

## Asia

## Weekly Watch

Hong Kong, April 1, 2011

## Economic Analysis

## Asia

**Stephen Schwartz**

stephen.schwartz@bbva.com.hk

**Mario Nevares**

mario.nevares@bbva.com.hk

**Fielding Chen**

fielding.chen@bbva.com.hk

**Le Xia**

xia.le@bbva.com.hk

**Jenny Zheng**

jenny.zheng@bbva.com.hk

**Serena Wang**

serena.wang@bbva.com.hk

## Markets

**Richard Li**

richard.li@bbva.com.hk

**Fielding Chen**

fielding.chen@bbva.com.hk

**Mario Nevares**

mario.nevares@bbva.com.hk

## Economic resilience despite rising risks

Despite rising external risks from higher oil prices and the aftermath of Japan's earthquake, economic indicators and policy moves continue to point to resilience across the region, which have helped to support investor sentiment. China's March PMI data released today shows steady growth, and was well-received by market analysts (see Highlights); meanwhile, another interest rate hike in Taiwan, the fourth since June last year (Chart 1), conveyed a sense of confidence by the authorities that growth momentum remains intact.

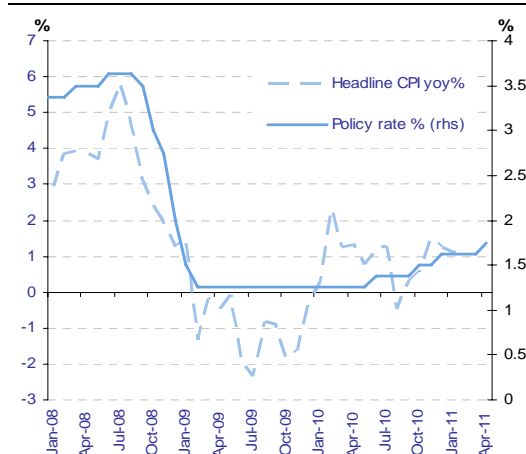
## Inflation continues to bite

Korea's March inflation rose to 4.7% y/y from 4.5% in February (Chart 2). While the outturn was somewhat lower than expected (consensus: 4.8%), inflation in Korea is well above the authorities' 2-4% target range, and has emerged as a key policy challenge, making it more likely that the Bank of Korea will continue to hike rates in the months ahead. Inflation in Thailand also accelerated, to 3.1% y/y (consensus: 3.0%) from 2.9% in February due to higher oil prices, while inflation slowed in Indonesia (6.7% y/y; consensus: 7.0%). A number of indicators in the region are showing some weakness, suggesting signs of a slowdown, including weak retail sales figures in Hong Kong for February (5.1% y/y vs. consensus: 13.8%) and a slowdown in Vietnam's first quarter GDP to 5.4% y/y from 7.4% y/y in the previous quarter (see Highlights).

## In the coming week...

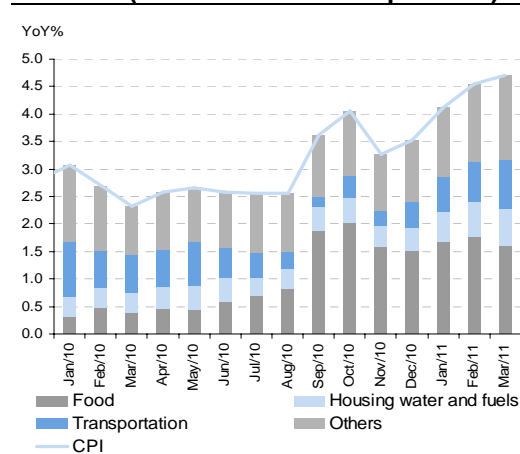
March CPI inflation will be released in the Philippines (see What to Watch) and Taiwan as well as PMI for Singapore and Hong Kong. Trade data will be released in Malaysia and Australia, along with current account data for Japan. There will be monetary policy meetings in Australia and Japan, and we expect the interest rates to remain unchanged in both cases (see Calendar).

