



# Weekly Observatory

November 24<sup>th</sup>, 2008

## *Economic and Financial Market Highlights (Nov 15-21, 2008)*

**More Asian economies have gone into a recession. Japan now joins Hong Kong and Singapore to record two consecutive quarters of negative growth, while Taiwan registered the first quarterly contraction since 2003 Q2. The weak export data in Japan and Thailand indicates that the region will continue to be adversely affected by weaker external demand. To prevent a severe economic slowdown, Taiwan announced the introduction of consumption vouchers. Meanwhile, India and Vietnam eased their monetary policies further. Asian stock markets remained depressed and volatile, affected by additional fears on the US economy.**

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### Greater China

- China will raise the export rebate rates for 3,770 tariff commodity items (as 27.9% of China's total exports) on December 1, the third time such rebates are raised this year. This export rebate rise is a part of the government's RMB 4 trillion stimulus package.

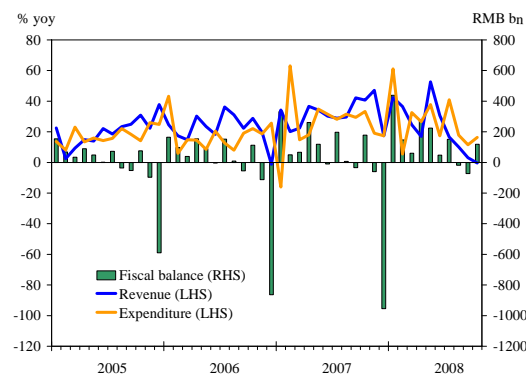
- China's fiscal revenue declined by 0.3% yoy to RMB 532.9 billion in October on the economic slowdown and the decline in enterprises' profits. However, for the first ten months, China's fiscal revenue increased by 22.6% yoy to RMB 5.4 trillion, while government expenditure increased by 24.5% yoy to RMB 4.06 trillion.

- Hong Kong's unemployment rate (seasonally adjusted) increased from 3.4% in July - September 2008 to 3.5% in August - October 2008. The increases were widespread across all sectors. Meanwhile, headline CPI inflation fell sharply to 1.8% yoy in October, lower than 3.0% in September. However, excluding the effects of one-off government relief measures, the underlying inflation rate was 5.9%, compared with 6.1% in September. Looking ahead, given the weaker domestic and external demand, the unemployment is expected to rise further and inflationary pressures should ease quickly.

- Taiwan's Q3 GDP growth unexpectedly shrank by 1.02% yoy, registering the first contraction since 2Q03. Official forecast for 2008 growth is now cut to 1.87% from 4.3% previously (Q4 is expected at -1.73% vs. previous forecast of +3.75%), and 2009 projection is lowered to 2.12% from 5.08%.

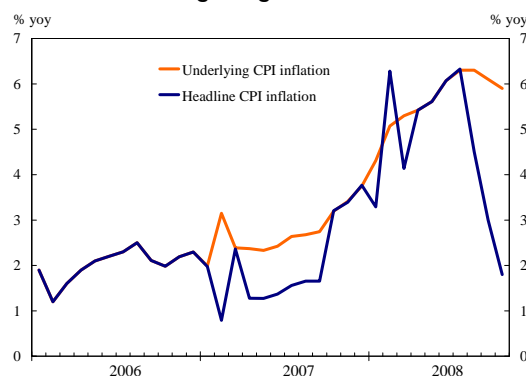
- In order to prevent a severe economic slowdown, Taiwan announced a new fiscal stimulus program. The Taiwanese government will issue the shopping vouchers worth TWD 3,600 per person, which is eligible for tax rebates, to all citizens before 2009's Chinese New Year. The vouchers would be valid until September 2009. Government expected that the cost of the fiscal stimulus package is around TWD 82.9 billion, boosting the 2009 GDP growth increased by 0.64 pps.

China: Fiscal revenues and expenditure



Source: CEIC.

Hong Kong: Inflation



Source: Census and Statistics Department, HKSAR.

India

- Over the weekend, the Reserve Bank of India's (RBI) took additional measures to improve liquidity conditions and to support credit growth, including: 1) extending the special term repo facility until end-March 2009; 2) raising the interest rate ceilings on both foreign currency and rupee non-resident deposit accounts by 75 bps; 3) allowing housing finance companies registered with the National Housing Bank to raise short-term FX borrowings; and 4) encouraging local firms to buy back/prepay foreign currency convertible bonds.

