



Weekly Observatory

January 12th, 2009

Economic and Financial Market Highlights (Jan 03-09, 2009)

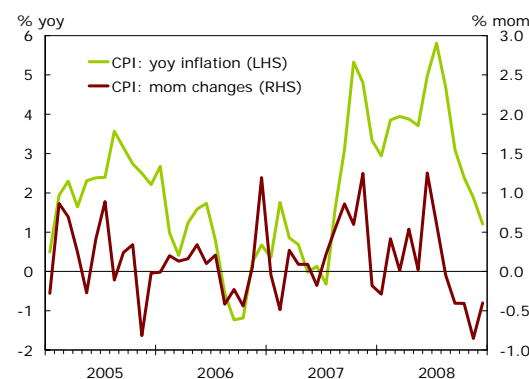
Asia continued to show signs of significant slowdown in the last few months of 2008. Exports in December for Taiwan, Korea and Malaysia fell further; while India's current account deficit in Q3 remained large despite robust exports of services. Business sentiment deteriorated sharply in China and Japan in December. Meanwhile, CPI inflation eased quickly, indicating inflationary pressures have been waning fast and giving room to central banks for additional rate cuts. Taking advantage of lower borrowing costs in the international markets, Philippines sold US\$1.5 billion of bonds to finance a widening budget deficit. Despite the concerns on the fast economic slowdown, some Asian stock markets experienced a rebound this week.

Andrew Tsang
andrew.tsang@bbva.com.hk
 Ya-Lan Liu
yalan@grupobbva.com
 Yuande Zhu
yzzhu@bbvashanghai.com

Greater China

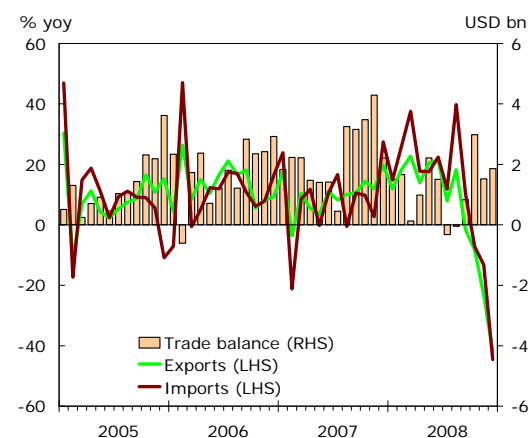
- China's Business Climate Index fell for the second straight quarter to 107.0, a decrease of 21.6 points compared to the Q3, indicating a rapid deterioration of economic conditions. Meanwhile, China Q4 business confidence indicator was at 94.6, down 29.2 points from Q3.¹
- China's Ministry of Commerce drafted new rules for overseas investments by Chinese companies. Companies will require the ministry's approval if they want to invest over USD 100 million overseas or if they want to invest in countries that have no diplomatic relations with China. At present, only government-controlled companies are required to seek the ministry's approval for overseas investments. The move follows the booking of large losses by a few major Chinese companies on their investments abroad.
- In 2008, Hong Kong's sale and purchase agreements for all types of building units decreased by 22.2% yoy to 113,298 units. The decrease in value was 21.4 % yoy. However, there was a yoy 2.9% increase in the assignments of building units lodged for registration (15.3% in value).
- Taiwan's CPI moderated in December to a yoy growth of 1.21%. This is the lowest growth rate since August 2007. As the inflation is no longer being the risk to the economy, Taiwan slashed the policy interest rates by 0.5 percentage point effective from January 8, with the benchmark discount rate to 1.5%.
- Taiwan's exports contracted by a record 41.9% yoy (in USD terms and 40.1% in TWD terms) in December owing to the decline in demand caused by the global economic slowdown. The economy is

Taiwan: CPI inflation



Source: CEIC.

Taiwan: External Trade



Source: CEIC.

