



# Weekly Observatory

August 11th, 2008

## Economic and Financial Market Highlights (Aug 02-08, 2008)

Economic activity continued to slow down in Asia. China's July PMI fell to the lowest level in the last five years. In June, export growth slowed in Taiwan and Malaysia; Japan's headline machinery orders continued to fall; Australia's housing finance commitments declined more than expected; and Korea's retail sales slowed considerably. Meanwhile, inflation continued to rise apace in Taiwan, India, and the Philippines. To rein in inflationary pressure, the monetary authorities in Korea and Indonesia raised their policy rates by 25bps last week.

Andrew Tsang  
[andrew.tsang@bbva.com.hk](mailto:andrew.tsang@bbva.com.hk)  
 Ya-Lan Liu  
[yalan@grupobbva.com](mailto:yalan@grupobbva.com)  
 Yuande Zhu  
[yzzhu@bbvashanghai.com](mailto:yzzhu@bbvashanghai.com)

### 1. Greater China

- The economic sentiment in China has turned weaker. China's PMI, released by National Statistical Bureau (NBS), fell to a record low of 48.4 in July from 52 in June, although the sub-index for growth in private-sector activity was still above the benchmark level: 50. The sharp decline in PMI reflects higher domestic costs and weaker external demand.
- China's fiscal condition strengthened in 2008 H1. Fiscal revenue increased by 33.3% yoy, reaching RMB 3.48 trillion, while expenditure expanded at a slower pace by 27.7% to RMB 2.29 trillion, resulting in a budgetary surplus of RMB 1.19 trillion.
- Taiwan's exports rose marginally by 0.1% in July, as shipments to the U.S. declined and sales to China slowed. Meanwhile, Taiwan's CPI inflation accelerated to 5.92% yoy in July, the fastest pace in almost 14 years after the government ended caps on power prices and bad weather led to an increase in food costs.

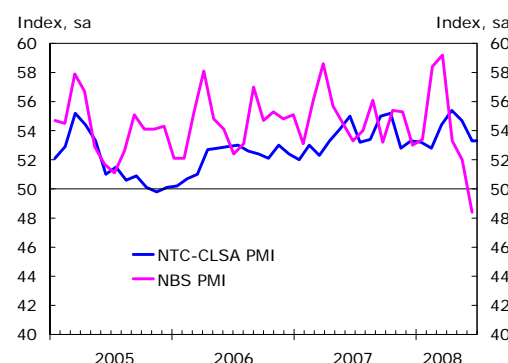
### 2. India

- India's WPI inflation continued to break its 13-year-high to 12.01% yoy for the week ending 26 July, from 11.98% for the previous week, mainly driven by fuel and primary goods.

### 3. Japan/Korea/Australia

- **Japan's** bank loan (excluding shinkin banks) grew by 2.0% yoy in July at the same pace as that in June. Adjusted for special factors, growth in bank loan rose to 2.5% yoy in July from 2.4% in June. The uptrend has been driven by an increase in lending to local governments and demand from large corporations and households. Meanwhile, the rate of increase in M2 slowed slightly to 2.1% yoy in

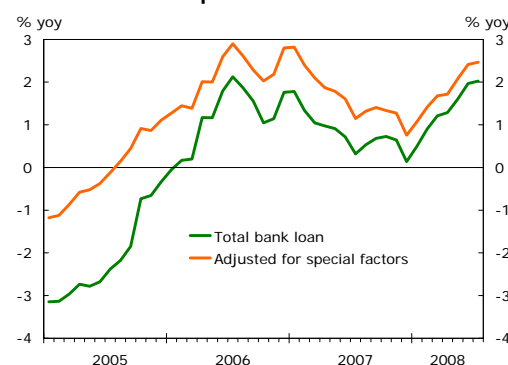
China: PMI



Sources: CEIC and Bloomberg.

Note: Index over 50 indicates an expansion of activity, while one below 50 suggests contraction.

Japan: Bank loan



July from 2.2% in June and was below the market forecast.

- Japan's headline machinery orders fell by 2.6% mom in June, the first drop in three months. The smaller-than-expected decline was a positive surprise for the economy and a negative factor for the government bond market. But capital expenditures are expected to remain sluggish, as the Cabinet Office forecast for Jul-Sept machinery orders points to a decline of 3.0% qoq.

