

Weekly Observatory

May 10, 2010

Economic and Financial Market Highlights (3-9 May 2010)

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Strong economic data and Asia's sound fundamentals once again failed to calm financial market jitters from sovereign debt developments in Europe.

Equity markets, which were already posting declines on expectations in China of further tightening measures and banks' new capital raising plans, saw large selloffs. Heightened risk aversion resulted in a sharp reversal of recent currency trends, with the JPY appreciating, and other high yielding currencies witnessing steep depreciations. Australia raised interest rates for a sixth time since October 2009 to cool housing price inflation, while Indonesia remained on hold. The coming week will feature important data from China on inflation, loan growth, and industrial production. Q1 GDP will be released in Hong Kong, Indonesia and Malaysia, and Korean and Malaysia will have monetary policy meetings.

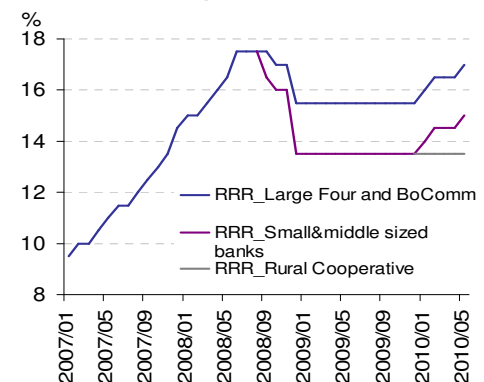
Greater China

- **China:** The official Purchasing Managers' Index (PMI) rose to a seasonally adjusted 55.7 from 55.1 in April. Of the subcomponents, the output index rose to 59.1 from 58.4 in April, the new-order index advanced to 59.3 from 58.1 and the export-order index stayed unchanged at 54.5. Meanwhile, the HSBC PMI fell to a six-month low of 55.4 in April compared with 57.0 in the previous, providing some evidence that government efforts to prevent overheating of the economy may be starting to have an effect. The discrepancy between the official and HSBC PMIs is attributable to different methods of seasonal adjustment as well as coverage, with HSBC's survey being more relatively focused on smaller and privately owned companies.

As noted in last week's edition of the Weekly, the People's Bank of China (PBOC) announced another 50bp increase in the required reserve ratio (RRR), the third such increase this year. The increase becomes effective on May 10. For the large five state banks and the Postal Savings Bank the RRR will increase to 17.0% and for other small & middle-sized banks it will increase 15.0%, with rural credit unions' RRR remaining unchanged at 13.5%. The move is expected to drain about 300 billion yuan of cash from the banking system. We expect further quantitative measures in the coming months to restrain credit growth and liquidity. While recent global financial tensions could delay the timing, we anticipate these measures to be supported eventually by small interest rate hikes, and by gradual currency appreciation during the course of the year.

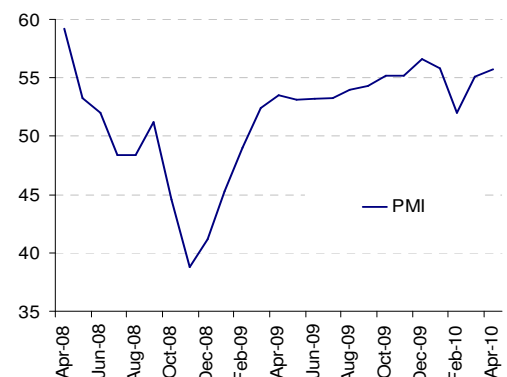
- **Hong Kong's** retail sales expanded at a double-digit pace in March, as falling unemployment leads to an increase in consumer confidence. However, the March reading (19.0% y/y) was below market forecasts of a 27.5% increase. On a seasonally adjusted basis, retail sales fell by 2.9% m/m. Retail sales are expected to continue growing, driven by the improving domestic economy and an increase in visitors,

China: Required Reserve Ratio



Source: CEIC

China: Purchasing Managers' Index (PMI)



Source: CEIC

especially from mainland China.

The HSBC PMI for Hong Kong increased in April to 55.3 from 54.9 in the previous month. The PMI expanded for the ninth consecutive month, due to increasing demand from China and an improving local labor market.

