

Weekly Observatory

May 24, 2010

Economic and Financial Market Highlights (17-23 May 2010)

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The release of strong regional economic indicators this past week were not enough to offset the downdraft of global financial market volatility, as stocks markets and currencies plunged throughout the region.

The past week's figures showed strong growth momentum in the region, as Taiwan Q1 GDP grew at its fastest pace in 30 years, and as Japan's economy also showed signs of life, with its Q1 GDP expanding at its fastest pace in over 6 years. Meanwhile, Hong Kong's CPI remained stable, with overheating risks in check for the time being. In Japan's deflation continues, with the Q1 GDP deflator registering a minus 3.0% y/y. In the coming week, focus will be on the CPI for Japan and Singapore, as well as GDP in Thailand and the Philippines.

Greater China

- **China** further consolidated its position in the first quarter as the world's largest holder of US treasury securities with a total of USD895.2 billion, as Europe's financial woes have prompted China to devote more of its rising FX reserves (USD 2.45 trillion) dollar holdings during recent months. FDI inflows have remained strong and grew by 11.28%y/y to USD30.79 billion in the first four months of this year, but trade data show some decline in the trade surplus (78.5% y/y decline) in the first four months. We expect the trade balance to remain in substantial surplus as external demand continues to strengthen. Capital inflows continue to rise on FDI and portfolio investment, and foreign reserves should increase further. We continue to expect the currency to begin appreciating in the near term, although the ongoing global financial market volatility could cause the authorities to delay the timing.

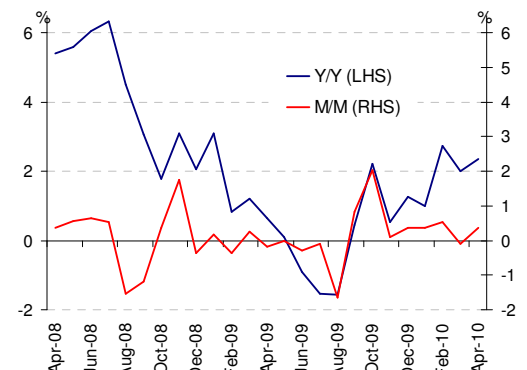
- **Hong Kong**'s Composite CPI rose 2.4% y/y in April, in line with the market expectations and larger than the corresponding 2.0% increase in March.

On a seasonally adjusted basis, the unemployment rate held steady at 4.4% in February-April period, slightly above market expectations (4.3%). However, 15-month low unemployment rate is supporting retail sales boost.

Taiwan's GDP grew at its fastest pace in 30 years in 1Q2010, mainly due to a surge in investment as well as net exports climbed as regional rebound demanded electronic components. GDP rose by 13.3% y/y, exceeding markets' forecast of 11.0% (BBVA: 11.5%).

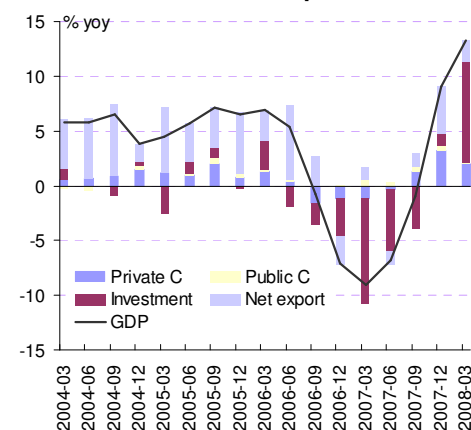
Export orders grew at an accelerating pace on strong demand for computers and mobile phones. Orders rose by 35.2% y/y in April (consensus: 36.1%), lower than previous month's figure of 43.6% increase.

Hong Kong: Consumer Price Index



Source: CEIC

Taiwan: GDP Components



Sources: CEIC

Japan/Korea/Australia

• **Japan's** GDP rose less than expected in 1Q2010 as strong export growth offset weak consumption spending. GDP grew by an annualized rate of 4.9% (consensus: 5.5%), the fourth straight quarterly gain. On a seasonally adjusted basis, GDP increased by 1.2% q/q (consensus: 1.4%), above 2009 Q4's revised of 1.0%. Net exports contribution to 1Q2010 was 0.7% q/q, while private consumption only contributed 0.2%. Deflation remained as a main concern, with the GDP deflator hitting a new record low of -3.0%. Markets will be watching this week's CPI for further deflationary trends.

