



# Weekly Observatory

November 10<sup>th</sup>, 2008

## *Economic and Financial Market Highlights (Nov 1-7, 2008)*

**Real economic activities continue to worsen. Exports in India, Korea and Indonesia slowed; retail sales in Hong Kong, Korea and Australia fell; and PMIs in China, Hong Kong and Singapore declined to their recent lows. In response, India, Korea, Australia, Hong Kong and Vietnam continued to ease their monetary policies, while Korea and Malaysia initiated new fiscal stimulus packages. The Asian financial markets remained volatile this week on concerns of a deeper economic slowdown ahead.**

Andrew Tsang  
[andrew.tsang@bbva.com.hk](mailto:andrew.tsang@bbva.com.hk)

Ya-Lan Liu

[yalan@grupobbva.com](mailto:yalan@grupobbva.com)

Yuande Zhu

[yzhu@bbvashanghai.com](mailto:yzhu@bbvashanghai.com)

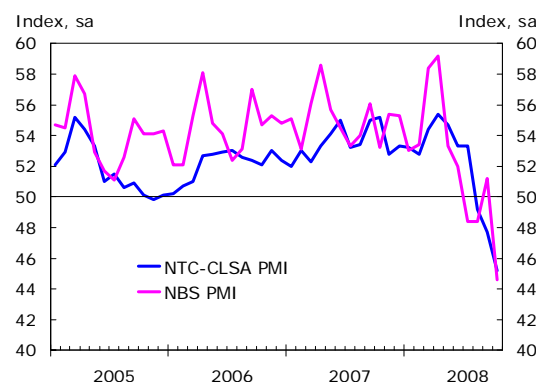
### Greater China

- China's manufacturing PMIs in October fell below 50, indicating a contraction in the manufacturing sector. Meanwhile, Hong Kong's PMI stood at 43.1 in October compared to 46.7 in September, the lowest reading since May 2003.
- The value of Hong Kong's retail sales value increased by 6.9% yoy in September, while the volume increased by 1.8% yoy during the month, on a slowing global economy and a volatile stock market.
- The Hong Kong Monetary Authority (HKMA) injected with total of HKD 6.9 billion (USD 880 million) into the inter-bank market during the week in response to the strong HKD. The strengthening of the HKD reflected the strong demand for the currency in the tight liquidity conditions prevailing in the banking system. The injection has led the interbank rates drop sharply. Meanwhile, Hong Kong's biggest bank, HSBC, cut its prime lending rate on Friday to a four-year low.
- Taiwan's CPI increased 2.39% yoy in October, compared with 3.10% in September, which is the slowest increase in 14 months due to a decline in the prices of global oil and electronics products.
- Mainland China and Taiwan have signed an agreement to improve direct trade and transport links, tripling the number of weekly direct passenger flights and allow cargo shipments between their ports. Direct transportation links across the Taiwan Straits will benefit both sides, particularly Taiwan, but harm Hong Kong's re-export trade and willingness of Taiwanese tourists to visit Hong Kong.

### India

- The Reserve Bank of India (RBI) moved aggressively to ease monetary condition. Besides announcing interest rate cut over the weekend, RBI also bought back government securities. As a result, India's call money rates declined from the range of 17%-20% to 8%-8.25% this week.

China: PMI



Sources: CEIC and Bloomberg.

Note: Index over 50 indicates an expansion of activity, while one below 50 suggests contraction.

- India's exports slowed to 10.4% yoy in September from 27.0% in August, while imports rose by 43.3%, down from 51.2% in August, mainly reflecting falling oil prices. As a result, the trade deficit narrowed to USD 10.6 billion, from USD 13.9 billion in August.

- Given the weaker external and domestic demand, IMF reduced its 2009 economic growth forecast for India to 6.3%, 0.6 pps lower from October projections.

### Japan/Korea/Australia

- Japan's** indexes of business conditions rose slightly in September, after falling in August. Although the coincident and leading indicators rebounded from the previous month, the move remains insufficient to change the downward trend.

- Korea's** export growth fell to a 13-month low of 10.0% yoy in October. However, trade balance reversed to surplus from deficit due to a sharper import growth slowdown. Retail sales slowed to a nine-month low of 4.6% yoy in September, on the decline in durable goods sales. October CPI inflation was 4.8% yoy, down from 5.1% in September, while the core CPI increased marginally.

