

# Weekly Observatory

November 16<sup>th</sup>, 2009

## *Economic and Financial Market Highlights (7<sup>th</sup> -13<sup>th</sup> November 2009)*

**Exports in Asia continue to contract as external demand remains weak and slow to recover. Industrial production however, seems to be recovering as output figures in India and China revealed although this trend is not widespread in emerging Asia. Meanwhile, Hong Kong's economy expanded once more in the third quarter although the GDP figures were below the market's expectation while Indonesia's economy grew robustly for the second consecutive quarter. Consumer confidence tumbled in both Japan and Thailand which could signal weaker consumption going forward. On the policy front, Korea's central bank left interest rates unchanged as was expected. Strong gains in all Asia-Pacific's stock markets with the notable exception of the Japanese index which slipped slightly. As for FOREX markets, all the region's currencies appreciated against the US dollar over the week.**

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### Greater China

- **China's** industrial production climbed 16.1% year-on-year (yoy), accelerating from September's 13.9% yoy. Heavy industry continued to lead the overall industrial growth, with 18.1% yoy rise (September 14.8% yoy) driven by demand from investment spending. Light industry continued to exhibit a modest recovery, posting 11.3% yoy in October, slightly lower than the 11.8% in September

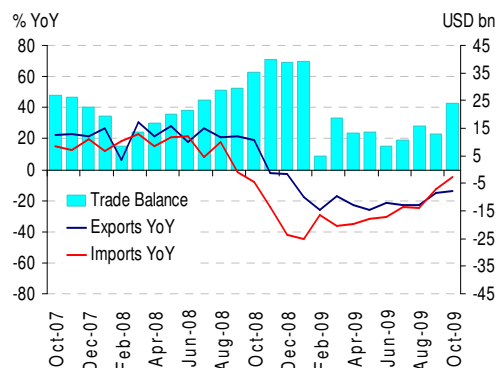
As for fixed asset investment (FAI), both nominal and real FAI registered a slower growth than September, with nominal growth at 31.6% yoy in October versus 35% yoy in September and real at 39.7% yoy in October versus 45.1% yoy in the previous month. For the January to October period, nominal fixed investment growth came in at 33.1% yoy, compared to 33.3% yoy in Jan-Sep 2009.

Meanwhile, nominal retail sales year-on-year growth picked up from 15.5% in September to 16.2% in October, largely pushed by strong sales of durable goods like auto sales, home decoration and electric appliances which are benefiting from the rise in housing sales.

Chinese exports growth contraction continued to narrow, posting -13.8% yoy in October from -15.2% in September, reflecting that overseas demand seems to be recovering. Meanwhile, import's year-on-year growth weakened to -6.4% in October from -3.5% in September. This sent China's surplus to US\$24 billion from US\$13 billion last month, its highest level since January. For the first ten months in 2009, trade surplus totaled to US\$160.6 billion.

As for inflation, China's October consumer price index (CPI) fell 0.5% yoy, compared to a 0.8% decline in September. Inflation in food prices remains at the same pace of 0.5% yoy as in September and contributed 0.5 percentage point to overall CPI. As for non-food prices, the contraction slowed from -1.3% yoy in September to -1.0% yoy in October, and contributed minus 1 percentage point to overall

China: Industrial Production



Source: CEIC

## CPI.

Chinese banks extended CNY253 billion of new loans in October, well below the CNY516.7 billion in September and also the lowest level in this year. The M2 growth rate was steady at 29.4% yoy from the 29.3% yoy rise at the end of September. Outstanding yuan loans at the end of October were up 34.19% from a year earlier, almost unchanged from the 34.16% rise at the end of September.

