

# Weekly Observatory

November 2<sup>nd</sup>, 2009

## Economic and Financial Market Highlights (24<sup>th</sup> -30<sup>th</sup> October 2009)

Factory output figures in Korea and Thailand for September showed that manufacturing has expanded on both yearly and monthly terms. Furthermore, Japan's industrial output shrank at its slowest pace in 11 months over the same month last year and has expanded from August. The only exception to this improving trend was Singapore, where industrial production accelerated its decline. Meanwhile, Korea published robust GDP growth for the third quarter while exports continued to drop in Thailand, Hong Kong and Philippines albeit at a slower rate. On the policy front, India, Japan and Malaysia maintained their reference rates unchanged although India started to unwind its extraordinary stimulus measures and Japan confirmed it will follow suit in December. A negative week for Asia Pacific stock exchanges while most currencies withdrew against the US Dollar.

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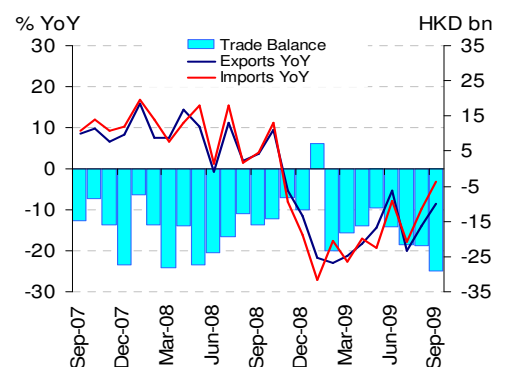
### Greater China

- **China's** industrial enterprises reported a combined profit of CNY1.55 trillion in first nine months, down 9.1% year on year. The decline was 4% points less than that of January-August period. Core business revenues of those companies reached CNY28.8 trillion in the first nine months, up 3.4% from a year earlier. The growth rate was 1.5 percentage points higher than that of the first eight months.
- **Hong Kong's** exports fell 8.6% from a year earlier in September after a drop of 13.9% yoy in August and below the 10% yoy decline expected by the market. Concurrently, imports dropped at a slower pace of 3.1% over a year earlier beating expectations of a 9.5% yoy slump. The fall in imports in September was the smallest yearly contraction in ten months. Hong Kong's trade deficit increased to HKD29.1 billion (USD3.75 billion) in September from HKD21.85 billion in the prior month. Comparing the third quarter of 2009 with the preceding quarter on a seasonally adjusted basis, the value of total exports of goods decreased by 2.2%, reversing the previous quarter's 2.6% rise.
- **Taiwan's** M2 money supply rose 8.28% in September from the same month last year, accelerating from August's 8.17% growth rate. The central bank attributed the faster growth to inflows of foreign capital. On seasonally adjusted monthly basis, M2 increased 0.5% mom, up from August's 0.4% mom increase and July's 0.3% mom rise.

### India

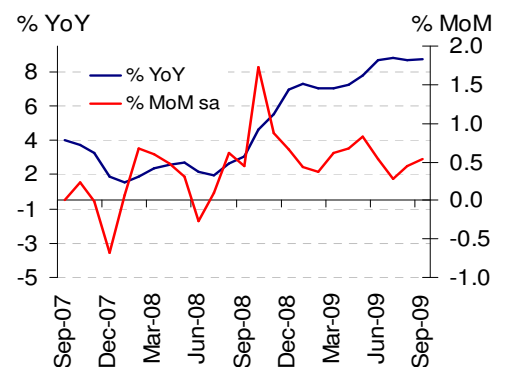
- **India's** central bank left its lending rate as well as commercial banks' cash reserve requirement unchanged at 4.75% and 5% respectively, as expected, saying an accommodative monetary policy stance was required as the ongoing economic recovery was "fragile."

### Hong Kong: External Trade



Source: CEIC

### Taiwan: M2



Source: CEIC

In a surprise move however, the Reserve Bank of India (RBI) began to unwind the extraordinary stimulus measures, by raising the proportion of deposits banks must set aside in the form of government bonds, cash and gold by 1 percentage point to 25%. Furthermore, the RBI raised its wholesale-price inflation outlook to 6.5% by the end of March 2009.

