

## Headlines

- ['Don't hollow out financial transactions tax', says EU tax chief](#). *Reuters.com*, 18 Jan 2014
- [China decries US spending bill](#). *Reuters.com*, 19 Jan 2014
- [China home prices advance as Guangzhou, Shenzhen jump 20%](#). *Bloomberg.com*, 18 Jan 2014
- [European banks face US\\$1 trillion gap before review, study shows](#). *Bloomberg.com*, 18 Jan 2014

## Weekly Review (for week ending 17 January 2014)

### ■ Japan logs record US\$5.7 billion current account deficit

Japan's current account deficit in November tripled year-on-year to a record US\$5.7 billion as a weak yen pushed up the country's post-Fukushima energy bills. The current account deficit hit ¥592.8 billion, eclipsing a deficit of ¥179.6 billion a year earlier, due to a growing trade imbalance stoked by Japan's heavy dependence on importing pricey fossil fuels to generate electricity after its nuclear reactors were shut down in response to the 2011 tsunami-sparked atomic disaster. The yen's sharp depreciation since late 2012 has also bloated costs.

### ■ US retail sales inch up in December

US retail sales rose slightly in December over America's crucial holiday shopping season, beating what had been gloomy expectations. The Commerce Department said retail and food services sales totalled US\$431.9 billion, up 0.2% from November. Consumer spending is the prime driver of the US economy, so there was concern when analysts forecast flat retail sales month-over-month in December. Excluding auto sales, retail sales in December were up 0.7%, according to adjusted data that does not take into account price changes.

### ■ US consumer prices jump 0.3% in December

US consumer prices jumped 0.3% in December after two basically flat months mainly due to higher energy prices. But stripping out the volatile energy and food price components, the core CPI rose just 0.1%, showing that inflation remains largely tame despite the economy's gains. Energy costs rose 2.1% in the month. For the 12 months of 2013, the overall CPI was up just 1.5%, and the core CPI was up 1.7%, below the Fed's 2.0% target rate. Of the full-year figure, price gains were highest in housing (+2.5%) and healthcare costs (+2.5%).

### ■ BOJ silence on exit plan stokes concern as inflation rise

Japan's success in rekindling inflation is raising the stakes for policy makers to map out the endgame for monetary stimulus, given the risk of a surge in yields when the Bank of Japan winds down bond purchases. With the BOJ's benchmark inflation gauge past halfway (November 1.2%) to Governor Haruhiko Kuroda's 2% target, yields on 10-year government securities are still the world's lowest at 0.67%, held down by BOJ purchases of unprecedented scale. Even so, Kuroda, who meets with fellow board members next week, says it's "too early" to discuss an exit strategy. The BOJ is buying more than ¥7 trillion of government bonds a month, a pace equivalent to more than half the ¥155 trillion in bonds that Japan plans to offer to investors in the 12 months starting April. The stimulus is leaving Japan at risk of falling into a quantitative-easing "trap" of being unable to taper without a surge in long-term rates and subsequent damage to the recovery.

### ■ UK retail sales beat forecasts with record Christmas increase

UK retail sales rose more than economists forecast in December, led by a surge at department stores and smaller shops during the key Christmas season. Sales including fuel increased 2.6% from November. That's the strongest December since records began in 1996. The median forecast was for a 0.3% gain last month. Department stores posted a record 8.7% increase in sales. From a year earlier, retail sales rose 5.3% in December, the most in nine years. Excluding auto fuel, retail sales increased 2.8% in December from November and were up 6.1% compared with a year earlier. Internet sales accounted for 11.8% of all retail sales in December, up from 10.9% a year ago,

### ■ Industrial production in US rises for a fifth month

Industrial production in the US rose for a fifth month in December, capping the strongest quarter since 2010 and indicating manufacturing is helping propel the economy. Output at factories, mines and utilities climbed 0.3% after a revised 1% increase in November. The gain matched the median forecast of economists in a Bloomberg survey. Manufacturing production rose more than projected. Industrial output rose at a 6.8% annual rate in Q4 of last year, the most since Q2 of 2010. Manufacturing will be a source of strength for the economy as factory floors stay busy filling orders for home-construction materials, appliances and automobiles, while overseas markets expand.

### ■ Housing starts fall 9.8% in December after sizzling gains

US housing starts fell less than expected in December, pausing after recent strong gains that had pushed home building activity to multi-year highs. The Commerce Department said on Friday ground-breaking dropped 9.8% to a seasonally adjusted annual rate of 999,000-unit pace. It was the largest percentage decline since April. Economists polled by Reuters had expected starts to fall to a 990,000-unit rate in December. For all of 2013, starts increased 18.3% to an average of 923,400-units.

### ■ Ireland regains investment grade rating from Moody's

Ireland's credit rating was restored to investment grade by Moody's after the country became the first to exit a euro-region bailout since the debt crisis erupted in 2009. Moody's raised the rating to Baa3 from Ba1 with a positive outlook, the ratings company said Friday in a statement. Moody's cut the nation's ranking five times in two years before assigning junk status in July 2011. The increase means all three of the main credit rating companies now rank Ireland as investment grade. Two weeks ago, the country's debt office sold new 10-year bonds through a group of banks at the lowest cost of borrowing for more than 13 years. Ireland left its bailout program in December.

## Market Snapshot

| Selected Equity Indices      | Last (Jan 17) | 1-week return | Year-to-date return |
|------------------------------|---------------|---------------|---------------------|
| Dow Jones Industrial Average | 16,458.56     | 0.13%         | -0.71%              |
| S&P 500 Index                | 1,838.70      | -0.20%        | -0.52%              |
| FTSE 100 Index               | 6,829.30      | 1.33%         | 1.19%               |
| Euro Stoxx 50                | 3,154.10      | 1.61%         | 1.45%               |
| Nikkei 225                   | 15,734.46     | -1.12%        | -3.42%              |
| Hang Seng Index              | 23,133.35     | 1.26%         | -0.74%              |
| Shanghai SE Composite        | 2,004.95      | -0.41%        | -5.25%              |
| BSE Sensex Index             | 21,063.62     | 1.47%         | -0.51%              |
| Straits Times Index          | 3,147.33      | 0.11%         | -0.63%              |

Source: Bloomberg

## Week Ahead

| Economic Calendar (Selected Events)          |             |             |                                     |             |
|--|-------------|-------------|-------------------------------------|-------------|
| Mon, Jan 20                                  | Tue, Jan 21 | Wed, Jan 22 | Thu, Jan 23                         | Fri, Jan 24 |
| US Holiday:<br>Martin Luther<br>King Jr. Day |             |             | Jobless Claims                      |             |
|  |             |             | PMI<br>Manufacturing<br>Index Flash |             |
|  |             |             | Existing Home<br>Sales              |             |
|  |             |             | EIA Petroleum<br>Status Report      |             |

Red: Market moving indicator

Black: Merits extra attention

Source: Bloomberg



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