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Global Economic Developments

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ECB: Options Remain Open But Nothing Preordained?

There was no surprise that the ECB kept the refi rate at 1.25% after its latest Council meeting, failing to add to the 25 bp hike made last month, the latter having ended the period of policy stability seen over the previous 23 months.

More importantly, and in contrast to what had been very recent speculation that a rate hike would be flagged for next month, there were instead more ambiguous signals regarding the course of future policy. Notably, President Trichet (when pressed in the Q&A) refuted any notion that a policy of rate normalization was underway, thereby refusing to echo the policy hints offered in comments by many of his Council colleagues of late. However, it is clear that more tightening is being envisaged, with the statement emphasizing continued upside inflation risks alongside a reminder that rates are low and that the current stance is accommodative. Indeed, further hiking is implicit by the ECB using language regarding the need to monitor developments very closely, terminology that in previous cycles has been used to hint at a rate hike two months hence. However, give the fact that this terminology has been used for an unprecedented second month in a row, markets cannot be sure that the ECB is intent on repeating the rhetoric that flagged rates being hiked at the three-month intervals at the start of the last tightening cycle from late-2005.

Regardless, markets will remain of the view that the ECB plans to signal a July hike at its next meeting, albeit with less confidence given that President Trichet refused to corroborate current market expectations which discount such a move. Moreover, markets may ponder why this latest ECB press conference proved more cautious than expected for a second successive month. In this regard, it is possible, particularly given the conflicting views offered in regard to whether the ECB is normalizing policy, that the mixed messages from the central bank may be a result of differing views among Council members, eg in relation to the inflation risks from the monetary side. In addition, some on the Council may have been possibly less willing to accept the view that growth risks remain balanced given the shocks that have hit the world economy in the last few months alongside the fresh sovereign debt strains within the Eurozone and the continued fragility of the banking system. ECB caution may also have been a result of the recent rise in the euro, a view supported by the usual focus that President Trichet took to underscore that the US wants a strong dollar.

This still very much suggests that the Council therefore wishes to keep all options open in relation to both the timing and size of further rate hikes, an understandable desire for flexibility given the still elevated amount of uncertainty facing policy makers. Perhaps most importantly, there is nothing in recent data to suggest that the main inflation concern of the ECB, ie second round effects, is materializing. Indeed, the very opposite seems to be the case in relation to a wage-price spiral given the continuing, if not clearer weakness, evident in regard to consumer spending – even in the apparently upbeat parts of the Eurozone. Surely this weakness is a reflection of the damage to household spending power in the face of rising food and energy prices alongside an inability to achieve any increase in wages to offset the higher costs facing consumers.

This weakness in consumer spending also implies that the continued underlying economic momentum which the ECB refers to (and which may be evident in faster Q1 GDP numbers due next Friday) is still likely to be largely driven by the impact of global growth boosting exports. In this regard, perhaps markets should be as wary about the danger to Eurozone growth prospects from any policy tightening in the rest of the world as much as the rate hikes that the ECB seemingly may still have in store.

— Andrew Wroblewski, DE London

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Europe

France

- **Trade:** *Trade gap narrows.* Undershooting expectations, the March trade gap narrowed from a record-high deficit of € 6.37 bln in February to € 5.75 bln. The latest decrease in the deficit was a result of exports (1.4% M/M) outpacing imports (-0.4%), as rising oil prices led to declining volumes imported.

Germany

- **Growth and Production:** *Industrial production rises less clearly.* Exceeding expectations, March industrial production rose by 0.7% M/M, a gain that was smaller than in the preceding month but still a third-straight positive reading. Of some note, a further, and more marked, recovery in construction production boosted the data, but with manufacturing output rising much less clearly than in the preceding month (0.5% M/M vs 1.85%).

Switzerland

- **Employment:** *Lower unemployment.* Coming in slightly below expectations, the seasonally adjusted jobless rate fell by 0.2 percentage point to 3.1% in April, now the lowest since February 2009. The unadjusted rate, meanwhile, was 3.1%, down from 3.4% in March.

