



Weekly Observatory

March 29, 2010

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

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Indicators continue to point to strong recoveries amidst rising inflation, but with lingering concerns about the global outlook and sluggish decline in unemployment.

While underlying pressures generally remain subdued, February inflation increased in Hong Kong and Singapore, and in Vietnam where inflation has been running higher (although in all cases the figures were distorted upward by the timing of the Chinese New Year). Meanwhile, the ongoing strength of the economic rebound was evident in better-than-expected industrial output in Taiwan and Singapore, and in strong export and import data in Japan and the Philippines. Nevertheless, concerns about weak labor market conditions were evident in a decline in Korea's consumer confidence and in Taiwan's unemployment rate. Taiwan's central bank kept interest rates unchanged, as expected, despite a rise in February inflation. The data calendar will be busy next week, with March inflation in a number of countries, and a host of production and trade data.

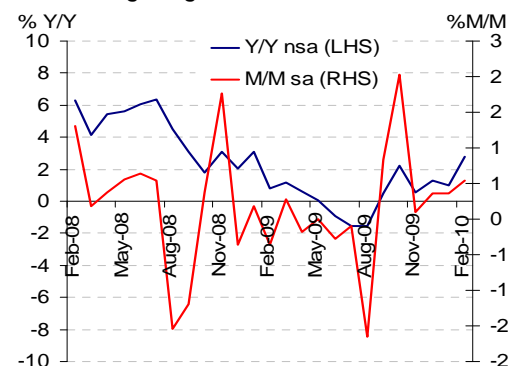
Greater China

- **China's** industrial companies' profits rose by a faster than expected 119.7% y/y in the first two months of this year to CNY486.74 billion, compared with an increase of 7.8% y/y in the first eleven months of 2009. (The National Bureau of Statistics (NBS) only publishes data for the first two, five, eight and eleventh months of each year.) The NBS attributed the strong growth to government stimulus measures and a low base effect. The strong profits are an indication of the strength of the output recovery, and at least for now, should help allay concerns of a profit squeeze due to rapid increases in producer prices.

- **Hong Kong's** consumer price inflation rose by a faster than expected 2.8% y/y in February (consensus 2.1%), much of it due to the effect of the timing of the Chinese New Year. The inflation rate was the fastest in thirteen months, above January's outturn of 1.0%. The acceleration was mainly attributable to a surge in food prices. During the first two months of 2010 (which helps net out the impact of the Chinese New Year effect, the CPI rose by 1.9%), while core inflation in the same period was 0.8% y/y. On a month-on-month basis (seasonally adjusted) the CPI in February rose 0.5% compared with 0.4% increases in each of the previous two month.

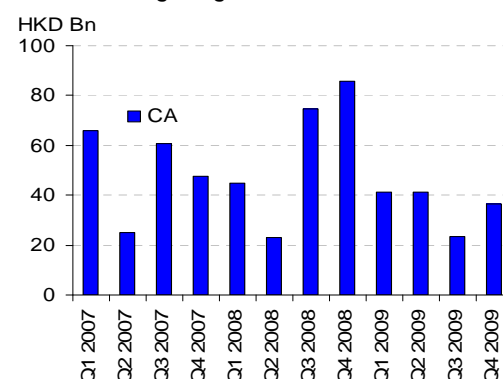
Hong Kong' balance of payments (BoP) recorded a surplus of HKD230.6 billion in the fourth quarter of 2009, larger than the 3Q figure of HKD106.6 billion. For the whole year the BoP stood at HKD549.3 billion (representing 33.6% of GDP), compared with a surplus of HKD263.9 billion (15.8% of GDP) in 2008, mainly driven by the increase of the trade balance deficit.

Hong Kong: Consumer Price Index



Source: CEIC

Hong Kong: Current Account



Source: CEIC

The Current Account (CA) surplus climbed to HKD38.6 billion in the fourth quarter from a revised HKD23.5 billion in Q3. For the whole year, the current account surplus amounted to 8.7% of GDP in 2009.

