

Weekly Observatory

November 9th, 2009

Economic and Financial Market Highlights (31st October -6th November 2009)

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The Purchasing Managers Indexes (PMI) for October of six of Asia's emerging economies reveal that manufacturing in these countries is recovering albeit with mixed progress. In China, Hong Kong and Taiwan, the PMI climbed over the previous month while in India, Singapore and Korea it slipped slightly although it still is still over the threshold that signals expansion or contraction. The decline in exports has accelerated significantly in Australia, Malaysia and Indonesia and inflation remains subdued in Philippines, Korea and Thailand. On the policy front, Australia raised its interest rate for the second straight month, unlike Indonesia and Philippines, where rates remained unchanged. Mixed week for Asia-Pacific stock markets while most currencies in the region made gains against the US dollar.

Greater China

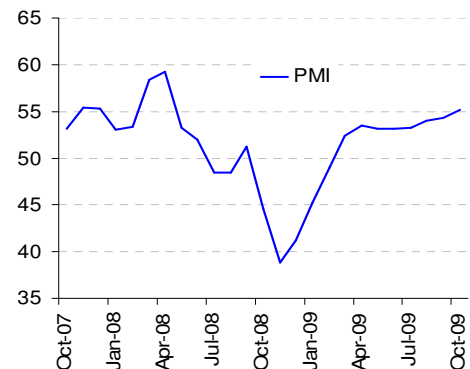
- **China's** manufacturing activity expanded at its fastest pace in 18 months in October, supported by Beijing's stimulus package and an increase in orders from overseas. The HSBC China PMI rose to 55.4 last month from 55.0 in September, the seventh consecutive month the PMI has been above 50.0. A PMI reading above 50.0 indicates the manufacturing sector is expanding, and a reading below 50 indicates contraction. The PMI's output index fell to 57.2 in October from 57.6 in September, and the new orders index dropped to 57.6 from 58.0 while the export orders index rose to 55.6 in October from 54.4 in September, and employment rose to a record 55.3, from 53 in September. Meanwhile, China's official PMI, issued by the China Federation of Logistics and Purchasing, climbed to 55.2 in October from 54.3 in September, the eighth straight month it has been above 50.

- **Hong Kong's** Purchasing Managers Index (PMI) rose to 54.6 in October from 51.8 in September, and was the highest reading since December 2007. New business orders continued to increase, with orders from Mainland China posted a strong improvement and new order volumes climbed further in October, while the production increased robustly since September to its highest in twenty-two months.

Meanwhile, the value of Hong Kong's retail sales rose 2.4% in a year earlier, reversing August's 0.1% yoy all and slightly below the market expectation of a 3.5% yoy rise. Furthermore, September's rise is the first year-on-year rise in seven months as sales were boosted by a rise in tourism and improved local consumer spending. Month-on-month, seasonally adjusted retail sales inched upwards 1.7% over August, where retail sales climbed 4.8% mom.

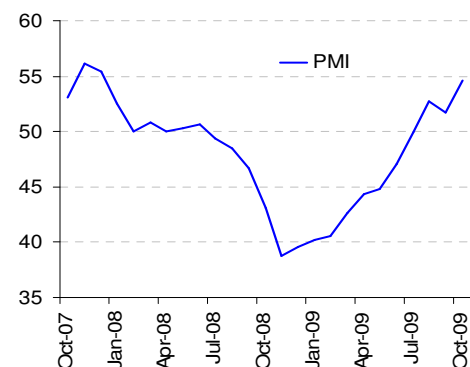
- **Taiwan's** PMI climbed to 59.8 in October, above the 57.5 recorded

China: Purchasing Managers Index



Source: ThomsonReuters

Hong Kong: Purchasing Managers Index



Source: ThomsonReuters

in September. Substantial growth in new order levels was reported in October. Moreover, the increase in new business accelerated robustly since September to a two-year high. Overall new order growth was driven by improved domestic and foreign demand and as a result, output rose steeply as did purchases of inputs and new employment.

