

Weekly Observatory

March 8, 2010

Economic and Financial Market Highlights (27 February-5 March 2010)

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Incoming data confirm that the regional recovery continues. On the policy front, Malaysia raised interest rates, which took some market participants by surprise. Australia also hiked rates for a fourth time, as widely expected. Meanwhile in China, the annual People's National Congress commenced, with a series of policy announcements and targets for 2010. Equity and currency markets rose for the week on the back of continuing strong economic indicators and receding fears of sovereign debt crises in Europe. In the coming week monetary policy meetings will take place in Korea (markets expect no change, although rate hikes may begin soon given the strength of the recovery). Central banks in Thailand and the Philippines will also have policy meetings. Finally, China will release a battery of data, including exports, inflation, new loans, industrial production, fixed investment, and retail sales.

Greater China

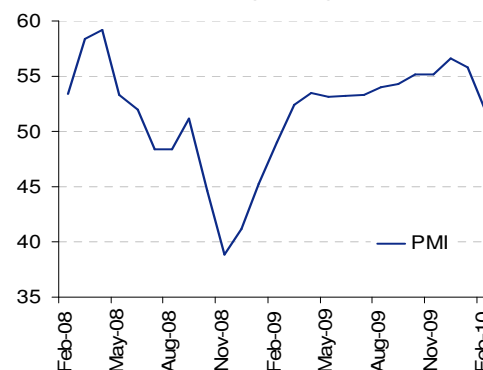
- **China's** annual People's National Congress commenced this past week, with Premier Wen Jiabao announcing key policy targets for the coming year. The Premier stated that the authorities would maintain a proactive fiscal policy stance and loose monetary policy. The targeted fiscal deficit will amount to 2.9% of GDP (compared to last year's 2.2%, which was below target). Spending is expected to be tilted more toward the social sector, and to encouraging private consumption, with investment on existing projects rather than expansion of new initiatives. The official GDP growth target is 8.0% (widely viewed as a minimum), with an emphasis on quality growth. Finally, the authorities are aiming to keep inflation to 3%.

The official Purchasing Managers Index (PMI) declined for the second successive month to 52.0 in February from 55.8 the previous month. (A figure above 50 indicates that manufacturing is expanding.) By components, new orders and employment 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 4 months of gains.

- **Hong Kong's** manufacturing activity continued to expand in February, driven by rising demand from mainland China, though the rate of growth slowed from January because of the Lunar New Year holiday. The purchasing manager's index (PMI) fell to 54.6 in February from 55.8 the previous month. Although new orders from China remain strong, orders from elsewhere weakened, driving the overall index down.

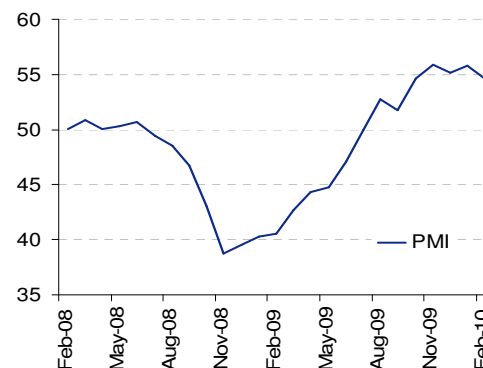
Retail sales were up 6.6% (y/y) in January over a year earlier following December's 16% y/y surge and below expectations of a 10.1% y/y increase. The slowdown in retail sales was due to the Lunar New year effect, which last year boosted sales in January. Sales of motor

China: Purchasing Managers' Index



Source: CEIC

Hong Kong: Purchasing Managers' Index



Source: CEIC

vehicles surged while demand for jewellery and gold rose sharply.

- **Taiwan's** consumer price index (CPI) rose to 2.4% (y/y) in February after creeping upwards by 0.3% y/y in January. The outturn was above expectations of 2.1% and is mainly due to base effects and the Chinese New Year. Monthly, the consumer price index (seasonally adjusted) rose 0.1% in February from 0.3% in the previous month.

