



Global Economic Developments

May 27, 2011

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Turkey: Is the current central bank strategy sustainable?

This week, Turkey's central bank (TCB) left interest rates unchanged once again at 6.25%. Unlike the previous meeting, the bank also left reserve requirements untouched. The decision, at least in terms of interest rates, was unsurprising. The bank has been following a rather unorthodox strategy to deal with potential inflationary pressures while seeking to avoid policy steps that would fuel lira appreciation, such as interest rate hikes. Lira appreciation is a particularly important concern for the TCB because of Turkey's large current account deficit, which policymakers view as a significant risk in the current global environment.

As we have pointed out earlier, thus far the bank can claim a measure of success on both accounts. Inflation is low, below the 5.5% target as of April (in fact, annual CPI inflation dropped to a record low 4.0% year-on-year in March, before rising to 4.3% in April). Meanwhile, the lira, which had moved to roughly 1.4/US\$ during the last quarter of 2010 is now close to 1.6/US\$. Clearly, some of the softness in the Turkish currency has to do with the periodic bouts of anxiety caused by the unresolved debt crisis in Greece and other peripheral-EU countries. But the fact is that even when the winds have blown in a more favorable direction the lira has stayed far below the *expensive* levels reached last year, and certainly not—as it seemed throughout much of 2010, and as it is the case in many other emerging markets—on an appreciating trend.

The question that we have begun to explore is whether the TCB can or will maintain the policy course that has either led to or allowed (depending on one's perspective) accomplishing its dual objective of a soft lira and a controlled inflation picture: maintenance of low interest rates and dependence on reserve requirements to deal with the risk of future inflation represented by rapid growth.

The bank's response: no change in policy is needed yet. Conditions—according to their post-meeting statement—are evolving in a direction that is consistent with the outlook presented in their latest Inflation Report. If anything, the tone of the communiqué appears slightly more dovish. Policymakers have chosen to highlight that “private consumption and investment growth rates are moderating after a strong rebound in 2010, while external demand outlook remains weak”. The bank also point to below-the-norm capacity utilization as evidence of continuing inflation-depressing slack in the economy.

There is, however, a hint of hesitation in the exclusion from the May statement of policymakers' willingness to accept likely year-end inflation above their 5.5% target, which was expressed forcefully in April (“it is expected to end the year somewhat above the target of 5.5 percent. Central Bank of Turkey (CBT) will not react to the first round effects of the increases in oil and other commodity prices), although—unsurprisingly—accompanied by a *de rigueur* warning that “second round effects will be closely monitored and a deterioration in the pricing behavior will not be tolerated”.

Still, the communiqué makes clear that it has no plan to alter the policy course near-term; that even if inflationary pressures seemed to be intensifying it would “monitor the tightening impact of the existing policy mix” and “take additional measures *along the same lines*, if needed”. Translation: expect further reserve requirement increases before interest rates are hiked. That seems to be their current consensus. Whether they will be able to sustain it for very long is doubtful, given the apparent strength of domestic demand, the bottoming of inflation, and the very rapid pace of credit growth. Should these trends continue, a turn towards more traditional monetary policy management, including interest rate tightening, could happen before the end of this year.

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Europe

Eurozone

- **Monetary and Fiscal Policy:** *Fragile monetary dynamics continue?* Undershooting expectations, April M3 money supply growth slowed slightly, slipping 0.3 percentage point to 2.0% Y/Y. Notably, in M/M terms, M3 was flat, the first non-positive reading in three month (0.3% in March). Also on a more downbeat note, the slip in M3 growth came alongside a same-sized fall back in the Y/Y growth rate of the narrower money supply gauge (M1), which dropped to 1.7%, the lowest since September 2008 (ie the month that saw the collapse of Lehman). In contrast, April private sector lending growth actually edged up, rising 0.1 percentage point to 2.6%, exactly offsetting the March slip and returning to the joint-highest reading in two years. Notably, this pick-up was boosted by a 0.2% M/M gain. The lending breakdown showed some pick-up in corporate lending, with the Y/Y rate edging up to 1.0 %. However, household loans growth was unchanged at 3.4% Y/Y, as a smaller drop in consumer credit was offset by a pick-up in other non-mortgage lending.

Germany

- **Inflation:** *Consumer price inflation eases back?* According to data from five of the six laender used to compute the preliminary estimate, May CPI inflation is likely to have slipped by 0.2-0.3 percentage point from the 2.4% Y/Y rate seen in the previous month. Such a result would be below market excitations. The actual preliminary numbers should be formally released later today and are likely to show roughly a 0.1%-0.2% M/M drop, largely a result of a fall back in leisure costs. Indeed, this factor was also behind the drop in the Y/Y rate, a development that was probably due to the impact of the late Easter this year and more than canceling out increasing food and clothing price pressures.

