

Weekly Observatory

April 26, 2010

Economic and Financial Market Highlights (19-25 April 2010)

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A stream of strong export data continues. Together with strengthening domestic demand, this has led to a surge in regional output, which has in turn contributed to falling, but in some cases still stubbornly high, unemployment rates.

Stock markets saw a rollercoaster ride over the past week, posting large losses on China's efforts to cool housing prices and on spillovers from the Goldman investigation. Most indexes had recovered much of their lost ground by Friday. Currencies followed a similar trend, and on the whole continued to appreciate. On monetary policy, as expected, India again raised rates to cool inflation, while Thailand and the Philippines left them unchanged. Attention in the coming week will focus on Korea's 1Q GDP and Japan's monetary policy meeting.

Greater China

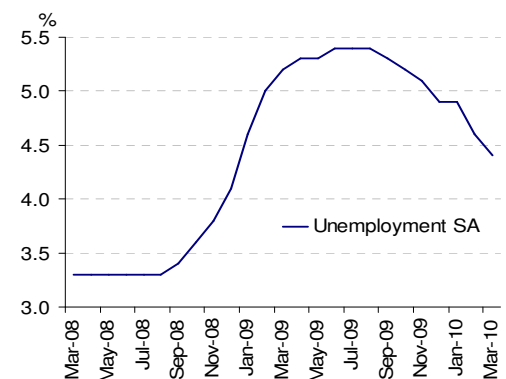
- **China's** stock markets saw their biggest fall in 8 months early last week on renewed expectations of additional measures to cool down the property market, as well as spillovers from the Greek sovereign debt crisis and uncertainty about the Goldman investigation and financial regulatory reform. As noted in the last Asia Weekly, the authorities announced an increase in the down payment requirement for second home purchases to 50% from the previous 40%, and an increase in minimum mortgage rates to 110% of the benchmark rate (previously 70%-100%). For third homes and beyond, substantially higher mortgage rates and down payment ratios are required.

- **Hong Kong's** unemployment rate fell to a seasonally adjusted 4.4% in March, the lowest level since December 2008. The decline beat the consensus of 4.5%, and compares to February's outturn of 4.6%. The unemployment rate is expected to ease further as labor market conditions improve on the back of the strong economic recovery.

- **Taiwan's** export orders in March grew by a faster-than-expected 43.7% y/y as the global economic recovery continues to boost demand for electronics goods, especially for computers and mobile phones, adding further impetus from China's rapid economic growth. Orders are a leading indicator of future shipments in one to three months. The higher figure beat the consensus of 39.7%, and the previous month's figure of 36.2%. On a seasonally adjusted m/m basis, however, the export order index decreased by 1.9% m/m.

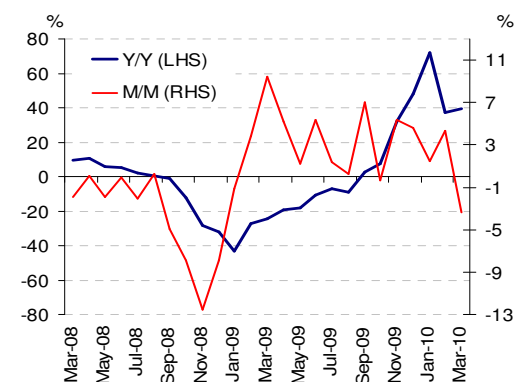
Taiwan's stubbornly high unemployment rate, however, remained unchanged at 5.7% in February (consensus: 5.6%). Going forward, job prospects are expected to improve on the strengthening global outlook. To assist the improvement, the government recently announced new tax incentives for R&D and subsidies to small businesses that hire new workers.

Hong Kong: Unemployment rate



Source: CEIC

Taiwan: Industrial Production



Source: CEIC

Industrial output gained 39.2% y/y in March (consensus: 39.4%) led by computers, mobile phones and television screens. Industrial output grew for seventh straight month, after previous month increase of 35.5%. On a seasonally adjusted basis, the industrial output

India

- **India's** central bank (RBI), as expected, raised both policy rates and cash reserve ratio by 25bps in order to contain near double-digit inflation. Following last month's unscheduled (inter-meeting) increase in rates, the RBI announced increases in the reverse repurchase rate to 3.75%, the repurchase rate to 5.25%, and the cash reserve ratio to 6% (the policy rate was increased previously by 25 bps on March 19; the CRR was increased by 75 bps on January 2010). We expect further hikes in policy rates (by 75 to 100 bps) and CRR (by 50 bps) this year when inflation, led by rises in food prices, is likely to rise above 10% in the summer.