Norway

- **Employment:** *Lower unemployment.* The seasonally adjusted unemployment dropped 0.2 percentage points to 3.1% in the three months to February. Moreover, there some clearer signs of an increase in employment as the data did show a rise of 0.4% in the last three months and with the Y/Y change in employment growth rising up to 0.96%. Even so, a fall in participation rates may be the main factor behind the fall in the jobless rate.

Spain

- **Growth and Production:** *Industrial output growth weakens.* March (unadjusted) industrial production growth slipped by 2.1 percentage points to 1.0% Y/Y from the preceding month, a second successive slowing in growth and now a three month low. On a further downbeat note, in workday adjusted terms, output actually fell by 0.9% Y/Y, contrasting clearly with the 10-month high 3.3% increase seen in February, dragged down by a broad based fall across almost all components.

Central Europe

Czech Republic

- **Monetary and Fiscal Policy:** *Rate held.* The CNB left rates on hold at 0.75% in a widely-expected decision, the vote being 5-2. The minority voted for a 25 bps increase. The accompanying outlook was notable in that it saw "broad stability in market interest rates in the near future and a gradual rise in rates starting in 2011 Q4," which is a slightly earlier timeline for the beginning of rate hikes that earlier foreseen, "from the end of the year." Inflation is expected to be near the target (2%) over the policy horizon, with the profile broadly similar to that presented at the prior meeting, though slightly more elevated. Still, "no inflation pressures from the domestic economy are apparent," but the key upside risk to the outlook is now a "less anti-inflationary domestic environment." The CNB sees that risk as balanced by the ongoing debt crisis in Europe. Growth, meanwhile, is expected to come in weaker than earlier expected in 2010-11 (1.5% vs. 1.6% in 2010, 2.8% vs. 3.0% in 2011), as fiscal restriction, the end of inventory restocking, and a tougher external environment take over. Taken together, the CNB's view of the balance of risks tilted slightly upward on account of the pre-meeting rise in commodity prices, necessarily forcing a modest shift in the baseline scenario for the timing of interest rate hikes. Still, there is much to be sorted out, in particular, the evolution of commodity prices after recent volatility, and the ongoing fiscal consolidation efforts in Europe, supporting the bank's continued caution toward signaling a rate hike sooner this year, as was nearly the case in February when the Board voted 4-3 to keep rates unchanged.

Hungary

- **Growth and Production:** *Weaker output.* Although surprising to the up-side once again, preliminary data showed industrial production falling 3.6% M/M in March, more than offsetting the February gain of 1.1%, but merely denting the weather-related surge of 15.1% in January. Nevertheless, on a Y/Y basis, industrial production growth slowed from 14.6% in February to a three-month low of 9.2% in March.

Russia

- **Inflation:** *CPI still rising.* Consumer prices rose 9.6% y/y in April, up from 9.5% in March, reflecting higher prices for fuel, and continued increases in food prices. The core CPI rose a bit less strongly than expected, rising 0.5% from the prior month, and running at a 3.0% pace YTD, markedly faster than the 1.7% pace seen through the first four months of 2011, signaling that price pressures continue to build. Higher food and fuel prices helped to prompt a surprise rate hike late in April, as officials attempt to ward off second round effects of commodity price shocks.

Turkey

- **Inflation:** *Inflation rises.* Undershooting expectations slightly, April consumer price inflation rose by 0.27 percentage points to 4.26% Y/Y from the previous month, ending a run of six successive falls and reaching a three-month high. On a M/M basis, prices rose to 0.87% from 0.42% in the previous month, driven by clothing (10.91%), furnishings (1.76%) and transport (1.04%). The Y/Y breakdown, meanwhile, showed the latest rise to be the result of rising price pressures from transport (7.98% from 6.91% in March), furnishings (7.28% from 6.11%), clothing (5.74% from 5.43%) and utilities (4.86% from 4.57%) being tempered by falls in food (2.83% from 3.47%) and health (0.57% from 1.40%) inflation. As a result, core inflation (excluding energy, food and non-alcoholic beverages) climbed to 4.42% Y/Y in April, jumping from the 3.77% outcome last month.

