



Weekly Observatory

November 17th, 2008

Economic and Financial Market Highlights (Nov 8-14, 2008)

Asian economic conditions deteriorated further. China's economic activities slowed significantly as shown by the latest monthly economic indicators across board; the Hong Kong economy has fallen into a recession. Meanwhile, various Asian governments have lowered their growth prospects for the next year. The Fitch Ratings also downgraded its sovereign rating outlook for South Korea and Malaysia. Following other economies in the region, China announced a large fiscal stimulus package of USD 586 billion through 2010 to boost the slowing economy.

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Greater China

- China's latest economic activity measures across board (industrial production, electricity production, fixed asset investment and exports) have fallen sharply. Our real activity index shows that the economic momentum fell steeply in October. The contraction in economic activities would be more substantial in Q4, if there were no fiscal stimulus package.

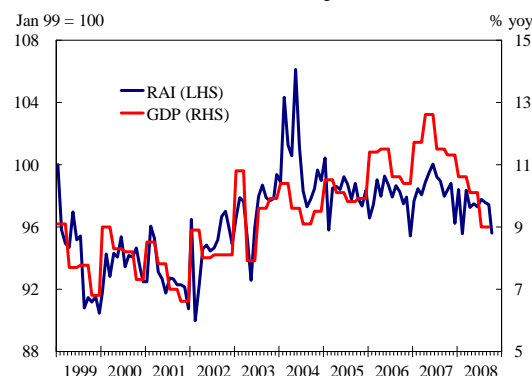
- On the other hand, China's October CPI inflation fell further to 4% yoy, while PPI inflation eased sharply to 6.6%, led by falling food, energy, and commodity prices. Looking forward, China's inflationary pressure is waning fast while the risk of deflation has increased.

- In order to prevent a free fall of the economy, China announced a 10-point fiscal stimulus package on November 9 (Sunday). The package plans to spend RMB 4 trillion (USD 586 billion, 16% of 2007 nominal GDP) through 2010. To facilitate the implementation of the large fiscal stimulus package, we believe the central bank will have to ease monetary policy by aggressively cutting both interest rate and the reserve requirement ratio going forward. We continue to maintain our view that China will be able to maintain a growth of 8% in 2009.

- Hong Kong's GDP grew by 1.7% yoy in Q3, lower than 4.2% in Q2 and the market consensus of 2.6%, suggesting the slowdown has accelerated. On a seasonally adjusted qoq basis, GDP contracted in second consecutive quarter by 0.5%, representing Hong Kong's economy has fallen into a recession. Specifically, the negative wealth effect due to a sharp drop in the stock market and investment losses in financial derivatives products have contributed to the sharp fall in PCE growth, and hence the overall GDP growth.

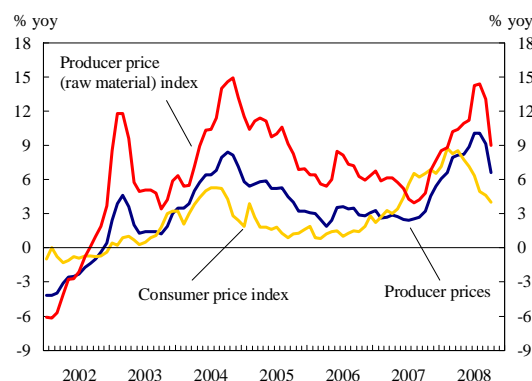
- Taiwan reduced its key lending rates by 0.25 pps with effect from November 10 (Monday). The discount rate would be lowered to 2.75%, the rate on accommodations with collateral to 3.125% and the rate on accommodations without collateral to 5%. The key rate has been cut four times by a total of 0.875 pps in less than two months.

China: Real Activity Index



Sources: CEIC and BBVA.

China: Inflation



Sources: CEIC and BBVA.