- **Taiwan's** CPI inflation accelerated slightly in April, but below market forecasts, mainly driven by higher fuel prices. Consumer prices climbed by 1.3% y/y in April (consensus: 1.5%) the same figure as in March, while core inflation came out to 0.24% y/y. On a seasonally adjusted basis, prices rose by 0.2%, reversing the previous month's negative figure of 0.1%. The figures show that inflation remains subdued, and we expect inflation for the whole year of 1.5%.

Exports rose by 47.8% y/y in April, below markets' forecast (52.7%) led by computers and television screens. Shipments to Hong Kong and China grew by 56.5%, while exports to the United States increased by 29.8% and to Japan by 39.2%. Imports climbed by 52.6% y/y (consensus: 70.4%) and left the trade surplus stood at USD2.6 billion (USD1.2 billion).

The HSBC PMI for Taiwan fell to 60.7 in April from 62.7 in March, suggesting its manufacturing activity cooled slightly in April, after 14th straight months of expansion.

India

- **India's** merchandise exports grew by 54.0% y/y in March (February: 34.8%), led by growing demand of cars and jewellery, amid a strong regional growth and a global recovery. Shipments are growing at the fastest pace in six years despite the Indian rupee's strengthening in the last weeks.

Japan/Korea/Australia

- **Korea's** exports grew 31.5% y/y, broadly in line with markets' forecast (31.8%). Shipments to China rose by 50.4%, to ASEAN by 42.4% and to Japan by 32.4%, whereas exports to the United States increased by 28.5% to the EU by 22.1%. Imports jumped by 42.6%, led by fuel and raw material products (consensus: 48.5%). The trade surplus stood at USD4.4 billion in April, up from USD1.8 billion in March.

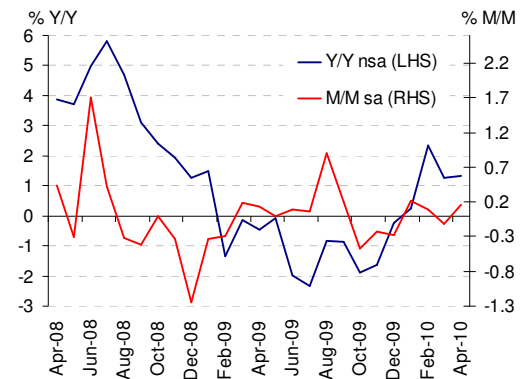
Korea's consumer price inflation ticked up slightly to 2.6% y/y (consensus: 2.4%) in April, mainly due to an increase in prices of agricultural and oil products. Meanwhile, core inflation rose by 1.5% in April y/y, at the same pace as March. Although inflation is not an imminent concern, given the resilient economic recovery, the BOK has been expected to begin raising rates.

- **Australia's** central bank raised its policy rate by 25bps on May 4th, for the third consecutive month, and for the sixth time since October 2009, to 4.5%, around the average level in the past decade. The RBA hinted that it may now pause for a while.

The government proposed a new 40% tax on the profits of resource companies, as strong overseas demand (especially from China and India) and high prices bumped up profits. Mining companies complained that the tax may affect the sector's global competitiveness and jeopardize future investment.

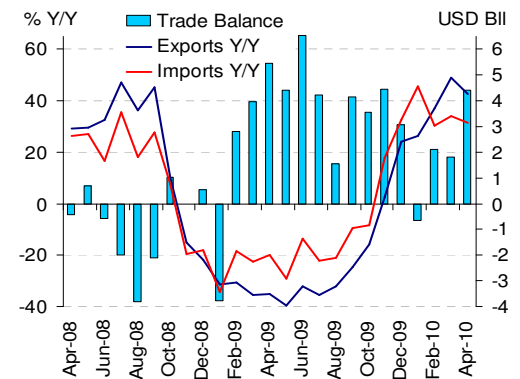
Australia's house price index surged by 20.0% y/y in 1Q2010, at the fastest pace since 2003. This increase was ahead of the market forecast (18.0%) and above the previous quarter's growth of 13.5%. On

