



# Weekly Observatory

December 8<sup>th</sup>, 2008

## *Economic and Financial Market Highlights (Nov 29-Dec 5, 2008)*

**A slew of data out of Asia in the week suggested weaker growth and easing inflation ahead. China's PMIs registered the record low. Japan's capex continued declining and exports in most Asian countries fell larger than expectations. Quarterly GDP in Australia contracted for the first time since 2000 and Korea's was revised slightly downward. To boost up the economies, Indonesia, Thailand and Vietnam delivered surprise rate cuts, while Korea and Japan discussed measures to facilitate corporate financing. Thailand's sovereign rating outlook has been revised to negative due to the recent political tension.**

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

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

### Greater China

- The RMB/USD market exchange rate depreciated sizably by 0.68% over the week in this week with much increased volatility in intra-day trading. The intra-day market rates exceeded the  $\pm 0.5\%$  band, before the Sino-US Strategic Economic Dialogue (SED) in Beijing on 4-5 December. During the SED, Chinese officials said China remained committed to currency reform and a "stable" RMB exchange rate. Given the current policy tendency is geared toward a more eased monetary policy in order to facilitate the implementation of the fiscal stimulus package, we believe a stable RMB exchange rate will be in China's interest, as it provides room for further interest cuts down the road.

- China's manufacturing PMIs in November fell to a record low, indicating a contraction in the manufacturing sector. The PMI released by the National Statistical Bureau fell to 38.8, while another PMI released by Credit Lyonnais Securities Asia (CLSA) has reached 40.9. Meanwhile, Hong Kong's PMI stood at 38.8 in November compared to 43.1 in October, the lowest reading since April 2003.

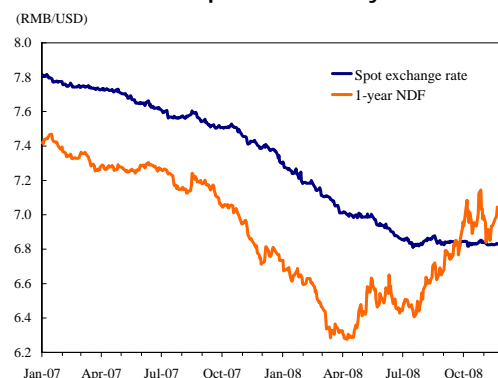
- Hong Kong's growth in retail sales value fell sharply to 0.3% yoy in October from 7.0% in September. After netting out the effect of price changes over the same period, the volume of retail sales decreased by 4.3% yoy in October, compared with the increase of 1.9% in September. The decline in the volume of retail sales is broadly across the sectors, on the impact of global financial tsunami and sluggish performance of inbound tourist.

- Taiwan's consumer confidence index for November declined to 50 points, a drop of 2.22 points against the previous reading. This was the lowest index reading on record.

### India

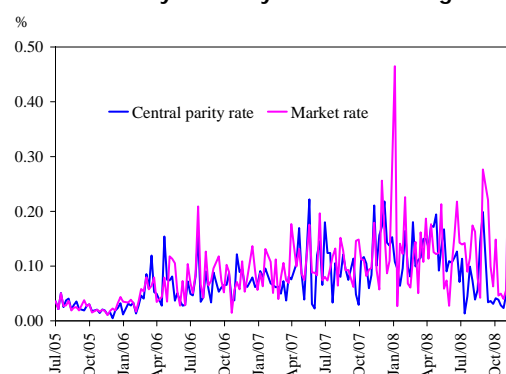
- In India, the terrorist attacks in Mumbai have ended over the weekend. Indian PM Manmohan has re-shuffled his cabinet, taking

China: RMB spot rate and 1-year NDF



Sources: Bloomberg and Datastream.

China: Weekly volatility of RMB exchange rate



Sources: Bloomberg and BBVA estimates.

over the Finance portfolio while the incumbent P. Chidambaram took over as home minister following the resignation of the former home minister.