- In addition, to encourage banks to lend, RBI decided to: 1) extend the period of entitlement of pre-shipment rupee export credit at concessional rates to 270 days from 180 days; 2) raise the limit on export credit refinance available to banks; 3) reduce the provisioning requirements for all types of standard assets to a uniform level of 0.4% (except for loans to the agriculture sector and SMEs which remains at 0.25%); and, 4) revise down risk weights on banks' exposures to commercial real estate and unrated claims on corporate to 100% from the previous 150%.

Japan/Korea/Australia

- Japan's** Q3 real GDP continued to contract by 0.1% qoq on weak external demand and investment, slightly weaker than market consensus of 0.0%. On the year-on-year comparison, real GDP growth was -0.1% compared to 0.7% in the previous quarter. Japan now joins Hong Kong and Singapore to record two consecutive quarters of negative growth. Japan had last witnessed a technical recession in 2001.

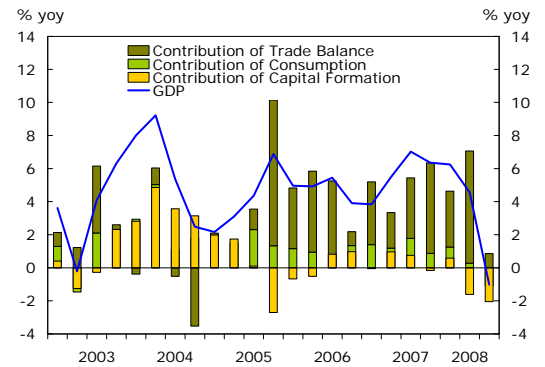
- Japan's October trade balance surprisingly registered a deficit of JPY 63.9 billion (Bloomberg: JPY 71.8 billion surplus), from a surplus of JPY 88.5 billion in September. Exports value contracted 7.7% yoy (September: 1.5%), while imports value grew 7.4% yoy (September: 28.8%). On a volume basis, overall exports weakened further to -6.1% yoy (September: -0.2%) while imports turned negative to -2.4% yoy (September: 6.2%). Japan's seasonally adjusted trade balance posted a third straight deficit at JPY 175.5 billion.

- Australian** retail sales rose 0.1% qoq in volume terms (seasonally adjusted) in Q3, below market expectations of 0.5%. Meanwhile, retail sales volume rose 1.0% yoy, the weakest annual growth rate since Q3 2005. Specifically, the Q3 retail sales volume together with a drop in motor vehicle sales (-6.7% qoq in Q3) suggest another weak quarter in real household spending.

ASEAN

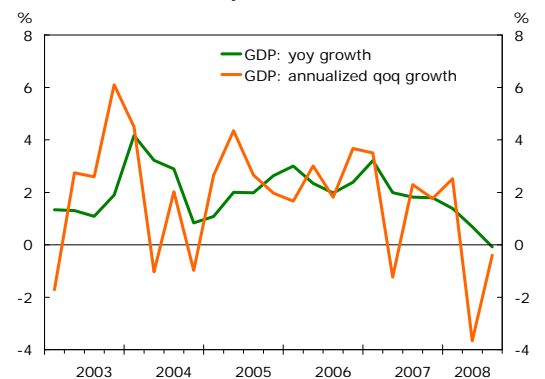
- Singapore** confirmed the advance estimate that the economy is in a recession. GDP fell 6.8% qoq (saar) in Q3 (-5.3% in Q2), or -0.6% yoy, slightly worse than the advance estimate of -0.5% yoy, due mainly to the worsening services sector. Following the data release, the Monetary Authority announced that there would be no change in exchange rate policy, while the government offered SGD 2.3 billion in loans to local firms and promised that next year's budget will

Taiwan: GDP



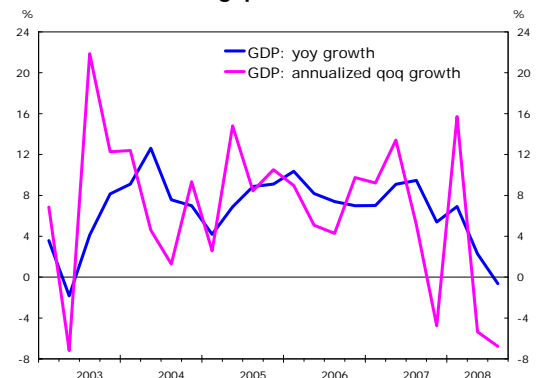
Source: CEIC.

Japan: GDP



Source: CEIC.

Singapore: GDP



Source: CEIC.

include "relief" for households and businesses.

