

Weekly Observatory

March 1, 2010

Economic and Financial Market Highlights (20 - 26 February 2010)

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The past week featured numerous data releases confirming strong growth momentum, with many countries posting better-than-expected Q4 GDP figures. As exports and industrial production continue to recover, domestic demand is also on the rise with a pick up in retail sales. Meanwhile, underlying inflationary pressures remain subdued, although rising food prices remain a concern, as do rising property prices in some cases (Hong Kong and China). With data confirming recoveries on track, markets were largely influenced by external developments from the fallout in Greece, and equity markets followed the downtrend of other global markets. In the coming week, monetary policy meetings will be held in Australia, Indonesia and Malaysia, along with February inflation figures and export data in a number of countries; Furthermore, China's People's National Congress, in which the governments policies for this year will be laid out will begin in midweek.

Greater China

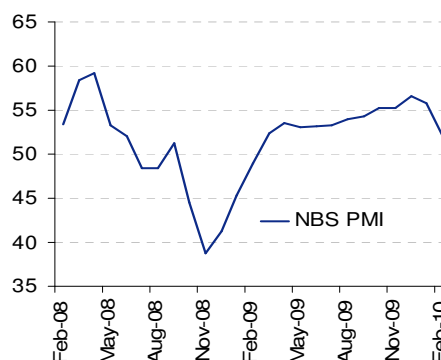
- **China's** official Purchasing Managers Index declined for the second successive months to 52 in February from 55.8 the previous month. A figure above 50 indicates that manufacturing is expanding. By components, new orders and output remained above the threshold level of 50 while employment, backlog of orders and stocks all fell below 50, dragging the overall index downwards. Meanwhile, the HSBC China Manufacturing Purchasing Managers Index also fell, to 55.8 in February from 57.4 in January, snapping four straight months of gains

Foreign Direct Investment (FDI) in **China** increased in January for the sixth month in a row, rising 7.6% y/y to USD8.1 billion. The January y/y increase is mostly due to base effects and is partially distorted by the Lunar New year which resulted in fewer working days this January compared to last year. For 2009 as a whole, FDI declined by 2.6% to USD90 billion (compared to a large 23.5% in 2008).

The annual legislative meetings of the National People's Congress (NPC), and the Chinese People's Political Consultative Conference National Committee will commence on March 5 and March 3 respectively. Markets will be watching for various macro policy themes, including policies to address imbalances between consumption and investment, and domestic and external demand; containing inflation and risks of housing price bubbles; improving people's livelihood; and optimization of the industrial sector.

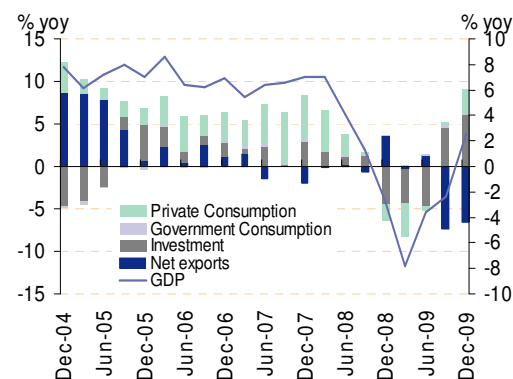
- **Hong Kong's** Q4 GDP rose at a faster-than-expected pace of 2.6% year-on-year (y/y), well ahead of the market consensus of 1.5% yoy (BBVA: 1.2% y/y), bringing the 2009 full-year outturn to a contraction of 2.7%. On a quarter-on-quarter basis (qoq, seasonally adjusted), GDP grew 2.3% (non-annualized), up from 0.4% in the last quarter. Domestic demand served as the main driver of Q4 growth, underpinned by

China: Purchasing Managers Index (PMI)



Source: CEIC

Hong Kong: GDP Growth and Contribution to Growth



Source: CEIC

improvements in the labor market and by positive wealth effects from the rise in the property and stock markets. We expect the Hong Kong economy to expand by 4.5% y/y in 2010, in line with the latest official forecast of 4%-5%.

Hong Kong's total exports showed significant year-on-year increases, rising by 18.4% following a year-on-year increase of 9.2% in December 2009. Concurrently, the value of imports of goods increased by 39.5% over a year earlier after a year-on-year increase of 18.7% in December 2009. A visible trade deficit of HKD29.5 billion was recorded in January 2010.

