

Weekly Observatory

February 8, 2010

Economic and Financial Market Highlights (30 of January – 5 February 2010)

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With spare capacity, inflation remains in check across the region, although higher food prices and base effects are causing year-on-year CPIs to rise in some cases. Central banks will be watching these trends carefully in the coming months.

Australia's central bank surprised markets this week by pausing on interest rate hikes after retail sales and new building construction data showed that domestic demand weakened as a result of the three previous rate increases. Meanwhile, Indonesia left rates unchanged, as expected, despite an uptick in January inflation. Strong export performance across the region suggests that external demand continues to strengthen, and robust PMI releases show that manufacturing continues to expand albeit at a slower pace. In line with global trends, the regions' stock markets posted steep losses over the week while most currencies depreciated moderately. In the coming week, markets will focus on Korea's monetary policy statement; and Indonesia will release 4Q GDP figures.

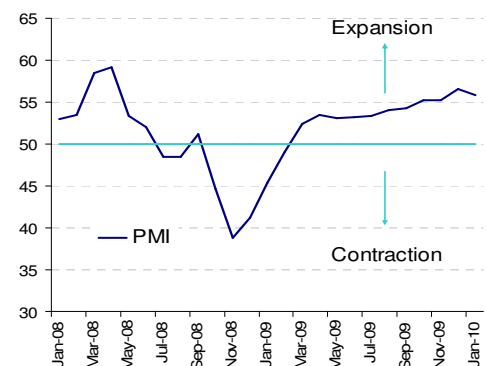
Greater China

- As reported in the last Asia Weekly, **China's** official purchasing managers' index (PMI) for January remained well above the expansion threshold level of 50, but fell to 55.8 (Consensus: 56.6) from 56.6 in December. The index was boosted by an increase in new export orders and higher inventories. The overall index was, however, slowed down by a drop in the output and new orders sub index,
- Hong Kong's** PMI revealed that private sector output expanded again in January, driven by robust growth in new incoming business. The index inched upwards to 55.8 from 55.2 in December and a touch below November's two-year high of 55.9. New order growth increased markedly, rising at the sharpest pace since December 2006 as demand conditions continued to improve. Employment in the private sector increased for the fourth straight month, although the pace of expansion eased slightly from the prior month.

Meanwhile, Hong Kong's retail sales beat market expectations to grow at their fastest year-on-year pace in 20 months in December, boosted by increased tourism and strong consumer sentiment as the economy continues to recover. Over the previous month, seasonally adjusted retail sales edged upwards 4.1% in December, slightly below the previous month's 4.2% month-on-month (m/m) growth.

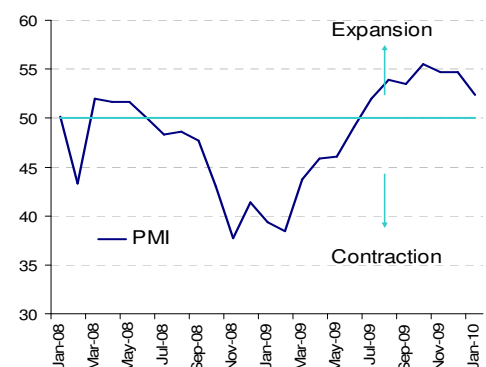
- Taiwan's** consumer price index remained flat over the previous month in January in seasonally adjusted terms, following the previous month's 0.1% m/m rise. Year-on-year (y/y), prices accelerated 0.3%, reversing December's 0.2% y/y contraction and in line with the market's forecast. This acceleration is mostly due to rising food, housing and energy prices.

China: Purchasing Managers Index (PMI)



Source: CEIC

Hong Kong: Purchasing Managers Index (PMI)



Source: CEIC

India

• **India's** exports rose in December for a second straight month after a year-long decline as demand picked up in the U.S. and Asia for the nation's cars and jewellery. Overseas shipments rose 9.3% y/y in December after gaining 18.2% in the previous month from a year earlier. At the same time, imports climbed 27%, y/y reversing November's 2.8% y/y contraction due mainly to higher oil prices raising the price of imports significantly as compared to a year earlier. As a result of higher imports, December's trade deficit widened to USD10.2 billion from USD6.1 billion a year earlier.

