

Asia

Weekly Watch

Hong Kong, December 3, 2010

Economic Analysis

Asia

Stephen Schwartz

stephen.schwartz@bbva.com.hk

Ricard Torne

ricard.torne@bbva.com.hk

Fielding Chen

fielding.chen@bbva.com.hk

Bingjie Hu

bingjie.hu@bbva.com.hk

Le Xia

xia.le@bbva.com.hk

Jenny Zheng

jenny.zheng@bbva.com.hk

Serena Zhou

serena.zhou@bbva.com.hk

Serena Wang

serena.wang@bbva.com.hk

Markets

Richard Li

richard.li@bbva.com.hk

Ricard Torne

ricard.torne@bbva.com.hk

China and India sustain growth momentum

Another strong PMI outturn in China (for November) shows that the economy's growth momentum is continuing into the fourth quarter (see Highlights). While this is good news for the global economy, it is likely to weigh on market sentiment by raising expectations of further monetary tightening measures as the authorities seek to contain rising inflation. Meanwhile, third quarter GDP growth in India (8.9% y/y; consensus: 8.2%) came in well above expectations, on strong private consumption showing that India's economic growth momentum is set to continue.

Policymakers take steps to curb inflation

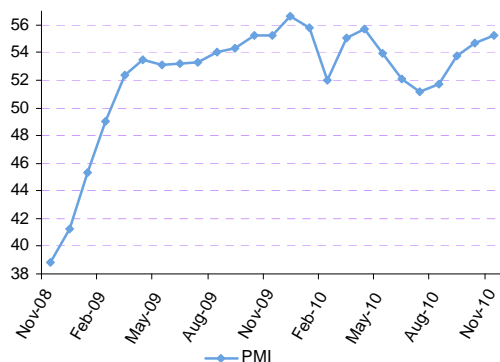
The Bank of Thailand raised interest rates in view of expected inflationary pressures, the third rate hike this year, to 2.00%. The move came despite a tame inflation outturn for November of 2.8% y/y, in line with expectations (see Highlights). Meanwhile, following similar steps in China, Vietnam announced price controls on certain commodities, as it seeks to curb double-digit inflation. In Korea, inflation eased to 3.3%y/y, below expectations (3.7%y/y), and well below September's 4.1%y/y. However, inflation picked up in Indonesia; Bank Indonesia nevertheless kept interest rates unchanged for a 16 consecutive month. Elsewhere, in Australia, third quarter GDP growth slowed to 2.7%y/y, well below consensus (3.4%y/y).

In the coming week...

Markets will be closely watching November trade figures in China (see What to watch) and Taiwan, as well as October's current account in Japan and industrial production in India. The Reserve Bank of Australia and Bank of Korea will hold monthly monetary meetings, with both expected to keep rates unchanged.

Chart1

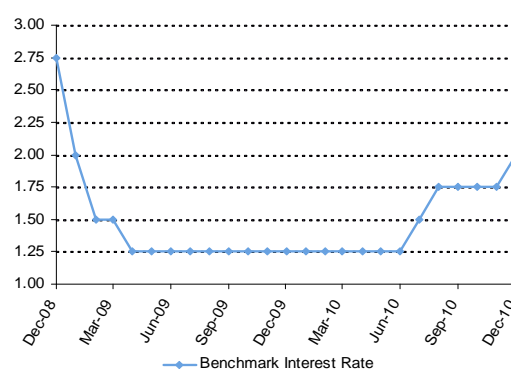
A strong PMI outturn in China is evidence of further growth momentum



Source: BBVA Research and Bloomberg

Chart2

The Bank of Thailand hikes interest rates for a third time this year



Source: BBVA Research and Bloomberg

Markets



Highlights



Calendar



Markets Data



Highlights

China's PMI surprises to the upside for a fourth straight month

Strong growth momentum reinforces concern about inflationary pressures

China economic policy meeting, December 10-12

Policymakers will set 2011 economic targets

Regional inflation on the rise

Responses range from price controls to traditional monetary policy adjustments

Markets Analysis

Richard Li
richard.li@bbva.com.hk

Ricard Torne
ricard.torne@bbva.com.hk

Markets

Brief respite on hopes of policy action

Asian equities and fx climbed on hopes that central banks would come up with new measures to contain the contagion from Irish debt problems. Amidst financial strains, the ECB held its monthly meeting on Thursday, vowing to continue its full-allotment liquidity provision to European banks and government bond purchases at least through 1Q11. Within the region, China's PMI data rose slightly ahead of expectations (see Highlight), providing further evidence of strong growth. But our economists think that it may also cause concerns in the market about tighter monetary policy, including rate hikes.

