



# Weekly Observatory

February 9<sup>th</sup>, 2009

## *Economic and Financial Market Highlights (Jan 31 - Feb 6, 2009)*

**Data releases in the week reaffirmed the easing of inflation in Asia, including Taiwan, India, Korea, Philippines, Indonesia and Thailand, and suggested more rate cuts ahead. More specifically, Australia's 100 bps rate-cut was more than the market had expected. On the real sector size, a number of good news: Hong Kong's retail sales stabilized and PMI improved; China's leading indicator of macroeconomic climate and PMIs picked up; and Singapore's PMI also edged up. Finally, Asian stock markets continued to rebound this week, following the US stock market.**

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### Greater China

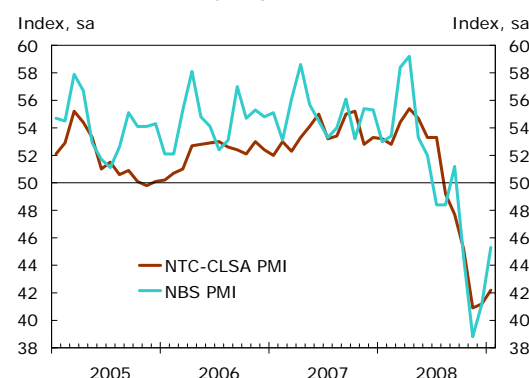
- China's macro-economic climate pre-warning index reached 78.7 in December, 7 points lower than that in last month, hitting a record low. The declining index is reflecting the slowdown in the economy. However, the leading index picked up slightly to 98.0 from 97.4, reflecting some signs of possible stabilization in next few months.

- China's manufacturing Purchasing Managers' Index (PMIs) continued to rise slightly. The PMI released by the National Statistical Bureau rebounded further to 45.3 points in January 2009 from 41.2 in December, and the record low of 38.8 for November, while another PMI released by Crédit Lyonnais Securities Asia (CLSA) has also edged up to 42.2 from 41.2 in December. However, the readings remained far below 50, indicating a contraction in the manufacturing sector. Meanwhile, Hong Kong's overall PMI reached 40.3 in January, compared with 39.6 in December, recording the seventh straight month of contraction.

- China has reported a fiscal deficit of RMB 111 billion during 2008. Fiscal revenue rose 19.5% yoy in 2008 while fiscal spending increased 25.4% yoy. Fiscal spending increased by 22.6% over the budgeted estimate, mainly due to an increase in extra-budgetary quake relief funds and stimulus package in December to boost economy. As a comparison, during Jan-Nov 08, China registered a fiscal surplus.

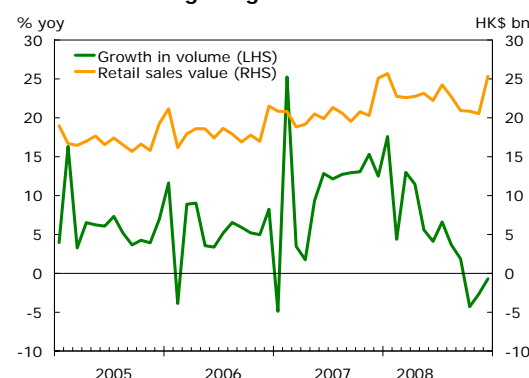
- Hong Kong's retail sales value rose slightly by 0.8% yoy in December, compared with 1.1% in November. After netting out the effect of price changes, the volume of retail sales decreased by 0.7% yoy from a decline of 2.8% in November. The stabilization of retail sales can be attributed to the improvement in inbound tourism and, the stabilization of domestic consumer spending.

China: PMI



Source: Bloomberg.

Hong Kong: Retail sales



Sources: CEIC and BBVA estimates.

- Taiwan's consumer price index rose 1.59% in January from a year earlier, accelerating from December's revised 1.27% rise, as the Lunar New Year festival drove up prices of food and other commodities. The wholesale price index, a gauge of production costs, fell 10.43% yoy in January, after a revised 9.50% drop in December.

## India

- India's WPI inflation continued to fall to 5.07% yoy for the week ending 24 January, from 5.64% for the previous week, mainly driven by the decline in prices of manufactured products.