- **Taiwan's** seasonally adjusted (sa) unemployment rate fell slightly for a six consecutive month in February to 5.65%, down 0.08% from the previous month, broadly in line with expectations. (The non-seasonally adjusted unemployment rate rose to 5.76% in February, a slight increase from January.) Meanwhile, the participation rate (sa) increased moderately to 58.07% in February, from 58.03% in January. Relatively high unemployment remains a concern in Taiwan, despite indicators of a strong recovery.

Industrial Production (IP) rose by 35.2% y/y in February, below the market's forecast of 37.8%, and much lower than previous month's revised record of 70.1% increase. The February figure, however, is distorted by the timing of the Lunar New Year, which resulted in fewer working days compared to last February. The increase was the sixth consecutive y/y gain, boosted by rising orders for computers, mobile phones and television screens. Meanwhile, Manufacturing Production (which accounts for 80% of total industrial output) grew by 36.4% y/y.

Taiwan's central bank kept its policy rate unchanged at a record-low of 1.25%, as expected. At the same time, however, the central bank said it would begin to rein in liquidity through open market operations. Inflation in February stood at 2.4% y/y.

Japan/Korea/Australia

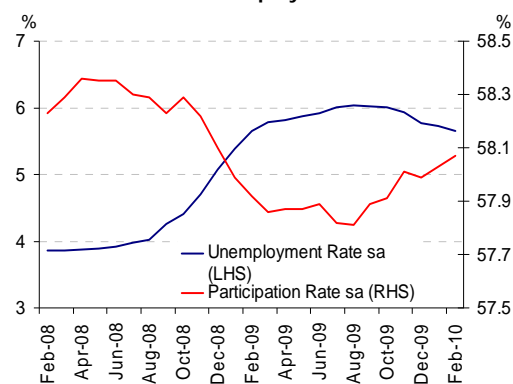
- **Japan's** exports rose sharply in February by 45.3% y/y (JPY5.1 trillion, USD56.7 billion), in line with expectations, and higher than January's figure of 40.9% y/y. Exports to Asia, which make up more than half Japan's total exports, jumped by 55% y/y, slower than a 68.3% increase in January due to Lunar New Year effect. Shipments to the US rose by 50.4% y/y led by exports of cars and car parts. Some of the increase is likely due to a rebuilding of overseas inventories. Meanwhile, imports expanded by 29.5% y/y (JPY4.5 trillion, USD49.4 billion) in February, slightly below the consensus of 33.0%, and much higher than the previous month's 8.6% y/y. Rising imports were mainly driven by higher prices of oil and other raw materials.

The trade surplus widened to JPY651.0 billion (USD7.2 billion), above expectations of JPY560.6 billion (USD6.2 billion), and much higher than January's surplus of JPY63.0 billion (USD697 million).

The Consumer Price Index fell for a twelfth consecutive month in February to -1.2% y/y, against the consensus forecast of -1.1%. Japan's central bank has vowed to maintain an accommodative stance to offset deflationary pressures. On a monthly seasonally adjusted basis, however, prices rose by 0.4 in February, reversing January's -0.1% decline, and recording the highest monthly increase since July 2008.

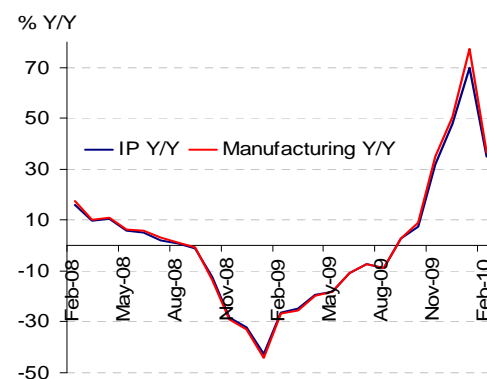
Retail sales rise surged 4.2% y/y in February (consensus 1.6%), the fastest pace since 1997, achieving the second consecutive y/y growth after a revised 2.3% (preliminary 2.6%) in January. The retail sales had been supported by higher cost of gasoline and solid sales of vehicles. On a seasonally adjusted monthly basis, the retail sales were up 0.9%, beating the markets' forecasts of -0.2% decline, and turning positive the January's data of -2.0%.

