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Global Economic Developments

March 25, 2011

Turkey: Monetary Policy Update

The Turkish central bank left interest rates unchanged, but increased bank reserve requirements again, to as much as 15% of deposits. The decision leaves intact the central bank unorthodox strategy, which has the two-fold goal of preventing Lira appreciation and keeping inflation low.

Policymakers can, for the time being, claim a degree of success on both scores. Inflation, in particular, has declined to only 4.2% year-on-year, a record low; sequentially, price inflation is proceeding at a pace slower than recent historical experience, even when compared to previous disinflationary episodes. Meanwhile the lira weakened to around 1.55/US$, versus slightly less than 1.40/US$ in November of last year.

An important question is whether the current strategy will need to be modified in the foreseeable future. Pressures in that direction are not evident.

The economy is still operating with ample slack, including a rate of unemployment in double-digits and higher than the average that preceded the global crisis. And on the price front, it is noteworthy that although food prices are moving now at a faster pace than the headline CPI, they are still not pushing up inflation on an annual basis (the last reading put food-CPI inflation at 4.5% year-on-year in February).

However, as the TCB point out in their most recent statement, price pressures are entering the system through "oil and other commodities" which "hover above the Inflation Report assumptions".

The bank's conclusions are nonetheless rather optimistic. Core goods inflation would "continue to increase for sometime", but "services inflation is expected to display a more benign path". Still, policymakers are concerned enough about the *potential* for future inflation emerging from the economy's unfolding recovery and high commodity prices, so as to intensify their efforts to restrain lending. Indeed, the recovery is, by all indications, gathering force. Data on the construction sector seems boomy, industrial production is accelerating, monetary aggregates suggest a strengthening demand. The driving force appears to be (as the central bank claims) domestic demand, although exports have remained on a relatively solid recovery path.

All in all, the data support the central bank's view of the balance of risks and back up their preemptive intent; current circumstances do not seem to create inordinate risks for their policy experimentation. It is quite possible, however, that within the next 12 months the TCB's strategy may run its course, if—as it seems likely—economic activity continues to expand at a rather rapid pace and unless there is a significant reversal in commodity markets. At that point the bank will probably need to resort to a more traditional approach, raising interest rates across the board.

— Francisco J. Larios, DE Miami

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Europe

Italy

- **Trade:** *Exports correct back.* The (unadjusted) non-EU trade balance deteriorated to a deficit to € 2 745 mln in February from a gap of € 1 827 mln in the same month of 2010. On a seasonally adjusted basis, however, the trade deficit widened less clearly to € 2 517 mln last month. This was as a result of a 4.3% M/M correction back in exports more than offsetting a 1.6% fall back in imports.

Norway

- **Employment:** *Lower unemployment.* The seasonally adjusted unemployment dropped 0.1 percentage points to 3.2% in the three months to January. However, there no clearer signs that the hints of an increase in employment seen in the previous months had become any firmer, although the data did show a rise of 0.5% in the last three months and with the Y/Y change in employment growth rising up to 0.80%.

United Kingdom

- **Inflation:** *CPI inflation rises further and broadly.* Exceeding expectations, consumer price inflation picked up even further in February, rising 0.4 percentage points to a 28-month high of 4.4% Y/Y. Prices were up 0.7% in M/M terms, reflecting mainly a record leap in clothing prices but also a clear jump in household goods costs. These components were also the main culprits behind the pick-up in Y/Y price pressures, with clothing price inflation (at 2.8%) the highest on record. Higher energy pressures were also evident, however. Of some note, food price inflation was (again) little changed. Very notably, the core rate (ie excluding energy, food, alcohol and tobacco) picked up 0.4 percentage points to a new high of 3.4% Y/Y. Elsewhere, and of some note, the February Y/Y RPIX rate (which excludes mortgages) jumped to 5.5% from 5.1%, as did the RPI counterpart.

Central Europe

Czech Republic

- **Monetary and Fiscal Policy:** *Rate held, CNB signals little desire to hike in near term.* Though the CNB's decision to leave the two-week repo rate unchanged at 0.75% was generally anticipated, the 5-1 vote and post-meeting comments surprised markets, as there was little sign that the Board was nearer to a rate hike. Indeed, the February decision had seen a 4-3 vote, which prompted speculation that a 25 bps hike could come as soon as this meeting. The Council noted that risks to headline inflation were to the upside (in February, seen as "significant" in both directions), and "roughly balanced" for monetary policy-relevant inflation. The Board reiterated that these forecasts are consistent with interest rates at their current levels initially, followed by a gradual rise in rates from the end of 2011, identical to the bank's earlier projections. In post-meeting comments, Governor Singer indicated that upside price pressures due to domestic demand were "practically non-existent," also noting that Q4 GDP and recent inflation readings undershot its expectations. In its outlining of risks to the forecast, upside risks to inflation include higher commodity prices and higher global interest rates, as well as the potential impact of a 2012 VAT increase on inflation expectations. To the downside, the bank cited weaker domestic inflationary pressures, and the slightly stronger koruna.

Russia

- **Monetary and Fiscal Policy:** *Policy on hold.* The central bank left its benchmark interest rate unchanged at 8.00% following its March meeting, having begun to tighten policy again in February following a series of unchanged outcomes stretching back to May last year.