Taiwan: Consumer Price Index



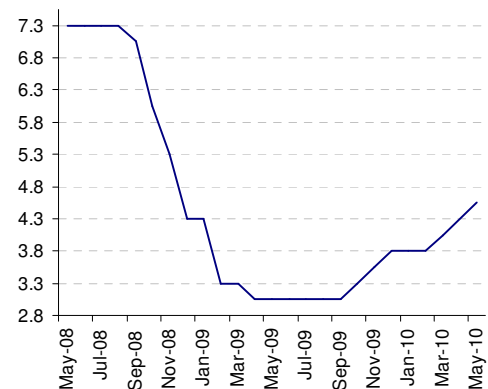
Source: CEIC

Korea: Trade Balance



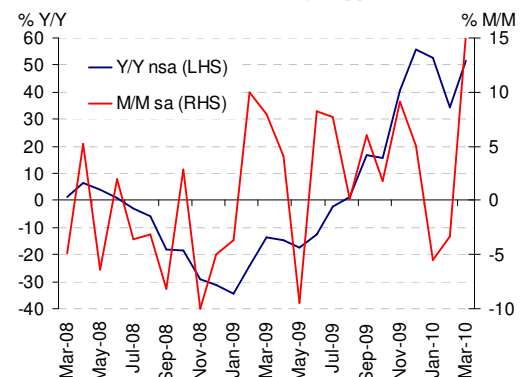
Sources: CEIC

Australia: Policy Rate



Sources: CEIC

Australia: New Buildings Approvals



Source: CEIC

a quarterly basis, prices climbed by 4.8%, also above the consensus (3.0%) but below previous quarter record's peak (5.1%).

In line with the hot property sector, Australia's new buildings approvals grew by 51.6% y/y in April, beating market expectations of a 25.6% increase, and much-above the previous month's figure of 34.2%.

The trade deficit widened in March as oil imports grew and shipments of coal declined. On a monthly basis, exports grew by 1.5% m/m in March, while imports rose further to 3.2%.

Retail sales grew at a less-than-expected pace in March, as consumers may be starting to feel the squeeze from higher interest rates and increasing fuel and other goods' prices. On a seasonally adjusted basis, retail sales rose by 0.3% m/m in March (consensus: 0.7%), turning from 1.4% decrease in February, adding pressure to hold further interest rates hikes.

ASEAN

- **Indonesia** kept its interest rate, as expected, at 6.5% last week, as consumer price and core inflation remain under control.

Indonesia's Finance Minister, Sri Mulyani Indrawati, resigned last week to take up a post as one of the three Managing Directors of the World Bank in Washington, DC. Ms. Indrawati had been under domestic political pressure. Markets reacted negatively to the announcement, as she had been one of Indonesia's most effective reformers, and had been praised for her strong economic management and efforts to cut red tape, improve transparency, and battle corruption.

Consumer price inflation remained contained as the rice harvest boosted food supplies, and a stronger rupiah in recent months reduced import costs. The consumer price rose by 3.9% y/y in April (consensus: 3.7%; March: 3.4%) below the central banks' target of 4%-6%. Meanwhile, the core inflation grew by 3.7% y/y, in line with consensus average, and slightly above March's data of 3.6% increase. We expect that the Central Bank may maintain the policy rate unchanged in this quarter, due to Indonesia's inflation is keeping under control.

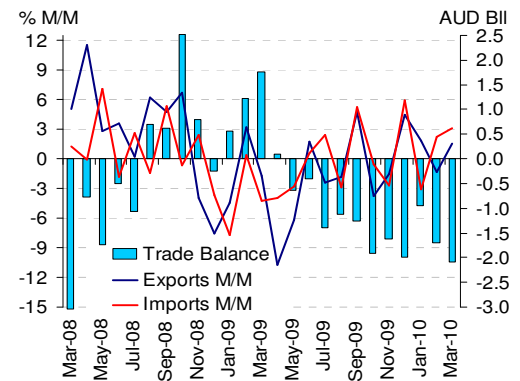
Exports jumped by 46.6% y/y (consensus: 43.8%) in March from 57.1% increase in the previous month, especially due to a bigger increase of oil and gas exports. Meanwhile, imports climbed to 68.6% y/y (consensus: 56.2%) from 59.9% growth in February, leaving a trade surplus of USD1.6 billion (previous month: USD 1.7 billion), below markets' forecasts (USD 2.1 billion), due to a higher imports' increase.