Japan/Korea/Australia

• As mentioned in last week's Asia Weekly, **Korea's** consumer price inflation rose to 3.1% y/y in January (Bloomberg: 3.2% y/y) from 2.8% y/y in December on base effects and as higher oil and agricultural prices raised the costs of various goods and services. Also, cold weather and heavy snowfall in January interrupted the supply and production of fruits, vegetables and other agricultural products across the country, pushing prices upwards. This is the fastest growth in consumer prices in nine months in y/y terms. On a monthly basis, seasonally adjusted consumer prices were up 0.4%, the same rate of increase as in December. Excluding food and energy, the index edged up 0.1% from the previous month.

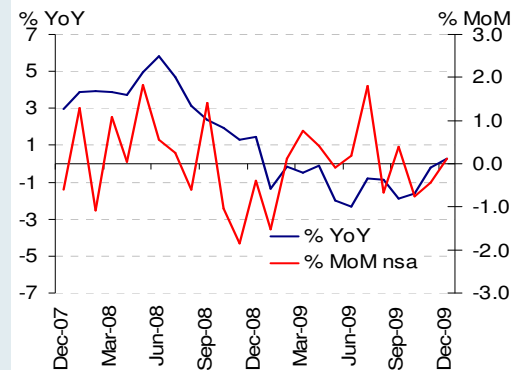
Also in January and as previously reported, Korea posted a trade deficit of USD470 million in January, well below analysts' expectations for a surplus of USD2 billion following the USD3.3 billion surplus in December. Exports surged 47.1% y/y compared to forecasts for a 55% y/y spike after the 32.8% y/y increase a month earlier while imports jumped 26.7% on year, missing expectations for a 27.2% increase following the 23.9% y/y expansion in the previous month. The strong yearly growth rates are due to base effects after last years collapse in external trade as the crisis took hold. On a sequential basis, seasonally adjusted exports contracted 9.5% m/m after four consecutive months of growth.

• **Australia's** central bank kept its benchmark interest rate steady at 3.75%, confounding expectations of another 25bp hike. Investors had been expecting a fourth hike after core inflation in December surpassed the top end of the Reserve Bank of Australia's (RBA) target inflation rate. The RBA said it wanted to judge the impact of the three previous rate increases, but that should the domestic economy continue to improve as expected, further rate hike would be likely to follow.

A slowdown in retail sales and new house approvals in December seem to back the RBA decision not to raise interest rates as the stimulus measures introduced last year to spur demand wear out. Retail sales were down a seasonally adjusted 0.7% in December compared to the previous month, well below analyst expectations for a 0.2% m/m increase following the 1.4 % m/m gain in November. Meanwhile, the total number of houses and apartments approved for construction rose a seasonally adjusted 2.2% m/m (Bloomberg; 10.4% m/m), following November's upwardly revised 10.4% m/m jump

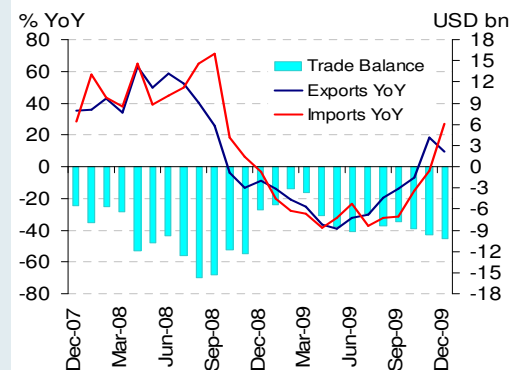
Australia's trade deficit widened in December as imports gained while the surging local currency kept corroding exports earnings. The deficit rose to AUD2.3 billion following a revised deficit of AUD1.7 billion the previous month and it came less than analysts' estimates of AUD2.4 billion. Imports gained a seasonally adjusted 5.8% m/m in December (Nov:-2.8% m/m), boosted by rising demand for oil, gasoline and gold. On the other hand, exports showed more progress climbing a