Taiwan's consumer prices slipped 1.84% yoy (Bloomberg: -1.17% yoy), accelerating on the previous month's revised 0.88% yoy fall. This fall was mainly due to decline in food prices, especially vegetables as well as a drop in entertainment costs and housing. Month-on-month, seasonally adjusted inflation climbed 0.44%, partially reversing the previous month's 0.66% mom contraction thanks to a rise in clothing prices and housekeeping costs.

India

- **India's** Purchasing Managers' Index for manufacturers slipped to 54.5 in October from 55.0 in September, indicating nevertheless, that industrial output is expanding. The drop in the index was due to new orders and output growing at a slower pace than September. Furthermore, India's Business Activity Index, an equivalent index to the PMI but for the tertiary sector, stood at 56.8 in October, up from 54.4 in September, and pointed to increasing services activity in the country,

Indian exports dropped 13.8% in September from a year earlier after sliding 19.4% yoy in August and above the market's forecast of a 12.0% yoy fall. The smaller decline was due to modest export growth in some key sector such as fabrics, metal and marine products. Imports plummeted 31.3% yoy in September after plunging 32.4% yoy in August on the back of lower energy prices as compared to last year. The trade deficit narrowed to USD\$7.8 billion from USD8.4 billion in the previous month. Non-seasonally adjusted monthly exports slumped 4.8% over August, when exports jumped 4.9% mom.

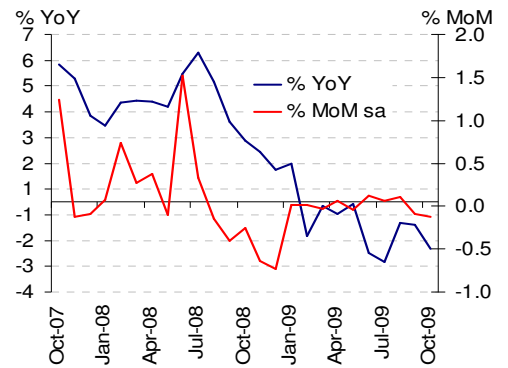
Japan/Korea/Australia

- **Japan's** central bank's monetary policy board members expressed their concern about the upside risk to the recovery of the emerging economies from the global slowdown, minutes from the October 13 and 14 monetary policy meeting have revealed. The minutes also indicated that the bank needs to continue to maintain the current accommodative conditions while also making sure the markets are aware of that stance. At the meeting, the board unanimously decided to maintain the uncollateralized overnight call rate at 0.1%.

- **Korea's** Manufacturing Purchasing Managers' Index stood at 52.5 in October compared to 52.7 in the previous month. Manufacturing output and new orders continued to rise in October, albeit at a slower pace. Backlogs of work declined for the second straight month, while Korean manufacturers also depleted stocks of finished goods for the first time since June. Employment levels in the manufacturing sector increased for the eighth successive month, reflecting the sustained rise in new orders volumes and output. Input prices rose at a slower pace in October, with beneficial exchange rates preventing costs from rising further. Meanwhile, output prices fell slightly, in contrast to a slight increase last month.

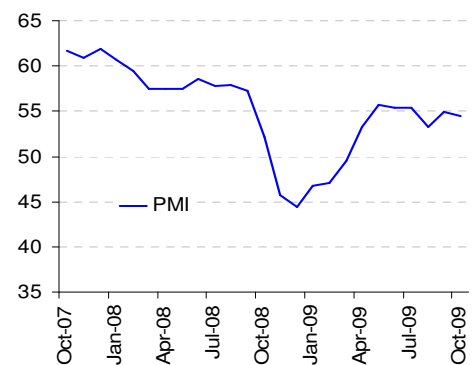
Korean consumer price index rose 2.0% year-on-year in October, slower than a 2.2% rise in the previous month and below the

