

All show, no go?

Growth has roared back in Asia, with domestic demand firing on all cylinders and exports accelerating, too

But doubts persist about whether the region has what it takes to stay in the saddle and maintain its speed

With monetary and fiscal policy still providing ample fuel, we think Asia will succeed in keeping the show on the road

By Robert Prior-Wandesforde and Frederic Neumann

Summary

Asia's back. After an unprecedented slump, every market in Asia recorded positive sequential growth in the second quarter. But can the region stay on course? We think so. Massive monetary and fiscal stimuli continue to power domestic demand, and an inventory bounce should push up exports as well. For 2010, our growth calls are comfortably above consensus virtually everywhere. The main risk facing Asia now is too gradual tightening, with the risk of asset bubbles and a spike in inflation looming beyond the horizon.

What recession?

It's been a rough ride. Over the past 12 months, Asia saw growth collapse at a breathtaking pace, but then it snapped back in equally impressive fashion. The rebound, in part, reflects the deft policy response by both central banks and treasuries, with rate cuts and spending boosts coming hard and fast once the data started to wobble. But other factors mattered as well: above all, the region's financial systems remained largely immune to the sudden distress gripping institutions elsewhere. Consumers and firms had also avoided the lure of debt that so many succumbed to in the West. With balance sheets in good shape, therefore, the region always stood a much better chance of bouncing back.

Can the rebound last? Yes. Domestic demand, for one, should grow at a healthy pace over the coming few quarters. Already, employment growth is positive among most of the region's economies. And it is not just public investment that is driving the recovery - consumption, too, has picked up nicely. Here, the robust labour market has certainly helped. But equally important has been the impressive rally in asset prices that swiftly erased those dark memories of last year's collapse, and made Asians feel that they now have a little extra cash in their pocket to spend. While consumer confidence elsewhere lingers at multi-year lows, in Asia, most notably in Korea and Indonesia, it consistently hits cycle highs.

But, so far, the region has only fired on one engine. Exports, while perking up a little in recent months, have disappointed, most conspicuously in China, the regional powerhouse. This may soon change, giving the region an additional leg to stand on. Inventories in the West, after all, remain comparatively low, so that even a slight recovery in sales should feed through directly into shipments from Asia. Our various lead indicators are already suggesting that this final part of Asia's recovery story is coming together. And note, too, that Asia's exports increasingly depend on demand from other emerging markets where the outlook is much brighter still. Whispers of "decoupling" can once again be heard, and evidence of such is already beginning to percolate through the data.

No free riding

This is the good news. The slightly more worrying aspect is that while growth has started to decouple, monetary policy so far has not. After years of shadowing the Federal Reserve, the region's central banks face a monumental task in setting an independent course for monetary policy. The truth is that monetary conditions in Asia remain far too loose for comfort. This entails two principal risks. First, inflation may return earlier than many deflationists had argued. Already, headline indices have turned and are starting to climb again and firms are reporting rising output prices, which usually portends a pick-up in core readings as well. To be sure, with much of the world still dealing with the noisome consequences of excessive leverage, inflation pressures may not necessarily explode. But over the course of the coming year, a number of central banks in Asia may still see inflation come dangerously close to their implicit or explicit targets. Watch out especially for Indonesia, India, Korea and the Philippines.

The second, and arguably bigger, risk from loose monetary conditions lies in rising asset prices and, dare we say it, a repeat of bubbles to which the region has become painfully accustomed over the years. While the rest of the world can tolerate low interest rates for a while, Asia in particular cannot afford such luxury: for this, excess liquidity is far too ample and risk appetite too well entrenched. Given the long cycle of monetary policy, action is required imminently to tighten the reins and prevent the financial accelerator from hitting full throttle, the process whereby rising asset prices spur lending and render marginal rate hikes ineffective.

Of course, this is not to argue that Asian officials will sit idly by and see such bubbles form. They are likely to deploy various defences to guard against these risks, including regulatory measures, a reduction in the fiscal stimulus, currency appreciation, and outright interest rate hikes. However, the risk is that the region moves too sluggishly in tightening policy, thus repeating a cycle of boom and bust that most have thought to lie in a more innocent past. The next few quarters will show whether hawkish rhetoric is all for show, or whether officials intend to follow through.

HSBC Main Forecasts (current vs. Asian Economic Quarterly 3Q 2009)

	2009 (old)	2009 (new)	2010 (old)	2010 (new)	2011	2009 consensus	2010 consensus
Australia	0.2	0.8	2.6	2.6	2.8	0.8	2.4
China	7.8	8.1	8.5	9.5	8.9	8.3	9.4
Hong Kong	-4.5	-4.0	2.4	3.8	4.3	-3.4	3.5
India	6.2	6.2	8.0	8.0	8.5	6.1	7.5
Indonesia	3.8	4.3	5.3	5.8	5.5	4.3	5.1
Japan	-6.3	-5.7	1.2	1.2	1.1	-5.7	1.5
Korea	-2.3	-0.4	3.6	4.6	4.9	-0.9	4.0
Malaysia	-3.8	-2.0	6.3	6.8	5.5	-3.0	4.3
New Zealand	-0.3	-1.4	2.3	1.5	2.4	-2.1	2.0
Pakistan	0.8	0.8	2.6	2.6	3.7	2.6	3.6
Philippines	1.0	1.8	3.0	4.2	4.7	1.3	3.4
Singapore	-6.0	-2.5	5.3	6.5	5.5	-4.1	5.0
Sri Lanka	3.7	4.0	7.0	7.0	7.2	3.6	5.7
Taiwan	-5.1	-4.2	4.4	4.4	4.9	-4.1	4.2
Thailand	-4.0	-2.8	4.8	4.5	4.7	-3.7	3.8
Vietnam	4.7	4.9	6.8	6.8	5.9	4.3	5.6
Asia x JP	4.2	4.7	6.9	7.6	7.4	4.7	7.3
Asia x JP & CH	0.5	1.4	5.3	5.8	6.0	1.2	5.1
Asia x JP, CH & IN	-1.7	-0.4	4.3	4.9	5.0	-0.7	4.2

Source: HSBC, Consensus Economics; NB: Asia aggregates USD GDP weighted and excluding Australia and New Zealand

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Key forecasts

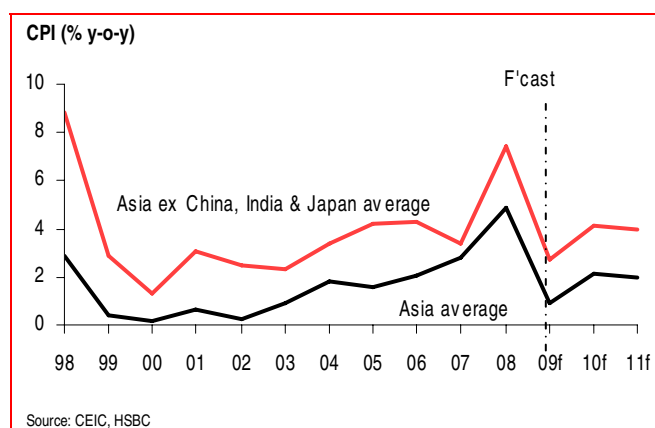
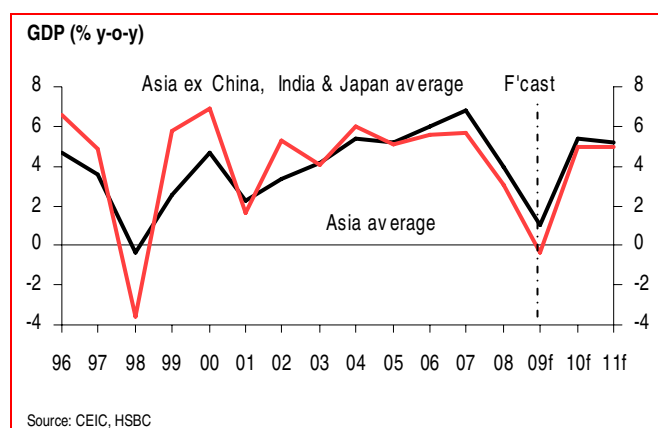
(% y-o-y)	Asia average	AU	CN	HK	IN	ID	JN	KR	NZ	MA	PK	PH	SG	SL	TW	TH	VN
Real GDP																	
2008	3.9	2.4	9.0	2.4	6.7	6.1	-0.7	2.2	-1.1	4.6	3.7	3.8	1.1	6.0	0.1	2.6	6.2
2009f	1.0	0.8	8.1	-4.0	6.2	4.3	-5.7	-0.4	-1.4	-2.0	0.8	1.8	-2.5	4.0	-4.2	-2.8	4.9
2010f	5.3	2.6	9.5	3.8	8.0	5.8	1.2	4.6	1.5	6.8	2.6	4.2	6.5	7.0	4.4	4.5	6.8
2011f	5.1	2.8	8.9	4.3	8.5	5.5	1.1	4.9	2.4	5.5	3.7	4.7	5.5	7.2	4.9	4.7	5.9
Private consumption																	
2008	4.0	2.6	8.9	1.7	2.9	5.3	0.6	0.9	-0.1	8.5	5.2	4.7	2.4	6.7	-0.3	2.5	7.6
2009f	2.8	1.8	8.0	-1.0	5.0	4.9	-1.1	-0.5	-1.1	2.5	1.0	2.4	-2.5	3.5	0.4	-0.7	3.4
2010f	4.6	2.8	8.5	2.1	8.0	5.4	0.8	3.2	0.7	5.6	2.0	3.7	3.6	6.8	2.1	2.6	5.8
2011f	4.7	3.0	8.6	3.0	8.3	5.0	1.0	3.5	2.6	5.0	3.5	5.2	3.2	7.0	2.6	2.9	5.0
Fixed investment																	
2008	7.6	8.3	26.1	0.0	8.2	11.7	-5.0	-1.7	-4.3	0.8	-6.5	2.9	13.7	11.0	-10.6	1.1	13.2
2009f	3.7	-4.4	27.5	-8.3	6.0	3.3	-13.1	-2.0	-14.2	-7.5	3.0	0.2	-5.2	4.5	-16.3	-8.1	3.2
2010f	8.8	-1.7	26.0	5.0	11.0	8.7	-5.1	4.3	-1.4	4.1	4.0	4.3	8.0	13.0	3.8	7.1	8.0
2011f	8.1	4.9	20.0	6.0	12.5	7.4	-2.1	5.5	2.3	7.0	4.0	5.9	7.6	12.0	3.7	7.1	6.0
Current account balance* (% of GDP)																	
2008	4.7	-4.6	9.8	10.9	-3.1	0.1	3.2	-0.7	-8.8	17.4	-4.8	2.3	14.8	-9.3	6.3	-0.1	-11.6
2009f	3.8	-3.3	5.1	11.5	-1.5	1.5	3.2	3.0	-1.8	15.4	0.3	3.6	10.3	1.8	8.1	3.7	-6.9
2010f	3.7	-3.8	4.3	12.5	-1.8	0.2	4.5	1.4	-8.5	12.9	1.1	3.3	9.1	0.3	6.3	2.2	-8.4
2011f	4.1	-4.3	4.2	13.2	-1.6	0.7	5.5	1.2	-7.8	13.2	1.7	3.0	9.8	-1.4	7.0	3.4	-5.8
CPI (period average)																	
2008	4.9	4.3	5.9	4.3	8.3	10.2	1.5	4.7	3.9	5.4	20.3	9.3	6.5	22.7	3.5	5.5	23.0
2009f	0.9	1.9	-0.6	0.6	10.5	5.3	-1.2	2.8	2.1	0.8	13.1	3.2	0.3	3.3	-0.7	-1.0	7.6
2010f	2.1	2.8	2.6	2.3	9.6	7.9	-1.4	3.1	2.2	3.3	7.9	4.8	2.5	7.5	1.1	2.6	10.4
2011f	2.0	3.0	2.5	3.0	6.0	7.0	-0.8	3.2	2.6	2.5	7.6	5.9	2.0	6.7	1.6	2.9	7.1
Money market interest rate** (% , year-end)																	
2008	3.9	4.1	1.7	1.0	8.5	12.0	0.4	4.7	5.1	3.4	n.a.	6.1	1.0	n.a.	1.0	3.0	n.a.
2009f	2.4	3.6	1.7	0.3	4.8	6.9	0.3	2.2	3.4	2.0	n.a.	5.5	0.6	n.a.	0.8	1.6	n.a.
2010f	3.0	4.6	2.3	0.3	4.8	8.1	0.3	3.2	3.9	2.5	n.a.	6.8	0.9	n.a.	1.5	2.3	n.a.
2011f	3.5	4.6	2.3	0.3	5.0	8.1	0.3	3.5	3.9	6.5	n.a.	6.8	1.2	n.a.	2.0	2.8	n.a.
Exchange rate (vs. USD, year-end)																	
2008	n.a.	1.43	6.82	7.75	48.7	11,325	91	1,260	1.73	3.45	79.0	47.4	1.44	113.3	32.8	34.7	17,483
2009f	n.a.	1.16	6.80	7.80	48.0	9,500	100	1,200	1.45	3.50	90.0	46.0	1.40	118.0	31.5	33.0	18,200
2010f	n.a.	1.05	6.66	7.80	46.5	8,800	105	1,075	1.37	3.46	92.0	43.5	1.34	118.0	29.0	31.5	18,400
2011f	n.a.	1.05	6.40	7.80	44.5	8,800	100	1,050	1.37	3.42	92.0	42.5	1.32	118.0	28.0	31.0	18,400

* Hong Kong: current account refers to visible and invisible trade balance only

** China: 3-month time deposit; Hong Kong: 3-month HIBOR; India: 3-month T-Bill; Indonesia: 3-month SBI; Korea: 3-month CD yield; Malaysia: 3-month KLIBOR; Philippines: 3-month T-bill; Singapore: 3-month SIBOR;

Taiwan: 91-day secondary CP; Thailand: 3-month BIBOR. ***India GDP forecasts are fiscal-year basis.

Source: HSBC, CEIC; NB: Asia aggregate data are based on 2008 nominal USD weights and does not include Australia and New Zealand



Monetary & fiscal policy assumptions

Monetary policy

Period end (%)		Q1 2009	Q2 2009	Q3 2009f	Q4 2009f	Q1 2010f	Q2 2010f	Q3 2010f	Q4 2010f
Australia	RBA cash rate	3.25	3.00	3.00	3.25	3.75	4.00	4.25	4.50
China	1 year base lending rate	5.31	5.31	5.31	5.31	5.31	5.58	5.85	5.85
Hong Kong SAR	Base rate	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
India	Repo rate	5.00	4.75	4.75	4.75	4.75	5.00	5.25	5.50
Indonesia	SBI 28 day rate	7.75	7.00	6.50	6.50	6.50	7.00	7.50	8.00
Japan	Overnight call rate	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Korea	Overnight call rate	2.00	2.00	2.00	2.00	2.50	2.75	3.00	3.00
Malaysia	Overnight rate	2.00	2.13	2.00	2.00	2.00	2.00	2.25	2.50
New Zealand	RBNZ cash rate	3.00	2.50	2.50	2.50	2.50	2.75	3.00	3.25
Pakistan	Repo rate	15.00	14.00	12.00	11.00	10.00	9.00	9.00	9.00
Philippines	Reverse repo rate	4.75	4.25	4.00	4.00	4.00	4.25	4.50	4.75
Singapore	3 months rate	0.67	0.69	0.60	0.60	0.70	0.70	0.80	0.90
Sri Lanka	Repo rate	11.75	11.00	10.50	10.00	10.00	10.00	11.00	11.00
Taiwan	Rediscount rate	1.250	1.250	1.250	1.250	1.375	1.500	1.625	1.750
Thailand	1-day repo rate	1.50	1.25	1.25	1.25	1.25	1.50	1.75	2.00
Vietnam	Policy rate	7.00	7.00	7.00	7.00	8.00	9.00	10.00	11.00

Source: HSBC, CEIC

Fiscal policy assumptions for 2010

Australia	The expected widening of the deficit in 2009/10 reflects both policy decisions and the impact of the weaker economy on the budget. Total capital expenditure is expected to rise by AUD13bn, equivalent to 1.1% of GDP in 2009/10, including investment in schools and public housing.
China	Expansionary policy to stay in place to support growth.
Hong Kong	In 2010-11, HK's fiscal position should still be expansionary as a number of infrastructure projects will have commenced. Total investment is estimated to be HKD25trn for the 10 projects. While it is likely that some will be offered for private tender, we believe the government will contribute part of the investment.
India	With stronger economic growth should come some structural tightening measures, although we are far from certain this will occur. There is a danger that capital spending will bear the brunt of any squeeze. We expect the central govt. deficit to fall below 6% of GDP in FY 2010/11.
Indonesia	In 2010, with growth picking up, we expect the budget deficit to improve to 1.5% of GDP.
Japan	We assume that economic policy by the new government would proceed almost in line with its strategy. It will push up the real GDP growth rate by 0.3ppt in FY2010, mainly through private consumption.
Korea	Government has set a 2% rise in the budget for 2010. With tax cuts continuing into 2010 and a gradual economic recovery, a balanced budget is unlikely in 2010, suggesting gross public debt will remain above 36% of GDP for the next five years. The top corporate tax and individual income tax rates are scheduled to decline further by 2ppt from 22% and 35% in 2009, respectively.
Malaysia	With the budget deficit heading sharply higher, any further stimulus could prove counter-productive. In any case, it will hopefully prove to be unnecessary.

Source: HSBC, CEIC

Fiscal policy assumptions for 2010

New Zealand	The higher expenditure is forecast to leave the fiscal balance in deficit over the medium term. We expect a budget deficit of 3.2% of GDP for 2010 and 3% of GDP for 2011, reflecting declining government spending as the economy recovers.
Pakistan	Fiscal consolidation will have to endure, which means further caps on spending and efforts to mobilise government revenues. The fiscal sector should thus remain a drag on overall GDP growth, provided the government heeds the need for further consolidation of its accounts.
Philippines	Post elections in Q2, government spending should soften once more before the incoming administration draws up new spending plans. Revenue collection may improve as the economy embarks on recovery and commodity prices surge but will remain subdued, keeping the deficit elevated.
Singapore	Assuming the economy is back on track, then a fairly neutral budget is to be expected for 2010.
Sri Lanka	Reconstruction work will remain high, though with growth turning around government finances should improve somewhat. We expect the budget deficit to tighten to 9.5% of GDP.
Taiwan	Infrastructure projects and reconstruction work after Typhoon Morakot are likely to put further pressure on the overall fiscal balance. However, gradual recovery in the economy will raise government revenue. Policymakers may consider raising various tax rates towards the end of 2010 to alleviate the financial burden.
Thailand	Roughly THB27bn is to be spent before the end of the current fiscal year in September with the rest over the coming years till 2012. Although rising growth will boost revenue collections, we think the large spending plans will keep the deficit at around 6% of GDP.
Vietnam	With economic growth set to accelerate in 2010, we expect the budget deficit to improve to 7% of GDP.

Source: HSBC, CEIC

Recovery: how strong, how long?

- ▶ Asia has rebounded strongly and with exports now improving on the back of the pick up in regional domestic demand...
- ▶ ...the chances of seeing a “self-sustaining” recovery develop are high. We expect further upward revisions to consensus forecasts
- ▶ Singapore and Malaysia to witness biggest growth improvements and Indonesia the smallest. China and India will pick up pace

Three steps to sustainability

In the previous edition of this publication we argued that Asia’s economic recovery was likely to involve three overlapping stages. First, a relief bounce, as fears of another Great Depression evaporated; second, a strong boost to growth from the various fiscal and monetary stimulus plans; third, a “self-sustaining” phase associated with a recovery in exports.

1. Bouncing back: Asia’s Q2 GDP numbers

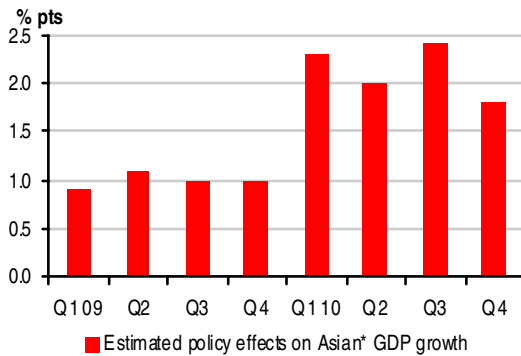
	% q-o-q annualised*	% y-o-y	% difference from peak
China	+15.0	+7.9	-
Hong Kong	+13.9	-3.8	4.7
Japan	+3.7	-5.9	7.5
Korea	+11.0	-2.2	2.7
Taiwan	+20.7	-7.5	7.0
India	+7.4	+6.1	-
Indonesia	+5.3	+4.0	-
Malaysia	+17.0	-3.9	4.2
Philippines	+10.0	+1.5	-
Singapore	+20.6	-3.5	5.4
Thailand	+9.6	-4.9	5.5
Vietnam	+9.5	+4.4	-
Asia ex Jpn	+13.0	+4.2	-
Asia ex Jpn & China	+10.8	+0.3	-

Source: CEIC, HSBC. * In seasonally adjusted terms

As we see it, the big GDP increases throughout non-Japan Asia in the second quarter (table 1) were effectively the result of a huge collective sigh of relief – phase one. In the absence of fundamental imbalances and/or major financial sector problems in these economies, demand and output were able to bounce back quickly as confidence improved.

No doubt, policy effects also played some part, although our analysis suggests that the biggest impact of the rate cuts and fiscal easing measures will be felt through 2010 (chart 2). Even if we assume that the various governments only deliver half of what they have promised, the addition to GDP will be no less than two percentage points next year according to our growth model.

2. Plenty more policy effects to come



Source: HSBC. * Asia excluding Japan and China.

As for exports, some improvement was seen in the second quarter, while our own composite lead indicator offers plenty of grounds for hope as far as the second half of 2009 is concerned (chart 3). Growth in real exports of goods and services looks set to turn positive even in year-on-year terms by the fourth quarter of this year.

3. Export lead indicator points to positive y-o-y growth by Q4



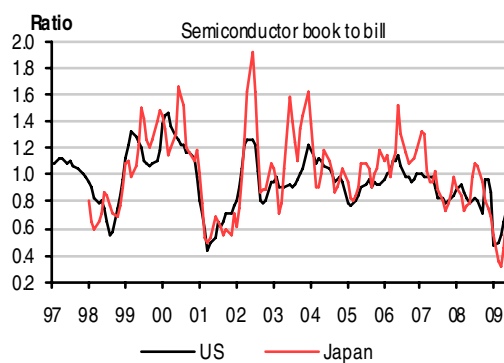
Source: HSBC, CEIC

In *Export Support: The next leg to Asia's V-shaped recovery* (11 September), we argue that the results of the lead indicator are backed up by the fundamentals. In particular, Asian private consumption and investment are growing again (and not just in China where real investment and retail sales are running at roughly 40% and 16% respectively year-on-year) which in turn is boosting demand for imports. Even economies in the Western world are showing more positive signs,

and although the various “Cash for Clunkers” schemes have flattered the picture somewhat our colleagues have revised up their US and Eurozone 2010 GDP growth forecasts to 2.9% and 0.7%, respectively (although not so much as a result of greater optimism about consumption but rather investment and exports).

Also, enough of the key tech indicators have improved (see chart 4, for example) to be confident that the global IT cycle is on the mend as well. This is very important for export prospects throughout the region, but particular in Singapore, Taiwan, Korea and Malaysia.

4. Tech sector looking up

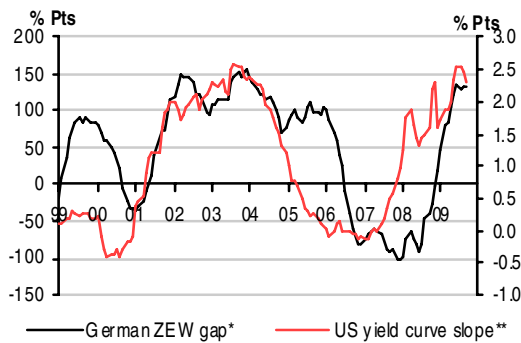


Source: CEIC

In summary, the Asian economies have rebounded, and rebounded strongly, while we believe the risks of a double-dip recession have diminished significantly as more and more signs of a regional, if not world, trade recovery emerge.

Chart 5, showing our preferred longer lead indicators of Asian/global growth, also suggests a renewed downturn is far from imminent. The slope of the US yield curve (10 year – 2 year) and the German ZEW gap (expectations – current conditions) have previously led turning points by at least two years (see *Asia recovery: What to look for*, 12 February 2009 for details) and have yet to show any decisive weakness.

5. Longer lead indicators have yet to turn down

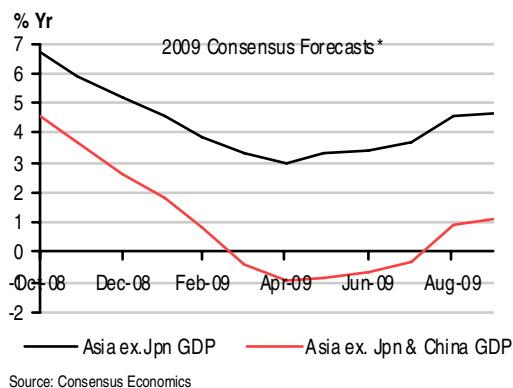


In our view, it is highly likely that Asia has embarked on a strong *and* sustainable economic recovery. But two important questions still arise which we will tackle in this section. First, is there still room for growth in the region to beat upwardly revised consensus forecasts? And second, which countries within Asia are set to register the strongest rebounds?

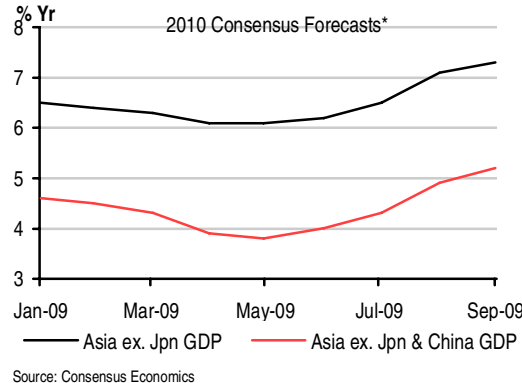
Consensus beating growth?

Charts 6 and 7 track the development of 2009 and 2010 consensus growth projections for Asia excluding Japan, as well as Asia excluding both Japan *and* China. We can see how forecasters became more pessimistic late last year and early 2009 before consistently raising their projections from May. In the latest survey, conducted in early September, the expectation for GDP growth in Asia excluding Japan and China was 1.1% in 2009 and 5.2% in 2010.

6. The fall and rise of consensus growth forecasts for 2009...



7. ...and 2010



It looks to us that the 2009 number is still too low and will almost certainly be revised higher. In the right hand column of table 8, we have worked out for various Asian countries the quarter-on-quarter (non-annualised) rise in seasonally adjusted GDP that would be required in both Q3 and Q4 to ensure the year average growth outturn matches that of the consensus.

8. Consensus growth forecasts for 2009 have further to rise

	Consensus growth forecast – 2009 average	Required q-o-q growth in both Q3 and Q4 to meet consensus
Hong Kong	-3.4	0.7
India	6.1	1.6
Indonesia	4.3	1.4
Korea	-0.9	0.9
Malaysia	-3.0	1.4
Philippines	1.3	0.9
Singapore	-4.1	-0.5
Sri Lanka	3.6	2.5
Taiwan	-4.1	1.6
Thailand	-3.7	0.7
Vietnam	4.3	1.0
Asia*	1.1	1.2

Source: HSBC, Consensus Economics (September survey). * Excluding China & Japan

Some of the numbers are more plausible than others, but generally they look fairly low. High frequency data for the third quarter point to another strong rise in GDP, while short-lead indicators across the region are unanimously bullish. A quarter-on-quarter GDP rise of 1.2% in Asia (ex. China and Japan) would be below trend and less than half the 2.6% quarterly increase witnessed in Q2.

The same message also comes from chart 9, which shows the fit and forecasts of our own Asia (ex. China and Japan) GDP growth model. The equation includes weighted averages of nominal and real commercial bank interest rates, the structural budget balance (designed to pick up changes in the underlying fiscal stance), oil prices, exports and the equity market (included to capture both wealth and confidence effects). With the exception of the last two series, all the explanatory variables are lagged by at least 4 quarters. For the record, we used our own lead indicator to predict exports as well as assuming the region's equity markets flatten out at current levels.

