

# Weekly Observatory

October 12<sup>th</sup>, 2009

## *Economic and Financial Market Highlights (5<sup>th</sup> -9<sup>th</sup> October 2009)*

**Australia, Japan and Malaysia all reported that their exports continued to decline in August although some good news came from Taiwan, whose shipments abroad slowed their slump substantially in September. Meanwhile, Purchasing Manager's Index in both Singapore and Hong Kong continued to show that their respective economies were still expanding in September, albeit at a slower pace. Consumer confidence has improved in Thailand while Indonesia's consumers slipped in September due to the prospect of a rise in some administrated prices. Inflation trends are mixed in the region as it rose in the Philippines, slowed down in India and kept contracting in Taiwan. On the monetary policy front, Korea and Indonesia maintained their reference rates unchanged while Australia surprised the market by raising interest rates 0.25%. Positive week for both equity and currency markets in the region, were most financial markets registered strong gains.**

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### Greater China

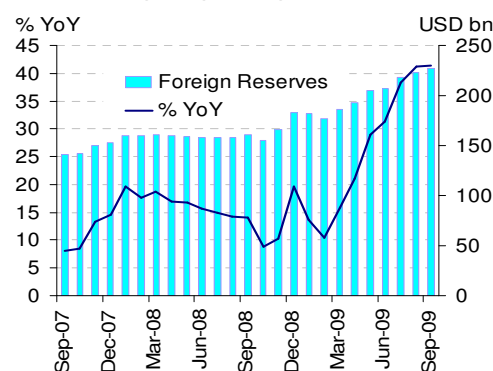
- **China's** vice president announced that the government will continue with its fiscal stimulus and loose monetary policy as the country's economic recovery is not yet on a solid footing. The vice president stated that "the overall economic situation in China is stabilizing and improving," but cautioned: "We have yet to put economic recovery on a stable and solid basis."

- **Hong Kong's** Purchasing Manager's Index (PMI) remained above the threshold level of 50 for the second consecutive month in September. PMI came in at 51.8 points, indicating that the region's economy is expanding although at a slower pace than in August, when the index reached 52.8 points. New orders rose for a third straight month in September, albeit at a slower pace than in August while companies continued to cut staff although labour cutbacks were slight and far fewer than in the first half of the year. Hong Kong companies' costs (input prices) rose slightly for a third straight month while firms had to reduce their output prices for the 12<sup>th</sup> consecutive month but by less than in August.

Hong Kong's official foreign currency reserves assets stood at USD226.9 billion at the end of September, up from USD223.3 billion in August. The foreign currency assets represent nine times the currency in circulation or 50% of the M3 money supply. Meanwhile, including unsettled forward contracts, the reserve assets amounted to US\$229.2 billion in September.

- **Taiwan's** consumer prices fell 0.86% in September from a year earlier (Forecast: -0.52% yoy), slightly more than August's revised 0.80% drop, due to declines in transportation and electricity costs. This decline, which came despite higher food costs, was the eighth consecutive year-on-year (yoy) decline in the consumer price index (CPI). September's CPI decline came as public transport fares fell 4.03% yoy due to cheaper local gasoline and diesel prices while electricity prices fell 6.55% yoy, as the

**Hong Kong: Foreign Reserves**



Source: CEIC

premium on electricity tariffs in summer ended in August this year, compared with September last year. Meanwhile, food prices rose 1.36% yoy as the typhoon season pushed up prices of vegetable and fruits. On a seasonally adjusted basis, CPI fell 0.08% month-on-month (mom) from a 0.12% mom climb in August. The core price index, which excludes volatile energy and food prices, fell 0.93% yoy in September, more than August's 0.77% yoy drop. Meanwhile, the wholesale price index (WPI) fell 9.59% yoy in September from a year earlier (Forecast: -9.93% yoy), after falling a revised 11.07% yoy in August. Month-on-month, WPI fell a seasonally adjusted 0.01% from August's 2.04% mom rise.

Taiwan's September exports fell 12.7% yoy (Bloomberg: -15.6% yoy), almost half of August's fall of 24.6% yoy and the smallest decline since October 2008. Imports in September fell 21.1% yoy (Bloomberg: -20.3% yoy) from 32.3% yoy in August. As a result, Taiwan's trade surplus in September jumped to USD2.55 billion from USD1.96 billion the previous month. Month-on-month, non-seasonally adjusted exports inched 0.5% upwards, the smallest monthly increase in five months.

