

Asia Flash

Asia

Guidelines on scope of offshore RMB borrowing in Shanghai free trade zone

The People's Bank of China (PBoC) last Friday issued operational guidelines on the scope of offshore RMB borrowing by entities in the newly created Shanghai Free Trade Zone (FTZ). Such guidelines have been anticipated as investors evaluate opportunities available to them in the FTZ, which was created in September 2013. The FTZ was flagged in the Third Plenum blueprint for structural reforms last November as a testing ground for broader national reforms, including capital account liberalization, interest rate liberalization, and foreign exchange management. Friday's guidelines follow from a set of "principles" issued in December, and specify rules for RMB borrowing from outside of China. Not surprisingly, given China's tightly controlled capital account, cross-border borrowing will be subject to tight restrictions: (i) firms' maximum borrowings from sources outside of China cannot exceed 1.5 times their registered capital; (ii) maturities must be longer than one year; and (iii) the proceeds cannot be used in the Mainland (but they can be used outside the FTZ). While the establishment of the Shanghai FTZ presents competition to Hong Kong and other aspiring offshore RMB centers, allowing firms inside the FTZ to borrow from offshore may provide a near-term boost to RMB business globally.

China housing prices advance at a slower pace in January

Based on monthly data released today by the NBS, we calculate that nationwide new and existing home prices rose by 9.4% y/y in January compared to 9.8% in December. New home prices rose in 69 of the 70 cities surveyed on year-over-year basis, the same as the previous month. The increase in new home prices continues to be led by Tier 1 cities, such as Beijing (18.8% y/y), Shanghai (20.9% y/y), Guangzhou (18.9% y/y) and Shenzhen (18.2% y/y). On a sequential basis, we estimate that overall new and existing home prices rose by 0.3% m/m nsa from 0.4% the previous month. A moderation in housing prices would be welcome, after fine-tuning measures announced by a number of local governments last year, including higher down payment requirements for second home purchasers. Tighter credit conditions for developers may also play a role. Regarding the latter, media reports suggest that a mid-sized Chinese listed bank has just suspended loans to real estate developers given rising risks. We expect housing price increases to moderate in 2014, but not crash given still-strong housing demand.

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Calendar Indicators

China	Date	Period	Prior	Cons.	Actual
China January Property Prices	24 Feb	Jan	--	--	--
Manufacturing PMI	01 Mar	Feb	50.5	50.1	--
Hong Kong	Date	Period	Prior	Cons.	Actual
Exports YoY	25 Feb	Jan	0.00%	-1.00%	--
GDP YoY	26 Feb	4Q	2.90%	3.00%	--
GDP SA QoQ	26 Feb	4Q	0.50%	1.40%	--
GDP Annual YoY	26 Feb	2013	1.40%	--	--
India	Date	Period	Prior	Cons.	Actual
GDP YoY	28 Feb	4Q	4.80%	4.80%	--
Japan	Date	Period	Prior	Cons.	Actual
Natl CPI YoY	28 Feb	Jan	1.60%	1.30%	--
Markit/JMMA Manufacturing PMI	28 Feb	Feb	56.6	--	--
Jobless Rate	28 Feb	Jan	3.70%	3.70%	--
Industrial Production MoM	28 Feb	Jan P	0.90%	2.80%	--
Retail Trade YoY	28 Feb	Jan	2.50%	3.80%	--
Singapore	Date	Period	Prior	Cons.	Actual
CPI YoY	24 Feb	Jan	1.50%	1.50%	1.40%
Industrial Production YoY	26 Feb	Jan	6.20%	6.50%	--
Korea	Date	Period	Prior	Cons.	Actual
Industrial Production YoY	28 Feb	Jan	2.60%	-1.50%	--
Exports YoY	01 Mar	Feb	-0.20%	2.70%	--
Taiwan	Date	Period	Prior	Cons.	Actual
Industrial Production YoY	24 Feb	Jan	5.55%	-4.50%	-1.78%
Commercial Sales YoY	24 Feb	Jan	3.65%	0.29%	2.06%
Unemployment Rate	26 Feb	Jan	4.12%	4.10%	--
Thailand	Date	Period	Prior	Cons.	Actual
Customs Exports YoY	24-27 Feb	Jan	1.87%	0.50%	--
Vietnam	Date	Period	Prior	Cons.	Actual
CPI YoY	24 Feb	Feb	5.45%	5.10%	4.65%
Exports YTD YoY	25-28 Feb	Feb	-10.80%	--	--
Industrial Production YoY	25-28 Feb	Feb	3.00%	--	--

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		Year to date	% change over 1 Y
		over a day	over a week		
China - Shanghai Comp.	2076.7	-1.8	-2.8	-1.9	-10.3
Hong Kong - Hang Seng	22388.6	-0.8	-0.7	-3.9	-1.7
Taiwan - TAIX	8560.6	-0.5	0.5	-0.6	7.2
Japan - Nikkei 225	14837.7	-0.2	3.1	-8.9	30.3
Korea - Kospi	1949.1	-0.4	0.1	-3.1	-3.5
India - Sensex 30 *	20811.4	0.5	1.7	-1.7	7.7
Australia - SPX/ASX 200	5440.2	0.0	1.1	1.6	8.4
Singapore - Strait Times	3105.8	0.2	1.2	-1.9	-5.5
Indonesia - Jakarta Comp	4623.6	-0.5	1.5	8.2	-0.6
Thailand - SET	1301.4	-0.2	-2.3	0.2	-15.5
Malaysia - KLCI	1828.7	-0.1	0.1	-2.1	12.7
Philippines - Manila Comp.	6296.3	-0.2	2.1	6.9	-5.5