Asia and Pacific

Australia

- **Monetary and Fiscal Policy:** *Policy on hold, but more hawkish tones?* As expected, the RBA decided to leave the Cash Rate on hold at 4.75% in May, for a fifth straight meeting. The accompanying statement saw very few changes in theme from that published following the April meeting, with the RBA once more emphasizing that the global economic expansion was still clearly led by strong Asian growth. However the statement now mentioned more explicitly the effect of the earthquake in Japan, noting that it would have a major impact on that country, and 'some' effects further afield. As for Australia, the RBA noted that the terms of trade were reaching highs not assumed a few months ago and that national income was growing strongly. Moreover, the central bank reiterated that investment was picking up, led by the resource sector in response to rising commodity prices. Nevertheless, the statement also maintained that there was a degree of caution in household spending and borrowing. The RBA also underscored that the Australian dollar was at the highest for several decades, exerting additional restraint on exporters, but also helping to hold down prices for some consumer goods. Of some note, however, although the central bank still maintained that the current surge in inflation was temporary, it now said that CPI inflation would be 'close to target' over the year ahead, rather than 'consistent with the target', the latter having been the language used in April. Moreover, the Bank noted that long-term inflation can be expected to increase somewhat if economic conditions developed as expected, language it had previously not used.

Malaysia

- **Monetary and Fiscal Policy:** *Policy tightened.* Surprising most, Bank Negara Malaysia (BNM) hiked it benchmark interest rate – the Overnight Policy Rate (OPR) – by 25 bp to 3.00% following its latest policy meeting. This was the first hike since August last year. In the statement accompanying the rate decision, the BNM repeated that global economic recovery was continuing, but also reiterated that it differed markedly across regions and added that downside risks had increased due to rising energy and commodities prices. As to the domestic economy, the central bank still seemed up-beat. It expected growth to remain on a steady path, with continued strength in private consumption and investment, and with the assessment of the export outlook more positive. With regards to consumer price inflation, the Bank repeated that the pick-up in price pressures seen as of late was mainly due to higher food and energy prices, but also said that there were some signs that domestic demand factors could exert upward pressures as well. The latter statement was more hawkish than seen in March, when there were only 'incipient signs' of such a development.

- **Trade:** *Export growth weakens.* Exceeding expectations, export growth eased back from the seven-month high of 10.5% Y/Y in February to 7.8% in March, still the second highest in seven months and bringing overseas sales to a record high 64.06 bln ringgit. The Y/Y breakdown showed the latest decrease to be relatively broad based, and being led by a slowing in export growth for two of the largest components, electronic products (6.7% from 7.1% in February) and chemical products (12.0% from 19.2%). In geographical terms, export growth showed very mixed messages with increases in China, Singapore and Australia being outweighed by declines elsewhere. Meanwhile, import growth picked up to 12.1% Y/Y from 11.5% a month before, thus widening the trade balance to 13.52 bln ringgit from 14.32 bln ringgit in the same month of 2010.

Philippines

- **Monetary and Fiscal Policy:** *Rates hiked.* As expected, the Bangko Sentral ng Pilipinas (BSP) raised its benchmark interest rates following its May meeting, hiking the reverse repurchase rate by 25 bp to at 4.50% and the repurchase rate by the same amount to 6.50%.The rate increase was the second in as many meetings and in the accompanying statement, the BSP repeated that its forecasts still showed inflation target-range in 2011 (of 3-5%) was at risk. This was mainly due to higher international oil prices, but the BSP board also underscored that the upward shift in inflation expectations was also a concern, with their potential impact of future wages and prices. Moreover, the central bank also said it expected the economy to keep growing above trend

