

Daily Flash

Asia

The date for China's annual Central Economic Work Conference, an important meeting expected to detail the 2013 policy targets, has finally been set for this weekend (see below). Positive expectations on reforms propelled the Shanghai Composite today to its strongest daily rise in more than four years (+4.3%). Elsewhere in Asia, inflation was released in India ahead of the monetary policy meeting scheduled for next Tuesday. The meeting will be part of an eventful week with policy meetings also in Taiwan (Wednesday) and Japan (Thursday) and elections in Japan (Sunday) and South Korea (Wednesday).

China awaits policy directions from the annual CEWC meeting this weekend

China's annual Central Economic Work Conference (CEWC) is expected to be held over the weekend, on December 15-16, according to Chinese media reports. The meeting is expected to review economic developments in the past year, evaluate the current economic situation, and most importantly set the tone for next year's policies. Expectations are that the government will set a 7.5% growth target for 2013 (the same as for 2012) and maintain the continuity and stability of current policies, namely prudent monetary policy and proactive fiscal policy. In the mean time, the meeting could also cover a range of important economic issues, including urbanization, real estate, and reforms in price mechanisms and income redistribution. Successors for key positions in the Ministry of Finance, PBoC, CBRC, CSRC, and CIRC may also be announced. Separately, China's HSBC/Markit flash PMI, rose to the highest in 14 months at 50.9 in December (previous 50.5), reaffirming China's economic recovery. The pick up in HSBC flash PMI is in line with upbeat China economic data in the past month.

India's WPI inflation softens further in November, leaving room for rate cuts

In a welcome sign, India's wholesale price inflation eased for the second consecutive month in November to 7.2% y/y from 7.5% in October (Consensus 7.6%; see our [India Flash](#) for details). The positive outturn was driven by a substantial softening in core inflation along with some let up in fuel prices, which offset a pick up in food inflation. Base effects, lower raw material prices and easing demand dragged core inflation to its lowest since March 2010. Looking ahead, near term upside risks to WPI inflation stem from a low base coupled with food price pressures, but we expect weak growth and favorable commodity and currency trends to contain them. Continued downtrend in the benchmark WPI inflation leaves more room for the Reserve Bank of India to consider cutting rates at its December 18th meeting. However, with retail inflation still near double digits, we expect the RBI to keep rates unchanged next week while cutting the cash reserve ratio by 25 bps to signal an easing bias and address tight liquidity conditions.

Japan's business confidence falls ahead of elections and BoJ's meeting

Japan's fourth quarter Tankan index for large manufactures fell to -12 (Prior: -3. Consensus: -10), the lowest reading since March 2010, reflecting increased pessimism among big Japanese companies. Together with the slide in exports, today's data suggest that the economy is likely to contract further in Q4. Japan's economy has been dragged down by global headwinds, the strong yen, and the recent territorial row with China. Today's negative outturn adds extra pressure on the Bank of Japan (BoJ) to ease policy again - we expect the asset-purchase program to be increased by 5-10 trillion yen next Thursday at the BoJ's meeting. On the political front, the opposition leader and former PM Shinzo Abe is poised to win the election this Sunday according to polls, with elections for the upper house to follow in July.

Further expansion of RQFII program to arrive soon according to media reports

Hong Kong media reports that Guo Shuqing, chairman of China's securities regulator (CSRC), gave his oral approval for the expansion of the current RQFII program in Hong Kong. Current proposals suggest the expansion of RQFII program to apply for all financial institutions based in Hong Kong and not only Chinese mainland ones, while restrictions on the asset allocations in mainland capital markets could be loosened. RQFII quota has just been expanded to RMB 270 bn in November from 70 bn.

