

Asian Economic Insight

Asia

Vol. 143: In this week's issue

HKD and RMB – a view of fundamentals (page 2)

- ▶ Ever since the Asian financial crisis, the HK dollar has been widely viewed as an overvalued currency. This view is now changing, following years of severe cost adjustments that have allowed Hong Kong to regain its external competitiveness. Its current account, which was in deficit prior to 1997, is in substantial surplus, which suggests that Hong Kong's products and services are now more competitive.
- ▶ The weakness of the HK dollar was driven by an outflow of funds, which accelerated after China joined the WTO. This more than offset the accumulated trade surplus and fuelled deflation. Therefore, it was not surprising to see the currency come under occasional speculative attacks, especially in light of the rising budget deficit.
- ▶ In contrast, China is under severe political pressure to let its currency appreciate, even though its real competitiveness has not changed greatly since 1997. This suggests that the current global trade imbalance has been driven by the migration of manufacturing to China, not by an undervalued currency. There is also concern that the trade account would move into deficit (due to tariff cuts under WTO) if the renminbi were to appreciate.
- ▶ In the case of Hong Kong, capital inflows, mainly brought in by increasing numbers of mainland tourists, should reduce the pressure on the currency, as the cost adjustment process has improved its external competitiveness. Nevertheless, the HK dollar is far from experiencing sustained upward pressure given the continued deflationary situation.
- ▶ The upward pressure on the renminbi is largely due to capital inflows, both direct investment and speculative money. An appreciation under such circumstances could damage the stability of China's financial system as well as its external competitiveness. With no support from a sustained trade surplus, a reversal of capital flows, either due to the end of speculative flows or future repatriation of profits, could be negative for the currency. Hence, China's high level of forex reserves represent savings for future withdrawals.

Investment conclusions

Equities	▶ Neutral
Fixed income	▶ Reduced HKD risk premium
Foreign exchange	▶ Reduced HKD risk premium

Asian economic forecasts (page 10)

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Economics

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HKD and RMB – a view of fundamentals

Ever since the Asian financial crisis, the HK dollar has been widely viewed as an overvalued currency, leading to regular rumours about the demise of its link to the US dollar. In the past year, talk of a de-linking grew louder on the back of a seemingly runaway budget deficit, which fed through to a rise in the risk premium factored into forward currency and money market rates.

In the months immediately after the start of the Asian crisis, the HK dollar was overvalued compared with other (devalued) currencies in Asia. This overvaluation has been behind the nearly five years of deflation suffered by Hong Kong – while another avenue to adjust costs, this prolonged pain may have been worse than the short-term impact of a devaluation.

The SAR's currency recently faced a renewed bout of speculation, but this time the pressure was for an appreciation. This turn in sentiment has been fuelled by the series of measures unveiled by Beijing to aid the Hong Kong economy, including the relaxation on individual travel to the SAR by mainlanders. While an economic recovery is taking hold, its strength will be far less than was the case in 2000 when double-digit growth was recorded. As such, are economic conditions sufficiently robust to undermine the long-term basis for any selling pressure, or even sufficiently supportive for an appreciation?

At the same time, Beijing is facing mounting pressure to allow the renminbi to appreciate. Loudest among the appreciation crowd is the US administration, which claims that China's undervalued currency is resulting in the loss of manufacturing jobs. Beijing's efforts to maintain a stable currency have resulted in rapid expansion of its foreign reserves, fuelled by the influx of foreign direct investment, and huge expansion in both money supply and credit growth.

The common view is that the combination of an undervalued currency and ultra-low labour costs has lured manufacturing industries to China, which has contributed to an imbalance in global trade. A currency revaluation therefore, would solve this problem. Ignoring political considerations, we need to ask whether China's currency is actually undervalued from a trade balance perspective.

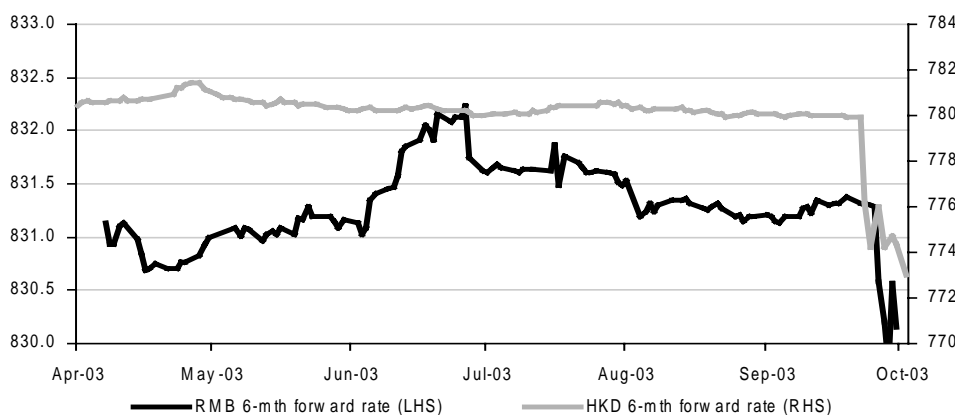
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Five years of deflation to correct an overvalued currency

Recent pressure has been for an appreciation of the HK dollar??

