

Daily Flash

Asia

Note to readers: due to a holiday tomorrow in Hong Kong, the Asia Daily will resume on Wednesday, October 24.

HKMA intervenes as the currency hits the strong edge of the band

In news that has caught the attention of investors, the Hong Kong Monetary Authority (HKMA) bought USD 603 million on Friday when the currency rose to 7.750 against the USD, the strong end of the 7.75-7.85 trading band under Hong Kong's linked exchange rate system. The move marked the HKMA's first intervention since late 2009, and is a sign of capital inflows into Hong Kong resulting from improved global risk appetite and, quite possibly, the US Fed's QE3 policy. The currency move might reinforce speculation of an eventual end to Hong Kong's currency system in favor of a peg to the Chinese RMB or a basket of currencies. However, given the pros and cons, and the RMB's lack of convertibility, we continue to believe that such a change is still several years away. The currency ended today at 7.7502/USD.

Japan's exports fall in September; BoJ cuts regional economic assessment

Japan's September exports fell by -10.3% y/y (consensus: -9.6% y/y), with exports to China declining by -14.1% y/y. China is Japan's largest export market (accounting for 20% of total exports), and recent diplomatic tensions between the two are undermining trade and investment ties. Also today, in its quarterly economic report, the BoJ cut its economic assessment for eight out of nine regions (only the Tokoku region was unchanged) citing sluggish growth. We expect the BoJ will ease monetary policy for a second consecutive month at its Oct 30 meeting by expanding its asset purchasing program. The weak export data, along with rising expectations of monetary easing, were factors causing a sharp depreciation of the yen today to 79.8/USD, its weakest level since July.

Thailand's central bank announces new rules to protect currency

The Bank of Thailand (BOT) announced today it will ease overseas investment rules in order to facilitate capital outflows, a sign that the central bank may be concerned about currency appreciation in light of strong global liquidity. The new rules include allowing companies listed in the local stock market to purchase overseas securities and derivatives, while Thai residents will be able to buy foreign-currency bonds issued in Thailand. The new rules will take effect this Thursday. Today's announcement follows a surprise cut in interest rates by the BOT last week, and should help ease appreciation pressures on the baht.

Vietnam to set up an asset-management company to deal with bad debts

The Prime Minister of Vietnam has said that Vietnam's government will address bad debt problems plaguing the country's banking system by establishing a debt-management company next year, along with other measures to facilitate debt restructuring. Vietnam's banking system is facing bad debts amounting to 8.6-10% of total outstanding loans, according to the central bank. Meanwhile, economic growth is slowing and will probably fall well below the government's 6% target for this year.

Briefly noted:

- **Indonesia announced that foreign direct investment surged in the third quarter to a record \$5.9bn (+22.0% y/y),** a sign of strong investor interest in Indonesia's economy despite the challenging global environment.
- **Hong Kong's inflation rate rose to 3.8% y/y (consensus: 3.5% y/y) from 3.7% y/y the previous month.** Although still on a broad declining trend, inflation was somewhat higher than expected due to rising housing rental rates. We expect inflationary pressures to remain in this range due to a buoyant property market and loose global monetary policies.

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With contributions from the BBVA Research Asia Team

Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
Consumer Prices (QoQ)	24-Oct	3Q	0.50%	1.00%	--
Consumer Prices (YoY)	24-Oct	3Q	1.20%	1.60%	--
China	Date	Period	Prior	Cons.	Actual
HSBC Flash Manufacturing PMI	24-Oct	Oct	47.9	--	--
Hong Kong	Date	Period	Prior	Cons.	Actual
CPI - Composite Index (YoY)	22-Oct	Sep	3.70%	3.60%	3.80%
Exports YoY%	25-Oct	Sep	0.60%	10.0%	--
Japan	Date	Period	Prior	Cons.	Actual
Merchnds Trade Balance Total	22-Oct	Sep	-¥754.1B	-¥547.9B	-¥558.6B
Merchnds Trade Exports YoY	22-Oct	Sep	-5.8	-9.9	-10.3
Natl CPI YoY	26-Oct	Sep	-0.40%	-0.40%	--
Natl CPI Ex-Fresh Food YoY	26-Oct	Sep	-0.30%	-0.20%	--
Tokyo CPI YoY	26-Oct	Oct	-0.70%	-0.80%	--
Singapore	Date	Period	Prior	Cons.	Actual
CPI (MOM) - NSA	23-Oct	Sep	0.60%	0.50%	--
CPI (YoY)	23-Oct	Sep	3.90%	4.30%	--
Industrial Production MoM SA	25-Oct	Sep	-2.30%	2.80%	--
Industrial Production YoY	25-Oct	Sep	-2.20%	1.90%	--
South Korea	Date	Period	Prior	Cons.	Actual
GDP (QoQ)	26-Oct	3Q P	0.30%	0.20%	--
GDP (YoY)	26-Oct	3Q P	2.30%	1.70%	--
Taiwan	Date	Period	Prior	Cons.	Actual
Unemployment Rate - sa	22-Oct	Sep	4.29%	4.29%	4.30%
Industrial Production (YoY)	23-Oct	Sep	1.89%	6.60%	--
Thailand	Date	Period	Prior	Cons.	Actual
Customs Exports (YoY)	24-Oct	Sep	-6.95%	-3.00%	--
Mfg. Production Index ISIC NSA (YoY)	26-29 OCT	Sep	-11.32	--	--
Vietnam	Date	Period	Prior	Cons.	Actual
CPI (YoY)	24-Oct	Oct	6.48%	--	--
Exports YTD (YoY)	24-31 OCT	Oct	18.90%	--	--

Indicator of the Week

South Korea: GDP (Q3, October 26th)

Forecast: 0.2 q/q

Consensus: 0.2% q/q

Prior: 0.3% q/q

Following last week's release of Q3 GDP in China, Korea's GDP will be watched as an indication of the extent of the regional slowdown, and the likely stance of policies in the coming months. Korean GDP growth has been under downward pressure in recent quarters due to the weak external environment, as slowing exports have progressively spilled over to domestic demand. We expect Q3 GDP to slow to a seasonally adjusted 0.2% q/q from 0.3% q/q in the second quarter (and from 0.9% q/q in the first quarter), as exports contracted for a third straight month in September (by -1.8% y/y). With inflation contained at the low end of the BOK's 2-4% target range, there is scope for further policy stimulus to support growth. The BOK has cut interest rates by 50bps so far this year, to 2.75%, and the government has implemented modest fiscal stimulus measures, with the latest round occurring in September. Should the Q3 GDP outturn confirm a continued slowdown, we would expect more policy stimulus, likely through increased fiscal spending in the early part of 2013 after Presidential elections this coming December, though for now we see no additional rate cuts forthcoming.

Calendar Events

Philippines - Overnight Borrowing Rate, October 25

We expect the benchmark rate to remain unchanged

Current

3.75%

Consensus

3.50%

New

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Markets Data

STOCK MARKETS	INDEX	Last price	% change over a day	% change over a week	Year to date	% change over 1 Y
	China - Shanghai Comp.	2132.8	0.2	1.6	-3.0	-8.0
	Hong Kong - Hang Seng	21697.6	0.7	2.6	17.7	20.4
	Taiwan - Weighted	7373.0	-0.5	-0.6	4.3	1.6
	Japan - Nikkei 225	9010.7	0.1	5.0	6.6	3.8
	Korea - Kospi	1941.6	-0.1	0.8	6.3	5.6
	India - Sensex 30	18799.4	0.6	0.5	21.6	12.0
	Australia - SPX/ASX 200	4541.0	-0.7	1.3	11.9	9.6
	Singapore - Strait Times	3045.7	-0.1	0.1	15.1	12.3
	Indonesia - Jakarta Comp	4341.4	0.2	0.6	13.6	19.9
	Thailand - SET	1309.5	0.1	1.5	27.7	42.9
	Malaysia - KLCI	1662.0	-0.3	0.5	8.6	15.5
	Philippines - Manila Comp.	5424.8	-0.1	0.8	24.1	30.2

Last update: today, 17:00 Hong Kong time

FOREIGN EXCHANGE MARKETS	CURRENCY	Spot	% change over a day	% change over a week	Forward 3-month	Forward 12-month
	China (CNY/USD)	6.25	-0.02	0.24	6.31	6.37
	Hong Kong (HKD/USD)	7.75	0.00	0.01	7.75	7.74
	Taiwan (TWD/USD)	29.3	-0.11	-0.14	29.17	28.92
	Japan (JPY/USD)	79.81	-0.61	-1.45	79.74	79.46
	Korea (KRW/USD)	1104	-0.07	0.56	1109	1121
	India (INR/USD)	53.5	0.60	-0.94	54.23	56.47
	Australia (USD/AUD)	1.03	-0.10	0.66	0.98	0.99
	Singapore (SGD/USD)	1.22	-0.06	-0.05	1.22	1.22
	Indonesia (IDR/USD)	9611	0.19	0.12	9737	10122
	Thailand (THB/USD)	30.7	-0.10	-0.07	30.89	31.27
	Malaysia (MYR/USD)	3.05	-0.02	0.18	3.07	3.10
	Philippines (PHP/USD)	41.4	0.07	0.14	41.34	41.34

