New York • London • Boston • Chicago

DECISION ECONOMICS, INC.
Information for Decisions™

Global Economic Developments

April 21, 2011

Sweden: Riksbank Dons a Strait-Jacket?

Surprising no-one, the Riksbank raised its key repo rate by another 25 bp to 1.75% after its Board meeting in the last week. This was the sixth such hike in the current cycle, following on from the increases that were initiated in July last year.

However, and in contrast to many expectations, the Riksbank Board did not signal that it envisaged any faster hiking in coming years to that suggested previously (ie after the last meeting in February). As a result, further hikes over the next two years are still seen taking the key rate to 3.6% by the start of 2014. The unchanged schedule, therefore, still very much implies another (25 bp) hike at the next meeting in July with another such move at either of the two meetings in the final quarter of the year, so that rates are seen standing at 2.5% by Q1 2012. Probably aware of the expectations that ha more aggressive rate hike profile may be flagged, the Riksbank was very clear about the rationale behind the decision to adhere to the existing tightening path. Indeed, it stressed that the decision not to raise the forecast for the repo rate was designed to prevent headline CPI inflation (which is boosted by Riksbank-inspired rises in mortgage rates) from rising any faster than already envisaged, thereby risking a clearer spike in inflation expectations that, in turn, could feed into wages.

Indeed, a higher CPI profile is very evident in the updated economic projections provided by the Riksbank. These envisage headline CPI averaging 3.2% this year (up from 2.5% in the February projection) and 2.8% in 2012 (up from 2.1%). However, these higher forecasts are not a result of stronger real activity projections as the Board increased its growth forecast for the current year minimally (to 4.6%) while trimming it modestly for 2012 (to 2.3%) and adhering to a 2013 forecast of 2.5%. Instead, the upward revision to headline inflation is actually due to a change in the weighting of the CPI, increasing the importance of the debt servicing cost component. Indeed, it is notable that forecasts for underlying inflation (CPIF which excludes swings in mortgage costs and/or energy) are little changed compared to the February projections, remaining below the 2% Riksbank target throughout, only meeting target at the end of the forecast horizon.

Regardless, the decision not to accelerate the anticipated hiking profile does seem puzzling given that two Board members (including Governor Ingves) had been very public about the possible need for somewhat faster moves. Moreover, the Riksbank rationale for adhering to the rate hike profile does look both technical and convoluted. Furthermore, and as a result of the decision, the Riksbank is very much putting an effective strait-jacket on how it may proceed for here-on by suggesting that it must be wary about the speed of hiking for fear that the direct feed-through (via mortgage rates) into headline inflation from speedier repo rate increases could stoke inflation expectations and wage pressures.

The question is whether other reasons (eg exchange rate considerations) may actually lie at the heart of this Riksbank prevarication. Although unlikely to have been a major factor perturbing the Riksbank at this meeting, perhaps the greater risk is that high headline CPI inflation may damage consumer spending, with the rise seen to date possibly explaining the clear softening in most consumer signals so far this year. A clearer picture of Riksbank thinking may come with the arrival of the minutes to this meeting on May 3.

— Andrew Wroblewski, DE London

Contents

Sweden: Riksbank Dons a Strait-Jacket 1
Europe 2
Central Europe 2
Asia and Pacific 3
The America 4
Africa 4
Focus on the Brazil: Is the Central Bank Done Tightening? (II) 7

Tables

Comparative International Economic Indicators 5-6
International Capital Market Statistics 8

Decision Economics, Inc.
555 5th Avenue, 15th Floor
New York, New York 10017
Telephone: 212-884-9440
Facsimile: 212-884-9451

Decision Economics, Inc.
288 Bishopsgate, 3rd Floor
London EC2M 4QB
Telephone: 011-44-20-7814-6706
Facsimile: 011-44-20-7959-3344

Decision Economics, Inc.
One Boston Place, 16th Floor
Boston, Massachusetts 02108
Telephone: 617-994-0500
Facsimile: 617-994-0501/0502

Decision Economics, Inc.
2 North La Salle, Suite 1200
Chicago, IL 60602
Telephone: 312-476-7504

© 2011. Decision Economics, Inc. All rights reserved. Reproduction in whole or in part without the written permission of the copyright owner is prohibited.

Europe

Italy

- **Trade:** *Trade deficit widens.* The March (unadjusted) non-EU trade deficit widened clearly to € 2 871 mln from € 1 541 mln in the same month of last year. In seasonally adjusted terms, the trade gap widened too, albeit more modestly to -€ 3 114 mln from -€ 2 755 mln in February. The latest deterioration was the result of a bounce-back in imports (3.5%) outpacing that of exports (1.5%).