Taiwan: Consumer Price Index (CPI)



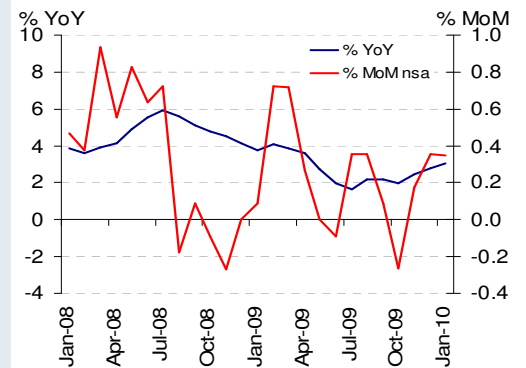
Source: CEIC

India: External Trade



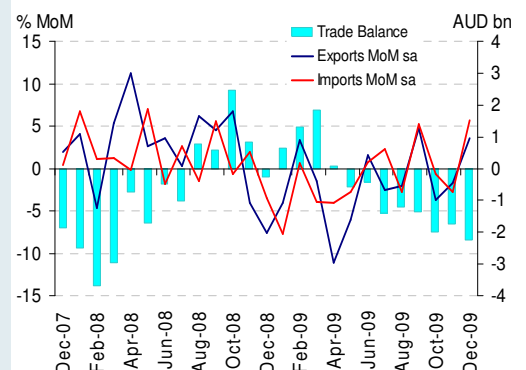
Source: CEIC

Korea: Consumer Price Index (CPI)



Source: CEIC

Australia: External Trade



Source: CEIC

seasonally adjusted 3.5% m/m (Nov: -1.7% m/m) as demand in different markets is recovering.

ASEAN

- **Singapore's** Manufacturing Purchasing Managers Index (PMI) for January revealed that output continues to expand albeit at a slower pace than the previous month. The PMI reading for the first month of the year came in at 51.4 points, a decline of 1.9 points over December. By components, new orders and new export orders, as well as production output and inventories all declined, pushing the overall PMI down. However, stockholdings of finished goods eased, overall imports and employment continued to expand and posted higher readings keeping the overall index above the threshold of 50. Meanwhile, the corresponding index for the electronics sector recorded further expansion at 53.8 in January, up 0.9 point over the previous month. This is the third consecutive month that the electronics sector has expanded.

- **Malaysia's** exports expanded 18.3% y/y in December 2009, rebounding from the previous month's 3.3% y/y slump on the back of higher overseas shipments of manufactured goods, and mining products. Imports meanwhile, accelerated 23.3% y/y from 2.3% y/y in November 2009. Malaysia's December trade surplus widened to MYR12 billion (USD3.5 billion) from MYR8.8 billion the previous month.

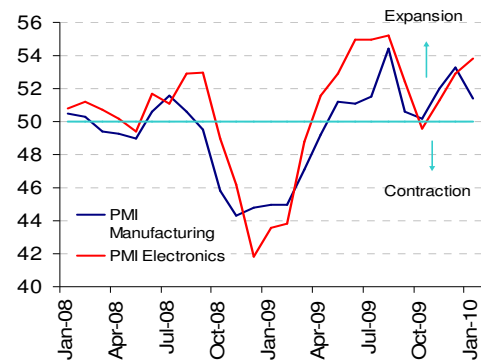
- **Indonesia's** central bank kept its policy interest rate unchanged, as expected, for a sixth straight month at 6.5% judging that inflation is not yet a risk. Furthermore, the central bank has signalled it is unlikely to raise interest rates as long as inflation is within the 2010 target band of 4%-6%. Indonesia's consumer price index (CPI) rose faster than the market expected in January, rising 3.7% year-on-year in January (Bloomberg: 3.5% y/y) compared with 2.8% y/y in December on the back of rising rice, sugar and processed food prices. Month-on-month non-seasonally adjusted inflation was up 0.8 % in January, accelerating from 0.3% m/m in December. Core CPI, meanwhile, was up 4.4% y/y, compared with 4.3% y/y a month earlier

Indonesia's exports surged 49.8% year-on-year in December as compared to November's 11.3% y/y rise and well above the market's forecast of a 24.5% y/y hike. The jump in exports was mainly due to a strong rise in commodity exports, especially palm-oil, coal and copper, as well as a low base from last year. Month-on-month, unadjusted exports leapt 23.9% reversing the 12.1% m/m contraction posted in November. Imports, meanwhile, soared 34.2% y/y, up from November's 2.9% y/y contraction. December's trade surplus came in at USD3 billion, widening from USD1.2 billion in the same month the previous year.