Poland

- **Employment:** *Stable unemployment.* Meeting expectations, the (unadjusted)February unemployment rate was the same as in February last year. The level of unemployment rose in Y/Y terms to 2.2 mln, however, a 2.3% gain, but the weakest growth since February 2009.
- **Trade:** *Current account deficit narrows on goods balance.* Showing greater-than-anticipated narrowing, the current account was in deficit to the tune of €930 million in January, as the trade balance swung to a surplus of €275 million, the first time that measure has been in the black since late 2009. However, the goods balance result was largely driven by a sharp drop in imports, while exports gained only slightly.

Turkey

- **Monetary and Fiscal Policy:** *Rate held, reserve requirements hiked.* As expected, Turkey's central bank left its benchmark repo rate on hold at 6.25%, and surprising some, decided to raise required reserve ratios in order to constrain domestic credit growth. In its assessment of economic growth, the Committee's statement was little-changed, noting continued strengthening due to domestic demand, and relatively weaker external demand, despite a recent pickup in the latter. But on inflation, the Committee noted that oil and other commodity prices remain above the bank's assumptions made in January, and that goods inflation was likely to continue to increase for "some time," while services price inflation would display a "more benign" path. As for credit growth, the bank deemed it necessary to increase reserve requirements (from 10% to 15% for one-month deposits), and also indicated that it believes such action "provides the monetary tightening required for containing the potential second round effects of the recent increases in oil and other commodity prices."

Asia and Pacific

Japan

- **Inflation:** *Similar price messages?* Largely as expected, national core CPI inflation (ex fresh food) was somewhat more negative in February at -0.3% Y/Y, a 0.1 percentage point decrease. Headline CPI inflation, however, at zero Y/Y, was (again) unchanged,

while, the rate excluding food and energy fell by 0.6%, also unchanged from the previous month. Meanwhile, the headline Tokyo CPI reading (for March) turned more negative (at -0.3% Y/Y), while the core (ex-fresh food) CPI inflation rose 0.1 percentage point to -0.3% Y/Y as the ex food and energy figure remained at -0.3%.

- **Trade:** *Exports rise further.* Undershooting expectations, the (unadjusted) trade surplus was ¥ 654.1 bln deficit in February, up slightly from ¥ 647.3 bln in the same month of 2010. Similarly, the seasonally adjusted trade balance also improved to ¥ 556.0 bln in February. This was due to exports rising a further 4.0% in M/M terms (the fourth increase in the last six months), while imports dipped back 0.6%.

Hong Kong

- **Inflation:** *Inflation rises further.* Coming in slightly above expectations, February consumer price inflation rose by 0.1 percentage point to 3.7% Y/Y, reaching its highest level since August 2008. The breakdown showed that the latest increase in price pressures can largely be attributed to rising alcohol and tobacco prices, which increased 4.5% in January compared to a 0.5% gain in December, as well as a surge in private rents (up 1 percentage point from December to 4.1%). However, these increases were counterbalanced by falling utilities (7.0% in December to 5.9%) and food price inflation (5.0% from 5.3%).

- **Trade:** *Current account surplus widens.* The Q4 balance of payments data showed the current account to be in a surplus of HK$ 32.6 bln, up from the HK$ 30.2 bln surplus seen in the same quarter of the previous year. A significant rise in the services surplus, up around HK$ 28.5 bln from Q4 of 2009, was mostly responsible for the latest result. *Higher imports.* Exceeding expectations clearly, February import growth surged 6.2 percentage points to 25.2% Y/Y from the previous month, reaching its highest level since September 2010. Export growth, meanwhile, slipped from 27.6% to 24.9% Y/Y in January, dragged down by slower re-export growth (25.2% from 28.1%). As a result, the trade deficit widened to HK$ 25.1 bln from HK$ 19.7 bln in the same month of the previous year.

Singapore

- **Growth and Production:** *Output slips.* Surprising on the downside, seasonally adjusted data showed industrial production falling by 2.0% M/M, the second drop in the last three months but with the drop partially mollified by an upward revision to the preceding month's surge (from 15.4% to 16.0%). As a result, Y/Y growth slowed from 11.0% to 4.8%, the weakest reading since November 2009 when output was falling outright. The breakdown showed a broadly-based deterioration, but one that was led by the crucial electronics sector, which saw growth nearly halving from 20.6% to 10.7%. Admittedly, the volatile (and influential) biomedical/pharmaceutical sector also saw some clear weakness, with output falling outright (but only slightly more acutely than in the preceding month). Nevertheless, the M/M drop was tempered by the pharmaceutical sector with output falling a more marked 5.3% without this component.

- **Inflation:** *Consumer price inflation eases back.* Surprising clearly on the downside, consumer price inflation eased back 0.5 percentage point to 5.0% Y/Y in February, but with this reading still the second highest in 29 months. On a M/M basis, prices fell by 0.1% as a 0.4% gain in food costs and higher housing and recreation prices were more than offset by a 2.3% plunge in transport prices (2.3%). The Y/Y breakdown, meanwhile, also showed transport price pressures easing, with inflation down from 18.4% to 15.2% and with food price inflation easing back as well. In contrast clothing and housing price inflation picked up, the former hitting a three-month high of 1.3% Y/Y.

Malaysia

- **Inflation:** *Consumer price inflation up further.* Coming in above expectations, consumer price inflation rose from 2.4% Y/Y in January to a 22-month high of 2.9% last month. On a M/M basis, consumer prices rose by 0.5% in February, boosted in the main by rising food costs, but with most other components up as well. The Y/Y breakdown also saw food price inflation increasing (still to the highest since May 2009), and with transport price pressures up to a 26-month high of 4.5%. Moreover, clothing price were unchanged in February, the first non-negative reading in 28 months.

