

Daily Flash

Asia

Market sentiment remained strong today across Asia, driven by positive corporate earnings in Japan and China. The Nikkei rallied by 2.3% to its highest level since April 2010 (and has gained 28.2% since mid-November), while the Japanese yen continued to depreciate, down -0.7% on the day to 91.35/USD. Meanwhile, the Hang Seng and Shanghai Composite also registered gains of 0.7% and 1.0%. Looking ahead, we will be watching for tomorrow's release of Q4 GDP in Taiwan and the Philippines (consensus: 3.0% and 6.3%, respectively), Japan December industrial production, and Malaysia's rate decision (where no change is expected).

Cross-strait ties deepen with new portfolio investment agreements

As rumored in recent days, new agreements have been announced between financial regulators in China (CSRC) and Taiwan (FSC). According to the CSRC's webpage, China will allow qualified Taiwanese brokers to engage in stakes of up to 51% securities joint ventures located in select Chinese cities and provinces of Shanghai, Fujian and Shenzhen, and up to 49% in other regions. Taiwan, for its part, agreed to raise its Qualified Domestic Institutional Investor investment quota for Chinese investors from USD\$0.5bn to USD\$1bn. Further, proposals to launch an offshore RMB Qualified Foreign Institutional Investor program in Taiwan (with an initial quota of RMB 100bn specifically for Taiwanese financial institutions) as well as allowing mainland companies to be listed in Taiwan's stock market are under active consideration by both sets of regulators. These announced and pending policy changes are expected to further enhance bilateral ties and boost cross-strait investments in the financial sector. This agreement builds on the Economic Cooperation Framework Agreement between China and Taiwan, signed in June 2010, that aims to reduce tariffs between the two sides.

Japan's retail sales remain sluggish in December

Retail sales rose by a disappointing 0.1% m/m seasonally adjusted from November (consensus: 0.4%; prior: 0.0%). Given the data thus far, it is likely that Japan's economy contracted in Q4 for a third consecutive quarter. To stimulate growth, Japan's cabinet approved a draft budget of 92.6tn yen on Tuesday, with stimulus measures to boost domestic demand.

Korea's IP shows signs of life

Korea's industrial production showed more signs of life in December (0.8% y/y, consensus: 1.0% y/y), on a second straight month of improvement in manufacturing (1.2% y/y, following 3.2% y/y growth in November). Production is likely picking up on expectations that incoming President Park will increase domestic spending to boost growth prospects after a lackluster GDP outturn of 2.0% in 2012, a three-year low. We expect a gradual pickup in Korea's growth in 2013 to 2.7% on an improving global environment, though recent strength in the won risks adversely affecting its exporters.

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Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
AiG Performance of Mfg Index	01 Feb	Jan	44.3	--	--
RBA Commodity Index SDR YoY%	01 Feb	Jan	-8.00%	--	--
Producer Price Index (YoY)	01 Feb	4Q	1.1%	1.2%	
China	Date	Period	Prior	Cons.	Actual
Industrial Profits YTD YoY	27 Jan	Dec	3.0%	--	5.30%
Manufacturing PMI	01 Feb	Jan	50.6	51.0	--
Hong Kong	Date	Period	Prior	Cons.	Actual
Retail Sales - Value (YoY)	31 Jan	Dec	9.50%	7.60%	--
Indonesia	Date	Period	Prior	Cons.	Actual
Inflation (YoY)	01 Feb	Jan	4.30%	4.49%	--
Exports (YoY)	01 Feb	Dec	-4.60%	--	--
Japan	Date	Period	Prior	Cons.	Actual
Retail Trade (YoY)	30 Jan	Dec	1.30%	0.30%	0.40%
Industrial Production YOY%	31 Jan	Dec P	-5.50%	-5.60%	--
Jobless Rate	01 Feb	Dec	4.10%	4.1%	--
Philippines	Date	Period	Prior	Cons.	Actual
GDP (YoY)	31 Jan	4Q	7.10%	6.30%	--
Singapore	Date	Period	Prior	Cons.	Actual
Unemployment Rate (sa)	31 Jan	4Q P	1.90%	2.00%	--
South Korea	Date	Period	Prior	Cons.	Actual
Industrial Production (YoY)	30 Jan	Dec	2.90%	1.20%	0.80%
Current Account in US\$ Million	30 Jan	Dec	\$6906.2M	--	\$2252.9M
Consumer Price Index (YoY)	01 Feb	Jan	1.40%	1.50%	--
Ext Trade - Export (YoY)	01 Feb	Jan	-5.70%	9.40%	--
Taiwan	Date	Period	Prior	Cons.	Actual
GDP - Constant Prices (YoY)	31 Jan	4Q P	0.98%	3.00%	--
Thailand	Date	Period	Prior	Cons.	Actual
Total Exports YOY%	31 Jan	Dec	27.10%	--	--
Current Account Balance (USD)	31 Jan	Dec	\$392M	-\$636M	--
Consumer Price Index (YoY)	01 Feb	Jan	3.63%	3.50%	--
Vietnam	Date	Period	Prior	Cons.	Actual
Exports YTD (YoY)	28 Jan	Jan	18.30%	--	43.20%
Retail Sales YTD (YoY)	28 Jan	Jan	16.00%	--	8.10%
Industrial Production Index (YoY)	28 Jan	Jan	5.90%	--	21.1%