- Consumer prices in the **Philippines** grew 4.3% year-on-year in January following the 4.4% rise in the previous month and missing economist's forecasts for a 4.9% increase. The slowdown in inflation was attributed to the deceleration in the inflation rate of the heavily weighted food, beverages & tobacco index. Slower annual price increments in the indices of housing & repairs and miscellaneous items also contributed to the downtrend. On a monthly basis, inflation accelerated an unadjusted 0.6% m/m, the same rate as the previous month and in line with the market's expectation.

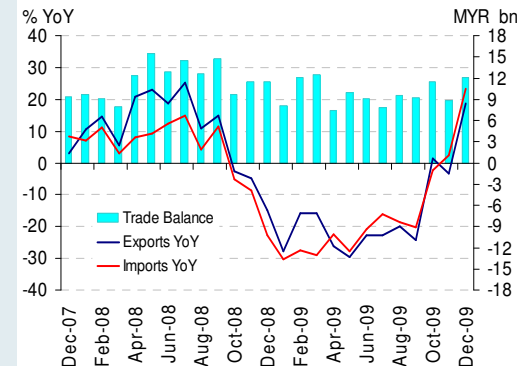
- **Thailand's** consumer prices increased 4.1% y/y in January from 3.5% y/y in the previous month and above the market forecast of a 3.9% y/y rise. The rise in inflation is due partly to base effects and partly to rising food and oil prices, which could persist into the near future. Month-on-

Singapore: Purchasing Managers Index (PMI)



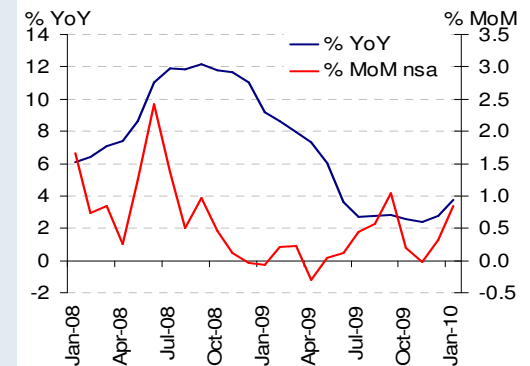
Source: CEIC

Malaysia: External Trade



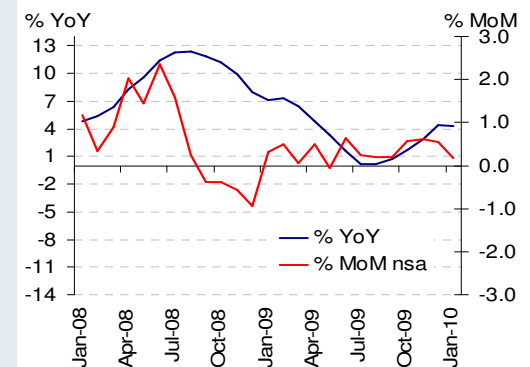
Source: CEIC

Indonesia: Consumer Price Index (CPI)



Source: CEIC

Philippines: Consumer Price Index (CPI)



