

# Weekly Observatory

January 18<sup>th</sup> 2010

## Economic and Financial Market Highlights (9<sup>th</sup>-15<sup>th</sup> of January 2010)

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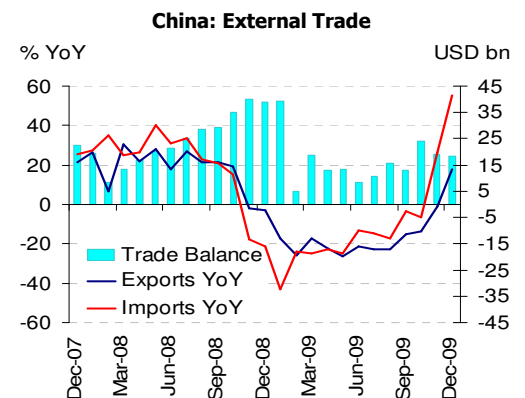
Robust indicators show that economic activity continues to gain momentum across the region, propelled by a rebound in external demand and ongoing policy stimulus. With inflation gradually on the rise, attention is increasingly shifting to the timing of exit strategies from accommodative policies.

A move by the People's Bank of China (PBoC) to raise reserve requirements marks a turning point in China's monetary policy. The move aims to drain liquidity and forestall asset price bubbles, amidst rapid bank lending, stronger than expected output indicators, and slowly rising inflation. Monetary tightening could soon be forthcoming elsewhere in the region, especially in India, which saw better than expected industrial production figures. A falling unemployment rate in Australia and rising inflation has fuelled speculation of another rate hike in Australia at the next policy meeting in February. Despite rising inflation, Thailand's central bank left its benchmark interest rate unchanged, citing that the economic recovery is still in need of support. The coming week sees an active data release calendar, with attention on China's Q4 GDP and inflation, which are likely to show a further acceleration, and Korea's provisional 4Q GDP growth estimate.

### Greater China

- **China's** central bank surprised markets by announcing a 50 basis point increase in the required reserve ratio (RRR). The move is the People's Bank of China's (PBOC) first significant tightening step in the current cycle, and comes several months earlier than most analysts had expected. The move was prompted by the authorities' concern about rapid bank lending and high levels of liquidity which has raised the risk of overheating through asset price bubbles. Moreover, positive economic data for December including strong export growth and manufacturing output, and a surge in bank lending in early January, may have influenced the timing. The hiking of the RRR comes a week after the Chinese authorities allowed small increases in interest rates on central bank bills, increased the down payment requirement on second home purchases, and warned banks about excessive lending.

China's year-on-year (y/y) exports expanded for the first time in 14 months in December, surging 17.6% following November's 1.2% y/y drop and surprising markets, which were forecasting a 5% y/y climb. For the year as a whole, exports slumped 16% over 2008, the first annual decline in exports since 1983. Imports also surged in December, by 55.6% y/y (Bloomberg: 32.5% y/y), rising from November's 26.3% y/y rise, a reflection of strong domestic demand and positive outlook for processing exports. For the whole of 2009, imports fell 11.3%. December's trade surplus narrowed to USD18.4 billion from USD19.1 billion in the previous month and for the year as a whole came in at USD198.2 billion. FX reserves rose on the year by USD453 billion, to stand at USD2.4 trillion at end-December. As for credit, new loans in



Source: CEIC

China soared to CNY379.8 billion in December from CNY295 billion the previous month and ahead of the market forecast of a rise to CNY310 billion. As for M2, it rose 27.7 y/y in December, a figure that was inline with the market forecast and below November's 29.7% y/y increase.

**India**

- **India's** November industrial production rose 11.7% from a year earlier after a 10.3% y/y expansion in the previous month led by a strong increase in manufacturing output as well as moderate rises in mining and electricity production. Month-on-month (m/m), November's industrial output edged upwards 3.0%, partially reversing October's 4.2% m/m dip. This surge in output, together with December's inflation figures which showed that prices accelerated 7.31% y/y in December from 4.78% y/y in the previous month, have raised market expectations that the central bank will tighten liquidity to tame inflation in this month's monetary policy meeting on January 29.

**Japan/Korea/Australia**

- **Japan's** core machinery orders plunged a seasonally adjusted 11.3% m/m in November, accelerating October's 4.5% m/m slip, underscoring the continued sluggishness of the country's domestic demand. Overall machinery orders, including vessels and certain electrical components, plunged a seasonally adjusted 8% m/m, reversing the previous month's 3.2% m/m rise due to a sharp drop in domestic demand and continuing weak demand from abroad. Year-on-year, machinery orders contracted 9.2%, up on the previous month's 12.1% y/y fall. Machine tool orders, another indicator of capital expenditures, soared 62.8% y/y in December due to a 96.2% surge in foreign orders (November: 20.0% y/y) and strong 16.2% y/y rise of domestic orders, the first expansion in 18 months.

