

Asia Flash

Asia

China December credit growth driven by continued shadow bank activity

According to data released today, “total social financing”, the broadest gauge of credit in China’s economy, increased by 1.23 trillion RMB (consensus: 1.14 trillion; November: 1.23 trillion), equivalent to 18.8% y/y (vs. 19.5% in November). While the flow of new bank loans declined (RMB 482.5 billion vs. consensus: RMB 570.0 billion and RMB 624.6 billion in November) – quite possibly constrained by informal bank lending quotas – shadow banking lending (including entrusted loans, trust loans, and bank acceptances) increased rapidly, by RMB 553.4 billion from 540.0 billion in November, despite December’s inter-bank lending crunch (see [China Flash](#)). Rapid credit growth is helping to support GDP growth (expected at 7.7% y/y in Q4), but is also contributing to rising financial risks. Over the coming year we expect the authorities to press ahead with measures to curtail shadow bank lending (see [Asia Flash](#)), which may eventually weigh on GDP growth.

Benign Indian inflation outturn increases likelihood of stable policy rates

India’s wholesale price inflation declined by more than expected in December (BBVA: 6.7%, Consensus: 7.0%), registering a five-month low of 6.2% y/y from 7.5% y/y in the prior month. The decline was due to a let up in primary food inflation, particularly vegetable prices (-30% m/m), which had spiked in recent months on weather related supply disruptions. A similar trend was observed in December CPI inflation, released earlier this week, which eased to 9.9% y/y from 11.2% previously. The central bank’s tight policy stance has helped curb inflation pressures, with WPI inflation averaging 6.3% in 2013, in line with our expectations, down from 7.5% in 2012. With currency and price pressures easing markedly, we expect RBI to hold policy rates unchanged (repo rate at 7.75%) at its January 28th policy meeting, a trend which should continue as long as WPI inflation pressures continue to ease in line with our expectations of an average of 5.8% y/y.

Hong Kong’s 2014 Policy Address focuses on poverty and income inequality

CY Leung, Hong Kong’s Chief Executive, today delivered his second Policy Address since taking office in July 2012 (link to [address](#)). The Address focused on longer term issues of tackling poverty and housing challenges. Mr. Leung announced plans to raise the supply of private housing units by 40% in the next five years. Also, a low-income working family allowance has been proposed. On the economic growth front, a number of policy initiatives have been advanced, including facilitating the growth of Hong Kong’s financial services industry and RMB business. Also, the initiatives aim to strengthen economic ties with Mainland and other regional trading partners (such as an FTA with ASEAN countries). We expect GDP growth in Hong Kong to pick up in 2014 to 3.7% from 3.1% last year on sustained demand from China and an improving global economy.

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With contributions from the BBVA Research Asia Team

Calendar Indicators

| Australia | Date | Period | Prior | Cons. | Actual |
|--------------------------------|-------------|---------------|--------------|--------------|---------------|
| Home Loans MoM | 13 Jan | Nov | 1.10% | 1.00% | 1.10% |
| Unemployment Rate | 16 Jan | Dec | 5.80% | 5.80% | -- |
| China | Date | Period | Prior | Cons. | Actual |
| Aggregate Financing RMB | 15 Jan | Dec | 1227.8B | 1137.5B | 1230.0B |
| New Yuan Loans | 15 Jan | Dec | 624.6B | 570.0B | 482.5B |
| Money Supply M2 YoY | 15 Jan | Dec | 14.20% | 13.90% | 13.60% |
| Foreign Direct Investment YoY | 16 Jan | Dec | 2.40% | 2.50% | -- |
| China December Property Prices | 18 Jan | Dec | -- | -- | -- |
| India | Date | Period | Prior | Cons. | Actual |
| CPI YoY | 13 Jan | Dec | 11.16% | 10.06% | 9.87% |
| Wholesale Prices YoY | 15 Jan | Dec | 7.52% | 6.99% | 6.16% |
| Japan | Date | Period | Prior | Cons. | Actual |
| Tertiary Industry Index MoM | 16 Jan | Nov | -0.70% | 0.70% | -- |
| Domestic CGPI YoY | 16 Jan | Dec | 2.70% | 2.60% | -- |
| Machine Orders MoM | 16 Jan | Nov | 0.60% | 1.10% | -- |
| Philippines | Date | Period | Prior | Cons. | Actual |
| Overseas Remittances YoY | 15 Jan | Nov | 7.00% | 8.00% | 7.50% |
| Singapore | Date | Period | Prior | Cons. | Actual |
| Retail Sales YoY | 15 Jan | Nov | -9.60% | -8.00% | -8.70% |
| Non-oil Domestic Exports YoY | 17 Jan | Dec | -8.80% | 1.00% | -- |
| Korea | Date | Period | Prior | Cons. | Actual |
| Unemployment rate SA | 15 Jan | Dec | 2.90% | 2.90% | 3.00% |