Chart1

**Taiwan hikes interest rates for a fourth time**

Source: BBVA Research and Bloomberg

Chart2

**Demand pressures are stoking inflation in Korea (contribution of components)**

Source: BBVA Research and Bloomberg

Markets



Highlights



Calendar



Markets Data



## Highlights

**Modest increase in China's March PMI heralds a soft-landing**

The latest data help alleviate fears of an abrupt slowdown in China

**Hong Kong's growth outlook remains resilient**

Rapid credit growth and rising inflation are the main policy challenges

**Vietnam's GDP growth slows as authorities seek to maintain macro stability**

Despite the slowdown in first quarter GDP, medium-term growth prospects are strong

## Markets Analysis

**Richard Li**  
richard.li@bbva.com.hk

**Fielding Chen**  
fielding.chen@bbva.com.hk

**Mario Nevares**  
Mario.nevares@bbva.com.hk

## Markets

## Optimism on Asia's Economic Resilience Prevails

Markets have demonstrated confidence in Asia's resilience to Japan's massive earthquakes and oil price spikes. Risk aversion has eased, with Asian equities extending gains. Asian currencies are broadly up, with KRW outperforming on faster rate hike prospects. Nevertheless, risks remain. Radiation leaks outside the Fukushima nuclear plant are still a key concern. Oil prices remain elevated, with Brent crude futures above USD117/ bbl, reflecting prolonged conflict in Libya and anecdotal protest reports in the broader MENA region.

We have long argued Asia's resilience to the dual blows with two important caveats – Japan's radiation leaks could be contained soon and civil unrest would not spread to major oil producing countries. With these caveats, we think Japan's crisis and oil price spike will have modest negative impacts on Asia's 2011 growth, largely concentrated in Q2. Asia's economy will continue to grow in 2H, with rising inflation and central bank tightening still the dominant themes.

In this regard, Korea's inflation for March rose to 4.7% y/y and fueled concerns that the BoK will hike rates again soon. As the economy is still bracing for negative impacts from Japan, the BoK will likely pause in April and more likely to move in May/June's meeting. March trade balance was surprisingly hefty above USD3.0 bn on stronger exports, giving further support to USDKRW below 1100.

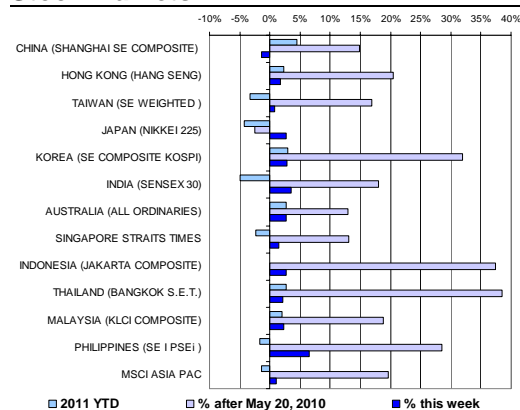
On the other hand, Indonesia's CPI eased modestly in March, but this was partly a result of lower import duties on rice, wheat and soyabeans and stronger rupiah. Core inflation is still rising, with credit growth hovering at high levels. We still think the BI will have to hike rates gradually to head off inflation.

USDJPY was the worst performing currency, not only in Asia but also in G10 FX. Data out of Japan has demonstrated that growth and business confidence were strong before the quake, but these data were largely ignored by the market. After the tragedy, Japan had the lowest prospects of raising rates in G10. With easing risk aversion and growing concerns that the Fed may withdraw its stimulus sooner-rather-than-later, JPY appeared to be an attractive funding vehicle for carry trade. USDJPY has breached the 200-day moving average at the time of writing. We think the pair could go back to the mid-80s in Q2 on the back of weak macro data in Japan, noises of fiscal woes and intensifying debate over the Fed's policy ahead.

Stock markets were mostly higher this week with the only exception being China (Chart 3). Upward momentum stalled late in the week after a Federal Reserve official said interest rates may need to rise. The MSCI Asia Pacific Index last week had its biggest weekly gain since November as Japan moved to stabilize nuclear reactors damaged by the earthquake, and as companies reported earnings that surpassed estimates.