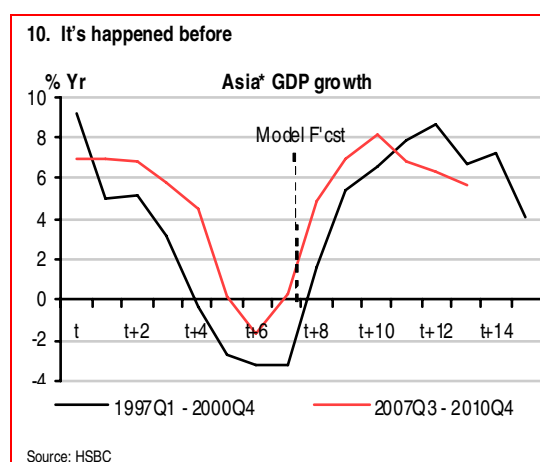


The results are striking, pointing to 2.5% average GDP growth in 2009 and 7.7% in 2010; in other words, 1.4% points and 2.5% points above current consensus projections. Year-on-year Asian GDP growth (ex. China and Japan) peaks in the first half of 2010 at 8.3%.

On the basis of the model, the growth bounce largely reflects the surge in equity prices over recent months, the hugely synchronised and significant easing of fiscal and monetary policies as well as the likely further improvement in export growth.

It also seems plausible to suggest that after a deep recession, the subsequent recovery is likely to be stronger than following a minor downturn, particularly if the domestic economic

fundamentals and financial systems are in good shape. The last time Asian (ex. China and Japan) growth turned negative was in 1998, and we have compared what happened to GDP then with the current episode, extending the red line on the basis of the model-generated numbers in chart 9. Clearly, there is a precedent for what the equation is suggesting for the development of growth.



The obvious riposte to such a comparison is that the US and Europe were booming in the late 1990s and are very unlikely to do so over the next 18 months. However, as we have pointed out many times in the past, Asia's post-crisis recovery began with private consumption which then fed into a big pick-up in intra-Asian trade. In other words, it was not, as conventional wisdom has it, the Western world that pulled Asia out of recession, but Asia itself. Also, the interest rate and fiscal policy response has been much larger this time than it was 11 years ago and financial systems are in much better health.

We should stress that the model is, of course, only designed as a guide, and indeed even our own projections are not as bullish as those suggested above. Nevertheless, the analysis indicates that the risks to consensus forecasts probably lie on the upside and perhaps significantly so.

Our forecasts for Asia (ex. China and Japan) GDP growth are 1.5% and 5.7% this year and next. In

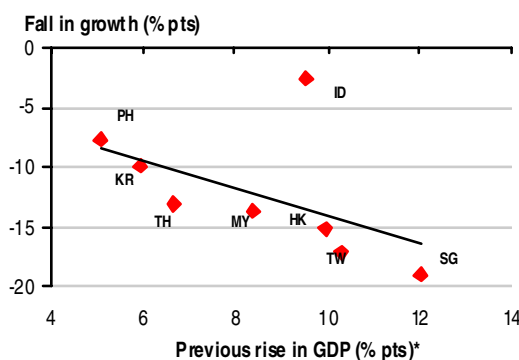
China, we look for growth of 8.1% in 2009, rising to 9.5% in 2010. Even with the recent slowdown in Chinese bank lending growth to what in any case are more “normal” levels, there is plenty of money to fund the various infrastructure projects for some time to come. Most of the projects are multi-year in nature and, as such, will not suddenly disappear overnight. The Chinese authorities also appear more determined than ever to ensure consumer spending becomes a bigger driver of growth both now and over the long term. The various moves to build the basics of a welfare state should gradually serve to build confidence and hence reduce precautionary savings.

Country comparisons

When thinking about which countries are likely to show the strongest rebounds over the coming year, it is worth taking a step back to consider why some Asian countries performed much worse than others during the recent recession.

Some support for the notion that how weak/strong growth was in the past will influence how weak/strong growth will be in the future is given by chart 11. This shows a generally close relationship between the fall in the GDP growth rate from peak to trough and the rise in GDP over the prior 18 months. Indonesia is clearly an outlier here, having seen a very modest slowdown in activity during the recession relative to the rise it enjoyed in the earlier period. We suspect that heavy spending before and during the parliamentary and presidential elections earlier this year played a big part in supporting growth.

11. The higher the rise, the harder the fall

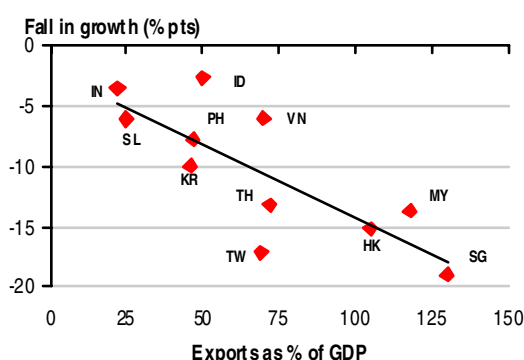


Source: HSBC, CEIC. * Rise in level of seasonally adjusted GDP in the 18 months prior to the start of the downturn

We have excluded India and Vietnam from the chart as the structural growth rate in these two countries is considerably higher than it is for the others. This means that the “previous rise” in GDP is likely to be bigger, thereby distorting the relationship.

A slightly more sophisticated explanation for the differing growth experiences is provided by chart 12. This suggests, as one might expect, that the degree of openness of the various countries had an important role to play. It should be noted that for Singapore and Hong Kong we have excluded re-exports from the calculation of total export share.

12. Close link between “openness” and growth fall



Source: HSBC, CEIC

If one believes that what we are going to see during the current upswing is partly the reversal of what we saw in the downswing, then charts 11 and 12 suggest that Singapore, Malaysia, Hong Kong and Taiwan will experience the strongest growth bounces, with Indonesia, the Philippines, Korea, and India the smallest.

But this is not the end of the story. We argued earlier that policy factors would also play an important part in driving recovery in the region. As such table 13, showing the extent to which commercial banks have lowered their lending rates since September last year, as well as the announced fiscal easing (as a percentage of GDP) in 2009 in each of the countries is worth a look. The third column adds together these two factors to arrive at a measure of the extent of domestic policy easing. This may seem a little simplistic, but our growth model suggests that a 1% point change in both series has a very similar impact on GDP growth.

13. Differing degrees of policy support

	Rate cuts* (commercial banks)	Fiscal easing (% GDP)	Total (column 1 + 2)
China	2.2	4.3	6.5
Hong Kong	1.8	1.8	3.6
India	2.4	4.0	6.4
Indonesia	1.3	1.4	2.7
Japan	0.4	10.2	10.6
Korea	2.0	5.8	7.8
Malaysia	1.3	7.2	8.5
Philippines	1.6	4.1	5.7
Singapore	0.0	8.0	8.0
Taiwan	1.6	4.0	5.6
Thailand	1.3	3.2	4.5
Vietnam	7.0	7.0	14.0
Asia**	1.9	4.3	6.2

Source: HSBC. * From peak to current. ** Excluding China & Japan. ***15-year mortgage rate; SIBOR-linked mortgages would have shown a small decline over the period

Here, Vietnam stands out as having administered by far the most in the way of policy medicine to tackle the slowdown. Ironically, with credit growth having already surged in the country and the trade deficit moving sharply higher again, the risk is that too much has been done and some of the measures will need to be taken back relatively quickly. As it

is, our currency team continues to expect the dong to be the only Asian currency to soften against the US dollar in coming months. After Vietnam, come Malaysia and Singapore. Meanwhile, at the other end of spectrum is Indonesia, where both the commercial bank rate cuts and announced fiscal action have been comparatively small.

Everyone's a winner

On the basis of the factors we have looked at, therefore, Singapore and Malaysia, along with Vietnam, will enjoy the biggest growth improvements over the next 12 months. Next come Hong Kong, Korea, Taiwan and Thailand, with India, the Philippines and Indonesia probably experiencing the smallest rises.

Nevertheless, if our earlier analysis is right then growth in the vast majority of Asian economies will surprise the consensus on the upside over the coming months and quarters.

The key exception is Japan where our economist Seiji Shiraishi remains cautious. Although exports and hence industrial production are gaining some traction there, the resulting benefits to the domestic economy are likely to remain muted. Capacity utilisation is so low that it is hard to imagine investment taking off any time soon (this was certainly one of the messages to come from the latest Tankan survey), while also raising the specter of a return to "bad" deflation. The latter would no doubt keep consumers away from the shops.

Although the gap is set to narrow, we expect China to continue to see the strongest growth in the region led by buoyant investment and consumption. The recovery is being driven heavily by the state, but we do expect to see private investment contribute more in coming months. Consumption should also receive a lift from a renewed pick-up in employment and migration from rural areas.

Exit, when and how?

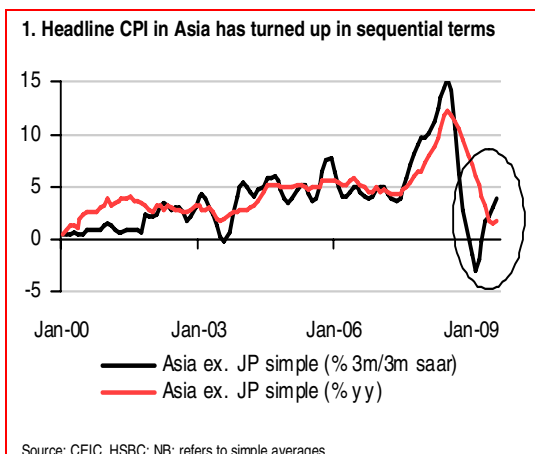
- ▶ The key question over the coming quarters concerns the speed and magnitude of exits from stimulative monetary and fiscal policies
- ▶ Inflation may resurface earlier than widely expected, but the policy response is bound to be sluggish, raising the risk of asset bubbles
- ▶ We outline four lines of defence that policy-makers may deploy to prevent inflation pressures from erupting and contain asset prices

Feelin' a little loose

Asian policy-makers reacted swiftly and decisively when it came to shoring up growth. Over the past year, the region's governments have implemented some of the world's biggest fiscal stimulus programs, while cutting policy rates with equal panache even as financial systems showed few signs of the dislocations evident elsewhere. As Asia's economies roar back, policy-makers now face the critical question of when and how to unwind their extraordinary policy boosts.

There are two main risks in tightening policy - both fiscal and monetary - too late. First, inflation pressures may get out of hand, leading to a replay of the first half of 2008 when the region grappled with exploding CPI indices. There are already signs that price pressures are returning and policy-makers are well advised to maintain vigilance. Second, the region may succumb to asset bubbles as increasingly loose financial conditions drive stock and property prices higher and higher. So far, asset markets have staged an impressive rebound since last year's sell-off; but, they have arguably not yet entered bubble territory and there is still time to prevent financial imbalances from

growing impossibly large. These risks have to be weighed against the need to sustain growth in a world where exports may not be as robust as in the past, barring a temporary rebound, due to the lingering effects of the crisis on consumer demand in the West. Clearly, officials will be equally mindful of the risks of tightening too early.

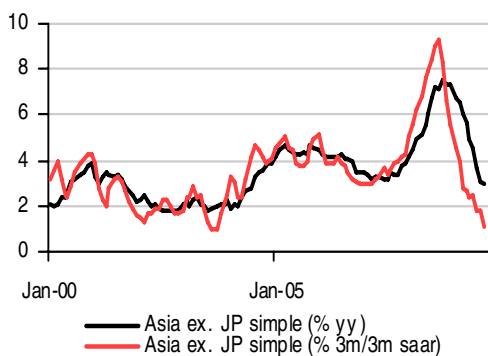


Who said inflation's dead?

A few short months after fear of deflation gripped even the most hardened investors and officials in Asia, price pressures are starting to resurface. Part of this, of course, can be attributed to the rally in global commodity prices, most notably oil. CPI

readings in the region are especially sensitive to the price of crude, and base effects alone virtually ensure a jump in inflation in the coming months.

2. Core inflation still trending down in the region

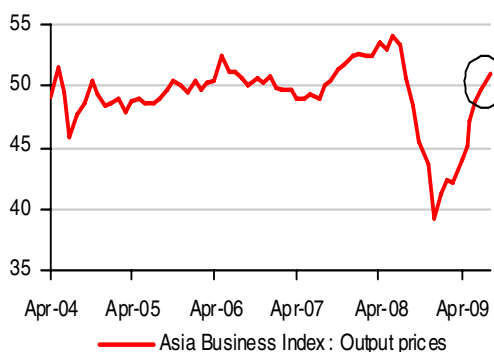


This is worrying stuff in itself. In the middle of last year, for example, when oil prices broke record after record, central banks across Asia saw their inflation targets shattered. A re-run of that episode cannot be ruled out, not least because a falling US dollar, to which many Asian currencies are explicitly or implicitly tied, pushes up the local currency cost of crude. Rising oil prices also tend to have second-round effects on the cost of other items, most notably food, which dominates CPI baskets in the region's less developed economies.

But it remains debatable whether rising costs for raw materials warrant an aggressive monetary policy response. In fact, in 2008, when inflation

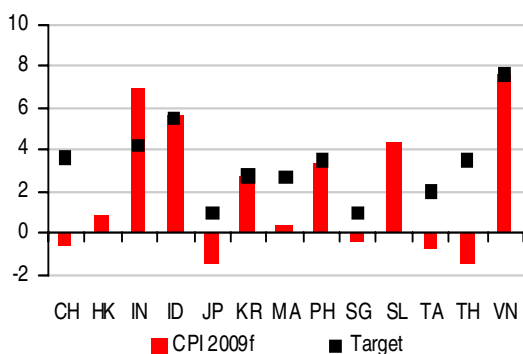
was fuelled by soaring commodity prices, the region's central banks reacted sluggishly, raising interest rates nowhere near as quickly as the spike in inflation. Such supply-side shocks, of course, often merit monetary accommodation, especially if they prove temporary.

3. Asia ex Japan: firms are raising output prices

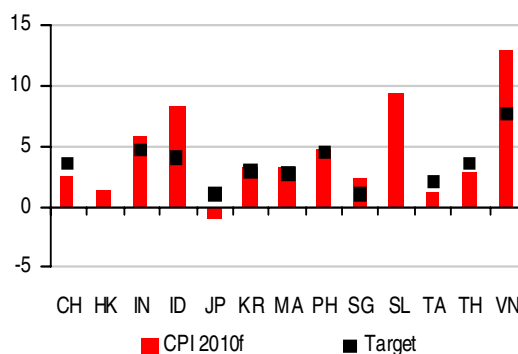


This time around, however, there are signs not only that headline inflation pressures may rise, but that core prices may tick up surprisingly quickly as well. This, to be sure, is not yet visible in official CPI readings. But, there are already signs that pricing power is returning among companies. Take, for example, the output price component of our Asian Business Index (ABI), a composite of all available national PMI and business surveys. This shows that on a net basis firms are raising their output prices, which tends to foreshadow a

4. Headline inflation vs explicit and implicit targets (% y-o-y)



5. Headline inflation vs explicit and implicit targets (% y-o-y)

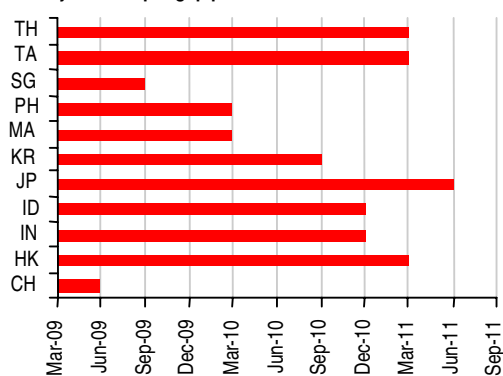


broader pick-up in core inflation. Notably, pricing power is not yet returning in the export sector, where the rebound in volumes has so far outstripped the recovery in export values, reflecting a pervasive margin squeeze. Firms geared to the domestic sector, however, are seeing pricing power return rather swiftly.

The gap's closing

With growth roaring back in Asia, it is no surprise that pricing power is returning: yawning output gaps, after all, appear to be closing faster than many had dared to hope during the dark, cold winter following the Lehman Brothers crisis. Reliable estimates of output gaps are tricky to come by, especially in Asia where data limitations often prevent more analytical approaches such as growth accounting. Still, for the region overall, we forecast that the output gap will close by the end of 2010 at the latest, raising price pressures, especially in more domestically oriented sectors and in raw material markets.

6. Projected output gap persistence

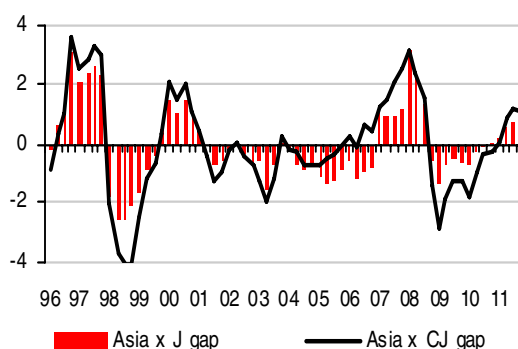


Source: HSBC

Chart 6 shows when we expect various output gaps to close in Asia. These estimates are derived from HP filtered series and based on our GDP forecasts. China and Singapore (the latter possibly reflecting some statistical quirks) may already have closed their output gaps, while Malaysia and the Philippines can be expected to do so by the first quarter of next year. Korea, Indonesia and

India will hit potential around the middle of next year, while Thailand and Taiwan are notable laggards. These estimates may appear somewhat counterintuitive, such as in the case of Indonesia, which avoided a full recession and may therefore be expected to close its gap earlier. But, keep in mind that Asia's, including Indonesia's, potential growth rates are rather high and that it takes more than a couple of quarters of strong sequential growth to close output gaps. Moreover, positive growth in itself does not close an output gap, which requires above-trend growth for a while.

7. Projected output gaps (% of GDP)



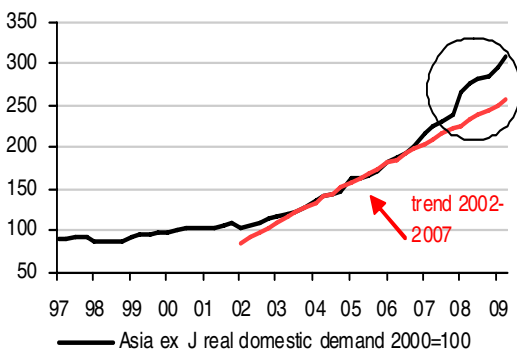
Source: CEIC, HSBC

On an aggregate basis, and taking into account the rather volatile sequential growth pattern in the region, we estimate that Asia ex Japan will fully close its output gap by the fourth quarter of 2010, while excluding China as well, the region should see a zero gap by the first quarter of 2011. This is a relatively swift return to potential output, likely portending rising price pressures. In fact, these may set in earlier than expected as in many sectors prices may rise well before the output gap has fully closed given inherent friction in the reallocation of human and physical capital in an economy. Here, keep in mind that Asia is not facing a mere cyclical rebound but a structural economic transformation away from external demand drivers as well.

In fact, discussions of output gaps often neglect the nature of the rebound, which can differ

markedly over the economic cycle with powerful implications for price pressures. In Asia, for example, the current recovery is driven by domestic demand, rather than exports, with consumption, property investment, and infrastructure build-up taking the lead. The risk here is that investment in the manufactured goods sectors is lagging behind, in part because of the uncertain outlook for exports and in part because of lingering worries over excess capacity.

8. Domestic demand in Asia still above trend (index level)



Source: CEIC, HSBC

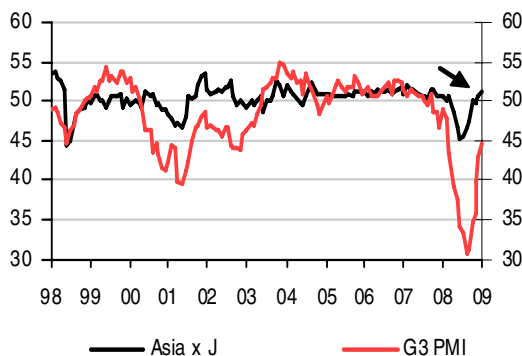
In the initial stages of the recovery, therefore, core price pressures may be relatively muted given that capacity utilization in the manufacturing sector may rise more slowly than would be the case if exports roared back. But, as shipments fire up, the lack of investment in manufacturing industries may eventually stoke even greater inflationary pressures. One shouldn't therefore be misled by stories of staggering excess capacity in Asia and fears of global deflation emanating from the region: price pressures, even for core measures, are bound to resurface faster than most currently expect – a topic to which we will return shortly.

Moreover, given that the driver of growth in Asia is shifting away from exports towards domestic demand, inherent friction in the redeployment of factors of production – labour as well as machinery – may stoke price pressures earlier than widely expected: capacity constraints in certain

industries which drive the rebound, such as construction, will appear earlier than the closure of the headline output gap implies.

Already, there are reports of labour shortages in a number of Asian countries, especially in service sectors which cannot necessarily re-absorb excess labour from export industries as quickly as one would hope. This, in turn, fuels wage pressures even before the output gap has fully disappeared. On aggregate, employment is already growing in Asia ex Japan, although the shift from one sector to another masks the inherent wage pressures that may be starting to build and that may ultimately feed through into rapidly rising price indices.

9. Asia ex Japan's employment PMI indices already above 50



Source: CEIC, MARKIT, HSBC; NB: a reading above 50 denotes net employment expansion

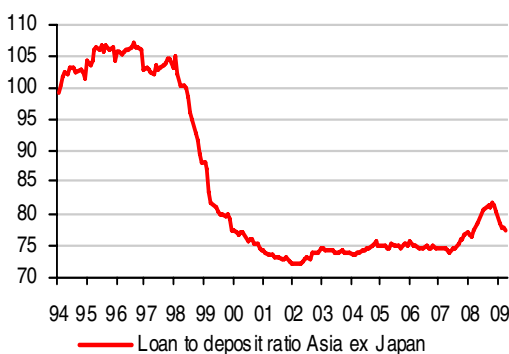
Where liquidity goes

With equipment and facilities investment now more muted than in a conventional recovery due to fears of capacity overhang in some industrial sectors, credit demand on the banking sector may also prove more constrained. This raises the risk that ample liquidity in Asia's financial systems will be deployed in more speculative ventures, leaking into the property sector, for example, or into consumer finance.

Already, asset prices have staged an impressive rebound, with real estate indices in places like Singapore approaching all-time highs despite the extraordinary depth of the recent recession. This

generally reflects the unimpaired risk appetite among investors in the region who never really perceived the Western financial crisis to dent the prospects for their own returns. Also, with interest rates hitting record lows amid sound financial systems, credit remains freely available, and, in many cases, comfortably exceeds nominal GDP growth, a sign, usually, that credit is pouring into increasingly speculative ventures.

10. Asia can leverage up with liquidity still ample



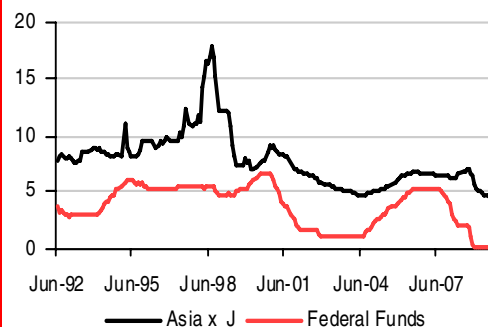
Source: CEIC, HSBC; NB: simple averages

We have dealt with the issues of financial resilience and emerging asset bubble risks at length in other publications (see for example, *Is Asia facing a credit crunch?* 18 September 2008; *Blowing bubbles*, 15 July 2009; *Asia must heed the risk of asset bubbles*, 3 August 2009; *The Anatomy of asset bubbles*, parts 1, 2, and 3, September 2009).

Suffice to say here that Asian officials now face a fundamental dilemma: while the region is currently experiencing growth decoupling from the West, monetary policy hasn't yet decoupled. Policy-makers in the region continue to shadow the US Federal Reserve to varying degrees, leaving monetary conditions far too accommodative relative to economic fundamentals. The big test over the coming two years, and one that will determine whether Asia itself will succumb to another tremendous asset boom and bust, is whether the region's central banks will tighten sufficiently aggressively and

independently of central banks elsewhere. To fully decouple, in short, Asia also has to strike an independent path for monetary policy.

11. Policy rates in Asia ex Japan (simple average) vs. US (%)



Source: CEIC, HSBC

Four lines of defence

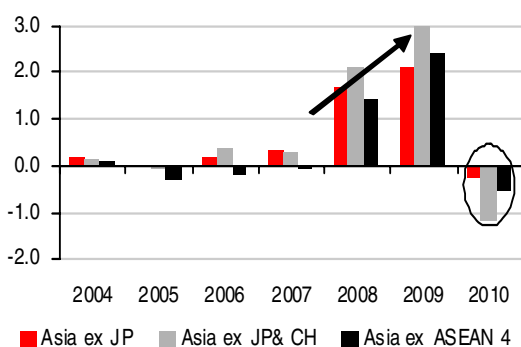
Evidently, the task facing Asian policy-makers is momentous. An abrupt decoupling of monetary policy from the West appears unlikely. Rather, the process will prove gradual, not least because of the perceived need to preserve the still-fragile recovery in domestic demand that has been set in train in part via an enormous policy stimulus in response to the recent crisis. Conceptually, there are four lines of defence that Asian officials are likely to employ progressively to tackle both inflation and asset bubble risks.

(1) Regulatory measures

The first step includes tightening regulation to stem soaring mortgage lending in the region and direct credit towards more prudent investments. Already, in Korea the authorities have expanded the designated speculative zones where tighter mortgage lending rules apply. In Hong Kong, meanwhile, officials are tightening mortgage lending rules starting in December, requiring a higher share of mortgage insurance (30% instead of 25%), effectively raising mortgage costs, and tightening loan-to-value requirements for mortgage loans up to 95% (standard mortgages have a 70% LTV ratio).

Elsewhere, Singapore announced it would release more land for development in a bid to cool prices, while in China the government has raised loan loss provision requirements and tightened rules concerning the calculation of bank capital. In the coming quarters, these and other markets will likely see further tightening of lending rules, primarily aimed at mortgage lending, but also with a view to restraining credit growth overall and raising the capital buffer of banking systems.

12. Negative fiscal impulse programmed for 2010 (% of GDP)



Source: HSBC

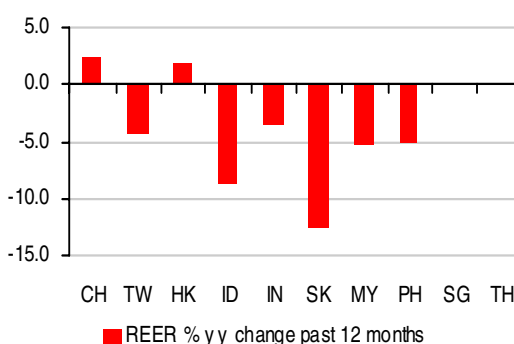
(2) Lower fiscal impulse

The second line of defence affects asset markets only indirectly. Already, governments have programmed in a significantly lower fiscal impulse for 2010 than for the current year. But more announcements may be forthcoming. Our China chief economist, Qu Hongbin, for example, reckons that China may resort to reduced stimulus spending, such as delays of certain infrastructure projects, to cool down growth over the coming year. Other countries that may see a slight reduction from previously envisioned spending levels include Korea, the Philippines, Thailand, Hong Kong, Taiwan, and Indonesia.

Reducing the fiscal policy boost first makes sense in many countries as there are still doubts over the resilience of private domestic demand in carrying growth. At the margin, therefore, officials may opt to reduce the fiscal stimulus first before

proceeding to aggressive tightening to avoid derailing the nascent recovery in autonomous demand. While not addressing the risk of asset bubbles necessarily, easing up on fiscal pump-priming does help to cool inflation and wage pressures, especially if infrastructure projects begin to compete for resources with resurging property investment.

13. Real effective exchange rate change since August 2008



Source: BIS, HSBC

(3) Exchange rate appreciation

An effective tool to address domestic inflation pressures also includes exchange rate appreciation. While we leave our FX strategists to comment on the precise movement, especially the relative strength, of Asian currencies, from a monetary policy perspective officials should become more open to allowing a gradual rise of their currencies. To be sure, such moves can be constrained in reality by political pressure to protect the interests of exporters as well as the fundamental balance of payments positions of various countries. Still, the relevance of the first factor may diminish over time as economies return to trend growth and import prices start to stoke inflation fears.

On the latter factor, while the fundamental balance of payments position of Asian economies remains healthy for the time being, we suspect that the relative strength of domestic demand, as well as rising global raw material costs on the back of Asia's reflation, will lead to deterioration

in trade balances. Whether this is compensated for by portfolio and FDI inflows sufficient to allow sizeable currency appreciation remains to be seen.

