

Weekly Observatory

January 4th 2010

Economic and Financial Market Highlights (26th Dec 2009-2nd Jan 2010)

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Industrial output and external activities continue a recovery momentum across the region. Retail sales advance as consumption is recovering. Meanwhile, manufacturing indexes add to signs of expansion in the region. Most of the Asia-Pacific stock markets ended the week trading higher and most Asian currencies appreciated against the US dollar with the exception of the JPY, during the shorter trading week.

Greater China

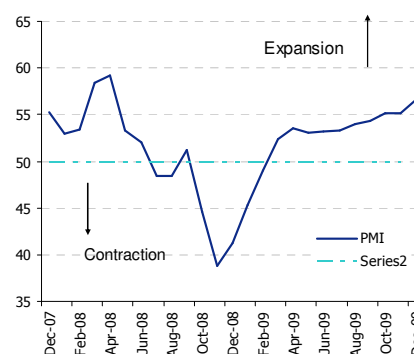
- **China's** purchasing managers' index (PMI) jumped to 56.6 in December from 55.2 in November, and the 10th straight month that the index stood above 50. A PMI reading of above 50 points to growth, while a reading of below 50 points to contraction in the economy. Largely due to the government's economic stimulus plan in place, activity recovery has been broad based, and hit a 20-month high in December.

- **Hong Kong's** exports value increased 1.3% year-on-year (y/y) to HK\$ 234.1 billion (US 30.0 billion) in November after falling 13.1% y/y in October. November exports value grew slightly below the economists' expectation of 1.6% yoy. Meanwhile, imports value in November rose faster than expected at 6.5% yoy (consensus: 6.1% yoy) to HK\$ 254.8 billion (US 32.7 billion), compared to the 10.7% yoy plunge in the previous month. Month-on-month (m/m), however, exports value shrank by 2.8%, reverting from 6.6% m/m growth in October. Likewise, the imports value declined 2% m/m in November after rising 2% m/m in the previous month. November trade deficit widened to HK\$ 20.7 billion (US 2.7 billion) from HK\$19.2 billion (US 2.5 billion) deficit in October.

Meanwhile, the continued rise in retail sales reflects the strengthening of Hong Kong consumers' sentiment. Hong Kong's total retail sales value in November reached HK\$ 22.87 billion (US 2.9 billion) with 11.7% increase over the same month last year, accelerating from 9.8% y/y growth in the previous month. Monthly seasonally adjusted growth also edged up 4.1% m/m following 3.3% m/m in October. After netting out the effect of price changes, the volume of total retail sales registered 4.5% m/m gain after seasonal adjustment (vs. 2.2% m/m sa in October). The y/y rise was largely due to sharp increases in spending on motor vehicles and parts (52.1% y/y in terms of sales volume) and consumer durable goods (21.1% y/y).

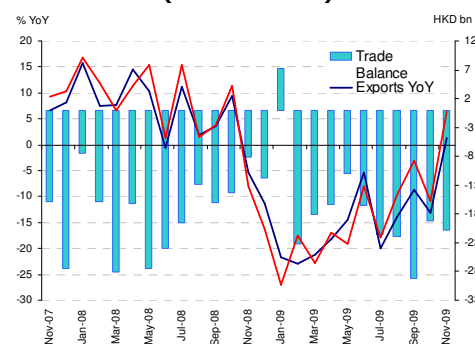
- Taiwan's Cabinet approved its national development plan for 2010, setting an economic growth target of 4.8% y/y, compared to the official forecast of -2.53% in 2009 (BBVA: -3.2%) In addition, the government aims to achieve a per capita income of USD 17,541, lower the unemployment rate to 4.9% from 5.98% in November, and keep the inflation rate at below 1% from 1.59% by November 2009.