Indicator of the Week

China: Q4 GDP growth (January 20th)

Forecast: 7.7% y/y

Consensus: 7.6% y/y

Prior: 7.8% y/y

Despite some weakness in December, overall growth momentum in Q4 appears to have been sustained in line with previous expectations, on improving business confidence, the lingering impact of “mini” stimulus introduced earlier in the year, and stronger external demand. We expect full-year GDP growth to register 7.7%, above the official 7.5% target. Over the past year investment has continued to be the key growth driver, as the hoped-for rebalancing toward domestic consumption is taking a long time to play out. We expect growth to reach 7.6% in 2014, as slowing investment is offset by gradually strengthening private consumption. Along with GDP, other monthly indicators for December will be released on January 20 (investment, retail sales, and industrial production).

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. | 2023.3 | -0.2 | -1.0 | -4.4 | -13.0 |
| | Hong Kong – Hang Seng | 22902.0 | 0.5 | -0.4 | -1.7 | -2.1 |
| | Taiwan – TAIEX | 8602.6 | 0.6 | 0.5 | -0.1 | 10.8 |
| | Japan – Nikkei 225 | 15808.7 | 2.5 | 0.0 | -3.0 | 45.3 |
| | Korea – Kospi | 1953.3 | 0.4 | -0.3 | -2.9 | -1.5 |
| | India – Sensex 30 * | 21275.8 | 1.2 | 2.6 | 0.5 | 6.4 |
| | Australia – SPX/ASX 200 | 5245.4 | 0.6 | -1.3 | -2.0 | 11.2 |
| | Singapore – Strait Times | 3143.3 | 0.6 | -0.2 | -0.8 | -1.7 |
| | Indonesia – Jakarta Comp | 4441.6 | 1.2 | 6.4 | 3.9 | 1.3 |
| | Thailand – SET | 1276.6 | -1.5 | 1.5 | -1.7 | -10.3 |
| | Malaysia – KLCI | 1824.0 | -0.6 | -0.1 | -2.3 | 8.3 |
| | Philippines – Manila Comp. | 5958.1 | 0.4 | -0.5 | 1.2 | -2.1 |

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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) | 6.05 | -0.09 | 0.08 | 6.09 | 6.11 |
| | Hong Kong (HKD/USD) | 7.75 | 0.00 | 0.00 | 7.75 | 7.75 |
| | Taiwan (TWD/USD) | 30.1 | -0.03 | 0.20 | 30.06 | 29.90 |
| | Japan (JPY/USD) | 104.28 | -0.06 | 0.56 | 104.23 | 103.97 |
| | Korea (KRW/USD) | 1063 | -0.33 | 0.18 | 1069 | 1081 |
| | India (INR/USD) | 61.6 | -0.09 | 0.82 | 62.78 | 66.42 |
| | Australia (USD/AUD) | 0.89 | -0.80 | -0.07 | 1.13 | 1.15 |
| | Singapore (SGD/USD) | 1.27 | -0.30 | 0.06 | 1.27 | 1.27 |
| | Indonesia (IDR/USD) | 12085 | -0.29 | 1.24 | 12355 | 13115 |
| | Thailand (THB/USD) | 32.9 | -0.31 | 0.56 | 33.15 | 33.74 |
| | Malaysia (MYR/USD) | 3.29 | -0.75 | -0.30 | 3.31 | 3.36 |
| | Philippines (PHP/USD) | 45.0 | -0.41 | -0.69 | 45.10 | 45.15 |