Still, wherever balance of payments surpluses persist - and China, as well as Korea, Taiwan, the Philippines and Indonesia come to mind - significant monetary tightening cannot proceed unless exchange rates have been allowed to adjust to more elevated levels: after all, raising rates aggressively while they remain floored in other parts of the world would only fuel capital inflows and eventually negate the tightening effect of policy rate hikes. This is true even in cases where capital controls exist as these are usually more porous, especially when interest rate differentials widen more substantially, than is often believed.

In other words, monetary policy decoupling in Asia virtually requires as a *precondition* that exchange rates appreciate. This is especially so the longer low interest rates are expected to persist in the West. Our US chief economist, Ian Morris, for example, expects the Fed Funds rate to rise meaningfully only in 2012. Given the almost imminent imperative to begin tightening in Asia, it is difficult to envisage this without more fairly valued exchange rates.

(4) Monetary policy tightening

The final line of defence involves outright rate hikes. These, to be sure, may start to be phased in

already starting in the first quarter of next year, with the Bank of Korea likely being the first out of the gate. However, it is important to differentiate between occasional rate hikes - often a mere cosmetic touch-up to policy, especially in an environment of rising asset prices when the financial accelerator is hitting full throttle - and a meaningful tightening of financial conditions exacted via rate hikes, which necessarily involves a series of more aggressive interest rate increases.

Table 14 shows our forecasts for rate hikes, with Korea and Taiwan leading in the first quarter of next year. While most countries will follow in the second quarter, it is worthwhile to keep in mind some nuances with regard to the exact date of their moves, which reveals the relative tightening bias among the various central banks: Singapore, China and India will likely take the plunge earlier in the second quarter, while the Philippines and Thailand are likely to hike only towards the middle of the year.

Overall, the four sequences of policy response by Asian officials may in reality overlap and may not be as neatly separated as our outline suggests. In addition, there are other forms of tightening that may precede interest rate hikes, or eventually accompany them as well, such as hikes in reserve requirement ratios. In India, for example, our senior Asia economist Robert Prior-Wandesforde

14. Asian benchmark policy rates and HSBC forecasts

%	Q1 09	Q2 09	Q3 09f	Q4 09f	Q1 10f	Q2 10f	Q3 10f	Q4 10f
China	5.31	5.31	5.31	5.31	5.31	5.58	5.85	5.85
Hong Kong	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
India	5.00	4.75	4.75	4.75	4.75	5.00	5.25	5.50
Indonesia	7.75	7.00	6.50	6.50	6.50	7.00	7.50	8.00
Japan	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Korea	2.00	2.00	2.00	2.00	2.50	2.75	3.00	3.00
Malaysia	2.00	2.13	2.00	2.00	2.00	2.00	2.25	2.50
Pakistan	15.00	14.00	12.00	11.00	10.00	9.00	9.00	9.00
Philippines	4.75	4.25	4.00	4.00	4.00	4.25	4.50	4.75
Singapore	0.67	0.69	0.60	0.60	0.70	0.70	0.80	0.90
Sri Lanka	11.75	11.00	10.50	10.00	10.00	10.00	11.00	11.00
Taiwan	1.25	1.25	1.25	1.25	1.38	1.50	1.63	1.75
Thailand	1.50	1.25	1.25	1.25	1.25	1.50	1.75	2.00
Vietnam	7.0	7.0	7.0	7.0	8.0	9.0	10.0	11.0

Source: CEIC, HSBC

15. Reserve requirement ratios and cumulative changes since September 15, 2008

	Start level	Cumulative change to date	Current	HSBC forecast	Notes
China	17.5/16.5	200 bps/300 bps	15.5/13.5	nil	Releases RMB1.6trn in liquidity
Hong Kong	25.0	nil	25.0	nil	Liquidity requirement
India	9.0	-400 bps	5.0	200bp increase	Releases INR1.8trn in liquidity
Indonesia	9.08 (IDR), 3.0 (FX)	-208 bps (IDR), -200 bps (FX)	7.5% for IDR, 1% for FX	nil	Banks now allowed to hold 2.5bbpts of IDR reserves in bonds
Korea	7.0	nil	7.0	nil	nil
Malaysia	4.0	-50 bps	3.5	nil	nil
Philippines	10.0	-200bps	8.0	No cut in the medium term, initial expectation of another 200bp cut, but this may now be delayed	Required reserves consist of two forms: 1) regular or statutory reserves and 2) liquidity reserves
Sri Lanka	10.0	-300bps	7.0	nil	Statutory liquidity requirement
Singapore	3.0	nil	3.0	nil	Minimum cash balance of 3%, banks required to hold at least 10% of their liability base in SGS
Taiwan	4.75 - 12	-75 to -125bps	4.0 to 10.75	nil	Releases USD6.2bn in liquidity
Thailand	6.0	nil	6.0	nil	Statutory liquidity requirement
Vietnam	11.0	-800 bps	3.0	nil	nil

Source: HSBC

is forecasting a full 100bp in hikes over the coming year, while China, Taiwan and Indonesia may also be possible candidates for such a move.

Overall, however, our forecasts are assuming only a modest degree of tightening relative to growth in the coming years, reflecting expectations about actual policy more than objective requirements for such. In essence, we are concerned that Asian policy-makers may stay behind the curve in all the four tightening dimensions outlined above, raising the risk of asset bubbles growing larger and possibly leading to a similar bust as in earlier such episodes, even if such spectacle lies years ahead. What Asia needs, in short, is monetary policy decoupling in addition to growth decoupling, but if the region's officials stick to "all show, no go" in their hawkish rhetoric and declared intention to avoid another such cycle, this may never be forthcoming.

Others will feel the pinch

As alluded to earlier, the notion that Asia has turned into a giant force of global deflation seems rather misplaced. The share of Asia ex-Japan in global commodity consumption is now such that a regional reflation will drive up raw material prices as well, something that is already evident in the stubbornly high price of crude in the face of a deep recession in the G3 economies. Moreover, the need for monetary policy tightening in Asia, which must inevitably contain an element of exchange rate appreciation, will raise global prices yet further: stronger Asian currencies will cheapen raw materials in local currency terms, thereby dampening national inflation pressures, but also raising demand for the stuff and driving up the US dollar price. This appreciation should eventually feed through into higher manufactured goods prices for the world's main importers of Asian products as well.

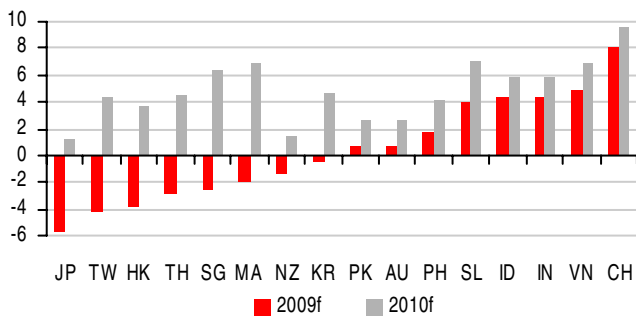
All of this does not point to Asia as a deflationary force in the world economy. That epithet, rather, now belongs to the West.

GDP

(% y-o-y)	2002	2003	2004	2005	2006	2007	2008	2009f	2010f	2011f
China	9.1	10.0	10.1	10.2	11.6	13.0	9.0	8.1	9.5	8.9
Hong Kong	1.8	3.0	8.5	7.1	7.0	6.4	2.4	-4.0	3.8	4.3
Japan	0.3	1.4	2.7	1.9	2.0	2.3	-0.7	-5.7	1.2	1.1
Korea	7.2	2.8	4.6	4.0	5.2	5.1	2.2	-0.4	4.6	4.9
Taiwan	4.6	3.5	6.2	4.2	4.8	5.7	0.1	-4.2	4.4	4.9
North Asia-ex Japan	7.6	7.2	8.3	8.0	9.3	10.5	7.1	5.5	8.2	7.8
Australia	4.2	3.0	3.8	2.8	2.8	4.0	2.4	0.8	2.6	2.8
India	3.8	8.5	7.5	9.5	9.7	9.0	6.7	6.2	8.0	8.5
Indonesia	4.5	4.8	5.0	5.7	5.5	6.3	6.1	4.3	5.8	5.5
Malaysia	4.4	5.4	7.3	5.3	5.8	6.2	4.6	-2.0	6.8	5.5
New Zealand	4.7	4.4	4.4	2.8	2.7	3.0	-1.1	-1.4	1.5	2.4
Pakistan	4.8	7.4	7.7	6.2	5.7	2.0	3.7	0.8	2.6	3.7
Philippines	4.4	4.9	6.4	5.0	5.3	7.1	3.8	1.8	4.2	4.7
Singapore	4.0	2.9	8.7	8.7	8.4	7.8	1.1	-2.5	6.5	5.5
Sri Lanka	4.0	5.9	5.5	6.2	7.7	6.8	6.0	4.0	7.0	7.2
Thailand	5.3	7.0	6.4	4.7	5.2	4.9	2.6	-2.8	4.5	4.7
Vietnam	7.1	7.3	7.8	8.4	8.2	8.5	6.2	4.9	6.8	5.9
Asia-ex China, India & Japan	5.2	4.1	6.0	5.1	5.6	5.7	3.0	-0.4	4.9	5.0
Asia-ex China & Japan	4.9	5.1	6.4	6.2	6.6	6.6	4.0	1.4	5.8	6.0
Asia-ex Japan	6.6	7.0	7.9	7.8	8.7	9.4	6.5	4.7	7.6	7.4
Asia	3.3	4.2	5.3	5.1	6.0	6.8	3.9	1.0	5.3	5.2

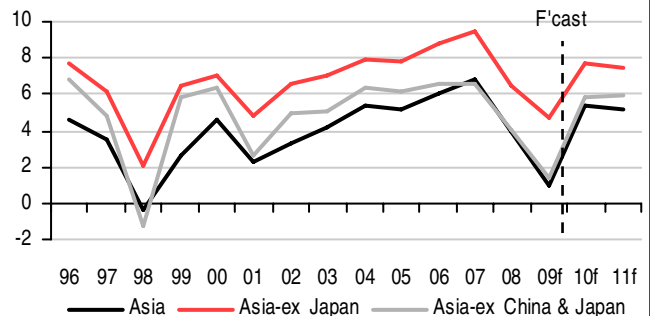
Source: HSBC, CEIC; NB: Australia and New Zealand are not included in Asia aggregate, and data are based on IMF nominal USD weights

GDP (% yr): China, Vietnam and India to expand the most in 2009



Source: HSBC, CEIC

GDP (% yr): A sharp rebound in 2010 across the region



Source: HSBC, CEIC

GDP

(% y-o-y)	2008				2009f				2010f			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Australia	3.4	3.0	2.4	0.7	0.3	0.6	0.4	1.9	0.3	0.6	0.4	1.9
China	10.6	10.1	9.0	6.8	6.1	7.9	8.6	9.2	9.7	9.5	9.3	9.4
Hong Kong	7.3	4.1	1.5	-2.6	-7.8	-3.8	-3.1	-1.1	4.0	3.5	3.7	3.9
India	8.6	7.8	7.7	5.8	5.8	6.1	6.0	6.7	6.1	6.8	7.5	8.5
Indonesia	6.2	6.4	6.4	5.2	4.4	4.0	3.7	4.9	5.5	5.8	6.2	5.8
Japan	1.3	0.6	-0.3	-4.3	-8.7	-7.2	-5.5	-1.8	1.4	1.4	1.1	0.9
Korea	5.5	4.3	3.1	-3.4	-4.2	-2.2	0.1	4.5	4.9	5.2	4.5	4.0
Malaysia	7.4	6.6	4.8	0.1	-6.2	-3.9	-1.3	3.3	9.8	7.3	5.6	5.0
New Zealand	0.6	-1.1	-1.7	-2.2	-1.9	-1.1	-1.4	-1.0	0.7	1.0	2.2	2.3
Philippines	3.9	4.2	4.6	2.9	0.6	1.5	1.9	3.0	4.7	4.9	4.4	2.8
Singapore	6.7	2.5	0.0	-4.2	-9.5	-3.5	-1.2	4.5	9.6	5.9	5.4	5.3
Sri Lanka	6.2	7.0	6.3	4.3	1.5	2.1	5.0	7.2	7.0	7.5	6.8	6.5
Taiwan	6.2	4.6	-1.0	-8.6	-10.1	-7.5	-3.2	4.7	6.2	4.4	3.4	3.6
Thailand	6.0	5.3	3.9	-4.2	-7.1	-4.9	-3.1	3.8	5.4	4.5	4.4	3.6
Vietnam	7.5	5.8	6.5	5.7	3.1	4.5	5.5	6.6	6.8	7.0	6.8	6.6

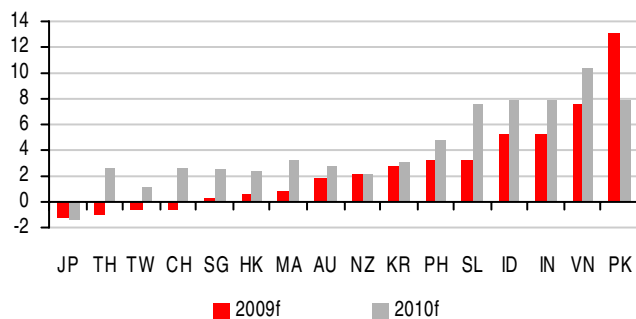
Source: HSBC, CEIC

Inflation

(% y-o-y)	2002	2003	2004	2005	2006	2007	2008	2009f	2010f	2011f
China	-0.8	1.2	3.9	1.8	1.5	4.8	5.9	-0.6	2.6	2.5
Hong Kong	-3.0	-2.6	-0.4	0.9	2.0	2.0	4.3	0.6	2.3	3.0
Japan	-0.9	-0.2	0.0	-0.3	0.2	0.0	1.5	-1.2	-1.4	-0.8
Korea	2.8	3.5	3.6	2.8	2.2	2.5	4.7	2.8	3.1	3.2
Taiwan	-0.2	-0.3	1.6	2.3	0.6	1.8	3.5	-0.7	1.1	1.6
North Asia-ex Japan	-0.1	1.4	3.4	2.0	1.6	4.0	5.5	0.0	2.6	2.6
Australia	3.0	2.8	2.3	2.7	3.5	2.3	4.3	1.9	2.8	3.0
India	4.0	3.7	3.9	4.0	6.3	6.4	8.3	10.5	9.6	6.0
Indonesia	11.9	6.8	6.1	10.5	13.1	6.4	10.2	5.3	7.9	7.0
Malaysia	1.8	1.1	1.4	3.0	3.6	2.0	5.4	0.8	3.3	2.5
New Zealand	2.7	1.8	2.3	3.0	3.4	2.4	3.9	2.1	2.2	2.6
Pakistan	3.5	2.9	7.4	9.1	7.9	7.6	20.3	13.1	7.9	7.6
Philippines	2.9	3.5	6.0	7.7	6.3	2.8	9.3	3.2	4.8	5.9
Singapore	-0.4	0.5	1.7	0.5	1.0	2.1	6.5	0.3	2.5	2.0
Sri Lanka	10.2	2.6	9.0	11.0	10.0	15.8	22.7	3.3	7.5	6.7
Thailand	0.7	1.8	2.8	4.5	4.6	2.2	5.5	-1.0	2.6	2.9
Vietnam	4.1	3.1	7.8	8.3	7.5	8.3	23.0	7.6	10.4	7.1
Asia-ex China, India & Japan	2.5	2.3	3.4	4.2	4.3	3.4	7.4	2.7	4.1	4.0
Asia-ex China & Japan	2.8	2.7	3.5	4.1	4.8	4.2	7.7	4.8	5.6	4.5
Asia-ex Japan	1.4	2.1	3.7	3.2	3.4	4.5	6.8	2.1	4.1	3.5
Asia	0.2	0.9	1.9	1.6	2.1	2.8	4.9	0.9	2.2	2.0

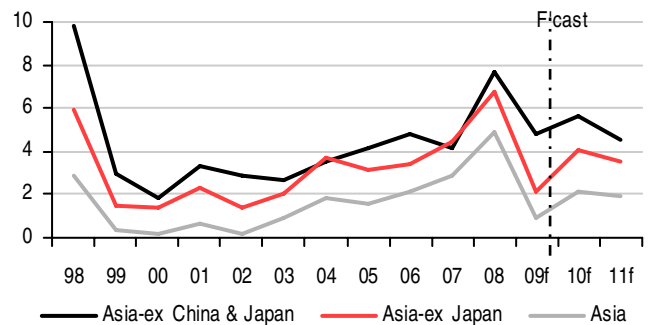
Source: HSBC, CEIC; NB: Australia and New Zealand are not included in Asia aggregate, and data are based on IMF nominal USD weights

CPI (% yr): Inflation to return for most of the countries in 2010



Source: HSBC, CEIC

Inflation (% yr): Sharp deceleration in 2009, with a gradual pick up in 2010



Source: CEIC, HSBC

CPI

(% y-o-y)	2008				2009f				2010f			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Australia	4.2	4.5	5.0	3.7	2.5	1.5	1.5	2.0	2.5	2.8	3.0	2.8
China	8.0	7.8	5.3	2.5	-0.6	-1.1	-0.6	0.1	1.7	3.0	2.7	3.0
Hong Kong	4.6	5.7	4.6	2.3	1.7	-0.1	-1.0	1.9	1.6	2.7	3.8	1.2
India	6.3	7.8	9.0	10.2	9.4	8.9	11.5	12.0	12.5	11.5	8.0	7.0
Indonesia	6.5	9.0	12.0	11.5	8.6	5.7	2.8	4.3	6.4	8.0	9.0	8.3
Japan	1.0	1.4	2.2	1.0	0.0	-1.0	-2.4	-1.6	-1.2	-1.6	-1.4	-1.3
Korea	3.8	4.8	5.5	4.5	3.9	2.8	1.9	2.6	2.7	2.7	3.2	3.3
Malaysia	2.6	4.9	8.4	5.9	3.7	1.3	-2.1	0.5	2.7	3.5	3.5	3.3
New Zealand	3.4	4.0	5.1	3.4	3.0	1.9	1.8	1.9	2.0	2.2	2.3	2.4
Pakistan	12.4	19.3	24.5	24.3	20.2	14.9	9.5	7.8	8.3	7.4	8.0	8.0
Philippines	5.5	9.7	12.2	9.7	6.9	3.2	0.9	1.9	3.6	4.5	5.4	5.6
Singapore	6.6	7.5	6.6	5.4	2.1	-0.5	-0.4	0.1	1.5	3.3	2.9	2.4
Sri Lanka	22.1	26.5	25.2	16.9	7.8	2.4	0.7	2.5	4.0	6.5	9.8	9.6
Taiwan	3.6	4.2	4.5	1.9	0.0	-0.8	-1.4	-0.4	1.2	0.4	1.3	1.4
Thailand	5.0	7.5	7.3	2.1	-0.2	-2.8	-2.1	1.1	2.4	3.0	3.8	3.8
Vietnam	16.4	24.5	27.7	23.6	14.5	6.3	3.5	6.0	11.0	12.0	10.0	8.5

Source: HSBC, CEIC

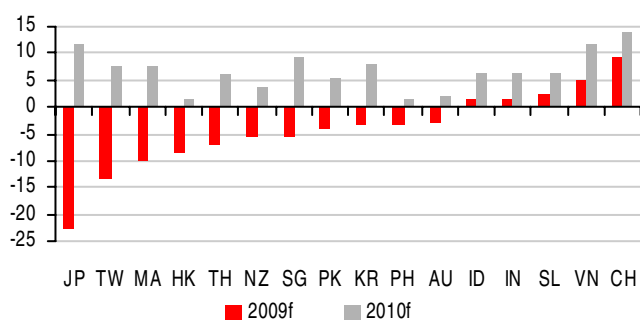
Industrial production & unemployment

Industrial production

(% y-o-y)	2002	2003	2004	2005	2006	2007	2008	2009f	2010f	2011f
China (VAI)	12.7	16.7	16.3	15.9	16.2	16.0	12.9	9.5	14.0	13.0
Hong Kong	-9.7	-9.2	2.9	2.5	2.2	-1.5	-6.6	-8.5	1.5	2.3
Japan	-1.3	3.3	5.5	1.1	4.8	2.8	-3.2	-22.6	11.6	4.7
Korea	8.0	5.5	10.4	6.3	8.4	6.9	3.1	-3.4	7.8	8.5
Taiwan	7.5	9.1	9.3	3.8	4.7	7.8	-1.8	-13.6	7.6	7.8
North Asia-ex Japan	9.5	11.7	13.5	11.8	12.8	12.7	9.7	5.3	12.1	11.5
Australia	2.5	-0.1	0.2	1.8	0.4	3.2	2.9	-2.8	2.0	3.0
India	5.8	7.0	8.4	8.2	11.5	8.5	2.6	5.0	9.0	7.7
Indonesia	5.3	5.3	6.4	4.6	4.6	4.7	3.7	1.6	6.3	4.7
Malaysia	4.3	8.4	11.3	5.2	6.7	3.1	1.4	-9.9	7.5	6.5
New Zealand	5.4	3.2	5.0	-2.1	-1.5	2.1	-1.0	-5.7	3.8	4.1
Pakistan	4.0	13.3	17.8	14.9	10.7	5.5	-0.4	-4.2	5.2	5.5
Philippines	3.5	4.2	5.0	5.3	4.2	3.3	4.3	-3.2	1.5	1.6
Singapore	8.4	-30.3	13.9	9.5	11.9	5.9	-4.2	-5.5	9.2	6.0
Sri Lanka	2.3	5.9	5.6	6.0	5.7	7.6	4.3	2.4	6.5	6.5
Thailand	9.1	14.0	11.7	9.1	7.3	8.2	5.3	-7.0	6.0	6.6
Vietnam	14.2	19.8	17.6	25.5	16.0	11.6	11.8	4.8	11.5	7.3
Asia-ex China, India & Japan	5.5	4.5	9.7	6.5	7.0	5.8	1.7	-4.8	6.7	6.4
Asia-ex China & Japan	5.6	5.1	9.4	6.9	8.1	6.5	2.0	-2.1	7.3	6.7
Asia-ex Japan	8.4	9.7	12.2	10.6	11.6	10.8	7.4	3.7	10.6	9.9
Asia	3.4	6.4	8.9	6.3	8.8	7.8	3.6	-5.7	11.0	8.0

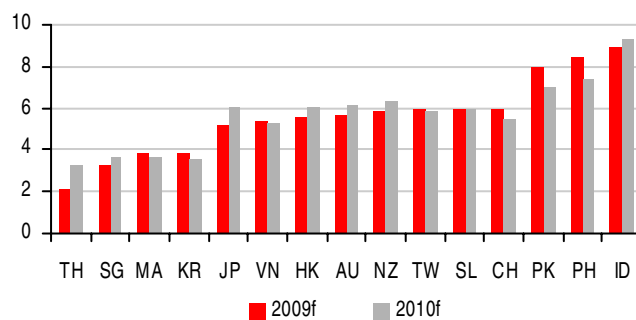
Source: HSBC, CEIC; NB: Australia and New Zealand are not included in Asia aggregate, and data are based on IMF nominal USD weights

Industrial production (% yr): China and Vietnam to lead in 2009



Source: HSBC, CEIC

Unemployment rate (%): Highest in Indonesia, Philippines and Pakistan



Source: HSBC, CEIC

Unemployment rate ave.

(%)	2002	2003	2004	2005	2006	2007	2008f	2009f	2010f	2011f
China	4.0	4.3	4.2	4.2	4.1	4.0	4.2	6.0	5.5	5.0
Hong Kong	7.3	7.9	6.8	5.6	4.8	4.0	3.6	5.6	6.1	5.7
Japan	5.4	5.2	4.7	4.4	4.1	3.9	4.0	5.2	6.1	5.9
Korea	3.3	3.6	3.7	3.7	3.5	3.2	3.2	3.9	3.6	3.3
Taiwan	5.2	5.0	4.4	4.1	3.9	3.9	4.1	5.9	5.8	5.2
North Asia-ex Japan	4.2	4.4	4.2	4.1	4.0	3.8	4.0	5.6	5.2	4.8
Australia	6.4	5.9	5.4	5.1	4.8	4.4	4.2	5.7	6.2	5.6
Indonesia	8.6	9.3	9.7	10.6	10.8	9.7	8.8	9.0	9.3	8.8
Malaysia	3.5	3.6	3.6	3.6	3.3	3.2	3.3	3.8	3.7	3.4
New Zealand	5.3	4.8	4.1	3.8	3.8	3.7	4.2	5.9	6.3	5.7
Pakistan	8.3	7.7	7.7	6.2	5.3	5.2	8.0	8.0	7.0	7.0
Philippines	11.5	11.5	11.9	8.0	7.9	7.2	7.5	8.5	7.4	7.0
Singapore	3.6	4.0	3.5	3.2	2.7	2.2	2.1	3.3	3.7	3.5
Sri Lanka	8.8	8.4	8.5	7.2	6.5	6.0	5.3	6.0	6.0	6.0
Thailand	2.4	2.2	2.1	1.9	1.5	1.4	1.4	2.2	3.3	3.2
Vietnam	6.0	5.8	5.6	5.3	4.8	4.6	4.7	5.4	5.3	4.9
Asia-ex China & Japan	5.2	5.4	5.2	4.9	4.7	4.4	4.6	5.4	5.4	5.0
Asia-ex Japan	4.7	4.9	4.7	4.6	4.4	4.2	4.4	5.7	5.5	5.0
Asia	5.0	5.1	4.7	4.5	4.3	4.1	4.2	5.5	5.7	5.4

Source: HSBC, CEIC; NB: Australia and New Zealand are not included in Asia aggregate, and data are based on IMF nominal USD weights

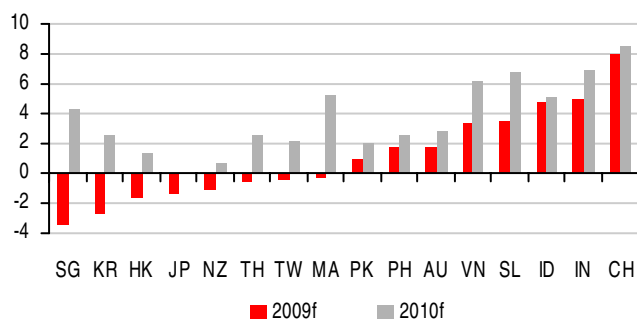
Consumption & saving

Consumer expenditure

(% y-o-y)	2002	2003	2004	2005	2006	2007	2008	2009f	2010f	2011f
China	6.2	6.5	7.2	8.5	8.7	9.0	8.9	8.0	8.5	8.6
Hong Kong	-0.9	-1.3	7.0	3.0	5.9	8.5	1.7	-1.0	2.1	3.0
Japan	1.1	0.4	1.6	1.3	1.5	0.7	0.6	-1.1	0.8	1.0
Korea	8.9	-0.4	0.3	4.6	4.7	5.1	0.9	-0.5	3.2	3.5
Taiwan	2.6	1.5	4.5	3.0	1.8	2.3	-0.3	0.4	2.1	2.6
North Asia-ex Japan	5.9	3.9	5.3	6.8	7.1	7.6	6.8	5.8	7.0	7.2
Australia	3.9	3.6	5.9	3.0	3.2	4.4	2.6	1.8	2.8	3.0
India	2.9	8.2	5.2	7.1	6.3	8.5	2.9	5.0	8.0	8.3
Indonesia	3.8	3.9	5.0	4.0	3.2	5.0	5.3	4.9	5.4	5.0
Malaysia	4.4	6.6	10.5	9.1	6.8	10.4	8.5	2.5	5.6	5.0
New Zealand	4.4	5.9	5.9	4.9	2.5	4.1	-0.1	-1.1	0.7	2.6
Pakistan	0.4	10.1	12.9	1.0	4.7	-1.3	5.2	1.0	2.0	3.5
Philippines	4.1	5.3	5.9	4.8	5.5	5.8	4.7	2.4	3.7	5.2
Singapore	4.9	0.9	5.9	3.1	4.0	5.2	2.4	-2.5	3.6	3.2
Sri Lanka	7.5	6.5	4.7	2.6	7.3	7.8	6.7	3.5	6.8	7.0
Thailand	5.4	6.4	6.1	4.9	3.0	1.6	2.5	-0.7	2.6	2.9
Vietnam	7.6	8.0	7.1	7.3	8.3	9.6	7.6	3.4	5.8	5.0
Asia-ex China, India & Japan	5.0	2.3	4.4	4.3	4.3	4.9	2.9	0.9	3.6	3.8
Asia-ex China & Japan	4.6	3.6	4.6	5.0	4.8	5.8	2.9	2.0	4.8	5.0
Asia-ex Japan	5.2	4.8	5.6	6.4	6.5	7.2	5.9	5.0	6.6	6.8
Asia	3.1	2.6	3.7	4.1	4.4	4.8	4.0	2.8	4.6	4.7

