

THE FULLERTON WEEKLY

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China Lending & Korea Interest Rates

China lending improves

China reported better-than-expected money supply and lending data in September. Bank lending grew by RMB 857 billion, 14.3% above consensus expectations and 9% higher than a year ago. Meanwhile, M2 – the broad money supply – rose 12.9%yoy, inching up slightly from the previous month. However, September's Total Social Financing (TSF) amounted to only RMB 1.05 trillion, down 26%yoy. The weaker TSF was attributed to a notable decline in newly issued bank acceptance bills (RMB 141 billion) and trust loans – both of which suggested continued deleveraging of the shadow banking system.

Separately, the People's Bank of China (PBOC) conducted a RMB 20 billion 14-day reverse repo operation at 3.4% during last week's liquidity management window, 10bps below the rate in its previous 14-day operation, prompting a sharp rally in rates. This is the PBOC's second such move in a month.

Bank of Korea cuts interest rates

The Bank of Korea (BOK) cut the benchmark rate by 25bps to 2%, in line with expectations. The current rate is a level not seen since the global financial crisis in 2010. The central bank said that more time is needed to close the negative GDP gap, in light of recently lowered economic forecasts for 2014 and 2015. Recent data points show easing inflationary pressures with minimal improvement in sentiment, which poses a risk to future growth. The BOK lowered its annual growth and inflation forecasts for 2014 and 2015 – it now expects GDP to grow 3.5%, down from 3.8%, and for inflation to rise 1.4% instead of 1.9%.

It will adopt a wait and see approach over the coming months to ascertain how the August and October rate cuts would play out. The new benchmark rate will bolster an economic recovery and, with some lag, boost consumption and investment. Future monetary policy decisions will also take into account financial stability indicators such as household debt and capital flows, in addition to growth and inflation.

EQUITIES

	Value	% w/w Change
Dow Jones Ind. Avg	16,380.4	-1.0
S&P 500	1,886.8	-1.0
MSCI Asia Pac	133.7	-2.1
ASX 200 Index	5,271.7	+1.6
Hang Seng Index	23,023.2	-0.3
Ho Chi Minh Stock Index	585.3	-5.3
Jakarta Comp Index	5,028.9	+1.3
KL Comp Index	1,788.3	-1.1
KOSPI Index	1,900.7	-2.1
Karachi 100 Index	29,883.1	-0.9
Sensex 30 Index	26,108.5	-0.7
Shanghai SE Comp Index	2,341.2	-1.4
Stock Exch of Thai Index	1,528.7	-1.5
Straits Times Index	3,167.7	-1.7
Taiwan TAIEX Index	8,512.9	-5.1
TOPIX Index	1,177.2	-5.3

BONDS/CURRENCIES

	Value	% w/w Change
US 10YR Treasuries	2.1936	-9bps
EUR – USD	1.2761	+1.1
USD - JPY	106.88	-0.7
GBP - USD	1.6093	+0.1

COMMODITIES

	Value	% w/w Change
Gold (Spot)	1,238.3	+1.2
Crude Oil (WTI)	82.8	-3.6
RJ/CRB Commodity Index	272.6	-1.1

Source: Bloomberg (last trading price for week ended 17 October)

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