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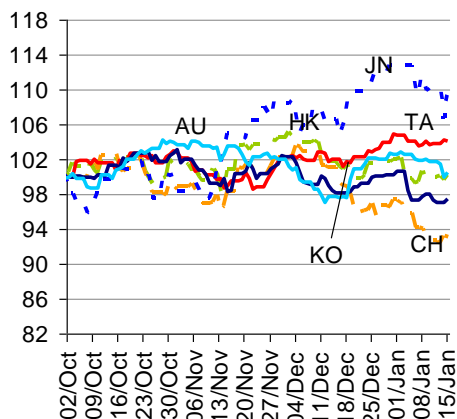
| INTERBANK RATES | INDEX | Rate | net change over a day | net change over a week | net change over a month |
|-----------------|-------------------------|------|--------------------------|---------------------------|----------------------------|
| | China (SHIBOR/7D) | 3.96 | -0.05 | -0.08 | -0.33 |
| | Hong Kong (HIBOR/1W) | 0.13 | 0.00 | 0.00 | -0.01 |
| | Taiwan (TAIBOR/1W) | 0.50 | 0.00 | 0.00 | -0.01 |
| | Japan (TIBOR/1Y) | 0.76 | 0.00 | 0.01 | 0.01 |
| | Korea (KORIBOR/1M) | 2.55 | 0.00 | 0.00 | -0.01 |
| | India (MIBOR/7D) | 4.20 | -0.50 | -0.86 | -0.80 |
| | Singapore (SIBOR/1W) | 0.25 | 0.00 | 0.00 | 0.00 |
| | Indonesia (JIBOR/1W) | 6.42 | 0.02 | 0.02 | -0.02 |
| | 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

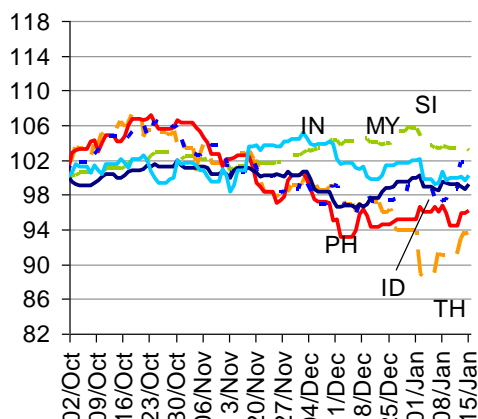
Stock Markets



Source: BBVA Research and Bloomberg

Chart 2

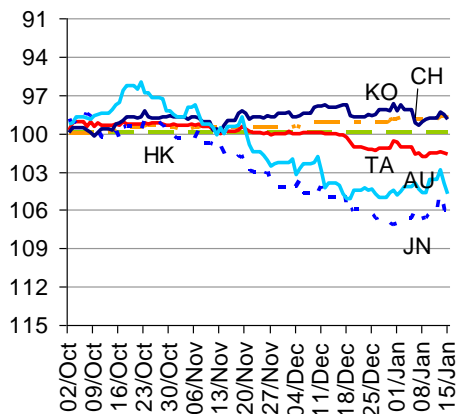
Stock Markets



Source: BBVA Research and Bloomberg

Chart 3

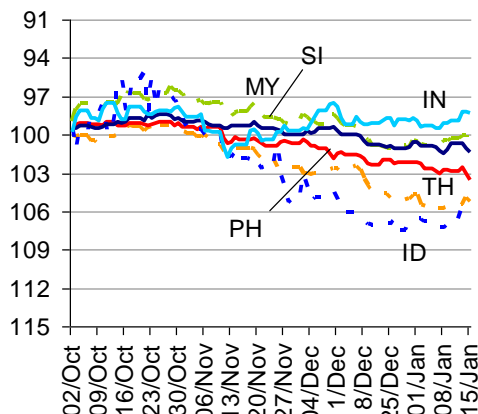
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4

Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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