

## Headlines

- [China June official PMI hits 7-month low](#). *Reuters.com, 01 Jul 2012*
- [US consumer spending stalls, morale at 6-month low](#). *Reuters.com, 29 Jun 2012*
- [Iran oil sanctions starting risks biggest OPEC loss since Libya](#). *Bloomberg.com, 01 Jul 2012*
- [Hiring probably cooled in second quarter: US Economy Preview](#). *Bloomberg.com, 01 Jul 2012*

## Weekly Review (for week ending 29 June 2012)

### ■ Singapore inflation eases to 5%

Singapore's inflation moderated in May, to 5.0% y/y from 5.4% in April. On a m/m basis, CPI was up 0.2% compared to 0.5% in April. The data came in lower than market estimates of 5.1% y/y and 0.3% m/m, with housing and transport prices continuing to drive the increase. Transport costs were up 9.2% y/y and 1.0% m/m, while housing costs increased 8.2% y/y and 0.4% m/m. MAS core inflation, which strips out accommodation and private road transport costs, held steady at 2.7% y/y in May and was down 0.1% m/m.

### ■ Spain and Cyprus formally requested for bailouts

Spain and Cyprus formally requested for bailouts in letters addressed to Luxembourg's Jean-Claude Juncker (who leads the group of euro-area finance ministers) on Monday, effectively becoming the 4th and the 5th country within the eurozone region to ask for aid, after Greece, Ireland and Portugal. The Cypriot government said that a write-down of Greek bonds which hit its banks hard pushed it to seek help. The news comes as Cyprus readies to take on the EU's six-month rotating presidency on July 1.

### ■ More woes for Greece as second minister resigns

Greek political woes continued to plague the country as Greece's designated finance minister Vassilis Rapanos resigned Monday amid health problems. This added a new blow to the coalition government who will also see the new PM, Samaras, miss the EU Summit this week due to health issues. Prominent economist Yannis Stournaras was named as Greece's new finance minister Tuesday. Stournaras was involved in the country's negotiations to join the Euro. Giorgos Venicos, a deputy at the merchant marine ministry, also resigned.

### ■ Spain scraps election pledge as worsening slump hits deficit

Spain's government is studying tax increases to rein in the budget deficit, including scrapping a rebate for homeowners that Prime Minister Mariano Rajoy introduced six months ago to meet a campaign pledge. The government needs to plug the deficit as data showed the central administration's shortfall for the first five months approaching the full-year target, and the Bank of Spain said the recession deepened in the second quarter. Spain's economy declined 0.3% in the first three months and the pace of contraction probably intensified.

### ■ ECB considers rate cuts to zero or even lower

ECB president Mario Draghi is contemplating taking interest rates into a twilight zone shunned by the Federal Reserve. While cutting ECB rates may boost confidence, stimulate lending and foster growth, it could also involve reducing the ECB's deposit rate to zero or even lower. It was once an obstacle for policy makers because it risks hurting the money markets they are trying to revive. If the deposit rate was cut from 0.25% to zero or lower, it would discourage banks from parking excess liquidity with the ECB overnight, potentially prompting them to lend the cash instead. Almost 800 billion euros is being deposited with the ECB each day. Sweden's Riksbank in July 2009 became the world's first central bank to charge financial institutions for the money they deposited with it overnight.

### ■ US housing rebound may finally be here

Prices and sales are rising. Home builders are clearing plots of land and the pace of housing construction has increased. The trend is clear in the data. The Commerce Department said Monday that sales of new homes increased 7.6% in May from April to a seasonally adjusted annual rate of 369,000 homes, the best pace since April 2010 where buyers could qualify for a federal home-buying tax credit. The S&P/Case-Shiller index reported Tuesday that sales prices for existing homes rose in April for the first time this year. A seasonally adjusted version of the index showed price increases began in February. The National Association of Realtors said Wednesday that pending home sales have climbed to the highest level since ending of a federal tax credit for first-time buyers in September 2010.

### ■ UK falls back into recession faster than thought

Britain's economy fell back into recession faster than first thought and seems unlikely to recover for some time, data showed Thursday, echoing grim predictions from the BoE that is now almost certain to revive its stimulus programme. The economy shrank by 0.3% in Q1, confirming an earlier estimate by the ONS, but revised figures for the Q4 of 2011 showed a slump of 0.4 %, steeper than initially reported.

### ■ EU deal for Spain, Italy buoys markets

Under pressure to prevent a catastrophic breakup of their single currency, eurozone leaders agreed on Friday to let their rescue fund inject aid directly into stricken banks from next year and intervene on bond markets to support troubled member states. They also pledged to create a single banking supervisor for eurozone banks based around the ECB in a landmark first step towards a European banking union that could help shore up struggling member Spain. ECB President Mario Draghi endorsed the "tangible results", which sent the euro nearly 2% higher and sharply cut Spanish and Italian bond yields. Fitch said the deal eased near-term pressure on eurozone sovereign ratings. In a key concession by Germany, the leaders agreed to waive the ESM's preferred creditor status on lending for Spanish banks, removing a key deterrent to investors buying Spanish government bonds, who feared having to take the first losses in any debt restructuring.

## Market Snapshot

Selected Equity Indices	Last (Jun 29)	1-week return	Year-to-date return
Dow Jones Industrial Average	12,880.09	1.89%	5.42%
S&P 500 Index	1,362.16	2.03%	8.31%
FTSE 100 Index	5,571.15	1.04%	-0.02%
Euro Stoxx 50	2,264.72	3.56%	-2.24%
Nikkei 225	9,006.78	2.37%	6.52%
Hang Seng Index	19,441.46	2.35%	5.46%
Shanghai SE Composite	2,225.43	-1.57%	1.18%
BSE Sensex Index	17,429.98	2.70%	12.78%
Straits Times Index	2,878.45	1.78%	8.77%

Source: Bloomberg

## Week Ahead

Economic Calendar (Selected Events)				
Mon, Jul 2	Tue, Jul 3	Wed, Jul 4	Thu, Jul 5	Fri, Jul 6
<i>ISM Mfg Index</i>	Factory Orders	<b>US Holiday:</b> Independence Day	ADP Employment Report  <i>Jobless Claims</i>	<i>Employment Situation</i>
Construction Spending			ISM Non-Mfg Index	
			EIA Petroleum Status Report	

Red: Market moving indicator

Black: Merits extra attention

Source: Bloomberg



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