

## Headlines

- [Plosser, Fed's lone dissenter, warns again on risks of waiting to hike US rates](#). *Reuters.com*, 06 September 2014
- [ECB's Visco says must be ready to do more for price stability](#). *Reuters.com*, 07 September 2014
- [Euro-area bond gains push yields to record lows on ECB stimulus](#). *Bloomberg.com*, 06 September 2014
- [Scottish independence poll puts separatists ahead at 51%](#). *Bloomberg.com*, 07 September 2014

## Weekly Review (for week ending 05 September 2014)

### ■ China's manufacturing PMI falls from 27-month high in August

China's official PMI which tracks sentiment in the manufacturing sector fell from a 27-month high in August, pointing to continued weakness in the economy, mainly in the property sector. The reading came in at 51.1 points, according to a statement published by the statistics bureau. This compared with 51.2 in a Reuters poll and July's 51.7. Meanwhile, HSBC's final PMI reading, geared towards smaller firms than the official one, also dropped on Monday, falling to a three-month low of 50.2, a dip from the flash reading of 50.3. The official figures shows that weakness in output, new order components and employment sectors were largely responsible for the drop.

### ■ Singapore factory activity contracts for first time this year, marring recovery outlook

Contrary to earlier expectations, a sustainable recovery in manufacturing is not underway yet. Dropping below the key 50-point mark for the first time this year, Singapore's PMI fell 1.8 points to 49.7 in August from July's 51.5, dragged down by lower levels in new orders, inventory, and stockholdings of finished goods. While the electronics PMI also fell in August, it continued to expand for the 19th consecutive month, dropping 1.7 points to 50.7 from July's 52.4. New export orders and production for the sector also dropped by more than two points to 50.5 and 50.9 respectively. The electronics sector - Singapore's biggest manufacturing cluster - has been suffering from declining output and exports, amid concern that the nation's ongoing economic restructuring is hurting its competitiveness.

### ■ US manufacturing soars to 3-year high; construction spending jumps

The pace of growth in the US manufacturing sector rose in August to its highest level since March 2011. The Institute for Supply Management said its index of national factory activity rose to 59.0 from 57.1 in July. The reading topped expectations of 56.9, according to a Reuters poll. Separately, data showed construction spending rebounded strongly to hit its highest level in more than 5½ years in July as private construction increased and state and local government outlays surged, a further sign of vigour in the economy. Construction spending increased 1.8% to an annual rate of US\$981.31 billion, the highest level since December 2008, the Commerce Department said.

### ■ China's service sector activity rebounds to 17-month high, but property remains a concern

China's service sector activity rallied significantly in August from the previous month, expanding at the fastest rate since March 2013. The HSBC/Markit China Services Business Activity Index, which provides a snapshot of operating conditions in the sector, posted at 54.1, a strong rebound from the record low of 50.0 in July. Chinese service providers were confident with the 12-month business outlook with the degree of positive sentiment at a 5-month high. China still faces downside risks to growth from the property sector slowdown.

### ■ Kuroda upbeat on economy as BoJ leaves policy on hold

The BoJ maintained its massive monetary stimulus and suggested the sales tax should rise again to help government finances, despite market doubts over the strength of the economy and the central bank's ability to hit its inflation target. BoJ governor Haruhiko Kuroda remained optimistic that the economy was gradually pulling out of 15 years of deflation and was on its way to hitting his 2% target for inflation. BoJ maintained its projection that the economy would continue to recover moderately, with consumption set to benefit from a tightening job market, which is pushing up wages. Asked whether Japan should proceed with the second stage of a sales tax increase to 10% from 8% next year, Mr Kuroda said that was for the government and parliament to decide.

### ■ ECB unexpectedly cuts interest rates as outlook darkens, plans additional €700 billion stimulus

The ECB unexpectedly cut interest rates to spur economic growth and stave off the threat of deflation. The ECB's 24-member Governing Council reduced all three of its main interest rates by 10 basis points. The benchmark rate was lowered to 0.05% and the deposit rate is now minus 0.2%. The ECB announced its plan to launch its own variant of QE with an asset backed securities purchase programme and a new programme of covered bond purchases of a as yet to be determined size. ECB downgraded GDP growth for 2014 to 0.9% and 2015 to 1.6% (from 1% and 1.7% respectively). Inflation is seen at 0.6% this year instead of 0.7% previously while the inflation outlook for 2015 is maintained at 1.1%, both just a fraction of the ECB's 2% target and probably good reason enough for Draghi to drop the long-standing phrase that risks to the inflation outlook were "broadly balanced". Draghi pledged to "significantly steer" the ECB's balance sheet back toward the €2.7 trillion of early 2012 from €2 trillion, so putting the new programmes at a price tag of about €700 billion.

### ■ US economy added just 142,000 jobs in August, unemployment down to 6.1% as labour force shrinks

US employers hired the fewest number of workers in eight months in August and more Americans gave up the hunt for jobs, providing a cautious Federal Reserve with more reasons to wait longer before raising interest rates. Nonfarm payrolls increased 142,000 in August, sharply lower than the 225,000 economists were anticipating and the smallest monthly gain of 2014 after expanding by 212,000 in July (upwardly revised from 209,000). June's count was revised down from 298,000 jobs added to 267,000. In addition, manufacturing saw no job growth and retail payrolls declined for the first time since February. The jobless rate fell dropped from 6.2% to 6.1%, but that was partly because people dropped out of the labour force. The labour force participation rate was down from 62.9% to 62.8%.

## Market Snapshot

Selected Equity Indices	Last (Sep 5)	1-week return	Year-to-date return
Dow Jones Industrial Average	17,137.36	0.23%	3.38%
S&P 500 Index	2,007.71	0.22%	8.62%
FTSE 100 Index	6,855.10	0.52%	1.57%
Euro Stoxx 50	3,275.25	3.23%	5.35%
Nikkei 225	15,668.68	1.58%	-3.82%
Hang Seng Index	25,240.15	2.01%	8.30%
Shanghai SE Composite	2,326.43	4.93%	9.95%
BSE Sensex Index	27,026.70	1.46%	27.66%
Straits Times Index	3,341.73	0.44%	5.50%

Source: Bloomberg

## Week Ahead

Economic Calendar (Selected Events)				
Mon, Sep 8	Tue, Sep 9	Wed, Sep 10	Thu, Sep 11	Fri, Sep 12
	JOLTS	EIA Petroleum Status Report	<i>Jobless Claims</i>  Treasury Budget	<i>Retail Sales</i>  Import and Export Prices  Consumer Sentiment  Business Inventories

Red: Market moving indicator

Black: Merits extra attention

Source: Bloomberg



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