

Headlines

- [Spain on road to salvation – Germany's Schauble](#). *Reuters.com, 08 Jul 2012*
- [China's Wen says policy fine-tuning needed to spur growth](#). *Reuters.com, 08 Jul 2012*
- [Hong Kong may revise growth forecast on global recovery concerns](#). *Bloomberg.com, 08 Jul 2012*
- [Trade gap in May probably shrank on cheaper oil: US Economy Preview](#). *Bloomberg.com, 08 Jul 2012*

Weekly Review (for week ending 06 July 2012)

■ US manufacturing hits first slump in 3 years

The ISM said its index of national factory activity fell to 49.7 in June from 53.5 in May, below forecasts of 52.0. It was the first time since July 2009 that the index has fallen below the 50 mark. Manufacturing has been one of the drivers of the US economic recovery, which now appears to be losing momentum over fears on the eurozone's debt crisis, a slowdown in China and uncertainty over domestic fiscal policy.

■ China June HSBC Services PMI drops to 10-month low of 52.3

China June HSBC Services PMI fell to a 10-month low of 52.3 compared with 54.7 in May. Services activities softened in June due to slowing new business flows, which translated into only marginal growth of employment. The official non-manufacturing PMI, released on Tuesday, however, rose to 56.7 in June, reversing 2 months of contraction. It covers services including freight, travel, retail and software, as well as the property and building industries; as a result it shows a more complete picture of the relevant sector.

■ Aussie retail sales surprise with 0.5% jump in May

Australia's retail sales exceeded expectations in May as interest rate cuts in May and June, and government tax breaks gave a boost to spending power, in another sign of economic resilience that helped lift the Aussie dollar to a two-month high. Sales rose 0.5% in May to A\$21.3 billion, exceeding forecasts for a 0.2% increase. Sales for April were revised up to show a 0.1% rise, instead of a 0.2% drop, pointing to healthier spending in Q2. Solid gains were seen in sales of household goods, at department stores and restaurants, all areas of discretionary spending. The RBA held rates steady at its July policy meeting, saying a material easing had already been delivered.

■ France slaps 7 billion euros in taxes on rich and big firms

France's new Socialist government announced tax rises worth 7.2 billion euros on Wednesday in an amended 2012 budget presented to parliament, including heavy one-off levies on wealthy households (€2.3 billion) and big corporations including large banks and energy firms (€1.1 billion), to plug a revenue shortfall this year caused by flagging economic growth. France battles to cut its public deficit from 5.2% of GDP last year to an EU limit of 3% in 2013 despite a stagnant economy and rising debt. Prime Minister Jean-Marc Ayrault on Tuesday slashed this year's official GDP growth forecast to 0.3% from a previous estimate of 0.7% and to 1.2% in 2013 from 1.75% previously.

■ Italy's deficit to double, but Germany's to halve

Mario Monti, the Italian prime minister, told a joint press conference with Angela Merkel, the German chancellor, that Italy's deficit would rise to 2% of GDP rather than the 1.3% predicted, while the German finance ministry revised its forecast from 1% to 0.5% "thanks to the favourable overall economic development". The Italian government agreed overnight Thursday on a series of measures to slash public spending by 26 billion euros over three years, including major payroll cuts. Much of the savings will be found in the health and public administration budgets, said Monti. The cuts were needed to avoid a 2% hike in sales tax which would otherwise be necessary.

■ China cuts rates for second time in a month

China's PBoC announced a surprise interest rate cut and further interest rate deregulation measure, effective Friday, 6 July. It lowered interest rate for the second time in a month (last done on 7 June), cutting 31bps off the benchmark 1Y lending rate to 6.00% and 25bps off the benchmark 1Y deposit rate to 3.00%. PBoC also liberalised interest rate further by lowering the lending rate floor to 70% below the benchmark lending rate from 80%. However, the ceiling for deposit rate remains unchanged at 10% above the benchmark deposit rate.

■ Bank of England hikes stimulus by £50 billion, holds rate

The Bank of England on Thursday said it would increase its Quantitative Easing stimulus policy by £50 billion financed by the issuance of central bank reserves, to boost Britain's recession-hit economy. The BoE said it was also keeping its main interest rate at a record low 0.50% following a two-day monetary policy meeting. The BoE, along with the British government, also intends to shortly launch a "funding for lending" scheme - lasting several years - that would offer cheap loans to banks in exchange for a wide range of collateral and on the condition that they increased lending to small businesses. Reports said that about £80 billion would be made available under the scheme.

■ ECB cuts rates to all-time lows to stimulate economy

The ECB, at its regular monthly policy meeting, trimmed eurozone borrowing costs by 0.25% to a new record low of 0.75%. The two other key rates, on the marginal lending facility and the deposit facility, would also be cut by 0.25% to 1.50% and 0% respectively. It stopped short of taking more dramatic measures such as buying government bonds or flooding banks with fresh liquidity.

■ US adds meagre 80,000 jobs in June, jobless rate at 8.2%

The US added 80,000 jobs in June, the third month of weak jobs growth amid a sluggish economy that has kept hiring on hold, averaging 75,000 jobs in Q2, a third of Q1's pace. The June jobless rate was unchanged from May at 8.2%, with 12.7 million people unemployed.

Market Snapshot

Selected Equity Indices	Last (Jul 6)	1-week return	Year-to-date return
Dow Jones Industrial Average	12,772.47	-0.84%	4.54%
S&P 500 Index	1,354.68	-0.55%	7.72%
FTSE 100 Index	5,662.63	1.64%	1.62%
Euro Stoxx 50	2,235.51	-1.29%	-3.50%
Nikkei 225	9,020.75	0.16%	6.69%
Hang Seng Index	19,800.64	1.85%	7.41%
Shanghai SE Composite	2,223.58	-0.08%	1.10%
BSE Sensex Index	17,521.12	0.52%	13.37%
Straits Times Index	2,978.55	3.48%	12.55%

Source: Bloomberg

Week Ahead

Economic Calendar (Selected Events)				
Mon, Jul 9	Tue, Jul 10	Wed, Jul 11	Thu, Jul 12	Fri, Jul 13
		<i>International Trade</i>	<i>Jobless Claims</i>	<i>Producer Price Index</i>
		EIA Petroleum Status Report	Import and Export Prices	Consumer Sentiment
		<i>FOMC Minutes</i>	Treasury Budget	

Red: Market moving indicator

Black: Merits extra attention

Source: Bloomberg



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