¹ The index, which began in 1998, ranges from zero to 200. A reading above 100 shows economic expansion, while a reading below 100 indicates contraction.

expected to slow on the global recession. Therefore, Taiwan plans to invest TWD 858.5 billion to stimulate the economy in next four years, while the government was planning to provide TWD 1.1 trillion in credit facilities to local businesses.

India

- India's current account deficit increased in Q3 to 4.4% of GDP, from 3.3% in Q2, due to a record high of merchandise trade deficit in the quarter fuelled by oil prices. The surplus on services trade rose to USD 12.7 billion from USD 10.2 billion in the previous quarter as software exports continued growing in Q3. Private transfers, mostly remittances from overseas, rose to USD 14.3 billion from USD 11.5 billion in the previous quarter.

Japan/Korea/Australia

- Japan's** November Indexes of Business Conditions coincident CI stood at 94.9 (2005 average = 100), a drop of 2.8 points from October and the fourth straight month of decline. The 3-month moving average, used to assess trends, was down 1.76 points, also the fourth straight month of decline and by the biggest margin since 1980. These results show that the economy is worsening at an unprecedented fast pace.

- Korea's** exports contracted 17.4% yoy in December, the second largest drop since Feb 2002. The Korean government is forecasting just a 1% growth in exports in 2009 due to weaker external demand. Korea's trade balance remains in surplus for a third straight month in December, totaling USD 670 million.

- Korean central bank (BoK) cut its benchmark base rate by 50 bps to its record low of 2.50%, in line with market's expectation. BoK also slashed its aggregate credit rate by 25 bps to 1.5% in order to lower SMEs' financing costs. The benchmark rate has been cut by 275 bps since October 2008 and the aggressive monetary easing is set to continue as the economic crisis drags on.

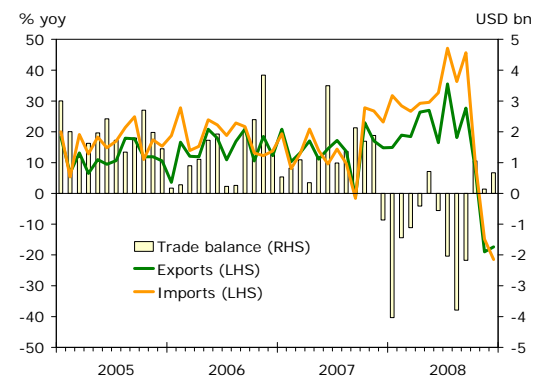
- Australia's** number of building approvals in Nov. dropped by 12.8% mom (Market: -1% mom), to be down 34.7% yoy. The fall was broad-based across construction categories. Looking ahead, the weakness in housing sector activity is one of the major factors in a slowing domestic economic activity in 2009 and the central bank's monetary easing.

ASEAN

- Malaysia's** exports fell the most in almost seven years in November as recession in its biggest markets eroded demand for electronics goods and commodities. Overseas sales dropped 4.9% from a year earlier to 51.79 billion ringgit (\$14.8 billion) after falling 2.6% yoy in October. The fall is below the Bloomberg median forecast of a 5.7% yoy decline. Exports of electronics, palm oil were all down but partly offset by higher exports of liquefied natural gas. Imports fell 8.6% yoy, less than market expected.

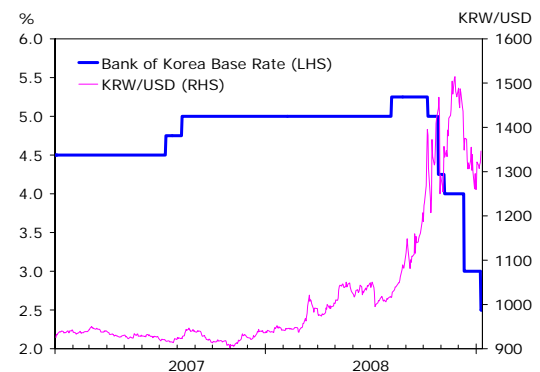
- Malaysia's industrial production (IP) fell more than expected in November compared to a year earlier. IP shrank 7.7% yoy (Bloomberg: -6.5% yoy; Oct: -2.9% yoy, revised) due to declines in