The consumer confidence index, released by Danareksa Research Institute, remained at 86.8 in April, unchanged from March. The survey showed that the economy is still improving, but food prices rise remain as the main concern. An index over 100 indicates that optimist outnumber pessimists.

- **Malaysia's** exports rose by 36.4% in March (consensus: 22.4%), beating February's figure (18.4%), mainly driven by demand from China (51.2% y/y). Imports grew even faster, at an increase of 45.3% (consensus: 32.1%) in March, also much-above from the previous month's outturn of 27.9% growth. The trade surplus expanded to USD 4.4 billion, beating the consensus (USD3.9 billion) and over February's figure of MYR11.7 billion.

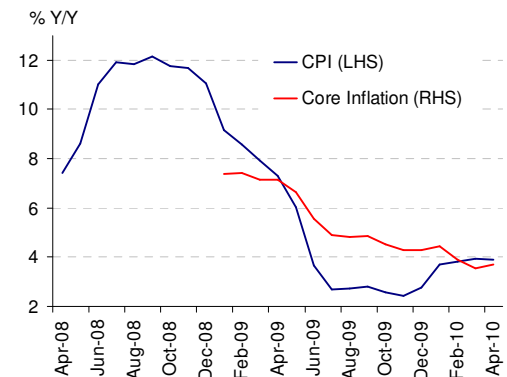
- **Singapore's** PMI stood in April at 51.9 points (consensus: 50.5), compared with 51.1 in the previous month. Meanwhile, electronics sectors index fell to 51.8 from 53.4, but still moving above 50 points

Australia: Trade Balance



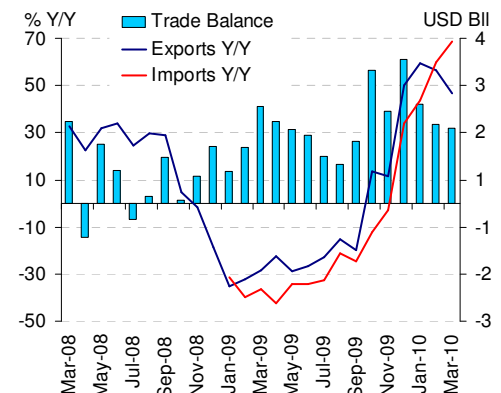
Source: CEIC

Indonesia: Consumer Price Index



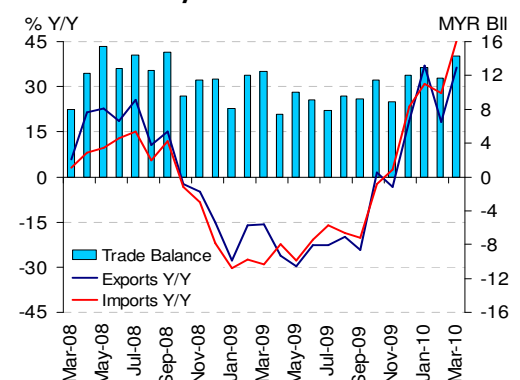
Source: CEIC

Indonesia: Trade Balance



Source: CEIC

Malaysia: Trade Balance



Sources: CEIC

(which marks expansion's point). Electronics were dragged down mainly by lower output and inventories.

- **Philippines's** consumer price index remained at 4.4% y/y in April (matching April's gain), as oil and to a lesser extent food prices rose, adding pressure to the central bank to growth the overnight rate. However, CPI stood below consensus of 4.5% increase. On a monthly basis, the prices rose by 0.5% (average: 0.6), above March's data (0.2%). Moreover, the authorities announced that will cut some lending programs, which were launched during the current crisis.

The Philippines is scheduled to elect its 15th president on May 10th, 2010. The two principal runners are Benigno "Noynoy" Aquino III (son of former President Corazon Aquino) of the Liberal Party and Manuel Villar (a Senator, and one of the country's wealthiest businessmen) of the Nacionalista Party.

