



Weekly Observatory

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Economic and Financial Market Highlights (Sep 27-Oct 03, 2008)

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The unexpected failure to reach an agreement of bailout bill by the US Congress shocked the Asian stock markets at the beginning of the week. Meanwhile, interbank markets remained tight. Australia and Japan's central banks injected the equivalent of US\$8.8 billion to their financial systems and the Hong Kong Monetary Authority announced five temporary measures to expand the sources of liquidity to banks. On the real economy, industrial production, retail sales and export performance have worsened in most of the reported Asian economies. Inflationary pressures eased in Korea and Thailand.

Asian Stock Markets

- The regional stock markets continued to fall this week, particularly after the unexpected failure to reach the agreement in US Congress for passing the bailout bill for the US financial-industry. This is the case of Japan, Thailand, India and Singapore while the others have recovered some territory since 19 September. China market closed this week as China is on one-week National Day holiday.

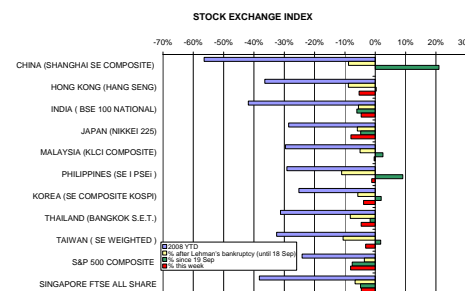
Greater China

- China's manufacturing PMI (released by the National Statistical Bureau) picked up moderately to 51.2 in September, from 48.4 in August, but remains weak. On the other hand, another PMI released by Credit Lyonnais Securities Asia (CLSA) has reached a record-low of 47.7, indicating a contraction in the manufacturing sector.

- The Hong Kong Monetary Authority (HKMA) announced five temporary measures to provide liquidity assistance to licensed banks in Hong Kong on 30 September after the closing of the local market. The temporary measures will be effective for a 6-month period starting from 2 October and will be reviewed at the end of March 2009. After the Lehman bankruptcy, Hong Kong's inter-bank offered rates have risen by more than 200 bps. HSBC has recently raised its lending rate on new mortgages, citing the tight liquidity conditions in the interbank market. The purpose of these five measures by HKMA intends to expand the sources of liquidity in the inter-bank market. Specifically, these five measures include:

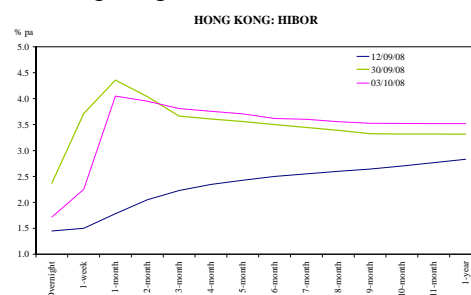
- 1) Expansion of eligible securities under the Discount Window.
- 2) Extending the term of the liquidity provided through the Discount Window from overnight to maturities up to three months.
- 3) Waiving the penalty rate for using over 50% of the Exchange Fund paper holding in accessing the Discount Window.
- 4) Conducting foreign exchange swaps with individual licensed

Asia: Stock Markets



Sources: Datastream and Bloomberg.

Hong Kong: Term Structures of HIBOR



Sources: Datastream and Hong Kong Association of Banks.

banks when necessary.

5) Lending term money to individual licensed banks against acceptable collaterals when necessary.

These measures may have some impact on the Linkage Exchange Rate System in Hong Kong, and hence create the need for HKMA intervention of the foreign exchange market if these measures induce the HK exchange rate to deviate from the convertibility range of HKD7.75 and 7.85 per US dollar. The short term HIBOR has eased somewhat after the measures were put into place.

- Hong Kong's retail sales increased by 3.9% yoy in volume in August, down from 6.6% in July. Looking forward, Hong Kong's domestic consumption is expected to continue to moderate on a slowing global economy and a volatile stock market.

- Taiwan's financial regulator tightened curbs on short-selling of stocks for the remainder of this year to try to stabilize the market and boost investor confidence. The amount of borrowed shares that can be traded each day will be limited to 10 percent of a company's listed stock, from 25 percent, the Financial Supervisory Commission said in a statement late Monday. Institutional investors will be limited to trading borrowed shares equivalent to no more than 1 percent of a company's total listed shares, from 10 percent now.