As expected, the Bank of Japan left interest rates unchanged at 0.1%. The central bank also announced measures to increase loans to growth industries and, while acknowledging risks to the global economy, upgraded its outlook for the domestic economy.

Consumer confidence improved to 42.1 (consensus: 42.0) from March's 41.0, mainly due to an increase of employment sentiment and income growth. Meanwhile, households' consumer confidence also grew in April to 42.0 (March 40.9). A number below 50 means pessimists outnumber optimists.

Machinery orders grew in March, adding more evidence that the regional rebound is encouraging Japanese companies to raise investment spending. On a seasonally adjusted basis, the indicator climbed by 5.4% m/m (Consensus: 6.3%), the first positive number in three months.

March's Tertiary Industry Index fell a seasonally adjusted -3.0 m/m in March, much deeper than consensus (-1.5%), and also below February's revised decrease of -0.3%. Services demand slipped for a second straight month as wholesale and retail activities and information industries pushed the indicator down. The negative figure contrasts with current consumer confidence, which suggest (along other indicators) that households started to reap the recovery.

• **Korea's** department stores sales climbed by 8.8% y/y in April (March: 4.6%), a further sign of strong domestic demand. Additionally, discount stores sales grew by 0.3% y/y (March: 1.6%).

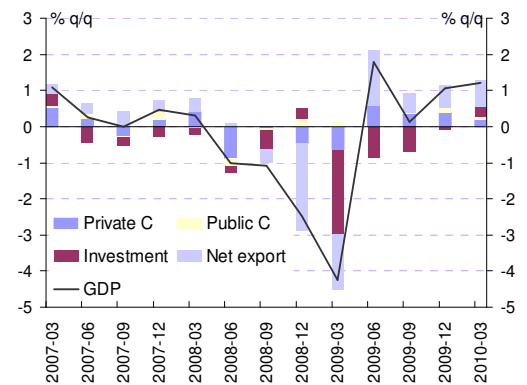
• **Australia's** Westpac consumer confidence fell by 7% in May (April: -1.0%), signalling that rapid interest rate increases have started to affect the economy, and reducing the likelihood of further interest rate hikes by the Central Bank in the near term. The Australian Dollar has fallen sharply in recent weeks on heightened risk aversion stemming from developments in Europe.

ASEAN

• **Singapore's** strong growth momentum continued in April, with non-oil domestic exports soaring by 29.4% y/y (consensus: 25.3%), led by shipments to the United States (46.1%), Hong Kong (41.3%) and China (30.0%). On a monthly basis, NODX increased by 2.1% m/m (consensus: 0.0%), after previous month's revised figure of 2.9% increase. Meanwhile, electronics exports jumped by 19.3% y/y (consensus: 28.9%), below March's record-growth of 39.4%.

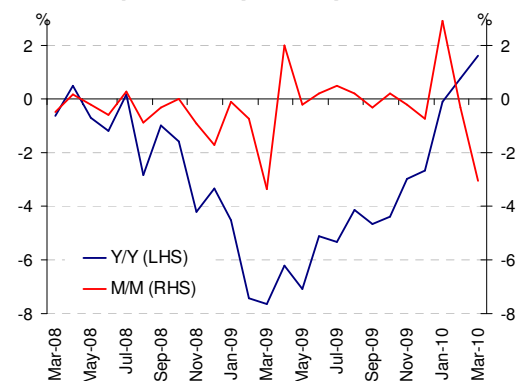
• **Philippines'** has almost completed its vote counting in the Presidential election, with Benigno Aquino III holding a massive lead. Despite some allegations of fraud in the election process, the new president will likely be proclaimed winner during the Congressional session that starts next week.

Japan: Quarterly GDP growth (q/q, sa)