### Japan/Korea/Australia

- **Japan's** central bank has decided in its regular monetary policy meeting to end its corporate debt buying measures at the end of December as planned, scrapping part of the unorthodox steps adopted earlier this year to grapple with the global financial crisis. The central bank stated that the need to purchase commercial paper and corporate bonds from lenders has diminished as companies are finding it easier to obtain credit. In the same meeting, the Bank of Japan (BoJ) kept its benchmark interest rate unchanged at "around 01%" as was widely expected.

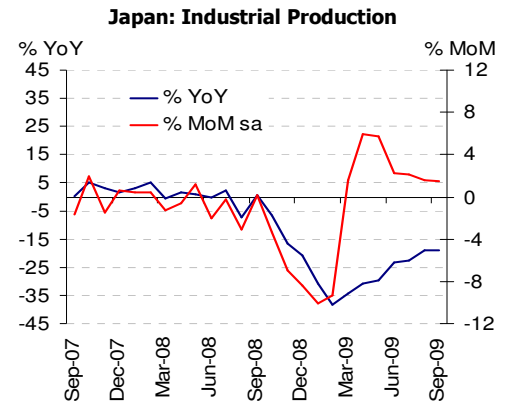
In addition, the BoJ published its semiannual outlook report of the Japanese economy. In the report, the central bank assessed that the country will stay under deflationary pressure over the next two fiscal years, forecasting that core consumer price index will drop by 1.5% in the fiscal year ending March 2010, compared with its forecast for a 1.3% fall in its interim review in July. It also projects core CPI to decline by 0.8% in the next fiscal year and fall by 0.4% in fiscal 2011. Moreover, the BoJ's board revised its forecast for real gross domestic product slightly upward to a 3.2% fall from July projection of a 3.4% contraction. It also expects real GDP to rise by 1.2% in the next fiscal year and grow by 2.1% in fiscal 2011.

Japan's seasonally adjusted Industrial production rose 1.4% over the previous month in September (Bloomberg 1.0% mom) after inching upwards a revised 1.6% mom in August. Output at automakers rose 8.2% mom in September, faster than a 1.9% mom increase the previous month while production of parts for mobile phones and flat-panel TVs gained 5.0% mom in September, also faster than a 3.4% mom rise in August. On year-on-year basis, industrial output contracted 18.9% in September, less than the previous month's 19.0% plunge and inline with analyst expectations.

Japanese retail sales fell 1.4% in September from a year earlier, a smaller decline than market's forecast of a 1.6% yoy decline and following a 1.8% yoy drop in August. Government incentives to purchase energy efficient home appliances and vehicles as part of the fiscal stimulus package have limited the decline of retail sales. Sales rose 0.9% on a seasonally adjusted basis last month, the third consecutive increase.

Japanese core inflation, which excludes volatile fresh food prices, fell 2.3% over the previous year in September, albeit the contraction was less steep than the markets expectation and August's 2.4% yoy dip. The general consumer index slipped 2.2% yoy, the same rate as in the previous two months. Month-on-month, seasonally adjusted inflation slipped 0.1%, the same pace as in July and in June while core inflation inched upwards 0.1% mom following July's 0.2% mom decrease.

Japan's unemployment hit a four month low when the seasonally adjusted jobless rate fell to 5.3% in September from 5.5% the



Source: Datastream

previous month, surprising the market that had been expecting it would rise to 5.6%. Labour force participation remained unchanged in August over the previous month, standing at 60.2%

- **Korea's** economy expanded a seasonally adjusted 2.9% in the third quarter (Bloomberg: 1.90% qoq) from three months earlier, when it expanded 2.6% qoq. Corporate investment in factories and equipment climbed 8.9% qoq, compared with a 10.1% qoq in the second quarter while private consumption advanced 1.4% from the second quarter, down from 3.6% qoq in the April-June quarter and Government spending fell 0.8% (2Q09: 1.1% qoq). From a year earlier, GDP rose 0.6%, the first on-year growth in four quarters.

Korean industrial output soared 11% year-on-year in September, much faster than a 1.1% yoy rise in August, and above the market's expectation of a 6.4% yoy growth. Month-on-month, seasonally adjusted industrial output increased 5.4%, reversing a 1.2% mom fall in the previous month. During the same month, activity in services rose 4.2% on a yearly basis, quicker than a 1% yoy rise in the previous month. On a monthly basis, seasonally adjusted activity in services grew 2.6%, after a 0.8% fall in August.

