

# Asia Flash

## Asia

*The Chinese currency's depreciation accelerated today, briefly touching 6.18 against the USD, before recovering to around 6.15 by the close (compared to yesterday's close of 6.13 per USD). The currency has now weakened by 1.35% since the trend began on February 17. As noted previously, all indications suggest that the PBoC has engineered the bout of volatility, as a way of eliminating two-way bets and bringing the spot rate closer to the center of the daily trading band. Given the strong balance of payments position and the role of a stronger currency in facilitating economic rebalancing, we continue to expect a gradual appreciation trend to resume in the coming weeks. In the meantime, market attention will turn to tomorrow's release of the official Manufacturing PMI (consensus: 50.1) and to the start of next week's annual National People's Congress.*

### **China's annual NPC meeting to focus on 2014 reform agenda**

The National People's Congress will begin on Monday, March 3. Such meetings which usually last 1-2 weeks, feature the delivery of the government's work report outlining key policy settings for 2014. There is little suspense this year surrounding the set of macroeconomic targets, which were informally set at the Central Economic Work Conference in December. Specifically, the growth target is expected to remain unchanged at 7.5%, inflation target at 3.5%, and the fiscal deficit at around 2% of GDP. Of greater interest will be qualitative hints as to how far the government will go to adhere to the growth target. It will also be interesting to see whether further details or timetables will be given on the reform agenda. Key areas, which were emphasized at the 3<sup>rd</sup> Plenum meeting in November, are urbanization (especially "Hukou" system reform), financial sector reform, market pricing for utilities and natural resources, and the streamlining of public administration. We expect further emphasis on policies to address local government debt, curtail shadow bank lending, stabilize housing prices, and address over capacity and environmental issues.

### **Signs of life reappear in Japan's economy**

After a disappointing Q4 GDP outturn (1.0% saar), January economic indicators showed signs of life, with industrial production rising by a faster-than-expected 10.6% y/y (consensus: 9.4% y/y; prior: 7.1% y/y) on robust vehicle production. Retail sales for the month rose by 4.4% y/y (consensus: 3.8% y/y; prior: 2.5% y/y), as consumers pick up spending ahead of April's sales tax hike (from 5% to 8%). In addition, headline inflation rose by 1.4% y/y in January (consensus: 1.3% y/y; prior: 1.6% y/y), providing further evidence that the Bank of Japan's easing campaign is ending deflation. We expect the pickup to continue through the first quarter as exports benefit from improving external demand and as consumers front-load their spending ahead of the sales tax hike. Thereafter, the economy may face stiff headwinds. We expect Japan's growth to ease to 1.5% in 2014 from 1.6% in 2013.

Stephen Schwartz  
Chief Economist for Asia  
stephen.schwartz@bbva.com.hk  
+852 2582 3218

George Xu  
Economist  
george.xu@bbva.com.hk  
+852 2582 3121

With contributions from the BBVA Research Asia Team

## Calendar Indicators

<b>China</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
China January Property Prices	24 Feb	Jan	--	--	--
Manufacturing PMI	01 Mar	Feb	50.5	50.1	--
<b>Hong Kong</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Exports YoY	25 Feb	Jan	0.00%	-1.00%	-0.40%
GDP YoY	26 Feb	4Q	2.80%	3.00%	3.00%
GDP SA QoQ	26 Feb	4Q	0.70%	1.10%	1.10%
GDP Annual YoY	26 Feb	2013	1.40%	3.00%	2.90%
<b>India</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
GDP YoY	28 Feb	4Q	4.80%	4.70%	--
<b>Japan</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Natl CPI YoY	28 Feb	Jan	1.60%	1.30%	1.40%
Markit/JMMA Manufacturing PMI	28 Feb	Feb	56.6	--	55.5
Jobless Rate	28 Feb	Jan	3.70%	3.70%	3.70%
Industrial Production MoM	28 Feb	Jan P	0.90%	2.80%	4.00%
Retail Trade YoY	28 Feb	Jan	2.50%	3.80%	4.40%
<b>Singapore</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
CPI YoY	24 Feb	Jan	1.50%	1.50%	1.40%
Industrial Production YoY	26 Feb	Jan	6.40%	6.50%	3.90%
<b>Korea</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Industrial Production YoY	28 Feb	Jan	2.90%	-1.80%	-3.80%
Exports YoY	01 Mar	Feb	-0.20%	2.90%	--
<b>Taiwan</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Industrial Production YoY	24 Feb	Jan	5.55%	-4.50%	-1.78%
Commercial Sales YoY	24 Feb	Jan	3.65%	0.29%	2.06%
Unemployment Rate	26 Feb	Jan	4.14%	4.10%	4.07%
<b>Thailand</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
Customs Exports YoY	25 Feb	Jan	1.87%	-0.35%	-1.98%
<b>Vietnam</b>	<b>Date</b>	<b>Period</b>	<b>Prior</b>	<b>Cons.</b>	<b>Actual</b>
CPI YoY	24 Feb	Feb	5.45%	5.10%	4.65%
Exports YTD YoY	26 Feb	Feb	-10.80%	2.10%	12.30%
Industrial Production YoY	26 Feb	Feb	3.00%	--	15.20%