Netherlands

- **Employment:** *Flat jobs data.* The seasonally adjusted unemployment rate remained at a 16-month low of 5.1% in the three months to March. The headline (unadjusted) figure, however, decreased afresh, easing 0.2 percentage point from an eight-month high to 5.3%.

Sweden

- **Monetary and Fiscal Policy:** *Rate hiked but no faster hiking profile envisaged.* As expected, the Riksbank raised its key repo rate by another 25 bp to 1.75% after its latest Board meeting. This was the sixth such hike in the current cycle, following on from the increases made initially in July last year. As importantly, and in contrast to many expectations, the Board did not signal that it envisaged any faster hiking in coming years to that suggested previously (in February). As a result, further hikes over the next two years are still seen taking the key rate to 3.6% by the start of 2014. The unchanged schedule therefore still very much implies another (25 bp) hike at the next meeting in July with another such move at either of the two meetings in the final quarter of the year, so that rates are seen standing at 2.5% by Q1 2012. The Riksbank was very clear about the rationale behind the decision to adhere to the existing rate hike profile, stressing that it was designed to prevent headline CPI inflation (which is boosted by Riksbank-inspired rises in mortgage) rates from rising any faster than already envisaged, thereby risking a clearer spike in inflation expectations that, in turn, could feed into wages. Indeed, a higher CPI profile is very evident in the updated economic projections provided by the Riksbank. These envisage headline CPI averaging 3.2% this year (up from 2.5% in the February projection) and 2.8% in 2012 (up from 2.1%). However, these higher forecasts are not a result of stronger real activity projections: the Board increased its growth forecast for the current year minimally (to 4.6%) while trimming it modestly for 2012 (to 2.3%) and adhering to a 2013 forecast of 2.5%. Instead, the upward revision to headline inflation is actually a due to a change in the weighting of the CPI, increasing the importance of the debt servicing costs component. Indeed, it is notable that underlying inflation (CPIF which excludes swings in mortgage costs and/or energy) is little changed compared to the February projections, remaining below target throughout, only meeting target at the end of the forecast horizon. Also of some note, but not that surprising given similar dissent before, two members of the six-strong Riksbank Board (Svensson and Ekholm) again entered reservations with regards to both the rate-hike and the repo rate path projected, both preferring to leave policy on hold and with a much more modest rise in rates at least in the next year or so.

Central Europe

Hungary

- **Monetary and Fiscal Policy:** *Rate held.* As expected, the MNB held its policy rate at 6.0% in a unanimous decision, reiterating that rates may remain on hold for an "sustained period." The accompanying statement largely saw the same domestic and external drivers as at the March meeting, with strong external demand met by only a gradual recovery in domestic demand. Investment spending is still seen as weak, in part on account of tight credit conditions and windfall taxes, implying that while spare capacity remains "significant," it may serve to offset the disinflationary impact of weak domestic demand, should investment expand slowly over a prolonged period. On inflation, the Council sees it "significantly" above-target (3%) in 2011, only falling back to the target by the end of 2012, a condition that may be met by leaving rates at their current level for a sustained period. Still, the Council left intact earlier wording that both higher and lower rates could be warranted, depending on the extent to which cost-push shocks are passed through to the CPI, or domestic demand comes in weaker than expected.

Poland

- **Growth and Production:** *Output softens.* Hinting at a more-moderate pace of growth heading into mid-2011, real industrial output softened more than expected in March, to 7.0% y/y compared to 10.7% in February, as manufacturing output slowed to a 7.5% pace (+11.3% in Feb.). Construction, meanwhile, proceeded at a healthier clip, up 24.2% from the year prior, the highest post global-crisis reading, and the quickest pace since early 2007.

Turkey

- **Monetary and Fiscal Policy:** *Rate held.* As expected, the TCB held its benchmark repo rate at 6.25%, but raised reserve requirements (from 15% to 16% on short-term lira deposits) once again, on concerns about rising inflation and credit growth. Economic activity is seen "moderating," but characterized by strong domestic demand and a relatively weaker pace for external demand, the latter juxtaposition in line with recent statements. Employment-related language was upgraded, the unemployment rate "higher than pre-crisis levels," as opposed to "remains at high levels," significant because that syntax would allow for the recognition in coming months that the jobless rate is showing convergence with pre-crisis levels (as incoming data are hinting at). As for inflation, it is seen above the 5.5% target at the end of 2011, and second round effects are being "closely monitored and a deterioration in pricing behavior will not be tolerated." That is

firmer language that used in the March statement, which indicated that the enacted measures would be sufficient to contain second round effects of higher commodity prices. Finally, on credit growth (one reason for the unorthodox policy of lower policy rates and higher reserve ratios), the central bank expects its measures to be more visible in Q2, but that further raising requirements on short-term lira deposits would help to contain macro financial risks by rebalancing domestic and external demand. The surging current account gap is a key concern for the bank, given the strong rebound in domestic demand. Upside inflation risks are being given slightly more credence, but a rate hike does not yet appear to be on the radar screen. The central bank will continue to monitor credit growth and stated it would take further measures as needed. The sizeable hike in RR in March likely limits the scope for another large increase, but further gradual steps at coming meetings, and a rate hike by the end of the year, cannot be ruled out.

