

# Weekly Observatory

December 14<sup>th</sup>, 2009

## Economic and Financial Market Highlights (5<sup>th</sup> -11<sup>th</sup> December 2009)

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China's economic momentum remains strong as figures released this week reveal. Strong yearly growth in industrial output and retail sales coupled with accelerating consumer prices indicate robust growth in the fourth quarter. External demand continues to expand as improving export figures across Asia bring to light which in turn seems to be boosting industrial output in export dependant countries. On the negative side, Japan sharply revised downwards its economic growth for the third quarter and announced a new stimulus package for 2010 in an effort to support further growth. Korea's central bank left its policy rate unchanged, indicating it is likely to remain at its current record low level for the near future. As for financial markets, it was a mixed week for Asia-Pacific stock markets while most currencies posted slight depreciations against the US dollar.

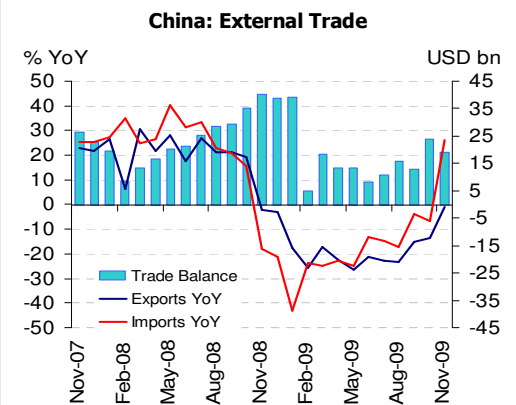
### Greater China

- **China's** overall industrial production's momentum remained strong in November, rising 19.2% year-on-year (yoy) and accelerating 16.1% yoy from the previous month. Heavy industry was the main growth drivers, expanding 22.2% yoy, a faster pace than October's 18.1% yoy increase. Light industry output rose 12.6% yoy in November, up from the previous month's 11.3% yoy climb. However, with the gradually recovering external demand, the growth in light industry will likely strengthen over the coming months.

During November, Chinese exports fell at a slower pace of -1.2% yoy as compared to the 13.8% yoy contraction posted in October. Imports soared by 26.3% yoy, reversing October's 6.4% yoy slump and expanding for the first time in a year. China's trade surplus narrowed to USD19.1 billion from USD24.0 billion last month. Unadjusted exports climbed 2.6 over the previous month, having fallen 4.5% month-on-month (mom) in October.

Nominal retail sales in China climbed by 15.8% yoy in November, marginally down from 16.2% yoy last month, while real retail sales growth slightly slowed down to 15.1% yoy from 16.8% yoy. Sales of automobile as well as commodities which were benefited from the hike in housing sales (i.e. household appliances, furniture and house decoration materials) continued to be the main driver for retail sales.

Chinese fixed asset investment (FAI) posted lower a growth rates in both nominal and real terms over the previous year in November. Nominal FAI rose 24.3% yoy, down from the previous month's 31.6% yoy while real FAI rose 26.9% yoy as compared to October's 39.8% yoy surge. Chinese authorities reaffirmed this week their focus on industrial restructuring, which would suggest further moderation in FAI growth in the near future.



Source: Datastream

Consumer prices expanded for the first time on a yearly basis in ten months when the inflation inched upwards by 0.6% yoy in November as compared to the 0.5% yoy dip registered last month. This rise was mainly bolstered by the impact of heavy snow on food prices and energy consumption. Food inflation accelerated 3.2% yoy compared to 1.6% yoy in October and contributed 1.1 percentage points to overall CPI growth while non-food inflation contracted 0.7% yoy, below the previous month's 1.6% yoy and pushed overall inflation 0.5% percentage points down.

- **Hong Kong's** official foreign currency reserve assets amounted to USD256.3 billion by the end of November, up from USD240.1 billion in the previous month. The total foreign currency reserve assets represent about ten times the currency in circulation or 55% of Hong Kong dollar M3 and make Hong Kong the seventh largest holder of foreign currency reserve assets.

