

Weekly Observatory

December 21st 2009

Economic and Financial Market Highlights (12th -18th December 2009)

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Retail sales and overseas shipments in the region continue to recover, boosting industrial output and business confidence. Australia's real GDP growth slowed down in the September quarter to 0.2% over a quarter ago, below market forecast albeit growth momentum in domestic demand remains strong. Inflation in India accelerated in November, whereas the Bank of Japan and the Philippines' central bank left their benchmark interest rate unchanged, in line with market's expectations on the back of subdued inflation outlook. Asia-Pacific stock markets ended the week trading lower over the previous Friday while all Asian currencies depreciated against the US dollar, on the back of broad-based dollar strength.

Greater China

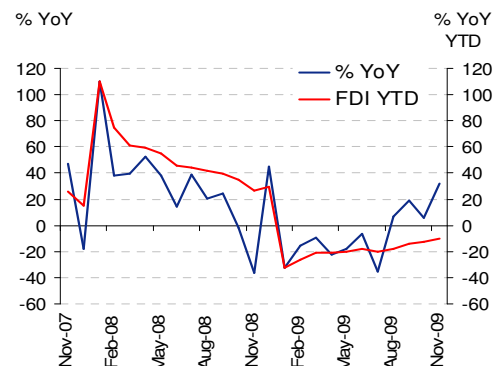
- **China's** foreign direct investment (FDI) inflows increased for the fourth consecutive month on a year-on-year (yoy) basis in November, rising 32.0% yoy and follows the previous month's 5.7% yoy climb. November's growth partly resulted from the low figures last year, which had brought down the comparison base. FDI in the January-November period totaled USD77.9 billion, down 9.9% from a year earlier (Bloomberg: -9.1% yoy), a narrower fall than the January-October period's 12.6% yoy decline.
- **Hong Kong's** index of industrial production for the manufacturing sector went down by 8.6% in the third quarter compared with a year earlier, following a 9.5% yoy decrease in the June quarter. Comparing the third quarter with a year earlier, declines in manufacturing output were recorded for all industry groups and were especially severe in the apparel and textile industries. On a seasonally adjusted basis, overall industrial production moved down by 1.9% in the third quarter as compared with the second quarter (qoq), when output edged upwards 1.1% qoq. Meanwhile, the producer price index fell by 2.0% in the third quarter compared with a year earlier, following a 3.0% yoy decrease in the second quarter due to drops in textile and paper product prices. Comparing the third quarter with the previous quarter, the unadjusted producer price index for the manufacturing sector as a whole edged up by 0.1% qoq, slowing down from the 0.3% qoq increase in the second quarter.

Meanwhile, Hong Kong's seasonally adjusted unemployment rate stood at 5.1% in the September to November period, slightly down from 5.2% in the three months to October and in line with markets expectations. The drop in the jobless rate was due to more jobs being available, partly due to the economic recovery and partly due to employers taking on staff for the end of year holiday period. Looking ahead, unemployment rate has likely peaked in 2009 and it is expected to gradually decline.

India

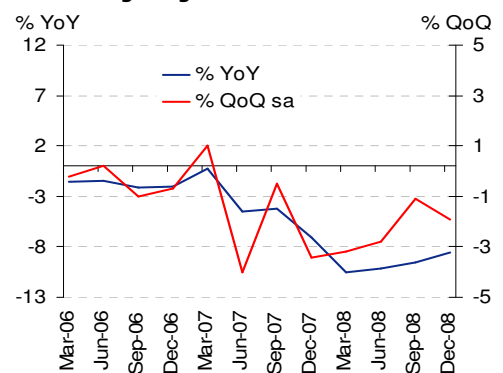
- **India's** annual rate of inflation, based on the Wholesale Price Index

China: Foreign Direct Investment (FDI)



Source: CEIC

Hong Kong: Industrial Production



Source: CEIC

(WPI), for the month of November stood at 4.8% (Bloomberg: 4.3% yoy), higher than 1.3% yoy in the preceding month. Inflation has been largely driven by rising food prices although all three subcomponents (primary articles, energy and manufactures) posted price rises over a year ago. Over the previous month, unadjusted WPI measured inflation rose 1.3%, reversing October's 0.2% mom contraction.

Japan/Korea/Australia

- **Japan's** central bank left its benchmark interest rate unchanged at "around 0.1%" as the market expected in its scheduled policy board meeting. The Bank of Japan expects Japanese economy to remain in deflation for the next three fiscal years. To help the country out of deflation, Bank of Japan announced last week a new 10-trillion-yen (USD120 billion) program to lend 3-month funds at its overnight call-rate target of 0.1%, accepting Japanese government bonds, corporate bonds, commercial paper, and deeds on loans as collateral.

