



Weekly Observatory

October 20th, 2008

Economic and Financial Market Highlights (Oct 11-17, 2008)

Fears of an economic recession as result of the on-going global financial crisis continued to batter Asian stock markets and currencies this week. Stock prices fell in most countries and currencies continued to weaken. Meanwhile, hot money may have started to flow out of China. India, Korea, Australia, and Indonesia injected or planned to inject further liquidity in the banking sector, while governments of Australia and Thailand have started to stimulate economy using fiscal means. In addition, most countries in Asia have issued guarantees on all bank deposits for next two to three years.

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Asian Stock Markets

- Most of the Asian stock markets continued to fall this week, despite a strong rebound in US market, mainly due to the fear of a global economic recession. Specifically, the Jakarta stock exchange resumed trading on Monday after a three-day halt and registered a 3.6% drop over the week.

Greater China

- China's exports increased by 21.5% yoy and imports increased by 21.1% yoy in September. As a result, China's trade surplus rose to a record USD29.3 billion in September compared to USD28.7 billion in August. Meanwhile foreign direct investment (FDI) expanded by 26% yoy USD6.64 billion in September.

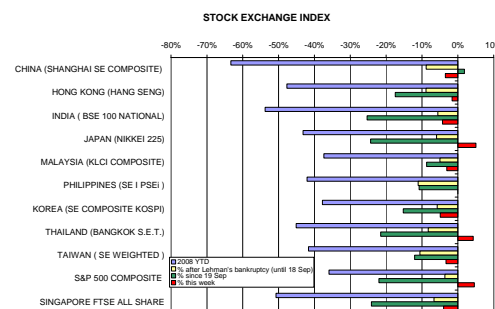
- Meanwhile, China's foreign exchange reserves increased by 32.9% yoy to USD1.9056 trillion as of the end of September. The single month increase in September was only USD21.4 billion, implying the money might flow out from China now.

- The Hong Kong government will guarantee all bank deposits and set up a stand-by facility to provide additional capital to any local financial institutions that need it. Hong Kong would use its foreign exchange reserves to provide deposit guarantees to bank customers and to inject capital into local banks if necessary. The move aims to stabilize Hong Kong's banking system.

India

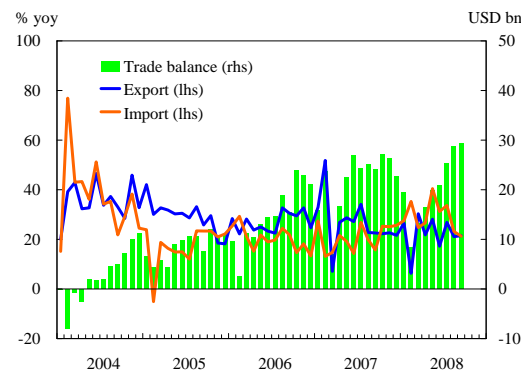
- The central bank (RBI) cut its cash reserve requirement by 100 bps to 6.5% from 7.5%, the third cut in two weeks in an attempt to boost money market liquidity. The latest move is expected to release the equivalent of USD8.5 billion into the banking system on top of the USD12.5 billion worth released with the 150 bps cut the previous week. RBI also temporarily introduced a special 14-day

Asia: Stock Markets



Sources: Datastream and Bloomberg.

China: Trade



Source: CEIC.

repo at 9% up to a cumulative amount of Rps 200 billion (USD 4.25 billion), allowing banks to utilize their bond portfolios up to that amount to borrow liquidity from RBI and on-lend to mutual funds. The impact on the money markets was positive as Mumbai's overnight dropped to 6.9% from 16.5% the previous Friday and, 3-month interbank rate declined 98 bps over the week.

- The annual rate of WPI inflation declined slightly to 11.44% yoy for the week ended October 4 as compared to 11.80% yoy in the previous week. The moderation was led by lower prices in naphta, fuel and manufactured products.