China: Purchasing Managers' Index (PMI)



Source: CEIC

Hong Kong: External Trade (nominal values)



Source: CEIC

India

• **India's** exports in November bounced back to 18% y/y (consensus: -6.6% y/y) or INR 614.62 billion (USD 13.2 billion), ending 13 consecutive months of decline. Meanwhile, total imports decline narrowed to -2.6% y/y in November (consensus: -15% y/y) to INR 1065.84 billion (USD 22.88 billion) from -15% y/y in October, recording the smallest contraction in 10 months. India's oil imports also rose by 7.3% y/y in November to USD 6.39 billion. The total trade deficit shrunk to INR 451.22 billion (USD 9.69 billion) from INR 604 billion (USD 12.33 billion) in 2008. On monthly basis, both exports and imports advanced with 0.05% and 4.06% gain, respectively, compared to the contractions posted in October. Despite the positive reversal, the sharp rise in exports may be partly due to the low base effect as well as higher exports in the pre-Christmas period and, thus, the pace of improvement ahead may slowdown.

Japan/Korea/Australia

• **Japan's** industrial production rose the ninth straight month in November with a seasonally adjusted 2.6% m/m gain, compared to October's 0.5% increase. The increase was better than the market's forecast of a 2.3% climb and, it was largely driven by the strong production of cars to meet U.S. and Asian demand. In year-on-year terms, industrial production continued to narrow its decline to 5% y/y in November, compared to -14% in the previous month.

Japan's retail sales advanced 0.2% m/m in November after a 0.9 m/m drop in previous month, and fell about 1% from a year before, the same as the revised number in October, declining for the 15th consecutive month. The drop in retail sales was led by a 9.6% annual fall among supermarket sales, followed by food and beverages (-4.1%), other retail sales (-2.8%), fuel (-2.2%) and clothing (-1.0%). On the other hand, motor vehicle sales surged 20.1% y/y sa, expanding from the revised 12.3% seasonally adjusted annual increase in October.

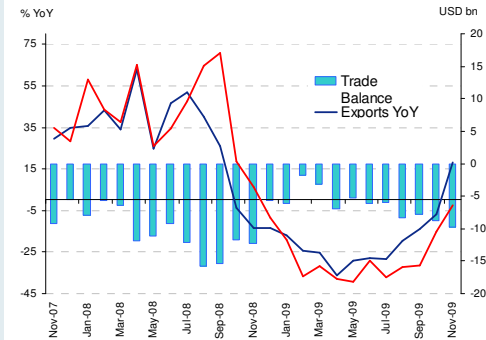
• **Korea's** industrial production in November rebounded to 1.4% month-on-month seasonally adjusted, reversing some of the 3.8% m/m sa decrease in the preceding month. On a yearly basis, it jumped to 17.6% y/y from October's 4.3% y/y, registering the 5th straight month of gains since July 2009. The acceleration in output growth largely due to both a fast economic recovery and a low base of comparison effect.

On the other hand, Korea's consumer price index (CPI) in December picked up to an 8-month high of 2.8% y/y (consensus: 2.6%) from 2.4% y/y in November, still within the central bank's target range of 2.5% to 3.5%. In month-on-month non-seasonally adjusted terms, December's index also accelerated to 0.4% from 0.2% m/m in November. The sustained economic growth momentum implies that prices may accelerate in the next months, which, in return, would increase the possibility of rate hikes by the central bank. Core inflation, which excludes volatile and fuel prices, edged up 0.1% m/m from November to 2.2% y/y. Last month the central bank broadened its target inflation range to between 2% and 4% for the next three years.

ASEAN

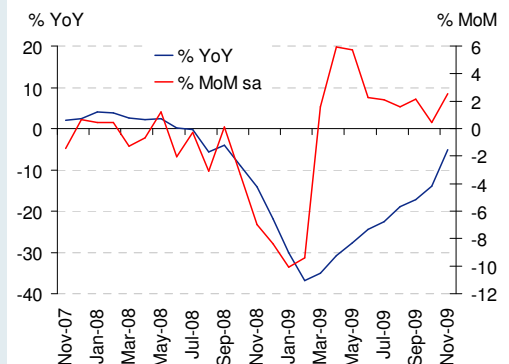
• **Malaysia's** unemployment rate in the third quarter stayed unchanged at 3.6% from the previous quarter. Total labour force was slightly less than that of the previous quarter, waning from 11.45 million to 11.44 million. The unemployment rate corrected from its record high of 4.0% in the first quarter of 2009, thanks to the economic stimulus measures

