



# Weekly Observatory

November 23<sup>rd</sup>, 2009

**Economic and Financial Market Highlights (14<sup>th</sup> -20<sup>th</sup> November 2009)**

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Asian economies confirmed that they are on their way to recovery when three of them posted better-than-expected GDP figures on the back of improving global demand and the fiscal stimulus packages put in place by their governments. Exports, on the other hand, continue to falter, registering mild drops while inflation remains subdued across the continent. On the policy front, Japan left its target rate unchanged while Australia signaled that a third consecutive interest rate hike was possible in next month's policy meeting. In Asia-Pacific financial markets, mixed week for the region's stock markets while most currencies lost ground against the US dollar.

## Greater China

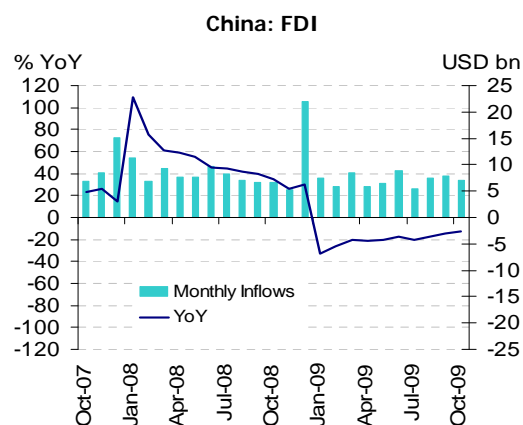
- **China** drew in 5.7% more foreign direct investment (FDI) in October than a year earlier, marking the third month in a row that inflows have increased although the increase was below September's figure when FDI soared 18.9 year-on-year (yoy). Total inflows in October tallied USD7.1 billion and for the first ten month's of the year, total FDI amounted to USD70.8 billion, down 12.6% over the same period last year and compares with the 14.2% yoy plunge registered in the nine months up to September.

- **Hong Kong's** consumer price index rose 2.2% in October from a year earlier, higher than September's 0.5% yoy and above the median forecast of a 1.8% yoy rise. This hike in inflation is due to a low base created in the same month last year by the Government's payment of public housing rentals and the electricity charge subsidy. The underlying consumer prices, after netting out the government's one-off measures, fell 0.3% in October, at the same pace as in September. In the August to October period, the composite CPI climbed a seasonally adjusted 0.4% compared to the 0.3% fall in the July to September period.

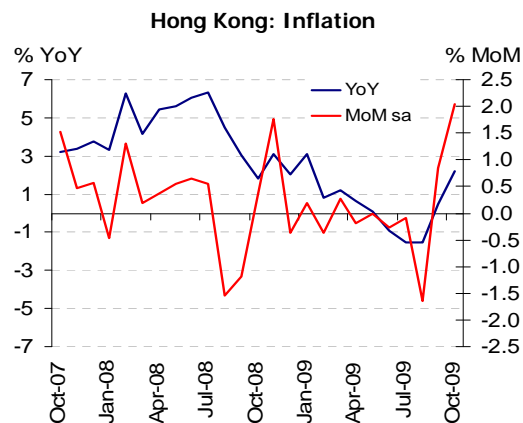
Hong Kong's seasonally adjusted unemployment rate stood at 5.2% in the August to October period (Bloomberg: 5.3%), down from the 5.3% rate reported in the July to September period. By industries, unemployment fell in n the construction, food services, insurance and wholesale sectors. The drop in unemployment however, was also partly due to a drop in the labour force, with some 26.000 people exiting the labour market.

## India

- **India's** economy will grow at a lower rate of 6.0% in fiscal 2009-10 against the 6.5% yoy projected earlier, a Reserve Bank of India's (RBI) survey revealed. The survey also highlighted that the market expects the central government's fiscal deficit to widen to 7.0% of



Source: CEIC



Source: CEIC

GDP in 2009-10, against 6.8 % in the last survey. Meanwhile, the OCDE estimated that India's economy will expand in 7.0% in 2010 and by 7.5% in 2011 (BBVA: 2010: 6.4%, 2011: 7.4%).

