BBVA

Asia

Weekly Observatory

February 2nd, 2009

Economic and Financial Market Highlights (Jan 24-30, 2009)

Andrew Tsang
andrew.tsang@bbva.com.hk
Ya-Lan Liu
yalan@grupobbva.com
Yuande Zhu
yzhu@bbvashanghai.com

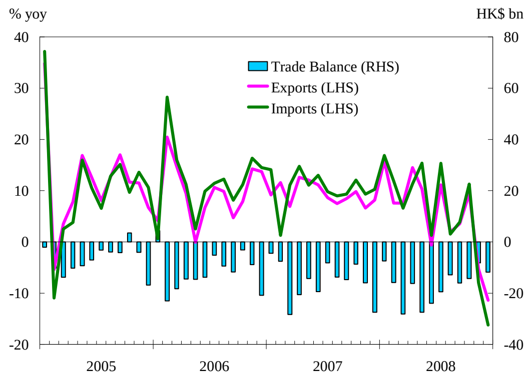
The latest economic indicators showed that the Asian economic slowdown has been accelerating. Japan and Korea's industrial production both registered a 9.6% mom decline. Though surprising on the upside, Philippine GDP grew 4.6%, the slowest annual rate in 7 years. While still low, Singapore's annual unemployment rate recorded a first increase in five years, reaching 2.6%. Amidst the gloomy outlook, some more aggressive policy responses were announced in the Philippines (with 50 bps cut in the policy rate) and in Thailand (with a large fiscal stimulus package). Hong Kong unexpectedly recorded a fiscal surplus in December, which more than offset the deficit in the previous eight months. Asian stock markets experienced a rebound this week, following the rise in the US stock market before its Q4 GDP release on Friday.

Greater China

- China's Premier Wen Jiabao blamed the United States' debt-financed spending should bear the main responsibility for the global financial crisis in a speech at the World Economic Forum on Wednesday (Jan 28). In the speech, Premier Wen also presented the optimistic view on the outlook for China that the 8% economic growth can be achieved in 2009 (BBVA: 8.1%), where the view was also supported by World Bank's chief economist.

- Hong Kong's merchandise exports fell by 11.4% yoy in December, after the decrease of 5.3% in November, registering the first double-digit decline in seven years. However, the fall in imports was even larger at 16.2% yoy from 7.9% in November, the merchandise trade deficit decreased to HKD 11.8 billion from HKD 27.4 billion in the same month of last year, but still higher than HKD 8.2 billion in November. Looking forward, Hong Kong's exports will continue to be clouded by weak external demand.

Hong Kong: Trade



Sources: CEIC and BBVA estimates.

- Hong Kong recorded a HKD 30.9 billion (USD 4 billion) fiscal surplus for April-December 2008, the first nine months of the financial year 2008/09, compared with HKD 86.2 billion surplus the same period in the previous year. The surplus was mainly due to the receipts of salaries tax, profits tax and HKD 46.4 billion investment income in December, more than offsetting the deficit in the previous eight months. In the Budget for 2008/09, government forecasted the deficit would be HKD 7.5 billion, compared with a record HK$123.7 billion surplus for 2007/08.

India

- India's central bank RBI left its interest rates and cash reserve ratio unchanged. Due to the deepening worldwide recession, the RBI reduced the growth forecast for current fiscal year ending March 2009 to 7%, the lowest since 2003, from earlier projection of 7.5%-8%. The inflation target was reduced to 3% yoy from 5% earlier and given eased monetary policy and expansionary fiscal policy, forecast on money supply growth has been revised to 19% yoy from 17% and fiscal deficit for FY09 to 5.9% of GDP versus earlier estimate of 2.5%.

Japan / Korea / Australia

• **Japan**'s industrial production in December decreased 9.6% from the previous month (seasonally adjusted), showing a decrease for the third consecutive month. The index fell 20.6% yoy, led by output declines in transport equipment sector, electronic parts and devices and general machinery. Manufacturers are forecasting now a production decrease of 9.1% in January and 4.7% in February. Shipments decreased in December 8.0% from the previous month, reflecting in an inventory ratio increase of 6.5% in the month.

• Japan's nationwide core CPI (ex-fresh food) decelerated sharply in December to -0.5% mom/+0.2% yoy, compared with +1% yoy in November, and well below market forecast (Bloomberg: +0.4% yoy). Energy and food prices were the key contributors to the overall rise in the month. The core-core CPI (excludes both fresh food and energy) remained stagnant (0% mom and yoy).