India: External Trade (nominal values)



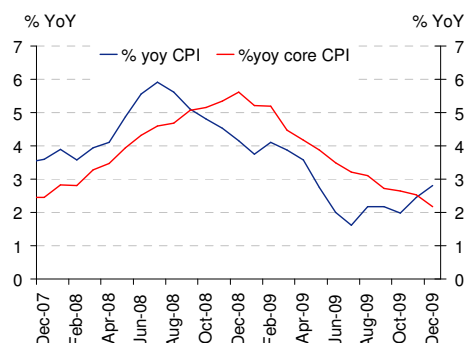
Source: CEIC

Japan: Industrial Production



Source: CEIC

Korea : CPI



Source: CEIC

by the government and the growth recovery across the region.

- **Thailand's** total exports and imports in November significantly recovered by growing 11.3% y/y and -5.4% y/y, respectively, compared to -5.4% y/y and -21.4% y/y a month earlier. Month-on-month non-seasonally adjusted, exports plunged 6.5%, following 2.1% m/m fall in October while imports shrank 2.8% m/m reverting from 0.5% m/m growth in October. As a result, the trade surplus declined from THB 56.3 billion (USD 14.6 billion) in October to THB 36.8 billion (USD 13.7 billion) in November.

Further, Thai manufacturing index rose in November for a third straight month to 8.9% y/y sa, accelerating from 0.3% y/y sa in the preceding month. On a monthly basis, however, the seasonally adjusted manufacturing output contracted 0.4% after 0.1% m/m lost in October.

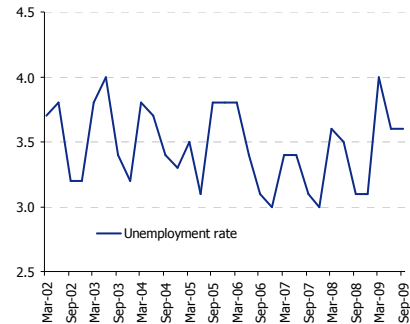
Thailand's Finance Ministry raised its 2010 economic growth forecast to 3.5% from 3.3% seen in September, due to improved performance of trade partners, accelerated government spending and loose monetary policy. GDP projections were based on the assumption that the central bank's key policy rate will remain in a 1.25% to 1.75% range, while the exchange rate will be between 32 - 34 baht to the U.S. dollar. It's also mentioned that Bank of Thailand would hike its policy rate only by 25 to 50 basis points in the second half of 2010 from 1.25% currently, provided that inflation remained within the monetary authority's target range (core inflation range: 0.5-3.0% per annum).

Asian Financial Markets

- Positive week for the stock markets with moderate gains across the board. The Chinese stock index soared 4.32% over the previous week ending Thursday while Taiwan's benchmark rose 2.7% and Indonesian index rose 2.4% in the same period. Singapore index climbed 2.1% and India benchmark increased 0.6% followed by 0.5% growth posted in the Japanese bourse. The worst performer for the week was the Korean index which closed to zero gains from last Thursday.

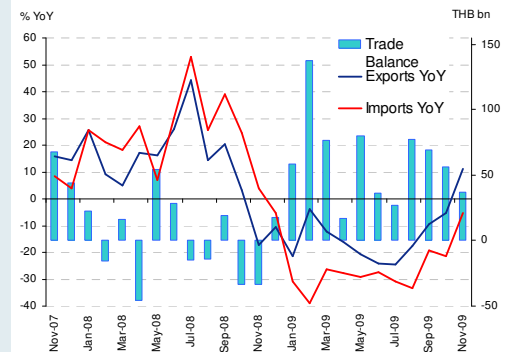
- Major Asian currencies appreciated against the US dollar over the week with the exception of the Japanese yen. The biggest appreciations were obtained by the Australian dollar (1.69%) and Indonesian rupee (0.9%) while the Korean won appreciated 0.86%. New Taiwan dollar rose by 0.82% and Philippines peso appreciated 0.6%. The Hong Kong dollar and the Chinese yuan remained virtually unchanged while the Japanese yen depreciated 1.89% to 93.04 yen/USD.