India

- India's industrial production (IP) growth accelerated sharply to 4.8% yoy in September, compared to 1.4% in August and market's expectation of 4.1%. The rebound was led by the manufacturing sector, which accounts for about 80% of IP, and capital goods production, while intermediate goods output fell for the second month in September.

Japan/Korea/Australia

- Japan's** September core machinery orders (excluding volatile orders) – a gauge of corporate investment spending- were up 5.5% mom (or -4.2% yoy), rebounding from previous month (-14.5% mom/-13.0% yoy) and slightly better than the consensus, led by manufacturing orders.

- Korean** government set up a debt stabilization fund worth about KRW 10 trillion (USD 7.2 billion) to provide liquidity to non-bank financial institutions and SMEs. The capital is expected to be raised from private financial institutions, but the ultimate source of the funds is likely to be the central bank. Meanwhile, the central bank is in talks with a state-run housing finance company (KHFC) on funding KHFC's purchase of up to KRW 4 trillion (USD 2.98 billion) in mortgages held by Korean banks.

- Korea's unemployment rate (seasonally adjusted) remained unchanged at 3.1% in October, while employment growth slowed further to 0.4% yoy, the lowest rate of growth since February 2005. All major sectors saw a decline in employment growth, except business/personal services, which saw an unchanged growth of 4.0%. On the other hand, Korean producer price inflation continued to decelerate to 10.7% yoy in October, from 11.3% in September, led by a drop in oil and commodity prices. In contrast, prices of food and related articles rose strongly by 15.0% in October, further to 14.1% yoy in September.

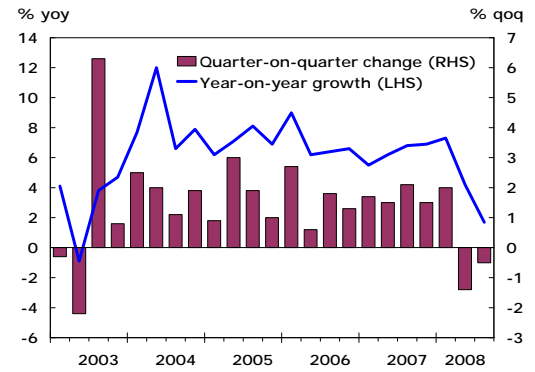
- Australian** central bank (RBA) downgraded its domestic growth forecasts to weaken to 1.5% for the year ended December 2008 (2.0% previously) and 1.75% for the year ended December 2009 (2.5% previously). The RBA expects global growth to decline to 2.25% in 2009 (down from 3.75% in 2008). Against this global recession backdrop, the terms of trade are forecast to fall by around 15% out to 2011. The RBA's headline inflation forecast has been lowered to 3.5% by end-2009 (3.25% previously) as weaker demand, petrol prices allow a faster decline in headline inflation than underlying inflation, which should slow to the 2-3% target band.

- Australia's wage growth was 0.9% qoq (or 4.1% yoy), slightly slower than the 1.1% qoq in Q2 and the market consensus of 1.0% qoq. Meanwhile, ex-refinancing, housing finance fell slightly in September, down 0.1% mom (or -23.6% yoy). It is the eighth consecutive month of decline in new housing finance.

ASEAN

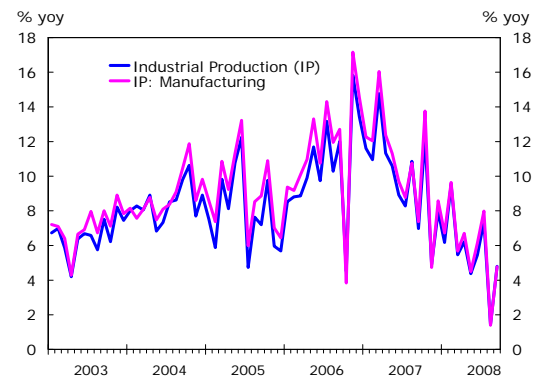
- Singapore's** retail sales growth rose to 7.2% yoy in September from 4.1% in August, higher than the market expectation of 3.6%, as