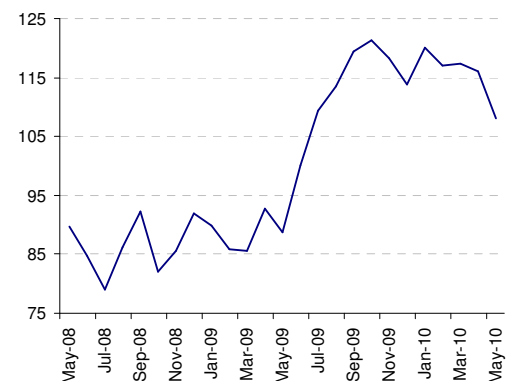
Source: CEIC

Japan: Tertiary Industry Index



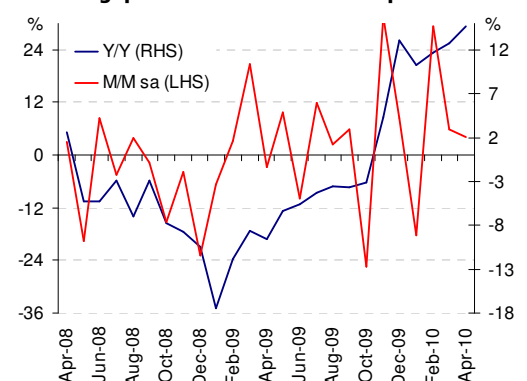
Source: CEIC

Australia: Consumer Confidence Index



Sources: CEIC

Singapore: Non-oil Domestic Exports



Source: CEIC

Overseas remittances, which account for more than 10% of GDP, increased by 5.6% y/y in March (February: 7.1%).

The balance of payments surplus widened in April, due to rising exports, sustained remittances inflows and higher foreign investment. The surplus stood at USD982 million (March: USD255 million).

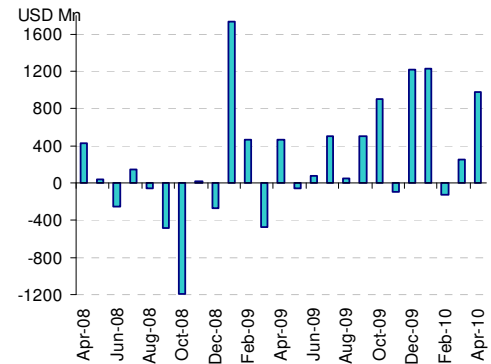
- **Malaysia's** consumer prices rose by 1.5% y/y in April, against expectation of a 1.6% rise. The central bank raised interest rates for a second straight time earlier this month, to 2.5%, as the economy shows strong growth momentum.
- **Thailand's** GDP grew by 12.0% in 1Q2010 (consensus: 9.0%), despite current political turmoil. On a seasonally adjusted basis, GDP rose by 3.8% m/m (consensus: 1.7%0).

Political unrest worsened last week as government the decided to forcibly evacuate protestors' camp and imposed a curfew in Bangkok and other areas, spreading the riots across the country.

Asian Financial Markets

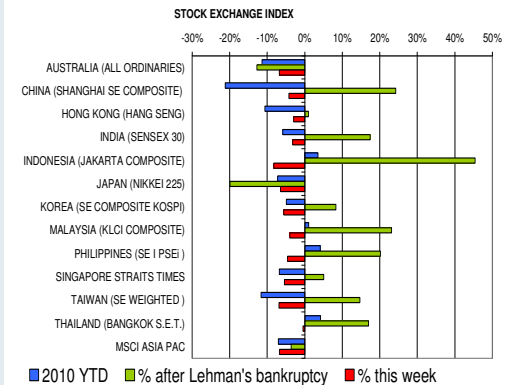
Asian financial markets fell last week on global fears of renewed recession due to the European debt crisis, exacerbated by concerns about financial regulatory reform in the advanced economies. (Korea and Hong Kong's stock markets were closed for holidays on Friday, and Thailand's stock exchange was closed on Thursday/Friday due to the domestic disturbances.) Most of the region's currencies depreciated last week on heightened global risk aversion. Declines were led by the Korean won, which dropped by 8% not only on global financial market volatility, but on renewed tensions with North Korea. The Australian Dollar also continued to decline, on the unwinding of carry trade and pullback from commodity currencies.