Japan/Korea/Australia

- **Japan's** consumer confidence index hit its highest level in more than two years, highlighting that households are benefiting from the export-led rebound and better job prospects expectations. The overall livelihood index rose to 40.9 in March, from 39.8 the previous month, while household consumer confidence grew to 41.2 from 40.7 in the same period. (A reading below 50 indicates that pessimists outnumber optimists.)

Japan's exports rose for a fourth straight month in March, due to solid growth in Asia and the strengthening US recovery. Exports rose by 43.5% y/y (consensus: 45.9%), slightly below February's figure of 45.3%, led by shipments of cars, semiconductors and auto parts. China and the rest of Asia are the main drivers of Japan's export recovery. Meanwhile, imports rose by 20.7% in March (consensus: 21.1%), lower than previous figure of a 29.5% increase. The trade balance remains strong, amounting to JPY949 billion (USD10.2 billion), slightly below the markets' forecast of JPY1.0 billion. On a seasonally adjusted basis, Japan's exports were flat on a m/m basis, while imports decreased by -3.7% m/m.

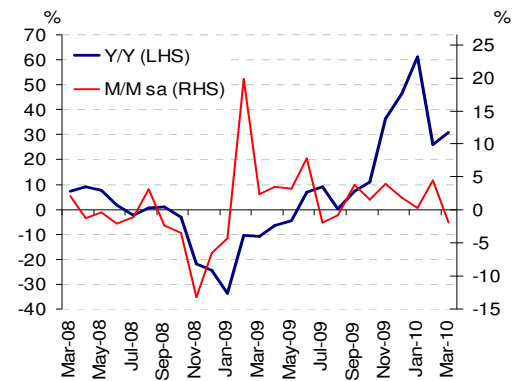
The tertiary industry index fell by a seasonally adjusted -0.2% m/m in February compared to +2.5% in January, beating the markets' forecast of a 1.0% decrease. The outturn is further evidence that the export recovery is having a beneficial effect on consumption even as deflation persists. On a yearly basis, the services index recorded its first positive growth in 19 months of 0.4%, compared with a -0.5% drop the previous month.

On a seasonally adjusted basis, the all industry activity dropped 2.3% in February m/m (consensus: 1.6% decline), while the previous month's figure was 3.4% growth. Within major subsectors, only construction activity improved. On an annual basis, all industry activity rose by 4.1% in February, much faster than the 1.9% growth seen in the previous month.

ASEAN

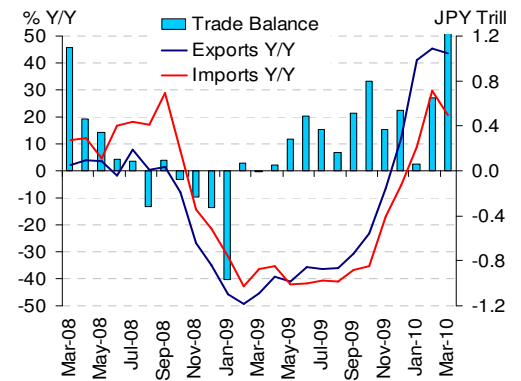
- **Singapore's** consumer prices rose in March for a third straight month due to a higher food and transport costs. The CPI rose 1.6% from a year earlier (consensus: 1.8%), compared with a 1.0% increase in February. On a seasonally adjusted basis, prices in March rose by 0.4% m/m, below February figure of 0.6% increase. Singapore's Monetary Authority tightened policy earlier this month by shifting the center of its undisclosed exchange rate band to a more appreciated