Malaysia: Unemployment Rate



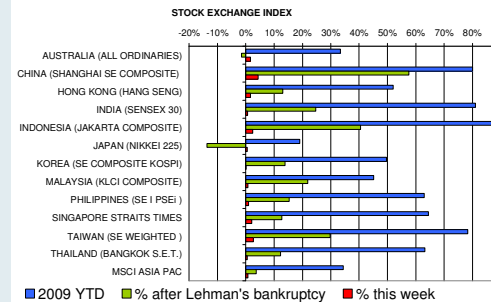
Source: CEIC

Thailand: External Trade



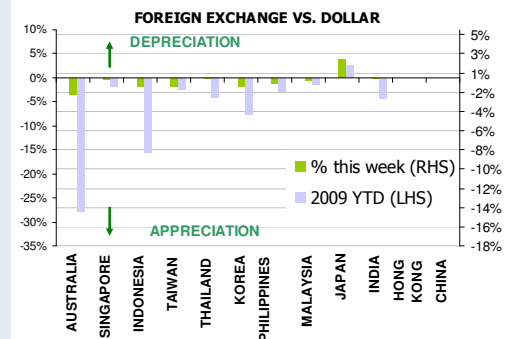
Source: CEIC

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 | 3235 | 3277 | 4.3 | 106.8 |
| Hong Kong | Hang Seng | 21587 | 21873 | 1.7 | 19.4 |
| Taiwan | Taiwan Weighted | 8103 | 8188 | 2.7 | 18.5 |
| India | Sensex | 17403 | 17465 | 0.6 | 11.0 |
| Japan | Nikkei 225 | 10606 | 10546 | 0.5 | 24.3 |
| Korea | Seoul Composite | 1680 | 1683 | 0.0 | 16.0 |
| Indonesia | Jakarta Composite | 2521 | 2534 | 2.4 | 0.5 |
| Malaysia | KLSE Composite | 1273 | 1273 | 0.7 | 0.9 |
| Philippines | Philippines Composite | 3043 | 3053 | 0.9 | 0.1 |
| Singapore | Straits Times | 2876 | 2898 | 2.1 | 3.2 |
| Thailand | SET | 737 | 735 | 0.6 | 1.0 |
| Australia | All Ordinaries | 4862 | 4883 | 1.7 | 5.3 |

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 | 0.00 | 6.82 | 6.82 | 6.66 | 6.66 |
| Hong Kong | (HKD/USD) | 7.75 | 7.75 | -0.01 | 7.75 | 7.75 | 7.74 | 7.74 |
| Taiwan | (TWD/USD) | 32.15 | 31.99 | -0.86 | 31.64 | 31.24 | 30.82 | 30.40 |
| India | (INR/USD) | 46.63 | 46.63 | -0.06 | 46.79 | 46.78 | 47.41 | 47.43 |
| Japan | (JPY/USD) | 92.17 | 93.04 | 1.89 | 92.12 | 92.99 | 91.61 | 92.46 |
| Korea | (KRW/USD) | 1165.75 | 1164.75 | -0.84 | 1166.91 | 1168.72 | 1181.10 | 1182.22 |
| Indonesia | (IDR/USD) | 9422.40 | 9395.00 | -0.90 | 9480.90 | 9422.00 | 9910.05 | 9877.50 |
| Malaysia | (MYR/USD) | 3.42 | 3.42 | -0.29 | 3.43 | 3.42 | 3.43 | 3.42 |
| Philippines | (PHP/USD) | 46.23 | 46.13 | -0.59 | 46.69 | 46.65 | 47.41 | 47.35 |
| Singapore | (SGD/USD) | 1.40 | 1.40 | -0.27 | 1.41 | 1.41 | 1.41 | 1.41 |
| Thailand | (THB/USD) | 33.33 | 33.32 | 0.00 | 33.34 | 33.31 | 33.42 | 33.41 |
| Australia | (USD/AUD) | 0.89 | 0.90 | 1.70 | 0.89 | 0.89 | 0.86 | 0.86 |