Asia and Pacific

Japan

- **Trade:** *Exports hurt by earthquake.* Coming in below expectations, and clearly distorted by the March earthquake, the March (unadjusted) trade surplus narrowed significantly to ¥ 196.2 bln from ¥ 931.9 bln in the same month of the previous year. The seasonally adjusted trade gap also narrowed clearly to ¥ 96.3 bln in March from ¥ 477.4 bln in February. The latest adjusted result was a reflection of a sharp drop in exports of 7.7% M/M, as the earthquake disrupted activity. Imports, meanwhile, fell further, dropping 1.4% M/M after the 0.7% fall in February.

China

- **Monetary and Fiscal Policy:** *Reserve requirement hiked.* The People's Bank of China raised the reserve requirement by 50 bp on Sunday, meaning that the largest banks are now facing reserve requirements of 20.50%. The hike was the fourth this year and the tenth since the beginning of last year.

Hong Kong

- **Inflation:** *Higher inflation.* Exceeding expectation again, consumer price inflation climbed by 0.9 percentage points to 4.6% Y/Y in March from the preceding month, still the highest since August 2008. The breakdown showed the latest rise to be fairly broad based, led by gains in price pressures from alcohol & tobacco (21.8% from 4.5% in February), utilities (7.8% from 5.9%) and food (6.3% from 5.0%). The census and statistic department noted again that, if the current government imposed relief measured were removed, the underlying inflation rate would be 4.4%, i.e. just 0.2 percentage point below the headline reading.

- **Employment:** *Lower unemployment.* Undershooting expectations, the March seasonally adjusted unemployment rate dropped by 0.2 percentage point to 3.4% from the preceding month, now at its lowest since September 2008. The level of unemployment, however, actually rose by 1.0% M/M compared to the 5.3% drop in February, ending a run of six straight declines. The level of employment, meanwhile, rose modestly by 0.1% M/M from the 0.2% drop seen in February.

Singapore

- **Trade:** *Mixed trade developments.* Showing the first drop in four months, and surprising on the down-side, seasonally adjusted core (non-oil domestic) exports fell by 2.9% M/M in March, a drop that was accentuated by a downward revision to the February gain from 2.9% to 2.0%. However, on a Y/Y basis, core export growth picked up, rising from 6.9% to 10.0%, but with the breakdown still showing electronics exports falling (and more steeply so at 13.8% Y/Y). Indeed, the recovery in headline growth was due to stronger non-electronics exports, with pharmaceuticals export growth strengthening.Total exports, meanwhile, were up by 14.9% Y/Y, a larger gain than in February (6.2%). Total imports also saw the pace of growth picking up, from 2.1% Y/Y to 17.2%%. In spite of the March drop, export data for last quarter looked fairly upbeat. Indeed, core exports were up by 3.0% on the Q4 average, a quarter when core exports fell by 0.4%.

Malaysia

- **Inflation***: Consumer price inflation inches up.* Coming in marginally below expectations, consumer price inflation nevertheless rose from 2.9% Y/Y in February to a 23-month high of 3.0% last month. On a M/M basis, consumer prices rose by 0.1% in March, as a fall in clothing, recreation and health prices partially offset gains elsewhere. The Y/Y breakdown saw only marginal changes among the various components, but with a pick-up in transport (petrol) and 'miscellaneous' price inflation being the main culprits behind the headline gain.

New Zealand

- **Inflation:** *Inflation rises further*. Coming in slightly below expectations, consumer price inflation rose by 0.5 percentage point to 4.5% Y/Y in Q1, still the highest since Q3 2008. On a Q/Q basis, prices rose by 0.8%, driven mainly by gains in transport, food and alcohol & tobacco costs. Meanwhile, the Y/Y breakdown revealed a similar picture, showing the latest surge in inflation to be fairly broad-based, but led by increasing price pressures from transport (8.2% from 6.6% in Q4), alcohol & tobacco (11.4% from 9.0%) and food (4.8% from 4.6%). CPI inflation remains clearly above the Reserve Bank of New Zealand's target range of 1-3%, now for the second consecutive quarter. It is important to note, however, that the impact of the rise in Goods and Services Tax (GST) in Q4 2010 will have affected the results for the latest two quarters. In fact, the latest reading falls only slightly (0.1 percentage point) above the Bank's forecast for Q1 and with forecasts for the future indicating that the Bank expects inflation to peak in the next quarter before easing back to within target range by Q4 2011.