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Calendar Indicators

| | | | | | |
|--------------------------------------|-------------|---------------|--------------|--------------|---------------|
| China | Date | Period | Prior | Cons. | Actual |
| Consumer Price Index (YoY) | 09-Dec | Nov | 1.70% | 2.10% | 2.00% |
| Producer Price Index (YoY) | 09-Dec | Nov | -2.80% | -2.00% | -2.20% |
| Industrial Production (YoY) | 09-Dec | Nov | 9.60% | 9.80% | 10.10% |
| Industrial Production YTD YoY | 09-Dec | Nov | 10.00% | 10.00% | 10.00% |
| Fixed Assets Inv Excl. Rural YTD YoY | 09-Dec | Nov | 20.70% | 20.90% | 20.70% |
| Retail Sales (YoY) | 09-Dec | Nov | 14.50% | 14.60% | 14.90% |
| Trade Balance (USD) | 10-Dec | Nov | \$31.99B | \$26.85B | \$19.63B |
| Exports YoY% | 10-Dec | Nov | 11.60% | 9.00% | 2.90% |
| Imports YoY% | 10-Dec | Nov | 2.40% | 2.00% | 0.00% |
| New Yuan Loans | 11-Dec | Nov | 505.2B | 550.0B | 552.9B |
| Money Supply - M2 (YoY) | 11-Dec | Nov | 14.10% | 14.10% | 13.90% |
| HSBC Flash Manufacturing PMI | 14-Dec | Dec | 50.5 | 50.8 | 50.9 |
| Hong Kong | Date | Period | Prior | Cons. | Actual |
| Industrial Production (YoY) | 13-Dec | 3Q | -2.90% | -- | -0.10% |
| India | Date | Period | Prior | Cons. | Actual |
| Exports YoY% | 11-Dec | Nov | -1.60% | -- | -4.20% |
| Industrial Production YoY | 12-Dec | Oct | -0.40% | 5.10% | 8.20% |
| CPI (YoY) | 12-Dec | Nov | 9.75% | -- | 9.90% |
| Monthly Wholesale Prices YoY% | 14-Dec | Nov | 7.45% | 7.60% | 7.24% |
| Japan | Date | Period | Prior | Cons. | Actual |
| Gross Domestic Product (QoQ) | 10-Dec | 3Q F | -0.90% | -0.80% | -0.90% |
| GDP Annualized | 10-Dec | 3Q F | -3.50% | -3.30% | -3.50% |
| Current Account Total | 10-Dec | Oct | ¥503.6B | ¥230.9B | ¥376.9B |
| Trade Balance - BOP Basis | 10-Dec | Oct | ¥471.3B | ¥450.0B | ¥450.3B |
| Machine Orders (MoM) | 12-Dec | Oct | -4.30% | 3.00% | 2.60% |
| Machine Orders YOY% | 12-Dec | Oct | -7.80% | -5.00% | 1.20% |
| Tertiary Industry Index (MoM) | 12-Dec | Oct | 0.30% | -0.40% | -0.10% |
| Tankan Lge Manufacturers Index | 14-Dec | 4Q | -3 | -10 | -12 |
| Tankan Large All Indust Capex | 14-Dec | 4Q | 6.40% | 5.40% | 6.80% |
| Malaysia | Date | Period | Prior | Cons. | Actual |
| Industrial Production YoY | 11-Dec | Oct | 4.90% | 2.60% | 5.80% |
| Philippines | Date | Period | Prior | Cons. | Actual |
| Total Exports (YoY) | 11-Dec | Oct | 22.80% | 10.50% | 6.10% |
| Singapore | Date | Period | Prior | Cons. | Actual |
| Unemployment Rate (sa) | 14-Dec | 3Q F | 1.90% | -- | 1.90% |
| Retail Sales (YoY) | 14-Dec | Oct | 2.50% | -1.40% | -1.00% |
| South Korea | Date | Period | Prior | Cons. | Actual |
| Unemployment Rate (SA) | 12-Dec | Nov | 3.00% | 3.10% | 3.00% |

Indicator of the Week

Taiwan: Export orders for November (December 20)

Forecast: 2.4% y/y

Consensus: 3.0% y/y

Prior: 3.2% y/y

Taiwan's export orders are closely watched as a leading indicator of regional export trends given the economy's position in the global supply chain. Export orders' upbeat reading in October reflected solid demand from the US and Europe, mainly due to the year-end holiday season. We expect such impact to moderate in the following month. On the other hand, China's recent activity indicators point to a rebound in the fourth quarter, which will partially support the orders performance. The risks from weak global demand remain, and the pace of recovery is expected to be mild and gradual. We also expect the central bank of Taiwan to keep the benchmark rate on hold during the upcoming policy meeting, given the abundant liquidity in the economy and improved growth outlook.