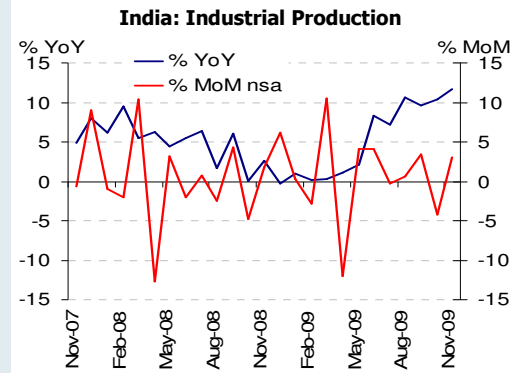
Japan's current account surplus soared 76.9% year-on-year to JPY1.10 trillion (USD12 bn) from JPY623.6 billion in the previous year. The surplus came above economists' expectations for a JPY949 billion surplus, although it decreased from October's surplus of JPY1.40 trillion. This surge in the current account was due to a trade surplus of JPY490.6 billion in November compared to the JPY92.2 billion deficit a year ago, as the decline in imports outpaced the decline in exports. Exports slipped 7.0% y/y, improving on October's 24.6% y/y plunge while imports contracted 18.2% y/y (October: -37.7% y/y).

- **Korea's** December's seasonally adjusted unemployment rate remained steady at 3.5%. However, the seasonally adjusted labor participation rate slipped to 60.4% from 60.7% in November, suggesting that, despite other strong economic indicators, the labor market is still shedding jobs and that the unemployment rate remains steady due to workers leaving the job market.

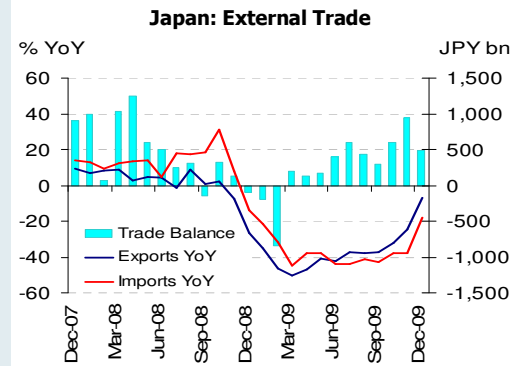
- **Australia's** seasonally adjusted unemployment rate dropped to 5.5% in December from 5.6% in November, the fourth consecutive monthly drop as the participation rate remained stable. Strong demand for commodities by China has encouraged mining companies to take on workers. Markets had been expecting a strong rise in unemployment to 5.8% and the better-than-expected jobless rate has fuelled speculation that Australia's central bank might rise interest rates once more in its next monetary policy meeting due to concerns it has expressed recently about rising inflation.

**ASEAN**

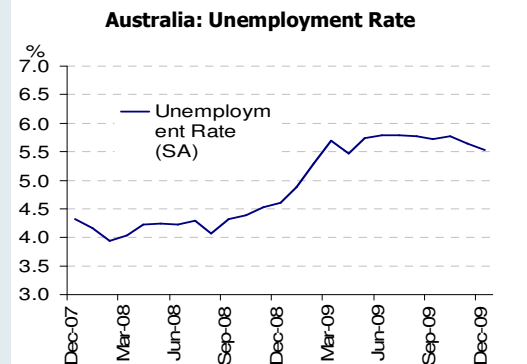
- **Singapore's** retail sales fell 1.3% y/y from a year earlier in November after dropping 4.4% y/y in the previous month. Excluding motor



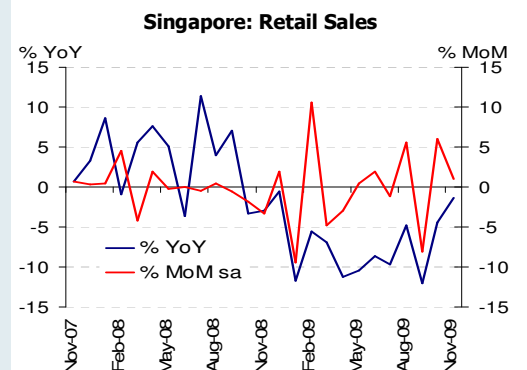
Source: CEIC



Source: CEIC



Source: CEIC



Source: CEIC

vehicles, which account for 34% of the retail sales index, sales rose 4.0% from a year earlier, the first year-on-year rise in 12 months. Seasonally adjusted retail sales edged upwards 1.0% m/m in November following October's 6.0% m/m rise.

