

# Asia Flash

## Asia

### Surge in China's November exports lifts confidence in external recovery

Exports surged 12.7% y/y (consensus: 7.0%; BBVA: 8.1%) from 5.6% in October, pointing to a further pickup in external demand. The data provide a sigh of relief against recent disappointing export figures from elsewhere in the Asia region (Korea previously posted disappointing November export growth of 0.2% y/y; and Taiwan export growth remains tepid as discussed below). Exports to the US and EU led the rebound, rising by 17.7% y/y and 18.4% y/y respectively. The data were so strong, however, that it has given rise to renewed suspicions of over-invoicing to disguise capital inflows, a practice that was prevalent for much of 2012 and early 2013. Meanwhile, import growth slowed to 5.3% y/y (consensus: 7.0%; BBVA: 5.9%) from 7.6% in October, resulting in a much larger- than-expected trade surplus of \$33.8 bn (consensus: 21.2 bn) the largest monthly surplus in almost five years. Large trade surpluses and capital inflows have continued to exert appreciation pressures on the RMB, which reached a new record high today of 6.07 per USD (ahead of our end-year forecast of 6.10). A further set of monthly indicators is scheduled for release tomorrow, including industrial production (BBVA: 10.3% y/y; consensus: 10.1%), investment (consensus and BBVA: 20.0% y/y ytd), retail sales (consensus: 13.2% y/y; BBVA: 13.4%), and credit aggregates (due out Dec 10-15).

### China November inflation remains tame

Additional good news came today in the form of a benign inflation outturn for November, of 3.0% y/y (consensus: 3.1%; BBVA: 3.0%) down from 3.2% in October on falling food price inflation, especially of vegetables. With inflation well within the authorities' 3.5% tolerance level, the likelihood of a sharp tightening of monetary policy is reduced, although there remain concerns about rising financial fragilities in the form of rapid shadow bank lending and accelerating home prices. Looking forward, we expect average inflation to trend up gradually, but remain tame, to 3.3% in 2014 from 2.7% in 2013, on stronger demand and reforms to administered prices of utilities and natural resources.

### China allows negotiable interbank CDs as next step in market liberalization

The People's Bank of China (PBoC) yesterday announced the introduction of Negotiable Interbank Certificate of Deposits, effective today. Issuance of the new CDs (ranging from one-month to three years) is open to commercial and policy banks, while purchase is open to both banks and non-bank financial institutions. Interest rates on the CDs are to be market-determined, with the Shanghai interbank offer rate (Shibor) to serve as a benchmark. We view the step as part of a market development process in the ongoing transition to fully flexible interest rates (removal of the deposit rate cap is the key remaining step toward full interest rate liberalization). Separately, PBoC officials hinted today that a long-awaited deposit insurance scheme – widely viewed as a prerequisite for removal of the deposit rate cap – may be introduced early next year.

### Downward revision to Japan's Q3 GDP sparks growth concerns

Optimism about Japan's growth recovery is fading fast after the release of a sharp downward revision to Q3 GDP growth. According to the latest figures of the government's cabinet office, Q3 GDP grew by 1.1% saar (down from a previous estimate of 1.9%), reflecting a deceleration from

3.6% in Q2 and 4.5% in Q1. The downward revision to Q3 is attributed to lower inventories and non-residential investment, although private consumption and exports were also sluggish. Looking forward, private consumption is expected to accelerate ahead of a planned sales tax hike in April, and exports should improve with stronger external demand and yen weakness (the yen depreciated today to 103.1 per USD). Nevertheless, our 1.9% full-year growth projection for 2013 appears at modest risk. Today's downside surprise to growth raises expectations of possible further BoJ monetary easing (a fiscal stimulus package for 2014 has already been announced), and underscores the importance of structural reforms to sustain medium-term growth.

#### **Briefly noted:**

##### **Thailand's Prime Minister dissolves parliament to quell protests**

In the latest twist in Thailand's ongoing political drama, Prime Minister Yingluck Shinawatra today announced the dissolution of parliament to pave the way for new elections "as soon as possible." Violent protests have gripped the capital city in recent weeks. However, given deep-seated conflicts between the incumbent Puea Thai party with its support from rural areas, and the opposition Democrat party, it is unlikely that new elections will quell political turbulence any time soon. In the meantime, the economic damage is mounting as investor sentiment and tourism inflows weaken. We foresee significant downside risks to our 2013 and 2014 GDP growth estimates of 4.2% and 5.0% respectively.

##### **Taiwan November exports disappoint but improve on a sequential basis**

In contrast to the robust outturn in China, Taiwan's November exports were flat in year-over-year terms (consensus: 2.0% y/y; October: -1.5% y/y). On a sequential basis, however, growth momentum improved to 1.0% m/m sa after a notable decline of -2.8% m/m sa in October, thanks to a pickup in demand from China and Hong Kong (8.7% m/m sa). However, shipments to ASEAN countries fell for a second straight month (-6.9% m/m sa), and demand from Europe and US also weakened.

