

Monday, 14 May 2012

## Weekly Update

### Headlines

- [Greek exit not fatal for euro zone: ECB's Honohan](#). *Reuters.com*, 12 May 2012
- [East Asian powers agree on trade pact talks pact](#). *Reuters.com*, 13 May 2012
- [China cuts banks' reserve requirements to sustain growth](#). *Bloomberg.com*, 12 May 2012
- [Retail sales probably cooled in April: US economy preview](#). *Bloomberg.com*, 13 May 2012

### Weekly Review (for week ending 11 May 2012)

#### ■ Panic sets in as Greece and France vote out austerity

Stock markets in Asia and Europe tumbled Monday after Greek and French election results stoked fears of a further eurozone crisis. Mr Hollande, who is the first Socialist French president in over 20 years, has previously indicated that he will not accept Germany's austerity policies, making it more difficult for Europe to stick to restrictive budgets and spending cuts. In Greece, the vote against severe austerity policies delivered a political deadlock. Fresh elections are almost inevitable as a new coalition government may not receive future support from Germany and other major players when it seeks more loans. Speculation of a Greek exit from the eurozone is expected to increase.

#### ■ Australia to cut spending for first time in 42 years

Australia's government will cut spending for the first time in at least 42 years as Prime Minister Julia Gillard returns the budget to a surplus and gives its central bank scope to lower interest rates. The A\$44.4 billion deficit this year is the third-largest on record. Although a budgeted A\$46 billion fiscal reversal risks slower growth heading into an election year, the underlying cash surplus will be A\$1.54 billion in the 12 months to June 30, 2013, ending four years of deficits, Treasurer Wayne Swan said. Expenditures are forecast to fall to A\$364.2 billion next year, the first drop in figures dating back to 1971. Projected surpluses through 2016 are driven by A\$33.6 billion in savings.

#### ■ German trade hits record levels in March

German exports and imports both leapt to record monthly levels in March, bolstering hopes that Germany has escaped recession and highlighting its resilience to the eurozone's deepening debt crisis. German exports rose a seasonally adjusted 0.9% and imports were up 1.2%, the Federal Statistics Office data showed. The seasonally adjusted value of exports rose to 91.8 billion euros in March and imports to 78.1 billion euros, both record levels. As a result, the seasonally-adjusted trade surplus was 13.7 billion euros, which was unchanged from a revised 13.7 billion in February, beating a consensus forecast for 13.5 billion. Exports to non-EU countries jumped 11.2% in the first quarter but rose only 2.3% to the EU, showing its success in tapping into fast-growing emerging markets as demand closer to home wilts.

#### ■ EFSF bailout fund approves Greek emergency payment

Eurozone governments kept Greece afloat on Wednesday after agreeing a payment of €5.2 billion from the region's bailout fund, despite opposition from some member states following the Greek election results. An initial €4.2 billion will be paid immediately, and the remaining 1 billion will be paid out later depending on the financing needs of Greece, as it was not needed before June. If Greece did not get the money, it would face financing problems because of a lack of cash for salaries as well as money for the redemption of €435 million of a bond maturing on May 15, a bond that was not fully swapped into new paper under the Greek debt restructuring deal finalised last month.

#### ■ Japan sees record drop in current account surplus

Japan's current account surplus halved in the year to March, a record year-on-year fall on higher fuel costs and weak exports, and the nation's smallest surplus since the mid-1990s. Japan logged a surplus of 7.893 trillion yen in the 2011-12 fiscal year, down 52.6% from a year earlier and the smallest yearly surplus since fiscal 1996, data from the finance ministry showed. March exports rose 7.3% from a year earlier while imports soared by 11.9%.

#### ■ Australian jobless rate unexpectedly falls to 1-year low

Australia's unemployment rate unexpectedly dropped to a one-year low as payrolls rose for a second straight month, driving the local currency higher and reducing bets on interest-rate cuts next month. The jobless rate fell in April to 4.9%, matching the lowest level since December 2008, from 5.2% in March, the statistics bureau said Thursday. Economists forecast a rise to 5.3%. Payrolls advanced by 15,500 after a revised 37,600 gain, compared with the median estimate for a 5,000 decline in a Bloomberg survey.

#### ■ China industrial output slows to nearly three-year low

Growth in industrial output from China's millions of factories and workshops slowed to 9.3% year-on-year in April, the lowest level in nearly three years, the government said Friday, and well below the 12.2% increase forecast by economists in a Dow Jones survey. April's figure, which was down from growth of 11.9% in March, followed worse-than-expected import data on Thursday that indicate a slowdown; China announced a rise of just 0.3% in imports in April, suggesting negligible change in domestic economic activity from a year earlier.

#### ■ JPMorgan US\$2 billion trading loss hits shares, credit, image

Fitch Ratings cut JPMorgan Chase & Co.'s credit rating one notch to A-plus from AA-minus late on Friday, citing the bank's disclosure of a US\$2 billion trading loss, the result of a failed hedging strategy. Its shares fell 9.3% on 212 million shares traded, the most volume in its history, wiping US\$15 billion off its value. Fitch put all of the ratings of the bank and its subsidiaries on negative ratings watch.

## Market Snapshot

Selected Equity Indices	Last (May 11)	1-week return	Year-to-date return
Dow Jones Industrial Average	12,820.60	-1.67%	4.94%
S&P 500 Index	1,353.39	-1.15%	7.62%
FTSE 100 Index	5,575.52	-1.41%	0.06%
Euro Stoxx 50	2,254.54	0.28%	-2.68%
Nikkei 225	8,953.31	-4.55%	5.89%
Hang Seng Index	19,964.63	-5.32%	8.30%
Shanghai SE Composite	2,394.98	-2.33%	8.89%
BSE Sensex Index	16,292.98	-3.20%	5.42%
Straits Times Index	2,883.40	-3.58%	8.96%

Source: Bloomberg

## Week Ahead

Economic Calendar (Selected Events)				
Mon, May 14	Tue, May 15	Wed, May 16	Thu, May 17	Fri, May 18
	<i>Consumer Price Index</i>	<i>Housing Starts</i>	<i>Jobless Claims</i>	
	<i>Retail Sales</i>	<i>Industrial Production</i>	<i>Philadelphia Fed Survey</i>	
	Empire State Mfg Survey	EIA Petroleum Status Report		
	Treasury International Capital	<i>FOMC Minutes</i>		
	Business Inventories			
	Housing Market Index			

*Red: Market moving indicator*

Black: Merits extra attention

Source: Bloomberg



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