- **Malaysia's** industrial production (IP) fell 1.3% year-on-year in November (Bloomberg: 2.9% y/y), reversing the 0.9% y/y gain in the previous month. Manufacturing production grew 0.9% y/y in November, adding to the 1.6% y/y growth in the preceding month while mining output slid 7.4% y/y (October: -2.6% y/y) and electricity output slowed down, rising 5.9% y/y (October: 11.9% y/y). Compared to October, IP was down an unadjusted 6.1%, reversing the 6.0% m/m rise in that month. Also in November, manufacturing sales slumped 8.1% y/y, accelerating the decline in sales from October's revised 3.7% y/y drop. On a month-on-month data, sales in November slid a non-seasonally adjusted 6.2%, after surging 9.3% m/m in the previous month.

- **Philippine** exports rose in November for the first time after a in a year as shipments grew 5.1% from a year earlier after dropping 8% y/y in October on the back of strong exports in the electronics sector. Electronics exports expanded for the first time in over a year while most other export categories reduced their decline significantly. Over the previous month, exports inched upwards an unadjusted 0.6%, slightly below October's 0.9% m/m rise.

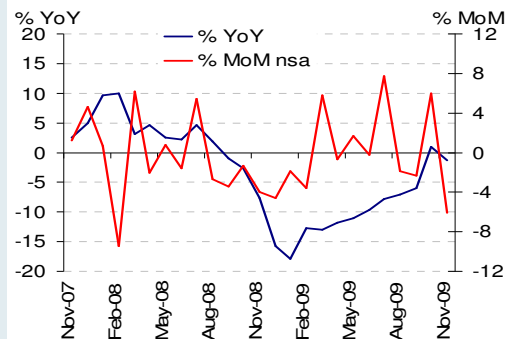
- **Thailand's** central bank kept its benchmark interest rate unchanged at 1.25% for a sixth straight meeting as had been expected. The Bank of Thailand deemed that the nascent economic recovery still needed to support with a loose monetary policy and indicated that the Monetary Policy Committee felt "comfortable" with the current policy rate.

### Asian Financial Markets

- A mixed week for stock markets in the region. Moderate gains were posted over the week ended Friday in Japan (+1.7%), Indonesia (+1.3%), Thailand (+1.0%), Taiwan and China (both +0.9%). The strongest losses, meanwhile were recorded in the Hong Kong Market, which slipped 2.9% and was followed by the Singapore exchange (-0.5%) and the Australian index (-0.3%)

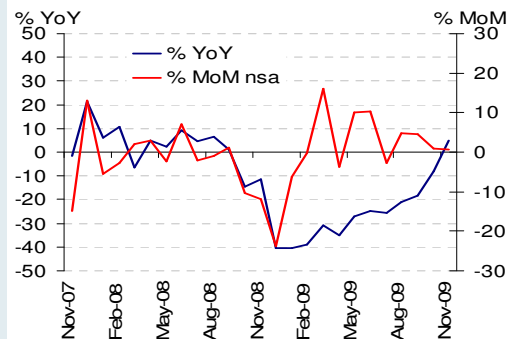
- Positive week for currencies in the region in which most posted mild gains on the US dollar. The Japanese Yen was the best performer of the week, appreciating 2.73% while the Malaysian ringgit rose 1.09%, the Australian dollar climbed 0.98% and Thai baht gained 0.9%. The Philippine peso and the Hong Kong dollar both slipped marginally against the US dollar and were the only currencies to depreciate in Asia over the week.