...Beijing faces similar pressure

1: HKD & RMB 6 month forward rates



Source: HSBC

HKD and RMB – a view of fundamentals

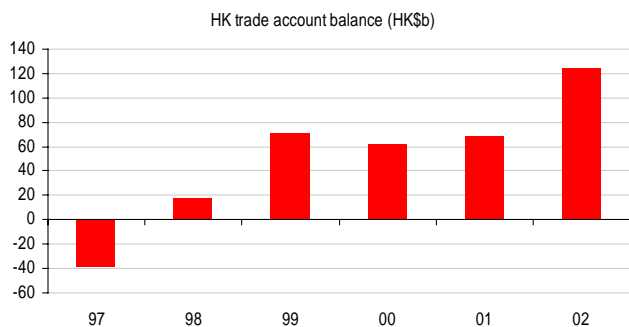
Current account perspective

In contrast to the renminbi, which is viewed as a very competitive currency, the HK dollar is considered expensive. On a superficial level, China's double-digit export growth and the reduced demand for Hong Kong services support this view. However, while Hong Kong is seeing a sharp improvement in its trade account, China's trade surplus is shrinking.

Hong Kong is enjoying a sharp improvement in its trade account while China's trade surplus is shrinking

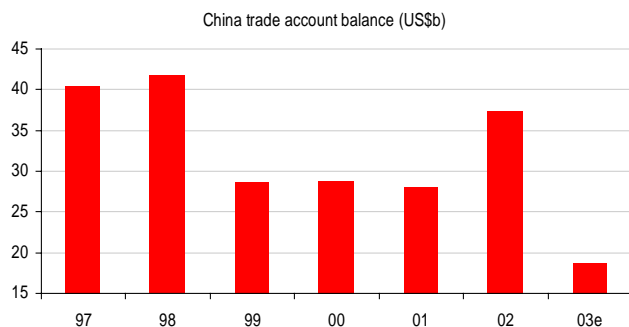
Although the improvement in Hong Kong's case is partly due to a contraction in imports, a widening trade surplus (goods and services) reflects the necessary economic adjustment to restore the external balance. When evaluating a currency's appropriate level, the focus should be on the impact of a change on the current account balance, rather than the overall flow of capital (though we admit the latter also plays a part).

2a: Hong Kong's trade surplus is rising...



Source: CEIC

2b: ...while China's is shrinking



Source: CEIC

Based on an effective exchange rate index¹, China's advantage in trade does not seem to have been primarily caused by a weak currency. Since the renminbi was devalued in 1994 following the removal of the dual-rate system, it has almost appreciated back to its trade-weighted level in 1990 – when China's trade account was insignificant in a global context.

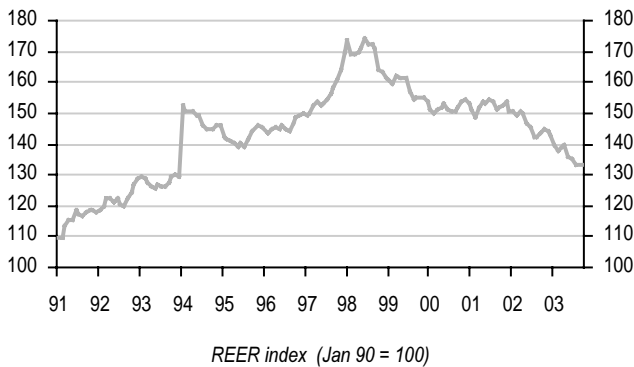
Moreover, the 'shadow' (unofficial) exchange rate in 1990 was much lower than the official rate (which eventually led to the merging of the two exchange rates in 1994), implying that the currency has appreciated over the past decade, rather than depreciated.

The renminbi has actually appreciated since 1994

¹ a measure of a currency's movement against a basket of its trade partners' currencies weighted by share of trade.

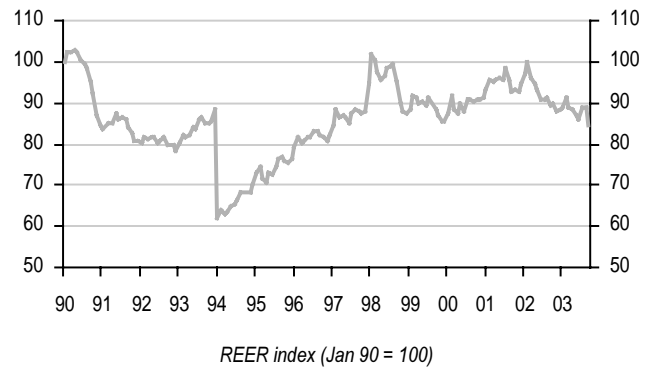
HKD and RMB – a view of fundamentals

3a: HKD competitiveness strengthening since 1998



Source: HSBC

3b: RMB appreciating in REER terms



Source: HSBC

Although saddled with a very expensive currency after the Asian crisis, the steep fall in property prices and wage adjustments in the years since have restored Hong Kong's price competitiveness. This can be shown by the change in the trade account, which has moved from a deficit in the years before 1997 to a substantial surplus today. On a real effective exchange rate basis, the HK dollar is back to its 1995 level. Because the adjustment in Hong Kong has been internal, its competitiveness is better illustrated through the real index than the nominal one.

While it is still debatable whether the cost adjustment process has been sufficient, particularly as further opening of the mainland market could accelerate factor price equalisation, a trade surplus and recovery in absolute export growth of goods and services has proved that Hong Kong is competitive enough to attract back investors.