Calendar Events

India - REPO Cutoff Yld, January 29

We expect a 25 bps cut in the benchmark rate

Current	Consensus	New
8.00%	7.75%	7.75%

Malaysia -Overnight Rate, January 31

We expect the benchmark rate to remain unchanged

Current	Consensus	New
3.00%	3.00%	--

Markets Data

STOCK MARKETS	INDEX	% change				
		Last price	over a day	over a week	Year to date	over 1 Y
	China - Shanghai Comp.	23825	1.0	2.7	5.0	4.3
	Hong Kong - Hang Seng	23822.1	0.7	0.8	5.1	18.2
	Taiwan - Weighted	7833.0	0.4	1.1	1.7	5.7
	Japan - Nikkei 225	11114.0	2.3	6.0	6.9	26.4
	Korea - Kospi	1964.4	0.4	-0.8	-1.6	1.2
	India - Sensex 30	20033.8	0.2	0.0	3.1	18.8
	Australia - SPX/ASX 200	4896.7	0.2	2.5	5.3	14.6
	Singapore - Strait Times	3281.6	0.7	1.6	3.6	13.6
	Indonesia - Jakarta Comp	4453.0	0.3	0.8	3.2	13.7
	Thailand - SET	1487.8	0.6	3.4	6.9	38.4
	Malaysia - KLCI	1627.7	-0.6	-0.5	-3.6	7.5
	Philippines - Manila Comp.	6271.2	0.6	2.9	7.9	35.0

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FOREIGN EXCHANGE MARKETS	CURRENCY	% change				
		Spot	over a day	over a week	Forward 3-month	Forward 12-month
	China (CNY/USD)	6.22	0.10	-0.03	6.29	6.31
	Hong Kong (HKD/USD)	7.76	0.01	-0.07	7.76	7.75
	Taiwan (TWD/USD)	29.5	0.15	-1.73	29.40	29.11
	Japan (JPY/USD)	91.17	-0.48	-2.81	91.11	90.79
	Korea (KRW/USD)	1085	-0.26	-1.78	1091	1103
	India (INR/USD)	53.4	0.63	0.44	54.22	56.60
	Australia (USD/AUD)	1.04	-0.27	-1.02	0.96	0.98
	Singapore (SGD/USD)	1.24	-0.23	-0.77	1.24	1.24
	Indonesia (IDR/USD)	9688	-0.04	-0.65	9875	10212
	Thailand (THB/USD)	29.8	0.07	0.03	29.90	30.30
	Malaysia (MYR/USD)	3.08	-0.15	-1.27	3.10	3.14
	Philippines (PHP/USD)	40.6	0.24	0.01	40.54	40.44

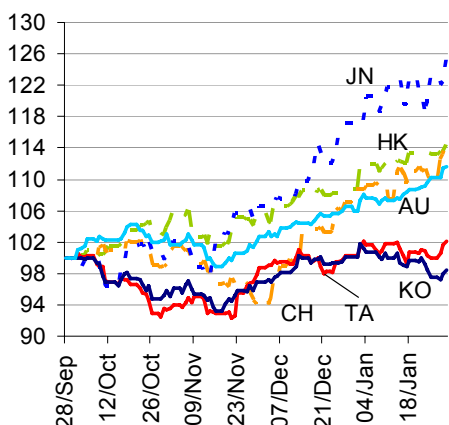
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INTERBANK RATES	INDEX	Rate	net change		
			over a day	over a week	over a month
	China (SHIBOR/7D)	3.23	0.08	0.23	-0.85
	Hong Kong (HIBOR/1W)	0.10	0.00	0.00	-0.03
	Taiwan (TAIBOR/1W)	0.56	0.00	0.00	-0.01
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	2.78	0.00	0.00	-0.02
	India (MIBOR/7D)	5.00	1.90	2.02	0.80
	Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00
	Indonesia (JIBOR/1W)	4.30	0.00	0.00	-0.18
	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)	1.69	-0.69	0.63	2.00

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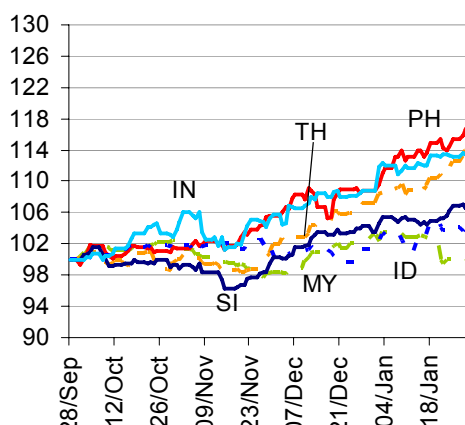
Charts

Chart 1
Stock Markets



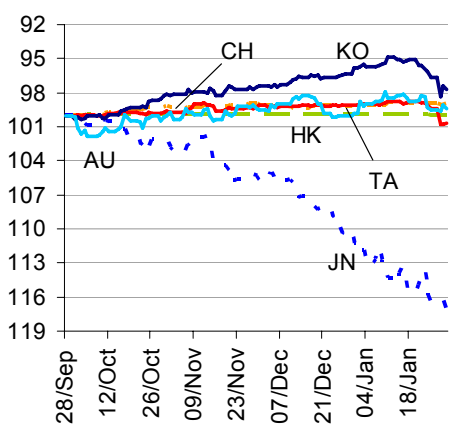
Source: BBVA Research and Bloomberg

Chart 2
Stock Markets



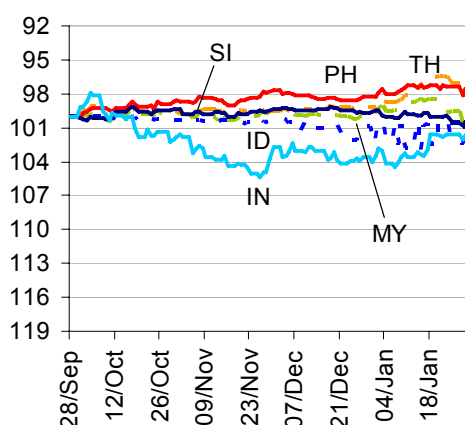
Source: BBVA Research and Bloomberg

Chart 3
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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