• **Korea**'s industrial production (IP) fell for the third straight month in December, by 9.6% mom/18.6% yoy (Nov: -10.7% mom/-14% yoy), the sharpest yoy decline in 32 years. On a seasonally adjusted basis, IP fell for its sixth consecutive month, by 9.6% mom in December, after contracting 10.7% in November. Meanwhile, Korea's current account balance in December remained in surplus for the third straight month, registering a surplus of USD 860 million, lower than the USD 1.91 billion surplus in November. Looking ahead, current account balance is likely to remain in surplus in 2009 on the back of declining commodity prices and domestic demand.

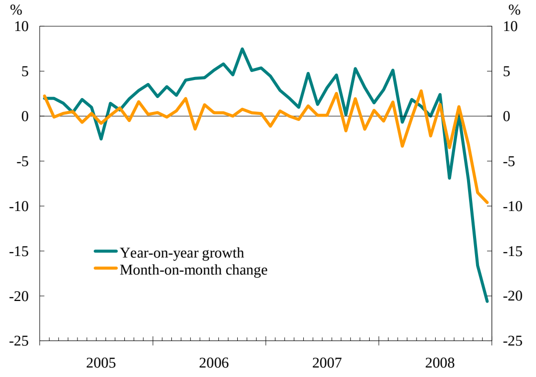
• Korean consumer confidence rose 3.0 points to 84.0 in January, the first rise in the last five months. Fiscal stimulus and aggressive easing monetary policy are somewhat helping to revive the consumer sentiment. However, going forward, sharply deteriorating macroeconomic environment on the back of plummeting external demand will pose downside risks to the outlook.

• **Australia**'s Q4 headline PPI rose 1.3% qoq/6.4% yoy, stronger than market expected (Bloomberg: 5.2% yoy; Q3: 5.6% yoy). Core PPI (ex-food and energy) was up 2.5%qoq/6.6%yoy. While headline PPI benefits from the drop in crude oil prices, core PPI is pressured by imported goods prices due to a weaker AUD last year.

ASEAN

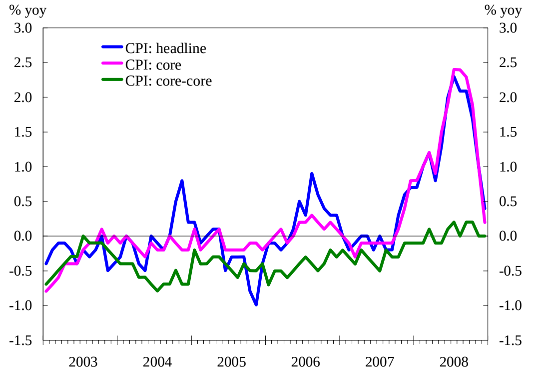
• **Singapore**'s overall unemployment rate (seasonally adjusted) rose to 2.6% in Q4 2008 from Q3 and the decade low of 1.7% a year ago. Among the resident labour force, the rate increased for the fourth consecutive quarter to 3.7% in Q4 08 from 3.3% in Q3 08 and 2.4% in Q4 07. Most of the employment decline was from the manufacturing sector, while the construction sector remained buoyant although slowing. For the whole year of 2008, the unemployment rate averaged 2.3% (overall), up from 2.1% in 2007. This is the first

Japan: IP



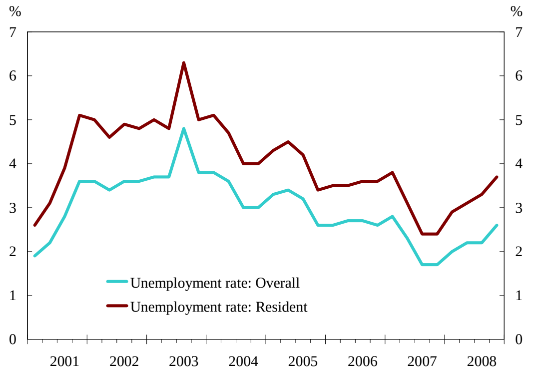
Sources: CEIC and BBVA estimates.

Japan: CPI



Sources: CEIC and BBVA estimates.