KRW rebounded slightly, but the planned artillery drills and the coming restriction of capital flows limited its strength. In addition, inflation in November fell unexpectedly to a level closer to the BOK's target. The outcome mitigated the chance of rate hikes in the next two months. As such, KRW traded tightly between 1140-1150, waiting for new catalysts to break out of the range.

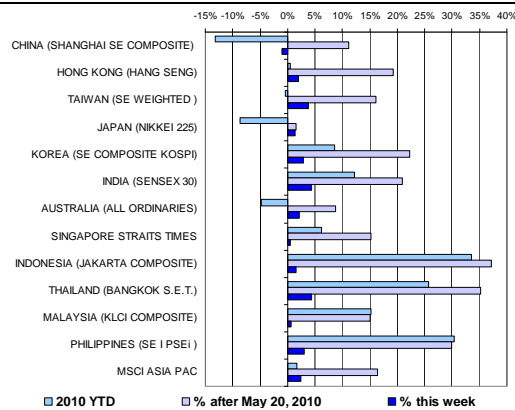
AUD also ratcheted up to 0.9754 against the USD on the back of improving global market sentiment. However, domestic factors restricted the scope of its rally. 3Q GDP growth moderated to 2.7% y/y, lower than market consensus of 3.4%. Moreover, retail sales in October also fell unexpectedly. The evidence indicated that domestic demand growth may be losing momentum, and the RBA could take a pause for a while. The absence of new positive catalyst for rate hikes and concerns over China's monetary tightening could prevent AUD from climbing up further.

The mid-rates of CNY were set at a tight range between 6.66 and 6.68, with the direction broadly consistent with the dollar weakness. Since June, CNY has appreciated by 2.5% against the USD. We expect the appreciation will continue in 2011, and the CNY will reach 6.3 against the USD by year-end. This is modestly lower than what is being priced in the 12 month NDF (6.492).

Markets gained this past week for the first time in three weeks, amid easing concerns on Europe's sovereign debt crisis, an improving outlook for the US economy (unemployment, consumer confidence and manufacturing), and renewed strong growth momentum in some Asian countries (in particular China and India). India's stock markets were propelled by a strong GDP growth, while shares in China slumped on continued concerns about further monetary tightening measures in light of strong activity indicators.

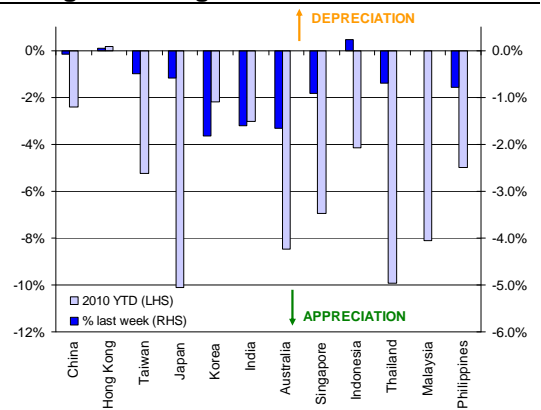
- Home →
- Highlights →
- Calendar →
- Markets Data →