- Korean government proposed a KRW 14 trillion (USD 11 billion) fiscal stimulus plan, aiming to boost GDP growth by 1 ppt to achieve 4% growth in 2009 (BBVA: 2.4%, already discounting some counter-cyclical fiscal measures). Meanwhile, Bank of Korea (BoK) lowered policy rate by 25 bps to 4%, the lowest level since Jun 2006 and the third cut in a month.

- Korea's foreign currency reserves fell by 11.4% (USD 27.4 billion) in October to USD 212.25 billion, the biggest single-month decline since the Asian financial crisis as BoK dipped into the FX reserves to defend the currency.

- The Reserve Bank of **Australia** (RBA) cut the cash rate by 75 bps to 5.25% (consensus: -50 bps), the lowest level since March 2005, to prevent a sharp economic decline. This is the third consecutive cut, accumulating a reduction of 200 bps since early September.

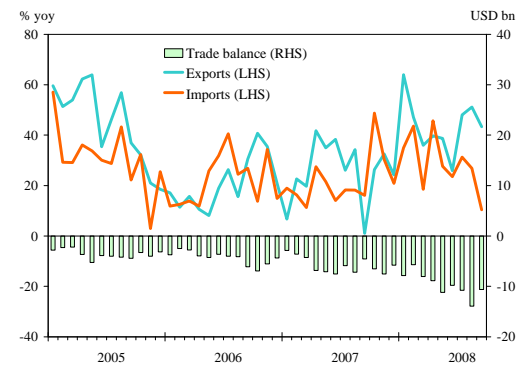
- Australia's trade surplus was higher-than-expected at AUD 1.46 billion (Bloomberg: AUD 0.5 billion), compared with AUD 1.2 billion in August, as AUD depreciation has helped boost the local-currency receipts from commodity exports. However, Australia's total jobs growth has been easing since the start of 2008 in trend terms, albeit unemployment rate hold steady at 4.3%. House prices fell 1.8% qoq in Q3 (up 2.8% yoy), more than expected, and further to a 0.2% qoq fall in Q2, while September number of new residential building approvals declined by 23.5% from the peak last November.

### ASEAN

- Singapore's** purchasing managers' index (PMI) in October fell by 3.7 points, the worst performance since the recession of 2001. Particularly, the electronics PMI contracted sharply.

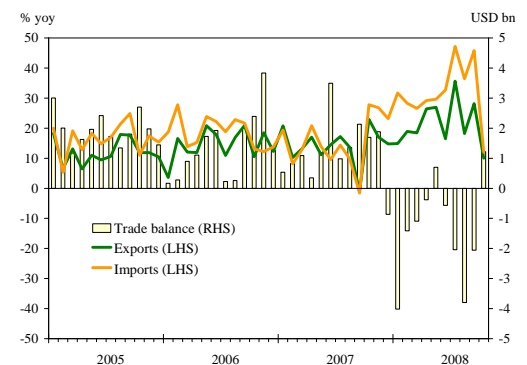
- Malaysian** government cut its 2009 economic growth forecast to 3.5% from 5.4% previously and raised its budget deficit forecast to

### India: Trade



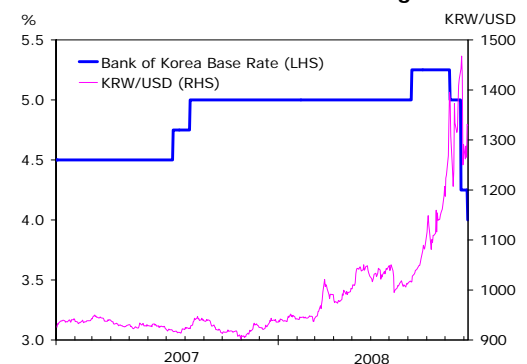
Sources: CEIC and BBVA estimates.

### Korea: Trade



Sources: CEIC and BBVA estimates.

### Korea: Interest rate and exchange rate



Sources: CEIC and Bloomberg.

4.8% of GDP from 3.6%, as it announced a MYR 7 billion (USD 2 billion) stimulus package to deal with the economic slowdown.

