



# Weekly Observatory

September 28<sup>th</sup>, 2009

**Economic and Financial Market Highlights (21<sup>st</sup> – 25<sup>th</sup> September 2009)**

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Exports in the region continue to recover gradually albeit the recovery pace remains tepid. Moreover, leading indicators of export activity such as export orders and industrial production show that the improvement is losing momentum. China's industrial profits, however, contracted less than in the previous period suggesting that the impact of the global slowdown is wearing off. As for prices, CPI is rising sequentially faster than expected, albeit inflation is not likely to soar but should remain within the expected range this year. Elsewhere in the region, Korean consumers remain optimistic at a 7-year high unchanged from last month and Taiwan's central bank kept on hold its policy for the third straight quarter, as expected. Asian equity markets mostly retreated last week in anticipation to further capital raising, while Asian currencies continued appreciating on USD broad-based weakness compounded further by the appreciation of the Japanese yen below the 90/USD level.

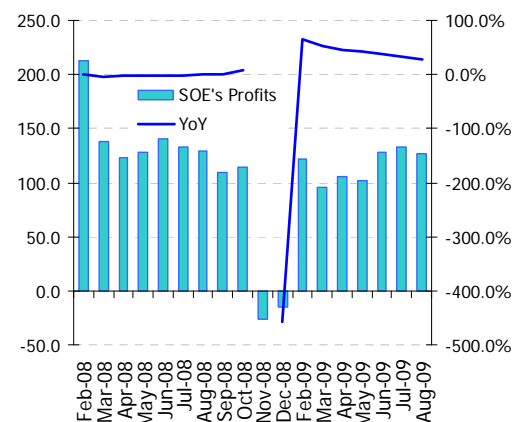
## Greater China

- **China's** industrial profits nationwide fell 10.6% yoy in the Jan-Aug survey period, an improvement from the minus 22.9% yoy pace registered in the previous survey period of Jan-May, suggesting the impact of the global economic recession is wearing off. Furthermore, state-owned enterprises' (SOEs) profits declined by 19.6% year-on-year (yoy) to CNY813.5bn in the first eight months of the year. In comparison, profits had declined by 22.8% yoy in the first seven months of the year and by 27% yoy in the first half of 2009. The decline in the rate of contraction of profits is being attributed to the overall improvement in China's economy. By type of SOEs, during the period January to August, central government controlled enterprises saw their profits declined by 13.8% yoy to CNY603.1bn while local government controlled SOEs posted a decline in total profits of by 32.6 % yoy to CNY 210.4bn.

- **Hong Kong** exports decreased by 13.9% over a year earlier in August after dropping 19.9% yoy in July 2009. Concurrently, the value of imports of goods decreased by 9.8% over a year earlier in August, after a decrease of 17.8% yoy in July. A visible trade deficit of HKD21.8 billion, equivalent to 9.3% of the value of imports of goods was recorded in the month. Comparing the three-month period ending August with the preceding three months on a seasonally adjusted basis, the value of total exports of goods rose by 2.6%, down from the 8.0% jump in the previous three-month period ending in July.

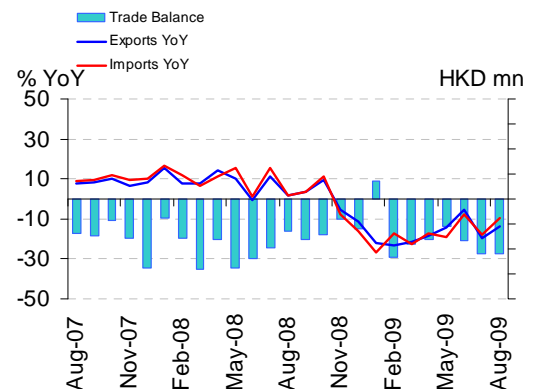
Hong Kong's consumer price index (CPI) in August fell 1.6% from a year earlier (Bloomberg: -0.9% yoy), steepening from July's 1.5% decline, as consumers remained cautious on spending amid mounting job losses and uncertainty in the economic outlook. The underlying CPI, excluding government temporary relief measures, declined 0.3% yoy in August, unchanged from the previous month.