Philippines: Balance of Payments



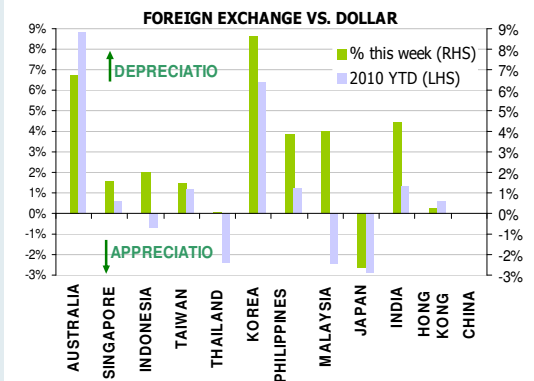
Sources: CEIC

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	2576	2584	-4.2	86.2
Hong Kong	Hang Seng	19696	19546	-3.0	32.7
Taiwan	Taiwan Weighted	7481	7238	-6.9	14.4
India	Sensex	16617	16446	-3.2	19.7
Japan	Nikkei 225	10096	9785	-6.5	67.6
Korea	Seoul Composite	1631	1600	-5.6	28.7
Indonesia	Jakarta Composite	2740	2623	-8.2	2.1
Malaysia	KLSE Composite	1313	1286	-4.0	2.0
Philippines	Philippines Composite	3234	3179	-4.5	0.3
Singapore	Straits Times	2781	2701	-5.4	6.0
Thailand	SET	760	766	-0.4	1.9
Australia	All Ordinaries	4417	4326	-6.8	34.5

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	0.02	-0.04	-0.03	-0.09	-0.09
Hong Kong	(HKD/USD)	7.80	7.80	0.22	-104.97	-113.00	-360.00	-360.00
Taiwan	(TWD/USD)	31.97	32.13	1.50	-0.22	-0.28	-0.94	-0.94
India	(INR/USD)	46.27	46.92	3.80	38.96	41.56	123.56	123.56
Japan	(JPY/USD)	91.24	90.00	-2.67	-11.84	-14.57	-79.50	-79.50
Korea	(KRW/USD)	1178	1229	8.63	4	-16	-17	-17
Indonesia	(IDR/USD)	9197	9281	1.99	203	239	621	621
Malaysia	(MYR/USD)	3.26	3.32	4.01	228.60	80.00	425.00	425.00
Philippines	(PHP/USD)	45.7	46.5	3.87	0.6	0.6	1.7	1.7
Singapore	(SGD/USD)	1.40	1.41	1.28	0.16	0.30	-15.50	-15.50
Thailand	(THB/USD)	32.3	32.4	0.09	6.3	8.0	20.0	20.0
Australia	(USD/AUD)	0.85	0.83	-6.11	-90.12	-89.24	-321.10	-321.10

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	1.86	10	2.17	n.a.	-	n.a.
Hong Kong	0.07	1	0.22	2	0.70	4
Taiwan	0.26	1	0.56	0	0.94	-1
India	4.17	8	5.03	6	n.a.	n.a.
Japan	0.15	0	0.39	0	0.56	0
Korea	2.23	0	2.47	1	3.19	4
Indonesia	6.23	-5	6.77	-9	7.21	-14
Malaysia	2.48	21	2.71	1	2.88	1
Philippines	4.19	6	4.25	0	4.50	0
Singapore	0.19	0	0.54	1	0.85	1
Thailand	1.26	0	1.39	0	1.75	0
Australia	4.62	-7	4.67	-16	-	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	1.25	0	2.52	-11
Hong Kong	0.17	2	1.63	-10
Taiwan	0.39	-4	0.97	-1
India	4.05	15	7.22	-3
Japan	-	n.a.	0.43	-4
Korea	2.06	0	4.45	-3
Indonesia	7.12	12	8.67	22
Malaysia	2.60	3	3.52	-5
Philippines	4.19	2	6.71	24
Singapore	0.29	0	0.99	1
Thailand	1.59	0	3.13	3
Australia	4.18	-25	5.02	-26

Sources: Bloomberg.

2. Week Ahead:

a) The coming week will feature Q1 GDP in Philippines and Thailand; and inflation data in Japan, Singapore and Vietnam.