Hong Kong's consumer price inflation remained subdued in January, at 1.0% y/y, a smaller increase than December's 1.3% y/y rise and in line with the market's forecast. Electricity, alcohol and clothing pressured prices upwards while the price of durable goods and services contracted. It should be noted, however, that the decrease in inflation rates were mainly caused by the high comparison base last year, when the Chinese New Year was in January, rather than in February as this year. On a month-on-month seasonally adjusted basis, the consumer price index (CPI) for the 3-month period from November 2009 to January 2010 was 0.3%, which compared to 0.8% for the previous 3-month period.

- **Taiwan's** economy continued to emerge from its deepest recession on record with Q4 GDP growth coming out well ahead of market expectations. Year-on-year, GDP grew 9.2% in the fourth quarter of last year, the fastest pace since June 2004 due to increases in exports and private consumption. Quarter-on-quarter (q/q) seasonally adjusted growth accelerated to 4.2% in Q4 (non annualized) from 2.5% q/q in Q3 boosted by a strong recovery in exports, especially to Mainland China, as well as improving domestic demand. Year-on-year, GDP growth accelerated to 9.2%, well ahead of expectations of a 7.1% y/y increase.

Taiwanese export orders in January soared a record 71.8%, below the median 79.9% increase forecast by markets. This surge was mostly due to base effects and the Lunar new year, although recovering demand from the US and Japan and orders from Mainland China all boosted orders. In the same period, Taiwan's seasonally adjusted industrial output edged upwards 1.1% month-on-month in January, the third sequential rise albeit the slowest one of the three.

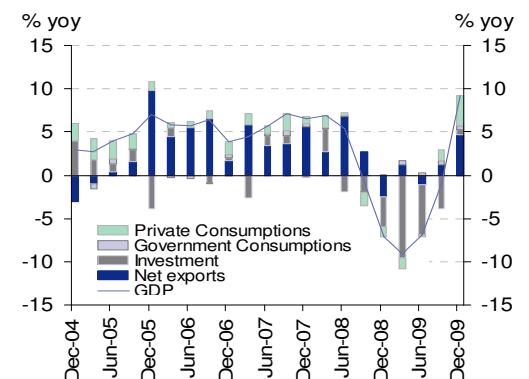
Taiwan's seasonally adjusted unemployment rate dropped to 5.73% in January from December's 5.8%. In the same period, the labour participation rate slipped 0.1 percentage points to 58%. The drop in the jobless rate was mainly due to workers exiting the labour at a faster pace than the rise in unemployed persons.

India

- **India's** economy expanded at a lower-than-expected 6% y/y in the last quarter of 2009 (Forecast: 6.9% y/y) due to poor monsoon rainfall which in turn resulted in a low agricultural output. The Indian authorities maintain nevertheless, maintain their estimate for the 2009-10 fiscal year of 7.2%.

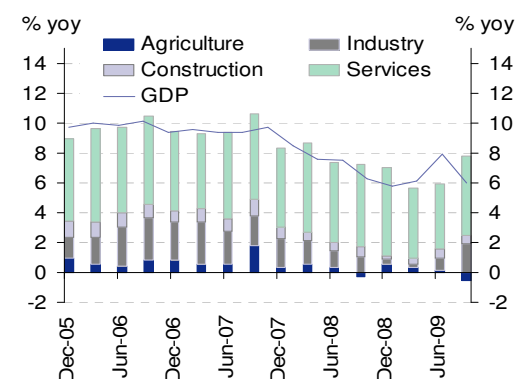
The Indian government presented its budget for fiscal year 2010-11 aiming to rein in the deficit from 6.9% of GDP in fiscal year 2009-10 to 5.5%. The proposed measures include a hike in gasoline prices, a rise in excise taxes and the partial sell-off of some state-owned assets. The government also wants to step up spending on rural development, power and transport infrastructures. In nominal terms, the new budget will spend 8.7% more than last year.

Taiwan: GDP Growth and Contribution to Growth



Source: CEIC

India: GDP Growth and Contribution to Growth



Source: CEIC

Japan/Korea/Australia

- **Japan's** industrial output was up a seasonally adjusted 2.5% m/m in January, sharply higher than expectations of a 1.0% increase following the 1.9% m/m gain in December. This is the 11th consecutive monthly rise. On an annual basis, industrial production jumped 18.2% again topping forecasts for a 16.5% y/y increase after the 5.1% y/y gain in the previous month. The hike in output was largely attributed to strong external demand. Japanese exports in January climbed a seasonally adjusted 8.6% over the previous month, picking up from December's 4.5% m/m rise. The positive figure reflects how China and other Asian countries continue to demand more semiconductors, plastics and chemicals for manufacturing and construction and compensates the still-weak demand from Europe and the US.