China: SOEs profits



Source: CEIC

Hong Kong: External Trade



Source: CEIC

Hong Kong recorded a HKD143.1 billion surplus (36.4% of GDP) in its balance of payments account in this year's second quarter. The figure was much higher than the HKD68.9 billion surplus or 18.2% of GDP in the first quarter in 2009. The increase was largely driven by a net inflow of financial non-reserve assets of HKD72.2 billion as compared to HKD31.2 billion in the previous quarter, while capital transfers were smaller than in the first quarter. Current account surplus came in at HKD46.1 billion in the second quarter, larger than the HKD43 billion recorded in the first quarter this year. As for Hong Kong's gross external debt, it amounted to HKD4.9 trillion at the end of June (about 3 times GDP size), HKD72.3 billion decrease from the previous quarter, mainly due to falls in the external debt of the banking sector and other sectors as well as that of the general government.

- **Taiwan's** central bank kept its benchmark interest rate unchanged at a record-low 1.25%. The decision was in line with the market expectation. The monetary policy statement said that the central bank's current monetary policy is appropriate and the growth in money supply has been "reasonable" further adding that it will intervene to keep the island's currency stable and respond to "hot money inflows".

Meanwhile, Taiwan's industrial output dropped 9.6% yoy in August, after contracting 7.9% yoy in the preceding month. The decline is above economists' expectation for a 6% yoy drop. Mining output fell 22.3% yoy accelerating the decline as compared to July's 3.4% yoy slip while manufacturing was down 9.4% yoy from 8.0% yoy in July. Month-on-month, seasonally adjusted industrial output fell 0.4%, reversing six months of increases.

As for the external demand, Taiwan's export orders fell for an 11th month in August, as weaker demand from the U.S. and Europe offset improved sales to China. Export orders dropped 12.0% from a year earlier, after an 8.8% yoy decrease in July, and above the median estimate of a 7.3% yoy fall. Orders for electronics goods are to blame for the general declines in export orders, slumping 12.2 % yoy in August, compared with a drop of 8.0% in July. External demand for information technology and communications products also fell by 9.1%, after declining 3.6% yoy in July. On a monthly basis, non-seasonally adjusted export orders were down 1.1%, the first contraction in month-on-month orders in 6 months.

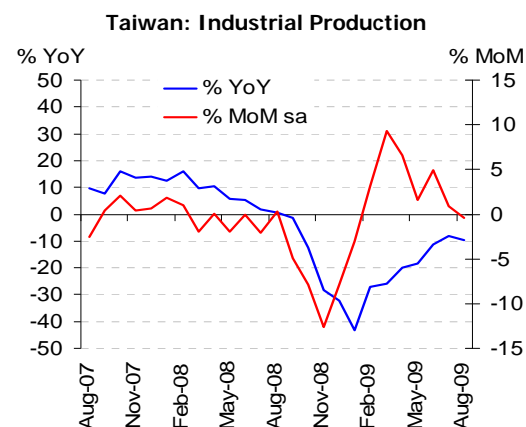
Finally, Taiwan's jobless rate rose to a record high in August as new graduates continued to enter the job market. The unemployment rate rose to 6.13% last month from 6.07% in July. On a seasonally adjusted basis, Taiwan's jobless rate was 6.07% in August, up from 6.01% in July. An estimated 21,000 new graduates joined the workforce in August, barely raising the labor force participation rate to 58.0%.

**India**

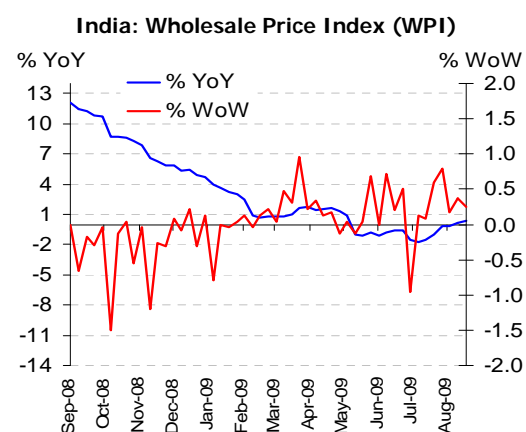
- **India's** wholesale price index (WPI) rose 0.37% in the 12 months to Sept. 12. It compared with a median forecast of a 0.29% yoy rise and a rise of 0.12% yoy a week earlier. The price of primary articles continued to accelerate, rising 9.29% yoy from 9.05% yoy in the previous week while energy contracted less by 8.47% yoy from 9.5% yoy in the previous week. The price of manufactured goods inched upwards 0.24% yoy reversing the previous week's 0.14% yoy slip. On a weekly basis, wholesale price inflation came in at 0.25%, below the previous week's 0.37% week-on-week increase.