Calendar Events

Indonesia - BI Reference Rate, December 11

We expected the benchmark rate to remain unchanged

Current

5.75%

Consensus

5.75%

New

5.75%

South Korea - 7-Day Repo Rate, December 13

We expected the benchmark rate to remain unchanged

Current

2.75%

Consensus

2.75%

New

2.75%

Philippines - Overnight Borrowing Rate, December 13

We expected the benchmark rate to remain unchanged

Current

3.50%

Consensus

3.50%

New

3.50%

Upcoming Calendar Indicators

| China | Date | Period | Prior | Cons. | Actual |
|-----------------------------------|-----------|--------|---------|----------|--------|
| Actual FDI (YoY) | 14-18 DEC | Nov | -0.20% | -3.10% | -- |
| China November Property Prices | 18-Dec | Nov | -- | -- | -- |
| Hong Kong | Date | Period | Prior | Cons. | Actual |
| Unemployment Rate SA | 18-Dec | Nov | 3.40% | -- | -- |
| CPI - Composite Index (YoY) | 20-Dec | Nov | 3.80% | -- | -- |
| India | Date | Period | Prior | Cons. | Actual |
| Cash Reserve Ratio | 18-Dec | 18-Dec | 4.25% | 4.00% | -- |
| Japan | Date | Period | Prior | Cons. | Actual |
| Merchnds Trade Balance Total | 19-Dec | Nov | ¥549.0B | ¥1035.1B | -- |
| Merchnds Trade Exports YoY | 19-Dec | Nov | -6.5 | -5.5 | -- |
| All Industry Activity Index (MoM) | 19-Dec | Oct | -0.30% | 0.20% | -- |
| Malaysia | Date | Period | Prior | Cons. | Actual |
| CPI YoY | 19-Dec | Nov | 1.30% | 1.50% | -- |
| Philippines | Date | Period | Prior | Cons. | Actual |
| Overseas Remittances (YoY) | 17-Dec | Oct | 5.90% | 6.00% | -- |
| Unemployment Rate | 18-Dec | Oct | 7.00% | -- | -- |
| Balance of Payments | 19-Dec | Nov | \$604M | -- | -- |
| Singapore | Date | Period | Prior | Cons. | Actual |
| Non-oil Domestic Exports (YoY) | 17-Dec | Nov | 7.90% | 1.80% | -- |
| Taiwan | Date | Period | Prior | Cons. | Actual |
| Export Orders (YoY) | 20-Dec | Nov | 3.16% | 2.95% | -- |

Upcoming Calendar Events

Japan - General Election, December 16

India - Repo Cutoff Yield, December 18

We expect the benchmark rate to remain unchanged

| Current | Consensus | New |
|---------|-----------|-----|
| 8.00% | 8.00% | -- |

South Korea - Presidential Election, December 19

Taiwan - Benchmark Interest Rate, December 19

We expect the benchmark rate to remain unchanged

| Current | Consensus | New |
|---------|-----------|-----|
| 1.88% | 1.88% | -- |

Japan - Benchmark Interest Rate, December 20

We expect further unconventional easing

| Current | Consensus | New |
|---------|-----------|-----|
| 1.88% | 1.88% | -- |

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. | 2150.6 | 4.3 | 4.3 | -2.2 | -3.5 |
| | Hong Kong - Hang Seng | 22606.0 | 0.7 | 1.9 | 22.6 | 23.2 |
| | Taiwan - Weighted | 7698.8 | -0.8 | 0.7 | 8.9 | 11.2 |
| | Japan - Nikkei 225 | 9737.6 | -0.1 | 2.2 | 15.2 | 14.3 |
| | Korea - Kospi | 1995.0 | -0.4 | 1.9 | 9.3 | 7.4 |
| | India - Sensex 30 | 19309.8 | 0.4 | -0.6 | 24.9 | 21.6 |
| | Australia - SPX/ASX 200 | 4583.1 | 0.0 | 0.7 | 13.0 | 9.4 |
| | Singapore - Strait Times | 3168.4 | 0.4 | 2.0 | 19.7 | 18.6 |
| | Indonesia - Jakarta Comp | 4308.9 | -0.3 | 0.4 | 12.7 | 14.9 |
| | Thailand - SET | 1359.1 | 0.4 | 1.4 | 32.6 | 32.8 |
| | Malaysia - KLCI | 1652.0 | 0.0 | 2.1 | 7.9 | 12.9 |
| | Philippines - Manila Comp. | 5707.1 | -1.4 | -1.5 | 30.5 | 33.2 |

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| FOREIGN EXCHANGE MARKETS | CURRENCY | Spot | % change over a day | % change over a week | Forward 3-month | Forward 12-month |
|--------------------------|-----------------------|-------|------------------------|-------------------------|--------------------|---------------------|
| | China (CNY/USD) | 6.25 | -0.21 | -0.35 | 6.29 | 6.31 |
| | Hong Kong (HKD/USD) | 7.75 | 0.00 | 0.00 | 7.75 | 7.75 |
| | Taiwan (TWD/USD) | 29.1 | 0.06 | 0.02 | 28.86 | 28.56 |
| | Japan (JPY/USD) | 83.83 | -0.21 | -1.60 | 83.77 | 83.49 |
| | Korea (KRW/USD) | 1075 | -0.15 | 0.64 | 1079 | 1092 |
| | India (INR/USD) | 54.3 | 0.28 | 0.29 | 55.12 | 57.50 |
| | Australia (USD/AUD) | 1.05 | 0.05 | 0.43 | 0.96 | 0.98 |
| | Singapore (SGD/USD) | 1.22 | -0.03 | -0.07 | 1.22 | 1.22 |
| | Indonesia (IDR/USD) | 9694 | -0.05 | 0.14 | 9765 | 10095 |
| | Thailand (THB/USD) | 30.7 | -0.03 | 0.07 | 30.80 | 31.21 |
| | Malaysia (MYR/USD) | 3.06 | -0.06 | -0.03 | 3.07 | 3.11 |
| | Philippines (PHP/USD) | 41.1 | -0.09 | -0.35 | 41.02 | 41.03 |