As for domestic demand, retail sales in January surged by a seasonally adjusted 2.9% over the previous month versus forecasts for a 0.3% m/m increase and follow a upwardly revised 0.2% m/m contraction in December.

However, deflation persisted in January, with core inflation of -1.3% y/y, the same pace as the previous month. A sharp drop in energy prices as compared to last year and milder drops in furniture, clothing and foods all dragged prices downwards. On a seasonally adjusted basis, core inflation slipped 0.1% in January over the previous month the same rate as in the previous month.

- Sales at **South Korea's** major department stores rose in January for an 11th month as the nation's economic recovery strengthened. Spending climbed 4.8% from a year earlier as compared with a 12.5% y/y gain in December on the back of improving household and luxury goods sales which were partially offset by a sharp drop in grocery sales. Sales at the country's three leading discount store chains fell by 13.4% on the year, a sharp reversal from the 3.9% growth reported in December. The drop was due to the shift in the timing of the Lunar New Year to February from January last year, which affected the surge in demand normally associated as consumers stock up on foods and gifts.

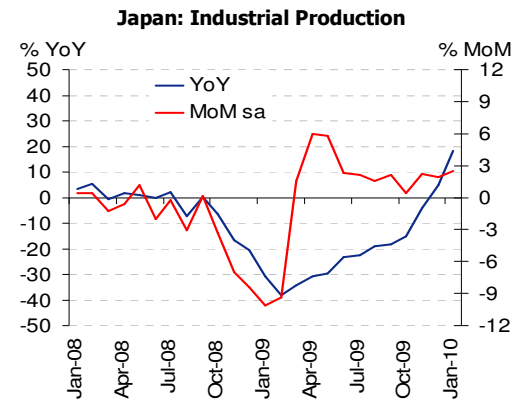
Korea's consumer confidence eased slightly in February, with the sentiment index falling to 111 after remaining at 113 for three straight months. (A figure exceeding 100 indicates optimists outnumber pessimists.)

Korea's export jumped 31.0% y/y in February. It means almost sixteen points below January data (46.7% y/y), but six points over the market's expectation (24.9% y/y). The trade deficit was down 16.8% y/y in the same period.

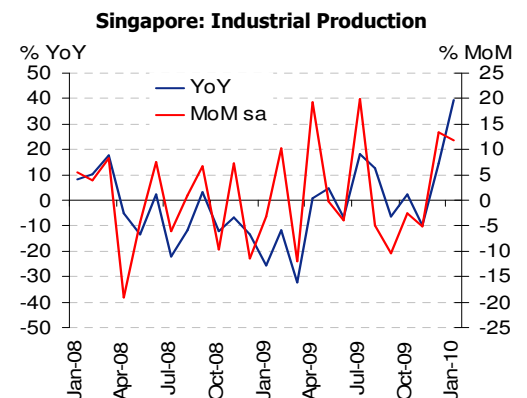
ASEAN

- **Singapore's** industrial output soared 39.4% y/y in January, up from 14.9% y/y rise in the previous month and beating the market forecast of 19.3%. This surge in production is due to a leap in electronics production, which rocketed 80.6% y/y (vs. 58.4% y/y in December) and a strong increase in biomedical output (which is quite volatile on a monthly basis). However these growth figures are mostly due to base effects after last years collapse in manufacturing. On a seasonally adjusted basis, output expanded 11.8% in January over the previous month, the second sequential expansion albeit at a slower a pace.

Singapore's consumer price index edged upwards 0.2% y/y in January after inflation remained flat in December. Prices climbed due to higher transportation and healthcare costs and to base effects. On a month-



Source: CEIC



Source: CEIC

on-month, seasonally adjusted basis, prices inched up 0.4% from reversing the 0.3% m/m contraction posted in December.

- **Malaysia's** economy expanded 4.5% y/y in the last quarter of 2009, beating the market's forecast of a 2.9% y/y growth. GDP was boosted by the implementation of the fiscal stimulus measures, which have gained further momentum during the quarter, providing an additional impetus to growth. The gradual recovery of external demand and improving private demand has also supported growth. For 2009 as a whole, the Malaysian economy shrank -1.7%, better than the authorities' forecast of a 3% contraction.

Also in Malaysia, inflation in January picked-up to 1.3% y/y from 1.1% the previous month but was below the market's expectation of 1.5% y/y rise. Prices edged upwards in most price sub-categories, with food and utilities posting relatively strong increases.