Malaysia: Industrial Production



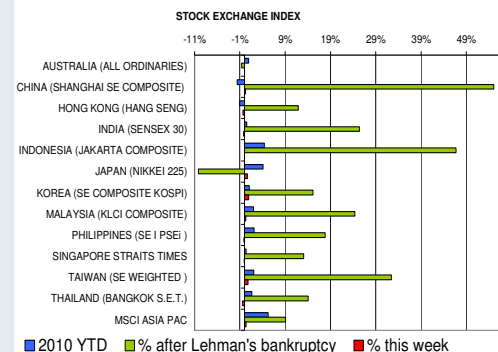
Source: CEIC

Philippines: Exports



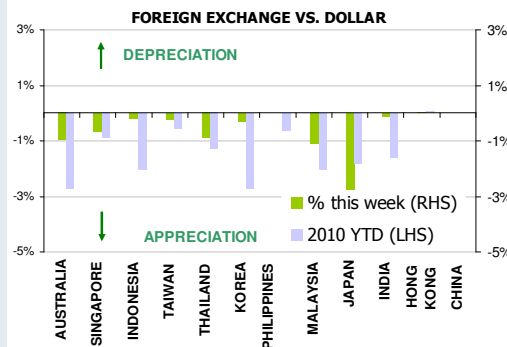
Source: CEIC

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	3220	3224	0.9		180.8
Hong Kong	Hang Seng	21972	21654	-2.9		54.3
Taiwan	Taiwan Weighted	8295	8357	0.9		24.0
India	Sensex	17520	17554	0.1		21.5
Japan	Nikkei 225	10876	10982	1.7		56.8
Korea	Seoul Composite	1690	1702	0.4		26.9
Indonesia	Jakarta Composite	2643	2647	1.3		2.0
Malaysia	KLSE Composite	1294	1299	0.4		2.6
Philippines	Philippines Composite	3106	3118	1.3		0.4
Singapore	Straits Times	2911	2908	-0.5		6.6
Thailand	SET	747	747	1.0		3.1
Australia	All Ordinaries	4934	4930	-0.3		19.5

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	6.80	6.80	6.62	6.62
Hong Kong	(HKD/USD)	7.76	7.76	0.04	7.75	7.75	7.74	7.74
Taiwan	(TWD/USD)	31.79	31.80	-0.22	31.44	31.48	30.68	30.70
India	(INR/USD)	45.59	45.77	-0.11	45.67	45.87	46.25	46.46
Japan	(JPY/USD)	91.63	90.71	-2.73	91.59	90.67	91.21	90.31
Korea	(KRW/USD)	1123	1126	-0.29	1127	1129	1141	1143
Indonesia	(IDR/USD)	9173	9197	-0.20	9252	9283	9641	9661
Malaysia	(MYR/USD)	3.34	3.34	-1.09	3.34	3.34	3.35	3.35
Philippines	(PHP/USD)	45.7	45.8	0.02	46.1	46.2	46.7	46.8
Singapore	(SGD/USD)	1.39	1.39	-0.66	1.39	1.39	1.39	1.39
Thailand	(THB/USD)	33.0	32.9	-0.90	33.0	32.9	33.1	33.0
Australia	(USD/AUD)	0.93	0.92	0.98	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	1.45	4	2.71	n.a.	-	n.a.
Hong Kong	0.05	0	0.12	-1	0.55	-8
Taiwan	0.16	0	0.55	-1	0.84	0
India	3.75	7	4.60	7	n.a.	n.a.
Japan	0.16	0	0.46	0	0.60	0
Korea	2.44	0	2.88	0	4.00	-10
Indonesia	6.43	1	6.91	3	7.40	11
Malaysia	2.03	1	2.17	0	2.28	0
Philippines	4.63	-44	4.75	-19	4.38	-38
Singapore	0.19	-6	0.68	-1	0.92	0
Thailand	1.26	0	1.35	0	1.68	-1
Australia	4.04	8	4.20	5	-	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	1.35	3	3.01	0
Hong Kong	0.05	-2	1.86	-16
Taiwan	0.16	2	0.91	-9
India	3.78	31	7.23	-3
Japan	-	n.a.	0.52	0
Korea	2.24	-4	4.80	-1
Indonesia	6.52	-3	8.27	-12
Malaysia	1.90	-3	3.71	-9
Philippines	4.13	-6	6.36	2
Singapore	0.53	-4	1.29	-3
Thailand	1.46	0	3.21	-24
Australia	4.34	3	5.27	-2

Notes: 1) Band 4 bond for Malaysia, which is 68 to 91 days to maturity.

Sources: Bloomberg.

**2. Week Ahead**

**a) Data Release Calendar: an active week ahead, with the focus on China's Q4 GDP and inflation, Korea's provisional Q4 GDP, and regional trade data**