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 | 1.86 | 39 | | n.a. | - | n.a. |
| Hong Kong | 0.05 | 0 | 0.14 | 1 | 0.67 | 5 |
| Taiwan | 0.17 | 0 | 0.61 | 0 | 0.93 | 0 |
| India | 3.67 | 8 | 4.58 | -1 | n.a. | n.a. |
| Japan | 0.16 | 0 | 0.46 | 0 | 0.60 | 0 |
| Korea | 2.43 | 1 | 2.85 | 0 | 4.09 | 3 |
| Indonesia | 6.50 | 4 | 7.06 | 3 | 7.60 | 7 |
| Malaysia | 2.03 | 0 | 2.17 | 0 | 2.28 | 1 |
| Philippines | 4.88 | -25 | 5.00 | 0 | 4.69 | -19 |
| Singapore | 0.25 | 0 | 0.68 | 0 | 0.91 | 0 |
| Thailand | 1.26 | 0 | 1.35 | 0 | 1.69 | 0 |
| Australia | 3.99 | -5 | 4.14 | -6 | - | 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 | 1.27 | 2 | 2.99 | 2 |
| Hong Kong | 0.07 | 2 | 1.93 | 7 |
| Taiwan | 0.37 | -17 | 1.01 | 4 |
| India | 3.30 | -48 | 7.24 | -1 |
| Japan | - | n.a. | 0.47 | -1 |
| Korea | 2.34 | 3 | 4.92 | 3 |
| Indonesia | 6.77 | 0 | 8.98 | -5 |
| Malaysia | 1.98 | -1 | 3.79 | -1 |
| Philippines | 4.28 | 12 | 6.36 | 12 |
| Singapore | 0.55 | 1 | 1.28 | -8 |
| Thailand | 1.52 | 0 | 3.63 | 2 |
| Australia | 4.21 | 6 | 5.16 | 6 |

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 |
|-------|-------------|---|--------|----------|----------|
| 4-Jan | Singapore | Advance GDP Estimate (YoY) | 4Q | 0.60% | 3.80% |
| 4-Jan | Singapore | Advance GDP Estimate (QoQ) | 4Q | 14.20% | -2.10% |
| 4-Jan | Taiwan | HSBC Taiwan Manufacturing PMI | DEC | 58.4 | -- |
| 4-Jan | China | HSBC Manufacturing PMI | DEC | 55.7 | -- |
| 4-Jan | India | India December Markit Manufacturing PMI (Table) | 01-Jan | | |
| 4-Jan | Indonesia | Inflation (YoY) | DEC | 2.41% | 2.92% |
| 4-Jan | Indonesia | Core Inflation (YoY) | DEC | 4.29% | 4.38% |
| 4-Jan | Indonesia | Exports (YoY) | NOV | 10.10% | 13.10% |
| 4-Jan | Indonesia | Total Imports (YoY) | NOV | -11.80% | 4.00% |
| 4-Jan | Indonesia | Total Trade Balance | NOV | \$2415M | \$1690M |
| 4-Jan | Thailand | Consumer Price Index (YoY) | DEC | 1.90% | 3.60% |
| 4-Jan | Indonesia | Consumer Confidence Index | DEC | 111 | -- |
| 4-Jan | Singapore | Purchasing Managers Index | DEC | 52 | 52 |
| 4-Jan | Singapore | Electronics Sector Index | DEC | 51.3 | 51.3 |
| 5-Jan | Philippines | CPI (2000=100) (YoY) | DEC | -- | -- |
| 5-Jan | Korea | South Korea FDI (YoY) | 4Q | 17.4 | -- |
| 5-Jan | Taiwan | CPI YoY% | DEC | -1.59% | 0.26% |
| 5-Jan | Taiwan | WPI YoY% | DEC | 0.84% | -- |
| 6-Jan | Australia | Building Approvals (YoY) | NOV | 11.70% | -- |
| 6-Jan | Hong Kong | Purchasing Managers Index | DEC | 55.9 | -- |
| 6-Jan | India | India December Markit Services PMI (Table) | 06-Jan | | |
| 6-Jan | Indonesia | Bank Indonesia Reference Rate | 06-Jan | 6.50% | 6.50% |
| 7-Jan | Australia | Trade Balance | NOV | -2379M | -- |
| 7-Jan | Australia | Retail Sales s.a. (MoM) | NOV | 0.30% | -- |
| 7-Jan | Taiwan | Total Exports (YoY) | DEC | 19.40% | 45.20% |
| 7-Jan | Taiwan | Total Imports (YoY) | DEC | 17.90% | 50.00% |
| 7-Jan | Taiwan | Total Trade Bal in US\$ Billion | DEC | \$2.11B | \$2.10B |
| 7-Jan | Malaysia | Exports YoY% | NOV | 1.60% | -- |
| 7-Jan | Malaysia | Imports YoY% | NOV | -2.30% | -- |
| 7-Jan | Malaysia | Trade Balance | NOV | 11.47B | -- |
| 8-Jan | Korea | South Korea 7-Day Repo Rate | JAN | 2.00% | -- |
| 8-Jan | Korea | Producer Price Index (YoY) | DEC | -0.40% | -- |