Taiwan: Unemployment Rate



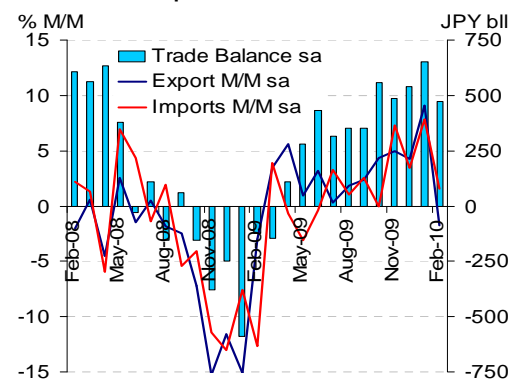
Source: CEIC

Taiwan: Industrial Production



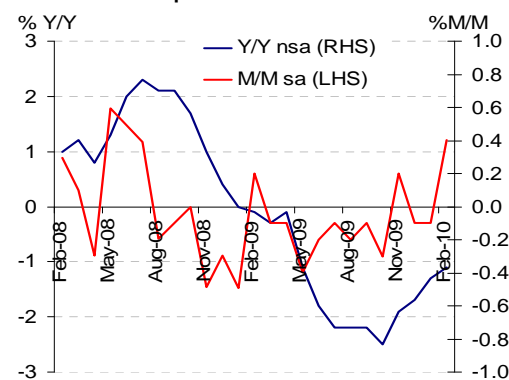
Source: CEIC

Japan: Trade Balance



Source: CEIC

Japan: Trade Balance



Source: CEIC

- **Korea's** Consumer Confidence Index (CCI) fell for a second straight month in February on lingering job market concerns. The March reading declined to 110, slightly down from previous month's figure of 111. However, the index remained above the benchmark 100 point level for an eleventh consecutive month, indicating that optimists outnumber pessimists.

Korea's economy expanded 0.2% in the fourth quarter of 2009, matching the previously released advance estimate as lower than projected manufacturing output offset stronger consumer spending. Private consumption rose 0.4% from the third quarter, better than the original estimate of a 0.1 percent drop. Government spending declined 2.4 percent, less than the original estimate of a 2.9 percent decrease, and manufacturing fell 1.7 percent, compared with an estimated drop of 1.3 percent. The outturn brought full year growth for 2009 to +0.2%.

The current account swung back to surplus in February, reaching USD157.6 million, a turnaround from the previous month's revised data showing a USD630.8 million deficit. This surplus was brought about by a decrease in energy imports and a narrowed services account's deficit (lead by a decrease in overseas travel). On a seasonally adjusted basis, Korea's surplus was USD646.0 million. Korea recorded a large surplus last year, of USD42.6 billion, and the surplus is expected to narrow in 2010 to the range of USD16-17 billion.

ASEAN

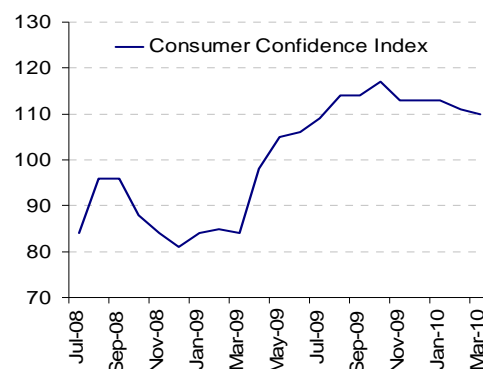
- **Malaysia's** central bank raised its 2010 GDP forecast to 4.5%-5.5%, from the previous projection of 2%-3% made in October 2009 (BBVA: 4.5%). GDP declined by 1.7% in 2009. As noted in the last Asia Weekly, Bank Negara Malaysia has started to withdraw its monetary stimulus measures, and raised its benchmark interest rate on March 4 by 25bp to 2.25%.