Taiwan: Inflation



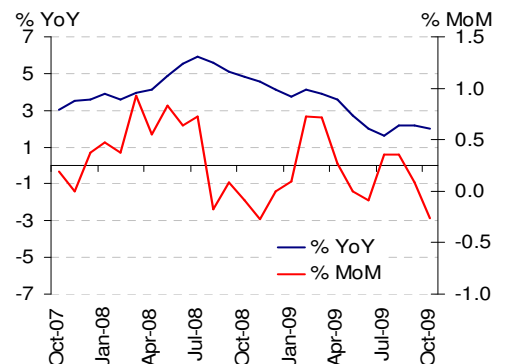
Source: CEIC

India: Purchasing Managers Index



Source: ThomsonReuters

Korea: Inflation



markets expectation of a 2.4% yoy increase. Month-on-month, non-seasonally adjusted consumer prices were down 0.3%, in contrast to a 0.1% mom increase in September. Core inflation, excluding agricultural products and oil, rose a non-seasonally adjusted 0.1% on a monthly basis in October, at the same pace in the previous month. From a year earlier, prices climbed 2.6% in October, slower than a 2.7% rise in the previous month.

- **Australia's** central bank raised interest rates for the second time in as many months, hiking the benchmark reference rate by 0.25% to 3.5% as expected. The Reserve Bank of Australia (RBA) expressed confidence that inflation will continue to moderate, helped by a strong Australian dollar, which will damp price pressures and thus has opted for further gradual withdrawal of emergency policy settings.

Australia's seasonally adjusted trade deficit totaled AUD1.85 billion in September, more than a revised gap of AUD1.65 billion for August. The market had predicted the gap would rise to AUD2.15 billion for September. Exports in September climbed 4.6% over the previous month, reversing the 2.0% mom fall posted in August while imports rose 5.2% mom in September from a 2.2% mom slip the previous month. Over the previous year, exports continued to plunge, posting a 21.6% yoy slump, marginally faster than in August.

Australia's retail sales slipped a seasonally adjusted 0.2% in September (Bloomberg: 0.5% mom) over the previous month when they gained a revised 0.7% mom. Retail sales slipped at department stores, in clothing and in household goods as the government's policy directed at increasing consumer spending starts to patter out. Year-on-year, however, retail sales increased 6.3% yoy, improving on August's and July's 5.3% yoy climb.

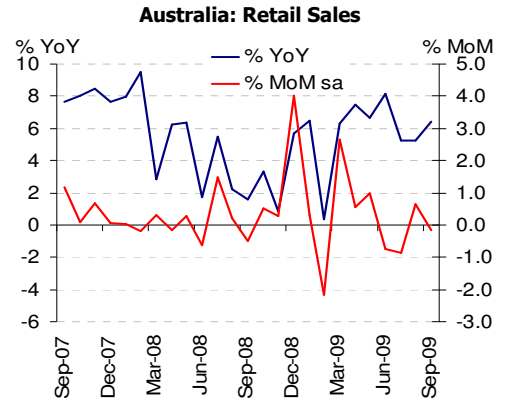
ASEAN

- **Singapore's** PMI stood at 50.2 in October, down from 50.6 in September the sixth consecutive month of expansion. The fall in the index was mainly due to fewer new orders and production as well as inventories although on the upside, new export orders returned to growth in October. Meanwhile, in the electronics sector, the index stood at 49.6 in October, down from 52.4 in September, the first contraction in electronics PMI for six months. The decline was due to a drop in new orders from domestic and overseas markets.

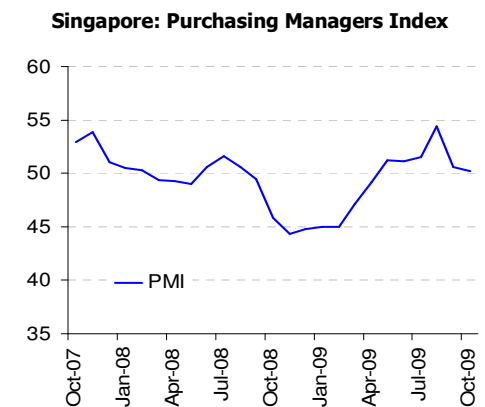
- **Malaysia's** September exports plunged 24.2% from a year earlier (Bloomberg: -21.0% yoy), accelerating their decline from the previous month's revised 19.9% yoy slump. The dive in exports is due to the steep fall of energy prices as compared to last year. In the same period, imports slipped 20.2% yoy, after falling 18.6% yoy in August and as a result, the country's trade surplus narrowed to MYR9.27 billion (USD2.7 billion) in September, down from MYR9.57 billion in August. Exports improved over the previous month, slipping a non-seasonally adjusted 1.1%, below the 2.1% yoy drop of August over July