Sources: Bloomberg and BBVA staff estimates.

b) Economic Events

| Date | Country | Issue | Remarks |
|-------|---------|---|---------|
| 8-Jan | 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 | -8.9 | -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/ | Nov-09 | 0.6 | 0.5 | -1.6 | 4.8 | -1.9 | 2.4 | 2.4 | -0.1 | 2.8 | -0.2 | 1.9 | 1.3 |
| Exports (in local currency) (% yoy) 2/ | Nov-09 | -1.2 | 1.3 | 16.8 | 12.4 | -6.3 | -1.1 | 7.1 | 1.6 | -10.4 | 4.5 | 14.1 | -29.1 |
| Trade balance (US\$ bn) 3/ | Nov-09 | 19.1 | -2.7 | 2.1 | -9.7 | 4.2 | 4.6 | 2.8 | 3.4 | -0.1 | 3.1 | 1.1 | 0.0 |
| Industrial production (% yoy) 4/ | Nov-09 | 19.2 | -9.5 | 31.5 | 10.3 | -3.9 | 17.8 | 3.0 | 0.7 | -5.2 | -8.2 | 7.5 | -3.8 |
| Retail sales (% yoy) 5/ | Nov-09 | 15.8 | 9.8 | 11.0 | n.a. | 0.9 | -8.7 | 24.3 | 4.4 | n.a. | -4.5 | 2.0 | 4.9 |
| Money supply (M2) (% yoy) 6/ | Nov-09 | 29.6 | 14.4 | 6.3 | 15.7 | 3.3 | 10.2 | 16.4 | 10.4 | 5.0 | 10.1 | 6.5 | 4.7 |
| Domestic credit (% yoy) 7/ | Nov-09 | 33.8 | -2.8 | -1.2 | 21.4 | 0.2 | 3.5 | 11.2 | 7.0 | -0.5 | 7.3 | 4.0 | 0.9 |
| Unemployment rate (%) 8/ | Nov-09 | n.a. | 5.1 | 5.9 | n.a. | 5.2 | 3.5 | n.a. | 3.6 | 7.1 | 2.9 | 1.1 | 5.2 |

Notes: 1) Wholesale prices for India; Q309 figure for Australia;

2) Figure for China is in US dollar term; figure for Australia includes services; Oct-09 figure for Indonesia, Malaysia, Philippines, and Australia

3) Figure for Australia includes services; Sep-09 figures for Indonesia; Oct-09 figure for Malaysia and Philippine

4) Q309 Figure for Australia; Aug-09 figure for Hong Kong, Oct-09 figure for China, India, Indonesia, Malaysia, and Philippines.

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

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 India, Korea, and Philippines

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

8) Not available for India, China, Indonesia; Q309 figure for Malaysia; Oct-09 figure for Philippines and Thailand; Sep-09 figure for Singapore

Source: CEIC & DataStream