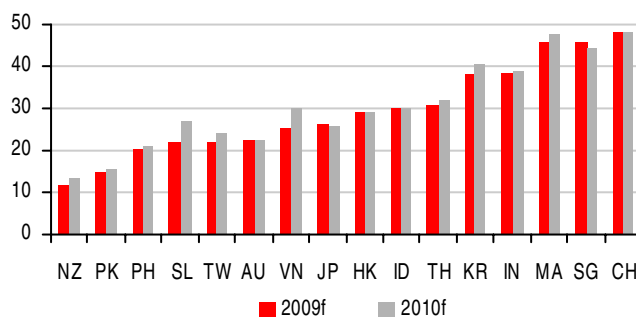
Source: HSBC, CEIC; NB: Australia and New Zealand are not included in Asia aggregate, and data are based on IMF nominal USD weights

Consumer expenditure(% y-o-y): China and India are still leading



Source: HSBC, CEIC

Saving as a % of GDP: China, Singapore and Malaysia the highest



Source: HSBC, CEIC

Gross saving ratios

% of GDP	2002	2003	2004	2005	2006	2007	2008	2009f	2010f	2011f
China	40.4	43.2	45.7	48.2	50.1	51.0	51.4	50.0	50.5	50.0
Hong Kong	30.7	30.4	30.2	33.3	33.3	31.0	30.4	30.3	30.6	32.6
Japan	24.5	25.7	26.7	26.2	27.1	26.5	26.0	26.0	25.5	24.5
Korea	31.4	33.0	35.0	33.2	31.5	30.8	37.6	38.5	41.2	43.8
Taiwan	25.0	25.7	26.0	25.6	27.1	29.0	25.8	23.1	25.5	28.4
North Asia-ex Japan	35.9	38.1	40.4	41.7	43.1	44.3	46.8	45.7	46.7	47.0
Australia	20.0	20.4	19.6	20.3	21.6	22.3	24.3	22.2	22.2	22.5
India	27.1	29.3	33.8	35.1	37.0	38.1	36.3	38.5	39.0	39.5
Indonesia	25.1	23.7	24.9	27.5	28.7	28.1	30.6	29.8	30.4	30.8
Malaysia	42.3	42.5	44.0	43.5	43.4	46.1	49.1	44.3	47.1	44.9
New Zealand	18.3	18.1	17.6	16.5	14.9	15.8	14.3	12.0	13.1	14.1
Pakistan	22.2	17.1	14.6	13.9	14.3	11.2	12.7	17.8	18.8	19.5
Philippines	19.1	19.3	21.2	21.0	20.1	20.8	19.2	13.8	13.0	11.7
Singapore	40.9	42.0	46.8	48.7	49.9	51.7	48.3	45.1	44.3	45.6
Sri Lanka	20.3	19.5	21.6	21.6	23.7	25.3	25.0	25.9	27.1	28.1
Thailand	31.7	32.0	31.7	30.9	32.4	34.1	33.2	32.3	33.0	33.8
Vietnam	32.0	30.6	32.0	34.6	36.5	31.8	29.9	34.2	32.9	35.5
Asia-ex China, India & Japan	29.7	30.0	31.2	31.1	31.1	31.1	33.0	32.3	33.7	35.0
Asia-ex China & Japan	29.1	29.8	31.8	32.1	32.5	33.0	33.9	34.0	35.1	36.3
Asia-ex Japan	33.5	35.1	37.5	38.8	40.0	41.1	42.6	42.0	42.8	43.1
Asia	28.9	30.3	32.1	33.0	34.7	35.7	36.7	36.3	36.6	36.4

Source: HSBC, CEIC; NB: Australia and New Zealand are not included in Asia aggregate, and data are based on IMF nominal USD weights

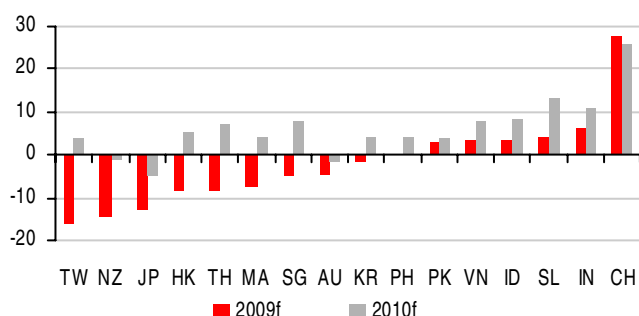
Investment

Total investment

(% y-o-y)	2002	2003	2004	2005	2006	2007	2008	2009f	2010f	2011f
China	16.9	27.7	27.6	27.2	24.5	25.8	26.1	27.5	26.0	20.0
Hong Kong	-4.6	1.0	2.7	4.1	7.1	3.4	0.0	-8.3	5.0	6.0
Japan	-4.9	-0.5	1.4	3.1	0.5	0.8	-5.0	-13.1	-5.1	-2.1
Korea	7.1	4.4	2.1	1.9	3.4	4.2	-1.7	-2.0	4.3	5.5
Taiwan	1.1	1.7	19.5	1.2	0.9	1.9	-10.6	-16.3	3.8	3.7
North Asia-ex Japan	11.3	17.8	19.6	17.6	16.8	18.5	18.3	18.6	20.3	16.1
Australia	17.1	8.9	8.0	7.9	5.1	9.5	8.3	-4.4	-1.7	4.9
India	7.7	9.7	18.9	17.6	14.5	12.9	8.2	6.0	11.0	12.5
Indonesia	4.7	0.6	14.7	10.9	2.6	9.4	11.7	3.3	8.7	7.4
Malaysia	0.3	2.7	3.1	5.0	7.5	9.6	0.8	-7.5	4.1	7.0
New Zealand	10.9	10.2	13.5	3.7	-0.2	4.9	-4.3	-14.2	-1.4	2.3
Pakistan	4.1	-6.1	13.5	19.9	13.6	3.8	-6.5	3.0	4.0	4.0
Philippines	2.3	3.6	1.3	-6.6	3.9	10.9	2.9	0.2	4.3	5.9
Singapore	-11.4	-3.2	10.2	-2.0	13.3	19.2	13.7	-5.2	8.0	7.6
Sri Lanka	6.4	10.1	17.8	9.8	13.9	12.0	11.0	4.5	13.0	12.0
Thailand	6.5	12.1	13.2	10.5	3.9	1.3	1.1	-8.1	7.1	7.1
Vietnam	12.9	11.9	10.4	9.7	9.9	23.0	13.2	3.2	8.0	6.0
Asia-ex China, India & Japan	3.1	3.0	8.5	4.4	4.8	6.3	1.3	-3.8	5.6	6.0
Asia-ex China & Japan	4.1	4.6	11.0	7.7	7.1	8.1	3.2	-1.1	7.1	7.8
Asia-ex Japan	9.1	13.8	17.8	15.7	14.5	16.0	14.6	13.2	16.5	13.9
Asia	1.9	6.5	9.7	10.0	8.7	10.4	7.6	3.7	8.8	8.2

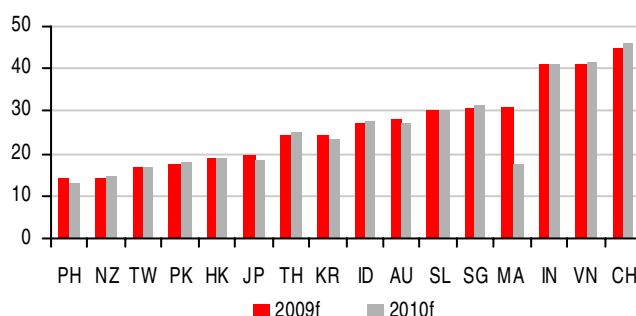
Source: HSBC, CEIC; NB: Australia and New Zealand are not included in Asia aggregate, and data are based on IMF nominal USD weights

Investment growth (% yr): Returning to positive territory in 2010



Source: HSBC, HSBC

Investment as a % of GDP: High in China, room to rise elsewhere



Source: HSBC, CEIC

Investment / GDP

(%)	2002	2003	2004	2005	2006	2007	2008	2009f	2010f	2011f
China	37.9	41.0	43.2	42.7	42.6	42.2	43.5	45.0	46.0	46.6
Hong Kong	22.4	21.2	21.3	20.9	21.9	20.1	19.5	18.8	19.1	19.4
Japan	23.6	23.2	22.9	23.2	22.9	22.6	21.7	19.8	18.5	18.0
Korea	29.1	30.0	30.4	30.1	29.8	29.4	25.4	24.4	23.6	23.0
Taiwan	18.0	18.4	22.7	21.4	21.5	21.5	21.2	16.8	16.9	16.1
North Asia -ex Japan	32.4	34.8	36.9	36.6	36.9	37.0	38.3	38.9	39.6	39.9
Australia	22.6	23.9	24.8	26.1	26.6	28.0	30.0	28.5	27.3	27.8
India	26.7	28.1	33.2	36.8	38.4	41.1	41.4	41.0	41.0	41.5
Indonesia	21.4	25.6	24.1	25.1	25.4	24.9	27.8	27.2	28.0	28.5
Malaysia	24.0	21.6	22.7	19.9	20.0	22.1	21.4	31.1	17.6	16.9
New Zealand	19.9	20.7	20.7	21.1	29.9	19.4	16.7	14.2	14.2	14.7
Pakistan	17.3	15.2	16.0	17.8	19.0	19.4	17.5	17.5	17.7	17.8
Philippines	17.7	16.7	16.7	14.6	14.5	15.4	15.2	13.9	13.4	12.8
Singapore	23.6	16.0	21.8	20.2	20.1	20.7	30.9	30.4	31.4	31.9
Sri Lanka	22.0	31.4	22.1	25.0	28.7	29.9	29.9	30.2	30.0	30.0
Thailand	23.8	25.0	26.8	31.4	28.4	26.6	28.8	24.3	25.1	25.8
Vietnam	31.3	32.7	33.5	35.6	36.8	41.6	41.5	41.0	41.3	41.3
Asia-ex China, India & Japan	23.7	24.1	25.3	25.4	25.4	25.2	24.8	24.0	23.1	22.9
Asia-ex China & Japan	24.4	25.0	27.2	28.2	28.5	29.4	29.3	28.6	28.0	28.0
Asia-ex Japan	29.7	31.4	33.7	34.2	34.5	35.1	36.4	36.8	37.0	37.3
Asia	26.6	27.2	28.4	29.2	29.7	30.5	31.1	30.7	30.4	30.4

Source: HSBC, CEIC; NB: Australia and New Zealand are not included in Asia aggregate, and data are based on IMF nominal USD weights

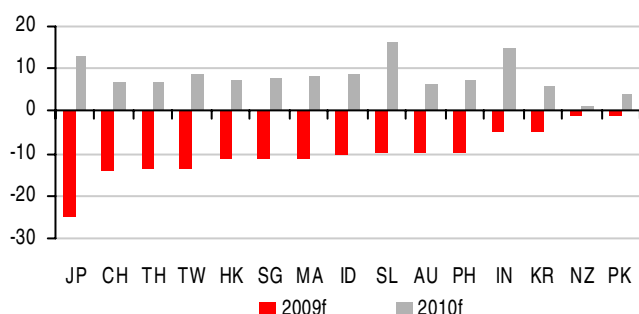
Trade

Real exports

(% y-o-y)	2002	2003	2004	2005	2006	2007	2008	2009f	2010f	2011f
China	18.0	32.0	32.0	29.0	25.0	23.8	11.2	-14.0	7.0	8.0
Hong Kong	9.0	12.8	15.4	10.6	9.4	8.3	2.7	-11.1	7.4	7.9
Japan	7.5	9.2	13.9	7.0	9.7	8.4	1.8	-24.7	13.0	8.3
Korea	12.1	14.5	19.7	7.8	11.4	12.6	5.7	-4.9	5.7	10.3
Taiwan	10.6	10.4	14.4	7.6	10.3	8.8	0.0	-13.4	8.7	9.5
North Asia-ex Japan	15.2	24.4	26.5	21.0	19.9	19.7	9.3	-12.4	6.9	8.5
Australia	10.8	11.1	15.0	8.9	7.2	11.8	10.3	-9.7	6.3	7.5
India	21.1	9.6	27.2	17.6	21.1	2.1	12.8	-5.0	15.0	10.0
Indonesia	-1.2	5.9	13.5	16.6	9.4	8.5	9.5	-10.0	8.5	8.2
Malaysia	4.5	5.7	2.3	8.3	6.6	4.5	1.3	-11.0	8.4	9.4
New Zealand	6.4	2.3	6.1	-0.4	1.7	3.8	-1.2	-1.2	1.2	3.6
Pakistan	28.4	-1.5	9.6	9.9	2.3	-5.3	9.0	-1.0	4.0	4.0
Philippines	4.1	4.8	15.0	4.8	13.4	5.4	-1.9	-9.6	7.1	7.8
Singapore	7.2	13.7	20.6	11.7	11.7	8.7	1.3	-11.0	7.6	9.2
Sri Lanka	8.7	10.6	17.0	7.4	11.6	17.7	5.4	-9.8	16.1	14.7
Thailand	12.0	7.0	9.6	4.2	9.1	7.1	5.4	-13.5	6.7	7.3
Asia-ex China, India & Japan	9.4	10.1	15.0	8.8	9.8	8.7	4.4	-8.6	7.0	8.6
Asia-ex China & Japan	12.0	10.0	17.9	11.0	12.6	7.0	6.7	-7.6	9.2	9.0
Asia-ex Japan	14.4	18.7	23.7	18.4	17.9	14.5	9.0	-10.8	8.1	8.5
Asia	10.8	13.9	18.9	13.2	14.5	12.3	6.4	-15.8	9.8	8.4

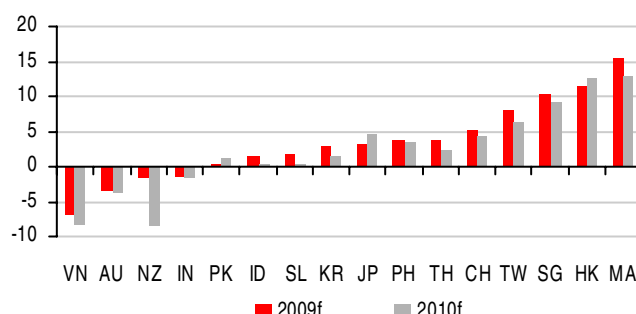
Source: HSBC, CEIC; NB: Australia and New Zealand are not included in Asia aggregate, and data are based on IMF nominal USD weights

Real exports (% yr): Back to positive growth across Asia in 2010



Source: HSBC, CEIC

Current account % GDP: First line of defence and not all negative



Source: HSBC, CEIC

Current account balance

(% of GDP)	2002	2003	2004	2005	2006	2007	2008	2009f	2010f	2011f
China	2.4	2.8	3.6	7.2	9.5	11.0	9.8	5.1	4.3	4.2
Hong Kong	8.3	9.2	8.9	12.4	11.4	10.8	10.9	11.5	12.5	13.2
Japan	2.9	3.2	3.7	3.7	3.9	4.9	3.2	3.2	4.5	5.5
Korea	1.0	2.0	4.1	1.9	0.6	0.6	-0.7	3.0	1.4	1.2
Taiwan	8.9	10.0	6.0	4.9	7.2	8.6	6.3	8.1	6.3	7.0
North Asia-ex Japan	3.3	3.8	4.2	6.0	7.4	8.6	8.0	5.2	4.3	4.2
Australia	-3.8	-5.4	-6.1	-5.7	-5.3	-6.3	-4.6	-3.3	-3.8	-4.3
India	1.5	1.6	0.1	-1.9	-1.1	-1.0	-3.1	-1.5	-1.8	-1.6
Indonesia	3.9	3.4	0.6	0.1	3.0	2.4	0.1	1.5	0.2	0.7
Malaysia	8.4	12.8	12.1	15.0	16.3	15.6	17.4	15.4	12.9	13.2
New Zealand	-3.8	-4.2	-6.3	-8.4	-8.6	-8.2	-8.8	-1.8	-8.5	-7.8
Pakistan	5.0	1.9	-1.4	-3.9	-4.8	-8.2	-4.8	0.3	1.1	1.7
Philippines	6.9	0.9	1.1	2.0	4.5	4.8	2.3	3.6	3.3	3.0
Singapore	17.7	31.0	26.4	27.5	25.4	23.5	14.8	10.3	9.1	9.8
Sri Lanka	-1.4	-0.7	-3.2	-2.7	-5.0	-4.0	-9.3	1.8	0.3	-1.4
Thailand	5.5	5.6	1.7	-4.3	1.1	5.9	-0.1	3.7	2.2	3.4
Vietnam	-1.7	-4.9	-2.1	-1.1	-0.3	-9.8	-11.6	-6.9	-8.4	-5.8
Asia-ex China, India & Japan	5.3	6.1	5.2	4.1	4.6	4.6	2.8	4.9	3.7	4.1
Asia-ex China & Japan	4.4	5.1	4.0	2.6	3.2	3.1	1.2	3.1	2.2	2.5
Asia-ex Japan	3.7	4.2	3.8	4.5	5.9	6.7	5.5	4.1	3.2	3.3
Asia	3.3	3.7	3.8	4.1	5.1	6.0	4.7	3.8	3.7	4.1

Source: HSBC, CEIC; NB: Australia and New Zealand are not included in Asia aggregate, and data are based on IMF nominal USD weights

Exchange rates & interest rates

Exchange rates

(vs USD, period end)	2006	2007	2008	2009f				2010f			
				1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Australia (AUD)	1.27	1.14	1.43	1.87	1.65	1.45	1.45	1.43	1.41	1.39	1.37
China (RMB)	7.81	7.30	6.82	6.83	6.83	6.83	6.80	6.80	6.80	6.73	6.66
Hong Kong (HKD)	7.77	7.80	7.75	7.75	7.75	7.80	7.80	7.80	7.80	7.80	7.80
India (INR)	44.3	39.4	48.7	50.7	47.9	48.6	48.0	48.0	47.5	47.0	46.5
Indonesia (IDR)	8,994	9,400	11,325	11,700	10,208	10,018	9,500	9,200	9,000	8,900	8,800
Japan (JPY)	118.9	112.0	90.7	99	96	92	100	105	105	105	105
Korea (KRW)	930	936	1,260	1,367	1,274	1,200	1,200	1,150	1,125	1,100	1,075
Malaysia (MYR)	3.53	3.31	3.45	3.65	3.52	3.50	3.50	3.50	3.50	3.48	3.46
New Zealand (NZD)	1.48	1.31	1.73	1.87	1.65	1.45	1.45	1.43	1.41	1.39	1.37
Pakistan (PKR)	60.9	61.5	79.0	80.5	81.4	83.2	90.0	92.0	92.0	92.0	92.0
Philippines (PHP)	49.0	41.2	47.4	48.4	48.4	48.4	46.0	45.5	45.0	44.5	43.5
Singapore (SGD)	1.53	1.44	1.44	1.52	1.45	1.44	1.40	1.40	1.38	1.36	1.34
Sri Lanka (LKR)	107.7	108.7	113.3	115.5	115.0	114.8	118.0	118.0	118.0	118.0	118.0
Taiwan (TWD)	32.6	32.4	32.8	33.9	32.8	32.9	31.5	31.0	30.0	29.5	29.0
Thailand (THB)	35.5	33.7	34.7	35.5	34.1	34.0	33.0	32.5	32.0	31.5	31.5
Vietnam (VND)	16,050	16,017	17,483	17,797	17,798	17,816	18,200	18,400	18,400	18,400	18,400

Source: HSBC, CEIC, Bloomberg Note: Thai baht forecasts are for onshore rate.

3-month interest rates

(% pa, period end)	2006	2007	2008	2009f				2010f			
				1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Australia	6.52	7.27	4.11	3.17	3.25	3.40	3.60	3.90	4.20	4.20	4.40
China	1.80	3.33	1.71	1.71	1.71	1.71	1.71	1.71	1.98	2.25	2.25
Hong Kong	3.90	3.45	0.95	0.90	0.36	0.30	0.30	0.30	0.30	0.30	0.30
India	8.24	8.01	8.45	7.07	4.35	4.75	4.75	4.75	5.00	5.25	5.50
Indonesia	9.50	7.83	11.98	8.61	7.05	7.00	6.90	6.75	7.15	7.55	8.05
Japan	0.55	0.40	0.40	0.35	0.35	0.28	0.28	0.28	0.28	0.28	0.28
Korea	4.76	5.73	4.68	2.45	2.41	2.20	2.20	2.70	2.95	3.20	3.20
Malaysia	3.71	3.61	3.37	2.11	2.13	2.10	2.10	2.10	2.10	2.35	2.60
New Zealand	7.70	8.90	5.12	3.38	2.85	3.40	3.40	3.50	3.50	3.70	3.70
Philippines	4.84	3.67	6.12	4.42	4.50	5.00	5.50	6.00	6.50	6.50	6.75
Singapore	3.44	2.38	0.96	0.67	0.69	0.60	0.60	0.70	0.70	0.80	0.90
Taiwan	1.76	2.16	1.01	0.41	0.41	0.65	0.75	1.10	1.13	1.45	1.48
Thailand	5.25	3.85	2.95	1.80	1.40	1.55	1.55	1.55	1.80	2.05	2.30

Source: HSBC, CEIC, Bloomberg

Country profiles

Australia

What crisis?

Among OECD countries, Australia has had an impressive run. The economy has so far avoided recession, registering only one quarter of negative growth late last year. Over the first half of 2009, growth accelerated again, driven both by exports and a rebound in consumer spending, which partly reflects the government's stimulus measures.

For the full year, we now expect the economy to expand by 0.8%. Investment, in particular, should rebound over the second half, with official infrastructure projects kicking in fully and spending on dwellings rising again. In fact, house prices have risen in recent months as property demand remains strong amid low interest rates and continued population growth. While house prices remain high relative to incomes and rents, there is no reason to expect real estate prices to plunge any time soon: under-investment in dwellings relative to fundamental demand growth means that a structural shortage of housing in urban areas may persist for quite some time.

Still, caution is warranted. With the central bank likely to start hiking rates again later this year, a rise in debt servicing costs by households may take some steam out of consumption growth, even if the labour market has recently shown signs of tentative stabilization. As a result, rate hikes may prove gradual. Reviving domestic growth may also mean that imports start rising again faster than exports, putting some pressure on Australia's trade position and, consequently, financial conditions onshore as the banking sector remains dependent on external financing. In short, we expect growth to remain below trend in 2010 at 2.6%.

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	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009f	Q4 2009f	Q1 2010f	Q2 2010f	Q3 2010f	Q4 2010f
GDP (% y-o-y)	2.4	0.7	0.3	0.6	0.4	1.9	2.0	2.2	3.2	3.1
Industrial production (% y-o-y)	3.6	0.7	-3.5	-3.8	-3.0	-1.0	1.0	2.0	2.0	3.0
CPI, end quarter (% y-o-y)	5.0	3.7	2.5	1.5	1.5	2.0	2.5	2.8	3.0	2.8
PPI, end quarter (% y-o-y)	5.6	6.4	4.0	2.1	2.1	2.4	2.7	3	3.4	3.2
Trade balance (% GDP)	4.0	8.1	10.1	-1.6	-1.9	-2.3	-2.0	-1.8	-2.4	-2.7
Current account (% GDP)	-4.1	-2.8	-2.0	-3.9	-3.9	-3.4	-3.6	-3.7	-4.0	-4.0
Policy rate, end quarter (%)	7.00	4.25	3.25	3.00	3.00	3.25	3.75	4.00	4.25	4.50
10yr yield, end quarter (%)	5.40	3.98	4.41	5.52	5.50	5.80	5.80	5.90	5.90	5.90
AUD /USD, end quarter	1.27	1.43	1.44	1.24	1.18	1.16	1.14	1.10	1.08	1.05
AUD /EUR, end quarter	1.90	1.89	1.88	1.68	1.71	1.74	1.70	1.65	1.61	1.58

Source: HSBC, CEIC

Australia: Macro framework

	2005	2006	2007	2008	2009f	2010f	2011f
Production, demand and employment							
GDP growth (% y-o-y)	2.8	2.8	4.0	2.4	0.8	2.6	2.8
Nominal GDP (USDbn)	708.0	752.0	931.6	989.4	983.1	1,181.7	1,292.7
GDP per capita (USD)	34,461	36,027	43,864	45,715	45,140	53,595	57,920
Private consumption (% y-o-y)	3.0	3.2	4.4	2.6	1.8	2.8	3.0
Government consumption (% y-o-y)	3.0	3.2	2.4	4.1	2.2	1.9	1.6
Investment (% y-o-y)	7.9	5.1	9.5	8.3	-4.4	-1.7	4.9
Industrial production (% y-o-y)	1.8	0.4	3.2	2.9	-2.8	2.0	3.0
Gross domestic saving (% GDP)	20.3	21.6	22.3	24.3	22.2	22.2	22.5
Unemployment rate, end-year (%)	5.1	4.8	4.4	4.2	5.7	6.2	5.6
Prices & wages							
CPI, average (% y-o-y)	2.7	3.5	2.3	4.3	1.9	2.8	3.0
CPI, end-year (% y-o-y)	2.8	3.3	3.0	3.7	2.0	2.8	3.0
PPI, end-year (% y-o-y)	3.4	3.9	2.6	5.4	2.7	3.1	3.4
Manufacturing wages, nominal (% y-o-y)	3.6	2.8	2.8	4.9	3.5	3.4	2.8
Money, FX & interest rates							
Central bank money M0, average (% y-o-y)	7.3	11.1	13.9	5.3	9.2	11.3	7.5
Broad money supply M3, average (% y-o-y)	8.6	11.0	18.1	18.6	13.8	15.5	13.5
Real private sector credit growth (% y-o-y)	13.4	14.3	17.2	7.7	5.2	6.7	7.8
Policy rate, end-year (%)	5.50	6.25	6.74	4.25	3.00	4.00	5.00
10yr yield, end-year (%)	5.34	5.58	5.99	5.82	5.31	5.88	6.00
AUD /USD, end-year	1.36	1.27	1.14	1.43	1.16	1.05	1.05
AUD /USD, average	1.32	1.34	1.17	1.21	1.25	1.09	1.05
AUD /EUR, end-year	1.62	1.64	1.65	1.89	1.74	1.58	1.58
AUD /EUR, average	1.64	1.68	1.60	1.77	1.75	1.64	1.58
External sector							
Merchandise exports (USDbn)	106.2	124.1	145.2	185.4	157.5	175.2	190.6
Merchandise imports (USDbn)	119.5	133.6	163.6	190.5	166.5	201.9	223.9
Trade balance (USDbn)	-13.3	-9.5	-18.5	-5.1	-9.0	-26.9	-33.3
Current account balance (USDbn)	-40.6	-39.8	-58.9	-47.1	-32.9	-45.5	-55.6
Current account balance (% GDP)	-5.7	-5.3	-6.3	-4.6	-3.3	-3.8	-4.3
Net FDI (USDbn)	6.1	4.8	28.9	9.2	-9.5	4.6	7.6
Net FDI (% GDP)	0.9	0.5	3.0	1.2	-1.1	0.4	0.6
Current account balance plus FDI (% GDP)	-4.8	-4.8	-3.3	-3.4	-4.3	-3.5	-3.7
Exports (% y-o-y)	18.1	18.6	2.6	31.9	-8.5	-2.6	5.3
Imports (% y-o-y)	10.4	13.3	7.2	19.7	-9.2	6.1	7.3
International FX reserves (USDbn)	52.3	64.3	58.5	38.9	49.8	N/A	N/A
Import cover (months)	5.3	5.8	4.3	2.5	3.6	N/A	N/A
Public and external solvency indicators							
Central government balance (% GDP)	1.7	1.9	1.8	1.2	-3.5	-3.0	-1.0
Gross external debt (AUDbn)	779	927	1,031	1,263	1,100	1,050	1,000
Gross public domestic debt AUDbn)	60.1	59.1	58.3	60.5	70.0	76.0	80.0
Gross public sector debt (% GDP)	6.2	5.6	5.1	4.9	8.0	10.0	11.0

Source: HSBC, CEIC

China

Recovery to sustain into 2010

China's infrastructure investment-led recovery is accelerating, as domestic demand has been lifted substantially by the effects of stimulus measures filtering through. Despite the normalisation in new lending, fixed asset investment growth remained strong at 33% y-o-y in Jan-Aug, thanks to the catching up of local government-backed investment and the pick-up in property investment. August industrial production growth hit a 12-month high at 12.3% y-o-y. Meanwhile, the second-round effects of the stimulus package are reflected in robust consumer spending. Retail sales growth remains steady at 16.6% y-o-y in August in real terms, thanks to the recovery in the property market and stronger than expected car sales.

