

## Headlines

- [ECB's loans offer clues in QE guessing game](#). *Reuters.com, 07 December 2014*
- [Merkel says France and Italy must do more on reforms](#). *Reuters.com, 07 December 2014*
- [China plans wealth-product rules to cut shadow banking risks](#). *Bloomberg.com, 06 December 2014*
- [Australian banks seen needing A\\$30 billion after inquiry](#). *Bloomberg.com, 07 December 2014*

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

### ■ Japan capex data bode well for upward Q3 GDP revision; credit rating downgraded by Moody's

Japan Q3 CAPEX figures were much better than expected, prompting analysts to offer rosier revisions for Q3 GDP than the initial 1.6% y/y contraction reported. The 5.5% y/y rise in capital expenditure over Q3 followed a 3.0% annual increase in Q2, which could ease concerns about recovery from a sales tax increase earlier this year. The revised Q3 GDP data is due on December 8. Moody's downgraded its credit rating for Japan on Monday by one notch to A1 from Aa3, citing "rising uncertainty" over the country's debt situation and PM Abe's faltering efforts to kickstart growth, with an election just two weeks away, after the economy sank into recession during Q3.

### ■ China's official PMI slips to eight-month low in November

Growth in China's manufacturing sector slowed to an eight-month low in November, suggesting the economy is still losing momentum and more policy easing may be needed in addition to a surprise interest rate cut last month. The official PMI eased to 50.3 in November, the National Bureau of Statistics said on Monday, still indicating a modest expansion in activity but below forecasts for 50.6 and October's 50.8. Separately, HSBC said its private reading of China's manufacturing sector was stagnant last month, confirming a "flash" estimate already published. The HSBC China PMI manufacturing index fell from 50.4 in October to a six-month low of 50.0 in November.

### ■ Eurozone manufacturing stagnates as Big-Three nations contract

Europe's economy woes deepened last month, as growth in its manufacturing sector ground to a near-standstill. Markit's eurozone factory PMI fell to just 50.1 last month. The slowdown was driven by contractions in Europe's three largest economies -- Germany, France and Italy. That wiped out Spain's decent performance. The German factory PMI fell to just 49.5, as firms reported the sharpest drop in new orders in almost two years. This is the first time in 17 months that the German manufacturing PMI has contracted. The French factory PMI hit 48.4, inching below October's 48.5. The Italian manufacturing PMI came in at 49.0 for November, weaker than expected.

### ■ US manufacturing in November up more than expected, even amid global slowing

Manufacturing growth in the US barely skipped a beat in November, holding near the strongest pace in three years, as the world's largest economy rose above a global slowdown. The ISM's factory index was little changed at 58.7 last month, the second-strongest level since April 2011, compared with 59 in October. Factories are struggling to keep up with demand as the index of bookings waiting to be filled rose to the highest level since April. The ISM's orders index climbed to 66 from 65.8 in October. The 64.6 average over the past four months is the highest for a similar period since early 2004. Even exports showed improvement, with the gauge advancing to 55 from 51.5 in October.

### ■ Bank of England kept rates unchanged and cash stimulus maintained

The BoE left its key interest rate unchanged at a record low 0.50% and the monetary policy committee also chose to maintain its QE at £375 billion. Details on the December decisions will be available when the BoE publishes the minutes from the meeting on 17 December.

### ■ ECB leaves rates unchanged and delays stimulus till Q1, 2015

The ECB left rates unchanged at 0.05%, which was widely expected. However, the ECB kept its policy stance unchanged despite the worsening threat of deflation and anaemic economic environment in the eurozone. ECB President Mario Draghi said the ECB has stepped up preparations for more anti-deflation measures, but that they will be reassessed only in January. Draghi said that policy makers "won't tolerate" a prolonged period of low inflation, and that ECB officials discussed "all assets but gold" as potential targets for purchases. In 2015, ECB meetings will be held once every 6 weeks instead of the monthly format and the next meeting will on a Thursday, 22 Jan 2015. During the Q&A section, Draghi said that 'early 2015' means some time in the first quarter, but not necessarily the next immediate meeting. He also warned that it is important that oil price effect does not become embedded in inflation expectations.

### ■ ECB downgrades growth and inflation projections for next 2 years

The ECB downgraded its economic outlook. It now forecasts inflation of 0.5% in 2014, 0.7% in 2015 and 1.3% in 2016, down from the September projections of 0.6%, 1.1% and 1.4% respectively, with the economy expanding 0.8% in 2014, 1.0% in 2015 and 1.5% in 2016, down from 0.9% in 2014, 1.6% in 2015 and 1.9% in 2016. Draghi said those forecasts don't include the most recent decline in oil prices.

### ■ Bullish US jobs report keeps Fed on track for mid-2015 rate hike

US employers added the largest number of workers in nearly 3 years in November and wage gains picked up, a sign of economic strength that could draw the Fed sooner to hike interest rates. Nonfarm payrolls rose by 321,000, the most since January 2012, exceeding forecasts for an increase of 230,000. The unemployment rate held steady at a 6-year low of 5.8%. Data for September and October were upwardly revised by 44,000 more jobs than previously reported. The length of the workweek increased to an average of 34.6 hours, the highest since May 2008, from 34.5 hours in October. With workers putting in longer hours, further job gains may be in the offing. Hourly earnings of all workers rose 0.4% on to US\$24.66 in November from US\$24.57 in October. They were up 2.1% over the past 12 months.

## Market Snapshot

Selected Equity Indices	Last (Dec 5)	1-week return	Year-to-date return
Dow Jones Industrial Average	17,958.79	0.73%	8.34%
S&P 500 Index	2,075.37	0.38%	12.28%
FTSE 100 Index	6,742.84	0.30%	-0.09%
Euro Stoxx 50	3,277.38	0.81%	5.42%
Nikkei 225	17,920.45	2.64%	10.00%
Hang Seng Index	24,002.64	0.06%	2.99%
Shanghai SE Composite	2,937.65	9.50%	38.83%
BSE Sensex Index	28,458.10	-0.82%	34.42%
Straits Times Index	3,324.39	-0.78%	4.96%

Source: Bloomberg

## Week Ahead

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

Red: Market moving indicator

Black: Merits extra attention

Source: Bloomberg



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