Korea: Trade



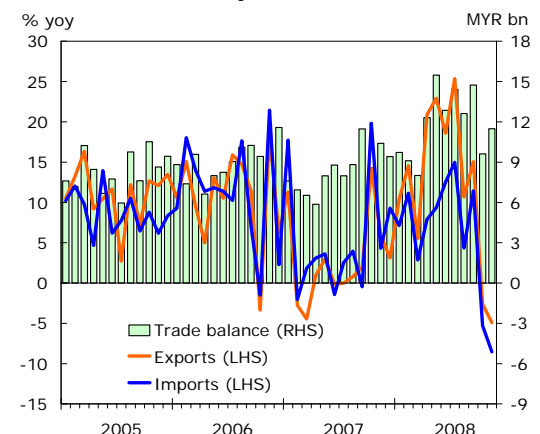
Source: CEIC.

Korea: Interest rates



Source: CEIC.

Malaysia: Trade



Source: CEIC.

manufacturing, mining and electricity. This is the steepest fall in 7 years. Month-on-month, the IP was also down by 3.1%. For the January-to-November period, IP expanded 1.6% yoy. The market expects a rate cut of 25-50 bps by the central bank at its January 29 meeting.

- **Philippines'** inflation fell to 8% yoy in December from 9.9% in November. This is the slowest pace in nine months and below market forecast of 8.6% yoy, mainly due to larger than expected declines in food and energy prices. Excluding food and fuel, the core inflation rate slowed to 7.3% yoy in December from 7.9% in November. The declining trend in inflation is likely to continue on lower commodity prices and slowing domestic demand, providing room for further rate cuts ahead.

- Philippines sold USD 1.5 billion of 10-year notes (S&Ps/Moody's/Fitch: BB-/B1/BB) in international markets to yield 8.5%, or 6 percentage points more than U.S. Treasuries. Credit Suisse Group, Deutsche Bank AG and HSBC Holdings Plc managed the bond sale. The Philippines sale, which is triple the amount it issued all last year, will help the government finance its widening budget deficit. Other Asian countries such as Korea and Indonesia reportedly plan to borrow in the international markets up to USD 6 billion and 2.1 billion, respectively, this year.

- **Indonesia's** inflation eased to 11.06% yoy in December, lower than 11.7% in November. Meanwhile, November's trade surplus grew to USD 890 million as non-oil and gas exports remained resilient while imports declined.

- Given the ease of inflationary pressure, Indonesia's central bank cut its benchmark interest rate by 50 bps to 8.75%, the biggest reduction since December 2006 and more aggressive than market expected.

- **Thailand's** headline inflation in December rose 0.4% yoy (Bloomberg: 1.4% yoy; Nov: 2.2% yoy), a 6-year low due to the decline in fuel prices and administered electricity rates. Core inflation came in at 1.8% yoy in December from its peak of 2.7% last August.

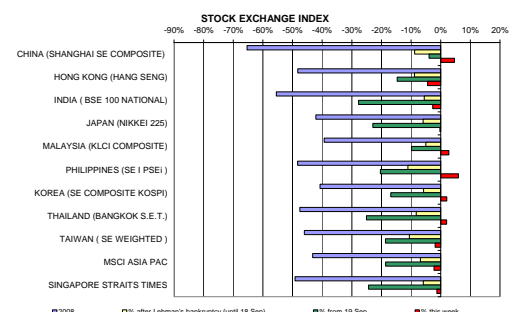
- In order to boost up the economy, Thailand's economic ministers approved a THB 300 billion (3% GDP estimated) stimulus package. The money will be used to boost agricultural prices, support free education, provide money for senior citizens and provide low interest rate loans to farmers.