### Japan/Korea/Australia

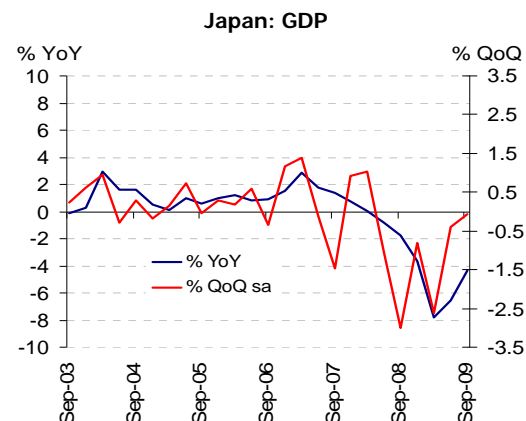
- **Japan's** gross domestic product (GDP) for the quarter ending September 2009 came in at a seasonally adjusted 1.2% quarter-on-quarter (qoq) or an annualized 4.8%. This is the second consecutive quarterly expansion, markedly higher than the previous quarter's 0.7% qoq (2.2% saar) and was well above the market's expectation (Bloomberg: 0.7% qoq). Domestic demand contributed 0.8 percentage point to growth, the first positive contribution in six quarters while external demand contributed 0.4 percentage point, much slower than the 1.5 percentage point contribution in the previous quarter. By components, private consumer spending, which accounts for over 50% of GDP, rose 0.7% on quarter, compared with a revised 1.0% qoq climb in April-June. The consecutive increases were mainly a result of the economic incentives put in place as part of the stimulus package, which included subsidies to consumers to purchase energy efficient home appliances and cash handouts to boost consumption. On a yearly basis, the Japanese economy contracted 4.4%, slowing down its decline from the June quarter's 6.5% fall.

The Bank of Japan monetary policy board unanimously voted to keep the country's policy rate unchanged at 0.1% as had been expected. Furthermore, the central bank also revised its economic assessment upward, saying the Japanese economy "is picking up" due to various policy measures taken at home and abroad

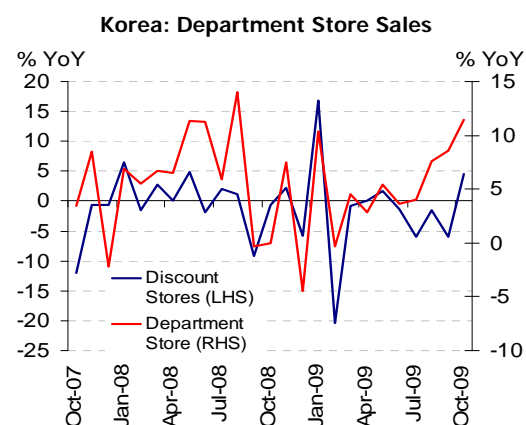
Japan's all industry activity dropped a seasonally adjusted 0.6% month-on-month (mom) in September, compared to the 0.9% increase in the previous month and surprised the market, which had expected the index to remain flat. This was the first monthly decline in all industry activity since March 2009. On a yearly basis, all industry activity plunged 7.1% mom in September, a sharper drop than the downwardly revised 6.7% mom decrease in the preceding month. By components, industrial production rose 2.1% mom in September from the previous month's 1.6% mom, while construction declined 1.9% mom following a drop by 1.2% mom in August. The tertiary activity index slipped a seasonally adjusted 0.5% mom, reversing August's 0.3% climb.

- **Korea's** major department stores' sales rose in October at the fastest pace in more than a year, climbing 11.4% from a year earlier and compares with the 8.6% yoy increase in September. The highest increases in sales were posted in luxury goods, miscellaneous products and women's clothing. Meanwhile, sales at discount outlets rebounded 4.5% yoy in October after four months of negative growth. Sales at discount stores were boosted by the three-day Chausek harvest holyday which fuelled demand for groceries and other miscellaneous item.

- **Australia's** central bank declared in its monetary policy minutes from the 3rd of November that the pace of interest-rate increases is an "open question" as it balances the risk of keeping borrowing costs too low against an economy that may cool as government stimulus abates. Australia on that day lifted its benchmark interest rate to 3.5 %, becoming the only nation to increase borrowing costs twice this



Source: CEIC.



Source: CEIC.

year.

