

China: Raising our 2010 GDP growth forecast

We are raising our 2010 real GDP growth forecast from 8.5% to 10.0%, while maintaining our 8.0% forecast for this year.

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On track

Recent data suggest the global recession is nearing an end, but constraints on growth persist.

Since we launched our global forecasts in mid-March, conditions in the global economy have been evolving as we expected. Our core views on the growth outlook have been threefold: first, that strong policy responses, helped by self-remedial economic processes, would prevent the collapse in global demand and financial crisis from triggering a great depression; second, that the global recession would be ending by the second half of this year; and third, that global growth would be weak for at least a couple of years after that as US households in particular adjusted their spending patterns to lower levels of expected wealth and other post-crisis constraints dissipated only slowly. The first view is looking increasingly sound, the second is strongly supported by recent data, and the third perforce remains to be seen.

Two factors gave us confidence that, although the global economy seemed to be falling off a cliff, it was unlikely to be entering a great depression. The first was that the collapse in demand, while vicious, had a clearly identifiable cause – the shock to household and business confidence caused by the September financial crisis – suggesting it would run its course in a quarter or two.

In our view, what threw the global economy into recession in the fourth quarter of 2008 was that households and companies, particularly in the US, experienced the same shock to confidence, and reacted in the same way, by delaying durable goods consumption and capital investments. A lot of small adjustments in the same direction, made simultaneously, added up to a big shock to global demand, but essentially a one-off one.

Some representative statistics: vehicle sales in the US fell by 33.6% in the six months from August 2008, having fallen by just 6.1% in the same period a year earlier; durable goods orders (excluding defense-related) fell by 22.7% in the same period (down 0.8% a year earlier); and industrial production in Japan fell by 32.9% (having risen by 0.4% in the same period the year before). All of these, and many other plummeting series, have now stabilized or rebounded. Japanese industrial production, for instance, is now up 6.9% from its February low and is forecast (by reporting firms) to rise another 11.7% in May-June (see also our feature article, “Quick inventory adjustment fuels rebound”).

The second factor was the aggressive policy response, notably in the US but also in Europe, China, Japan and elsewhere, which aimed to ensure that the shock would not trigger a vicious cycle chain-reaction. It remains to be seen whether this week’s decision by the US Treasury to allow 10 financial institutions to repay \$68bn of government-provided capital is a case of the government and the banks collectively jumping the gun on declaring the financial all-clear. But coming just a month or so after the release of the “stress test” results and an associated flurry of capital-raising activity, it underscores the “fix-it-quick” nature of the US approach to the banking crisis – and the effectiveness of such an approach – in contrast to the “play-for-time” approach adopted by Japanese policymakers and banks in the 1990s, which in our view, and the view of most observers, was counterproductive.

Speaking of Japan, our economists note that although the shock to activity from this crisis has been marked, at least corporations there do not have the excess debt problem that they did after their own bubble burst, which provided the impulse for macro de-leveraging and monetary policy ineffectiveness. At the same time, Japanese policymakers have acted with uncharacteristic speed and scale in providing financial support for corporations and banks. Meanwhile, China is doing its bit to offset the global demand shock and facilitate global rebalancing by stoking domestic demand. The evidence that this is working continues to mount (see “China: Raising our 2010 growth forecast” in this issue).

But none of these developments is compelling enough to challenge the third leg of our view, that the aftermath of the crisis will cast a long shadow over global growth. At the epicenter of it all – the US – house prices continue to fall and problems are brewing in other parts of the real estate market. Our forecasts appear to be on track, but that track continues to look like a rocky and precarious one.

Quick inventory adjustment fuels rebound

Industrial production in Northeast Asia should continue to rebound until the middle of this year, after which the pace of production increases is expected to slow, except in China.

Inventory adjustment in Northeast Asia has been fast

Since 4Q08, Asia has suffered a significant decline in manufacturing sector output due to two main factors – a decline in aggregate demand and a severe inventory adjustment. While final demand has remained stagnant around the world, there are signs that Northeast Asia is going through the inventory adjustment phase at a much quicker pace than we had initially expected. In fact, industrial production in Northeast Asia has started to rebound on a seasonally adjusted basis after bottoming out in 1Q09 (Figure 1).

China leads, followed by Korea

The rebound in production is evident

In our view, China had completed most of its inventory adjustment by 1Q09. Industrial production in China, unlike in other economies in Northeast Asia, did not drop significantly and appears to have picked up in March on a seasonally adjusted basis. Elsewhere, industrial production in Korea, Taiwan and Japan appears to have bottomed out. Of these three economies, Korea's industrial production rebounded most strongly. If we define pre-crisis production levels as the average over the first nine months of 2008, Korea's IP rebounded to 91.6% of pre-crisis levels in April. Taiwan lags Korea but has also rebounded from its lows. Industrial production in Taiwan in April was 19% above the recent bottom in January-February.

Inventory has started to decline in Korea and Taiwan

Inventory-production cycle analysis shows that a quick inventory adjustment process has been taking place in Northeast Asia. In the case of China, we estimate that the speed of the inventory build-up slowed significantly in 1Q09 while production started to pick up in March. For the other economies, the phase of "unintended inventory accumulation", characterized by a combination of positive inventory growth and negative production growth (Quadrant 2 in Figure 2), passed much more quickly than in the previous downturns. This is especially the case for Korea where this phase lasted only four months.

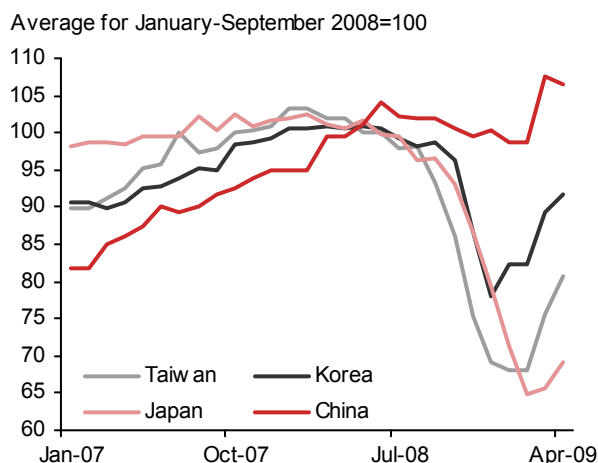
Exports are bolstering Korean production

In recent months, movements in industrial production have been heavily correlated with exports, which is unsurprising given the substantial openness of these economies. Figure 4 suggests that Korea's rebound in production is being supported by some recovery in real exports.

Quick adjustments come with pain

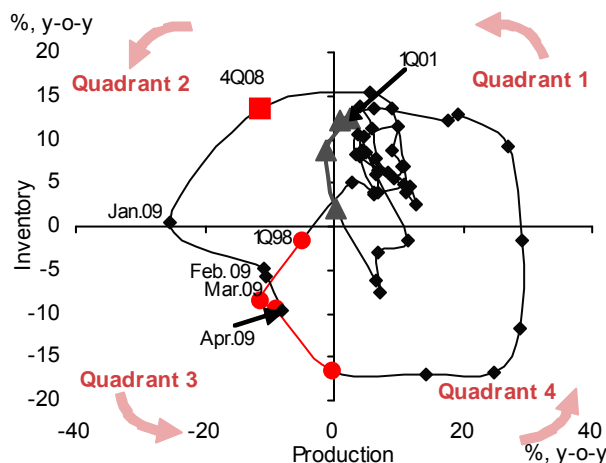
Quick inventory adjustments cannot come without pain. In China, the inventory adjustment subtracted 7.0 percentage points (pp) from the real year-on-year GDP growth rate in 1Q09, according to our estimate based on data provided in a National Bureau of Statistics article. In Korea, the change in inventories subtracted 4.9pp from 1Q09 GDP growth, while in Taiwan the inventory drag was a milder 2.0pp.

Figure 1. Industrial production (sa) in Northeast Asia



Note: We constructed an index of Chinese industrial output based on the official growth rates, and seasonally adjusted the data ourselves. Data for Jan and Feb are averaged to adjust for the Chinese New Year effect, except Japan.
Source: CEIC, Nomura Global Economics.

Figure 2. Korea's production-inventory cycle



Notes: Data are on a quarterly basis until end-2008, but monthly data are shown since Jan 09. The circle dots represent data for 1998 while the triangle dots indicate data for 2001. Square dot shows data for 4Q08.
Source: CEIC, Nomura Global Economics.

Strong final demand supported China's inventory adjustment

Official PMI data also suggest that companies have completed the inventory adjustment process for both intermediate and finished products. Driving the very quick inventory adjustment in China was the fact that domestic final demand, including private consumption and fixed asset investment, maintained a relatively high level of growth throughout 4Q08 and 1Q09.

China's steel industry is still undergoing inventory adjustment

Inventory levels were also kept at above-minimum levels largely because companies expected the government's stimulus measures to support domestic demand. An important exception, however, is China's steel sector where inventory destocking began again in March. After the Chinese government announced a fiscal stimulus policy in November, speculative demand for steel caused an inventory build-up from November 2008 through to about March this year. But this is now being unwound as the demand for steel did not increase as much as the producers initially expected.

Weak KRW supported exports and thus production

In Korea, Taiwan and Japan, we believe that the inventory adjustment process will end by the middle of this year. In our view, Korea's rather quick adjustment was brought about by a very weak currency, coupled with substantial, front-loaded fiscal stimulus. Particularly important was the currency weakness, which we think sharpened Korea's export competitiveness. The Korean won averaged 1,415 against the US dollar in 1Q09 – 28.2% lower than a year earlier and in contrast to a 10.5% y-o-y depreciation of the Taiwanese dollar and an 11.5% appreciation of the Japanese yen against the US dollar.

Milder expansion after a short-term rebound

Production should gather momentum in the short run...

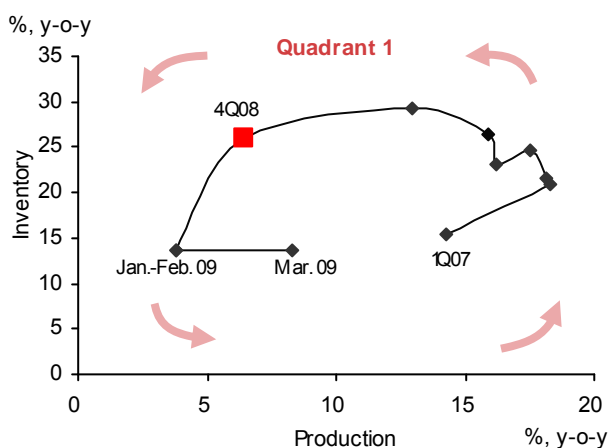
We believe that the rebound in industrial production will not continue in a straight line, with the possible exception of China. The early pick-up in China's industrial production from 1Q09 should provide some support for the economies in the rest of Asia, particularly the region's commodity- and capital-intensive sectors. Also, once the global inventory drawdown is complete (by the middle of this year, on our estimates), production in Northeast Asia could gain some support from demand in the US and the EU. The expected increase in fiscal stimulus spending in the region should also add further demand.

... then exhibit milder growth

However, after this initial short production rebound, we would expect the pace of further increases in industrial production to slow. Given Northeast Asia's high dependency on exports, we would expect the rate of industrial production in those economies to converge with the pace of the increase in global final demand, which we expect to be modest this year and next. China is again an exception to this as we expect its levels of industrial production to continue to accelerate on the basis of its massive fiscal stimulus.

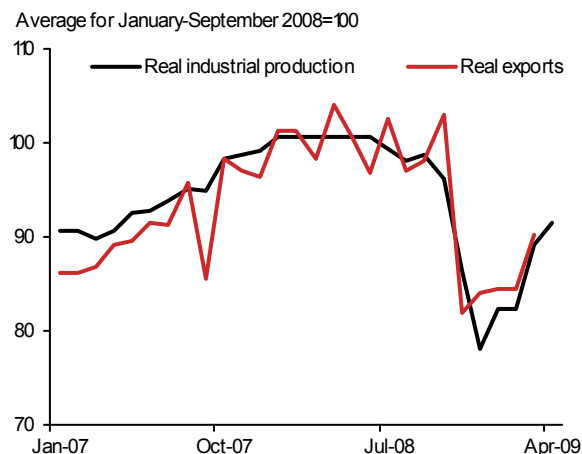
Finally, we expect Korea's export competitiveness gained by the weaker currency to be less significant by the end of 2009 when we forecast the Korean won to strengthen to 1,150 against the US dollar – a positive for the relative export competitiveness of Taiwan and Japan.

Figure 3. China's production-inventory cycle



Notes: Production data are in real terms while inventory data are on a nominal basis due to data availability. For 1Q09, inventory data is for Feb 09. Square dot shows data for 4Q08.
Source: CEIC, Nomura Global Economics.

Figure 4. Korean production and exports (real terms)



Source: CEIC, Nomura Global Economics.

Raising our 2010 GDP growth forecast

We are raising our 2010 real GDP growth forecast from 8.5% to 10.0%, while maintaining our 8.0% forecast for this year.

In January we laid out our arguments for a V-shaped economic recovery in China, forecasting 8.0% real GDP growth in 2009 and 8.5% in 2010 (see “China economics: V-shaped growth in 2009”, 8 January 2009). Since then, there have been both positive and negative surprises on the data front. After assessing these, we judge that the economy is well on track to achieve 8.0% growth this year and that growth in 2010 will likely exceed our current forecast of 8.5%. Therefore, we are raising our 2010 growth forecast to 10.0%.

Surprises so far

Consumption growth has been stronger than expected

On the positive side, both consumption and investment growth have surprised on the upside so far this year. Despite the economic slowdown, consumers continue to ramp up spending. For example, real retail sales grew at 17.1% y-o-y in May, well above the average of 11.0% for 1999-2007 (Figure 1); property sales and car sales have hit record highs in recent months; consumer spending on services, such as travel and telecommunication, also registered double-digit growth (see “Surprising consumers”, *Global Weekly Economic Monitor*, 22 May 2009).