The HSBC Taiwan Purchasing Managers Index rose to 62.5 in February from 61.7 in January, the largest expansion since 2005. The PMI has been over 50 for 12 consecutive month, further evidence of a strengthening recovery (a reading above 50 indicates the manufacturing sector is expanding). The robust pace of activity may prompt the central bank to tighten policy to cool the economy.

•India

- **India's** exports expanded 11.5% year-on-year in January, up from 9.3% y/y in December. The increase was due to rising demand from the US and Europe, especially of jewellery and motor vehicle parts, and base effects. Meanwhile, buoyant domestic demand boosted imports, which surged 35.5% y/y (December: 27.7% y/y) resulting in a widening of the trade deficit to USD10.4 billion.

Japan/Korea/Australia

- **Japan's** current account balance recorded a surplus of JPY899.8 billions (USD 9.9 billion) in January, reversing a year-early deficit of JPY132.7 billion. The figure exceeded the surplus of 750 billion yen the market had expected.

Japan's seasonally adjusted unemployment rate in January unexpectedly fell for the second consecutive month, dropping to 4.9%, from 5.1%. January's jobless rate was better than expectations of no change. The drop in the number of unemployed was due to a jump in new jobs as the participation rate stood unchanged at 59.2%.

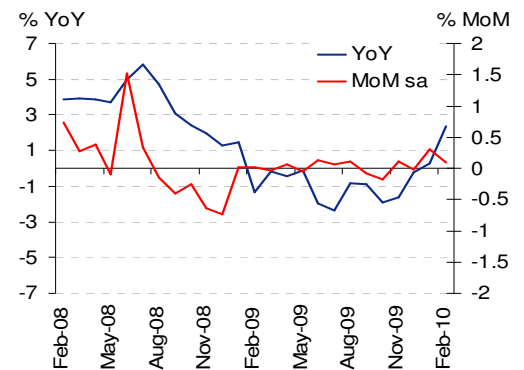
- **Korea's** exports jumped 31.0% y/y in February, above market forecast of a 24.9% y/y rise due to an increase in global demand for semiconductors, cars and flat-panel displays. Korean exports are particularly benefitting from rising demand from China. Imports rose 36.9% (y/y), mainly due to a rise in crude-oil prices and higher demand for fuel amid the economic recovery. The trade account turned back to surplus, of USD2.3 billion for the month, from last month's deficit of USD0.4 billion.

Korea's consumer price index (CPI) slowed to 2.7% y/y in February, in line with market expectations, down from the 3.1% y/y rise posted in January. (Inflation remains within the central bank's inflation target range of 2.5%-3.5%.) Monthly inflation in February increased 0.4% (m/m) the same rate of the previous two months and below markets forecast of 0.6%. Core inflation in February was 1.9% (y/y), the lowest since June 2006 and versus 2.1% in the previous month.

Korea's Industrial Production (IP) in January rose 36.9% (y/y), equivalent to a 0% change m/m s.a., below expectations of a 0.6% rise. A rise in production of semiconductors and mobile phone components boosted growth although base effects still account for a significant part of the year-on-year increase.

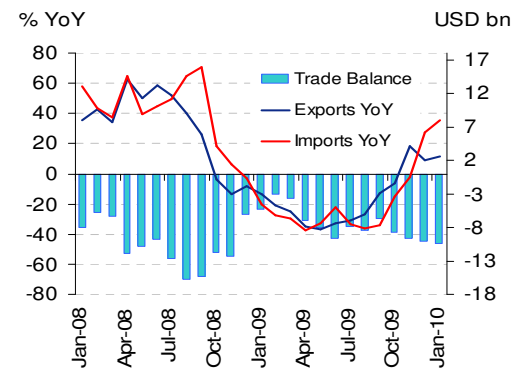
- **Australia's** economy grew by a relatively strong 0.9% q/q sa in the fourth quarter, in line with expectations. The pace of growth increased from a revised 0.3% in Q3, and on a year-on-year basis amounted to 2.7% for the quarter, slightly ahead of the market consensus of 2.4%.