- **Indonesia's** inflation accelerated to 3.8% y/y, the fastest pace in nine months and below the market's forecast of a 4.0% y/y rise. Consumer prices accelerated amid rising commodity and food prices, putting pressure on the central bank to raise interest rates this year.

- **Philippine** imports jumped 17.9% y/y in December from a 7.0% y/y increase posted the previous month on the back of surging imports of electronic components. This jump in imports widened December's trade deficit to USD7.2 billion from USD3.6 billion the previous month. For 2009, imports dropped 24.2% to USD43 billion from the 2008 level of USD56.7 billion. The trade balance in 2009 settled at a deficit of USD4.7 billion, 39% less than the USD7.7 billion deficit registered the previous year.

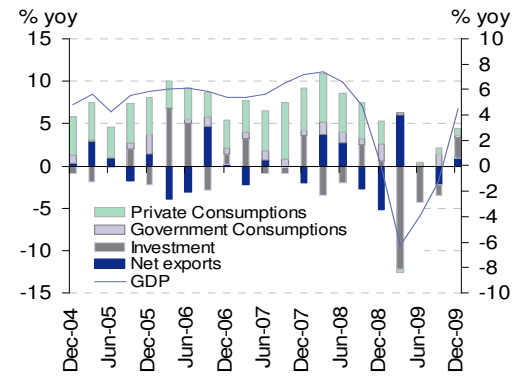
- **Thailand** GDP grew at its quickest pace in 10 years, expanding 3.6% in the fourth quarter from the July-September period, up from an upwardly revised 1.7% q/q growth in the third quarter. The expansion was much higher than what the market's 1.3% q/q growth and has fuelled speculation that an interest hike could be imminent after the Bank of Thailand's governor stated that the strong growth figure supported the case for normalizing monetary policy. Growth was driven by a rebound in exports, tourism and household and government spending. Compared with a year earlier, the Thai economy rose 5.8%. Full-year GDP saw a contraction of 2.3%. The Thai authorities upgraded their 2010 growth forecast to 3.5%-4.5% from their November assessment of a 3%-4% expansion.

Thailand's manufacturing output slipped a seasonally adjusted 5.6% month-on-month in January after surging 10.7% m/m in December. The drop in production stemmed from oil refinery's annual maintenance shutdown and accelerated production in the previous month to build up inventory in many industries. Meanwhile, inflation accelerated to 4.1% y/y in January from 3.5% y/y in the previous month, which was partly due to low base effect following lower oil prices in the same period of last year, as well as rising raw food prices. At the same time, core annual inflation increased to 0.6% y/y from 0.3% y/y in December.

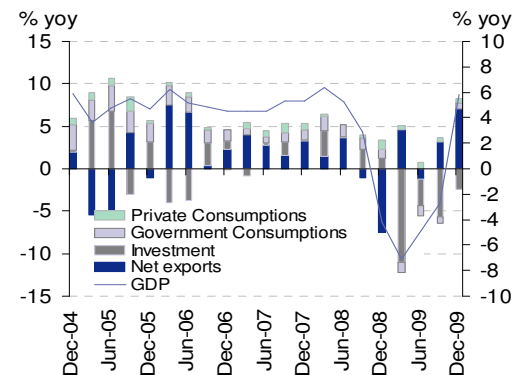
Asian Financial Markets

- Most equity markets in the region posted slight losses this week in line with their counterparts in the US and Europe. Meanwhile, currencies were mixed with strong economic data across the region offsetting a rise in risk aversion due to the fallout from the Greece sovereign risk situation.

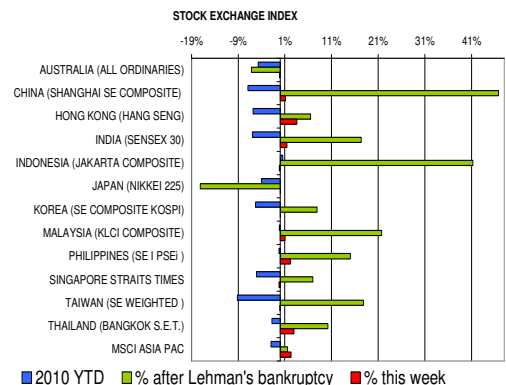
Malaysia: GDP Growth and Contribution to Growth