- October exports surprised to the downside, contracting by 12.1% yoy, following 10.4% growth in September. This is the first decline since Mar-02. Also, import growth slowed to 10.6% yoy in October, sharply down from 43.3% growth recorded in September. Oil related imports growth moderated to 22.0% yoy in October, compared to a strong growth of 57.0% in September, as result of a sharp fall in international oil prices. Non-oil imports, including capital goods and raw materials, registered a slower growth of 5.5% yoy (36.2% in Sep) during the month. The trade balance deficit was USD10.5bn in October, similar to USD10.6bn in September, and for Apr-Oct accumulates USD73bn.

- In order to boost up the economy, India plans to allocate an extra 200 billion rupees (\$4 billion) as part of a total 3 trillion rupee spending plan for the rest of the financial year ending March 31. Meanwhile, the Reserve Bank of India on Dec 6 cut the central bank's repurchase rate to 6.5% from 7.5%, as the third time since October.

### Japan/Korea/Australia

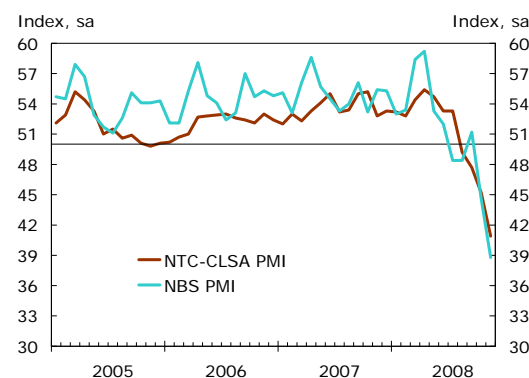
- **Japan's** central bank met in an emergency session to discuss the corporate financing facilitation measures proposed at the November 21-22 meeting. Also, the Bank of Japan's Monetary Policy Board voted unanimously to maintain the current 'around 0.30%' target for the policy rate, the uncollateralized overnight call rate.

- Japan's Q3 capital expenditures (excluding software and seasonally adjusted) in the Ministry of Finance's corporate statistics fell -3.5% qoq, the fourth straight quarter of decline and well below market expectations (Bloomberg: -10.9% yoy). Across all industries, capex was down -13.3% yoy, a bigger decline than in Q2 (-7.6% yoy). There is a good possibility that Q3 real GDP figures (second preliminary report due December 9) will be revised downward. Sales for companies of all sizes and industries grew for a second straight quarter, by a seasonally-adjusted 0.4% helped by higher prices, but recurring profits dropped by -18.9% qoq, seasonally adjusted, after rising last quarter. This reflects higher input costs outweighing higher sales and worsening trade terms.

- **Korea's** final estimate of GDP in Q3 was revised slightly downward to 0.5% qoq growth, seasonally adjusted, from the advanced estimate of 0.6% (Q2: 0.8% qoq). On a yoy basis, Q3 GDP growth was revised down to 3.8% from 3.9%. In particular, construction investment contracted 1.3% yoy, worse than the 0.9% fall estimated earlier. Export growth was also revised down to 9.4% yoy from 9.7%, while import growth was revised up slightly, to 9% yoy from 8.9%, resulting in a smaller net trade contribution to GDP growth. The Bank of Korea acknowledged that 2008 growth "may" be less than its forecast of 4.6% yoy.

- Korea's industrial production contracted 2.4% yoy (Market: +1.5% yoy; Sep: 6.2% yoy) and -2.3% mom, seasonally-adjusted. November exports fell 18.3% yoy, largest fall since Dec 2001. This was weaker than market's expectations of -10.9% and October's rise of 8.5% yoy.

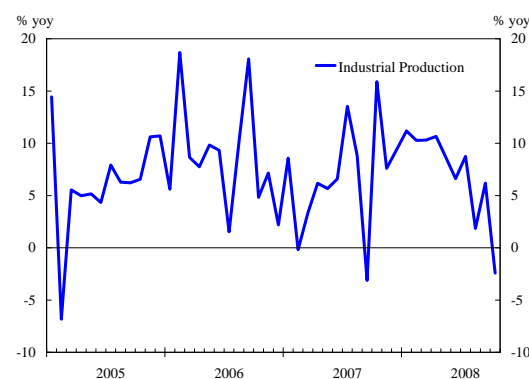
### China: PMI



Sources: CEIC and Bloomberg.

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

### Korea: Industrial Production



Source: CEIC.

November inflation came in weaker at 4.5% yoy vs expectation of 4.6%, and down from last month's 4.8% yoy.