Taiwan: Export Orders Index



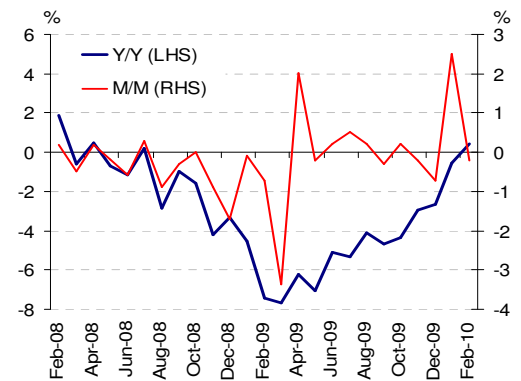
Source: CEIC

Japan: Trade Balance



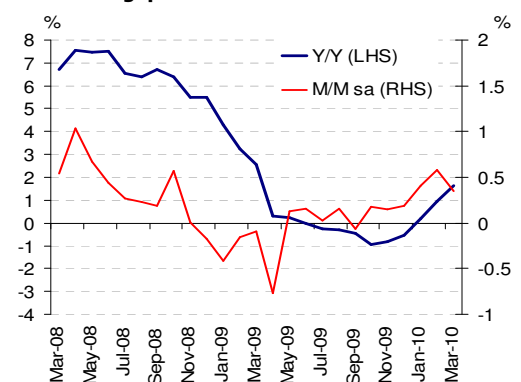
Source: CEIC

Japan: Tertiary Industry Index



Source: CEIC

Singapore: Consumer Price Index



Source: CEIC

level, and tilting the slope of the band to a gradual appreciation path.

- **Philippines**'s balance of payments reversed a previous month's deficit of USD125 million, to a USD255 million surplus in March. For the first quarter as a whole the surplus stood at USD1.36 billion, lower than the figure from a year earlier (USD1.73 billion) due to government debt repayments this year (especially during February). The strong external situation should continue throughout this year lead by exports as well as overseas Filipinos' remittances.

As expected, the Philippine's central bank, BSP, left its overnight borrowing rate unchanged at 4% at last week's policy meeting. We expect the BSP to begin raising its policy rate by 25bps from the second half of the year, in order to control likely asset bubbles or inflationary pressures and return to a pre-crisis rate.

- **Thailand**'s exports surged 40.9% y/y in March (consensus: 33.2%) to a 17th-month high due to rising overseas demand for electronics and agricultural products, helping the economy, which has been hit by weeks of political unrest. Imports jumped to 59.7% (consensus: 57.3%), from 71.2% increase in February. The trade balance recorded a new surplus of USD1.1 billion, beating the markets' forecast of USD0.6 billion, mainly led by Asian demand.

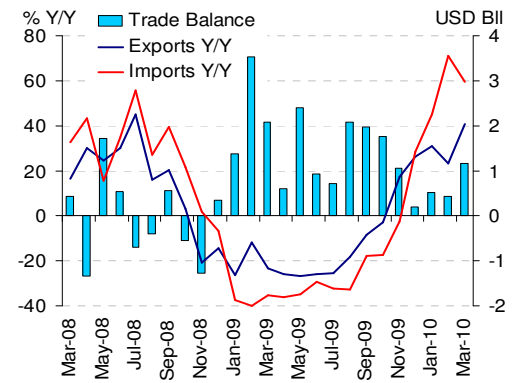
At its recent monetary meeting, Thailand's central bank kept its policy rate at 1.25%, as political unrest has for now scrapped expectations of an early rate rise.

- **Malaysia**'s consumer price index grew by 1.3% y/y in March, below market forecast of a 1.5% increase. Inflation in March was mainly driven by higher food and utilities prices. On a monthly basis (not seasonally adjusted) consumer prices remained unchanged.

Asian Financial Markets

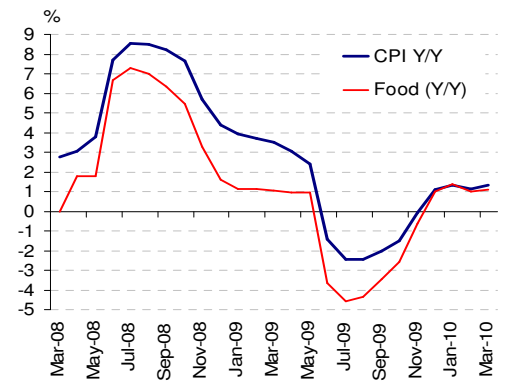
Most regional currencies and stock markets fell early in the week on news of China's tightening measures to cool the property sector, renewed concerns on Greek's debt as well as the Goldman investigation in the US. During the week the stock exchanges recovered some of their losses, but most of them still finished the week in negative territory. By the end of the week the Shanghai Composite had fallen by 4.69% and the Hang Seng Index dropped by 2.84%. Meanwhile, the main currencies continued to rise, lead by Singapore Dollar and the Korean Won.