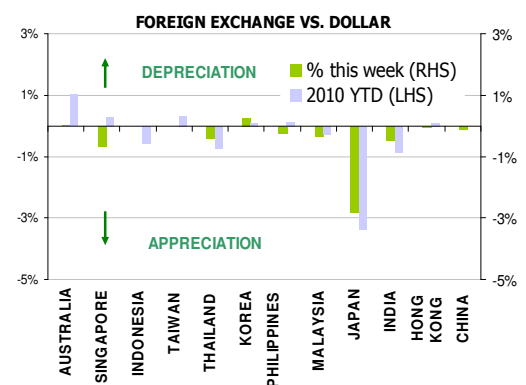
Thailand: GDP Growth and Contribution to Growth



Asia: Stock markets



Asia: Currencies



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	3024	3052	#VALUE!	116.9
Hong Kong	Hang Seng	20495	20609	3.6	35.3
Taiwan	Taiwan Weighted	7510	7436	#VALUE!	14.1
India	Sensex	16293	16430	1.5	12.9
Japan	Nikkei 225	10236	10126	0.0	49.4
Korea	Seoul Composite	1610	1595	0.0	15.6
Indonesia	Jakarta Composite	n.a.	n.a.	#VALUE!	n.a.
Malaysia	KLSE Composite	n.a.	n.a.	#VALUE!	n.a.
Philippines	Philippines Composite	3017	3044	2.2	0.3
Singapore	Straits Times	2760	2751	-0.2	4.5
Thailand	SET	715	721	3.0	2.7
Australia	All Ordinaries	4679	4651	-0.1	28.0

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	-0.10	6.78	6.77	6.66	6.66
Hong Kong	(HKD/USD)	7.76	7.76	-0.07	7.76	7.76	7.74	7.74
Taiwan	(TWD/USD)	32.07	32.08	0.00	31.79	31.80	31.15	31.15
India	(INR/USD)	46.23	46.12	-0.49	46.40	46.34	47.05	47.05
Japan	(JPY/USD)	90.19	89.25	-2.82	90.14	89.21	88.89	88.89
Korea	(KRW/USD)	1155	1158	0.24	1158	1163	1169	1169
Indonesia	(IDR/USD)	9320	9335	0.00	9407	9425	9836	9836
Malaysia	(MYR/USD)	3.40	3.40	-0.34	3.41	3.41	3.43	3.43
Philippines	(PHP/USD)	46.2	46.2	-0.24	46.6	46.6	47.6	47.6
Singapore	(SGD/USD)	1.41	1.41	-0.69	1.41	1.41	1.41	1.41
Thailand	(THB/USD)	33.1	33.0	-0.42	33.1	33.1	33.2	33.2
Australia	(USD/AUD)	0.89	0.89	-0.01	0.89	0.88	0.85	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	1.67	#VALUE!	2.07	n.a.	-	n.a.
Hong Kong	0.05	0	0.13	0	0.51	-6
Taiwan	0.16	#VALUE!	0.54	#VALUE!	0.86	#VALUE!
India	3.69	4	4.97	13	n.a.	n.a.
Japan	0.16	0	0.45	0	0.59	0
Korea	2.43	0	2.88	0	3.85	-2
Indonesia	6.38	-1	7.08	8	7.65	7
Malaysia	2.03	0	2.25	1	2.42	3
Philippines	3.81	-50	4.00	-25	4.13	-6
Singapore	0.31	6	0.67	0	0.92	0
Thailand	1.26	0	1.35	0	1.68	0
Australia	3.99	8	4.16	0	-	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	1.39	#VALUE!	2.95	#VALUE!
Hong Kong	0.10	1	1.67	-23
Taiwan	0.30	#VALUE!	0.91	#VALUE!
India	4.10	5	7.59	6
Japan	-	n.a.	0.51	-1
Korea	2.21	-3	4.62	-1
Indonesia	7.50	-1	8.52	2
Malaysia	2.14	0	3.85	-1
Philippines	4.06	-1	6.41	4
Singapore	0.39	1	1.30	-5
Thailand	1.58	-1	3.46	1
Australia	4.23	14	5.12	-3

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

Sources: Bloomberg.

2. Week Ahead:

a). Another busy week ahead, with Australia releasing its GDP estimate for 4Q09 and host of external trade and activity data being released. Central banks in the region will also be active this week, with three policy meeting taking place.