Japan/Korea/Australia

- **Japan's** domestic Corporate Goods Price inflation slowed for second straight month to 6.8% yoy in September from 7.2% in August, but still higher than market expectation of 6.6%. The slowing price growth was due to the decline in prices of petroleum products and non-ferrous metals, while past material cost increases seem still being working through the prices of final goods.

- Tokyo call money market rates fell 8.5 bps and call Libor rate for yen declined 23 bps over a week.

- **Korean** government announced an injection of another USD 30 billion into the local banks to ease the USD-shortage, further to USD15 billion since late-September. Moreover, the government and state-run lenders including Korea Development Bank will guarantee \$100 billion of external debt taken up by Korean banks from Oct. 20 to June 30 next year, valid for three years. The government will also provide tax benefits for long-term equity and bond investors. Standard & Poor's has placed its counterparty credit ratings on seven Korean financial institutions on watch negative, reflecting a 50% chance of a rating downgrade.

- Korean won kept depreciating 2% over the week or 43% since the beginning of this year, on rising concerns on the funding squeeze in US dollars, particularly to SMEs. In the interbank market for won, 3-month NCDs rose 12 bps in the week to 6.1% and 3-month commercial paper rates rose 35 bps to 7%, a new peak since 2001.

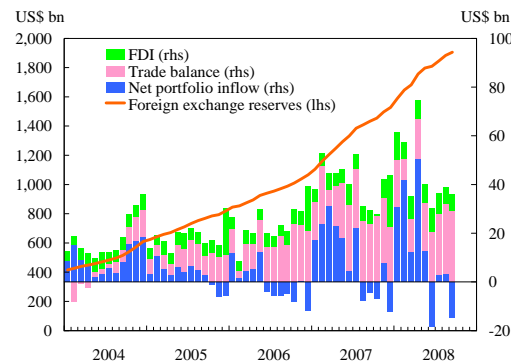
- **Australian** government announced its guarantee of all deposits of any size in Australian banks, building societies and credit unions and Australian subsidiaries of foreign-owned banks (excludes branches of foreign banks) for three years, effective Oct.12. It also guarantees all term wholesale funding by Australian banks operating in international credit markets. The government will purchase an additional AUD4 billion in Residential Mortgage Backed Securities (RMBS), effectively doubling the current amount. Bank funding margin-OIS declined 41 bps this week.

- Australian government announced an emergency fiscal stimulus package of AUD10.4 billion, around 1% of GDP to protect growth. It includes down-payment on pensions, support for low and middle income families, subsidy to first home buyers and new training jobs.

ASEAN

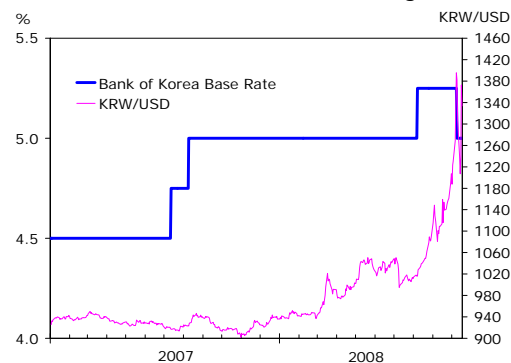
- **Singapore** will guarantee all local and foreign currency deposits of

China: Fund Flows



Sources: CEIC and BBVA estimates.

Korea: Interest Rate and Exchange Rate



Source: Datastream.

individuals and non-bank customers in banks, finance companies and investment banks operating there until Dec.2010. The guarantee will be backed by S\$150 billion of government reserves.

- Singapore's non-oil domestic exports (NODX) fell for the fifth straight month in September by 5.7% yoy (market: -9.2% yoy), albeit the contraction was less than -13.9% in August. Meanwhile, retail sales growth slowed to 4.2% yoy in August (market: 4.8% yoy) from 11.5% in July, as a result of falling demand for cars. Adjusted for seasonal factors, sales rose 0.9% mom in August after contracting 0.3% in July. In volume terms, retail sales remained unchanged and, excluding motor vehicles, the volume rose by 6.9%.

- Singapore's 3-month USD interbank rate declined 23 bps over the week.