Investment growth has also surprised on the upside

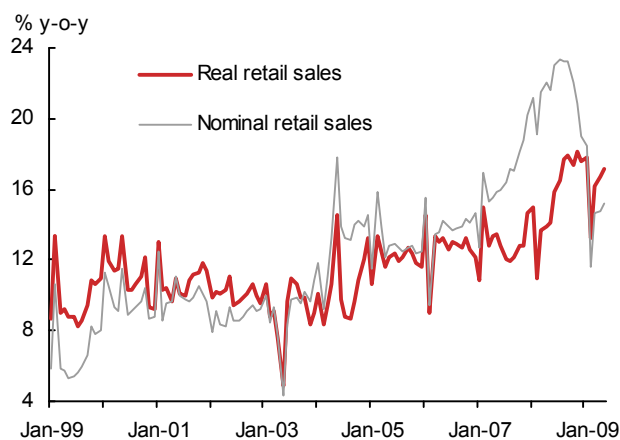
Investment growth has also been stronger than initially expected. In the first five months of this year, fixed-asset investment (FAI) growth reached 32.9% y-o-y, already higher than our original forecast of 28% for the full year. The planned investment amount of newly started FAI projects – essentially, investment in the pipeline – increased 96% y-o-y in Jan-May (Figure 2). Since FAI projects usually take a long time to complete (some taking many years), this indicator suggests that FAI growth is set to rise further later this year and in 2010. A particular surprise is in property investment, which has risen by 6.8% y-o-y in the first five months of the year, in contrast to our original forecast of a double-digit decline in 2009. With property transaction volumes surging and developers returning to the land market recently, we expect property investment growth to rise further and help to drive investment growth in 2H09 and 2010.

But inventory destocking proved larger than expected

On the negative side, the amount of inventory destocking also surprised. According to the Deputy Director-General of the National Bureau of Statistics, inventory adjustment alone subtracted about 7.0 percentage points (pp) from real GDP growth in 1Q09¹. This helped drag down real GDP growth in the quarter to 6.1% y-o-y, below our forecast 6.8%. In addition, we judge that some destocking continued in 2Q, which is a longer time frame than we had expected.

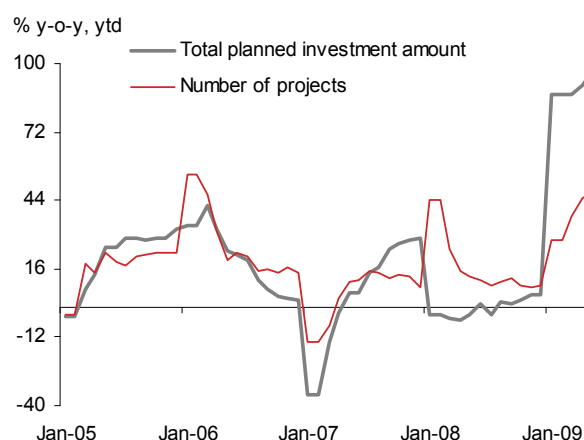
Exports surprised on the downside too, registering a 20% y-o-y decline in the first five months of

Figure 1. Retail sales



Source: CEIC and Nomura Global Economics.

Figure 2. Newly started fixed-asset investment projects



Source: CEIC and Nomura Global Economics.

¹ “How to understand GDP growth in Q1 2009 by expenditure method”, by Xianchun Xu, 14 May 2009, published on the NBS website (http://www.stats.gov.cn/tjfx/grgd/t20090514_402558633.htm). The negative contribution to GDP growth by destocking was estimated based on the growth rates of gross capital formation with and without destocking, provided by the author.

this year, but due to the high import content of Chinese exports, imports declined at a similar pace, resulting in a smaller negative surprise in terms of net exports.

2009: On track to achieve 8% growth

We maintain our 2009 GDP growth forecast of 8.0%

Because of stronger-than-expected data, we raised our 2009 FAI growth forecast from 28% to 32% in May (see “China economic outlook: Up and running”, *Global Weekly Economic Monitor*, 15 May 2009), and we are now raising our 2009 forecast of household consumption growth from 8% to 10%. However, we maintain our 2009 real GDP growth forecast at 8.0% as the negative surprises in 1H should more or less offset the positive ones this year. We expect GDP growth to reach 7.2% y-o-y in 2Q, 8.8% in 3Q and 10.0% in 4Q – averaging 8.0% for the year (Figure 3).

Leading indicators point to a strong recovery in 2H09

The V-shaped recovery – especially our 10.0% forecast for Q4 – may seem optimistic, given that industrial production (IP) growth – at 8.9% y-o-y in May – is well below its average of 13.9% over the past decade. However, judging from the OECD’s composite leading index (CLI) for China – a very good lead indicator for IP growth, with a lead of five to six months – IP growth could exceed 15% y-o-y in October (Figure 4; note that the IP curve is a six-month moving average).

Raising our 2010 forecasts

Consumption growth should rise further in 2010...

We expect strong consumption and investment growth to continue into 2010. The government’s massive fiscal stimulus policies jump-started the economy this year, but over time the economic recovery should broaden out, with consumer demand playing an important role, underpinned by rising employment and income growth. Therefore, we are raising our 2010 forecast of real household consumption growth from 10% to 12%. Since household consumption accounts for 35% of GDP, this item alone should contribute 4.2pp to real GDP growth in 2010.

...as should investment growth

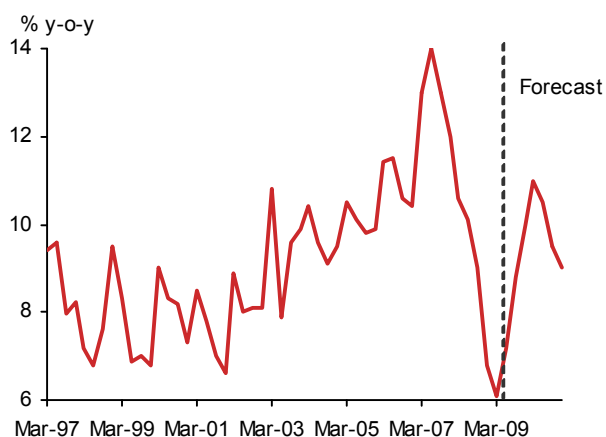
Encouraged by the surge in the planned investment amount of newly started FAI projects, we are also raising our 2010 nominal FAI growth forecast from 24.8% to 26.0% (Figure 2). This is lower than our FAI growth forecast of 32% in 2009, but the lack of massive destocking in 2010 implies that real growth of gross capital formation (GCF) in 2010 is unlikely to fall below 15%, which is higher than our forecast of 12% for GCF growth in 2009. GCF enters into the GDP statistics and includes both fixed-capital formation and inventory investment. As GCF accounts for 44% of GDP, a 15% increase would contribute 6.6pp to GDP growth in 2010.

We keep our 2010 forecast of government consumption growth unchanged at 15% and that of net export growth at -50%. Given that they account for 15% and 6% of 2009 GDP respectively, government consumption should contribute 2.2pp to GDP growth in 2010 while net exports should subtract 3.0pp. Adding all four items up, we see 10.0% real GDP growth in 2010.

We expect the peak of growth to be 1Q 2010

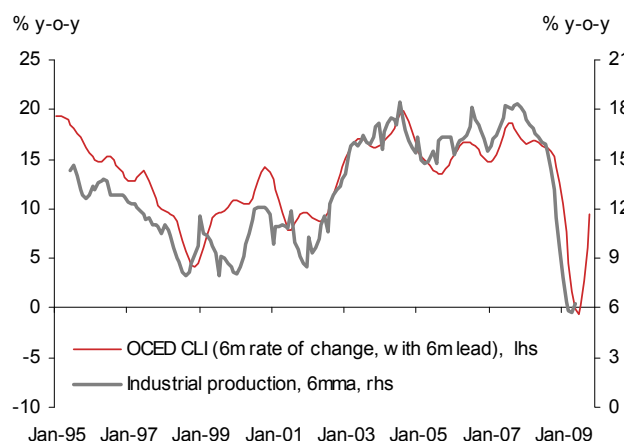
We expect real GDP growth of 11.0% y-o-y in 1Q 2010, 10.5% in 2Q, 9.5% in 3Q and 9.0% in 4Q (Figure 3). The 11.0% growth in 1Q will likely not only be the result of strong consumption and investment growth but also due to a low base: massive destocking kept economic activity at abnormally weak levels in 1Q09. While these forecasts have the top of the “V” in the V-shaped recovery being reached in 1Q 2010, our forecast profile of continued strong growth through the rest of 2010 means that we are definitely not in the W-shaped recovery camp.

Figure 3. Real GDP growth



Source: CEIC and Nomura Global Economics estimates.

Figure 4. Industrial output and the OECD CLI for China



Source: OECD, CEIC and Nomura Global Economics.

Slow steam ahead

A comparatively firm GDP growth line should continue to mask weak domestic demand.

Technical recession has so far been avoided

Compared to some of the downturns other OECD economies are experiencing, we believe Australia will suffer only a minor recession. However, headline GDP growth will tell only part of the story of Australia's economic downturn, in our view. We expect domestic demand to continue to fall at a materially faster pace than GDP through 2009, keeping employment and household income under greater downward pressure than our forecast GDP growth line would imply. As a result, household spending is likely to be very subdued in 2010 with very soft growth in domestic demand damping the initial stages of economic recovery, even as the recovery in China drives a strong contribution to growth from net exports.

Opposing forces

Domestic demand is the weak link...

The recent 1Q09 GDP release showed that Australia had avoided recession so far, with GDP increasing by 0.4% both on a quarter-on-quarter seasonally adjusted and a year-on-year basis. The day after the GDP release, Reserve Bank of Australia (RBA) Governor Glenn Stevens said "we can acknowledge that we are the strongest major advanced economy in the world". Using this international comparison, GDP growth was impressive in 1Q09, but compared with the order of growth necessary to stop businesses reducing investment spending and cutting employment – around 3.2% y-o-y – it clearly fell well short. More importantly, several opposing forces were at work in the 1Q GDP report which are likely to lead to a reduction in real GDP in 2Q and 3Q and can be expected to keep the economic recovery relatively subdued in its early stages.

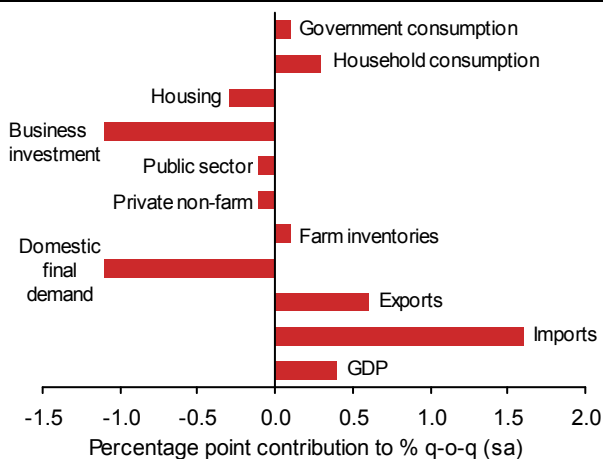
... particularly falling business investment spending

Within the expenditure-based GDP estimates, the major forces pushing and pulling on GDP growth in 1Q09 were the massive 2.2 percentage point (pp) contribution to GDP growth from net exports – the biggest contribution in 48 years – set against a large -1.1pp contribution from business investment spending (Figure 1). However, for the net export contribution, the devil is in the details: the positive contribution came mostly from a big fall in real imports, a delayed response as businesses ran down inventories on a massive scale, particularly in 4Q08, reinforced by weak consumption spending growth and reduced capital goods imports. We expect further falls in imports through the remainder of 2009, but at a much slower pace. Furthermore, real exports rose in 1Q09 by 2.7% q-o-q, sa, an unusually strong improvement that is unlikely to be matched again until China's recovery gathers pace and drives strong demand for export commodities.

Strong net exports will continue to support growth

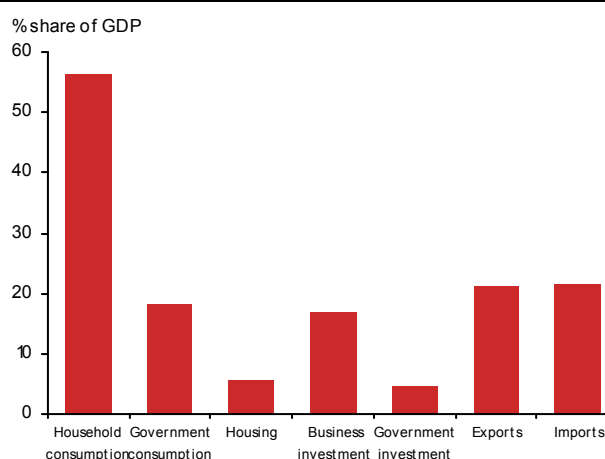
While the growth contribution from net exports will moderate over coming quarters, we still expect it to remain substantially positive. On the other side of the growth contribution ledger, the downward adjustment of business investment spending has just started. Business investment spending intentions have taken a much weaker turn, notably for the coming 2009-10 financial year. We see negative contributions of around a full percentage point of GDP persisting through to at least the end of 2009.

Figure 1. Percentage point contributions to 1Q09 GDP growth



Source: ABS, Nomura Global Economics.

Figure 2. Demand-component breakdown of GDP in 1Q09



Source: ABS, Nomura Global Economics.

The elephant in the room

Household spending dominates GDP...

We expect net exports and business investment to drive quarterly GDP changes through 2009 and 2010, even though they represent comparatively small proportions of real GDP (Figure 2). Household consumption represents by far the biggest proportion of expenditure-based GDP, amounting to 56.3% of the total in 1Q09, with spending on housing adding another 5.6%. Household sector spending is the elephant in the room, accounting for almost 62% of GDP and a prime target of the expansionary policy efforts of both the government and the RBA since September 2008. In 1Q09, total household spending contributed a net zero to GDP growth with a 0.3pp contribution from household consumption offset by the same negative contribution from housing. It could have been much worse: the RBA's 425bp of cash rate cuts bringing variable mortgage interest rates down by almost an equal amount, along with two major rounds of fiscal cash payments to households (including a generous lift in government grants to first homebuyers), by our estimates boosted the household sector spending contribution to GDP in 1Q09 by around 0.6pp.

... but is likely to weaken as income growth softens

Through the rest of 2009 the problem we see is that the household spending elephant is unlikely to make its presence felt. We expect softer household consumption spending growth for a period once the effectiveness of fiscal policy is compromised by the latest fiscal cash deficits (run up to fund fiscal spending; see "The potency of fiscal policy fades", *Global Weekly Economic Monitor*, 22 May 2009). In the May budget the government also indicated its intention to contain future deficits. In the absence of further support payments, growth in household sector income is likely to remain weak. In 1Q09, nominal household disposable income fell by 3.2% q-o-q, sa, mostly because of the pattern of the government's fiscal payments. More disturbingly, compensation of employees fell by 1.2% q-o-q, sa – a harbinger of the weakness that lies ahead as businesses continue to cut costs and unemployment rises. More generally, another downward pressure point on real national income growth is the start of the sharp turn down in the terms of trade (Figure 3). We also see falling real national income tempering growth in GDP (Figure 4).

