



# Weekly Observatory

August 3<sup>rd</sup> 2009

## Economic and Financial Market Highlights (25<sup>th</sup> July – 31<sup>st</sup> July 2009)

Hong Kong exports fell by the least in seven months in June helped by a revival in China's demand. Meanwhile, signs of a global pick-up in demand reflected in Thailand's monthly exports recovery and Korea's current account rising surplus. Further, industrial output is recovering in Korea, Thailand and Japan, confidence in Korea's and Taiwan's economies reached intra-year peaks and Australia's building approvals in June beat expectations. Japan, however, posted a negative surprise in retail sales as unemployment rose to a 6-year high and consumer prices fell year-on-year for the fourth consecutive month. As expected, India's and Malaysia's central banks held their key interest rates. In the financial markets, Asian stock indices posted strong gains, especially in Indonesia and Singapore, while most currencies continued to appreciate against the US dollar.

### Greater China

- **China** showed further signs of economic recovery as the decline in profits of industrial companies moderated for the sixth straight month. In particular, the earnings of Chinese manufacturers slowed their decline, falling 21.2% yoy to CNY894.1 billion (USD130.9 billion) in the first half of this year compared with decreases of 22.9% in the first five months, 27.9% in the January-April period and 32.2% in the first quarter.

- **Hong Kong's** exports slowed their decline to the lowest level in seven months thanks to resilient demand from China. Overseas shipments contracted 5.4% yoy in June (Bloomberg: -8.2% yoy) after contracting 14.5% yoy the previous month. Imports followed a similar path, contracting 7.9% yoy (Bloomberg: -12.5% yoy), the slowest decline since last November, after plunging 19.2% yoy in May. The trade deficit widened to HKD16.5 billion (USD2.1 billion) from HKD11.0 billion the previous month. On a monthly basis, non-seasonally adjusted exports expanded for the fourth consecutive month, rising by 3.3% following May's 2.7% month-on-month rise.

- **Taiwan's** consumer confidence in July stood at 56.2 points, the highest level this year, up from 51.4 in June although still well below the neutral outlook value of 100. The survey revealed that consumers are more optimistic about the economic situation for the next 6 months and are more willing to spend on durable goods. Furthermore, the sub index for investing in stocks jumped to 82.0 points in July from 58.4 points. The only negative outlook in the survey was for future employment prospects, which dropped 5.2% mom to 33.1 points.

### India

- **India's** central bank kept all benchmark rates unchanged in line with

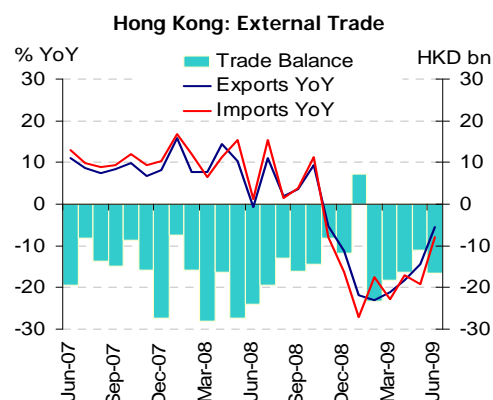
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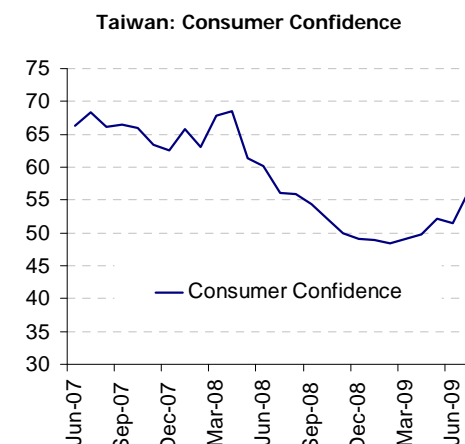
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Source: CEIC



Source: CEIC

consensus forecasts in this month's monetary policy meeting. The repo rate now stands at 4.75% and the reverse repo rate at 3.25%, while the cash requirement ratio of banks is at 5%. The central bank raised its inflation forecast for the year to March 31, 2010 to around 5% from an April estimate of 4% and said it may soon need to reverse the loose monetary policy of the past ten months in order to subdue inflationary pressures while preserving the current growth momentum.

