

Asia Flash

Asia

China's growth momentum continues on robust November PMI outturn

The official NBS manufacturing PMI released yesterday (December 1) came in at a better-than-expected 51.4 (consensus: 51.1; previous: 51.4), and today's HSBC final PMI reading was revised up to 50.8 (from a previous flash estimate of 50.4). By components, the NBS PMI was sustained by healthy production, with the sub-index inching up to 54.5 from 54.4 last month, offsetting a softening in the new orders index. On balance, the PMI outturns indicate that China's manufacturing activity is holding up, despite still-sluggish external conditions and a gradual winding down of domestic policy support. If sustained, the robust growth momentum could strengthen the government's confidence in pressing ahead with economic reforms as envisaged in the recent Third Plenum policy blueprint (see below on reforms in the Shanghai Free Trade Zone). We expect full-year growth to reach 7.7% in 2013, and 7.6% in 2014.

PBoC releases financial policy guidelines for Shanghai Free Trade Zone

The central bank today posted suggested policy guidelines for Shanghai's Free Trade Zone (FTZ), which had been flagged in the Third Plenum blueprint for structural reforms. Today's policy guidelines cover capital account liberalization, interest rate liberalization, and foreign exchange management within the free trade zone. The guidelines are lacking in details and time tables and call for further consultation with other regulatory bodies, but nevertheless underscore the authorities' intention to use the FTZ as a testing ground for broader national reforms. As anticipated, capital controls are expected to remain firmly in place between the FTZ and the domestic market. From a preliminary reading of the guidelines, we infer that individuals employed within the FTZ (including foreign nationals) will be permitted to invest in domestic and overseas markets, financial institutions in the zone to invest in Shanghai's securities and options markets, issue bonds in the domestic market, and borrow from international markets. The guidelines also pledge to streamline cross-border RMB transactions associated with current account transactions and FDI, loosen foreign exchange management and FDI regulations. In regards to interest rate liberalization, financial institutions in the zone will be permitted to issue certificates of deposits at market-determined interest rates.

India posts better-than-expected Q3 GDP growth

Third quarter GDP growth, released late last Friday, rose to 4.8% y/y (consensus: 4.6%; BBVA: 3.8%) from a four-year low of 4.4% y/y in Q2. The pickup was led by strong agricultural output, as anticipated, on the back of favourable weather conditions and unexpectedly high industrial output, which offset a slowdown in services growth (5.9% y/y vs 6.6% previously). From the expenditure side, headline growth was driven by strong exports. Meanwhile, the November HSBC manufacturing PMI, released today, expanded to 51.3 from 49.6 in October, ending five straight months of contraction. The GDP and PMI outturns pose upside potential to our 2013 full-year GDP projection of 4.2%, as the government's efforts to unlock stalled investment projects continue. Nevertheless, we remain cautious about the near-term growth outlook given high interest rates, elevated inflation pressures and the fiscal drag from cuts in public spending to achieve the government's 4.8% fiscal deficit target for FY14 (year ending March) and election uncertainty in 2014. We expect a meaningful recovery to emerge only after 1H14 once ongoing investment reforms take effect, and greater clarity emerges on the new government after the

general election results in May.

Protracted political unrest undermines Thailand's growth prospects

Rising political unrest in recent days, marked by street violence and calls by the opposition for the resignation of the current government of Prime Minister Yingluck Shinawatra, are undermining Thailand's growth prospects. Investor sentiment is weakening and there could be negative implications for tourism, just ahead of the peak season. We foresee significant downside risks to our 2013 and 2014 GDP growth estimates of 4.2% and 5.0% respectively. Led by signs of slowing growth and mounting political tensions, the Bank of Thailand (BoT) surprised last week with a 25 bps rate cut to 2.25% while highlighting downside risk to its already low 3.0% y/y growth projection for 2014.

