course, in line with our end-year forecast of 5.90 per USD. Despite occasional concerns about slowing growth (recent PMIs have weakened), external flows have been robust on strong exports and trade surpluses. Some of the depreciation is likely to be due to seasonal factors, given strong demand for local currency around the time of the Chinese New Year. Beyond that, it appears that the depreciation may be policy-induced as the authorities seek to push the exchange rate toward the middle of the daily $\pm 1\%$ trading band (the spot rate has consistently been at the strong end of the band September 2012). This effort could be a precursor to a widening of the daily band, which has been expected for some time, in order to enhance two-way flexibility of the currency. We also expect the authorities to continue gradually liberalizing the capital account, as emphasized in their reform agenda at the Third Plenum last November.

Briefly noted:

Moody's affirms Thailand's stable ratings outlook despite political pressures

The Thai economy has been reeling under political turbulence in recent months. Moody's decision today to reaffirm Thailand's stable sovereign outlook therefore comes as good news for the economy. Moody's highlighted Thailand's favourable government debt structure, and prudent monetary, macro policy, and fiscal management as key strengths.

Hong Kong inflation rises by more than expected in January

Headline inflation rose to 4.6% y/y in January (consensus: 4.4% y/y) from 4.3% in December. The higher-than-expected outturn was mainly due to an increase in services prices around the Chinese New Year in early February. Looking ahead, we expect inflation to moderate as housing costs stabilize. Our inflation projection stands at an average of 3.8% in 2014, compared to an outturn of 4.3% in 2013.

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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	48.3
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%	4.60%
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	9.5
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	0.30%	0.80%	6.10%
GDP YoY	20 Feb	4Q F	5.80%	5.20%	5.50%
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%	-2.80%
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%

Indicator of the Week

China: February Manufacturing PMI (March 1st)

Forecast: 50.3

Consensus: 50.1

Prior: 50.5

After a disappointing HSBC flash PMI outturn for February (48.3; prior: 49.5), activity indicators will be closely watched for signs of an economic slowdown in China. Although production at smaller firms (which take up a relatively large share of the HSBC PMI) appears to be struggling, we expect activity at larger firms to continue performing well; meanwhile, improving exports and robust credit data in January suggest that growth remains on track. It is also worth noting that PMIs and other activity indicators are heavily influenced by distortions from the lunar Chinese New Year holiday (which took place two weeks earlier than last year). We therefore expect only a small decline in the February official PMI.

Markets Data

INDEX	Last price	% change			
		over a day	over a week	Year to date	over 1 Y
China - Shanghai Comp.	2113.7	-1.2	-0.1	-0.1	-9.1
Hong Kong - Hang Seng	22568.2	0.8	1.2	-3.2	-1.5
Taiwan - TAIEX	8601.9	0.9	1.0	-0.1	8.1
Japan - Nikkei 225	14865.7	2.9	3.9	-8.8	31.4
Korea - Kospi	1957.8	1.4	0.9	-2.7	-2.8
India - Sensex 30 *	20702.2	0.8	1.6	-2.2	7.1
Australia - SPX/ASX 200	5438.7	0.5	1.5	1.6	9.2
Singapore - Strait Times	3099.9	0.4	2.0	-2.1	-5.7
Indonesia - Jakarta Comp	4646.2	1.0	3.1	8.7	0.3
Thailand - SET	1306.3	0.2	-0.4	0.6	-14.6
Malaysia - KLCI	1830.7	0.2	0.6	-1.9	13.4
Philippines - Manila Comp.	6308.4	-0.7	3.2	7.1	-5.4

