UOB 大華銀行

UOB WEALTH BANKING

UOB Personal Financial Services
Deposits, Investments & Insurance Strategy
Research & Product Advisory

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Weekly Update

Headlines

- German economic growth to be hit by Ukraine crisis, Ifo head says. *Reuters.com, 02 August 2014*
- Central bank meetings to set stage for parting of ways. *Reuters.com, 03 August 2014*
- China central bank signals no broad monetary easing. *Bloomberg.com, 02 August 2014*
- China services index drops to 6-month low on property. *Bloomberg.com, 03 August 2014*

Weekly Review (for week ending 01 August 2014)

Emerging economies to grow at 5% over next 5 years: IMF

The growth rate of emerging economies in Asia and elsewhere is set to slow to 5% over the next 5 years compared with rates nearer 7% before the 2008 global financial crisis, the IMF said. This lasting slowdown from former growth peaks threatens to have an adverse "spillover" impact on recovery in advanced economies, which in turn suggests "spillback" effects on emerging economies. The result could be a 2% drop in global output. Monetary conditions in advanced economies, such as US and UK, are set to "normalise". If tightening is associated with economic recovery in advanced economies, emerging markets will gain through increased demand and trade. But if tightening is caused by market concerns over financial stability, emerging markets could suffer prolonged damage.

Japan June labour demand hits 22-year high; jobless rate rises to 3.7%

The availability of jobs in Japan rose to the highest in 22 years, in an encouraging sign that a tighter labour market will raise wages and support consumer spending, boosting expectations that economic recovery will resume in Q3. The jobs-to-applicants ratio rose to 1.10 in June from 1.09 in May, matching a high seen in June 1992. The number of new job offers rose in June by 1.0% from May and 8.1% from a year ago. The jobless rate unexpectedly rose to 3.7% in June from 3.5% in May, as more job seekers respond to the economic recovery.

US consumer confidence highest since October 2007

Confidence among consumers soared in July to an almost seven-year high as increased employment opportunities led to brighter views of the US economy. The Conference Board reported that US consumer confidence has risen for the third month in a row, hitting its highest level since October 2007. The consumer confidence index rose to 90.9 in July, up from 86.4 in June and much stronger than the 85.6 analysts expected. A year ago, the index stood at 81.0. More Americans than at any time in the past six years viewed jobs as abundant and a greater share anticipated their incomes will increase, laying the groundwork for a pickup in consumer spending.

Japan's output drops most since 2011 as consumers spend less

Japanese industrial output fell the most since the March 2011 earthquake, highlighting the widening impact to the economy of April's sales-tax increase. Industrial output dropped 3.3% in June from May, the trade ministry said, more than twice the median forecast for a 1.2% contraction. The manufacturing sector has cut back in response to a slump in consumer spending and a failure of exports to pick up even after an 18% drop in the yen last year. Consumers reacted to April's 3% increase in the tax by cutting spending, with retail sales falling more than expected in June, and household spending dropping for a third month. Retail sales dropped 7% in Q2 from Q1.

US GDP growth rebounds solidly to 4% in Q2

The US economy rebounded by 4.0% q/q *saar* in Q2, significantly up from the revised 2.1% contraction in Q1, led by gains in consumer spending, gross private domestic investment and exports. However, the strong growth was supported by a surge in private inventories by US$93.4 billion annualised pace after a US$35.2 billion gain in Q1, raising concerns that companies will keep a tighter control on inventory in Q3 and thus reducing growth. The BEA upped its estimate of growth in **2013** to 2.2% from 1.9%, due to a much stronger second half.

FOMC keeps to plan, QE taper continues in July

The July 2014 FOMC saw the Fed continue to trim the Fed's monthly QE further by another US$10 billion to US$25 billion while sounding more optimistic on labour and inflation target meeting Fed's objectives (although they also noted that significant slack in the labour market) but otherwise making no other major changes, as expected. We expect QE to be fully terminated by the 28-29 October 2014 FOMC.

Eurozone inflation slips further into the 'danger zone'

Eurozone inflation has fallen to its lowest level since the height of the financial crisis, sliding further into what the ECB has described as a "danger zone" where inflation below 1% poses a risk of deflation. Prices rose in the Eurozone by 0.4% in July, from 0.5% in June. Prices have risen at an annualised rate of less than 1% for the last ten months. Core inflation which excludes food and fuel costs was unchanged for July at 0.8%. Separate figures show that unemployment in the region fell slightly to 11.5% in June compared to 11.6% in May.

China's manufacturing activity surges in July

Chinese manufacturing activity increased sharply in July, rising at its fastest pace in more than two years as the economy shows signs of increasing momentum. The official PMI hit 51.7 in July, the NBS said, up from 51.0 in June, and the best since 53.3 in April 2012.

US job growth cools, unemployment rate rises to 6.2%

Nonfarm payrolls increased 209,000 in July after surging by 298,000 in June. Although job growth was below expectations for a 233,000 gain, July marked the sixth straight month employment expanded by more than 200,000, a signal of strength last seen in 1997. The 0.1% increase in the unemployment rate to 6.2% came as more people entered the labour market, an indication of confidence in job prospects.

Market Snapshot

Selected Equity Indices	Last (Aug 1)	1-week return	Year-to-date return
Dow Jones Industrial Average	16,493.37	-2.75%	-0.50%
S&P 500 Index	1,925.15	-2.69%	4.15%
FTSE 100 Index	6,679.18	-1.65%	-1.04%
Euro Stoxx 50	3,072.57	-3.23%	-1.17%
Nikkei 225	15,523.11	0.42%	-4.72%
Hang Seng Index	24,532.43	1.31%	5.26%
Shanghai SE Composite	2,185.30	2.76%	3.28%
BSE Sensex Index	24,865.22	-4.83%	17.45%
Straits Times Index	3,344.42	-0.17%	5.59%

Source: Bloomberg

Week Ahead

Economic Calendar (Selected Events)

Mon, Aug 4	Tue, Aug 5	Wed, Aug 6	Thu, Aug 7	Fri, Aug 8
	Factory Orders ISM Non-Mfg Index	*International Trade* EIA Petroleum Status Report	*Jobless Claims*	Productivity and Costs

Red: Market moving indicator
Black: Merits extra attention
Source: Bloomberg