Philippines

- **Monetary and Fiscal Policy:** *Rates hiked.* As expected, the Bangko Sentral ng Pilipinas (BSP) raised its benchmark interest rates following its March meeting, ending a policy pause going back to August 2009 (and the first hike since the same month in 2008). The reverse repurchase rate now stands at 4.25% and the repurchase rate at 6.25%. In the accompanying statement, the BSP noted the signs of stronger and broadening inflation pressures developing and also an upward shift in the balance of inflation risks, mainly due to rising oil and food prices. Indeed, in clear contrast to the last few meetings, the BSP now suggested that the inflation target-range in 2011 (of 3-5%) was now at risk. Hence, the board considered a rate-hike necessary to rein in inflation expectations, but underscored that the action was very much a pre-emptive move, that would minimize the impact of rising inflation on domestic economic activity. With regards to the latter, the BSP said that the buoyant nature of domestic demand provided room for a rate hike without affecting the growth prospects.

- **Trade:** *Trade gap widens.* The January trade deficit widened to $ 1 312 mln from $ 708 in the same month of 2010, now the largest deficit since July 2008. Import growth slipped by 1.8 percentage points to 23.9% Y/Y from the previous month, reflecting slower mineral fuels (24.0% to 10.9%), consumer goods (15% to 2.8%) and a fall in capital goods (12.7% to -0.4%) import growth. However, despite the moderation in import growth, the further deterioration of the trade deficit was a result of import growth still outpacing the Y/Y export growth, released earlier in the month, which fell to just 11.7% from 26.5% in December 2010.

New Zealand

- **Growth and Production:** *Economy expanding.* Surprising on the upside, national accounts data showed GDP rising by 0.2% Q/Q in Q4, canceling out the same-size (earth-quake induced) drop in Q3. Nevertheless, on a Y/Y basis, economic growth fell back from 1.5% to a one-year low of 0.8%. The expenditure breakdown, however, provided some mixed developments. Of some note,

private consumption expenditure grew at only half the pace seen in Q3 (0.4% Q/Q), but in line with the Q2 outcome. In contrast, government spending expanded very clearly (1.2%) following the 0.8% drop in Q3 and with capex growth up as well, rising 0.2 percentage point to 10.4%, as a jump in business investment (and stronger inventories) more than offset a 7.3% drop in construction. Net trade, meanwhile provided a drag on growth for a second straight quarter, as a 2.3% Q/Q jump in exports was more than offset by an even clearer gain in imports (6.6%). On the output side, manufacturing and construction strengthened, but with services sector growth mixed across components, and with primary-sector developments mixed as well.

- **Trade:** *Current account deficit widens.* Balance of payments data showed the Q4 current account in deficit to the tune of NZD 3.5 bln in Q4, a slight deterioration on the same quarter in 2009 (NZD -3.3 bln). On a seasonally adjusted basis, meanwhile, the deficit grew from NZD 1.7 bln in Q3 to NZD 2.8 bln, the largest shortfall in exactly two years. This deterioration reflected a narrower goods balance surplus and a wider services deficit, coupled with a swing in the income balance from surplus to shortfall.

Taiwan

- **Growth and Production:** *Output growth slips further.* Undershooting expectations once more, industrial production grew at a slower pace in February, slipping from an upwardly revised 17.44% to 12.28%, a five-month low. The breakdown showed a fairly broad-based deterioration in the pace of growth, most importantly with manufacturing sector growth slumping from 17.52%Y/Y to 15.38%, a four-month low, and with construction output plunging 58.96% following a 43.18% January jump. Bucking the downward trend, however, utilities output growth inched up 0.03 percentage point to 1.99% Y/Y.

- **Employment:** *Jobless rate down.* Surprising clearly on the downside, the seasonally adjusted unemployment rate slipped from 4.71% in January to 4.59% last month, the lowest since October 2008. On an equally upbeat note, the level of unemployment fell by 17.7.2% Y/Y to 522 000, a twelfth straight Y/Y fall, following 22 months of gains, and one that was steeper than in January (17.37%). Employment, meanwhile, rose by 2.20% Y/Y, a fourteenth straight gain and one that was largely in line with that seen in the preceding month (2.26%).

The Americas

Argentina

- **Growth and Production:** *Output expands.* Industrial output rose 9.0% from a year ago in February, from 10.3% in January. In seasonally-adjusted terms, output rose 1.4% from the prior month, modest growth after the 5.6% decline in January.

- **Trade:** *Exports rise.* Export growth quickened to a 33% year-on-year pace in February to $5.4 billion, from a 22% pace the month prior. Import growth softened to a 39% pace, from 52% a month ago, to $4.8 billion. The trade balance, meanwhile, widened to $608 million, compared to a $604 million result the year prior.

Brazil

- **Trade:** *Current account deficit shows little sign of narrowing.* The current account was in deficit to the tune of $3.4 billion, little changed from the same period a year ago (-$3.3 billion), albeit narowing on January's $5.4 billion shortfall. The running 12-month total was stable at about $49 billion, having shown clear widening through 2010. Elsewhere, foreign direct investment rose by $7.7 billion, exceeding the $2.8 billion inflow in February 2010. Here, the running 12-month value came in at $55.7 billion, another record high.