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## Calendar Indicators

<b>Australia</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Unemployment Rate	12 Dec	Nov	5.70%	5.80%	--
<b>China</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
CPI YoY	09 Dec	Nov	3.20%	3.10%	3.00%
PPI YoY	09 Dec	Nov	-1.50%	-1.50%	-1.40%
Industrial Production YoY	10 Dec	Nov	10.30%	10.10%	--
Fixed Assets Ex Rural YTD YoY	10 Dec	Nov	20.10%	20.00%	--
Retail Sales YoY	10 Dec	Nov	13.30%	13.20%	--
New Yuan Loans	10-15 Dec	Nov	506.1B	580.0B	--
Money Supply M2 YoY	10-15 Dec	Nov	14.30%	14.20%	--
Aggregate Financing RMB	10-15 Dec	Nov	856.4B	920.0B	--
Foreign Direct Investment YoY	14-18 Dec	Nov	1.20%	1.10%	--
<b>Hong Kong</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Industrial Production YoY	12 Dec	3Q	0.30%	--	--
<b>India</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Exports YoY	10-16 Dec	Nov	13.50%	--	--
CPI YoY	12 Dec	Nov	10.09%	--	--
Industrial Production YoY	12 Dec	Oct	2.00%	--	--
<b>Japan</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
GDP Annualized SA QoQ	09 Dec	3Q F	1.90%	1.60%	1.10%
GDP SA QoQ	09 Dec	3Q F	0.50%	0.40%	0.30%
Tertiary Industry Index MoM	10 Dec	Oct	-0.20%	0.10%	--
Machine Orders MoM	11 Dec	Oct	-2.10%	0.70%	--
<b>Malaysia</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Industrial Production YoY	11 Dec	Oct	1.00%	0.80%	--
<b>Philippines</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Unemployment Rate	10 Dec	Oct	7.30%	--	--
Exports YoY	10 Dec	Oct	4.90%	10.00%	--
<b>Singapore</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Retail Sales YoY	13 Dec	Oct	-5.90%	-5.50%	--
Unemployment rate SA	13 Dec	3Q F	1.80%	--	--
<b>South Korea</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Unemployment rate SA	11 Dec	Nov	3.00%	3.00%	--
<b>Taiwan</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Exports YoY	09 Dec	Nov	-1.50%	2.00%	0.00%

## Calendar Events

<b>Indonesia – Bank Indonesia Reference Rate, Dec 12</b>	<b>Current</b>	<b>Cons.</b>	<b>New</b>
We expect the benchmark rate to remain unchanged	7.50%	7.50%	--
<b>Philippines – BSP Overnight Borrowing Rate, Dec 12</b>	<b>Current</b>	<b>Cons.</b>	<b>New</b>
We expect the benchmark rate to remain unchanged	3.50%	3.50%	--
<b>South Korea – BoK 7-Day Repo Rate, Dec 12</b>	<b>Current</b>	<b>Cons.</b>	<b>New</b>
We expect the benchmark rate to remain unchanged	2.50%	2.50%	--

## Indicator of the Week

China: Industrial production for November (December 10<sup>th</sup>)

Forecast: 10.3% y/y

Consensus: 10.1% y/y

Prior: 10.3% y/y

After picking up in Q3, China's growth momentum appears to have been sustained in recent months as indicated by a strong official PMI for November (51.4, the same as the previous month). Sentiment has been further lifted by the conclusion of the Third Plenum meeting and its resulting reform blueprint. Output is also being sustained by the lingering effects of mini-stimulus measures adopted earlier in the year, and external demand is gradually improving. We therefore expect manufacturing activity to have remained strong in November, which would bode well for our full-year growth projection of 7.7% for 2013 (based on Q4 growth of 7.6%-7.7%). A set of other monthly activity indicators will also be released in the coming week, including inflation (BBVA: 3.0%), investment (BBVA: 20.0% ytd), retail sales (BBVA: 13.4%), and credit aggregates. We will also be watching for the Central Economic Work conference in which it is expected that the government will set next year's growth target (likely in the 7.0%-7.5% range).