## Japan/Korea/Australia

- The Bank of **Japan** decided to resume the purchasing of shares held by commercial banks. This is considered a prudential measure separated from monetary policy. More specifically, the BoJ will buy up to one trillion yen in listed stocks with a rating of BBB- or above at market price. The details of the scheme are almost the same as the share-buying program initially employed between September 2002 and September 2004. This scheme could have an announcement effect as it is intended to provide a means for reducing risk held by financial institutions.

- Korea's** inflation eased to 3.7% yoy in January from 4.1% in December.

- Korea's foreign reserves rose USD 520 million to USD 201.74 billion end-January from USD 201.22 billion end-December boosted by investment profits and repayment of funds by commercial banks.

- North Korea** is reportedly planning to test-fire a long-range missile, possibly within one to two months. The move could heighten tensions in the Korean peninsula after the North announced that it will cancel all its political and military agreements with the South last week. However, the market has remained calm to the threats from North Korea.

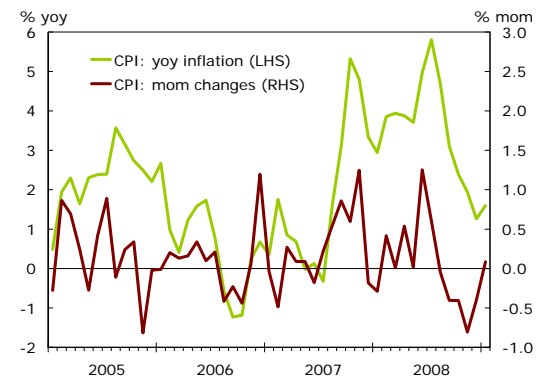
- The Reserve Bank of **Australia** cut benchmark rates by 100 bps to a 45-year low of 3.25% (Bloomberg: 50 bps cut), just after the Australian government announced an additional AUD 42 billion fiscal stimulus, comprising AUD 12.7 billion in handouts to families and AUD 28.8 billion on infrastructure, and putting the budget into its first deficit since 2001/02.

## ASEAN

- Singapore's** overall Purchasing Managers' Index (PMI) edged marginally higher to 45.0 in January from 44.8 in December while the electronics sub-index was also higher at 43.6 vs 41.8 in December. Despite the improvement in the readings, the manufacturing sector remains in contraction with the index below 50.

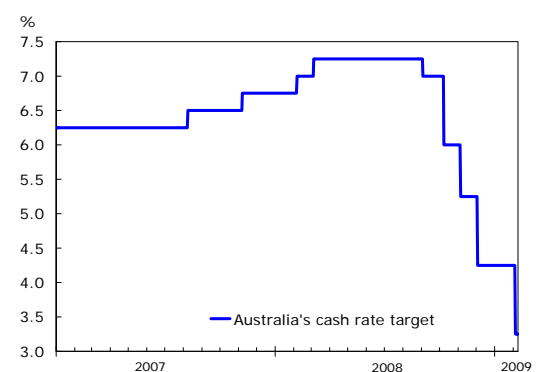
- Malaysian** Ringgit fell intraday as much as 0.6% to a low of 3.635/USD on Tuesday (Feb 3) morning in response to Fitch Ratings' outlook downgrade for Malaysia's local currency rating to negative from stable. The credit rating agency justified its revision on the country's high fiscal deficit and public debt. However, the Malaysian ringgit rebounded by Friday and registered appreciation over the

Taiwan: CPI



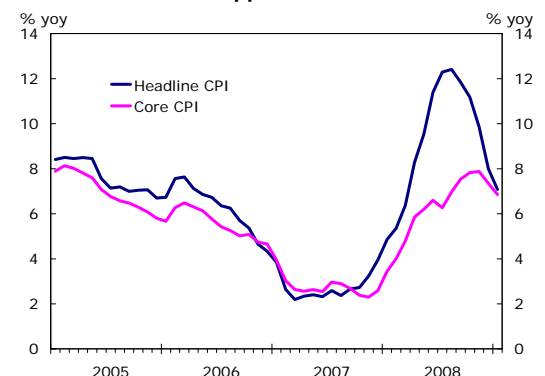
Source: CEIC.

Australia: Policy rate



Source: Datastream.

Philippines: CPI



Source: CEIC.

week.