Africa

South Africa

- **Monetary and Fiscal Policy:** *Rates on hold for now.* As expected, the South African Reserve Bank (SARB) left its official interest rate unchanged at 5.50% following its March policy meeting, extending the policy pause it began in January. The accompanying statement noted that the domestic inflation outlook had (once more) deteriorated since the last (January) meeting, but underscored that inflation was expected to remain within the target-band of 3-6% throughout the policy horizon. However, the SARB revised up its inflation forecast for this year and next, with the central bank now expecting headline inflation to average 4.7% this year (revised up from 4.6%) and 5.7% in 2012 (up from 4.3%). Moreover, the central bank also outlined a forecast for 2013, with inflation expected to peak at 5.8% in Q1 of that year before falling back to 5.6% by year-end. Also of some note, the SARB noted that the average inflation expectation, as measured by the Bureau of Economic Research, had risen since the last meeting, but that they remained within the target-band. As for the risks to this forecast, the SARB once gain pointed to the cost-push pressures created by global commodity and food prices, the latter of which was still moderated by the strength of the rand, alongside wage pressures, but with the SARB sounding less concerned about the latter than in previous months, suggesting there were signs of nominal wage growth moderating. The SARB also noted that the exchange rate had been relatively volatile since the January meeting, but had seen little net change. With regard to the economy, the SARB was more up-beat than in January, referring to domestic growth prospects as having improved moderately and highlighting that high frequency indicators suggested that the growth momentum would be sustained, but with the central bank pointing to the importance of a recovery in capex growth for this to be the case, alongside some continued gains in private consumption expenditure, the latter still partially held back by the level of household indebtedness.

- **Inflation:** *Stable inflation.* Largely in line with expectations, February consumer price inflation was unchanged at 3.7% Y/Y from the previous month, remaining at its highest level since July. In M/M terms, prices increased to 0.7%, boosted by rising health costs and miscellaneous goods and services prices. In Y/Y terms, the breakdown revealed increases in food and housing & utilities price inflation, counterbalanced by a fall in inflation elsewhere.

- **Trade:** *Current account deficit narrows.* Balance of payments data showed the current account in deficit to the tune of 3.9 mln rand in Q4, a very marked improvement on the same quarter in 2009, which saw a shortfall of 19.2 mln rand. The Q4 2010 shortfall was the smallest in seven years and was roughly 0.6% of GDP, down from 3.1% in Q3.

Comparative International Economic Indicators

Real Growth*

	Latest Period	Chg. Over Prev. Period	Chg. Over Year Ago Period
United States	2010:Q4	3.1	2.8
Canada	2010:Q4	3.3	3.2
Eurozone	2010:Q4	1.1	2.0
United Kingdom	2010:Q4	-2.3	1.5
Germany	2010:Q4	1.5	4.0
France	2010:Q4	1.6	1.7
Italy	2010:Q4	0.5	1.5
Switzerland	2010:Q4	3.5	3.2
Japan	2010:Q4	-1.3	2.5
Korea	2010:Q4	2.2	4.9
Taiwan	2010:Q4	19.0	6.9
Hong Kong	2010:Q4	21.6	6.2
Singapore	2010:Q4	2.0	12.0
Australia	2010:Q4	3.0	2.7
Mexico	2010:Q4	5.1	4.4

**Seasonally adjusted annualized rate, otherwise not seasonally adjusted and reported only on a year-over-year basis.*

Consumer Prices*

	Latest Period	Chg. Over Prev. Period	Chg. Over Year Ago Period
United States	2011:M2	0.5	2.2
Canada	2011:M2	0.3	2.2
Eurozone	2011:M2	0.4	2.4
United Kingdom	2011:M2 •	0.8	4.3
Germany	2011:M2	0.1	2.1
France	2011:M2	0.5	1.7
Italy	2011:M2	0.3	2.3
Switzerland	2011:M2	0.4	0.5
Japan	2011:M2 •	-0.1	0.0
Korea	2011:M2	0.8	4.5
Taiwan	2011:M2	0.7	1.3
Hong Kong	2011:M2 •	1.1	3.7
Singapore	2011:M2 •	-0.1	5.0
Australia	2010:Q4	0.4	2.7
Mexico	2011:M2	0.4	3.6

**Not seasonally adjusted except for United States and Germany.*

Industrial Production*

	Latest Period	Chg. Over Prev. Period	Chg. Over Year Ago Period
United States	2011:M2	-0.1	5.6
Canada	2010:M12	1.1	6.3
United Kingdom	2011:M1	0.6	4.5
Germany	2011:M1	1.8	12.4
France	2011:M1	1.1	5.5
Italy	2011:M1	-1.5	0.9
Switzerland	2010:Q4	7.4	6.1
Japan	2011:M1	-11.0	3.5
Korea	2011:M1	-1.4	13.7
Taiwan	2011:M2 •	-17.0	13.3
Hong Kong	2010:Q4	-1.5	5.8
Singapore	2011:M2 •	-9.1	4.8
Australia	2010:Q4	-0.8	-0.3
Mexico	2011:M1	0.5	6.6

**Seasonally adjusted except for Switzerland, Korea, Taiwan, Hong Kong, Singapore and Mexico. Switzerland and Australia are quarterly numbers.*

Current Account (Billions of Dollars)