Thailand

- **Monetary and Fiscal Policy:** *Policy tightened once more.* As expected, the Bank of Thailand (BoT) raised its benchmark interest rate by another 25 bp to 2.75% following its latest policy meeting, the fifth hike in the last six meetings. The accompanying policy statement noted that the global economy had continued to expand well and continued to point to Asian growth as 'robust'. Understandably, however, the BoT raised some concerns about the impact from the Japanese earth-quake on the regional supply-chain. Indeed, the central bank expected weaker domestic production and exports of electronics and automobiles as a consequence of the earth-quake. Nevertheless, the central bank remained upbeat about the domestic economy, describing it as expanding well and likely to maintain its growth momentum. However, the statement seemed more concerned by the inflation back-drop and outlook than that published following the BoT's last meeting in March. Indeed, it now described the inflation back-drop as demand driven, with the strength in the economy also intensifying the pass-thorough from higher production costs. Moreover, and more crucially, it also expected the gradual lifting of administered price measures to add to inflationary pressures going forward.

The Americas

Canada

- **Inflation:** *CPI impacted by temporary factors, but clearly firming.* March consumer price data came in markedly ahead of expectations, with the headline index advancing to +3.3% year-on-year from +2.2% in February. A pickup had been anticipated on account of lodging and recreation-related prices accompanying the 2010 Vancouver Olympics, which raised the February 2010 base, temporarily depressing the year-over-year rate in February by about 0.2-0.3 percentage points. Still, the March gains were quite firm across the board, with all major categories save for alcoholic beverages seeing seasonally-adjusted month-on-month gains, led by food, clothing, and transportation prices. The headline price index rose 0.8% (seasonally-adjusted) between February and March, while the Bank of Canada's core measure rose 0.5% from the prior month, accelerating to a 1.7% y/y pace, up from 0.9% in February. Food and energy prices are providing the bulk of the upward movement in the CPI, but the ex-food and energy measure (not the same as the BoC core, which excludes volatile items and indirect taxes) notably broke above 2.0% y/y in the current release.

Argentina

- **Growth and Production:** *Output growth softens.* Seasonally-adjusted industrial output was unchanged from the month prior in March, and the year-on-year-rate edged lower to 8.5%, compared to 9.0% in February, and a cycle-high of 12.8% in November.

Mexico

- **Employment:** *Jobless rate edges lower.* The unemployment rate (not seasonally adjusted) fell more than anticipated to 4.6% in March from 5.4% in February, and down from 4.8% the year prior. Still, the measure is now at its lowest level since 2008, adding to signs that economic slack is being taken up, though not to an extent that had fed, yet, into underlying price pressures, particularly as the peso continues to surge.

Africa

South Africa

- **Inflation:** *Inflation rises.* Exceeding expectations slightly, consumer price inflation rose by 0.4 percentage point to 4.1% Y/Y in March, now at its highest since June 2010. In M/M terms, prices rose by 1.2%. The Y/Y breakdown revealed the latest gain was the result of increases in price pressures from food (5.0% from 3.6% in February) and transport (3.3% from 2.6%), offset in part by falls in alcohol & tobacco (5.2% from 7.2%) inflation.

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	-1.9	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	2.0	4.7
Taiwan	2010:Q4	19.0	6.9
Hong Kong	2010:Q4	21.6	6.2
Singapore	2011:Q1	9.6	8.5
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
2011:M3		0.5	2.7
2011:M3	•	1.1	3.3
2011:M3		1.4	2.7
2011:M3		0.3	4.1
2011:M3		0.5	2.1
2011:M3		0.8	2.0
2011:M3		0.4	2.5
2011:M3		0.6	1.0
2011:M2		-0.1	0.0
2011:M3		0.5	4.7
2011:M3		-0.9	1.4
2011:M3	•	0.3	4.6
2011:M2		-0.1	5.0
2010:Q4		0.4	2.7
2011:M3		0.2	3.0