- Korea's foreign reserves fell USD11.7bn in Nov to its 4-year low of USD200.5bn. This was the 8th consecutive month of decline as a result of the central bank's liquidity injection into the banking system and FX interventions to stem the fall in the won. Reserves are set to continue to fall following more than USD50bn decline since June. Moreover, Korea's National Pension Service would sell USD1.1bn of US treasuries to the central bank to help boost the country's foreign reserves. The central bank has ordered domestic banks to extend the repayment of foreign currency loans at the corporates to an infinite period. At an emergency meeting on Wed, the central bank said that it would provide additional support for the financial institutions, including the payment of 2.3% interest on local bank cash reserves equivalent to around KRW500bn, purchase of more bonds from the local banks and liquidity injections into the system.

- **Australia's** GDP rose 0.1% qoq in Q3 -weakest since Q4 2000-, and below the 0.4 qoq consensus. On yoy basis, growth eased to 1.9% from 2.9% in Q2, and 4.2% at the end of last year. The slowdown was led by private demand (0.1% qoq; 3.4% yoy), driven mostly by lower private consumption. Non-farm GDP registered its first contraction since 2000, falling 0.3% qoq in Q3 (1.7% yoy vs 2.7% in Q2). Farm (+0.3% points), business (+0.3% points) and public (+0.2% points) investment explain all the growth in Q3, while net exports subtracted 0.4% points. Nominal GDP rose 2.5% qoq in Q3, and 10.4% yoy. This reflected the impact of the terms of trade rising 5.6% qoq and 20.6% yoy helping company profits up another 5% qoq. Overall, the economy virtually stalled in Q3, with Q2 and Q3 together showing a sharp slowing in annualized growth to 0.8%, less than one third its pace in the prior two quarters.

- The current account balance came in slightly better than expected in the September quarter, showing a deficit of AUD9.7bn (Market: AUD11.25bn), approx. 3.3% of GDP. Export volumes were flat on the quarter (5.0% yoy), while import volumes rose 1.6% (+13.2% yoy). Net foreign liabilities now stand at AUD709.6bn, or 61.6% of GDP. In October, Australia's international trade surplus was \$2.95bn, above market, due to a jump in export values, in particular, rural exports; building approvals down 5.4% mom, below market; and retail sales rose 0.7% qoq, seasonally- adjusted (Market:0.2%; Sep: -1% qoq).

## ASEAN

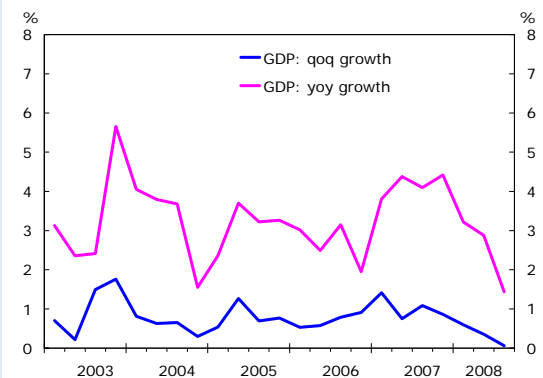
- **Singapore's** PMI fell 1.5 points to 44.3 in Nov from 45.8 in Oct due to a contraction in new orders, new export orders as well as declining production, output, imports and employment. The Electronics sub-index fell 2.8 points to 46.2 from 49.0 in Oct.

- Singapore's electricity tariff will be reduced by 25% in January 2009.

- **Malaysia's** exports unexpectedly fell 2.6% yoy in Oct (Market:+6.5% yoy) from growth of 15.1% in Sep. Exports of electrical and electronics fell 12.6% yoy while palm oil exports contracted 4.5% yoy.

- **Philippines'** inflation slowed sharply in November to 9.9% yoy (Oct: 11.2% yoy) on the back of sharp food and fuel price declines. Key components of the CPI declined on a mom basis, including food (-

Australia: GDP



Source: Datastream.

0.3%), fuel (-6.5%), and transportation and communication (-4.0%). The officially measured core inflation rate edged up to 7.9% yoy.