It's all about capital flows

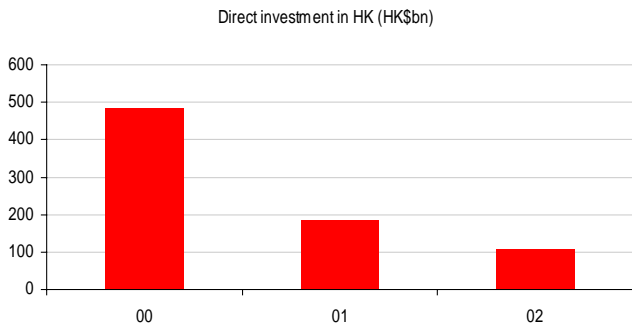
The major difference in perception of the two currencies – one subject to appreciation pressure, the other depreciation – lies in the direction of capital flows. Prior to July 2003, Hong Kong had suffered continuous capital outflows and a diversion of direct investment to the mainland. The latter has been driven by China's entry into the WTO in 2000, which has fuelled the rises in foreign direct investment in the mainland economy, while Hong Kong has witnessed a decline.

The cost adjustment process proved painful, but ultimately worked for Hong Kong

Post-WTO FDI has driven capital inflows into China

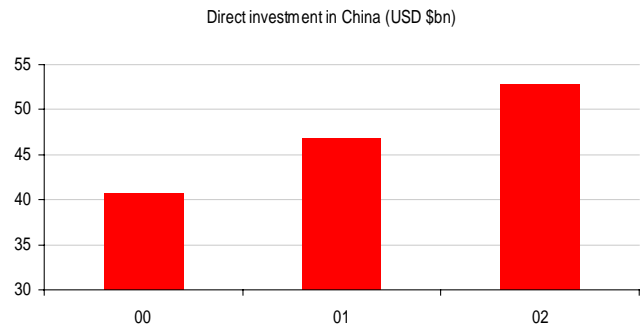
HKD and RMB – a view of fundamentals

4a: HK direct investment has declined since 2000



Source: CEIC

4b: China has seen a surge in FDI since WTO entry

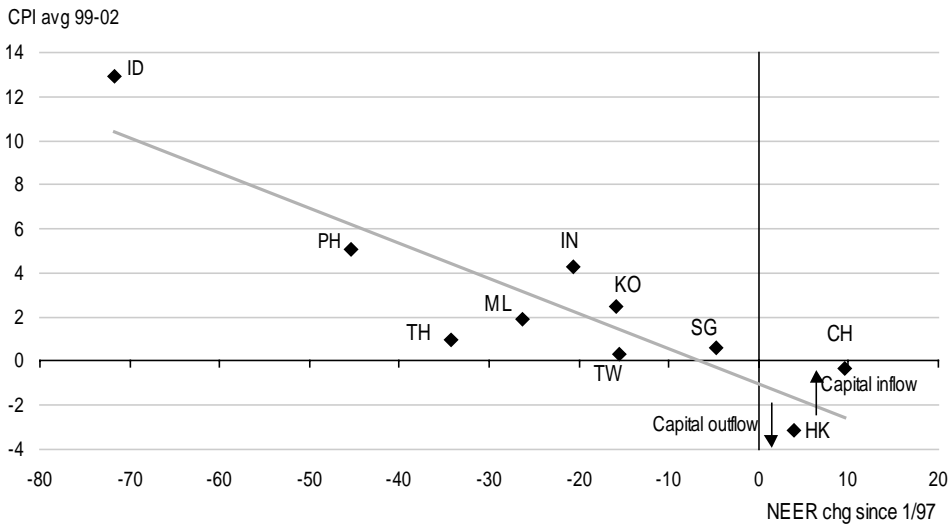


Source: CEIC

This exodus of capital from Hong Kong more than offset the trade surplus, resulting in a net outflow of funds and sustained deflation despite a greater adjustment in the price competitiveness of the HK dollar versus its counterparts. Since the one-way flow of liquidity is unlikely to be reversed in the medium term given the size of China's market, the outlook for Hong Kong was previously gloomy with little hope of an end to deflation.

Hong Kong experienced a sustained exodus of capital

5: NEER versus inflation among Asian currencies since 1997



Source: HSBC

The case for China is the exact opposite with a sustained capital inflow supporting its currency despite its external price competitiveness remaining largely unchanged. In terms of the effective exchange rate index, China's currency remains relatively expensive compared with other Asian currencies prior to 1997.

HKD and RMB – a view of fundamentals

Theoretically, if the renminbi remains linked to the US dollar at the current level, China's export prices should have seen some downward adjustment to compensate for the "expensive" renminbi. But continued large capital inflows, to a certain extent, prevented this from happening as currency sterilisation resulted in a faster expansion of money supply and credit.