Chart 3

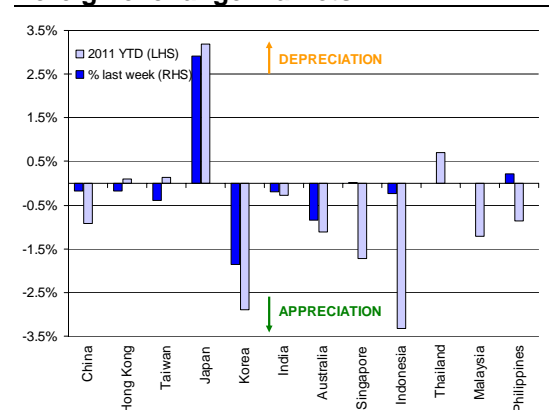
## Stock markets



Source: BBVA Research and Bloomberg

Chart 4

## Foreign exchange markets



Source: BBVA Research and Bloomberg

Home →

Highlights →

Calendar →

Markets Data →

## Economics Analysis

## Asia

## Stephen Schwartz

stephen.schwartz@bbva.com.hk

## Mario Nevares

mario.nevares@bbva.com.hk

## Fielding Chen

fielding.chen@bbva.com.hk

## Le Xia

xia.le@bbva.com.hk

## Jenny Zheng

jenny.zheng@bbva.com.hk

## Serena Wang

serena.wang@bbva.com.hk

## Highlights

## Modest increase in China's March PMI heralds a soft-landing

China's March PMI data attracted market attention as an indicator of growth momentum amidst recent indicators that the economy may be slowing. The Purchasing Manufacturing Index (PMI) for March registered 53.4%, somewhat lower than expected but still strong (firmly in the +50 expansion zone), marking the first increase in four months and above February's outturn of 52.2%. While the lower than expected reading—combined with recent indicators of weakening credit, retails sales, and exports—could raise concerns of an abrupt slowdown, we view the outturn as a welcome sign that growth is transitioning to a soft landing, just as the authorities have been seeking through their recent tightening measures. The main factors for March PMI increase were improvements in the production and employment subcomponents, which increased by 1.9 and 2.9 percentage points, respectively; the new orders subcomponent was a bit softer, increasing by 0.9 percentage points. Input prices registered a welcome decline of -1.8 percentage points, which should help to ease inflationary pressures. On the external front, the export subcomponent increased by a healthy 1.6 percentage points while the imports component fell by 1.9 percentage points, suggesting the trade monthly trade deficits will shift back to surpluses as expected. We expect GDP growth for the first quarter of 9.3% y/y, down from 9.8% y/y in the fourth quarter of last year, consistent with our 9.2% GDP growth projection for 2011 (a batch of new data, including first quarter GDP will be released in mid-April). The authorities are now likely to take a more cautious approach to monetary tightening, especially in light of rising oil prices and other external uncertainties. Nevertheless, we still anticipate two more 25bp rate hikes and a further 100bp hikes in required reserve ratios during the second and third quarters.

## Hong Kong's growth outlook remains resilient

The Hong Kong Monetary Authority (HKMA) has just issued its latest half-yearly [Monetary and Financial Stability Report](#). The publication documents the brisk recovery of 2010, when GDP growth reached 6.8% on both strong domestic and external demand. With falling unemployment and rising business confidence, underlying growth momentum is expected to be sustained in 2011, albeit at a moderating pace, with the HKMA forecasting GDP to rise by 4.8% (this compares to our projection of 5%). Inflation has picked up to 3.7% y/y in February, with pressures from rising food prices and strong demand. Among the most notable risks facing the economy is rapid credit growth, which is the highest in the region at almost 29% y/y in 2010. Rapid bank lending is due to a pickup in loans to Mainland companies and to the domestic property sector. Though not an immediate risk, the pace of such lending cannot be sustained without compromising credit quality, and the HKMA has pressured banks to step up their lending standards. Another risk is from rising inflation, which may be exacerbated by rising international food and energy prices and the implantation of a new minimum wage law that takes effect in May (the HKMA forecasts average inflation of 4.5% compared to our projection of 5.2%). Finally further increases in property prices pose a risk, especially given the likelihood of an eventual increase in interest rates which could pose a burden on debt servicing of households. Recent measures to cool the sector include a stamp duty and higher loan-to-value ratios, but demand nevertheless remains strong as an investor hedge against inflation.

