

Monday, 02 January 2012

## Weekly Update

### Headlines

- [China moving to more convertible yuan: central bank's Zhou](#). *Reuters.com, 31 Dec 2011*
- [Greek bank chief warns against quitting euro](#). *AFP, uk.finance.yahoo.com, 31 Dec 2011*
- [Singapore GDP slowed to 4.8% as Lee expects 'Difficult' global conditions](#). *Bloomberg.com, 31 Dec 2011*
- [Merkel says she will 'Do Everything' to save Euro](#). *Bloomberg.com, 31 Dec 2011*

### Weekly Review (for week ending 30 December 2011)

The number of first-time home buyers in Britain fell to a record low in 2011, despite house prices declining to their most affordable levels in eight years, mortgage lender Halifax said in a survey on Monday. Halifax estimated there were around 187,000 first-time home buyers in 2011, down 7% from 2010 and representing the lowest annual total since its records began in 1974. A Reuters poll this month forecast a 1.7% fall in British house prices in 2012, although analysts said prices could fall by more than that if the euro zone sovereign debt crisis worsened significantly.

China's listed banks are expected to raise over 100 billion yuan (US\$15.78 billion) through equity financing next year as they face pressure to replenish capital due to rapid loan growth and tighter regulation, the China Securities Journal reported on Tuesday. Chinese banks will be under fundraising pressure because new lending in 2012 is expected to exceed 8 trillion yuan, a level necessary to support economic expansion, potentially weakening lenders' balance sheets.

The amounts of cash being deposited by eurozone banks at the ECB increased further on Wednesday, just days after the ECB provided unprecedented levels of liquidity (3-year loans at 1%) in an effort to reduce tension in the financial system. Banks placed €452bn overnight on Tuesday (and €412bn on Monday) in the ECB's deposit facility, which attracts a low rate of interest of 0.25% and in normal times is typically used by banks only to park excess cash, often at a loss.

The ECB has more room to cut interest rates to a record low early next year after reports showed the sovereign debt crisis is damping inflation pressures. The rate of growth in M3 money supply, which the ECB uses as a gauge of future inflation, fell to 2% in November from 2.6% in October. The ECB lowered its benchmark rate to 1% in December, matching the record low, and stepped up efforts to flood the banking system with cash as the debt crisis threatened to engulf Italy and Spain. ECB policy makers next decide on interest rates on Jan 12, and are unlikely to cut rates at that meeting.

Mario Monti said that he was encouraged by Italy's bond auctions at which yields demanded by bond investors eased for a second day. The most keenly awaited result from Thursday's auctions was the 2.5 billion euro sale of 10-year bonds at an average yield of 6.98%. That is lower than the record 7.56% that it had to pay at an equivalent auction last month, when investor concerns over the ability of the country to service its massive debts became acute. This suggests rising investor confidence in Italy's recent efforts to reduce its long-term debt through tax increases, pension changes and spending cuts.

The Bank of Spain said in its December bulletin that the economy shrank in the final quarter of 2011, battered by financial market tensions and a deteriorating global economic outlook. Consumer spending showed 'marked weakness', investment in equipment was lethargic, and construction spending continued its long decline. The fragile recovery in the first half was sustained by exterior demand as drastic austerity measures in three decades pushed unemployment to a 15-year high.

India's annual food inflation eased for a ninth straight week to its lowest in nearly six years in mid-December on improved supplies, bolstering hopes of a cooling in overall inflation that will allow the central bank to shift focus to reviving growth by cutting rates. Food price index rose 0.42% in the week to Dec 17 from a year ago, its slowest rise at least since April 2006.

Business activity in the US expanded more than forecast in December, as did the number of Americans signing contracts to buy previously owned homes in November, in the latest signs that the US economy is weathering the slowdown in Europe. Falling prices and lower borrowing costs drew Americans towards pre-owned homes. The index of pending home sales increased 7.3% to the highest level since April 2010 after climbing 10.4% the prior month.

China's manufacturing contracted for a second month in December as Europe's debt crisis cut export demand, fuelling speculation that the central bank may cut banks' reserve requirements soon. The HSBC PMI was at 48.7 in December from 47.7 in November. Export orders fell in December for the first time in three months and domestic demand was weak.

## Market Snapshot

Selected Equity Indices	Last (Dec 30)	1-week return	Year-to-date return
Dow Jones Industrial Average	12,217.56	-0.62%	5.53%
S&P 500 Index	1,257.60	-0.61%	0.00%
FTSE 100 Index	5,572.28	1.08%	-5.55%
Euro Stoxx 50	2,316.55	1.14%	-17.05%
Nikkei 225	8,455.35	0.72%	-17.34%
Hang Seng Index	18,434.39	-1.05%	-19.97%
Shanghai SE Composite	2,199.42	-0.24%	-21.68%
BSE Sensex Index	15,454.92	-1.80%	-32.91%
Straits Times Index	2,646.35	-1.13%	-17.04%

Source: Bloomberg

## Week Ahead

Economic Calendar (Selected Events)				
Mon, Jan 2	Tue, Jan 3	Wed, Jan 4	Thu, Jan 5	Fri, Jan 6
<b>New Year's Day Observed</b>	<i>ISM Mfg Index</i>	Factory Orders	ADP Employment Report	<i>Employment Situation</i>
	Construction Spending		<i>Jobless Claims</i>	
	<i>FOMC Minutes</i>		ISM Non-Mfg Index	
			EIA Petroleum Status Report	

Red: Market moving indicator

Black: Merits extra attention

Source: Bloomberg

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