India's wholesale-price index declined 1.54% in the week to July 18 from a year earlier after falling 1.17% in the previous week. The price of primary articles are the main inflationary component, rising 4.73% yoy from 4.98% yoy the previous week while fuel prices continued to slide, dropping 10.58% yoy from 10.05% yoy the previous week. Week-on-week (wow), WPI inflation increased 0.04% from 0.13% the previous week, driven by the price of primary articles, especially food.

### Japan/Korea/Australia

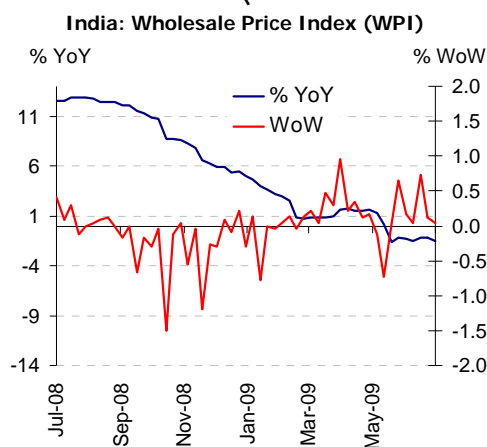
- Japan's** industrial production plunged at its slowest pace this year in June at 23.4% yoy (Bloomberg: -23.6% yoy) after plummeting 29.5% yoy in May. Manufacturing output slumped 23.4% yoy while mining and quarrying slid 11.6% yoy. Month-on-month, however, seasonally adjusted industrial production rose in June for the fourth straight month, increasing by 2.4% mom after rising 5.7% mom in May as companies restock their inventories.

Japan's unemployment rate climbed to a seasonally adjusted six-year high of 5.4% in June from 5.2% the previous month and above the market's expectation of 5.3%. The total number of jobless in June jumped 31% from a year earlier to 3.48 million.

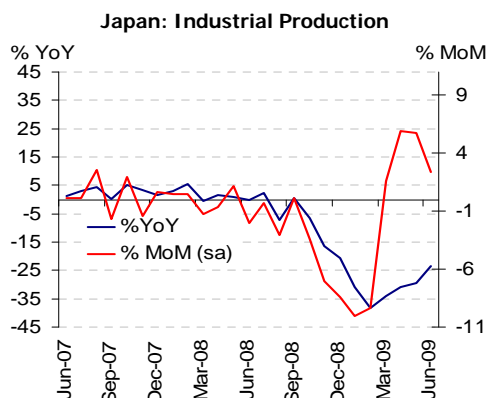
Japanese retail sales slid 3.0% in June from the same month a year earlier, down on the previous month's 2.7% yoy drop and more than a median market forecast for a 2.5% yoy decline. Although government subsidies for energy-efficient household appliances seem to have had the desired effect with a 0.8% yoy rise in sales of these products, spending in other segments such as general merchandise and food and beverage continue to contract on a yearly basis. On a monthly basis, retail sales slipped 0.3% after inching upwards 0.1% mom in May and 0.7% mom in April.

Japanese national consumer prices fell 1.8% yoy in June from -1.1% yoy the previous month and inline with the market's expectation. This is the fourth consecutive month of year-on-year decline. Core inflation (excluding fresh food) dipped 1.7% yoy in June, having slumped 1.1% yoy in May. On a seasonally adjusted monthly basis, CPI inflation slipped 0.2%, a more moderate decrease compared to the previous month's -0.4% mom. The Bank of Japan announced it expects the drop in consumer prices to accelerate through the third quarter and exceed -2% yoy in reaction to last year's record energy prices.

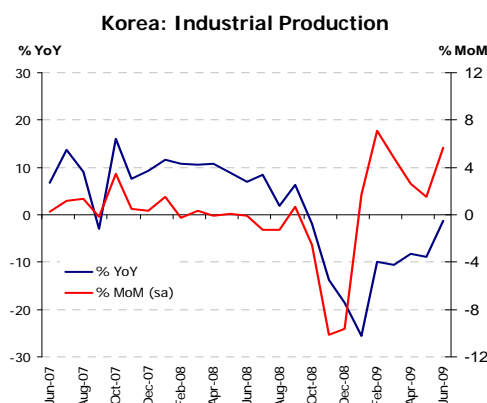
- Korea's** industrial output dropped in June at its slowest pace in nine months, falling 1.2% yoy (Forecast: -3.9% yoy) after falling 9.0% yoy in May. Furthermore, the manufacturing sector's inventories-to-shipments ratio fell to a record low of 92.5% in June from 97.4% in May, indicating that producers were now under the heaviest pressure to start to rebuild inventories. Month-on-month, seasonally adjusted industrial output jumped 5.7% in June from 1.5% yoy the previous month.