## Vietnam's GDP growth slows as authorities seek to maintain macro stability

Vietnam's 2011 first quarter GDP slowed to 5.4% y/y, down from 7.4% y/y in the previous quarter and 6.8% for 2010 as a whole (see chart 6). The slowdown came mainly from a decline in the pace of manufacturing output, possibly from the past months' monetary tightening measures. The outturn puts our 2011 GDP forecast of 6.9% at risk. Vietnam has been struggling with a period of macro instability, marked by rising inflation, widening trade deficits, and downward currency pressures. Vietnam was the only country in emerging Asia last year to receive downgrades by the major rating agencies. Inflation for March continued to surge to 13.9% y/y, stoked by costlier fuel and electricity and higher import costs from recent devaluations of the currency. The central bank devalued the dong last February for the fourth time in 15 months as it strives in response to balance of payments pressures. It also raised interest rates on March 8, increasing its refinancing and discount rates to 12% to tame inflation, following a series of such moves since last November. Despite the current bout of macro instability, Vietnam's medium-term growth prospects are strong, which should continue to encourage FDI inflows.

Home →

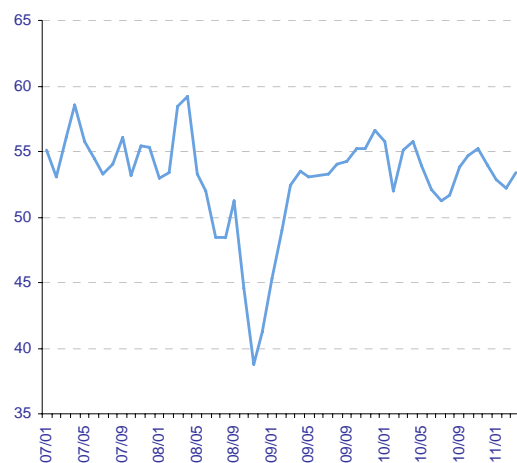
Markets →

Calendar →

Markets Data →

Chart 5

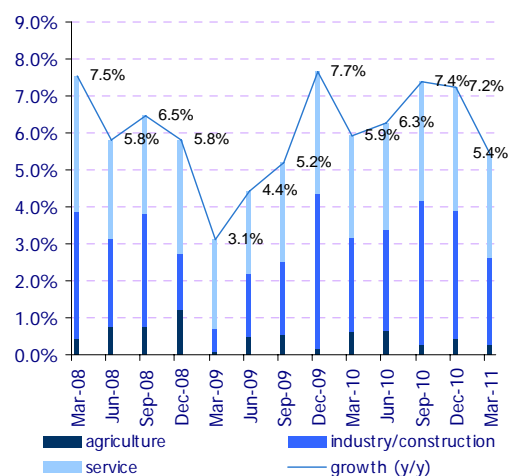
**Modest increase in March PMI heralds a soft-landing**