- Meanwhile, Singapore's non-oil domestic exports (NODX) fell 15.3% yoy in October, after falling 5.7% in September. This is the sixth consecutive month of contraction and the worst performance since March 2002.

- **Malaysia's** CPI inflation decelerated to 7.6% yoy in October, down from 8.2% and below consensus (7.8%) forecasts mainly due to sharper than expected fall in transportation costs. Fuel prices have been cut five times since August. In contrast, food prices still remain at elevated level - rising by 12.1% in October, a slight moderation from 12.3% in September.

- **Indonesia's** GDP grew by 6.1% yoy in Q3, lower than 6.4% in Q2 but higher than the market's expectation of 5.3%. The third quarter data release should give some leeway to Indonesian authorities not to urge into massive fiscal or monetary easing. However, the currency is under increasing pressure by investors' deleveraging and risk aversion.

- **Thailand's** exports slowed sharply in October to 5.2% yoy, down from 19.4% growth in September. Import growth moderated sharply to 21.7% yoy in October, following growth of 39.4% in September. As a result, the trade balance posted a deficit of USD 0.6bn in October, reversing from a surplus of USD 0.1bn in September.

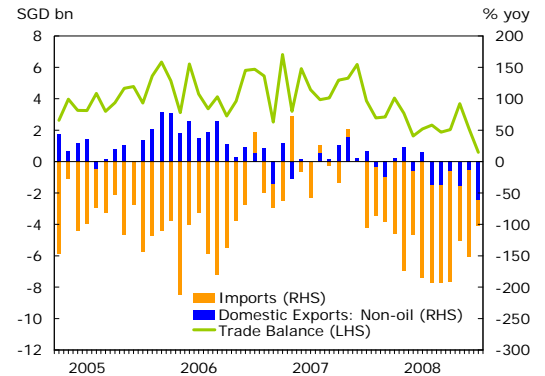
- **Vietnam's** central bank cut its benchmark interest rates by another 100 bps, its third rate cut in four weeks. The base rate would be 11%, the discount rate used by the central bank to buy debt from banks would be cut to 10% and the refinancing rate would drop to 12%. The central bank also lowered the compulsory reserve on banks' dong deposits by 2% points, in order to ease monetary conditions further as part of its efforts to prevent a sharp economic slowdown.

**Asian Financial Markets**

- Asian stock markets continued to fall this week as concerns on an even deeper global slowdown increased. However, most of the Asian indices bounced back from a 5-year low after US slump on Thursday. Investors expect China and US interest rate to be cut pushing to cover short positions before the weekend.

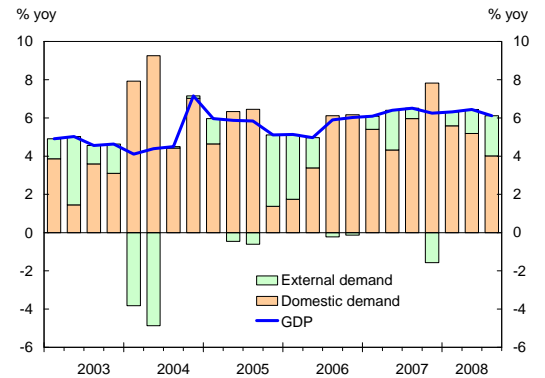
- Asian currencies depreciated further this week. In particular, Indonesian Rupiah and Korean Won depreciated by 5% and 6.8%, respectively, over the week.

**Singapore: Exports**



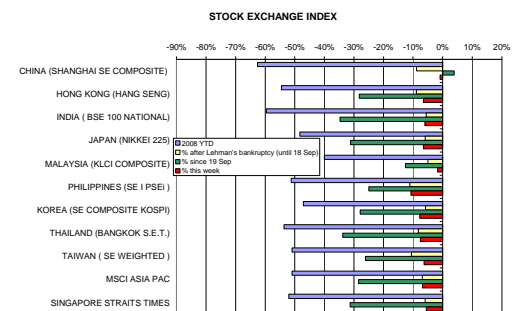
Sources: CEIC and BBVA estimates.

**Indonesia: GDP**



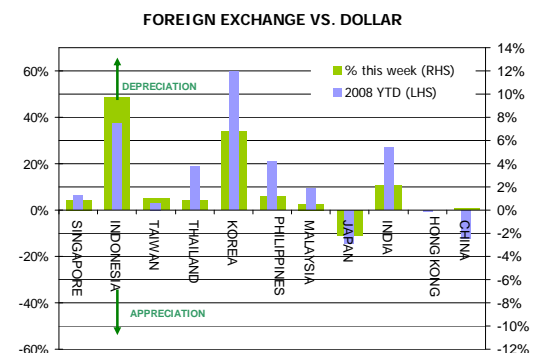
Sources: CEIC and BBVA estimates.