Source: Datastream



Source: CEIC.



Source: CEIC

Korea's current account surplus rose to a three-month high in June after falling for two straight months, due mainly to an improving trade balance. The current account surplus totaled USD5.43 billion in June, widening from a revised USD3.50 billion in May. The surplus also compared with the USD1.82 billion surplus a year earlier. Exports declined 12.4% yoy in June from May's 28.6% yoy plunge, while imports fell 32.9% yoy in June, compared with a 40.1% yoy nose-dive in the previous month.

Korean consumer confidence rose to its highest value in almost seven years in July, rising to 109 from 106 in June as government stimulus policies and record interest-rate cuts began leading the economy toward recovery. A score over 100 indicates that optimists outnumber pessimists. Korean consumers feel more confident about the current economic situation, are willing to spend on durable goods and perceive that employment opportunities in the near future will improve.

Korea's business survey index (BSI) for business conditions in the coming month hit a fourteen-month high of 79 points for the month of August, rising from 78 points the previous month. Despite the improvement, the index was below 100, which means a majority of those polled predicted negative conditions in August. Manufacturers' expectations climbed to 80 for August from 78 in July while non-manufacturers remained unchanged at 78 points from the previous month.

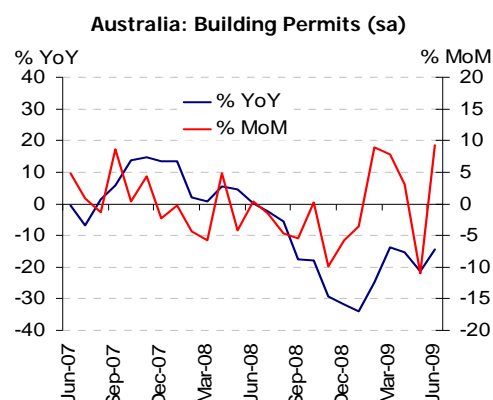
- **Australia's** building approvals decreased 14.3% yoy in June (Bloomberg: -18.2% yoy), following May's 21.3% yoy drop. Housing approvals, however, increased 3.2% yoy, the first yearly increase in 13 months on the back of low borrowing costs that has spurred demand from first-time home buyers. Non-residential building permits, on the other hand, plummeted 37.4% yoy. Month-on-month, seasonally adjusted building permits jumped 9.3% after falling 11.0% mom in May.

## ASEAN

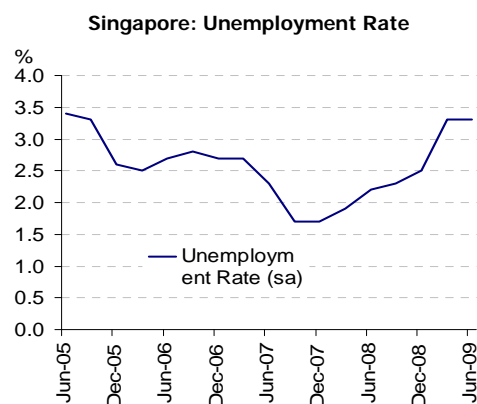
- **Singapore's** seasonally adjusted unemployment rate for the second quarter remained unchanged from the previous quarter at 3.3% and beat the market's expectation of 3.7%. Nevertheless, the number of people employed fell by 12,400 in April-June, twice as much as in the first quarter, as many foreign workers who had lost jobs returned home, shrinking the workforce pool. Despite this, Singapore's authorities informed that although they expect employment to pick up in coming months, the unemployment rate will rise as more people who are currently out of the workforce begin to search for a job.

- **Malaysia's** central bank kept its overnight policy rate unchanged at 2% in line with the market's expectations. The central bank justified this decision stating that the current policy rate and the effects of the expansive fiscal policy being carried out are sufficient to provide support to economic activity. Furthermore, the central bank aired its view that economic conditions are stabilizing both in Malaysia and in the global economy, boosting the chances of economic recovery.

- **Thailand's** industrial production dipped in June at the slowest rate since November, contracting 7.8% yoy (Bloomberg: -9.5% yoy) after falling a revised 9.8% yoy in May. The drop in output is blamed on weak external demand for automobile and electronic components. On



Source: CEIC.