	Latest Period	Trailing 12-Month Sum	2010 Total	2009 Total
United States	2010:Q4	-470.2	-470.2	-378.4
Canada	2010:Q4	-48.5	-48.5	-38.6
United Kingdom	2010:Q3	-43.0		-37.1
Germany	2010:Q4	185.1	185.1	189.6
France	2010:Q4	-53.9	-53.9	-51.9
Italy	2010:Q4	-73.3	-73.3	-43.2
Switzerland	2010:Q3	75.0		57.3
Japan	2010:Q4	195.0	195.0	142.7
Korea	2010:Q4	28.2	28.2	32.8
Taiwan	2010:Q4	40.6	40.6	42.9
Hong Kong	2010:Q4 •	14.8	14.8	18.0
Singapore	2010:Q4	49.5	49.5	35.1
Australia	2010:Q4	-31.7	-31.7	-43.3
Mexico	2010:Q4	-5.7	-5.7	-6.3

**Eurozone refers to the EU25 for the Current Account Figure.*

Unemployment Rate*

	Latest Period	Latest	Prev. Period	Year Ago Period
United States	2011:M2	8.9	9.0	9.7
Canada	2011:M2	7.8	7.8	8.2
United Kingdom	2011:M2	4.5	4.5	4.9
Germany	2011:M1	6.5	6.6	7.3
France	2011:M1	9.6	9.7	9.9
Italy	2010:Q3	8.3	8.4	8.0
Switzerland	2011:M2	3.4	3.5	4.1
Japan	2011:M1	4.9	4.9	5.1
Korea	2011:M2	4.5	3.8	4.9
Taiwan	2011:M2 •	4.7	4.6	5.8
Hong Kong	2011:M2	3.6	3.8	4.6
Singapore	2010:Q4	2.0	1.8	2.1
Australia	2011:M2	5.0	5.0	5.3
Mexico	2011:M2 •	5.4	5.4	5.4

Seasonally adjusted except for Italy, Switzerland, Korea, Taiwan and Mexico.

Long-Term Government Bond Yield

	Latest	Prev. Month	Year Ago
United States	3.44	3.49	3.88
Canada	3.24	3.33	3.55
United Kingdom	3.61	3.67	4.04
Germany	3.28	3.14	3.15
France	3.48	3.41	3.48
Italy	4.76	4.83	3.94
Switzerland	1.86	1.88	1.92
Japan	1.23	1.26	1.37
Korea	4.48	4.71	4.86
Taiwan	1.36	1.39	1.44
Hong Kong	2.68	2.80	2.72
Singapore	2.39	2.69	2.72
Australia	5.44	5.56	5.76
Mexico	3.34	3.23	3.39

Call Money Rate

	Latest	Prev. Month	Year Ago
Euro	1.00	1.00	1.00
United States	0.15	0.16	0.19
Canada	1.00	1.00	0.25
United Kingdom	0.50	0.50	0.43
Germany	1.00	1.00	1.00
France	1.00	1.00	1.00
Italy	1.00	1.00	1.00
Switzerland	0.05	0.04	0.06
Japan	0.09	0.10	0.11
Korea	2.99	2.75	2.01
Hong Kong	0.09	0.08	0.03
Singapore	0.16	0.16	0.19
Australia	0.00	4.75	4.00
Mexico	4.47	4.52	4.54

Note: All figures in percent unless otherwise indicated. • Data updated in the last week.

Exchange Rate

	Latest Level	Chg. Over Last Week	Chg. Over Prv. Month	Chg. Over Year Ago
Euro	1.4077	-0.7	2.4	6.1
United States	79.02§	-0.4	-1.5	-6.5
Canada	0.9818	0.3	0.8	4.1
United Kingdom	1.6028	-1.3	-1.1	8.2
Germany	1.3893	0.7	-2.3	-5.7
France	4.6596	0.7	-2.3	-5.7
Italy	1375.45	0.7	-2.3	-5.7
Switzerland	0.9202	-2.1	1.4	14.3
Japan	81.42	-1.0	1.3	12.2
Korea	1114.2	1.1	0.9	2.5
Hong Kong	7.7946	-0.1	0.0	0.4
Singapore	1.2619	0.8	1.2	10.4
Australia	1.0255	3.0	2.3	13.0
Mexico	11.9914	0.5	1.6	4.6

§ Morgan Guaranty Trade-Weighted Index.

Comparative International Economic Indicators (Cont.)

Real Growth*

	Latest Period	Chg. Over Prev. Period	Chg. Over Year Ago Period
Belgium	2010:Q4	2.0	2.0
Netherlands	2010:Q4	2.5	2.2
Denmark	2010:Q4	0.9	2.6
Sweden	2010:Q4	5.1	7.2
Norway	2010:Q4	10.1	1.5
Finland	2010:Q4	7.0	5.0
Spain	2010:Q4	0.9	0.6
Portugal	2010:Q4	-1.2	1.2
Indonesia	2010:Q4	-5.7	6.9
Philippines	2010:Q4	82.1	7.1
Malaysia	2010:Q4	6.1	4.8
Thailand	2010:Q4	29.6	3.8
India	2010:Q4	43.8	9.7
China	2010:Q4	---	9.8
Argentina	2010:Q4	• 10.5	10.1
Brazil	2010:Q4	3.0	5.0

**Seasonally adjusted annualized rate, otherwise not seasonally adjusted and reported only on a year-over-year basis. China is in nominal terms.*

Consumer Prices*

	Latest Period	Chg. Over Prev. Period	Chg. Over Year Ago Period
Belgium	2011:M2	0.6	3.4
Netherlands	2011:M2	0.7	1.9
Denmark	2011:M2	1.2	2.7
Sweden	2011:M2	0.6	2.1
Norway	2011:M2	0.4	1.2
Finland	2011:M2	0.6	3.3
Spain	2011:M2	0.1	3.6
Portugal	2011:M2	0.0	3.5
Indonesia	2011:M2	---	---
Philippines	2011:M2	1.1	4.3
Malaysia	2011:M2	• 0.5	2.9
Thailand	2011:M2	0.4	2.9
India	2011:M1	1.6	9.3
China	2011:M2	---	4.9
Argentina	2010:M12	0.8	10.9
Brazil	2011:M2	0.6	6.0