Source: BBVA Research and Bloomberg

Chart 6

**Vietnam's first quarter GDP slowed**



Source: BBVA Research and Bloomberg

## Economics Analysis

Asia

Stephen Schwartz

stephen.schwartz@bbva.com.hk

Mario Nevares

mario.nevares@bbva.com.hk

Fielding Chen

fielding.chen@bbva.com.hk

Le Xia

xia.le@bbva.com.hk

Jenny Zheng

jenny.zheng@bbva.com.hk

Serena Wang

serena.wang@bbva.com.hk

## What to watch

## Philippines: CPI for March (April 5)

Forecast: 4.5%

Consensus: 4.5%

Prior: 4.3%

**Comment:** Until last week, the Philippines' central bank was the last holdout in Asia to begin tightening monetary policy, with a 25bp interest rate hike to 4.25% announced on March 24. The central bank moved in response to rising inflation, which has been exacerbated by recent increases in food and oil prices. The central bank is seeking to keep inflation to within its 3-5% target range, but with core inflation on the rise from demand pressures (3.5%/y/y in February) and the central bank's forecast for 2011 headline inflation (annual average) recently increased from 3.6% to 4.4%, the target is at risk. **Market impact:** An acceleration of inflation beyond expectations could trigger further interest rate hikes in the near term (we currently anticipate three more hikes this year).

## Calendar

Australia	Date	Period	Prior	Cons.
Trade Balance	5-Apr	FEB	1875M	1100M
Home Loans	6-Apr	FEB	-4.50%	-2.50%
Investment Lending	6-Apr	FEB	-6.80%	--
Unemployment Rate	7-Apr	MAR	5.00%	5.00%
China	Date	Period	Prior	Cons.
China Non-manufacturing PMI	3-Apr	MAR	44.1	--
China HSBC Services PMI	6-Apr	MAR	51.9	--
Hong Kong	Date	Period	Prior	Cons.
Purchasing Managers Index	6-Apr	MAR	53.7	--
Indonesia	Date	Period	Prior	Cons.
Consumer Confidence Index	01-11 APR	MAR	112.3	--
India	Date	Period	Prior	Cons.
Current Account Balance	31-Mar	4Q	--	--
Exports YoY%	1-Apr	FEB	32.40%	--
Imports YoY%	1-Apr	FEB	13.10%	--
Japan	Date	Period	Prior	Cons.
Monetary Base (YoY)	4-Apr	MAR	--	--
Adjusted Current Account Total	8-Apr	FEB	¥1089.2B	¥1329.1B
Current Account Balance YOY%	8-Apr	FEB	--	7.90%
Trade Balance - BOP Basis	8-Apr	FEB	-¥394.5B	¥745.5B
Malaysia	Date	Period	Prior	Cons.
Exports YoY%	5-Apr	FEB	3.00%	5.00%
Imports YoY%	5-Apr	FEB	13.50%	14.40%
Trade Balance	5-Apr	FEB	9.19B	8.85B
Philippines	Date	Period	Prior	Cons.
Budget Deficit/Surplus	04-08 APR	FEB	13.4B	--
Consumer Price Index (YoY)	5-Apr	MAR	4.30%	4.50%
Bank Lending (YoY)	8-Apr	FEB	12.40%	--
Singapore	Date	Period	Prior	Cons.
Electronics Sector Index	5-Apr	MAR	52.6	51.5
Purchasing Managers Index	5-Apr	MAR	52.3	51.8
Korea	Date	Period	Prior	Cons.
South Korea FDI (YoY)	03-06 APR	1Q	62	--
Producer Price Index (YoY)	8-Apr	MAR	6.60%	--
Taiwan	Date	Period	Prior	Cons.
CPI YoY%	6-Apr	MAR	1.33%	1.70%
WPI YoY%	6-Apr	MAR	3.46%	3.75%
Thailand	Date	Period	Prior	Cons.
Consumer Confidence Economic	7-Apr	MAR	72.2	--