- **Malaysia's** government will guarantee all local and foreign currency deposits with domestic and locally incorporated foreign banking institutions for three years. Insurance companies and takaful (Islamic) insurance operators will be given access to the central bank's liquidity facility. It would also guarantee interbank obligations of banking institutions and ensure that banks remain well-capitalized.

- Malaysia announced its third cut in administered fuel prices since its sharp hike last June. Gasoline prices will be cut by 15 sen/litre to MYR2.30/litre while diesel prices will fall 20 sen/litre to MYR2.20/litre.

- Malaysia's 3-month USD interbank rates fell in the week 35 bps since last Friday.

- **Philippines'** outstanding loans of commercial banks accelerated to 24.1% yoy in August from 23.9% in July, with acceleration in both loans for production and consumption activities.

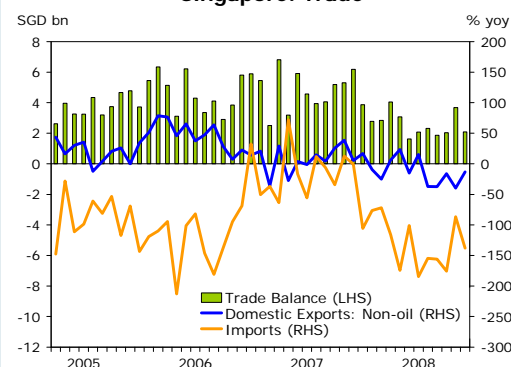
- **Indonesia's** government passed a rule to give the central bank and deposit guarantee agency more powers to decide on bailing out lenders and insurance companies. The regulation allows the central bank to extend a period of emergency lending assistance to six months from 90 days.

- The central bank announced a slew of measures to increase domestic USD liquidity: (i) a cut in the minimum reserve requirement for foreign currency deposits to 1% from 3%; (ii) scrapping limits on the daily balance of short-term foreign borrowings from current 30%, effective Oct.13; and (iii) extending the FX swap tenor from maximum 7 days to 1 month, effective Oct.15. For Rupiah deposits, the minimum reserve requirement was lowered to 7.5% from 9.08%, effective Oct.24. The central bank also increased the range of collateral acceptable for its loans to the commercial banks and raised the individual bank deposit guarantee to IDR2 bn from IDR100 mn.

- **Thailand's** government targets to boost the liquidity in the country by THB1.2 trillion (USD35 bn) on expectation of significant growth slowdown next year. It will also set up a THB42 billion (USD1.2 bn) fund to support the stock market, including THB30 billion (USD0.88 bn) from 20-25 listed companies to buy back stocks.

- Thai baht 1-week interbank rate and 3-month rate slightly increased since last Friday.

Singapore: Trade



Source: BIS.

Appendix Tables

1. Financial Markets

a) Stock market

	Stock Index	Weekly average		End of the week		Total turnover US\$ bn
		Level	Level	% change over a week ago		
China	Shanghai Composite	1985	1931	-3.5		38.7
Hong Kong	Hang Seng	15786	14554	-1.6		42.6
Taiwan	Taiwan Weighted	5119	4960	-3.3		7.7
India	Sensex	10832	9975	-5.2		16.2
Japan	Nikkei 225	9037	8694	5.0		65.9
Korea	Seoul Composite	1278	1181	-4.9		23.4
Indonesia	Jakarta Composite	1480	1399	-3.6		1.1
Malaysia	KLSE Composite	938	905	-3.1		1.7
Philippines	Philippines Composite	2170	2098	0.0		0.3
Singapore	Straits Times	2019	1879	-3.6		5.1
Thailand	SET	482	471	4.3		2.6
Australia	All Ordinaries	4132	3945	0.1		18.0

Source: Bloomberg.