- **Indonesia's** central bank surprised market with a 25bps cut to its benchmark overnight rate to 9.25%, marking the beginning of its monetary policy easing cycle. It has also lowered the overnight deposit rate to 50bps below the benchmark BI rate, from 100bps below previously and cut the overnight repo rate to 50bps above the BI rate from 100bps above the BI rate previously. These measures will help to boost liquidity in the market. As expected, prices have begun to stabilize in Indonesia, thanks to the easing of food and energy price pressures; Nov CPI rose 11.68% yoy compared with 11.77% in Oct. Prices were up 0.12% mom vs. 0.45% in Oct.

- **Thailand's** central bank surprised market with a large 1% point cut in its policy rate to 2.75% - lowest in more than three years. This was the largest cut since the central bank started to target inflation in May 2000. Inflation concern has abated quite significantly – headline inflation slowed sharply to 2.2% yoy in November, from 3.9% in October on falling energy/commodity prices.

- Thailand's parliament is expected to elect a new Prime Minister on Dec 8 or 9. The country's constitutional court dissolved on Tues 2, the ruling People Power Party, citing electoral fraud. Its executive committee, including Prime Minister Somchai, will be banned from politics for 5 years. He accepted the ruling and is now an "ordinary citizen". The ruling comes as anti-government protesters from the People's Alliance for Democracy occupied the country's 2 main airports for the past week, demanding the government to step down. Tourism- which accounted for 6.45% of the Thai GDP last year, as well as exports-constituting around 70% of GDP- has been impacted adversely by the political situation in Thailand.

- Thailand's Oct exports grew 4.7% yoy (Market: 5.5% yoy) - the lowest in six years. All three major rating agencies (S&P, Fitch and Moody's) moved to revise Thailand's outlook to negative from stable as a result of the political turmoil in the country.

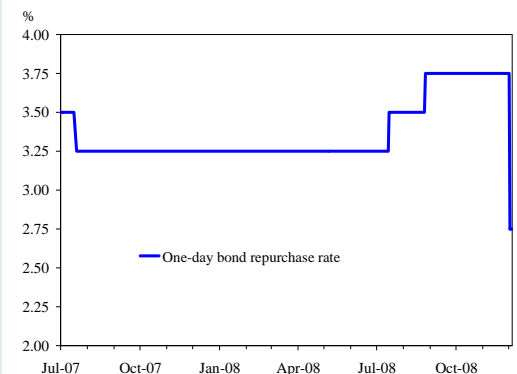
- **Vietnam's** central bank delivered its fourth 100bps rate cut in six weeks. The central bank cut the base rate to 10% from 11%, while reducing the refinancing and discount rates by 100bps to 11% and 9%, respectively. According to the local news reports, the government has urged banks to cut their lending rates (to below 10%) to support growth amid a sharp deterioration in external conditions.

## Asian Financial Markets

- Asian stock markets fell this week, after recording the rebound in last week. As the exception, China's stock rose this week on the market's expectation of more fiscal stimulus measures will be released in the CCP's central economic conference during 8-10 December.

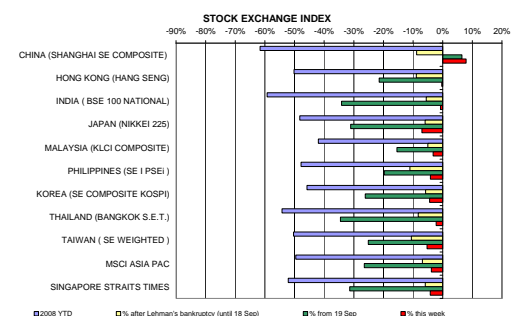
- Most of the Asian currencies depreciated against USD this week, after the rebound in previous week. However, Indonesian Rupiah, Japanese Yen and Indian Rupee appreciated by 4.94%, 3.43% and 0.93%, respectively.

Thailand: Policy Rate



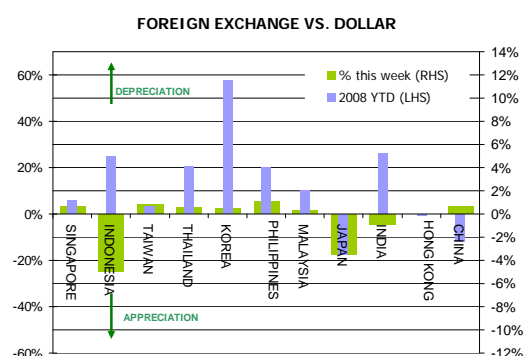
Source: Datastream.