## Indicator of the Week

### China: February Manufacturing PMI (March 1<sup>st</sup>)

**Forecast: 50.3**

**Consensus: 50.1**

**Prior: 50.5**

After a disappointing HSBC flash PMI outturn for February (48.3; prior: 49.5), activity indicators will be closely watched for signs of an economic slowdown in China. Although production at smaller firms (which take up a relatively large share of the HSBC PMI) appears to be struggling, we expect activity at larger firms to continue performing well; meanwhile, improving exports and robust credit data in January suggest that growth remains on track. It is also worth noting that PMIs and other activity indicators are heavily influenced by distortions from the lunar Chinese New Year holiday (which took place two weeks earlier than last year). We therefore expect only a small decline in the February official PMI.

## Markets Data

INDEX	Last price	% change		Year to date	% change over 1 Y
		over a day	over a week		
China - Shanghai Comp.	2056.3	0.4	-2.7	-2.8	-13.1
Hong Kong - Hang Seng	22837.0	0.0	1.2	-2.0	-0.8
Taiwan - TAIX	8639.6	0.5	1.3	0.3	9.4
Japan - Nikkei 225	14841.1	-0.5	-0.2	-8.9	28.4
Korea - Kospi	1980.0	0.1	1.1	-1.6	-2.3
India - Sensex 30 *	21120.1	0.6	2.8	-0.2	10.3
Australia - SPX/ASX 200	5404.8	-0.1	-0.6	1.0	5.9
Singapore - Strait Times	3110.8	0.5	0.4	-1.8	-4.9
Indonesia - Jakarta Comp	4620.2	1.1	-0.6	8.1	-3.7
Thailand - SET	1325.3	0.6	1.6	2.0	-14.0
Malaysia - KLCI	1835.7	0.2	0.3	-1.7	12.1
Philippines - Manila Comp.	6425.0	1.1	1.8	9.1	-4.4

Last update: today, 18:30 Hong Kong time

CURRENCY	Spot	% change		Forward 12-3-month	Forward 3-month
		over a day	over a week		
China (CNY/USD)	6.15	-0.27	-0.88	6.14	6.16
Hong Kong (HKD/USD)	7.76	0.00	-0.08	7.76	7.76
Taiwan (TWD/USD)	30.3	0.01	0.10	30.22	30.00
Japan (JPY/USD)	101.81	0.31	0.69	101.76	101.53
Korea (KRW/USD)	1068	0.13	0.42	1072	1083
India (INR/USD)	62.0	-0.08	0.15	63.26	66.95
Australia (USD/AUD)	0.90	-0.03	-0.17	1.12	1.14
Singapore (SGD/USD)	1.27	-0.12	0.17	1.27	1.26
Indonesia (IDR/USD)	11610	0.50	1.15	11808	12428
Thailand (THB/USD)	32.6	-0.12	-0.32	32.86	33.40
Malaysia (MYR/USD)	3.28	0.09	0.56	3.29	3.34
Philippines (PHP/USD)	44.6	0.07	-0.16	44.67	44.87

Last update: today, 18:30 Hong Kong time.

