Economic Analysis
24 October 2012

Daily Flash

Asia

Flash PMI (Markit/HSBC) for China points to stabilizing growth trend

Consistent with last week's September activity indicators showing an improvement in underlying growth trends, China's Markit/HSBC Flash PMI estimate for October increased to 49.1 from September's outturn of 47.9 (the official PMI outturn in September was 49.8). Both the production and new orders sub-indexes improved, although they remained below the 50 expansion/contraction threshold. We now await the release of the official PMI and the final Markit/HSBC PMI on November 1 - the latter (private) PMI estimate has been running consistently below the former in recent months, as it contains a larger share of smaller and more export-oriented companies, which are bearing the brunt of the external slowdown.

Australia's inflation accelerates in Q3, lowering chances of a rate cut

Australian inflation, which is released on a quarterly basis, rose by more than expected, to 2.0% y/y in Q3 (consensus: 1.6% y/y), from 1.2% y/y in Q2. Much of the increase was due to the introduction of a carbon tax in July, which boosted electricity prices by 15.3% y/y. While inflation remains at the lower end of the Reserve Bank of Australia's 2%-3% target range, the higher-than-expected outturn was seen by market participants as reducing the likelihood of further rate cuts in the coming months. This would be in line with our baseline, in which we expect the RBA to keep its policy rate unchanged at 3.25% for the remainder of 2012.

The HKMA intervenes again to defend the HKD peg

Adding to its currency intervention last Friday, the HKMA stepped into the market twice on Tuesday to defend the HKD's peg to the USD, as the currency again touched the stronger end of the 7.75-7.85 trading band. Specifically, the HKMA bought USD 855 million (on top of USD 603 million last Friday) yesterday. Though relatively small so far in comparison to the last bout of intervention in 2009, the need for intervention is a sign of capital inflows that, if sustained, could increase the risk of asset bubbles, especially in the property sector. It could also renew questions about the sustainability of the HKD's peg to the USD, although we do not anticipate a change in the currency regime in the near term.

Briefly noted:

- Singapore's inflation rose to 4.7% y/y in September (consensus: 4.3% y/y) from 3.9% y/y in August on rising housing and transportation costs. The outturn supported the Monetary Authority of Singapore's decision earlier this month to leave monetary policy on hold despite an exports slowdown that led to an economic contraction in the third quarter, as they attempt to keep a lid on inflationary pressures.

- Thai exports rose by 0.2% y/y (consensus: -2.7% y/y) in September after three consecutive months of decline. The outturn was mainly due to a surge in gold and jewellery shipments to Switzerland, and follows a decline in August of -7.0% y/y.

- Vietnam's inflation in October edged up to 7.0% y/y (consensus: 6.8% y/y) after a 6.5% y/y outturn in September. Vietnam's central bank has applied aggressive monetary easing during the year in order to prop growth (500 bps worth of interest rate cuts). Rising inflation is narrowing the room for further easing, despite the likelihood that growth will probably miss the government's target of 6% for this year.

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

Jeffrey Cantwell, CFA
Economist
jeffrey.cantwell@bbva.com.hk
+852 2582 3173

William Fitchett
Economist
william.fitchett@bbva.com.hk
+852 2582 3246

With contributions from the BBVA Research Asia Team

Calendar Indicators

Australia	Date	Period	Prior	Cons.	Actual
Consumer Prices (QoQ)	24-Oct	3Q	0.50%	1.00%	1.40%
Consumer Prices (YoY)	24-Oct	3Q	1.20%	1.60%	2.00%
China	**Date**	**Period**	**Prior**	**Cons.**	**Actual**
HSBC Flash Manufacturing PMI	24-Oct	Oct	47.9	--	49.1
Hong Kong	**Date**	**Period**	**Prior**	**Cons.**	**Actual**
CPI - Composite Index (YoY)	22-Oct	Sep	3.70%	3.60%	3.80%
Exports YoY%	25-Oct	Sep	0.60%	10.0%	--
Japan	**Date**	**Period**	**Prior**	**Cons.**	**Actual**
Merchnds Trade Balance Total	22-Oct	Sep	-¥754.1B	-¥547.9B	-¥558.6B
Merchnds Trade Exports YoY	22-Oct	Sep	-5.8	-9.9	-10.3
Natl CPI YoY	26-Oct	Sep	-0.40%	-0.40%	--
Natl CPI Ex-Fresh Food YoY	26-Oct	Sep	-0.30%	-0.20%	--
Tokyo CPI YoY	26-Oct	Oct	-0.70%	-0.80%	--
Singapore	**Date**	**Period**	**Prior**	**Cons.**	**Actual**
CPI (MOM) - NSA	23-Oct	Sep	0.60%	0.30%	0.60%
CPI (YoY)	23-Oct	Sep	3.90%	4.30%	4.70%
Industrial Production MoM SA	25-Oct	Sep	-2.30%	2.80%	--
Industrial Production YoY	25-Oct	Sep	-2.20%	1.90%	--
South Korea	**Date**	**Period**	**Prior**	**Cons.**	**Actual**
GDP (QoQ)	26-Oct	3Q P	0.30%	0.20%	--
GDP (YoY)	26-Oct	3Q P	2.30%	1.70%	--
Taiwan	**Date**	**Period**	**Prior**	**Cons.**	**Actual**
Unemployment Rate - sa	22-Oct	Sep	4.29%	4.29%	4.30%
Industrial Production (YoY)	23-Oct	Sep	1.89%	6.50%	3.00%
Thailand	**Date**	**Period**	**Prior**	**Cons.**	**Actual**
Customs Exports (YoY)	24-Oct	Sep	-6.95%	-2.70%	0.20%
Mfg. Production Index ISIC NSA (YoY)	26-29 OCT	Sep	-11.32	--	--
Vietnam	**Date**	**Period**	**Prior**	**Cons.**	**Actual**
CPI (YoY)	24-Oct	Oct	6.48%	6.75%	7.00%
Exports YTD (YoY)	24-31 OCT	Oct	18.90%	--	--