**Japan/Korea/Australia**

- **Japan's** exports plunged for the 11th straight month, dropping 36.0% yoy (Bloomberg: -36.5% yoy) as demand for cars and steel halved from a



Source: CEIC



Source: Datastream.

year ago. However, this slump was better than the 36.5% decline expected by the market and that registered in July. Meanwhile, imports fell 41.3% yoy in August (Bloomberg: -40.8% yoy) from a year earlier, the tenth consecutive monthly decline, due to cheaper imported energy, such as oil, which fell by 61.3% yoy and liquefied natural gas, which saw a 51.7% yoy decrease in August. As a result, the country's trade surplus came in at JPY185.7 billion (USD2 billion). Month-on-month, seasonally adjusted exports slipped 0.7%, the second straight decrease, although according to authorities, this decline could be overstated because of the Obon holidays, a period when Japanese often take vacations and which isn't factored into the seasonal calculation.

Meanwhile, Japan's all industry activity index rose a seasonally adjusted 0.5% month-on-month (mom) in July, faster than a revised 0.2% mom in June and below the market's expectation of a 0.8% mom rise. The index was dragged down by construction activity which slipped 3.1% mom (-2.8% mom in June) but this decline was offset by month-on-month increases in industrial production, tertiary activity and government services. Year-on-year, the index dropped 8.2% in July, at the same pace as in June, extending the declines of the previous months.

- **Korea's** consumer confidence in September stayed unchanged over the previous month at 114, the highest level in seven years as extra government spending and cheap borrowing costs spurred the economy. An index figure of more than 100 indicates optimists exceed pessimists. An index measuring consumer sentiment toward the residential and commercial building prices rose for a ninth consecutive month to 112 in September while a consumer index toward interest rates rose for an eighth consecutive month to 132, the highest since July 2008, which reflects the expectation of monetary tightening over the coming months.

- **Australia's** central bank stated in its semi-annual Financial Stability Review that conditions in the global financial system have "improved significantly" although they still remained challenging. The Reserve Bank of Australia (RBA) noted that the Australian financial system had remained resilient throughout the crisis period owing to a combination of factors, such as the mild nature of the overall economic slowdown in Australia, the lack of large-scale exposure to structured securities, and conservative lending practices, particularly in the case of housing. In the case of the non-financial sector, the RBA said sentiment among Australian households and businesses were on the rise, attributing the rise to firmer conditions in the housing market. However, borrowing by businesses remained sluggish, reflecting a reduced demand for credit, and tighter lending standards.

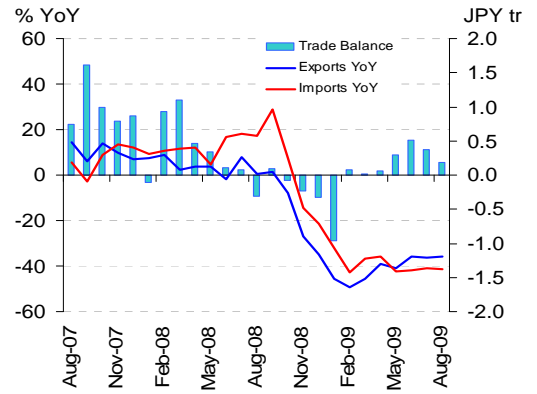
**ASEAN**

- **Singapore's** industrial production rose 12.3% yoy (Bloomberg: 5% yoy) following a 17.0% yoy jump in July. Electronics output slumped 6.4% yoy, accelerating from the previous month's 5.9% yoy slide. Month-on-month, industrial output in August contracted a seasonally adjusted 5.6% from July, a stark reversal from the previous month's 25.7% mom jump.