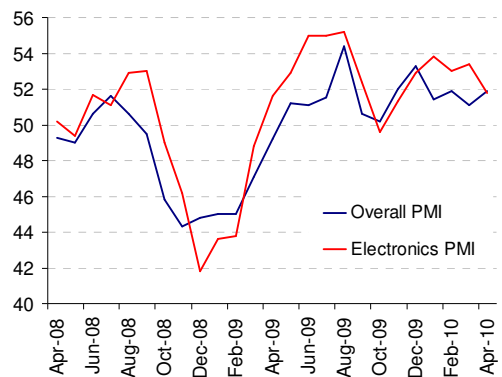
- **Thailand's** consumer price index slowed more-than-expected in April as private consumption fell due to the shaky political situation. CPI inflation registered 3.0% y/y (consensus: 3.2%), after a 3.4% increase in the previous month. Meanwhile, core inflation, climbed by only 0.5% y/y, also below the consensus (0.6%) and slightly above March's outturn (0.4%), keeping the core prices within the official target range of 0.5%-3.0%.

Thailand's Prime Minister offered a "five-point reconciliation plan", including a promise of new elections in November, which should help to ease political tensions and social unrest. However, the so-called "Red Shirts" are demanding further negotiations.

Asian Financial Markets

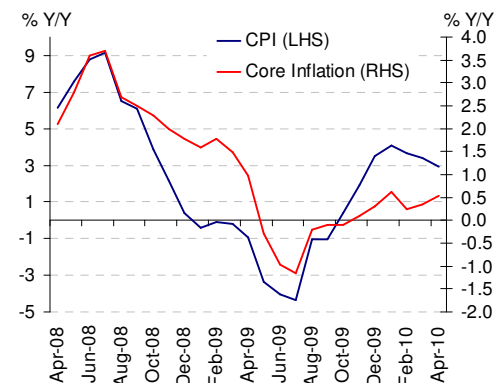
Asian markets fell last week due to rising concerns that Greece's debt crisis will spread to other European countries. Significant losses were recorded in all the stock markets, including Japan (-7.2%), Australia (-6.8%) and China (-6.3%). Nevertheless, Thailand posted gains, due to an improving political situation. Meanwhile, heightened risk aversion and the search for safe havens caused a strong appreciation of the JPY. Most of the other currencies recorded negative numbers, led by Korean Won and Australian dollar.

Singapore: Purchasing Managers' Index (PMI)



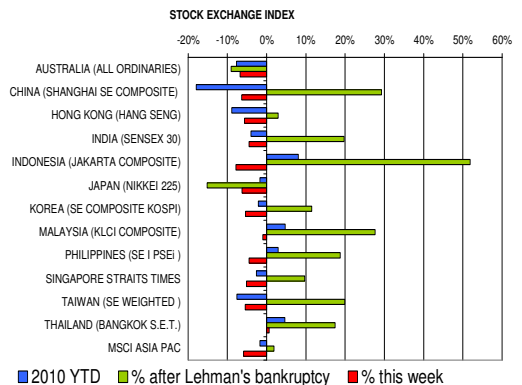
Sources: CEIC

Thailand: Consumer Price Index



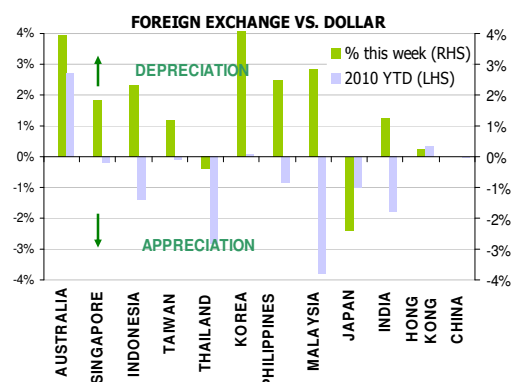
Sources: CEIC

Asia: Stock markets



■ 2010 YTD ■ % after Lehman's bankruptcy ■ % this week
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	2780	2688	-6.3	87.1
Hong Kong	Hang Seng	20391	19920	-5.6	45.4
Taiwan	Taiwan Weighted	7745	7567	-5.5	18.2
India	Sensex	17074	16769	-4.5	15.7
Japan	Nikkei 225	10530	10365	-6.3	34.2
Korea	Seoul Composite	1693	1648	-5.4	26.4
Indonesia	Jakarta Composite	2863	2739	-7.8	2.6
Malaysia	KLSE Composite	1338	1333	-1.0	2.1
Philippines	Philippines Composite	3194	3142	-4.5	0.4
Singapore	Straits Times	2873	2821	-5.2	7.7
Thailand	SET	784	769	0.7	3.3
Australia	All Ordinaries	4672	4507	-6.8	36.3