- Korea's** central bank (BoK) hiked its benchmark base rate by 25 bps to 5.25% on 7 August, its first increase in a year. The BoK also raised its aggregate credit ceiling rate for the special loans to banks by 25 bps to 3.50%. The 25bps rate hike is aimed to contain inflation expectations. Retail sales growth decelerated to 6.8% yoy in June following a strong growth of 10.1% (revised) in May. The sales growth slowdown was led by a decline in durable goods sales, which fell 0.4% in June after gaining 7.1% in May.

- Australia's** June housing finance commitments fell 3.7% yoy (Consensus: -2.1%, May: -6.9%), a sign of downside risk to growth in domestic spending while the July labour force report was stronger than expected with employment up 10,900 (The consensus figure was 1,300). In July, the unemployment rate was stable at 4.3%, 0.4 percentage point higher from an historical low of 3.9% in February. Meanwhile, the Reserve Bank of Australia held rates steady at 7.25%, as expected. The USD/AUD exchange rate traded lower upon the announcement and was lower at end of the week closing at 0.8885.

4. ASEAN

- Indonesia's** central bank (BI) hiked its benchmark overnight rate by 25 bps to 9.00% as expected. The move marked the fourth consecutive month of rate increase since May, each time by 25 bps.

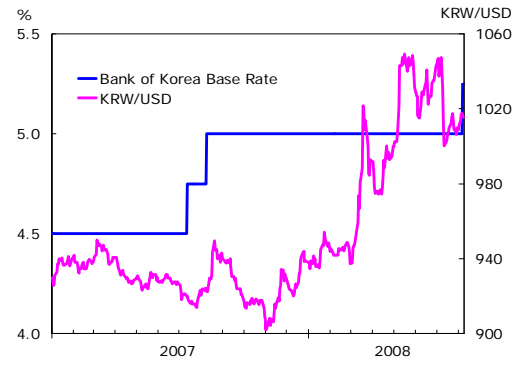
- Philippines'** July CPI rose to its highest in 16 years at 12.2% yoy, compared to 11.4% yoy in June, as oil, food, utilities and wages all increased, signaling possible second round of inflationary effects. Meanwhile, exports performed well in June 2008, with export earnings rising 8.3% yoy from 2.3% yoy in May.

- Malaysia's** June exports rose 18.4% yoy, from 22.2% yoy in May, which is the slowest pace in 3 months owing to slowing electronics exports to the US and European markets. Easing commodities prices could also affect the value of Malaysia's oil and gas and crude palm oil exports in 2008 H2.

- Vietnam's** industrial production growth slowed to 16.1% yoy in July, from 17.1% in June. In particular, production in the foreign invested sector slowed to 16.9% in July, from 18.8% growth registered in June. Meanwhile, nominal retail sales grew by 29.8% yoy in July, similar to the 30.0% growth registered in June. However, with higher inflation at 27% in July, growth in real retail sales probably slowed last month.

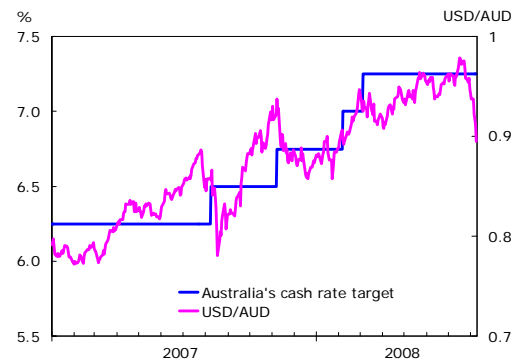
Source: Bank of Japan.

Korea: Interest rate and exchange rate



Sources: Bank of Korea and Datastream.

Australia: Interest rate and exchange rate



Sources: Reserve Bank of Australia and Datastream.

Indonesia: Interest rate and exchange rate



Source: Datastream.

## Appendix Tables

## 1. Financial Markets

## a) Stock market

	Stock Index	Weekly average		Week-end	Total turnover
		Level	Level	% change over a week	US\$ bn
China	Shanghai Composite	2697	2606	-7.0	46.1
Hong Kong	Hang Seng	22114	21885	-4.3	32.4
Taiwan	Taiwan Weighted	7010	7209	2.9	16.4
India	Sensex	14980	15168	3.5	25.2
Japan	Nikkei 225	13079	13168	0.6	82.8
Korea	Seoul Composite	1558	1569	-0.3	21.1
Indonesia	Jakarta Composite	2199	2196	-2.3	2.0
Malaysia	KLSE Composite	1132	1120	-3.3	1.5
Philippines	Philippines Composite	2655	2693	4.2	0.3
Singapore	Straits Times	2853	2808	-3.4	5.5
Thailand	SET	683	691	1.8	2.3
Australia	All Ordinaries	4985	5038	1.2	24.0