Italy

- **Inflation:** *Further slip in wage growth.* Hourly wage growth was down 0.2 percentage point in April to 1.8% Y/Y, a four-month low, but still 0.3 percentage point above the October 2010 figure, the latter having been the lowest in almost three years.

Norway

- **Growth and Production:** *Economy picks up (some) speed.* Mainland Q1 GDP numbers surprised on the downside albeit with growth picking up somewhat. Indeed, mainland GDP rose by 0.6% Q/Q, twice the unrevised 0.3% rise of the previous quarter, but with downward revisions evident to previous figures. As a result, Y/Y growth remained at 2.1%. The pick-up in Q/Q growth, however, was not broad-based, with household consumption actually stalling and with capex staging a less sizeable rise. In addition, there was a further drop in exports. Meanwhile, overall GDP (which encompasses oil and gas production) decreased by 0.4% Q/Q in Q1, reflecting a substantial drop back in oil and gas extraction.
- **Employment:** *Mixed labor data.* The seasonally adjusted unemployment increased 0.1 percentage points to 3.2% in the three months to March, reversing the drop seen in the last set of data. Moreover, there some continued signs of an increase in employment as the data did show a further rise of 0.4% in the last three months albeit with base effects helping pull the Y/Y change in employment growth to a new cycle-high of 1.6%. As a result, a fall in participation rates may be the main factor behind the fall in the jobless rate.

Sweden

- **Growth and Production:** *Economy growing less clearly.* Preliminary national accounts data for Q1 came in roughly in line with expectations, although showing a slowdown from the upwardly revised Q4 gain. Indeed, GDP growth came in at 0.8% Q/Q, down on the 1.6% Q4 outcome, but nevertheless being the sixth successive gain in quarterly activity. The latest gain was broad-based, showing strength on both the domestic and external sides. Regardless, Y/Y GDP growth eased back from an upwardly revised 7.7% to 6.4% in Q1, a three-quarter low.
- **Employment:** *Further upbeat jobs data.* Coming in slightly below expectations, the (unadjusted) unemployment rate fell further in April relative to its year-before counterpart. At 7.9%, it was 1.6 percentage points below that of the same month in 2010, a somewhat larger Y/Y drop to that evident in previous readings, albeit with calendar distortions possibly affecting recent numbers. However, seasonally adjusted numbers confirmed an on-going drop in underlying joblessness, with the rate down to a new cycle-low of 7.4%. On a more unambiguously upbeat note, hours worked rose again last month, with the Y/Y gain easing back to 2.5%.

United Kingdom

- **Growth and Production:** *Soft domestic economy, very weak consumer.* Real GDP increased by 0.5% in Q/Q terms in Q1, in line with the initial estimate, it therefore still being an exact reversal of the (unrevised) 0.5% contraction seen in the previous quarter. As a result, the Y/Y rate recovered 0.3 percentage points to 1.8%.

Central Europe

Poland

- **Employment:** *Unemployment rises.* Matching expectations, the (unadjusted) unemployment rate rose to 12.6% in April, up slightly from 12.4% in the same month of 2010. The level of unemployment, meanwhile, rose by 3.5% Y/Y, to 2.0 mln.

Asia and Pacific

Japan

- **Inflation:** *Increasing price pressures?* In line with expectations, national core CPI inflation (ex fresh food) rose for the first time in over two years in April, jumping 0.6% Y/Y following a 0.1% drop in the preceding month. Headline CPI inflation, however, rose less clearly, but with the 0.3% gain still in stark contrast to the flat readings seen since December last year, while the rate excluding food and energy fell by 0.1%, the smallest drop since February 2009. However, the headline Tokyo CPI reading (for May) remained negative at -0.1% Y/Y, ie unchanged from the April reading, while the core (ex-fresh food) CPI inflation eased back 0.1 percentage point to 0.1% Y/Y, in spite of ex food and energy price pressures rising from a flat reading to 0.1%.
- **Trade:** *Exports hurt further by earthquake.* Coming in below expectations, and still clearly distorted by the March earthquake, the April (unadjusted) trade balance deteriorated significantly to a shortfall of ¥ 463.72 bln from a surplus of ¥ 734.9 bln in the same month of the previous year. The seasonally adjusted trade gap also worsened clearly to a deficit of ¥ 496.4 bln. The latest adjusted result was a reflection of a further, sharp drop in exports of 5.5% M/M, as the earthquake continued to disrupt activity. Imports, meanwhile, recovered 3.8% M/M.