Asian Financial Markets

- The performance of Asian stock markets was mixed this week. Stock prices in India, Hong Kong, Taiwan, Singapore and Japan fell, while other markets picked up. Specifically, stock indices in Philippines and China rose by 6.0% and 4.6%, respectively this week.

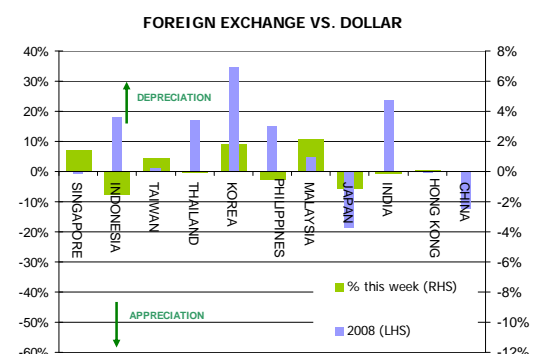
- Most Asian currencies depreciated against USD this week. However, Japanese Yen and Indonesian Rupiah appreciated by over 1%.

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 | 1905 | 1905 | 4.6 | 64.9 |
| Hong Kong | Hang Seng | 14971 | 14377 | -4.4 | 37.9 |
| Taiwan | Taiwan Weighted | 4651 | 4503 | -1.9 | 11.6 |
| India | Sensex | 9901 | 9406 | -5.5 | 14.7 |
| Japan | Nikkei 225 | 9015 | 8837 | -0.3 | 58.1 |
| Korea | Seoul Composite | 1197 | 1181 | 2.0 | 22.4 |
| Indonesia | Jakarta Composite | 1423 | 1417 | 4.5 | 1.0 |
| Malaysia | KLSE Composite | 920 | 919 | 2.8 | 1.3 |
| Philippines | Philippines Composite | 1981 | 1985 | 6.0 | 0.2 |
| Singapore | Straits Times | 1871 | 1806 | -1.3 | 4.8 |
| Thailand | SET | 468 | 459 | 2.0 | 2.3 |
| Australia | All Ordinaries | 3676 | 3680 | 0.7 | 9.5 |

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) | 6.84 | 6.84 | 0.01 | 6.91 | 6.91 | 7.00 | 7.01 |
| Hong Kong | (HKD/USD) | 7.75 | 7.76 | 0.08 | 7.75 | 7.75 | 7.75 | 7.75 |
| Taiwan | (TWD/USD) | 33.12 | 33.15 | 0.88 | 33.10 | 33.18 | 32.72 | 32.76 |
| India | (INR/USD) | 48.67 | 48.50 | -0.14 | 49.87 | 49.74 | 51.09 | 50.86 |
| Japan | (JPY/USD) | 92.34 | 90.80 | -1.12 | 92.22 | 90.69 | 91.72 | 90.30 |
| Korea | (KRW/USD) | 1320.83 | 1346.53 | 1.86 | 1318.62 | 1345.50 | 1314.22 | 1339.00 |
| Indonesia | (IDR/USD) | 10990.20 | 11050.00 | -1.56 | 11344.00 | 11450.00 | 12217.50 | 12315.00 |
| Malaysia | (MYR/USD) | 3.51 | 3.54 | 2.14 | 3.55 | 3.57 | 3.57 | 3.59 |
| Philippines | (PHP/USD) | 46.97 | 47.15 | -0.58 | 47.56 | 47.75 | 48.68 | 49.00 |
| Singapore | (SGD/USD) | 1.47 | 1.48 | 1.46 | 1.48 | 1.48 | 1.48 | 1.48 |
| Thailand | (THB/USD) | 34.92 | 34.81 | -0.11 | n.a. | n.a. | n.a. | n.a. |
| Australia | (USD/AUD) | 0.71 | 0.71 | -0.86 | 0.71 | 0.70 | 0.70 | 0.69 |