**Not seasonally adjusted.*

Industrial Production*

	Latest Period	Chg. Over Prev. Period	Chg. Over Year Ago Period
Belgium	2010:M12	-6.9	9.8
Netherlands	2011:M1	-2.5	-1.7
Denmark	2011:M1	2.1	5.9
Sweden	2011:M1	2.4	10.3
Norway	2011:M1	-2.7	-6.8
Finland	2011:M1	-2.8	7.7
Spain	2011:M1	2.3	6.0
Portugal	2011:M1	2.3	-1.3
Indonesia	2010:M12	0.1	2.5
Philippines	2010:M12	2.4	25.7
Malaysia	2010:M12	-1.1	4.0
Thailand	2010:M11	-4.0	16.3
India	2010:M12	-7.7	5.6
Argentina	2011:M1	-7.4	7.1
Brazil	2011:M1	-3.8	2.5

**Not seasonally adjusted except for Netherlands, Sweden, Norway, Finland, and Spain. Thailand reported as 12-month moving average.*

Current Account (Billions of Dollars)

	Latest Period	Trailing 12-Month Sum	2010 Total	2009 Total
Belgium	2010:Q3	5.4		3.6
Netherlands	2010:Q4	60.5	60.5	38.9
Denmark	2010:Q4	16.9	16.9	6.8
Sweden	2010:Q4	29.1	29.1	28.3
Norway	2010:Q4	53.5	53.5	50.1
Finland	2010:Q4	7.6	7.6	5.9
Spain	2010:Q4	-63.5	-63.5	-80.4
Portugal	2010:Q4	-22.5	-22.5	-25.6
Indonesia	2010:Q4	6.3	6.3	31.8
Philippines	2010:Q4	• 8.5	8.5	21.8
Malaysia	2010:Q4	28.0	28.0	8.8
Thailand	2010:Q4	14.8	14.8	7.1
India	2010:Q3	-54.7		10.2
Argentina	2010:Q4	• 3.6	3.6	11.1
Brazil	2010:Q4	-47.5	-47.5	-24.3

Unemployment Rate*

	Latest Period	Latest	Prev. Period	Year Ago Period
Belgium	2011:M1	8.0	8.1	8.3
Netherlands	2011:M2	4.3	4.3	4.5
Denmark	2011:M1	4.2	4.1	4.2
Sweden	2011:M2	7.6	7.8	8.8
Norway	2011:M2	3.0	3.1	3.0
Finland	2011:M2	• 8.4	8.2	9.2
Spain	2011:M1	20.4	20.4	19.2
Portugal	2011:M1	11.2	11.2	10.5
Indonesia	2010	7.1	7.9	7.9
Philippines	2011:Q1	7.4	7.1	7.3
Malaysia	2010:Q4	3.2	3.2	3.5
Thailand	2010:M12	0.7	1.0	0.9
China	2009	4.3	4.2	4.2
Argentina	2010:Q4	7.3	7.5	8.4
Brazil	2011:M2	• 6.4	6.1	7.4

** Not seasonally adjusted except for Denmark, Netherlands is a 3-month moving average.*

Long-Term Government Bond Yield

	Latest	Prev. Month	Year Ago
Belgium	4.21	4.23	3.62
Netherlands	3.57	3.31	3.41
Denmark	4.21	4.23	3.62
Sweden	3.38	3.32	3.19
Norway	3.79	3.79	3.76
Finland	3.33	3.21	3.41
Spain	5.17	5.36	3.87
Portugal	7.79	7.47	4.39
Indonesia	—	—	—
Philippines	—	—	—
Malaysia	4.06	4.05	4.18
Thailand	3.70	3.89	3.97
China	—	—	—
Argentina	—	—	—
Brazil	—	—	—

Call Money Rate

	Latest	Prev. Month	Year Ago
Belgium	1.00	1.00	1.00
Netherlands	1.00	1.00	1.00
Denmark	0.75	0.75	0.75
Sweden	1.76	1.92	0.25
Norway	2.00	2.00	1.75
Finland	1.00	1.00	1.00
Spain	1.00	1.00	1.00
Portugal	1.00	1.00	1.00
Indonesia	6.30	6.26	6.26
Philippines	4.25	4.00	4.00
Malaysia	0.00	0.00	0.00
Thailand	—	—	—
India	6.25	6.75	3.10
China	—	—	—
Argentina	10.45	10.35	9.40
Brazil	11.16	11.16	0.00

Exchange Rate

	Latest Level	Chg. Over Last Week	Chg. Over Prv. Month	Chg. Over Year Ago
Belgium	28.6558	-0.7	2.3	5.7
Netherlands	1.5654	-0.7	2.3	5.7
Denmark	5.2976	-0.7	2.3	5.5
Sweden	6.3809	-1.7	0.2	12.4
Norway	5.6069	-0.7	0.5	8.1
Finland	4.2236	-0.7	2.3	5.7
Spain	118.19	-0.7	2.3	5.7
Portugal	142.41	-0.7	2.3	5.7
Indonesia	8717.0	0.6	1.6	4.5
Philippines	43.328	0.9	0.5	5.0
Malaysia	3.0265	0.9	0.6	8.8
Thailand	30.270	0.1	1.2	6.7
India	44.675	-1.0	-1.0	-1.8
China	6.5573	0.2	0.3	4.0
Argentina	4.0414	-0.1	-0.3	-4.5
Brazil	1.6585	0.4	0.9	8.8

Note: All figures in percent unless otherwise indicated. • Data updated in the last week.