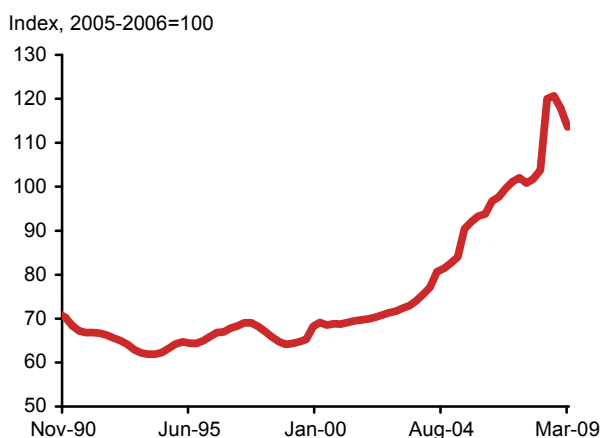
Lower national income will weigh on GDP until mid-2010

Two other sources of growth – government investment spending and housing – should provide small but erratic contributions. Government investment spending is notoriously slow to be implemented and is more likely to contribute to growth from mid-2010. Housing spending may rise from 3Q09 on the big lift from first-time homebuyer support, but the substantial reduction in the size of first homebuyer grants later this year could cause housing activity to slide again in 2010. All told, we see domestic final demand falling by 1.5% y-o-y in 2009 against a GDP decline of 0.2% y-o-y and rising by only 0.2% in 2010 against a forecast lift in GDP of 1.8%.

We see the RBA cutting by another 50bp

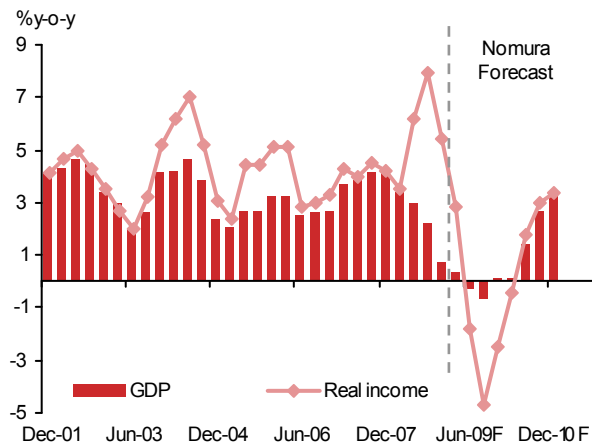
With national income and final domestic demand falling faster than GDP through 2009, this implies a lift in the unemployment rate to above 8% in 2009. As a result, while the recession appears very mild by international standards in terms of GDP growth, we doubt this will be enough allow the RBA to keep monetary policy on hold. We expect persistently weak domestic demand to drive the RBA to cut the cash rate a further 50bp to a terminal rate of 2.5% by the end of 2009.

Figure 3. Terms of trade index



Source: Budget papers, Nomura Global Economics estimates.

Figure 4. Real national income and GDP growth



Source: ABS and Nomura Global Economics estimates.

The week ahead

We expect reductions in Philippine OFW remittance, Singapore retail sales, Malaysia CPI inflation and Australian dwelling starts. Hong Kong's jobless rate is expected to move higher.

A light data calendar next week will likely confirm still-weak economic conditions in most Asian economies. In the Philippines, we expect remittances from overseas Filipino workers (OFW) to record zero growth in April after increasing by 2.7% y-o-y in 1Q09, as the global recession continues. Slower remittances are (with a time lag) likely to have a negative impact on private consumption.

In Singapore, year-on-year retail sales are expected to fall for a seventh consecutive month in April as the employment situation worsens. Non-oil domestic exports could rebound in May, however, as biomedical production has entered an upcycle.

Meanwhile, we expect Malaysia's CPI inflation to slow to 2.3% y-o-y for May, the lowest level since February 2008, on lower food and fuel prices.

We forecast housing commencements in Australia to fall for a third consecutive quarter in 1Q09, reflecting the sharp fall in home building approvals through 2008. The lift in home building approvals since January is unlikely to reflect in better housing commencements until 3Q09.

Finally, Hong Kong's unemployment rate is expected to edge up to its highest since December 2005, hitting 5.4% for the three months ended May. The recession continues to weigh on private sector staffing, despite government efforts to create jobs, mainly in the public sector.

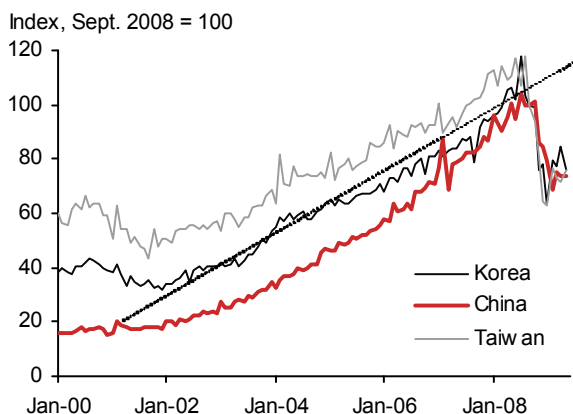
Sometime during the week			Units	Period	Prev 2	Prev 1	Last	Nomura	Consensus
S. Korea	Export price		% y-o-y	May	22.9	17.4	7.7	2.0	n.a.
S. Korea	Import price		% y-o-y	May	18.0	10.6	-1.8	-8.0	n.a.
S. Korea	Department store sales		% y-o-y	May	-0.3	4.5	2.8	4.0	n.a.
Monday 15 June									
10.50	Philippines	Remittance from abroad	% y-o-y	Apr	0.1	4.9	3.1	0.0	n.a.
13.00	Singapore	Retail sales (value)	% y-o-y	Apr	-11.5	-5.5	-7.3	-8.0	-8.1
Tuesday 16 June									
09.30	Australia	Reserve Bank's Board June minutes							
16.30	Hong Kong	Unemployment rate	% sa	May	5.0	5.2	5.3	5.4	5.5
Wednesday 17 June									
09.30	Australia	Dwelling starts	% q-o-q, sa	Q1	0.1	-8.9	-9.9	-5.0	n.a.
13.00	Singapore	Non-oil domestic exports	% y-o-y	May	-23.8	-17.3	-19.2	-10.0	-14.0
Thursday 18 June									
14.30	India	Wholesale price index	% y-o-y	6 Jun	0.6	0.5	0.1	-1.3	n.a.
Friday 19 June									
15.00	Thailand	Customs exports	% y-o-y	May	-11.3	-23.1	-26.1	-20.0	n.a.
15.00	Thailand	Customs trade balance	US\$bn	May	3.6	2.1	6.0	2.8	n.a.
17.00	Malaysia	Consumer price index	% y-o-y	May	3.7	3.5	3.0	2.3	2.2

Sources: Bloomberg, Reuters, Nomura Global Economics. Hong Kong times.

Taking the pulse of Asian exports

No longer in freefall, but not bouncing back either

Seasonally adjusted value of USD exports



Source: CEIC and Nomura Global Economics.

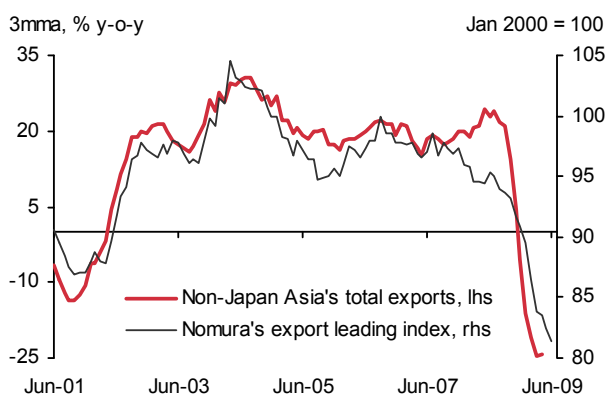
Author: Rob Subbaraman, originally published on Jun 11, 2009.

- So far, South Korea, Taiwan and today China, have published trade data for May. Compared with April, the year-on-year growth rates fell in China (-22.6% to -26.4%) and Korea (-19.6% to -28.3%), but rose in Taiwan (-34.3 to -31.4%).
- Base effects can distort year-on-year growth rates, so to get a more accurate reading of the pulse we seasonally adjusted the data and examined the levels (for comparison, we indexed each series to September 2008 at 100). In levels, it is clear that Asian exports are no longer in freefall, but neither are they bouncing back strongly. For China, Taiwan and Korea, exports are still 26-28% below their September 2008 levels and 36-38% below a fitted time trend.
- Given our outlook of only a sluggish recovery in the advanced economies, we expect the road to recovery for Asian exports to be a slow grind. Exports in 2008 comprised 37% of GDP in China, but much larger shares in Korea (53%) and Taiwan (74%). In China, massive fiscal stimulus seems to be more than offsetting the second-round effects on domestic demand from the export slump, but in Korea and Taiwan policymakers are up against larger export multiplier effects, as firms cut capex and jobs.

Asia: Our export leading index still points south

OECD leading index turns, but it is still a long road to recovery for Asian exports

Nomura's composite leading index of non-Japan Asia's aggregate exports



Note: The composite index comprises of the OECD leading economic index, China's imports, the Baltic Dry Freight index, the US total ISM index and the import sub-component index, US semiconductor global sales, US manufacturers' new orders of electronic products and the US semiconductor equipment book-to-bill ratio.

Source: CEIC and Nomura Global Economics.

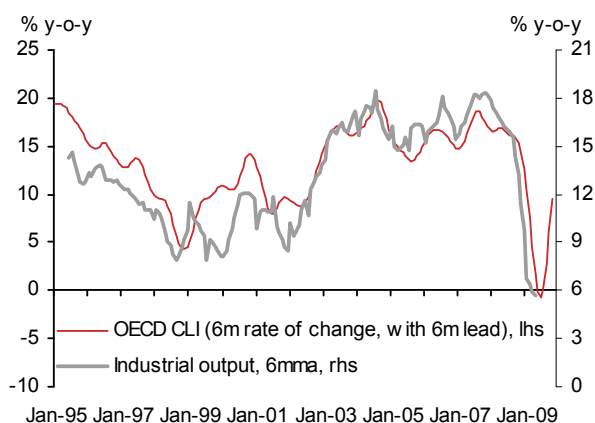
Author: Rob Subbaraman, originally published on Jun 9, 2009.

- Yesterday, the OECD published the latest reading of its leading economic index for the OECD economies. The growth rate of the index rose for a second month, to -8.8% y-o-y in April from -9.5% in March and from a trough of -9.7% in February. Still, the May reading is very weak, and remains close to a record low for the series, which began in 1962.
- We have found that the OECD leading index is a good leading indicator of non-Japan Asia's exports, with a lead time of five months. Indeed it is one of the eight components that make up our composite Asia export leading index. Our Asia export leading index, which gives an indication of Asian export growth in June, has yet to turn up.
- While the seasonally adjusted month-on-month growth rates of Asian exports are showing tentative signs of stabilizing, we do not expect year-on-year growth rates to turn up decisively until late in 3Q, and even then it will be from very depressed levels. Our bottom line: it is still a long road to recovery for Asian exports.

China: OECD leading index points to V-shaped recovery

The latest reading suggests that IP growth could reach 15% y-o-y in October

IP and the OECD leading indicator for China



- The OECD composite leading indicator (CLI) for China (in terms of its six-month rate of change) has proved a very good forecaster of China's industrial production (IP) growth (in terms of its six-month moving average). The CLI generally has a lead of five to six months.
- The indicator jumped from 6.0% y-o-y in March to 9.5% in April, pointing to a V-shaped recovery in IP growth.
- If the CLI forecast proves correct, we believe IP growth could reach 15.0% y-o-y in October (note that the IP curve in the chart is a six-month moving average).
- If IP growth does prove that substantial, then we estimate real GDP growth looks set to reach 10% y-o-y in Q4 2009.

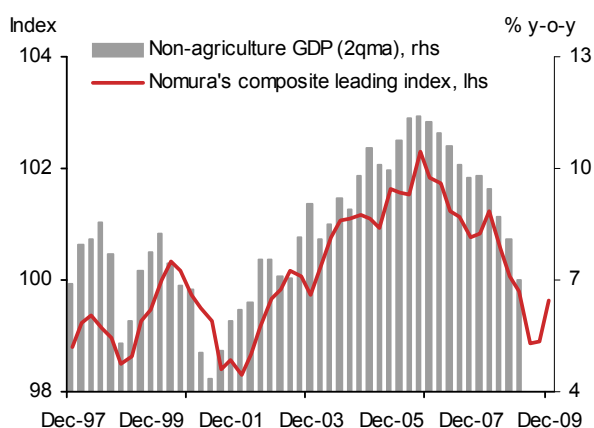
Source: OECD, CEIC and Nomura Global Economics.

Author: Mingchun Sun, originally published on Jun 9, 2009.

India: Nomura's leading index continues to rise

Preliminary estimates suggest a durable economic recovery from Q409 onwards

Nomura's composite leading index for India*



*The constituents of our CLI are: real M2 money supply, non-oil imports, equity returns, the repo rate, real bank credit, industrial output and visitor arrivals. December 2009 are preliminary estimates.

- Nomura's proprietary composite leading index (CLI) for India has a two-quarter lead over the non-agriculture GDP growth rate. When we last published our CLI for 1Q09 in early April, Nomura's CLI suggested that the economy was close to bottoming out, with some pick-up in activity from 3Q09 onwards. Activity data since then have more or less confirmed this assessment.
- All the data inputs to calculate our CLI for 2Q09 are not yet available, but we can estimate a preliminary CLI using available data for April and May as a proxy, except in the case of industrial output, where we assume that the same pace of contraction (as in 1Q09) continues into 2Q09.
- Our preliminary CLI rises sharply in 2Q09 and with a two-quarter lead suggests that the economy should see a stronger recovery from 4Q09 onwards. Interestingly, the OECD's CLI for India, which was released yesterday for April, rose by 0.4% m-o-m – the first increase in 16 months.
- We pencil in 6.3% y-o-y real GDP growth in FY10 (year starting April 2009) and 7.5% in FY11. We maintain our belief that the initial conditions for a domestic demand-led recovery are now in place.