- **Hong Kong's** gross domestic product (GDP) declined by 2.4% in real terms from a year earlier, compared with the 3.6% decrease in the second quarter of 2009. Analyzed by major GDP component, private consumption expenditure increased marginally by 0.2% in real terms in the third quarter of 2009 from a year earlier, as against the 1.1% decline in the second quarter. Meanwhile, government consumption expenditure increased by 3.3% in real terms in the third quarter of 2009 over a year earlier, compared with the growth of 1.7% in the June quarter. As for gross fixed capital formation, it increased by 1.4% in real terms in the third quarter of 2009 from a year earlier, reverting from the 13.6% decline in the second quarter. Over the same period, exports decreased by 13.2% in real terms, compared with the 12.4% decline in the second quarter of 2009 while imports also decreased by 8.3% in real terms in the third quarter of 2009. Quarter-on-quarter (qoq), Hong Kong's economic recovery decelerated in the third quarter as gross domestic product rose a seasonally adjusted 0.4% from the three months, slowing from 3.3% expansion in the June quarter when the territory pulled out of recession.

- **Taiwan's** exports declined 4.7% year-on-year in October (Bloomberg: -7.2% yoy), a smaller decline than September's 12.7% yoy fall. Declines in exports to the US and Japan were partially offset by a rise in shipments to China. At the same time, imports slipped 6.7% over the same month the previous year (Bloomberg: -6.3% yoy), much slower than the 21.1% yoy decline seen in September. The trade surplus came in at USD3.23 billion, compared to USD2.55 billion in the prior month. Month-on-month, non-seasonally adjusted exports jumped 3.9%, having crept upwards 0.5% mom in September.

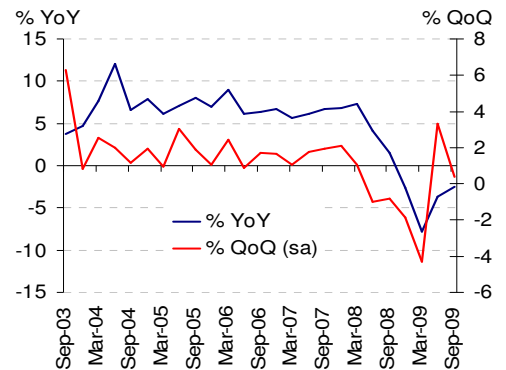
## India

- **India's** industrial production rose 9.1% from a year earlier; slowing from a revised 11% yoy expansion in August but above the market's forecast of a 7% yoy increase. Industrial output during September was buoyed by a 9.3% yoy expansion in manufacturing, down from 11% yoy in the previous month while output at mines slowed down its rate of increase 8.6% from 11% yoy. Over the previous month, industrial production increased a non-seasonally adjusted 2.6%, accelerating from August's 1.0% mom rise.

## Japan/Korea/Australia

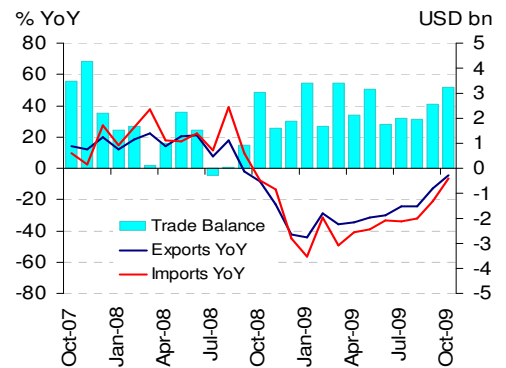
- **Japan's** core machinery orders rose a seasonally adjusted 10.5% from the previous month in September, improving on August's 0.5% mom rise. This increase in orders is due to strong demand from non-manufacturers, and from overseas customers. Over the previous year, core machinery orders dived 22% albeit improving on the previous month's 26.5% yoy plunge. Overall machinery orders, (including vessels and certain electrical machinery), rose a seasonally adjusted 6.0% over the previous month, reversing the

