Asia Flash

Asia

Asian markets closed higher to end the week on optimism of an agreement to settle the US debt ceiling debate. Gains were led by Shanghai (+1.7%) and Tokyo (+1.5%), and most currencies rose against the USD. Despite continuing uncertainty, Asian markets in recent days have showed relatively little reaction to fears of US debt default. Next week's focus in Asia will be on the release of Chinese economic indicators (see below). Also, the Monetary Authority of Singapore will hold its semiannual monetary policy meeting, where we expect no change in the stance (which was last tightened in April 2012 through a steepening of the appreciation path of the SGD); the Q3 GDP preliminary estimate will also be released (consensus: 3.8% y/y). As Monday will be a holiday in Hong Kong, we will report on these and other developments on the following day.

China allows offshore RMB for investment in domestic financial institutions

In its latest relaxation of restrictions on the inflow of offshore RMB, the People's Bank of China (PBoC) yesterday announced it will allow foreigners to invest in domestic financial institutions with their RMB holdings. (The new rule happened to coincide with the signing of a swap agreement with the ECB, as we reported yesterday.) Foreigners will now be permitted to use RMB for a number of activities relating to investment in financial institutions, including new set-ups, additional investment, M&A, liquidation, equity sell-off, and profit remittances (outflows). This announcement further enhances the attractiveness of offshore RMB, and should be a further boost to the Dim Sum Bond market.

Will China's next data batch confirm continued momentum?

We expect the next batch of economic indicators to confirm a pickup in Q3 GDP growth (consensus: 7.8% y/y; BBVA: 7.7%; prior: 7.5%). The GDP outturn is scheduled to be released on October 18, along with monthly activity indicators for September. After slowing during the first half of the year, the economy has gained momentum from improving private manufacturing investment and buoyant exports from strengthening external demand. The pickup in investment has been facilitated by enhanced policy clarity since June, lifting confidence in the official 7.5% growth target for 2013, along with "mini" stimulus measures, including tax cuts for small businesses, accelerated infrastructure spending, and streamlining of exports customs procedures. We expect growth momentum to continue in early 2014, but lose some steam in the second half of the year as stimulus wears off and as the authorities address rising financial fragilities and reforms to rebalance growth. Also scheduled for release are trade data tomorrow, credit aggregates (Oct 12-15), inflation (Oct 14), industrial production, investment, and retail sales (Oct 18). (See web version for details.)

Briefly noted:

China's CBRC starts consultation on Basel III liquidity risk rules

China's bank regulator (CBRC) circulated draft rules today on liquidity risk management for consultation. The liquidity risk rules are due to apply from January 1, 2014, with a phase-in of full compliance by end-2018, consistent with the Basel III timetable. Importantly, the draft rules include liquidity risk arising from interbank transactions and wealth management products (WMPs), reflecting the regulator's efforts to clamp down on shadow banking activities. In today's

statement, the CBRC also said it would review the current ceiling of 75% on the Loan-to-Deposit ratio, Banks have been seeking to lift the ratio.

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Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
Unemployment Rate	10 Oct	Sep	5.80%	5.80%	5.60%
China	**Date**	**Period**	**Prior**	**Cons.**	**Actual**
Foreign Reserves	11-15 Oct	Sep	$3496.7B	$3520.0B	--
New Yuan Loans	11-15 Oct	Sep	711.3B	675.0B	--
Money Supply M2 YoY	11-15 Oct	Sep	14.70%	14.20%	--
Aggregate Financing RMB	11-15 Oct	Sep	1570.0B	1350.0B	--
Trade Balance	12 Oct	Sep	$28.52B	$26.17B	--
Exports YoY	12 Oct	Sep	7.20%	5.50%	--
Imports YoY	12 Oct	Sep	7.00%	7.00%	--
Indonesia	**Date**	**Period**	**Prior**	**Cons.**	**Actual**
Foreign Reserves	07 Oct	Sep	$93.0B	--	$95.7B
India	**Date**	**Period**	**Prior**	**Cons.**	**Actual**
ECOExports YoY	09 Oct	Sep	13.00%	--	11.20%
Industrial Production YoY	11 Oct	Aug	2.60%	2.10%	--
Japan	**Date**	**Period**	**Prior**	**Cons.**	**Actual**
BoP Current Account Balance	08 Oct	Aug	¥577.3B	¥520.0B	¥161.5B
Machine Tool Orders YoY	09 Oct	Sep P	-1.70%	--	-6.30%
Tertiary Industry Index MoM	10 Oct	Aug	-0.40%	0.40%	0.70%
Machine Orders MoM	10 Oct	Aug	0.00%	2.50%	5.40%
Machine Orders YOY	10 Oct	Aug	6.50%	8.50%	10.30%
Malaysia	**Date**	**Period**	**Prior**	**Cons.**	**Actual**
Industrial Production YoY	10 Oct	Aug	7.50%	7.50%	2.30%
Philippines	**Date**	**Period**	**Prior**	**Cons.**	**Actual**
Exports YoY	10 Oct	Aug	2.30%	20.00%	20.20%
Taiwan	**Date**	**Period**	**Prior**	**Cons.**	**Actual**
CPI YoY	07 Oct	Sep	-0.80%	0.10%	0.83%
Exports YoY	07 Oct	Sep	3.60%	-1.20%	-7.00%