## India

- India's wholesale price index (WPI) rose 0.70% from a year earlier, below the previous week's 0.83 yoy rise. The price of primary articles decelerated to 9.49% yoy from 9.64% yoy in the previous week while energy prices continued to contract on a yearly basis. Over the previous week, non-seasonally adjusted WPI inflation shrank 0.06% wow, having risen the previous week by 0.67% wow thanks to a sharp fall in food prices.

## Japan/Korea/Australia

- Japan's** exports plunged 37.1% yoy in August, the eleventh consecutive monthly drop, albeit improving on July's 37.6% yoy nose-dive. The decline in exports was primarily due to a sharp decline in auto exports to the US and Europe and a major decline in steel and mineral fuel shipments. Meanwhile, imports quickened their pace of decline in August, plummeting 42.8% yoy after sinking 41.2% yoy in the previous month largely due for lower prices for crude oil and other raw material. As a result, Japan logged a trade surplus of JPY185.7 billion (USD2 billion), below both the previous month's surplus of JPY437.3 bn and the market's expectation of a JPY285 billion surplus.

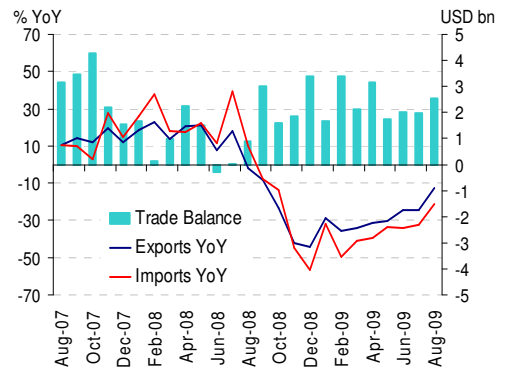
Japan's machinery orders plunged 31.9% yoy in August (Bloomberg: -25.4% yoy) from the 33.3% yoy slump in July. The drop was due to continuing weak external demand, with foreign orders plummeting 54.4% yoy from July's 45% yoy fall. Month-on-month, seasonally adjusted machinery orders slipped 1.9% reversing three consecutive months of gains.

Meanwhile, machine tool orders, another capital expenditure indicator, fell at their slowest pace in ten months in September, dropping 61.9% yoy. Foreign demand in September contracted 55.6%, improving on August's 72.5% yoy nose-dive. Furthermore, non-seasonally adjusted monthly orders spiked 36.2%, reversing the 7.1% mom slip in August.

Japan's index of coincident economic indicators rose to a preliminary 91.4 from 89.8 in July, climbing for the fifth straight month and achieving its highest value since last November. The index of leading economic indicators rose 0.8 points from July to 83.3, increasing for the sixth consecutive month. As a result, Japanese authorities maintained their assessment that the economy has stopped worsening.

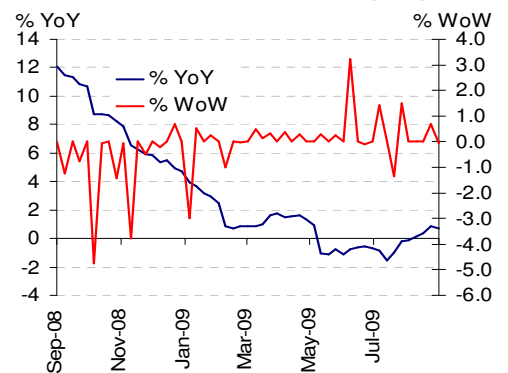
Japan's foreign exchange reserves reached a record high of USD1,052.60 billion in September, up by USD10.26 billion from a month

### Taiwan: Trade



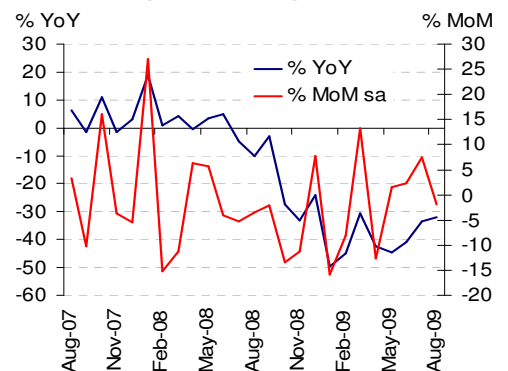
Source: CEIC

### India: Wholesale Price Index (WPI)



Source: Datastream.