## Hong Kong: GDP



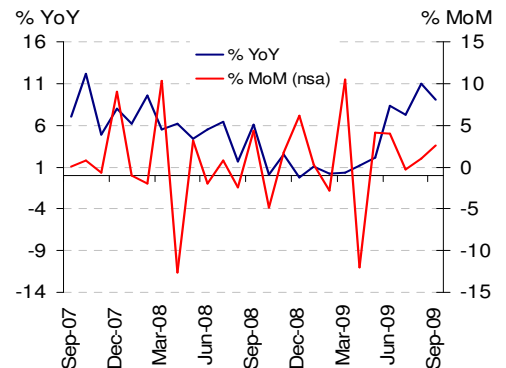
Source: CEIC

## Taiwan: External Trade



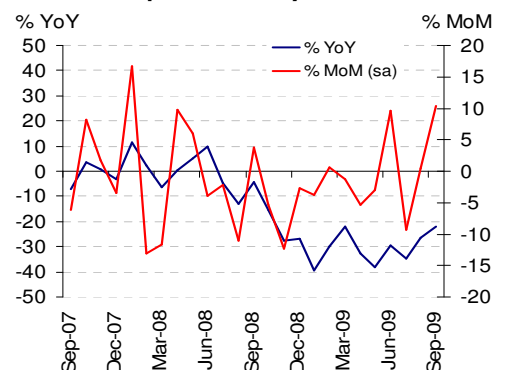
Source: CEIC

## India: Industrial production



Source: CEIC

## Japan: Machinery Orders



Source: CEIC.

1.9% mom decline of August. Meanwhile, machine tool orders plummeted 42.6 yoy in October, a vast improvement over September's 66.2% yoy crash. This improvement was led by higher order from abroad.

Japan's September current-account surplus unexpectedly widened by 0.2% over the same month last year, rising to JPY1.6 trillion (USD17.5 billion). The surplus' increase was led by a recovery in the country's trade balance, but low global interest rates and the strong yen continued to weigh on income from overseas investments. Exports slid 32.1% in September from a year earlier, less than August's 37.1% yoy slump while imports plummeted 37% yoy, compared with a 42.8% yoy plunge a month earlier. On a seasonally adjusted basis, the current-account surplus widened to JPY1.34 trillion in September.

Japan's consumer confidence index stood at 40.5 in October, unchanged from September after rising for the ninth straight month. Concerns among consumers about their job security six months ahead dragged the index downwards, offsetting a slightly more upbeat outlook for income growth and general economic well-being. As a result, Japanese authorities downgraded their assessments of future confidence as the pace of improvement in the economy slows.

- **Korea's** central bank held its benchmark rate at 2.0% for the ninth straight month as was expected and thus dashing expectations of any rate increases this year. The Bank of Korea stated that despite improving exports and domestic demand, uncertainty still remains over the recovery path and thus decided to maintain its accommodative stance.

Korea's seasonally adjusted unemployment rate dropped to 3.4% in October from 3.6% in the previous month and hitting a nine month low. The jobless rate decreased for the second consecutive month after remaining steady at 3.8% in July and August. The participation rate in October slipped to 60.7% from 61%. Unadjusted, the jobless rate dropped to 3.2% in October from 3.4% in the previous month.

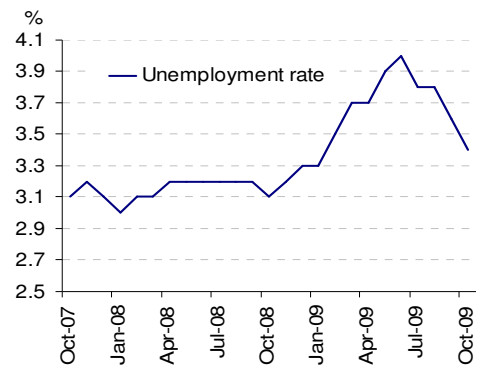
- **Australia's** seasonally adjusted unemployment rate edged up to 5.8% in October from 5.7% in the previous month. This spike in unemployment, however, was due to a surge of new job-seekers entering the labor market which outstripped the pace of new job creation. Australian authorities sharply upgraded its growth and jobs forecasts, tipping unemployment to peak at 6.75% in mid-2010, instead of the 8.5% flagged in the May budget.

## ASEAN

- **Singapore's** September retail sales index plunged 11.8% from a year earlier, a much steeper fall than the market's expectation of a 5% yoy slip. August's retail sales slid a revised 4.7% yoy. Excluding motor vehicles, retail sales fell 1.2% in September from a year earlier, after a 2.5 % yoy drop in August. Seasonally adjusted retail sales contracted 7.9% month-on-month in September, in stark contrast to the upwardly revised 5.4% growth in the previous month.

