



# Weekly Observatory

January 26<sup>th</sup>, 2009

## *Economic and Financial Market Highlights (Jan 17-23rd, 2009)*

**Growth in Asia decelerated rapidly in Q4 2008. China slowed to 6.8% yoy, the lowest quarterly growth since 2002. Korea recorded its biggest contraction of 3.4% yoy since Q4 1998, while Singapore's last quarter GDP growth was revised further downward to -3.7% yoy. Meanwhile, export performance of Japan, Taiwan and Thailand continued to deteriorate in the last month of 2008. Given larger slack in the economy, inflationary pressure eased further in China and Hong Kong, with China's PPI inflation registering a negative 1.1% in December. Pessimistic economic data sent Asian currencies and stock markets to a net decline for the week before the Chinese New Year.**

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 real GDP growth decelerated to 6.8% in Q4, the lowest quarterly growth since 2002 and compared to 9.0% in Q3. The slowdown led by a sharp fall in external demand, which depressed both economic activities and industrial profits, while domestic consumption and net exports remained solid. For the year as a whole, the economy grew by 9.0%. Given the massive fiscal stimulus package and ample room for further monetary ease, we are optimistic that China can still grow close to its potential. We continue to maintain our 2009 GDP forecast at 8.1%.

- China's producer price index experienced a fall of 1.1% in December on sharp falls of oil and commodities prices. For the year as a whole, it is 6.9% or 3.8 percentage points increase from 2007. Meanwhile, CPI inflation continues to slow, reaching 1.2% in December, which is 1.2 percentage point drop from November.

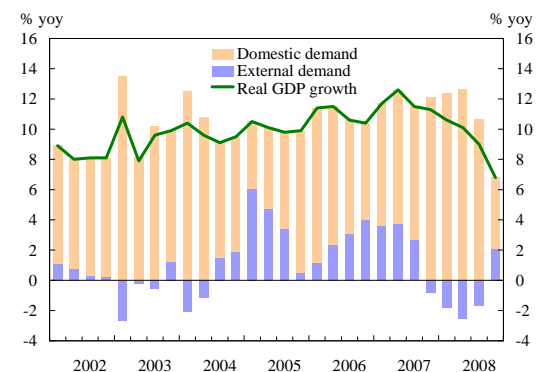
- China passed a long-awaited medical reform plan which promised to spend RMB 850 billion (USD 123 billion) by 2011 to provide universal medical service to the country's 1.3 billion population.

- China and Hong Kong have signed a RMB 200 billion currency swap agreement. People's Bank of China reported that the agreement has been signed to support Hong Kong's economy.

- Hong Kong's unemployment rate (seasonally adjusted) increased from 3.8% in September – November to 4.1% in October - December 2008. Meanwhile, headline CPI inflation fell to 2.1% yoy in December, lower than 3.1% in November. However, excluding the effect of one-off government relief measures, the underlying inflation rate was 4.6% yoy, compared with 5.6% in November.

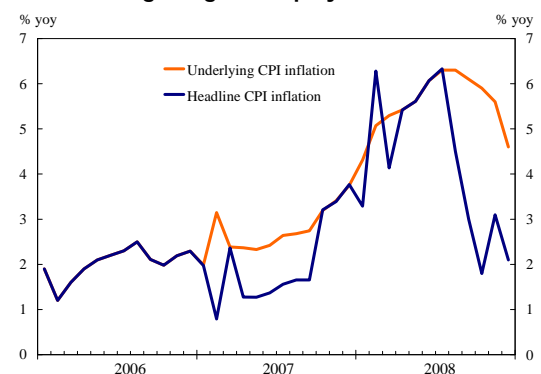
- Taiwan's export orders contracted further in December; the fall was widespread across the board. December export orders fell

China: GDP



Sources: CEIC and BBVA estimates.

Hong Kong: Unemployment rate



Source: CEIC.

sharply by 33.0% yoy, compared with a decrease of 28.5% in November.

- Taiwan's domestic banks posted pretax profits of NTD 64.6 billion (USD 2.01 billion) in the first 11 months of 2008, with return on assets (ROA) rate of merely 0.23%, far lower than the projection of 0.4% and compared to the ROA at 0.25% in the first eight months, implying the banks' profitability is edging down. Meanwhile, Fitch Ratings has lowered Taiwan's Issuer Default Rating (IDR) on the local currency to negative from stable. The rating has been lowered due to increasing concerns on rising government debt.