Source: CEIC

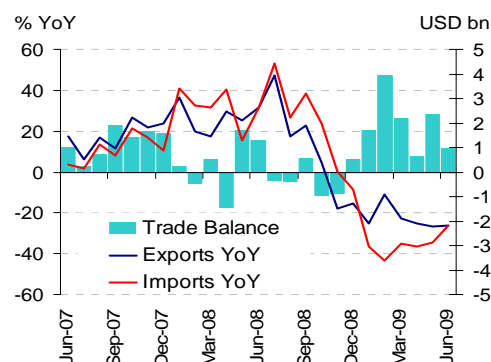
a monthly basis, seasonally adjusted manufacturing output grew for the fifth straight month, climbing 3.0% and improving May's 0.1% rise. Capacity utilization rate dropped 0.4% over the previous month to 60.4%. On the other hand, Thailand's business sentiment rose to 46.3 in June (stable outlook=50) from 45.4 a month earlier, signaling that firms still have a pessimistic outlook.

Exports, as measured through the balance of payments in US dollar terms, slid 26.4% in June from a year earlier, declining for an eighth month, having fallen 26.5% yoy in May. Imports plunged 26.3% yoy after a 34.3% nose-dive a month earlier. The trade surplus in June was USD939 million compared with USD2.34 billion surplus a month earlier. However, on a monthly basis, exports increased for the second uninterrupted month in June, rising 5.3% (non-seasonally adjusted) after May's 12.3% mom jump.

### Asian Financial Markets

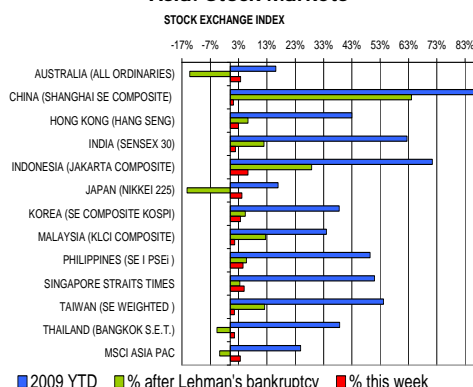
- Positive week for all major stock markets across the region. Indonesia's bourse was the best performer, soaring 6.3% over the week ended on Friday. Singapore jumped 5.0%, Philippines climbed 4.6% and Hong Kong closed 3.0% higher while in the Pacific region, Japan rose 4.1% and Australia ended the week with a 3.7% hike.
- Most currencies in the region made slight gains against the US dollar. The Korean won continued last week's positive performance with a 1.44% appreciation as did Australia dollar, with a 1.37% rise. The worst performer was the Japanese yen, depreciating 0.85% over the week, followed by the Thai baht, with a 0.12% drop and the Philippines peso, with a 0.05% slide. As for Greater China, the Hong Kong dollar and the Chinese yuan remained virtually unchanged while the Taiwan dollar edged slightly upwards (0.36%) vis-à-vis the US dollar.

Thailand: External Trade



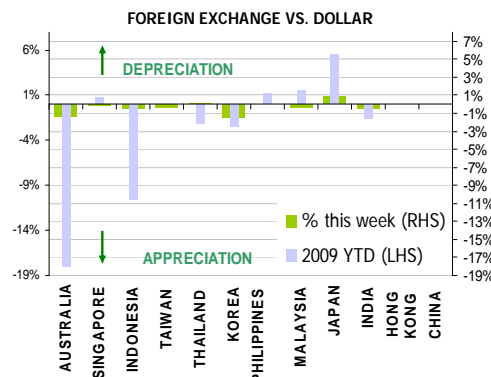
Source: CEIC

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
		Level	Level	% change over a week	US\$ bn
China	Shanghai Composite	3375	3412	1.2	265.7
Hong Kong	Hang Seng	20364	20573	3.0	54.6
Taiwan	Taiwan Weighted	7072	7078	1.5	22.4
India	Sensex	15388	15670	1.9	24.2
Japan	Nikkei 225	10162	10357	4.1	58.0
Korea	Seoul Composite	1533	1557	3.6	25.5
Indonesia	Jakarta Composite	2259	2323	6.3	3.0
Malaysia	KLSE Composite	1166	1175	1.6	2.3
Philippines	Philippines Composite	2774	2798	4.6	0.5
Singapore	Straits Times	2620	2659	5.0	8.0
Thailand	SET	620	624	1.6	2.7
Australia	All Ordinaries	4183	4250	3.7	24.6