India

- The Rupee continued weakening against the US\$, and closed at a multi-year low of 47.08 in the week. In addition, liquidity became tighter, partly due to higher cash demand at beginning of the month, festival demand and a discretionary expenditure stemming from a hike in public servants' pay. Overnight interbank rates spiked 445 bps since 26 September to 15.4%, well above the 9% repo rate. The Reserve Bank of India has addressed the problem of banks lacking the 'surplus' statutory liquidity ratio (SLR) to access the central bank's liquidity adjustment facility (LAF) by a temporary cut of the SLR to 24% from 25%. This additional Rs350 billion now should allow banks to access Rs900 billion in daily LAF repos.

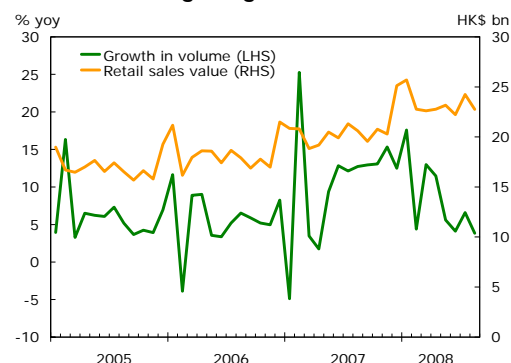
Japan/Korea/Australia

- Bank of **Japan** injected 800 billion yen (USD7.6 billion) into the financial system on Friday, amid the global credit squeeze. Tankan Survey results for September were weaker than expected, especially among big companies. Japanese business sentiment is worsening further as FY08 capital expenditures plans were the weakest for a September survey in six years for big companies and in seven years for small companies amidst company projections of shrinking profits.

- Tokyo interbank and euro-yen rates remain little changed over a week but the Libor curve for yen flattened over last Friday (Sep 26) overnight rate declined 53 bps and the 3-month rates rose over 10 bps

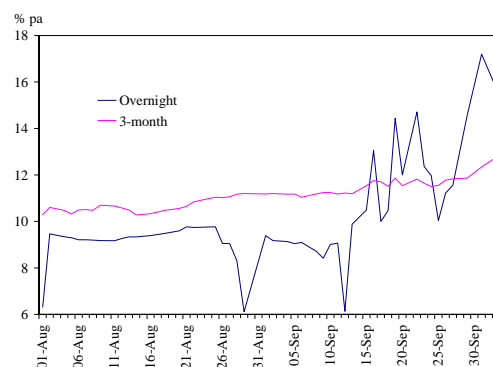
- **Korea's** Minister of Strategy and Finance said that the government will inject US\$5 billion worth of foreign exchange for SMEs via export-import bank Kexim to boost US\$ availability and deal with the foreign currency funding squeeze. In the interbank market for Won, uncollateralized overnight rate remain little changed and 3-month

Hong Kong: Retail Sales



Source: Census and Statistics Department.

India: Interbank Offer Rates



Sources: CEIC and Datastream.

NCDs rose 7 bps since last Friday.

- Korean CPI inflation in September slowed to 5.1% yoy (Consensus: 5.4%), a fourth-month low, from 5.6% in August. However, core inflation shot up to 5.1% yoy from 4.7% in August, marking the seventh consecutive month of acceleration. Meanwhile, Korea registered its biggest monthly current account deficit at USD 4.7 billion in August, widening from a deficit of USD 2.5 billion in July; and industrial production growth slowed sharply to 1.9% yoy in August from 8.6% in July and well below consensus forecast of 6.9% yoy.

- **Australia**'s central bank pumped cash in the banking system by adding A\$1.57 billion (US\$1.2 billion) in repurchase agreements on Friday; this is above an estimated daily need of A\$1.195 billion, effectively adding A\$375 million to the system's liquidity.. Bank funding margin spiked over 100 bps in the week but has since declined to 88 bps on Friday.

- Australia's trade surplus in August was AUD1.4 billion, (seasonally adjusted) the second highest on record and well above the consensus forecast. Export of goods jumped 8% mom or 37.1% yoy on the back of both ongoing AUD rise in commodity prices and production volumes while domestic spending slowed down.

ASEAN

- **Singapore**'s interbank rates have risen since 16 Sep, albeit not disproportionately. S\$ average overnight rate declined over 85 bps but US\$ 3-month continued rising 38 bps since last week.

- Singapore's bank credit in August continued to rise at 25.3% yoy, largely unchanged from 25.9% growth in July. Growth in loans to businesses remained strong at 37.1% in August, while consumer loans growth moderated to 11.9% in August, from 13.1% in July.