- **Philippines'** CPI inflation continued to decline to 11.2% yoy in October on declining prices in food, fuel and transportation, in line with expectations and lower than 11.9% in September. However, core inflation remained high at 7.8% yoy in October. We expect Philippines central bank to refrain from cutting rates this year.

- **Indonesia's** headline CPI slowed to 11.8% yoy in October, in line with consensus forecasts and slightly lower than 12.1% in September, on easing food and fuel price pressure. However, given IDR depreciated by 16% year-to-date, the risk of exchange rate weakness adding inflationary pressures and instigating capital outflows would prevent the central bank from cutting rates.

- Meanwhile, Indonesia's exports grew by 28.5% yoy in September, slightly lower than the 30.3% in August, as non-oil exports growth was surprisingly strong. Taking together with the sharper decelerated import growth, trade surplus (excluding free trade zones) widened to USD 2.8 billion from USD 2.4 billion in August.

- **Thailand's** headline inflation rate fell for the third consecutive month in October to 3.9% yoy, lower than 6% in September and 5% of market expectations, on a sharper than expected fall in fuel prices. Core inflation also slowed to 2.4% from 2.6% in September. The decline leaves room for Bank of Thailand to lower interest rate.

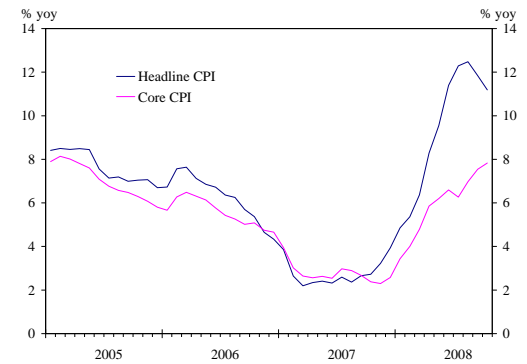
- **Vietnam** widened the trading band for the US\$/dong to +/- 3% from +/- 2%, allowing for a weaker currency to boost exports and support economic growth. In addition, the central bank cut its refinancing rate 100 bps from 14% to 13% and cut the reserve requirement ratio, to 10% from 11%. This follows the government's decision to lower its growth target to 6.7% from 7% for the year, due to sharper than expected slowdown in exports, and another (fourth) round of cuts in fuel prices on Oct.30.

## Asian Financial Markets

- Asian Stock markets continued to highly fluctuate this week. In particular, despite some rebounds in Friday afternoon, the stock prices declined in the second half of the week, as investors concerned on a possible faster pace of the Global slowdown. Indeed, IMF lowered its forecast for developing countries in Asia by 0.6% points to 7.1% (BBVA forecast: 5.7% since October). The revision is due to IMF's predicting US to contract 0.7% in 2009 instead of the prior estimate of expansion of 0.1%.

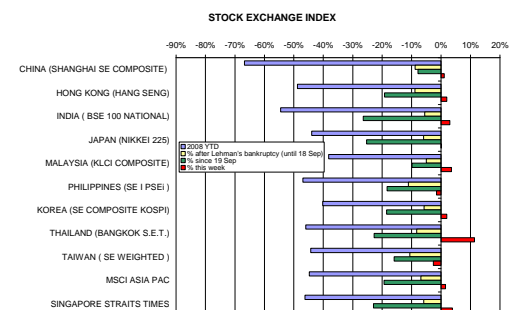
- Asian currencies depreciated somewhat this week, as investors seeking safer investments on the prospect of a global recession. In particular, Korean Won appeared much fluctuated and depreciated by 3% over the week.

### Philippines: Inflation



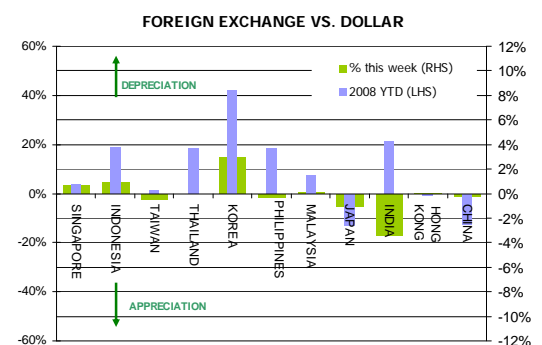
Sources: CEIC and BBVA estimates.