Singapore's consumer price index (CPI) dropped 0.3% year-on-year in August (Bloomberg: -0.4% yoy), slower than a 0.5% yoy fall in the preceding month. The CPI index was weakened by falling housing costs, a drop in electricity and gas tariffs, cheaper liquefied petroleum gas (LPG) and a slide in transport and communication costs as result of cheaper petrol prices. As compared to July's 0.3% month-on-month climb, August's seasonally adjusted CPI rose 0.4% over the month.

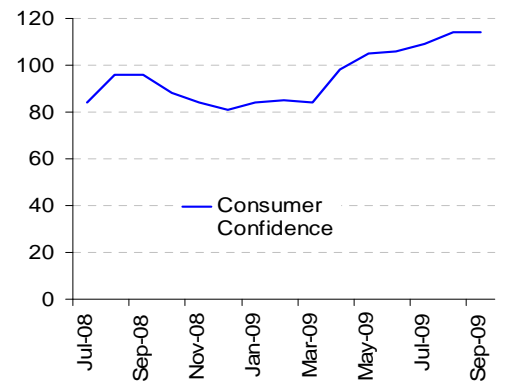
- **Philippines** imports in July fell 31.6% from a year earlier, with electronics imports registering their slowest fall since February 2008. But

Japan: External Trade



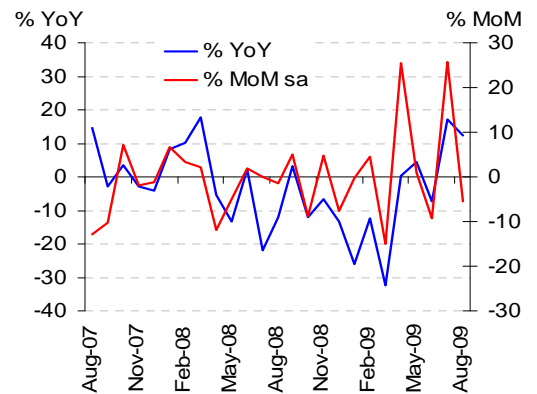
Source: CEIC.

Korea: Consumer Confidence



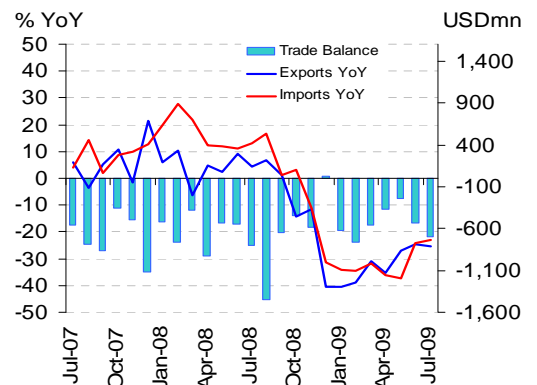
Source: CEIC

Singapore: Industrial Production



Source: CEIC

Philippine: External Trade



Source: CEIC

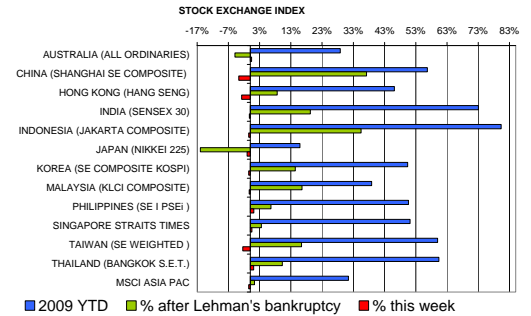
the decline in total imports in July was the sharpest in three months, indicating that economic activity remained generally sluggish. Compared to the previous month, imports were down 2%, following the 13.6% rise in July. Export data published a fortnight ago showed that Philippine exports dropped 25.4% from a year earlier in July after declining 24.8% yoy the previous month. As a result, Philippines registered a trade deficit of USD715 million in July, bringing the deficit in the first seven months of the year to USD3.86 billion.