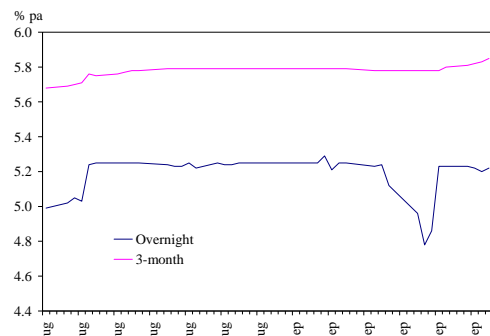
- **Malaysia**'s 3-month US\$ interbank rates continued rising 11 bps in the week, after registering a two-year high of 5.4% most of the week.

- **Thai** baht 1-week interbank and 3-month rate increased slightly by 4 and 6 bps respectively over the week.

- Thailand's September inflation eased to 6.0% yoy (Consensus: 5.8%) from 6.4% in Aug, on reduced utility charges and crude oil prices. Core inflation was 2.6% in Sep, vs. 2.7% in August and has corrected well below the central bank's target ceiling of 3.5% since July. Meanwhile, Thailand's exports grew by 15.5% yoy in August, sharply down from 43.9% growth in July whereas imports slowed sharply to 26.9% yoy from 53.4% in July, leaving a narrower trade deficit of USD 700 million in August, from 800 million in July. On the other hand, manufacturing production in August grew by 7.9% yoy, down from 11.0% growth in July.

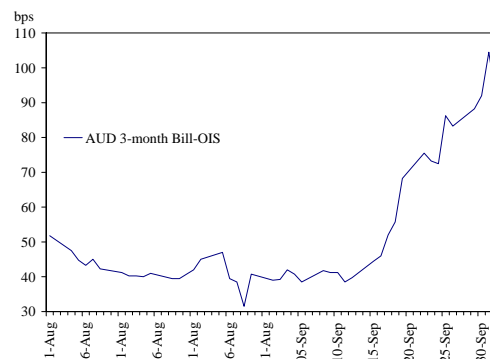
- **Vietnam**'s real GDP growth was 6.5%yoy in Q3, which was faster than 5.8% in Q2 and market expectation. Agriculture, industry and construction grew faster in Q3, while growth in the services sector slowed. On the other hand, September industrial production showed a growth of 15.2% yoy, moderating from 16.1% in August. Retail sales grew by 37.6% yoy in September, up from 27.5% in August.

Korea: Interbank Offer Rates



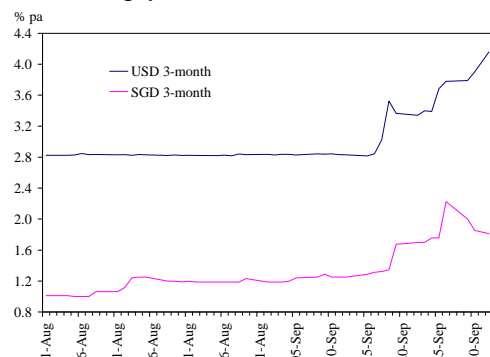
Sources: CEIC and Datastream.

Australia: Bank Funding Margin



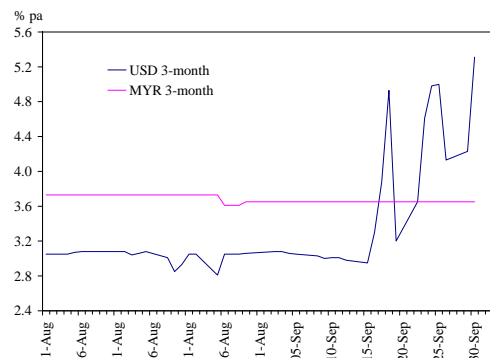
Sources: CEIC and Datastream.

Singapore: Interbank Offer Rates



Sources: CEIC and Datastream.

Malaysia: Interbank Offer Rates



Sources: CEIC and Datastream.

Appendix Tables

1. Financial Markets

a) Stock market

	Stock Index	Weekly average		End of the week		Total turnover US\$ bn
		Level	Level	% change over a week ago		
China	Shanghai Composite	n.a.	n.a.	n.a.	n.a.	n.a.
Hong Kong	Hang Seng	17948	17682	-5.4		32.1
Taiwan	Taiwan Weighted	5732	5742	-3.2		8.5
India	Sensex	12842	12857	-1.9		14.7
Japan	Nikkei 225	11293	10938	-8.0		79.9
Korea	Seoul Composite	1441	1420	-3.8		16.1
Indonesia	Jakarta Composite	1833	1833	-0.7		0.2
Malaysia	KLSE Composite	1018	1017	-0.4		0.6
Philippines	Philippines Composite	2589	2566	-1.2		0.2
Singapore	Straits Times	2345	2297	-4.7		3.6
Thailand	SET	596	590	-4.7		1.7
Australia	All Ordinaries	4750	4690	-5.0		16.6