- **Philippines'** inflation was up 0.3% mom/7.1% yoy in January (Bloomberg: 0.1% mom/6.7% yoy), slowing from -0.9% mom/8.0% in December. The central bank governor said easing inflation will give the central bank more room to cut interest rates.

- **Indonesia's** CPI inflation continued moderating by -0.07% mom/9.17% yoy in January from -0.04% mom/11.06% yoy in December, as a result of further 10% fuel price cut in the month. On the other hand, exports fell by a larger-than-expected 20.6% yoy in December, driven by drops in commodity exports. The trade surplus shrank slightly (USD 0.06 billion) from the previous month to USD 2.4 billion, as the drop in exports appears to be much sharper than the import slowdown.

- Indonesia's central bank cut its benchmark overnight rate by 50 bps to 8.25%. This brings cumulative cuts to 125 bps from its peak of 9.50% in November 2008 and we expect more easing ahead, as consumer price expectations remain on a downward trend. In the FX market, IDR was steady at 11,675/USD following the rate move as it was within expectation and it accumulates a depreciation of 7.11% since end-2008. As Indonesia forecast remittances from overseas workers to fall by up to 10% in 2009, this is expected to put further downward pressure on the IDR. In addition, the central bank is seeking to raise its USD 6 billion bilateral currency swap with Japan.

- **Thailand's** CPI fell 0.4% yoy in January (Bloomberg: -0.4% yoy), for the first yoy drop since Oct 1999 compared with inflation rate of +0.4% yoy in December. Also, Thailand is planning a USD 2 billion loan from international agencies to boost the economy and the central bank suggested that it is ready to cut rates further.

## Asian Financial Markets

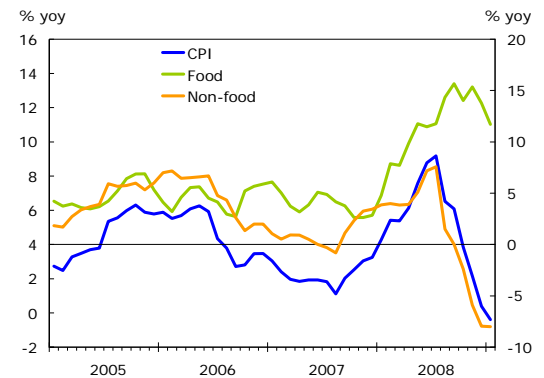
- The IMF has lowered its growth forecast for Asia to 2.7% this year from its November forecast of 4.9%. Emerging Asia will grow by 5.5% as a result of the resilience of China and India.

- The Asian stock markets continued to rebound this week, following the rise in the US market, despite the worsened economic figures. Specifically, Chinese market picked up near 10% after the Chinese New Year holiday.

- Most Asian currencies appreciated against USD in the week, except the over 1% depreciation in Japanese Yen.

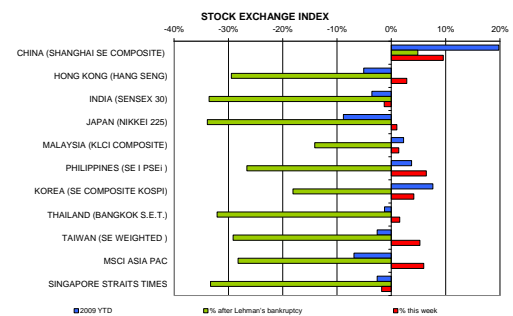
- US will extend bilateral currency swap agreements with 13 central banks, including central banks in Asia-Pacific region: Reserve Bank of Australia, Bank of Korea, Reserve Bank of New Zealand and Monetary Authority of Singapore, to October 30, 2009 from April 30, 2009 to help stabilize global financial markets and ease liquidity shortages.

Thailand: CPI



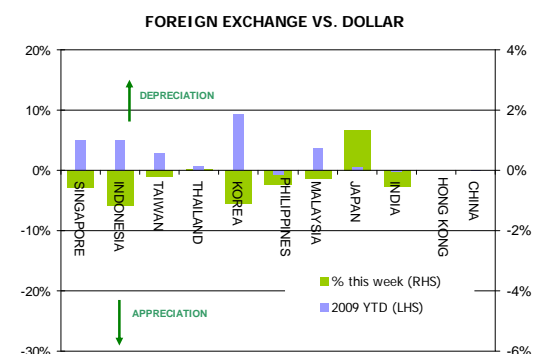
Source: CEIC.