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/ | |
|-------------|----------------|-------------------------|----------------|-------------------------|----------------|-------------------------|
| | 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 | 1.06 | -6 | 1.64 | -11 | 3.85 | 0 |
| Hong Kong | 0.10 | 0 | 0.84 | -11 | 1.68 | -17 |
| Taiwan | 0.62 | -40 | 0.66 | -40 | 1.04 | -45 |
| India | 5.70 | -149 | 7.87 | -109 | n.a. | n.a. |
| Japan | 0.34 | -7 | 0.74 | 0 | 0.82 | 0 |
| Korea | 3.36 | -15 | 3.64 | -30 | 4.49 | -74 |
| Indonesia | 9.39 | -62 | 11.17 | -97 | 12.23 | -82 |
| Malaysia | 3.22 | -2 | 3.32 | -3 | 3.31 | -6 |
| Philippines | 6.13 | -63 | 5.50 | 25 | 4.94 | 13 |
| Singapore | 0.38 | -25 | 0.97 | 0 | 1.25 | 1 |
| Thailand | 2.77 | -2 | 2.85 | -10 | 2.94 | -13 |
| Australia | 4.31 | 6 | 3.91 | 2 | 3.28 | 2 |

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 | 0.89 | -16 | 1.78 | -1 |
| Hong Kong | 0.15 | 2 | 1.21 | -4 |
| Taiwan | 0.76 | -46 | 1.08 | -6 |
| India | 4.63 | 8 | 5.98 | 61 |
| Japan | 0.19 | -1 | 0.75 | 6 |
| Korea | 2.28 | -38 | 3.99 | 20 |
| Indonesia | 10.84 | -43 | 11.83 | -1 |
| Malaysia | 3.05 | 11 | 2.99 | 18 |
| Philippines | 5.59 | -17 | 6.65 | -16 |
| Singapore | 0.56 | 0 | 1.45 | -1 |
| Thailand | 1.81 | -17 | 2.39 | 22 |
| Australia | 2.98 | 10 | 3.55 | 13 |

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 |
|-----------|-------------|-------------------------------|--------|----------|----------|
| 12-16 Jan | Indonesia | Wholesale Price Index (YoY) | NOV | 25.50% | - - |
| 12 Jan | India | Industrial Production YoY | NOV | -0.40% | -0.80% |
| 13 Jan | Japan | Japan Money Stock M3 YoY | DEC | 0.60% | 0.60% |
| 13 Jan | Japan | Current Account Total | NOV | ¥960.5B | ¥600.0B |
| 13 Jan | Japan | Bank Lending Banks Adjust YoY | DEC | 4.10% | - - |
| 13 Jan | Philippines | Total Exports (YoY) | NOV P | -14.80% | -13.40% |
| 13 Jan | Japan | Eco Watchers Survey: Current | DEC | 21 | 20.4 |
| 13 Jan | Japan | Eco Watchers Survey: Outlook | DEC | 24.7 | - - |
| 14 Jan | Australia | Home Loans | NOV | 1.30% | 1.00% |
| 14 Jan | Australia | Investment Lending | NOV | 0.70% | 1.50% |
| 14 Jan | Korea | Unemployment Rate (SA) | DEC | 3.30% | - - |
| 14 Jan | Thailand | Benchmark Interest Rate | 14-Jan | 2.75% | 2.25% |
| 15 Jan | Japan | Machine Orders YOY% | NOV | -15.50% | -20.80% |
| 15 Jan | Japan | Domestic CGPI (YoY) | DEC | 2.80% | 0.80% |
| 15 Jan | Australia | Unemployment Rate | DEC | 4.40% | 4.50% |
| 15 Jan | Philippines | Overseas Remittances (YoY) | NOV | 3.30% | - - |
| 15 Jan | Korea | Export Price Index (YoY) | DEC | 31.50% | - - |
| 15 Jan | Korea | Import Price Index (YoY) | DEC | 32.00% | - - |
| 15 Jan | Thailand | Consumer Confidence Economic | DEC | 67.1 | - - |
| 15 Jan | Singapore | Retail Sales (YoY) | NOV | -3.60% | - - |
| 15 Jan | Philippines | Bank Lending (YoY) | NOV | 24.80% | - - |
| 15 Jan | India | Wholesale Price Index YoY | 03-Jan | 5.91% | - - |
| 16 Jan | Philippines | Balance of Payments | DEC | \$19M | - - |