### Japan: Machinery Orders



Source: CEIC.

earlier. A rise in the value of its holdings of U.S. Treasury bonds and euro-denominated assets as well as an increase in Japan's holdings of special drawing rights (SDRs) at the International Monetary Fund contributed to the expansion in foreign reserves.

- **Korea's** central bank kept its benchmark interest rate unchanged at a record low of 2%, in line with market expectations. The Bank of Korea (BoK) signaled it may keep borrowing costs on hold as home loans slow and it gauges the strength of the economic recovery. Meanwhile, Korea's financial regulator announced it plans to further tighten regulations on non-banking finance companies' lending to households starting Oct. 12. The loan-to-value ratio in mortgages will be lowered to 50% from 60% in parts of Seoul.

Korea's foreign exchange reserves rose by USD8.79 billion, the biggest monthly gain in four months, rising to USD254.25 billion at the end of September, the largest amount since June 2008. The reserves were lifted by investment gains, repayment of borrowings by local banks and the unwinding of a USD640 million currency swap with the state-run pension agency. Furthermore, reserves also rose as the foreign exchange authorities were seen purchasing an estimated USD4 billion last month to check the won's gains.

- **Australia's** central bank decided to raise the cash rate by 25 basis points to 3.25% surprising the market which had expected rates to remain unchanged. Between September 2008 and April this year, the rate was slashed a total of 425 basis points in six steps in response to the global financial crisis. This surprise move is the first interest-rate increase in the Asia region and among the G20 countries. The Reserve Bank of Australia (RBA) justified this decision alleging that "With economic policy settings likely to remain expansionary for some time, the recovery will likely continue during 2010 and forecasts are being revised higher" and "prospects for Australia's Asian trading partners appear to be noticeably better." The RBA expects the economy to grow around trend in 2010. In August, the RBA raised its growth forecast for 2009 to around 0.5% from its previous forecast of economic contraction.

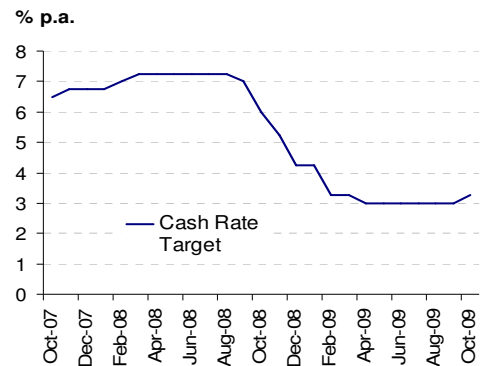
Meanwhile, Australia's seasonally adjusted balance of trade in goods and services narrowed to a deficit of AUD1.52 billion in August from an upwardly revised deficit of AUD1.78 billion in July. The latest figure is wider than analysts' expectations of a deficit of AUD900 million. Seasonally adjusted exports fell 1.8% mom in August from 2.3% mom in July due to a drop in farm shipments and coal exports while imports slumped 3% mom having risen 3.4% mom in July due to a sharp drop in oil exports and a milder fall in demand for foreign consumer goods. Year-on-year, exports accelerated their drop, plunging 21.3% yoy from 15.3% yoy slump.

Finally, Australia's unemployment rate came in better than expected for the month of September, standing at 5.7%, beating the forecast of the jobless rate rising to 6%. The total change in employment showed that the Australian workforce added 40,600 jobs in September - 35,400 full-time and 5,200 part-time - defying expectations for a decline of 10,000 jobs after the revised loss of 26,100 jobs in August. As a further sign of improving labour conditions, the participation rate moved up to 65.2% from 65.1% in the previous month.