- **Singapore's** Consumer Price Index (CPI) rose by 1.0% y/y in February, as compared to the consensus forecast of 0.9% and above January's figure of 0.2%. This is the second straight positive increase in two months due to food and transport costs amid the regional recovery. Month on month, the CPI sa increased by 0.6%, the largest rise in 22 months. Given the strength of the recovery and rising inflation concerns, the Monetary Authority of Singapore may consider a tightening of its monetary stance at its next six-monthly policy meeting in April, by adjusting the band to a more appreciated stance under Singapore's exchange rate-based monetary framework.

Industrial production increased for a third straight month as rising exports of electronics and pharmaceuticals spurred output. Industrial output rose by 19.1% y/y in February, above market expectations of a 13% increase, but much lower than January's figure of 39.2% due to the Lunar New Year effect. On a monthly basis, industrial production jumped a seasonally adjusted 5.9% in February, almost half increase of January's 11.0%.

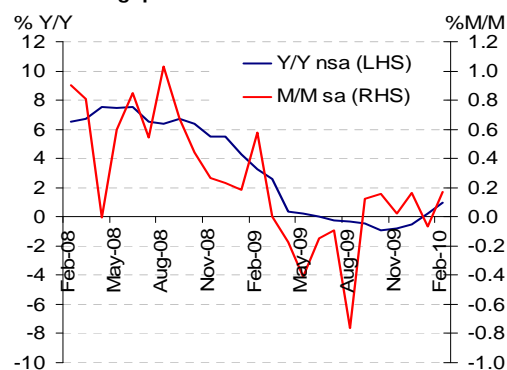
- **Thailand's** political unrest appears to be easing for the time being. "Red shirt" protestors have so far avoided violent confrontation despite emotionally charged demonstrations. Analysts expect the impact of recent protests on Thailand's tourism-dependent economy to be short term in nature, although underlying political tensions remain.

Korea: Consumer Confidence Index



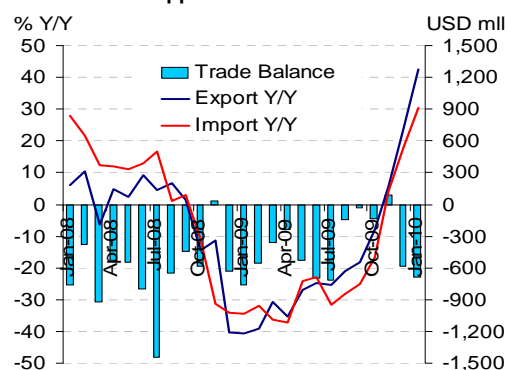
Source: CEIC

Singapore: Consumer Price Index



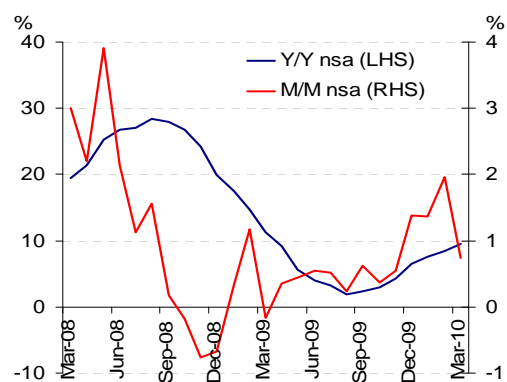
Source: CEIC

Philippines: Trade Balance



Source: CEIC

Vietnam: Consumer Price Index



Source: CEIC

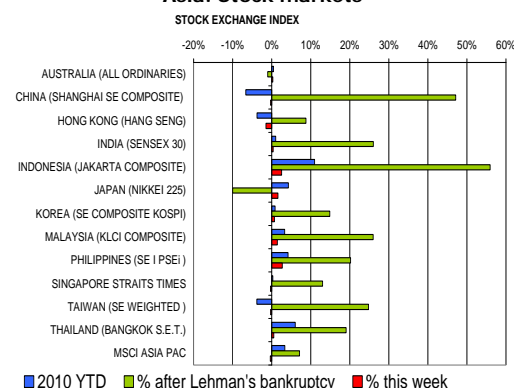
- **Philippine's** imports accelerated to 30.3% from a year-earlier in January, compared to an 18.1% y/y increase in December. The increase was led by purchases of processing products (such as electronics and semiconductors), oil products and cereals. Meanwhile the trade balance narrowed to USD682 million in January from a total amount of USD759 million in the same month a year ago. However, the trade balance widened compared with the previous month of USD584 million. The Philippines projects exports to increase between 7% and 9% this year and imports to boost between 13% and 15%.