Hong Kong: Real GDP growth



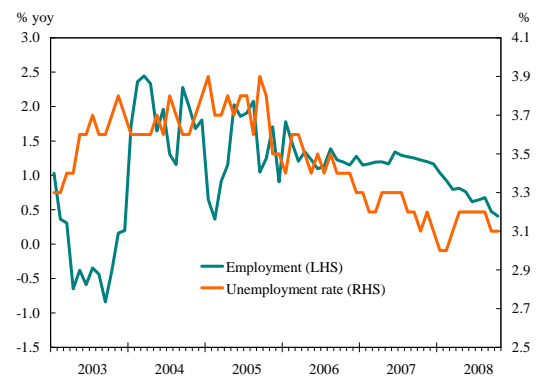
Source: Census and Statistics Department, HKSAR.

India: Industrial production



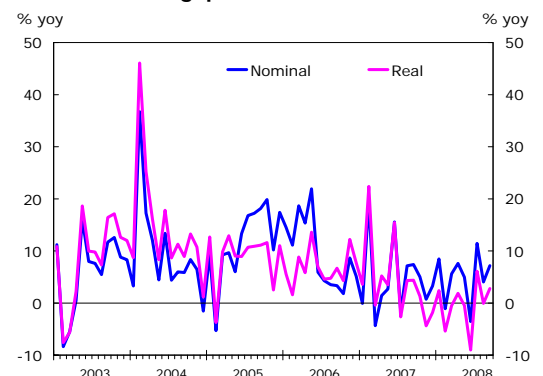
Source: CEIC.

Korea: Employment growth



Source: CEIC.

Singapore: Retail sales



Sources: CEIC and BBVA estimates.

a result of boosting car sales and increasing tourist spending as the nation hosted the Formula One motor race. However, adjusted for seasonal factors, sales contracted by 1.0% mom in September after expanding 0.9% in August, implying the growth momentum was still weak. In volume terms, retail sales only grew by 2.8% yoy.

- **Malaysia's** industrial production fell 1.7% yoy (Market: 0.7% yoy) in September, following an increase of 1.2% in August. The decline was broad-based across sectors. This the first decline in the last eighteen months and well below market expectation. On the other hand, Malaysia's authorities are reportedly to announce new fiscal stimulus measures to help boost the domestic economy, following the MYR 7 billion (USD 2 billion) package announced last week.

- **Philippines' exports** growth slowed sharply to 1.2% yoy in September from 6.6% in August, but higher than market's expectation of 0.5%. This is the slowest pace of growth in six months, led by a contraction of electronic goods exports (58.4% of total exports) for the second month in September. Given the worsening external environment, Philippines authorities forecast domestic economic growth to slow to 4.1-4.8% in 2008 from record high of 7.2% in 2007, and to decelerate further to 3.7-4.7% in 2009.

- **Indonesia's** authorities announced on November 13 restrictions on FX purchases worth more than USD 100 thousand. The rule change affects mostly to domestic individuals and entities, which will have to present proof of an underlying transaction, and also affects foreigners' outright spot transactions (forward and other derivatives were already regulated). This measure attempts to curb against FX speculation: USD/IDR rebounded 1% intraday on Friday but has depreciated 22.8% since Lehman's collapse (23.2% ytd). Meanwhile, Indonesia said not to have plans to draw on the short-term loan facility from the IMF (approximately USD 15 billion).

- Indonesia central bank forecasts that domestic economic growth in 2009 will be around 5.3-5.4%, vs. 6.3% in 2008 and its initial projection of 6.3% for 2009. It also said credit growth could slow to 22% in 2009 vs. 33-34% in 2008.

- **Thailand's** index of consumer confidence on economic conditions dropped to 68.6 in October from 69.5 in September. Given the domestic political turmoil and the uncertain external environment, consumer sentiment will remain depressed in the near future.