**ASEAN**

- **Singapore**'s economy grew by 0.6% on a year-on-year basis in the third quarter of 2009 according to preliminary estimates, compared to a contraction of 3.3% in the second quarter and in line with the advance estimate published in October. On a seasonally adjusted annualised quarter-on-quarter basis, the economy expanded by 14.2% in the third quarter of 2009, following growth of 21.7% in the second quarter. Manufacturing expanded on the back of a surge in biomedical equipment while electronic manufacturing increased albeit at a more modest pace. The service sector also expanded, with the trade related and tourism sector growing at double-digit rate while the construction sector and the financial services industry's growth slowed down substantially. Singaporean authorities reasserted their GDP estimate for the whole year of -2.0 to -2.5% yoy.

Singapore's non-oil domestic exports (NODX) dropped 6.1% from a year earlier (Bloomberg: 1.0% yoy), after a revised 7.3% contraction in September. Electronic overseas shipments meanwhile slid 14.0% yoy in October, matching September's decline and falling further than the market's expectation of an 11.7% yoy slump. Meanwhile, non-electronic NODX decreased 0.5% yoy, below the 2.5% yoy decline in September. The drop was a consequence of lower domestic exports of petrochemicals, civil engineering equipment parts and electrical power machinery. On a monthly basis, the NODX decreased a seasonally adjusted 12.6% in October, in contrast to a 2.9% increase in the preceding month.

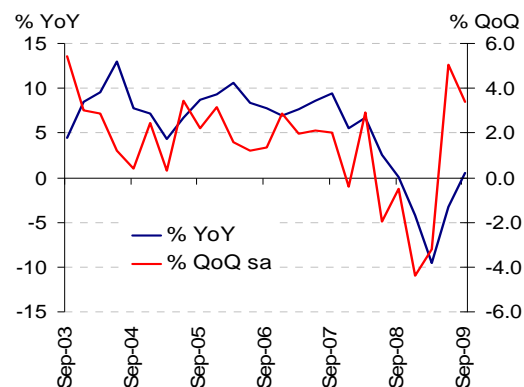
- **Philippines**' budget deficit widened to a record PHP266.1 billion (USD5.71 billion) in the 10 months to October, and is projected to worsen to between PHP280 billion and PHP300 billion by year-end (just over 3% of GDP), without any significant revenue boost from privatizations which would reduce the deficit. Furthermore, authorities also stated that they did not envision tapping debt markets this year to plug the deficit, which is being pushed up by lower revenues due to a reduction in corporate income tax as well as other tax relief measures provided by the government.

- **Thailand**'s exports slipped 3.0% yoy in October, beating a market forecast of a 5.0% slump and improving on September's 8.5% yoy plunge. An increase in exports of rice, electrical appliances and processed foods helped diminish the drop. Over the previous month, non-seasonally adjusted exports slipped 0.6%, having risen 12.2% mom in August. Imports fell 17.5% yoy in October after a 17.9 % yoy decline a month earlier. The trade surplus narrowed to USD1.76 billion, from USD1.98 billion in September.

- **Malaysia**'s economy contracted at a slower-than-expected 1.2% yoy in the third quarter (Bloomberg: -2.3% yoy), improving on the second quarter's 3.9% yoy contraction. This improvement is due to a pick up in domestic demand and in the global economy. Compared with the previous quarter, the economy grew 5.7% in the third quarter, without seasonal adjustments as compared with the second quarter's growth of 4.8% qoq. Malaysian authorities however, kept their GDP growth forecast for 2009 unchanged, predicting a 3.0% yoy contraction due to there still being a risk of a major setback in the world economy in the fourth quarter.

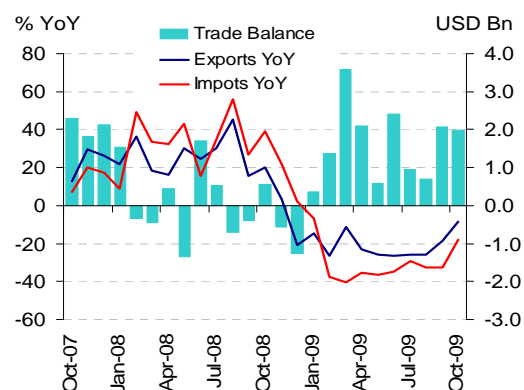
Meanwhile, Malaysia's consumer price index for October dropped 1.6% from a year ago, beating analyst expectations of a 1.4% yoy