## Australia –RBA CASH TARGET, April 5

We expect no change in the interest rates

Current	Expected
4.75%	4.75%

## Japan – BOJ Target Rate, April 7

We expect no change in the interest rates

Current	Expected
0.10%	0.10%

Home →

Markets →

Highlights →

Markets Data →

## Markets Data

## Asia Market

STOCK MARKETS	INDEX	Last price	% change over a week	Year to date	% Change over 1 Y
	China – Shanghai Comp.	2935.3	-1.4	4.5	-6.7
	Hong Kong – Hang Seng	23563.8	1.7	2.3	9.4
	Taiwan – Weighted	8680.4	0.8	-3.3	8.3
	Japan – Nikkei 225	9786.2	2.6	-4.3	-13.0
	Korea – Kospi	2112.0	2.8	3.0	22.8
	India – Sensex 30	19480.6	3.5	-5.0	10.1
	Australia – SPX/ASX 200	4872.9	2.7	2.7	-0.7
	Singapore – Strait Times	3114.9	1.4	-2.4	5.8
	Indonesia – Jakarta Comp	3701.2	2.6	-0.1	30.8
	Thailand – SET	1060.9	2.2	2.7	32.4
	Malaysia – KLCI	1549.5	2.2	2.0	16.5
	Philippines – Manila Comp.	4129.5	6.5	-1.7	30.6

Last update: Friday, 11.15 Hong Kong time.

FOREIGN EXCHANGE MARKETS	CURRENCY	Spot	% change over a week	Forward 3-month	Forward 12-month
	China (CNY/USD)	6.55	0.17	6.51	6.42
	Hong Kong (HKD/USD)	7.78	0.18	7.8	8
	Taiwan (TWD/USD)	29.3	0.40	29.05	28.32
	Japan (JPY/USD)	83.7	-2.84	83.7	83.3
	Korea (KRW/USD)	1093	1.91	1099.68	1114.40
	India (INR/USD)	44.6	0.38	45.3	47
	Australia (USD/AUD)	1.03	0.86	1	n.a.
	Singapore (SGD/USD)	1.26	-0.02	1.26	1.3
	Indonesia (IDR/USD)	8697	0.23	8742	9085
	Thailand (THB/USD)	30.3	0.03	30.33	30.7
	Malaysia (MYR/USD)	3.03	0.00	3.0	3
	Philippines (PHP/USD)	43.4	-0.21	43.41	43.55

Last update: Friday, 11.15 Hong Kong time.

