

Headlines

- [ECB's Visco warns of deflation risk, urges action on bond buying](#). *Reuters.com*, 11 January 2015
- [Legal challenge shows rocky path to ECB money-printing](#). *Reuters.com*, 11 January 2015
- [Russia cut to one step above junk by Fitch on oil, sanctions](#). *Bloomberg.com*, 10 January 2015
- [Pound grazes 17-month low in week as interest-rate bets diverge](#). *Bloomberg.com*, 10 January 2015

Weekly Review (for week ending 09 January 2015)

■ December PMI casts gloom over Singapore manufacturing outlook

Singapore's PMI compiled by SIPMM fell to 49.6 in December from 51.8 in November, recording the first contraction since August. The consensus forecast was for a milder fall to 51. This was due to a drop in new orders, production and inventory in the month. While new export orders still showed mild expansion, the new orders sub-index fell a sharp 3.7 points to a reading of 49.6. This was the sharpest plunge in new orders since 2009. Meanwhile, the electronics sector PMI fell marginally to 50.5 in December from 50.6 in November.

■ China December HSBC services PMI hits 3-month high of 53.4

China's services sector grew at its fastest pace in three months in December as new orders remained strong, an encouraging sign of strength even as manufacturing activity slows and the property market softens. The HSBC/Markit Services PMI picked up to 53.4 last month from November's 53.0. A sub-index measuring new business eased slightly to 53.9 in December from a 2½ year high of 54.2 in November but remained well in expansion territory, prompting companies to hire more workers for the 16th month in a row.

■ Eurozone services PMI revised down in December

Markit's eurozone services PMI was marked down from the initial reading of 51.9 in December to 51.6. That dragged the composite PMI - which includes manufacturing - down to 51.4 for the month. France and Germany's PMIs were revised up for the month to 50.6 and 52.1 respectively. But Italy continues to disappoint, with its services PMI slipping below the 50 mark to 49.4.

■ German unemployment rate hits record low, Italy hits record high

Germany and Italy's fortunes continue to diverge, and workers are feeling the impact. The German unemployment rate has fallen to a record low of just 6.5% in December, as Europe's largest economy continues to shrug off the worst of the eurozone crisis. It's the lowest rate since reunification in 1990; the jobless total fell by 27,000 last month, to 2.841 million. But over in Italy, it's a bleaker situation. The Italian jobless rate hit a record high at 13.4% in November, highlighting its economic plight. Italy is currently in recession, and has been either contracting or stagnating for the last three years. The youth unemployment rate rose again in Italy to 43.9%. Eurostat also reported that unemployment in the eurozone remained at 11.5% in November, unchanged from October.

■ Oil slump drags eurozone into deflation, CPI hits minus 0.2%/y

Eurozone consumer prices fell 0.2%/y in December, entering negative territory for the first time since financial crisis in October 2009 and raising fears of deflation, EU data showed Wednesday. Analysts were forecasting inflation at -0.1%/y. The drop was brought on by plummeting oil prices and will heap pressure on the ECB to take bold action to stimulate price rises in the now 19-nation single currency zone. Energy prices in the eurozone, which added Lithuania on January 1, sank a huge 6.3%/y in December, greater than a fall of 2.6%/y in November, when inflation was a still positive 0.3%. Core inflation, which excludes the volatile energy and unprocessed food prices, was stable at 0.7%/y in December, the same level as in November and October.

■ US FOMC minutes show rate rise unlikely before April

December FOMC minutes indicated that the Fed was concerned about international risks to US economy but may still raise rates even though inflation remained below target. Most FOMC participants agreed with the use of the patient stance as the new guidance on interest rates and the interpretation of it as "unlikely to begin the normalization process for at least the next couple of meetings" (rate hikes unlikely before April) but some members are concerned that markets expectations are now overly skewed towards a mid-2015 rate hike. In 2015, there will be more doves replacing the departing hawks (Fisher and Plosser) for now, which in our view benefits Yellen's dovish approach to deliver forward guidance for the eventual rates lift-off at a more gradual trajectory, as compared to previous rate normalization cycles.

■ China December inflation near 5-year low, more policy easing seen

China's annual consumer inflation hovered at a near five-year low of 1.5% in December, signalling persistent weakness in the economy but giving policymakers more room to ease policy to support growth. On a month-on-month basis, the CPI rose 0.3% in December from November, in line with economists' expectations. The PPI in December declined 3.3% from a year earlier, its 34th consecutive monthly decline and the biggest decline since September 2012, largely because of a fall in global oil prices.

■ US December jobless rate falls to 5.6%; wage gains lag

A rise in employment and a falling jobless rate in December capped the best year for the labour market since 1999 and reinforced the US role as the global economy's standout performer. 252,000 jobs were added in December following an upwardly revised 353,000 rise in November. The jobless rate dropped to 5.6%, the lowest level since June 2008. More people dropped out of the labour force in December. The participation rate decreased to 62.7%, matching the lowest level since February 1978, from 62.9%. Average hourly wages dropped 0.2% from November, the biggest since comparable records began in 2006. Earnings rose a downwardly revised 0.2% in November.

Market Snapshot

| Selected Equity Indices | Last (Jan 9) | 1-week return | Year-to-date return |
|------------------------------|--------------|---------------|---------------------|
| Dow Jones Industrial Average | 17,737.37 | -0.54% | -0.48% |
| S&P 500 Index | 2,044.81 | -0.65% | -0.68% |
| FTSE 100 Index | 6,501.14 | -0.71% | -0.99% |
| Euro Stoxx 50 | 3,042.90 | -3.08% | -3.29% |
| Nikkei 225 | 17,197.73 | -1.45% | -1.45% |
| Hang Seng Index | 23,919.95 | 0.26% | 1.33% |
| Shanghai SE Composite | 3,285.41 | 1.57% | 1.57% |
| BSE Sensex Index | 27,458.38 | -1.54% | -0.15% |
| Straits Times Index | 3,338.44 | -0.95% | -0.79% |

Source: Bloomberg

Week Ahead

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

Red: Market moving indicator

Black: Merits extra attention

Source: Bloomberg



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