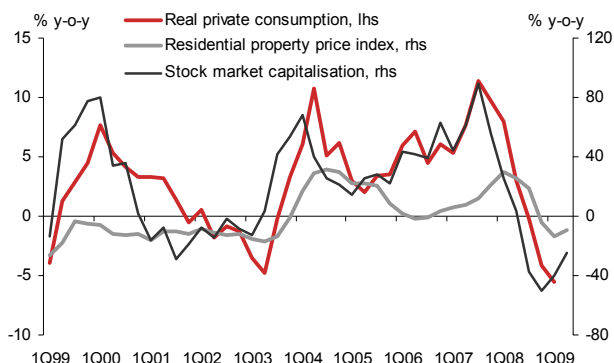
Source: Bloomberg and Nomura Global Economics estimates.

Author: Sonal Varma, originally published on Jun 9, 2009.

Hong Kong: Negative wealth effect is abating

Recent rise of equity and housing prices supports stabilising consumption

Stock market capitalisation and residential property price index vs real private consumption



Note: The latest data points for: stock market capitalisation is Apr-May 09 average; residential property price index is Apr 09 data; private consumption is 1Q09 data.
Source: CEIC and Nomura Global Economics.

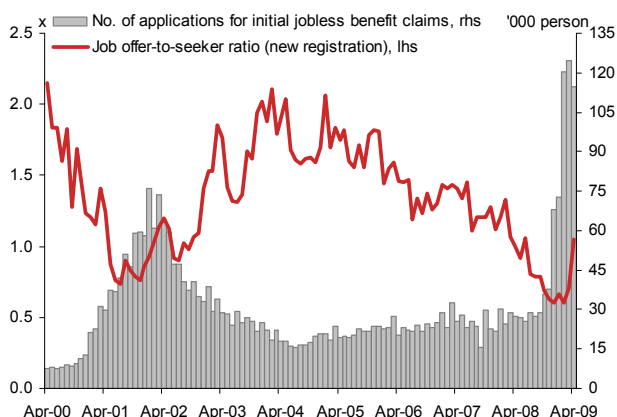
Author: Renee Chen, originally published on Jun 9, 2009.

- A simple regression shows the importance of a strong wealth effect on consumer spending in Hong Kong. Changes in residential property prices and stock market capitalisation (with a one-quarter lag) explain about 70% of the variation in the growth of private consumption. We estimate that for every 1% y-o-y increase in residential property prices and stock market capitalisation, about 0.2 percentage points is added to real consumption growth.
- Stock and housing prices remain well below their year-ago levels and the lagged negative wealth effects are likely to be felt for some time. Along with a weak labour market, this suggests that further retrenchment in private consumption is likely. However, recovering asset prices should help stabilise consumer sentiment and spending.
- We expect the contraction in private consumption to ease to -4.7% y-o-y in 2Q09 from -5.5% in 1Q09, the low since 4Q98.

Taiwan: Nascent signs of a stabilising labour market

We expect the unemployment rate to peak in 3Q09

Number of applicants for initial jobless claims and the job offer-to-seeker ratio



Source: Council of Labour Affairs and Nomura Global Economics estimates.

Author: Renee Chen, originally published on Jun 10, 2009.

- Three second-tier data releases, which are often not picked up by the media, suggest that the rate of deterioration in labour market conditions could be easing. First, the number of people applying for initial jobless benefit claims fell in April for the first time in eight months. Second, the number of employees on unpaid leave has fallen steadily from a peak of 238,975 in early March to 178,946 at end-April and 147,021 at end-May, according to the Council of Labour Affairs (CLA).
- Third, the job offer-to-seeker ratio (for new openings and applicants) rose in April and March after trending down since July 2008. Also, a CLA survey on companies employing more than 30 people shows plans to hire a net 19,600 workers in the May-July period.
- We expect the labour market to stabilise in 2H09, with the unemployment rate peaking at 6.1% in 3Q09. A stabilising labour market along with recovering equity and housing prices should be less of a drag on private consumption, which we expect to rise by 1.2% y-o-y in 3Q09 after four consecutive quarters of contractions.

Skirting recession

Strong net exports should keep the recession mild, despite weak domestic demand.

Activity: We expect a mild recession in 2009 turning to subdued positive growth in 2010. For the rest of 2009, we expect further big falls in business investment spending to be the main force subduing economic growth. Household spending is likely to be supported in the near term by the government's fiscal payments, but is likely to be soft in 2010 as its impact fades. Spending on housing should improve in 2H09, but is likely to fade again in 2010 as the impact of first-time homebuyer support wanes. Net exports should continue to benefit from falling imports and improving export volumes from late 2009 onwards, as Chinese growth lifts.

Inflation: We expect inflation to fall sharply through 2009, assisted by widespread and strong price discounting by retailers seeking to maintain share amid a shrinking pie of total household spending. Wage growth is expected to slow as the unemployment rate rises above 8%, on our forecasts, in 2010. We also expect high annual underlying inflation in 1Q09, as measured by the RBA's trimmed mean and weighted median measures, to fall sharply through the remainder of 2009, falling under 2.0% in 1H 2010, which is below the 2-3% RBA inflation target band.

Policy: Additional spending in the 2009-10 budget, plus the two earlier major stimulus packages amount to 5.2% of GDP, almost half of which has been direct short-term payments to encourage household spending. Since September 2008 the RBA has cut its cash rate 425bp to 3.00%, much of which has flowed through to lower borrowing interest rates. While we believe the RBA still has some room to ease policy by a further 50bp, the lack of traction in broader spending is likely to remain a problem. Heavily indebted households are still using government payments and lower interest rates to cut back their debt in order to rebuild their savings. We see this trend towards higher household savings becoming more pronounced running into 2010.

Risks: The risks to our growth forecasts are balanced, in our opinion. Rising unemployment may lead households to save even more than we predict, thus causing consumption to weaken. If the global economic downturn proves to be deeper and more persistent than we currently forecast, the downturn in exports and business investment spending would also be more pronounced. Our forecast that China's GDP growth will pick up strongly in 2H09 presents upside risk on export growth and could bring forward the resumption of positive growth in business investment.

Details of the forecast

% y-o-y growth unless otherwise stated	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	2008	2009	2010
Real GDP - % q-o-q saar	0.9	-2.2	1.5	-1.5	-0.8	1.2	1.2	4.0			
- % q-o-q, sa	0.2	-0.6	0.4	-0.4	-0.2	0.3	0.3	1.0			
- % y-o-y	2.2	0.8	0.4	-0.3	-0.7	0.1	0.1	1.4	2.3	-0.2	1.8
Household consumption	1.8	0.8	0.8	1.3	1.2	0.7	0.3	0.5	2.2	1.0	0.9
Government (total spending)	6.7	3.7	1.9	2.2	1.8	3.3	4.4	3.6	5.3	2.3	3.5
Investment (private)	9.1	7.5	-1.5	-10.1	-13.8	-16.2	-14.1	-6.9	8.7	-10.5	-4.9
Exports	3.3	2.9	3.5	2.4	5.3	6.8	5.6	6.1	3.9	3.1	7.8
Imports	13.0	1.4	-10.3	-14.3	-14.5	-6.5	1.5	4.1	10.3	-11.5	4.6
Contributions to GDP growth (% points):											
Domestic final sales	4.4	2.6	0.5	-1.0	-2.6	-3.0	-2.3	-0.4	4.5	-1.6	0.2
Inventories	0.1	-2.1	-3.3	-3.4	-2.6	0.2	1.5	1.4	-0.7	-2.1	0.9
Net trade	-2.3	-0.2	3.2	4.1	4.5	2.9	0.9	0.4	-1.5	3.5	0.7
Unemployment rate	4.3	4.5	5.2	5.6	6.6	7.4	7.8	8.0	4.2	6.3	8.0
Employment, 000	4.6	5.5	-10.8	-10.0	-12.0	-10.0	-5.0	0.0	11.4	-10.5	2.0
Consumer prices	5.0	3.7	2.5	1.3	0.2	0.6	1.1	1.4	4.3	1.2	1.7
Trimmed mean	4.6	4.2	3.9	3.2	2.4	2.2	1.7	1.6	4.3	2.9	1.9
Weighted median	4.8	4.5	4.4	3.9	3.0	2.5	1.6	1.5	4.6	3.5	2.0
Federal deficit (% of GDP)									1.7	-2.7	-5.0
Current account deficit (% GDP)									-4.3	-1.9	-1.7
Cash rate	7.00	4.25	3.25	3.00	2.50	2.50	2.75	3.50	4.25	2.50	4.00
90-day bank bill	7.32	4.15	3.14	3.10	2.60	2.60	2.90	3.70	4.15	2.60	4.20
3-year bond	5.09	3.21	3.38	3.80	3.90	4.10	4.40	5.30	3.21	4.10	5.50
10-year bond	5.39	3.99	4.61	5.20	5.40	5.50	5.80	6.30	3.99	5.50	6.50
AUD/USD	0.79	0.69	0.69	0.73	0.75	0.75	0.80	0.82	0.69	0.75	0.75

Notes: Numbers in bold are actual values; others forecast. Interest rate and currency forecasts are end of period; other measures are period average. All forecasts are modal forecasts (i.e., the single most likely outcome). Table last revised 12 June 2009.

Source: Australian Bureau of Statistics, Reserve Bank and Nomura Global Economics.

Starting to climb

The economy, helped by aggressive policy stimulus, seems to be recovering strongly. We are raising our 2010 real GDP growth forecast to 10% while reaffirming our 2009 forecast of 8%.

Forecast change: We are raising our 2010 real GDP growth forecast from 8.5% to 10% while keeping our 2009 forecast unchanged at 8.0%. We are lowering our CPI inflation forecast for 2009 from 0.2% to -0.2% and for 2010 from 3.2% to 3.0%. We are raising our 2010 nominal retail sales growth forecast from 15.0% to 18.0% and our 2010 nominal fixed-asset investment growth forecast from 24.8% to 26.0%.

Activity: Since mid-February, China's economy has been showing signs that it is on the mend. Economic activity is showing evidence of accelerating in many areas, including consumption, investment and production. In May, real growth of retail sales rose to 17.1% y-o-y, well above the average of 11.5% for 1994-2008, while industrial production growth rose to 8.9% from 7.3% in April. Urban fixed asset investment (FAI) growth rose to 32.9% y-o-y (ytd) in May, the highest in five years. In particular, the planned investment amount of newly started FAI projects rose by 96% y-o-y in the first five months, implying much investment in the pipeline. The data strongly suggest that China's economy is on a solid recovery track, hence the changes to our forecasts.

Inflation: Headline CPI remained in deflationary territory in May, a situation that we expect to last until Q4 because of falling consumer prices and a very high base in food prices in H1 2008 (caused in part by severe weather). As the base effect fades and the impact of the stimulus package gradually drives up producer prices, we expect inflation to return and reach 1.7% y-o-y in Q4. However, because of lower-than-expected CPI readings in the first five months of this year, we are lowering our 2009 CPI inflation forecast from 0.2% to -0.2%.

Policy: We see no need for a further interest rate cut by the People's Bank of China (PBC). The main reasons are that liquidity conditions are already very loose, lending growth is already very strong (30.6% y-o-y in May), and economic activity indicators are showing positive momentum. As inflationary pressure re-emerges in 2010, we expect the PBC to hike rates by 81bp next year.

Risks: We expect mild CPI inflation in Q4 2009 through 2010, but the risk of asset price inflation is increasing as an abundant supply of liquidity will likely affect inflation expectations. In fact, we judge that China will attract more capital inflows later this year because its economic fundamentals are much better than those of most other economies. This will likely add more liquidity to the economy. If asset price inflation does return in the near term, it will likely create a dilemma for policymakers because they may be reluctant to adopt aggressive tightening policies in a timely fashion for fear of killing off the economic recovery.

Details of the forecast

% y-o-y growth unless otherwise stated	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	2008	2009	2010
Real GDP	9.0	6.8	6.1	7.2	8.8	10.0	11.0	10.5	9.0	8.0	10.0
Consumer prices	5.2	2.5	-0.6	-1.3	-0.7	1.7	2.4	3.0	5.9	-0.2	3.0
Core CPI	1.1	0.2	-0.5	-0.2	-0.2	0.2	0.6	0.8	0.9	-0.2	0.8
Retail sales (nominal)	23.2	20.6	15.0	14.7	13.3	14.0	17.3	14.7	21.7	14.2	18.0
Fixed-asset investment (nominal, ytd)	27.0	25.5	28.8	30.0	31.0	32.0	34.0	30.0	25.5	32.0	26.0
Industrial production (real)	13.0	6.4	5.1	8.7	13.7	16.0	18.0	14.0	12.9	10.9	14.0
Exports (value)	23.1	4.4	-19.7	-23.0	-12.3	-6.1	5.5	8.5	17.3	-15.0	8.8
Imports (value)	25.9	-8.8	-30.9	-21.1	3.2	11.5	10.2	18.3	18.6	-9.5	16.7
Trade surplus (US\$bn)	83.3	114.3	62.5	37.9	22.5	65.1	57.3	17.7	295	188	123
Current account (% of GDP)									9.8	7.2	5.0
Fiscal balance (% of GDP)									-0.4	-3.9	-5.1
1-yr bank lending rate (%)	7.20	5.31	5.31	5.31	5.31	5.31	5.58	5.85	5.31	5.31	6.12
1-yr bank deposit rate (%)	4.14	2.25	2.25	2.25	2.25	2.25	2.52	2.79	2.25	2.25	3.06
Reserve requirement ratio (%)	17.50	15.50	15.50	14.50	13.50	13.00	13.00	13.00	15.50	13.00	13.00
Exchange rate (CNY/USD)	6.85	6.83	6.83	6.83	6.80	6.70	6.60	6.55	6.83	6.70	6.40

Notes: Numbers in bold are actual values; others forecast. Interest rate and currency forecasts are end of period; other measures are period average. All forecasts are modal forecasts (i.e., the single most likely outcome). Table last revised 12 June 2009.

Source: Nomura Global Economics.

A glimmer of hope

Economic activity has started to show signs of stabilising, but at a very low level. Fiscal stimulus and closer economic ties with China should help to ease, but not reverse, the economic decline.

