

Headlines

- [EU's Van Rompuy warns over complacency in euro debt crisis](#). *Reuters.com, 04 Mar 2012*
- [China boosts defense budget 11% after US "pivot"](#). *Reuters.com, 04 Mar 2012*
- [Employers in US probably add more than 200,000 workers for a third month](#). *Bloomberg.com, 04 Mar 2012*
- [China's February non-manufacturing index falls in sign economy weakening](#). *Bloomberg.com, 03 Mar 2012*

Weekly Review (for week ending 02 March 2012)

■ S&P cuts Greek sovereign debt to selective default, cites "Collective Action Clauses"

Greece became the first eurozone member to be officially rated in default on Monday, 13 years after the single European currency was adopted to strengthen the European Union. S&P cut Greece's long-term credit rating to "selective default" from double-C. The move was expected, as S&P had said earlier it would consider Greece in default if it retroactively added collective-action clauses to its sovereign debt as part of an effort to force creditors to participate in a bond swap offering. Greece's parliament approved that measure late last week, giving S&P the ammunition it needed to cut the rating. Greece faces a deadline of March 20 to pay €14.5 billion in bond redemptions.

■ US Consumer Confidence at 1-year high in February

Consumer confidence scaled a one-year high in February as optimism about the labour market offset concerns over rising gasoline prices, an independent survey showed on Tuesday. The Conference Board said its index of consumer attitudes increased to 70.8 this month, the highest reading since February last year, from an upwardly revised 61.5 in January. About 38.7% of respondents in the Conference Board survey said jobs were hard to get this month, down from 43.3% in January. The share of consumers viewing jobs as plentiful rose to 6.6% from 6.2% the prior month. The unemployment rate felled to a 3-year low of 8.3% in January after two straight months of solid job growth.

■ ECB LTRO 2: €529.5 billion as 800 banks ask for a handout

The ECB's 2nd 3-year LTRO allotted EUR 529.53 billion worth of cheap loans to 800 European banks. With the total take-up exceeding economists' forecasts, it appears that the European financial system may not be as healthy as previously thought. While many major banks stayed on the sidelines, the influx of capital into Italian and Spanish banks gives credence to the idea that, without ECB intervention, Italian and Spanish debt would be well-above the 7% yield "sustainable" threshold. The 1st LTRO tranche allotted EUR 489.19 billion in 3-year funds in December to 523 banks. The ECB charges 1% annual interest on the LTROs which total €1.018 trillion.

■ US Q4 GDP revised up to 3%, quickest since Q2 2010.

The second estimate of US Q4 GDP rose to an annualized 3.0% (previously 2.8%) from 1.8% in Q3, compared to consensus expectations of 2.8%. The driver of Q4 growth was personal consumption and gross private investment. Changes to inventories was the largest share of gross private investment, adding a whopping 1.88%. While the build-up in business inventories still accounted for much of rise in output in the last quarter, the revisions to GDP unveiled an improved tone for the first-quarter growth outlook. The better numbers were reflected in a much better than expected Chicago manufacturing PMI reading of 64 (against expectation of 61).

■ No payout on Greek debt insurance, rules ISDA

Default insurance on Greek debt won't be paid out, the International Swaps & Derivatives Association said Thursday after it was asked to rule on whether part of Greece's US\$170 billion bailout was a credit event. ISDA said the ECB's exchange of Greek bonds for new securities being imposed on private investors hasn't triggered US\$3.25 billion of outstanding credit default swaps. The committee said the switch did not constitute subordination, one of the criteria for a payout under a restructuring event.

■ UK economy may not need further stimulus: BOE

Bank of England policymaker Martin Weale said that UK inflation may prove more persistent than expected, making it unlikely the economy will require further stimulus once the current round of bond purchases ends. The MPC's £50 billion increase in stimulus in February may be the last. UK inflation slowed to 3.6% in January, the least in 14 months, but still higher than the central bank's 2% target. Mr Weale also said that higher-than-forecast inflation may prompt the central bank to increase rates earlier than the market currently predicts and policy makers could choose to raise their benchmark rate before selling the bonds held as part of their stimulus programme.

■ ISM index shows US manufacturing unexpectedly slows as orders cool

Manufacturing in the US grew less than forecast in February as orders eased, slowing the industry that has powered the two-year expansion. The ISM's factory index fell to 52.4 from 54.1 in January. The ISM report was at odds with regional data for the month showing the factory expansion accelerated. Manufacturing in the Philadelphia region grew in February at the fastest rate in four months. Factories in the New York area expanded the most since June 2010, and business activity gauge in Chicago rose to the highest level in 10 months.

■ Moody's downgrades Greek bonds to lowest rating

Ratings agency Moody's downgraded Greece to the lowest rating on its bond scale late Friday, following a deal with private investors that would see them ultimately lose 70% of their holdings in Greek debt. It lowered Greece's sovereign rating to "C" from "Ca", arguing that the risk of default remains high even after a bond-swap deal with banks and other private investors, due to be completed this month, is successful. It would "reassess the credit risk profile" after Greece issues the new bonds.

Market Snapshot

Selected Equity Indices	Last (Mar 2)	1-week return	Year-to-date return
Dow Jones Industrial Average	12,977.57	-0.04%	6.22%
S&P 500 Index	1,369.63	0.28%	8.91%
FTSE 100 Index	5,911.13	-0.40%	6.08%
Euro Stoxx 50	2,546.16	0.89%	9.91%
Nikkei 225	9,777.03	1.34%	15.63%
Hang Seng Index	21,562.26	0.73%	16.97%
Shanghai SE Composite	2,460.69	0.86%	11.88%
BSE Sensex Index	17,636.99	-1.60%	14.12%
Straits Times Index	2,993.49	0.52%	13.12%

Source: Bloomberg

Week Ahead

Economic Calendar (Selected Events)				
Mon, Mar 5	Tue, Mar 6	Wed, Mar 7	Thu, Mar 8	Fri, Mar 9
Factory Orders		ADP Employment Report	<i>Jobless Claims</i>	<i>Employment Situation</i>
ISM Non-Mfg Index		Productivity and Costs		<i>International Trade</i>
		EIA Petroleum Status Report		

Red: Market moving indicator

Black: Merits extra attention

Source: Bloomberg

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