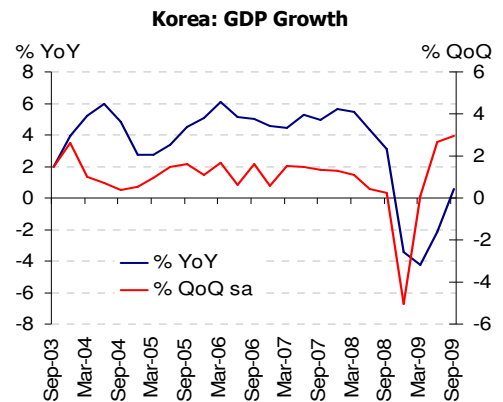
Korea's September current account surplus more than doubled last month over August's revised USD1.91 billion, helped by strong exports of chips and automobiles. The goods trade account reached a surplus of USD5.45 billion last month, sharply up from a USD3.33 billion August surplus. The service account posted a USD1.63 billion deficit in September, which was less than the USD1.79 billion August deficit. A reduction in overseas travel by Koreans contributed to the narrowing.

Korean consumer confidence hit a seven year high in September, when the sentiment index climbed to 117 points from 114 the previous month. A reading above 100 indicates that optimist outnumber pessimist. Improvements in the current and future domestic situation, future employment opportunities and current living standards were slightly offset by a more pessimistic view on current and future household debt. Meanwhile, confidence at Korean manufacturers in October rose to 92 from 90 the previous month (neutral outlook = 100).

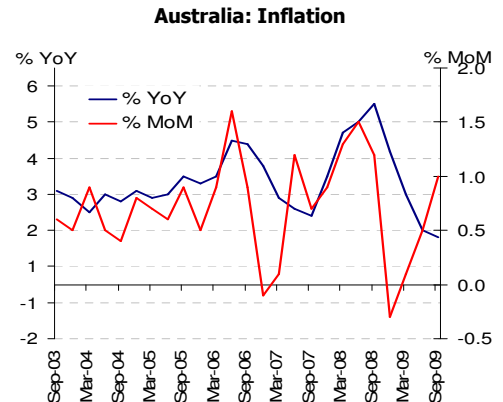
- **Australia's** consumer prices rose a non-seasonally adjusted 1.0% quarter-on-quarter (qoq) in the September, compared with a rise of 0.5% qoq in the June quarter 2009 and inline with the market's forecast. Quarterly figures were driven by unusually large price rises in electricity and water services. On a yearly basis, inflation rose 1.3% through the year to September quarter, compared to an annual rise of 1.5% to June quarter. Meanwhile, producer prices were up 0.1% in the third quarter compared to the previous three months, below expectations for a 0.3% qoq increase following the 0.8% qoq decline in Q2. On an annual basis, producer prices were up 0.2 % versus after the 2.1% yoy gain in the previous three months.

**ASEAN**

- **Singapore's** industrial output fell 7.7% year-on-year in September in contrast to the 11.8% yoy rise in the previous month and the 17.1% yoy growth in July. The yearly decline was mainly attributed to a drastic fall in biomedical manufacturing output which slumped



Source: CEIC.



Source: CEIC

slid 13.9% yoy in September in stark comparison to the 97.7% yoy increase in August. Output in the electronics sector slipped 1.1% yoy, markedly slower than the 6.4% yoy fall in the previous month. On a monthly basis, manufacturing output declined a seasonally adjusted 9.1% mom in September, faster than the 6% mom fall in the previous month. Excluding the biomedical sector, however, industrial production remained flat compared to the 0.4% mom drop in August.

Finally, seasonally adjusted unemployment rate rose to 3.4% in September (Bloomberg: Unchanged) from 3.2%, in the previous month.

- **Malaysia's** central bank refrained from raising interest rates, opting to keep borrowing costs at a record low of 2% to support a nascent economic recovery as the government prepares to cut spending to trim its budget deficit. This decision had been expected. The reasons given for this decision were that although international economic and financial conditions have improved, the outlook for the global economy is uncertain with recovery slightly to be slow and uneven in view of the ongoing adjustments. The central bank added that the current monetary policy stance is appropriate to support growth as inflationary pressures are expected to remain contained.

- **Philippine** imports dropped 28.3% in August from the previous year compared to a revised 31.6% fall in the previous month. Imports of electronic products, which accounted for 36% of the total import bill, slipped 21.2% year-on-year, steeper than the 8.2% yoy decline in July. Export figures released last week showed that September's overseas shipment's dipped 21% from the preceding year logging a trade deficit of USD144 million. Month-on-month, non-seasonally adjusted imports dropped 10.2% in August faster than a 2% mom fall in the previous month.

