

Monday, 16 January 2012

Weekly Update

Headlines

- [France rating could go lower, but no euro zone break up: S&P](#). *Reuters.com, 14 Jan 2012*
- [Merkel vows faster eurozone reform after S&P downgrades](#). *Reuters.com, 14 Jan 2012*
- [Treasury Yields Drop to Yearly Low as European Debt Crisis Intensifies](#). *Bloomberg.com, 14 Jan 2012*
- [Fed Officials Debate Impact of Revealing Their Interest-Rate Forecasts](#). *Bloomberg.com, 14 Jan 2012*

Weekly Review (for week ending 13 January 2012)

Australian retail sales unexpectedly stalled in November, ending four months of gains and pushing the nation's currency to a one-week low as traders increased bets that the central bank will cut interest rates. November retail sales rose to a lower-than-expected seasonally adjusted A\$20.933 billion (+0.2%) from A\$20.927 billion (+0.2%) in October and rose from A\$20.31 billion a year earlier, the Australian Bureau of Statistics said Monday. Retail sales, a broad reading on the health of consumer spending, which makes up about two-thirds of Australia's economy, had showed some signs of improving in the first part of 2011, but have since fallen broadly, with the pace of monthly gains falling in each of the last four months.

Approvals to build new homes in Australia jumped sharply in November after two months of steep falls, offering hope the struggling sector might have finally hit bottom now interest rates are falling. Tuesday's data showed approvals to build new homes climbed 8.4% in November to 11,424, topping forecasts of a 7% gain. The full benefit of recent rate cuts has yet to be fully enjoyed by the housing market, and another RBA cut in February would provide a further support. Interbank futures imply a three-in-four chance the RBA will cut rates by a further 25 basis points to 4.0% when it next meets on 7-Feb.

Germany's GDP increased 3.0% in 2011, which was right in line with economists' expectations. However, this is was a major slow down from the 3.7% growth Europe's largest economy saw in 2010. Also, GDP fell by 0.25% quarter-over-quarter in Q4. Germany, which has actually been a major beneficiary of the euro, has been getting hit by economic deterioration across Europe. The economy last contracted in 2009, when it was in the throes of the global financial crisis. Economists expect GDP to contract again in the current quarter (1Q 2012), sending Germany into a recession.

Chinese inflation rose at its slowest pace in more than a year in December, giving China leeway to further ease credit restrictions to spur economic growth. The CPI, a key gauge of inflation, rose 4.1% year on year in December, compared with 4.2% in November. For 2011 inflation stood at 5.4%, well above the government's target of 4% and higher than the 2010 rate of 3.3%. The December figure marked the fifth straight month that China's inflation rate has slowed since reaching a more than three-year high of 6.5% in July, as measures introduced to curb surging consumer prices took effect.

IMF chief Christine Lagarde is warning Europe that Greece's economic prospects are deteriorating and the European Union will either have to stump up more money to rescue Athens or debt holders will have to stomach steeper losses. IMF and EU negotiators head to Athens next week for talks meant to nail down details of the new bailout programme before Greece needs to redeem 14.5 billion euros in government bonds on March 20. Greek Prime Minister Lucas Papademos has said if a deal is not reached, a disorderly default could follow and that the country might have to abandon the euro.

Successful Spanish and Italian auctions supported risk sentiment Thursday with Spain raising 10 billion euro from three auctions as it doubled its target with yields falling about 1%; its three, four and five year bonds all fell below 4%. Similarly Italy also sold 12 billion euro of 1-year bills at a yield of 2.735% compared to 5.952% in December.

Rosy US data took a tumble on Thursday with weaker than expected December retail sales while initial jobs claims jumped higher than expected. For the week ended January 7, seasonally adjusted initial unemployment claims nationwide totalled 399,000, up 24,000 from the prior week's revised 375,000. December retail sales also increased by a slower than expected 0.1% m/m against expectations for a 0.3% increase, and much slower from the November's 0.4% growth pace.

In downgrading 9 of the eurozones 17 members, S&P said policymakers had not done enough to address the crisis and were even overlooking a key cause of the problem: sharp differences in economic competitiveness among countries that use the euro. France and Austria both saw their top AAA ratings cut one notch to AA+, while Malta, Slovakia and Slovenia also suffered one-notch downgrades. Credit ratings of Italy, Portugal, Spain and Cyprus were cut by two notches. Belgium, Estonia, Finland, Germany, Ireland, Luxembourg and the Netherlands were spared. Of the 16 countries reviewed, all except Germany and Slovakia have negative outlooks, meaning more downgrades are possible in the next couple of years.

Market Snapshot

Selected Equity Indices	Last (Jan 13)	1-week return	Year-to-date return
Dow Jones Industrial Average	12,471.02	0.90%	2.07%
S&P 500 Index	1,295.50	1.38%	3.01%
FTSE 100 Index	5,683.79	0.60%	2.00%
Euro Stoxx 50	2,338.01	1.71%	0.93%
Nikkei 225	8,500.02	1.31%	0.53%
Hang Seng Index	19,204.42	3.29%	4.18%
Shanghai SE Composite	2,244.58	3.75%	2.05%
BSE Sensex Index	16,140.13	1.84%	4.43%
Straits Times Index	2,791.54	2.80%	5.49%

Source: Bloomberg

Week Ahead

Economic Calendar (Selected Events)				
Mon, Jan 16	Tue, Jan 17	Wed, Jan 18	Thu, Jan 19	Fri, Jan 20
US Holiday: Martin Luther King Jr. Day	Empire State Mfg Survey	<i>Producer Price Index</i>	<i>Consumer Price Index</i>	<i>Existing Home Sales</i>
		Treasury International Capital	<i>Housing Starts</i>	
		<i>Industrial Production</i>	<i>Jobless Claims</i>	
		Housing Market Index	<i>Philadelphia Fed Survey</i>	
			EIA Petroleum Status Report	

Red: Market moving indicator

Black: Merits extra attention

Source: Bloomberg

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