**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:M3	0.8	5.9
Canada	2011:M1	1.3	6.9
United Kingdom	2011:M2	-1.2	2.4
Germany	2011:M2	1.6	14.7
France	2011:M2	0.4	5.8
Italy	2011:M2	1.4	2.4
Switzerland	2010:Q4	7.4	6.1
Japan	2011:M2	5.8	2.9
Korea	2011:M2	-11.4	9.1
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:M2	-4.3	5.2

**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
2010:Q4	-470.2	-470.2	-378.4
2010:Q4	-48.5	-48.5	-38.6
2010:Q4	-56.1	-56.1	-37.1
2010:Q4	185.1	185.1	189.6
2010:Q4	-55.4	-55.4	-51.7
2010:Q4	-73.2	-73.2	-43.2
2010:Q4	76.6	76.6	57.3
2010:Q4	196.2	196.2	142.6
2010:Q4	28.2	28.2	32.8
2010:Q4	40.6	40.6	42.9
2010:Q4	14.8	14.8	18.0
2010:Q4	49.5	49.5	35.1
2010:Q4	-31.7	-31.7	-43.3
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:M3	8.8	8.9	9.7
Canada	2011:M3	7.7	7.8	8.2
United Kingdom	2011:M3	4.5	4.5	4.8
Germany	2011:M2	6.3	6.5	7.3
France	2011:M2	9.6	9.6	9.9
Italy	2010:Q4	8.5	8.4	8.3
Switzerland	2011:M3	3.3	3.4	4.1
Japan	2011:M2	4.6	4.9	5.0
Korea	2011:M3	4.3	4.5	4.1
Taiwan	2011:M2	4.7	4.6	5.8
Hong Kong	2011:M3 •	3.4	3.6	4.4
Singapore	2010:Q4	2.0	1.8	2.1
Australia	2011:M3	4.9	5.0	5.4
Mexico	2011:M3 •	4.6	5.4	4.8

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

Long-Term Government Bond Yield

Latest	Prev. Month	Year Ago
3.40	3.33	3.74
3.29	3.19	3.72
3.53	3.60	4.02
3.26	3.26	3.08
3.62	3.48	3.39
4.76	4.77	3.97
2.07	1.87	1.88
1.24	1.26	1.34
4.48	4.50	4.97
1.36	1.36	1.45
2.67	2.65	2.87
2.49	2.42	2.78
5.51	5.41	5.85
3.14	3.38	3.25

Call Money Rate

	Latest	Prev. Month	Year Ago
Euro	1.25	1.00	1.00
United States	0.11	0.15	0.20
Canada	1.00	1.00	0.25
United Kingdom	0.50	0.50	0.48
Germany	1.25	1.00	1.00
France	1.25	1.00	1.00
Italy	1.25	1.00	1.00
Switzerland	0.05	0.05	0.07
Japan	0.09	0.09	0.10
Korea	3.02	2.99	2.00
Hong Kong	0.10	0.09	0.03
Singapore	0.16	0.16	0.16
Australia	4.75	4.75	4.25
Mexico	4.24	4.49	4.59

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
1.4553	0.4	2.5	8.7
77.44§	-1.1	-1.9	-7.3
0.9537	0.8	2.8	4.6
1.6524	1.1	1.0	7.2
1.3439	-0.4	-2.5	-8.0
4.5074	-0.4	-2.5	-8.0
1330.50	-0.4	-2.5	-8.0
0.8853	0.8	2.0	17.3
81.79	2.0	-1.0	12.2
1080.1	0.6	3.6	2.5
7.7674	-0.1	-0.4	0.0
1.2353	0.9	2.2	10.0
1.0747	1.9	6.4	16.0
11.6065	0.9	3.2	4.7

§ 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	1.0	2.5
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	83.1	7.1
Malaysia	2010:Q4	6.1	4.8
Thailand	2010:Q4	29.6	3.8
India	2010:Q4	43.8	9.7
China	2011:Q1	---	9.7
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:M3	0.5	3.5
Netherlands	2011:M3	1.2	2.0
Denmark	2011:M3	0.6	2.7
Sweden	2011:M3	0.7	2.6
Norway	2011:M3	0.3	1.0
Finland	2011:M3	0.5	3.3
Spain	2011:M3	0.7	3.6
Portugal	2011:M3	1.6	4.0
Indonesia	2011:M3	---	---
Philippines	2011:M3	0.3	4.3
Malaysia	2011:M3 •	0.1	3.0
Thailand	2011:M3	0.5	3.2
India	2011:M2	-1.6	8.8
China	2011:M3	---	5.4
Argentina	2011:M2	0.7	10.0
Brazil	2011:M3	0.3	6.1