- **Indonesia's** central bank kept its benchmark overnight rate at a record low 6.5% for the third consecutive months as has been expected. The policy board stated that the current interest rates are adequate so as to achieve the inflation target of 4%-6% at the end of the year, adding that the current policy rate will not stifle the economic

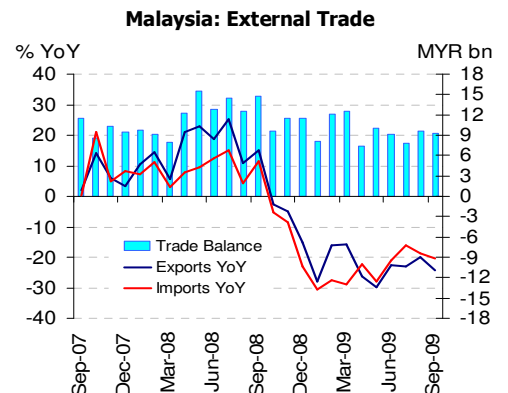
Source: CEIC.



Source: CEIC



Source: ThomsonReuters



Source: CEIC

recovery.

Indonesian exports accelerated their decline in September, plunging 19.9% yoy after tumbling 15.4% yoy in August and a steeper drop than the market's expectation of a 12% yoy fall. Meanwhile, imports followed a similar trend, quickening their pace of decline to 24.2% yoy from 21.2% yoy in August. The country's trade surplus widened 5.1% to USD1.3 billion in September over the previous month. Month-on-month (mom), non-seasonally adjusted exports declined 6.8%, reversing August's 8.9% mom hike.

Indonesia's annual inflation eased more than expected in October to 2.6% yoy (Bloomberg: 2.8% yoy) from September's 2.8% yoy rise. Core inflation in October climbed 4.52% yoy. Month-on-month non-seasonally adjusted inflation slowed to 0.19% from 1.05% mom in September as transport prices eased following the end of a religious holiday

- **Philippine's** central bank kept borrowing costs unchanged at a record low 4% for the third straight month to boost growth after damage caused by tropical storms in the past month threatened the nation's economic recovery. The central bank considers that the recent calamities are not expected to have a significant long-lasting impact on inflation and thus decided to keep overnight rates unchanged.

Consumer prices in the Philippines rose 1.6% on a yearly basis in September, in line with expectations and markedly faster than the 0.7% yoy increase in the preceding month. The rise was driven by rises in the prices of food, beverages and tobacco. The core inflation rate, which excludes food and energy items, slowed to 2.7% in October from 2.8% in September. On a monthly basis, non-seasonally adjusted inflation increased 0.6% in October, compared to the 0.2% rise in the previous month.

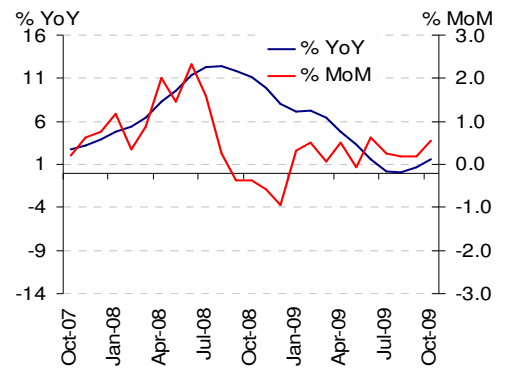
- **Thailand's** consumer price index (CPI) rose 0.4% on a yearly basis in October, owing to rises in prices in the food and beverage sector following a 1% yoy fall in the previous month and slightly over the markets forecast of a 0.3% rise. Month-on-month, non-seasonally adjusted consumer prices were up 0.2%, at the same pace as in the previous month. Core CPI, which excludes volatile items, fell 0.1% year-on-year, but rose 0.1% from the previous month.