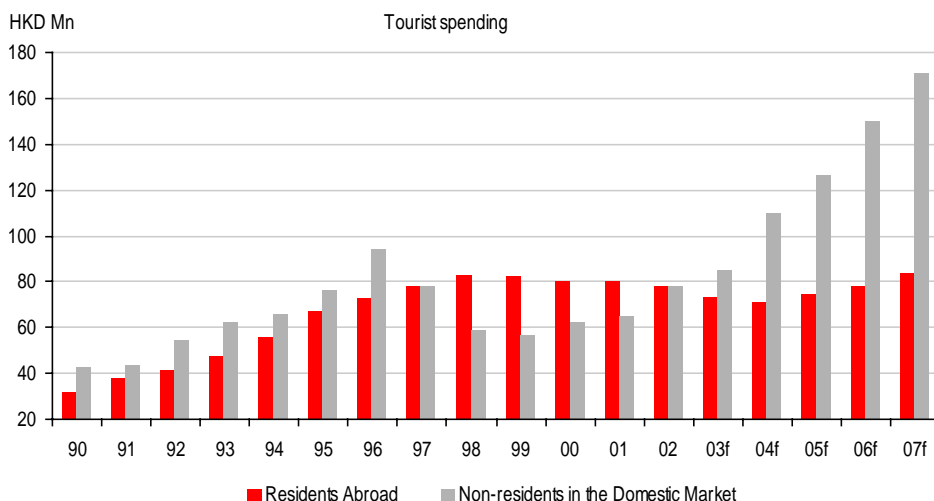
The different direction of capital flows explains why the pressures on the two currencies contrast to their current account positions. If the flows were to change direction, the pressures on the currencies would also change, as was the case for the HK dollar in late September, sparked by a significant improvement in economic sentiment.

The relaxation of travel rules governing mainlanders visiting Hong Kong has raised hopes that the resulting inflow of spending will offset investment outflows, and eventually turn around the deflation situation. (See *Hong Kong: RMB-driven prosperity dawns, Vol. 139, Asian Economic Insight.*)

With there no longer being a net capital outflow, the HK dollar's external price competitiveness may justify the present level of the exchange rate in real terms. This should dissipate concerns about an overvalued currency even if substantial amounts of capital (via tourist spending) have yet to flow in.

Direction of capital flows explains the pressures on the two currencies

6: Mainland visitors could bring substantial liquidity to Hong Kong



Source: CEIC & HSBC

China's reluctance to revalue its currency partly stems from concerns about unpredictable flows of capital. As discussed earlier, the strength of the renminbi did not originate from a current account surplus, which has been steady since 1997. With further tariff cuts in the pipeline under WTO commitments, there is even the prospect of China's trade account moving into deficit. Devaluing the currency now could accelerate this process, which would make China's external balance even more vulnerable to capital flows.

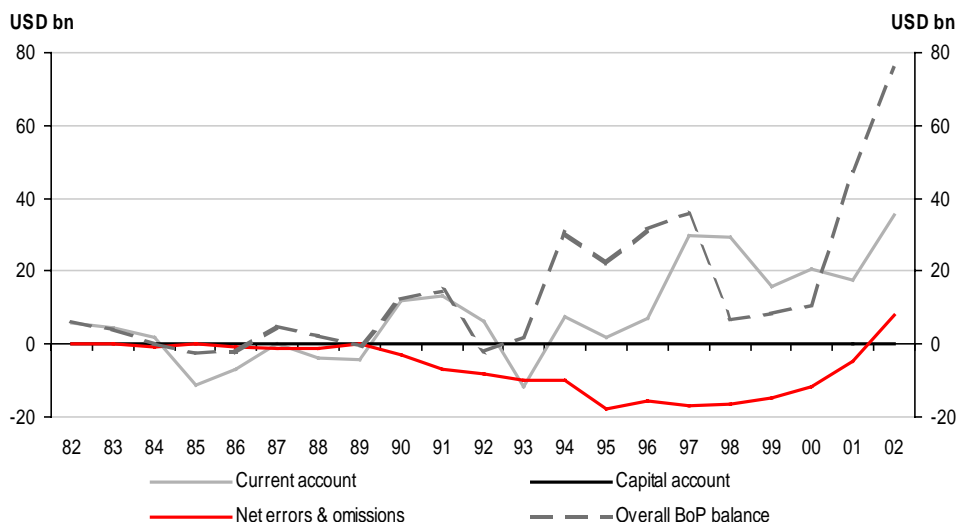
Reluctance to revalue stems from concerns about unpredictable flows of capital

HKD and RMB – a view of fundamentals

China's balance of payments data clearly shows that capital is flowing into the country. This is the reverse of just a few years ago when there were large "leakages", as captured in the "errors and omissions" data. The flows have reversed direction as a result of the relatively more attractive opportunities in China plus speculation about a currency revaluation.