New Zealand

- **Employment:** *Labor market conditions improve.* Surprising to the downside, the Q1 seasonally adjusted unemployment rate fell by 0.1 percentage point to 6.6% Q/Q, unwinding only part of the 0.3 percentage rise in the previous quarter. The level of unemployment also fell, by 3000 to 155 000. On a further upbeat note, and coming in clearly above expectations, employment rose by 1.4% Q/Q in Q1, bouncing back from the 0.4% drop seen in the preceding quarter and being driven mainly by a recovery in part-time employment (4.0% from -2.9% in Q4 2010) alongside a modest improvement in full-time job growth (0.5% from 0.3%). Meanwhile, hours worked fell by 0.9% in Q1 while the participation rate rose to a two-year high of 68.7% from 67.9% last quarter.

South Korea

- **Inflation:** *Consumer price inflation falls back.* Undershooting expectations once more, consumer price inflation fell by 0.5 percentage point to 4.2% Y/Y in April, a three-month low and down from the highest reading since October 2008. Nevertheless ,CPI inflation on this basis, remained above 4% (the ceiling of the central bank's tolerance range) for a fourth straight month. On a M/M basis, consumer prices were flat, as falling food and miscellaneous prices offset gain in utilities and costs. The Y/Y breakdown, meanwhile, saw similar developments, food price inflation falling to an eight month low of 7.6% (from 10.9%) but with transport price pressures easing as well, albeit only from a 14-month high. Utilities price inflation, meanwhile rose by 0.2 percentage point to 4.2%, the highest since late-2008 alongside a modest gain in clothing and health price pressures. As a consequence, core inflation inched down 0.1 percentage point to 3.2% Y/Y last month, slipping from the highest in over 19-months.

- **Trade:** *Still strong trade data.* Surprising on the upside once again, export growth nevertheless fell back from a downwardly revised 28.9% Y/Y in March to 26.6% last month. However, the component breakdown showed mixed developments, but with the fall back relatively broad-based on a geographical basis, particularly in Asia and Europe. Imports, meanwhile, saw growth slowing from 27.3% Y/Y to 23.7%, resulting in the trade surplus widening to o $ 5 823 mln last month from a surplus of $ 3 779 in the same month of 2010.

Taiwan

- **Inflation:** *Consumer price pressures moderates.* Contrary to market expectations of a stable reading, consumer price inflation fell back from 1.41% Y/Y in March to 1.34% last month, offsetting almost the entire March surge. In M/M terms, however, prices saw a clear gain, rising 0.79% on a broad basis, but accentuated by a surge in clothing costs (12.02%). The Y/Y breakdown, meanwhile, showed virtually unchanged food price inflation (1.85% from 1.86%), but with clear fallbacks in clothing and transport price pressures alongside weaker education and miscellaneous price inflation.

India

- **Trade:** *Slip in export growth.* Trade data for March showed exports growing by 43.8% Y/Y, down from 49.7% in the preceding month, but with the latter reading having been an 11-month high. Imports, meanwhile, rose by 17.3% Y/Y, also a slower pace than in February (21.2%) as a surge in oil imports –the first gain since November last year was more than canceled out by a drop in growth of non-oil imports. As a result, the trade balance was in deficit to the tune of $ 5.6 bln in March, an improvement on the March 2010 shortfall of $ 9.2 bln.

