

Monday, 14 July 2014

Weekly Update

Headlines

- [ECB interest rates too low for Germany, says Bundesbank chief](#). *Reuters.com*, 12 July 2014
- [Charting a path to 'normalisation'](#). *Reuters.com*, 13 July 2014
- [RBA's Stevens sees disruption likelihood on Fed rate rise](#). *Bloomberg.com*, 12 July 2014
- [Australia says new Japan ties won't slow China trade deal](#). *Bloomberg.com*, 13 July 2014

Weekly Review (for week ending 11 July 2014)

■ German industrial production in biggest drop for two years

German industrial production saw its biggest drop in two years in May, falling 1.8% from April, according to Destatis. It blamed the timing of the May bank holidays and weakness in the construction sector for the fall but said "geopolitical factors" may also have had an effect. The drop came as a surprise with the majority of economists expecting industrial output to be unchanged. German think tank Ifo said it thought both the Ukraine crisis and the impact on oil prices by the insurgency in Iraq were factors affecting German businesses.

■ UK manufacturing output in surprise fall

Manufacturing output in the UK recorded a surprise fall of 1.3% in May, the biggest decline since January 2013. The figure from the ONS was much weaker than economists' forecasts of an increase of 0.4%. Manufacturing data and surveys so far this year have indicated that the sector is growing robustly. The wider measure of industrial output also fell in May, the ONS figures showed, dropping by 0.7%. Compared with a year earlier, manufacturing output was up 3.7% in May, down from April's increase of 4.3%, while annual growth in industrial output slowed to 2.3% from 2.9%. May's decline in output echoes a similar stutter in German industrial production.

■ Australian business conditions reach highest since January: NAB

Business confidence edged higher in June, undeterred by the federal government's tough May budget, while business conditions reached their highest point since January. The NAB business **confidence** index bounced to 8 in June from 7 in May, while the **conditions** index also improved, rising to 2 in June from -1 in May. While the rise in business conditions was attributed mainly to mining that rebounded sharply after slumping, non-mining also jumped to its highest level in over three years, with the biggest improvement being observed in construction. Business confidence has remained resilient for the better part of a year despite below average business conditions.

■ China's inflation slows to 2.3% year-on-year in June

Chinese inflation slowed to 2.3% in June from a four-month high of 2.5% in May, compared with expectations of a 2.4% gain but is well below the 3.5% annual target set by Beijing in March, giving authorities further room to stimulate growth in the economy. The consumer price index (CPI), a main gauge of inflation, also rose 2.3% in the first six months of the year from the same period in 2013. The producer price index (PPI), a measure of costs for goods at the factory gate and a leading indicator of the trend for CPI, also improved to a decline of 1.1% in June, its highest showing in more than two years, the NBS said. The result compared with a decrease of 1.4% in May and was the highest since a 0.7% decline in April 2012, according to official data. The last PPI increase was in January 2012, when it rose 0.7%.

■ Fed gives October timeline for end of QE, warns about complacency on risks

The June 2014 US FOMC minutes did not contain any major surprise although there was extensive discussion about the mechanics of rate normalisation, which revealed that the Committee is starting to grapple with the technical issues of how to reduce monetary accommodation in the future. The minutes did explicitly spell out the timeline for the end of the Fed's QE tapering, with a final US\$15 billion reduction in asset purchases occurring after the October 28-29 FOMC meeting. Some FOMC participants expressed concern that investors may be growing too complacent about the economic outlook and the Fed should be on the lookout for excessive risk-taking.

■ Bank of England keeps UK interest rates at 0.5%, but voting pattern seen splitting soon

The July 9-10 BoE Monetary Policy Committee meeting culminated in the decision to maintain the official Bank Rate at 0.5% and keep the volume of asset purchases paused at £375 billion. It was the standard case of no substantial statement, hence minutes of the meeting due for release on July 24 will be closely watched. The next quarterly Inflation Report on August 13, when Carney and other officials will be giving a detailed update on their outlook for the economy, thus takes on added significance and might well act as a catalyst for the more hawkish members of the committee to contemplate voting for a tightening as early as this August.

■ China June trade data misses forecasts, doubts over economy linger

China's trade performance improved in June but still missed market forecasts, reinforcing expectations that Beijing will have to unveil more stimulus measures to stabilise the economy and meet its 2014 growth target. Exports rose 7.2% in June from a year earlier, the best pace in 5 months, but well below forecasts of 10.6%. Imports also missed expectations, growing by 5.5% versus forecasts of 5.8%, although they returned to positive territory after a small drop in May. China's combined exports and imports rose 1.2% in first 6 months of the year.

■ US jobless claims fall to lowest level since before recession

The number of Americans filing new claims for unemployment benefits fell last week to one of its lowest levels since before the 2007-9 recession, a sign of increasing health in the labour market. Initial claims for state unemployment benefits dropped by 11,000, to a seasonally adjusted 304,000 for the week ended July 5. Economists had expected no change in the number of initial claims. The four-week moving average for new jobless claims, declined by 3,500, to 311,500; the second-lowest reading since August 2007.

Market Snapshot

Selected Equity Indices	Last (Jul 11)	1-week return	Year-to-date return
Dow Jones Industrial Average	16,943.81	-0.73%	2.21%
S&P 500 Index	1,967.57	-0.90%	6.45%
FTSE 100 Index	6,690.17	-2.56%	-0.87%
Euro Stoxx 50	3,157.05	-3.47%	1.55%
Nikkei 225	15,164.04	-1.77%	-6.92%
Hang Seng Index	23,233.45	-1.33%	-0.31%
Shanghai SE Composite	2,046.96	-0.60%	-3.26%
BSE Sensex Index	25,024.35	-3.61%	18.20%
Straits Times Index	3,293.73	0.66%	3.99%

Source: Bloomberg

Week Ahead

Economic Calendar (Selected Events)				
Mon, Jul 14	Tue, Jul 15	Wed, Jul 16	Thu, Jul 17	Fri, Jul 18
	<i>Retail Sales</i>	<i>PPI-FD</i>	<i>Housing Starts</i>	Consumer Sentiment
	Empire State Mfg Survey	Treasury International Capital	<i>Jobless Claims</i>	
	Import and Export Prices	<i>Industrial Production</i>	<i>Philadelphia Fed Survey</i>	
	Business Inventories	Housing Market Index		
		EIA Petroleum Status Report		
		Beige Book		

Red: Market moving indicator

Black: Merits extra attention

Source: Bloomberg



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