

## Headlines

- [China services PMI improves, inflation creeping up](#). *Reuters.com, 03 Aug 2013*
- [China bans NZ milk powder imports on botulism scare: NZ trade minister](#). *Reuters.com, 04 Aug 2013*
- [PM Rudd calls Australia election Sept. 7 as focus on economy](#). *Bloomberg.com, 04 Aug 2013*
- [Growth in services probably picked up: US Economy Preview](#). *Bloomberg.com, 04 Aug 2013*

## Weekly Review (for week ending 02 August 2013)

### ■ RBA hints there is room for rate cut

Australia's central bank governor Glenn Stevens said that Q2 inflation data suggests there's still room to lower interest rates if required and that he wouldn't be surprised if the currency dropped further. Mr Stevens said that subdued business confidence is a concern, and needs to improve to help rebalance Australia's economy as the mining investment boom winds down. "There are clearly signs of policy working in this respect, though not, to date, by so much that we see a serious impediment to further easing, were that to be appropriate from an overall macroeconomic point of view". The Aussie dropped as traders priced in a rate cut at the next RBA meeting on 6 August.

### ■ US consumer confidence dips slightly but stays near 5-year high

Americans' confidence in the economy fell only slightly in July but stayed close to a 5-year high. The report shows consumers remain upbeat about the outlook for job growth later this year. The Conference Board said that its consumer confidence index dipped to 80.3 in July. That's down from a reading of 82.1 in June, which was revised slightly higher and the best reading since January 2008.

### ■ Eurozone jobless rate stuck at record high

Unemployment remained at record highs in the 17-nation eurozone in June but there was some hope of an improvement as the numbers of those out of work fell slightly. The overall eurozone jobless rate came in at 12.1%, unchanged from May, the Eurostat data agency said. The number of unemployed people, however, fell by 24,000 to 19.26 million. In the 27-member European Union, 10.9% of the workforce was out of a job, down from a revised 11% in May, it said. Here too the total unemployed was lower, falling 32,000 to 26.42 million in June.

### ■ Q2 GDP growth in US expands more than forecast on pickup in inventories

The economy in the US grew more than projected in Q2 reflecting an unexpected pickup in inventory building as consumer spending cooled. Growth in Q1 was revised down. GDP rose at a 1.7% annualised rate in Q2, after a downwardly revised 1.1% gain in Q1. Businesses increased their spending 4.6% in Q2 after cutting by the same amount in the previous quarter. And spending on home construction grew 13.4%, in line with the previous quarter. At the same time, the federal government cut spending only 1.5% after an 8.4% plunge in Q1. And state and local governments increased spending for the first time in a year.

### ■ Federal Reserve maintains bond-buying programme

The US Federal Reserve left unchanged near-zero interest rates and its massive bond-buying programme on Wednesday, citing modest growth in the economy. Wrapping up a two-day policy meeting, the FOMC said it would continue to buy US\$85 billion in bonds per month to help tamp down longer-term interest rates that have been supporting the economy, and especially the housing market recovery. It again emphasised that it would keep the policy until the outlook for the labour market had improved "substantially" in a context of price stability.

### ■ China's official PMI improves marginally

China's factory activity stayed weak in July as persistent pressure on the economy extended into Q3, although bigger firms fared better as the government moved to bolster growth. The official PMI, which focuses on big and state-owned firms, rose to 50.3 in July from 50.1 in June. Economists had expected it to fall to 49.9. In contrast, the HSBC PMI, compiled by Markit Economics Research, showed activity shrank for a third straight month as it fell to an 11-month low of 47.7, matching a preliminary figure reported in the previous week.

### ■ ECB holds rates; no hike for some time

ECB president Mario Draghi left interest rates at a record low 0.5% and hinted that policy would not be tightened until well into 2014, although it will give no time horizon for when rates might move. Mr Draghi wants to begin publishing the minutes of ECB meetings, which have been kept secret, and said proposals on providing markets with more information would be brought forward later in the year.

### ■ Australia budget deficit hits A\$30 billion; deposit tax unveiled

Australia said its budget deficit has ballooned to A\$30 billion from A\$18 billion in the May budget and revenues are shrinking, as it unveiled a pre-election mini-budget that includes a controversial plan to tax bank deposits up to A\$250,000 at 0.05% from 2016, raising A\$733 million in the first 18 months. It also plans to hike tobacco taxes by 12.5% per year over the next 4 years, to raise more than A\$5.0 billion.

### ■ US jobless rate falls to 7.4% in July even as hiring slows

The US unemployment rate fell to a four-year low of 7.4% in July as the economy added 162,000 jobs, well below the 175,000 expected. The number of unemployed people fell slightly to 11.5 million. The decline in the jobless rate from 7.6% in June surprised analysts, who had expected only a drop to 7.5%. Private-sector employers appeared cautious about expanding their payrolls amid tepid growth in the economy, adding a much weaker-than-expected 161,000 jobs, down from a downwardly revised 196,000 in June. Downward revisions for May and June sliced away 26,000 jobs. The 3-month average pace of jobs growth was 175,000. The government added 1,000 jobs.

## Market Snapshot

Selected Equity Indices	Last (Aug 2)	1-week return	Year-to-date return
Dow Jones Industrial Average	15,658.36	0.64%	19.49%
S&P 500 Index	1,709.67	1.07%	19.88%
FTSE 100 Index	6,647.87	1.42%	12.72%
Euro Stoxx 50	2,811.00	2.52%	6.64%
Nikkei 225	14,466.16	2.38%	39.16%
Hang Seng Index	22,190.97	1.01%	-2.06%
Shanghai SE Composite	2,029.42	0.92%	-10.56%
BSE Sensex Index	19,164.02	-2.96%	-1.35%
Straits Times Index	3,254.13	0.56%	2.75%

Source: Bloomberg

## Week Ahead

Economic Calendar (Selected Events)				
Mon, Aug 5	Tue, Aug 6	Wed, Aug 7	Thu, Aug 8	Fri, Aug 9
ISM Non-Mfg Index	<i>International Trade</i>	EIA Petroleum Status Report	<i>Jobless Claims</i>	

*Red: Market moving indicator*

Black: Merits extra attention

Source: Bloomberg



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