Calendar Events

Indonesia – Bank Indonesia Reference Rate, Oct 8	**Current**	**Cons.**	**New**
We expect the benchmark rate to remain unchanged	7.25%	7.25%	7.25%

Korea – BoK 7-Day Repo Rate, Oct 10	**Current**	**Cons.**	**New**
We expect the benchmark rate to remain unchanged	2.50%	2.50%	2.50%

Indicator of the Week

China: Q3 GDP growth (October 18th)

Forecast: 7.7% y/y	Consensus: 7.8% y/y	Prior: 7.5% y/y

China's economy is likely to have accelerated in Q3, based on recent activity indicators pointing to a stronger growth momentum after a slowdown in H1. The pickup is attributable improving private manufacturing investment and external demand. The former has been facilitated by enhanced policy clarity, which lifted confidence in the 7.5% growth target for 2013, as well as "mini" stimulus measures, including tax cuts for small businesses, accelerated infrastructure spending, and streamlining of exports customs procedures. On sequential terms, Q3 growth is likely to rise to 2.1% q/q sa, from 1.7% in Q2. We expect growth momentum to continue in early 2014, but lose some steam in the second half of the year as stimulus wears off and as the authorities address rising financial fragilities and reforms to rebalance growth. A batch of monthly activity indicators for September will also be released, including trade (Oct 12), credit aggregates (Oct 12-15), inflation (Oct 14), industrial production, investment, and retail sales (Oct 18).

Upcoming Calendar Indicators

China	Date	Period	Prior	Cons.	Actual
Foreign Reserves	11-15 Oct	Sep	$3496.7B	$3520.0B	--
New Yuan Loans	11-15 Oct	Sep	711.3B	675.0B	--
Money Supply M2 YoY	11-15 Oct	Sep	14.70%	14.20%	--
Aggregate Financing RMB	11-15 Oct	Sep	1570.0B	1350.0B	--
Trade Balance	12 Oct	Sep	$28.52B	$26.25B	--
Exports YoY	12 Oct	Sep	7.20%	5.50%	--
Imports YoY	12 Oct	Sep	7.00%	7.00%	--
CPI YoY	14 Oct	Sep	2.60%	2.80%	--
PPI YoY	14 Oct	Sep	-1.60%	-1.40%	--
Foreign Direct Investment YoY	14-18 Oct	Sep	0.60%	6.40%	--
GDP SA QoQ	18 Oct	3Q	1.70%	2.10%	--
GDP YoY	18 Oct	3Q	7.50%	7.80%	--
GDP YTD YoY	18 Oct	3Q	7.60%	7.70%	--
Industrial Production YoY	18 Oct	Sep	10.40%	10.20%	--
Fixed Assets Ex Rural YTD YoY	18 Oct	Sep	20.30%	20.30%	--
Retail Sales YoY	18 Oct	Sep	13.40%	13.40%	--
Hong Kong	**Date**	**Period**	**Prior**	**Cons.**	**Actual**
Unemployment Rate SA	17 Oct	Sep	3.30%	3.30%	--
India	**Date**	**Period**	**Prior**	**Cons.**	**Actual**
CPI YoY	14 Oct	Sep	9.52%	9.50%	--
Wholesale Prices YoY	14 Oct	Sep	6.10%	6.00%	--
Japan	**Date**	**Period**	**Prior**	**Cons.**	**Actual**
Industrial Production YoY	15 Oct	Aug F	-0.20%	--	--
Philippines	**Date**	**Period**	**Prior**	**Cons.**	**Actual**
Overseas Remittances YoY	15 Oct	Aug	6.60%	6.00%	--
Singapore	**Date**	**Period**	**Prior**	**Cons.**	**Actual**
GDP SAAR QoQ	14 Oct	3Q A	15.50%	-4.00%	--
GDP YoY	14 Oct	3Q A	3.80%	3.80%	--
Retail Sales YoY	14 Oct	Aug	-7.80%	-5.20%	--
Non-oil Domestic Exports YoY	17 Oct	Sep	-6.20%	-2.90%	--
South Korea	**Date**	**Period**	**Prior**	**Cons.**	**Actual**
Unemployment rate SA	16 Oct	Sep	3.10%	3.10%	--

Upcoming Calendar Events

Thailand – BoT Benchmark Interest Rate, Oct 16	**Current**	**Cons.**	**New**
We expect the benchmark rate to remain unchanged	2.50%	2.50%	--