Briefly noted:

Korea's exports for December disappoint

South Korea's exports, a bellwether for the region, disappointed in November, rising by a meagre 0.2% y/y (consensus: 3.0%) following October's sharp rise of 7.2% y/y). Weak intra-regional exports, especially to ASEAN and Japan drag on overall growth. Shipments to the DMs including the US and Europe continue to outperform albeit on a slower pace compared to previous month.

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Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
Retail Sales MoM	03 Dec	Oct	0.80%	0.40%	--
GDP SA QoQ	04 Dec	3Q	0.60%	0.70%	--
GDP YoY	04 Dec	3Q	2.60%	2.50%	--
China	Date	Period	Prior	Cons.	Actual
HSBC/Markit Manufacturing PMI	02 Dec	Nov	50.9	50.5	50.8
Non-manufacturing PMI	03 Dec	Nov	56.3	--	--
HSBC/Markit Services PMI	04 Dec	Nov	52.6	--	--
Imports YoY	08 Dec	Nov	7.60%	6.40%	--
Exports YoY	08 Dec	Nov	5.60%	6.30%	--
Indonesia	Date	Period	Prior	Cons.	Actual
CPI YoY	02 Dec	Nov	8.32%	8.45%	8.37%
Exports YoY	02 Dec	Oct	-6.90%	-2.60%	2.60%
Japan	Date	Period	Prior	Cons.	Actual
Capital Spending YoY	02 Dec	3Q	0.00%	3.60%	1.50%
Malaysia	Date	Period	Prior	Cons.	Actual
Exports YoY	06 Dec	Oct	5.60%	600%	--
Philippines	Date	Period	Prior	Cons.	Actual
CPI YoY	05 Dec	Nov	2.90%	3.50%	--
South Korea	Date	Period	Prior	Cons.	Actual
CPI YoY	02 Dec	Nov	0.70%	1.00%	0.90%
GDP SA QoQ	05 Dec	3Q F	1.10%	--	--
GDP YoY	05 Dec	3Q F	3.30%	--	--
Taiwan	Date	Period	Prior	Cons.	Actual
CPI YoY	05 Dec	Nov	0.64%	1.00%	--
Thailand	Date	Period	Prior	Cons.	Actual
CPI YoY	02 Dec	Nov	1.46%	1.82%	1.92%

Calendar Events

Australia – RBA Cash Rate Target, Dec 03	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.	2207.4	-0.6	1.0	-2.7	11.5
Hong Kong – Hang Seng	24038.6	0.7	1.5	6.1	9.1	
Taiwan – TAIEX	8414.6	0.1	2.8	9.3	11.0	
Japan – Nikkei 225	15655.1	0.0	0.2	50.6	65.7	
Korea – Kospi	2030.8	-0.7	0.7	1.7	5.1	
India – Sensex 30 *	20898.0	0.5	1.4	7.6	8.1	
Australia – SPX/ASX 200	5279.5	-0.8	-1.4	13.6	17.2	
Singapore – Strait Times	3188.8	0.4	0.3	0.7	3.9	
Indonesia – Jakarta Comp	4322.0	1.5	-0.3	0.1	1.1	
Thailand – SET	1374.3	0.2	1.6	-1.3	3.8	
Malaysia – KLCI	1818.2	0.3	1.1	7.6	12.9	
Philippines – Manila Comp.	6223.4	0.2	3.6	7.1	10.3	

Last update: today, 18:30 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)	6.09	0.01	0.00	6.13	6.15
Hong Kong (HKD/USD)	7.75	0.00	0.00	7.75	7.75	
Taiwan (TWD/USD)	29.6	0.12	0.11	29.47	29.19	
Japan (JPY/USD)	102.72	-0.27	-1.02	102.66	102.43	
Korea (KRW/USD)	1057	0.10	0.45	1063	1075	
India (INR/USD)	62.3	0.31	0.38	63.65	67.61	
Australia (USD/AUD)	0.91	0.26	-0.32	1.10	1.12	
Singapore (SGD/USD)	1.25	0.06	-0.36	1.25	1.25	
Indonesia (IDR/USD)	11770	1.66	-2.21	12098	12880	
Thailand (THB/USD)	32.1	-0.28	-0.31	32.45	33.04	
Malaysia (MYR/USD)	3.21	0.47	0.32	3.23	3.27	
Philippines (PHP/USD)	43.7	0.24	0.49	43.46	43.33	

