

Headlines

- [Spain's Rajoy says eurozone yields not sustainable](#). *Reuters.com, 02 Sep 2012*
- [ECB must do more for euro - OECD's Gurria](#). *Reuters.com, 02 Sep 2012*
- [China manufacturing unexpectedly contracts as orders drop](#). *Bloomberg.com, 02 Sep 2012*
- [Hiring probably limited by cooling demand: US economy preview](#). *Bloomberg.com, 02 Sep 2012*

Weekly Review (for week ending 31 August 2012)

■ ECB considers cheaper asset-backed bank loans

The ECB is looking at ways to make it cheaper for financial institutions to borrow against about 1 trillion euros of asset-backed bonds. It is considering lowering the discounts it applies to asset-backed securities when taking them in as collateral for loans, said sources, who asked not to be named because the talks are at an early stage. Bonds that have better weathered the financial crisis would be given a lower so-called haircut than others, meaning banks would be able to borrow more. The ECB, backed by the Bank of France, considers a draft version of the liquidity coverage ratio, or LCR, as a potential obstacle to efforts to combat the euro-area debt crisis by curtailing lending and making it harder for central banks to implement their monetary policies. The ECB declined to comment on the proposed plan.

■ Spanish recession deeper than feared

Spain's recession is deepening, official data showed Tuesday. The data also revealed that the initial downturn was steeper and began earlier than first thought, with the recession dating back to 2011, not the start of 2012. As the government took an axe to spending, economic output slumped by 0.4% in Q2 on a quarterly basis after a 0.3% drop in Q1, the National Statistic Office said. On an annual basis, GDP tumbled by 1.3%, much faster than the 0.6% decline registered in Q1, the figures showed.

■ Greece plans to set up special economic zones

Greece plans to set up "special economic zones" to attract private investment and help lift its debt-laden economy out of depression. The zones would offer investors tax and administrative advantages. Athens is already in talks with the EC to get approval for the move, Development Minister Costis Hatzidakis told a news conference. "These zones will boost the real economy by creating a special regime to attract investment and generate exports". The announcement comes as Greece is struggling to breathe life into its ailing economy, now in its fifth consecutive year of recession. Special economic zones have been used by developing economies, notably China, to spur growth.

■ Japan set for biggest trade deficit with China

The impact of China's economic slowdown has begun to show up in its trade with Japan, and on current trends Japan is set to record its largest-ever trade deficit with China this year, the Japan External Trade Organisation (Jetro) reported Tuesday. Japan's overall trade with China rose just over 1% to a record US\$165 billion in the first half of this year. But that was because Japanese imports from China rose by 7.5% to US\$91.3 billion, while exports to China fell by 5.7% to US\$73.7 billion. As a result, Japan's balance of trade logged a deficit of US\$17.6 billion in the first half of this year, an increase of 2.6 times over the same period of the previous year.

■ US consumer confidence drops most in 10 months

Confidence among US consumers fell in August by the most in 10 months as households grew more pessimistic about their employment prospects and the economic outlook. The Conference Board's index decreased to 60.6 from a revised 65.4 in July. The 4.8-point decrease was the biggest since October. Rising petrol prices, unemployment above 8% since the start of 2009 and limited income gains are keeping consumers glum. Persistent pessimism raises the risk of a pullback in household purchases that account for about 70% of the economy.

■ US Q2 GDP revised up to 1.7%, Fed still seen in play

US Q2 GDP grew at a 1.7% annual rate, a sluggish pace but better than the previous estimate of 1.5%, the Commerce Department said on Wednesday. The faster pace was largely the result of upward revisions to consumer spending and export growth over the quarter. It was insufficient to cut into an unemployment rate that ticked up to 8.3% in July. A growth pace of between 2% and 2.5% is generally seen as needed just to hold the jobless rate steady. The lack of stronger job growth, along with the uncertainty stemming from Europe's debt crisis and fears of big US government spending cuts and tax hikes in 2013, could compel the Fed to offer additional stimulus by year end.

■ ECB to oversee all eurozone banks

The EC, the executive arm of the EU, plans to give the ECB oversight of all banks in the eurozone. Under the plans, the ECB will oversee all banks that have tapped the European Stability Mechanism from January next year, all banks relevant to the financial system from July and all remaining banks from 2014. Countries outside the eurozone can subject their banks to the oversight of the ECB voluntarily.

■ US consumer spending rises for first time in 3 months

Americans stepped up spending in July for the first time in three months as an increase in incomes helped make up for an 8.3% jobless rate. Purchases increased 0.4% after being little changed in June. Incomes climbed 0.3% for a third month.

■ Bernanke, at Jackson Hole symposium, says Fed will act "as needed"

Bernanke said the Fed would act as necessary to strengthen the struggling global economy, but there was no suggestion that action was imminent. Investors who had been hoping for news of further quantitative easing throughout the week were disappointed.

Market Snapshot

Selected Equity Indices	Last (Aug 31)	1-week return	Year-to-date return
Dow Jones Industrial Average	13,090.84	-0.51%	7.15%
S&P 500 Index	1,406.58	-0.32%	11.85%
FTSE 100 Index	5,711.48	-1.13%	2.50%
Euro Stoxx 50	2,440.71	0.27%	5.36%
Nikkei 225	8,839.91	-2.54%	4.55%
Hang Seng Index	19,482.57	-2.00%	5.69%
Shanghai SE Composite	2,047.52	-2.13%	-6.91%
BSE Sensex Index	17,380.75	-2.26%	12.46%
Straits Times Index	3,025.46	-0.82%	14.33%

Source: Bloomberg

Week Ahead

Economic Calendar (Selected Events)				
Mon, Sep 3	Tue, Sep 4	Wed, Sep 5	Thu, Sep 6	Fri, Sep 7
US Holiday: Labour Day	<i>ISM Mfg Index</i>	Motor Vehicle Sales	ADP Employment Report	<i>Employment Situation</i>
	Construction Spending	Productivity and Costs	<i>Jobless Claims</i>	
			ISM Non-Mfg Index	
			EIA Petroleum Status Report	

Red: Market moving indicator

Black: Merits extra attention

Source: Bloomberg



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