Previous capital 'leakage' has been reversed

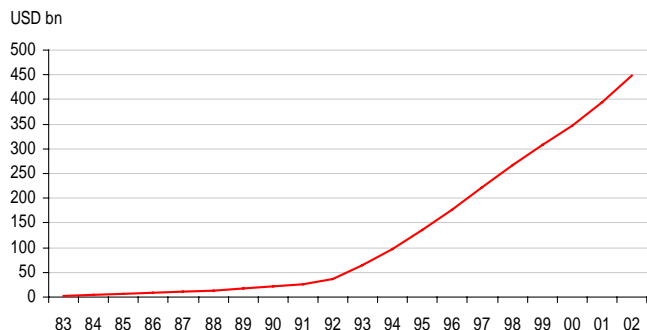
7: China's balance of payments



Source: CEIC

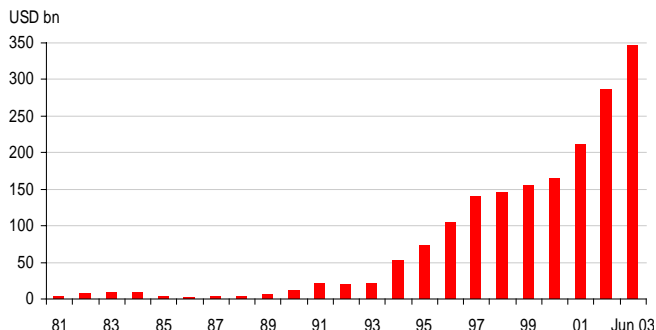
Speculation about a renminbi appreciation has been partly fuelled by the rapid expansion of China's foreign reserves. But this growth has been driven by the influx of foreign direct investment, which exceeded USD450bn in 2002. By the middle of this year, China's foreign reserves amounted to USD370bn. Although some of the FDI is likely to have been used to pay for imports of capital equipment, the net contribution to the rise in foreign reserves remains substantial.

8a: China: cumulative level of FDI



Source: HSBC

8b: China: foreign reserves



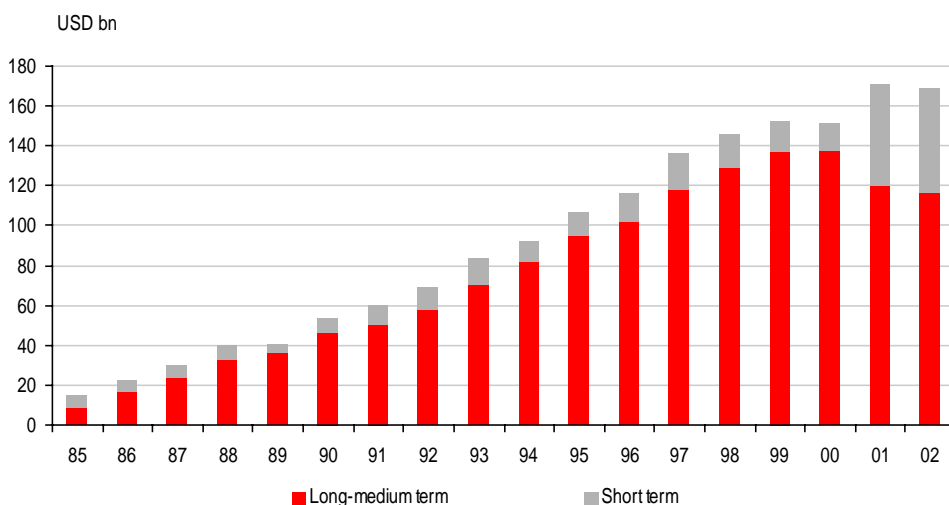
Source: HSBC

HKD and RMB – a view of fundamentals

However, China’s foreign reserves net of foreign debt are not significant, at around USD200bn. And these funds have to cover the future repatriation of profits resulting from FDI (an 8% return on USD450bn amounts to USD36bn pa) and a possible trade deficit. From this perspective, China’s foreign reserves are not excessive if it wants to maintain the current exchange rate and financial system stability.

Foreign reserves needed to cover the future repatriation of profits

9: China’s external debt



Source: PBoC

In a recent speech, the head of China’s central bank, Zhou Xiao Chuan, expressed a similar view about the level of foreign reserves. Although his calculation of a ‘sufficient level of reserves’ is open to debate, the underlying arguments are the same – the need to pay for net imports, debt repayment and dividends on investment.

10. The “appropriate” level of foreign exchange reserves

Future consideration	USDbn
Imports in half year	180
Half of external debt	90
3-year dividend of FDI	100
Total	370

Source: Governor of PBoC

A final word on currency strength

From the above, it is clear that the HK dollar’s value is justifiable from a current account perspective following the cost adjustment process of the past few years. As it was the persistent outflow of capital that made the currency vulnerable to repeated speculative attacks, the prospect of large fund inflows (via mainland tourists) reduces the downside risk.

HK dollar no longer looks so vulnerable...

However, fierce cost competition and further economic integration with the mainland economy, not to mention continued deflation, mean the revaluation case for the HK dollar is

...but the case for appreciation is far from compelling

HKD and RMB – a view of fundamentals

not immediate. A more important requirement for a reflation of the Hong Kong economy is a stable exchange rate.

In contrast, China's reluctance to revalue its currency partly stems from fears about its future current account position and a potentially devastating impact on its financial system. Support from the current account for the renminbi is set to diminish as further reductions in tariffs are implemented. As we do not expect Beijing to signal a change in its currency, this should reduce the flow of speculative capital betting on a revaluation, which alone should reduce upward pressure on the renminbi.

Over the longer term, a possible slowdown in FDI in China and the beginning of profit repatriation are likely to exert downward pressure on the renminbi. In view of the size and unpredictable nature of global capital flows, it is understandable that Beijing wants to maintain a stable exchange rate for the sake of domestic financial stability. While the direction of capital flows is now pressuring the renminbi, the outlook for the current account does not offer support for a sharp appreciation of the currency at this moment.