Japan's quarterly TANKAN survey of business confidence revealed that confidence improved for the third sequential quarter in the last quarter of the year. The results were better than expected, albeit outlook is still bleak as evidenced by downward revisions for sales forecasts and further cuts to capital investment plans, especially by larger enterprises, in fiscal year 2009. The headline diffusion index in the corporate sentiment survey showed that conditions among large manufacturers rose to -24 in December from -33 in the September survey while sentiment among large non-manufacturers also improved to -22 in December from a reading of -24 three months prior. A negative figure implies that pessimists outnumber optimists.

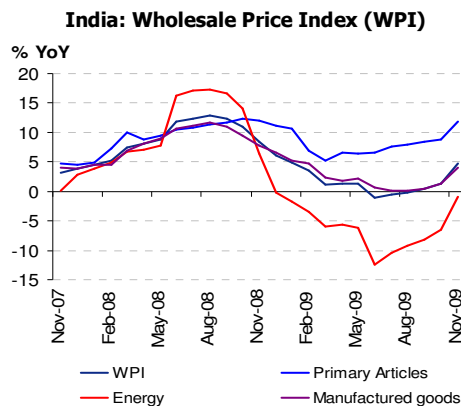
On the other hand, Japan's tertiary industry index, which measures spending in the services sector, met the market's forecast, rising a seasonally adjusted 0.5% in October from the previous month. This is the first month-on-month rise since July after a revised 0.6% slip in September. Activity increased in most sectors while drops in activity were posted in professional services and pleasure and amusement. From a year earlier, the index fell 4.7% in October after declining a revised 5.1% yoy in September, posting the 15th consecutive month of on-year drops.

- **Korea's** seasonally adjusted unemployment rate increased slightly to 3.5% in November from 3.4% in the previous month as jobs were shed during the month while seasonally adjusted labour force participation rate remained unchanged at 60.7%.

Meanwhile, sales at Korean department stores rose for the ninth consecutive month in November, climbing 6.4% yoy, down on the previous month's 11.4% yoy increase. Sales of household goods, luxury goods and food were the main drivers behind the improved sales figures. Discount store sales, however, contracted 2.8% yoy, partly reversing October's 4.5% yoy increase.

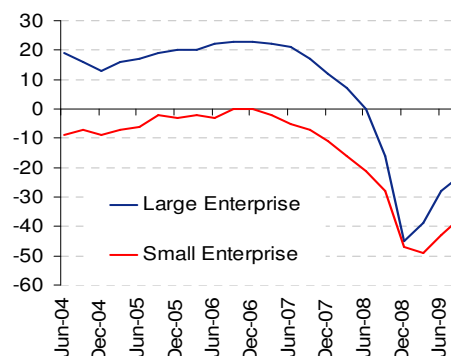
- **Australia's** economy grew 0.2% quarter-on-quarter (qoq) after seasonal adjustment (sa), slowing its expansion pace from 0.6% qoq in previous quarter. The economy expanded less than our and the market's forecasts (BBVA: 0.3% qoq; 0.6% yoy; Bloomberg: 0.4% qoq; 0.7% yoy). Private consumption and public investment offset the fall in business investment and net exports during the quarter. Adding to the signs of recovery in the construction sector, Australian dwelling rose by 9.4% qoq sa in the quarter ending September, from an upwardly revised 1.9% qoq sa slip in the previous quarter and beating the market forecast of a 6.0% qoq sa increase. Year-on-year, dwelling starts contracted 5.1%, the slowest yoy drop for the last five quarters.

In monetary policy, the Reserve Bank of Australia (RBA) released the minutes of its December 1st meeting in which the policy board decided to



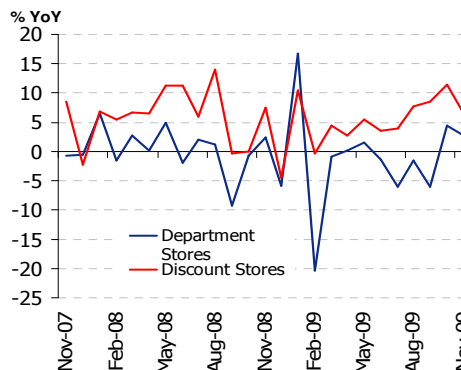
Source: CEIC.