Indicator of the Week

South Korea: GDP (Q3, October 26th)

Forecast: 0.2 q/q	Consensus: 0.2% q/q	Prior: 0.3% q/q

Following last week's release of Q3 GDP in China, Korea's GDP will be watched as an indication of the extent of the regional slowdown, and the likely stance of policies in the coming months. Korean GDP growth has been under downward pressure in recent quarters due to the weak external environment, as slowing exports have progressively spilled over to domestic demand. We expect Q3 GDP to slow to a seasonally adjusted 0.2% q/q from 0.3% q/q in the second quarter (and from 0.9% q/q in the first quarter), as exports contracted for a third straight month in September (by -1.8% y/y). With inflation contained at the low end of the BOK's 2-4% target range, there is scope for further policy stimulus to support growth. The BOK has cut interest rates by 50bps so far this year, to 2.75%, and the government has implemented modest fiscal stimulus measures, with the latest round occurring in September. Should the Q3 GDP outturn confirm a continued slowdown, we would expect more policy stimulus, likely through increased fiscal spending in the early part of 2013 after Presidential elections this coming December, though for now we see no additional rate cuts forthcoming.

Calendar Events

Philippines – Overnight Borrowing Rate, October 25	**Current**	**Consensus**	**New**
We expect the benchmark rate to remain unchanged	3.75%	3.50%	--

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.	2116.0	0.1	0.5	-3.8	-10.7
Hong Kong – Hang Seng	21763.8	0.3	2.6	18.1	20.7
Taiwan – Weighted	7314.9	-0.3	-2.0	3.4	-2.1
Japan – Nikkei 225	8954.3	-0.7	1.7	5.9	1.2
Korea – Kospi	1914.0	-0.7	-2.1	4.8	0.8
India – Sensex 30	18710.0	-0.4	0.7	21.1	10.5
Australia – SPX/ASX 200	4505.8	-0.8	-0.5	11.1	5.9
Singapore – Strait Times	3050.2	0.0	0.1	15.3	10.5
Indonesia – Jakarta Comp	4335.4	0.1	0.0	13.4	17.0
Thailand – SET	1293.3	-1.3	0.5	26.1	41.1
Malaysia – KLCI	1668.0	0.2	0.4	9.0	15.0
Philippines – Manila Comp.	5398.7	-0.6	-0.7	23.5	28.5

Last update: today, 17.00 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)	6.25	0.06	0.11	6.31	6.37
Hong Kong (HKD/USD)	7.75	-0.01	0.01	7.75	7.74
Taiwan (TWD/USD)	29.3	-0.06	-0.32	29.20	28.94
Japan (JPY/USD)	79.82	0.04	-1.12	79.75	79.47
Korea (KRW/USD)	1104	-0.07	0.17	1109	1121
India (INR/USD)	53.7	-0.48	-1.58	54.64	56.86
Australia (USD/AUD)	1.03	0.50	-0.65	0.98	1.00
Singapore (SGD/USD)	1.22	0.12	-0.60	1.22	1.22
Indonesia (IDR/USD)	9629	-0.12	-0.24	9746	10130
Thailand (THB/USD)	30.8	0.03	-0.46	30.90	31.29
Malaysia (MYR/USD)	3.06	-0.25	-0.84	3.08	3.11
Philippines (PHP/USD)	41.5	-0.34	-0.64	41.44	41.43

Last update: today, 17.00 Hong Kong time.