- **Taiwan's** exports expanded for the first time in fifteen months on a year-on-year basis in November when overseas shipments jumped 19.4% (Bloomberg: 18.7% yoy) following October's 4.7% yoy drop. A surge in exports to Hong Kong and Mainland China while the drop in shipments to the US narrowed substantially. Imports meanwhile, rose 17.90% yoy, reversing the previous month's 6.7% yoy slump and above the market forecast of a 12% yoy rise. As a result, Taiwan's trade surplus narrowed to USD2.11 billion in November from USD3.3 billion in the previous month. Over the previous month, unadjusted exports climbed 1.0%, slowing from October's 3.9% mom rise

Inflation meanwhile, slowed down its decline in November as Taiwan's consumer price index contracted by 1.59% yoy (Bloomberg" -1.0% yoy) from the previous month's revised 1.87% yoy. Despite higher transportation costs due to rising oil prices, prices slipped on the back of falling food and travel price. On a monthly basis, the seasonally adjusted CPI fell 0.75% in November, reversing October's 0.41% mom climb.

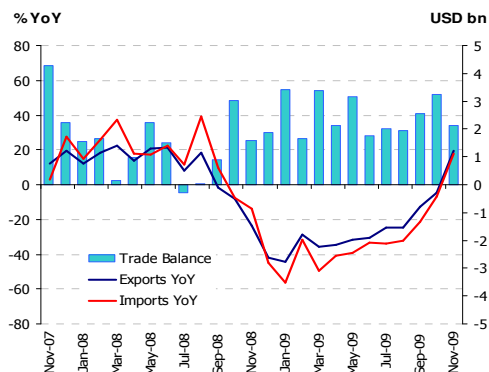
**India**

- **India's** industrial production growth accelerated in October as output in factories, utilities and mines surged 10.3% in October from a year earlier (Bloomberg: 12% yoy) after gaining a revised 9.6% yoy in September. Growth was driven by the manufacturing sector, which expanded 11.1% yoy, accelerating from September's 10% yoy growth. Month-on-month, however, output shrank an unadjusted 4.2% after two consecutive months of expansion.

**Japan/Korea/Australia**

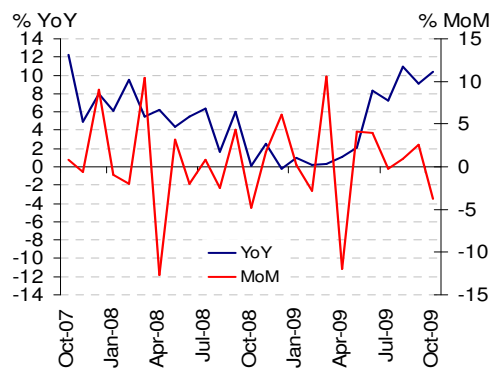
- **Japan** revised downwards its GDP estimate for the third quarter, reducing the seasonally adjusted quarter-on-quarter growth to 0.3% from the 1.2% qoq expansion reported last month and worse than the market's forecast of a 0.6% qoq growth rate. In annualized terms, GDP growth was slashed to a 1.3% pace compared with the previous 4.8% reading. The revision came as capital investment was revised down to reveal a contraction of 2.8% qoq from an original estimate of 1.6% qoq growth. The Japanese government announced a fresh stimulus package worth USD274 billion (1.5% of GDP), with USD80 billion in direct spending, that includes environmental programmes, assistance for small businesses and help to local communities in an attempt to sustain economic growth

**Taiwan: External Trade**



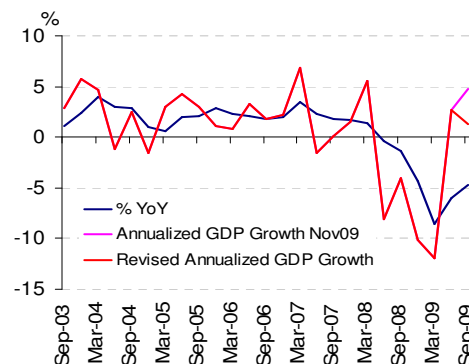
Source: CEIC

**India: Industrial Production**



Source: CEIC.

**Japan: Revised GDP**



Source: CEIC.

As for the external sector, Japan's current account surplus expanded 42.7% to JPY1.3 trillion (Bloomberg: JPY1.8 trillion) from a year earlier in October, soaring in comparison to the September's 0.2% yoy climb. This surge in the current account is explained by the sharp rise in the trade balance surplus while the capital and financial account outflows have fallen sharply over the previous year.