We believe the infrastructure-centric investment-driven recovery can sustain into 2010 and we expect GDP growth to reach 9.5% next year, given that construction work on most of these infrastructure projects, once started, will typically last two to three years. Investment in newly started projects grew 81% y-o-y in the first eight months of the year, implying plenty of new projects in the pipeline to sustain growth in 2010.

Indeed, there is plenty of slack in infrastructure investment in China. The risks of overcapacity exacerbating are limited, in our view. Meanwhile, there are signs emerging that the recovery is rotating from infrastructure investment to private investment and consumption.

Deflation pressure has started to ease and we expect CPI to turn positive in 4Q09. That said, there is no imminent inflation pressure or need to raise interest rates. We think inflation risk will be controllable in 2010, given that the output gap and manufacturing overcapacity owing to a slow recovery in global demand would check inflation. Thus, we do not expect any meaningful tightening via rate hikes before 2Q next year.

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	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009f	Q4 2009f	Q1 2010f	Q2 2010f	Q3 2010f	Q4 2010f
GDP (% y-o-y)	9.0	6.8	6.1	7.9	8.6	9.2	9.7	9.5	9.3	9.4
Industrial production* (% y-o-y)	13.0	6.4	6.0	9.6	10.6	12.6	14.2	14.0	13.8	14.0
CPI, end quarter (% y-o-y)	4.6	1.2	-1.2	-1.0	-0.2	0.3	3.1	2.8	2.6	3.3
PPI, end quarter (% y-o-y)	9.1	-1.1	-6.0	-7.8	-5.5	3.5	2.5	3.0	3.5	4.0
Trade balance (% GDP)	7.9	8.5	6.5	3.1	6.7	5.0	4.7	1.9	5.6	3.7
International reserves (USDbn)	1,906	1,946	1,954	2,130	2,180	2,250	2,286	2,303	2,354	2,399
Policy rate, end quarter (%)	7.20	5.31	5.31	5.31	5.31	5.31	5.31	5.58	5.85	5.85
5yr lending rate, end quarter (%)	7.56	5.76	5.76	5.76	5.76	5.76	5.76	6.03	6.30	6.30
RMB /USD, end quarter	6.85	6.82	6.83	6.83	6.83	6.80	6.80	6.80	6.73	6.66
RMB /EUR, end quarter	9.73	9.48	9.02	9.56	9.90	10.20	10.20	10.20	10.10	9.99

Note: Industrial production is the output of companies with annual sales over RMB5 million.
Source: HSBC, CEIC

China: Macro framework

	2005	2006	2007	2008	2009f	2010f	2011f
Production, demand and employment							
GDP growth (% y-o-y)	10.2	11.6	13.0	9.0	8.1	9.5	8.9
Nominal GDP (USDbn)	2,239	2,661	3,386	4,331	4,735	5,366	6,203
GDP per capita (USD)	1,723	2,035	2,576	3,278	3,566	4,021	4,625
Nominal retail sales (% y-o-y)	12.9	13.7	16.8	21.6	15.0	17.0	16.8
Fixed Asset Investment (nominal, % y-o-y)	27.2	24.5	25.8	26.1	27.5	26.0	20.0
Industrial production (excl. small enterprises % y-o-y)	15.9	16.2	16.0	12.9	9.5	14.0	13.0
Gross domestic saving (% GDP)	48.2	50.1	51.0	51.4	50.0	50.5	50.0
Unemployment rate, average (%)	4.2	4.1	4.0	4.2	6.0	5.5	5.0
Prices & wages							
CPI, average (% y-o-y)	1.8	1.5	4.8	5.9	-0.6	2.6	2.5
CPI, end-year (% y-o-y)	1.6	2.8	6.5	1.2	0.3	3.3	2.3
PPI, end-year (% y-o-y)	3.2	3.1	5.4	-1.1	3.5	4.0	3.3
Manufacturing wages, nominal (% y-o-y)	12.3	14.0	16.2	17.0	9.0	13.0	11.5
Money, FX & interest rates							
Central bank money M0, average (%)	9.9	13.2	13.6	12.4	8.0	11.0	10.6
Broad money supply M2, average (%)	16.0	18.1	17.5	16.7	21.9	21.5	16.0
Policy rate, end-year (%)	5.58	6.12	7.47	5.31	5.31	5.85	5.85
5yr yield, end-year (%)	5.85	6.48	7.74	5.76	5.76	6.30	6.30
RMB /USD, end-year	8.07	7.81	7.30	6.82	6.80	6.66	6.40
RMB /USD, average	8.18	7.96	7.60	6.94	6.83	6.77	6.53
RMB /EUR, end-year	9.52	10.30	10.66	9.48	10.20	9.99	9.60
RMB /EUR, average	10.19	10.01	10.56	10.11	9.87	10.15	9.80
External sector							
Merchandise exports (USDbn)	762.0	969.0	1,219	1,429	1,258	1,372	1,509
Merchandise imports (USDbn)	660.0	791.5	956.0	1,131.8	1,008	1,159	1,263
Trade balance (USDbn)	102.0	177.5	262.7	297.3	250.5	212.5	245.2
Current account balance (USDbn)	161	253	372	426	240	230	260
Current account balance (% GDP)	7.2	9.5	11.0	9.8	5.1	4.3	4.2
Net FDI (USDbn)	72.4	72.7	83.5	108.3	85.0	86.0	98.9
Net FDI (% GDP)	3.2	2.7	2.5	2.5	1.8	1.6	1.6
Current account balance plus FDI (% GDP)	10.4	12.2	13.4	12.3	6.9	5.9	5.8
Exports (% y-o-y)	28.4	27.2	25.8	17.2	-12.0	9.0	10.0
Imports (% y-o-y)	17.6	19.9	20.8	18.5	-11.0	15.0	9.0
International FX reserves (USDbn)	818.9	1,066	1,528	1,946	2,250	2,400	2,550
Import cover (months)	13.8	15.0	17.7	18.9	26.1	25.3	25.8
Public and external solvency indicators							
Commercial banks' FX assets (USDbn)	169.3	200.3	188.4	180.9	211.6	245.5	292.4
Gross external debt (USDbn)	281.0	323.0	373.6	374.7	350.0	330.0	360.0
Short term external debt (% of int'l reserves)	19.1	17.2	14.4	10.8	6.7	5.0	5.1
Consolidated government balance (% GDP)	-1.2	-1.0	0.6	-0.4	-2.9	-4.3	-3.2

Note: Industrial production is the output of all industrial companies
Source: HSBC, CEIC

Hong Kong SAR

Riding on regional recovery

Similar to the global economy, Hong Kong's economy has rebounded faster than we thought. Real GDP gained 3.3% (sa) in 2Q from 1Q. On an annual basis, it contracted -3.8% in 2Q after recording -7.8% in the previous quarter. There are still some overhangs in 2009, but we expect a full-fledged recovery in 2010. Upon upward revision of our G3 forecast, we also revised up our 2010 GDP forecast to 3.8% from 2.4%.

Consumer confidence rose significantly in 2Q by 12% qoq, due partly to the global asset market boom and slower-than expected job cuts in the local market. Private consumption thus rose 4% (sa) from 1Q. Having said that, we have not seen a net increase in jobs. We now expect the jobless rate to peak at 6.2% versus 6.7% in 1Q10. Therefore, we only expect private consumption to improve at a faster pace next year.

Merchandise trade also surprised us in 2Q, recording export growth of 11% (sa) qoq. This was even better than China's exports which still recorded negative growth. Thanks to China's

strong public investment, it imported 16% more goods than in the previous quarter. We now anticipate better growth in Hong Kong's exports as we expect the G3 countries to recover at a faster rate.

Private investment is still the biggest hindrance. It recorded a larger-than-expected contraction in 2Q. While banks have eased their lending criteria, corporate lending remains subdued. We believe companies are still reluctant to expand without seeing a meaningful improvement in the global economy.

Hong Kong has recorded two months of deflation. While general prices are still under downward pressure, rising private rentals could feed through the economy quicker than expected. Therefore, we have also revised up our CPI expectation to 2.3% from 1.4% in 2010.

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	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009f	Q4 2009f	Q1 2010f	Q2 2010f	Q3 2010f	Q4 2010f
GDP (% y-o-y)	1.5	-2.6	-7.8	-3.8	-3.1	-1.1	4.0	3.5	3.7	3.9
Industrial production (% y-o-y)	-7.0	-10.6	-10.2	-9.5	-8.0	-6.5	2.3	0.8	1.3	1.5
CPI, ave quarter (% y-o-y)	3.1	2.1	2.1	-0.5	0.5	1.8	2.2	3.3	2.5	1.2
PPI, end quarter (% y-o-y)	5.4	3.8	-1.4	-2.9	-2.0	-1.3	0.3	1.1	1.6	1.8
Trade balance (% GDP)	-9.6	-7.0	-9.1	-10.0	-7.1	-7.5	-8.9	-9.5	-6.4	-6.9
G&S balance (% GDP)	13.2	15.8	10.6	7.7	13.3	14.1	11.1	9.0	14.5	15.2
International reserves (USDbn)	160.6	182.5	186.3	207.0	230.0	245.0	246.0	245.0	245.0	247.0
Policy rate, end quarter (%)	3.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
5yr yield, end quarter (%)	2.57	1.19	1.62	2.07	1.85	1.50	1.50	1.50	1.50	1.50
HKD /USD, end quarter	7.80	7.80	7.75	7.75	7.80	7.80	7.80	7.80	7.80	7.80
HKD /EUR, end quarter	11.08	10.84	10.23	10.85	11.31	11.70	11.70	11.70	11.70	11.70

Source: HSBC, CEIC

HKSAR: Macro framework

	2005	2006	2007	2008	2009f	2010f	2011f
Production, demand and employment							
GDP growth (% y-o-y)	7.1	7.0	6.4	2.4	-4.0	3.8	4.3
Nominal GDP (USDbn)	177.8	189.9	207.1	215.2	208.6	219.5	233.6
GDP per capita (USD)	25,629	25,630	25,630	25,631	28,812	29,647	30,627
Private consumption (% y-o-y)	3.0	5.9	8.5	1.7	-1.0	2.1	3.0
Government consumption (% y-o-y)	-3.2	0.2	3.0	1.8	1.8	1.5	1.3
Investment (% y-o-y)	4.1	7.1	3.4	0.0	-8.3	5.0	6.0
Industrial production (% y-o-y)	2.5	2.2	-1.5	-6.6	-8.5	1.5	2.3
Gross domestic saving (% GDP)	33.3	33.3	31.0	30.4	30.3	30.6	32.6
Unemployment rate, end-year (%)	5.2	4.4	3.4	4.1	6.0	6.0	5.4
Prices & wages							
CPI, average (% y-o-y)	0.9	2.0	2.0	4.3	0.6	2.3	3.0
CPI, end-year (% y-o-y)	1.4	2.3	3.8	2.1	1.8	1.2	3.2
PPI, end-year (% y-o-y)	1.0	2.1	4.2	3.8	-1.3	1.8	1.9
Overall wages, nominal (% y-o-y)	2.6	1.3	0.3	3.7	1.0	3.3	3.5
Money, FX & interest rates							
Central bank money M1, average (% y-o-y)	1.2	11.9	17.8	4.6	24.0	15.0	10.0
Broad money supply M3, average (% y-o-y)	7.4	12.7	18.4	7.0	7.7	27.0	15.8
Real private sector credit growth (% y-o-y)	6.9	6.9	13.2	12.5	-1.6	8.4	16.0
Policy rate, end-year (%)	5.75	6.75	5.75	0.50	0.50	0.50	0.50
5yr yield, end-year (%)	4.11	3.69	3.10	1.19	1.50	1.50	2.00
HKD /USD, end-year	7.75	7.77	7.80	7.75	7.80	7.80	7.80
HKD /USD, average	7.77	7.77	7.80	7.78	7.78	7.80	7.80
HKD /EUR, end-year	9.14	10.26	11.39	10.77	11.70	11.70	11.70
HKD /EUR, average	9.68	9.76	10.84	11.33	11.25	11.70	11.70
External sector							
Merchandise exports (USDbn)	288.7	316.3	346.0	364.6	319.3	346.6	379.5
Merchandise imports (USDbn)	296.3	330.3	365.7	387.7	336.8	363.9	397.7
Trade balance (USDbn)	-7.6	-14.0	-19.7	-23.1	-17.5	-17.3	-18.2
G & S balance (USDbn)	22.1	21.7	22.4	23.5	24.1	27.5	30.9
G & S balance (% GDP)	12.4	11.4	10.8	10.9	11.5	12.5	13.2
Net FDI (USDbn)	6.4	0.1	-6.7	3.1	6.0	8.0	10.0
Net FDI (% GDP)	3.6	0.0	-3.3	1.4	2.9	3.6	4.3
G & S balance plus FDI (% GDP)	16.0	11.4	7.6	12.3	14.4	16.2	17.5
Exports (% y-o-y)	11.1	9.6	9.4	5.4	-12.7	8.8	9.5
Imports (% y-o-y)	10.1	11.5	10.7	6.0	-13.3	8.3	9.3
International FX reserves (USDbn)	124.3	133.2	152.7	182.5	245.0	247.0	250.0
Import cover (months)	5.0	4.8	5.0	5.6	8.7	8.1	7.5
Public and external solvency indicators							
Commercial banks' FX assets (USDbn)	531.4	603.9	789.1	864.0	870.0	900.0	950.0
Gross external debt (USDbn)	43.0	52.0	83.0	47.6	40.0	45.0	50.0
Consolidated government balance (% GDP)	1.0	4.0	7.7	0.1	-3.9	-1.2	2.5

Note: Public debt refers to government debt only
Source: HSBC, CEIC

India

How big a drought effect?

Recent months have witnessed a marked improvement in a number of Indian economic indicators such as motor vehicle sales, industrial production and the service sector Purchasing Managers Index (PMI). Overall, it is clear that the recovery has begun.

Looking ahead, however, the recovery faces a potentially important challenge in the form of the country's thirteenth drought in the last sixty years. Agricultural output contracted in the previous twelve droughts, recording an average fall of 3%. With agriculture now a smaller part of the economy (representing 20% of total output) the GDP effect should be smaller than in the past, although by no means negligible bearing in mind that more than half of the population still live off the land.

There are plenty of offsetting factors at play. In particular, the full impact of the various fiscal and monetary stimulus measures, many of which target the rural (and urban) poor, have yet to be felt. The government may also decide to pump more money into the rural economy in order to help ease the

situation, albeit at risk of undermining the public finances further. Despite some more encouraging signs on government revenues, we are sticking with our forecast of a 7.5% of GDP central government deficit in 2009/10 and a 12% general government shortfall.

The country has yet to see oil and gas production step up to any significant extent, although this is presumably only a question of time. Meanwhile, exports are set to take a turn for the better given the prospect of an improving regional/world trade cycle.

We have been forecasting 6.2% GDP growth in 2009/10 and 8% in 2010/11 since the beginning of this year and remain happy with those numbers. If anything, the risk to the former is on the upside thanks to the good start to this fiscal year.

In contrast to other countries, inflation in India remains at elevated levels, thanks to persistently high food price rises. Although the Reserve Bank has been sounding more hawkish recently, we doubt it will make a rate move this year.

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	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009f	Q4 2009f	Q1 2010f	Q2 2010f	Q3 2010f	Q4 2010f
GDP (% y-o-y)	7.7	5.8	5.8	6.1	6.0	6.7	6.1	6.8	7.5	8.5
Industrial production (% y-o-y)	4.7	0.8	0.5	3.9	6.5	9.6	9.4	9.6	8.4	8.6
CPI, end quarter (% y-o-y)	9.8	9.7	8.0	9.3	11.8	12.3	12.0	9.8	7.5	6.5
WPI, end quarter (% y-o-y)	12.3	6.2	1.2	-1.0	2.0	6.0	8.0	7.2	6.8	6.3
Trade balance (% GDP)	-14.2	-12.0	-5.3	-5.6	-11.1	-10.6	-5.0	-5.7	-11.3	-10.9
Current account (% GDP)	-4.6	-4.5	1.7	1.1	-3.9	-4.2	0.8	0.8	-4.0	-4.4
International reserves (USDbn)	277.3	246.6	241.4	254.1	251.4	246.0	258.4	270.1	266.1	257.5
Policy rate, end quarter (%)	9.00	6.50	5.00	4.75	4.75	4.75	4.75	5.00	5.25	5.50
5yr yield, end quarter (%)	8.58	5.35	6.65	6.95	7.02	7.35	7.35	7.88	7.75	7.75
INR /USD, end quarter	47.0	48.7	50.7	47.9	48.6	48.0	48.0	47.5	47.0	46.5
INR /EUR, end quarter	66.7	67.7	66.9	67.1	70.5	72.0	72.0	71.3	70.5	69.8

Note: Data pertain to fiscal year, eg. 2005 numbers are for FY05/06 (April 05 – March 06)
Source: HSBC, CEIC

India: Macro framework

	2005	2006	2007	2008	2009f	2010f	2011f
Production, demand and employment							
GDP growth (% y-o-y)	9.5	9.7	9.0	6.7	6.2	8.0	8.5
Nominal GDP (USDbn)	784.7	877.3	1,115	1,175	1,160	1,364	1,625
GDP per capita (USD)	690.2	762.7	949.5	976	880	892	915
Private consumption (% y-o-y)	7.1	6.3	8.5	2.9	5.0	8.0	8.3
Government consumption (% y-o-y)	6.2	5.5	7.4	20.2	12.0	5.0	2.0
Investment (% y-o-y)	17.6	14.5	12.9	8.2	6.0	11.0	12.5
Industrial production (% y-o-y)	8.2	11.5	8.5	2.6	5.0	9.0	7.7
Gross domestic saving (% GDP)	35.1	37.0	38.1	36.3	38.5	39.0	39.5
Prices							
CPI, average (% y-o-y)	4.0	6.3	6.4	8.3	10.5	9.6	6.0
CPI, end-year (% y-o-y)	5.3	6.7	5.5	9.7	12.3	6.5	6.4
WPI, average (% y-o-y)	4.5	4.8	4.8	9.1	2.3	7.1	5.4
WPI, end-year (% y-o-y)	4.4	5.7	3.8	6.2	6.0	6.3	5.0
Money, FX & interest rates							
Central bank money M0, average (% y-o-y)	14.7	17.3	15.0	18.9	16.0	18.0	17.0
Broad money supply M3, average (% y-o-y)	16.1	19.6	21.8	20.3	19.0	19.0	19.0
Real private sector credit growth (% y-o-y)	19.9	18.4	15.6	14.1	8.0	12.0	15.0
Policy rate, end-year (%)	6.75	7.75	7.75	6.50	4.75	5.50	6.75
5yr yield, end-year (%)	6.66	7.52	7.67	5.35	7.35	7.75	8.40
INR /USD, end-year	45.1	44.3	39.4	48.7	48.0	46.5	44.5
INR /USD, average	44.1	45.2	40.9	44.7	48.8	47.4	45.5
INR /EUR, end-year	53.1	58.4	57.5	67.7	72.0	69.8	66.8
INR /EUR, average	54.9	56.8	56.8	65.1	70.6	71.2	68.3
External sector							
Merchandise exports (USDbn)	102.2	123.8	149.3	187.9	157.0	175.9	196.4
Merchandise imports (USDbn)	149.4	184.9	231.0	315.1	253.2	290.4	326.2
Trade balance (USDbn)	-47.3	-61.2	-81.7	-127.2	-96.2	-114.5	-129.8
Current account balance (USDbn)	-14.7	-9.3	-11.3	-36.1	-17.0	-25.1	-26.6
Current account balance (% GDP)	-1.9	-1.1	-1.0	-3.1	-1.5	-1.8	-1.6
Net FDI (USDbn)	4.6	6.0	7.8	22.8	10.7	17.5	30.5
Net FDI (% GDP)	0.6	0.7	0.7	1.9	0.9	1.3	1.9
Current account balance plus FDI (% GDP)	-1.3	-0.4	-0.3	-1.1	-0.5	-0.6	0.2
Exports (% y-o-y)	31.1	21.1	20.6	25.9	-16.4	12.0	11.6
Imports (% y-o-y)	41.0	23.8	24.9	36.4	-19.6	14.7	12.3
International FX reserves (USDbn)	131.0	170.2	266.6	246.6	246.0	257.5	271.5
Import cover (months)	10.5	11.0	13.8	9.4	11.7	10.6	10.0
Public and external solvency indicators							
Commercial banks' FX assets (USDbn)	162.8	209.5	324.3	265.4	270.0	300.0	320.0
Gross external debt (USDbn)	138.1	171.3	224.6	229.9	235.0	250.0	270.0
Short term external debt (% of int'l reserves)	6.6	7.0	16.4	19.5	16.3	17.1	18.4
Consolidated government balance (% GDP)	-9.3	-7.0	-6.5	-9.8	-11.5	-10.0	-8.5
Central government balance (% GDP)	-4.2	-3.6	-2.8	-6.3	-6.9	-5.8	-4.9
Primary balance (% GDP)	-0.7	-0.1	-0.1	-3.0	-4.5	-3.5	-2.5

Note: Data pertain to fiscal year, eg. 2005 numbers are for FY05/06 (April 2005–March 2006)
Source: Central Statistical Organisation, Reserve Bank of India, Bloomberg, CEIC and HSBC

Indonesia

Election-related resilience?

Outside Japan, Indonesia registered the smallest quarter-on-quarter GDP rise in Q2 of all the main Asian countries. However, at 5.3% on an annualised basis it was far from disastrous and comes mainly as a consequence of the economy's far greater resilience at the end of last year and the beginning of this.

The big question, however, is how much of that resilience was the function of election-related spending which has now faded away. It is certainly hard to believe that the strong improvement in private consumption and confidence through the global crisis (Indonesia must have been one of the only countries to experience this) had nothing to do with the timing of the parliamentary and presidential elections.

With this in mind and factoring in Indonesia's fairly small monetary and fiscal easing actions, as well as its comparatively low trade exposure, we would be very surprised if the country registered one of the best Asian growth performances in 2010, as seems likely in 2009 (although it won't be bad either).

Inflation is set to rear its ugly head again before the year is out and might rise close to 10% before peaking around the middle of next year. The lagged impact of the rise in commodity prices will be the key factor, just as it was in the first half of 2008, and the central bank will probably move rates modestly higher next year to counter the threat of "second-round" effects.

As we have frequently pointed out, Indonesia has made significant structural progress since the 1997/98 crisis, repairing balance sheets, clamping down on corruption and encouraging greater inward Foreign Direct Investment.

A key test of President Yudhoyono's second and final term will be the extent to which he can extend the change for good. In particular, will labour market reform prove a step too far?

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	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009f	Q4 2009f	Q1 2010f	Q2 2010f	Q3 2010f	Q4 2010f
GDP (% y-o-y)	6.4	5.2	4.4	4.0	3.7	4.9	5.5	5.8	6.2	5.8
Industrial production (% y-o-y)	4.3	1.8	1.5	1.5	1.0	2.5	5.0	6.0	7.0	7.0
CPI, end quarter (% y-o-y)	12.1	11.1	7.9	3.7	3.0	5.5	7.2	8.7	9.2	8.0
PPI, end quarter (% y-o-y)	27.5	9.7	4.9	-5.9	0.0	10.0	12.0	13.0	12.0	10.0
Trade balance (% GDP)	4.1	3.4	6.2	7.0	5.4	4.2	4.5	5.2	4.2	3.2
Current account (% GDP)	-0.6	-0.6	2.6	2.5	0.9	0.4	0.1	1.2	0.5	-0.8
International reserves (USDbn)	57.1	51.6	54.8	57.6	59.4	60.5	60.1	61.7	62.0	60.1
Policy rate, end quarter (%)	9.25	9.25	7.75	7.00	6.50	6.50	6.50	7.00	7.50	8.00
5yr yield, end quarter (%)	13.01	11.80	11.69	10.00	9.20	9.25	9.75	10.13	10.50	10.50
IDR/USD, end quarter	9,506	11,325	11,700	10,208	10,018	9,500	9,200	9,000	8,900	8,800
IDR/EUR, end quarter	13,499	15,742	15,444	14,291	14,526	14,250	13,800	13,500	13,350	13,200

Source: HSBC, CEIC

Indonesia: Macro framework

	2005	2006	2007	2008	2009f	2010f	2011f
Production, demand and employment							
GDP growth (% y-o-y)	5.7	5.5	6.3	6.1	4.3	5.8	5.5
Nominal GDP (USDbn)	285.6	364.4	432.0	517.4	517.6	687.7	796.3
GDP per capita (USD)	1,300	1,635	1,914	2,264	2,226	2,931	3,358
Private consumption (% y-o-y)	4.0	3.2	5.0	5.3	4.9	5.4	5.0
Government consumption (% y-o-y)	6.6	9.6	3.9	10.4	12.8	2.5	2.3
Investment (% y-o-y)	10.9	2.6	9.4	11.7	3.3	8.7	7.4
Industrial production (% y-o-y)	4.6	4.6	4.7	3.7	1.6	6.3	4.7
Gross domestic saving (% GDP)	27.5	28.7	28.1	30.6	29.8	30.4	30.8
Unemployment rate, end-year (%)	11.2	10.3	9.1	8.4	9.6	9.1	8.5
Prices & wages							
CPI, average (% y-o-y)	10.5	13.1	6.4	10.2	5.3	7.9	7.0
CPI, end-year (% y-o-y)	17.1	6.6	6.6	11.1	5.5	8.0	6.4
WPI, end-year (% y-o-y)	24.4	6.6	21.9	9.7	10.0	10.0	8.0
Manufacturing wages, nominal (% y-o-y)	8.5	6.3	5.1	10.0	6.0	8.0	8.0
Money, FX & interest rates							
Broad money supply M2, average (% y-o-y)	12.4	15.5	15.9	16.1	15.3	16.0	15.5
Real private sector credit growth (% y-o-y)	18.9	1.1	15.0	19.6	9.5	8.0	12.0
Policy rate, end-year (% y-o-y)	12.75	9.75	8.00	9.25	6.50	8.00	8.00
5yr yield, end-year (%)	13.31	9.43	9.22	11.80	9.25	10.50	10.75
IDR /USD, end-year	9,830	8,994	9,400	11,325	9,500	8,800	8,800
IDR /USD, average	9,705	9,166	9,143	9,575	10,585	9,063	8,800
IDR /EUR, end-year	11,595	11,871	13,724	15,742	14,250	13,200	13,200
IDR /EUR, average	12,083	11,519	12,708	13,944	15,313	13,594	13,200
External sector							
Merchandise exports (USDbn)	87.0	103.5	118.0	139.6	110.6	120.0	130.7
Merchandise imports (USDbn)	69.5	73.9	85.3	116.7	81.4	90.6	99.9
Trade balance (USDbn)	17.5	29.7	32.8	22.9	29.3	29.3	30.9
Current account balance (USDbn)	0.3	10.9	10.5	0.3	7.8	1.6	5.3
Current account balance (% GDP)	0.1	3.0	2.4	0.1	1.5	0.2	0.7
Net FDI (USDbn)	5.3	2.2	2.3	2.8	1.5	2.5	2.5
Net FDI (% GDP)	1.8	0.6	0.5	0.5	0.3	0.4	0.3
Current account balance plus FDI (% GDP)	1.9	3.6	3.0	0.6	1.8	0.6	1.0
Exports (% y-o-y)	22.9	19.0	14.0	18.3	-20.7	8.4	9.0
Imports (% y-o-y)	37.2	6.3	15.4	36.9	-30.3	11.4	10.2
International FX reserves (USDbn)	34.7	42.6	56.9	51.6	60.5	60.1	64.6
Import cover (months)	6.0	6.9	8.0	5.3	8.9	8.0	7.8
Public and external solvency indicators							
Gross external debt (USDbn)	130.7	128.7	136.6	149.1	145.8	147.8	152.0
Short term external debt (% of int'l reserves)	53.9	47.0	50.2	53.8	43.0	44.9	44.9
Private sector external debt (USDbn)	50.6	52.9	56.0	62.6	59.8	60.8	62.0
Central government balance (% GDP)	-0.5	-0.9	-1.3	-0.1	-1.9	-1.6	-1.0
Primary balance (% GDP)	1.8	1.5	0.8	1.7	-0.9	-0.2	1.1
Gross public domestic debt (IDRtrn)	1270.0	1302.2	1385.0	1448.3	1552.4	1652.1	1722.2
Gross public domestic debt (% GDP)	45.2	39.7	34.1	24.7	31.6	27.3	24.6
Gross public external debt (USDbn)	80.1	75.8	80.6	86.6	86.0	87.0	90.0
Gross public external debt (% GDP)	28.0	20.8	18.7	16.7	16.6	12.7	11.3
Gross public sector debt (% GDP)	73.3	60.5	52.8	41.5	42.0	39.9	35.9

Source: HSBC, CEIC

Japan

Policy and export-led recovery to continue

We have raised our forecast for real GDP growth in 2009 to -5.7% from -6.3%. This upgrade is mainly attributable to the upswing in April-June GDP growth from our projection. We continue to foresee q-o-q growth for the rest of 2009, but we now expect a slight q-o-q decline during next January-March, due to a drop-off in fiscal stimulus spending, completion of replenishment of overseas inventories, and a partial freeze on the government expenditure that was to be funded by the supplementary budget for FY2009.