Thailand: Trade Balance



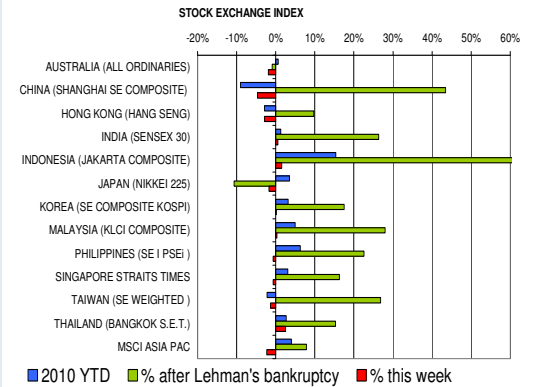
Source: CEIC

Malaysia: Consumer Price Index



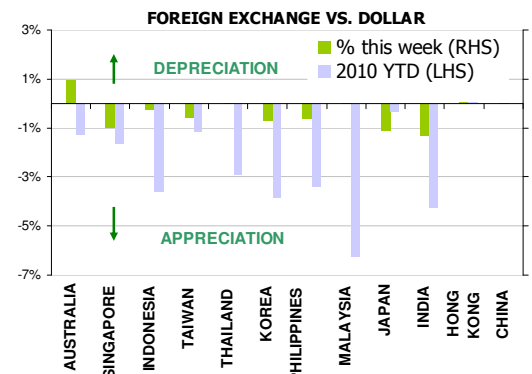
Source: CEIC

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	2995	2984	-4.7		157.7
Hong Kong	Hang Seng	21448	21244	-2.8		43.5
Taiwan	Taiwan Weighted	7946	8005	-1.3		19.2
India	Sensex	17520	17694	0.6		20.6
Japan	Nikkei 225	10953	10914	-1.7		57.0
Korea	Seoul Composite	1729	1737	0.1		24.1
Indonesia	Jakarta Composite	2899	2925	1.6		2.0
Malaysia	KLSE Composite	1334	1337	0.3		1.8
Philippines	Philippines Composite	3208	3244	-0.6		0.5
Singapore	Straits Times	2976	2988	-0.6		6.3
Thailand	SET	753	755	2.5		3.8
Australia	All Ordinaries	4944	4914	-1.9		27.5

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	0.03	-0.08	-0.08	-0.22	-0.22
Hong Kong	(HKD/USD)	7.76	7.76	0.02	-58.73	-59.44	-222.00	-222.00
Taiwan	(TWD/USD)	31.38	31.33	-0.12	-0.31	-0.34	-0.99	-0.99
India	(INR/USD)	44.55	44.44	0.24	10.31	16.37	88.37	88.37
Japan	(JPY/USD)	93.25	93.97	1.95	-6.87	-7.00	-54.00	-54.00
Korea	(KRW/USD)	1112	1109	-0.12	2	2	10	10
Indonesia	(IDR/USD)	9020	9012	0.04	77	71	416	416
Malaysia	(MYR/USD)	3.20	3.19	0.03	131.00	28.75	318.75	318.75
Philippines	(PHP/USD)	44.4	44.3	-0.11	0.4	0.3	1.2	1.2
Singapore	(SGD/USD)	1.37	1.37	-0.38	1.42	0.48	-14.50	-14.50
Thailand	(THB/USD)	32.2	32.2	-0.12	7.4	7.8	21.5	21.5
Australia	(USD/AUD)	0.93	0.93	0.38	-96.29	-96.07	-391.00	-391.00

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 ^{1/}

	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	1.71	4	2.06	n.a.	-	n.a.
Hong Kong	0.05	0	0.14	1	0.56	1
Taiwan	0.24	0	0.56	0	0.94	0
India	4.12	6	5.05	-6	n.a.	n.a.
Japan	0.15	0	0.40	0	0.57	0
Korea	2.25	-3	2.46	-2	3.01	-1
Indonesia	6.24	-5	6.89	-9	7.38	-16
Malaysia	2.28	0	2.65	3	2.82	4
Philippines	4.44	-6	4.38	0	4.50	0
Singapore	0.19	-6	0.59	-7	0.87	-4
Thailand	1.26	0	1.39	-1	1.76	-1
Australia	4.36	4	4.53	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	2.78	4
Hong Kong	0.11	2	2.03	0
Taiwan	0.45	-7	1.00	0
India	4.25	0	7.59	-6
Japan	-	n.a.	0.49	-3
Korea	2.06	0	4.41	-
Indonesia	6.94	-6	8.11	-5
Malaysia	2.49	1	3.55	-8
Philippines	3.99	2	6.41	5
Singapore	0.34	0	1.17	5
Thailand	1.60	-3	3.18	-6
Australia	4.53	3	5.55	1

Sources: Bloomberg.