Hong Kong

- **Inflation:** *Stable inflation.* Consumer price inflation increased by 0.2 percentage point to 4.6% Y/Y in April from the (downwardly revised outcome of the) previous month, reaching a 32-month high and driven higher by rising food and housing rental costs.
- **Trade:** *Export growth dives.* Surprising very clearly to the downside, April trade data showed export growth to have dropped significantly by 17.4 percentage points to 4.1% Y/Y from March, the third successive slowing in growth and now the lowest since November 2009. Meanwhile, import growth saw a similar decrease, albeit less marked, to 6.1% from 18.8% in the preceding month, now the lowest since October 2009. As a result, the trade deficit widened to HK\$ 42.4 bln, up from HK\$ 35.2 bln in the same month of the previous year.

Singapore

- **Growth and Production:** *Output plunges.* Coming in below expectations once again, April seasonally adjusted industrial production fell by 16.3% M/M, a clear contrast to the upwardly revised 25.8% surge seen in the previous month and extending the volatility of the series. Partly as a result, on a (unadjusted) Y/Y basis, output also saw a clear drop of 9.5%, following from a 26.3% surge in the preceding month and being the first decline since November 2009. The Y/Y breakdown revealed the latest fall to be the result of broad-based decreases across components, led by a swing into negative for the influential biomedical/pharmaceutical (-22.6% from 66.9% in March) and electronics (-8.0% from 6.0%) sectors, but with general manufacturing also falling by 8.3% in the month after a 2.3% increase in March.
- **Inflation:** *Consumer price inflation moderates.* Coming in slightly above expectations, April consumer price inflation fell by 0.5 percentage point to 4.5% Y/Y, a five-month low and the first time inflation slowed to less than 5% in 2011. In M/M terms, prices rose by 0.3%, boosted by a rise in transport (1.8%) and food (0.4%) prices. The Y/Y breakdown, meanwhile, showed the latest outcome to be the result of a broad-based easing back in price pressures across almost all components, led by housing (5.1% from 7.1% in March) and transport (11.7% from 13.4%), and with the only exception being a slight increase for food (2.9% from 2.6%).

Philippines

- **Trade:** *Strong, but weakening, imports growth.* Data for March showed imports growth slowing in the month to 21.2% Y/Y from 21.9% in February, a nine-month low but still clearly above the long-term average. This was largely due to a sharp fall in mineral fuel imports growth (10.7% from 92.1% in February), which was only partially offset by a bounce-back in electronic products (36.4% from 5.3%). In geographical terms, imports increased to all major trading partners except for Japan and Saudi Arabia. Combining the latest outcome with the export data (released earlier in the month and showing a clear slowing in growth), the March trade balance was in deficit of \$ 1 170 mln, widening clearly from the \$ 374 mln deficit in the same month of 2010.

Taiwan

- **Growth and Production:** *Output growth slumps.* Surprising very clearly on the down-side this time round, industrial production growth fell by 6.88 percentage points to a 19-month low of 6.85% Y/Y in April. The breakdown showed the slump to have been caused mainly by a halving of manufacturing growth (from 14.26% Y/Y to 7.09%) but with utilities output growth actually improving. Meanwhile, the mining sector contracted for the first time since March last year.
- **Employment:** *Further fall in jobless rate.* April data showed the unemployment rate falling a seasonally adjusted 0.07 percentage point to 4.35%, the lowest since September 2008. The level of unemployment, meanwhile, fell by 19.53% Y/Y to 477 000 last month, a fourteenth straight fall but one that was less acute than the 20.15% plunge in March. Moreover, the level of employment rose 2.25% Y/Y in April, having risen by 2.37% in the preceding month.

Thailand

- **Growth and Production:** *Mixed growth readings.* National accounts data showed GDP rising by a seasonally adjusted 2.0% Q/Q in Q1, a second straight gain and the largest in one year, but still surprising on the downside. However, partially due to base effects, on a Y/Y basis, economic growth fell back from 3.8% to a 1½-year low of 3.0% last quarter, but with that reading still coming in above expectations. The expenditure breakdown showed a slip in Y/Y private consumption expenditure growth (from 3.9% to 3.4%) and with an even more marked fall back in the government spending counterpart. However, growth in the former was only marginally below the long-term average in spite of the latest fall. Moreover, capex growth saw some clearer strength last quarter, rising from 6.4% Y/Y to a three-month high of 9.3%, very clearly above the long-term average, and net trade provided a clearer boost to the economy. On the output side, meanwhile, there was weaker secondary sector growth, weighed down by slowing manufacturing growth and an outright fall in construction output. In contrast, the primary sector strengthened, while tertiary sector growth was mixed. *Output falls faster.* Surprising to the downside, April industrial production fell by 7.81% Y/Y after a 6.69% decline in the previous month, a third straight decrease in output and the largest drop in 20 months. In seasonally adjusted M/M terms, output saw a swing into negative territory, falling 3.4% in the month from a 0.7% increase in March. On a further downbeat note, capacity utilization also dropped, to 54.57% from 66.08% in the preceding month, also hitting a new cycle-low. It is important to note that the recent falls in output are likely influenced by supply-chain disruptions caused by the earthquake in Japan (Thailand's biggest trading partner), and thus may be temporary in nature. As such, it is the view of the Bank of Thailand that industrial output will bounce back later this year and the focus will hence remain firmly placed on inflation.