For 2010, we maintained our forecast for real GDP growth at 1.2%. We expect a large negative output gap to persist, and we expect companies to continue to curtail personnel costs and capital investment. Thus, we do not foresee a self-sustaining recovery based on private demand. However, the economic policy pledged by Japan's new government will probably support personal consumption enough to generate real growth in 2010, the first in three years.

For 2011, we project real GDP growth of 1.1%.

Japan will continue to be burdened with a negative output gap, but industrial production and capacity utilization rates should rise, reflecting increased exports to rapidly growing Asian countries. Thus, we expect private capital investment to finally bottom out in the second half of FY2011.

Manufacturers will probably continue to curtail their personnel costs, so employees' income will probably continue to decline. However, if the new Japanese government distributes all of the allowances for child education and financial support for farm families that it has promised, household disposable income should increase, supporting the growth of personal consumption. Still, to fund these disbursements, government spending will have to be cut significantly and the allowance for spouses etc. will be abolished. Therefore, the overall impact on growth of the new government's economic policy will probably be neutral.

We project that core CPI will fall by 1.2% in 2009, by 1.4% in 2010, and by 0.8% in 2011.

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	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009f	Q4 2009f	Q1 2010f	Q2 2010f	Q3 2010f	Q4 2010f
GDP (% y-o-y)	-0.3	-4.3	-8.7	-7.2	-5.5	-1.8	1.4	1.4	1.1	0.9
Industrial production (% y-o-y)	-1.4	-14.5	-34.6	-27.8	-21.7	-6.3	23.4	13.8	6.2	3.1
CPI, end quarter (% y-o-y)	2.2	1.0	0.0	-1.0	-2.4	-1.6	-1.2	-1.6	-1.4	-1.3
Dom. CGPI, end quarter (% y-o-y)	7.3	2.6	-1.8	-5.4	-8.3	-4.8	-1.5	-1.0	-0.8	-0.7
Trade balance (% GDP)	-0.1	-0.5	-0.8	0.7	2.0	1.7	1.6	2.2	3.4	2.7
Current account (% GDP)	3.0	1.7	2.3	2.6	3.9	3.6	3.7	4.3	5.5	4.7
International reserves (USDbn)	1032.0	1030.6	1060.0	1090.0	1,110	1,115	1,130	1,150	1,175	1,200
Policy rate, end quarter (%)	0.5	0.1	0.1	0.1	0.10	0.10	0.10	0.10	0.10	0.10
10-yr yield, end quarter (%)	1.5	1.3	1.3	1.4	1.3	1.4	1.2	1.2	1.2	1.3
JPY/USD, end quarter	106	91	99	96	92	100	105	105	105	105
JPY/EUR, end quarter	151	126	131	134	133	150	158	158	158	158

Source: HSBC, CEIC

Japan: Macro framework

	2005	2006	2007	2008	2009f	2010f	2011f
Production, demand and employment							
GDP growth (% y-o-y)	1.9	2.0	2.3	-0.7	-5.7	1.2	1.1
Nominal GDP (USDbn)	4,555	4,376	4,385	4,659	4,860	4,594	4,630
GDP per capita (USD)	36,090	34,686	34,775	39,262	36,920	35,333	35,500
Private consumption (% y-o-y)	1.3	1.5	0.7	0.6	-1.1	0.8	1.0
Government consumption (% y-o-y)	1.6	0.4	1.9	0.8	0.7	0.5	-1.6
Investment (% y-o-y)	3.1	0.5	0.8	-5.0	-13.1	-5.1	-2.1
Industrial production (% y-o-y)	1.1	4.8	2.8	-3.2	-22.6	11.6	4.7
Gross domestic saving (% GDP)	26.2	27.1	26.5	26.0	26.0	25.5	24.5
Unemployment rate, end-year (%)	4.4	4.1	3.9	4.0	5.2	6.1	5.9
Prices & wages							
CPI, average (% y-o-y)	-0.3	0.2	0.0	1.5	-1.2	-1.4	-0.8
CPI, end-year (% y-o-y)	0.2	0.1	0.4	1.0	-1.6	-1.3	-0.6
Domestic CGPI, average (% y-o-y)	1.7	2.2	1.8	4.6	-5.1	-1.0	-0.2
Total wages, nominal (% y-o-y)	0.6	0.2	-1.0	-0.3	-4.5	-1.5	-1.0
Money, FX & interest rates							
Central bank money M0, average (% y-o-y)	2.0	-13.3	-7.8	0.1	5.8	0.1	0.0
Broad money supply M2+CDs, average (% y-o-y)	1.8	1.0	1.6	2.1	2.7	2.7	2.5
Policy rate, end-year (%)	0.00	0.26	0.50	0.10	0.10	0.10	0.10
10yr yield, average (%)	1.4	1.8	1.7	1.5	1.4	1.2	1.3
JPY /USD, end-year	118	119	112	91	100	105	100
JPY /USD, average	112	117	117	91	100	105	105
JPY /EUR, end-year	139	157	164	126	150	158	150
JPY /EUR, average	140	147	163	133	145	158	158
External sector							
Merchandise exports (USDbn)	595.3	646.8	713.8	782.0	546.9	588.9	638.4
Merchandise imports (USDbn)	516.1	579.0	622.1	762.9	500.3	475.3	478.4
Trade balance (USDbn)	79.2	67.9	91.8	19.1	46.6	113.6	160.0
Current account balance (USDbn)	165.8	170.7	212.4	157.7	154.8	208.9	255.2
Current account balance (% GDP)	3.7	3.9	4.9	3.2	3.2	4.5	5.5
Net FDI (USDbn)	-43.0	-56.8	-53.9	-67.9	-60.2	-56.5	-50.0
Net FDI (% GDP)	-0.9	-1.3	-1.2	-1.5	-1.2	-1.2	-1.1
Current account balance plus FDI (% GDP)	2.7	2.6	3.6	1.7	2.0	3.3	4.4
Exports (% y-o-y)	7.3	14.6	11.5	-3.5	-33.0	13.9	8.4
Imports (% y-o-y)	15.7	18.3	8.6	8.0	-37.3	0.8	0.7
International FX reserves (USDbn)	834.3	879.7	952.8	1,030.6	1,060	1,100	1,150
Import cover (months)	38.8	36.5	36.8	32.4	50.9	55.5	57.7
Public and external solvency indicators							
Commercial banks' FX assets (USDbn)	1,369	1,523	1,783	1,850	1,900	1,950	1,950
Gross external debt (USDbn)	1,281	1,243	1,402	1,250	1,200	1,220	1,220
Private sector external debt (USDbn)	973.8	824.1	818.7	900.0	900	900	900
General government balance (% GDP)	-6.1	-1.0	-1.4	-3.5	-10.2	-10.5	-10.0
Primary balance (% GDP)	-2.9	-1.7	-2.8	-2.0	-7.9	-8.2	-7.7
Gross public domestic debt (JPYtm)	930.9	964.8	990	1,066	1,105	1,140	1,140
Gross public domestic debt (% GDP)	181.9	188.0	192.7	251.5	227.4	236.3	234.5
Gross public external debt (USDbn)	307.3	418.8	583.8	350.0	300.0	320.0	320.0
Gross public external debt (% GDP)	6.7	9.6	13.3	7.5	6.2	7.0	6.9
Gross public sector debt (% GDP)	188.7	197.6	206.0	259.0	233.5	243.3	241.4

Note: Public debt refers to government debt only
Source: HSBC, CIEC

Korea

On a rebound

Just a few months ago, the Korean economy was widely expected to shrink by more than 2 percent this year in the aftermath of the global credit crunch. But Korea has become one of the fastest-recovering economies in the world, posting a record-high trade surplus, as well as impressive stock and housing market rallies. The Korean won, meanwhile, has strengthened considerably.

Recently, sentiment among households has improved markedly, likely reflecting a positive wealth effect and stabilizing labour market. This has translated into a robust gain for retail sales, which recorded positive annual growth for three consecutive months, although the July reading was softer following an end to tax cuts on new car purchases during that month.

In the second quarter, the economy expanded by 2.6% q-o-q sa. In addition to stronger than expected private consumption, corporate investment also grew 10.1% q-o-q. Following the rebound in the second quarter, high-frequency data suggests continued acceleration into the third

quarter: IP and service sector data send signs of improvement, while leading indices suggest that the recovery will endure. With exports rebounding on a sequential basis and the government promising accommodative fiscal and monetary policy until early next year, Korea may even edge out positive growth for this year.

The asset market rally puts pressure on the Bank of Korea to raise rates early. But given officials' concerns over growth, we stick by our view that rate hikes will only arrive in the first quarter, but then by a full 50bp. For all of 2010, we have pencilled in interest rate hikes of some 100bps, which would take the policy rate to 3%. Growth in 2010 should comfortably top 4%.

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	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009f	Q4 2009f	Q1 2010f	Q2 2010f	Q3 2010f	Q4 2010f
GDP (% y-o-y)	3.1	-3.4	-4.2	-2.2	0.1	4.5	4.9	5.2	4.5	4.0
Industrial production (% y-o-y)	5.6	-11.3	-15.5	-6.2	3.0	6.0	12.0	7.0	6.0	7.0
CPI, end quarter (% y-o-y)	5.1	4.1	3.9	2.0	2.4	2.6	2.8	3.0	3.4	3.2
PPI, end quarter (% y-o-y)	11.3	5.6	3.5	-3.1	-3.2	1.0	2.0	3.5	3.8	3.4
Trade balance (% GDP)	-1.5	2.3	4.6	8.9	7.1	-1.0	3.3	5.6	4.9	-0.9
Current account (% GDP)	-3.7	3.5	4.8	6.6	4.9	-3.3	1.5	4.1	3.3	-2.8
International reserves (USDbn)	239.7	201.2	206.3	231.7	249.9	247.2	251.6	262.6	272.0	265.3
Policy rate, end quarter (%)	5.25	3.00	2.00	2.00	2.00	2.00	2.50	2.75	3.00	3.00
5yr yield, end quarter (%)	5.77	4.25	3.78	3.86	4.84	4.50	4.75	4.88	5.00	5.00
KRW /USD, end quarter	1,187	1,260	1,367	1,274	1,200	1,200	1,150	1,125	1,100	1,075
KRW /EUR, end quarter	1,686	1,751	1,804	1,783	1,740	1,800	1,725	1,688	1,650	1,613

Source: HSBC, CEIC

Korea: Macro framework

	2005	2006	2007	2008	2009f	2010f	2011f
Production, demand and employment							
GDP growth (% y-o-y)	4.0	5.2	5.1	2.2	-0.4	4.6	4.9
Nominal GDP (USDbn)	790.8	890.1	970.7	947.4	825	997	1,107
GDP per capita (USD)	16,428	18,430	20,033	19,494	16,924	20,428	22,629
Private consumption (% y-o-y)	4.6	4.7	5.1	0.9	-0.5	3.2	3.5
Government consumption (% y-o-y)	4.3	6.6	5.4	4.2	4.4	1.8	3.3
Investment (% y-o-y)	1.9	3.4	4.2	-1.7	-2.0	4.3	5.5
Industrial production (% y-o-y)	6.3	8.4	6.9	3.1	-3.4	7.8	8.5
Gross domestic saving (% GDP)	33.2	31.5	30.8	37.6	38.5	41.2	43.8
Unemployment rate, end-year (%)	3.5	3.3	3.1	3.3	3.8	3.4	3.2
Prices & wages							
CPI, average (% y-o-y)	2.8	2.2	2.5	4.7	2.8	3.1	3.2
CPI, end-year (% y-o-y)	2.6	2.1	3.6	4.1	2.6	3.2	3.4
PPI, end-year (% y-o-y)	1.5	0.3	3.6	5.6	1.0	3.4	3.6
Manufacturing wages, nominal (% y-o-y)	7.8	5.6	6.9	3.7	2.3	4.3	5.5
Money, FX & interest rates							
Central bank money M0, average (% y-o-y)	2.7	6.4	18.1	7.5	26.6	5.6	10.3
Broad money supply M3, average (% y-o-y)	7.0	8.2	10.3	11.6	8.0	9.0	11.0
Real private sector credit growth (% y-o-y)	5.8	11.7	12.4	9.4	4.2	4.9	4.8
Policy rate, end-year (%)	3.75	4.50	5.00	3.00	2.00	3.00	4.00
5yr yield, end-year (%)	5.04	4.82	5.65	4.25	4.50	5.00	5.25
KRW /USD, end-year	1,008	930	936	1,260	1,200	1,075	1,050
KRW /USD, average	1,025	953	928	1,081	1,268	1,128	1,100
KRW /EUR, end-year	1,189	1,228	1,367	1,751	1,800	1,613	1,575
KRW /EUR, average	1,276	1,197	1,290	1,574	1,834	1,692	1,650
External sector							
Merchandise exports (USDbn)	289.0	331.8	379.0	433.4	360.3	398.0	447.9
Merchandise imports (USDbn)	256.3	303.9	350.9	427.4	321.3	366.6	416.4
Trade balance (USDbn)	32.7	27.9	28.2	6.0	38.9	31.4	31.5
Current account balance (USDbn)	15.0	5.4	5.9	-6.4	24.5	14.3	12.9
Current account balance (% GDP)	1.9	0.6	0.6	-0.7	3.0	1.4	1.2
Net FDI (USDbn)	2.0	-4.5	-13.8	-10.6	-1.0	-4.0	-4.0
Net FDI (% GDP)	0.3	-0.5	-1.4	-1.1	-0.1	-0.4	-0.4
Current account balance plus FDI (% GDP)	2.1	0.1	-0.8	-1.8	2.9	1.0	0.8
Exports (% y-o-y)	12.1	14.8	14.2	14.3	-16.9	10.5	12.5
Imports (% y-o-y)	16.4	18.6	15.4	21.8	-24.8	14.1	13.6
International FX reserves (USDbn)	210.4	239.0	262.2	201.2	245.3	263.3	279.8
Import cover (months)	9.9	9.4	9.0	5.6	9.2	8.6	8.1
Public and external solvency indicators							
Gross external debt (USDbn)	187.9	260.1	383.2	381.1	350.0	335.0	330.0
Short term external debt (% of int'l reserves)	31.3	47.6	61.1	75.1	64.2	50.9	47.2
Private sector external debt (USDbn)	172.3	240.2	329.5	329.9	252.4	224.4	207.0
Central government balance (% GDP)	0.4	0.4	3.8	1.2	-2.6	-1.8	-1.4
Primary balance (% GDP)	1.7	1.9	5.2	2.6	-1.0	-0.2	0.2
Gross public domestic debt (KRWbn)	227,055	262,369	278,790	288,720	334,085	378,918	421,258
Gross public domestic debt (% GDP)	28.0	30.9	30.9	28.2	32.0	33.7	34.6
Gross public external debt (USDbn)	15.5	19.9	53.6	51.2	97.6	110.6	123.0
Gross public external debt (% GDP)	2.0	2.2	5.5	5.4	11.8	11.1	11.1
Gross public sector debt (% GDP)	29.5	32.2	32.1	31.4	33.6	35.5	36.4

Source: HSBC, CEIC

Malaysia

Strong, sustained success?

As expected, the Malaysian economy sprang back to life in the second quarter, registering 17% quarter-on-quarter annualised growth. Moreover, given the strong rise in the country's lead indicator as well as an impressive improvement in consumer confidence, Q2 is unlikely to have been a flash in the pan. The latter is consistent with a return to near double-digit private consumption growth in the not-too-distant future.

More fundamentally, the vast bulk of the fiscal and monetary stimulus measures have still to feed through to the real economy, while Malaysia, along with Singapore, will be one of the main beneficiaries of the turn in the regional/world trade cycle; exports represent roughly 120% of GDP. Relatively high palm oil and rubber prices will help the agricultural sector and there is some hope that the government's liberalisation measures will pay dividends in time, boosting the share of investment in GDP.

Overall, the country looks set to enjoy a sustained, V-shaped recovery and we have revised up our

already above-consensus growth forecasts. Given the terrible start to the year, GDP is still on course to contract in 2009 as a whole, although by just 2%, while we expect the economy to expand by nearly 7% in 2010. If we are right, then unemployment will start to reverse course next year and the property market should receive a lift.

This is not to say it will all be plain-sailing. As elsewhere in the region, inflation is now close to bottoming and the central bank will face a tricky decision on when to start hiking the policy rate, which currently stands at just 2%. Last year, Bank Negara was the only Asian central bank prepared to 'see through' the commodity-driven rise in inflation, and it typically seems to focus more on the core than headline CPI rate. As such, we doubt it will be in any particular hurry to tighten the screws and we look for the first move in the third quarter of next year.

It will also be important to see if and how the government tackles the high fiscal deficit in the October budget and whether the reform process continues as promised.

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	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009f	Q4 2009f	Q1 2009f	Q2 2009f	Q3 2009f	Q4 2009f
GDP (% y-o-y)	4.8	0.1	-6.2	-3.9	-1.3	3.3	9.8	7.3	5.6	5.0
Industrial production (% y-o-y)	1.8	-8.8	-17.9	-14.5	-7.0	0.0	4.0	7.0	9.0	10.0
CPI, end quarter (% y-o-y)	8.2	4.4	3.5	-1.4	-1.8	1.8	3.1	3.5	3.4	2.7
PPI, end quarter (% y-o-y)	8.7	-3.4	-8.9	-12.2	-3.5	3.5	6.5	7.5	6.5	11.5
Trade balance (% GDP)	25.1	21.9	23.8	22.6	19.1	18.5	18.4	21.2	17.8	17.1
Current account (% GDP)	19.5	16.7	20.2	17.4	13.1	12.0	13.9	16.2	11.7	10.3
International reserves (USDbn)	110.3	92.0	87.9	91.7	91.1	84.9	85.5	87.5	87.0	82.5
Policy rate, end quarter (%)	3.50	3.25	2.00	2.13	2.00	2.00	2.00	2.00	2.25	2.50
5yr yield, end quarter (%)	4.06	3.00	3.49	3.90	3.75	3.80	4.00	4.10	4.20	4.30
MYR/USD, end quarter	3.44	3.45	3.65	3.52	3.50	3.50	3.50	3.50	3.48	3.46
MYR/EUR, end quarter	4.88	4.80	4.82	4.93	5.08	5.25	4.48	4.48	4.45	4.43

Source: HSBC, CEIC

Malaysia: Macro framework

	2005	2006	2007	2008	2009f	2010f	2011f
Production, demand and employment							
GDP growth (% y-o-y)	5.3	5.8	6.2	4.6	-2.0	6.8	5.5
Nominal GDP (USDbn)	137.9	156.3	186.3	222.5	195.5	218.0	221.8
GDP per capita (USD)	5,002	5,581	6,857	8,025	6,905	7,548	7,530
Private consumption (% y-o-y)	9.1	6.8	10.4	8.5	2.5	5.6	5.0
Government consumption (% y-o-y)	6.5	5.0	6.5	10.9	2.1	1.0	1.0
Investment (% y-o-y)	5.0	7.5	9.6	0.8	-7.5	4.1	7.0
Industrial production (% y-o-y)	5.2	6.7	3.1	1.4	-9.9	7.5	6.5
Gross domestic saving (% GDP)	43.5	43.4	46.1	49.1	44.3	47.1	44.9
Unemployment rate, end-year (%)	3.8	3.0	3.0	3.1	4.0	3.5	3.2
Prices & wages							
CPI, average (% y-o-y)	3.0	3.6	2.0	5.4	0.8	3.3	2.5
CPI, end-year (% y-o-y)	3.3	3.1	2.4	4.4	1.8	2.7	2.5
PPI, end-year (% y-o-y)	9.9	4.9	10.8	-3.4	3.5	11.5	2.0
Manufacturing wages, nominal (% y-o-y)	3.9	10.1	7.3	0.5	2.0	4.0	3.5
Money, FX & interest rates							
Central bank money M0, end-year (% y-o-y)	5.1	10.6	9.8	7.2	5.5	9.0	8.0
Broad money supply M3, average (% y-o-y)	11.7	8.6	12.7	12.5	7.0	9.8	11.5
Real private sector credit growth (% y-o-y)	5.8	4.2	6.1	4.9	7.0	5.0	4.0
Policy rate, end-year (%)	3.00	3.50	3.50	3.25	2.00	2.50	2.75
5yr yield, end-year (%)	3.73	3.76	3.78	3.00	3.80	4.30	4.50
MYR /USD, end-year	3.78	3.53	3.31	3.45	3.50	3.46	3.42
MYR /USD, average	3.79	3.67	3.43	3.32	3.54	3.49	3.43
MYR /EUR, end-year	4.46	4.66	4.83	4.80	5.25	5.19	5.13
MYR /EUR, average	4.72	4.62	4.77	4.83	5.12	5.24	5.15
External sector							
Merchandise exports (USDbn)	142.3	160.6	176.5	200.1	165.3	181.6	202.1
Merchandise imports (USDbn)	108.3	123.2	139.3	148.7	124.6	141.2	159.4
Trade balance (USDbn)	34.0	37.4	37.2	51.4	40.7	40.5	42.8
Current account balance (USDbn)	20.7	25.4	29.2	38.8	30.1	28.1	29.3
Current account balance (% GDP)	15.0	16.3	15.6	17.4	15.4	12.9	13.2
Net FDI (USDbn)	1.0	0.0	-2.7	-7.8	0.1	0.6	2.3
Net FDI (% GDP)	0.7	0.0	-1.4	-3.5	0.0	0.3	1.1
Current account balance plus FDI (% GDP)	15.7	16.3	14.2	13.9	15.4	13.2	14.3
Exports (% y-o-y)	11.9	9.4	2.7	9.6	-12.0	8.5	9.4
Imports (% y-o-y)	8.9	10.3	5.6	3.2	-10.8	11.8	10.9
International FX reserves (USDbn)	70.2	82.3	101.5	120.2	84.9	82.5	84.0
Import cover (months)	7.8	8.0	8.7	9.7	8.2	7.0	6.3
Public and external solvency indicators							
Gross external debt (USDbn)	53.1	56.0	55.8	54.3	50.0	52.0	55.0
Short term external debt (% of int'l reserves)	16.5	16.2	12.7	13.1	14.1	15.8	16.7
Private sector external debt (USDbn)	29.1	31.0	29.8	27.3	25.0	23.0	28.0
Central government balance (% GDP)	-3.6	-3.3	-3.2	-4.8	-8.5	-5.8	-4.0
Primary balance (% GDP)	-1.4	-1.2	-2.2	-3.5	-7.5	-4.0	-2.0
Gross public domestic debt (MYRbn)	198.7	217.2	247.1	286.1	330.0	360.0	370.0
Gross public domestic debt (% GDP)	38.0	37.8	38.6	38.7	47.7	47.3	48.6
Gross public external debt (USDbn)	24.0	25.0	26.0	27.0	25.0	29.0	27.0
Gross public external debt (% GDP)	17.4	16.0	14.0	12.1	12.8	13.3	12.2
Gross public sector debt (% GDP)	55.4	53.8	52.6	50.9	60.5	60.6	60.8

Source: HSBC, CEIC

New Zealand

Still work to do

Unlike its neighbours, there are few signs that New Zealand's economy has entered full recovery mode yet. High-frequency data suggests that consumer spending remained tepid in the second quarter, with retail sales volumes continuing to shrink in annual terms through June this year. Household spending will likely remain depressed for quite some time, given that the unemployment rate is still ticking up and wage growth is feeble. Meanwhile, the savings rate is still in deep negative territory, suggesting that a bounce in consumer expenditure appears unlikely for now.

The business sector, too, is still grappling with the recession. While sentiment has improved, investment is unlikely to soar any time soon, not least because credit to firms is still contracting. A pick-up in global commodity prices, however, suggests that exports may strengthen over the coming quarters, pointing towards a stabilization of output. Meanwhile, effective lending rates have started to decline, matching the cut in the policy rate. This should ultimately help revive business and investment activity, and the economy more broadly.

Given only tentative signs of stabilization, the central bank can afford to leave rates on hold for a considerable time. With inflation expectations relatively well anchored, and output recovering only gradually, we only expect a hike in the policy rate in the third quarter of next year, a significant lag to other central banks in the region. For all of 2009, we expect the economy to contract by 1.4%, followed by a relatively muted expansion next year of 1.5% and 2.4% GDP growth in 2011.