Chart 3
Stock markets



Source: BBVA Research and Bloomberg

Chart 4
Foreign exchange markets



Source: BBVA Research and Bloomberg

Economics Analysis

Asia

Stephen Schwartz

stephen.schwartz@bbva.com.hk

Ricard Torne

ricard.torne@bbva.com.hk

Fielding Chen

fielding.chen@bbva.com.hk

Bingjie Hu

bingjie.hu@bbva.com.hk

Le Xia

xia.le@bbva.com.hk

Jenny Zheng

jenny.zheng@bbva.com.hk

Serena Zhou

serena.zhou@bbva.com.hk

Serena Wang

serena.wang@bbva.com.hk

Highlights

China's PMI surprises to the upside for a fourth straight month

Following a recent string of strong activity readings, China's November Purchasing Managers' Index (PMI) rose to 55.2% from 54.7% in October, ahead of expectations for a fourth straight month (BBVA: 54.9% Consensus: 54.8%). (A reading above 50 indicates economic expansion). The PMI has been trending up for four consecutive months since July, indicating stronger growth momentum after a lull in mid-2010. We expect GDP growth to reach at least 9.1% y/y in Q4, which would bring full-year growth for 2010 to 10.1%. Perhaps more notably, input price index increased further from 69.9% to 73.5%, which could be a sign of inflationary pressures in the pipeline (recall that October CPI inflation reached a two-year high of 4.4%, well ahead of previous expectations). The strong PMI outturn, while comforting for the global outlook, is likely to reinforce concerns about overheating and inflation in China, and make it even more likely in our view that the authorities will implement further monetary tightening measures, as previously anticipated. The next batch of monthly indicators, including inflation, are due out on December 13.

China economic policy meeting, December 10-12

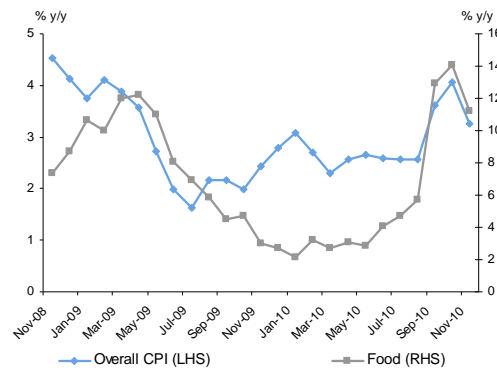
China will hold its annual Economic Work Conference in December at which key policy targets for 2011 will be set. Given the rising trend in inflation and signs of a more aggressive approach to monetary policy tightening, the authorities have already shifted their official monetary stance for 2011 from "moderately loose" to "prudent". It is expected that the monetary authorities will raise their inflation target (which acts as more of a reference guide than a hard target) from 3% to around 4%; they are also likely to reduce the target for new loans to around RMB 7 trillion or below, from RMB 7.5 trillion in 2010, as they seek to restrain credit growth and contain inflation, consistent with the recent hikes in required reserve ratios and interest rates. On the fiscal policy front, the government is expected to maintain a "proactive" stance to support economic growth, especially in less developed regions. In addition to using fiscal incentives to stimulate consumption, investment projects to facilitate urbanization and improve social well-being are expected. The announcements will serve as guidelines, with specific targets to be approved by the National People's Congress in March.

Regional inflation on the rise

While inflation generally remains tame, pressures are on the rise in several countries, prompting policy responses that vary from price controls (China and Vietnam) to traditional monetary policy adjustments. Over the past week Korea (3.3% y/y; consensus: 3.7%), Indonesia (6.3%; consensus: 6.0%), and Thailand (2.8%; consensus: 2.8%) released the region's first CPI inflation figures for November. In contrast to a decline in monthly inflation in Korea, inflation in Indonesia (0.89% m/m, s.a.) and Thailand (0.74% m/m, s.a.) quickened compared with the previous month mainly due to a higher food prices. Contrary to expectations, the Bank of Thailand hiked interest rates by 25bp to 2.0%, for the third time this year on concern for inflationary pressures in the near term. On the other hand, Bank Indonesia remained on hold, as they deem the current interest rate setting to be consistent with their inflation target (4-6%). Rising food prices in China caused inflation to reach a two-year high of 4.4%y/y in October, prompting measures to curb prices. All eyes will be on the November outturn, due out on December 13.

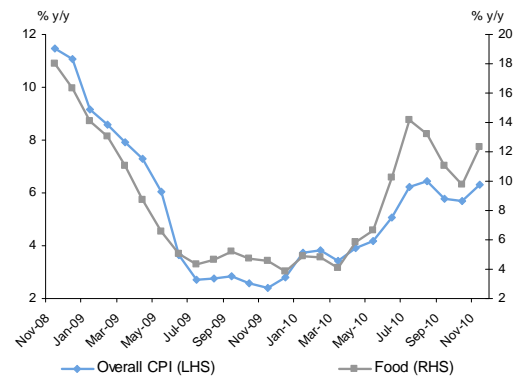
[Home](#) →[Markets](#) →[Calendar](#) →[Markets Data](#) →

Chart 5
Inflation eases in Korea...