Japanese machinery orders dropped at their slowest yearly rate in fifteen months in October, falling 12.2% yoy (Bloomberg: -21% yoy) and improving on the previous month's 26.6% yoy plunge. Month-on-month, seasonally adjusted machinery orders climbed 3.2% slightly below the October's 6% mom increase and rising for the second consecutive month. This deceleration in orders is due to a fall in domestic demand, which slipped 3% mom and was partly offset by a 15.3% mom rise of foreign orders. Japanese core machinery orders (excluding vessels and certain electrical equipment) dipped a seasonally adjusted 4.5% month-on-month, reversing the previous month's 10.5% mom jump. Meanwhile, a hike in orders for machine tools from abroad reduced the rate of contraction to 8.6% yoy in November, which represents a vast improvement over the previous month's 42.5% collapse.

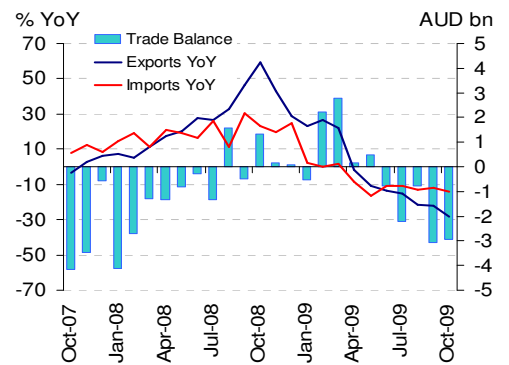
Japan's consumer confidence index posted the first drop in 11 months, falling to 39.5 in November from 40.5 in October, as more people became concerned about their job security and incomes six months ahead. Among the consumer confidence index's components, the sub-index for sentiment on consumers' overall livelihood dipped to 40.4 in November from 40.9 in October, the first drop in 11 months. The income growth sub-index fell in November to 37.7 from 38.7 in the previous month, the first drop in nine months, while the employment conditions sub-index slumped to 35.0 from 36.1, down for the second consecutive month. Finally, the sub-index for willingness to buy durable goods tumbled to 44.8 from 46.3 after a brief rise in October.

- **Korea's** central bank left its benchmark interest rate unchanged at an all-time low 2% for a tenth consecutive month citing a nascent economic recovery, and vowed to persist with its loose monetary policy for the time being. The Bank of Korea warned that despite a recovery in consumption and external demand, there still remains uncertainty over the path of the economic recovery.

- **Australia** posted a seasonally adjusted trade deficit of AUD2.38 billion in October, missing the forecast for an AUD1.81 billion shortfall, The country's trade deficit widened from September's AUD1.85 billion. Exports were down a seasonally adjusted 3.5 % on month following September's 4.5% mom rise while seasonally adjusted imports dipped 0.8%, having risen 5.2% mom in September. Year-on-year, overseas shipments accelerated their decline for the third consecutive month, slumping 28.5%.

Australian consumer confidence fell in December on the back the third rate hike carried out by the central bank. The sentiment index dropped 3.8 % to 113.8 points over the previous month and is currently 1.5% below the trend, indicating that consumers have a pessimistic outlook. Australia's unemployment rate, meanwhile, fell to a lower-than-expected seasonally adjusted 5.7% in November from 5.8% in October and beat forecast of a rise to 5.9% thanks to a surge in new posts in the private sector. As for the labor force participation

**Australia: External Trade**



Source: CEIC

rate, it slipped to a seasonally adjusted 65.2% from October's 65.3%

**ASEAN**

- **Malaysia** industrial output expanded on a yearly basis for the first time in over a year in October, when industrial production increased 0.7% year-on-year as compared to a revised 6% fall in the previous month. Increased external demand has bolstered production of mineral, petroleum, chemical, rubber and plastic products. On a month-on-month basis, unadjusted output climbed 5.7% in October, after falling 2.4% in September.

- **Philippine** exports fell the least in 13 months in October as the global economic recovery and year-end spending helped revive demand for Asia's electronics goods. Shipments abroad dropped 8.3% from a year earlier (Bloomberg: -12.5% yoy) to USD3.66 billion after plunging 18.2% yoy in September. Month-on-month, unadjusted exports edged upwards 0.7%, rising for the third consecutive month albeit at a slower pace as compared to September's 4.7% mom increase and August's 4.9% mom rise.