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	-0.06	-0.04	-0.11	-0.11
Hong Kong	(HKD/USD)	7.77	7.78	0.21	-79.90	-111.50	-375.00	-375.00
Taiwan	(TWD/USD)	31.54	31.71	1.18	-0.26	-0.33	-0.97	-0.97
India	(INR/USD)	44.98	45.51	2.57	41.29	30.75	105.75	105.75
Japan	(JPY/USD)	93.58	92.38	-1.57	-10.95	-12.75	-77.25	-77.25
Korea	(KRW/USD)	1133	1155	4.25	6	-1	1	1
Indonesia	(IDR/USD)	9110	9216	2.29	170	169	564	564
Malaysia	(MYR/USD)	3.24	3.27	2.82	203.50	65.00	385.00	385.00
Philippines	(PHP/USD)	45.0	45.6	2.47	0.5	0.5	1.5	1.5
Singapore	(SGD/USD)	1.39	1.39	1.67	1.90	3.35	-7.00	-7.00
Thailand	(THB/USD)	32.3	32.4	-0.15	2.9	4.3	17.5	17.5
Australia	(USD/AUD)	0.91	0.89	-3.40	-96.39	-93.00	-362.70	-362.70

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	7	2.10	n.a.	-	n.a.
Hong Kong	0.07	1	0.17	4	0.63	6
Taiwan	0.25	0	0.56	0	0.95	0
India	4.10	-4	5.02	1	n.a.	n.a.
Japan	0.15	0	0.40	0	0.56	-1
Korea	2.24	0	2.45	0	3.05	4
Indonesia	6.29	2	6.90	-4	7.42	-5
Malaysia	2.28	2	2.65	0	2.83	0
Philippines	4.25	-31	4.38	-6	4.50	0
Singapore	0.31	6	0.53	1	0.84	0
Thailand	1.26	0	1.38	0	1.76	0
Australia	4.70	34	4.85	26	-	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, China and 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	1.38	0	2.66	-1
Hong Kong	0.14	3	1.80	-24
Taiwan	0.45	-2	0.98	-2
India	4.00	-10	7.31	-13
Japan	-	n.a.	0.47	0
Korea	2.05	1	4.37	1
Indonesia	7.05	8	8.82	67
Malaysia	2.54	1	3.61	-1
Philippines	4.33	19	6.55	-3
Singapore	0.30	-3	1.05	-3
Thailand	1.62	2	3.24	12
Australia	4.30	-16	5.21	-31

Sources: Bloomberg.

2. Week Ahead:**a)**

Date	Country	Data	for	Previous	Forecast
10-May	China	Trade Balance (USD)	APR	-\$7.24B	-\$1.40B
10-May	China	Exports YoY%	APR	24.30%	28.50%
10-May	China	Imports YoY%	APR	66.00%	52.00%
10-May	Indonesia	GDP Constant Price (YoY)	1Q	5.40%	5.80%
10-May	Indonesia	GDP Constant Price (QoQ)	1Q	-2.40%	2.05%
10-12 May	China	China NDRC Housing Prices	APR	11.7	11.6
10-14 May	China	Money Supply - M2 (YoY)	APR	22.50%	22.00%
10-14 May	China	New Yuan Loans	APR	510.7B	565.0B
10-14 May	Indonesia	Consumer Confidence Index	APR	107.4	--
11-May	China	Producer Price Index (YoY)	APR	5.90%	6.50%
11-May	China	Consumer Price Index (YoY)	APR	2.40%	2.70%
11-May	China	Retail Sales (YoY)	APR	18.00%	18.10%
11-May	China	Retail Sales YTD YoY	APR	17.90%	18.00%
11-May	China	Industrial Production (YoY)	APR	18.10%	18.50%
11-May	China	Fixed Assets Inv Urban YTD YoY	APR	26.40%	26.00%
11-May	Malaysia	Industrial Production YoY	MAR	4.90%	15.60%
12-May	Korea	Unemployment Rate (SA)	APR	3.80%	--
12-May	Philippines	Total Exports (YoY)	MAR	42.30%	39.00%
12-May	Philippines	Total Monthly Exports	MAR	\$3567.0M	--
12-May	India	Industrial Production YoY	MAR	15.10%	--
13-May	Japan	Current Account Total	MAR	¥1470.6B	--
13-May	Japan	Adjusted Current Account Total	MAR	¥1119.0B	--
13-May	Japan	Trade Balance (BoP Basis)	MAR	¥778.0B	--
13-May	Australia	Unemployment Rate	APR	5.30%	--
13-May	Thailand	Consumer Confidence Economic	APR	69.8	--
13-May	Japan	Bankruptcies (YoY)	APR	-14.50%	--
14-May	Korea	Export Price Index (YoY)	APR	-12.20%	--
14-May	Korea	Export Price Index (MoM)	APR	-0.60%	--
14-May	Korea	Import Price Index (YoY)	APR	-4.30%	--
14-May	Korea	Import Price Index (MoM)	APR	1.20%	--
14-May	Singapore	Retail Sales (YoY)	MAR	4.80%	--
14-May	Singapore	Retail Sales (MoM) sa	MAR	-5.50%	--
14-May	Hong Kong	GDP (YoY)	1Q	2.60%	--
14-May	Hong Kong	GDP sa (QoQ)	1Q	2.30%	--
14-May	Malaysia	GDP YoY%	1Q	4.50%	9.50%