Taiwan: Consumer Price Index (CPI)



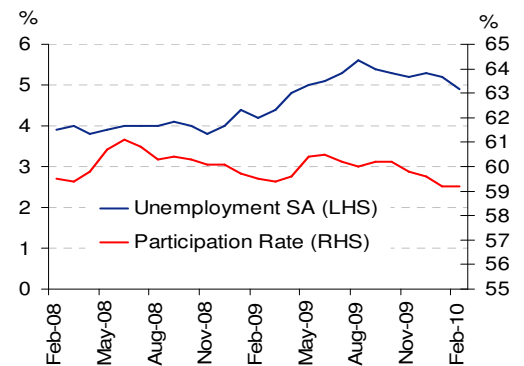
Source: CEIC

India: External Trade



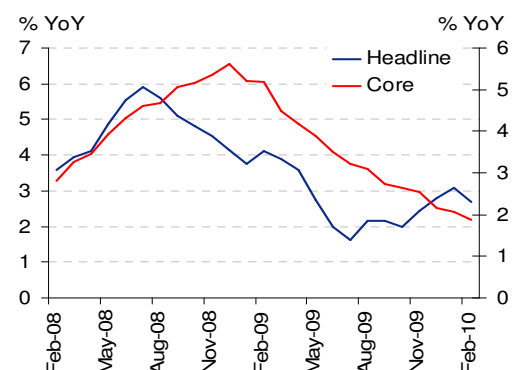
Source: CEIC

Japan: Unemployment Rate



Source: CEIC

Korea: Core Consumer Price Index



Source: CEIC

The Q4 outturn brings 2009 annual growth to 1.3%. Growth was mainly driven by investment, with spending on machinery and equipment adding 0.8 percentage points to quarterly GDP. Private and government consumption also remained strong. Net exports, however, were a drag on growth, given relatively higher import growth.

As widely expected, the Reserve Bank of Australia (RBA) again raised its policy rate, from 3.75% to 4.00%. The move was the fourth rate hike since October (the RBA paused in February), bringing cumulative rate hikes to 100bp to date. The RBA has been the region's most aggressive central bank in this regard. In its policy statement, the RBA cited stronger than expected improvements in economic conditions, and noted that unemployment appears to have peaked. Headline inflation—0.5% q/q in Q4, or 2.1% y/y—remains within the RBA's target range of 2%-3%.

Australia's seasonally adjusted trade deficit narrowed sharply in January, falling to a seasonally adjusted AUD1.07 billion from AUD2.17 billion in December. The fall in the deficit, however, was mainly due to sliding imports than strong export growth. Overseas shipments crept upwards at a seasonally adjusted pace of 1.4% m/m, down from December's 4.0% m/m increase while imports contracted sharply, dropping 3.3% following the previous month's 5.8% m/m rise.

Retail sales rose sharply in January by 1.2% m/m sa, rebounding from a decline in December. The increase was twice market expectations and signals robust consumer spending. Finally, new dwelling approvals slumped a seasonally adjusted 7.0% m/m in January, the first fall in approvals in five months. Higher borrowing cost as interest rates rise and the end of government grants to first time buyers are the main cause in the fall in new approvals.

ASEAN

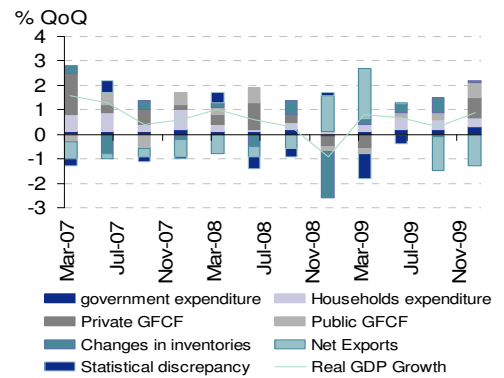
- **Singapore's** Purchasing Manager Index (PMI) rose in February 0.5 points to reach 51.9 points. February's advance marks the tenth consecutive month of expansion for Singapore's manufacturing sector. The electronics PMI meanwhile, experienced a slight decline to 53.0 points in February from 53.8 in January. Nevertheless, despite these contractions in the index. Manufacturing at the island state continues to expand as recovery takes hold.