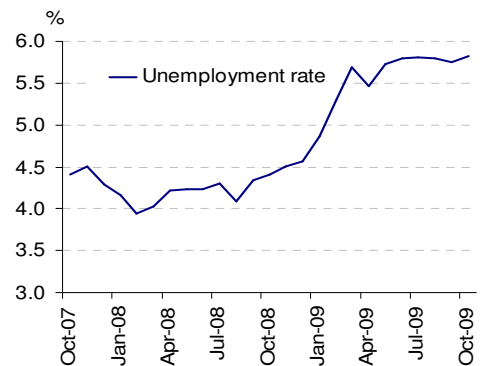
- **Malaysia's** industrial output dropped 6% year-on-year in September, a much sharper decline than the market's expectation of a 3.8% yoy slip but slower than a revised 7% fall in the previous month. On an annual basis, manufacturing output slipped 8.0% yoy,

**Korea: Unemployment (sa)**



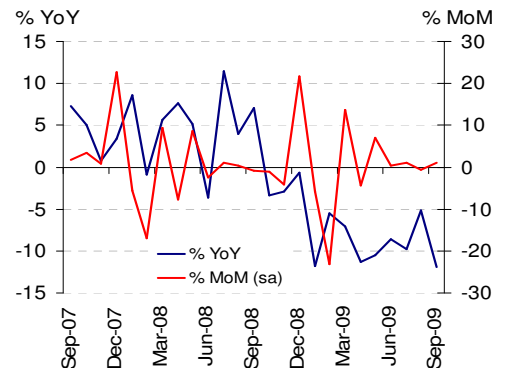
Source: CEIC.

**Australia: Unemployment (sa)**



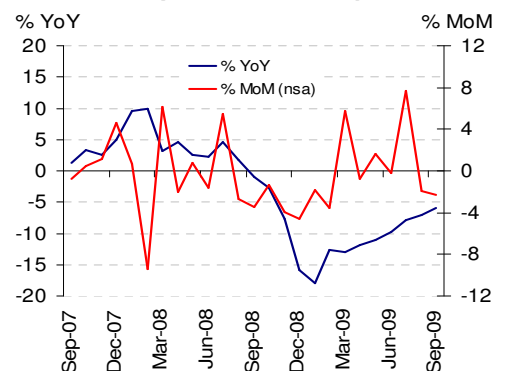
Source: CEIC

**Singapore: Retail Sales**



Source: CEIC

**Malaysia: Industrial Output**



Source: CEIC

accelerating from the previous month's 7.7% yoy slump, while mining output dropped 3% yoy, a smaller dip than August's 7.8% plunge. Month-on-month, non-seasonally adjusted industrial output declined 2.3% over August, when it slipped 1.9% mom.

Malaysian manufacturing sales dropped 20.4% year-on-year in September, after a revised 20.5% fall in August. By products, sales fell in steel and metal products and electronics. On a monthly basis, the sales value slipped a non-seasonally adjusted 0.2% in September, improving on the previous month's 1% mom fall.

- **Indonesia's** economy grew as the market was expecting, expanding 4.2 % in the third quarter from a year earlier after gaining 4% yoy in the previous three months. Consumer spending in the third quarter rose at an annual rate of 4.8%, falling slightly over the annual figure for the June quarter while Investment rose 4.0% yoy percent, compared with 2.7 for the second quarter. On a non-seasonally adjusted quarter-on-quarter basis, gross domestic product increased 3.9% in the third quarter, with almost all economic sectors reporting increases. The GDP growth in the June quarter was around 2.3%.

- **Philippine** exports dropped 18.3% on a yearly basis in September (Bloomberg: -18.0% yoy), slower than the revised 21% yoy fall in the previous month. Month-on-month, exports rose 4.6%, a smaller increase than the 4.9% rise in the preceding month. Overseas shipments of electronic products, the country's main export, slipped 13.2% year-on-year in September, after the revised 18.7% yoy drop in the previous month. On a monthly basis, electronic exports climbed 9.3%, following the 7.5% increase in the preceding month.