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CURRENCY	Spot	% change		Forward 12-3-month	Forward 3-month
		over a day	over a week		
China (CNY/USD)	6.10	-0.11	-0.55	6.12	6.14
Hong Kong (HKD/USD)	7.76	-0.04	-0.04	7.76	7.76
Taiwan (TWD/USD)	30.4	-0.12	-0.40	30.32	30.11
Japan (JPY/USD)	102.39	0.12	-0.46	102.34	102.11
Korea (KRW/USD)	1075	-0.23	-1.30	1080	1091
India (INR/USD)	62.1	0.12	-0.32	63.13	66.76
Australia (USD/AUD)	0.90	0.03	-0.58	1.12	1.14
Singapore (SGD/USD)	1.27	0.16	-0.53	1.27	1.26
Indonesia (IDR/USD)	11649	0.82	1.17	11845	12450
Thailand (THB/USD)	32.6	-0.17	-1.04	32.81	33.30
Malaysia (MYR/USD)	3.28	0.35	0.32	3.30	3.35
Philippines (PHP/USD)	44.6	-0.06	-0.36	44.63	44.84

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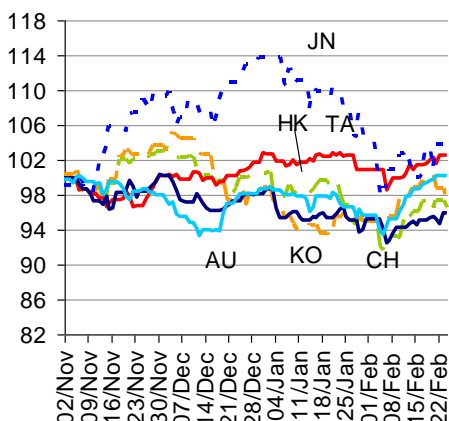
INDEX	Rate	net change		
		over a day	over a week	over a month
China (SHIBOR/7D)	3.32	-0.33	-0.44	-1.13
Hong Kong (HIBOR/1W)	0.13	0.00	0.00	0.00
Taiwan (TAIBOR/1W)	0.51	0.00	0.00	0.00
Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
Korea (KORIBOR/1M)	2.55	0.00	0.00	0.00
India (MIBOR/7D)	3.40	-0.12	-3.60	-1.03
Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00
Indonesia (JIBOR/1W)	6.52	0.00	0.02	0.05
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

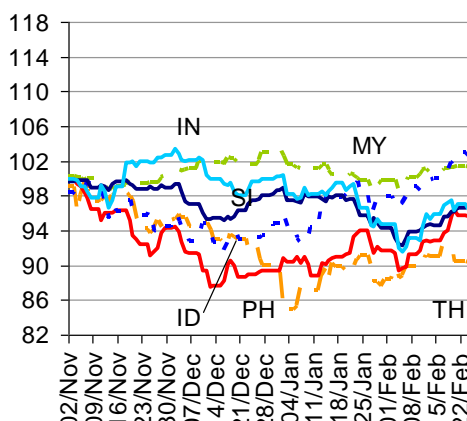
Stock Markets



Source: BBVA Research and Bloomberg

Chart 2

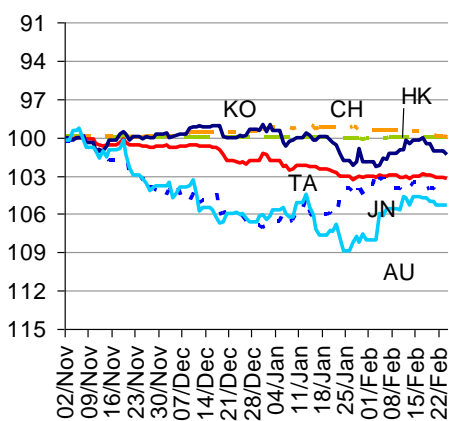
Stock Markets



Source: BBVA Research and Bloomberg

Chart 3

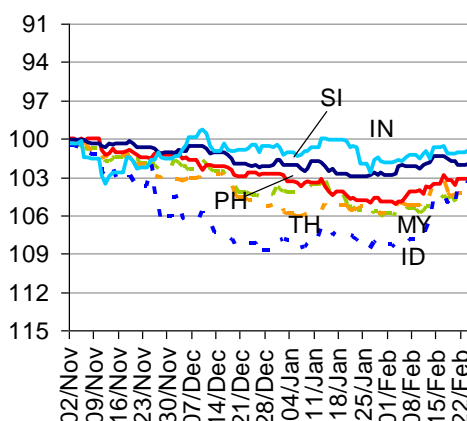
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4

Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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