Asian Financial Markets

- Mixed week for Asia-Pacific stock markets. China's reference index outperformed the rest of the region, rising 5.6% over the previous Friday and was followed from afar by Thailand's bourse, which climbed 2.0%. Other markets that also ended the week were Taiwan (1.7%), India (1.6%), Malaysia (1.4%) and Indonesia (1.2%). On the other hand, Japan's stock market lost 2.4% of its value over the week and Australia withdrew 0.9%.

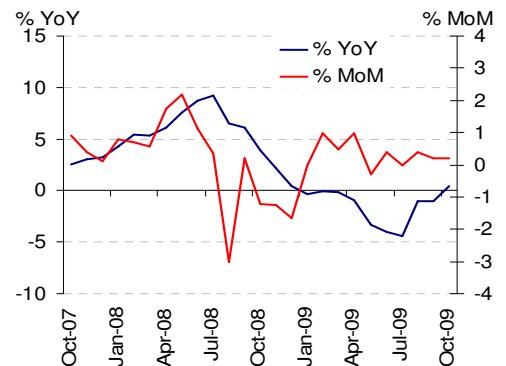
- Positive week for most currencies. The Australian dollar appreciated 1.8% against the US dollar on the back of the interest rate hike that was announced during the week. The Indonesian rupee rose 0.94% as did the Philippine peso (0.93%), the Singapore dollar (0.63%) and the Malaysian ringgit (0.32). The yuan and the Hong Kong dollar remained unchanged while the Japanese yen was the only currency to depreciate, slipping 0.54%.

Philippines: Inflation



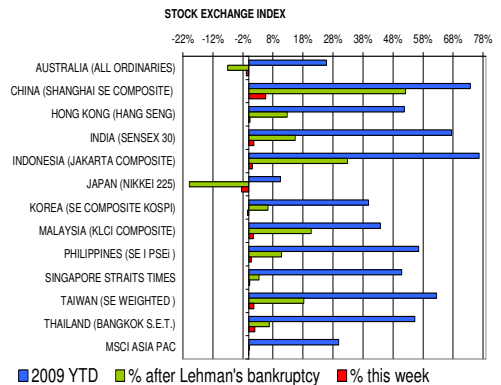
Source: CEIC

Thailand: Inflation



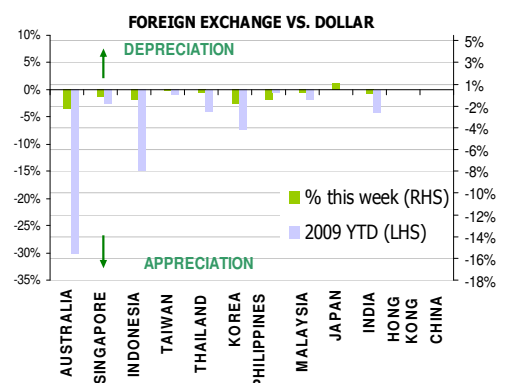
Source: CEIC

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	3128	3164	5.6	176.3
Hong Kong	Hang Seng	21557	21830	0.4	40.2
Taiwan	Taiwan Weighted	7401	7463	1.7	13.6
India	Sensex	15885	16158	1.6	14.2
Japan	Nikkei 225	9789	9789	-2.4	39.7
Korea	Seoul Composite	1563	1572	-0.5	16.0
Indonesia	Jakarta Composite	2368	2395	1.2	1.5
Malaysia	KLSE Composite	1251	1261	1.4	1.9
Philippines	Philippines Composite	2923	2931	0.8	0.4
Singapore	Straits Times	2641	2658	0.3	4.2
Thailand	SET	683	699	2.0	2.8
Australia	All Ordinaries	4552	4604	-0.9	20.6