Upward pressure on the renminbi should diminish as Beijing stands firm

Asian economic forecasts

	Asia/Pacific	Japan	India	Australia	New Zealand	Asia-ex-Japan	Asia ex-Japan & China
Real GDP							
2001	3.8	0.4	5.6	2.6	2.6	5.0	1.9
2002	4.5	0.1	4.4	3.6	4.4	6.4	4.4
2003f	5.3	2.9	7.5	2.3	2.9	6.0	3.2
2004f	5.0	2.2	6.0	4.3	3.2	5.9	3.9
Private consumption							
2001	4.2	1.7	5.8	2.9	2.2	5.0	3.4
2002	3.9	1.4	2.5	4.1	3.8	5.4	4.3
2003f	3.7	1.2	7.0	3.7	4.1	4.1	2.9
2004f	4.0	1.3	6.0	3.2	3.1	4.8	3.2
Fixed investment							
2001	4.7	1.3	3.2	-1.0	-1.8	6.9	0.1
2002	5.6	-4.9	9.0	13.8	8.1	9.0	1.2
2003f	14.0	12.8	9.0	8.1	12.1	16.0	3.2
2004f	9.3	10.6	6.0	2.2	5.0	9.9	3.4
Current account balance¹ (% of GDP)							
2001	2.3	1.9	0.2	-2.5	-2.6	3.2	5.5
2002	2.8	2.8	0.6	-4.4	-3.7	3.8	5.8
2003f	1.9	2.7	-0.3	-6.2	-4.6	2.5	5.1
2004f	1.2	2.6	-0.9	-5.1	-4.4	1.6	4.6
Fiscal balance² (% of GDP)							
2001	-0.4	7.4	-5.9	0.9	1.2	-2.8	-2.9
2002	0.0	8.8	-5.9	-0.1	2.2	-2.5	-1.9
2003f	n.a.	9.8	-6.0	0.5	1.8	-2.7	-2.5
2004f	n.a.	9.0	-6.2	0.3	2.8	-2.4	-2.3
CPI (% average)							
2001	2.0	-0.7	4.4	4.4	2.6	2.5	4.8
2002	1.2	-0.9	4.0	3.1	2.7	1.4	4.1
2003f	1.5	-0.2	4.0	2.8	1.9	1.7	2.9
2004f	1.3	-0.2	3.5	2.4	2.1	1.4	2.1
Money market interest rate³ (% year-end)							
2001	n.a.	0.1	6.9	4.2	4.9	n.a.	n.a.
2002	n.a.	0.10	5.4	4.8	5.9	n.a.	n.a.
2003f	n.a.	0.10	4.5	5.0	5.2	n.a.	n.a.
2004f	n.a.	0.10	4.5	5.7	5.6	n.a.	n.a.
Bank lending rate⁴ (% year-end)							
2001	n.a.	1.38	11.5	n.a.	n.a.	n.a.	n.a.
2002	n.a.	1.38	10.5	n.a.	n.a.	n.a.	n.a.
2003f	n.a.	1.37	10.0	n.a.	n.a.	n.a.	n.a.
2004f	n.a.	1.37	9.0	n.a.	n.a.	n.a.	n.a.
Exchange rate (year-end)							
2001	n.a.	127	48.3	0.5	0.4	n.a.	n.a.
2002	n.a.	122	48.0	0.6	0.5	n.a.	n.a.
2003f	n.a.	107	44.8	0.7	0.6	n.a.	n.a.
2004f	n.a.	104	43.8	0.7	0.6	n.a.	n.a.

¹ = Hong Kong: current account refers to visible and invisible trade balance only.

² = China: budget deficit includes reported deficit of government plus debt-servicing charges (ie interest payment and principal repayment); Hong Kong: refers to fiscal year

³ = China: 3-mth time deposit; Hong Kong: 3-mth HIBOR; India: 3-mth T-Bill; Indonesia: 3-mth JIBOR; Korea: call rate; Malaysia: 3-mth KLIBOR; Philippines: 3-mth T-bill; Singapore: 3-mth SIBOR; Taiwan: re-discount rate; Thailand: 3-mth BIBOR.

⁴ = China: 1-yr lending rate; Hong Kong: Prime rate; India: Prime rate; Indonesia: average lending rate; Korea: 3-yr corporate bond yield; Malaysia: base lending rate; Singapore: Prime rate; Taiwan: Prime rate of Bank of Taiwan; Thailand: minimum lending rate.