Activity: Exports continue to contract as global demand remains sluggish, but the decline eased to -18.2% y-o-y in April from -21.9% in 1Q09. A smaller decline in retail sales, of -5.5% y-o-y by volume in April compared to -9.3% in March could be a tentative sign of consumer spending stabilizing, but on a seasonally adjusted basis, retail sales contracted by 5.8% for the three months ended April. We think the recent rally in the equity and housing markets and the government's economic relief measures should provide some support, but rising unemployment and falling wages will likely continue to weigh on domestic consumption. Robust Chinese consumption and investment will benefit Hong Kong businesses with large exposure to China's domestic market and could also have a positive impact on financial markets. However, Hong Kong's economy is more exposed to external trade business in China (mainly re-exports), which is likely to stay lukewarm on sluggish global final demand in 2H09 and through most of 2010. A major downside risk would be the development of a flu pandemic, to which Hong Kong would be very exposed given the nature of its open, services-based economy and its population density.

Inflation: Headline CPI inflation eased to 0.6% y-o-y in April, while the underlying rate, which nets out the effects of the government's relief measures, also fell sharply to 1.9% from 6.3% in August 2008. We forecast CPI deflation from May on falling wages, faltering consumer demand, low energy and commodity prices, and a likely downward adjustment in rents and policy effects.

Policy: The government announced another economic package of HK\$16.8bn, or 1% of GDP, that includes one-off relief measures such as income tax rebates, waiver on rates and fees, and allowances. The total fiscal stimulus unveiled since March 2008 amounts to HK\$87.6bn, or 5.2% of GDP, but we reckon that most has already been spent, leaving only 1.9% of GDP to be spent in FY09 (year ended March 2010). The government has also rolled out a fund of HK\$12.5bn to provide loan guarantees for SMEs. While we expect the budget deficit to widen significantly in FY09, we judge that the overall fiscal position is still in good shape, thanks to large fiscal reserves and little public debt. Net capital inflows under the currency board system designed to maintain the HKD peg have caused money base growth to surge by 89.7% y-o-y in April. But the impact on broader money supply has been limited by cautious bank lending: bank loans for local use fell by 0.4% y-o-y in April. HKMA Chief Executive Joseph Yam will retire on 1 October, but we expect no change to the HKD peg in the near term.

Risks: Main downside risks include a serious flu pandemic and large capital outflows tightening local liquidity. More concrete support measures from China, particularly to promote financial corporation and capital market development in Hong Kong, could provide an upside surprise.

Details of the forecast

% y-o-y growth unless otherwise stated	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	2008	2009	2010
[sa, % q-o-q; annualized]	-3.2	-7.4	-16.1	-1.1	4.9	14.5	0.1	-2.5			
Real GDP	1.5	-2.6	-7.8	-7.0	-5.4	0.0	4.2	4.1	2.4	-5.0	3.4
Private consumption	-0.2	-4.1	-5.5	-4.7	-3.0	0.6	4.1	4.0	1.5	-3.2	3.6
Government consumption	1.6	1.8	1.5	0.8	2.8	2.4	1.3	1.4	1.7	1.9	1.3
Gross fixed capital formation	2.9	-17.8	-12.6	-11.1	-8.8	1.0	7.5	7.2	-0.5	-8.2	7.0
Exports (goods & services)	2.0	-3.8	-19.6	-14.1	-8.0	0.8	5.1	5.6	2.7	-10.0	5.4
Imports (goods & services)	2.0	-6.1	-20.2	-14.2	-7.9	1.3	6.0	6.1	2.0	-10.1	6.0
Contributions to GDP:											
Domestic final sales	0.6	-5.9	-5.8	-5.3	-3.2	0.7	4.1	4.2	0.9	-3.3	3.6
Inventories	0.6	-0.8	-0.9	-1.0	-0.8	0.0	1.0	0.4	-0.2	-0.7	0.2
Net trade (goods & services)	0.2	4.0	-1.2	-0.7	-1.4	-0.8	-0.8	-0.5	1.6	-1.0	-0.4
Unemployment rate (sa, %)	3.4	4.1	5.2	6.2	6.7	6.9	6.8	6.5	3.4	6.2	6.1
Consumer prices	5.1	5.7	1.7	-0.8	-3.7	-2.7	-2.0	0.8	4.3	-1.4	1.6
Exports	5.6	-1.8	-21.5	-15.5	-9.9	-0.3	6.6	8.5	5.3	-11.5	8.0
Imports	6.9	-4.0	-22.4	-16.1	-10.2	0.4	7.6	8.7	5.6	-11.8	8.1
Trade balance (US\$bn)	-6.2	-4.4	-4.4	-6.7	-5.3	-5.1	-5.3	-7.5	-25.9	-21.6	-23.8
Current account (US\$bn)									30.6	31.0	30.8
Current account (% GDP)									14.2	15.6	14.3
Fiscal balance (% of GDP)									0.1	-4.2	-3.0
3-month Hibor (%)	3.66	1.50	0.90	0.45	0.60	0.50	0.50	0.50	1.50	0.50	0.60
Exchange rate (HKD/USD)	7.76	7.75	7.75	7.80	7.80	7.80	7.80	7.80	7.75	7.80	7.80

Notes: Interest rates and currency are end-of-period; other measures are period averages. Headline CPI reflects government relief measures. Fiscal year runs Apr-Mar. Numbers in bold are actual values, others forecast. Table last revised on 12 June 2009. Source: CEIC and Nomura Global Economics

A domestic demand-led recovery

As growth starts to recover, liquidity management is likely to be the next challenge for the RBI.

Forecast change: After the upward revision to our oil price forecast to US\$58/bl (up \$10) for 2009, we expect a wider current account deficit of 1.0% of GDP this year (from 0.3%). We also revise up our WPI inflation forecast to 1.0% y-o-y (from 0.5%) and to 5.7% in 2010 (from 5.4%).

Activity: India's GDP posted robust growth of 5.8% y-o-y in 1Q09, unchanged from the previous quarter, led by a higher contribution from the government's counter-cyclical fiscal spending. Looking ahead, we are becoming more optimistic about India as we expect a domestic demand-led recovery to gain momentum in 2H09. Private consumption demand should remain supported by falling inflation, lower interest rates and the fiscal stimulus. As capital inflows rise and domestic liquidity remains ample, we expect easier availability of financing to support investment. Further, business sentiment has improved drastically since the general elections. We expect real GDP growth at 6.0% in 2009 and 7.2% in 2010. Indeed, Nomura's composite leading index has turned up, which suggests that economic growth should start picking up from 3Q09.

Inflation: We expect WPI inflation to average 1.0% y-o-y in 2009, with WPI deflation starting soon, but only lasting temporarily. As the economy recovers, we expect WPI inflation to rise to 5.5% by March 2010, above the Reserve Bank of India's (RBI) target of 4.0%. CPI inflation remains high, but should moderate with a lag to around 6.0-6.5% y-o-y by 4Q09.

Policy: We forecast the combined (centre and state plus off-budget items) fiscal deficit to rise to 10.3% of GDP for the year ending March 2010. On monetary policy, we judge that the rate-cutting cycle has ended. We expect the RBI to expand its balance sheet to absorb part of the government borrowing. While this should not be inflationary in the near term, we see this as a medium-term risk. As the economy recovers, the RBI will need to start withdrawing liquidity, and we judge that this will initially be done by issuing Treasury bills under the market stabilisation scheme, possibly as early as 4Q09. We expect this to then be followed by cash reserve ratio hikes of 100bp and a cumulative 75bp of policy rate hikes in 2010.

Risks: A sharper-than-expected rise in investment demand is the main upside risk to our forecast. Delays in implementing fiscal stimulus and a sharp rise in commodity prices are downside risks.

Details of the forecast

% y-y growth unless otherwise stated	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	2008	2009	2010
Real GDP (sa, % q-o-q, annualised)	8.0	2.8	6.1	5.6	7.5	5.7	6.7	8.2			
Real GDP	7.7	5.8	5.8	5.9	5.9	6.3	7.1	7.3	7.5	6.0	7.2
Agriculture	2.7	-0.8	2.7	3.0	3.0	4.5	3.0	3.0	1.5	3.4	3.0
Industry	6.1	2.3	1.4	3.0	3.5	5.8	7.3	7.0	5.1	3.4	7.4
Services	9.8	10.2	8.6	8.2	7.6	7.3	8.1	8.7	10.5	7.9	8.4
Industrial production	4.7	0.8	-0.9	0.3	3.5	5.3	7.5	6.2	4.4	2.0	7.2
M3 money supply	19.8	19.8	19.3	21.8	21.4	20.2	21.0	19.7	20.9	20.7	19.6
Non-food credit	25.5	26.4	18.9	16.8	16.6	15.6	20.6	21.5	25.3	16.9	22.0
Wholesale price index	12.5	8.6	3.1	0.1	-1.3	2.4	5.4	5.6	9.1	1.0	5.7
Consumer price index	9.0	10.2	9.4	8.6	6.9	6.3	6.5	6.0	8.3	7.8	6.2
Exports	25.5	-12.5	-24.1	-29.2	-18.3	14.2	23.2	16.8	20.8	-16.4	18.7
Imports	53.2	1.9	-25.3	-31.3	-23.9	5.8	16.4	20.0	34.3	-19.9	18.7
Merchandise trade balance (% GDP)	-12.8	-9.0	-5.3	-7.0	-8.7	-7.1	-4.3	-7.0	-9.4	-7.0	-6.7
Current account balance (% GDP)									-3.3	-1.0	-1.1
Fiscal balance (fiscal year, % GDP)									-6.2	-6.8	-5.8
Repo rate (%)	9.00	6.50	5.00	4.75	4.75	4.75	4.75	5.00	6.50	4.75	5.50
Reverse repo rate (%)	6.00	5.00	3.50	3.25	3.25	3.25	3.25	3.50	5.00	3.25	4.00
Cash reserve ratio (%)	9.00	5.50	5.00	5.00	5.00	5.00	5.25	5.50	5.50	5.00	6.00
10-year bond yield (%)	8.72	5.30	7.04	6.50	6.25	6.50	7.00	7.30	5.30	6.50	7.50
Exchange rate (INR/USD)	46.9	48.5	51.0	46.5	45.8	45.0	44.0	43.0	48.5	45.0	41.0

Notes: Numbers in bold are actual values; others forecast. Interest rate and currency forecasts are end of period; other measures are period average. CPI is for industrial workers. Fiscal deficit is for the central government and for fiscal year, eg, 2008 is for year ending March 2009. Table last revised on 12 June 2009. Source: CEIC and Nomura Global Economics.

Focus already shifting to how Yudhoyono will do

Given almost no doubt about the re-election of incumbent President Yudhoyono, the focus will be how his new economic policy team can manage the economy through this difficult time.

Activity and politics: 1Q09 GDP growth of 4.4% y-o-y was relatively robust compared to Indonesia's regional neighbours, most of which are experiencing contractions in GDP. This can be partly attributed to the economy's relatively less dependency on external demand. Also, private consumption remains strong, partly reflecting the positive impact of the general and presidential elections. We remain cautious, however, of a further slowdown in both domestic and external demand. On the political front, the Democratic Party (PD) won the general election, with a 26.8% share of parliament. This allowed President Yudhoyono to name Boediono, the former central bank governor, as his running mate in July's presidential election, and will probably give him a freer hand in formulating a new economic policy team. Latest polls show that Yudhoyono is far ahead of Jusuf Kalla (Golkar) and Megawati Sukarnoputri (Indonesian Democratic Party – Struggle), with overwhelming support of 55-70%, suggesting his team is likely to win the election on the first vote. The public's interest seems to be already shifting to how the new administration will be able to manage the economy through this difficult time.

Inflation: Headline CPI inflation for May slowed to 6.0% y-o-y from its 12.1% peak in September 2008. We expect a sharper slowdown ahead, particularly in June, when the effect of the one-off fuel price hike in late May 2008 drops out of the year-on-year calculation. Reflecting this, BI has cut its policy interest rate by 250bp since December, but we believe it will now hold rates through the rest of the year to assess the impact of those cuts made so far.

Fiscal policy: Following the budget announcement in August, the government revealed details of its IDR73.3trn stimulus package. It consists of IDR43trn for tax cuts; IDR13.3trn for subsidies and import duty exemptions; IDR12.2trn for infrastructure projects and rural empowerment programs; and IDR4.8trn for diesel/electricity subsidies and rural empowerment loans. Reflecting growing concerns over further economic downside and looking ahead to the elections, a greater part of fiscal resources has been allocated to mitigate the pains of deteriorating corporate activity and private consumption. With details of the stimulus package mostly in line with our expectations, we maintain our forecast for a fiscal deficit of 3.5% of GDP for FY09.

Risks: While our concerns over selling pressure on IDR have eased somewhat (on more solid macro fundamentals than some of Indonesia's neighbours), we remain cautious about the effects of a slower-than-expected recovery in external demand.

Details of the forecast

% y-o-y growth unless otherwise stated	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	2008	2009	2010
Real GDP	6.4	5.2	4.4	2.0	2.7	4.2	4.4	4.8	6.1	3.3	4.7
Private consumption	5.3	4.8	5.8	5.1	4.7	4.2	4.0	4.4	5.3	5.0	4.4
Government consumption	14.1	16.4	6.7	6.3	6.3	6.7	6.7	6.0	10.4	6.5	5.9
Gross fixed capital formation	12.2	9.1	10.7	9.4	11.0	14.0	5.9	7.2	11.7	11.3	6.8
Exports (goods & services)	10.6	1.8	-19.1	-10.0	-2.8	-2.0	1.0	2.4	9.5	-8.5	2.6
Imports (goods & services)	11.0	-3.5	-24.1	-7.0	1.6	3.1	1.3	3.6	10.0	-6.7	4.2
Contribution to GDP growth (% points):											
Domestic final sales	6.8	6.6	6.2	5.6	5.7	6.7	4.2	4.9	6.5	6.1	4.8
Inventories	-0.5	0.7	-2.0	-1.4	-1.0	-0.3	0.2	0.2	0.2	-1.2	0.3
Net trade (goods & services)	0.7	2.3	0.2	-2.2	-2.0	-2.1	0.0	-0.3	0.7	-1.5	-0.4
Consumer prices index	12.0	11.5	8.6	5.9	3.1	3.0	4.3	5.7	9.8	5.1	6.0
Exports	27.9	-5.6	-31.8	-19.9	-16.2	-3.6	6.8	3.7	20.1	-18.3	6.7
Imports	50.5	7.6	-34.1	-19.2	-15.2	5.3	26.3	7.0	40.5	-16.1	13.4
Merchandise trade balance (US\$bn)	7.1	7.1	7.6	6.1	5.6	4.8	5.2	5.5	32.4	24.2	19.8
Current account balance (% of GDP)	-0.6	-0.6	1.6	-1.9	-1.5	-1.9	-0.4	-1.8	0.1	-1.1	-1.4
Fiscal Balance (% of GDP)									-2.1	-3.5	-2.6
Bank Indonesia rate (%)	9.25	9.25	7.75	7.00	7.00	7.00	7.25	7.50	9.25	7.00	8.00
Exchange rate (IDR/USD)	9378	10950	11575	9800	9300	8900	8600	8433	10950	8900	8100

Notes: Numbers in bold are actual values; others forecast. Interest rate and currency forecasts are end of period; other measures are period average. All forecasts are modal forecasts (i.e., the single most likely outcome). Table last revised 12 June 2009.