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	0.00	6.81	6.80	6.65	6.63
Hong Kong	(HKD/USD)	7.75	7.75	0.00	7.75	7.75	7.73	7.73
Taiwan	(TWD/USD)	32.54	32.48	-0.13	32.18	32.08	31.45	31.35
India	(INR/USD)	47.10	46.79	-0.36	47.18	46.89	47.84	47.52
Japan	(JPY/USD)	90.52	90.59	0.54	90.47	90.54	90.08	90.15
Korea	(KRW/USD)	1177.07	1166.88	-1.33	1178.66	1166.23	1182.86	1171.13
Indonesia	(IDR/USD)	9523.00	9460.00	-0.94	9597.90	9552.50	10076.00	10020.00
Malaysia	(MYR/USD)	3.41	3.40	-0.32	3.42	3.41	3.42	3.41
Philippines	(PHP/USD)	47.58	47.25	-0.93	47.94	47.55	48.47	47.95
Singapore	(SGD/USD)	1.40	1.39	-0.63	1.40	1.39	1.40	1.39
Thailand	(THB/USD)	33.44	33.37	-0.27	33.50	33.44	33.61	33.55
Australia	(USD/AUD)	0.91	0.92	1.80	0.90	0.91	0.87	0.88

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	1.47	7	1.89	11	-	n.a.
Hong Kong	0.05	0	0.17	-1	0.73	-4
Taiwan	0.17	0	0.61	0	0.93	0
India	3.37	-5	4.45	-3	n.a.	n.a.
Japan	0.19	0	0.53	-1	0.66	0
Korea	2.39	1	2.79	0	4.09	0
Indonesia	6.44	-2	7.08	-11	7.61	-9
Malaysia	2.04	0	2.16	0	2.22	1
Philippines	4.81	38	4.44	6	4.31	13
Singapore	0.31	0	0.69	1	0.91	0
Thailand	1.26	0	1.36	0	1.71	2
Australia	3.66	5	3.99	11	-	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	1.30	0	3.13	-3
Hong Kong	0.11	8	1.74	1
Taiwan	0.36	-9	0.91	0
India	3.17	0	7.11	-26
Japan	-	n.a.	0.71	3
Korea	2.17	-1	4.98	-
Indonesia	7.49	94	9.47	20
Malaysia	2.04	1	3.88	-3
Philippines	4.06	-1	6.45	-1
Singapore	0.43	0	1.37	4
Thailand	1.67	6	3.63	-6
Australia	4.24	-7	5.35	4

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
9-Nov	Taiwan	Total Exports (YoY)	OCT	-12.70%	-7.20%
9-Nov	Taiwan	Total Imports (YoY)	OCT	-21.10%	-6.30%
9-Nov	Taiwan	Total Trade Bal in US\$ Billion	OCT	\$2.55B	\$3.10B
10-Nov	Japan	Current Account Total	SEP	¥1171.2B	¥1510.0B
10-Nov	Japan	Trade Balance - BOP Basis	SEP	¥303.7B	¥630.0B
10-Nov	Philippines	Total Exports (YoY)	SEP P	-21.00%	-18.00%
10-Nov	Malaysia	Industrial Production YoY	SEP	-5.70%	-3.40%
10-Nov	Malaysia	Manufacturing Sales Value YoY%	SEP	-20.10%	--
10-Nov	Japan	Bankruptcies (YoY)	OCT	-18.00%	--
10-Nov	Indonesia	GDP Constant Price (YoY)	3Q	4.00%	4.17%
10-Nov	Indonesia	GDP Constant Price (QoQ)	3Q	2.30%	3.94%
10-Nov	Japan	Machine Tool Orders (YoY)	OCT P	-62.10%	--
11-Nov	Australia	Westpac Consumer Confidence	NOV	1.70%	--
11-Nov	Japan	Machine Orders (MoM)	SEP	0.50%	4.10%
11-Nov	Japan	Machine Orders YOY%	SEP	-26.50%	-26.30%
11-Nov	China	Producer Price Index (YoY)	OCT	-7.00%	-5.20%
11-Nov	China	Consumer Price Index (YoY)	OCT	-0.80%	-0.40%
11-Nov	China	Retail Sales (YoY)	OCT	15.50%	15.80%
11-Nov	China	Industrial Production (YoY)	OCT	13.90%	15.50%
11-Nov	China	New Yuan Loans	OCT	516.7B	360.0B
11-Nov	China	Wholesale Prices (YoY)	OCT	-5.90%	--
11-Nov	China	Trade Balance (USD)	OCT	\$12.93B	\$19.05B
11-Nov	China	Exports YoY%	OCT	-15.20%	-13.00%
11-Nov	China	Imports YoY%	OCT	-3.50%	-1.00%
11-Nov	Korea	Unemployment Rate (SA)	OCT	3.60%	--
12-Nov	Australia	Unemployment Rate	OCT	5.70%	5.80%
12-Nov	Korea	South Korea 7-Day Repo Rate	NOV	2.00%	2.00%
12-Nov	Thailand	Consumer Confidence Economic	OCT	68.4	--
12-Nov	India	Industrial Production YoY	SEP	10.40%	--
13-Nov	China	Actual FDI YTD YoY	OCT	-14.20%	-11.00%
13-Nov	Japan	Industrial Production YOY%	SEP F	-18.90%	--
13-Nov	Japan	Capacity Utilization (MoM)	SEP F	2.30%	--
13-Nov	Japan	Consumer Confidence	OCT	40.7	40.5
13-Nov	Singapore	Retail Sales (YoY)	SEP	-5.20%	-5.00%
13-Nov	Hong Kong	GDP (YoY)	3Q	-3.80%	-1.50%
13-Nov	Hong Kong	GDP sa (QoQ)	3Q	3.30%	2.70%