Singapore: Unemployment rate

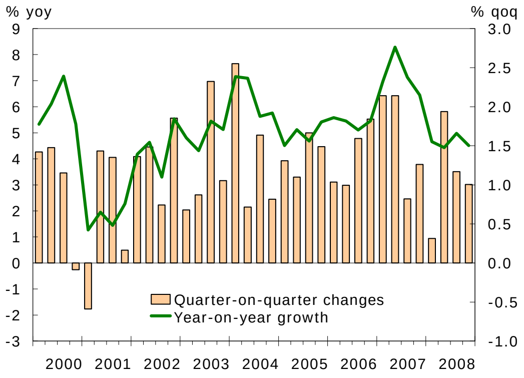


Sources: CEIC and BBVA estimates.

increase in annual average unemployment rate since 2003, when it peaked at 4.0% (overall).

• **Philippines** Q4 GDP expanded 4.5% yoy, lower than 5% in Q3, but better than market forecast (Bloomberg: 3.7% yoy) and near the top end of government's estimate of 3.6-4.4% yoy. On a seasonally adjusted basis, real GDP growth slowed to 1.0% qoq in Q4, from 1.2% in Q3. For the full year of 2008, the Philippine economy expanded 4.6% yoy, the slowest since the 4.4% pace in 2002 and below 7.2% growth in 2007. Official growth target for 2009 is at 3.7-4.7% yoy, which is unlikely to be attained, on the back of further deteriorating global demand.

Philippines: GDP



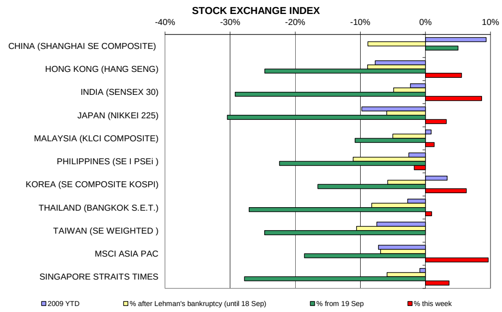
Source: CEIC.

• Philippines' imports contracted for the second straight month in November, by 31.5% yoy, the sharpest fall since 1985, and following a 11.1% yoy decline in October. The contraction was broad-based. With an exports decline by 11.4% yoy in November, the trade balance posted a marginal surplus of USD 30 million in November compared with a deficit of USD 600 million in October. Meanwhile, Philippines' industrial production volume declined by 6.6% yoy in November, reverting from 2.4% yoy (revised) growth in October. Industrial output is likely to remain subdued, dragged by weak export activities.

• Philippines central bank BSP cut its key policy rates by 50 basis points as expected, taking the repo and reverse repo rates to 7% and 5%, respectively. BSP said there is still room for further easing after the latest moves while it announced a revised 2009 inflation forecast to 3.9% (average) compared to 9.3% registered in 2008.

• **Thailand**'s manufacturing production fell for the second consecutive month, to -12.2% mom/-18.2% yoy, seasonally adjusted, in December (Nov: -8.6% mom/-7.3%, revised). Meanwhile, Thailand's exports contracted 15.7% yoy in December, following 17.7% decline in November. However, with imports falling 8.8% in December, the trade account balance posted a surplus of USD0.5 billion in December, a reversal from a deficit of USD896 million registered in November. As a result, the current account posted a surplus of USD91 million in December, against a deficit of USD935 million in November.

Asia: Stock Markets



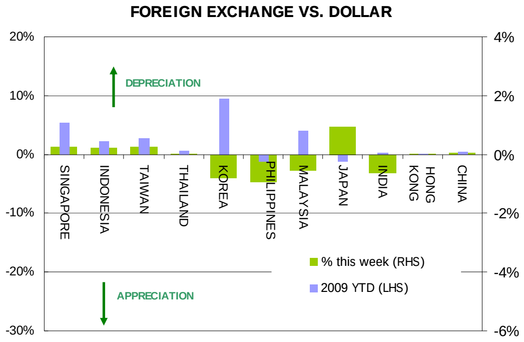
Sources: Datastream and Bloomberg.

• Thailand approved a tax rise on retail oil products as part of plans to boost government revenue, promote alternative energy and reduce oil imports, and is expected to increase monthly revenue by THB1.57 billion (USD 451 million) from February 1, 2009. In addition, the Thai parliament passed a USD3.35 billion stimulus package.

Asian Financial Markets

• The Asian stock markets experienced a rebound this week, following the rise in the US market before its Q4 GDP release on Friday. Specifically, Indian market picked up near 9% and Hong Kong recorded 5.6% rebound in two trading days after the Chinese New Year holiday. Stock markets in China and Taiwan closed this week during their Chinese New Year holiday.

Asia: Currencies



Sources: Datastream and Bloomberg.