Source: Bloomberg.

b) Foreign exchange market

	Currency	Spot			3-month forward 1/		12-month forward 1/	
		Weekly average level	End of the week level	% change over a week ago 2/	Weekly average level	End of the week level	Weekly average level	End of the week level
China	(RMB/USD)	6.83	6.85	0.00	6.90	6.93	6.92	6.95
Hong Kong	(HKD/USD)	7.77	7.77	-0.08	7.76	7.76	7.74	7.74
Taiwan	(TWD/USD)	32.17	32.20	0.25	32.13	32.10	31.70	31.64
India	(INR/USD)	46.96	47.08	1.21	47.67	47.67	48.47	48.41
Japan	(JPY/USD)	105.28	105.08	-0.88	104.11	103.99	102.31	102.15
Korea	(KRW/USD)	1205.46	1227.32	5.17	1197.47	1217.33	1196.13	1211.22
Indonesia	(IDR/USD)	9497.50	9430.00	0.53	9740.00	9672.00	10248.88	10215.00
Malaysia	(MYR/USD)	3.45	3.47	1.17	3.45	3.47	3.44	3.46
Philippines	(PHP/USD)	47.00	47.03	0.74	47.63	47.78	48.43	48.68
Singapore	(SGD/USD)	1.44	1.45	1.55	1.43	1.44	1.42	1.43
Thailand	(THB/USD)	34.02	34.15	0.74	n.a.	n.a.	n.a.	n.a.
Australia	(USD/AUD)	0.79	0.78	-6.51	0.78	0.77	0.76	0.75

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/	
	End of the week level	b.p. change over a week ago	End of the week level	b.p. change over a week ago	End of the week level	b.p. change over a week ago
China	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Hong Kong	2.25	1	3.81	41	3.52	22
Taiwan	2.07	0	2.17	0	2.53	0
India	12.81	102	12.75	98	n.a.	n.a.
Japan	0.66	-18	0.87	1	0.97	0
Korea	5.51	1	5.83	3	7.16	22
Indonesia	9.80	-20	11.03	-10	11.59	-8
Malaysia	3.50	3	3.69	0	3.82	0
Philippines	6.38	344	4.44	31	4.75	0
Singapore	1.88	0	1.76	-46	1.86	-3
Thailand	3.87	4	3.98	6	4.13	0
Australia	7.10	-29	8.02	66	6.43	-41

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

	End of the week level	3-month 1/	End of the week level	5-year
		b.p. change over a week ago		b.p. change over a week ago
China	n.a.	n.a.	n.a.	n.a.
Hong Kong	0.01	-5	2.53	-31
Taiwan	1.96	1	2.11	9
India	8.65	25	8.51	1
Japan	0.56	-1	1.01	-9
Korea	5.39	-2	5.72	-32
Indonesia	11.30	-3	13.01	21
Malaysia	3.50	-1	4.06	-6
Philippines	6.35	0	7.44	14
Singapore	1.60	13	2.27	-29
Thailand	3.60	-21	3.92	-27
Australia	4.87	-64	5.03	-38

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

Sources: Bloomberg.

2. Week Ahead

a) Data Release Calendar

Date	Country	Data	for	Previous	Forecast
6 Oct	Indonesia	Inflation (YoY)	SEP	11.85%	11.96%
6 Oct	Indonesia	Exports (YoY)	AUG	25.00%	32.00%
6 Oct	Indonesia	Total Trade Balance	AUG	-\$262M	--
6 Oct	Taiwan	CPI YoY%	SEP	4.78%	4.10%
6 Oct	Taiwan	WPI YoY%	SEP	9.57%	--
7 Oct	Philippines	CPI (2000=100) (YoY)	SEP	12.50%	12.40%
7 Oct	Japan	Leading Index CI	AUG	91.4	89.2
7 Oct	Taiwan	Total Exports (YoY)	SEP	18.40%	12.50%
7 Oct	Taiwan	Total Trade Bal in US\$ Billion	SEP	-\$0.03B	\$0.28B
8 Oct	Korea	Producer Price Index (YoY)	SEP	12.30%	--
8 Oct	Malaysia	Exports YoY%	AUG	25.40%	16.50%
8 Oct	Malaysia	Trade Balance	AUG	14.51B	12.33B
8 Oct	Korea	Retail Sales (YoY)	AUG	12.30%	--
9 Oct	Japan	Machine Orders YOY%	AUG	-4.70%	-2.30%
9 Oct	Australia	Consumer Inflation Expectation	OCT	4.40%	--
9 Oct	Australia	Unemployment Rate	SEP	4.10%	--
9 Oct	China	Business Climate Index	3Q	137.4	--
10 Oct	Japan	Japan Money Stock M2 YoY	SEP	2.40%	2.40%
10 Oct	Japan	Bank Lending Banks Adjust YoY	SEP	2.40%	--
10 Oct	Singapore	Advance GDP Estimate (YoY)	3Q	2.10%	0.80%
10 Oct	Philippines	Total Exports (YoY)	AUG	4.40%	4.50%
10 Oct	China	Entrepreneur Confidence Index	3Q	134.8	--
10 Oct	Malaysia	Industrial Production YoY	AUG	1.80%	1.50%
10 Oct	India	Industrial Production YoY	AUG	7.10%	--