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	6.82	6.83	6.77	6.78
Hong Kong	(HKD/USD)	7.75	7.75	0.00	7.74	7.74	7.73	7.73
Taiwan	(TWD/USD)	32.81	32.81	-0.36	32.54	32.53	31.97	31.94
India	(INR/USD)	48.24	48.03	-0.47	48.52	48.32	49.27	49.10
Japan	(JPY/USD)	95.13	95.66	0.85	95.04	95.58	94.50	95.02
Korea	(KRW/USD)	1237.09	1228.50	-1.44	1236.26	1226.85	1234.84	1226.85
Indonesia	(IDR/USD)	9950.60	9950.00	-0.48	10065.50	10077.50	10535.50	10542.50
Malaysia	(MYR/USD)	3.52	3.52	-0.31	3.53	3.53	3.53	3.53
Philippines	(PHP/USD)	48.06	48.08	0.05	48.48	48.50	49.49	49.46
Singapore	(SGD/USD)	1.44	1.44	-0.06	1.44	1.44	1.44	1.44
Thailand	(THB/USD)	34.00	34.01	0.12	n.a.	n.a.	n.a.	n.a.
Australia	(USD/AUD)	0.83	0.83	1.37	0.82	0.82	0.80	0.80

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	1.94	24	1.71	0	-	#VALUE!
Hong Kong	0.05	-8	0.22	-4	0.94	-3
Taiwan	0.16	0	0.61	0	0.92	0
India	3.50	4	4.52	0	n.a.	n.a.
Japan	0.18	0	0.56	0	0.71	0
Korea	2.19	0	2.41	0	3.21	-1
Indonesia	6.77	-6	7.12	-11	7.70	-16
Malaysia	1.95	-8	2.14	1	2.17	1
Philippines	4.19	-6	4.19	0	4.19	-6
Singapore	0.34	19	0.69	0	0.92	0
Thailand	1.26	0	1.39	0	1.66	0
Australia	3.11	2	3.16	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	1.33	-5	2.95	7
Hong Kong	0.06	-2	1.74	-3
Taiwan	0.10	-2	0.93	0
India	3.22	0	6.72	14
Japan	-	#VALUE!	0.71	3
Korea	2.10	3	4.76	
Indonesia	6.78	-15	8.95	-6
Malaysia	1.94	-6	3.69	-6
Philippines	4.05	-20	6.33	0
Singapore	0.24	1	1.31	-5
Thailand	1.38	-5	2.86	-8
Australia	3.58	11	5.42	0

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
3-Aug	Hong Kong	Purchasing Managers Index	JUL	47.1	- -
3-Aug	China	CLSA Manufacturing PMI	JUL	51.8	- -
3-Aug	Korea	Consumer Price Index (YoY)	JUL	2.00%	1.70%
3-Aug	Indonesia	Inflation (YoY)	JUL	3.65%	2.62%
3-Aug	Indonesia	Exports (YoY)	JUN	-28.30%	-24.30%
3-Aug	Indonesia	Total Imports (YoY)	JUN	-32.70%	-31.90%
3-Aug	Indonesia	Total Trade Balance	JUN	\$1412M	\$1487M
3-Aug	Thailand	Consumer Price Index (YoY)	JUL	-4.00%	-4.30%
3-Aug	Hong Kong	Retail Sales - Value (YoY)	JUN	-6.20%	-5.60%
3-Aug	India	Exports YoY%	JUN	-29.20%	- -
3-Aug	India	Imports YoY%	JUN	-39.20%	- -
4-Aug	Japan	Monetary Base (YoY)	JUL	6.40%	- -
4-Aug	Australia	Retail Sales s.a. (MoM)	JUN	1.00%	0.50%
4-Aug	Australia	House Price Index YoY	2Q	- -	- -
4-Aug	Singapore	Purchasing Managers Index	JUL	51.1	- -
5-Aug	Philippines	CPI (2000=100) (YoY)	JUL	1.50%	0.40%
5-Aug	Australia	Trade Balance	JUN	-556M	-800M
5-Aug	Taiwan	CPI YoY%	JUL	-1.97%	-2.25%
5-Aug	Taiwan	WPI YoY%	JUL	-13.62%	-14.00%
5-Aug	Malaysia	Exports YoY%	JUN	-29.70%	-25.30%
5-Aug	Malaysia	Imports YoY%	JUN	-27.80%	-26.60%
5-Aug	Malaysia	Trade Balance	JUN	10.02B	9.60B
5-Aug	Korea	Foreign Exchange Reserve USD	JUL	\$231.73B	- -
6-Aug	Indonesia	Danareksa Consumer Confidence	JUL	89.4	- -
6-Aug	Australia	Unemployment Rate	JUL	5.80%	- -
6-Aug	Japan	Leading Index CI	JUN P	76.9	79.7
6-Aug	Japan	Coincident Index CI	JUN P	87.1	88.1
6-Aug	India	Wholesale Price Index YoY	Jul-25	-1.54%	- -
7-Aug	Taiwan	Total Exports (YoY)	JUL	-30.40%	-21.70%
7-Aug	Taiwan	Total Imports (YoY)	JUL	-33.50%	-29.10%
7-Aug	Taiwan	Total Trade Bal in US\$ Billion	JUL	\$1.76B	\$1.67B
7-Aug	Philippines	Bank Lending (YoY)	JUN	10.20%	- -
7-Aug	Indonesia	Wholesale Price Index (YoY)	JUN	- -	- -