Japan: TANKAN Business Confidence



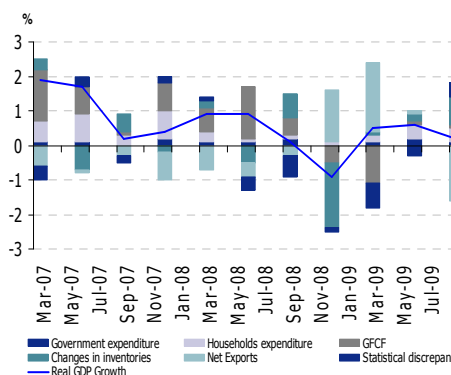
Source: CEIC.

Korea: Selected retail sales



Source: CEIC

Australia: GDP



Source: CEIC

hike borrowing cost by 25 basis points to 3.75%. The RBA considers interest rate to be "back in the normal range" after lenders raised business and home-loan rates by more than the central bank has increased the overnight cash rate target. Furthermore, the central bank signaled that its three interest rate hikes since October give it "greater flexibility" at future policy meetings, implying that it could slow the pace of policy tightening by pausing in the next scheduled meeting in February.

ASEAN

- **Singapore's** non-oil domestic exports (NODX) rose 8.7% from a year earlier, following October's revised 6.2% yoy slump due to stronger shipments of pharmaceuticals and a pickup in demand from Europe and China. This is the first year-on year rise since May 2008. Electronic exports fell 6.1% yoy improving from a decline of 13.8% in October. Non-electronic exports rose 19% yoy (Oct: -0.6% yoy), due to higher shipments of pharmaceuticals, petrochemicals and civil-engineering equipment parts. On a seasonally adjusted month-on-month basis, NODX expanded 19.8%, a sharp improvement on October's revised 12.7% mom plunge.

Meanwhile, the retail sales index dropped 4.4% yoy (Bloomberg: -3% yoy) after sliding a revised 12% yoy in September boosted by motor vehicle sales. This is the smallest contraction in year-on-year sales in 10 months. Excluding motor vehicles, retail sales fell 0.8% yoy in October, narrowing from a revised 1.5% yoy drop in September. Adjusted for seasonal factors, October's sales gained 6% over the previous month, when sales dropped 8% mom.

- **Philippine's** central bank kept its key overnight interest rates unchanged at 4% for a fourth straight rate-setting session, as per market's expectations. Furthermore, the central bank left its repurchase rate steady at 6%. The monetary board believes the current monetary policy settings are appropriate given the favorable inflation outlook due to muted demand and supply pressures as well as a strong peso.

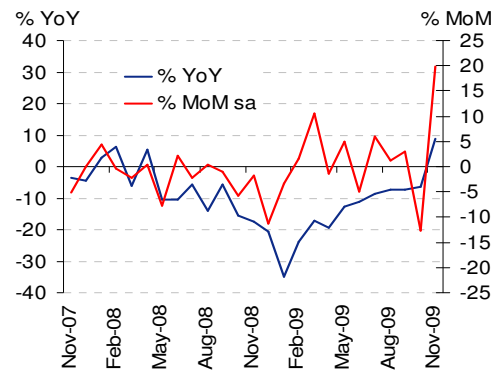
Further, unemployment in the Philippines dropped to 7.1% in the quarter ending October as compared to the 7.6% jobless rate posted for the previous quarter. The drop in registered unemployment was mostly attributed to a drop in the labour force participation rate to 64% from 64.4% in July.

Asian Financial Markets

- Negative week for the stock markets, dragged down by falls in other international markets and downbeat investors' sentiment. China's benchmark index was the worst performer, slumping 4.1% over the week ending Friday, Hong Kong's stock market fell 3.3% and India's slipped 2.3% in the same period. The strongest gains were posted in the Thai index by 1.7%, followed by 0.4% in the Australian index and 0.3% in Japan's. Malaysia and Indonesia had shorter trading weeks than peers as they remained closed on Friday.

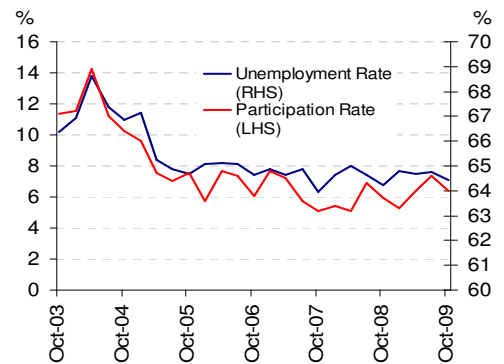
- All the region's currencies depreciated against the US dollar over the week, on the back of broad-based dollar strength. The Australian dollar depreciated 2.86%, followed by the Japanese yen 1.51% while Malaysian ringgit and the Philippine peso both weakened by 1.07%. The Korean won depreciated 0.92% of its value and was closely followed by the Singapore dollar (-0.89%), the Taiwan dollar (-0.61%) and the Indonesian rupee (-0.60%).