- **Thailand's** central bank raised its economic forecast for this year on signs the nation is emerging from its recession. GDP may shrink 2.5% to 3.5% this year, less than an earlier forecast for a contraction of 3% to 4.5% while the central bank expects inflation to fall between 0.5% and 1.5%.

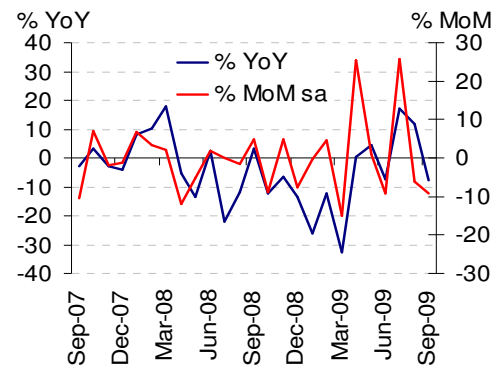
Thai manufacturing output increased 0.4% in September from a year earlier after a revised 10.1% yoy decline the previous month and beating the market's forecast of a 3.4% yoy slump. This is the first year-on-year increase in manufacturing in eleven months and is due to a pick-up automobile and electronics production. On a non-seasonally adjusted monthly basis, production soared 10.2%, reversing the 1.3% dip in August.

As for external trade, exports dropped 8.3% yoy in September from a year earlier, improving on the previous month when overseas shipments plunged 17.9%. Imports also decelerated their fall, dropping 18.2% yoy after plunging 33.8% yoy in August. The trade surplus in September narrowed to USD2.05 billion from USD2.27 billion a month earlier.

**Asian Financial Markets**

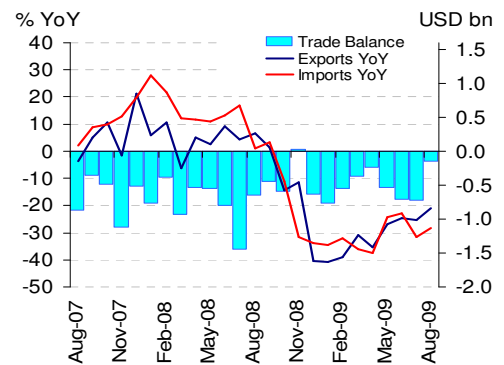
- Stock markets across the Asia-Pacific region posted losses this week. The biggest fall was recorded in India, where the reference index slumped 5.4% over the week ended Friday. Australia's bourse withdrew 4.4% while Indonesia slipped 4.1%, Taiwan declined 4.0%

**Singapore: Industrial Production**



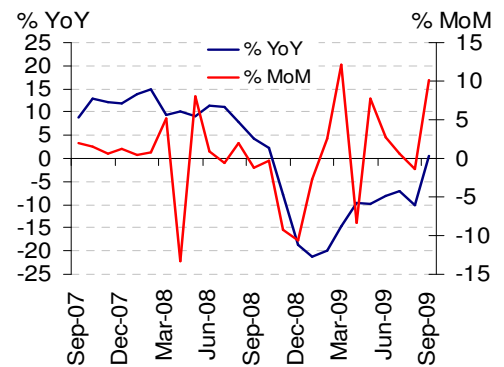
Source: CEIC

**Philippines: External Trade**



Source: CEIC

**Thailand: Industrial Output**

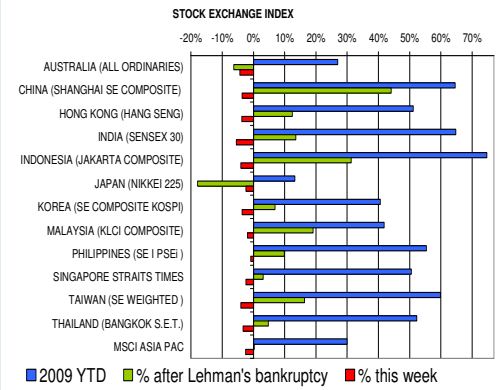


Source: CEIC

and Hong Kong tumbled 3.7%. Declines were also registered in China (-3.6%), Korea (-3.6%), Thailand (-3.3%), Japan and Singapore (-2.4%) and Malaysia (-1.9%) while Philippines suffered the smallest losses, dipping 0.8%.