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	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009f	Q4 2009f	Q1 2010f	Q2 2010f	Q3 2010f	Q4 2010f
GDP (% y-o-y)	-1.7	-2.2	-1.9	-1.1	-1.4	-1.0	0.7	1.0	2.2	2.3
Industrial production (% y-o-y)	-0.8	-7.5	-11.4	-9.0	-4.0	1.5	4.0	5.0	3.0	3.0
CPI, end quarter (% y-o-y)	5.1	3.4	3.0	1.9	1.8	1.9	2.0	2.2	2.3	2.4
PPI, end quarter (% y-o-y)	9.8	9.9	6.5	2.1	2.2	2.4	2.7	3.0	3.4	3.2
Trade balance (% GDP)	-3.0	-0.7	1.0	-0.7	-0.8	0.5	1.3	-1.0	-1.0	0.5
Current account (% GDP)	-6.1	-4.0	-0.7	0.1	-1.2	-4.2	-6.6	-6.7	-9.9	-10.4
Policy rate, end quarter (%)	7.50	5.00	3.00	2.50	2.50	2.50	2.50	2.75	3.00	3.25
10yr yield, end quarter (%)	5.65	4.62	5.34	5.96	6.00	6.00	6.10	6.10	6.20	6.20
NZD /USD, end quarter	1.40	1.73	1.87	1.65	1.45	1.45	1.43	1.41	1.39	1.37
NZD /EUR, end quarter	2.10	2.28	2.44	2.25	2.10	2.17	2.14	2.11	2.08	2.05

Source: HSBC, CEIC

New Zealand: Macro framework

	2005	2006	2007	2008	2009f	2010f	2011f
Production, demand and employment							
GDP growth (% y-o-y)	2.8	2.7	3.0	-1.1	-1.4	1.5	2.4
Nominal GDP (USDbn)	109.6	106.3	129.1	127.8	113.5	128.9	131.6
GDP per capita (USD)	26,426	25,315	30,444	29,854	26,443	29,798	30,200
Private consumption (% y-o-y)	4.9	2.5	4.1	-0.1	-1.1	0.7	2.6
Government consumption (% y-o-y)	4.0	4.9	3.5	3.8	1.0	3.2	2.2
Investment (% y-o-y)	3.7	-0.2	4.9	-4.3	-14.2	-1.4	2.3
Industrial production (% y-o-y)	-2.1	-1.5	2.1	-1.0	-5.7	3.8	4.1
Gross domestic saving (% GDP)	16.5	14.9	15.8	14.3	12.0	13.1	14.1
Unemployment rate, end-year (%)	3.8	3.8	3.7	4.2	5.9	6.3	5.7
Prices & wages							
CPI, average (% y-o-y)	3.0	3.4	2.4	3.9	2.1	2.2	2.6
CPI, end-year (% y-o-y)	3.1	2.6	3.2	3.4	1.9	2.4	2.8
PPI, end-year (% y-o-y)	3.7	4.1	4.0	9.9	2.4	3.2	3.4
Manufacturing wages, nominal (% y-o-y)	2.8	3.2	3.2	3.6	3.1	3.4	2.8
Money, FX & interest rates							
Central bank money M0, average (% y-o-y)	-0.2	1.9	0.5	2.6	-0.2	1.6	1.3
Broad money supply M3, average (% y-o-y)	8.0	12.8	10.2	6.8	4.2	5.8	5.3
Real private sector credit growth (% y-o-y)	10.9	10.5	13.4	9.7	2.3	2.8	4.0
Policy rate, end-year (%)	7.25	7.25	8.25	5.00	2.50	3.25	4.25
10yr yield, end-year (%)	5.67	5.94	6.38	4.62	6.00	6.20	6.40
NZD /USD, end-year	1.44	1.48	1.31	1.73	1.45	1.37	1.37
NZD /USD, average	1.42	1.54	1.36	1.42	1.61	1.40	1.37
NZD /EUR, end-year	1.71	1.91	1.90	2.28	2.17	2.05	2.05
NZD /EUR, average	1.77	1.94	1.86	2.07	2.24	2.10	2.05
External sector							
Merchandise exports (USDbn)	7.3	7.8	9.3	10.0	9.0	10.4	11.0
Merchandise imports (USDbn)	8.7	8.5	10.1	11.3	9.0	10.5	11.1
Trade balance (USDbn)	-1.4	-0.7	-0.7	-1.3	0.0	-0.1	-0.1
Current account balance (USDbn)	-9.2	-9.1	-10.6	-11.3	-2.0	-10.9	-10.2
Current account balance (% GDP)	-8.4	-8.6	-8.2	-8.8	-1.8	-8.5	-7.8
Exports (% y-o-y)	2.1	15.4	6.3	11.8	-3.9	2.8	5.3
Imports (% y-o-y)	2.5	5.6	5.0	16.1	-4.1	3.7	6.9
International FX reserves (USDbn)	9.1	13.4	17.0	11.2	13.2	N/A	N/A
Import cover (months)	12.5	19.1	20.3	11.9	17.6	N/A	N/A
Public and external solvency indicators							
Central government balance (% GDP)	4.7	4.6	3.7	3.0	-1.4	-3.2	-3.0
Gross external debt (NZDbn)	168.4	191.0	216.4	249.7	N/A	N/A	N/A
Gross public domestic debt (NZDmn)	34,233	28,928	30,405	31,627	38,008	44,168	50,232
Gross public sector debt (% GDP)	22.0	17.7	17.4	17.6	20.3	22.9	24.9

Source: HSBC, CEIC

Pakistan

Still work to do

Pakistan has had its fair share of troubles in the past few years. Yet, there are signs that the economy is starting to stabilize. Inflation continues to ease, exports are looking up, the trade and budget balances are shrinking, and the central bank has room to cut rates further. But, these are tentative signs of recovery at best. A lot more needs to be done to bring growth back up to levels seen earlier this decade. Foremost, political uncertainty continues to weigh heavily on investment sentiment. In the fight against Northern insurgents, some progress has been made for sure. But the army remains heavily involved in the conflict and political uncertainties prevail across the country at large. Other challenges loom as well, including the pervasive shortage of electricity, which continues to cripple industrial production and hampers a swift recovery in exports, in particular.

With foreign assistance pouring into Pakistan, any risk of an external payments crisis appears comparatively minor for the time being. Of

greater concern is the reform process to put the economy on a sustainable footing in preparation for the time when foreign assistance will be scaled back. In particular, tax revenue collection needs to be improved and expenditure curtailed. Inflation is also still too high for comfort and structural reforms, including further privatization, may well be needed to revive growth. For now, Pakistan has earned a reprieve from external payments constraints, but the risk is that this window of reform opportunity may be squandered. Growth this year and next should be positive, although barely enough to guarantee rising living standards for Pakistan's burgeoning population. The country still has work to do.

Falling inflation has allowed the SBP to cut its policy rate in recent months. Over the coming months, we expect rates to drop further, although the pace of rate cuts may disappoint: potential exchange rate volatility and a still glaring trade deficit make it necessary to run a relatively tight monetary policy.

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	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009f	Q4 2009f	Q1 2010f	Q2 2010f	Q3 2010f	Q4 2010f
Industrial production (% y-o-y)	-5.7	-3.3	-12.1	-10.1	4.0	4.0	5.0	5.0	5.0	6.0
CPI, end quarter (% y-o-y)	23.9	23.3	19.1	13.1	10.0	8.0	8.0	8.0	8.0	8.0
WPI, end quarter (% y-o-y)	30.6	29.0	17.6	11.1	8.0	7.0	6.0	8.0	9.0	9.0
M2 growth (% y-o-y)	13.4	8.7	9.0	9.6	10.0	10.0	10.0	10.0	7.0	7.0
Trade balance (USDbn)	-5.6	-4.0	-3.1	-4.3	-3.5	-3.1	-3.1	-4.6	-3.6	-3.0
Remittances (USDbn)	1.9	1.8	2.0	2.2	2.2	2.0	2.2	2.4	2.4	2.2
International reserves (USDbn)	8.2	10.0	10.5	11.4	8.3	10.1	10.6	11.5	8.4	10.2
Policy rate, end quarter (%)	13.00	15.00	15.00	14.00	12.00	11.00	10.00	9.00	9.00	9.00
2 yr yield, end quarter (%)	13.30	14.88	12.25	12.13	12.00	10.75	9.80	8.80	8.80	8.80
PKR /USD, end quarter	78.1	79.1	80.5	81.4	83.2	90.0	92.0	92.0	92.0	92.0
PKR /EUR, end quarter	111.0	110.0	106.3	114.0	120.6	135.0	138.0	138.0	138.0	138.0

Note: Data pertain to fiscal year, eg. 2005 numbers are for FY05/06 (April 2005–March 2006)
Source: HSBC, CEIC

Pakistan: Macro framework

	2005	2006	2007	2008	2009f	2010f	2011f
Production, demand and employment							
GDP growth (% y-o-y)	6.2	5.7	2.0	3.7	0.8	2.6	3.7
Nominal GDP (USDbn)	128.0	143.8	169.3	184.5	170.5	169.0	185.2
GDP per capita (USD)	816.2	901.3	1,042.5	1,126.7	1,038	1,026	1,121
Private consumption (% y-o-y)	1.0	4.7	-1.3	5.2	1.0	2.0	3.5
Government consumption (% y-o-y)	48.3	-9.6	39.0	-13.5	4.0	3.0	3.0
Investment (% y-o-y)	19.9	13.6	3.8	-6.5	3.0	4.0	4.0
Industrial production (% y-o-y)	14.9	10.7	5.5	-0.4	-4.2	5.2	5.5
Gross domestic saving (% GDP)	13.9	14.3	11.2	12.7	17.8	18.8	19.5
Unemployment rate, end-year (%)	6.2	5.3	5.2	8.0	8.0	7.0	7.0
Prices							
CPI, average (% y-o-y)	9.1	7.9	7.6	20.3	13.1	7.9	7.6
CPI, end-year (% y-o-y)	8.5	8.9	8.8	23.3	8.0	8.0	7.0
WPI, average (% y-o-y)	8.7	8.5	8.5	25.0	6.5	7.8	8.6
WPI, end-year (% y-o-y)	11.0	8.0	12.1	17.6	7.0	9.0	8.0
Money, FX & interest rates							
Central bank money M1, end (% y-o-y)	17.0	74.9	24.4	11.5	10.0	8.0	8.0
Broad money supply M2, end (% y-o-y)	17.2	14.7	20.0	8.7	10.0	7.0	7.0
Real private sector credit growth (% y-o-y)	18.8	9.7	7.6	-7.3	2.2	0.0	1.0
Policy rate, end-year (%)	9.00	9.50	10.00	15.00	11.00	9.00	10.00
2 yr yield, end-year (%)	8.75	9.50	9.58	14.88	10.75	8.80	9.80
PKR /USD, end-year	59.8	60.9	61.5	79.0	90.0	92.0	92.0
PKR /USD, average	59.6	60.3	60.8	71.0	83.6	91.8	92.0
PKR /EUR, end-year	70.5	80.4	89.8	109.8	135.0	138.0	138.0
PKR /EUR, average	74.2	75.8	84.5	103.4	121.0	137.6	138.0
External sector							
Merchandise exports (USDbn)	15.9	16.8	17.3	20.0	17.3	18.2	19.6
Merchandise imports (USDbn)	17.8	25.3	29.8	32.6	42.2	31.3	32.4
Trade balance (USDbn)	-1.9	-8.5	-12.5	-12.6	-24.8	-13.1	-12.9
Current account balance (USDbn)	-5.0	-6.9	-13.9	-8.9	0.5	1.8	3.2
Current account balance (% GDP)	-3.9	-4.8	-8.2	-4.8	0.3	1.1	1.7
Net FDI (USDbn)	3.5	5.0	5.3	3.7	3.0	3.0	3.0
Net FDI (% GDP)	2.7	3.5	3.2	2.0	1.8	1.8	1.6
Current account balance plus FDI (% GDP)	-1.2	-1.3	-5.0	-2.8	2.0	2.9	3.4
Exports (% y-o-y)	14.2	5.4	12.1	-3.2	-13.3	5.1	7.5
Imports (% y-o-y)	29.6	6.3	28.7	-14.2	-25.7	3.6	6.0
International FX reserves (USDbn)	11.7	12.9	15.6	10.0	10.1	10.2	10.3
Import cover (months)	7.9	6.1	6.3	3.7	2.9	3.9	3.8
Public and external solvency indicators							
Commercial banks' FX assets (USDbn)	2.4	2.3	2.2	3.3	3.4	3.5	3.6
Gross external debt (USDbn)	35.9	39.0	44.5	51.1	56.3	60.2	64.4
Short term external debt (% of int'l reserves)	1.4	0.2	4.6	7.7	8.4	8.9	9.4
Private sector external debt (USDbn)	1.6	2.3	2.9	2.3	2.5	2.6	2.8
Consolidated government balance (% GDP)	-4.3	-3.7	-7.6	-5.2	-6.3	-5.6	-4.6
Primary balance (% GDP)	-1.2	-0.1	-2.8	-0.3	-1.4	-0.6	0.4
Gross public domestic debt (PKRbn)	233.7	261.0	322.7	392.9	442.1	489.6	532.4
Gross public domestic debt (% GDP)	30.7	30.1	31.4	30.0	31.0	31.6	31.3
Gross public external debt (USDbn)	35.9	39.0	44.5	46.6	51.4	55.6	59.4
Gross public external debt (% GDP)	28.0	27.1	26.3	25.2	30.1	32.9	32.1
Gross public sector debt (% GDP)	64.2	58.7	57.2	57.6	55.2	61.2	64.5

Note: Fiscal and national accounts data pertain to fiscal year, eg. 2005 numbers are for FY05/06 (July 2005–June 2006)

Source: Central Statistical Organisation, Reserve Bank of India, Bloomberg, CEIC and HSBC

Philippines

Looking at those remittances

Along with its neighbours, the Philippine economy rebounded in 2Q, expanding 2.4% q-o-q sa. Unlike other economies, however, it was primarily fiscal spending that drove the recovery as household spending remained a little subdued and investment lingered. As a result, the fiscal deficit has widened due to pump-priming as well as faltering revenue collection. If not addressed, the fiscal balance may move to the centre of market attention as we slide towards elections in the second quarter of next year.

Still, remittances are truly astounding. Rather than contract this year, as we and virtually everyone else had expected, they now look set to rise. The main reason here is the strength of flows from the Middle East where more than half of all Overseas Filipino Workers reside. Remittances underpin the external payments position of the country as well as household spending, and, with flows remaining intact, and possibly accelerating again, we expect growth to pick up while exchange market worries may subside. Stronger growth may also herald the end of the easing cycle, with the central bank

already on hold at 4% in the last few months. As the economy picks up speed, and inflation returns, we expect the authorities to begin hiking in the second quarter of next year, once the elections are out of the way. Headline inflation, in fact, may breach the central bank's target towards the end of 2010, warranting pre-emptive action by monetary officials.

A rising policy rate, however, is unlikely to derail the current recovery, not least because liquidity remains flush in the local financial system and banks are capable of extending credit on favourable terms. Altogether, we expect GDP growth next year to rebound to 4.2% from less than 2% in 2009, which may not quite feel like the good old days but is nevertheless a respectable pace of growth.

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	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009f	Q4 2009f	Q1 2010f	Q2 2010ff	Q3 2010f	Q4 2010ff
GDP (% y-o-y)	4.6	2.9	0.6	1.5	1.9	3.0	4.7	4.9	4.4	2.8
Industrial production (% y-o-y)	5.4	3.4	-7.6	-7.2	-1.0	2.0	1.0	1.0	2.0	2.0
CPI, end quarter (% y-o-y)	11.8	8.0	6.4	1.5	0.3	3.5	3.6	5.3	5.5	5.7
PPI, end quarter (% y-o-y)	6.5	7.3	0.9	-1.6	2.0	3.0	3.0	3.5	3.7	4.8
Trade balance (% GDP)	-10.4	-5.0	-5.8	-6.4	-10.4	-7.6	-6.2	-7.0	-10.8	-7.9
Current account (% GDP)	-1.1	4.9	5.3	5.3	1.4	3.0	6.6	5.1	0.2	2.1
International reserves (USDbn)	36.6	37.4	38.9	39.4	38.5	38.5	40.3	42.9	43.4	45.0
Policy rate, end quarter (%)	6.00	5.50	4.75	4.25	4.00	4.00	4.00	4.25	4.50	4.75
10yr yield, end quarter (%)	8.05	7.25	7.85	8.00	8.04	8.90	9.00	9.25	9.35	9.45
PHP /USD, end quarter	47.1	47.4	48.4	48.4	48.4	46.0	45.5	45.0	44.5	43.5
PHP /EUR, end quarter	66.9	65.9	63.9	67.8	70.2	69.0	68.3	67.5	66.8	65.3

Source: HSBC, CEIC

Philippines: Macro framework

	2005	2006	2007	2008	2009f	2010f	2011f
Production, demand and employment							
GDP growth (% y-o-y)	5.0	5.3	7.1	3.8	1.8	4.2	4.7
Nominal GDP (USDbn)	99.0	117.6	147.1	167.1	161.0	186.6	216.4
GDP per capita (USD)	1,171	1,375	1,700	1,909	1,807	2,057	2,321
Private consumption (% y-o-y)	4.8	5.5	5.8	4.7	2.4	3.7	5.2
Government consumption (% y-o-y)	2.3	10.4	6.6	3.2	8.8	8.3	6.4
Investment (% y-o-y)	-6.6	3.9	10.9	2.9	0.2	4.3	5.9
Industrial production (% y-o-y)	5.3	4.2	3.3	4.3	-3.2	1.5	1.6
Gross domestic saving (% GDP)	21.0	20.1	20.8	19.2	13.8	13.0	11.7
Unemployment rate, end-year* (%)	8.1	7.8	7.4	7.7	7.5	9.0	9.0
Prices & wages							
CPI, average (% y-o-y)	7.7	6.3	2.8	9.3	3.2	4.8	5.9
CPI, end-year (% y-o-y)	6.7	4.3	3.9	8.0	3.5	5.7	5.9
PPI, end-year (% y-o-y)	12.1	3.7	-3.0	7.3	3.0	4.8	2.5
Manufacturing wages, nominal** (% y-o-y)	8.5	7.9	4.5	5.3	3.8	4.5	5.5
Money, FX & interest rates							
Central bank money M0, average (% y-o-y)	11.5	20.7	35.1	17.2	8.9	5.5	7.0
Broad money supply M3, average (% y-o-y)	7.0	13.8	17.1	14.2	12.6	9.0	8.0
Real private sector credit growth (% y-o-y)	-4.0	-2.3	2.7	10.0	9.1	3.0	2.2
Policy rate, end-year (%)	7.50	7.50	5.25	5.50	4.00	4.75	5.50
10yr yield, end-year (%)	10.19	6.38	6.37	7.25	8.90	9.45	9.75
PHP /USD, end-year	53.1	49.0	41.2	47.4	46.0	43.5	42.5
PHP /USD, average	55.0	51.3	45.2	44.4	48.0	44.9	42.9
PHP /EUR, end-year	62.6	64.7	60.2	65.9	69.0	65.3	63.8
PHP /EUR, average	68.5	64.4	62.8	64.7	69.4	67.4	64.3
External sector							
Merchandise exports (USDbn)	40.3	46.5	49.5	48.3	38.1	40.4	44.5
Merchandise imports (USDbn)	48.0	53.3	57.9	61.1	50.3	55.4	62.7
Trade balance (USDbn)	-7.8	-6.7	-8.4	-12.9	-12.2	-15.0	-18.2
Current account balance (USDbn)	2.0	5.3	7.1	3.9	5.9	6.2	6.5
Current account balance (% GDP)	2.0	4.5	4.8	2.3	3.6	3.3	3.0
Net FDI (USDbn)	1.7	2.8	-0.6	1.1	0.9	1.4	1.9
Net FDI (% GDP)	1.7	2.4	-0.4	0.7	0.5	0.8	0.9
Current account balance plus FDI (% GDP)	3.7	6.9	4.4	3.0	4.2	4.1	3.9
Exports (% y-o-y)	3.8	15.6	6.4	-2.5	-21.1	6.0	10.1
Imports (% y-o-y)	8.0	10.9	8.7	5.6	-17.7	10.0	13.2
International FX reserves (USDbn)	18.4	22.8	33.6	36.5	38.5	45.0	48.0
Import cover (months)	4.6	5.1	7.0	7.2	9.2	9.7	9.2
Public and external solvency indicators							
Commercial banks' FX assets (USDbn)	11.8	14.8	15.9	17.7	18.1	20.3	22.5
Gross external debt (USDbn)	54.2	53.4	54.9	53.9	52.0	50.0	50.0
Short term external debt (% of int'l reserves)	34.8	21.9	21.1	19.2	16.2	13.3	12.5
Private sector external debt (USDbn)	22.8	20.3	21.5	13.2	14.3	6.9	2.2
Consolidated government balance (% GDP)	-1.8	0.2	0.4	-0.9	-3.8	-4.3	-3.3
Central government balance (% GDP)	-2.7	-1.1	-0.2	-0.9	-3.8	-4.3	-3.3
Primary balance (% GDP)	2.8	4.1	3.8	2.7	-0.1	-0.3	0.5
Gross public domestic debt (PHPbn)	2,164	2,154	2,201	2,414	2,600	2,788	2,947
Gross public domestic debt (% GDP)	39.8	35.7	33.1	32.5	33.7	33.2	31.8
Gross public external debt (USDbn)	31.3	33.1	33.5	40.7	37.7	43.1	47.8
Gross public external debt (% GDP)	31.7	28.1	22.7	24.3	23.4	23.1	22.1
Gross public sector debt (% GDP)	71.4	63.9	55.8	56.9	57.1	56.4	53.8

Note: * Sep 2005, the ILO definition of unemployment has been adopted by official sources; **refers to minimum wage index
Source: HSBC, CEIC

Singapore

Pre-emptive policy making?

After Singapore's deepest ever recession has come one of its strongest ever quarters of economic growth. The more than 20% quarter-on-quarter annualised GDP rise in 2Q09 was heavily influenced by a huge bounce in the massively volatile pharmaceutical sector, but financial services also showed a dramatic improvement and construction continued to boom.

Higher frequency industrial production, exports and retail sales data suggest that the recovery continued at a relatively rapid pace in the third quarter, while domestic policy support, positive wealth effects and the prospect of a strong regional/world trade recovery bode very well for the future.

What was once looking like a catastrophic, possibly double-digit, GDP contraction this year is now shaping up for a more modest 2.5% fall. As for 2010, we have upped our growth forecast from 5.3% to a healthy 6.5%.

The Monetary Authority of Singapore (MAS) is likely to take a more cautious line than this when

it meets in mid-October to discuss the exchange rate stance. We suspect that doubts about the sustainability of the global recovery will keep the central bank on hold, although a return to a policy of modest and gradual appreciation is probable come the April meeting.

It is interesting that the government has taken modest steps to cool activity in the housing market, even before private residential prices have officially recorded a renewed rise. Does this signal an attempt at more pre-emptive policy-making designed to avoid allowing asset bubbles to develop? If it does, and it is successful, then this should help dampen some of the extreme volatility the economy has witnessed over recent years. Interestingly, the 2009-10 World Economic Forum survey ranked Singapore a relatively lowly 35th in terms of macroeconomic stability.

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	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009f	Q4 2009f	Q1 2010f	Q2 2010f	Q3 2010f	Q4 2010f
GDP (% y-o-y)	0.0	-4.2	-9.5	-3.5	-1.2	4.5	9.6	5.9	5.4	5.3
Industrial production (% y-o-y)	-10.9	-10.7	-24.2	-2.3	2.0	5.0	12.0	10.0	8.0	7.5
CPI, end quarter (% y-o-y)	6.7	4.3	1.6	-0.5	-0.1	0.8	2.1	3.2	2.6	2.3
PPI, end quarter (% y-o-y)	9.1	-11.2	-16.3	-18.6	-5.0	1.0	5.0	8.0	6.0	4.0
Trade balance (% GDP)	19.8	10.9	13.2	17.0	18.6	8.7	9.0	16.4	16.7	8.9
Current account (% GDP)	17.1	10.4	10.7	11.6	14.9	4.3	5.5	13.8	14.1	3.4
International reserves (USDbn)	169.4	173.9	166.5	173.0	175.9	180.1	179.2	184.1	189.5	189.7
3M interbank rate, end-quarter (%)	1.85	0.96	0.67	0.69	0.60	0.60	0.70	0.70	0.80	0.90
5yr yield, end-quarter (%)	2.40	1.40	1.42	1.45	1.40	1.25	1.25	1.38	1.50	1.50
SGD /USD, end-quarter	1.43	1.44	1.52	1.45	1.44	1.40	1.40	1.38	1.36	1.34
SGD /EUR, end-quarter	2.03	2.00	2.01	2.03	2.09	2.10	2.10	2.07	2.04	2.01

Source: HSBC, CEIC

Singapore: Macro framework

	2005	2006	2007	2008	2009f	2010f	2011f
Production, demand and employment							
GDP growth (% y-o-y)	8.7	8.4	7.8	1.1	-2.5	6.5	5.5
Nominal GDP (USDbn)	120.8	139.7	167.5	184.0	171.5	194.6	210.4
GDP per capita (USD)	28,324	31,743	36,503	38,014	35,272	39,838	42,837
Private consumption (% y-o-y)	3.1	4.0	5.2	2.4	-2.5	3.6	3.2
Government consumption (% y-o-y)	9.6	6.6	2.2	8.1	3.6	4.2	0.0
Investment (% y-o-y)	-2.0	13.3	19.2	13.7	-5.2	8.0	7.6
Industrial production (% y-o-y)	9.5	11.9	5.9	-4.2	-5.5	9.2	6.0
Gross domestic saving (% GDP)	48.7	49.9	51.7	48.3	45.1	44.3	45.6
Unemployment rate, end-year (%)	2.6	2.7	1.7	2.5	3.7	3.6	3.4
Prices & wages							
CPI, average (% y-o-y)	0.5	1.0	2.1	6.5	0.3	2.5	2.0
CPI, end-year (% y-o-y)	1.3	0.8	4.4	6.7	0.8	2.3	1.9
PPI, end-year (% y-o-y)	4.1	-2.9	4.9	-11.2	1.0	4.0	3.0
Manufacturing wages, nominal (% y-o-y)	4.3	3.5	4.1	5.0	1.5	3.0	4.0
Money, FX & interest rates							
Central bank money M0, average (% y-o-y)	7.1	6.9	7.0	12.2	13.0	9.0	7.0
Broad money supply M3, average (% y-o-y)	5.2	11.9	20.6	10.9	10.0	12.0	8.0
Real private sector credit growth (% y-o-y)	1.8	2.6	8.1	12.8	4.0	8.0	7.0
3M interbank rate, end-year (%)	3.25	3.44	2.38	0.96	0.60	0.90	1.20
5yr yield, end-year (%)	3.01	3.03	2.33	1.40	1.25	1.50	2.00
SGD /USD, end-year	1.66	1.53	1.44	1.44	1.40	1.34	1.32
SGD /USD, average	1.67	1.58	1.50	1.40	1.47	1.41	1.40
SGD /EUR, end-year	1.96	2.03	2.10	2.00	2.10	2.01	1.98
SGD /EUR, average	2.07	1.99	2.09	2.04	2.12	2.11	2.10
External sector							
Merchandise exports (USDbn)	232.3	276.0	305.0	347.6	270.3	300.8	330.0
Merchandise imports (USDbn)	196.0	233.0	257.8	316.4	245.8	276.0	302.2
Trade balance (USDbn)	36.3	43.0	47.2	31.2	24.5	24.8	27.8
Current account balance (USDbn)	33.2	35.5	39.3	27.3	17.6	17.8	20.7
Current account balance (% GDP)	27.5	25.4	23.5	14.8	10.3	9.1	9.8
Net FDI (USDbn)	3.2	14.4	7.0	13.9	7.8	5.7	5.7
Net FDI (% GDP)	2.6	10.3	4.2	7.5	4.5	2.9	2.7
Current account balance plus FDI (% GDP)	30.1	35.7	27.7	22.4	14.8	12.1	12.6
Exports (% y-o-y)	16.4	18.8	10.5	14.0	-22.2	11.3	9.7
Imports (% y-o-y)	16.1	18.9	10.6	22.7	-22.3	12.3	9.5
International FX reserves (USDbn)	115.9	136.2	162.9	173.9	180.1	189.7	196.4
Import cover (months)	7.1	7.0	7.6	6.6	8.8	8.2	7.8
Public and external solvency indicators							
Consolidated government balance (% GDP)	-0.2	0.6	1.7	2.7	-2.6	-1.0	0.5

Source: HSBC, CEIC

Sri Lanka

Nation building

2Q growth recorded at 2.1% y-o-y does not represent a spectacular recovery, yet it holds many encouraging signals that point to a promising future for Sri Lanka. The outlook for the country is definitely more positive from 3Q onwards, given the boost the end of the war has given to sentiment both at home and overseas. The massive rehabilitation and reconstruction work that needs to be undertaken and the fact that the east and the north will be integrated into the economy is a positive factor for domestic demand.

The external environment is also looking more upbeat than a couple of months ago. More recently, tourist inflows for August recorded an impressive 34% increase over the previous year; this is encouraging news for a sector that holds immense promise for the future. The regional recovery in trade should also help Sri Lanka's export sector, while merchandise imports strengthen on government spending. The record rise in official reserves to over USD4 billion on 10 September, has also allayed investor fears regarding its ability to meet external obligations.

Inflation has been surprisingly benign, which prompted the central bank to further lower its benchmark interest rates in early September. We have noted that CPI inflation has picked up quite markedly in sequential terms, and this is only going to strengthen in the future as activity picks up and international commodity prices begin to look bullish.

Buoyed by investor buying, government bond yields across maturities have declined quite sharply, reaching single digits at the end of September. This is expected to bring down the entire interest rate structure in the economy and should hopefully fuel domestic private credit demand growth (0.5% y-o-y as at June 2009). Given inflation risks and increased pass-through of policy easing, the central bank is likely to begin tightening only by July next year. Overall we expect the economy to grow by 4% this year and accelerate to above 7% next year. The country has immense investment potential, especially in tourism, manufacturing, agriculture and business process outsourcing.