- **Vietnam's** Consumer Price Index jumped by 9.46% y/y in March after a rise 8.46% in February due to the recent devaluation of the Dong which pushed up imports cost and power prices. Month on month, prices rose by 0.75 (not seasonally adjusted) between March and February. It may now be difficult for the government to achieve its inflation target of 7%.

Asian Financial Markets

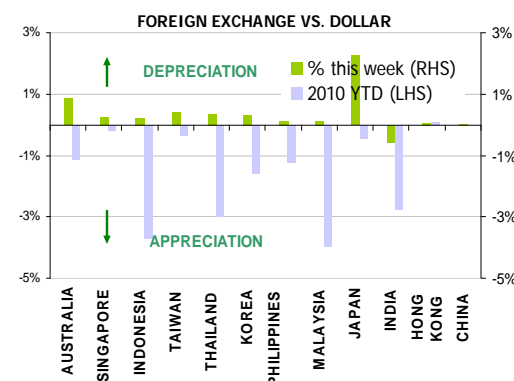
Asia's main currencies climbed against the USD the past week, mainly due to positive sentiment from the strong economic indicators across the region. The JPY weakened significantly due to the strength of the USD against other major currencies. Meanwhile, regional equity markets also rose during the week, driven in part by positive news that the EU and the IMF agreed to a possible package of assistance to Greece.

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	3053	3060	-0.3	114.3
Hong Kong	Hang Seng	20952	21053	-1.5	35.7
Taiwan	Taiwan Weighted	7837	7877	-0.3	17.8
India	Sensex	17516	17645	0.4	12.2
Japan	Nikkei 225	10854	10996	1.6	41.0
Korea	Seoul Composite	1684	1698	0.7	19.1
Indonesia	Jakarta Composite	2762	2813	2.6	2.0
Malaysia	KLSE Composite	1307	1315	1.4	2.3
Philippines	Philippines Composite	3146	3181	2.7	0.4
Singapore	Straits Times	2895	2906	-0.3	4.4
Thailand	SET	781	779	0.6	5.0
Australia	All Ordinaries	4888	4905	0.3	27.0

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	0.01	1.36	0.00	6.67	6.67
Hong Kong	(HKD/USD)	7.76	7.76	0.04	7.76	7.76	7.74	7.74
Taiwan	(TWD/USD)	31.83	31.88	0.42	31.54	31.57	30.89	30.89
India	(INR/USD)	45.43	45.25	-0.57	45.65	45.45	46.35	46.35
Japan	(JPY/USD)	91.63	92.60	2.26	91.58	92.55	92.14	92.14
Korea	(KRW/USD)	1139	1140	0.33	1142	1143	1154	1154
Indonesia	(IDR/USD)	9125	9125	0.22	9217	9213	9612	9612
Malaysia	(MYR/USD)	3.32	3.31	0.12	3.33	3.31	3.34	3.34
Philippines	(PHP/USD)	45.6	45.5	0.11	46.0	45.9	46.9	46.9
Singapore	(SGD/USD)	1.40	1.40	0.26	1.40	1.40	1.40	1.40
Thailand	(THB/USD)	32.4	32.4	0.34	32.4	32.5	32.7	32.7
Australia	(USD/AUD)	0.91	0.91	-0.85	0.90	0.90	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	1.58	-6	0.00	0	0.00	n.a.
Hong Kong	0.05	0	0.00	0	0.00	0
Taiwan	0.21	3	0.00	0	0.00	0
India	4.29	14	0.00	0	n.a.	n.a.
Japan	0.16	0	0.00	0	0.00	0
Korea	2.41	0	0.00	0	0.00	0
Indonesia	6.36	-2	0.00	0	0.00	0
Malaysia	2.26	-1	0.00	0	0.00	0
Philippines	4.44	13	0.00	0	0.00	0
Singapore	0.25	-3	0.00	0	0.00	0
Thailand	1.26	0	0.00	0	0.00	0
Australia	4.16	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		5-year	
	Week-end level	b.p. change over a week	Week-end level	b.p. change over a week
China	1.35	-3	2.80	7
Hong Kong	0.10	0	1.87	21
Taiwan	0.39	6	0.96	3
India	4.50	25	7.48	-5
Japan	-	n.a.	0.55	2
Korea	2.08	-1	4.42	1
Indonesia	7.37	-9	8.34	-2
Malaysia	2.25	6	3.75	0
Philippines	4.02	-3	6.42	2
Singapore	0.35	-2	1.32	2
Thailand	1.60	0	3.54	2
Australia	4.55	7	5.49	9