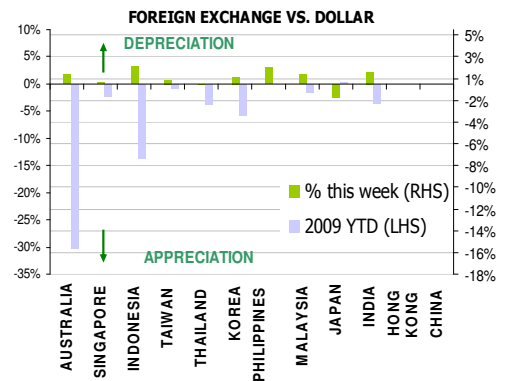
- Most Asian currencies depreciated slightly against the US dollar over the week. The Japanese yen outperformed the rest of currencies in the region, climbing 1.19% while the Chinese yuan and the Hong Kong dollar remained unchanged. The worst performer was the Indonesian rupee, which slipped 1.64% and was followed by the Philippine peso (-1.52%), the Indian rupee (-1.15%), the Australian dollar (-0.82%), the Malaysian ringgit (-0.79%) and the Korean won (-0.61%)

**Asia: Stock Markets**



Sources: Datastream and Bloomberg.

**Asia: Currencies**



Sources: Datastream and Bloomberg.

## Appendix Tables

## 1. Financial Markets

## a) Stock market

	Stock Index	Weekly average		Week-end		Total turnover US\$ bn
		Level	Level	% change over a week		
China	Shanghai Composite	3024	2996	-3.6		132.8
Hong Kong	Hang Seng	21737	21753	-3.7		38.7
Taiwan	Taiwan Weighted	7511	7340	-4.0		17.3
India	Sensex	16265	15896	-5.4		20.5
Japan	Nikkei 225	10115	10035	-2.4		59.1
Korea	Seoul Composite	1617	1581	-3.6		21.8
Indonesia	Jakarta Composite	2392	2368	-4.1		2.2
Malaysia	KLSE Composite	1251	1243	-1.9		1.7
Philippines	Philippines Composite	2911	2909	-0.8		0.4
Singapore	Straits Times	2669	2651	-2.4		5.2
Thailand	SET	701	685	-3.3		2.6
Australia	All Ordinaries	4699	4647	-4.4		30.2

Source: Bloomberg.

## b) Foreign exchange market

	Currency	Spot			3-month forward 1/		12-month forward 1/	
		Weekly average level	Week-end level	% change over a week 2/	Weekly average level	Week-end level	Weekly average level	Week-end level
China	(RMB/USD)	6.83	6.83	-0.01	6.81	6.81	6.67	6.65
Hong Kong	(HKD/USD)	7.75	7.75	0.00	7.75	7.75	7.73	7.73
Taiwan	(TWD/USD)	32.49	32.52	0.40	32.17	32.19	31.44	31.47
India	(INR/USD)	46.99	46.99	1.15	47.23	47.15	47.91	47.81
Japan	(JPY/USD)	91.42	90.96	-1.19	91.37	90.91	90.95	90.50
Korea	(KRW/USD)	1191.43	1186.50	0.61	1192.89	1182.11	1198.02	1185.61
Indonesia	(IDR/USD)	9561.00	9585.00	1.64	9681.50	9665.00	10167.00	10145.00
Malaysia	(MYR/USD)	3.41	3.41	0.79	3.42	3.42	3.42	3.43
Philippines	(PHP/USD)	47.41	47.55	1.52	n.a.	n.a.	n.a.	n.a.
Singapore	(SGD/USD)	1.40	1.40	0.15	1.40	1.40	1.40	1.40
Thailand	(THB/USD)	33.42	33.43	-0.12	33.50	33.50	33.61	33.61
Australia	(USD/AUD)	0.91	0.91	-0.82	0.90	0.91	0.87	0.88

Notes: 1) Non-Delivered Forward (NDF) for China, Taiwan, India, Korea, Indonesia, Malaysia, Philippines and Thailand.

2) For all currency except Australian Dollar, "+" refers to depreciation in local currency, while "-" means appreciation.

