UOB 大華銀行

UOB WEALTH BANKING

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

Monday, 09 February 2015

Weekly Update

Headlines

- Valuations may hurt US small caps, despite job growth. *Reuters.com, 07 February 2015*
- G20, EU leaders meet in a week to mend Greece. *Reuters.com, 08 February 2015*
- Australia's Abbott brings forward leadership vote to Monday. *Bloomberg.com, 08 February 2015*
- China's record trade surplus highlights weak domestic demand. *Bloomberg.com, 08 February 2015*

Weekly Review (for week ending 06 February 2015)

China January HSBC factory PMI shrinks again, misses estimate

Activity in China's factory sector shrank for the second straight month in January as the new year got off to a rocky start for the world's second-largest economy. The slack performance, including a 15th month of shrinking factory employment, will add to the debate over how and whether China will accelerate policy easing, with most bank economists calling for a combination of rate cuts and increased liquidity to spur productive investment. The final HSBC/Markit PMI for January came in at 49.7 on a seasonally adjusted basis. The number was slightly lower than a preliminary "flash" reading of 49.8 but higher than the final 49.6 in December.

RBA joins easing bandwagon, cuts interest rate to new record low of 2.25%

Australia's central bank on Tuesday lowered the official cash rate by 0.25% to a new record low of 2.25%, making its first cut in 18 months (since September 2013) in an attempt to spur the economy. The RBA said that recent data justified the policy shift. Domestic demand growth overall was quite weak and looks likely to continue below trend growth pace while inflation is seen to stay with target over the next 1-2 years, unemployment seemed to be peaking a little higher than previously projected. Externally, RBA noted that growth in Europe and Japan was weaker than expected while lower energy prices will lower inflation temporarily. RBA noted that the AUD remains overvalued, "above most estimates of fundamental value" and that a lower AUD is likely needed for balanced growth.

Singapore manufacturing PMI contracts for second straight month in January

Singapore's January manufacturing PMI clocked 49.9, coming in higher than consensus expectations of 49.8, as well as December's 49.6. The electronics PMI also turned up slightly better than expected to register 50.5, from consensus estimates of 50.4. The Singapore Institute of Purchasing & Materials Management attributed the contractionary reading to a further fall in both new orders and inventory. But new export orders continued to expand and the output sub-index also showed a return to growth.

US factory orders fall sharply, order books shrinking

New orders for US factory goods fell for a fifth straight month in December, but a smaller-than-previously reported drop in business spending plans supported views of a rebound in the months ahead. The Commerce Department said new orders for manufactured goods declined 3.4% as demand fell across a broad sector of industries. That followed a 1.7% decrease in November and exceeded economists expectations for a 2.2% drop. Orders for non-defense capital goods excluding aircraft - seen as a measure of business confidence and spending plans - slipped only 0.1% instead of the 0.6% drop reported last month.

BoE keeps rates on hold, readies new signal on outlook

The BoE held interest rates unchanged at 0.5% and kept its stimulus programme of QE unchanged. Minutes on 18-Feb will be eyed. But the latest decision means the UK has now seen 6 years of rates at their current level, since they were slashed in March 2009. With current disinflationary pressures, UOB does not see the BoE raising interest rates anytime soon. Markets are watching for a quarterly Inflation Report, due on Thursday (12-Feb), to get a sense of how relaxed the BoE is about keeping in place the stimulus of rock-bottom rates.

US trade deficit widens to highest level in 2 years

The US trade deficit in December widened sharply to its highest level since November 2012 as a stronger dollar appeared to suck in imports and weigh on exports, which could see Q4 economic growth estimate revised lower. The trade deficit jumped 17.1% to US$46.6 billion, the biggest percentage increase since July 2009 and also reflected a sputtering global economy. Markets had expected the trade gap to narrow to US$38 billion. When adjusted for inflation, the deficit widened to US$54.7 billion from US$48.7 billion in November.

Isolated Greece wants no more bailout money with strings

The ECB raised the stakes by barring Greek banks from using Greek government bonds as collateral to borrow from the ECB as long as there is no prospect of an agreed bailout programme. Finance Minister Varoufakis returned empty-handed from European capitals which insisted Greece must stick to commitments made and rejected any debt write-off. Greece was asking for a "bridge agreement" to keep state finances running until Athens can present a new debt and reform programme, "not a new bailout, with terms, inspection visits, etc."

Strong US job, wage gains open door to mid-year rate hike

US job growth rose solidly in January and wages rebounded, a show of economic strength that put a mid-year interest rate increase back on the table. Nonfarm payrolls increased 257,000 in January, outstripping forecasts for 228,000. Data for November and December was revised to show a whopping 147,000 more jobs created than previously reported, bolstering views consumers will have enough muscle to carry the economy through rough global seas. Over the past three months, more than one million jobs have been created, the first time that milestone has been reached since late 1997. The unemployment rate rose 0.1% to 5.7%, but that was because Americans poured into the labour force to hunt for work in a show of increased confidence. Year-on-year, wages gain to 2.2%, the fastest since August.

Market Snapshot

Selected Equity Indices	Last (Feb 6)	1-week return	Year-to-date return
Dow Jones Industrial Average	17,824.29	3.84%	0.01%
S&P 500 Index	2,055.47	3.03%	-0.17%
FTSE 100 Index	6,853.44	1.54%	4.38%
Euro Stoxx 50	3,398.16	1.39%	8.00%
Nikkei 225	17,648.50	-0.15%	1.13%
Hang Seng Index	24,679.39	0.70%	4.55%
Shanghai SE Composite	3,075.91	-4.19%	-4.91%
BSE Sensex Index	28,717.91	-1.59%	4.43%
Straits Times Index	3,431.36	1.18%	1.97%

Source: Bloomberg

Week Ahead

Economic Calendar (Selected Events)

Mon, Feb 9	Tue, Feb 10	Wed, Feb 11	Thu, Feb 12	Fri, Feb 13
	JOLTS	EIA Petroleum Status Report Treasury Budget	*Jobless Claims* *Retail Sales* Business Inventories	Import and Export Prices Consumer Sentiment

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

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