Source: CEIC and Nomura Global Economics.

Slowing economy calls for fast budget execution

Given a sharp contraction of domestic demand in 1Q09, urgency is required in executing the economic stimulus packages, especially with a view to bolstering domestic demand.

Forecast change: Given the faster than expected appreciation of MYR against USD, we revise our end-2009 MYR/USD forecast to 3.40 from 3.45. Reflecting this change, we have also made minor adjustments to our forecast for the current account surplus.

Activity and politics: 1Q09 real GDP growth decelerated to -6.2% y-o-y (from 0.1% in 4Q08), due largely to a sharp contraction in domestic demand, particularly investment (-10.8%) and a major drag from an inventory unwind (a 9.7 percentage point (pp) subtraction from GDP growth). Private consumption also fell 0.7% y-o-y. The weakness in domestic demand more than offset a large positive contribution from net external demand to GDP, as imports fell more sharply (-23.5% y-o-y) than exports (-15.2%). Early indications in 2Q suggest that this trend has not changed much: April exports and imports contracted by 26.3% y-o-y and 22.4%, respectively. On the supply side, most sectors saw declines in 1Q09, of which manufacturing was affected most (-17.6% y-o-y). While the decline in industrial production eased to -11.4% y-o-y in April (from a revised -12.7% in March), we need to see the data for the next few months before deciding whether or not a recovery is underway.

Inflation and monetary policy: Headline CPI inflation for April further decelerated to 3.0% y-o-y from a peak of 8.5% in July-August 2008, on the back of slowing price increases for food and fuels. We expect inflation to continue to decelerate sharply, particularly in June, when the effect of the fuel price hike in June 2008 comes off. This has allowed Bank Negara Malaysia (BNM) to cut its overnight policy rate by 150bp since November. While BNM left the overnight policy rate at 2.00% at its April and May meetings, we believe an additional rate cut will be required some time in 2H09, bringing the overnight policy rate to 1.75%.

Fiscal policy: Following last November's fiscal stimulus (MYR7bn), the government announced in March a second package totalling MYR60bn (8.1% of 2008 GDP) over the next two years. This package has earmarked MYR15bn for additional spending, MYR25bn for credit guarantee programs, MYR10bn for equity investments, MYR7bn for private finance initiatives and MYR3bn for tax incentives. As a result, we estimate the fiscal deficit-to-GDP ratio will swell to 8.4% this year. On the exchange rate, we believe BNM is less inclined to push for a stronger currency at the moment, given our expectation of a sharp narrowing of the current account surplus and the prospects of a brief period of deflation in 3Q09.

Risks: In addition to further downside to external demand and private consumption, we remain cautious about the delay in budget execution, which could limit the positive effects of the stimulus packages. As of 29 May, MYR15.6bn of MYR67bn under the two stimulus packages has been disbursed; we need to keep an eye on how promptly the rest is executed.

Details of the forecast

% y-o-y growth unless otherwise stated	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	2008	2009	2010
Real GDP	4.7	0.1	-6.2	-5.9	-4.7	0.1	2.8	3.3	4.6	-4.2	3.4
Private consumption	8.2	5.3	-0.7	-0.6	-0.4	0.0	1.4	3.4	8.5	-0.4	3.4
Government consumption	6.4	12.7	2.1	3.4	8.3	9.0	15.5	11.0	10.9	6.2	4.7
Gross fixed capital formation	3.1	-10.2	-10.8	-6.2	4.5	10.7	12.2	8.7	0.8	-0.7	7.2
Exports (goods & services)	4.5	-13.3	-15.2	-12.1	-7.3	-1.0	0.5	1.1	1.3	-9.0	1.5
Imports (goods & services)	7.7	-10.2	-23.5	-11.6	-2.4	2.6	10.9	3.9	1.9	-8.6	4.6
Contribution to GDP growth (% points):											
Domestic final sales	5.7	2.6	-2.5	-1.4	1.9	3.8	5.3	5.3	5.9	0.5	4.2
Inventories	1.7	2.8	-9.7	-2.0	0.0	0.0	6.0	0.7	-0.7	-2.9	2.0
Net trade (goods & services)	-2.7	-5.2	6.1	-2.5	-6.3	-3.7	-8.5	-2.7	-0.5	-1.7	-2.9
Unemployment rate (sa, %)	3.1	3.1	3.8	4.3	4.7	5.0	4.7	4.3	3.3	4.5	4.1
Consumer prices index	8.4	5.9	3.7	1.4	-2.2	-0.2	1.5	2.2	5.4	0.6	2.4
Exports	21.4	-12.2	-28.7	-19.3	-12.5	-2.7	3.3	3.3	13.4	-16.1	3.7
Imports	14.6	-16.8	-36.6	-12.4	-3.4	2.1	11.4	5.0	6.9	-12.8	5.4
Merchandise trade balance (US\$bn)	12.4	9.3	9.0	7.4	7.0	7.4	7.3	7.0	42.7	30.8	29.6
Current account balance (% of GDP)	19.5	16.8	17.4	11.9	10.9	12.3	12.3	10.3	17.5	13.0	11.2
Fiscal Balance (% of GDP)									-4.6	-8.4	-11.5
Overnight policy rate (%)	3.50	3.25	2.00	2.00	1.75	1.75	1.75	1.75	3.25	1.75	2.25
Exchange rate (MYR/USD)	3.46	3.46	3.65	3.51	3.45	3.40	3.35	3.29	3.46	3.40	3.18

Notes: Numbers in bold are actual values; others forecast. Interest rate and currency forecasts are end of period; other measures are period average. All forecasts are modal forecasts (i.e., the single most likely outcome). Table last revised 12 June 2009. Source: CEIC and Nomura Global Economics.

Two large downside risks

GDP growth slowed more than expected to 0.4% y-o-y in 1Q09. Looking forward, we see two main downside risks to the economy: overseas worker remittances and fiscal finances.

Forecast change: We have changed PHP/USD forecast to 46.5 from 46.8 at end of 2009 and to 45.0 from 45.5 at end of 2010, considering the currently faster PHP appreciation against USD than expected.

Activity: GDP growth decelerated further to 0.4% y-o-y in 1Q09 from a 2.9% increase in 4Q08. Inventory investment contributed -2.2 percentage points (pp) to the year-on-year growth of GDP in 1Q09. In addition to inventory adjustment, private consumption, which accounts for around 80% of GDP, slowed sharply to 0.8% y-o-y in 1Q from a 5.0% increase in 4Q08 despite easing CPI inflation, because massive layoffs and dismissals seemed to take place in the manufacturing sector. Looking ahead, we expect the economy to face downside risks for two main reasons. First, remittances from Overseas Filipino Workers (OFW) are expected to drop in coming months, reflecting labour market weakness in the global economy. Second, we expect the government to take a cautious stance on additional fiscal packages to avoid further expansion of the fiscal deficit, which expanded to PHP112bn from January to April on a drop in revenue, from PHP26bn a year ago. Following slower growth in 1Q09, the government has revised down its GDP growth forecast for 2009 to 0.8-1.8% from 3.1-4.1%. On customs trade side, exports dropped 35.2% y-o-y in April after a 30.8% decrease in April. Looking ahead, we expect the year-on-year exports drop to continue through 3Q09.

Monetary policy: We expect the central bank to continue to ease monetary policy because of weak growth and decelerating inflation. CPI inflation slowed to 3.3% y-o-y in May from 4.8% in April. On 2 June, central bank Governor Amando Tetangco said BSP had more flexibility to manoeuvre and suggested further accommodative monetary policy. There are several tools for further easing policy other than cuts in policy interest rates. For example, the central bank may start cutting the bank reserve ratio, which stands at 19%.

Risks: Given the deep synchronised global recession, one risk is that overseas worker remittances turn out to be even weaker than our pessimistic forecast of -8% this year. Another risk is that the expansion rate of the call centre business slows by more than we expect.

Details of the forecast

% y-o-y growth unless otherwise stated	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	2008	2009	2010
Real GDP [sa, % q-o-q, annualized]	3.0	1.1	-8.9	0.8	3.7	5.0	3.8	3.7			
Real GDP	4.6	2.9	0.4	-1.1	-0.9	0.0	3.3	4.0	3.8	-0.4	3.8
Private consumption	4.4	5.0	0.8	-0.1	-1.4	-1.9	2.7	3.9	4.7	-0.7	4.0
Government consumption	11.8	2.6	3.8	10.0	10.0	10.0	5.0	5.0	3.2	8.5	5.0
Gross fixed capital formation	7.1	0.1	-5.7	-3.0	-1.0	4.4	4.7	8.6	2.9	-1.5	9.7
Exports (goods & services)	3.3	-11.5	-18.2	-18.0	-10.0	-2.0	1.0	4.0	-1.9	-12.4	3.9
Imports (goods & services)	6.7	5.0	-19.2	-22.0	-10.0	-1.0	6.0	11.0	2.4	-12.6	9.7
Contribution to GDP growth (% points):											
Domestic final sales	5.5	4.1	-0.2	0.1	-0.6	-0.3	3.3	5.0	4.3	-0.3	5.2
Inventories	0.4	-2.3	-2.2	-1.5	0.4	0.6	1.8	1.1	-0.2	-0.6	0.9
Net trade (goods & services)	-1.4	-6.8	0.4	0.3	-0.7	-0.3	-1.8	-2.1	-2.0	-0.1	-2.2
Exports	4.0	-22.3	-36.8	-30.0	-10.0	2.0	6.0	10.0	-2.8	-19.7	9.2
Imports	6.6	-25.4	-34.3	-30.0	-15.0	3.0	10.0	18.0	2.0	-20.3	16.4
Merchandise trade balance (US\$bn)	-2.5	-1.2	-1.7	-1.3	-1.4	-1.3	-2.2	-2.3	-7.6	-5.8	-9.5
Current account balance (US\$bn)	-0.3	2.3	1.7	1.3	0.5	2.1	1.6	1.2	4.2	5.6	4.9
(% of GDP)	-0.7	5.3	4.6	3.4	1.4	4.7	4.1	2.8	2.5	3.5	2.8
Fiscal balance (% of GDP)									-0.9	-3.0	-1.9
Consumer prices	12.2	9.7	6.9	3.6	1.3	2.5	3.0	4.0	9.3	3.5	4.0
Unemployment rate (sa, %)	7.3	7.3	7.4	8.0	8.5	9.0	8.5	8.2	7.3	8.2	8.0
Reverse repo rate (%)	6.00	5.50	4.75	4.25	4.00	4.00	4.00	4.25	5.50	4.00	4.50
91-day T-Bill yield (%)	6.65	5.75	4.61	4.50	4.50	4.50	5.00	5.25	5.75	4.50	5.50
Exchange rate (PHP/USD)	47.1	47.4	48.3	47.0	46.8	46.5	46.5	46.0	47.4	46.5	45.0

Notes: Numbers in bold are actual values; others forecast. Interest rate and currency forecasts are end of period; other measures are period average. All forecasts are modal forecasts (i.e., the single most likely outcome). Table last revised 12 June 2009.

Source: National Statistics Coordination Board, National Statistics Office, Bangko Sentral ng Pilipinas, CEIC and Nomura Global Economics.

Inventory adjustment remains the key

We expect real GDP for 2009 to contract by 7.6% despite a S\$20.5bn stimulus package. Looking ahead, inventory data should be the key for identifying the first signs of a recovery.

Forecast change: Given the faster-than-expected appreciation of SGD against USD, we revise our end-2009 SGD/USD forecast to 1.40 from 1.48. Also, to reflect the 1Q09 current account numbers as well as the change in our exchange rate forecast, we have made minor adjustments to our forecast for the current account surplus.

Activity: Real GDP growth in 1Q09 deteriorated further to -10.1% y-o-y (or -14.6% q-o-q, sa, annualised) from -4.2% in 4Q08. This was better than the advanced estimate announced a month ago, but was due largely to smaller-than-expected inventory unwind. On the supply side, the only bright spot was the construction sector, where output grew by 24.4% y-o-y, reflecting strong infrastructure spending. By contrast, manufacturing output contracted by a record 26.1% y-o-y. The decline in industrial production eased to -0.5% in April as biomedical production seems to have entered an up-cycle, but most other sectors still contracted by double digits. In line with this, the demand side has weakened substantially: In 1Q09 customs-based exports slumped 32.7% y-o-y (followed by a decline of 32.9% in April), retail sales fell 9.0% and tourist arrivals dropped 13.8%. While the May Purchasing Manager's Index has shown a rebound to 51.2 (from 49.2 in April), we remain cautious about the possibility of further unwinding of inventories. We do not expect a self-sustaining economic recovery until 2010.

Inflation: Headline CPI inflation decelerated further to -0.7% y-o-y in April, from a peak of 7.5% in 1Q08, on the back of slower price increases for food and fuels. On 14 April the Monetary Authority of Singapore (MAS) announced a downward shift of the currently flat S\$NEER policy band without any change in its width, which reflects a concern that falling external demand is eroding strength in the export sector amid slowing inflation.

Policy: Amid growing economic concerns, the government announced a S\$2.3bn stimulus package in November 2008, which included various measures to help finance corporate activity. Furthermore, in the draft budget for FY09 (year ending March 2010) the government further committed itself to supporting the economy through the allocation of S\$20.5bn (8.3% of GDP by our estimate) to key areas, such as the corporate sector, infrastructure development and offering support to those sectors of society deemed most vulnerable to the downturn. However, we do not expect the positive effects of these fiscal measures to be enough to prevent year-on-year GDP growth from remaining negative through this year.

Risks: A major risk is further downside in external demand given Singapore is Asia's most open economy. Private consumption could also be weaker than expected due to feedback loops from negative wealth effects and a worsening labour market.