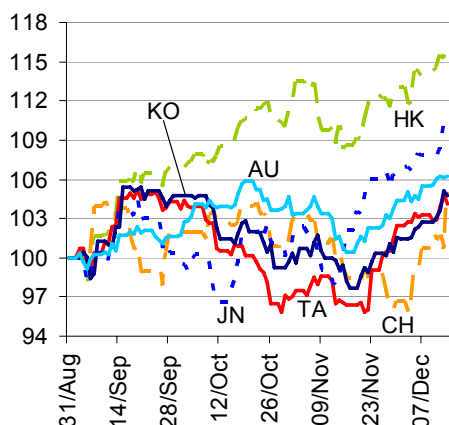
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| INTERBANK RATES | INDEX | Rate | net change over a day | net change over a week | net change over a month |
|-----------------|-------------------------|------|--------------------------|---------------------------|----------------------------|
| | China (SHIBOR/7D) | 3.00 | 0.34 | -0.08 | -0.36 |
| | Hong Kong (HIBOR/1W) | 0.13 | 0.00 | 0.00 | 0.00 |
| | Taiwan (TAIBOR/1W) | 0.58 | 0.00 | 0.00 | -0.01 |
| | Japan (TIBOR/1Y) | 0.76 | 0.00 | 0.01 | 0.01 |
| | Korea (KORIBOR/1M) | 2.79 | 0.00 | 0.01 | 0.01 |
| | India (MIBOR/7D) | 3.00 | -0.16 | -0.90 | -0.35 |
| | Singapore (SIBOR/1W) | 0.25 | 0.00 | 0.00 | 0.00 |
| | Indonesia (JIBOR/1W) | 4.30 | 0.01 | 0.01 | 0.02 |
| | Thailand (BIBOR/1W) | 2.78 | 0.00 | 0.00 | 0.00 |
| | Malaysia (KLIBOR/1W) | 2.90 | 0.00 | 0.00 | 0.00 |
| | Philippines (PHIBOR/1W) | 0.25 | 0.69 | -0.75 | -1.69 |

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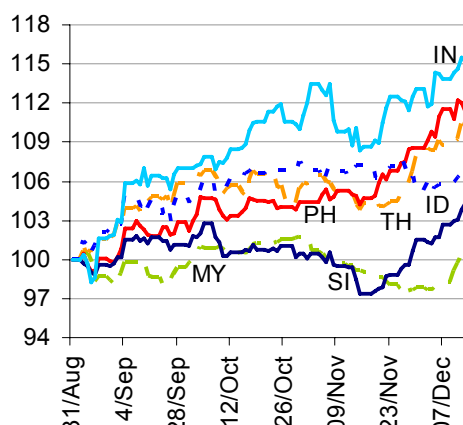
Charts

Chart 1
Stock Markets



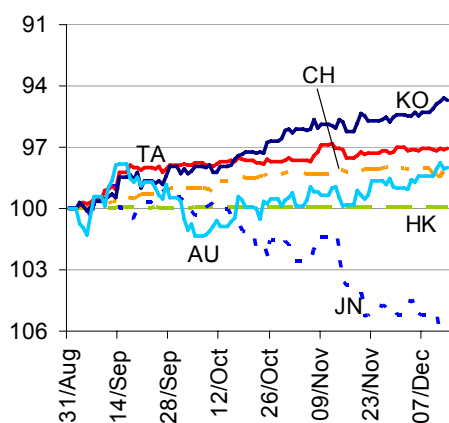
Source: BBVA Research and Bloomberg

Chart 2
Stock Markets



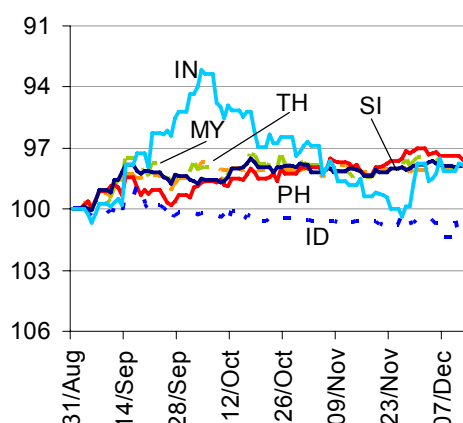
Source: BBVA Research and Bloomberg

Chart 3
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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