

## Headlines

- [Eurozone agrees to lend Spain up to 100 billion euros](#). *Reuters.com, 10 Jun 2012*
- [Ireland wants rescue deal negotiated to match Spain's](#). *ChannelNewsAsia.com, 10 Jun 2012*
- [China's slowing inflation and output growth add easing pressure](#). *Bloomberg.com, 09 Jun 2012*
- [China's May export growth tops estimates as US demand rises](#). *Bloomberg.com, 10 Jun 2012*

## Weekly Review (for week ending 08 June 2012)

### ■ Second straight fall in US factory orders

Orders to US factories unexpectedly fell in April for a second month, pointing to a deceleration in manufacturing as the global economy cools. Bookings dropped 0.6% after an upwardly revised 2.1% decrease in March, the first back-to-back declines in more than three years. Economists had projected a 0.2% gain. The expiration at the end of 2011 of a tax incentive allowing 100% depreciation on equipment purchases may have prompted a slowdown in investments this year. The allowance for 2012 is 50%.

### ■ Australia May inflation gauge flat at 1.8% annual rate

A private gauge of Australian inflation released Monday showed price pressures remained well contained in May. The TD Securities-Melbourne Institute's measure of consumer prices was flat in May, following a 0.3% rise in April. The annualised rate slowed to 1.8% from 1.9%, below the RBA's long-term target of 2% to 3%.

### ■ Global threats prompt Aussie rate cut of 0.25%

The RBA cut its official cash rate from 3.75% to 3.50% at its board meeting on Tuesday. The move helped to calm rattled households and non-mining sectors of the economy. Federal Treasurer Wayne Swan said the decision would give Australians confidence that the RBA had further room to move on rates given the Government's plan to return the budget to surplus next year. RBA Governor Glenn Stevens said households and businesses were still cautious, and this was likely to remain the case despite a slight improvement in the jobs market.

### ■ Robust Aussie Q1 growth forces rate cut rethink

Australia's GDP rose 1.3% in Q1 from Q4 of 2011, more than double the 0.5% rise forecast. Growth was a robust 4.3% higher compared with the Q1 of 2011, the fastest pace in more than four years. Concerns about growth globally, and particularly in China, will continue to haunt the outlook but analysts were cheered that the economy had more momentum than anyone had supposed. Treasurer Wayne Swan said Australia's economy is in a league of its own, with growth of 4.3% compared with 1.7% in the US, 0% in the EU and -0.1% in Britain.

### ■ Moody's downgrades credit ratings of six German banks

Ratings agency Moody's has cut the credit ratings of six German banks and the three biggest in Austria. The biggest bank affected was Commerzbank, Germany's second-biggest lender, which was cut to "A3" from "A2". Moody's delayed a decision on the rating of Germany's biggest bank, Deutsche Bank. Moody's said that the rating actions are driven by the increased risk of further shocks emanating from the euro area debt crisis and that banks in Germany and Austria had a limited capacity to absorb losses.

### ■ Spain downgraded as bailout estimates mount

Fitch cut its rating on Spanish government debt by three notches to "BBB", a sign it thinks Spain's ability to honour its debts has weakened. This is two notches above junk status on Fitch's rankings scheme. However, there was strong demand for Spanish bonds at an auction on Thursday, seen as a key test of the country's ability to raise funds. Spain sold 2.1 billion euros in medium and long-term bonds at higher interest rates. The rate on the 10-year Spanish bonds was 6.044%, up from the 5.743% from the last auction in April.

### ■ China begins easing bias with first rate cut since 2008

PBoC announced Thursday evening that it will cut its benchmark 1-year deposit and 1-year lending rates by 0.25% each, to 3.25% and 6.31%, respectively, effective on Friday. In addition, it also took a step forward in further liberalisation of interest rates, by allowing deposit rates to rise to 110% of the benchmark rate, and the lending rate to fall to 80% of the benchmark. Previously, deposit rates were not allowed to rise above the benchmark deposit rate, while lending rates were allowed to go down to only 90% of the benchmark lending rate. This means that the maximum deposit rate will rise to 3.58% from 3.50%, while the minimum lending rate will fall to 5.05% from 5.90%.

### ■ Japan revises Q1 GDP growth to 1.2% quarter on quarter

Japan on Friday revised upwards its quarter-on-quarter GDP growth figure to 1.2% for the January to March period, from a preliminary 1.0%, according to official data. The original expectation was for a 0.9% rise as the world's third-largest economy mounts a slow recovery.

### ■ US trade deficit in April narrows to US\$50.1 billion

The US trade deficit narrowed in April as a drop in imports overshadowed the first decline in exports in five months that reflected a slump in shipments to Europe. The gap shrank to US\$50.1 billion, down 4.9%, from US\$52.6 billion in March and the second decrease in the last three months, Commerce Department figures showed on Friday. Both exports and imports fell from record highs in March. Stagnation in Europe and cooling growth in China may restrain exports of American-made goods, which have been contributing to growth in the world's largest economy. Exports declined 0.8% to US\$182.9 billion from March's record high of US\$184.4 billion as overseas demand for capital goods and industrial supplies eased. Imports fell 1.7% to US\$233 billion from a record high of US\$237.1 billion in March.

## Market Snapshot

Selected Equity Indices	Last (Jun 8)	1-week return	Year-to-date return
Dow Jones Industrial Average	12,554.20	3.59%	2.76%
S&P 500 Index	1,325.66	3.73%	5.41%
FTSE 100 Index	5,435.08	3.32%	-2.46%
Euro Stoxx 50	2,143.90	3.64%	-7.45%
Nikkei 225	8,459.26	0.23%	0.05%
Hang Seng Index	18,502.34	-0.30%	0.37%
Shanghai SE Composite	2,281.45	-3.88%	3.73%
BSE Sensex Index	16,718.87	4.72%	8.18%
Straits Times Index	2,737.89	-0.28%	3.46%

Source: Bloomberg

## Week Ahead

Economic Calendar (Selected Events)				
Mon, Jun 11	Tue, Jun 12	Wed, Jun 13	Thu, Jun 14	Fri, Jun 15
	Import and Export Prices	<i>Producer Price Index</i>	<i>Consumer Price Index</i>	Empire State Mfg Survey
	Treasury Budget	<i>Retail Sales</i>	<i>Jobless Claims</i>	Treasury International Capital
		Business Inventories		<i>Industrial Production</i>
		EIA Petroleum Status Report		Consumer Sentiment

Red: Market moving indicator

Black: Merits extra attention

Source: Bloomberg



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