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	2092	2181	9.6	115.0
Hong Kong	Hang Seng	13107	13655	2.8	26.5
Taiwan	Taiwan Weighted	4371	4471	5.3	8.9
India	Sensex	9162	9301	-1.3	11.1
Japan	Nikkei 225	7953	8077	1.0	58.1
Korea	Seoul Composite	1179	1210	4.1	18.5
Indonesia	Jakarta Composite	1323	1351	1.3	0.4
Malaysia	KLSE Composite	883	897	1.4	0.6
Philippines	Philippines Composite	1868	1942	6.4	0.1
Singapore	Straits Times	1709	1715	-1.8	2.8
Thailand	SET	434	444	1.5	1.1
Australia	All Ordinaries	3411	3408	-2.0	11.5

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	6.83	-0.01	6.88	6.85	6.99	6.92
Hong Kong	(HKD/USD)	7.75	7.75	0.00	7.75	7.75	7.74	7.74
Taiwan	(TWD/USD)	33.68	33.71	-0.19	33.73	33.67	33.45	33.39
India	(INR/USD)	48.72	48.71	-0.54	49.27	49.23	50.29	50.27
Japan	(JPY/USD)	90.14	91.13	1.35	89.91	90.93	89.11	90.13
Korea	(KRW/USD)	1383.26	1377.75	-1.09	1382.87	1372.25	1360.38	1355.25
Indonesia	(IDR/USD)	11714.00	11680.00	-1.18	12387.00	12380.00	13352.50	13315.00
Malaysia	(MYR/USD)	3.61	3.60	-0.27	3.64	3.62	3.66	3.64
Philippines	(PHP/USD)	47.25	47.15	-0.50	48.33	47.79	49.68	49.19
Singapore	(SGD/USD)	1.51	1.50	-0.57	1.51	1.50	1.50	1.50
Thailand	(THB/USD)	34.96	35.01	0.06	n.a.	n.a.	n.a.	n.a.
Australia	(USD/AUD)	0.65	0.66	3.15	0.64	0.65	0.64	0.65

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	0.96	-8	1.35	-110	3.85	0
Hong Kong	0.09	-24	0.83	-16	1.58	-11
Taiwan	0.61	-1	0.66	0	1.00	-1
India	5.74	-15	8.10	12	n.a.	n.a.
Japan	0.30	-1	0.73	0	0.81	0
Korea	2.70	0	2.92	-2	3.63	-3
Indonesia	8.64	-66	9.95	-65	11.17	-44
Malaysia	2.50	1	2.60	0	2.57	-1
Philippines	5.81	-125	5.19	-13	4.75	0
Singapore	0.31	6	0.70	5	0.94	1
Thailand	2.10	0	2.21	-1	2.26	-1
Australia	3.40	-35	3.30	-7	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	10	2.55	35
Hong Kong	0.07	-8	1.34	-5
Taiwan	0.98	35	0.97	0
India	4.78	3	5.86	-15
Japan	0.25	-3	0.78	4
Korea	1.95	-9	4.50	43
Indonesia	10.25	0	11.36	20
Malaysia	2.38	-6	2.85	6
Philippines	5.06	37	6.78	52
Singapore	0.36	2	1.35	-5
Thailand	1.54	-21	2.36	-10
Australia	2.84	30	3.88	52