[Home](#) →

[Markets](#) →

[Highlights](#) →

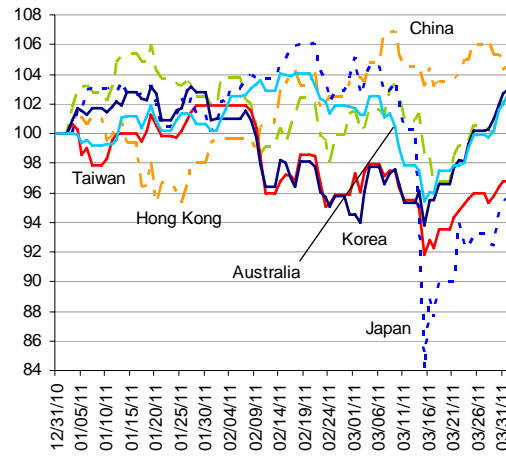
[Calendar](#) →



Markets Data

# Asia Chart

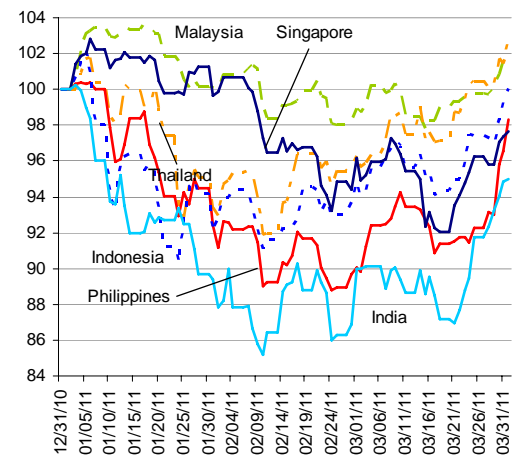
## STOCK MARKETS



Source: BBVA Research and Bloomberg

Index=100

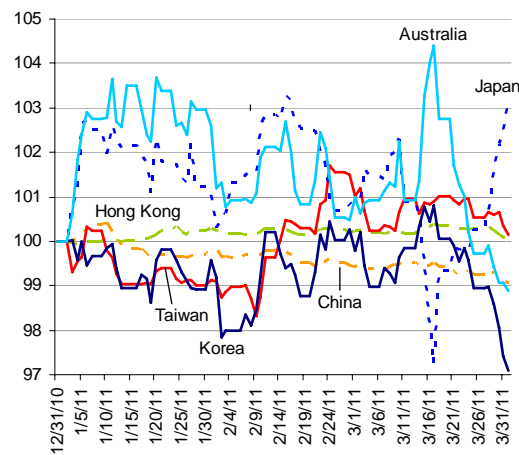
## STOCK MARKETS



Source: BBVA Research and Bloomberg

Index=100

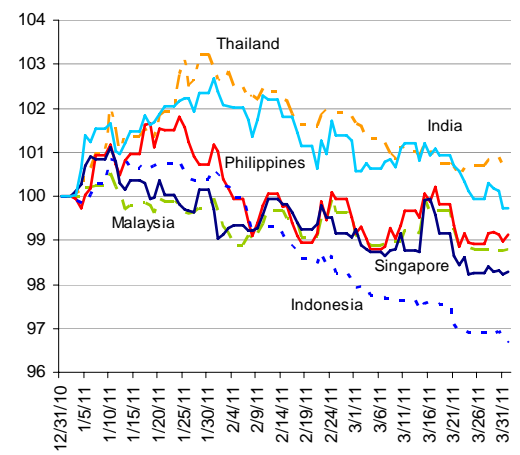
## FOREIGN EXCHANGE MARKETS



Source: BBVA Research and Bloomberg

Index=100

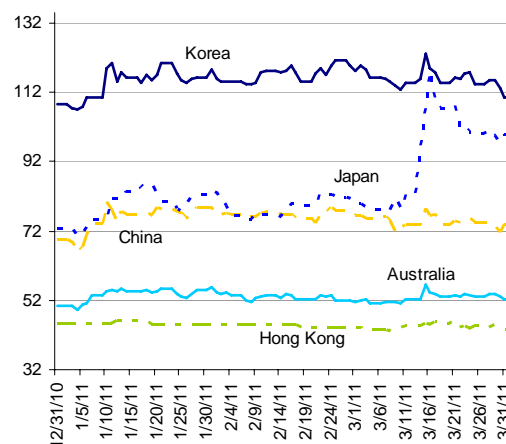
## FOREIGN EXCHANGE MARKETS



Source: BBVA Research and Bloomberg

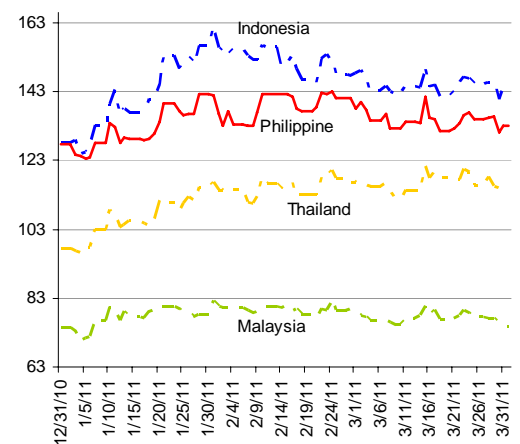
Index=100

## CREDIT DEFAULT SWAPS



Source: BBVA Research and Bloomberg

## CREDIT DEFAULT SWAPS



Source: BBVA Research and Bloomberg

- Home →
- Markets →
- Highlights →
- Calendar →

**DISCLAIMER**

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

**Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report.** Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document is based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

**The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances, investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.**

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates' salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

In the United Kingdom, this document is directed only at persons who (i) have professional experience in matters relating to investments falling within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (as amended, the "financial promotion order"), (ii) are persons falling within article 49(2) (a) to (d) ("high net worth companies, unincorporated associations, etc.") Of the financial promotion order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons. The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA is not a member of the FINRA and is not subject to the rules of disclosure affecting such members.

**"BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: [www.bbva.com](http://www.bbva.com) / Corporate Governance".**

**BBVA, S.A. is a bank supervised by the Bank of Spain and by Spain's Stock Exchange Commission (CNMV), registered with the Bank of Spain with number 0182.**