## ASEAN

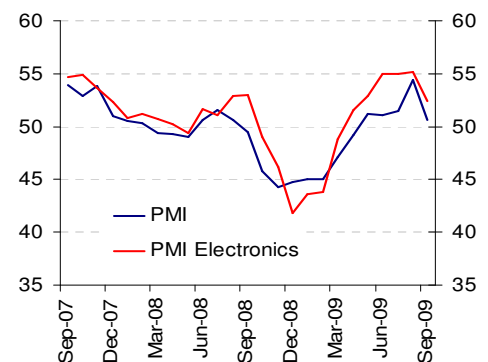
- **Singapore's** PMI contracted to 50.6 points in August, down from July's 54.4 and its lowest value since April. The data reflects that manufacturing has expanded for a fifth consecutive month, but also indicates that the recovery may be patchy. A contraction in new export orders, the first in 4

**Australia: Interest Rates**



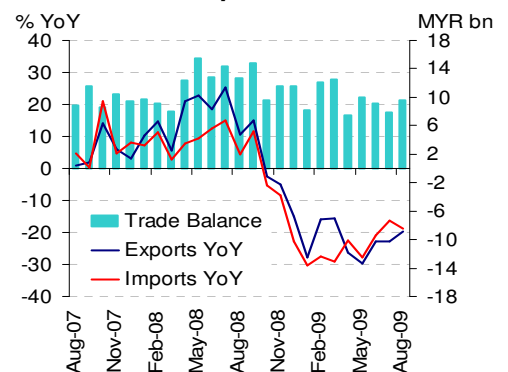
Source: CEIC

**Singapore: PMI**



Source: CEIC

**Malaysia: Trade**



Source: CEIC

months, and slower growth in new orders weighed on the headline index as did production output and stocks, which also continued to expand but at a slower rate. Electronics PMI reached 52.4 points, down from July's 55.2 due to slower growth in new orders from both domestic and overseas markets.

Singapore's foreign currency reserves hit an all time high of USD182 billion in September, up from August USD176.3 billion. The increase was due to strong gains in foreign reserves as well as an increase in SDR.

- **Malaysia's** exports plunged 19.8%yoy in August after a revised 22.9% yoy fall in July and above the market's expectation of a 17.8% yoy drop. At the same time, imports fell 18.6% yoy faster than a 16% yoy drop in the previous month and market's forecast of a 13.1% yoy slump. The country recorded a trade surplus of MYR9.57 billion (USD2.4 billion). On a monthly basis, non-seasonally adjusted exports slipped 2%, the first month-on-month decline since April.

- **Philippine** consumer prices rose 0.7% yoy (Bloomberg: 0.6% yoy), after a 0.1% yoy gain in August. Fuel, electricity and water prices fell 3.4% yoy last month, easing from a 5.4% yoy decline in August while the price of services slipped 3.1% yoy, having slumped 4.1% yoy in August. Inflationary pressure came from food, beverage and tobacco costs, which climbed 2.2% yoy from 1.8% yoy in August. Core inflation rate eased to an 2.8% yoy in September from 2.9% yoy in August. Month-on-month, non-seasonally adjusted consumer prices increased 0.2% in September, up from August's flat rate.

- **Indonesia's** central bank kept its key interest rate unchanged at a record low of 6.5% for the second straight month, as widely expected. The central bank noted that the current level of interest rate remains consistent with achieving the 4%-6% inflation target for 2010. For this year, the bank expects inflation within the target range of 3.5-5.5%.

Indonesian consumer confidence slipped in September to 110.8 points from 114.3 points in August. This decline is largely blamed on an 18% hike in toll road tariffs at the end of September adding to further planned increases in other prices such as electricity, which dampened consumer confidence. A reading above 100 means more consumers are optimistic than pessimistic.

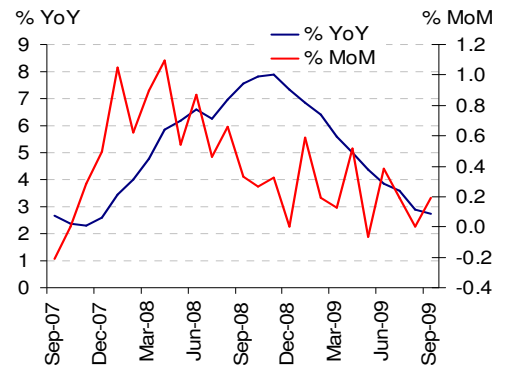
- **Thailand's** consumer confidence rose to the highest level in 11 months in September on signs the nation will soon emerge from its first recession in a decade. The consumer confidence reached 75.6 points, up from 74.5 points in August. Consumers were more confident on the current and future economic situation as well as current and future job prospects. Furthermore, Thai consumers were more willing to spend on new cars, housing and travel.