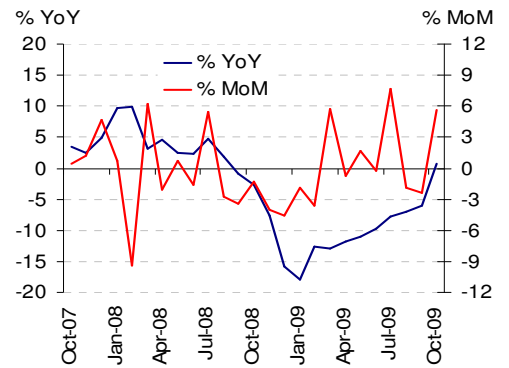
- **Thai** consumer confidence improved in November, rising to 76.5 from 74.4 in the previous month (neutral outlook = 100). Confidence in the economy continued rising in both the present and in the near future as did job prospects and income expectations. Furthermore, Thai consumers are feeling more inclined to invest in durable goods and in housing. The rise in confidence is attributed to signs of economic recovery and the government's economic stimulus spending.

**Asian Financial Markets**

- Mixed week for Asia-Pacific stock markets. The highest gains were recorded in the Korean stock exchange, which climbed 2% over the week ending Friday while the Taiwanese index rose 1.9% and Japanese bourse inched upwards 0.9% over the same period. The biggest losses were posted in Hong Kong where the reference index slipped 2.6% and was followed by China (-2.1%), Australia (1.5%) and Philippines (-1.1%).

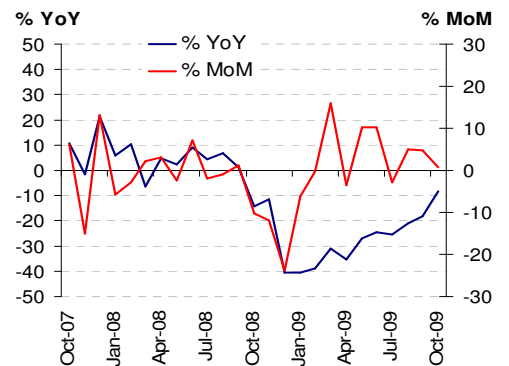
- Most currencies in the region depreciated against the US dollar over the week. The notable exception was the Australian dollar which appreciated just over 1%. The Korean won was the worst performer, slipping 0.95% and was followed by the Japanese yen (-0.71%), the Indian rupee (0.64%) and the Malaysian ringgit while the Greater China currencies recorded slight losses.