Singapore: NODX



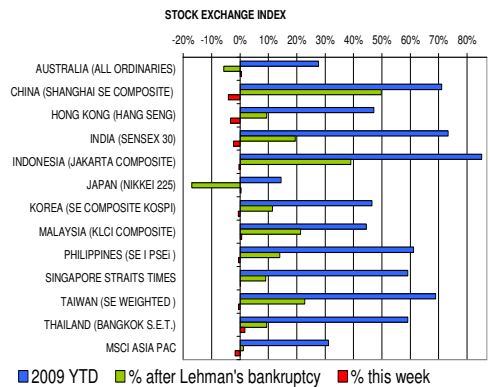
Source: CEIC

Philippines: Unemployment Rate



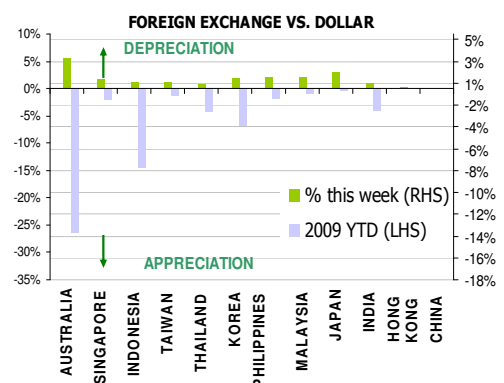
Source: CEIC

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	Level	
China	Shanghai Composite	3225	3114	-4.1		130.9
Hong Kong	Hang Seng	21607	21176	-3.3		43.5
Taiwan	Taiwan Weighted	7775	7754	-0.5		18.5
India	Sensex	16900	16720	-2.3		15.1
Japan	Nikkei 225	10134	10142	0.3		55.5
Korea	Seoul Composite	1658	1647	-0.6		19.8
Indonesia	Jakarta Composite	2509	2510	-0.4		1.1
Malaysia	KLSE Composite	1268	1267	0.6		1.0
Philippines	Philippines Composite	3037	3017	-0.5		0.3
Singapore	Straits Times	2806	2803	0.1		4.4
Thailand	SET	713	716	1.7		2.2
Australia	All Ordinaries	4679	4672	0.4		27.5

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	6.82	6.82	6.69	6.70
Hong Kong	(HKD/USD)	7.75	7.76	0.09	7.75	7.75	7.73	7.74
Taiwan	(TWD/USD)	32.32	32.37	0.61	31.95	31.97	31.19	31.19
India	(INR/USD)	46.76	46.77	0.46	46.88	46.95	47.56	47.64
Japan	(JPY/USD)	89.57	90.28	1.51	89.52	90.23	89.08	89.81
Korea	(KRW/USD)	1170.56	1174.60	0.92	1174.33	1179.30	1186.01	1191.95
Indonesia	(IDR/USD)	9489.20	9505.00	0.60	9597.45	9662.50	10044.75	10125.00
Malaysia	(MYR/USD)	3.42	3.44	1.07	3.43	3.44	3.43	3.44
Philippines	(PHP/USD)	46.37	46.63	1.07	46.77	47.03	47.49	47.83
Singapore	(SGD/USD)	1.40	1.40	0.89	1.40	1.40	1.40	1.40
Thailand	(THB/USD)	33.20	33.25	0.42	n.a.	n.a.	33.30	33.32
Australia	(USD/AUD)	0.90	0.89	-2.86	0.89	0.88	0.86	0.85

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	1.48	-1	1.82	-168	-	n.a.
Hong Kong	0.05	0	0.12	2	0.60	7
Taiwan	0.17	0	0.61	0	0.93	0
India	3.30	3	4.35	8	n.a.	n.a.
Japan	0.16	0	0.46	-1	0.61	-1
Korea	2.40	1	2.82	3	4.02	4
Indonesia	6.46	0	7.11	-4	7.68	0
Malaysia	2.03	0	2.17	0	2.27	0
Philippines	5.19	-31	5.00	-6	4.88	0
Singapore	0.25	-6	0.68	0	0.91	0
Thailand	1.26	0	1.35	0	1.70	0
Australia	3.98	0	4.14	-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	1.20	0	2.97	0
Hong Kong	0.04	0	1.71	16
Taiwan	0.52	36	0.89	-2
India	3.75	51	7.22	11
Japan	-	n.a.	0.46	-3
Korea	2.24	2	4.69	-
Indonesia	6.75	-3	9.00	7
Malaysia	1.99	0	3.76	0
Philippines	4.16	-1	6.23	1
Singapore	0.54	1	1.31	1
Thailand	1.54	2	3.60	8
Australia	4.09	-21	4.97	-24