## Asian Financial Markets

- Positive week for most Asia-Pacific equity markets with strong gains in most of them. The best performer was the Hong Kong stock exchange which rose 5.5% over the previous Friday and was followed by China, whose market only opened on Friday and climbed 4.8%. The Philippines index jumped 4.4% while the Australian index ended 3.2% higher and the Thailand 3.1%. Japan notched up a 2.9% gain and Malaysia climbed 2.3%. The worst performer was the Indian stock exchange, losing 2.8% of its value and was followed by Korea (-1.6%)

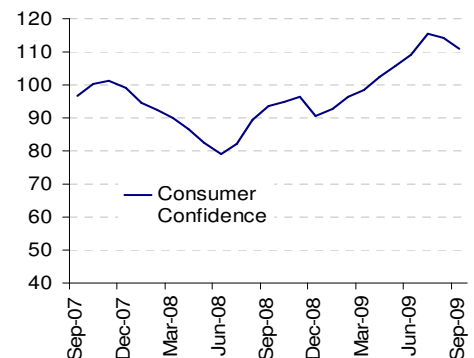
- Positive week for currencies in the region. The Australian dollar appreciated 4.84% versus the US dollar over the previous week on the back of the interest rate hike while the yen recovered 2.66% of its value

### Philippine: CPI



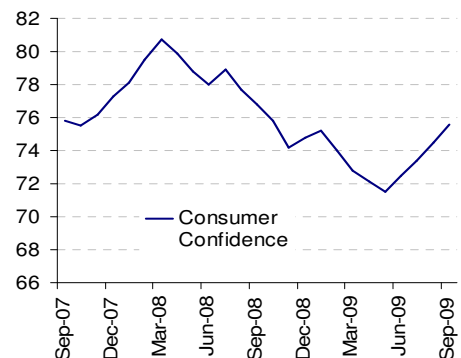
Source: CEIC

### Indonesia: Consumer Confidence



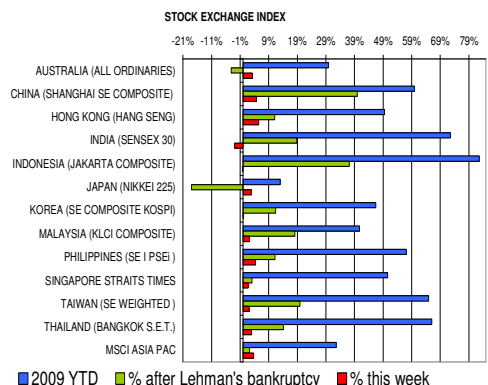
Source: CEIC

### Thailand: Consumer Confidence



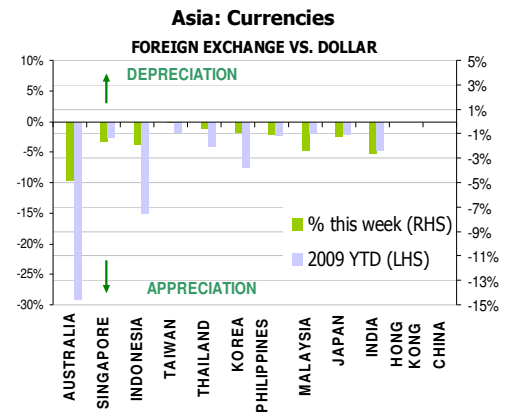
Source: CEIC

### Asia: Stock Markets



Sources: Datastream and Bloomberg.

and the Malaysian ringgit climbed 2.41%. The Indonesian rupee gained 1.92% while the Singapore dollar was up 1.67%. The Chinese and Hong Kong currencies remained unchanged and the Taiwan dollar was the worst performer of the week, gaining a mere 0.16%



