

Daily Flash

Asia

Asia ex-Japan currencies and equity markets rose again today in a "risk-on" pattern, fuelled primarily by the Fed's QE policy along with improving expectations about the outlook for China's economy. China's currency reached a 19-year high of 6.2417 against the USD, touching the appreciated end of the +/-1% daily trading band. Similarly, the HKMA yesterday intervened again to defend the HKD peg, with the currency continuing to trade at the strong end of the 7.75-7.85 band against the USD. The Japanese yen, meanwhile, which tends to weaken during periods of strong risk appetite, weakened to above ¥80 per USD for the first time since June, on rising expectations of their own quantitative easing next week (a view which we share).

Upbeat Hong Kong trade data follows recent improvement in China

Hong Kong's September trade data was stronger than expected, with exports rising by 15.2% y/y (consensus: 10.0% y/y) and imports by 14.9% y/y (consensus: 9.0% y/y), well above their August outturns of 0.6% y/y and 0.9% y/y, respectively. The improvement in exports was broad-based, with exports to China rising by 25.5% y/y from 8.5% y/y the previous month, consistent with the improved outturns of China's exports and activity indicators announced last week. Given the weak external environment, however, we remain cautious about whether the September data reflects a new trend, as evidenced by weak data in Singapore and Thailand (below).

The Philippines central bank cuts interest rate to a record low

In line with the consensus, as well as with recent policy moves elsewhere in the region, the Philippines central bank cut interest rates for a fourth time this year, by 25bps, bringing the key rate to a record-low 3.50%. While the move was done in part to stem further currency appreciation, in this respect it may have little effect (note that despite today's cut, the peso was up 0.5% versus the dollar, to 41.19/USD) given the 'unlimited' nature (and therefore massive potential size) of the Fed's current round of QE.

Singapore's IP for September disappoints

Singapore's industrial production for September fell by -2.5% y/y (consensus: 1.8% y/y) on weakness in electronics and pharmaceuticals production. The outturn, though notoriously volatile, follows a disappointing September exports outturn (3.4% y/y), and highlights the ongoing stress in Singapore's economy due to the global slowdown. We expect the economy to remain under pressure in the coming months, though domestic demand, driven by a tight labor market (unemployment is low at 2.0%), may partially offset the weak external outlook.

Thailand's industrial production accelerates its fall

Thailand's industrial output in September fell by -13.7% y/y (consensus: -9.6% y/y) from a revised -11.2% y/y in August. The decline was the fourth consecutive monthly fall in the IP index. Though September's export data released yesterday surprised to the upside, breaking three months of declines, the improvement appears to be temporary and the outlook for manufacturing and exports in Thailand in the coming months looks subdued.

Briefly noted:

- **The Philippines' President Benigno Aquino met with Australia's Prime Minister Julia Gillard at the Parliament House in Canberra yesterday** to discuss ways to increase collaboration amongst the two countries. The two leaders agreed to promote increased two-way trade and investment, with a particular focus on the mining industry.

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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%	15.20%
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%	-1.80%
Industrial Production YoY	25-Oct	Sep	-2.20%	1.80%	-2.50%
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)	25-Oct	Sep	-11.32%	-9.60%	-13.68%
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

We expected the benchmark rate to remain unchanged

Current

3.75%

Consensus

3.50%

New

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.	2101.6	-0.7	-1.4	-4.4	-12.8
	Hong Kong - Hang Seng	21810.2	0.2	1.8	18.3	15.0
	Taiwan - Weighted	7262.1	-0.7	-2.7	2.7	-3.1
	Japan - Nikkei 225	9055.2	1.1	0.8	7.1	3.3
	Korea - Kospi	1924.5	0.6	-1.8	5.4	1.9
	India - Sensex 30	18758.7	0.3	0.8	21.4	10.7
	Australia - SPX/ASX 200	4510.5	0.1	-1.1	11.2	6.7
	Singapore - Strait Times	3057.5	0.4	-0.1	15.5	10.4
	Indonesia - Jakarta Comp	4339.2	0.1	-0.4	13.5	16.9
	Thailand - SET	1296.4	0.1	-0.4	26.4	37.5
	Malaysia - KLCI	1671.9	0.2	0.4	9.2	14.7
Philippines - Manila Comp.	5405.2	0.1	-0.6	23.6	27.4	