### Asian Financial Markets

- Asian equity markets mostly retreated over last Friday closing. Japan's Nikkei fell 1% dragged down by Nomura's share price, which plunged 17% to 573 yen after the company said it will sell about 800 million shares, equivalent to almost 30% of its outstanding stock to fund overseas expansion. Indonesia and Malaysia fell 0.5% and 0.3%, respectively. In Greater China area, China slipped 3.68% for the week, while Hong Kong dropped 2.77% of its value and Taiwan lost 2.41%. The rest of indices in the region managed to post gains for the week. Philippines and Thailand were the best performers gaining 1.15% and 1.11% this week, respectively. Singapore index slightly advanced 0.56%, followed by Australia (0.45%) and India (0.29%).

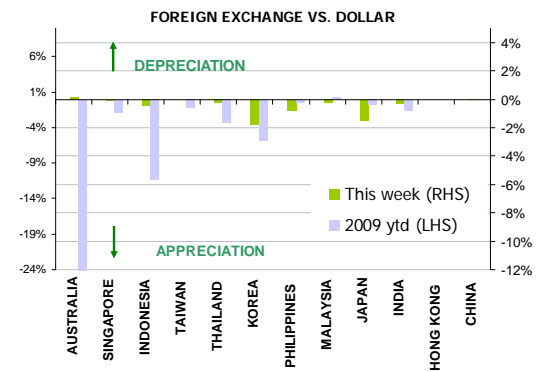
- Most Asian currencies continued appreciating on USD broad based weakness. Japanese Yen closed the week at 89.93/USD from 91.14/USD on Thursday and 1.5% stronger over the week, after comments of Japan's new finance minister Fujii against "intentionally" depreciating the currency. Korean won led gains in Asian currencies, appreciating 1.8% for the week to 1,186/USD. Elsewhere in the region, Philippines peso appreciated by 0.77%, marking its fourth weekly gain while Indonesian rupiah gained 0.46% and Indian rupee climbed 0.34%. Chinese yuan and Hong Kong dollar remained unchanged. On the contrary, Australian dollar weakened against the USD by 0.17% over the previous Friday closing rate.

### 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	2880	2839	-4.2	125.8
Hong Kong	Hang Seng	21369	21024	-2.8	38.8
Taiwan	Taiwan Weighted	7404	7345	-2.4	17.0
India	Sensex	16770	16693	-0.3	15.5
Japan	Nikkei 225	10405	10266	-1.0	23.4
Korea	Seoul Composite	1702	1691	-0.5	29.5
Indonesia	Jakarta Composite	2457	2445	#VALUE!	0.6
Malaysia	KLSE Composite	1218	1217	-0.3	0.9
Philippines	Philippines Composite	2821	2821	1.1	0.6
Singapore	Straits Times	2675	2663	0.6	5.5
Thailand	SET	724	722	1.1	4.1
Australia	All Ordinaries	4704	4715	0.4	24.4

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	6.83	0.00	6.81	6.81	6.73	6.73
Hong Kong	(HKD/USD)	7.75	7.75	-0.01	7.75	7.75	7.73	7.73
Taiwan	(TWD/USD)	32.39	32.43	-0.06	32.08	32.12	31.40	31.42
India	(INR/USD)	47.98	47.99	-0.30	48.21	48.26	49.02	49.15
Japan	(JPY/USD)	91.16	90.21	-1.18	91.11	90.17	90.68	89.76
Korea	(KRW/USD)	1196.87	1186.90	-1.55	1198.27	1187.93	1208.27	1198.03
Indonesia	(IDR/USD)	9682.00	9655.00	-0.46	9756.60	9752.50	10324.60	10312.50
Malaysia	(MYR/USD)	3.47	3.47	-0.06	3.48	3.48	3.49	3.49
Philippines	(PHP/USD)	47.41	47.31	-0.69	47.75	47.64	48.74	48.61
Singapore	(SGD/USD)	1.42	1.42	0.11	1.42	1.42	1.42	1.42
Thailand	(THB/USD)	33.61	33.61	-0.27	33.61	33.61	33.67	33.67
Australia	(USD/AUD)	0.87	0.87	-0.03	0.86	0.86	0.84	0.84

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>

	Week-end level	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	1.60	10	1.88	8	-	#VALUE!	
Hong Kong	0.10	-10	0.22	1	0.85	-2	
Taiwan	0.17	0	0.61	0	0.93	0	
India	3.43	-10	4.63	5	n.a.	n.a.	
Japan	0.21	0	0.54	0	0.69	0	
Korea	2.34	6	2.69	6	4.00	3	
Indonesia	6.48	-5	6.97	-1	7.58	-1	
Malaysia	2.04	1	2.14	0	2.17	0	
Philippines	4.50	25	4.38	13	4.88	31	
Singapore	0.31	6	0.68	0	0.91	0	
Thailand	1.26	0	1.36	0	1.67	0	
Australia	3.19	-2	3.27	-9	-	n.a.	