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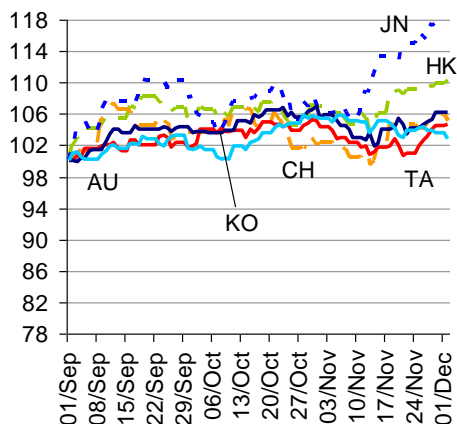
INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	4.57	-0.09	-0.07	-0.04
Hong Kong (HIBOR/1W)	0.13	0.00	0.00	-0.01	
Taiwan (TAIBOR/1W)	0.51	0.00	0.00	0.00	
Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01	
Korea (KORIBOR/1M)	2.56	0.00	0.00	0.00	
India (MIBOR/7D)	6.00	1.27	1.14	0.69	
Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00	
Indonesia (JIBOR/1W)	6.48	-0.02	0.07	0.38	
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

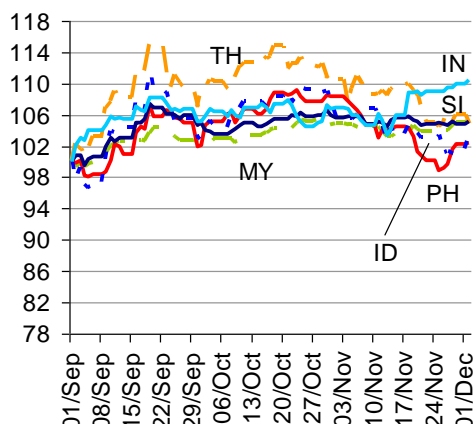
Stock Markets



Source: BBVA Research and Bloomberg

Chart 2

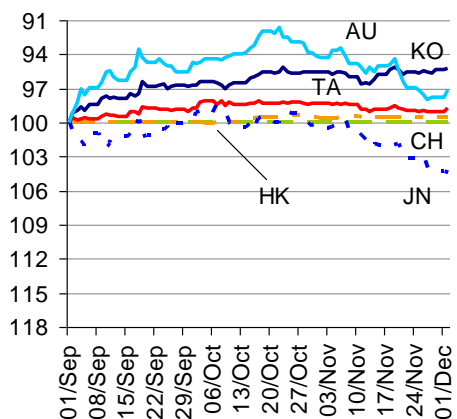
Stock Markets



Source: BBVA Research and Bloomberg

Chart 3

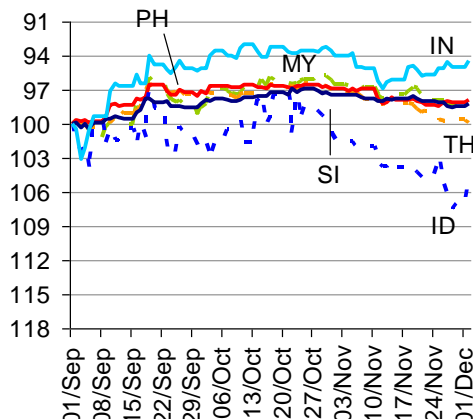
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4

Foreign Exchange Markets



Source: BBVA Research and Bloomberg


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