UOB 大華銀行

UOB WEALTH BANKING

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

Monday, 04 May 2015

Weekly Update

Headlines

- China, Japan, South Korea commit to economic policies supporting demand. *Reuters.com, 03 May 2015*
- Payrolls to test second quarter climate for Fed. *Reuters.com, 03 May 2015*
- Mester, Williams say Fed could lift rates at any FOMC meeting. *Bloomberg.com, 02 May 2015*
- Greece races to bridge gap with creditors before debt bill. *Bloomberg.com, 02 May 2015*

Weekly Review (for week ending 01 May 2015)

Fitch downgrades Japan, joins Moody's in warning on fiscal policy

Fitch downgraded Japan's credit rating by one notch to **A** after the government failed to take steps in this fiscal year's budget to offset a delay in a sales tax increase. The rating is 5 notches below the **AAA** rating. The outlook is stable. The move follows a similar downgrade by Moody's and could pressure the government to take tough measures in a fiscal discipline plan that is due in June. The government's use of stimulus spending, disappointing economic growth and worries that corporate profit growth is not sustainable are also negative for Japan's rating. In December, Moody's downgraded Japan to **A1**, which is one level above Fitch's, for the same reason. S&P has an **AA-** rating on Japan, which is 3 notches from **AAA**. S&P's rating on Japan has a negative outlook, meaning a downgrade is possible.

Japan retail sales plunge 9.7% in March

Japan's retail sales for March plunged 9.7% on-year, well below expectations, after last year's sales were front-loaded as shoppers splurged ahead of a sales-tax increase. Retail sales were expected to fall 7.3%, according to economists. The decline follows February's 1.8% drop. Sales sank 1.9% from the previous month, compared with a gain of 0.6% forecast by economists.

UK GDP growth slows to 0.3% in Q1, blow to Cameron in run-up to May 7 election

The rate of growth for the UK has halved to just 0.3% in Q1 from 0.6% in Q4 of 2014, striking a blow to PM Cameron’s boasts of economic success just days before the general election on May 7. A quarterly rate of 0.5% had been expected by analysts. The disappointing GDP figure is likely to cement expectations that interest rates will not rise until next year, amid zero inflation. In particular, the PMI surveys reported an acceleration in activity in manufacturing and services between Q4 2014 and Q1 2015, while ONS numbers showed retail sales growing by 1% on the quarter. The annual rate of GDP growth slowed to 2.4% in Q1 from the 2.8% measured in Q4 of 2014.

Disappointment as US economy grows just 0.2% in Q1, way below 1.0% expected

The US economy slowed to a crawl at the start of the year as businesses slashed investment, exports tumbled and consumers showed signs of caution. The advance Q1 GDP reading in the US increased +0.2% versus +2.2% seen in Q4, well below expectations for a +1.0% result. Personal consumption increased +1.9% versus +4.4% seen in Q4. Core PCE increased +0.9% versus +1.1% in Q4. Residential investment increased +1.3%, versus +3.8% in Q4. A stronger dollar combined with disruptions at West Coast ports constrained trade. As a result, in Q1, exports fell at a 7.2% rate, compared with 4.5% growth in Q4. Imports rose 1.8%, compared with 10.4% in Q4.

Federal Reserve leaves open timeframe for interest rate rise

The FOMC statement was fairly balanced. The Fed acknowledged that data since March suggests that economic growth slowed during the winter months, which was attributed in part to transitory factors. In terms of policy, it was again noted that the Committee anticipates that it will be appropriate to raise the target range for the federal funds rate when it has seen further improvement in the labour market and is reasonably confident that inflation will move back to its 2% objective over the medium term. As they did not mention in the April FOMC statement whether June (rate rise) is likely or not, it is probably still open for debate. There is no FOMC in May, so the next meeting is the 16/17 June FOMC. Watch for the April FOMC minutes (due on 20 May) to see whether the debate for June remains divided.

US jobless claims at 15-year low; consumer spending rises

Initial claims for state unemployment benefits fell 34,000 to a seasonally adjusted 262,000 for the week ended April 25, the lowest reading since April 2000. It was the eighth straight week that claims remained below 300,000, suggesting March's moderation in job growth was likely an aberration. The four-week moving average of claims fell 1,250 last week to 283,750. Separately, the Commerce Department said consumer spending rose 0.4% last month as households stepped up purchases of big-ticket items like automobiles. The increase followed a 0.2% gain in February and indicated that consumer spending picked up momentum at the end of Q1, which bodes well for consumption in Q2. Analysts had forecast a 0.5% gain. When adjusted for inflation, consumer spending rose 0.3% in March after being flat in February.

Eurozone edges out of deflation in April

Eurozone inflation picked up in April to 0% (compared to a year ago), from -0.1% in March. It brings to an end a four-month run of deflation. The biggest driver behind the increase was a rise in food, alcohol, and tobacco inflation according to the flash estimate from Eurostat. Core inflation, which excludes volatile energy and unprocessed food costs, was unchanged at 0.6% year-on-year.

China’s manufacturing and services sectors showed signs of modest growth

The official **manufacturing** PMI stood at 50.1 in April, identical to March and just above analysts’ forecast for a reading of 50. The PMI index for new orders - a proxy for foreign and domestic demand - was unchanged at 50.2 in April from March. New export orders contracted again and at a slightly faster pace, falling to 48.1 from 48.3 in March. Manufacturers also continued to shed jobs, and at a slightly faster clip than in March. The official **services** PMI fell to 53.4 in April from 53.7 in March, and the lowest since January 2014.

Market Snapshot

Selected Equity Indices	Last (May 1)	1-week return	Year-to-date return
Dow Jones Industrial Average	18,024.06	-0.31%	1.13%
S&P 500 Index	2,108.29	-0.44%	2.40%
FTSE 100 Index	6,985.95	-1.20%	6.39%
Euro Stoxx 50	3,615.59	-2.65%	14.91%
Nikkei 225	19,531.63	-2.44%	11.92%
Hang Seng Index	28,133.00	0.26%	19.18%
Shanghai SE Composite	4,441.66	1.09%	37.31%
BSE Sensex Index	27,011.31	-1.55%	-1.77%
Straits Times Index	3,487.39	-0.73%	3.63%

Source: Bloomberg

Week Ahead

Economic Calendar (Selected Events)

Mon, May 4	Tue, May 5	Wed, May 6	Thu, May 7	Fri, May 8
Factory Orders	*International Trade* ISM Non-Mfg Index	ADP Employment Report Productivity and Costs EIA Petroleum Status Report	*Jobless Claims*	*Employment Situation*

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

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