**Not seasonally adjusted.*

Industrial Production*

	Latest Period	Chg. Over Prev. Period	Chg. Over Year Ago Period
Belgium	2011:M1	-0.2	12.6
Netherlands	2011:M2	-1.6	0.6
Denmark	2011:M2	-2.7	0.4
Sweden	2011:M2	1.3	14.9
Norway	2011:M2	0.1	-6.5
Finland	2011:M2	0.9	5.9
Spain	2011:M2	3.6	3.3
Portugal	2011:M2	-3.5	1.5
Indonesia	2011:M2	-4.1	4.3
Philippines	2011:M1	-6.3	25.7
Malaysia	2011:M2	-7.6	5.0
Thailand	2011:M2	-6.2	-4.6
India	2011:M2	-5.0	3.6
Argentina	2011:M2	-1.1	5.6
Brazil	2011:M2	3.0	6.9

**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:Q4	5.9	5.9	1.8
Netherlands	2010:Q4	60.5	60.5	38.9
Denmark	2010:Q4	16.5	16.5	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	-63.8	-63.8	-75.3
Portugal	2010:Q4	-22.5	-22.5	-25.7
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:Q4	-51.9	-51.9	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:M2	7.6	7.7	8.4
Netherlands	2011:M2	4.3	4.3	4.5
Denmark	2011:M2	4.0	4.1	4.3
Sweden	2011:M2	7.6	7.8	8.8
Norway	2011:M3	2.9	3.0	3.1
Finland	2011:M2	8.4	8.2	9.2
Spain	2011:M2	20.5	20.4	19.3
Portugal	2011:M2	11.1	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	2011:M1	1.0	0.7	1.4
China	2009	4.3	4.2	4.2
Argentina	2010:Q4	7.3	7.5	8.4
Brazil	2011:M3 •	6.5	6.4	7.6

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

Long-Term Government Bond Yield

	Latest	Prev. Month	Year Ago
Belgium	4.30	4.21	3.51
Netherlands	3.56	3.54	3.32
Denmark	4.30	4.21	3.51
Sweden	3.27	3.35	3.15
Norway	3.78	3.84	3.73
Finland	3.44	3.33	3.33
Spain	5.47	5.19	3.87
Portugal	9.50	7.49	4.77
Indonesia	—	—	—
Philippines	—	—	—
Malaysia	4.11	4.04	4.07
Thailand	3.63	3.72	3.60
China	—	—	—
Argentina	—	—	—
Brazil	—	—	—

Call Money Rate

	Latest	Prev. Month	Year Ago
Belgium	1.25	1.00	1.00
Netherlands	1.25	1.00	1.00
Denmark	1.00	0.75	0.75
Sweden	1.83	1.98	0.25
Norway	2.00	2.00	1.75
Finland	1.25	1.00	1.00
Spain	1.25	1.00	1.00
Portugal	1.25	1.00	1.00
Indonesia	6.24	6.30	6.17
Philippines	4.25	4.00	0.00
Malaysia	0.00	0.00	0.00
Thailand	—	—	—
India	6.75	6.65	3.00
China	—	—	—
Argentina	10.05	10.35	9.50
Brazil	11.16	11.16	0.00

Exchange Rate

	Latest Level	Chg. Over Last Week	Chg. Over Prv. Month	Chg. Over Year Ago
Belgium	27.7193	0.4	2.5	8.0
Netherlands	1.5143	0.4	2.5	8.0
Denmark	5.1243	0.5	2.5	7.8
Sweden	6.1050	1.8	3.3	15.0
Norway	5.3642	0.6	3.7	9.2
Finland	4.0856	0.4	2.5	8.0
Spain	114.33	0.4	2.5	8.0
Portugal	137.76	0.4	2.5	8.0
Indonesia	8630.0	0.4	1.0	4.3
Philippines	43.103	0.3	0.5	2.9
Malaysia	3.0073	0.5	0.7	5.9
Thailand	29.910	0.8	1.0	7.2
India	44.368	-0.3	-1.3	-0.4
China	6.5216	0.1	0.5	4.5
Argentina	4.0779	-0.3	-0.9	-5.5
Brazil	1.5663	0.8	5.6	10.5

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

Week ended: 4/21/2011

Focus on the Brazil: Is the Central Bank Done Tightening? (II)

Brazil's central bank increased the benchmark overnight-Selic interest rate 25 basis point. The hike was smaller than consensus expectations; two members of the Monetary Council (Copom) voted for a larger increase (50 basis points); the rest (five of them) opted for the less aggressive tightening ultimately adopted.

This is the strongest suggestion yet that dovish winds begin to blow within the Council. In practical terms, unless dramatic unforeseen developments take place between now and then, there would not be any change in interest rates until June the 8th, at the end of the next scheduled Copom meeting.