- **Indonesian** inflation rose on a y/y basis to 3.8%, below the market's forecast of a 4.0% y/y rise. Inflation has been rising slightly due to higher commodity and food prices. Year-on-year core inflation in February was 3.9% compared with 4.4% in January, 0.2 points below market expectations.

As widely expected, the central bank left its benchmark interest rate unchanged at 6.5% during its monthly policy meeting. Bank Indonesia said the economic recovery is likely to be stronger than previously thought as household consumption and exports rebound. BI also expects inflationary pressures to remain subdued in the first half of the year, with the market positioned for no rate increases during that timeframe.

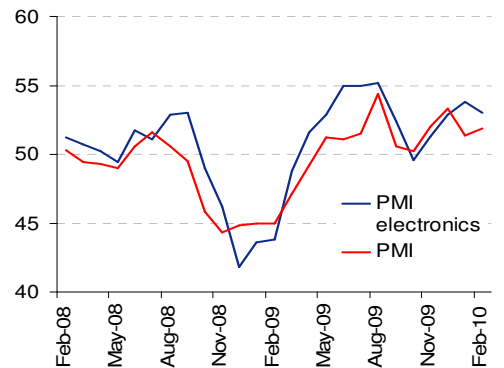
Indonesia exported USD 11.6 billion in January, a 58.9% y/y increase, partly caused by the low base effect. However the results were below market expectations of a 72.3% surge and as compared with December's overseas shipments, exports fell 13.3% m/m due to fewer commodities and raw materials exports. On the other hand, Indonesian's imports also posted a sharp rise, soaring 44.0% y/y, but below the market's expectation (51.3%). As a result, the trade surplus

Australia: GDP Growth and Contribution to GDP



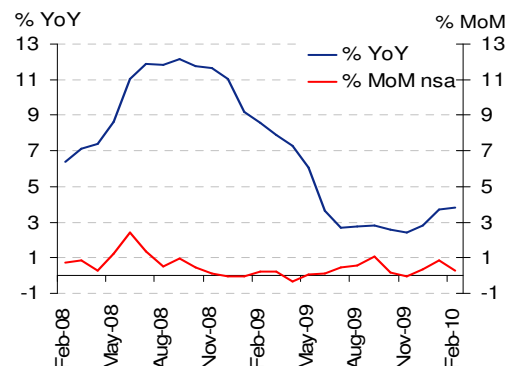
Source: CEIC

Singapore: Purchasing Managers' Index



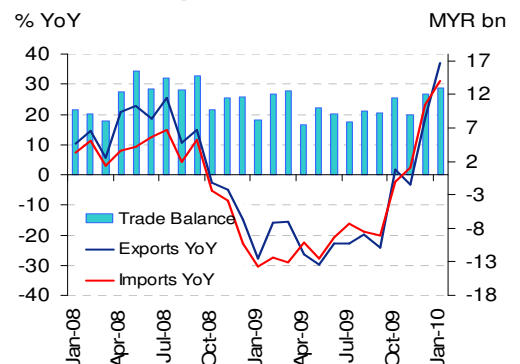
Source: CEIC

Indonesia: Consumer Price Index (CPI)



Source: CEIC

Malaysia: External Trade



Source: CEIC

narrowed from USD3.05 billion in December to USD2.03 billion in

- **Malaysia's** central bank raised its overnight policy rate by a quarter point to 2.25%, becoming the second major central bank in the Asia-Pacific region to raise interest rates after Australia's Reserve Bank (China and India have already been tightening policy through hikes in reserve requirements). The hike was the first rate adjustment since April 2009, when BNM cut rates. The central bank stated that it expects economic growth to recover on the back of improving domestic and external demand. Furthermore, it expects inflation to pick in coming months. Meanwhile, unemployment dropped 0.1 percentage points to 3.5% in the last quarter of 2009.