**Singapore: GDP**



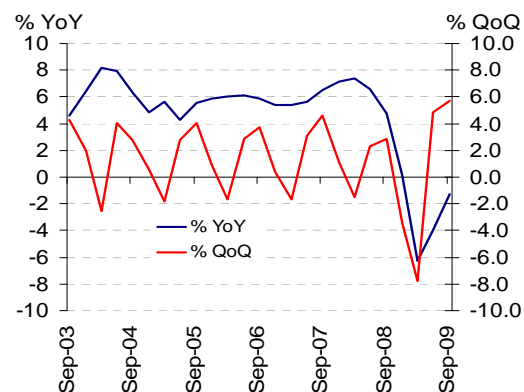
Source: CEIC

**Thailand: External Trade**



Source: CEIC

**Malaysia: GDP**



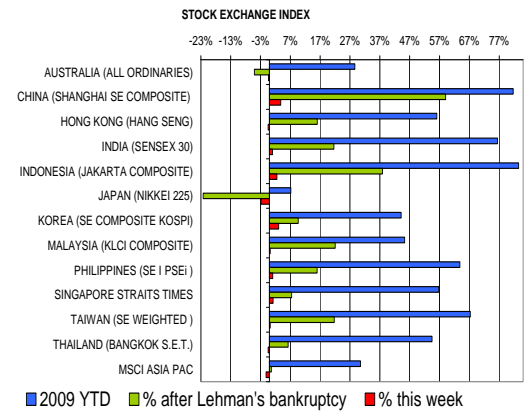
Source: CEIC

decline, but slower than the 2 % yoy fall in September. Fuel and non-food prices dragged inflation downwards. Compared with the previous month, non-seasonally adjusted inflation climbed 0.1% after rising 0.3% mom in September.

**Asian Financial Markets**

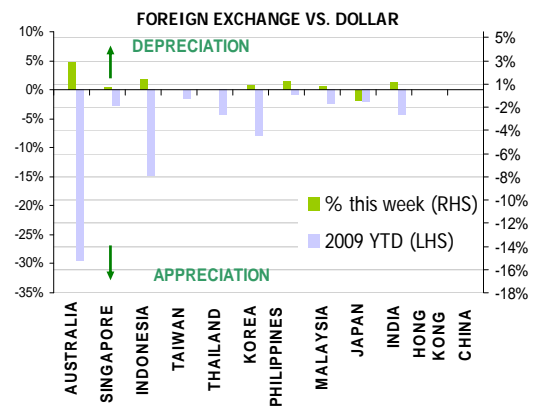
- Mixed week for Asia-Pacific stock markets. The best performer was the Chinese index, with a 3.8% rise over the week ended Friday and was followed by the Korean bourse, which climbed 3.1% and the Indonesian benchmark, which gained 2.5%. The Philippine stock market posted a 1.1% gain as did the Indian one, which rose 1.0%. The worst performers were Japanese stocks, falling 2.8% over the week and were followed by the Hong Kong and Thai indexes (-0.4%) and the Australian bourse (-0.3%)
- As for foreign exchange markets, most currencies in the region depreciated during the week. The Australian dollar lost 2.39% of its value against the US currency while the Indonesian rupee tumbled 0.99%, the Philippine peso slipped 0.78% and the Indian rupee dropped 0.68%. The only currency that appreciated in the region was the Japanese Yen, gaining 0.93% on the US dollar.

**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	3298	3308	3.8		212.0
Hong Kong	Hang Seng	22759	22456	-0.4		45.7
Taiwan	Taiwan Weighted	7747	7683	0.2		21.0
India	Sensex	16978	17022	1.0		17.5
Japan	Nikkei 225	9649	9498	-2.8		55.0
Korea	Seoul Composite	1605	1621	3.1		19.5
Indonesia	Jakarta Composite	2477	2487	2.5		2.2
Malaysia	KLSE Composite	1277	1274	0.3		1.6
Philippines	Philippines Composite	3050	3069	1.1		0.4
Singapore	Straits Times	2763	2762	1.3		5.1
Thailand	SET	703	695	-0.4		2.4
Australia	All Ordinaries	4752	4707	-0.3		23.2