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	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009f	Q4 2009f	Q1 2010f	Q2 2010f	Q3 2010f	Q4 2010f
GDP (% y-o-y)	6.3	4.3	1.5	2.1	5.0	7.2	7.0	7.5	6.8	6.5
Industrial production (% y-o-y)	1.5	4.3	3.0	-2.3	3.0	6.0	7.0	6.0	6.3	6.8
CPI, end quarter (% y-o-y)	24.3	14.4	5.3	0.9	0.7	3.5	4.5	8.0	10.0	9.6
WPI, end quarter (% y-o-y)	20.6	0.7	-15.1	-10.0	-6.0	6.0	8.0	12.0	15.0	15.0
Trade balance (% GDP)	-13.8	-12.0	-6.7	-6.3	-5.9	-6.3	-7.6	-7.3	-6.5	-6.4
International reserves (USDbn)	2.6	2.4	2.3	2.3	4.0	4.2	4.0	4.5	4.8	5.0
Policy rate, end quarter (%)	12.0	12.0	11.8	11.0	10.50	10.00	10.00	10.00	11.00	11.00
2-yr yield, end quarter (%)	19.2	20.6	16.9	12.8	12.0	13.0	13.5	13.5	13.0	13.0
LKR/USD, end quarter	107.9	113.3	115.5	115.0	114.8	118.0	118.0	118.0	118.0	118.0
LKR/EUR, end quarter	154.9	159.5	152.9	162.3	167.6	177.0	177.0	177.0	177.0	177.0

Source: HSBC, CEIC

Sri Lanka: Macro framework

	2005	2006	2007	2008	2009f	2010f	2011ff
Production, demand and employment							
GDP growth (% y-o-y)	6.2	7.7	6.8	6.0	4.0	7.0	7.2
Nominal GDP (USDbn)	24.4	28.3	32.4	40.7	44.0	49.7	56.5
GDP per capita (USD)	1,241	1,421	1,634	2,014	2,155	2,404	2,702
Private consumption (% y-o-y)	2.6	7.3	7.8	6.7	3.5	6.8	7.0
Government consumption (% y-o-y)	4.8	6.0	5.5	6.0	6.0	8.0	8.0
Investment (% y-o-y)	9.8	13.9	12.0	11.0	4.5	13.0	12.0
Industrial production (% y-o-y)	6.0	5.7	7.6	4.3	2.4	6.5	6.5
Gross domestic saving (% GDP)	21.6	23.7	25.3	25.0	25.9	27.1	28.1
Unemployment rate, end-year (%)	7.2	6.5	6.0	5.3	6.0	6.0	6.0
Prices							
CPI, average (% y-o-y)	11.0	10.0	15.8	22.7	3.3	7.5	6.7
CPI, end-year (% y-o-y)	7.5	13.5	18.7	14.4	3.5	9.6	7.2
WPI, end-year (% y-o-y)	1.7	17.3	26.8	0.7	6.0	15.0	8.2
Minimum wages, nominal (% y-o-y)	3.3	1.1	39.6	23.3	6.0	7.0	6.0
Money, FX & interest rates							
Central bank money M1, end (% y-o-y)	22.4	12.6	2.7	4.0	10.0	11.0	10.0
Broad money supply M2, end (% y-o-y)	19.6	20.7	15.6	11.7	12.0	13.0	11.0
Real private sector credit growth (% y-o-y)	15.4	18.3	9.3	-10.8	11.7	17.5	18.3
Policy rate, end-year (%)	10.3	11.5	12.0	12.0	10.0	11.0	11.0
2yr yield, end-year (%)	11.20	13.35	17.63	20.63	13.00	13.00	13.00
LKR /USD, end-year	102.1	107.7	108.7	113.3	118.0	118.0	118.0
LKR /USD, average	100.5	103.9	110.7	109.2	115.8	118.0	118.0
LKR /EUR, end-year	121.1	141.5	160.2	159.5	177.0	177.0	177.0
LKR /EUR, average	125.0	130.7	154.1	163.7	165.0	177.0	177.0
External sector							
Merchandise exports (USDbn)	6.4	6.9	7.6	8.1	7.1	7.7	8.3
Merchandise imports (USDbn)	8.9	10.3	11.2	14.0	9.6	10.9	12.5
Trade balance (USDbn)	-2.5	-3.4	-3.5	-5.9	-2.6	-3.2	-4.2
Current account balance (USDbn)	-0.7	-1.4	-1.3	-3.8	0.8	0.1	-0.8
Current account balance (% GDP)	-2.7	-5.0	-4.0	-9.3	1.8	0.3	-1.4
Net FDI (USDbn)	0.2	0.4	0.5	0.7	0.7	0.8	0.8
Net FDI (% GDP)	1.0	1.6	1.7	1.7	1.6	1.6	1.4
Current account balance plus FDI (% GDP)	-1.7	-3.4	-2.3	-7.6	3.4	1.9	0.0
Exports (% y-o-y)	10.1	8.5	11.0	6.4	-13.2	8.7	8.0
Imports (% y-o-y)	10.7	15.6	8.9	25.3	-31.3	12.8	15.1
International FX reserves (USDbn)	2.0	2.2	2.4	2.4	4.2	5.0	6.0
Import cover (months)	2.7	2.6	2.6	2.0	5.2	5.5	5.8
Public and external solvency indicators							
Gross external debt (USDbn)	12.0	13.3	15.2	18.7	19.8	19.9	20.9
Short term external debt (% of int'l reserves)	33.5	27.9	45.2	61.9	39.8	39.7	37.6
Budget balance (% GDP)	-8.4	-8.0	-7.7	-7.7	-10.7	-9.5	-5.0
Gross public domestic debt (LKRbn)	12.6	14.2	15.5	19.7	19.8	19.9	20.9
Gross public domestic debt (% GDP)	51.6	50.3	47.9	48.3	45.0	40.0	37.0
Gross public external debt (USDbn)	9.5	10.6	12.0	13.4	17.6	18.4	20.3
Gross public external debt (% GDP)	39.0	37.5	36.9	32.8	40.0	37.0	36.0
Gross public sector debt (% GDP)	90.6	87.9	84.9	81.1	85.0	77.0	73.0

Source: HSBC, CEIC

Taiwan

A little brighter at last

The Taiwan economy is finally showing signs of life. After recording a historic contraction of 10.1% y-o-y in 1Q, real GDP growth came in at -7.5% y-o-y in 2Q. Even more inspiring is that the economy expanded 4.8% q-o-q on a seasonally adjusted basis, indicating that the island is on the road to recovery. We now expect Taiwan's economy to contract 4.2% in 2009 and expand 4.4% and 4.9% in 2010 and 2011, respectively.

A revival in domestic demand is likely to outrun an export recovery in the coming quarters. While domestic credit and financial markets have been fundamentally stable, improving cross-Strait relations and loose monetary conditions have stimulated the island's domestic demand. While exports have recovered from the trough, the recovery should be gradual given still-sluggish demand in the US and Europe.

Meanwhile, the recent Cabinet reshuffle finally minimized domestic noises from the opposition party after the Typhoon Morakot disaster.

Political pressure will prompt the Ma

administration to carry out the reconstruction work immediately, and possibly bring forward the previously announced major public construction program for next year, further supporting the island's domestic demand. In addition, the overall cross-Strait relationship should remain stable in the medium term, benefiting Taiwan's economy by boosting onshore investment and confidence.

To maintain momentum, policymakers will have to keep monetary conditions loose for the rest of the year. However, inflationary pressure is likely to return in 2010 with recovery in global economic conditions. Low interest rates and abundant liquidity will likely inflate asset prices. We therefore expect Taiwan's CPI to rise 1.1% and 1.6% in 2010 and 2011, respectively. As such, we forecast the Central Bank of The Republic of China will step into a gradual tightening cycle in early 2010, with the policy rate rising to 1.75% by the end of 2010 from 1.25% currently.

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	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009f	Q4 2009f	Q1 2010f	Q2 2010f	Q3 2010f	Q4 2010f
GDP (% y-o-y)	-1.0	-8.6	-10.1	-7.5	-3.2	4.7	6.2	4.4	3.4	3.6
Industrial production (% y-o-y)	0.5	-24.2	-32.4	-16.6	-6.5	4.7	7.6	9.4	7.8	5.5
CPI, end quarter (% y-o-y)	3.1	1.3	-0.1	-2.0	0.1	0.8	0.6	1.1	1.4	1.5
WPI, end quarter (% y-o-y)	6.1	-9.7	-9.3	-13.7	-7.5	-1.2	3.0	3.5	4.0	4.2
Trade balance (% GDP)	1.6	7.0	9.9	8.7	2.1	6.9	8.7	7.5	2.2	6.5
Current account (% GDP)	1.9	8.1	13.9	11.6	1.8	5.3	8.6	7.7	2.3	6.8
International reserves (USDbn)	281.1	291.7	300.1	317.6	319.7	324.0	333.4	342.0	344.4	352.4
Policy rate, end-quarter (%)	3.500	2.000	1.250	1.250	1.250	1.250	1.375	1.500	1.625	1.750
5yr yield, end-quarter (%)	2.00	1.03	1.04	1.03	0.83	0.92	1.00	1.13	1.25	1.25
TWD /USD, end-quarter	32.2	32.8	33.9	32.8	32.9	31.5	31.0	30.0	29.5	29.0
TWD /EUR, end-quarter	45.7	45.6	44.7	45.9	47.7	47.3	46.5	45.0	44.3	43.5

Source: HSBC, CEIC

Taiwan: Macro framework

	2005	2006	2007	2008	2009f	2010f	2011f
Production, demand and employment							
GDP growth (% y-o-y)	4.2	4.8	5.7	0.1	-4.2	4.4	4.9
Nominal GDP (USDbn)	356.2	364.9	385.5	393.0	364.1	419.0	474.7
GDP per capita (USD)	15,701	16,011	16,857	17,131	15,828	18,160	20,513
Private consumption (% y-o-y)	3.0	1.8	2.3	-0.3	0.4	2.1	2.6
Government consumption (% y-o-y)	1.1	-0.4	0.9	1.1	2.4	2.0	1.2
Investment (% y-o-y)	1.2	0.9	1.9	-10.6	-16.3	3.8	3.7
Industrial production (% y-o-y)	3.8	4.7	7.8	-1.8	-13.6	7.6	7.8
Gross domestic saving (% GDP)	25.6	27.1	29.0	25.8	23.1	25.5	28.4
Unemployment rate, ave. (%)	4.1	3.9	3.9	4.1	5.9	5.8	5.2
Prices & wages							
CPI, average (% y-o-y)	2.3	0.6	1.8	3.5	-0.7	1.1	1.6
CPI, end-year (% y-o-y)	2.2	0.7	3.3	1.3	0.8	1.5	1.7
WPI, end-year (% y-o-y)	1.7	6.4	8.6	-9.7	-1.2	4.2	5.2
Manufacturing wages, nominal (% y-o-y)	2.7	1.4	1.7	-0.3	-1.2	1.8	2.5
Money, FX & interest rates							
Central bank money M0, average (% y-o-y)	8.5	5.1	2.4	7.0	9.8	10.7	10.4
Broad money supply M2, average (% y-o-y)	6.2	6.2	4.3	2.7	7.8	9.2	7.2
Real private sector credit growth (% y-o-y)	6.0	1.9	0.9	-1.0	-1.3	-0.6	0.4
Policy rate, end-year (%)	2.250	2.750	3.375	2.000	1.250	1.750	2.250
5yr yield, end-year (%)	1.75	1.93	2.49	1.03	0.92	1.25	1.95
TWD /USD, end-year	32.8	32.6	32.4	32.8	31.5	29.0	28.0
TWD /USD, average	32.2	32.7	32.8	31.4	32.9	30.2	28.4
TWD /EUR, end-year	38.7	43.0	47.3	45.6	47.3	43.5	42.0
TWD /EUR, average	40.0	41.0	45.6	45.7	47.6	45.3	42.6
External sector							
Merchandise exports (USDbn)	198.5	223.8	246.5	254.9	201.9	221.2	244.0
Merchandise imports (USDbn)	179.0	199.6	216.1	236.7	176.8	195.1	213.1
Trade balance (USDbn)	19.5	24.2	30.4	18.3	25.0	26.0	31.0
Current account balance (USDbn)	17.6	26.3	33.0	24.9	29.4	26.5	33.2
Current account balance (% GDP)	4.9	7.2	8.6	6.3	8.1	6.3	7.0
Net FDI (USDbn)	-4.4	0.0	-3.3	-4.9	-6.5	1.6	-2.2
Net FDI (% GDP)	-1.2	0.0	-0.9	-1.2	-1.8	0.4	-0.5
Current account balance plus FDI (% GDP)	3.7	7.2	7.7	5.1	6.3	6.7	6.5
Exports (% y-o-y)	8.8	12.8	10.1	3.4	-20.8	9.6	10.3
Imports (% y-o-y)	8.5	11.5	8.2	9.5	-25.3	10.4	9.2
International FX reserves (USDbn)	253.3	266.1	270.3	291.7	324.0	352.4	390.3
Import cover (months)	17.0	16.0	15.0	14.8	22.0	21.7	22.0
Public and external solvency indicators							
Commercial banks' FX assets (USDbn)	324.5	336.3	346.6	411.9	404.5	454.5	498.1
Gross external debt (USDbn)	86.7	85.8	94.5	90.4	114.9	118.8	136.2
Private sector external debt (USDbn)	72.8	75.2	91.1	88.9	113.0	116.5	127.5
Central government balance (% GDP)	-1.2	-0.5	-0.3	-1.3	-4.2	-2.9	-1.0
Gross public domestic debt (TWDbn)	2,831	3,046	3,395	3,705	4,194	4,558	4,729
Gross public domestic debt (% GDP)	24.7	25.6	26.9	30.0	35.0	36.0	35.1
Gross public external debt (USDbn)	13.9	10.6	3.5	1.5	1.9	2.3	8.7
Gross public external debt (% GDP)	3.9	2.9	0.9	0.4	0.5	0.5	1.8
Gross public sector debt (% GDP)	28.6	28.5	27.8	30.4	35.5	36.6	36.9

Source: HSBC, CEIC

Thailand

Still a little groggy

Thailand had its fair share of challenges of late. Not only did the global economy seemingly collapse around the Kingdom, but domestic political turmoil also took a chip out of its own economy. All the more remarkable, therefore, that growth rebounded in the second quarter, and at a respectable 2.3% q-o-q sa at that. Of course, in annual terms output is still lower. But momentum appears firmly established, with coming quarters likely showing positive sequential growth as well.

Despite the Kingdom's well-documented political travails, this recovery is primarily driven by domestic demand. And this is not only a story about fiscal pump-priming: private consumption and investment rose as well compared to the first quarter. Here, a combination of relative political stability, low interest rates and receding inflation is the primary reason. Nevertheless, officials are not taking their chances and have promised more fiscal spending over the coming year to sustain the recovery and provide much needed public infrastructure investment. If exports now fire up as well - which we expect over the coming

months, not least due to a restocking bounce in the US - then Thailand may nudge out GDP growth above 4% for all of 2010. Yet, politics remains a real risk. The government has promised a debate over constitutional reform and, once these are agreed upon, new elections. As recent history shows, however, this remains a perilous path at best.

Given lingering political uncertainties, the Bank of Thailand may stay on hold a little longer than its neighbours, possibly hiking only by late second quarter. And even then the path of tightening should prove gradual at best to shore up a still-fragile economy. The country, in short, is still a little groggy from the double whammy of domestic political turmoil and a collapse in exports. But, like those resilient Thai boxers, the economy is starting to right itself again.

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	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009f	Q4 2009f	Q1 2010f	Q2 2010f	Q3 2010f	Q4 2010f
GDP (% y-o-y)	3.9	-4.2	-7.1	-4.9	-3.1	3.8	5.4	4.5	4.4	3.6
Industrial production (% y-o-y)	6.1	-6.7	-14.4	-8.4	2.0	3.0	4.0	4.0	4.5	4.5
CPI, end quarter (% y-o-y)	6.1	0.4	-0.2	-4.0	-0.8	2.0	3.0	3.8	3.8	3.8
PPI, end quarter (% y-o-y)	19.0	-1.7	-4.0	-10.5	-12.5	6.0	9.0	12.0	12.0	10.0
Trade balance (% GDP)	-0.3	-2.1	12.6	6.2	1.3	-4.9	8.6	4.2	-0.4	-3.7
Current account (% GDP)	-2.0	-3.1	14.7	3.7	0.3	-5.4	8.9	2.1	-1.6	-4.5
International reserves (USDbn)	102.4	111.0	116.2	120.8	122.1	119.8	128.0	131.7	133.5	132.9
Policy rate, end-quarter (%)	3.75	2.75	1.50	1.25	1.25	1.25	1.25	1.50	1.75	2.00
5yr yield, end-quarter (%)	4.34	2.48	2.58	3.17	3.29	3.40	3.40	3.60	3.80	3.80
THB /USD, end-quarter	33.9	34.7	35.5	34.1	34.0	33.0	32.5	32.0	31.5	31.5
THB /EUR, end-quarter	48.1	48.2	46.8	47.7	49.3	49.5	48.8	48.0	47.3	47.3

Source: HSBC, CEIC

Thailand: Macro framework

	2005	2006	2007	2008	2009f	2010f	2011f
Production, demand and employment							
GDP growth (% y-o-y)	4.7	5.2	4.9	2.6	-2.8	4.5	4.7
Nominal GDP (USDbn)	176.1	206.7	236.8	273.6	258.2	298.4	334.4
GDP per capita (USD)	2,708	3,156	3,724	4,116	3,933	4,363	4,673
Private consumption (% y-o-y)	4.9	3.0	1.6	2.5	-0.7	2.6	2.9
Government consumption (% y-o-y)	11.4	2.4	9.2	0.5	7.0	6.0	5.0
Investment (% y-o-y)	10.5	3.9	1.3	1.1	-8.1	7.1	7.1
Industrial production (% y-o-y)	9.1	7.3	8.2	5.3	-7.0	6.0	6.6
Gross domestic saving (% GDP)	30.9	32.4	34.1	33.2	32.3	33.0	33.8
Unemployment rate, end-year (%)	1.4	1.0	0.8	1.4	3.3	2.7	2.7
Prices & wages							
CPI, average (% y-o-y)	4.5	4.6	2.2	5.5	-1.0	2.6	2.9
CPI, end-year (% y-o-y)	5.8	3.5	3.2	0.4	2.0	3.8	4.0
PPI, end-year (% y-o-y)	8.0	2.7	8.7	-1.7	6.0	10.0	11.0
Manufacturing wages, nominal (% y-o-y)	6.9	6.2	3.0	10.2	-1.4	5.0	5.0
Money, FX & interest rates							
Central bank money M0, end (% y-o-y)	5.2	2.7	7.9	11.3	7.0	8.0	8.0
Broad money supply M2, end (% y-o-y)	8.2	6.0	6.3	9.2	4.0	5.0	0.0
Real private sector credit growth (% y-o-y)	2.0	-0.9	3.4	15.7	6.0	6.7	6.4
Policy rate, end-year (%)	4.00	5.00	3.25	2.75	1.25	2.00	2.50
5yr yield, end-year (%)	5.49	4.87	4.62	2.48	3.40	3.80	4.25
THB /USD, end-year	41.0	35.5	33.7	34.7	33.0	31.5	31.0
THB /USD, average	40.3	37.9	34.6	33.3	34.3	32.1	31.1
THB /EUR, end-year	48.4	46.8	49.2	48.2	49.5	47.3	46.5
THB /EUR, average	50.2	47.7	48.1	48.5	49.7	48.1	46.6
External sector							
Merchandise exports (USDbn)	109.4	127.9	150.0	175.3	148.0	162.5	178.6
Merchandise imports (USDbn)	117.6	126.9	138.5	175.1	137.3	153.2	164.1
Trade balance (USDbn)	-8.3	1.0	11.6	0.2	10.7	9.3	14.5
Current account balance (USDbn)	-7.6	2.3	14.0	-0.2	9.5	6.4	11.3
Current account balance (% GDP)	-4.3	1.1	5.9	-0.1	3.7	2.2	3.4
Net FDI (USDbn)	7.5	8.5	9.4	7.0	4.6	6.7	6.7
Net FDI (% GDP)	4.3	4.1	4.0	2.6	1.8	2.2	8.0
Current account balance plus FDI (% GDP)	-0.1	5.2	9.9	2.5	5.5	4.4	11.4
Exports (% y-o-y)	15.2	17.0	17.3	16.8	-15.6	9.8	9.9
Imports (% y-o-y)	25.8	7.9	9.1	26.4	-21.6	11.5	7.1
International FX reserves (USDbn)	52.1	67.0	87.5	111.0	121.4	137.7	158.9
Import cover (months)	5.3	6.3	7.6	7.6	10.6	10.8	11.6
Public and external solvency indicators							
Gross external debt (USDbn)	52.0	59.6	61.7	64.8	53.3	56.5	58.1
Short term external debt (% of int'l reserves)	31.5	27.7	24.7	21.7	15.6	14.5	13.2
Private sector external debt (USDbn)	38.0	45.6	49.7	51.8	44.0	46.0	47.0
Consolidated government balance (% GDP)	0.3	1.2	-2.3	-1.1	-6.4	-6.1	-5.2
Gross public domestic debt (THBbn)	2,705	3,187	3,226	3,434	4,168	4,377	4,552
Gross public domestic debt (% GDP)	38.1	40.6	39.4	37.7	47.0	45.7	43.8
Gross public external debt (USDbn)	14.0	14.1	12.0	13.0	9.3	10.5	11.1
Gross public external debt (% GDP)	7.9	6.8	5.1	4.7	3.6	3.5	3.3
Gross public sector debt (% GDP)	46.1	47.5	44.5	42.5	50.6	49.3	47.2

Source: HSBC, CEIC

Vietnam

A need to squeeze...already?

Vietnam's huge monetary and fiscal stimulus is beginning to bring rewards, with GDP registering 9.5% seasonally adjusted annualised growth in the second quarter, more than offsetting the 6.5% Q1 contraction. Along with the government's various infrastructure projects, which have kick-started the construction sector, the four percentage point interest rate subsidy on bank lending to the commercial sector has been a big success. In fact, it may actually prove too successful as credit has exploded as a result, rising 25% in the eight months to August. Liquidity, particularly US dollar liquidity, is in short supply within the banking sector and the State Bank is now attempting to limit lending growth to 30% in the year as a whole, largely through moral suasion.

The pick-up in credit and economic growth has already led to a renewed deterioration in the trade position; more overt fiscal and monetary action may be required in the not-too-distant future to prevent the deficit from rising to troublesome levels again. We are looking for 200bps of base rate hikes in the first half of next year and the same again in the second half, which would

temper growth in 2011. Our FX team is also expecting a modest further depreciation of the dong to VND18,200 in the next few months.

Inflation probably hit a cyclical low of 2% in August, and we expect it to return to double digits in early 2010. Rather than strong growth, the initial trigger will be the rise in international food and energy commodity prices which have a nasty habit of feeding through into Vietnam's CPI, despite the fact that the country is a net exporter of both items. Food and energy together account for more than half of the country's headline CPI basket, while core inflation also tends to respond to movements in these commodities.

In summary, Vietnam is once again enjoying robust growth, but further pre-emptive action is required to ensure the imbalances don't become too large.

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	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009f	Q4 2009f	Q1 2010f	Q2 2010f	Q3 2010f	Q4 2010f
GDP (% y-o-y)	6.5	5.7	3.1	4.5	5.5	6.6	6.8	7.0	6.8	6.6
Industrial production (% y-o-y)	10.6	5.5	2.3	1.8	6.0	9.0	10.0	11.0	12.0	13.0
CPI, end quarter (% y-o-y)	27.9	19.9	11.3	3.9	3.0	9.0	13.0	11.0	9.0	8.0
Trade balance (% GDP)	-5.5	-5.9	8.5	-15.2	-16.8	-16.9	-24.5	-17.8	-16.9	-12.0
International reserves (USDbn)	24.1	24.2	23.3	18.0	17.0	16.0	15.0	14.0	14.0	14.0
Policy rate, end quarter (%)	14.00	8.50	7.00	7.00	7.00	7.00	8.00	9.00	10.00	11.00
5-yr yield, end quarter (%)	15.90	10.00	9.17	9.42	9.99	10.20	10.50	11.00	11.50	11.50
VND/USD, end quarter	16,600	17,483	17,797	17,798	17,816	18,200	18,400	18,400	18,400	18,400
VND/EUR, end quarter	23,572	24,301	23,492	24,917	25,833	27,300	27,600	27,600	27,600	27,600

Source: HSBC, CEIC

Vietnam: Macro framework

	2005	2006	2007	2008	2009f	2010f	2011f
Production, demand and employment							
GDP growth (% y-o-y)	8.4	8.2	8.5	6.2	4.9	6.8	5.9
Nominal GDP (USDbn)	53.0	60.9	71.0	79.5	94.7	107.3	121.0
GDP per capita (USD)	638	724	833	921	1,084	1,214	1,354
Private consumption (% y-o-y)	7.3	8.3	9.6	7.6	3.4	5.8	5.0
Government consumption (% y-o-y)	8.1	8.6	9.0	5.8	6.5	5.0	3.0
Investment (% y-o-y)	9.7	9.9	23.0	13.2	3.2	8.0	6.0
Industrial production (% y-o-y)	25.5	16.0	11.6	11.8	4.8	11.5	7.3
Gross domestic saving (% GDP)	34.6	35.0	32.5	32.6	31.9	32.0	31.7
Unemployment rate, end-year (%)	5.3	4.8	4.6	4.7	5.4	5.3	4.9
Prices							
CPI, average (% y-o-y)	8.3	7.5	8.3	23.0	7.6	10.4	7.1
CPI, end-year (% y-o-y)	8.8	6.6	12.6	19.9	9.0	8.0	7.0
PPI, end-year (% y-o-y)	4.4	4.2	6.8	20.0	2.0	10.0	6.0
Money, FX & interest rates							
Broad money supply M2, average (% y-o-y)	29.8	33.6	43.2	25.0	15.0	20.0	18.0
Real private sector credit growth (% y-o-y)	28.7	23.5	41.7	4.7	17.5	14.6	17.9
Policy rate, end-year (%)	7.75	7.75	8.25	8.50	7.00	11.00	11.00
5yr yield, end-year (%)	8.75	8.30	8.73	10.00	10.20	11.50	11.50
VND /USD, end-year	15,896	16,050	16,017	17,483	18,200	18,400	18,400
VND /USD, average	15,866	16,006	16,096	16,759	17,903	18,400	18,400
VND /EUR, end-year	18,751	21,164	23,385	24,301	27,300	27,600	27,600
VND /EUR, average	19,753	20,114	22,373	24,405	25,900	27,600	27,600
External sector							
Merchandise exports (USDbn)	32.4	39.6	48.6	63.1	59.7	67.0	74.0
Merchandise imports (USDbn)	33.3	44.4	62.7	80.6	68.4	80.0	88.0
Trade balance (USDbn)	-0.8	-4.8	-14.1	-16.3	-11.1	-18.3	-12.8
Current account balance (USDbn)	-0.6	-0.2	-7.0	-9.2	-6.5	-9.0	-7.0
Current account balance (% GDP)	-1.1	-0.3	-9.8	-11.6	-6.9	-8.4	-5.8
Net FDI (USDbn)	2.0	2.4	6.6	11.5	8.5	6.0	8.0
Net FDI (% GDP)	3.8	3.9	9.3	14.5	9.0	5.6	6.6
Current account balance plus FDI (% GDP)	2.7	3.7	-0.6	2.8	2.1	-2.8	0.8
Exports (% y-o-y)	22.5	22.1	22.7	29.9	-5.4	12.2	10.4
Imports (% y-o-y)	15.7	33.4	41.2	28.5	-15.1	17.0	10.0
International FX reserves (USDbn)	9.0	13.4	23.5	24.2	16.0	15.0	14.0
Import cover (months)	3.2	3.6	4.5	3.6	2.8	2.3	1.9
Public and external solvency indicators							
Gross external debt (USDbn)	14.2	15.6	19.3	21.8	23.0	25.0	26.0
Short term external debt (% of int'l reserves)	17.8	13.4	20.9	19.8	28.1	36.7	35.7
Private sector external debt (USDbn)	1.6	1.7	2.7	3.0	3.0	3.0	3.0
Consolidated government balance (% GDP)	-4.9	-5.0	-5.0	-5.0	-8.0	-7.0	-5.5
Primary balance (% GDP)	-3.0	-3.5	-3.4	-2.5	-5.0	-4.0	-3.0
Gross public domestic debt (VNDbn)	9.2	11.3	12.4	14.5	21.5	25.0	27.0
Gross public domestic debt (% GDP)	17.4	18.6	19.4	20.8	24.0	26.0	27.0
Gross public external debt (USDbn)	12.6	13.9	16.6	18.8	20.0	22.0	23.0
Gross public external debt (% GDP)	23.8	22.9	23.4	23.6	24.5	25.5	25.0
Gross public external debt (% GDP)	41.2	41.5	42.8	44.4	48.5	51.5	52.0

Source: HSBC, CEIC

Notes

Notes

Disclosure appendix

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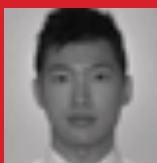
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