Source: BBVA Research and Bloomberg

Chart 6
... while it accelerates in Indonesia



Source: BBVA Research and Bloomberg

What to watch

Economics Analysis

Asia

Stephen Schwartz
stephen.schwartz@bbva.com.hk

Ricard Torne
ricard.torne@bbva.com.hk

Fielding Chen
fielding.chen@bbva.com.hk

Bingjie Hu
bingjie.hu@bbva.com.hk

Le Xia
xia.le@bbva.com.hk

Jenny Zheng
jenny.zheng@bbva.com.hk

Serena Zhou
serena.zhou@bbva.com.hk

Serena Wang
serena.wang@bbva.com.hk

China: Trade Balance in November (December 10)

Forecast: USD 22.1 bn **Consensus:** USD 21.00bn **Previous:** USD 27.15bn

China's trade surplus is expected to have narrowed to USD 22.1 billion in November, due to a rebound in imports as Chinese producers increased their overseas purchases of diesel and coal, as well as agricultural products due to domestic shortages. We anticipate import growth of 25.5% y/y in November (consensus: 25.3% previous: 25.3%). Through October the cumulative trade surplus was USD 148.2 billion, placing it on track for a similar full-year outturn to last year's USD 195.8 billion. An unexpectedly large surplus could intensify international pressure to accelerate appreciation of the RMB.

Calendar

Australia	Date	Period	Prior	Cons.
Unemployment Rate	9-Dec	NOV	5.40%	--
China	Date	Period	Prior	Cons.
Trade Balance (USD)	10-Dec	NOV	\$27.15B	\$21.00B
Exports YoY%	10-Dec	NOV	22.90%	23.20%
Imports YoY%	10-Dec	NOV	25.30%	25.90%
India	Date	Period	Prior	Cons.
Industrial Production YoY	10-Dec	OCT	4.40%	--
Indonesia	Date	Period	Prior	Cons.
Consumer Confidence Index	02-08 Dec	NOV	112	--
Japan	Date	Period	Prior	Cons.
Current Account Total	8-Dec	OCT	¥1959.8B	¥1502.4B
Adjusted Current Account Total	8-Dec	OCT	¥1661.3B	¥1501.8B
Trade Balance (BoP Basis)	8-Dec	OCT	¥926.9B	--
Machine Orders (MoM)	8-Dec	OCT	-10.30%	0.00%
GDP Deflator YoY	9-Dec	3Q F	-2.00%	-2.00%
GDP Annualized	9-Dec	3Q F	3.90%	4.20%
Machine Tool Orders (YoY)	9-Dec	NOV P	71.00%	--
Consumer Confidence	10-Dec	NOV	41.1	--
Malaysia	Date	Period	Prior	Cons.
Current Account Balance	9-Dec	3Q	16.2B	--
Industrial Production YoY	9-Dec	OCT	5.60%	--
Philippines	Date	Period	Prior	Cons.
Consumer Price Index (YoY)	7-Dec	NOV	2.80%	2.40%
Total Exports (YoY)	10-Dec	OCT	46.10%	34.00%
Taiwan	Date	Period	Prior	Cons.
CPI YoY%	6-Dec	NOV	0.56%	--
Total Exports (YoY)	7-Dec	NOV	21.90%	--
Total Imports (YoY)	7-Dec	NOV	27.90%	--
Total Trade Bal in US\$ Billion	7-Dec	NOV	\$2.98B	--
Thailand	Date	Period	Prior	Cons.
Consumer Confidence Economic	9-Dec	NOV	71.6	--