## India

- India expects to get US\$3 billion from the World Bank in two tranches by March 31, 2010, to help it recapitalize public sector banks, including National Housing Bank and EXIM Bank; total capital required to recapitalize these banks is estimated to be around Rs.200 billion (US\$4 billion).
- Indian bank loans raised 24% yoy in the two weeks to January 2, led by the increase in non-food credit. Deposits were up by 21.2% yoy in the same period.

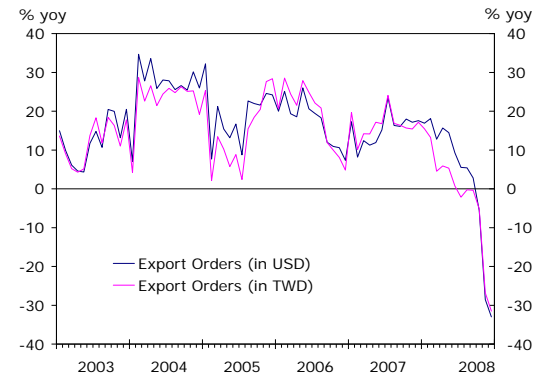
## Japan/Korea/Australia

- Japan's** central bank decided to leave the policy rate target unchanged at 0.1%, as expected. Bank of Japan (BoJ) now expects growth to contract in both FY08 (-1.8%) and FY09 (-2%); lower than its October projections of +0.1% yoy and +0.6%yoy, respectively. In FY10, growth rate is projected to recover to around +1.5% yoy. Core CPI (excluding fresh food) is now expected to decline to -1.1% yoy in FY09 and -0.4% yoy in FY10. BoJ also announced in its "Outright Purchases of Corporate Financing Instruments" that 1) it will start outright purchases of commercial paper (CP) and asset-backed commercial paper (ABCP) this month, with limit of JPY 100 billion (USD 1.1 billion); and 2) it will also consider buying corporate bonds with less than one year to maturity of acceptable credit standing.

- Japan posted a trade deficit of JPY320.6 billion in December vs. JPY223.4 billion deficit in November; slightly worse than market expectations (consensus: -JPY307.5 billion), as exports fell faster than imports. Export volume contracted 29.8% yoy, faster than November's 22.2% yoy decline. In sum, the external demand is likely to weigh down considerably GDP growth in Q4. Meanwhile, the tertiary activity index fell in November 0.9% mom (-3.5% yoy), seasonally adjusted, after rising in October and slightly worse than forecast (Bloomberg: -0.8% mom). Output adjustments in the manufacturing sector seem starting to have an impact on the service sector, which accounts for 60.4% of all industry activity. Japan's all industry activity index (except primary sector) fell further in November to -2.3% mom (-4.5% yoy) vs. -0.4% mom in October (-2.4% yoy).

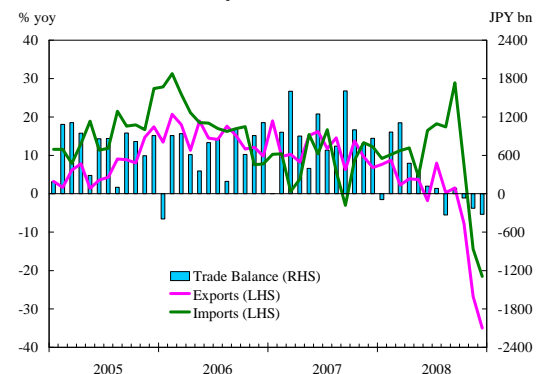
- Korea's** economy contracted at 3.4% yoy or -5.5% qoq (seasonally adjusted) in Q4, compared to a positive 0.5% qoq growth in Q3, according to advance estimates. This is its biggest contraction since Q4 1998 and worse than market forecast (Bloomberg: -0.5% qoq). In particular, domestic demand is weakening at much faster pace

Taiwan: Export orders



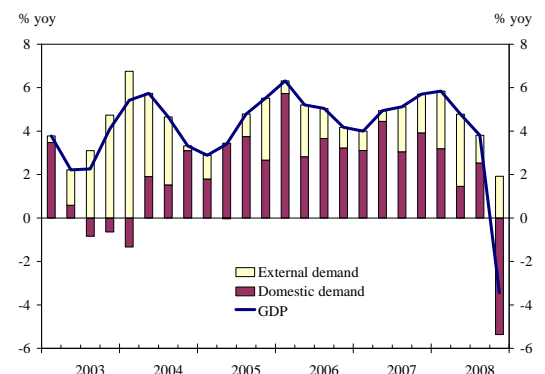
Source: CEIC.