Sources: Bloomberg and BBVA staff estimates.

**b) Economic Events**

Date	Country	Issue	Remarks
5-Aug	Indonesia	Bank Indonesia Reference Rate	Interest Rate cut of 0.25 pp
7-Aug	Australia	Reserve Bank Quarterly Monetary Policy Statement	

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)	4q08	6.8	-2.6	-8.6	5.8	-4.3	-3.4	5.2	0.1	2.9	-4.2	-4.2	0.8
	1q09	6.1	-7.8	-10.2	5.8	-8.8	-4.2	4.4	-6.2	0.4	-10.1	-7.1	0.4
	2q09	7.9	n.a.	n.a.	n.a.	n.a.	-2.5	n.a.	n.a.	n.a.	-3.7	n.a.	n.a.
CPI inflation (% yoy) 1/	Jun-09	-1.7	-0.9	-2.0	-1.4	-1.8	2.0	3.7	-1.4	1.5	-0.5	-4.0	1.5
Exports (in local currency) (% yoy) 2/	Jun-09	-21.3	-5.4	-25.1	-18.4	-35.7	7.3	-20.2	-29.7	-19.4	-24.0	-20.5	-9.2
Trade balance (US\$ bn) 3/	Jun-09	8.3	-2.1	1.7	-5.2	5.3	7.3	2.8	2.8	-0.5	1.6	0.9	3.0
Industrial production (% yoy) 4/	Jun-09	10.7	-10.1	-11.4	2.7	-23.4	-1.2	1.8	-11.1	-0.2	-9.3	-6.8	-3.6
Retail sales (% yoy) 5/	Jun-09	17.7	-6.4	3.3	n.a.	-1.3	-4.4	4.3	3.9	n.a.	-12.3	-8.5	4.4
Money supply (M2) (% yoy) 6/	Jun-09	28.4	13.5	8.2	13.8	2.5	10.0	17.2	6.4	-3.5	12.9	9.3	11.7
Domestic credit (% yoy) 7/	Jun-09	34.4	-3.1	-1.3	24.9	2.4	12.7	19.2	8.9	3.2	8.2	5.1	3.4
Unemployment rate (%) 8/	Jun-09	4.2	5.4	5.9	n.a.	5.4	4.0	8.4	4.0	7.5	4.2	2.4	5.7

Notes: 1) Wholesale prices for India; Q209 figure for Australia.

2) Figure for China is in US dollar term; figure for Australia includes services; May-09 figure for India, Indonesia, Malaysia, Philippines and Australia.

3) Figure for Australia includes services; May-09 figure for India, Indonesia, Malaysia, Philippines and Australia.

4) 2Q09 figure for Hong Kong. Q109 Figure for Australia; May-09 figure for China, India, Indonesia, Malaysia, Philippines and Australia

5) Not available for India and Philippines; May figure for Hong Kong, Indonesia, Singapore and Thailand. 1Q09 for Malaysia.

6) Figure for Australia is broad money in national definition; figure for Hong Kong is only counted HK dollar M2; May 09 figure for India, Korea, Indonesia and Philippines.

7) Apr-09 figure for Indonesia; May 09 figure for India, Korea, Indonesia, Malaysia and Philippines.

8) Not available for India; Q2-09 figure for Singapore, Q109 figure for Malaysia; end-2008 figures for China and Indonesia; Apr-09 figure Philippines. May 09 figure for Thailand.

Source: CEIC & DataStream