Date	Country	Data	for	Previous	Forecast
18-Jan	China	New Yuan Loans	DEC	294.8B	310.0B
18-Jan	Singapore	Electronic Exports (YoY)	DEC	-6.10%	12.50%
18-Jan	Singapore	Non-oil Domestic Exports (YoY)	DEC	8.70%	18.30%
18-Jan	Singapore	Non-oil Domestic Exp SA (MoM)	DEC	19.80%	-0.20%
18-Jan	Philippines	Balance of Payments	DEC	-\$93M	--
19-Jan	Korea	Department Store Sales YoY	DEC	6.40%	--
19-Jan	Korea	Discount Store Sales YoY	DEC	-2.80%	--
19-Jan	Japan	Consumer Confidence	DEC	39.9	--
19-Jan	Hong Kong	Unemployment Rate SA	DEC	5.10%	5.00%
20-Jan	Australia	Westpac Cons. Confidence Index	JAN	113.8	--
20-Jan	Japan	Tertiary Industry Index (MoM)	NOV	0.50%	-0.20%
20-Jan	Japan	Convenience Store Sales YoY	DEC	-6.30%	--
20-Jan	Taiwan	Export Orders (YoY)	DEC	37.11%	48.40%
20-Jan	Malaysia	CPI YoY	DEC	-0.10%	1.00%
21-Jan	China	Real GDP YoY	4Q	8.90%	10.50%
21-Jan	China	Producer Price Index (YoY)	DEC	-2.10%	0.70%
21-Jan	China	Consumer Price Index (YoY)	DEC	0.60%	1.40%
21-Jan	China	Retail Sales (YoY)	DEC	15.80%	16.30%
21-Jan	China	Industrial Production (YoY)	DEC	19.20%	19.60%
21-Jan	China	Fixed Assets Inv Urban YTD YoY	DEC	32.10%	31.50%
21-Jan	Thailand	Customs Exports (YoY)	DEC	17.20%	--
21-Jan	Thailand	Customs Imports (YoY)	DEC	-2.20%	--
21-Jan	Thailand	Customs Trade Balance	DEC	\$1060M	--
21-Jan	Hong Kong	CPI - Composite Index (YoY)	DEC	0.50%	--
22-Jan	Korea	GDP at Constant Price (QoQ)	4Q P	3.20%	0.80%
22-Jan	Korea	GDP at Constant Price (YoY)	4Q P	0.90%	6.30%
22-Jan	Japan	All Industry Activity Index (MoM)	NOV	1.20%	0.10%
22-Jan	Japan	Supermarket Sales (YoY)	DEC	-8.00%	--
22-Jan	Japan	Nationwide Dept. Sales (YoY)	DEC	-11.80%	--
22-Jan	Taiwan	Unemployment Rate - sa	DEC	5.98%	5.94%

Sources: Bloomberg and BBVA staff estimates.

**b) Economic Events**

Date	Country	Issue	Remarks
20-Jan	Japan	Cabinet Office 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)	2q09	7.9	-3.6	-7.5	6.1	-5.8	10.8	4.0	-3.9	0.8	-3.3	-4.9	n.a.
	3q09	8.9	-2.4	n.a.	7.9	-5.1	7.8	4.2	-1.2	0.8	0.6	-2.8	n.a.
	4q09	n.a.	n.a.	n.a.	n.a.	n.a.	2.9	n.a.	n.a.	n.a.	3.5	n.a.	n.a.
CPI inflation (% yoy) 1/	Nov-09	0.6	0.5	-0.2	7.3	-1.9	2.8	2.8	-0.1	4.4	-0.2	3.5	1.3
Exports (in local currency) (% yoy) 2/	Nov-09	17.7	1.3	41.9	12.4	-6.3	12.7	-10.0	-3.3	0.5	4.5	14.1	-27.5
Trade balance (US\$ bn) 3/	Nov-09	18.4	-2.7	1.6	-9.7	4.2	3.1	4.3	2.6	-0.1	3.1	1.1	0.0
Industrial production (% yoy) 4/	Nov-09	19.2	-9.5	31.5	11.7	-3.9	17.8	2.1	-1.3	-4.1	-8.2	7.5	-3.8
Retail sales (% yoy) 5/	Nov-09	15.8	9.8	11.0	n.a.	0.9	-8.7	33.9	4.4	n.a.	-1.4	2.0	4.9
Money supply (M2) (% yoy) 6/	Nov-09	27.6	14.4	6.3	16.6	3.1	9.6	9.9	10.4	7.2	10.1	6.5	4.7
Domestic credit (% yoy) 7/	Nov-09	31.7	-2.8	-1.2	20.2	-1.0	-0.4	5.7	7.0	2.2	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	5.3

Notes: 1) Wholesale prices for India; Q309 figure for Australia; Dec-09 figure for Taiwan, India, Korea, Indonesia, Philippines and Thailand

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

3) Figure for Australia includes services; Oct-09 figure for Indonesia and Philippines; Dec-09 figure for China, Taiwan, Korea and Australia

4) Q309 Figure for Australia; Aug-09 figure for Hong Kong, Oct-09 figure for China; .

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

6) Figure for Australia is broad money in national definition; figure for Hong Kong is only counted HK dollar M2; Dec-09 figure for China and Japan

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

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 and Datastream