Sources: Bloomberg and BBVA staff estimates.

b) Economic Events

| Date | Country | Issue | Remarks |
|--------|----------|--|---------|
| 13 Jan | Thailand | Economic Ministers to Propose Budget Details To Cabinet | |
| 14 Jan | Thailand | Thai Central Bank Committee Meets on Interest Rates Policy | |
| 16 Jan | Japan | BOJ to Hold Quarterly Branch Managers' Meeting in Tokyo | |

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) | 2Q08 | 10.1 | 4.2 | 4.6 | 7.9 | 0.7 | 4.8 | 6.4 | 6.7 | 4.4 | 2.3 | 5.3 | 6.6 |
| | 3Q08 | 9.0 | 1.7 | -1.0 | 7.6 | -0.5 | 3.8 | 6.1 | 4.7 | 4.6 | -0.6 | 4.0 | 8.8 |
| | 4Q08 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | -2.6 | n.a. | n.a. |
| CPI inflation (% yoy) 1/ | Nov-08 | 2.4 | 3.1 | 1.2 | 8.7 | 1.0 | 4.1 | 11.1 | 5.7 | 8.0 | 5.5 | 0.4 | 5.0 |
| Exports (in local currency) (% yoy) 2/ | Nov-08 | -2.2 | -5.3 | -40.1 | 12.0 | -26.7 | 22.0 | 23.4 | -4.9 | -7.5 | -11.8 | -18.2 | 47.0 |
| Trade balance (US\$ bn) 3/ | Nov-08 | 40.1 | -1.1 | 1.8 | -10.1 | -2.3 | 0.7 | 2.5 | 3.2 | -0.6 | 1.0 | -1.2 | 2.2 |
| Industrial production (% yoy) 4/ | Nov-08 | 5.4 | -6.7 | -28.4 | -0.4 | -16.2 | -14.1 | 7.0 | -7.7 | 8.5 | -7.5 | -8.4 | 3.8 |
| Retail sales (% yoy) 5/ | Nov-08 | 17.6 | -2.8 | -8.7 | n.a. | -1.8 | 5.6 | -10.1 | 15.6 | n.a. | -8.5 | -2.5 | -3.8 |
| Money supply (M2) (% yoy) 6/ | Nov-08 | 14.7 | -12.1 | 5.5 | 17.6 | 1.7 | 13.3 | 17.8 | 14.4 | 7.8 | 11.8 | 7.3 | 13.9 |
| Domestic credit (% yoy) 7/ | Nov-08 | 16.0 | 2.4 | 4.2 | 21.9 | 3.2 | 22.7 | 38.6 | 10.7 | 8.6 | 15.3 | 7.2 | 8.2 |
| Unemployment rate (%) 8/ | Nov-08 | 4.0 | 3.8 | 4.6 | n.a. | 3.9 | 3.3 | 8.5 | 3.1 | 6.8 | 1.9 | 1.2 | 4.1 |

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

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

3) Figure for Australia includes services; Dec-08 figures for Taiwan and Korea; Oct-08 figure for Philippines.

4) Oct-08 figures for India and Indonesia, ; Q3-08 figure for Hong Kong and Australia.

5) Not available for India and Philippines; Oct-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; Oct-08 figures for India, Indonesia and Philippines.

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

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

Sources: Datastream, CEIC, and BBVA staff estimates.