Australia – RBA Cash Target, December 7

We expect interest rates will remain unchanged

Current	Expected
4.75	4.75

Korea – 7-Day Repo Rate, December 9

We expect interest rates will remain unchanged

Current	Expected
2.50	2.50

[Home](#) →

[Markets](#) →

[Highlights](#) →

[Markets Data](#) →

Markets Data

Asia Market

STOCK MARKETS	INDEX	Last price	% change over a week	Year to date	% Change over 1 Y
	China – Shanghai Comp.	2842.4	-1.0	-13.3	-12.9
	Hong Kong – Hang Seng	23320.5	1.9	6.6	3.4
	Taiwan – Weighted	8624.0	3.8	5.3	12.2
	Japan – Nikkei 225	10178.3	1.4	-3.5	2.0
	Korea – Kospi	1957.3	2.9	16.3	21.2
	India – Sensex 30	19967.2	4.3	14.3	16.2
	Australia – SPX/ASX 200	4694.2	2.1	-3.6	-1.7
	Singapore – Strait Times	3172.4	0.5	9.5	13.0
	Indonesia – Jakarta Comp	3696.3	1.5	45.8	47.8
Thailand – SET	1034.9	4.4	40.9	46.4	
Malaysia – KLCI	1501.0	0.6	17.9	18.0	
Philippines – Manila Comp.	4176.5	3.0	36.8	35.1	

Last update: Friday, 17.30 Hong Kong time.

FOREIGN EXCHANGE MARKETS	CURRENCY	Spot	% change over a week	Forward 3-month	Forward 12-month
	China (CNY/USD)	6.66	0.09	6.63	6.51
	Hong Kong (HKD/USD)	7.77	-0.05	7.8	8
	Taiwan (TWD/USD)	30.3	0.50	30.14	29.64
	Japan (JPY/USD)	83.6	0.59	83.5	83.0
	Korea (KRW/USD)	1139	1.85	1143.90	1144.52
	India (INR/USD)	45.1	1.63	45.8	47
	Australia (USD/AUD)	0.98	1.69	1	n.a.
	Singapore (SGD/USD)	1.31	0.93	1.31	1.3
	Indonesia (IDR/USD)	9013	-0.22	9073	9340
Thailand (THB/USD)	30.1	0.70	30.11	30.2	
Malaysia (MYR/USD)	3.15	0.02	3.2	3	
Philippines (PHP/USD)	43.9	0.79	43.68	43.64	

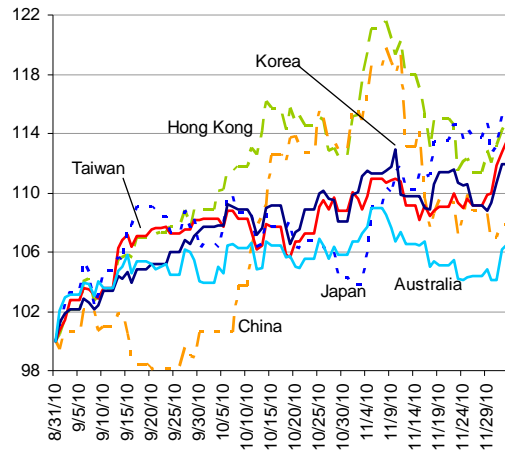
Last update: Friday, 17.30 Hong Kong time.

- [Home](#) →
- [Markets](#) →
- [Highlights](#) →
- [Calendar](#) →

Markets Data

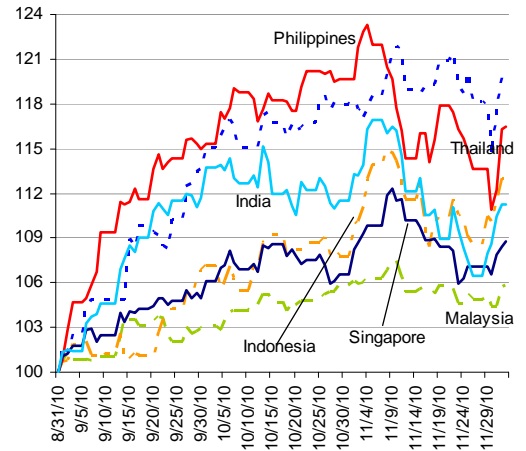
Asia Chart

STOCK MARKETS



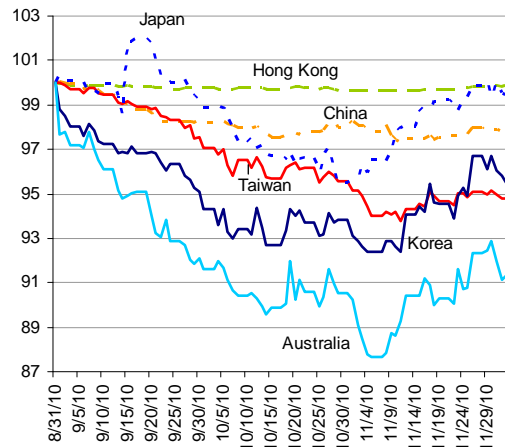
Source: BBVA Research and Bloomberg Index=100