**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	1985	1989	0.1	76.9
Hong Kong	Hang Seng	12872	12800	-5.5	25.0
Taiwan	Taiwan Weighted	4258	4171	-6.3	7.2
India	Sensex	8844	8769	-6.6	12.1
Japan	Nikkei 225	8148	7911	-6.5	65.1
Korea	Seoul Composite	1017	1004	-7.8	15.1
Indonesia	Jakarta Composite	1178	1127	-10.9	0.4
Malaysia	KLSE Composite	875	864	-2.0	0.8
Philippines	Philippines Composite	1866	1766	-10.7	0.1
Singapore	Straits Times	1676	1657	-5.8	2.6
Thailand	SET	411	396	-7.8	1.1
Australia	All Ordinaries	3471	3387	-9.1	14.7

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	6.84	0.15	6.92	6.93	7.00	7.02
Hong Kong	(HKD/USD)	7.75	7.75	0.00	7.75	7.75	7.75	7.74
Taiwan	(TWD/USD)	33.29	33.39	0.99	33.32	33.39	33.76	33.04
India	(INR/USD)	49.83	50.04	2.10	52.16	52.55	54.64	55.27
Japan	(JPY/USD)	95.58	95.03	-2.17	95.20	94.62	94.12	93.52
Korea	(KRW/USD)	1459.16	1495.25	6.81	1455.52	1475.00	1448.02	1460.00
Indonesia	(IDR/USD)	12243.00	12900.00	9.74	14235.00	15050.00	15904.00	17250.00
Malaysia	(MYR/USD)	3.61	3.62	0.56	3.65	3.66	3.67	3.67
Philippines	(PHP/USD)	49.88	49.93	1.21	52.26	52.91	54.65	55.56
Singapore	(SGD/USD)	1.53	1.53	0.88	1.52	1.53	1.51	1.52
Thailand	(THB/USD)	35.04	35.21	0.77	n.a.	n.a.	n.a.	n.a.
Australia	(USD/AUD)	0.63	0.62	-4.06	0.63	0.62	0.62	0.61

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	2.52	-21	3.65	-18	4.15	-17
Hong Kong	0.30	-10	1.95	-24	2.45	-10
Taiwan	1.61	-1	1.71	0	2.12	-1
India	9.91	-18	11.34	-23	n.a.	n.a.
Japan	0.58	4	0.84	3	0.91	1
Korea	4.70	-6	5.46	-11	6.89	0
Indonesia	10.22	-3	12.34	-1	13.41	-1
Malaysia	3.49	0	3.65	0	3.72	-1
Philippines	5.31	-6	4.63	50	5.19	38
Singapore	0.59	-28	0.88	-7	1.24	-4
Thailand	3.86	-3	3.95	-3	4.04	-5
Australia	4.64	-61	4.32	-32	3.46	-50

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**

	Week-end level	3-month 1/	Week-end level	5-year
		b.p. change over a week		b.p. change over a week
China	2.00	-10	2.66	12
Hong Kong	0.01	-1	1.19	-58
Taiwan	1.31	-20	1.47	-20
India	7.07	4	7.26	-12
Japan	0.44	-1	0.87	-3
Korea	4.15	-50	5.29	-31
Indonesia	14.87	140	16.80	96
Malaysia	3.31	-6	3.70	-5
Philippines	6.63	1	8.84	70
Singapore	0.52	-2	1.56	-17
Thailand	3.15	-4	3.33	-7
Australia	2.78	-27	3.82	-35