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.	2228.1	1.7	3.2	-1.8	6.0
Hong Kong – Hang Seng	23218.3	1.2	0.3	2.5	10.6
Taiwan – TAIEX	8349.4	0.1	-0.1	8.4	10.0
Japan – Nikkei 225	14404.7	1.5	2.7	38.6	68.5
Korea – Kospi	2024.9	1.2	1.3	1.4	4.7
India – Sensex 30 *	20528.6	1.3	3.1	5.7	9.2
Australia – SPX/ASX 200	5230.9	1.6	0.4	12.5	16.7
Singapore – Strait Times	3179.7	0.3	1.3	0.4	4.8
Indonesia – Jakarta Comp	4519.9	0.7	3.0	4.7	5.5
Thailand – SET	1457.8	0.4	2.1	4.7	12.6
Malaysia – KLCI	1785.8	0.6	0.5	5.7	7.9
Philippines – Manila Comp.	6489.8	0.8	1.6	11.6	21.2

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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)	6.12	-0.04	0.09	6.14	6.16
Hong Kong (HKD/USD)	7.75	0.01	0.00	7.75	7.75
Taiwan (TWD/USD)	29.4	-0.15	-0.26	29.27	29.00
Japan (JPY/USD)	98.35	-0.19	-0.88	98.28	97.99
Korea (KRW/USD)	1071	0.21	-0.09	1077	1090
India (INR/USD)	61.0	0.54	0.67	62.43	65.76
Australia (USD/AUD)	0.95	0.32	0.50	1.06	1.08
Singapore (SGD/USD)	1.25	0.18	0.05	1.25	1.24
Indonesia (IDR/USD)	11365	-1.91	0.14	11589	12249
Thailand (THB/USD)	31.3	0.24	0.05	31.43	31.91
Malaysia (MYR/USD)	3.18	0.43	0.12	3.19	3.24
Philippines (PHP/USD)	43.0	0.25	0.09	42.83	42.87

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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)	4.30	-0.18	0.10	0.82
Hong Kong (HIBOR/1W)	0.14	0.00	0.00	0.02
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)	2.56	0.00	0.00	0.00
India (MIBOR/7D)	3.10	-1.53	-0.59	-0.38
Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00
Indonesia (JIBOR/1W)	6.10	0.01	0.02	0.39
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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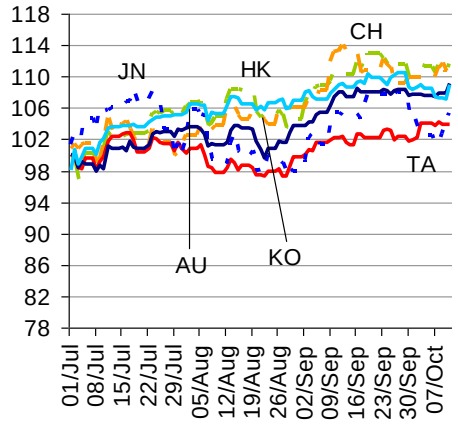
Charts

Chart 1

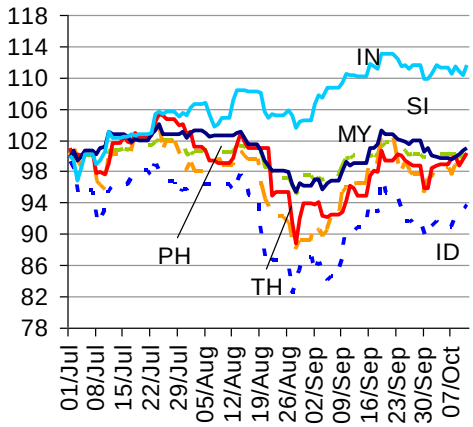
Stock Markets



Source: BBVA Research and Bloomberg

Chart 2

Stock Markets



Source: BBVA Research and Bloomberg

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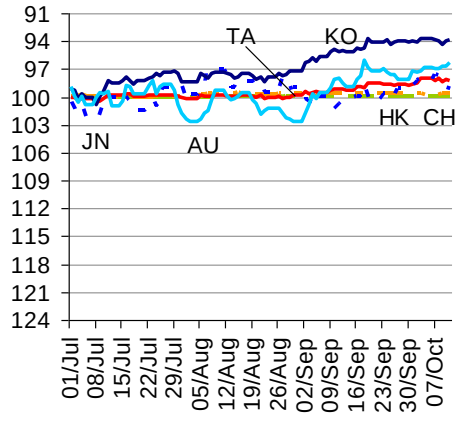
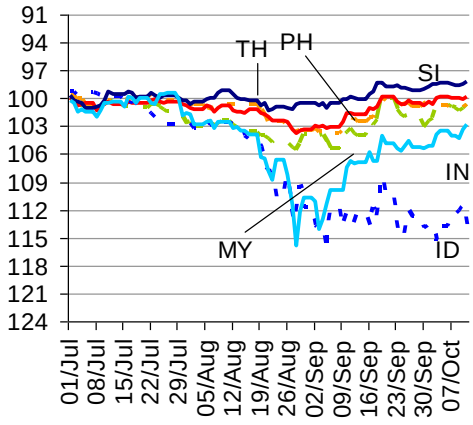
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4

Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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