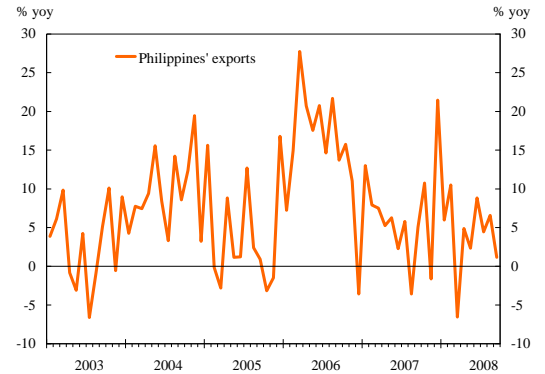
Asian Financial Markets

- Asian Stock markets (except China and Philippines) declined this week, despite the surprising China's fiscal stimulus having boosted the market early in the week. Concerns deepened on a possible faster pace of the global slowdown.

- Asian currencies depreciated further this week. In particular, Indonesian Rupiah and Korean Won depreciated by above 5% over the week.

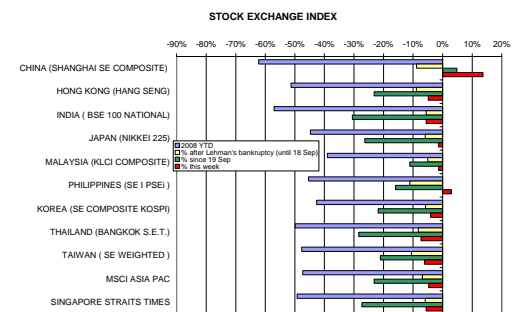
- Considering the impact of the global financial crisis, Fitch Ratings downgraded its sovereign ratings outlook on South Korea ('A+') to negative from stable while the rating outlook on Malaysia ('A-') was revised to stable from positive.

Philippines: Exports



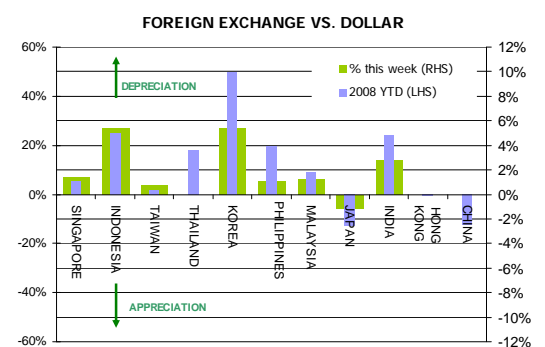
Sources: CEIC and BBVA estimates.

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
		Level	Level	% change over a week	US\$ bn
China	Shanghai Composite	1898	1986	13.7	68.0
Hong Kong	Hang Seng	13898	13543	-4.9	33.4
Taiwan	Taiwan Weighted	4577	4453	-6.1	7.9
India	Sensex	9824	9385	-5.8	11.2
Japan	Nikkei 225	8657	8462	-1.4	68.2
Korea	Seoul Composite	1116	1088	-4.1	20.8
Indonesia	Jakarta Composite	1306	1264	-5.5	0.6
Malaysia	KLSE Composite	890	882	-1.4	1.3
Philippines	Philippines Composite	1947	1978	3.0	0.4
Singapore	Straits Times	1798	1759	-5.6	3.2
Thailand	SET	440	430	-7.3	1.3
Australia	All Ordinaries	3853	3726	-7.0	12.8