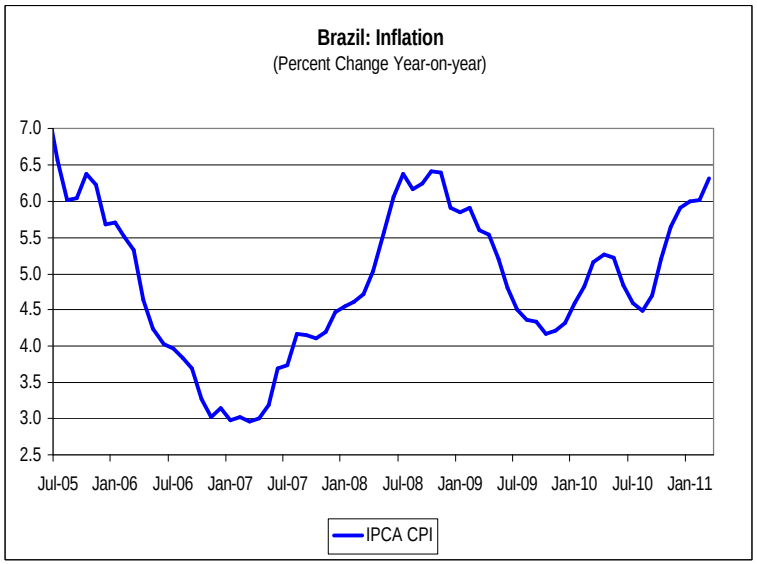
What will the central bank do at that point? On present trend, probably add another 25 basis points to the Selic. Fundamentals will make it difficult for the bank to declare a truce in June. At least this is what policymakers seem to foresee. The terse post-meeting statement in fact appears intended to highlight the central bank's willingness to tighten further, as needed: "the Council understands that, at this moment, carrying out an adjustment of monetary conditions for a sufficiently prolonged period is the most adequate strategy to guarantee inflation's convergence to target in 2012."

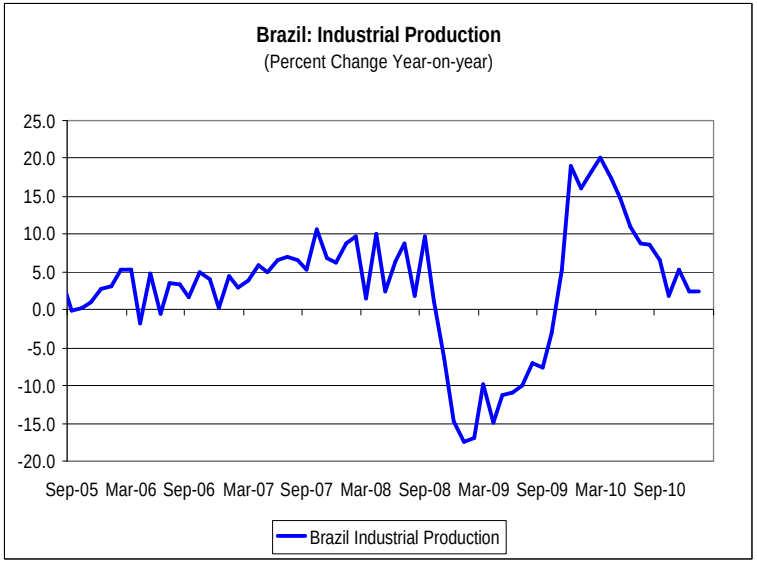
The mention of 2012 as the expected timeline for such convergence is of importance. Inflation is currently—as it has been for the past six years—within the 4.5% +/- two percentage points target range. It has moved towards the upper bound in the past few months, and quite possibly will break the 6.5% year-on-year mark at some point in the next few. But the process does not appear either entrenched or more dynamic than in previous cycles, and expectations (ours, the central bank's, other observers) are relatively benign, pointing to a lower rate within the next twelve to 18 months. (Decision Economics' estimate: 5.8% year-on-year in December 2011; 4.9% year-on-year in December 2012. The central bank's estimate: 5.6% year-on-year by the end of 2011; 4.5% by December 2012).

Nonetheless, from the data one can reasonably conclude that inflation should be policymakers' dominant concern. After all, economic activity is still strong after a recovery surge last year, and the unemployment rate has dropped to historical lows, arguably full-employment territory, boosting fixed capital formation and with demand still benefitting from a favorable global environment for Brazilian exports.

