

## Headlines

- [Eurogroup head responds positively to new Greek letter: government](#). *Reuters.com, 07 March 2015*
- [UK finance minister planning 'diverted profits tax'](#). *Reuters.com, 08 March 2015*
- [Clock ticks down to QE in Europe with bond yields at record lows](#). *Bloomberg.com, 07 March 2015*
- [China's February exports rise 48.9%](#). *Bloomberg.com, 08 March 2015*

## Weekly Review (for week ending 06 March 2015)

### ■ China February HSBC PMI at 7-month high but deflation risk persists

Activity in China's factory sector edged up to a seven-month high in February but export orders shrank and deflationary pressures persisted. The final HSBC/Markit PMI climbed to 50.7 in February - the strongest level since July - from 49.7 in January, as overall new orders picked up. The number was stronger than a preliminary reading of 50.1. The new export orders sub-index dipped to 48.5 in February, the sharpest contraction in a year, while both input and output prices fell for a seventh month. Manufacturing employment contracted for a 16th month, although the pace of job shedding moderated in February.

### ■ Eurozone February inflation fall less than expected, unemployment down

Eurozone consumer prices fell by less than expected in February while unemployment eased in January for the third month in a row, offering signs that the risks of economic stagnation and deflation are falling. Consumer prices in the EU19 countries fell 0.3% y/y in February after a 0.6% y/y drop in January. Economists had expected a 0.4% price decline. Core inflation, which excludes the volatile energy and unprocessed food components, grew 0.6% y/y, the same as in January. Unemployment, usually the last indicator to react to better economic conditions, fell for the third month in a row to 11.2% in January from 11.3% in December. The drop in unemployment should be supportive to eurozone consumers and they are benefiting from the boost to their purchasing power coming from deflation.

### ■ RBA holds fire on rates but suggests further easing

The RBA left the cash rate unchanged at a record low of 2.25% at its March board meeting. However, a clear easing bias was evident in the accompanying statement, with room for more cuts ahead if needed. "It was appropriate to hold interest rates steady for the time being. Further easing of policy may be appropriate over the period ahead, in order to foster sustainable growth in demand and inflation consistent with the target. The Board will further assess the case for such action at forthcoming meetings". A rate cut to 2.00% is expected, although the likelihood of further rate cuts remains high. How low the RBA would go further will depend on when the US Fed begins hiking rates.

### ■ China sets 2015 growth target at 'around 7%', lowest in more than 15 years

China has set its GDP growth target at "around 7%" for 2015 - the lowest since 1999 - focusing on quality over quantity as it overhauls its growth model. The target, which Premier Li Keqiang announced as the annual National People's Congress got under way on Thursday, is in line with market expectations and marks a sharp decline from last year's 7.5% target. China's economy grew at its slowest pace in 24 years in 2014, undershooting the government's target for the first time since 1998. GDP expanded 7.4% last year from 7.7% in 2013.

### ■ BoE & ECB kept rates on hold, as expected

The BoE marked the sixth anniversary of the introduction of its lowest ever interest rate by keeping rates on hold at 0.5%, but an improving economy suggests rates are likely to rise at some point over the next 12 months. Also, as expected, the ECB left all key rates unchanged - refinancing rate at 0.05%, deposit rate at -0.2%, and lending rate at 0.3%. But the focus was on the ECB QE programme details.

### ■ ECB starts bond buying on Monday, Eurozone Q4 GDP growth confirmed at 0.3%

The ECB said in January that it would buy €60 billion a month in mostly government bonds between now and September 2016. Draghi said that the ECB would buy government bonds starting Monday 9 March, even if they carry a negative yield, but only to the level of the ECB's deposit rate, meaning it won't purchase bonds with a negative yield in excess of minus-0.2%. He dismissed concerns in financial markets that there might not be enough government bonds available for the ECB to meet its target. Separately, the eurozone's Q4 GDP reading has been left unchanged from an initial estimate of 0.3% q/q. On an annualised basis, the GDP was 0.9% higher than a year ago, again unchanged from the initial reading. The ECB is now anticipating 1.5% GDP growth this year, 1.9% in 2016 and 2.1% in 2017.

### ■ All 31 US banks pass first phase of 'stress test'

All 31 US banks have passed the first hurdle in the Fed's latest round of annual "stress tests" to see how they would cope in the next crisis. All had enough capital, above the minimum 5%, to keep lending during a severe global recession. It was the first time since the tests began in 2009 that all banks passed. Goldman Sachs, Morgan Stanley and JP Morgan Chase, among 5 banks, had the lowest readings.

### ■ February US jobless rate down at 5.5%, lowest in 7 years

US employers added more jobs than forecast in February and the unemployment rate dropped to 5.5%, the lowest in 7 years, showing the labour market is sustaining progress after the best performance since 1999. The 295,000 advance in payrolls for February followed a 239,000 January increase that was smaller than previously reported. Economists forecasted a 235,000 increase. The unemployment rate fell from 5.7%, while hourly earnings rose less than forecast. February marked the 12th straight month payrolls have increased by at least 200,000, the best run since a 19-month stretch that ended in March 1995. Payrolls rose 3.1 million in 2014, the most in 15 years. Average hourly earnings rose 0.1% from the prior month after rising 0.5% in January, which was the most since November 2008.

## Market Snapshot

Selected Equity Indices	Last (Mar 6)	1-week return	Year-to-date return
Dow Jones Industrial Average	17,856.78	-1.52%	0.19%
S&P 500 Index	2,071.26	-1.58%	0.60%
FTSE 100 Index	6,911.80	-0.50%	5.27%
Euro Stoxx 50	3,617.62	0.52%	14.98%
Nikkei 225	18,971.00	0.92%	8.71%
Hang Seng Index	24,164.00	-2.66%	2.37%
Shanghai SE Composite	3,241.19	-2.09%	0.20%
BSE Sensex Index	29,448.95	0.78%	7.09%
Straits Times Index	3,417.51	0.43%	1.56%

Source: Bloomberg

## Week Ahead

Economic Calendar (Selected Events)				
Mon, Mar 9	Tue, Mar 10	Wed, Mar 11	Thu, Mar 12	Fri, Mar 13
	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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