Sources: Bloomberg.

2. Week Ahead:

a) The data calendar will be busy next week, with March inflation in a number of countries, and a host of production and trade data.

Date	Country	Data	for	Previous	Forecast
29-Mar	Vietnam	GDP Constant Prices YTD (YoY)	1Q	5.30%	--
29-Mar	Vietnam	Imports YTD (YoY)	MAR	39.60%	--
29-Mar	Vietnam	Exports YTD (YoY)	MAR	0.10%	--
29-Mar	Vietnam	Industrial Output YTD (YoY)	MAR	13.60%	--
29-Mar	Vietnam	Retail Sales YTD (YoY)	MAR	27.40%	--
29-Mar	Korea	Current Account in US\$ Million	FEB	-\$447.5M	--
29-Mar	Korea	Goods Balance in US\$ Million	FEB	\$1549M	--
29-Mar	Japan	Retail Trade YoY	FEB	2.60%	--
30-Mar	Japan	Unemployment Rate	FEB	4.90%	--
30-Mar	Japan	Industrial Production YOY%	FEB P	18.50%	--
30-Mar	Hong Kong	Retail Sales - Value (YoY)	FEB	6.60%	40.00%
30-Mar	Hong Kong	Retail Sales - Volume (YoY)	FEB	3.20%	35.00%
31-Mar	Australia	Building Approvals (MoM)	FEB	-7.00%	--
31-Mar	Australia	Retail Sales s.a. (MoM)	FEB	1.20%	--
31-Mar	Australia	Building Approvals (YoY)	FEB	47.60%	--
31-Mar	Korea	Service Industry Output YoY	FEB	4.60%	--
31-Mar	Korea	Industrial Production Mfg(YoY)	FEB	38.90%	--
31-Mar	Korea	Industrial Production (YoY)	FEB	36.90%	22.90%
31-Mar	Thailand	Total Exports YOY%	FEB	31.40%	--
31-Mar	Thailand	Total Exports in US\$ Million	FEB	\$13634M	--
31-Mar	Thailand	Total Imports YOY%	FEB	50.10%	--
31-Mar	Thailand	Total Imports in US\$ Million	FEB	\$13043M	--
31-Mar	Thailand	Total Trade Balance	FEB	\$591M	--
31-Mar	Thailand	Manufacturing Production (YoY)	FEB	28.60%	30.00%
31-Mar	Thailand	Manufacturing Prod Index (SA)	FEB	201.9	--
31-Mar	Thailand	Current Account Balance (USD)	FEB	\$1997M	--
31-Mar	Thailand	Overall Balance in US\$ Million	FEB	\$4966M	--
31-Mar	Thailand	Business Sentiment Index	FEB	50.4	--
31-Mar	India	Current Account Balance	4Q	-\$12.63B	--
1-Apr	Japan	Manufacturing PMI	MAR	52.5	--
1-Apr	Australia	Trade Balance	FEB	-1176M	--
1-Apr	China	PMI Manufacturing	MAR	52	55
1-Apr	Korea	Ext Trade - Export (YoY)	MAR	30.50%	32.00%
1-Apr	Korea	Ext Trade - Export in US\$ Mln	MAR	33138	--
1-Apr	Korea	Ext Trade - Imports (YoY)	MAR	37.50%	42.00%
1-Apr	Korea	Ext Trade - Import in US\$ Mln	MAR	31062	--
1-Apr	Korea	Ext Trade - Balance in US\$ Mln	MAR	2075	--
1-Apr	Taiwan	HSBC Taiwan Manufacturing PMI	MAR	62.5	--
1-Apr	China	HSBC Manufacturing PMI	MAR	55.8	--
1-Apr	Indonesia	Inflation (YoY)	MAR	3.81%	4.00%
1-Apr	Indonesia	Core Inflation (YoY)	MAR	3.88%	--
1-Apr	Indonesia	Exports (YoY)	FEB	59.00%	--
1-Apr	Indonesia	Total Imports (YoY)	FEB	44.60%	--
1-Apr	Indonesia	Total Trade Balance	FEB	\$2031M	--
1-Apr	Korea	Consumer Price Index (YoY)	MAR	2.70%	2.80%
1-Apr	Korea	Core Consumer Price Index(YoY)	MAR	1.90%	--
1-Apr	India	India Mar PMI (Table)	01-Apr		
1-Apr	Thailand	Consumer Price Index (YoY)	MAR	3.70%	3.90%
1-Apr	Thailand	Core CPI (YoY)	MAR	0.30%	0.40%
1-Apr	India	Exports YoY%	FEB	11.50%	--
1-Apr	India	Imports YoY%	FEB	35.50%	--
1-Apr	Indonesia	Danareksa Consumer Confidence	MAR	85	--
2-Apr	Malaysia	Exports YoY%	FEB	37.00%	25.00%
2-Apr	Malaysia	Imports YoY%	FEB	31.00%	32.00%
2-Apr	Malaysia	Trade Balance	FEB	12.93B	13.10B