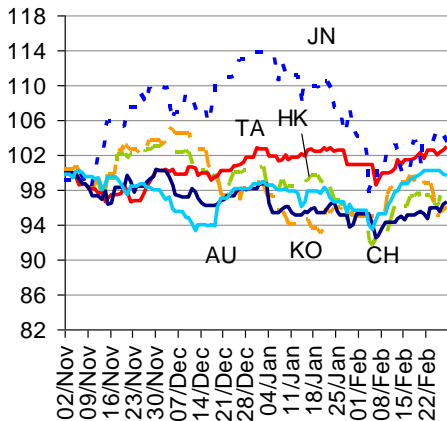
INDEX	Rate	net change		
		over a day	over a week	over a month
China (SHIBOR/7D)	3.53	0.13	-0.12	-1.43
Hong Kong (HIBOR/1W)	0.13	0.00	0.00	0.01
Taiwan (TAIBOR/1W)	0.50	0.00	0.00	0.00
Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
Korea (KORIBOR/1M)	2.55	0.00	0.00	0.00
India (MIBOR/7D)	3.53	-0.47	0.01	-1.97
Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00
Indonesia (JIBOR/1W)	6.53	0.00	0.01	0.05
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

Last update: today, 18:30 Hong Kong time

# Charts

Chart 1

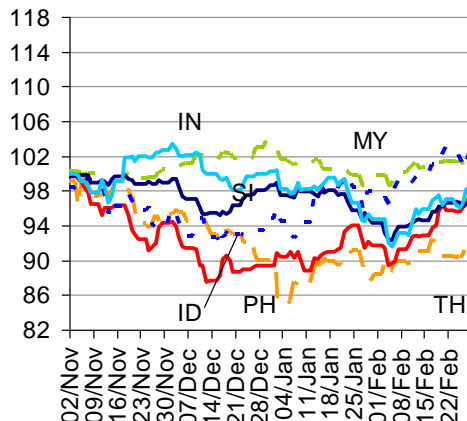
## Stock Markets



Source: BBVA Research and Bloomberg

Chart 2

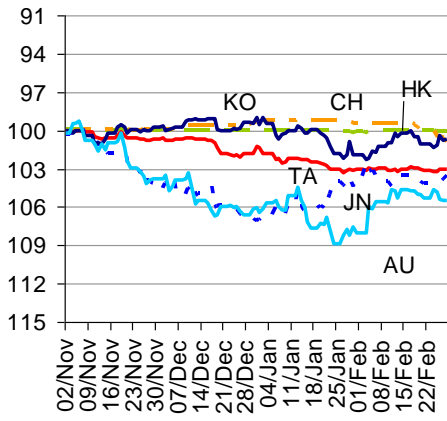
## Stock Markets



Source: BBVA Research and Bloomberg

Chart 3

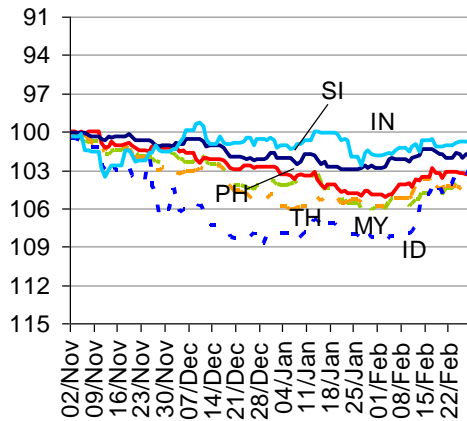
## Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4

## Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Stephen Schwartz  
Chief Economist for Asia  
stephen.schwartz@bbva.com.hk

Fielding Chen  
Senior Economist  
fielding.chen@bbva.com.hk

Le Xia  
Senior Economist  
xia.le@bbva.com.hk

Sumedh Deorukhkar  
Senior Economist (India, Mumbai)  
sumedh.deorukhkar@bbva.com

George Xu  
Economist  
george.xu@bbva.com.hk



RESEARCH



95/F, International Commerce Centre, One Austin Road West, Kowloon, Hong Kong | Tel.: +852 2582 3111 | www.bbvarsearch.com

Before you print this message please consider if it is really necessary.

This email and its attachments are subject to the confidentiality terms established in the corresponding regulations and are intended for the sole use of the person or persons indicated in the header. They are for internal use only and cannot be distributed, copied, conveyed or furnished to third parties without prior written consent from BBVA. If this message has been received erroneously, it is forbidden to read, use or copy any of the contents and you are asked to inform BBVA immediately by forwarding the email to the sender and eliminating it thereafter.

BBVA will continue to provide our readers up-to-date reports by emails, but you can also register directly on our website where you can find a full list of our latest reports & presentations <http://serviciodeestudios.bbva.com/KETD/ketd/ing/index.jsp>

If you wish to be excluded from this mailing list, please write to us on [research.emergingmarkets@bbva.com.hk](mailto:research.emergingmarkets@bbva.com.hk) and we shall immediately take you off the list.