Japan: Trade



Sources: CEIC and BBVA estimates.

Korea: GDP



Sources: CEIC and BBVA estimates.

than expected, where domestic demand contribution to GDP yoy growth stood at -5.4 percentage points in Q4, compared with +2.5 percentage points in Q3.

- Korea registered in full year 2008 its first trade deficit for 11 years due to the global economic slowdown and soaring crude prices earlier in the year. Its trade balance recorded a deficit of USD13.3 billion in 2008 vs. a surplus of USD14.6 billion in 2007. In nominal value, exports raised 13.6% yoy to USD422 billion but imports surged 22% yoy to USD435.3 billion.

## ASEAN

- **Singapore's** full year 2008 GDP growth was revised down to 1.2%, its slowest growth since 2001, from 1.5% in the advance estimates. The downside revision highlights the rapid downturn in the economy, with a further contraction of 3.7% yoy (annualized qoq: -16.9%) in Q4, compared to -2.6% yoy in the advance estimates and a revised -0.2% yoy in Q3. The government has also revised down its 2009 GDP to a range of -5% to -2% yoy, from a previous range of -2% to +1% yoy. In addition, Singapore unveiled a massive SGD 20.5 billion (USD 14 billion) plan in its FY09 Budget aimed at supporting employment, stimulating bank credit and increasing incentives for investment.

- Singapore's headline inflation in December decelerated to 4.3% yoy (Bloomberg: 4.6% yoy; Nov: 5.5% yoy), led by declines in transport costs. On a mom basis, inflation fell by 0.6% in December following 0.2% decline in November. Meanwhile, industrial production continued contracting by 13.5% yoy in December vs. 6.6% decline in November. This is the fifth decline in the last six months and worse than market expectation (Bloomberg: -9% yoy).

- **Malaysia's** central bank cut the overnight policy rate by 75 bps to 2.5%, the biggest cut since 2004 and more aggressive than market expected (Bloomberg: -50 bps). It also cut the statutory reserve requirements (SSR) to 2% from 3.5% effective February 1. The policy rate has been cut now by 100 bps over the past two months, while inflation has declined by over 300 bps during the same period.

- Malaysia has banned the hiring of new foreign workers in the manufacturing and services sectors amid fears the economic crisis will lead to more job losses for locals.

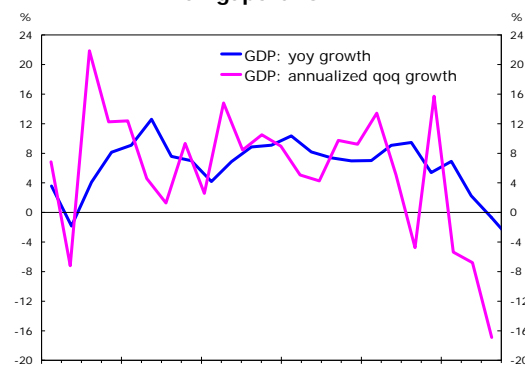
- **Thailand's** exports contracted for the second straight month in December at -14.6% yoy, following a revised -20.5% yoy in November. Imports fell by 6.5% yoy in December, from a 2.0% yoy rise in November. As a result, the trade balance was in USD0.2 bn surplus in December vs. USD1.2 bn deficit in November.

## Asian Financial Markets

- The Asian stock markets continued to drop this week, except China. Specifically, India fell by 7% while Japan fell for the third week, registering nearly 6% decrease this week.

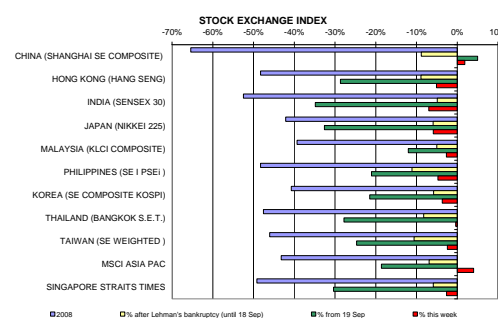
- Most Asian currencies continued to depreciate against USD in the week. Major exporters' currencies were under pressure, as exports outlook is deteriorating rapidly. However, Japanese Yen appreciated to 88.36/USD or by 2.6% over a week ago.