Source: Bloomberg.

c) Money market <sup>1/</sup>

	7-day 2/		3-month 3/		1-year 4/	
	Week-end level	b.p. change over a week	Week-end level	b.p. change over a week	Week-end level	b.p. change over a week
China	1.39	-11	1.78	-5	-	n.a.
Hong Kong	0.05	0	0.18	0	0.77	0
Taiwan	0.17	0	0.61	0	0.93	0
India	3.42	-5	4.48	-3	n.a.	n.a.
Japan	0.19	0	0.53	0	0.67	-1
Korea	2.38	1	2.79	0	4.09	0
Indonesia	6.46	1	7.19	33	7.69	24
Malaysia	2.04	0	2.16	0	2.21	1
Philippines	4.44	31	4.38	19	4.19	13
Singapore	0.31	0	0.68	-1	0.91	0
Thailand	1.26	0	1.36	0	1.69	1
Australia	3.61	9	3.89	2	-	n.a.

Notes: 1) Inter-bank offer rate, except specified.

2) 14-day MIBOR for India, 7-day inter-bank rate for Malaysia and Singapore, and bank bill rate for Australia.

3) 3-month bank bill rate for Australia.

4) Not available for India, and 1-year bank bill swap rate for Australia.

Source: Bloomberg.

**d) Bond market**

	3-month 1/		5-year	
	Week-end level	b.p. change over a week	Week-end level	b.p. change over a week
China	1.32	3	3.16	5
Hong Kong	0.03	-1	1.73	5
Taiwan	0.45	11	0.91	0
India	3.17	0	7.37	0
Japan	-	n.a.	0.68	2
Korea	2.18	-3	4.94	-1
Indonesia	6.55	85	9.28	15
Malaysia	2.02	1	3.91	8
Philippines	4.07	-2	6.46	-5
Singapore	0.43	2	1.33	-14
Thailand	1.61	1	3.69	0
Australia	4.31	-18	5.31	-25

Notes: 1) Band 4 bond for Malaysia, which is 68 to 91 days to maturity.

Sources: Bloomberg.

**2. Week Ahead**

**a) Data Release Calendar**

Date	Country	Data	for	Previous	Forecast
2-Nov	Australia	House Price Index QoQ	3Q	4.20%	3.00%
2-Nov	Australia	House Price Index YoY	3Q	-1.40%	4.30%
2-Nov	Taiwan	HSBC Taiwan Manufacturing PMI	OCT	57.5	--
2-Nov	China	HSBC Manufacturing PMI	OCT	55	--
2-Nov	Indonesia	Wholesale Price Index (YoY)	SEP	--	--
2-Nov	India	India Markit Manufacturing PMI	02-Nov		
2-Nov	Korea	Consumer Price Index (MoM)	OCT	0.10%	0.20%
2-Nov	Korea	Consumer Price Index (YoY)	OCT	2.20%	2.40%
2-Nov	Indonesia	Inflation (YoY)	OCT	2.83%	2.83%
2-Nov	Indonesia	Exports (YoY)	SEP	-15.40%	-12.00%
2-Nov	Indonesia	Total Imports (YoY)	SEP	-24.60%	-17.30%
2-Nov	Indonesia	Total Trade Balance	SEP	\$1248M	\$1199M
2-Nov	Thailand	Consumer Price Index (YoY)	OCT	-1.00%	0.30%
2-Nov	Hong Kong	Retail Sales - Value (YoY)	SEP	-0.20%	3.50%
3-Nov	Australia	RBA CASH TARGET	03-Nov	3.25%	3.50%
3-Nov	India	Exports YoY%	SEP	-19.40%	--
3-Nov	India	Imports YoY%	SEP	-32.40%	--
3-Nov	Singapore	Purchasing Managers Index	OCT	50.6	51.8
3-Nov	Singapore	Electronics Sector Index	OCT	52.4	52.8
4-Nov	Australia	Retail Sales s.a. (MoM)	SEP	0.90%	0.50%
4-Nov	Australia	Building Approvals (YoY)	SEP	0.00%	8.20%
4-Nov	Hong Kong	Purchasing Managers Index	OCT	51.8	--
4-Nov	Indonesia	Bank Indonesia Reference Rate	04-Nov	6.50%	6.50%
4-Nov	Malaysia	Exports YoY%	SEP	-19.80%	-21.30%
4-Nov	Malaysia	Imports YoY%	SEP	-18.60%	-18.00%
4-Nov	Malaysia	Trade Balance	SEP	9.57B	9.45B
5-Nov	Japan	BoJ Monetary Policy Meeting Minutes	05-Nov		
5-Nov	Australia	Trade Balance	SEP	-1524M	-2350M
5-Nov	Philippines	CPI (2000=100) (YoY)	OCT	0.70%	1.40%
5-Nov	India	Wholesale Price Index YoY	24-Oct	1.51%	--
5-Nov	Philippines	Overnight Borrowing Rate	05-Nov	4.00%	4.00%
5-Nov	Taiwan	CPI YoY%	OCT	-0.86%	-1.17%
5-Nov	Taiwan	WPI YoY%	OCT	-9.59%	-5.31%