The Americas

Argentina

- **Trade:** *Wider trade surplus.* Argentina's trade surplus widened by US\$0.633 billion in April, to US\$1.3 billion. Exports climbed 12% from a year ago on rising commodity prices, while imports surged 38% on strong domestic demand. The latest data – with a surplus less than the market consensus and almost 40% lower than a year ago – flame fears that persistently high inflation is eroding competitiveness. Nonetheless, the central bank is unlikely to be swayed from its current monetary policy stance.

Brazil

- **Employment:** *Unemployment falls further.* The labor market continues to tighten in Brazil, with the unemployment rate edging lower to 6.4% in April. Unemployment averaged 6.4% over the first four months of 2011, compared to 7.4% over the first four months of 2010. Policy-makers have used a combination of measures, including monetary policy tightening and macro prudential tools, to reduce the risks of overheating. The latest data should not alter the outlook for the central bank's policy stance; further tightening is expected in the months ahead.

Mexico

- **Monetary Policy:** *Policy stance unchanged.* As expected, the Central Bank of Mexico kept its main policy rate unchanged at 4.5 percent at its May Board meeting. The rate has remained steady since mid 2009 – down from a cyclical peak of 8.25 percent in late 2009/early 2009 – even as the recovery gained traction and inflation remained above target. The statement noted that the economy has recently shown signs of moderating, and inflationary pressures were largely concentrated in agricultural and other commodity prices rather than widespread. The Board judged that the balance of risks favored an unchanged policy setting.

Comparative International Economic Indicators

	Real Growth*			Consumer Prices*		
	Latest Period	Chg. Over Prev. Period	Chg. Over Year Ago Period	Latest Period	Chg. Over Prev. Period	Chg. Over Year Ago Period
United States	2011:Q1	1.7	2.3	2011:M4	0.4	3.1
Canada	2010:Q4	3.3	3.2	2011:M4	0.3	3.3
Eurozone	2011:Q1	3.4	2.5	2011:M4	0.6	2.8
United Kingdom	2011:Q1	2.0	1.8	2011:M4	1.0	4.5
Germany	2011:Q1	6.1	4.8	2011:M4	0.2	2.2
France	2011:Q1	5.9	3.6	2011:M4	0.3	2.1
Italy	2011:Q1	0.4	1.0	2011:M4	0.5	2.6
Switzerland	2010:Q4	3.5	3.2	2011:M4	0.1	0.3
Japan	2011:Q1	-3.7	-0.7	2011:M3	0.3	0.0
Korea	2011:Q1	5.6	4.0	2011:M4	0.0	4.2
Taiwan	2011:Q1	-26.2	6.5	2011:M4	0.8	1.3
Hong Kong	2011:Q1	-22.4	7.2	2011:M3	0.3	4.6
Singapore	2011:Q1	8.6	8.3	2011:M3	0.1	5.0
Australia	2010:Q4	3.0	2.7	2011:Q1	1.6	3.3
Mexico	2011:Q1	2.1	4.4	2011:M4	0.0	3.4

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

*Not seasonally adjusted except for United States and Germany.

	Industrial Production*			Current Account (Billions of Dollars)			
	Latest Period	Chg. Over Prev. Period	Chg. Over Year Ago Period	Latest Period	Trailing 12-Month Sum	2010 Total	2009 Total
United States	2011:M4	0.0	5.0	2010:Q4	-470.2	-470.2	-378.4
Canada	2011:M2	-0.9	5.0	2010:Q4	-48.5	-48.5	-38.6
United Kingdom	2011:M3	0.2	0.7	2010:Q4	-56.2	-56.2	-37.1
Germany	2011:M3	0.7	10.9	2011:Q1	184.7	185.1	189.6
France	2011:M3	-0.9	3.5	2011:Q1	-61.0	-55.4	-51.8
Italy	2011:M3	0.4	3.2	2011:Q1	-70.3	-67.5	-43.2
Switzerland	2011:Q1	7.4	6.1	2010:Q4	76.6	76.6	57.2
Japan	2011:M3	-3.4	-13.1	2011:Q1	183.2	196.0	142.6
Korea	2011:M3	18.0	8.7	2011:Q1	30.7	28.2	32.8
Taiwan	2011:M3	25.9	13.8	2011:Q1	40.3	39.9	42.9
Hong Kong	2011:Q1	-1.5	5.8	2010:Q4	13.9	13.9	18.0
Singapore	2011:M3	37.9	22.0	2011:Q1	52.5	49.5	35.1
Australia	2011:Q1	-0.8	-0.3	2010:Q4	-31.7	-31.7	-43.3
Mexico	2011:M3	10.2	4.2	2010:Q4	-5.7	-5.7	-6.3

