

Headlines

- [Strong data damps Fed's need to buy bonds: Bullard](#). *Reuters.com, 08 Jan 2012*
- [IMF losing confidence in Greece's ability to reform: report](#). *Reuters.com, 07 Jan 2012*
- [Belgium freezes US\\$1.7 Billion of spending after EU warns of deficit overrun](#). *Bloomberg.com, 07 Jan 2012*
- [China December lending, money supply growth exceed economists' estimates](#). *Bloomberg.com, 08 Jan 2012*

Weekly Review (for week ending 06 January 2012)

US factories expanded in December at their fastest pace in six months, adding to evidence manufacturing is improving from India to the UK entering 2012. The Institute for Supply Management's factory index climbed to 53.9 last month from 52.7 in November, data showed on Tuesday. The need to rebuild depleted inventories may supersede spending on business equipment as the catalyst propelling gains in US manufacturing in early 2012.

Euro-area services and manufacturing output contracted less than initially estimated in December, led by Germany, the region's largest economy, where output reached a four-month high. The eurozone PMI in both industries rose to 48.3 from 47 in November, a Markit Economics report showed Wednesday. Despite the upturn, Q4 saw the steepest contraction since the spring of 2009, and forward-looking indicators suggest that a further decline is on the cards for Q1 of 2012. In particular, orders for goods and services continued to collapse, suggesting that output and employment will be cut.

Singapore's manufacturing sector declined for the sixth straight month in December. This despite the PMI rising 0.8 points from the previous month to 49.5, was mainly attributed to a further slowdown in new orders from overseas and domestic markets. The electronics sector index reverted to a contraction when it declined 1.2 points compared to November to 49.7.

Germany sold €4.057 billion 10-year bonds at an average yield of 1.93% (compared to 1.98% in November) with a bid-to-cover ratio of 1.3 (an improvement from 1.1 in November). However, and despite the 1.3 times bid-to-cover ratio, Germany didn't auction the maximum target of €5 billion, which pressured the euro and the stocks further to the downside.

Yields on French long-term government bonds (OATs) rose on Thursday at its first auction of the year as the threat of a cut to the country's AAA credit rating prompted investors to demand higher returns for buying the bonds. Market fears about the ability of eurozone states to fund their debts remain high, and France is seen by many to be more vulnerable to contagion in the crisis than Germany. France sold 7.96 billion euros of 10-30-year bonds, at the very top of its projected range, after receiving total bids for nearly 15 billion euros. The 2021 OAT paid an average yield of 3.29%, largely in line with secondary market levels, and slightly up from 3.18% at its previous auction Dec 1.

The December US ISM non-manufacturing survey showed further improvement but fell slightly short of expectations as it rose to 52.6 from 52.0 in November. (Market forecast was 53.0) The non-manufacturing sector is very important for the US economy as it makes up for nearly 90% of the economic activity taking place in the US.

The US ADP employment report turned out much better than expected as the US added 325,000 new jobs in December compared to 204,000 in November (and market forecast of just 175,000). And the usual initial jobs claims data (for the week ending 31 Dec) was also better than expected, recording a 15,000 improvement as only 372,000 applied for jobless claims (down from a revised 387,000 in the previous week).

US employment growth accelerated last month and the jobless rate dropped to a near three-year low of 8.5%, the strongest evidence yet the economic recovery is gaining steam. Nonfarm payrolls increased 200,000 in December, the Labour Department said on Friday. It was the biggest rise in three months and beat economists' expectations for a 150,000 gain. The unemployment rate fell from a revised 8.7% in November to its lowest level since February 2009, a heartening sign for President Barack Obama whose re-election hopes could hinge on the state of the labour market.

Eurozone retail trade fell a worse-than-expected 0.8% in November from October, data from the EU's statistics office Eurostat showed on Friday. Economists polled by Reuters had forecast a 0.2% monthly fall. Pointing to the cautiousness of European households, the European Commission said that in December consumer confidence fell 0.7 points in the 17 countries sharing the euro. In its overall reading of economic sentiment in the eurozone, the Commission said its indicator fell 0.5 points to 93.3, its lowest level since November 2009.

Market Snapshot

Selected Equity Indices	Last (Jan 6)	1-week return	Year-to-date return
Dow Jones Industrial Average	12,359.92	1.17%	1.17%
S&P 500 Index	1,277.81	1.61%	1.61%
FTSE 100 Index	5,649.68	1.39%	1.39%
Euro Stoxx 50	2,298.65	-0.77%	-0.77%
Nikkei 225	8,390.35	-0.77%	-0.77%
Hang Seng Index	18,593.06	0.86%	0.86%
Shanghai SE Composite	2,163.40	-1.64%	-1.64%
BSE Sensex Index	15,848.80	2.55%	2.55%
Straits Times Index	2,715.59	2.62%	2.62%

Source: Bloomberg

Week Ahead

Economic Calendar (Selected Events)				
Mon, Jan 9	Tue, Jan 10	Wed, Jan 11	Thu, Jan 12	Fri, Jan 13
		EIA Petroleum Status Report	<i>Jobless Claims</i>	<i>International Trade</i>
		Beige Book	<i>Retail Sales</i>	Import and Export Prices
			Business Inventories	Consumer Sentiment
			Treasury Budget	

Red: Market moving indicator

Black: Merits extra attention

Source: Bloomberg

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