**Malaysia: Industrial Production**



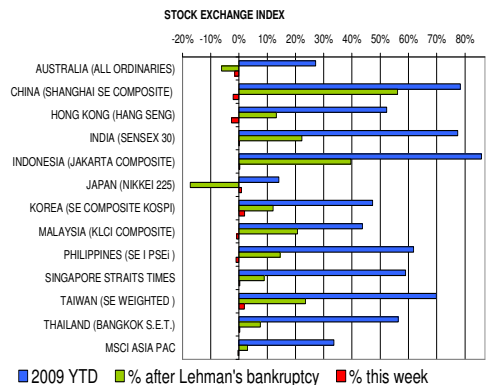
Source: CEIC

**Philippines: Exports**



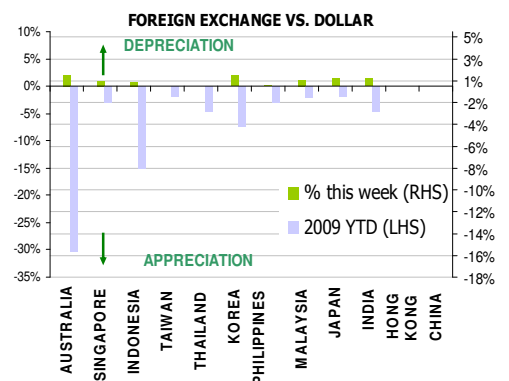
Source: CEIC

**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 US\$ bn
		Level	Level	% change over a week		
China	Shanghai Composite	3274	3247	-2.1		146.7
Hong Kong	Hang Seng	21946	21902	-2.6		45.8
Taiwan	Taiwan Weighted	7763	7795	1.9		22.2
India	Sensex	17129	17119	0.1		16.6
Japan	Nikkei 225	10057	10108	0.9		63.9
Korea	Seoul Composite	1641	1657	2.0		21.8
Indonesia	Jakarta Composite	2491	2519	0.3		1.1
Malaysia	KLSE Composite	1260	1260	-0.8		1.2
Philippines	Philippines Composite	3016	3031	-1.0		0.5
Singapore	Straits Times	2796	2801	0.3		4.9
Thailand	SET	699	704	0.3		1.4
Australia	All Ordinaries	4662	4651	-1.5		21.4

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	6.82	6.65	6.67
Hong Kong	(HKD/USD)	7.75	7.75	0.01	7.74	7.74	7.73	7.72
Taiwan	(TWD/USD)	32.27	32.18	0.04	31.89	31.77	31.13	31.03
India	(INR/USD)	46.60	46.56	0.64	46.68	46.63	47.29	47.32
Japan	(JPY/USD)	88.75	88.94	0.71	88.70	88.89	88.30	88.48
Korea	(KRW/USD)	1160.06	1163.93	0.95	1162.59	1164.35	1171.94	1173.45
Indonesia	(IDR/USD)	9458.20	9448.00	0.35	9545.00	9523.50	9989.85	9990.50
Malaysia	(MYR/USD)	3.40	3.40	0.55	3.40	3.40	3.40	3.41
Philippines	(PHP/USD)	46.20	46.13	0.07	46.58	46.52	47.21	47.20
Singapore	(SGD/USD)	1.39	1.39	0.52	1.39	1.39	1.39	1.39
Thailand	(THB/USD)	33.14	33.11	0.00	33.16	33.13	33.25	33.22
Australia	(USD/AUD)	0.91	0.92	-1.03	0.90	0.91	0.88	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 <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	1.50	-1	3.50	165	-	n.a.
Hong Kong	0.05	0	0.10	-1	0.53	-1
Taiwan	0.17	0	0.61	0	0.93	0
India	3.27	-11	4.27	-15	n.a.	n.a.
Japan	0.17	-1	0.47	-1	0.61	-1
Korea	2.39	1	2.79	0	3.96	1
Indonesia	6.45	0	7.16	5	7.68	3
Malaysia	2.03	0	2.17	0	2.27	0
Philippines	5.50	-113	5.06	-6	4.88	0
Singapore	0.31	10	0.69	0	0.91	0
Thailand	1.26	0	1.35	0	1.70	-1
Australia	3.98	10	4.18	13	-	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	1.25	0	2.97	-5
Hong Kong	0.04	1	1.55	-2
Taiwan	0.16	-5	0.91	2
India	3.24	-6	7.11	5
Japan	-	n.a.	0.49	0
Korea	2.22	8	4.76	
Indonesia	6.78	5	8.93	-9
Malaysia	2.00	-2	3.76	-1
Philippines	4.17	11	6.22	-4
Singapore	0.53	7	1.30	-2
Thailand	1.52	2	3.52	-3
Australia	4.31	11	5.20	16