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	1954	2019	7.9	90.6
Hong Kong	Hang Seng	13692	13846	-0.3	25.5
Taiwan	Taiwan Weighted	4333	4225	-5.3	8.2
India	Sensex	8904	8965	-1.4	12.0
Japan	Nikkei 225	8021	7918	-7.0	54.4
Korea	Seoul Composite	1028	1028	-4.5	15.0
Indonesia	Jakarta Composite	1203	1202	-3.2	0.5
Malaysia	KLSE Composite	845	838	-3.2	0.8
Philippines	Philippines Composite	1891	1889	-4.2	0.1
Singapore	Straits Times	1655	1659	-4.2	2.5
Thailand	SET	391	393	-2.2	1.3
Australia	All Ordinaries	3493	3427	-6.7	11.7

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)	6.88	6.88	0.68	7.08	6.99	7.29	7.19
Hong Kong	(HKD/USD)	7.75	7.75	0.01	7.75	7.74	7.75	7.75
Taiwan	(TWD/USD)	33.49	33.55	0.79	33.58	33.53	33.30	33.27
India	(INR/USD)	49.99	49.64	-0.93	52.02	51.41	54.58	54.05
Japan	(JPY/USD)	92.83	92.24	-3.43	92.51	91.98	91.51	90.95
Korea	(KRW/USD)	1464.57	1475.60	0.47	1448.71	1444.00	1445.91	1442.50
Indonesia	(IDR/USD)	12145.60	11750.00	-4.94	12971.00	12222.50	14194.00	13500.00
Malaysia	(MYR/USD)	3.64	3.63	0.30	3.69	3.69	3.71	3.71
Philippines	(PHP/USD)	49.23	49.46	1.08	51.21	50.89	53.34	52.57
Singapore	(SGD/USD)	1.53	1.52	0.68	1.52	1.52	1.51	1.51
Thailand	(THB/USD)	35.64	35.65	0.51	n.a.	n.a.	n.a.	n.a.
Australia	(USD/AUD)	0.64	0.64	-1.77	0.64	0.64	0.63	0.63

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	1.90	-20	2.70	-103	4.50	30
Hong Kong	0.30	-41	1.79	-16	2.50	5
Taiwan	1.60	0	1.71	0	2.11	-1
India	8.13	-74	9.89	-68	n.a.	n.a.
Japan	0.61	0	0.90	2	0.94	1
Korea	4.69	1	5.43	0	6.92	-1
Indonesia	10.12	-19	12.18	-19	13.28	-24
Malaysia	3.25	0	3.38	-1	3.43	-2
Philippines	5.69	50	5.19	25	5.19	-31
Singapore	0.72	-13	0.86	5	1.24	8
Thailand	2.87	-96	3.05	-85	3.22	-74
Australia	4.63	-1	4.57	-1	3.61	-9

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	1.40	-40	2.18	-30
Hong Kong	0.17	14	1.61	4
Taiwan	1.41	9	1.36	-1
India	6.53	-42	6.85	-22
Japan	0.47	-2	0.88	1
Korea	3.99	-19	4.42	-62
Indonesia	12.87	-83	14.01	-123
Malaysia	2.91	-18	3.30	-11
Philippines	6.33	-14	8.43	1
Singapore	0.61	-1	1.43	-10
Thailand	2.50	-62	2.59	-82
Australia	2.92	4	3.77	-12