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CURRENCY	Spot	% change			
		over a day	over a week	Forward 12-3-month	Forward 3-month
China (CNY/USD)	6.09	-0.11	-0.41	6.12	6.13
Hong Kong (HKD/USD)	7.76	0.00	0.00	7.75	7.75
Taiwan (TWD/USD)	30.4	-0.11	-0.12	30.29	30.08
Japan (JPY/USD)	102.46	-0.18	-0.64	102.41	102.18
Korea (KRW/USD)	1072	0.02	-0.82	1078	1089
India (INR/USD)	62.1	0.16	-0.33	63.27	66.88
Australia (USD/AUD)	0.90	-0.09	-0.39	1.12	1.14
Singapore (SGD/USD)	1.27	-0.09	-0.47	1.27	1.26
Indonesia (IDR/USD)	11744	0.69	0.74	11959	12569
Thailand (THB/USD)	32.5	0.07	-0.59	32.77	33.28
Malaysia (MYR/USD)	3.30	0.43	0.33	3.31	3.36
Philippines (PHP/USD)	44.6	0.44	0.37	44.61	44.82

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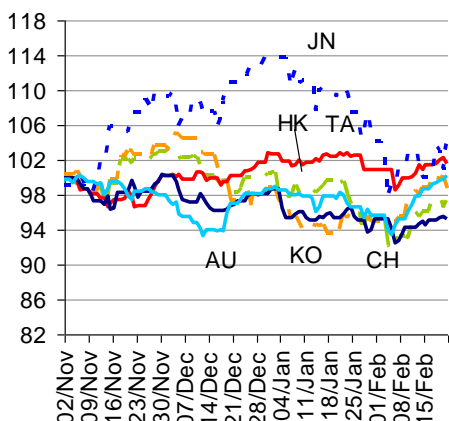
INDEX	Rate	net change		
		over a day	over a week	over a month
China (SHIBOR/7D)	3.65	-0.10	-0.79	-1.88
Hong Kong (HIBOR/1W)	0.13	0.00	0.00	0.00
Taiwan (TAIBOR/1W)	0.51	0.00	0.00	0.00
Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
Korea (KORIBOR/1M)	2.55	0.00	0.00	0.00
India (MIBOR/7D)	3.52	-0.16	-1.11	-2.08
Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00
Indonesia (JIBOR/1W)	6.52	0.00	0.02	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

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Charts

Chart 1

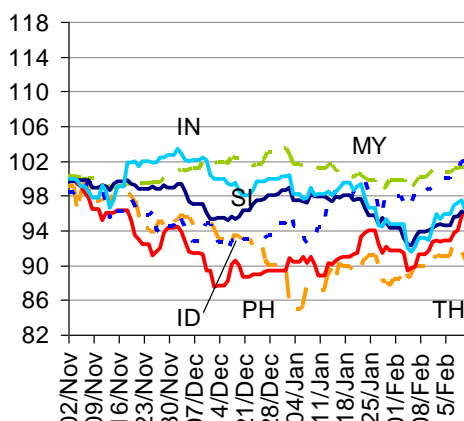
Stock Markets



Source: BBVA Research and Bloomberg

Chart 2

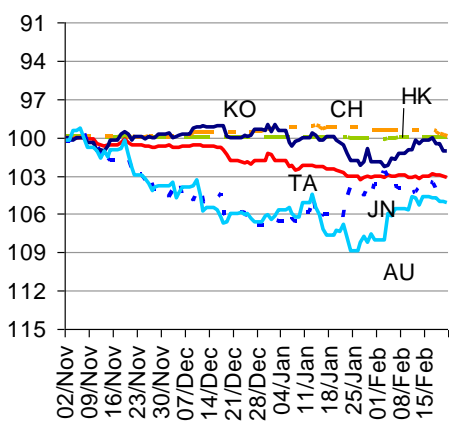
Stock Markets



Source: BBVA Research and Bloomberg

Chart 3

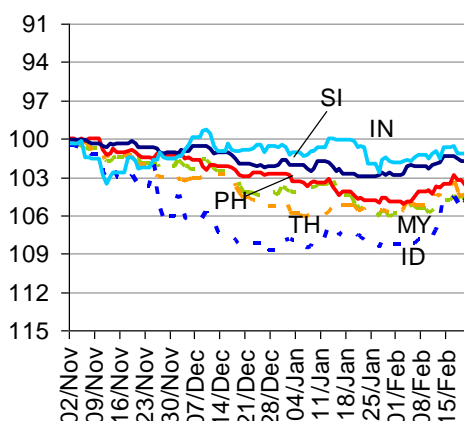
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4

Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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