Country	Date	Data	for	Previous	Forecast
Hong Kong	27-May	Exports YoY%	APR	32.10%	--
Hong Kong	27-May	Imports YoY%	APR	39.80%	--
Hong Kong	27-May	Trade Balance	APR	-38.9B	--
Japan	24-May	All Industry Activity Index (MoM)	MAR	-2.30%	--
Japan	27-May	Merchnds Trade Balance Total	APR	¥948.9B	--
Japan	27-May	Adjusted Merchnds Trade Bal.	APR	¥666.2B	--
Japan	27-May	Merchnds Trade Exports YoY	APR	43.5	--
Japan	27-May	Merchnds Trade Imports YoY	APR	20.7	--
Japan	25-May	Overall Hhold Spending (YoY)	APR	4.40%	--
Japan	25-May	Jobless Rate	APR	5.00%	--
Japan	25-May	Job-To-Applicant Ratio	APR	0.49	--
Japan	25-May	CPI YoY	APR	-1.10%	--
Japan	25-May	Retail Trade MoM SA	APR	0.80%	--
Japan	25-May	Retail Trade YoY	APR	4.70%	--
Korea	26-May	SK Consumer Confidence	MAY	110	--
Korea	27-May	Current Account in US\$ Million	APR	\$1690.3M	--
Korea	27-May	Goods Balance in US\$ Million	APR	\$4359M	--
Korea	25-May	Business Survey- Manufacturing	JUN	107	--
Korea	25-May	Business Survey- Non-Manufacturing	JUN	94	--
Philippines	26-May	Total Imports (YoY)	MAR	27.60%	--
Philippines	26-May	Total Monthly Imports	MAR	\$3903.2M	--
Philippines	26-May	Trade Balance	MAR	-\$333M	--
Philippines	27-May	GDP (YoY)	1Q	1.80%	--
Philippines	27-May	GDP sa (QoQ)	1Q	0.90%	--
Singapore	24-May	CPI (YoY)	APR	1.60%	--
Singapore	24-May	CPI (MOM) - NSA	APR	0.10%	--
Singapore	26-May	Industrial Production YoY	APR	43.00%	--
Singapore	26-May	Industrial Production MoM SA	APR	-1.50%	--
Taiwan	24-May	Unemployment Rate - sa	APR	5.64%	--
Taiwan	24-May	Industrial Production (YoY)	APR	39.20%	--
Taiwan	24-May	Commercial Sales (YoY)	APR	13.85%	--
Thailand	24-May	Customs Exports (YoY)	APR	40.90%	37.50%
Thailand	24-May	Customs Imports (YoY)	APR	59.70%	44.80%
Thailand	24-May	Customs Trade Balance	APR	\$1155M	\$500M
Thailand	May-10	Gross Domestic Product SA (QoQ)	1Q	3.60%	1.70%
Thailand	24-May	Gross Domestic Product (YoY)	1Q	5.80%	9.00%
Vietnam	24-May	CPI (YoY)	MAY	9.20%	--
Vietnam	25-30 MAY	Imports YTD (YoY)	MAY	36.00%	--
Vietnam	25-30 MAY	Exports YTD (YoY)	MAY	9.00%	--
Vietnam	26-May	Industrial Output YTD (YoY)	MAY	13.50%	--
Vietnam	26-May	Retail Sales YTD (YoY)	MAY	--	--

Sources: Bloomberg and BBVA staff estimates.

b) Economic Events

Country	Date	Issue	Remarks
Japan	26-May	BoJ Monetary Policy Meeting Minutes for Apr	Expected to remain unchanged at 0.10%

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)	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.	-1.1	2.9	5.4	4.4	1.8	4.0	5.8	2.7
	1Q10	11.9	8.2	n.a.	n.a.	4.6	-0.3	5.7	10.1	n.a.	13.1	n.a.	n.a.
CPI inflation (% yoy) 1/	Mar-10	2.8	2.4	1.3	9.6	-1.1	2.6	3.9	1.5	4.4	1.6	2.9	0.5
Exports (in local currency) (% yoy) 2/	Mar-10	30.5	32.1	38.9	36.9	43.5	8.3	13.5	36.4	35.7	29.8	32.5	-13.6
Trade balance (US\$ bn) 3/	Mar-10	1.7	-5.0	2.5	-7.8	10.5	4.1	3.6	4.3	-0.3	2.9	1.2	0.0
Industrial production (% yoy) 4/	Mar-10	17.8	-9.5	39.5	13.5	31.8	22.1	4.8	14.1	-1.2	43.0	32.6	0.9
Retail sales (% yoy) 5/	Mar-10	19.8	17.2	4.8	n.a.	5.9	-8.8	28.6	10.2	n.a.	-3.6	6.5	0.8
Money supply (M2) (% yoy) 6/	Mar-10	21.5	9.8	4.0	18.5	2.9	9.7	10.7	8.8	3.8	8.8	5.9	2.6
Domestic credit (% yoy) 7/	Mar-10	22.0	7.7	3.3	19.3	-1.8	1.8	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	3.7	7.9	3.5	7.1	2.1	1.0	5.5

Source: CEIC and Datastream

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

2) Figure for China is in US dollar term; figure for Australia includes services: April-10 figure for China, Singapore, 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 China, Korea, Taiwan, Singapore and Australia.

4) Aug-09 figure for Hong Kong; Dec-09 figure for Australia; Feb-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; Apr-10 figure for China.

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 Apr-10 figure for China and Japan.

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

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