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

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

	Unemployment Rate*				Long-Term Government Bond Yield		
	Latest Period	Latest Period	Prev. Period	Year Ago Period	Latest	Prev. Month	Year Ago
United States	2011:M4	9.0	8.8	9.8	3.07	3.36	3.36
Canada	2011:M4	7.6	7.7	8.1	3.06	3.27	3.38
United Kingdom	2011:M4	4.6	4.5	4.7	3.29	3.57	3.61
Germany	2011:M3	6.3	6.4	7.4	2.99	3.29	2.70
France	2011:M3	9.5	9.5	9.8	3.64	3.58	2.96
Italy	2010:Q4	8.5	8.4	8.3	4.75	4.81	4.10
Switzerland	2011:M4	3.1	3.3	4.0	1.83	2.08	1.56
Japan	2011:M3	4.6	4.6	5.0	1.13	1.22	1.26
Korea	2011:M4	3.7	4.3	3.8	4.24	4.54	4.93
Taiwan	2011:M3	4.5	4.7	5.7	1.44	1.38	1.36
Hong Kong	2011:M4	3.5	3.4	4.4	2.37	2.60	2.42
Singapore	2011:Q1	1.8	2.0	2.1	2.34	2.44	2.79
Australia	2011:M4	4.9	4.9	5.4	5.23	5.46	5.39
Mexico	2011:M3	4.6	5.4	4.8	2.01	3.19	3.35

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

	Call Money Rate			Exchange Rate			
	Latest	Prev. Month	Year Ago	Latest Level	Chg. Over Last Week	Chg. Over Prv. Month	Chg. Over Year Ago
Euro	1.25	1.25	1.00	1.4285	0.9	-3.4	15.6
United States	0.10	0.10	0.22	78.02§	-0.4	0.6	-10.3
Canada	1.00	1.00	0.25	0.9774	-0.4	-2.9	6.8
United Kingdom	0.50	0.50	0.48	1.6482	1.6	-0.9	13.0
Germany	1.25	1.25	1.00	1.3693	-0.9	3.5	-13.5
France	1.25	1.25	1.00	4.5924	-0.9	3.5	-13.5
Italy	1.25	1.25	1.00	1355.59	-0.9	3.5	-13.5
Switzerland	0.06	0.09	0.06	0.8529	2.8	2.5	25.9
Japan	0.09	0.09	0.10	80.85	1.1	1.6	11.2
Korea	3.03	3.01	1.98	1082.4	0.1	-1.1	10.5
Hong Kong	0.09	0.09	0.05	7.7808	0.1	0.1	-0.1
Singapore	0.16	0.16	0.13	1.2365	0.2	-0.6	11.7
Australia	0.00	4.75	4.50	1.0692	0.3	-1.7	25.6
Mexico	4.47	4.50	4.45	11.6152	0.3	-0.8	9.3

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

§ Morgan Guaranty Trade-Weighted Index.

Comparative International Economic Indicators (Cont.)

	Real Growth*			Consumer Prices*		
	Latest Period	Chg. Over Prev. Period	Chg. Over Year Ago Period	Latest Period	Chg. Over Prev. Period	Chg. Over Year Ago Period
Belgium	2011:Q1	4.0	3.0	2011:M4	0.2	3.4
Netherlands	2011:Q1	3.5	2.7	2011:M4	0.5	2.1
Denmark	2010:Q4	1.0	2.5	2011:M4	0.4	2.9
Sweden	2010:Q4	5.1	7.2	2011:M4	0.4	3.0
Norway	2010:Q4	10.1	1.5	2011:M4	0.5	1.3
Finland	2010:Q4	7.0	5.0	2011:M4	0.2	3.2
Spain	2011:Q1	1.2	0.8	2011:M4	1.2	3.8
Portugal	2011:Q1	-3.5	-0.7	2011:M4	0.4	4.1
Indonesia	2011:Q1	6.2	6.5	2011:M4	---	---
Philippines	2010:Q4	83.1	7.1	2011:M4	0.8	4.5
Malaysia	2011:Q1	-11.7	4.6	2011:M4	0.2	3.2
Thailand	2010:Q4	29.6	3.8	2011:M4	1.4	4.0
India	2010:Q4	43.8	9.7	2011:M3	0.0	8.8
China	2011:Q1	---	9.7	2011:M4	---	5.3
Argentina	2010:Q4	10.5	10.1	2011:M3	0.9	9.7
Brazil	2010:Q4	3.0	5.0	2011:M4	0.7	6.4

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

*Not seasonally adjusted.