Sources: Bloomberg and BBVA staff estimates.

b) Economic Events

Date	Country	Issue	Remarks
12 Nov	South Korea	Bank of Korea Monetary Policy Committee Meeting	

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)	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
	3Q09	8.9	n.a.	n.a.	n.a.	n.a.	0.6	n.a.	n.a.	n.a.	0.8	n.a.	n.a.
CPI inflation (% yoy) 1/	Sep-09	-0.8	0.5	-1.8	1.3	-2.2	2.0	2.6	-2.0	1.6	-0.4	0.4	1.5
Exports (in local currency) (% yoy) 2/	Sep-09	-15.2	-8.6	-9.8	-8.4	-30.6	-18.8	-15.1	-24.2	-15.3	-18.6	-8.4	-21.6
Trade balance (US\$ bn) 3/	Sep-09	12.9	-3.8	2.5	-7.8	5.7	3.8	2.2	2.7	-0.1	1.5	2.0	0.0
Industrial production (% yoy) 4/	Sep-09	13.9	-9.5	1.0	10.4	-18.9	11.0	0.1	-5.7	-2.2	-7.7	1.0	-3.8
Retail sales (% yoy) 5/	Sep-09	17.3	1.0	4.8	n.a.	0.9	-4.7	13.4	1.5	n.a.	-6.6	-6.7	4.9
Money supply (M2) (% yoy) 6/	Sep-09	29.3	14.4	7.6	14.9	3.0	9.5	16.4	7.5	2.3	11.3	7.6	6.9
Domestic credit (% yoy) 7/	Sep-09	34.2	-4.1	-1.1	25.3	1.6	8.5	11.2	7.2	2.7	8.3	2.9	1.7
Unemployment rate (%) 8/	Sep-09	n.a.	5.3	6.0	n.a.	5.3	3.6	n.a.	3.6	7.6	2.9	1.2	5.6

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

2) Figure for China is in US dollar term; figure for Australia includes services; Aug-09 figure for Philippines: oct-09 for Korea

3) Figure for Australia includes services; Aug-09 figures for Indonesia, Philippines: oct-09 for Korea, Australia

4) Q209 Figure for Australia; Aug-09 figure for China, Hong Kong, India, Indonesia, Malaysia and Philippines

5) Not available for India and Philippines; 2Q09 for Malaysia. Aug-09 figure for 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 Indonesia; Aug-09 figures for India, Korea and Philippines

7) Figure for Hong Kong is only counted HK dollar M2; Jul-09 figure for Indonesia; Aug-09 figures for India, Korea, and Philippines

8) Not available for India, China, Indonesia; Q209 figure for Malaysia; Jul-09 figure for Philippines; Aug-09 figures for Thailand.

Source: CEIC & DataStream