Sources: Bloomberg and BBVA staff estimates.

b) Economic Events

Date	Country	Issue	Remarks
6 Oct	Philippines	Central Bank Monetary Policy Meeting	Market Expects the overnight borrowing rate will be remain unchanged.
7 Oct	Australia	Reserve Bank's October Interest Rate Decision	Market Expects the cash target rate will be fall by 50 bps to 6.50%.
7 Oct	Thailand	Thai PM will announce his policy directives to the nation	
7 Oct	Indonesia	Bank Indonesia Monetary Policy Meeting	Market Expects the reference rate will be raised by 25 bps to 9.50%.

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)	4Q07	11.3	6.9	6.5	8.8	1.6	5.7	6.3	7.3	6.4	5.4	5.7	2.9
	1Q08	10.6	7.3	6.3	8.8	1.2	5.8	6.3	7.1	4.7	6.9	6.1	3.3
	2Q08	10.1	4.2	4.3	7.9	0.7	4.8	6.4	6.3	4.6	2.1	5.3	6.5
CPI inflation (% yoy) 1/	Aug-08	4.9	4.5	4.8	12.5	2.1	5.1	11.8	8.5	12.5	6.4	6.0	4.5
Exports (in local currency) (% yoy) 2/	Aug-08	21.1	1.9	11.0	33.5	0.3	56.1	26.4	25.4	3.0	7.7	14.2	32.6
Trade balance (US\$ bn) 3/	Aug-08	28.7	-1.6	-0.1	-13.9	-3.0	-1.9	1.8	4.5	-1.4	2.6	-0.8	1.5
Industrial production (% yoy) 4/	Aug-08	12.8	-4.2	0.4	7.1	-6.9	1.9	1.4	1.7	5.4	-12.2	4.5	2.8
Retail sales (% yoy) 5/	Aug-08	16.8	3.8	-6.3	n.a.	-1.4	-5.7	6.9	16.8	n.a.	6.4	4.1	-2.2
Money supply (M2) (% yoy) 6/	Aug-08	15.9	0.1	2.4	16.9	2.4	14.4	14.0	14.7	-1.1	8.7	0.7	15.4
Domestic credit (% yoy) 7/	Aug-08	14.3	20.4	3.3	16.9	1.8	17.6	34.1	11.0	2.6	17.5	6.5	10.5
Unemployment rate (%) 8/	Aug-08	4.0	3.2	4.1	n.a.	4.2	3.1	8.5	3.5	7.4	2.9	1.3	3.9

Notes: 1) Wholesale prices for India; Sep-08 figures for Korea and Thailand; Jul-08 figure for Indonesia; Q2-08 figure for Australia.

2) Figure for China is in US dollar term; figure for Australia includes services; Sep-08 figure for Korea; Jul-08 figures for Indonesia, Malaysia and Philippines.

3) Figure for Australia includes services; Sep-08 figure for Korea; Jul-08 figures for Indonesia, Malaysia and Philippines.

4) Jul-08 figures for India, Indonesia, Malaysia and Philippines; Q2-08 figures for Hong Kong and Australia.

5) Not available for India and Philippines; Jul-08 figures for Korea, Indonesia, Singapore, Thailand and Australia; Q1-08 figure for Malaysia.

6) Figure for Australia is broad money in national definition; figure for Hong Kong is only counted HK dollar M2; Jul-08 figures for India, Korea, Indonesia and Philippines.

7) Jul-08 figures for India, Korea, Indonesia and Philippines.

8) Not available for India; Jul-08 figures for Philippines and Thailand; Q2-08 figures for Singapore and Malaysia; 2008H1 figure for China; Feb-2008 figure (half-yearly basis) for Indonesia.

Sources: Datastream, CEIC, and BBVA staff estimates.