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	0.02	6.80	6.80	6.62	6.64
Hong Kong	(HKD/USD)	7.75	7.75	-0.01	7.75	7.75	7.73	7.73
Taiwan	(TWD/USD)	32.20	32.33	0.04	31.84	32.06	31.06	31.28
India	(INR/USD)	46.42	46.66	0.68	46.44	46.73	46.94	47.30
Japan	(JPY/USD)	89.09	88.84	-0.93	89.04	88.80	88.76	88.55
Korea	(KRW/USD)	1155.20	1161.15	0.38	1159.44	1165.03	1167.57	1173.53
Indonesia	(IDR/USD)	9447.60	9468.00	0.99	9546.50	9607.50	9982.50	10025.00
Malaysia	(MYR/USD)	3.37	3.38	0.25	3.38	3.39	3.38	3.39
Philippines	(PHP/USD)	46.85	47.07	0.78	47.16	47.39	47.68	47.94
Singapore	(SGD/USD)	1.39	1.39	0.24	1.39	1.39	1.39	1.39
Thailand	(THB/USD)	33.20	33.23	0.03	33.25	33.30	33.34	33.38
Australia	(USD/AUD)	0.93	0.91	-2.39	0.92	0.90	0.89	0.87

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>

	Week-end level	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	1.46	4	2.00	13	-	n.a.	
Hong Kong	0.05	-1	0.12	-3	0.58	-6	
Taiwan	0.17	0	0.61	0	0.93	0	
India	3.42	-8	4.40	-3	n.a.	n.a.	
Japan	0.19	0	0.52	0	0.66	0	
Korea	2.39	0	2.79	0	3.99	-6	
Indonesia	6.44	-4	7.05	-9	7.57	-12	
Malaysia	2.03	-1	2.17	1	2.25	2	
Philippines	4.44	-25	4.44	-6	4.13	-25	
Singapore	0.31	0	0.69	0	0.91	0	
Thailand	1.26	0	1.36	0	1.72	0	
Australia	3.77	1	3.92	-7	-	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**

	Week-end level	3-month 1/ b.p. change over a week	Week-end level	5-year b.p. change over a week
China	1.27	1	3.09	-3
Hong Kong	0.04	0	1.54	-7
Taiwan	0.32	1	0.88	-1
India	3.26	2	6.90	-18
Japan	-	n.a.	0.60	-3
Korea	2.09	-2	4.76	-4
Indonesia	6.76	-18	9.28	-6
Malaysia	2.02	0	3.77	-4
Philippines	4.07	0	6.31	-20
Singapore	0.43	0	1.34	-3
Thailand	1.54	-6	3.33	-15
Australia	4.12	-13	5.10	-24

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
23-Nov	Thailand	Gross Domestic Product SA (QoQ)	3Q	2.30%	2.30%
23-Nov	Thailand	Gross Domestic Product (YoY)	3Q	-4.90%	-3.20%
23-Nov	Singapore	CPI (YoY)	OCT	-0.40%	-0.50%
23-Nov	Taiwan	Unemployment Rate - sa	OCT	6.09%	6.10%
23-Nov	Taiwan	Export Orders (YoY)	OCT	-3.00%	3.95%
23-Nov	Taiwan	Industrial Production (YoY)	OCT	1.01%	5.62%
24-Nov	Korea	SK Consumer Confidence	NOV	117	--
24-Nov	Japan	BoJ Monthly Report	24-Nov		
24-Nov	Malaysia	Overnight Rate	24-Nov	2.00%	2.00%
25-Nov	Japan	Merchnds Trade Balance Total	OCT	¥520.6B	¥465.5B
25-Nov	Japan	Adjusted Merchnds Trade Bal.	OCT	¥58.6B	¥300.0B
25-Nov	Japan	Merchnds Trade Exports YoY	OCT	-30.7	-27
25-Nov	Japan	Merchnds Trade Imports YoY	OCT	-36.9	-34.1
25-Nov	Philippines	Total Imports (YoY)	SEP	-28.30%	--
25-Nov	Philippines	Trade Balance	SEP	-\$144M	--
26-Nov	Korea	Business Survey- Manufacturing	DEC	93	--
26-Nov	Korea	Business Survey- Non-Manufacturing	DEC	84	--
26-Nov	Japan	BoJ Monetary Policy Meeting Minutes	26-Nov		
26-Nov	Philippines	GDP (YoY)	3Q	1.50%	1.70%
26-Nov	Philippines	GDP sa (QoQ)	3Q	2.40%	1.30%
26-Nov	Singapore	Industrial Production YoY	OCT	-7.70%	7.50%
26-Nov	Singapore	Industrial Production MoM SA	OCT	-9.10%	1.60%
26-Nov	Hong Kong	Exports YoY%	OCT	-8.60%	-13.30%
26-Nov	Hong Kong	Imports YoY%	OCT	-3.10%	-10.00%
26-Nov	Hong Kong	Trade Balance	OCT	-29.1B	-23.6B
26-Nov	Taiwan	GDP - Constant Prices (YoY)	3Q	-7.54%	-2.60%
27-Nov	Korea	Current Account in US\$ Million	OCT	\$4201.6M	--
27-Nov	Korea	Goods Balance in US\$ Million	OCT	\$5450M	--
27-Nov	Japan	Jobless Rate	OCT	5.30%	5.40%
27-Nov	Japan	Natl CPI YoY	OCT	-2.20%	-2.40%
27-Nov	Japan	Retail Trade YoY	OCT	-1.40%	-1.60%
27-Nov	Japan	Retail Trade MoM SA	OCT	0.90%	-0.90%