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
14-Dec	Japan	Tankan Lge Manufacturers Index	4Q	-33	-27
14-Dec	Japan	Tankan Lge Mfg Outlook	4Q	-21	-22
14-Dec	Japan	Tankan Non-Manufacturing	4Q	-24	-23
14-Dec	Japan	Tankan Non-Mfg Outlook	4Q	-17	-20
14-Dec	Japan	Tankan Large All Indust Capex	4Q	-10.80%	-11.30%
14-Dec	China	Actual FDI YTD YoY	NOV	-12.60%	-9.10%
14-Dec	Indonesia	Wholesale Price Index (YoY)	OCT	-	-
14-Dec	Japan	Industrial Production (MoM)	OCT F	0.50%	-
14-Dec	Japan	Industrial Production YOY%	OCT F	-15.10%	-
14-Dec	Japan	Capacity Utilization (MoM)	OCT F	1.60%	-
14-Dec	India	Monthly Wholesale Prices YoY%	NOV	1.34%	4.26%
14-Dec	Hong Kong	Industrial Production (YoY)	3Q	-9.50%	-
15-Dec	Korea	Department Store Sales YoY	NOV	11.40%	-
15-Dec	Korea	Discount Store Sales YoY	NOV	4.50%	-
15-Dec	Australia	Dwelling Starts	3Q	-3.70%	6.00%
15-Dec	Australia	Reserve Bank's Board December Minutes	15-Dec		
15-Dec	Philippines	Unemployment Rate	OCT	7.60%	-
15-Dec	Singapore	Retail Sales (YoY)	OCT	-11.80%	-
16-Dec	Japan	Tertiary Industry Index (MoM)	OCT	-0.50%	0.50%
16-Dec	Australia	Gross Domestic Product (QoQ)	3Q	0.60%	0.40%
16-Dec	Australia	Gross Domestic Product (YoY)	3Q	0.60%	0.70%
16-Dec	Korea	Unemployment Rate (SA)	NOV	3.40%	-
16-Dec	Japan	Machine Tool Orders (YoY)	NOV F	-8.60%	-
17-Dec	Singapore	Electronic Exports (YoY)	NOV	-13.80%	-
17-Dec	Singapore	Non-oil Domestic Exports (YoY)	NOV	-6.10%	-
17-Dec	Philippines	Balance of Payments	NOV	\$896M	-
17-Dec	Philippines	Overnight Borrowing Rate	17-Dec	4.00%	4.00%
17-Dec	Hong Kong	Unemployment Rate SA	NOV	5.20%	5.10%
18-Dec	Japan	BOJ Target Rate	18-Dec	0.10%	-

Sources: Bloomberg and BBVA staff estimates.

**b) Economic Events**

Date	Country	Issue	Remarks
17-Dec	Japan	BOJ to Hold Regular Policy Board 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	-8.9	-4.2	4.4	-6.2	0.6	-9.5	-7.1	0.3
	2Q09	7.9	-3.6	-7.5	6.1	-5.8	-2.2	4.0	-3.9	0.8	-3.3	-4.9	0.6
	3Q09	8.9	-2.4	n.a.	7.9	-5.1	0.9	4.2	-1.2	0.8	0.6	-2.8	n.a.
CPI inflation (% yoy) 1/	Oct-09	0.6	2.2	-1.6	1.3	-2.5	2.4	2.4	-1.5	2.8	-0.8	1.9	1.5
Exports (in local currency) (% yoy) 2/	Oct-09	-1.2	-13.1	16.8	-10.3	-23.2	-0.5	3.9	1.6	-10.6	-8.9	-4.1	-29.1
Trade balance (US\$ bn) 3/	Oct-09	19.1	-2.5	2.1	-8.8	8.9	4.0	2.2	3.4	0.0	2.4	1.8	0.0
Industrial production (% yoy) 4/	Oct-09	19.2	-9.5	6.6	10.3	-15.1	0.2	-0.3	0.7	-4.8	3.6	-0.5	-3.8
Retail sales (% yoy) 5/	Oct-09	15.8	8.1	7.9	n.a.	1.7	-7.9	24.3	4.4	n.a.	-13.8	-0.8	4.9
Money supply (M2) (% yoy) 6/	Oct-09	29.6	14.6	6.8	14.3	3.3	10.2	16.4	9.7	5.3	9.2	7.0	5.6
Domestic credit (% yoy) 7/	Oct-09	33.8	-5.0	-2.0	23.2	0.2	3.5	11.2	7.5	1.7	6.5	2.3	1.1
Unemployment rate (%) 8/	Oct-09	n.a.	5.2	6.0	n.a.	5.1	3.4	n.a.	3.6	7.6	2.9	1.2	5.2

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

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

3) Figure for Australia includes services; Aug-09 figures for Indonesia; Sep-09 figure for Philippines. Nov-09 figure for China, Taiwan, Korea and Australia

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

5) Not available for India and Philippines; 3Q09 for Malaysia. Sep-09 figure for Indonesia, Singapore, Thailand and Australia. Nov-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; Sep-09 figure for India and Philippines; Nov-09 figure for China and Japan

7) figure for Hong Kong is only counted HK dollar M2; Jul-09 figure for Indonesia; Sep-09 figure for India and Philippines; Nov-09 figure for China and Japan

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

Source: CEIC & DataStream