Sources: Bloomberg and BBVA staff estimates.

**b) Economic Events**

Date	Country	Issue	Remarks
6 Nov	Australia	Reserve Bank Quarterly Monetary Policy Statement	

Sources: Authorities of those countries and Bloomberg.

### 3. Memorandum: Key Macroeconomic Indicators

		China	Hong Kong	Taiwan	India	Japan	Korea	Indonesia	Malaysia	Philippines	Singapore	Thailand	Australia
GDP growth (%yoy)	1Q09	6.1	-7.8	-10.1	5.8	-8.7	-4.2	4.4	-6.2	0.6	-9.5	-7.1	0.3
	2Q09	7.9	-3.8	-7.5	6.1	-7.2	-2.2	4.0	-3.9	1.5	-3.5	-4.9	0.6
	3Q09	8.9	n.a.	n.a.	n.a.	n.a.	0.6	n.a.	n.a.	n.a.	0.8	n.a.	n.a.
CPI inflation (% yoy) 1/	Sep-09	-0.8	0.5	-0.9	0.5	-2.2	2.2	2.8	-2.0	0.7	-0.4	-1.0	1.5
Exports (in local currency) (% yoy) 2/	Sep-09	-15.2	-8.6	-9.8	-9.2	-30.6	-0.6	-7.8	-19.8	-15.3	-18.6	-16.8	-21.5
Trade balance (US\$ bn) 3/	Sep-09	12.9	-3.8	2.5	-8.4	5.7	4.7	2.6	2.7	-0.1	1.5	2.1	0.0
Industrial production (% yoy) 4/	Sep-09	13.9	-9.5	1.0	10.4	-18.9	11.0	0.1	-5.7	-2.2	-7.7	1.0	-3.8
Retail sales (% yoy) 5/	Sep-09	17.3	-1.0	4.8	n.a.	0.9	-4.7	5.6	1.5	n.a.	-6.6	-6.7	3.8
Money supply (M2) (% yoy) 6/	Sep-09	29.3	14.4	7.6	14.9	3.0	9.5	16.4	8.4	2.3	11.3	7.6	6.9
Domestic credit (% yoy) 7/	Sep-09	34.2	-4.1	-0.8	25.3	1.6	8.5	11.2	7.3	2.7	8.3	2.4	1.7
Unemployment rate (%) 8/	Sep-09	n.a.	5.3	6.0	n.a.	5.3	3.6	n.a.	3.6	7.6	2.9	1.2	5.6

Notes: 1) Wholesale prices for India; Q209 figure for Australia;

2) Figure for China is in US dollar term; figure for Australia includes services; Aug-09 figure for India, Indonesia, Malaysia, Philippines, Thailand and Australia

3) Figure for Australia includes services; Aug-09 figures for Hong Kong, India, Indonesia, Malaysia, Philippines and Thailand

4) Q209 Figure for Australia; Aug-09 figure for China, Hong Kong, India, Indonesia, Malaysia and Philippines

5) Not available for India and Philippines; 2Q09 for Malaysia and Australia. Aug-09 figure for Hong Kong, Indonesia, Singapore, Thailand and Australia.

6) Figure for Australia is broad money in national definition; figure for Hong Kong is only counted HK dollar M2; Jul-09 figure for Indonesia; Aug-09 figures for India, Korea, Malaysia and Philippines

7) figure for Hong Kong is only counted HK dollar M2; Jul-09 figure for Indonesia; Aug-09 figures for Taiwan, India, Korea, Malaysia, Philippines and Thailand.

8) Not available for India; Q2-09 figure for Singapore, Q209 figure for Malaysia; Jun-09 figures for China, Indonesia and Malaysia; Jul-09 figure for Philippines; Aug-09 figures for Thailand.

Source: CEIC & DataStream