Singapore: GDP



Source: CEIC.

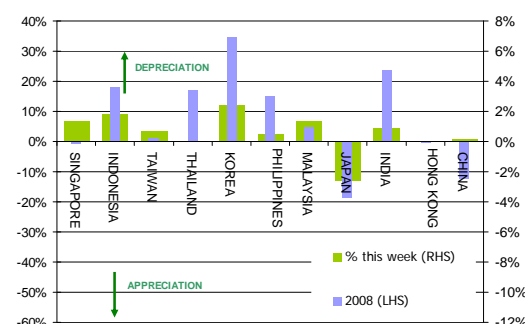
Asia: Stock Markets



Sources: Datastream and Bloomberg.

Asia: Currencies

FOREIGN EXCHANGE VS. DOLLAR



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	1992	1991	1.9	73.8
Hong Kong	Hang Seng	12824	12579	-5.1	25.0
Taiwan	Taiwan Weighted	4286	4248	-2.4	6.8
India	Sensex	8939	8674	-7.0	10.9
Japan	Nikkei 225	8004	7745	-5.9	50.7
Korea	Seoul Composite	1118	1093	-3.7	14.7
Indonesia	Jakarta Composite	1332	1316	-3.5	0.4
Malaysia	KLSE Composite	879	873	-2.7	0.6
Philippines	Philippines Composite	1876	1857	-4.8	0.2
Singapore	Straits Times	1714	1685	-2.6	2.8
Thailand	SET	434	434	-0.4	1.1
Australia	All Ordinaries	3417	3300	-5.6	9.9

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	6.85	0.17	6.92	6.93	7.07	7.09
Hong Kong	(HKD/USD)	7.76	7.76	-0.03	7.76	7.75	7.75	7.75
Taiwan	(TWD/USD)	33.58	33.60	0.74	33.78	33.89	27.97	33.58
India	(INR/USD)	49.08	49.26	0.94	50.06	50.44	51.30	51.74
Japan	(JPY/USD)	89.43	88.36	-2.60	89.27	88.20	88.70	87.57
Korea	(KRW/USD)	1375.66	1390.70	2.39	1374.60	1399.00	1363.60	1381.00
Indonesia	(IDR/USD)	11237.80	11350.00	1.86	11695.00	11870.00	12554.00	12780.00
Malaysia	(MYR/USD)	3.61	3.63	1.41	3.64	3.66	3.67	3.69
Philippines	(PHP/USD)	47.38	47.40	0.50	48.11	48.15	49.47	49.60
Singapore	(SGD/USD)	1.50	1.51	1.32	1.50	1.51	1.50	1.51
Thailand	(THB/USD)	34.93	34.90	0.06	n.a.	n.a.	n.a.	n.a.
Australia	(USD/AUD)	0.66	0.64	-4.43	0.65	0.64	0.64	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	1.04	11	2.45	95	3.85	0
Hong Kong	0.15	5	0.95	10	1.70	5
Taiwan	0.62	0	0.66	0	1.01	0
India	5.90	6	7.96	0	n.a.	n.a.
Japan	0.32	-1	0.73	-1	0.81	0
Korea	2.71	-4	2.97	-5	3.71	-9
Indonesia	9.33	1	10.91	-24	11.88	-27
Malaysia	2.47	-78	2.61	-65	2.59	-64
Philippines	5.81	25	5.00	13	4.63	31
Singapore	0.25	0	0.69	-14	0.94	-13
Thailand	2.09	0	2.24	-2	2.29	-7
Australia	4.06	-17	3.54	-23	3.28	0

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	1.10	0	2.20	22
Hong Kong	0.10	-5	1.23	2
Taiwan	0.62	-1	0.97	-1
India	4.55	23	5.85	24
Japan	0.24	3	0.67	-3
Korea	2.04	-14	3.96	-26
Indonesia	10.98	-20	11.53	-47
Malaysia	2.52	-45	2.66	-33
Philippines	5.13	-5	6.43	10
Singapore	0.31	-14	1.22	-25
Thailand	1.77	-3	2.38	-14
Australia	2.82	-8	3.26	-4