• Most Asian currencies continued to depreciate against USD in the week. In particular, Japanese Yen reverted to depreciate by near 1% over the week. However, Indian Rupee, Korean Won, Malaysia Ringgit and Philippines Peso recorded some appreciation this week.

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	n.a.	n.a.	n.a.	n.a.
Hong Kong	Hang Seng	13216	13278	5.6	10.7
Taiwan	Taiwan Weighted	n.a.	n.a.	n.a.	n.a.
India	Sensex	9231	9424	8.6	11.0
Japan	Nikkei 225	8019	7994	3.2	56.3
Korea	Seoul Composite	1162	1162	6.3	9.7
Indonesia	Jakarta Composite	1329	1333	1.3	0.3
Malaysia	KLSE Composite	882	884	1.3	0.3
Philippines	Philippines Composite	1861	1825	-1.7	0.1
Singapore	Straits Times	1760	1746	3.6	1.9
Thailand	SET	441	438	1.0	1.1
Australia	All Ordinaries	3442	3478	5.4	10.9

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)	6.85	6.85	0.04	6.91	6.93	7.06	7.07
Hong Kong	(HKD/USD)	7.76	7.76	0.00	7.75	7.75	7.75	7.75
Taiwan	(TWD/USD)	33.68	33.69	0.25	33.84	33.85	33.52	33.56
India	(INR/USD)	48.95	48.94	-0.63	49.66	49.63	50.89	50.72
Japan	(JPY/USD)	89.59	89.58	0.94	89.42	89.40	88.79	88.74
Korea	(KRW/USD)	1383.24	1379.60	-0.80	1382.10	1382.00	1366.25	1359.50
Indonesia	(IDR/USD)	11328.20	11375.00	0.22	11836.50	11882.50	12714.75	12681.25
Malaysia	(MYR/USD)	3.61	3.61	-0.54	3.62	3.63	3.65	3.66
Philippines	(PHP/USD)	46.95	46.95	-0.94	47.77	47.66	49.20	49.40
Singapore	(SGD/USD)	1.50	1.51	0.25	1.50	1.51	1.50	1.51
Thailand	(THB/USD)	34.92	34.96	0.03	n.a.	n.a.	n.a.	n.a.
Australia	(USD/AUD)	0.66	0.64	-2.02	0.65	0.64	0.64	0.63

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	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Hong Kong	0.33	18	0.99	4	1.70	0
Taiwan	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
India	5.89	-1	7.98	2	n.a.	n.a.
Japan	0.31	0	0.73	0	0.81	0
Korea	2.70	-1	2.95	-2	3.66	-3
Indonesia	9.30	-3	10.60	-32	11.61	-27
Malaysia	2.49	2	2.60	-1	2.58	-1
Philippines	7.06	125	5.31	31	4.75	13
Singapore	0.34	9	0.65	-4	0.93	-1
Thailand	2.10	0	2.22	-1	2.27	-2
Australia	3.75	-31	3.37	-17	3.28	0

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	n.a.	n.a.	n.a.	n.a.
Hong Kong	0.15	5	1.39	16
Taiwan	n.a.	n.a.	n.a.	n.a.
India	4.75	20	6.00	15
Japan	0.28	5	0.74	7
Korea	2.04	0	4.07	11
Indonesia	10.25	-73	11.16	-37
Malaysia	2.43	-9	2.79	13
Philippines	4.69	-44	6.25	-18
Singapore	0.34	3	1.40	18
Thailand	1.75	-2	2.45	7
Australia	2.54	-28	3.35	-12

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
2 Feb	Australia	House Price Index YoY	4Q	2.80%	- -
2 Feb	Korea	Ext Trade - Export (YoY)	JAN	-17.40%	-29.10%
2 Feb	China	CLSA Manufacturing PMI	JAN	41.2	- -
2 Feb	Korea	Consumer Price Index (YoY)	JAN	4.10%	3.90%
2 Feb	Indonesia	Inflation (YoY)	JAN	11.06%	9.30%
2 Feb	Indonesia	Exports (YoY)	DEC	-2.10%	-13.70%
2 Feb	Indonesia	Trade Balance (Ex Trade Zones)	DEC	$2459M	$2750M
2 Feb	Thailand	Consumer Price Index (YoY)	JAN	0.40%	-0.40%
2 Feb	Hong Kong	Retail Sales - Volume (YoY)	DEC	-2.80%	-6.50%
2 Feb	India	Exports YoY%	DEC	-10.00%	- -
3 Feb	Australia	Trade Balance	DEC	1448M	- -
3 Feb	Japan	Labor Cash Earnings YoY	DEC	-1.90%	- -
4 Feb	Australia	Retail Sales Trend (MoM)	DEC	0.10%	- -
4 Feb	Australia	Building Approvals (YoY)	DEC	-34.70%	- -
4 Feb	China	PMI Manufacturing	JAN	41.2	- -
5 Feb	Philippines	CPI (2000=100) (YoY)	JAN	8.00%	- -
5 Feb	India	Wholesale Price Index YoY	24-Jan	5.64%	- -
5 Feb	Taiwan	CPI YoY%	JAN	1.21%	- -
5 Feb	Taiwan	WPI YoY%	JAN	-9.11%	- -
6 Feb	India	Annual GDP Constant Prices	2008	8.70%	- -