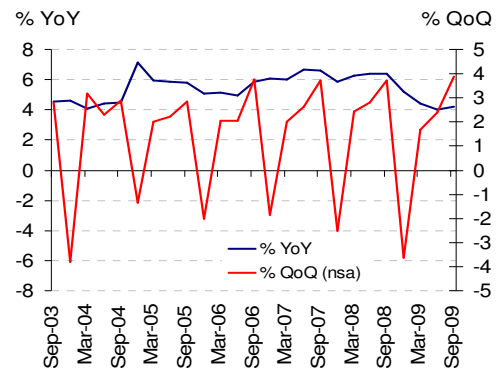
- **Thailand's** consumer confidence in October dropped for the first time in five months, dipping to 68.0 from 68.4 in September. The slip was due to concerns about higher oil prices, political uncertainty and the suspension by the judiciary of certain industrial projects which are part of the government's stimulus packet. Meanwhile, the index that measures economic expectations for the next 6 months inched-up slightly from 72.1 to 72.4, the fifth consecutive monthly rise.

## Asian Financial Markets

- Asia-Pacific stock markets reversed the previous week's losses with a strong performance over the week ended Friday. The biggest gains were posted in India with a 4.3% rise while the Philippine index climbed 3.5% and Australia and Singapore were both 2.6% up. Greater China stocks all performed positively, rising 3.5% in Hong Kong, 2.7% in Taiwan and 0.7% in China. Indonesia inched upwards 1.3% and Malaysia gained 0.8% whilst Korea and Thailand remained unchanged over the week. Japan was the only market that posted a loss, declining 0.2%.

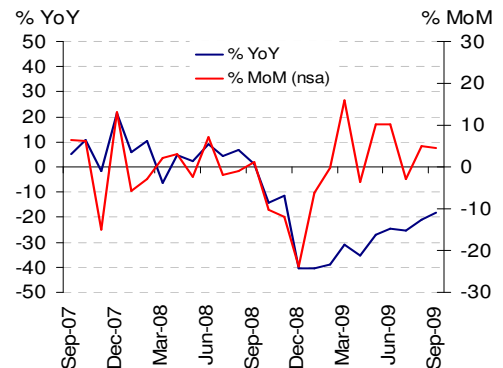
- Currencies in the region all gained against the US dollar. The Philippine peso appreciated 1.72%, the Australian dollar climbed 1.1% and the Indian rupee rose 1.01%. China's yuan and the Hong Kong dollar remained unchanged while the Indonesian rupee rose 0.90%, the Taiwan dollar gained 0.88% and the Korean won appreciated 0.85%. The smallest gains were posted by the Japanese yen (0.08%), the Thai baht (0.21%), the Singapore dollar (0.45%) and the Malaysian ringgit (0.68%).