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
27 Jan	Australia	NAB Business Confidence	DEC	-30	- -
27 Jan	Australia	Producer Price Index (YoY)	4Q	5.60%	5.20%
27 Jan	Philippines	Total Imports (YoY)	NOV	-11.10%	- -
27 Jan	Philippines	Trade Balance	NOV	-\$606M	- -
28 Jan	Australia	Westpac Leading Index (MoM)	NOV	-0.10%	- -
28 Jan	Australia	Consumer Prices (YoY)	4Q	5.00%	3.60%
29 Jan	Japan	Loans & Discounts Corp YoY	DEC	3.20%	- -
29 Jan	Japan	Retail Trade YoY	DEC	-0.90%	-1.60%
29 Jan	Philippines	GDP (YoY)	4Q	4.60%	3.70%
29 Jan	Philippines	GDP sa (QoQ)	4Q	0.90%	- -
29 Jan	India	Wholesale Price Index YoY	Jan-17	5.60%	- -
29 Jan	Hong Kong	Exports YoY%	DEC	-5.30%	-7.00%
29 Jan	Hong Kong	Trade Balance	DEC	-8.2B	- -
30 Jan	Korea	Current Account in US\$ Million	DEC	\$2056.6M	- -
30 Jan	Japan	Jobless Rate	DEC	3.90%	4.10%
30 Jan	Japan	Natl CPI YoY	DEC	1.00%	0.40%
30 Jan	Japan	Industrial Production (YoY)	DEC	-16.60%	-20.00%
30 Jan	Australia	Private Sector Credit YoY%	DEC	8.20%	7.50%
30 Jan	Singapore	Unemployment Rate (sa)	4Q	2.20%	- -
30 Jan	Korea	Industrial Production (YoY)	DEC	-14.10%	- -
30 Jan	Korea	Leading Index (YoY)	DEC	-2.80%	- -
30 Jan	India	Annual GDP Constant Prices	2008	9.60%	- -
30 Jan	Thailand	Total Exports YOY%	DEC	-17.70%	- -
30 Jan	Thailand	Total Trade Balance	DEC	-\$896M	- -

Sources: Bloomberg and BBVA staff estimates.

**b) Economic Events**

Date	Country	Issue	Remarks
29 Jan	New Zealand	Reserve Bank of New Zealand Reviews Official Interest Rate	
29 Jan	Japan	BOJ Deputy Governor Nishimura to Speak in Utsunomiya City	

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	6.8	n.a.	n.a.	n.a.	n.a.	-3.4	n.a.	n.a.	n.a.	-3.7	n.a.	n.a.
CPI inflation (% yoy) 1/	Dec-08	1.2	2.0	1.2	6.5	1.0	4.1	11.1	4.4	8.0	4.3	0.4	5.0
Exports (in local currency) (% yoy) 2/	Dec-08	-2.8	-5.3	-40.1	12.0	-35.0	21.3	23.4	-4.9	1.0	-20.4	-9.3	47.0
Trade balance (US\$ bn) 3/	Dec-08	39.0	-1.1	1.8	-10.1	-3.5	0.5	2.5	3.2	-0.6	0.7	0.4	2.2
Industrial production (% yoy) 4/	Dec-08	5.7	-6.7	-32.3	2.4	-16.6	-14.1	7.0	-7.7	8.5	-13.5	-8.4	3.8
Retail sales (% yoy) 5/	Dec-08	17.6	-2.8	-10.9	n.a.	-1.8	5.6	-23.9	15.6	n.a.	-6.0	-2.5	-3.8
Money supply (M2) (% yoy) 6/	Dec-08	17.8	-12.1	7.0	10.2	1.8	13.3	18.3	14.4	7.6	11.8	7.3	13.9
Domestic credit (% yoy) 7/	Dec-08	18.8	2.4	4.2	23.4	3.7	22.7	38.0	10.7	7.9	15.3	7.2	8.2
Unemployment rate (%) 8/	Dec-08	4.2	4.1	5.0	n.a.	3.9	3.3	8.5	3.1	6.8	1.9	1.4	4.4

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

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

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

4) Oct-08 figure for Indonesia; Nov-figures for India, Japan, Korea, Malaysia, Philippines and Thailand; Oct-figure for Indonesia; Q3-08 figure for Hong Kong and Australia.

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

7) Nov-figures for Hong Kong, Taiwan, India, Korea, Indonesia, Malaysia, Philippines, Singapore, Thailand and Australia.

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

Sources: Datastream, CEIC, and BBVA staff estimates.