

Headlines

- [US economic growth could top 3% in second quarter: Fed's Lockhart](#). Reuters.com, 11 May 2014
- [China's FX reserves may stoke inflation, a 'big burden': premier](#). Reuters.com, 11 May 2014
- [IMF may cut China 2014 growth forecast, Fund official says](#). Bloomberg.com, 10 May 2014
- [Xi says China must adapt to 'New Normal' of slower growth](#). Bloomberg.com, 11 May 2014

Weekly Review (for week ending 09 May 2014)

■ China manufacturing PMI misses 6th month in a row as home sales collapse 47% year-on-year

For the 6th month in a row, China HSBC manufacturing PMI missed expectations. With a 48.1 final for April (48.3 flash) being a modest rise from March's 48.0, it is the 4th month in a row of contraction. This is the longest streak of contraction since Oct 2012 (and the 3rd consecutive month of new order contraction) as employment drops for the 6th month in a row. Most worrying new export orders dropped further showing no signs of a US-driven pick-up post-weather. As if that was not enough to upset the "recovery is around the corner" view, home sales in China in the May holiday (most frenetic typically) period, collapsed 47% year-over-year and a stunning 65% in tier-2 cities.

■ Trade gap shrinks by 3.6% to US\$40.4 billion as US exports show global pickup

The biggest gain in US exports in nine months helped narrow the trade deficit in March, pointing to a revival of global demand that will help the US economy strengthen. The trade gap shrank by 3.6% to US\$40.4 billion from the prior month's US\$41.9 billion. Sales to foreign customers climbed 2.1% to the second-highest level on record as demand grew for aircraft, autos and fuels. Sales overseas improved from a five-month low reached in February, adding to evidence the US economic expansion began to perk up heading into Q2 after stalling in January. American households and businesses are gaining confidence as employment improves, indicating imports will also rise.

■ OECD cuts global growth outlook as developing economies falter

Advanced economies will increasingly have to drive the recovery as formerly fast-growing developing economies falter, the OECD said in its latest Economic Outlook as it downgraded its outlook for growth. The world economy is set to grow 3.4% in 2014 before accelerating to 3.9% next year. The OECD cut its estimate from 3.6% forecast last November. It also forecast that the US economy would grow 2.6% this year, down from its forecast of 2.9% in November, after bad weather caused a rough start to the year. Long a laggard in the global economy, the euro area was expected to grow 1.2% this year, marginally better than the 1.0% the OECD had projected in November.

■ China services expansion subdued in April - HSBC PMI

Expansion in China's services industry slowed slightly in April, with employment growth dipping to a 7-month low, adding to an increasingly cloudy outlook for its economy. The HSBC services PMI stood at 51.4 in April from March's 51.9. The survey found that input prices index eased to their weakest in 10 months, and while the new and outstanding business sub-indexes remained stable, the sub-index of business expectations fell to a 7-month low. Services made up 46.1% of GDP in 2013, having overtaken manufacturing as China's biggest employer in 2011. The fall in employment seen in the survey could be a concern as the government has said job creation is its top priority this year.

■ Chinese trade surplus unexpectedly widens in April

China posted a wider-than-estimated trade surplus for April as exports and imports unexpectedly rose. Exports grew at an annual rate of 0.9% last month, up from a 6.6% slump in March and surprising analysts who had pencilled in a fall of around 3%. Imports increased by 0.8% year-on-year in April, compared with a 11.3% fall the month before and better than the -2.1% forecast. Combined, the above saw the trade balance increase to US\$18.46 billion, up from a revised US\$7.7 billion in March and ahead of analysts' estimate of US\$16.7 billion.

■ Yellen says US economy 'on track for solid growth'

Fed Chair Janet Yellen testified in front of Congress on the upbeat outlook for the US, saying that the US economy is rebounding after a brutal winter that slowed growth, and a "high degree of monetary accommodation remains warranted". She added that jobs growth has still not recovered. Yellen did not signal that the Fed would slow down this so-called "taper", even if jobs growth remains less than ideal. She repeatedly declined to specify when the benchmark interest rate might rise, saying that rates will stay near zero for a "considerable time".

■ China's inflation slows more than estimated to an 18-month low

Consumer inflation in China moderated to an 18-month low and the decline in factory-gate prices persisted, giving the government more scope to loosen policies if a growth slowdown deepens. The consumer price index rose 1.8% from a year earlier in April, the NBS said. That compares with the median estimate of 2.1% in a Bloomberg survey and a 2.4% gain in March. The producer-price index fell 2%, the 26th straight decline, after a 2.3% drop the previous month. The lack of inflationary pressure will allow the PBoC to relax monetary policy to support the economy if Premier Li Keqiang's full-year goal of about 7.5% is threatened.

■ Drop in US jobless claims signals firmer labour market

The number of Americans filing new claims for unemployment benefits fell more than expected last week, indicating the labour market was strengthening despite a run-up in applications in prior weeks. Initial claims for state unemployment benefits declined 26,000 to a seasonally adjusted 319,000 for the week ended May 3, lower than forecasts for a decline to 325,000. The decline snapped three straight weeks of increases that were driven by difficulties adjusting data during the Easter and Passover holidays and school spring breaks. The four-week moving average for new claims, rose 4,500 to 324,750, remaining at levels consistent with an improving labour market.

Market Snapshot

Selected Equity Indices	Last (May 9)	1-week return	Year-to-date return
Dow Jones Industrial Average	16,583.34	0.43%	0.04%
S&P 500 Index	1,878.48	-0.14%	1.63%
FTSE 100 Index	6,814.57	-0.12%	0.97%
Euro Stoxx 50	3,184.09	0.20%	2.42%
Nikkei 225	14,199.59	-1.78%	-12.84%
Hang Seng Index	21,862.99	-1.79%	-6.19%
Shanghai SE Composite	2,011.13	-0.75%	-4.96%
BSE Sensex Index	22,994.23	2.63%	8.61%
Straits Times Index	3,252.13	-0.01%	2.67%

Source: Bloomberg

Week Ahead

Economic Calendar (Selected Events)				
Mon, May 12	Tue, May 13	Wed, May 14	Thu, May 15	Fri, May 16
Treasury Budget	<i>Retail Sales</i>	<i>PPI-FD</i>	<i>Consumer Price Index</i>	<i>Housing Starts</i>
	Import and Export Prices	Housing Market Index	<i>Jobless Claims</i>	Consumer Sentiment
	Business Inventories	EIA Petroleum Status Report	Empire State Mfg Survey	
			Treasury International Capital	
			<i>Industrial Production</i>	
			<i>Philadelphia Fed Survey</i>	

Red: Market moving indicator

Black: Merits extra attention

Source: Bloomberg



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