Sources: Bloomberg and BBVA staff estimates.

b) Economic Events

Date	Country	Issue	Remarks
10-May	Japan	BoJ Monetary Policy Meeting Minutes for Apr	Expected to remain unchanged at 0.10%
12-May	Korea	South Korea 7-Day Repo Rate	Expected to remain unchanged at 2.00%
13-May	Malaysia	Overnight Rate	Expected to growth by 25bps to 2.50%

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	-3.7	-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/	Mar-10	2.4	2.0	1.3	9.9	-1.1	2.6	3.9	1.3	4.4	1.6	2.9	0.5
Exports (in local currency) (% yoy) 2/	Mar-10	24.3	32.1	38.9	26.7	43.5	9.5	13.5	36.4	38.2	29.3	32.5	-13.6
Trade balance (US\$ bn) 3/	Mar-10	-7.2	-5.0	2.5	-9.0	10.5	4.4	3.6	4.3	-0.3	3.5	1.2	0.0
Industrial production (% yoy) 4/	Mar-10	18.1	-9.5	39.2	15.1	30.7	22.1	4.8	5.0	-1.2	43.0	32.6	0.9
Retail sales (% yoy) 5/	Mar-10	18.8	17.2	4.8	n.a.	5.8	-8.8	28.6	10.2	n.a.	4.7	6.5	0.8
Money supply (M2) (% yoy) 6/	Mar-10	22.5	9.8	4.0	17.0	2.6	8.6	10.7	8.8	3.8	8.8	5.9	2.6
Domestic credit (% yoy) 7/	Mar-10	21.8	7.7	3.3	19.4	-1.8	-0.4	9.4	9.8	5.5	7.5	7.8	2.1
Unemployment rate (%) 8/	Mar-10	4.3	4.4	5.7	n.a.	5.0	3.8	7.9	3.5	7.1	2.1	1.0	5.7

Source: CEIC and Datastream

Notes: 1) Wholesale prices for India; Q1 2010 figure for Australia; April-10 figure for Korea, Taiwan, Indonesia, Thailand and Philippines.

2) Figure for China is in US dollar term; figure for Australia includes services; Feb-10 figure for India and Philippines; April-10 figure for Korea and Taiwan.

3) Figure for Australia includes services; Jan-10 figure for Indonesia; Feb-10 figure for India and Philippines; April-10 figure for Korea, Taiwan and Australia.

4) Aug-09 figure for Hong Kong; Dec-09 figure for Australia; Jan-10 figure for China; Feb-10 figure for India and Malaysia.

5) Not available for India and Philippines; Dec-09 figure for Malaysia; Feb-10 figure for Thailand and Singapore.

6) Figure for Australia is broad money in national definition; figure for Hong Kong is only counted HK dollar M2; Jan-10 figure for Indonesia; Feb-10 figure for India and Korea.

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

8) Not available for India; Oct-10 figure for Philippines; Dec-09 figure for China, Indonesia, Malaysia, Singapore; Feb-10 figure for Thailand.