Source: CEIC

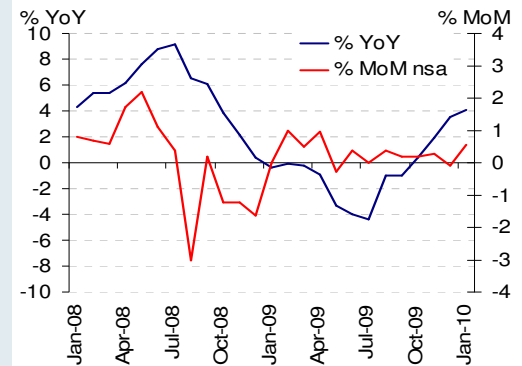
month, non-seasonally adjusted prices jumped 0.6% in January, having contracted 0.1% m/m in December. Core inflation, which excludes energy and food costs, rose by 0.6% year-on-year in January (Bloomberg: 0.4%), quickening from the previous month's 0.2% y/y rise

Asian Financial Markets

- In line with global trends, Asia-Pacific stock markets suffered heavy losses over the week ended Friday due to heightened sovereign debt fears in Europe that prompted a sell-off. Taiwan's reference index plunged 5.5% and was by far the worst performer of the region's stock markets. Indonesia's and India's equity markets slumped 3.5% while the Philippines dropped 3.3% and the Hong Kong and Singapore bourses fell 2.3%. Australia and Japan's stock markets fared better than most, slipping 1.4%.

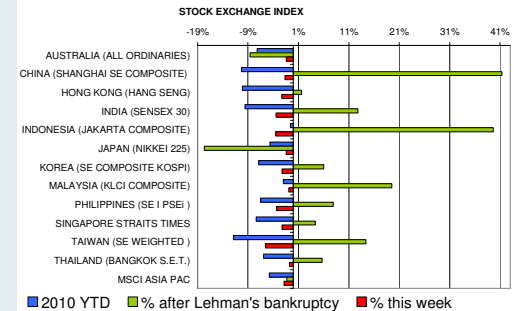
- Most currencies in the region posted minor depreciations against the US dollar over the week. A notable exception was the Australian dollar, which fell sharply by 2.2% after markets were surprised by the central bank's decision not to raise interest rates. The Japanese yen was the best performer of the week gaining 0.92% and the Thai baht appreciated 0.06%. The Indian rupee, meanwhile, depreciated 1.2%, the Singapore dollar 1.14% and the Malaysian ringgit was down 1.0%.

Thailand: Consumer Price Index (CPI)



Source: CEIC

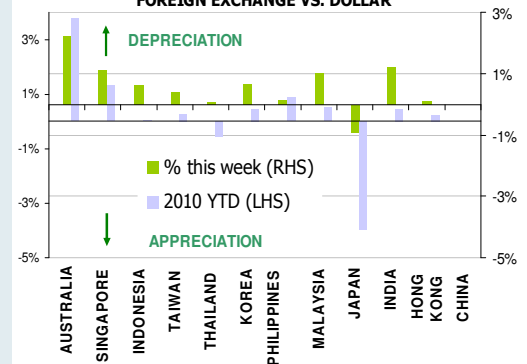
Asia: Stock Markets



Sources: Datastream and Bloomberg

Asia: Currencies

FOREIGN EXCHANGE VS. DOLLAR



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	2963	2939	-1.7	118.8
Hong Kong	Hang Seng	20249	19665	-2.3	43.3
Taiwan	Taiwan Weighted	7452	7218	-5.5	15.4
India	Sensex	16206	15791	-3.5	16.6
Japan	Nikkei 225	10279	10057	-1.4	69.2
Korea	Seoul Composite	1600	1567	-2.2	20.2
Indonesia	Jakarta Composite	2577	2519	-3.5	1.5
Malaysia	KLSE Composite	1261	1248	-0.9	1.4
Philippines	Philippines Composite	2881	2856	-3.3	0.4
Singapore	Straits Times	2730	2684	-2.3	5.2
Thailand	SET	699	691	-0.7	2.2
Australia	All Ordinaries	4605	4533	-1.4	24.6

