

Monday, 15 June 2015

## Weekly Update

### Headlines

- [UK risks losing last AAA rating as S&P eyes EU exit vote](#). *Reuters.com, 13 Jun 2015*
- [Greece's Varoufakis says he believes Europe does not want 'Grexit'](#). *Reuters.com, 13 Jun 2015*
- [China's stock market value tops US\\$10 trillion for first time](#). *Bloomberg.com, 14 Jun 2015*
- [Greece's last-ditch talks aim at agreement before Monday](#). *Bloomberg.com, 14 Jun 2015*

### Weekly Review (for week ending 12 June 2015)

#### ■ Japan Q1 GDP revised much higher to annualised 3.9% on business spending, higher inventories

Japanese growth in Q1 was revised much higher, thanks to a huge increase for business spending. Q1 growth was revised up to 3.9% annualised (1.0%q/q), from 2.4% (0.6%q/q) in the first estimate. Economists had forecast an upward revision, but only to 2.8% (0.7% q/q). This makes Q1 the best quarter for Japanese GDP in two years. In the first estimate, private consumption and business spending were growing at 0.4%. In the revision business spending rose 2.7%, versus forecasts at 2.1%. Private consumption was unchanged.

#### ■ China May exports fall less than expected, but imports tumble

China's exports in May fell less than expected but a double-digit drop in imports will likely keep the pressure on Beijing for more stimulus to avert a sharper economic slowdown. Exports in May fell 2.5% from a year earlier and imports slid 17.6%. That left the country with a near record trade surplus of US\$59.49 billion for the month. For the prior month of April, exports fell 6.4%, while imports slid 16.2%. Analysts polled by Bloomberg had expected May exports to fall 4.4% and imports to fall 10.0%.

#### ■ China May inflation cools to 1.2% y-o-y, weaker than forecast

China's consumer inflation eased to 1.2% year-on-year in May, weaker than market expectations, raising concerns about growing deflationary pressures as the economy cools. Analysts had expected the index would come in at 1.3% compared with 1.5% in April. The producer price index was unchanged at minus 4.6% in May, the 39th straight month of decline. The market had expected producer prices to fall 4.5% on an annual basis after a decline of 4.6% in April.

#### ■ UK trade deficit falls to lowest in over a year in April as exports rise

Britain's trade deficit with the rest of the world narrowed more than expected in April, suggesting that it might act as less of a brake on growth during Q2. Britain's total trade (for goods and services) deficit narrowed to £1.202 billion in April from an upwardly revised £3.093 billion in March, its lowest since March 2014. Britain's total trade deficit lopped 0.9% off quarterly economic growth in Q1, contributing to a disappointing overall expansion in GDP of just 0.3%. Tuesday's data revised down the Q1 trade deficit by £219 million.

#### ■ Eurozone Q1 GDP confirmed at 0.4% driven by pickup in household demand and investment

Household demand and investment were the two biggest contributors to economic growth in the eurozone in Q1. Eurostat confirmed that Q1 GDP in the eurozone rose 0.4% q/q for a 1% y/y gain. The figures were in line with market expectations. It also raised its estimate of growth in Q4 of 2014 to 0.4% from 0.3%. Household consumption, long the more sluggish component of eurozone growth, now contributed 0.3%, the most, to the overall quarterly result. Investment added a further 0.2% and growing inventories and government spending another 0.1% each. Export growth slowed to 0.6% from 0.8%, while import growth picked up to 1.2% from 0.8%. As a result, trade reduced GDP by 0.2%. The eurozone's biggest economy Germany grew 0.3% q/q, second biggest France expanded 0.6%, third biggest Italy 0.3% and fourth biggest Spain surged 0.9%. The economies of Greece, Estonia, Lithuania and Finland contracted in Q1.

#### ■ RBNZ cuts rates, sees scope for another rate cut despite Auckland boom

The RBNZ cut interest rates for the first time in 4 years to boost inflation as growth slows, setting aside the danger of fuelling an Auckland housing boom. Governor Wheeler said a lack of housing supply is the main cause of Auckland's surging market. "We expect further easing may be appropriate", Wheeler said after cutting rates by 0.25% to 3.25%. RBNZ's forecasts assume one more rate cut by mid-2016. The currency remains overvalued and "a further significant downward adjustment is justified". CPI inflation will pick up to 2.1% by the end of 2016 from 0.1% currently, the RBNZ said. "The fall in export commodity prices that began in mid-2014 is proving more pronounced" than expected and will weigh on economic growth. RBNZ trimmed GDP growth in Q1 / 2016 to 3.3% y/y from the earlier 3.8% March prediction.

#### ■ World Bank cuts 2015 global growth forecast to 2.8%

The World Bank downgraded its 2015 outlook for global economic growth by 0.2% to 2.8% amid a slowdown in emerging markets and softer output in the US. Sharp contractions in Brazil and Russia, alongside weaker growth in Turkey, Indonesia and other developing economies are offsetting healthier growth in Europe and Japan. It expects global economic growth in 2016 to accelerate to 3.3%, barring trouble in emerging markets as the US moves toward raising rates. It assumes recoveries in the eurozone and Japan take hold.

#### ■ US retail sales jump in May, brighten growth outlook

US retail sales surged in May as households boosted purchases of automobiles and a range of other goods even as they paid a bit more for gasoline, the latest sign economic growth is finally gathering steam. Retail sales increased 1.2% last month after an upwardly revised 0.2% gain in April. Economists had forecast retail sales advancing 1.1% last month. April sales were previously reported to have been unchanged. March sales were also revised to show them rising 1.5% instead of 1.1%. Core retail sales excluding automobiles, gasoline, building materials and food services increased 0.7% last month, beating forecasts for 0.5%, after an upwardly revised 0.1% rise in April.

## Market Snapshot

Selected Equity Indices	Last (Jun 12)	1-week return	Year-to-date return
Dow Jones Industrial Average	17,898.84	0.28%	0.43%
S&P 500 Index	2,094.11	0.06%	1.71%
FTSE 100 Index	6,784.92	-0.29%	3.33%
Euro Stoxx 50	3,502.77	-0.21%	11.33%
Nikkei 225	20,407.08	-0.26%	16.94%
Hang Seng Index	27,280.54	0.07%	15.57%
Shanghai SE Composite	5,166.35	2.85%	59.72%
BSE Sensex Index	26,425.30	-1.28%	-3.91%
Straits Times Index	3,353.85	0.61%	-0.34%

Source: Bloomberg

## Week Ahead

Economic Calendar (Selected Events)				
Mon, Jun 15	Tue, Jun 16	Wed, Jun 17	Thu, Jun 18	Fri, Jun 19
Empire State Mfg Survey	<i>Housing Starts</i>	EIA Petroleum Status Report	<i>Consumer Price Index</i>	
<i>Industrial Production</i>		<i>FOMC Meeting Announcement</i>	<i>Jobless Claims</i>	
Housing Market Index		<i>Fed Chair Press Conference</i>	<i>Philadelphia Fed Business Outlook Survey</i>	
Treasury International Capital		<i>FOMC Forecasts</i>		

*Red: Market moving indicator*

Black: Merits extra attention

Source: Bloomberg



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