Sources: Bloomberg and BBVA staff estimates.

3. Memorandum: Key Macroeconomic Indicators

		China	Hong Kong	Taiwan	India	Japan	Korea	Indonesia	Malaysia	Philippines	Singapore	Thailand	Australia
GDP growth (%yoy) 1/	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
	4Q09	10.7	2.6	n.a.	n.a.	-1.0	2.9	5.4	4.5	1.8	4.0	5.8	2.7
CPI inflation (% yoy) 1/	Feb-10	2.7	2.7	2.4	9.9	-1.1	2.7	3.8	1.2	4.2	1.0	3.7	0.5
Exports (in local currency) (% yoy) 2/	Feb-10	45.7	28.5	25.8	4.9	45.3	5.6	32.1	37.0	39.0	19.2	26.0	-13.4
Trade balance (US\$ bn) 3/	Feb-10	7.6	-2.5	0.8	-10.4	7.2	2.1	4.6	3.8	-0.7	1.6	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	29.1	3.2	14.8	n.a.	3.7	-6.5	40.2	10.2	n.a.	2.7	7.8	4.9
Money supply (M2) (% yoy) 6/	Jan-10	25.5	9.5	4.9	18.5	2.7	10.0	10.7	8.1	5.3	10.8	5.3	2.3
Domestic credit (% yoy) 7/	Jan-10	27.2	1.2	2.0	19.2	-1.5	1.2	9.4	8.6	3.0	7.9	4.8	1.3
Unemployment rate (%) 8/	Jan-10	4.3	4.6	5.8	n.a.	4.9	4.4	7.9	3.5	7.1	2.0	1.4	6.0

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

2) Figure for China is in US dollar term; figure for Australia includes services; Jan-10 figure for India, Indonesia, Malaysia, Philippines, Thailand and Australia.

3) Figure for Australia includes services; Jan-10 figure for India, Malaysia, Philippines, Thailand; Dec-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 Malaysia, Thailand. Feb-10 figure for China, Taiwan.

6) Figure for Australia is broad money in national definition; figure for Hong Kong is only counted HK dollar M2; Feb-10 figure for China, Taiwan and Japan.

7) Figure for Hong Kong is only counted HK dollar M2; Dec-09 figure for Indonesia. Feb-10 figure for China and Japan.

8) Not available for India. Dec-09 figure for China, Indonesia, Malaysia, Singapore and Philippines. Feb-10 Hong Kong, Taiwan, Korea, Australia.

Source: CEIC and Datastream