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	-0.04	-0.03	-0.15	-0.15
Hong Kong	(HKD/USD)	7.77	7.77	0.09	-47.64	-46.68	-168.25	-168.25
Taiwan	(TWD/USD)	32.02	32.07	0.39	-0.22	-0.15	-0.86	-0.86
India	(INR/USD)	46.31	46.73	1.20	24.76	26.44	84.44	84.44
Japan	(JPY/USD)	90.16	89.44	-0.92	-3.83	-4.64	-39.15	-39.15
Korea	(KRW/USD)	1160	1169	0.67	9	14	22	22
Indonesia	(IDR/USD)	9360	9410	0.61	118	153	560	560
Malaysia	(MYR/USD)	3.42	3.44	1.00	199.10	150.00	245.00	245.00
Philippines	(PHP/USD)	46.4	46.6	0.13	0.6	0.6	1.5	1.5
Singapore	(SGD/USD)	1.42	1.42	1.14	10.10	9.50	22.25	22.25
Thailand	(THB/USD)	33.1	33.2	0.06	6.4	6.0	17.5	17.5
Australia	(USD/AUD)	0.88	0.86	-2.22	-81.98	-79.70	-335.90	-335.90

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	1.73	-15	2.03	n.a.	-	n.a.
Hong Kong	0.05	0	0.13	0	0.55	0
Taiwan	0.16	0	0.54	0	0.85	0
India	3.63	-1	4.67	6	n.a.	n.a.
Japan	0.16	0	0.45	-1	0.59	-1
Korea	2.44	0	2.88	0	3.99	-1
Indonesia	6.40	-4	7.00	-4	7.50	-20
Malaysia	2.04	0	2.22	5	2.36	7
Philippines	4.31	-38	4.44	-31	4.50	-6
Singapore	0.25	0	0.67	-1	0.92	0
Thailand	1.26	0	1.35	0	1.68	0
Australia	3.93	-14	4.11	-15	-	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	1.34	5	2.95	-6
Hong Kong	0.09	0	1.83	0
Taiwan	0.28	2	0.88	-1
India	3.92	14	7.48	33
Japan	-	n.a.	0.54	4
Korea	2.24	-4	4.79	-3
Indonesia	7.46	-5	8.52	-3
Malaysia	2.17	15	3.84	7
Philippines	4.10	1	6.30	-4
Singapore	0.43	-2	1.22	-4
Thailand	1.58	9	3.32	-1
Australia	4.02	-21	4.93	-7

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

Sources: Bloomberg.

2. Week Ahead: Highlights for the coming week include Korea's monetary policy meeting, China's January loan growth and exports/imports data, and Q4 GDP data in Indonesia

a).

Date	Country	Data	for	Previous	Forecast
8-Feb	Japan	Current Account Total	DEC	¥1103.0B	¥1011.7B
8-Feb	Japan	Adjusted Current Account Total	DEC	¥1304.8B	¥1250.0B
8-Feb	Japan	Trade Balance - BOP Basis	DEC	¥490.6B	¥669.4B
8-Feb	Japan	Bankruptcies (YoY)	JAN	-16.60%	-
8-Feb	India	FY10 Annual GDP Constant	1Q A	6.70%	7.00%
8-Feb	Taiwan	Total Exports (YoY)	JAN	46.90%	62.90%
8-Feb	Taiwan	Total Imports (YoY)	JAN	56.20%	100.80%
8-Feb	Taiwan	Total Trade Bal in US\$ Billion	JAN	\$1.65B	\$1.96B
8-Feb	Hong Kong	Foreign Currency Reserves	JAN	\$255.8B	-
9-Feb	Japan	Machine Tool Orders (YoY)	JAN P	63.40%	-
10-Feb	China	Actual FDI (YoY)	JAN	103.06%	-
10-Feb	China	New Yuan Loans	JAN	379.8B	1350.0B
10-Feb	Australia	Westpac Consumer Confidence	FEB	5.60%	-
10-Feb	Japan	Machine Orders (MoM)	DEC	-11.30%	8.00%
10-Feb	Japan	Machine Orders YOY%	DEC	-20.50%	-10.80%
10-Feb	Philippines	Total Exports (YoY)	DEC	5.10%	-
10-Feb	Philippines	Total Monthly Exports	DEC	\$3692.9M	-
10-Feb	Indonesia	GDP Constant Price (YoY)	4Q	4.21%	4.97%
10-Feb	Indonesia	GDP Constant Price (QoQ)	4Q	3.87%	-3.10%
10-Feb	Indonesia	Annual GDP	31-Dec	6.10%	4.41%
10-Feb	China	Trade Balance (USD)	JAN	\$18.43B	\$19.65B
10-Feb	China	Exports YoY%	JAN	17.70%	30.00%
10-Feb	China	Imports YoY%	JAN	55.90%	86.30%
10-Feb	Malaysia	Industrial Production YoY	DEC	-1.30%	-
10-Feb	Malaysia	Manufacturing Sales Value YoY%	DEC	-8.10%	-
10-Feb	Korea	Unemployment Rate (SA)	JAN	3.50%	-
11-Feb	Australia	Unemployment Rate	JAN	5.50%	5.60%
11-Feb	Australia	Participation Rate	JAN	65.20%	65.20%
11-Feb	Korea	South Korea 7-Day Repo Rate	FEB	2.00%	2.00%
11-Feb	China	Consumer Price Index (YoY)	JAN	1.90%	2.20%
11-Feb	Thailand	Consumer Confidence Economic	JAN	70.4	-
12-Feb	Japan	Consumer Confidence Households	JAN	37.6	38
12-Feb	India	Industrial Production YoY	DEC	11.70%	-