	Industrial Production*			Current Account (Billions of Dollars)			
	Latest Period	Chg. Over Prev. Period	Chg. Over Year Ago Period	Latest Period	Trailing 12-Month Sum	2010 Total	2009 Total
Belgium	2011:M2	7.2	13.4	2010:Q4	5.9	5.9	1.8
Netherlands	2011:M3	1.7	2.1	2010:Q4	60.5	60.5	38.9
Denmark	2011:M3	-1.7	-1.5	2011:Q1	18.3	16.8	6.8
Sweden	2011:M3	-0.1	13.5	2010:Q4	29.1	29.1	28.3
Norway	2011:M3	-1.5	-6.4	2010:Q4	53.5	53.5	50.1
Finland	2011:M3	-1.1	0.4	2011:Q1	7.8	7.6	5.9
Spain	2011:M3	10.6	1.0	2010:Q4	-63.8	-63.8	-75.3
Portugal	2011:M3	6.9	-2.4	2011:Q1	-20.9	-22.6	-25.7
Indonesia	2011:M3	4.3	6.2	2011:Q1	6.0	6.2	31.8
Philippines	2011:M2	-1.9	11.1	2010:Q4	8.5	8.5	21.9
Malaysia	2011:M3	12.1	2.3	2010:Q4	28.0	28.0	8.8
Thailand	2011:M3	1.1	-7.2	2011:Q1	16.0	14.8	7.1
India	2011:M3	16.9	7.3	2010:Q4	-51.9	-51.9	10.2
Argentina	2011:M3	20.3	5.0	2010:Q4	3.6	3.6	11.1
Brazil	2011:M3	8.5	-2.1	2011:Q1	-50.0	-47.4	-24.3

*Not seasonally adjusted except for Netherlands, Sweden, Norway, Finland, and Spain.

Thailand reported as 12-month moving average.

	Unemployment Rate*				Long-Term Government Bond Yield		
	Latest Period	Latest	Prev. Period	Year Ago Period	Latest	Prev. Month	Year Ago
Belgium	2011:M3	7.7	7.7	8.4	4.15	4.33	3.19
Netherlands	2011:M3	4.2	4.3	4.5	3.26	3.59	2.94
Denmark	2011:M3	4.0	4.0	4.3	4.15	4.33	3.19
Sweden	2011:M3	7.7	7.6	8.5	2.87	3.24	2.64
Norway	2011:M4	2.8	2.9	3.0	3.39	3.75	3.47
Finland	2011:M3	9.3	8.4	9.1	3.49	3.40	2.91
Spain	2011:M3	20.7	20.6	19.6	5.32	5.49	4.23
Portugal	2011:M3	11.1	11.1	10.7	9.59	9.62	4.71
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	4.00	4.07	4.00
Thailand	2011:M2	0.7	1.0	1.0	3.77	3.64	3.34
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.

	Call Money Rate			Exchange Rate			
	Latest	Prev. Month	Year Ago	Latest Level	Chg. Over Last Week	Chg. Over Prv. Month	Chg. Over Year Ago
Belgium	1.25	1.25	1.00	28.2421	0.9	-3.5	13.5
Netherlands	1.25	1.25	1.00	1.5428	0.9	-3.5	13.5
Denmark	1.00	1.00	0.75	5.2197	0.9	-3.5	13.3
Sweden	1.92	2.09	0.25	6.2313	1.2	-3.2	20.8
Norway	2.25	2.00	2.00	5.4344	2.0	-3.0	15.7
Finland	1.25	1.25	1.00	4.1626	0.9	-3.5	13.5
Spain	1.25	1.25	1.00	116.49	0.9	-3.5	13.5
Portugal	1.25	1.25	1.00	140.36	0.9	-3.5	13.5
Indonesia	6.30	6.29	6.28	8573.0	-0.3	0.6	7.0
Philippines	4.50	4.25	0.00	43.345	-0.5	-0.5	6.2
Malaysia	0.00	0.00	0.00	3.0257	-0.1	-1.6	8.2
Thailand	—	—	—	30.310	-0.1	-1.2	6.9
India	7.30	6.95	4.13	45.165	0.3	1.6	-4.5
China	—	—	—	6.4930	0.0	0.3	4.9
Argentina	9.68	10.35	9.65	4.0855	0.1	-0.1	-4.5
Brazil	11.16	11.16	0.00	1.5978	1.7	-1.8	12.0