STOCK MARKETS



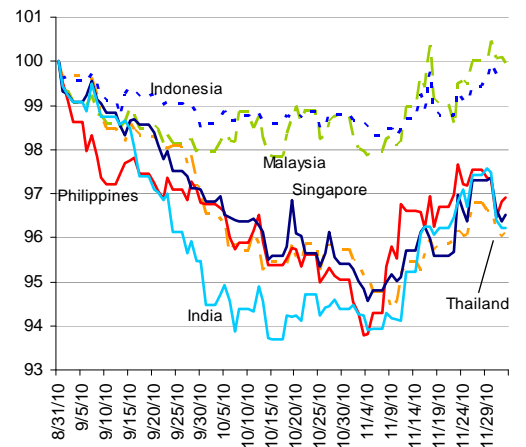
Source: BBVA Research and Bloomberg Index=100

FOREIGN EXCHANGE MARKETS



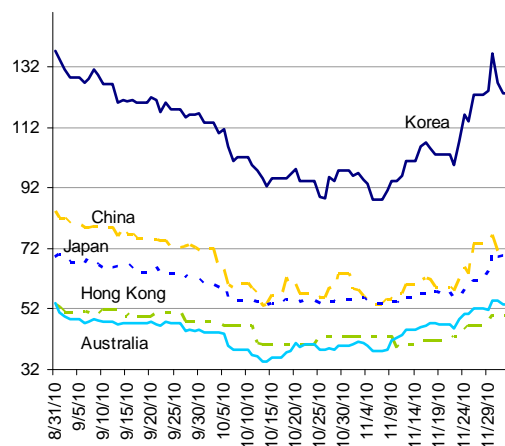
Source: BBVA Research and Bloomberg Index=100

FOREIGN EXCHANGE MARKETS



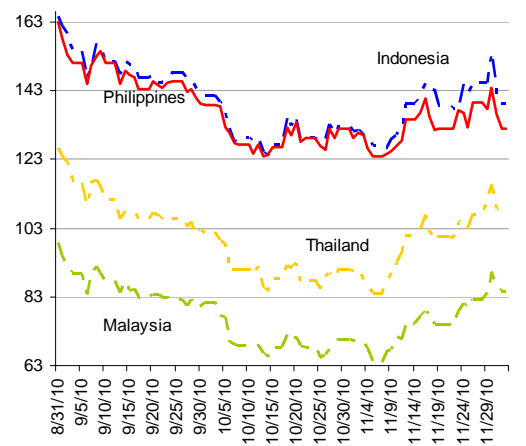
Source: BBVA Research and Bloomberg Index=100

CREDIT DEFAULT SWAPS



Source: BBVA Research and Bloomberg

CREDIT DEFAULT SWAPS



Source: BBVA Research and Bloomberg

- Home ➔
- Markets ➔
- Highlights ➔
- Calendar ➔

DISCLAIMER

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report. Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document are based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances, investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates' salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

This document is provided in the United Kingdom solely to those persons to whom it may be addressed according to the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 and it is not to be directly or indirectly delivered to or distributed among any other type of persons or entities. In particular, this document is only aimed at and can be delivered to the following persons or entities (i) those outside the United Kingdom (ii) those with expertise regarding investments as mentioned under Section 19(5) of Order 2001, (iii) high net worth entities and any other person or entity under Section 49(1) of Order 2001 to whom the contents hereof can be legally revealed.

The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA and the rest of entities in the BBVA Group which are not members of the New York Stock Exchange or the National Association of Securities Dealers, Inc., are not subject to the rules of disclosure affecting such members.

"BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: www.bbva.com / Corporate Governance".