2. Week Ahead:

a) Attention in the coming week will focus on Korea's 1Q GDP and March trade, output and inflation figures, and on Japan's March inflation and monetary policy meeting.

Date	Country	Data	for	Previous	Forecast
25-28 Apr	Vietnam	Imports YTD (YoY)	APR	37.60%	--
25-28 Apr	Vietnam	Exports YTD (YoY)	APR	-1.60%	--
26-Apr	Singapore	Industrial Production YoY	MAR	19.10%	30.30%
26-Apr	Singapore	Industrial Production MoM SA	MAR	5.90%	-4.00%
26-28 Apr	Vietnam	Industrial Output YTD (YoY)	APR	13.60%	--
26-28 Apr	Vietnam	Retail Sales YTD (YoY)	APR	24.10%	--
26-Apr	Korea	SK Consumer Confidence	APR	110	--
26-Apr	Korea	GDP at Constant Price (YoY)	1Q P	6.00%	7.50%
26-Apr	Korea	GDP at Constant Price (QoQ)	1Q P	0.20%	1.50%
26-Apr	Philippines	Total Imports (YoY)	FEB	30.30%	--
26-Apr	Philippines	Total Monthly Imports	FEB	\$4261.5M	--
26-Apr	Philippines	Trade Balance	FEB	-\$682M	--
27-Apr	Philippines	Budget Deficit/Surplus	MAR	-33.2B	--
27-Apr	Hong Kong	Exports YoY%	MAR	28.50%	26.90%
27-Apr	Hong Kong	Imports YoY%	MAR	22.40%	28.60%
27-Apr	Hong Kong	Trade Balance	MAR	-19.7B	-27.1B
27-Apr	Korea	Current Account in US\$ Million	MAR	\$157.6M	--
27-Apr	Japan	Retail Trade MoM SA	MAR	0.90%	-0.60%
27-Apr	Japan	Retail Trade YoY	MAR	4.20%	3.60%
27-Apr	Japan	Large Retailers' Sales	MAR	-4.00%	-5.00%
27-Apr	Australia	Consumer Prices (QoQ)	1Q	0.50%	0.80%
27-Apr	Australia	Consumer Prices (YoY)	1Q	--	2.80%
28-Apr	Korea	Business Survey- Manufacturing	MAY	105	--
28-Apr	Korea	Business Survey- Non-Manufacturing	MAY	88	--
29-Apr	Korea	Service Industry Output YoY	MAR	7.10%	--
29-Apr	Korea	Industrial Production Mfg(YoY)	MAR	19.80%	--
29-Apr	Korea	Industrial Production (MoM)	MAR	3.60%	--
29-Apr	Korea	Industrial Production (YoY)	MAR	19.10%	--
29-Apr	Korea	Leading Index (YoY)	MAR	10.30%	--
29-Apr	Japan	Nomura/JMMA Manufacturing PMI	APR	52.4	--
29-Apr	Japan	Unemployment Rate	MAR	4.90%	4.90%
29-Apr	Japan	CPY YOY	MAR	-1.10%	-1.10%
29-Apr	Japan	Industrial Production (MoM)	MAR P	-0.70%	0.80%
29-Apr	Japan	Industrial Production YOY%	MAR P	31.30%	31.10%
29-Apr	Singapore	Unemployment Rate (sa)	1Q	2.10%	2.10%
29-Apr	Japan	BOJ Target Rate	30-Apr	0.10%	0.10%
30-Apr	Thailand	Total Exports YOY%	MAR	23.50%	--
30-Apr	Thailand	Total Exports in US\$ Million	MAR	\$14255M	--
30-Apr	Thailand	Total Imports YOY%	MAR	80.80%	--
30-Apr	Thailand	Total Imports in US\$ Million	MAR	\$13803M	--
30-Apr	Thailand	Total Trade Balance	MAR	\$452M	--
30-Apr	Thailand	Manufacturing Production (YoY)	MAR	30.30%	--
30-Apr	Thailand	Manufacturing Prod Index (SA)	MAR	210.1	--
30-Apr	Thailand	Current Account Balance (USD)	MAR	\$1521M	--
30-Apr	Thailand	Overall Balance in US\$ Million	MAR	\$119M	--
30-Apr	Thailand	Business Sentiment Index	MAR	51.3	--
30Apr-2May	China	PMI Manufacturing	APR	55.1	55.6
30Apr	Korea	Ext Trade - Export (YoY)	APR	34.30%	--
30Apr	Korea	Ext Trade - Export in US\$ Mln	APR	37450	--
30Apr	Korea	Ext Trade - Imports (YoY)	APR	49.00%	--
30Apr	Korea	Ext Trade - Import in US\$ Mln	APR	35632	--
30Apr	Korea	Ext Trade - Balance in US\$ Mln	APR	1817	--