Indonesia

- **Growth and Production:** *Growth moderates.* Surprising on the downside, national accounts data showed GDP growth slowing from 6.9% Y/Y in Q4 to 6.5% last quarter, albeit with the Q4 outcome having been the strongest since late-2004. Indeed, the Q1 outcome was still clearly above the long-term average, helped by a 1.5% Q/Q gain. The expenditure breakdown provided some further evidence of a moderation in domestic demand growth in Q1. Admittedly, private consumption expenditure actually strengthened slightly (from 4.4% Y/Y to 4.5%), but government spending growth slowed to a three-quarter low and, more importantly, growth in capex fell back to a to a five-quarter low, although to a still solid 7.5%. Net trade, meanwhile, provided little overall boost to headline growth (a mere 0.1 percentage point) as a weaker, but still solid gain in exports was all but offset by imports.
- **Inflation:** *Headline consumer price inflation inches down.* Surprising to the down-side once more, consumer price inflation slipped from 6.65% Y/Y to 6.16% last month, the weakest since November last year. The Y/Y slip came in on the back of a 0.31% M/M drop in consumer prices, caused entirely by a fall in food costs. The Y/Y breakdown also revealed the headline slump to have been due to weaker food price inflation, with the latter falling back from 13.60% Y/Y to a six-month low of 11.08%. Indeed, all other components actually saw price pressures increasing, with the result that core inflation rose further, up from 4.45% Y/Y to 4.62%. The continued rise in core inflation still underscores that interest rates will have to rise further, in spite of the fall back in the headline reading. Indeed, Bank Indonesia will be all too aware that the latter development is purely food-based at this point, but it may still use the headline slip as an excuse to leave policy on hold at next weeks policy meeting,
- **Trade:** *Still strong export growth.* Data for March showed exports rising by 27.5%, an eighteenth straight gain, but one that was weaker than the downwardly revised gain of 29.1% in February. In spite of the slip in growth, the March reading still surprised on the up-side. Imports, meanwhile, rose by 32.0% Y/Y in March, having risen by 23.7% in the prior month. As a result, the trade balance was in surplus to the tune of to $ 1 813 mln in March, a very slight improvement on the $ 1 802 mln surplus in the same month of 2010.

Thailand

- **Inflation:** *Consumer price inflation surge.* Clearly exceeding expectations, consumer price inflation was up from 2.1% Y/Y in March to 4.0% last month, the highest since January last year, coming in the back of a 1.4% M/M gain. This M/M jump reflected a surge in food costs (3.1%) and transport (0.5%) prices. The Y/Y breakdown also saw food price inflation rising in April, but with non-food price pressures easing back due to weaker housing costs. Of some more note, core inflation was up 0.5 percentage point to 2.1% Y/Y, the highest since October 2008. Continued strength in domestic demand and rising commodity prices are expected to push up price inflation even further going forward, especially as the movement cannot keep the current food and fuel subsidies going forever. Hence, the Bank of Thailand is likely to maintain its hawkish policy stance with more rate hikes to come, probably as soon as the next meeting in early June.

The Americas

Canada

- **Employment:** *Broad employment gains, centered in services.* Total employment rose 58,300 in April, boosted by both full-time (+17,200) and part-time gains (+41,100), and balanced across the public (+20,600) and private sectors (+35,600). The service sector saw the bulk of the increases, adding 69,600 jobs, the quickest pace since last April, and rebounding from a 21,500 drop in March. Here, nearly all industries added jobs during the month, lead by finance and RE (+18,700), and business support services. Meanwhile, the goods sector lost jobs for the first time in five months, shedding 11,300 jobs, with all major sub-industries with the exception of the forestry sector seeing employment contract. But, total manufacturing employment slipped less than 1,000. The headline jobs gain outpaced a 47,400 increase in the labor force, taking the jobless rate down to 7.6%, from 7.7% in March, matching the lowest post-recession reading. Nevertheless, the results are a bit less strong than the headline indicates, as a stronger configuration would have seen a more significant contribution from full-time hiring. Still, the full-time reading does come after a gain of 90,600 in April, so the print may best be read as consolidating the earlier move. The next few months may see some disruptions from auto-related shutdowns on account of the Japan disaster, and softer growth more-generally, but for now, the reading is positive in its indications for underlying income growth.