b) Foreign exchange market

	Currency	Spot			3-month forward 1/		12-month forward 1/	
		Weekly average level	End of the week level	% change over a week ago 2/	Weekly average level	End of the week level	Weekly average level	End of the week level
China	(RMB/USD)	6.83	6.83	-0.04	6.88	6.89	6.93	6.95
Hong Kong	(HKD/USD)	7.76	7.76	-0.08	7.75	7.75	7.73	7.73
Taiwan	(TWD/USD)	32.45	32.57	0.41	32.28	32.44	31.80	31.92
India	(INR/USD)	48.52	48.89	0.87	50.04	50.80	50.85	51.44
Japan	(JPY/USD)	101.28	100.79	0.12	100.33	99.90	98.87	98.46
Korea	(KRW/USD)	1278.55	1333.90	2.01	1257.89	1288.00	1217.49	1279.25
Indonesia	(IDR/USD)	9827.60	9808.00	-0.58	10603.50	10697.50	n.a.	n.a.
Malaysia	(MYR/USD)	3.51	3.53	0.54	3.51	3.53	3.50	3.51
Philippines	(PHP/USD)	47.62	48.02	0.72	48.44	48.97	49.53	50.02
Singapore	(SGD/USD)	1.47	1.48	0.06	1.47	1.48	1.45	1.46
Thailand	(THB/USD)	34.21	34.26	-0.29	n.a.	n.a.	n.a.	n.a.
Australia	(USD/AUD)	0.69	0.68	5.21	0.68	0.67	0.67	0.66

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/	
	End of the week level	b.p. change over a week ago	End of the week level	b.p. change over a week ago	End of the week level	b.p. change over a week ago
China	3.04	-39	4.21	-5	4.56	-6
Hong Kong	2.50	-73	4.19	-22	3.80	-11
Taiwan	1.97	0	2.06	0	2.47	3
India	11.32	-214	12.24	-96	n.a.	n.a.
Japan	0.71	0	0.88	0	0.97	0
Korea	5.51	3	6.05	8	7.27	11
Indonesia	10.45	22	11.85	52	12.78	75
Malaysia	3.49	0	3.68	0	3.78	-2
Philippines	5.81	-138	5.38	63	5.00	31
Singapore	1.00	13	1.40	-16	1.74	-3
Thailand	3.91	1	4.00	1	4.18	1
Australia	5.93	-21	5.62	-21	4.86	-33

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	
	End of the week level	b.p. change over a week ago	End of the week level	b.p. change over a week ago
China	2.55	-42	3.04	-6
Hong Kong	0.60	69	2.39	14
Taiwan	1.99	2	2.04	5
India	7.32	-48	7.88	-1
Japan	0.63	-9	1.15	4
Korea	5.12	-3	5.08	-17
Indonesia	13.50	85	15.41	71
Malaysia	3.53	4	3.83	-2
Philippines	6.34	0	7.62	8
Singapore	0.96	-40	2.12	-16
Thailand	3.51	0	3.95	-6
Australia	3.87	55	4.83	23

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
20 Oct	Australia	Producer Price Index (YoY)	3Q	4.70%	--
20 Oct	China	Real GDP YoY	3Q	10.10%	9.70%
20 Oct	China	Consumer Price Index (YoY)	SEP	4.90%	4.60%
20 Oct	China	Producer Price Index (YoY)	SEP	10.10%	9.70%
20 Oct	China	Retail Sales (YoY)	SEP	23.20%	22.80%
20 Oct	China	Industrial Production (YoY)	SEP	12.80%	13.40%
20 Oct	China	Fixed Assets Inv Urban YTD YoY	SEP	27.40%	27.20%
20 Oct	China	Purchasing Price Index (YoY)	SEP	15.30%	--
20 Oct	China	Retail Sales YTD YoY	SEP	21.90%	--
20 Oct	China	Industrial Production YTD YoY	SEP	15.70%	--
20 Oct	Hong Kong	Unemployment Rate SA	SEP	3.20%	3.30%
21 Oct	China	Real Estate Climate	SEP	101.78	--
22 Oct	Australia	Consumer Prices (QoQ)	3Q	1.50%	--
22 Oct	Taiwan	Unemployment Rate - sa	SEP	3.93%	--
22 Oct	Taiwan	Commercial Sales (YoY)	SEP	2.51%	--
22 Oct	Malaysia	CPI YoY	SEP	8.50%	8.20%
23 Oct	Japan	Merchandise Trade Balance Total	SEP	-¥324.0B	¥610.0B
23 Oct	Singapore	CPI (YoY)	SEP	6.40%	6.50%
23 Oct	Taiwan	Industrial Production (YoY)	SEP	0.41%	--
23 Oct	Hong Kong	CPI - Composite Index (YoY)	SEP	4.60%	--
23 Oct	India	Wholesale Price Index YoY	11-Oct	11.44%	--
24 Oct	Korea	GDP at Constant Price (YoY)	3Q	4.80%	--
24 Oct	Philippines	Total Imports (YoY)	AUG	16.00%	--
24 Oct	Philippines	Trade Balance	AUG	-\$1411M	--
24 Oct	Singapore	Industrial Production YoY	SEP	-12.20%	-2.00%