### Indonesia: GDP Growth



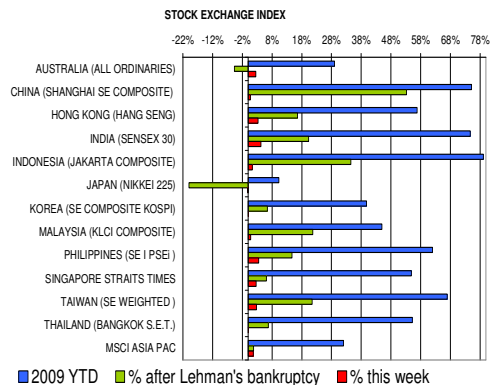
Source: CEIC

### Philippines: Exports



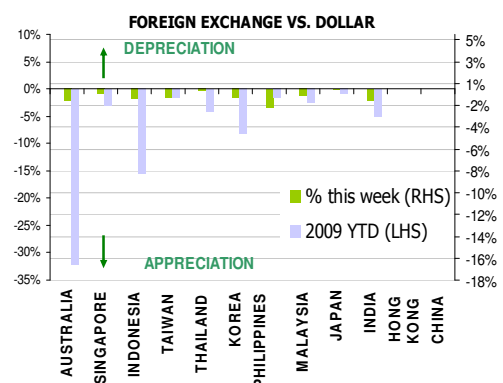
Source: CEIC

### 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	3178	3188	0.7	165.4
Hong Kong	Hang Seng	22411	22554	3.3	45.0
Taiwan	Taiwan Weighted	7627	7666	2.7	14.9
India	Sensex	16667	16849	4.3	20.2
Japan	Nikkei 225	9825	9770	-0.2	47.7
Korea	Seoul Composite	1580	1572	0.0	17.0
Indonesia	Jakarta Composite	2408	2427	1.3	1.8
Malaysia	KLSE Composite	1271	1271	0.8	1.6
Philippines	Philippines Composite	3014	3034	3.5	0.5
Singapore	Straits Times	2719	2727	2.6	5.0
Thailand	SET	707	698	0.0	3.2
Australia	All Ordinaries	4735	4723	2.6	26.3

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	6.79	6.61	6.59
Hong Kong	(HKD/USD)	7.75	7.75	0.00	7.75	7.75	7.73	7.73
Taiwan	(TWD/USD)	32.31	32.22	-0.88	31.97	31.82	31.18	30.98
India	(INR/USD)	46.45	46.34	-1.01	46.53	46.38	47.10	46.81
Japan	(JPY/USD)	89.95	89.81	-0.08	89.90	89.76	89.56	89.44
Korea	(KRW/USD)	1158.82	1156.50	-0.85	1159.55	1155.40	1167.65	1169.30
Indonesia	(IDR/USD)	9400.60	9375.00	-0.90	9483.90	9445.00	9936.20	9890.00
Malaysia	(MYR/USD)	3.38	3.38	-0.68	3.38	3.38	3.39	3.38
Philippines	(PHP/USD)	46.78	46.75	-1.72	47.09	47.06	47.48	47.45
Singapore	(SGD/USD)	1.39	1.39	-0.45	1.39	1.39	1.39	1.39
Thailand	(THB/USD)	33.31	33.28	-0.21	33.37	33.33	33.46	33.42
Australia	(USD/AUD)	0.93	0.93	1.10	0.92	0.92	0.89	0.89

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	1.42	-5	1.87	-3	-	n.a.
Hong Kong	0.06	1	0.15	-2	0.64	-9
Taiwan	0.17	0	0.61	0	0.93	0
India	3.50	13	4.43	-2	n.a.	n.a.
Japan	0.19	0	0.52	0	0.66	0
Korea	2.39	0	2.79	0	4.06	-3
Indonesia	6.48	4	7.14	6	7.69	8
Malaysia	2.04	0	2.16	0	2.23	1
Philippines	4.69	-13	4.50	6	4.38	6
Singapore	0.31	0	0.69	0	0.91	0
Thailand	1.26	0	1.36	0	1.72	1
Australia	3.78	7	4.00	4	-	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	3.12	-1
Hong Kong	0.04	-7	1.61	-12
Taiwan	0.31	-5	0.89	-3
India	3.24	7	7.08	-3
Japan	-	n.a.	0.63	-8
Korea	2.11	-6	4.84	-1
Indonesia	6.94	-54	9.34	-13
Malaysia	2.02	-2	3.82	-6
Philippines	4.06	1	6.51	6
Singapore	0.43	0	1.37	0
Thailand	1.60	-7	3.48	-15
Australia	4.25	0	5.34	-1