Brazil

- **Trade:** *Trade surplus widens.* The April trade balance widened to a $1,863 surplus from $1,283 the year prior, and $1,552 in March, on a 33.1% y/y advance in exports, and 31.8% for imports. Imports reached a record high during the month.

Comparative International Economic Indicators

Real Growth*

	Latest Period	Chg. Over Prev. Period	Chg. Over Year Ago Period
United States	2011:Q1	1.7	2.3
Canada	2010:Q4	3.3	3.2
Eurozone	2010:Q4	1.1	2.0
United Kingdom	2011:Q1	2.0	1.8
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	2011:Q1	5.6	4.0
Taiwan	2011:Q1	-26.6	6.2
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:M4		0.1	2.1
2011:M3		0.8	2.0
2011:M4		0.5	2.6
2011:M3		0.6	1.0
2011:M3		0.3	0.0
2011:M4	•	0.0	4.2
2011:M4	•	0.8	1.3
2011:M3		0.3	4.6
2011:M3		0.1	5.0
2011:Q1		1.6	3.3
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:M2	•	-0.9	5.0
United Kingdom	2011:M2		-1.2	2.4
Germany	2011:M3	•	0.7	10.9
France	2011:M2		0.4	5.8
Italy	2011:M2		1.4	2.4
Switzerland	2011:Q1		7.4	6.1
Japan	2011:M3		-3.2	-12.9
Korea	2011:M3		18.0	8.7
Taiwan	2011:M3		25.9	13.8
Hong Kong	2011:Q1	•	-1.5	5.8
Singapore	2011:M3		37.9	22.0
Australia	2011:Q1	•	-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	-73.3	-73.3	-43.2
2010:Q4	76.6	76.6	57.3
2010:Q4	196.2	196.2	142.7
2011:Q1	30.7	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:M4	•	9.0	8.8	9.8
Canada	2011:M4	•	7.6	7.7	8.1
United Kingdom	2011:M3		4.5	4.5	4.8
Germany	2011:M3		6.3	6.4	7.4
France	2011:M3		9.5	9.5	9.8
Italy	2010:Q4		8.5	8.4	8.3
Switzerland	2011:M4	•	3.1	3.3	4.0
Japan	2011:M3		4.6	4.6	5.0
Korea	2011:M3		4.3	4.5	4.1
Taiwan	2011:M3		4.5	4.7	5.7
Hong Kong	2011:M3		3.4	3.6	4.4
Singapore	2011:Q1		1.8	2.0	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
3.16	3.55	3.40
3.20	3.42	3.47
3.38	3.76	3.80
3.17	3.43	2.79
3.62	3.67	3.13
4.66	4.74	4.28
1.98	2.06	1.62
1.15	1.30	1.28
4.43	4.46	4.93
1.40	1.37	1.44
2.47	2.73	2.82
2.40	2.44	2.59
5.43	5.54	5.54
2.89	3.31	3.46

Call Money Rate

	Latest	Prev. Month	Year Ago
Euro	1.25	1.00	1.00
United States	0.10	0.10	0.21
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	0.06	0.04	0.04
Japan	0.09	0.09	0.10
Korea	3.01	3.04	2.02
Hong Kong	0.09	0.09	0.03
Singapore	0.16	0.16	0.16
Australia	0.00	4.75	4.50
Mexico	4.47	4.51	4.45

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
1.4351	-3.1	0.1	13.7
77.5§	1.0	-1.6	-9.9
0.9665	-2.3	-0.6	8.2
1.6398	-1.8	0.4	10.6
1.3625	3.2	-0.2	-12.0
4.5698	3.2	-0.2	-12.1
1348.91	3.2	-0.2	-12.0
0.8772	-1.4	4.5	21.3
80.57	0.8	5.8	11.1
1083.3	-1.1	0.3	5.1
7.7717	0.1	0.0	0.0
1.2392	-1.2	1.7	11.7
1.0689	-2.6	2.4	20.8
11.6376	-1.2	1.4	10.5

§ Morgan Guaranty Trade-Weighted Index.