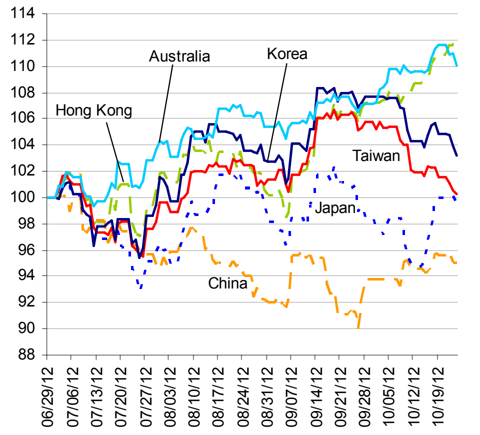
INTERBANK RATES

INDEX	Rate	net change over a day	net change over a week	net change over a month
China (SHIBOR/7D)	3.15	0.25	0.46	-1.35
Hong Kong (HIBOR/1W)	0.13	-0.02	-0.02	-0.04
Taiwan (TAIBOR/1W)	0.61	0.00	-0.01	-0.01
Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
Korea (KORIBOR/1M)	2.78	0.00	0.00	-0.24
India (MIBOR/7D)	3.27	0.37	0.40	-2.11
Singapore (SIBOR/1W)	0.25	0.00	0.00	0.00
Indonesia (JIBOR/1W)	4.29	0.00	0.01	0.06
Thailand (BIBOR/1W)	2.78	0.00	-0.24	-0.24
Malaysia (KLIBOR/1W)	2.90	0.00	0.00	0.00
Philippines (PHIBOR/1W)	1.00	0.50	-0.38	-1.25

Last update: today, 17.00 Hong Kong time

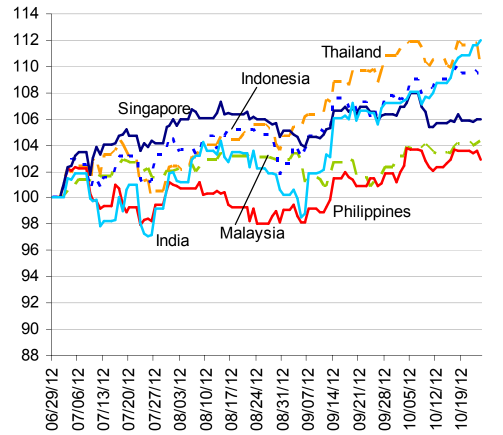
Charts

Chart 1
Stock Markets



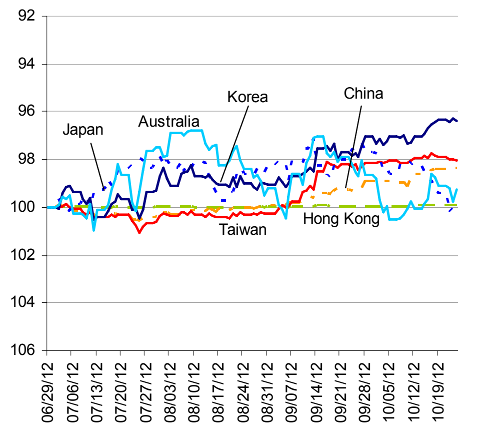
Source: BBVA Research and Bloomberg

Chart 2
Stock Markets



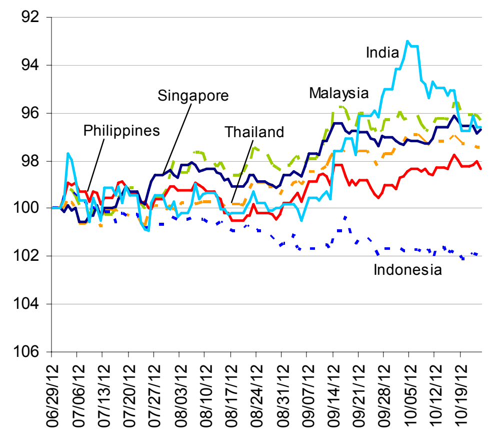
Source: BBVA Research and Bloomberg

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 (China)
xia.le@bbva.com.hk

Zhigang Li
Senior Economist (China)
zhigang.li@bbva.com.hk

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

Jeffrey Cantwell, CFA
Economist
jeffrey.cantwell@bbva.com.hk

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

Richard Li
Asian FX Chief Strategist
richard.li@bbva.com.hk

William Fitchett
Economist
william.fitchett@bbva.com.hk

BBVA RESEARCH | 43/F., Two IFC, 8 Finance Street, Central, Hong Kong | Tel.: +852 2582 3111 | www.bbvaresearch.com