Malaysia's exports increased 37% y/y in January (Consensus: 32% y/y), faster than the 18.7% y/y growth posted the previous month. Meanwhile, imports climbed 31% year-on-year, up from the 23.3% increase registered in December. As a result, Malaysia's trade surplus widened to MYR12.1 billion (USD3.6 billion). Overseas shipments were bolstered by increasing demand from China, ASEAN nations and Europe while orders from the United States remain weak.

- **Thailand's** consumer prices in February climbed for a fifth consecutive month to 3.7% y/y from 4.1% the previous month and above the market's forecast of 3.5%. The index rose due to agricultural goods and food high prices. Monthly inflation increased at the same pace as the previous month, at 0.6%, slightly below expectations (0.4%). Furthermore, February's core inflation was a soft 0.3% (y/y) compared with 0.6% in January, even less than consensus forecasts of 0.4%.

- **Philippines** inflation gained 4.2% (y/y) in February, below the previous month's 4.3% y/y expansion as higher energy and food prices continue to push consumer prices upwards. Monthly consumer prices rose 0.4% (NSA) in February from 0.2% in January. Following the release of inflation data, the central bank deputy governor expressed concern that demand pressures could accelerate prices further and indicated that the central bank is vigilant to potential build-ups in inflationary pressures.

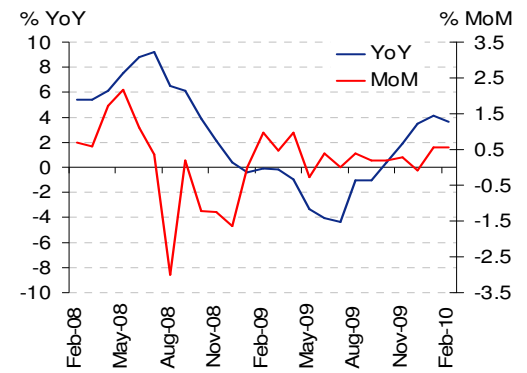
Asian Financial Markets

- Markets across the region were buoyed by continuing strong economic indicators and receding fears of sovereign debt crises in Europe.

In equity markets, the Indian stock benchmark outperformed the rest of the region, rising 3.4% over the week ended Friday and was followed by Taiwan's index, which climbed 3.1%, Australia (2.6%), Korea (2.5%) and Japan (2.4%). Only the Chinese bourse posted a slight 0.7% drop.

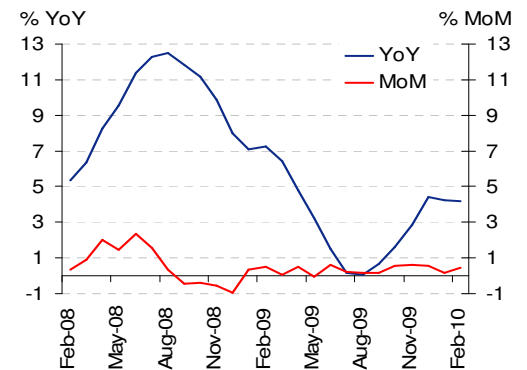
As for FOREX markets, most currencies appreciated against the US dollar, led by the Indonesian rupee, which climbed 1.3% over the week and followed by the Thai Baht (+1.2%), the Korean Won (+1.2%) and the Malay ringgit (+1.0%). Only the Japanese yen depreciated against the US dollar, losing 0.40% of its value while Hong Kong and China's currency remained unchanged.