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	2912	2912	4.8	19.2
Hong Kong	Hang Seng	21095	21499	5.5	37.1
Taiwan	Taiwan Weighted	7532	7572	2.2	21.7
India	Sensex	16824	16643	-2.8	22.7
Japan	Nikkei 225	9803	10016	2.9	60.1
Korea	Seoul Composite	1613	1647	-1.6	28.0
Indonesia	Jakarta Composite	2496	2474	-0.2	2.5
Malaysia	KLSE Composite	1222	1234	2.3	1.7
Philippines	Philippines Composite	2916	2943	4.4	2.2
Singapore	Straits Times	2627	2653	1.8	6.0
Thailand	SET	737	747	3.1	4.1
Australia	All Ordinaries	4678	4755	3.2	22.5

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	6.80	6.80	6.68	6.68
Hong Kong	(HKD/USD)	7.75	7.75	0.00	7.75	7.75	7.73	7.73
Taiwan	(TWD/USD)	32.19	32.23	-0.16	31.69	31.84	30.97	31.15
India	(INR/USD)	46.78	46.48	-2.66	46.71	46.51	47.45	47.21
Japan	(JPY/USD)	88.82	88.73	-1.20	88.76	88.67	88.36	88.26
Korea	(KRW/USD)	1166.78	1165.30	-0.91	1168.02	1165.80	1175.34	1172.00
Indonesia	(IDR/USD)	9464.40	9455.00	-1.92	9488.70	9497.50	9960.70	9947.50
Malaysia	(MYR/USD)	3.42	3.40	-2.41	3.42	3.40	3.43	3.40
Philippines	(PHP/USD)	46.50	46.45	-1.04	46.78	46.63	47.16	46.75
Singapore	(SGD/USD)	1.40	1.39	-1.67	1.40	1.39	1.40	1.39
Thailand	(THB/USD)	33.36	33.32	-0.51	33.36	33.34	33.43	33.40
Australia	(USD/AUD)	0.89	0.91	4.84	0.89	0.90	0.86	0.87

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	1.73	-9	2.06	29	-	#VALUE!
Hong Kong	0.05	-5	0.23	0	0.84	1
Taiwan	0.17	0	0.61	0	0.93	0
India	3.42	-12	4.55	-7	n.a.	n.a.
Japan	0.19	0	0.54	-1	0.68	-1
Korea	2.36	0	2.77	4	4.12	6
Indonesia	6.46	0	6.96	2	7.54	1
Malaysia	2.04	1	2.15	0	2.18	0
Philippines	3.94	-69	4.13	-38	4.38	-50
Singapore	0.28	-3	0.69	0	0.92	1
Thailand	1.26	0	1.36	0	1.67	0
Australia	3.39	19	3.76	34	-	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	1.32	2	2.93	-1
Hong Kong	0.02	-3	1.67	3
Taiwan	0.41	24	0.88	14
India	3.10	0	7.16	4
Japan	-	n.a.	0.62	5
Korea	2.39	-4	4.77	-
Indonesia	6.31	-19	9.03	-1
Malaysia	1.85	-5	3.72	0
Philippines	4.06	-10	6.49	2
Singapore	0.39	5	1.40	0
Thailand	1.57	1	3.50	30
Australia	4.10	30	5.20	22

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
12-Oct	Singapore	Advance GDP Estimate (YoY)	3Q P	- -	0.50%
12-Oct	China	New Yuan Loans	SEP	410.4B	440.0B
12-Oct	Indonesia	Wholesale Price Index (YoY)	AUG	- -	- -
12-Oct	Malaysia	Industrial Production YoY	AUG	-8.40%	-6.00%
12-Oct	Malaysia	Manufacturing Sales Value YoY%	AUG	-22.40%	- -
12-Oct	India	Industrial Production YoY	AUG	6.80%	9.70%
13-Oct	China	Actual FDI YTD YoY	SEP	-17.50%	-14.35%
13-Oct	Philippines	Total Exports (YoY)	AUG P	-25.40%	-20.00%
13-Oct	China	Business Climate Index	3Q	115.9	- -
14-Oct	Australia	Westpac Consumer Confidence	OCT	5.20%	- -
14-Oct	Japan	BOJ Target Rate	14-Oct	0.10%	0.10%
14-Oct	China	Trade Balance (USD)	SEP	\$15.70B	\$17.00B
14-Oct	China	Exports YoY%	SEP	-23.40%	-21.00%
14-Oct	China	Imports YoY%	SEP	-17.00%	-15.00%
14-Oct	Korea	Unemployment Rate (SA)	SEP	3.80%	- -
14-Oct	Japan	Consumer Confidence	SEP	40.4	41.3
15-Oct	Japan	Industrial Production YOY%	AUG F	-18.70%	- -
15-Oct	Japan	Capacity Utilization (MoM)	AUG F	3.90%	- -
15-Oct	Singapore	Retail Sales (YoY)	AUG	-9.80%	- -
15-Oct	India	Wholesale Price Index YoY	03-Oct	0.70%	- -
16-Oct	Korea	Department Store Sales YoY	SEP	7.60%	- -
16-Oct	Korea	Discount Store Sales YoY	SEP	-1.50%	- -
16-Oct	Singapore	Non-oil Domestic Exp SA (MoM)	SEP	1.30%	- -
16-Oct	Thailand	Foreign Reserves	09-Oct	131.3	- -