Date	Country	Data	for	Previous	Forecast
28-Feb	Korea	Ext Trade - Export (YoY)	FEB	46.70%	24.90%
28-Feb	Korea	Ext Trade - Imports (YoY)	FEB	26.40%	38.50%
28-Feb	Korea	Ext Trade - Balance in US\$ Mln	FEB	-461	--
1-Mar	Australia	Australia Net Exports of GDP	4Q	-1.8	-1.1
1-Mar	China	PMI Manufacturing	FEB	55.8	55.2
1-Mar	Taiwan	HSBC Taiwan Manufacturing PMI	FEB	55.8	--
1-Mar	China	HSBC Manufacturing PMI	FEB	57.4	--
1-Mar	Indonesia	Inflation (YoY)	FEB	3.72%	3.97%
1-Mar	Indonesia	Inflation NSA (MoM)	FEB	0.84%	0.45%
1-Mar	Indonesia	Core Inflation (YoY)	FEB	4.43%	4.10%
1-Mar	Indonesia	Exports (YoY)	JAN	49.80%	72.30%
1-Mar	Indonesia	Total Imports (YoY)	JAN	33.40%	51.30%
1-Mar	Indonesia	Total Trade Balance	JAN	\$3002M	\$2418M
1-Mar	Malaysia	Unemployment Rate	4Q	3.60%	--
1-Mar	Indonesia	Danareksa Consumer Confidence	FEB	86.8	--
2-Mar	Japan	Jobless Rate	JAN	5.10%	5.10%
2-Mar	Australia	Retail Sales s.a. (MoM)	JAN	-0.70%	0.50%
2-Mar	Australia	Building Approvals (MoM)	JAN	2.20%	1.00%
2-Mar	Australia	Building Approvals (YoY)	JAN	53.30%	59.80%
2-Mar	Thailand	Consumer Price Index (YoY)	FEB	4.10%	3.50%
2-Mar	Thailand	Consumer Price Index NSA (MoM)	FEB	0.60%	0.40%
2-Mar	Thailand	Core CPI (YoY)	FEB	0.60%	0.40%
2-Mar	Korea	Consumer Price Index (MoM)	FEB	0.40%	0.50%
2-Mar	Korea	Consumer Price Index (YoY)	FEB	3.10%	2.70%
2-Mar	Korea	Core Consumer Price Index (YoY)	FEB	2.10%	--
2-Mar	India	Exports YoY%	JAN	9.30%	--
2-Mar	India	Imports YoY%	JAN	27.20%	--
2-Mar	Singapore	Purchasing Managers Index	FEB	51.4	--
2-Mar	Singapore	Electronics Sector Index	FEB	53.8	--
3-Mar	Australia	Gross Domestic Product (QoQ)	4Q	0.20%	0.90%
3-Mar	Australia	Gross Domestic Product (YoY)	4Q	0.50%	2.40%
3-Mar	Hong Kong	Purchasing Managers Index	FEB	55.8	--
3-Mar	Korea	Service Industry Output YoY	JAN	5.30%	--
3-Mar	Korea	Industrial Production (MoM)	JAN	3.50%	-0.60%
3-Mar	Korea	Industrial Production (YoY)	JAN	33.90%	36.40%
4-Mar	Australia	Trade Balance	JAN	-2252M	-1600M
4-Mar	Hong Kong	Retail Sales - Value (YoY)	JAN	16.00%	--
5-Mar	Philippines	Consumer Price Index (YoY)	FEB	4.30%	4.50%
5-Mar	Philippines	Consumer Price Index NSA (MoM)	FEB	0.20%	--
5-Mar	Taiwan	CPI YoY%	FEB	0.29%	2.10%
5-Mar	Taiwan	WPI YoY%	FEB	6.68%	--
5-Mar	Malaysia	Exports YoY%	JAN	18.70%	27.10%
5-Mar	Malaysia	Imports YoY%	JAN	23.30%	30.50%
5-Mar	Malaysia	Trade Balance	JAN	12.10B	8.85B

Sources: Bloomberg and BBVA staff estimates.

b) Economic Events

Date	Country	Issue	Remarks
2-Mar	Australia	RBA CASH TARGET	Expected to raise by 0.25% to 4.00%
4-Mar	Indonesia	Bank Indonesia Reference Rate	Expected to remain unchanged at 6.5%

4-Mar	Malaysia	Overnight Rate	Expected to remain unchanged at 2.00%
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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	-10.0	-3.3	-10.4	4.5	14.1	-27.5
Trade balance (US\$ bn) 3/	Nov-09	19.1	-2.7	2.1	-9.7	4.2	4.6	4.3	2.6	-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	-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	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	9.6	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	-0.4	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 and Datastream