Thailand: Consumer Price Index



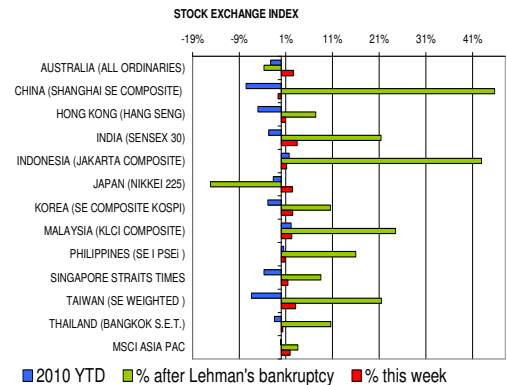
Source: CEIC

Philippines: Consumer Price Index



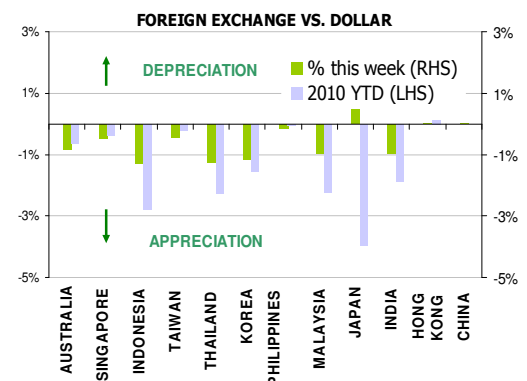
Source: CEIC

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	3062	3031	-0.7	141.5
Hong Kong	Hang Seng	20841	20788	0.9	42.8
Taiwan	Taiwan Weighted	7608	7666	3.1	14.7
India	Sensex	16935	16994	3.4	13.0
Japan	Nikkei 225	10232	10369	2.4	47.8
Korea	Seoul Composite	1623	1635	2.5	15.2
Indonesia	Jakarta Composite	2569	2579	1.2	1.4
Malaysia	KLSE Composite	1288	1300	2.3	2.1
Philippines	Philippines Composite	3063	3070	0.9	0.3
Singapore	Straits Times	2778	2790	1.4	4.7
Thailand	SET	731	724	0.4	2.9
Australia	All Ordinaries	4736	4773	2.6	24.5

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	6.77	6.77	6.65	6.65
Hong Kong	(HKD/USD)	7.76	7.76	0.01	7.76	7.76	7.74	7.74
Taiwan	(TWD/USD)	31.98	31.93	-0.46	31.69	31.64	30.92	30.92
India	(INR/USD)	45.80	45.65	-0.98	45.90	45.85	46.57	46.57
Japan	(JPY/USD)	88.96	89.33	0.45	88.92	89.29	88.95	88.95
Korea	(KRW/USD)	1146	1140	-1.20	1151	1141	1150	1150
Indonesia	(IDR/USD)	9272	9215	-1.29	9341	9295	9695	9695
Malaysia	(MYR/USD)	3.37	3.36	-0.97	3.38	3.37	3.40	3.40
Philippines	(PHP/USD)	46.1	46.1	-0.15	46.5	46.5	47.4	47.4
Singapore	(SGD/USD)	1.40	1.40	-0.48	1.40	1.40	1.40	1.40
Thailand	(THB/USD)	32.7	32.7	-1.24	32.8	32.7	32.8	32.8
Australia	(USD/AUD)	0.90	0.90	0.86	0.89	0.89	0.87	0.87