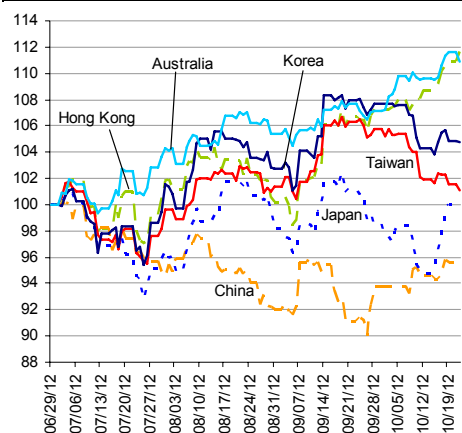
Last update: today, 17:00 Hong Kong time.

INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	2.71	0.02	-0.15	-1.69
	Hong Kong (HIBOR/1W)	0.15	0.00	0.00	-0.02
	Taiwan (TAIBOR/1W)	0.62	0.00	0.00	0.00
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	2.78	0.00	-0.01	-0.24
	India (MIBOR/7D)	2.72	-0.88	-0.88	-1.70
	Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00
	Indonesia (JIBOR/1W)	4.28	0.00	0.01	0.06
	Thailand (BIBOR/1W)	2.78	0.00	-0.24	-0.24
	Malaysia (KLIBOR/1W)	2.90	0.00	0.00	0.00
	Philippines (PHIBOR/1W)	1.25	0.50	-0.63	-1.25

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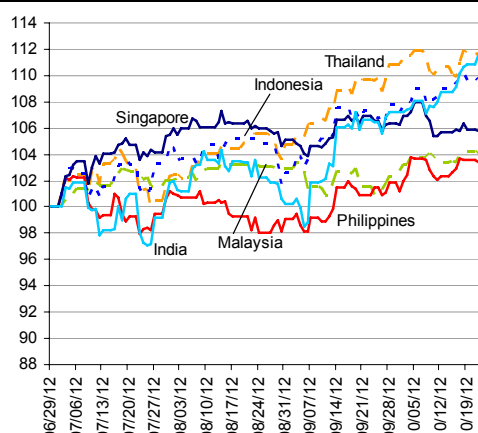
Charts

Chart 1
Stock Markets



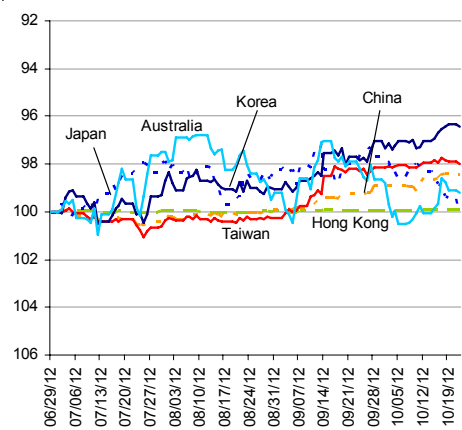
Source: BBVA Research and Bloomberg

Chart 2
Stock Markets



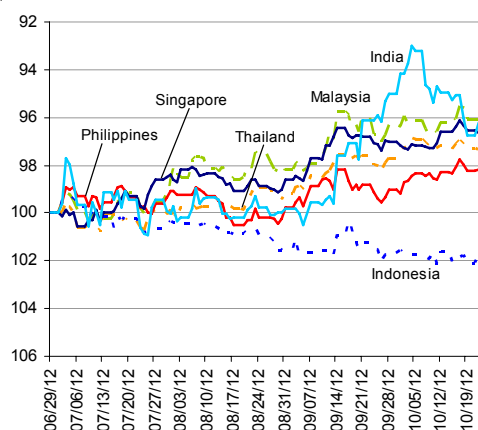
Source: BBVA Research and Bloomberg

Chart 3
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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