Week ended: 3/25/2011

Focus on the United Kingdom

Last Wednesday's 2011 Budget statement by Chancellor Osborne was not designed to impress financial markets. Instead, it was full of micro measures, ranging from corporation tax cuts, reductions in fuel duty and higher tax allowances all to be funded by higher bank levies and taxes on oil companies as well as reductions in tax avoidance. All of which underlined that the Budget was designed to address the key area where the new Government has faced repeated criticism, namely the perception of a lack of a growth strategy.

Regardless, markets will note that the Budget, unlike measures previously announced by Chancellor Osborne, was fiscally neutral, ie not adding to the sizeable fiscal consolidation measures already in train and about to bite severely. However, it is notable that, in spite of being able to reduce expected borrowing for the current fiscal year (albeit by a bare 0.1% of GDP to 9.9%), the Budget acknowledged that budget deficits in coming years would actually be higher than thought previously (ie last November), by a cumulative £ 46 bln, so that the five-year fiscal year yardstick approved by the Government (ie now based around 2015-16) sees a deficit of 1.5%, 0.6% higher than previously (see upper chart).

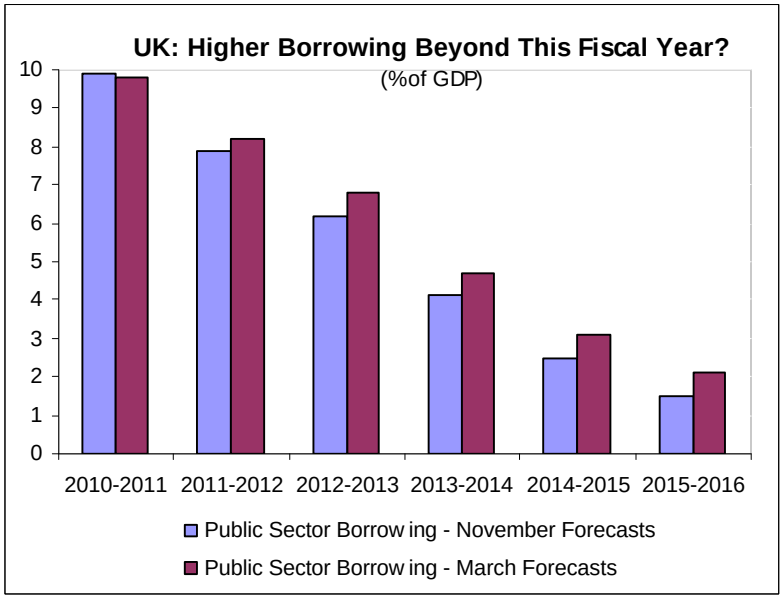
Admittedly, these higher than previously envisaged deficits are largely the result of weaker growth assumptions made by the Office for Budget Responsibility (OBR), with the cyclically adjusted borrowing totals up only slightly (to 0.5% of GDP by 2015-16). However, the upwardly revised budget deficit forecasts will merely serve to underline the sensitivity of actual borrowing to levels of economic activity. This raises the very understandable question as to whether it is the Government's fiscal consolidation plan itself, especially via the added squeeze it has exerted on real household incomes, that is the cause of the weaker-than-expected performance of the UK economy or if it is instead the result of other factors; some global, such as rising commodity prices, and some local, such as the cold weather that caused most of the surprise slump in Q4 GDP. Much may be made of the impact of that cold weather, without which UK GDP growth would not only have been able to avoid the much weaker than expected 1.3% 2010 outcome but also the downgrading of the 2011 forecast to 1.7% from the 2.1% envisaged in the last official projection made last November.

However, this ignores the fact that despite also facing very harsh weather at the end of 2010, and also having to deal with rising commodity prices, other countries such as Germany and the USA have seen their growth expectations rise for this year. Indeed, and as the lower chart illustrates, only in the UK has there been a clear and continued paring back of growth projections for this year. Furthermore, it is notable that the UK Treasury downgrading to GDP growth this year follows on from a downward revision made in the Budget last June when the projection was cut from 2.3%.

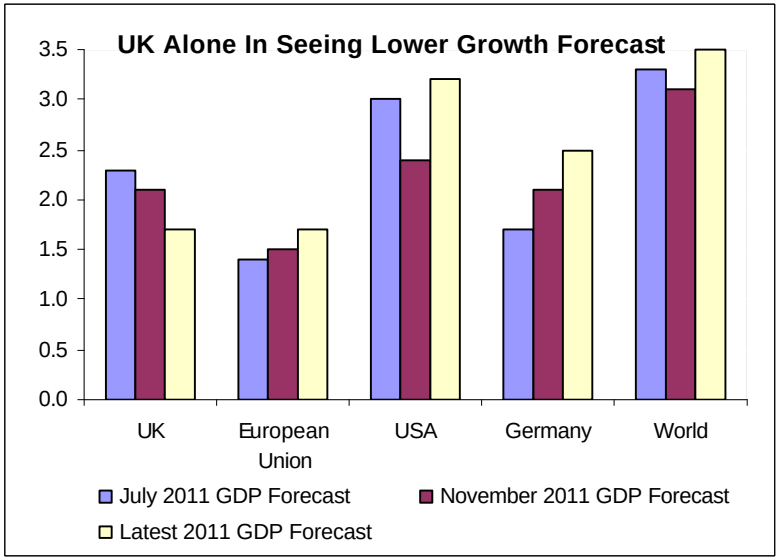
More notably, the official GDP growth projection for 2012 has been also been pared back. Admittedly, this downgrading was only slight (down a notch to 2.5%), but one that also reflected a softer consumer spending backdrop so that household consumption has been downgraded for four successive years (2010-13). Moreover, while there were some offsetting upward revisions to growth by the OBR beyond 2013, the result is still that the level of GDP is seen remaining some 0.7 percentage point lower than previously envisaged even by as far out as 2015.