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	1.70	3	0.00	0	0.00	n.a.
Hong Kong	0.05	0	0.00	0	0.00	0
Taiwan	0.16	0	0.00	0	0.00	0
India	3.87	18	0.00	0	n.a.	n.a.
Japan	0.16	0	0.00	0	0.00	0
Korea	2.43	0	0.00	0	0.00	0
Indonesia	6.39	1	0.00	0	0.00	0
Malaysia	2.03	0	0.00	0	0.00	0
Philippines	3.94	13	0.00	0	0.00	0
Singapore	0.25	-6	0.00	0	0.00	0
Thailand	1.26	0	0.00	0	0.00	0
Australia	4.06	7	0.00	0	0.00	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	1.30	-5	2.83	-12
Hong Kong	0.10	0	1.66	-1
Taiwan	0.29	-1	0.90	-1
India	4.15	5	7.59	1
Japan	-	n.a.	0.47	-3
Korea	2.18	-3	4.56	-
Indonesia	7.47	-3	8.43	-9
Malaysia	2.11	-3	3.80	-3
Philippines	4.01	-5	6.44	3
Singapore	0.40	1	1.30	0
Thailand	1.61	3	3.46	1
Australia	4.28	6	5.13	1

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

Sources: Bloomberg.

2. Week Ahead:

a). The focus in the coming week will be on China, which releases a battery of monthly indicators on new loans, trade, CPI inflation, retail sales, and industrial production. Monetary policy meetings will take place in Korea, Thailand, and the Philippines.

Date	Country	Data	for	Previous	Forecast
8-Mar	Japan	Current Account Total	JAN	¥900.8B	¥783.9B
8-Mar	Japan	Adjusted Current Account Total	JAN	¥1100.5B	¥1249.5B
8-Mar	Japan	Trade Balance - BOP Basis	JAN	¥631.2B	¥141.5B
8-Mar	Japan	Bankruptcies (YoY)	FEB	-21.80%	-
8-Mar	Taiwan	Total Exports (YoY)	FEB	75.80%	32.90%
8-Mar	Taiwan	Total Imports (YoY)	FEB	114.70%	39.10%
8-Mar	Taiwan	Total Trade Bal in US\$ Billion	FEB	\$2.49B	\$1.59B
8-Mar	Hong Kong	Foreign Currency Reserves	FEB	\$257.1B	-
8-Mar	Indonesia	Consumer Confidence Index	FEB	110.5	-
9-Mar	Korea	Producer Price Index (YoY)	FEB	2.80%	-
9-Mar	Japan	Machine Tool Orders (YoY)	FEB P	189.40%	-
10-Mar	Australia	Westpac Consumer Confidence	MAR	-2.60%	-
10-Mar	Japan	Machine Orders (MoM)	JAN	20.10%	-3.50%
10-Mar	Japan	Machine Orders YOY%	JAN	-	-0.70%
10-Mar	Philippines	Total Exports (YoY)	JAN	23.60%	35.00%
10-Mar	Philippines	Total Monthly Exports	JAN	\$3304.4M	-
10-Mar	China	New Yuan Loans	FEB	1390.0B	600.0B
10-Mar	China	Trade Balance (USD)	FEB	\$14.17B	\$7.30B
10-Mar	China	Exports YoY%	FEB	21.00%	38.50%
10-Mar	China	Imports YoY%	FEB	85.50%	38.40%
10-Mar	Thailand	Benchmark Interest Rate	10-Mar	1.25%	1.25%
11-Mar	Japan	Gross Domestic Product (QoQ)	4Q F	1.10%	1.00%
11-Mar	Japan	GDP Annualized	4Q F	4.60%	4.00%
11-Mar	Australia	Unemployment Rate	FEB	5.30%	5.30%
11-Mar	Australia	Participation Rate	FEB	65.30%	65.30%
11-Mar	Korea	Bank of Korea Monetary Policy Committee Meeting	11-Mar		
11-Mar	China	Consumer Price Index (YoY)	FEB	1.50%	2.40%
11-Mar	China	Retail Sales (YoY)	FEB	-	18.30%
11-Mar	China	Industrial Production (YoY)	FEB	-	19.50%
11-Mar	China	Fixed Assets Inv Urban YTD YoY	FEB	-	25.80%
11-Mar	Thailand	Consumer Confidence Economic	FEB	71.9	-
11-Mar	Malaysia	Industrial Production YoY	JAN	8.90%	12.20%
11-Mar	Malaysia	Current Account Balance	4Q	25.3B	-
11-Mar	Malaysia	Manufacturing Sales Value YoY%	JAN	16.20%	-
11-Mar	Philippines	Overnight Borrowing Rate	11-Mar	4.00%	4.00%
12-Mar	Japan	Industrial Production (MoM)	JAN F	2.50%	-
12-Mar	Japan	Industrial Production YOY%	JAN F	5.10%	-
12-Mar	Japan	Capacity Utilization (MoM)	JAN F	1.40%	-
12-Mar	Singapore	Retail Sales (YoY)	JAN	-5.00%	-
12-Mar	Singapore	Retail Sales (MoM) sa	JAN	-0.90%	-
12-Mar	India	Industrial Production YoY	JAN	16.80%	-
12-Mar	Hong Kong	Industrial Production (YoY)	4Q	-8.60%	-
8-Mar	Japan	Current Account Total	JAN	¥900.8B	¥783.9B