## 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.	2238.2	0.0	1.4	-1.4	8.6
	Hong Kong – Hang Seng	23811.2	0.3	-0.9	5.1	7.3
	Taiwan – TAIEX	8444.6	0.9	0.4	9.7	10.5
	Japan – Nikkei 225	15650.2	2.3	0.0	50.6	64.3
	Korea – Kospi	2000.4	1.0	-1.5	0.2	2.2
	India – Sensex 30 *	21326.4	1.6	2.1	9.8	9.8
	Australia – SPX/ASX 200	5144.4	-0.8	-2.6	10.7	13.0
	Singapore – Strait Times	3113.6	0.0	-2.4	-1.7	0.2
	Indonesia – Jakarta Comp	4214.3	0.8	-2.5	-2.4	-1.8
	Thailand – SET	1367.4	0.4	-0.3	-1.8	2.4
	Malaysia – KLCI	1841.9	0.8	1.3	9.1	13.9
	Philippines – Manila Comp.	6008.9	-0.1	-3.4	3.4	3.7

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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)	6.07	0.16	0.34	6.11	6.12
	Hong Kong (HKD/USD)	7.75	0.01	-0.02	7.75	7.75
	Taiwan (TWD/USD)	29.6	0.06	-0.02	29.45	29.20
	Japan (JPY/USD)	103.08	-0.16	-0.14	103.01	102.78
	Korea (KRW/USD)	1053	0.47	0.41	1056	1067
	India (INR/USD)	61.1	0.58	2.07	62.23	65.96
	Australia (USD/AUD)	0.91	-0.21	-0.25	1.11	1.13
	Singapore (SGD/USD)	1.25	-0.03	0.50	1.25	1.25
	Indonesia (IDR/USD)	11974	-0.08	-1.70	12346	13161
	Thailand (THB/USD)	32.1	0.08	0.19	32.46	32.96
	Malaysia (MYR/USD)	3.21	0.78	0.01	3.22	3.26
	Philippines (PHP/USD)	44.1	-0.41	-1.08	44.00	43.90

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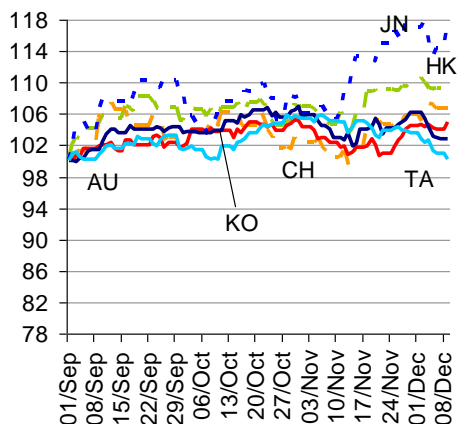
INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	4.48	-0.07	-0.08	0.54
	Hong Kong (HIBOR/1W)	0.13	0.00	0.00	-0.01
	Taiwan (TAIBOR/1W)	0.51	0.00	0.00	0.00
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	2.56	0.00	0.00	0.00
	India (MIBOR/7D)	3.61	-1.04	-2.39	-0.34
	Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00
	Indonesia (JIBOR/1W)	6.46	-0.01	-0.01	0.36
	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

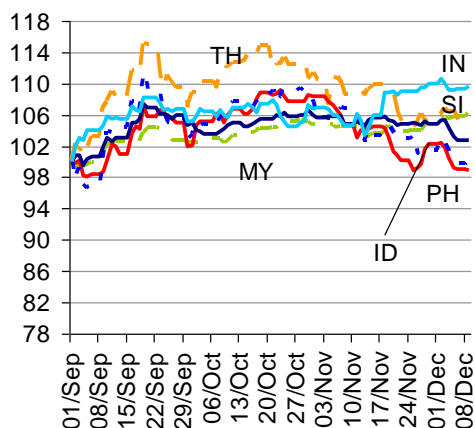
## Stock Markets



Source: BBVA Research and Bloomberg

Chart 2

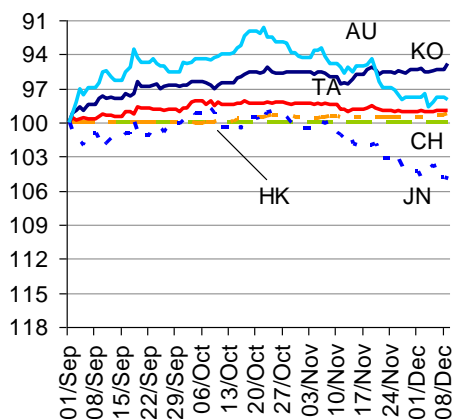
## Stock Markets



Source: BBVA Research and Bloomberg

Chart 3

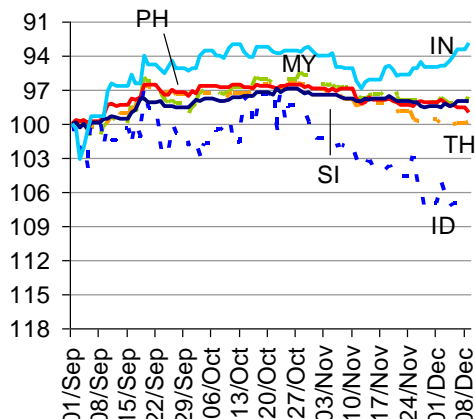
## Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4

## Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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