Asian economic forecasts

North Asia	China	Hong Kong	Korea	Taiwan	ASEAN 5	Indonesia	Malaysia	Philippines	Singapore	Thailand	
											Real GDP
5.9	7.3	0.5	3.0	-2.2	2.6	3.4	0.5	4.5	-2.4	1.9	2001
7.2	8.0	2.3	6.0	3.6	4.2	3.7	4.1	4.4	2.2	5.3	2002
6.8	8.2	1.5	1.9	1.9	4.0	3.7	4.2	3.2	0.4	5.3	2003f
6.7	7.5	4.2	3.6	4.0	4.0	3.9	4.0	3.3	3.8	4.5	2004f
											Private consumption
5.4	6.2	1.6	4.2	1.0	3.8	4.4	2.8	3.6	2.3	3.7	2001
5.7	6.2	-1.3	6.8	1.9	4.5	4.7	4.5	4.1	0.9	4.7	2002
4.0	5.1	-1.8	0.2	1.2	4.5	4.2	4.0	4.4	0.2	5.9	2003f
5.0	6.0	1.6	1.0	2.6	4.2	4.3	4.0	3.8	1.9	4.6	2004f
											Fixed investment
7.8	12.2	2.7	-1.7	-20.6	4.5	7.7	-2.8	12.0	-5.8	0.9	2001
11.7	15.0	-4.3	3.7	-2.0	1.6	-0.2	0.3	2.4	-9.7	6.3	2002
20.4	26.0	-2.2	2.8	0.7	4.3	4.6	2.1	1.7	-5.7	7.3	2003f
12.3	15.0	0.9	3.1	3.5	3.8	3.8	3.1	3.2	2.4	4.5	2004f
											Current account balance¹ (% of GDP)
2.3	1.5	7.5	2.0	9.1	5.7	4.9	8.3	1.9	19.0	5.4	2001
3.0	2.2	10.9	1.3	9.8	6.0	4.3	7.6	5.5	21.5	6.0	2002
1.5	0.4	11.7	0.5	9.0	5.2	3.7	9.4	2.0	23.4	4.4	2003f
0.4	-0.8	14.8	0.4	7.2	4.5	3.3	9.2	2.2	20.5	3.1	2004f
											Fiscal balance² (% of GDP)
-2.6	-2.7	-5.0	1.3	-6.7	-3.3	-3.7	-5.5	-4.0	0.8	-2.0	2001
-2.4	-3.0	-5.6	3.9	-4.9	-2.7	-1.7	-5.6	-5.3	-1.1	-2.3	2002
-2.9	-2.9	-7.1	0.5	-6.0	-2.4	-1.8	-5.7	-4.6	-2.3	-1.0	2003f
-2.5	-2.5	-5.3	0.5	-5.8	-2.1	-1.4	-4.4	-4.5	-2.6	-1.3	2004f
											CPI (% average)
1.0	0.7	-1.6	4.3	0.0	6.5	11.5	1.5	6.1	1.0	1.7	2001
-0.4	-0.8	-3.0	3.0	-0.2	6.0	11.9	1.7	3.1	-0.4	0.6	2002
0.9	0.7	-2.5	3.5	-0.1	3.8	6.3	1.0	3.0	0.5	1.7	2003f
0.9	0.8	-0.8	2.3	0.2	2.6	4.5	0.7	2.8	0.5	0.7	2004f
											Money market interest rate³ (% year-end)
n.a.	2.0	2.1	4.0	2.6	n.a.	17.6	3.3	8.9	1.3	2.9	2001
n.a.	1.7	1.4	4.3	1.9	n.a.	13.1	3.2	5.7	0.7	1.9	2002
n.a.	1.4	1.1	3.8	1.3	n.a.	8.3	2.8	5.5	0.8	1.3	2003f
n.a.	1.4	0.9	3.0	1.0	n.a.	8.8	2.5	6.3	0.9	1.3	2004f
											Bank lending rate⁴ (% year-end)
n.a.	5.9	5.1	6.8	6.8	n.a.	19.2	6.4	13.0	5.4	7.0	2001
n.a.	5.3	5.0	5.4	6.5	n.a.	18.4	6.4	8.5	5.4	6.8	2002
n.a.	5.0	5.0	5.0	6.3	n.a.	16.3	6.0	8.5	5.2	5.8	2003f
n.a.	5.0	5.0	5.0	6.3	n.a.	15.5	5.6	9.5	5.0	5.5	2004f
											Exchange rate (year-end)
n.a.	8.28	7.8	1313	35.0	n.a.	10425	3.8	51.4	1.85	44.2	2001
n.a.	8.28	7.8	1210	34.8	n.a.	8955	3.8	53.1	1.74	43.2	2002
n.a.	8.28	7.8	1100	32.8	n.a.	8200	3.8	54.0	1.70	39.2	2003f
n.a.	8.28	7.8	1060	32.0	n.a.	8600	3.8	55.0	1.67	37.5	2004f

Source: HSBC

Asian economic forecasts

Exchange rates vs US\$

End-period	2000	2001	2002	1Q 03	2Q 03	3Q 03f	4Q 03f	1Q 04f	2Q 04f	3Q 04f	4Q 04f
Japan (JPY)	116	127	119	119	120	112	107	105	104	104	103
Australia (AUD)	0.56	0.51	0.57	0.60	0.67	0.68	0.69	0.69	0.69	0.70	0.70
New Zealand (NZD)	0.44	0.42	0.53	0.55	0.58	0.60	0.60	0.60	0.60	0.61	0.61
China (CNY)	8.28	8.28	8.28	8.28	8.28	8.28	8.28	8.28	8.28	8.28	8.28
Hong Kong (HKD)	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80
India (INR)	46.5	48.3	48.0	47.5	46.8	46.0	44.8	44.5	44.3	44.2	43.8
Indonesia (IDR)	9,595	10,400	8,955	8,903	8,275	8,300	8,200	8,300	8,400	8,500	8,600
Korea (KRW)	1,267	1,313	1,210	1,240	1,180	1,170	1,100	1,080	1,080	1,070	1,060
Malaysia (MYR)	3.80	3.80	3.80	3.80	3.80	3.80	3.80	3.80	3.80	3.80	3.80
Philippines (PHP)	50.0	51.4	53.1	53.5	53.5	55.0	54.0	54.3	54.5	54.8	55.0
Singapore (SGD)	1.73	1.85	1.74	1.76	1.76	1.73	1.70	1.69	1.69	1.68	1.67
Taiwan (TWD)	33.2	34.6	34.8	34.8	34.6	34.0	32.8	32.5	33.3	33.3	32.0
Thailand (THB)	43.1	44.2	43.2	42.9	42.1	40.0	39.2	39.0	38.5	38.0	37.5