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	6.88	6.89	6.91	6.95
Hong Kong	(HKD/USD)	7.75	7.75	0.00	7.75	7.75	7.75	7.75
Taiwan	(TWD/USD)	32.98	33.07	0.75	32.98	33.11	32.47	32.61
India	(INR/USD)	48.45	49.01	2.83	50.03	50.35	52.03	52.48
Japan	(JPY/USD)	97.10	97.14	-1.12	96.77	96.69	95.68	95.37
Korea	(KRW/USD)	1361.41	1399.95	5.36	1362.72	1401.50	1349.82	1391.50
Indonesia	(IDR/USD)	11531.60	11755.00	5.43	12650.10	13300.00	13766.85	14437.50
Malaysia	(MYR/USD)	3.58	3.60	1.21	3.61	3.63	3.62	3.65
Philippines	(PHP/USD)	48.96	49.34	1.10	50.62	50.91	52.36	52.91
Singapore	(SGD/USD)	1.51	1.52	1.37	1.50	1.51	1.49	1.50
Thailand	(THB/USD)	34.96	34.94	-0.03	n.a.	n.a.	n.a.	n.a.
Australia	(USD/AUD)	0.66	0.65	-3.86	0.65	0.64	0.64	0.64

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	2.73	-7	3.83	-17	4.31	-7
Hong Kong	0.40	-10	2.19	-5	2.55	0
Taiwan	1.62	-25	1.71	-25	2.13	-24
India	10.09	-9	11.57	15	n.a.	n.a.
Japan	0.54	1	0.81	1	0.90	0
Korea	4.78	1	5.61	-10	6.86	-8
Indonesia	10.25	-10	12.36	-6	13.42	-30
Malaysia	3.49	1	3.65	-1	3.73	-2
Philippines	5.38	-44	4.13	-13	4.81	0
Singapore	0.88	63	0.95	-5	1.28	-10
Thailand	3.89	-2	3.99	-1	4.09	-5
Australia	5.25	-7	4.64	-29	3.96	-17

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/	Week-end level	5-year
		b.p. change over a week		b.p. change over a week
China	1.99	-37	2.54	-24
Hong Kong	0.02	-8	1.77	-2
Taiwan	1.51	-39	1.66	-26
India	7.03	-10	7.38	-13
Japan	0.45	1	0.89	-4
Korea	4.65	-8	5.60	66
Indonesia	13.47	-8	15.84	17
Malaysia	3.38	-12	3.74	-19
Philippines	6.62	23	8.14	-8
Singapore	0.54	-14	1.73	16
Thailand	3.19	-12	3.40	-14
Australia	3.05	-36	4.17	-28

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
17 Nov	Singapore	Non-oil Domestic Exports (YoY)	OCT	-5.70%	-8.20%
17 Nov	Singapore	Non-oil Domestic Exp SA (MoM)	OCT	-0.80%	-0.50%
17 Nov	Indonesia	GDP Constant Price (YoY)	3Q	6.39%	5.90%
17 Nov	Indonesia	GDP Constant Price (QoQ)	3Q	2.44%	3.38%
17 Nov	Japan	Housing Loans YoY	3Q	3.90%	--
17 Nov	Malaysia	Manufacturing Sales Value YoY%	SEP	15.10%	--
18 Nov	Japan	Leading Index CI	SEP	89.2	--
18 Nov	Hong Kong	Unemployment Rate SA	OCT	3.40%	3.50%
18-20 Nov	Taiwan	GDP - Constant Prices (YoY)	3Q	4.32%	0.76%
19 Nov	Hong Kong	Composite Interest Rate	OCT	1.18%	--
19 Nov	Japan	Merchandise Trade Balance Total	OCT	¥95.1B	¥71.8B
19 Nov	Japan	Adjusted Merchandise Trade Bal.	OCT	-¥33.0B	¥75.5B
20 Nov	Taiwan	Current Account Balance (USD)	3Q	6493M	--
20 Nov	Hong Kong	CPI - Composite Index (YoY)	OCT	3.00%	1.90%
20 Nov	India	Wholesale Price Index YoY	08-Nov	8.98%	--
20 Nov	Singapore	GDP (YoY)	3Q	-0.50%	-0.50%
20 Nov	Singapore	GDP (annualized) (QoQ)	3Q	-6.30%	-6.30%
21-25 Nov	Thailand	Customs Exports (YoY)	OCT	19.40%	--
21-25 Nov	Thailand	Customs Trade Balance	OCT	133	--
21 Nov	Malaysia	CPI YoY	OCT	8.20%	--
23 Nov	Thailand	GDP at Constant Price (QoQ)	3Q	0.70%	--
23 Nov	Thailand	GDP at Constant Price (YoY)	3Q	5.30%	--