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/ b.p. change over a week	Week-end level	5-year b.p. change over a week
China	1.26	1	2.93	8
Hong Kong	0.07	-4	1.70	-3
Taiwan	0.44	27	0.84	-8
India	3.42	0	7.03	4
Japan	-	n.a.	0.59	-4
Korea	2.42	9	4.80	
Indonesia	6.06	-16	9.11	-9
Malaysia	1.95	-1	3.74	0
Philippines	4.24	10	6.39	7
Singapore	0.33	2	1.30	-1
Thailand	1.58	3	3.33	16
Australia	3.68	-1	5.03	-5

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-Sep	Korea	Business Survey- Manufacturing	OCT	93	--
27-Sep	Korea	Business Survey- Non-Manufacturing	OCT	82	--
29-Sep	Korea	Current Account in US\$ Million	AUG	\$4397.4M	--
29-Sep	Japan	Natl CPI YoY	AUG	-2.20%	-2.20%
29-Sep-09	Hong Kong	Retail Sales - Value (YoY)	AUG	-5.50%	--
30-Sep-09	Japan	Nomura/JMMA Manufacturing PMI	SEP	53.6	--
30-Sep	Japan	Industrial Production YOY%	AUG P	-22.70%	-18.80%
30-Sep	Australia	Retail Sales s.a. (MoM)	AUG	-1.00%	0.50%
30-Sep	Australia	Building Approvals (YoY)	AUG	-3.90%	1.50%
30-Sep	Japan	Labor Cash Earnings YoY	AUG	-4.80%	-4.00%
30-Sep	Singapore	Bank Loans & Advances (YoY)	AUG	2.30%	--
30-Sep	China	HSBC Manufacturing PMI	SEP	55.1	--
30-Sep	Malaysia	Unemployment Rate	2Q	4.00%	--
30-Sep	Korea	Industrial Production (YoY)	AUG	0.70%	--
30-Sep	Japan	Housing Starts (YoY)	AUG	-32.10%	-31.70%
30-Sep	Thailand	Total Exports YOY%	AUG	-25.70%	--
30-Sep	Thailand	Total Imports YOY%	AUG	-31.70%	--
30-Sep	Thailand	Total Trade Balance	AUG	\$799M	--
30-Sep	Thailand	Manufacturing Production (YoY)	AUG	-7.30%	--
30-Sep	Thailand	Total Capacity Utilization	AUG	61.6	--
30-Sep	Thailand	Current Account Balance (USD)	AUG	\$378M	--
30-Sep	Thailand	Business Sentiment Index	AUG	45.00%	--
30-Sep	India	Current Account Balance	2Q	\$4.75B	--
1-Oct	Japan	Tankan Lge Manufacturers Index	3Q	-48	-33
1-Oct	Japan	Tankan Non-Manufacturing	3Q	-29	-26
1-Oct	Japan	Tankan Non-Mfg Outlook	3Q	-21	-22
1-Oct	Japan	Tankan Lge Mfg Outlook	3Q	-30	-26
1-Oct	Japan	Tankan Large All Indust Capex	3Q	-9.40%	-9.00%
1-Oct	Japan	Retail Trade YoY	AUG	-2.50%	-2.40%
1-Oct	China	PMI Manufacturing	SEP	54	54.8
1-Oct	Korea	Ext Trade - Export (YoY)	SEP	-20.90%	--
1-Oct	Korea	Ext Trade - Imports (YoY)	SEP	-32.60%	--
1-Oct	Korea	Ext Trade - Balance in US\$ Mln	SEP	1704	--
1-Oct	Korea	Consumer Price Index (YoY)	SEP	2.20%	--
1-Oct	India	Wholesale Price Index YoY	19-Sep	0.37%	--
1-Oct	Indonesia	Inflation (YoY)	SEP	2.75%	--
1-Oct	Indonesia	Core Inflation (YoY)	SEP	4.84%	--
1-Oct	Indonesia	Exports (YoY)	AUG	-23.00%	--
1-Oct	Indonesia	Total Imports (YoY)	AUG	-32.50%	--
1-Oct	Indonesia	Total Trade Balance	AUG	\$961M	--
1-Oct	Thailand	Consumer Price Index (YoY)	SEP	-1.00%	-1.10%
1-Oct	Thailand	Core CPI YOY	SEP	-0.20%	--
1-Oct	India	Exports YoY%	AUG	--	--
1-Oct	India	Imports YoY%	AUG	--	--
2-Oct	Hong Kong	Purchasing Managers Index	SEP	52.8	--
2-Oct	Japan	Jobless Rate	AUG	5.70%	5.80%