Details of the forecast

% y-o-y growth unless otherwise stated	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	2008	2009	2010
Real GDP [sa, % q-o-q, annualized]	-2.1	-16.4	-14.6	-3.2	4.0	4.5	4.5	4.6			
Real GDP	0.0	-4.2	-10.1	-9.3	-7.9	-2.6	2.4	4.4	1.1	-7.6	4.0
Private consumption	2.7	-1.2	-5.1	-2.0	0.0	0.7	0.7	1.4	2.4	-1.6	1.4
Government consumption	9.9	2.7	-2.2	22.4	19.9	23.6	13.6	6.3	8.1	13.6	7.9
Gross fixed capital formation	14.9	-9.9	-14.8	-5.7	-0.1	15.8	7.3	1.6	13.7	-1.8	5.1
Exports (goods & services)	2.1	-9.6	-21.2	-9.5	-5.6	-0.8	-0.4	0.4	1.3	-9.5	0.6
Imports (goods & services)	7.9	-5.8	-18.4	-9.9	-5.0	0.6	1.1	1.2	6.1	-8.3	1.3
Contributions to GDP growth (% points):											
Domestic final sales	5.4	-3.1	-6.7	-0.8	1.8	7.1	4.5	1.8	5.2	0.3	3.2
Inventories	6.5	8.9	4.6	-7.5	-6.8	-6.4	1.2	4.4	6.0	-4.0	2.4
Net trade (goods & services)	-12.1	-11.1	-11.5	-1.0	-3.0	-3.3	-3.3	-1.8	-10.6	-4.7	-1.6
Unemployment rate (sa, %)	2.2	2.6	3.2	4.2	4.7	5.2	4.7	4.0	2.3	4.3	3.8
Consumer prices index	6.6	5.4	2.1	-0.3	-1.8	-2.4	-1.2	0.4	6.5	-0.6	0.8
Exports	21.1	-13.9	-32.7	-17.0	-12.0	-1.0	0.0	1.0	13.0	-16.2	1.8
Imports	32.8	-9.1	-32.5	-17.1	-15.0	-2.4	1.1	2.2	21.5	-17.2	2.1
Merchandise trade balance (US\$bn)	5.6	2.0	4.1	3.9	7.5	3.0	3.5	3.1	18.4	18.5	18.2
Current account balance (% of GDP)	17.1	10.4	10.0	15.3	25.0	12.2	9.6	13.2	14.9	15.7	14.6
Fiscal Balance (% of GDP)									-0.8	-3.5	-3.2
3 month SIBOR (%)	1.88	1.00	0.69	0.50	0.50	0.50	0.75	0.75	1.00	0.50	1.25
Exchange rate (SGD/USD)	1.43	1.44	1.52	1.45	1.42	1.40	1.38	1.36	1.44	1.40	1.32

Notes: Numbers in bold are actual values; others forecast. Interest rate and currency forecasts are end of period; other measures are period average. All forecasts are modal forecasts (i.e., the single most likely outcome). Table last revised 12 June 2009.

Source: CEIC and Nomura Global Economics.

Holding up well

Strong counter-cyclical macro policies should help stabilise the economy in 2H09. Asset prices will probably pick up before the economy does. We expect the BOK to start hiking rates in 4Q09.

Forecast changes: We adjusted our KRW/USD forecast for end-2009 from 1,100 to 1,150 and 2010 from 1,000 to 1,050, to reflect a change in our relative value outlook for Asian currencies.

Activity: A levelling-off of GDP in 1Q09 and modest gains in April industrial output suggest that the strong fiscal/monetary stimulus and financial policy measures have succeeded in preventing the global recession and credit crunch from heavily affecting the domestic economy. Looking ahead, we expect the level of real GDP to be roughly flat through 2009 as we see the rebound in activity losing momentum. Once firms have completed their inventory adjustments, we expect them to be cautious about restocking, given our outlook that global aggregate demand will at best bottom out in 2H09 and will take a few more years to return to its potential growth path. However, even flat GDP could translate into U-shaped year-on-year growth rates due to a strong base effect from 4Q08 (the second-largest fall in GDP on record).

Inflation: A deep recession and lower oil prices should help ease inflation pressures for now. However, the trade-off for strong fiscal/monetary policy stimulus is a greater risk of inflation further out. We see some price stickiness in the service sector due to high inflation expectations (the Bank of Korea (BOK) survey of the general public shows expectations of 4.0% over one year). We expect CPI inflation to slow to 2.9% in 2009 from 4.7% in 2008 before rising to 3.3% in 2010. Also, double-digit money supply growth should heighten the risk of asset price inflation.

Policy: Given increasing signs of stabilization in the real economy and financial market, we see no need for further rate cuts. Rather, we expect the BOK to hike rates by 25bp in 4Q09 and by a further 125bp in 2010 in order to pre-emptively manage excess liquidity and asset price inflation, which could otherwise fuel excessive CPI inflation and financial instability in the longer term.

Risks: Risks to our -4% GDP forecast for 2009 are skewed to the upside. One would be if policy measures taken in Korea and globally to safeguard the financial system and boost demand were to prove more effective than expected. The rise in asset prices should help support consumption and real estate markets through positive or less-negative wealth effects. On the downside, any sizable default event risks, either global or domestic, could intensify negative feedback loops from financial markets to the economy. However, we expect the government to minimize these risks by utilizing the state-run Restructuring Fund (KRW20trn, 2% of GDP, for 2009).

Details of the forecast

% y-o-y growth unless otherwise stated	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	2008	2009	2010
Real GDP (sa, % q-o-q, annualized)	0.8	-18.8	0.5	-3.9	0.8	3.6	4.9	4.1			
Real GDP (sa, % q-o-q)	0.2	-5.1	0.1	-1.0	0.2	0.9	1.2	1.0			
Real GDP	3.1	-3.4	-4.2	-5.7	-5.8	0.0	1.2	3.2	2.2	-4.0	3.5
Private consumption	1.4	-3.7	-4.4	-4.7	-4.2	0.9	1.1	2.3	0.9	-3.1	2.3
Government consumption	4.5	4.7	7.3	6.8	6.3	5.8	3.1	3.1	4.2	6.5	3.5
Business investment	4.3	-14.0	-23.5	-26.2	-27.8	-15.0	-3.1	5.0	-2.0	-23.0	6.7
Construction investment	0.2	-5.6	1.6	1.2	2.2	6.4	0.5	2.5	-2.1	3.1	1.0
Exports (goods & services)	9.3	-6.9	-10.6	-17.4	-17.9	-9.0	-4.1	2.5	5.7	-13.9	3.0
Imports (goods & services)	9.0	-11.2	-18.2	-22.8	-22.8	-9.2	1.0	6.1	3.7	-18.5	6.7
Contributions to GDP growth (% points):											
Domestic final sales	1.8	-3.6	-3.4	-4.5	-3.8	1.2	3.3	3.3	0.4	-3.5	2.2
Inventories	1.0	-1.4	-4.9	-2.8	-3.3	-0.7	0.0	1.1	0.8	-2.4	1.0
Net trade (goods & services)	0.3	1.6	4.1	1.5	1.3	-0.5	-2.1	-1.1	1.1	1.3	-1.2
Unemployment rate (sa, %)	3.2	3.3	3.4	3.7	3.8	3.6	3.5	3.4	3.2	3.7	3.4
Employment ('000 y-o-y)	141	54	-144	-295	-293	-142	92	433	145	-218	313
Consumer prices	5.5	4.5	3.9	2.8	2.1	2.7	3.3	3.2	4.7	2.9	3.3
Core CPI	4.8	5.4	5.0	3.9	3.0	2.4	2.5	2.7	4.3	3.6	2.6
Current account balance (% of GDP)									-0.7	2.0	1.2
Fiscal balance (% of GDP)									1.2	-2.3	0.5
Fiscal balance ex-social security (% of GDP)									-1.8	-5.2	-1.0
Money supply (M2)	14.7	13.8	12.0	11.0	10.0	8.0	6.0	8.0	14.3	10.3	8.0
House prices (% q-o-q)	0.8	-1.2	-1.0	0.0	0.5	0.5	0.5	0.5	3.1	0.0	2.0
BOK official base rate (%)	5.25	3.00	2.00	2.00	2.00	2.25	2.50	2.75	3.00	2.25	3.50
3-year T-bond yield (%)	5.74	3.41	3.94	3.75	4.00	4.25	4.25	4.50	3.41	4.25	5.00
5-year T-bond yield (%)	5.75	3.77	4.69	4.50	4.75	5.00	5.25	5.25	3.58	5.00	5.50
Exchange rate (KRW/USD)	1187	1259	1382	1250	1210	1150	1120	1100	1259	1150	1050

Notes: Numbers in bold are actual values; others forecast. Interest rate and currency forecasts are end of period; other measures are period average. All forecasts are modal forecasts (i.e., the single most likely outcome). Table last revised 12 June 2009.

Source: Bank of Korea, CEIC and Nomura Global Economics.

The worst of the recession is likely behind us

We see signs of economic activity stabilising, although we do not expect a quick recovery.

Forecast change: We raise our 2009 CPI inflation forecast to -1.1% from -1.5% on the May data and higher oil price assumptions. Expectations for higher commodity prices and a stronger TWD also led to a small downward revision of our current account forecasts.

Activity: Exports and industrial output continued to fall at double-digit year-on-year rates in April, but the rate of decline eased. While global demand remains fragile, China's plans to increase procurement of Taiwanese goods and expand its subsidy program for the purchase of cars and household electronic appliances should help Taiwan's orders modestly in 2H09. Consumers still face wage income losses and a lagged negative wealth effect, but the rate of deterioration in the labour market appears to have eased while equities and property markets have recovered some lost ground. Tax reductions and the expansion of unemployment benefits offer some cushion. More Chinese tourist arrivals could benefit the retail and tourism sectors and induce investment in hotel and recreational facilities and infrastructure. The 45% y-o-y plunge in real capital goods imports in April-May points to further cutbacks in private capex, but the implementation of public construction projects should help to take up some of the slack. We expect real GDP growth to pick up to 4.6% in 2010 from a record contraction of -5.7% in 2009, as cross-strait liberalisation measures start to pay dividends and as the global economy recovers.

Monetary policy: CPI inflation fell by 0.1% y-o-y in May, the third straight month in negative territory, while core inflation (ex volatile fresh food and energy prices) trended down to 0.1% in May from 4.1% in July 2008. Lingering deflationary pressures due to a large output gap allow the central bank to maintain accommodative monetary conditions, despite market concerns over the inflationary consequences of higher oil prices and excess liquidity on capital inflows. With the economy and asset markets starting to stabilise, we expect rates to be kept on hold this year and liquidity to be drained. We expect continued focus on easing credit conditions and boosting credit expansion, which has slowed sharply since December 2008.

Fiscal policy: The government has appropriated a budget – including the estimated effects of tax cuts – of TWD346bn, or 2.8% of 2009's official GDP forecast, to create jobs and boost the economy. We expect the fiscal situation to worsen as revenue declines and spending increases.

Risks: Evenly balanced. Downside: 1) a protracted and deeper global recession; 2) a severe flu pandemic; and 3) a downward spiral of tight credit and economic weakness. Upside: 1) a faster-than-expected boost from deeper cross-strait ties and 2) a larger-than-expected fiscal stimulus.

Details of the forecast

% y-o-y growth unless otherwise stated	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	2008	2009	2010
Real GDP (s.a., % q-o-q, annualized)	-11.7	-23.2	-4.2	6.0	2.6	6.4	5.3	3.5			
Real GDP	-1.0	-8.6	-10.2	-9.0	-5.6	2.7	5.3	4.5	0.1	-5.7	4.6
Private consumption	-2.1	-1.7	-1.4	-0.4	1.2	1.4	2.0	2.0	-0.3	0.2	2.3
Government consumption	1.2	2.2	3.7	2.6	2.1	4.2	0.4	0.6	1.1	3.2	0.7
Gross fixed capital formation	-11.8	-22.6	-33.8	-24.3	-18.1	1.2	12.1	12.2	-10.6	-18.9	11.2
Exports (goods & services)	-0.6	-19.2	-27.2	-23.0	-15.8	7.3	19.6	17.0	0.0	-15.6	13.5
Imports (goods & services)	-2.6	-21.4	-30.9	-23.4	-16.4	9.1	25.2	20.5	-4.0	-16.6	15.7
Contribution to GDP growth (% points):											
Domestic final sales	-3.3	-5.0	-5.7	-4.2	-2.2	1.5	2.7	3.0	-2.1	-2.6	3.0
Inventories	1.2	-1.3	-2.0	-0.4	-1.3	0.8	1.8	0.1	0.0	-0.8	0.5
Net export (goods & services)	1.0	-2.3	-2.5	-4.4	-2.1	0.4	0.8	1.4	2.2	-2.3	1.1
Exports	8.0	-24.7	-36.6	-30.5	-18.8	7.8	20.5	17.6	3.6	-21.2	15.1
Imports	19.7	-23.0	-47.2	-32.1	-19.2	13.1	30.0	22.5	9.7	-23.8	18.2
Merchandise trade balance (US\$bn)	0.7	6.5	8.5	4.4	0.8	4.6	7.2	2.9	15.2	18.3	15.5
Current account (US\$bn)	1.9	7.6	13.0	5.8	1.4	5.0	9.6	4.4	24.6	25.7	22.4
Current account (% of GDP)	1.9	8.4	14.6	6.2	1.5	5.0	9.5	4.3	6.3	7.0	5.2
Fiscal balance (% of GDP)									-0.9	-3.5	-2.2
Consumer prices	4.5	1.9	0.0	-0.7	-2.2	-1.2	1.5	1.6	3.5	-1.1	1.6
Unemployment rate (sa, %)	4.1	4.7	5.6	6.0	6.1	6.0	5.9	5.7	4.1	5.9	5.7
Discount rate (%)	3.50	2.00	1.25	1.25	1.25	1.25	1.25	1.38	2.00	1.25	1.75
Overnight call-loan rate (%)	2.05	0.49	0.13	0.10	0.10	0.10	0.10	0.13	0.49	0.10	0.40
10-year government bond (%)	2.23	1.41	1.54	1.65	1.70	1.85	1.95	2.10	1.41	1.85	2.40
Exchange rate (NTD/USD)	32.13	32.86	33.92	32.8	31.5	31.0	30.80	29.6	32.86	31.0	28.5

Notes: Numbers in bold are actual values; others forecast. Interest rate and currency forecasts are end of period; other measures are period average. All forecasts are modal forecasts (i.e., the single most likely outcome). Table last revised 12 June 2009.