Sources: Bloomberg and BBVA staff estimates.

b) Economic Events

Date	Country	Issue	Remarks
19 Nov	Australia	Reserve Bank Governor Stevens 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)	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	9.0	1.7	n.a.	n.a.	n.a.	3.9	n.a.	n.a.	n.a.	-0.5	n.a.	n.a.
CPI inflation (% yoy) 1/	Oct-08	4.0	3.1	2.4	11.0	2.1	4.8	11.8	8.2	11.2	6.7	3.9	5.0
Exports (in local currency) (% yoy) 2/	Oct-08	19.2	3.6	-9.8	24.7	1.5	57.2	29.0	15.1	2.7	11.5	17.7	49.6
Trade balance (US\$ bn) 3/	Oct-08	35.2	-2.1	2.9	-10.6	0.8	1.2	2.8	4.2	-0.6	1.5	0.1	1.8
Industrial production (% yoy) 4/	Oct-08	8.2	-4.2	-1.4	4.8	0.2	6.1	2.7	-1.7	6.4	2.4	3.0	2.8
Retail sales (% yoy) 5/	Oct-08	16.7	1.8	-7.9	n.a.	-2.4	0.5	7.5	16.8	n.a.	2.8	3.1	-3.1
Money supply (M2) (% yoy) 6/	Oct-08	14.9	-7.6	3.4	15.7	1.8	13.5	16.9	15.6	7.4	10.5	4.8	17.3
Domestic credit (% yoy) 7/	Oct-08	14.6	9.1	3.5	18.4	2.2	18.6	35.2	10.6	8.7	14.3	6.4	10.1
Unemployment rate (%) 8/	Oct-08	4.0	3.4	4.3	n.a.	4.0	3.1	8.5	3.5	7.4	1.9	1.2	4.1

Notes: 1) Wholesale prices for India; Sep-08 figures for Hong Kong, Japan, Malaysia and Singapore; Q3-08 figure for Australia.

2) Figure for China is in US dollar term; figure for Australia includes services; Sep-08 figures for Hong Kong, India, Japan, Indonesia, Malaysia, Philippines, Singapore, Thailand and Australia.

3) Figure for Australia includes services; Sep-08 figures for Hong Kong, India, Japan, Indonesia, Malaysia, Singapore, Thailand and Australia; Aug-08 figure for Philippines.

4) Sep-08 figures for Taiwan, India, Japan, Korea, Indonesia, Malaysia, Philippines, Singapore and Thailand; Q2-08 figures for Hong Kong and Australia.

5) Not available for India and Philippines; Sep-08 figures for Hong Kong, Taiwan, Japan, Korea, Indonesia, Singapore and Australia; Aug-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 Hong Kong, Taiwan, India, Korea, Indonesia, Malaysia, Philippines, Singapore, Thailand and Australia.

7) Sep-08 figures for Hong Kong, Taiwan, India, Korea, Malaysia, Philippines, Singapore, Thailand and Australia; Aug-08 figure for Indonesia.

8) Not available for India; Sep-08 figures for Hong Kong, Taiwan and Japan; Aug-08 figure for Thailand; Jul-08 figure for Philippines; Q3-08 figure for Singapore; Q2-08 figure for Malaysia; 2008H1 figure for China; Feb-2008 figure (half-yearly basis) for Indonesia.

Sources: Datastream, CEIC, and BBVA staff estimates.