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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)	6.24	0.09	0.15	6.30	6.35
	Hong Kong (HKD/USD)	7.75	0.01	0.00	7.75	7.74
	Taiwan (TWD/USD)	29.2	0.21	-0.01	29.11	28.89
	Japan (JPY/USD)	80.14	-0.41	-1.07	80.07	79.80
	Korea (KRW/USD)	1098	0.52	0.58	1100	1112
	India (INR/USD)	53.6	0.30	-0.30	54.35	56.54
	Australia (USD/AUD)	1.04	0.31	0.21	0.97	0.99
	Singapore (SGD/USD)	1.22	0.14	-0.11	1.22	1.22
	Indonesia (IDR/USD)	9617	0.12	-0.19	9728	10117
	Thailand (THB/USD)	30.7	0.16	-0.07	30.82	31.21
	Malaysia (MYR/USD)	3.04	0.75	-0.04	3.05	3.09
Philippines (PHP/USD)	41.2	0.63	0.21	41.17	41.18	

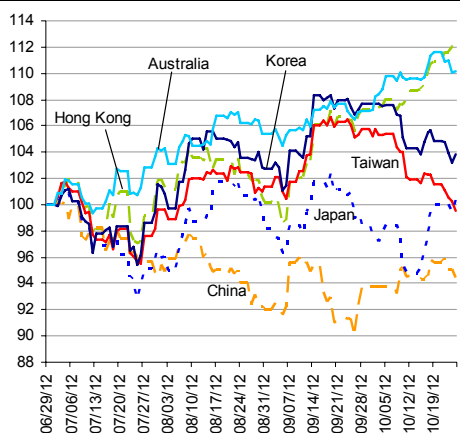
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INTERBANK RATES	INDEX	Rate	net change over a day	net change over a week	net change over a month
	China (SHIBOR/7D)	3.60	0.45	0.91	-1.15
	Hong Kong (HIBOR/1W)	0.13	0.00	-0.02	-0.04
	Taiwan (TAIBOR/1W)	0.61	0.00	-0.01	-0.01
	Japan (TIBOR/1Y)	0.76	0.00	0.01	0.01
	Korea (KORIBOR/1M)	2.78	0.00	0.00	-0.24
	India (MIBOR/7D)	3.61	0.34	0.74	-1.17
	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	0.00	-0.24
	Malaysia (KLIBOR/1W)	2.90	0.00	0.00	0.00
	Philippines (PHIBOR/1W)	1.88	0.88	1.06	-0.44

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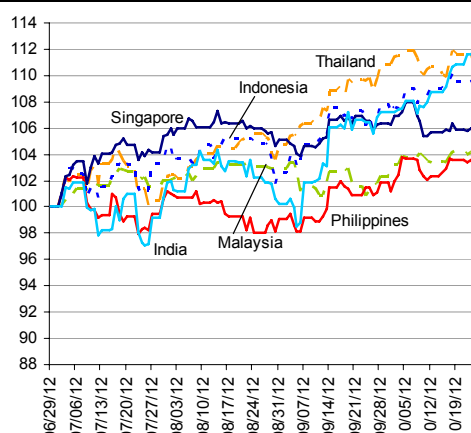
Charts

Chart 1
Stock Markets



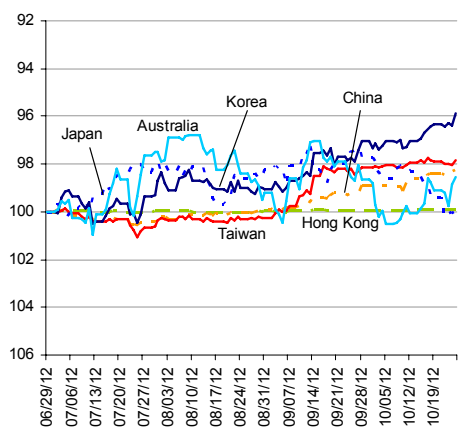
Source: BBVA Research and Bloomberg

Chart 2
Stock Markets



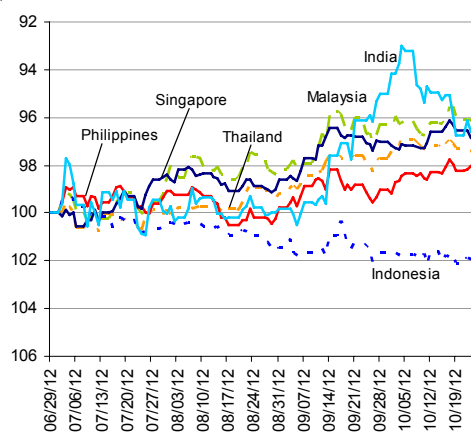
Source: BBVA Research and Bloomberg

Chart 3
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4
Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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