Sources: Bloomberg and BBVA staff estimates.

b) Economic Events

Date	Country	Issue	Remarks
21 Oct	Australia	Reserve Bank Governor Stevens Speaks in Sydney	
22 Oct	Philippines	President Gloria Arroyo Addresses Phil. Business Conference	
24 Oct	Thailand	BOT Governor's Speech in Chiang Mai	

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)	1Q08	10.6	7.3	6.3	8.8	1.2	5.8	6.3	7.1	4.7	6.9	6.1	3.3
	2Q08	10.1	4.2	4.3	7.9	0.7	4.8	6.4	6.3	4.6	2.1	5.3	6.5
	3Q08	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-0.5	n.a.	n.a.
CPI inflation (% yoy) 1/	Aug-08	4.9	4.5	3.1	12.0	2.1	5.1	11.8	8.5	11.9	6.4	6.0	4.5
Exports (in local currency) (% yoy) 2/	Aug-08	21.5	1.9	-5.3	33.5	0.3	55.4	27.2	10.6	3.7	11.5	14.2	32.6
Trade balance (US\$ bn) 3/	Aug-08	29.4	-1.6	0.7	-13.9	-3.0	-2.1	2.4	3.8	-1.4	1.5	-0.8	1.5
Industrial production (% yoy) 4/	Aug-08	12.8	-4.2	0.4	1.3	-6.9	1.9	1.4	0.9	5.8	-12.2	4.5	2.8
Retail sales (% yoy) 5/	Aug-08	16.8	3.8	-6.3	n.a.	-1.4	-4.4	12.9	16.8	n.a.	0.0	4.1	-2.2
Money supply (M2) (% yoy) 6/	Aug-08	15.2	0.1	2.4	19.3	2.2	15.3	12.6	14.7	-1.1	8.7	0.7	15.4
Domestic credit (% yoy) 7/	Aug-08	14.5	20.4	3.3	18.4	1.6	18.4	35.2	11.0	2.6	17.5	6.5	10.5
Unemployment rate (%) 8/	Aug-08	4.0	3.2	4.1	n.a.	4.2	3.0	8.5	3.5	7.4	2.9	1.2	4.3

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

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

3) Figure for Australia includes services; Sep-08 figures for China, Taiwan, Korea and Singapore; Jul-08 figure for Philippines.

4) Jul-08 figure for Indonesia; Q2-08 figures for Hong Kong and Australia.

5) Not available for India and Philippines; Jul-08 figure for Thailand; Q1-08 figure for Malaysia.

6) Figure for Australia is broad money in national definition; figure for Hong Kong is only counted HK dollar M2; Sep-08 figures for China and Japan; Jul-08 figure for Philippines.

7) Sep-08 figures for China and Japan; Jul-08 figure for Philippines.

8) Not available for India; Sep-08 figures for Korea and Australia; Jul-08 figure for Philippines; Q2-08 figures for Singapore and Malaysia; 2008H1 figure for China; Feb-2008 figure (half-yearly basis) for Indonesia.

Sources: Datastream, CEIC, and BBVA staff estimates.