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
8 Dec	Japan	Current Account Total	OCT	¥1497.9B	¥1094.0B
8 Dec	Japan	Eco Watchers Survey: Current	NOV	22.6	20
8 Dec	Taiwan	Total Exports (YoY)	NOV	-8.30%	-12.40%
8 Dec	Taiwan	Total Trade Bal in US\$ Billion	NOV	\$2.95B	\$3.20B
9 Dec	Japan	Gross Domestic Product (QoQ)	3Q F	-0.10%	-0.20%
9 Dec	Japan	Leading Index CI	OCT P	89.4	85
9 Dec	Japan	Machine Tool Orders (YoY)	NOV P	-40.00%	-
10 Dec	Japan	Machine Orders YOY%	OCT	-4.20%	-15.10%
10 Dec	Japan	Domestic CGPI (YoY)	NOV	4.80%	2.80%
10-15 Dec	China	Trade Balance (USD)	NOV	\$35.20B	\$31.70B
10-15 Dec	China	Exports YoY%	NOV	19.20%	15.00%
10 Dec	Philippines	Total Exports (YoY)	OCT P	1.10%	-2.00%
10 Dec	China	Producer Price Index (YoY)	NOV	6.60%	4.50%
10 Dec	China	Purchasing Price Index (YoY)	NOV	11.00%	-
10-13 Dec	Korea	Producer Price Index (YoY)	NOV	10.70%	-
11 Dec	Australia	Consumer Inflation Expectation	DEC	3.30%	-
11 Dec	Australia	Unemployment Rate	NOV	4.30%	4.40%
11 Dec	China	Consumer Price Index (YoY)	NOV	4.00%	3.00%
11 Dec	Malaysia	Industrial Production YoY	OCT	-1.70%	-2.80%
11 Dec	India	Wholesale Price Index YoY	Nov-29	8.40%	-
12 Dec	China	Retail Sales (YoY)	NOV	22.00%	20.70%
12 Dec	Japan	Industrial Production (YoY)	OCT F	-7.10%	-
12 Dec	Japan	Capacity Utilization (MoM)	OCT F	1.60%	-
12 Dec	India	Industrial Production YoY	OCT	4.80%	-
12 Dec	Hong Kong	Industrial Production (YoY)	3Q	-4.10%	-

Sources: Bloomberg and BBVA staff estimates.

**b) Economic Events**

Date	Country	Issue	Remarks
8-10 Dec	China	CCP's Central Economic Conference	
9 Dec	Australia	Reserve Bank Governor Stevens Speaks in Sydney	

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	6.0	3.9
	2Q08	10.1	4.2	4.6	7.9	0.7	4.8	6.4	6.3	4.4	2.3	5.3	6.6
	3Q08	9.0	1.7	-1.0	7.6	-0.1	3.9	6.1	4.7	4.6	-0.6	4.0	8.8
CPI inflation (% yoy) 1/	Oct-08	4.0	1.8	2.4	11.0	1.7	4.8	11.8	7.6	11.2	6.4	3.9	5.0
Exports (in local currency) (% yoy) 2/	Oct-08	19.2	9.4	-9.8	8.2	-7.8	23.9	15.8	-2.6	2.7	-4.2	4.6	63.2
Trade balance (US\$ bn) 3/	Oct-08	35.2	-1.8	2.9	-10.5	-0.7	0.3	2.0	2.7	-0.4	0.4	-0.6	4.3
Industrial production (% yoy) 4/	Oct-08	8.2	-4.2	-12.5	4.8	-7.1	-2.4	-0.9	-1.7	6.4	-12.6	-0.9	3.8
Retail sales (% yoy) 5/	Oct-08	16.7	-4.3	-5.3	n.a.	-2.3	3.2	7.5	15.6	n.a.	2.8	-1.6	-1.5
Money supply (M2) (% yoy) 6/	Oct-08	14.9	-14.9	4.5	15.7	1.8	13.5	16.9	13.3	7.4	12.1	5.3	14.9
Domestic credit (% yoy) 7/	Oct-08	14.6	2.9	4.2	18.4	2.2	18.6	36.6	10.3	8.7	15.1	6.6	9.7
Unemployment rate (%) 8/	Oct-08	4.0	3.5	4.4	n.a.	3.7	3.1	8.5	3.5	7.4	1.9	1.1	4.1

Notes: 1) Wholesale prices for India; Q3-08 figure for Australia.

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

3) Figure for Australia includes services; Nov-08 figure for Korea; Sep-08 figure for Philippines.

4) Sep-08 figures for India, Indonesia, Malaysia and Philippines; Q3-08 figure for Australia; Q2-08 figure for Hong Kong.

5) Not available for India and Philippines; Sep-08 figures for Indonesia, Singapore and Thailand; Q3-08 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 India, Korea, Indonesia and Philippines.

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

8) Not available for India; Sep-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.