### 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	1731	1748	1.1	28.8
Hong Kong	Hang Seng	14320	14243	2.0	33.3
Taiwan	Taiwan Weighted	4880	4742	-2.6	11.0
India	Sensex	10157	9964	1.8	15.7
Japan	Nikkei 225	9029	8583	0.1	67.5
Korea	Seoul Composite	1138	1134	1.9	26.4
Indonesia	Jakarta Composite	1347	1338	6.5	0.9
Malaysia	KLSE Composite	902	894	3.5	1.6
Philippines	Philippines Composite	1980	1921	-1.5	0.2
Singapore	Straits Times	1853	1863	3.9	4.4
Thailand	SET	458	464	11.4	2.3
Australia	All Ordinaries	4149	4007	0.6	14.3

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	-0.19	6.88	6.88	6.91	6.91
Hong Kong	(HKD/USD)	7.75	7.75	0.00	7.75	7.75	7.76	7.75
Taiwan	(TWD/USD)	32.82	32.82	-0.48	32.58	32.63	32.13	32.13
India	(INR/USD)	47.86	47.77	-3.41	49.14	49.02	50.92	50.97
Japan	(JPY/USD)	98.38	97.38	-1.10	98.06	97.05	96.93	95.99
Korea	(KRW/USD)	1294.93	1328.65	2.96	1283.70	1316.00	1263.25	1295.25
Indonesia	(IDR/USD)	11020.00	11150.00	0.90	11750.00	11900.00	12715.50	12650.00
Malaysia	(MYR/USD)	3.53	3.55	0.11	3.54	3.56	3.55	3.57
Philippines	(PHP/USD)	48.46	48.80	-0.27	49.75	50.10	51.50	51.70
Singapore	(SGD/USD)	1.49	1.49	0.65	1.48	1.49	1.47	1.48
Thailand	(THB/USD)	34.96	35.02	-0.06	n.a.	n.a.	n.a.	n.a.
Australia	(USD/AUD)	0.68	0.67	0.46	0.67	0.67	0.67	0.66

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 <sup>1/</sup>

	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	2.80	-3	4.01	-8	4.39	-9
Hong Kong	0.50	-45	2.24	-111	2.55	-94
Taiwan	1.87	0	1.96	0	2.37	0
India	10.18	-45	11.42	-31	n.a.	n.a.
Japan	0.53	-18	0.80	-9	0.89	-7
Korea	4.96	-1	5.87	0	7.09	-2
Indonesia	10.35	-8	12.42	-13	13.72	-53
Malaysia	3.48	0	3.66	0	3.75	-1
Philippines	5.81	106	4.25	0	4.81	-13
Singapore	0.31	-38	1.00	-36	1.38	-33
Thailand	3.91	-1	3.99	0	4.14	-3
Australia	5.32	-55	4.93	-80	4.13	-87

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 1/		5-year
	Week-end level	b.p. change over a week	Week-end level	b.p. change over a week
China	2.50	0	2.78	-7
Hong Kong	0.10	-10	1.79	-21
Taiwan	1.90	-5	1.92	-5
India	7.13	8	7.50	8
Japan	0.43	5	0.93	6
Korea	4.73	-6	4.94	22
Indonesia	13.55	-313	15.67	-99
Malaysia	3.50	-8	3.94	-11
Philippines	6.39	-45	8.22	-10
Singapore	0.68	-19	1.57	-45
Thailand	3.31	-10	3.54	2
Australia	3.41	-77	4.44	-27