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
9 Feb	Japan	Current Account Total	DEC	¥581.2B	¥320.0B
9 Feb	Japan	Machine Orders YOY%	DEC	-27.70%	-33.00%
9 Feb	Japan	Bank Lending incl Trusts(YoY)	JAN	3.70%	3.80%
9 Feb	Korea	Producer Price Index (YoY)	JAN	5.60%	- -
9-13 Feb	Indonesia	Wholesale Price Index (YoY)	DEC	20.40%	- -
9 Feb	Japan	Eco Watchers Survey: Current	JAN	15.9	13.3
9 Feb	India	Annual GDP Constant Prices	4Q	9.00%	6.80%
9 Feb	Japan	Machine Tool Orders (YoY)	JAN	-71.80%	- -
9 Feb	Taiwan	Total Exports (YoY)	JAN	-41.90%	-48.10%
9 Feb	Taiwan	Total Trade Bal in US\$ Billion	JAN	\$1.86B	\$1.28B
10 Feb	Philippines	Total Exports (YoY)	DEC	-11.40%	-23.00%
10 Feb	China	Producer Price Index (YoY)	JAN	-1.10%	-2.60%
10 Feb	China	Consumer Price Index (YoY)	JAN	1.20%	0.80%
10-13 Feb	China	Money Supply - M2 (YoY)	JAN	17.80%	18.40%
11 Feb	China	Trade Balance (USD)	JAN	\$38.98B	\$29.00B
11 Feb	China	Exports YoY%	JAN	-2.80%	-14.00%
11 Feb	Malaysia	Industrial Production YoY	DEC	-7.70%	-10.40%
11 Feb	Korea	Unemployment Rate (SA)	JAN	3.30%	3.50%
12 Feb	Japan	Domestic CGPI (YoY)	JAN	1.10%	0.30%
12 Feb	Australia	Unemployment Rate	JAN	4.50%	4.70%
12 Feb	Malaysia	Exports YoY%	DEC	-4.90%	-8.30%
12 Feb	Malaysia	Trade Balance	DEC	11.49B	9.80B
12 Feb	India	Wholesale Price Index YoY	31-Jan	5.07%	- -
12 Feb	India	Industrial Production YoY	DEC	2.40%	- -
13 Feb	Singapore	Retail Sales (YoY)	DEC	-3.40%	-5.30%

Sources: Bloomberg and BBVA staff estimates.

**b) Economic Events**

Date	Country	Issue	Remarks
10 Feb	Australia	Reserve Bank Governor Glenn Stevens Speaks in Kuala Lumpur	

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	5.0	-0.6	4.0	8.8
	4Q08	6.8	n.a.	n.a.	n.a.	n.a.	-3.4	n.a.	n.a.	4.5	-3.7	n.a.	n.a.
CPI inflation (% yoy) 1/	Dec-08	1.2	2.0	1.6	6.5	0.4	3.7	9.2	4.4	7.1	4.3	-0.4	5.0
Exports (in local currency) (% yoy) 2/	Dec-08	-2.8	-11.4	-40.1	22.0	-35.0	-4.0	-3.6	-4.9	1.0	-20.4	-9.3	34.7
Trade balance (US\$ bn) 3/	Dec-08	39.0	-1.5	1.8	-7.6	-3.5	-3.0	2.4	3.2	0.0	0.7	0.3	0.9
Industrial production (% yoy) 4/	Dec-08	5.7	-6.7	-32.3	2.4	-20.6	-18.6	1.9	-7.7	7.5	-13.5	-19.6	3.8
Retail sales (% yoy) 5/	Dec-08	17.6	-0.7	-10.9	n.a.	-3.1	5.4	-23.9	15.6	n.a.	-6.0	-10.0	0.6
Money supply (M2) (% yoy) 6/	Dec-08	17.8	-1.3	7.0	10.2	1.8	13.3	18.3	13.4	7.6	12.0	9.1	12.4
Domestic credit (% yoy) 7/	Dec-08	18.8	10.3	2.6	23.4	3.7	22.7	38.0	12.8	7.9	14.2	7.7	6.7
Unemployment rate (%) 8/	Dec-08	4.2	4.1	5.0	n.a.	4.4	3.3	8.5	3.1	6.8	2.5	1.4	4.4

Notes: 1) Wholesale prices for India; Jan-09 figures for Taiwan, Korea, Indonesia, Philippines and Thailand; Q4-08 figure for Australia.

2) Figure for China is in US dollar term; figure for Australia includes services; Jan-09 figure for Korea; Nov-08 figures for Malaysia and Philippines.

3) Figure for Australia includes services; Jan-09 figure for Korea; Nov-08 figures for Malaysia and Philippines.

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

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

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

8) Not available for India; Oct-08 figure for Philippines; Q4-08 figure for Singapore; Q3-08 figure for Malaysia; end-2008 figure for China; Feb-2008 figure (half-yearly basis) for Indonesia.

Sources: Datastream, CEIC, and BBVA staff estimates.