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)	6.86	6.86	0.22	6.82	6.82	6.61	6.60
Hong Kong	(HKD/USD)	7.81	7.81	0.08	7.79	7.80	7.77	7.77
Taiwan	(TWD/USD)	30.92	31.26	1.68	30.94	31.45	30.47	31.02
India	(INR/USD)	42.20	42.23	-0.38	42.63	42.84	43.65	43.91
Japan	(JPY/USD)	109.20	110.18	2.31	108.61	109.58	106.69	107.61
Korea	(KRW/USD)	1019.41	1028.05	1.29	1023.24	1031.75	1029.86	1038.90
Indonesia	(IDR/USD)	9127.80	9281.00	1.97	9215.00	9365.00	9671.00	9825.00
Malaysia	(MYR/USD)	3.28	3.31	1.59	3.29	3.31	3.27	3.30
Philippines	(PHP/USD)	44.04	44.34	0.20	44.28	44.67	45.36	45.72
Singapore	(SGD/USD)	1.39	1.41	2.40	1.38	1.40	1.37	1.39
Thailand	(THB/USD)	33.60	33.68	0.48	33.76	33.90	34.09	34.31
Australia	(USD/AUD)	0.91	0.89	-4.39	0.90	0.88	0.88	0.86

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	3.17	-64	4.37	3	4.81	10
Hong Kong	1.50	-14	2.23	-7	2.88	-13
Taiwan	2.16	0	2.27	0	2.61	-1
India	9.33	5	10.48	19	n.a.	n.a.
Japan	0.60	0	0.85	0	0.96	0
Korea	5.48	15	5.76	8	6.51	6
Indonesia	9.25	2	9.82	2	10.90	-1
Malaysia	3.49	2	3.70	0	3.88	0
Philippines	5.06	44	4.81	-50	6.00	-56
Singapore	0.69	13	1.06	5	1.68	-2
Thailand	3.54	0	3.76	-1	4.28	-6
Australia	7.38	-9	7.33	-26	7.15	-39

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	3.37	17	4.23	2
Hong Kong	1.05	-17	3.07	-17
Taiwan	1.88	8	2.37	-3
India	9.14	4	9.22	-15
Japan	0.57	-1	1.02	-6
Korea	5.37	8	5.72	-4
Indonesia	9.39	-16	11.37	-2
Malaysia	3.43	12	4.08	14
Philippines	6.16	6	7.76	-96
Singapore	0.47	4	2.05	9
Thailand	3.26	2	4.60	-1
Australia	6.40	5	5.84	-21

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

Sources: Bloomberg and CEIC.

**2. Week Ahead**

**a) Data Release Calendar**

Date	Country	Data	for	Previous	Forecast
11-14 Aug	China	Trade Balance (USD)	JUL	\$21.35B	\$20.25B
11-14 Aug	China	Exports YoY%	JUL	17.60%	16.80%
11 Aug	China	Producer Price Index (YoY)	JUL	8.80%	9.00%
11 Aug	China	Purchasing Price Index (YoY)	JUL	13.50%	--
11-15 Aug	China	Actual FDI YTD YoY	JUL	44.60%	--
11 Aug	Malaysia	Industrial Production YoY	JUN	2.50%	2.00%
12 Aug	Japan	Domestic CGPI (YoY)	JUL	5.60%	5.70%
12 Aug	China	Consumer Price Index (YoY)	JUL	7.10%	6.50%
12 Aug	Japan	Industrial Production (YoY)	JUN	0.20%	--
12 Aug	Japan	Capacity Utilization (MoM)	JUN	2.20%	--
12 Aug	Japan	Consumer Confidence Households	JUL	32.6	32
12 Aug	India	Industrial Production YoY	JUN	3.80%	5.40%
13 Aug	Japan	Gross Domestic Product (QoQ)	2Q	1.00%	-0.60%
13 Aug	Japan	Trade Balance - BOP Basis	JUN	¥529.4B	¥293.6B
13 Aug	Australia	Wage Cost Index YoY	2Q	4.10%	4.10%
13 Aug	China	Retail Sales (YoY)	JUL	23.00%	22.50%
13 Aug	Korea	Unemployment Rate (SA)	JUL	3.20%	--
13-18 Aug	China	Money Supply - M2 (YoY)	JUL	17.40%	17.10%
14 Aug	Japan	Tertiary Industry Index (MoM)	JUN	-0.20%	-0.30%
14 Aug	Australia	Consumer Inflation Expectation	AUG	5.90%	--
14 Aug	Australia	Average Weekly Wages (YoY)	MAY	4.80%	--
14 Aug	China	Industrial Production (YoY)	JUL	16.00%	16.00%
14 Aug	Indonesia	GDP Constant Price (YoY)	2Q	6.28%	6.20%
15 Aug	India	Wholesale Price Index YoY	Aug-02	12.01%	--
15 Aug	China	Fixed Assets Inv Urban YTD YoY	JUL	26.80%	26.60%
15 Aug	Singapore	Retail Sales (YoY)	JUN	4.80%	-0.20%
15 Aug	Hong Kong	GDP (YoY)	2Q	7.10%	5.90%