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
10 Nov	Japan	Machine Tool Orders (YoY)	OCT	-20.10%	--
10 Nov	Japan	Current Account Total	SEP	¥988.8B	¥1400.0B
10 Nov	Japan	Bank Lending Banks Adjust YoY	OCT	2.20%	--
10-13 Nov	China	Trade Balance (USD)	OCT	\$29.30B	\$30.00B
10-13 Nov	China	Exports YoY%	OCT	21.50%	18.10%
10 Nov	China	Consumer Price Index (YoY)	OCT	4.60%	4.10%
10-17 Nov	China	Actual FDI YTD YoY	OCT	39.90%	--
10 Nov	Malaysia	Industrial Production YoY	SEP	0.90%	0.70%
11 Nov	Philippines	Total Exports (YoY)	SEP	6.60%	0.50%
11 Nov	China	Retail Sales (YoY)	OCT	23.20%	22.00%
12-19 Nov	Indonesia	Wholesale Price Index (YoY)	SEP	32.50%	--
12 Nov	Japan	Consumer Confidence	OCT	31.8	--
12 Nov	India	Industrial Production YoY	SEP	1.30%	--
12 Nov	Japan	Domestic CGPI (YoY)	OCT	6.80%	5.50%
12 Nov	Australia	Consumer Inflation Expectation	NOV	4.40%	--
12 Nov	Australia	Average Weekly Wages (YoY)	AUG	3.70%	--
12 Nov	China	Industrial Production (YoY)	OCT	11.40%	11.20%
12 Nov	Japan	Industrial Production (YoY)	SEP	0.40%	--
13-21 Nov	China	Wholesale Prices (YoY)	OCT	7.00%	--
13 Nov	India	Wholesale Price Index YoY	1-Nov	10.72%	--
13 Nov	China	Fixed Assets Inv Urban YTD YoY	OCT	27.60%	27.50%
14 Nov	Singapore	Retail Sales (YoY)	SEP	4.20%	3.30%
14-18 Nov	China	Money Supply - M2 (YoY)	OCT	15.30%	15.20%
14 Nov	Hong Kong	GDP (YoY)	3Q	4.20%	2.90%
14 Nov	Hong Kong	GDP sa (QoQ)	3Q	-1.40%	--

Sources: Bloomberg and BBVA staff estimates.

**b) Economic Events**

Date	Country	Issue	Remarks
11 Nov	Australia	Treasury Secretary Ken Henry Address	
15 Nov	China, Japan, etc.	G-20 meeting at Washington D.C.	

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)	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
	3Q08	9.0	n.a.	n.a.	n.a.	n.a.	3.9	n.a.	n.a.	n.a.	-0.5	n.a.	n.a.
CPI inflation (% yoy) 1/	Sep-08	4.6	3.1	2.4	11.0	2.1	4.8	11.8	8.2	11.2	6.7	3.9	5.0
Exports (in local currency) (% yoy) 2/	Sep-08	21.5	3.6	-5.3	24.7	1.5	59.4	29.0	15.1	3.9	11.5	17.7	49.6
Trade balance (US\$ bn) 3/	Sep-08	29.4	-2.1	0.7	-10.6	0.8	1.2	2.8	4.2	-0.6	1.5	0.1	1.8
Industrial production (% yoy) 4/	Sep-08	11.4	-4.2	-1.4	1.3	0.4	6.1	2.7	0.9	6.4	2.4	4.5	2.8
Retail sales (% yoy) 5/	Sep-08	17.0	1.8	-7.9	n.a.	-2.4	0.5	7.5	16.8	n.a.	0.0	3.1	-3.1
Money supply (M2) (% yoy) 6/	Sep-08	15.2	-7.6	3.4	19.3	2.2	13.5	12.6	15.6	4.3	10.5	4.8	17.3
Domestic credit (% yoy) 7/	Sep-08	14.5	9.1	3.5	18.4	1.6	18.6	35.2	10.6	7.2	14.3	6.4	10.1
Unemployment rate (%) 8/	Sep-08	4.0	3.4	4.3	n.a.	4.0	3.0	8.5	3.5	7.4	1.9	1.2	4.1

Notes: 1) Wholesale prices for India; Oct-08 figures for Taiwan, India, Korea, Indonesia, Philippines and Thailand; Q3-08 figure for Australia.

2) Figure for China is in US dollar term; figure for Australia includes services; Oct-08 figure for Korea; Aug-08 figure for Philippines.

3) Figure for Australia includes services; Oct-08 figure for Korea; Aug-08 figure for Philippines.

4) Aug-08 figures for India, Malaysia and Thailand; Q2-08 figures for Hong Kong and Australia.

5) Not available for India and Philippines; Aug-08 figures for Singapore and Thailand; 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; Aug-08 figures for India, Indonesia and Philippines.

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

8) Not available for India; Oct-08 figure for Australia; Aug-08 figure for Thailand; Jul-08 figure for Philippines; Q3-08 figure for Singapore; Q2-08 figure for Malaysia; 2008H1 figure for China; Feb-2008 figure (half-yearly basis) for Indonesia.

Sources: Datastream, CEIC, and BBVA staff estimates.