Thus, the decision just announced seems an attempt to fine-tune the tightening policy rather than to abandon it. Why is such fine-tuning necessary? The central bank acknowledges the obvious: the jump of economic activity that occurred last year was to a significant extent the manifestation of a rebound from crisis; the pace of growth now appears to have slowed down to the 4.5% neighborhood, quite possibly on a sustainable basis (particularly in view of a very healthy labor market). Yet many uncertainties remain, one of them, according to the central bank, the extent to which domestic demand may be already slowing ("the uncertain pace of moderation of domestic activity"), the other, the global environment, which the Council sees as undergoing a "complex" phase. Finally, the central bank continues to struggle to manage (no longer to stop) the real's appreciation, another important (although not dominant) reason to administer smaller doses of monetary tightening, or to pause.

— Francisco J. Larios, DE Miami





DECISION ECONOMICS April 21, 2011

	Latest	Week Ago	% Chg. YTD *	12/31/10
Yen/$	81.79	83.50	0.8	81.12
$/Euro	1.4553	1.4488	-8.7	1.3384
Yen/Euro	119.03	120.97	9.6	108.57
$/STG	1.6524	1.6352	-5.8	1.5612
Sfr/$	0.8853	0.8924	-5.3	0.9352
Can$/US$	0.9537	0.9611	-4.4	0.9980
Mexican Peso/$	11.607	11.713	-5.9	12.340
Brazil Real/$	1.5662	1.5865	-5.7	1.6613
Thai Baht/$	29.910	30.140	-0.5	30.060
Malaysian Ringgit/$	3.0073	3.0221	-1.8	3.0635
Indonesian Rupiah/$	8630.0	8666.0	-4.1	8996.0
Korean Won/$	1080.1	1086.9	-4.1	1126.0
Philippines Peso/$	43.103	43.242	-1.6	43.800
India Rupee/$	44.368	44.505	-0.8	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.	0.27	0.28	-0.03	0.30
Canada	1.20	1.20	-0.03	1.23
Euro	1.32	1.28	0.38	0.94
U.K.	0.82	0.82	0.06	0.76
Japan	0.20	0.20	0.01	0.19
LONG-TERM (10-Year Benchmark)**				
U.S.	3.40	3.50	0.11	3.30
US 10 Year Swap Rate	3.48	3.59	0.10	3.38
Canada	3.29	3.37	0.17	3.12
Italy	4.76	4.72	-0.06	4.82
Germany	3.26	3.43	0.30	2.96
U.K.	3.53	3.69	0.13	3.40
Switzerland	2.07	2.11	0.36	1.72
Japan (JGB)	1.24	1.30	0.11	1.13
Australia	5.51	5.60	-0.04	5.55
Brazil	4.61	4.66	0.00	4.61
India	8.10	8.00	0.18	7.92
Spreads to US 10-Year				
10 Year Swap Spread	0.08	0.09	0.00	0.08
10 Year - 2 Year	2.73	2.73	0.03	2.70
Moody AAA	1.68	1.57	-0.10	1.78
UK Gilt	0.13	0.19	0.03	0.10
German Bund	-0.14	-0.07	0.19	-0.33
Italian 10-year	1.36	1.22	-0.16	1.52

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

STOCK MARKETS				
U.S. (DJIA)	12506	12285	8.0	11578
S&P 500	1337	1315	6.3	1258
NASDAQ Composite	2820	2760	6.3	2653
Russell 2000	846	827	7.9	784
Canada (TSE-300)	13972	13822	3.9	13443
Mexico (Bolsa)	36816	37348	-4.5	38551
Argentina (Merval)	3414	3407	-3.1	3524
Brazil (Bovespa)	67058	66486	-3.2	69305
Germany (DAX, XETRA)	7295	7147	5.5	6914
U.K. (FT-SE 100)	6018	5964	2.0	5900
France (CAC-40)	4022	3970	5.7	3805
Switzerland (SMI)	6457	6357	0.3	6436
Japan (Nikkei-225)	9686	9654	-5.3	10229
Hong Kong (Hang Seng)	24138	24014	4.8	23035
Australia (All Ordinaries)	4996	4972	3.1	4847
South Korea (KOSPI)	2199	2141	7.2	2051
Thailand	1110	1076	7.5	1033
India (BSE)	19602	19697	-4.4	20509
China (Dow Jones Shanghai Index)	385	386	8.1	356
Singapore (Straights Times Index)	3195	3159	0.1	3190
COMMODITIES				
Gold (USD/Troy Ounce)	1504.75	1474.18	5.9	1420.78
Crude Oil (WTI, Spot)	111.58	108.11	22.1	91.38
CRB Futures	367.44	360.66	10.4	332.80
CRB Raw Industrials (Spot)	575.48	577.88	10.6	520.33