

Monday, 15 April 2013

## Weekly Update

### Headlines

- [Fed doves play down threat of US inflation](#). *Reuters.com*, 13 Apr 2013
- [G20 to consider cutting debt to well below 90 percent/GDP](#). *Reuters.com*, 13 Apr 2013
- [Fed, BOE officials don't see signs of emerging equity bubbles](#). *Bloomberg.com*, 14 Apr 2013
- [Schaeuble favours 'Liability Hierarchy' for European bank bailouts](#). *Bloomberg.com*, 14 Apr 2013

### Weekly Review (for week ending 12 April 2013)

#### ■ Japan posts current account surplus in February

Japan posted a current account surplus of 637.4 billion yen in February, the Ministry of Finance said on Monday, bouncing into the green after three straight months of deficit. The headline figure topped forecasts for a surplus of 435.4 billion yen following the 364.8 billion yen deficit in January. The 47% annual decline in the current account also beat expectations for a 59.1% contraction following the 19.1% annual decline a month earlier. The trade deficit came in at 677.0 billion yen, missing expectations for a deficit of 660.1 billion after showing a shortfall of 1,479.3 billion in the previous month.

#### ■ China's inflation slows to 2.1%, easing pressure for tightening

China's inflation slowed more than forecast in March from a 10-month high as food-price gains ebbed, reducing pressure on policymakers to tighten credit as the world's second-largest economy recovers from a slowdown. The CPI rose 2.1% last month from a year earlier, lower than the 2.5% Bloomberg estimate and the 3.2% gain in February, when spending for the Lunar New Year holiday pushed up prices. Food costs rose 2.7% last month from a year earlier, less than half of February's 6%. China is targeting inflation of about 3.5% in 2013, said then-Premier Wen Jiabao in his final annual report to the legislature on March 5, lowering the goal from last year's 4%.

#### ■ Portugal pushes on with austerity, freezes all non-essential spending

Despite the risk of aggravating the recession and unemployment, Portugal's government is wagering that following the austerity prescribed by its creditors will help it regain market confidence and avoid a second bailout. Portugal's Constitutional Court last week ruled that several measures in the government's 2013 budget were unlawful, which will make it difficult for the government to reduce the public sector deficit to 5.5% of GDP to keep it eligible for funds under its €78-billion bailout from the EU and IMF. PM Coelho has called for making further reductions in public spending instead of raising taxes, with social security, health and education likely to feel the brunt of the additional cuts. The finance minister decided Tuesday to freeze all non-essential spending to try to help close the €1.3 billion gap.

#### ■ Renminbi sets new record high, ignores downgrade of Chinese local debt

The yuan set a record high against the dollar on Wednesday, for the second time in five days, as China continued to show tolerance for measured appreciation. The spot rate opened at a record 6.1950 per US dollar after the PBoC set the official midpoint at 6.2548, its highest level since the landmark revaluation in 2005. It continued strengthening after trade data showed China recorded a mild trade deficit of US\$884 million in March, with imports beating market expectations while export growth remained in line with forecasts. Domestic financial markets have shown no particular reaction to a decision by Fitch Ratings to downgrade Chinese local currency debt on Tuesday.

#### ■ No surprise from the March FOMC as the Fed keeps to its QE and FFTR guidance

As expected, the minutes of the March 19-20 meeting showed the Fed caught up in a significant discussion for a scaling back of the QE programme, possibly much earlier than markets had anticipated, but that debate may already now be altered after last week's disappointing March US labour market report. The Fed will probably now continue to wait and see whether the March employment numbers were just a blip or a sign of impending further weakness in the labour market before deciding when to scale back of its assets purchases. Barring any external surprises, we continue to expect the Fed to maintain its present QE programme of US\$85 billion monthly securities purchases while keeping the FFTR at the ultra-low 0-0.25% in the next FOMC on 30 April/1 May.

#### ■ Unexpected 0.6% contraction in Singapore Q1 growth

Advance estimates indicate that in Q1 of 2013, the Singapore economy contracted by 0.6% from a year ago, compared to the 1.5% growth in the preceding quarter. On a quarter-to-quarter basis, GDP declined 1.4% over Q4 2012, down from the 3.3% growth in the previous quarter, with manufacturing sinking 11.3% largely because of a contraction in output in the volatile biomedical cluster.

#### ■ Euro ministers back 10 billion euro Cyprus bailout

Eurozone finance ministers backed a €10 billion bailout for Cyprus with the EC helping the economy grow again with better use of EU structural funds. The first tranche of the loan, €9 billion from the eurozone and €1 billion from the IMF, will come in mid-May. The eurozone loans will have an average maturity of 15 years and maximum maturity of 20 years. To cover its financing needs over 3 years, Cyprus will have to come up with €13 billion of its own, with the bulk of that coming from closing Laiki bank and restructuring of the Bank of Cyprus.

#### ■ US retail sales slip in March; producer prices fall most in 10 months

US retail sales fell 0.4% in March from February, suggesting that higher taxes and government spending cuts were taking a toll on the economy. Retail sales for March were US\$418.3 billion, compared to US\$420.1 billion a month earlier. March sales were a modest 2.8% higher than a year ago. US producer prices fell in March by 0.6%, driven by a sharp drop in fuel prices, after gaining 0.7% in February. Year-on-year producer prices rose 1.1%, a sign that inflationary pressures remain mild even as the Fed pumps liquidity into the economy.

## Market Snapshot

Selected Equity Indices	Last (Apr 12)	1-week return	Year-to-date return
Dow Jones Industrial Average	14,865.06	2.06%	13.44%
S&P 500 Index	1,588.85	2.29%	11.41%
FTSE 100 Index	6,384.39	2.15%	8.25%
Euro Stoxx 50	2,633.47	1.86%	-0.09%
Nikkei 225	13,485.14	5.08%	29.72%
Hang Seng Index	22,089.05	1.67%	-2.51%
Shanghai SE Composite	2,206.78	-0.83%	-2.75%
BSE Sensex Index	18,242.56	-1.13%	-6.10%
Straits Times Index	3,294.19	-0.17%	4.01%

Source: Bloomberg

## Week Ahead

Economic Calendar (Selected Events)				
Mon, Apr 15	Tue, Apr 16	Wed, Apr 17	Thu, Apr 18	Fri, Apr 19
Empire State Mfg Survey	<i>Consumer Price Index</i>	EIA Petroleum Status Report	<i>Jobless Claims</i>	
Treasury International Capital	<i>Housing Starts</i>	Beige Book	<i>Philadelphia Fed Survey</i>	
Housing Market Index	<i>Industrial Production</i>			

*Red: Market moving indicator*

Black: Merits extra attention

Source: Bloomberg



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