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

Week ended: 5/27/2011

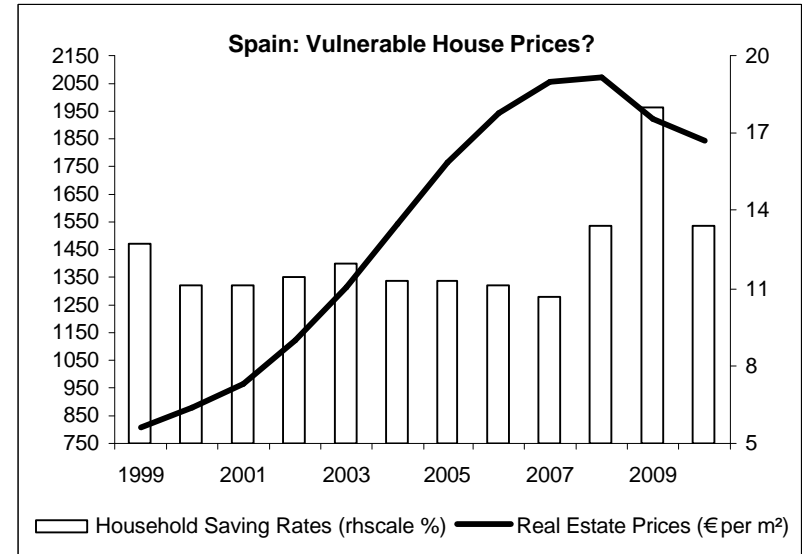
Focus on Spain and the Eurozone

Eurozone sovereign debt worries have flared up again as concerns that Greece may be forced into default spread contagion to other peripheral countries. Notably, these worries have now started to spread back to Spain, seemingly eschewing any hope that the country has 'decoupled' permanently. Indeed, worries about the Spanish situation were apparently made worse by the stinging rebuttal suffered by the Government in local elections last week, alongside an increasing understanding that the country's feeble growth dynamics will not allow any quick resolution of the its fiscal problems, a realization that is also starting to hurt other larger Eurozone debt countries such as Italy.

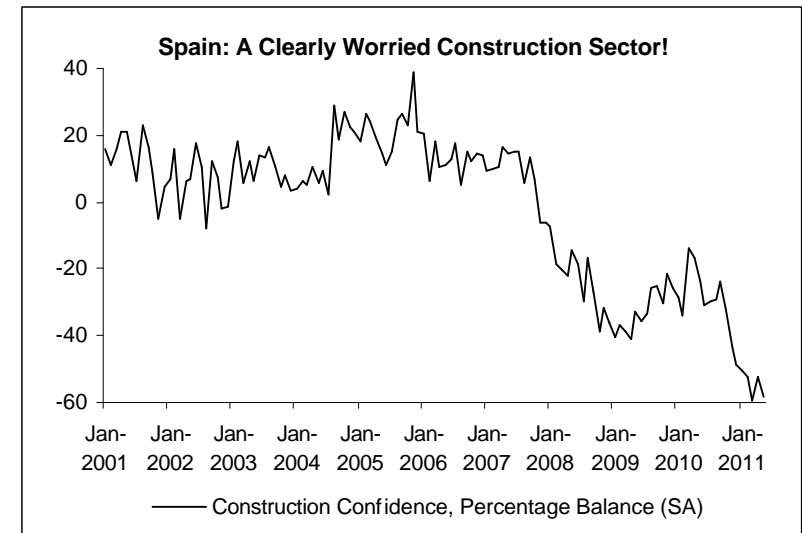
Admittedly, Spanish GDP numbers have shown some resilience of late, with five quarters in which contraction has been avoided, albeit with growth of no more than 0.3% Q/Q in Q1, being up only from the 0.2% reading of the previous quarter. More notably, it remains clear the extent to which net trade has continued to support the economy. Indeed, domestic demand growth was flat in Q/Q terms in Q1, keeping the Y/Y rate of change at -0.6%. Much of the weakness in domestic demand was (again) related to a contracting construction side, albeit with consumer spending flattening out and with more recent monthly data relating to household expenditure showing clearer weakness.

As a result, the data very much underscore the extent to which the still feeble and fragile Spanish recovery is dependent upon the global economy in supporting the export strength (+11.2% Y/Y in Q1). As a result, the fortunes of the Spanish economy are perhaps as much sensitive to the policy tightening occurring abroad, as to any tightening coming domestically. However, over and beyond the impact of further fiscal consolidation this year (designed to help ensure a further sizeable drop in the budget deficit to around 6.25% of GDP from just over 9% in 2010), the presumed hikes from the ECB may take their toll on the construction sector via what is still a very vulnerable housing market. This is evident not only in a large overhang of vacant properties but by the fact that house prices are still very high by historical standards (as the upper chart illustrates). Indeed, prices have fallen just 12% from their Q3 2007 peak, having almost doubled in the decade beforehand), all of which underscores the extent to which house prices may be all the more sensitive to prospective rises in short-term rates.