3-month money market rates

End-period	2000	2001	2002	1Q 03	2Q 03	3Q 03f	4Q 03f	1Q 04f	2Q 04f	3Q 04f	4Q 04f
Japan	0.50	0.08	0.08	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Australia	6.10	4.25	4.81	4.80	4.68	4.85	4.95	5.20	5.40	5.45	5.70
New Zealand	6.70	4.89	5.95	5.83	5.26	5.20	5.15	5.25	5.50	5.65	5.55
China	1.98	2.00	1.70	1.70	1.40	1.40	1.40	1.40	1.40	1.40	1.40
Hong Kong	5.92	2.07	1.40	1.38	1.11	1.09	1.10	0.85	0.85	0.85	0.85
India	9.60	6.85	5.40	5.60	4.80	4.50	4.50	4.50	4.50	4.50	4.50
Indonesia	14.7	17.9	13.1	12.0	10.2	8.8	8.3	8.0	8.3	8.3	8.8
Korea	5.25	4.00	4.25	4.25	3.75	3.75	3.75	3.75	3.00	3.00	3.00
Malaysia	3.26	3.30	3.20	3.20	3.00	2.90	2.80	2.80	2.50	2.50	2.50
Philippines	13.61	8.90	5.70	7.15	6.00	5.75	5.50	5.75	6.00	6.00	6.25
Singapore	2.86	1.25	0.70	0.69	0.58	0.80	0.80	0.75	0.80	0.90	0.90
Taiwan	4.62	2.13	1.91	1.43	1.22	1.30	1.30	1.10	1.10	1.00	1.00
Thailand	5.00	2.88	1.94	1.75	1.25	1.25	1.25	1.25	1.25	1.25	1.25

Global economic assumptions

	2002	2003f	2004f	1Q 03	2Q 03	3Q 03f	4Q 03f	1Q 04f	2Q 04f	3Q 04f	4Q 04f
US											
GDP (% y-o-y)	2.4	2.5	2.6	2.0	2.5	2.8	2.9	3.1	2.9	2.2	2.4
CPI (% y-o-y)	1.6	2.3	1.2	1.2	1.3	2.2	2.1	1.4	1.5	1.1	1.0
3-mth money (% end period)	1.2	1.0	0.8	1.3	1.1	1.1	1.0	0.8	0.8	0.8	0.8
10-yr bond yield (% end period)	3.8	3.9	3.4	3.8	3.5	4.0	3.9	3.8	3.7	3.6	3.4
Effective US\$ (1990=100)											
Japan											
GDP (% y-o-y)	0.1	2.9	2.2	2.9	3.0	2.8	2.7	3.2	2.3	2.2	1.4
CPI (% y-o-y)	-0.9	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.2	-0.3	-0.1
3-mth money (% end period)	0.1	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
10-yr bond yield (% end period)	1.2	1.5	1.9	0.7	0.8	1.4	1.5	1.6	1.7	1.8	1.9
USD/JPY (end period)	119	107	103	119	120	112	107	105	104	104	103
Euroland											
GDP (% y-o-y)	0.8	0.4	1.3	0.8	0.4	0.3	0.5	0.9	1.3	1.4	1.5
CPI (% y-o-y)	2.2	2.0	1.2	2.3	1.9	2.0	1.8	1.5	1.4	1.1	1.0
3-mth money (% end period)	2.9	2.0	1.5	2.5	2.1	2.1	2.0	1.8	1.8	1.5	1.5
10-yr bond yield (% end period)	4.2	3.8	3.1	4.1	3.9	4.1	4.0	3.9	3.8	3.7	3.6
USD/EUR (end period)	1.05	1.2	1.3	1.09	1.15	1.15	1.17	1.19	1.22	1.25	1.30

Asian economic diary

Date	Location	Local time	Subject	Unit	Period of data	Previous	HSBC forecast
6 Oct	Australia		NSW public holiday				
		11:30	ANZ job ads	% Mth	Sep	1.5	n.f.
7 Oct	Philippines	9:00	CPI	% Yr	Sep	3.0	3.0
	Australia		RBA Board meeting		Oct		
	Hong Kong	16:15	Retail sales - value	% Yr	Aug	-2.7	3.5
8 Oct		16:15	Retail sales - volume	% Yr	Aug	-0.5	5.2
	Australia	9:30	RBA announcement window: OCR	%	Oct	4.8	4.8
	Malaysia	10:00	Industrial output	% Yr	Aug	4.6	7.7
	New Zealand	10:45	Retail sales	% Mth	Aug	1.1	0.2
9 Oct	Australia	11:30	Employment (000s)	% Mth	Sep	80.6	15.0
		11:30	Unemployment rate	%	Sep	5.8	6.0
		11:30	Participation rate	%	Sep	63.5	63.7
	New Zealand	10:00	QSBO business confidence, s.a.	net balance	Q3	-22.0	5.0
10 Oct	Australia	11:30	Housing finance	% Mth	Aug	-0.5	2.0
	Singapore	8:00	GDP - constant price	% Yr	Q3	-4.3	1.2

Sources: Bloomberg, Reuters, CEIC

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