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
24 Nov	Thailand	GDP at Constant Price (YoY)	3Q	5.30%	4.30%
24 Nov	Thailand	GDP at Constant Price (QoQ)	3Q	0.70%	0.40%
24 Nov	Singapore	CPI (YoY)	OCT	6.70%	--
24 Nov	Taiwan	Unemployment Rate - sa	OCT	4.12%	--
24 Nov	Taiwan	Industrial Production (YoY)	OCT	-1.39%	--
25 Nov	Philippines	Total Imports (YoY)	SEP	1.10%	--
25 Nov	Philippines	Trade Balance	SEP	-\$649M	--
26 Nov	Singapore	Industrial Production YoY	OCT	2.40%	--
26 Nov	Philippines	GDP (YoY)	3Q	4.60%	4.60%
26 Nov	Philippines	GDP sa (QoQ)	3Q	2.00%	0.70%
27 Nov	Hong Kong	Exports YoY%	OCT	3.60%	--
27 Nov	Hong Kong	Trade Balance	OCT	-16.0B	--
27 Nov	India	Wholesale Price Index YoY	15-Nov	8.90%	--
27 Nov	Korea	Current Account in US\$ Million	OCT	-1218.5	--
27 Nov	Japan	Jobless Rate	OCT	4.00%	4.20%
27 Nov	Japan	Natl CPI YoY	OCT	2.10%	1.70%
27 Nov	Japan	Industrial Production (YoY)	OCT	0.20%	-6.40%
27 Nov	Japan	Retail Trade YoY	OCT	-0.40%	-1.00%
27 Nov	Australia	Private Sector Credit MoM%	OCT	0.70%	--
27 Nov	Korea	Industrial Production (YoY)	OCT	6.10%	--
28 Nov	Japan	Construction Orders (YoY)	OCT	10.30%	--
28 Nov	India	Qtrly GDP YoY%	3Q	7.90%	--
28 Nov	Thailand	Total Exports YOY%	OCT	19.50%	--
28 Nov	Thailand	Total Trade Balance	OCT	\$142M	--
28 Nov	Thailand	Manufacturing Production (YoY)	OCT	4.60%	--
28 Nov	Malaysia	GDP YoY%	3Q	6.30%	4.50%

Sources: Bloomberg and BBVA staff estimates.

**b) Economic Events**

Date	Country	Issue	Remarks
23 Nov	Thailand	BOT Governor's Speech	

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	1.4	5.8	6.3	7.1	4.7	6.9	6.1	3.3
	2Q08	10.1	4.2	4.6	7.9	0.7	4.8	6.4	6.3	4.6	2.1	5.3	6.5
	3Q08	9.0	1.7	-1.0	n.a.	-0.1	3.9	6.1	n.a.	n.a.	-0.5	n.a.	n.a.
CPI inflation (% yoy) 1/	Oct-08	4.0	1.8	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/	Oct-08	19.2	3.6	-9.8	24.7	-7.7	57.2	29.0	15.1	2.7	-4.2	17.7	49.6
Trade balance (US\$ bn) 3/	Oct-08	35.2	-2.1	2.9	-10.6	-0.6	1.2	2.8	4.2	-0.6	0.4	0.1	1.8
Industrial production (% yoy) 4/	Oct-08	8.2	-4.2	-1.2	4.8	0.2	6.1	2.7	-1.7	6.4	2.4	3.0	2.8
Retail sales (% yoy) 5/	Oct-08	16.7	1.8	-7.9	n.a.	-2.4	0.5	7.5	16.8	n.a.	2.8	3.1	-3.1
Money supply (M2) (% yoy) 6/	Oct-08	14.9	-7.6	3.4	15.7	1.8	13.5	16.9	15.6	7.4	10.5	4.8	17.3
Domestic credit (% yoy) 7/	Oct-08	14.6	9.1	3.5	18.4	2.2	18.6	36.6	10.6	8.7	14.3	6.4	10.1
Unemployment rate (%) 8/	Oct-08	4.0	3.5	4.3	n.a.	4.0	3.1	8.5	3.5	7.4	1.9	1.1	4.1

Notes: 1) Wholesale prices for India; Sep-08 figures for Japan, Malaysia and Singapore; Q3-08 figure for Australia.

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

3) Figure for Australia includes services; Sep-08 figures for Hong Kong, India, Indonesia, Malaysia, Philippines, Thailand and Australia.

4) Sep-08 figures for Taiwan, India, Japan, Korea, Indonesia, Malaysia, Philippines, Singapore and Thailand; Q2-08 figures for Hong Kong and Australia.

5) Not available for India and Philippines; Sep-08 figures for Hong Kong, Taiwan, Japan, Korea, Indonesia, Singapore and Australia; Aug-08 figure for 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; Sep-08 figures for Hong Kong, Taiwan, India, Korea, Indonesia, Malaysia, Philippines, Singapore, Thailand and Australia.

7) Sep-08 figures for Hong Kong, Taiwan, India, Korea, Malaysia, Philippines, Singapore, Thailand and Australia; Aug-08 figure for Indonesia.

8) Not available for India; Sep-08 figures for Taiwan, Japan and 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.