This is all the more important as the housing market, to which the Spanish banking sector is also inextricably linked, may be the lynchpin that determines the extent to which Spain remains decoupled or not from the travails of other Eurozone peripheral countries. However, one further complicating factor is the likely behavior of consumers, who, in the wake of the recent recession, pushed up household savings rates to an unprecedented 18% in 2009 (see upper chart), the question being the extent to which this provides the Spanish consumer (and housing market) with some cushion. Indeed, recent research has suggested that housing markets in countries with high household savings rates are less vulnerable than countries with low savings rates (eg the UK) both in terms of the extent to which prices may correct and the extent to which households can withstand the repercussions of a fall in house prices. This may be a reassuring backdrop. However, it could be argued that given the apparent fall back in the savings rate in the last year, this cushion may have been used, leaving the housing market ever more vulnerable. The fact that construction confidence has weakened so much of late (see lower chart), may be an indication that the sector is alert to this vulnerability.



Source: OECD, EU Commission and Bank of Spain



Source: EU Commission

May 27, 2011

DECISION ECONOMICS

May 27, 2011

	Latest	Week Ago	% Chg. YTD *	12/30/09
Yen/\$	80.85	81.71	-0.4	81.16
\$/Euro	1.4285	1.4160	-6.7	1.3387
Yen/Euro	115.49	115.70	6.3	108.65
\$/STG	1.6484	1.6230	-5.6	1.5612
Sfr/\$	0.8527	0.8774	-8.8	0.9346
Can\$/US\$	0.9773	0.9737	-2.1	0.9983
Mexican Peso/\$	11.616	11.647	-6.0	12.360
Brazil Real/\$	1.5978	1.6250	-3.7	1.6600
Thai Baht/\$	30.310	30.290	0.9	30.030
Malaysian Ringgit/\$	3.0257	3.0230	-1.1	3.0600
Indonesian Rupiah/\$	8572.5	8550.0	-4.5	8979.0
Korean Won/\$	1082.5	1083.4	-3.8	1124.8
Philippines Peso/\$	43.344	43.130	-0.6	43.590
India Rupee/\$	45.165	45.013	1.0	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.	0.25	0.26	-0.05	0.30
Canada	1.20	1.20	-0.03	1.23
Euro	1.38	1.39	0.44	0.94
U.K.	0.83	0.82	0.07	0.76
Japan	0.20	0.20	0.01	0.19

LONG-TERM (10-Year Benchmark)**

U.S.	3.08	3.15	-0.22	3.30
US 10 Year Swap Rate	3.17	3.24	-0.21	3.38
Canada	3.06	3.21	-0.06	3.12
Italy	4.75	4.77	-0.07	4.82
Germany	2.99	3.06	0.02	2.96
U.K.	3.29	3.35	-0.10	3.40
Switzerland	1.83	1.88	0.12	1.72
Japan (JGB)	1.13	1.13	0.00	1.13
Australia	5.23	5.32	-0.32	5.55
Brazil	4.30	4.28	-0.31	4.61
India	8.39	8.35	0.47	7.92

Spreads to US 10-Year

10 Year Swap Spread	0.09	0.09	0.01	0.08
10 Year - 2 Year	2.60	2.63	-0.10	2.70
Moody AAA	1.76	1.72	0.17	1.58
UK Gilt	0.22	0.20	0.12	0.10
German Bund	-0.09	-0.09	0.24	-0.33
Italian 10-year	1.67	1.63	0.15	1.52

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

STOCK MARKETS

U.S. (DJIA)	12442	12512	7.5	11578
S&P 500	1331	1333	5.8	1258
NASDAQ Composite	2797	2803	5.4	2653
Russell 2000	836	829	6.7	784
Canada (TSE-300)	13798	13625	2.6	13443
Mexico (Bolsa)	35803	35299	-7.1	38551
Argentina (Merval)	3264	3386	-7.4	3524
Brazil (Bovespa)	64266	62597	-7.3	69305
Germany (DAX, XETRA)	7163	7267	3.6	6914
U.K. (FT-SE 100)	5939	5948	0.7	5900
France (CAC-40)	3951	3991	3.8	3805
Switzerland (SMI)	6489	6531	0.8	6436
Japan (Nikkei-225)	9522	9607	-6.9	10229
Hong Kong (Hang Seng)	23118	23199	0.4	23035
Australia (All Ordinaries)	4760	4808	-1.8	4847
South Korea (KOSPI)	2100	2112	2.4	2051
Thailand	1067	1073	3.3	1033
India (BSE)	18266	18326	-10.9	20509
China (Dow Jones Shanghai Index)	340	362	-4.5	356
Singapore (Straights Times Index)	3136	3169	-1.7	3190

COMMODITIES

Gold (USD/Troy Ounce)	1536.40	1512.30	8.1	1420.78
Crude Oil (WTI, Spot)	100.59	99.49	10.1	91.38
CRB Futures	346.27	341.56	4.0	332.80
CRB Raw Industrials (Spot)	561.18	560.23	7.9	520.33