Sources: Bloomberg and BBVA staff estimates.

b) Economic Events

Date	Country	Issue	Remarks
10-Mar	Thailand	Bank of Thailand Monetary Policy Committee Meeting	Expected to remain unchanged at 1.25%
11-Mar	Korea	Bank of Korea Monetary Policy Committee Meeting	Expected to remain unchanged at 2%

11-Mar	Philippines	Bank of Philippines	Expected to remain unchanged at 4.00%
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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	6.2	-7.5	-10.1	5.8	-8.8	14.2	4.5	-6.2	0.6	-9.4	-7.1	0.8
	2Q09	7.9	-3.7	-7.5	6.1	-5.7	10.8	4.1	-3.9	0.8	-3.1	-4.9	0.9
	3Q09	9.1	-2.2	n.a.	7.9	-5.2	7.8	4.2	-1.2	0.4	0.6	-2.7	0.9
CPI inflation (% yoy) 1/	Jan-10	1.5	1.0	2.4	8.6	-1.3	2.7	3.8	1.3	4.2	0.0	3.7	1.3
Exports (in local currency) (% yoy) 2/	Jan-10	21.0	18.4	69.7	4.9	40.8	6.0	32.1	37.0	19.5	37.1	26.0	-13.4
Trade balance (US\$ bn) 3/	Jan-10	14.2	-3.8	2.4	-10.4	0.7	2.3	3.5	3.8	-0.6	2.3	0.5	0.0
Industrial production (% yoy) 4/	Jan-10	18.5	-9.5	69.7	16.8	18.2	36.9	5.5	8.9	-0.7	39.4	29.1	0.9
Retail sales (% yoy) 5/	Jan-10	15.9	3.2	-8.0	n.a.	4.0	-6.5	36.4	10.2	n.a.	-5.1	7.8	4.9
Money supply (M2) (% yoy) 6/	Jan-10	26.0	9.5	5.0	17.5	2.9	9.9	12.5	8.1	11.7	10.8	5.3	2.3
Domestic credit (% yoy) 7/	Jan-10	29.3	1.2	2.0	19.6	-1.5	4.1	9.4	8.6	6.2	7.9	4.8	1.3
Unemployment rate (%) 8/	Jan-10	4.3	4.9	5.7	n.a.	4.9	4.8	7.9	3.5	7.1	2.0	0.9	5.7

Notes: 1) Wholesale prices for India; Q309 figure for Australia; Feb-10 figure for Taiwan, Korea, Indonesia, Philippines and Thailand. Dec-09 2009 figure for Singapore.

2) Figure for China is in US dollar term; figure for Australia includes services; Feb-09 figure for Korea. Dec-09 figure for Philippines.

3) Figure for Australia includes services; Feb-09 figure for Korea and Australia; Dec-09 figure for Philippines; Nov-09 figure for Indonesia;

4) Aug-09 figure for Hong Kong; Nov-09 figure for China; Dec-09 figure for India, Indonesia, Malaysia, and Australia.

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

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

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

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

Source: CEIC and Datastream