Source: CEIC, Bloomberg, DGBAS, MOF, CBC and Nomura Global Economics.

Deflation to continue

We expect the economy to have bottomed out in 1Q09. CPI inflation deepened in May, with core CPI inflation turning negative for the first time on record.

Forecast change: We have changed our THB/USD forecast to 33.0 from 34.0 for end-2009 and to 31.4 from 32.3 for end-2010, as recent THB appreciation has been faster than expected.

Activity: Manufacturing output fell 9.7% y-o-y in April after a 14.9% decrease in March. We expect output to continue to show a moderate contraction after a severe inventory adjustment in 1Q09. In fact, the change in inventories subtracted 7.5 percentage points (pp) to the GDP growth rate of -7.1% y-o-y in 1Q09. Given the already major inventory correction in 1Q09, we expect a return to positive quarter-on-quarter, seasonally adjusted, GDP growth.

Inflation: Headline CPI fell deeper into deflation territory in May, to -3.3% y-o-y from -0.9% in April. The core CPI measure, which excludes fresh food and energy items, fell 0.3% y-o-y, the lowest since the series began in 1985. In addition to the continued drop in transportation and housing prices, the rice & cereal and recreation & education categories also fell in May. The rice & cereal subcategory, which accounts for about 3% of headline CPI, fell by 5.8% y-o-y after a 6.3% increase in April, reflecting a base effect – the first negative year-on-year reading in this category since January 2006. Recreation & education, accounting for about 5% of headline CPI, fell 10.0% y-o-y after a 0.8% increase in April. This is the first negative reading since April 2004 but follows government school-fee subsidies that started in May as part of the fiscal stimulus package. We expect the recreation & education category to show negative year-on-year growth until April 2010. Considering these factors, we have revised down our CPI inflation forecast to -1.0% from -0.6% for 2009, even though crude oil prices have increased.

Risks: On the political side, the worst-case scenario, in our opinion, would be an early dissolution of the Lower House. Among the ruling parties, the second-largest Bhumjaithai Party has recently conflicted with the largest Democrat Party. The Bhumjaithai Party has tried to increase its members by coaxing others from the largest opposition party, the Phue Thai Party. Should it succeed and then decide to leave the coalition government, there is a chance that the Democrat Party would lose its majority in that chamber, resulting in its dissolution. The threat of a Lower House dissolution poses an economic threat as well, as the Assembly would be unable to approve any kind of fiscal measures aimed at propping up the economy.

Details of the forecast

% y-o-y growth unless otherwise stated	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	2008	2009	2010
Real GDP [sa, % q-o-q, annualized]	1.9	-22.1	-7.3	4.1	6.5	4.0	2.1	3.6			
Real GDP	3.9	-4.2	-7.1	-6.4	-5.4	1.7	4.2	4.1	2.6	-4.3	3.5
Private consumption	2.7	2.1	-2.6	-3.0	-3.0	-1.5	1.7	3.4	2.5	-2.5	3.2
Public consumption	-2.9	11.0	2.8	10.0	10.0	5.0	5.0	5.0	0.5	7.1	6.2
Gross fixed capital formation	0.6	-3.3	-15.8	-16.8	-11.1	2.1	6.2	6.5	1.1	-10.6	7.0
Exports (goods & services)	11.2	-8.9	-16.4	-15.0	-11.0	-3.0	0.0	5.0	5.4	-11.5	4.8
Imports (goods & services)	13.1	1.0	-31.4	-25.0	-10.0	-2.0	6.0	11.0	7.5	-17.0	10.6
Contribution to GDP (%points):											
Domestic final sales	1.2	1.2	-4.4	-4.6	-3.0	0.1	2.5	3.7	1.6	-3.0	3.8
Inventories	1.8	1.5	-7.5	-5.0	0.0	2.5	4.0	2.0	1.3	-2.6	1.7
Net trade (goods & services)	0.7	-6.8	5.2	3.1	-2.4	-0.9	-2.4	-1.7	-0.2	1.3	-2.0
Exports	28.4	-10.6	-20.6	-20.5	-16.7	-0.9	5.9	8.2	16.2	-15.2	8.7
Imports	39.1	6.1	-37.6	-37.0	-18.1	-0.7	11.2	15.5	27.5	-23.7	16.8
Merchandise trade balance (US\$bn)	0.7	-1.4	7.1	8.6	1.3	-1.5	6.0	7.2	0.4	15.5	5.8
Current account balance (US\$bn)	-1.3	-2.0	9.1	5.6	-0.7	-3.2	8.5	5.4	-0.2	10.7	5.1
(% of GDP)	-2.0	-3.1	14.8	9.5	-1.2	-4.8	12.4	8.2	-0.1	4.4	2.0
Fiscal balance (% of GDP, fiscal year basis)									-0.9	-6.0	-3.9
Consumer prices	7.3	2.2	-0.3	-2.8	-2.2	1.3	2.5	2.5	5.5	-1.0	2.2
Unemployment rate (sa, %)	1.4	1.5	1.7	2.5	4.5	4.7	4.0	3.0	1.4	3.3	2.5
Overnight repo rate (%)	3.75	2.75	1.50	1.25	1.00	1.00	1.00	1.25	2.75	1.00	2.00
Exchange rate (THB/USD)	33.9	34.7	35.4	34.0	33.5	33.0	32.5	32.1	34.7	33.0	31.4

Notes: Numbers in bold are actual values; others forecast. Interest rate and currency forecasts are end of period; other measures are period average. All forecasts are modal forecasts (i.e., the single most likely outcome). Table last revised 12 June 2009.

Source: CEIC and Nomura Global Economics.

Soft landing

Bank credit has expanded sharply due to the government's 4% interest rate subsidy. We judge that the economy bottomed out in 1Q09, and a nascent recovery is beginning.

Activity: CPI inflation decelerated to 5.6% y-o-y in May from 9.2% in April, reflecting lower food and energy prices than a year ago, which should lift household purchasing power. Private consumption, which accounts for around 70% of GDP, is expected to show firm growth. Elsewhere, year-to-date industrial production rose to 4.0% y-o-y in May from 3.3% in April. We expect the economy to begin a nascent recovery. We expect the government's interest rate subsidy program to boost lending to non-financial institutions, thus helping the real sector. The amount disbursed through the program reached VND332trn by 4 June, an increase of VND13trn (about 0.7% of GDP) over the previous week.

The government has started to create its next five-year plan, the Socio-Economic Development Plan for 2011-2015. Although light on the details, Prime Minister Nguyen Tan Dung has said that the government is considering an economic growth target of 7-8% for this next five-year period, following a 7.5-8.0% target for 2006-2010.

Trade balance: The customs trade balance turned to a \$1.1bn deficit through the first five months of 2009, compared with a \$0.4bn surplus in the four months to April, because the year-to-date exports dropped 6.8% y-o-y in May, decelerating further from a 0.1% decrease in April. We expect total exports to continue to drop until 3Q09, because gold exports are expected to slow as a result of price arbitration inside and outside of Vietnam. As a result, we expect the trade balance to continue to be in deficit for the rest of 2009, although we forecast the current account deficit of GDP to narrow to -5.6% in 2009 from -10.3% in 2008 due to a drop in imports reflecting lower energy prices and a more sluggish economy than a year ago.

Risks: Banks and financial companies have been allowed to provide loans to SMEs for working capital at a state-subsidized 4% interest rate. The subsidy programme is working, but SMEs that have obtained subsidized loans can invest the money in the equity and property markets. The central bank says it is monitoring the use of subsidized loans, but the risk is that they fuel a misallocation of investment and an eventual non-performing loan problem.

Details of the forecast

% y-o-y growth unless otherwise stated	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	2008	2009	2010
Real GDP [sa, % q-o-q, annualized]	12.3	5.7	-8.1	4.5	13.6	13.0	2.0	3.2			
Real GDP	6.5	5.5	3.1	3.3	3.6	5.4	8.1	7.8	6.2	4.0	6.0
Private consumption									9.2	6.0	9.0
Public consumption									7.3	10.0	10.0
Gross fixed capital formation									3.8	2.5	10.0
Contribution to GDP growth (% points):											
Domestic final sales									8.0	5.7	10.7
Inventories									1.3	-1.0	1.2
Net trade (goods & services)									-3.3	-0.7	-5.9
Exports	46.5	3.6	2.4	-18.7	-16.9	10.6	17.6	17.1	29.5	-7.2	13.5
Imports	25.0	-9.1	-45.0	-24.6	7.8	20.9	31.4	22.5	32.7	-11.3	15.0
Merchandise trade balance (US\$bn)	-1.4	-2.4	1.6	-3.4	-5.9	-4.4	0.3	-4.9	-18.0	-13.4	-16.4
Current account balance (US\$bn)									-9.2	-5.2	-7.4
(% of GDP)									-10.3	-5.6	-6.7
Fiscal balance (% of GDP)									-5.0	-8.5	-6.0
Consumer prices	27.8	23.6	14.4	6.0	1.2	2.2	5.2	9.6	23.1	5.7	7.5
Unemployment rate (%)									5.0	6.0	5.5
Base rate (%)	14.00	8.50	7.00	6.50	6.50	6.50	6.50	6.50	8.50	6.50	7.00
Refinance rate (%)	15.00	9.50	8.00	7.00	7.00	7.00	7.00	7.00	9.50	7.00	7.50
Exchange rate (VND/USD)	16,600	17,486	17,797	18,180	18,180	18,180	18,180	18,180	17,486	18,180	18,180

Notes: Numbers in bold are actual values; others forecast. Interest rate and currency forecasts are end of period; other measures are period average. All forecasts are modal forecasts (i.e., the single most likely outcome). Table last revised 12 June 2009.

Source: General Statistics Office of Vietnam, State Bank of Vietnam, World Bank, CEIC and Nomura Global Economics.

Asia | Forecast Table

Forecast Tables

	Real GDP			Consumer Prices		
	2008	2009	2010	2008	2009	2010
Australia	2.3	-0.2	1.8	4.3	1.2	1.7
China	9.0	8.0	8.5 ↑ 10.0	5.9	0.2 ↓ -0.2	3.2 ↓ 3.0
Hong Kong	2.4	-5.0	3.4	4.3	-1.4	1.6
India*	7.5	6.0	7.2	9.1	0.5 ↑ 1.0	5.4 ↑ 5.7
Indonesia	6.1	3.3	4.7	9.8	5.1	6.0
Malaysia	4.6	-4.2	3.4	5.4	0.6	2.4
Philippines	3.8	-0.4	3.8	9.3	3.5	4.0
Singapore	1.1	-7.6	4.0	6.5	-0.6	0.8
South Korea	2.2	-4.0	3.5	4.7	2.9	3.3
Taiwan	0.1	-5.7	4.6	3.5	-1.5 ↑ -1.1	1.6
Thailand	2.6	-4.3	3.5	5.5	-1.0	2.2
Vietnam	6.2	4.0	6.0	23.1	5.7	7.5
Asia ex Japan, Aust.	6.9	4.4	6.9 ↑ 7.7	6.9	0.8 ↓ 0.7	3.7

* CPI refers to wholesale prices. Source: CEIC, Bloomberg, Nomura Global Economics.

	Current Account (% of GDP)			Fiscal Balance (% of GDP)		
	2008	2009	2010	2008	2009	2010
Australia	-4.3	-1.9	-1.7	1.7	-2.7	-5.0
China	9.8	7.2	5.0	-0.4	-3.9	-5.1
Hong Kong	14.2	15.6	14.3	0.1	-4.2	-3.0
India	-3.3	-0.4 ↓ -1.0	-1.2 ↑ -1.1	-6.2	-6.8	-5.8
Indonesia	0.1	-1.1	-1.4	-2.1	-3.5	-2.6
Malaysia	17.4 ↑ 17.5	13.2 ↓ 13.0	11.2	-4.6	-8.4	-11.5
Philippines	2.5	3.5	2.8	-0.9	-3.0	-1.9
Singapore	14.9	17.2 ↓ 15.7	15.5 ↓ 14.6	-0.8	-3.5	-3.2
South Korea	-0.7	2.0	1.2	1.2	-2.3	0.5
Taiwan	6.3	7.3 ↓ 7.0	5.8 ↓ 5.2	-0.9	-3.5	-2.2
Thailand	-0.1	4.4	2.0	-0.9	-6.0	-3.9
Vietnam	-10.3	-5.6	-6.7	-5.0	-8.5	-6.0
Asia ex Japan, Aust.	5.1	4.9 ↓ 4.7	3.3	-1.8	-4.6	-4.6

Note: Fiscal balances are for fiscal years which differ from calendar years for Australia (Jul-Jun), Hong Kong (Apr-Mar), India (Apr-Mar), Singapore (Apr-Mar) and Thailand (Oct-Sep). Fiscal data are for the central government and do not include off-budget items. Source: CEIC, Bloomberg and Nomura Global Economics.

	Official Rate			Currency per US Dollar		
	2008	2009	2010	2008	2009	2010
Australia	4.25	2.50	4.00	0.69	0.75	0.75
China	5.31	5.31	6.12	6.83	6.70	6.40
Hong Kong	1.50	0.70 ↓ 0.50	0.70 ↓ 0.60	7.75	7.80	7.80
India	6.50	4.75	5.50	48.50	45.0	41.0
Indonesia	9.25	7.00	8.00	10950	8900	8100
Malaysia	3.25	1.75	2.25	3.46	3.45 ↓ 3.40	3.20 ↓ 3.18
Philippines	5.50	4.00	4.50	47.4	46.8 ↓ 46.5	45.5 ↓ 45.0
Singapore	1.00	0.50	1.25	1.44	1.48 ↓ 1.40	1.41 ↓ 1.32
South Korea	3.00	2.25	3.50	1259	1100 ↑ 1150	1000 ↑ 1050
Taiwan	2.00	1.25	1.75	32.9	33.0 ↓ 31.0	31.4 ↓ 28.5
Thailand	2.75	1.00	2.00	34.7	34.0 ↓ 33.0	32.3 ↓ 31.4
Vietnam	8.50	6.50	7.00	17486	18180	18180

Note: All figures relate to the modal forecast, ie, the "most likely" outcome. Source: CEIC, Bloomberg, Nomura Global Economics.

The ↑↓ arrows signify changes from last week.

Asia Ex-Japan Articles

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Nomura International (Hong Kong) Limited

Tel: +852 2536 1111

30/F Two International Finance Centre, 8 Finance Street, Central, Hong Kong

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