Sources: Bloomberg and BBVA staff estimates.

**b) Economic Events**

Date	Country	Issue	Remarks
12-13 Oct	Japan	Bank Of Japan Policy Meeting	Expected to remain unchanged

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	0.7
	1q09	6.1	-7.8	-10.1	5.8	-8.7	-4.2	4.4	-6.2	0.6	-9.5	-7.1	0.3
	2q09	7.9	-3.8	-7.5	6.1	-7.2	-2.2	4.0	-3.9	1.5	-3.5	-4.9	0.6
CPI inflation (% yoy) 1/	Aug-09	-1.2	-1.6	-0.9	0.5	-2.2	2.2	2.8	-2.4	0.7	-0.3	-1.0	1.5
Exports (in local currency) (% yoy) 2/	Aug-09	-23.4	-13.9	-9.8	-9.2	-36.0	0.8	-7.8	-19.8	-20.1	-18.6	-20.5	-21.5
Trade balance (US\$ bn) 3/	Aug-09	15.7	-2.8	2.5	-8.4	1.9	5.4	2.6	2.7	-0.7	2.8	2.1	0.0
Industrial production (% yoy) 4/	Aug-09	12.3	-9.5	-9.6	6.8	-18.7	1.2	-0.7	-8.4	-2.6	12.3	-8.6	-3.8
Retail sales (% yoy) 5/	Aug-09	17.7	-1.0	5.4	n.a.	0.5	0.4	4.3	1.5	n.a.	-17.2	-6.8	3.8
Money supply (M2) (% yoy) 6/	Aug-09	28.5	13.6	8.0	14.5	2.8	9.5	16.3	8.4	2.3	12.6	7.8	8.8
Domestic credit (% yoy) 7/	Aug-09	34.1	-7.0	-0.8	26.7	1.8	8.5	11.2	7.3	2.7	7.9	2.4	2.5
Unemployment rate (%) 8/	Aug-09	4.2	5.4	6.1	n.a.	5.5	3.8	8.4	3.6	7.6	4.2	1.2	5.6

Notes: 1) Wholesale prices for India; Q209 figure for Australia; Jul-09 figure for China; Sep-09 figure for Taiwan, India, Korea, Indonesia, Philippines and Thailand

2) Figure for China is in US dollar term; figure for Australia includes services; Jun-09 figure for Thailand; Jul-09 figure for Philippines; Sep-09 figure for Taiwan and Korea.

3) Figure for Australia includes services; Jul-09 figure for Indonesia and Philippines. Sep-09 figure for Taiwan, Korea and Australia

4) Q209 Figure for Australia; Jul-09 figure for China, India, Indonesia and Malaysia

5) Not available for India and Philippines; 2Q09 for Malaysia and Australia; Jul-09 figure for Indonesia, Singapore and Thailand.

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

7) figure for Hong Kong is only counted HK dollar M2; Jul-09 figure for India and Indonesia.

8) Not available for India; Q2-09 figure for Singapore, Q209 figure for Malaysia; Jun-09. figures for China and Indonesia; Jul-09 figure for Philippines and Thailand; Sep-09 figure for Australia.

Source: CEIC & DataStream