Sources: Bloomberg and BBVA staff estimates.

b) Economic Events

Date	Country	Issue	Remarks
29-Apr	Japan	BOJ Target Rate	Expected to remain unchanged at 0.10%

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)	2Q09	7.9	-3.7	-7.5	6.1	-5.7	10.8	4.1	-3.9	0.8	-3.1	-4.9	0.9
	3Q09	9.1	-2.2	n.a.	7.9	-5.2	7.8	4.2	-1.2	0.4	0.6	-2.7	0.9
	4Q09	10.7	2.6	n.a.	n.a.	-1.0	2.9	5.4	4.5	1.8	4.0	5.8	2.7
CPI inflation (% yoy) 1/	Mar-10	2.4	2.0	1.3	9.9	-1.1	2.3	3.4	1.3	4.4	1.6	3.4	0.5
Exports (in local currency) (% yoy) 2/	Feb-10	24.3	28.5	38.2	26.7	43.5	4.5	23.9	18.4	38.1	29.3	16.0	-17.0
Trade balance (US\$ bn) 3/	Feb-10	-7.2	-2.5	1.4	-9.0	10.5	1.8	3.6	3.4	-0.7	3.5	0.4	0.0
Industrial production (% yoy) 4/	Feb-10	18.1	-9.5	39.2	15.1	31.3	19.1	5.7	5.0	-1.9	19.1	31.1	0.9
Retail sales (% yoy) 5/	Feb-10	18.8	31.5	4.8	n.a.	5.4	-11.8	40.0	10.2	n.a.	4.7	7.8	2.1
Money supply (M2) (% yoy) 6/	Feb-10	22.5	10.8	4.9	17.0	2.6	8.6	10.7	8.4	4.4	9.8	4.6	1.9
Domestic credit (% yoy) 7/	Feb-10	21.8	3.6	3.2	19.4	-1.8	-0.4	9.4	10.0	5.7	7.9	6.4	1.6
Unemployment rate (%) 8/	Feb-10	4.3	4.6	5.8	n.a.	4.9	3.8	7.9	3.5	7.1	2.1	1.4	5.7

Source: CEIC and Datastream

Notes: 1) Wholesale prices for India; Q409 figure for Australia; Feb-10 figure for Japan.

2) Figure for China is in US dollar term; figure for Australia includes services; Mar-10 figure for China, Japan, Taiwan, Singapore and Korea.

3) Figure for Australia includes services; Jan-10 figure for Indonesia and Philippines; March figure for Taiwan, Japan, China, Singapore Korea and Australia.

4) Aug-09 figure for Hong Kong; Dec-09 figure for Australia; Jan-10 figure for China and India; Mar-10 figure for Taiwan.

5) Not available for India and Philippines; Dec-09 figure for Malaysia; Jan-10 figure for Thailand. March figure for China and Japan.

6) Figure for Australia is broad money in national definition; figure for Hong Kong is only counted HK dollar M2; Jan-10 figure for India and Indonesia.

7) Figure for Hong Kong is only counted HK dollar M2; Dec-09 figure for Indonesia; Mar-10 figure for China and Japan..

8) Not available for India; Oct-10 figure for Philippines; Dec-09 figure for China, Indonesia, Malaysia, Singapore; Jan-10 figure for Thailand; Mar-10 figure for Korea and Australia.