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
15-Nov-09	China	Actual FDI YTD YoY	OCT	-14.20%	-10.90%
15-Nov	Korea	Department Store Sales YoY	OCT	8.60%	-
15-Nov	Korea	Discount Store Sales YoY	OCT	-6.00%	-
16-Nov	Japan	Gross Domestic Product (QoQ)	3Q P	0.60%	0.70%
17-Nov	Japan	Tertiary Industry Index (MoM)	SEP	0.30%	0.10%
17-Nov	Singapore	Electronic Exports (YoY)	OCT	-14.40%	-10.50%
17-Nov	Singapore	Non-oil Domestic Exports (YoY)	OCT	-7.20%	1.00%
17-Nov	Singapore	Non-oil Domestic Exp SA (MoM)	OCT	3.00%	-0.70%
17-Nov	Hong Kong	Unemployment Rate SA	OCT	5.30%	5.30%
18-Nov	Philippines	Budget Deficit/Surplus	OCT	-27.5B	-
18-Nov	Australia	Westpac Leading Index (MoM)	SEP	1.10%	-
19-Nov	Singapore	GDP (YoY)	3Q F	0.80%	0.70%
19-Nov	Japan	BoJ Monetary Policy Meeting	19-Nov		
19-Nov	Japan	All Industry Activity Index (MoM)	SEP	0.90%	-0.20%
19-Nov	Japan	Leading Index CI	SEP F	86.4	-
19-Nov	Japan	Nationwide Dept. Sales (YoY)	OCT	-7.80%	-
19-Nov	Hong Kong	Composite Interest Rate	OCT	0.13%	-
20-Nov	Japan	BOJ Target Rate	20-Nov	0.10%	-
20-Nov	Japan	Convenience Store Sales YoY	OCT	-5.60%	-
20-Nov	Thailand	Customs Exports (YoY)	OCT	-8.50%	-3.80%
20-Nov	Thailand	Customs Imports (YoY)	OCT	-17.90%	-16.80%
20-Nov	Thailand	Customs Trade Balance	OCT	\$1980M	\$1819M
20-Nov	Hong Kong	CPI - Composite Index (YoY)	OCT	0.50%	1.20%
20-Nov	Malaysia	CPI YoY	OCT	-2.00%	-1.50%
20-Nov	Malaysia	GDP YoY%	3Q	-3.90%	-2.30%

Sources: Bloomberg and BBVA staff estimates.

**b) Economic Events**

Date	Country	Issue	Remarks
19 Nov	Japan	Cabinet Office November Monthly Economic Report	

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	-3.6	-7.5	6.1	-7.2	-2.2	4.0	-3.9	1.5	-3.5	-4.9	0.6
	3Q09	8.9	-2.4	n.a.	n.a.	n.a.	0.6	4.2	n.a.	n.a.	0.8	n.a.	n.a.
CPI inflation (% yoy) 1/	Sep-09	-0.5	0.5	-1.8	0.6	-2.2	2.0	2.6	-2.0	1.6	-0.4	0.4	1.5
Exports (in local currency) (% yoy) 2/	Sep-09	-13.8	-8.6	-4.4	-8.4	-30.6	-18.8	-15.1	-24.2	-16.0	-18.6	-8.4	-21.6
Trade balance (US\$ bn) 3/	Sep-09	24.0	-3.8	3.2	-7.8	5.7	3.8	2.2	2.7	-0.1	1.5	2.0	0.0
Industrial production (% yoy) 4/	Sep-09	16.1	-9.5	1.0	9.1	-18.4	11.0	0.1	-6.0	-3.4	-7.7	1.0	-3.8
Retail sales (% yoy) 5/	Sep-09	17.7	1.0	4.8	n.a.	0.9	-4.7	13.4	1.5	n.a.	-13.8	-6.7	4.9
Money supply (M2) (% yoy) 6/	Sep-09	29.4	14.4	7.6	14.3	3.3	10.7	16.4	7.5	5.3	11.3	7.6	6.9
Domestic credit (% yoy) 7/	Sep-09	34.2	-4.1	-1.1	23.2	1.5	7.2	11.2	7.2	1.7	8.3	2.9	1.7
Unemployment rate (%) 8/	Sep-09	n.a.	5.3	6.0	n.a.	5.3	3.4	n.a.	3.6	7.6	2.9	1.2	5.4

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

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

3) Figure for Australia includes services; Aug-09 figures for Indonesia and Philippines: Oct-09 for China, Taiwan, Korea and Australia

4) Q209 Figure for Australia; Aug-09 figure for Hong Kong and Indonesia.

5) Not available for India and Philippines; 2Q09 for Malaysia. Aug-09 figure for Thailand. Oct-09 figure for China

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; Oct-09 figure for China and Japan

7) Figure for Hong Kong is only counted HK dollar M2; Jul-09 figure for Indonesia; Oct-09 figure for China and Japan

8) Not available for India, China, Indonesia; Q209 figure for Malaysia; Jul-09 figure for Philippines; Oct-09 figure for Australia.

Source: CEIC & DataStream