Sources: Bloomberg and BBVA staff estimates.

**b) Economic Events**

Date	Country	Issue	Remarks
13 Aug	Australia	Reserve Bank Assistant Governor Lowe Speaks in Sydney	

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)	4Q07	11.3	6.9	6.5	8.8	1.7	5.7	6.3	7.3	6.4	5.4	5.7	2.8
	1Q08	10.6	7.1	6.1	8.8	1.3	5.8	6.3	7.1	5.2	6.7	6.0	3.0
	2Q08	10.1	n.a.	n.a.	n.a.	n.a.	4.8	n.a.	n.a.	n.a.	1.9	n.a.	n.a.
CPI inflation (% yoy) 1/	Jun-08	7.1	6.1	5.9	12.0	2.0	5.9	11.9	7.7	12.2	7.5	9.2	4.5
Exports (in local currency) (% yoy) 2/	Jun-08	17.2	-0.6	0.1	29.7	-1.8	52.1	39.5	18.4	3.8	10.9	18.1	29.2
Trade balance (US\$ bn) 3/	Jun-08	21.0	-3.1	-0.5	-9.8	1.1	-1.6	3.1	4.0	-0.5	1.5	0.6	0.4
Industrial production (% yoy) 4/	Jun-08	16.0	-4.4	5.1	3.8	0.2	6.7	4.4	2.6	3.5	2.5	8.7	2.4
Retail sales (% yoy) 5/	Jun-08	14.8	4.0	-5.1	n.a.	-1.6	-1.2	5.0	33.6	n.a.	-0.7	7.0	-2.5
Money supply (M2) (% yoy) 6/	Jun-08	17.3	5.6	1.5	20.5	2.1	13.6	17.5	15.9	9.8	7.5	0.3	14.9
Domestic credit (% yoy) 7/	Jun-08	14.1	12.4	3.3	19.4	1.8	17.1	33.1	11.7	5.3	18.1	4.3	11.7
Unemployment rate (%) 8/	Jun-08	4.0	3.3	4.0	n.a.	4.1	3.1	8.5	3.6	8.0	2.9	1.5	3.9

Notes: 1) Wholesale prices for India; Jul-08 figures for Taiwan, India, Korea, Indonesia, Philippines and Thailand; Q2-08 figure for Australia.

2) Figure for China is in US dollar term; figure for Australia includes services; Jul-08 figures for Taiwan and Korea.

3) Figure for Australia includes services; Jul-08 figures for Taiwan and Korea; May-08 figure for Philippines.

4) May-08 figures for India, Indonesia and Malaysia; Q1-08 figures for Hong Kong and Australia.

5) Not available for India and Philippines; May figures for Indonesia, Singapore and Thailand; Q4-07 figure for Malaysia.

6) Figure for Australia is broad money in national definition; Jul-08 figure for Japan; May-08 figures for India and Indonesia; Mar-08 figure for Philippines.

7) Jul-08 figure for Japan; May-08 figures for India, Korea and Indonesia; Mar-08 figure for Philippines.

8) Not available for India; Jul-08 figure for Australia; May-08 figure for Thailand; Apr-08 figure for Philippines; Q2-08 figure for Singapore;

Q1-08 figure for Malaysia; 2008H1 figure for China; Feb-2008 figure (half-yearly basis) for Indonesia.

Sources: Datastream, CEIC, and BBVA staff estimates.