* Actual

Sources: Bloomberg and BBVA staff estimates.

b) Economic Events

Date	Country	Issue	Remarks
11-Feb	Korea	Bank of Korea Monetary Policy Committee 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)	2q09	7.9	-3.6	-7.5	6.1	-5.8	10.8	4.0	-3.9	0.8	-3.3	-4.9	0.6
	3q09	9.1	-2.4	n.a.	7.9	-5.1	7.8	4.2	-1.2	0.4	0.6	-2.8	0.6
	4q09	10.7	n.a.	n.a.	n.a.	n.a.	2.9	n.a.	n.a.	1.8	3.5	n.a.	n.a.
CPI inflation (% yoy) 1/	Dec-09	1.9	1.3	-0.2	7.3	-1.7	2.8	2.8	1.1	4.4	0.0	3.5	1.3
Exports (in local currency) (% yoy) 2/	Dec-09	17.7	9.2	41.9	4.8	12.0	12.7	25.1	-3.3	1.0	23.3	19.3	-18.9
Trade balance (US\$ bn) 3/	Dec-09	18.4	-4.3	1.6	-10.1	6.1	3.1	2.0	2.6	0.1	2.3	0.2	-2.5
Industrial production (% yoy) 4/	Dec-09	18.5	-9.5	47.3	11.7	5.3	33.9	2.1	-1.3	-2.9	14.4	30.7	-3.8
Retail sales (% yoy) 5/	Dec-09	15.9	11.3	14.0	n.a.	1.4	-10.6	36.4	4.4	n.a.	-1.4	10.0	4.9
Money supply (M2) (% yoy) 6/	Dec-09	27.6	10.7	5.7	16.6	3.1	9.6	9.9	9.5	7.2	11.3	6.5	4.7
Domestic credit (% yoy) 7/	Dec-09	31.7	-1.3	1.1	20.2	-1.0	-0.4	5.7	7.8	2.2	6.1	4.6	1.5
Unemployment rate (%) 8/	Dec-09	n.a.	4.9	5.7	n.a.	5.1	3.5	7.9	3.6	7.1	2.0	1.0	5.3

Notes: 1) Wholesale prices for India; Q409 figure for Australia;

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

3) Figure for Australia includes services; Nov-09 figures for Philippines.

4) Q309 Figure for Australia and Malaysia; Aug-09 figure for Hong Kong; Nov-09 figure for India, Indonesia and Malaysia

5) Not available for India and Philippines; 3Q09 for Malaysia and Australia. Nov09 figure for Singapore and Thailand

6) Figure for Australia is broad money in national definition; figure for Hong Kong is only counted HK dollar M2; Nov-09 figure for India, Korea, Indonesia and Philippines

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

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

Source: CEIC and Datastream