Sources: Bloomberg and BBVA staff estimates.

**b) Economic Events**

Date	Country	Issue	Remarks
25 Nov	Australia	Australian Central Bank Deputy Governor Speaks in Melbourne	

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	-8.6	-4.2	4.4	-6.2	0.6	-9.5	-7.1	0.3
	2Q09	7.9	-3.6	-7.5	6.1	-7.0	-2.2	4.0	-3.9	1.5	-3.3	-4.9	0.6
	3Q09	8.9	-2.4	n.a.	n.a.	-4.5	0.6	4.2	-1.2	n.a.	0.6	n.a.	n.a.
CPI inflation (% yoy) 1/	Sep-09	-0.5	2.2	-1.8	1.3	-2.2	2.0	2.6	-1.5	1.6	-0.4	0.4	1.5
Exports (in local currency) (% yoy) 2/	Sep-09	-13.8	-8.6	-4.4	-8.4	-30.6	-19.0	-15.1	-24.2	-16.0	-8.9	-8.4	-21.6
Trade balance (US\$ bn) 3/	Sep-09	24.0	-3.8	3.2	-7.8	5.7	3.6	2.2	2.7	-0.1	2.4	2.0	0.0
Industrial production (% yoy) 4/	Sep-09	16.1	-9.5	1.7	9.1	-18.4	11.0	0.1	-6.0	-3.4	-7.7	1.0	-3.8
Retail sales (% yoy) 5/	Sep-09	17.7	1.0	4.8	n.a.	0.9	-4.7	13.4	4.4	n.a.	-13.8	-6.7	4.9
Money supply (M2) (% yoy) 6/	Sep-09	29.4	14.4	7.6	14.3	3.3	10.7	16.4	7.5	5.3	11.3	7.6	6.9
Domestic credit (% yoy) 7/	Sep-09	34.2	-4.1	-1.1	23.2	1.5	7.2	11.2	7.2	1.7	8.3	2.9	1.7
Unemployment rate (%) 8/	Sep-09	n.a.	5.2	6.0	n.a.	5.3	3.4	n.a.	3.6	7.6	2.9	1.2	5.4

Notes: 1) Wholesale prices for India; Q209 figure for Australia; Oct-09 figure for China, Hong Kong, Taiwan, Korea, Indonesia, Philippines, Thailand.

2) Figure for China is in US dollar term; figure for Australia includes services; Oct-09 for China, Taiwan and Korea

3) Figure for Australia includes services; Aug-09 figures for Indonesia+: Oct-09 for China, Taiwan, Korea and Australia

4) Q209 Figure for Australia; Aug-09 figure for Hong Kong and Indonesia.

5) Not available for India and Philippines; 2Q09 for Malaysia. Aug-09 figure for Thailand. Oct-09 figure for China

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; Oct-09 figure for China and Japan

7) figure for Hong Kong is only counted HK dollar M2; Jul-09 figure for Indonesia; Oct-09 figure for China and Japan

8) Not available for India, China, Indonesia; Q209 figure for Malaysia; Jul-09 figure for Philippines; Oct-09 figure for Korea and Australia.

Source: CEIC & DataStream