This may make markets more sensitive not only to developments in household spending, but to signs to what degree any unfolding consumer weakness is fiscally related. Furthermore, for all of the Government's priority to cut borrowing in order to preserve the UK's existing triple-A rating, the risk is that further signs of slow growth could make rating agencies reconsider the outlook.

— Andrew Wroblewski, DE London



Source: UK Office for Budget Responsibility



Source: UK Office of Budget Responsibility and Consensus Economics

DECISION ECONOMICS March 25, 2011

	Latest	Week Ago	% Chg. YTD *	12/31/10
Yen/$	81.42	80.58	0.4	81.12
$/Euro	1.4079	1.4182	-5.2	1.3384
Yen/Euro	114.63	114.28	5.6	108.57
$/STG	1.6028	1.6234	-2.7	1.5612
Sfr/$	0.9202	0.9010	-1.6	0.9352
Can$/US$	0.9819	0.9843	-1.6	0.9980
Mexican Peso/$	11.991	12.053	-2.8	12.340
Brazil Real/$	1.6585	1.6655	-0.2	1.6613
Thai Baht/$	30.270	30.290	0.7	30.060
Malaysian Ringgit/$	3.0265	3.0530	-1.2	3.0635
Indonesian Rupiah/$	8717.3	8773.0	-3.1	8996.0
Korean Won/$	1114.2	1126.7	-1.0	1126.0
Philippines Peso/$	43.327	43.720	-1.1	43.800
India Rupee/$	44.675	45.126	-0.1	44.705

* For Year-to-Date change calculations, all signs refer to the movement of the U.S. dollar, except for the Yen/Euro rate, where the sign refers to the euro.

BENCHMARK YIELDS				
SHORT-TERM (3-Month LIBOR)**				
U.S.	0.31	0.31	0.00	0.30
Canada	1.20	1.20	-0.03	1.23
Euro	1.15	1.12	0.21	0.94
U.K.	0.82	0.81	0.06	0.76
Japan	0.20	0.20	0.01	0.19
LONG-TERM (10-Year Benchmark)**				
U.S.	3.44	3.27	0.15	3.30
US 10 Year Swap Rate	3.55	3.37	0.17	3.38
Canada	3.24	3.17	0.12	3.12
Italy	4.76	4.68	-0.06	4.82
Germany	3.28	3.19	0.32	2.96
U.K.	3.61	3.51	0.22	3.40
Switzerland	1.86	1.80	0.15	1.72
Japan (JGB)	1.23	1.21	0.10	1.13
Australia	5.44	5.40	-0.11	5.55
Brazil	4.58	4.59	-0.03	4.61
India	8.00	7.99	0.08	7.92
Spreads to US 10-Year				
10 Year Swap Spread	0.11	0.10	0.03	0.08
10 Year - 2 Year	2.70	2.68	0.00	2.70
Moody AAA	1.56	1.68	-0.11	1.67
UK Gilt	0.17	0.24	0.07	0.10
German Bund	-0.16	-0.08	0.17	-0.33
Italian 10-year	1.32	1.41	-0.20	1.52

** Year-to-date changes are calculated from the difference in yields.

STOCK MARKETS				
U.S. (DJIA)	12221	11859	5.6	11578
S&P 500	1314	1279	4.5	1258
NASDAQ Composite	2743	2644	3.4	2653
Russell 2000	824	795	5.1	784
Canada (TSE-300)	14039	13790	4.4	13443
Mexico (Bolsa)	36793	35622	-4.6	38551
Argentina (Merval)	3349	3198	-5.0	3524
Brazil (Bovespa)	67766	66880	-2.2	69305
Germany (DAX, XETRA)	6946	6664	0.5	6914
U.K. (FT-SE 100)	5901	5718	0.0	5900
France (CAC-40)	3972	3810	4.4	3805
Switzerland (SMI)	6352	6098	-1.3	6436
Japan (Nikkei-225)	9536	8963	-6.8	10229
Hong Kong (Hang Seng)	23159	22300	0.5	23035
Australia (All Ordinaries)	4840	4716	-0.1	4847
South Korea (KOSPI)	2054	1981	0.1	2051
Thailand	1038	1003	0.5	1033
India (BSE)	18816	17879	-8.3	20509
China (Dow Jones Shanghai Index)	379	371	6.5	356
Singapore (Straights Times Index)	3071	2936	-3.7	3190
COMMODITIES				
Gold (USD/Troy Ounce)	1427.88	1418.90	0.5	1420.78
Crude Oil (WTI, Spot)	105.00	101.07	14.9	91.38
CRB Futures	359.57	351.15	8.0	332.80
CRB Raw Industrials (Spot)	568.87	551.59	9.3	520.33