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
21-Dec	Japan	Merchnds Trade Balance Total	NOV	¥807.1B	¥300.0B
21-Dec	Japan	Merchnds Trade Exports YoY	NOV	-23.2	-6.8
21-Dec	Japan	Merchnds Trade Imports YoY	NOV	-35.6	-17.9
21-Dec	China	Wholesale Prices (YoY)	NOV	-	-
21-Dec	Japan	All Industry Activity Index (MoM)	OCT	-0.60%	1.00%
21-Dec	Japan	BOJ Monthly Report	Dec-21		
21-Dec	Thailand	Customs Exports (YoY)	NOV	-3.00%	21.30%
21-Dec	Thailand	Customs Imports (YoY)	NOV	-17.50%	0.90%
21-Dec	Thailand	Customs Trade Balance	NOV	\$1760M	\$1500M
21-Dec	Hong Kong	CPI - Composite Index (YoY)	NOV	2.20%	0.80%
22-Dec	Taiwan	Unemployment Rate - sa	NOV	6.04%	6.02%
22-Dec	Hong Kong	Bal of Paymts - Overall	3Q	\$143.10B	-
23-Dec	Singapore	CPI (YoY)	NOV	-0.80%	-
23-Dec	Taiwan	Export Orders (YoY)	NOV	4.41%	38.06%
23-Dec	Taiwan	Industrial Production (YoY)	NOV	6.56%	31.52%
23-Dec	Malaysia	CPI YoY	NOV	-1.60%	-0.30%
24-Dec	Philippines	Total Imports (YoY)	OCT	-25.00%	-
24-Dec	Philippines	Trade Balance	OCT	-\$34M	-
24-Dec	Singapore	Industrial Production YoY	NOV	3.60%	-
24-Dec	Singapore	Industrial Production MoM SA	NOV	-6.70%	-
24-Dec	Taiwan	Benchmark Interest Rate	Dec-24	1.25%	1.25%
25-Dec	Japan	Jobless Rate	NOV	5.10%	5.20%

Sources: Bloomberg and BBVA staff estimates.

b) Economic Events

Date	Country	Issue	Remarks
24-Dec	Taiwan	Central Bank Monetary Policy Meeting	Monetary Policy 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)	1Q09	6.1	-7.8	-10.1	5.8	-8.9	-4.2	4.4	-6.2	0.6	-9.5	-7.1	0.7
	2Q09	7.9	-3.6	-7.5	6.1	-5.8	-2.2	4.0	-3.9	0.8	-3.3	-4.9	0.4
	3Q09	8.9	-2.4	n.a.	7.9	-5.1	0.9	4.2	-1.2	0.8	0.6	-2.8	0.5
CPI inflation (% yoy) 1/	Oct-09	0.6	2.2	-1.6	4.8	-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	-1.1	3.9	1.6	-10.6	4.5	-4.1	-29.1
Trade balance (US\$ bn) 3/	Oct-09	19.1	-2.5	2.1	-8.8	8.9	4.6	2.8	3.4	0.0	3.1	1.8	0.0
Industrial production (% yoy) 4/	Oct-09	19.2	-9.5	7.1	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.	1.6	-7.9	24.3	4.4	n.a.	-4.5	-0.8	4.9
Money supply (M2) (% yoy) 6/	Oct-09	29.6	14.6	6.8	15.7	3.3	10.2	16.4	9.7	5.0	9.2	7.0	5.6
Domestic credit (% yoy) 7/	Oct-09	33.8	-5.0	-2.0	21.4	0.2	3.5	11.2	7.5	-0.5	6.5	2.3	1.1
Unemployment rate (%) 8/	Oct-09	n.a.	5.1	6.0	n.a.	5.1	3.5	n.a.	3.6	7.1	2.9	1.1	5.2

Notes: 1) Wholesale prices for India; Q209 figure for Australia; Nov-00 figure for China, Taiwan, India, Korea, Indonesia, Philippines and Thailand

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

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

4) Q209 Figure for Australia; Sep-09 figure for Hong Kong, Indonesia and Australia

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

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

8) Not available for India; Q3-09 figure for Singapore, Q309 figure for Malaysia; Jun-09 figures for China; Nov-09 figure for Hong Kong, Korea and Australia.

Source: CEIC & DataStream