Sources: Bloomberg and BBVA staff estimates.

**b) Economic Events**

Date	Country	Issue	Remarks
01-Oct	Philippines	Overnight Borrowing Rate	Central bank is expected to keep its policy on hold

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)	4q08	6.8	-2.6	-8.6	5.8	-4.3	-3.4	5.2	0.1	2.9	-4.2	-4.2	0.7
	1q09	6.1	-7.8	-10.1	5.8	-8.7	-4.2	4.4	-6.2	0.6	-9.5	-7.1	0.3
	2q09	7.9	-3.8	-7.5	6.1	-7.2	-2.2	4.0	-3.9	1.5	-3.5	-4.9	0.6
CPI inflation (% yoy) 1/	Jul-09	-1.2	-1.6	-0.8	-0.9	-2.2	2.2	2.8	-2.4	0.1	-0.3	-1.0	1.5
Exports (in local currency) (% yoy) 2/	Jul-09	-23.4	-13.9	-19.7	-19.0	-36.0	-5.9	-15.0	-22.8	-20.1	-18.6	-20.5	-13.9
Trade balance (US\$ bn) 3/	Jul-09	15.7	-2.8	1.9	-6.0	2.0	1.7	2.6	2.2	-0.7	2.8	0.7	0.0
Industrial production (% yoy) 4/	Jul-09	12.3	-9.5	-9.6	6.8	-22.7	0.7	-0.7	-8.4	-3.5	12.3	-9.0	-3.8
Retail sales (% yoy) 5/	Jul-09	17.7	-5.4	5.4	n.a.	-0.2	0.1	4.3	1.5	n.a.	-17.2	-7.5	3.6
Money supply (M2) (% yoy) 6/	Jul-09	28.5	14.0	8.0	14.5	2.8	9.5	16.3	5.8	1.0	11.9	8.4	9.5
Domestic credit (% yoy) 7/	Jul-09	34.1	-6.0	-1.6	26.7	1.8	10.1	11.2	8.4	4.0	8.3	3.8	3.0
Unemployment rate (%) 8/	Jul-09	4.2	5.4	6.1	n.a.	5.7	3.8	8.4	4.0	7.6	4.2	1.2	5.5

Notes: 1) Wholesale prices for India; Q209 figure for Australia; Aug-09 figure for China, Taiwan, India, Korea, Indonesia, Malaysia, Philippines and Thailand.

2) Figure for China is in US dollar term; figure for Australia includes services; Jun-09 figure for Thailand; Aug-09 figure for China, Taiwan, Korea and Singapore

3) Figure for Australia includes services; Jun-09 figure for Philippines; Aug-09 figure for China, Taiwan, Korea, Singapore and Australia

4) Q209 Figure for Australia; Aug-09 figure for Hong Kong

5) Not available for India and Philippines; 2Q09 for Malaysia; Jun-09 figure for Thailand. Aug-09 Figure for China

6) Figure for Australia is broad money in national definition; figure for Hong Kong is only counted HK dollar M2, Aug-09 figure for China and Japan

7)figure for Hong Kong is only counted HK dollar M2; Aug-09 figure for China and Japan

8) Not available for India; Q2-09 figure for Singapore, Q109 figure for Malaysia; end-2008 figures for China and Indonesia; Aug-09 figure for Hong Kong and Australia.

Source: CEIC & DataStream