Sources: Bloomberg and BBVA staff estimates.

b) Economic Events

Date	Country	Issue	Remarks
3 Feb	Australia	Reserve Bank's February Interest Rate Decision	Market expects RBA will cut the Cash Target rate from 4.25% to 3.75%.
4 Feb	Indonesia	Bank Indonesia Monetary Policy Meeting	Market expects BI will cut the reference rate from 8.75% to 8.25%.

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)	2Q08	10.1	4.2	4.6	7.9	0.7	4.8	6.4	6.7	4.4	2.3	5.3	6.6
	3Q08	9.0	1.7	-1.0	7.6	-0.5	3.8	6.1	4.7	5.0	-0.6	4.0	8.8
	4Q08	6.8	n.a.	n.a.	n.a.	n.a.	-3.4	n.a.	n.a.	4.5	-3.7	n.a.	n.a.
CPI inflation (% yoy) 1/	Dec-08	1.2	2.0	1.2	6.5	0.4	4.1	11.1	4.4	8.0	4.3	0.4	3.7
Exports (in local currency) (% yoy) 2/	Dec-08	-2.8	-11.4	-40.1	12.0	-35.0	21.3	23.4	-4.9	1.0	-20.4	-11.5	47.0
Trade balance (US$ bn) 3/	Dec-08	39.0	-1.5	1.8	-10.1	-3.5	0.5	2.5	3.2	0.0	0.7	0.4	2.2
Industrial production (% yoy) 4/	Dec-08	5.7	-6.7	-32.3	2.4	-20.6	-18.6	7.0	-7.7	8.5	-13.5	-8.4	3.8
Retail sales (% yoy) 5/	Dec-08	17.6	-2.8	-10.9	n.a.	-3.1	5.6	-23.9	15.6	n.a.	-6.0	-10.0	-2.6
Money supply (M2) (% yoy) 6/	Dec-08	17.8	-1.3	7.0	10.2	1.8	13.3	18.3	13.4	7.6	12.0	9.1	12.4
Domestic credit (% yoy) 7/	Dec-08	18.8	10.3	4.2	23.4	3.7	22.7	38.0	12.8	7.9	14.2	7.7	6.7
Unemployment rate (%) 8/	Dec-08	4.2	4.1	5.0	n.a.	4.4	3.3	8.5	3.1	6.8	2.5	1.4	4.4

Notes: 1) Wholesale prices for India; Q4-08 figure for Australia.

2) Figure for China is in US dollar term; figure for Australia includes services; Nov-08 figures for India, Indonesia, Malaysia, Philippines and Australia.

3) Figure for Australia includes services; Nov-08 figures for India, Indonesia, Malaysia, Philippines and Australia.

4) Nov-08 figures for India, Malaysia, Philippines and Thailand; Oct-08 figure for Indonesia; Q3-08 figure for Hong Kong and Australia.

5) Not available for India and Philippines; Nov-08 figures for Hong Kong, Korea, Indonesia, Singapore, Thailand and Australia; Q3-08 figure for Malaysia.

6) Figure for Australia is broad money in national definition; figure for Hong Kong is only counted HK dollar M2; Nov-08 figures for India, Korea, Indonesia and Philippines.

7) Nov-08 figures for Taiwan, India, Korea, Indonesia and Philippines.

8) Not available for India; Nov-08 figure for Thailand; Oct-08 figure for Philippines; Q4-08 figure for Singapore; Q3-08 figure for Malaysia; end-2008 figure for China; Feb-2008 figure (half-yearly basis) for Indonesia.

Sources: Datastream, CEIC, and BBVA staff estimates.