Comparative International Economic Indicators (Cont.)

Real Growth*

			Latest Period	Chg. Over Prev. Period	Chg. Over Year Ago Period
Belgium	2011:Q1	•	4.0		3.0
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	2011:Q1	•	6.2		6.5
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:M4			0.2	3.4
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:M4			1.3	3.8
Portugal	2011:M3			1.6	4.0
Indonesia	2011:M4	•		---	---
Philippines	2011:M4	•		0.8	4.5
Malaysia	2011:M3			0.1	3.0
Thailand	2011:M4	•		1.4	4.0
India	2011:M3			0.0	8.8
China	2011:M3			---	5.4
Argentina	2011:M3	•		0.9	9.7
Brazil	2011:M4	•		0.7	6.4

**Not seasonally adjusted.*

Industrial Production*

			Latest Period	Chg. Over Prev. Period	Chg. Over Year Ago Period
Belgium	2011:M2			7.2	13.4
Netherlands	2011:M2			-1.6	0.6
Denmark	2011:M2			-2.7	0.4
Sweden	2011:M2			1.3	14.9
Norway	2011:M3	•		-1.5	-6.4
Finland	2011:M2			0.9	5.9
Spain	2011:M3	•		10.6	1.0
Portugal	2011:M3	•		6.9	-2.4
Indonesia	2011:M2			-4.1	4.3
Philippines	2011:M2			-1.9	11.1
Malaysia	2011:M2			-7.6	5.0
Thailand	2011:M3	•		1.1	-7.2
India	2011:M2			-5.0	3.6
Argentina	2011:M3	•		20.3	5.0
Brazil	2011:M3	•		8.5	-2.1

**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	-22.6	-22.6	-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	2011:Q1	16.0	14.8	7.1
India	2010:Q4	-51.9	-51.9	10.2
Argentina	2010:Q4	3.6	3.6	11.1
Brazil	2011:Q1	-50.0	-47.4	-24.3

Unemployment Rate*

			Latest Period	Latest	Prev. Period	Year Ago Period
Belgium	2011:M3		7.7	7.7	8.4	
Netherlands	2011:M3		4.2	4.3	4.5	
Denmark	2011:M3	•	4.0	4.0	4.3	
Sweden	2011:M3		7.7	7.6	8.5	
Norway	2011:M4		2.8	2.9	3.0	
Finland	2011:M3		9.3	8.4	9.1	
Spain	2011:M3		20.7	20.6	19.6	
Portugal	2011:M3		11.1	11.1	10.7	
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	4.19	4.25	3.48
Netherlands	3.44	3.70	3.06
Denmark	4.19	4.25	3.48
Sweden	3.15	3.32	2.79
Norway	3.61	3.88	3.30
Finland	3.47	3.51	3.07
Spain	5.24	5.23	4.42
Portugal	9.56	8.54	6.14
Indonesia	—	—	—
Philippines	—	—	—
Malaysia	4.03	4.09	4.08
Thailand	3.70	3.67	3.65
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	2.03	1.66	0.25
Norway	2.00	2.00	2.00
Finland	1.25	1.00	1.00
Spain	1.25	1.00	1.00
Portugal	1.25	1.00	1.00
Indonesia	6.33	6.29	6.15
Philippines	4.50	4.25	4.00
Malaysia	0.00	0.00	0.00
Thailand	—	—	—
India	6.85	6.65	3.90
China	—	—	—
Argentina	10.55	10.35	10.25
Brazil	11.16	11.16	0.00

Exchange Rate

	Latest Level	Chg. Over Last Week	Chg. Over Prv. Month	Chg. Over Year Ago
Belgium	28.1030	-3.2	0.2	12.1
Netherlands	1.5352	-3.2	0.2	12.1
Denmark	5.1963	-3.2	0.1	11.9
Sweden	6.2943	-4.2	0.1	19.0
Norway	5.5239	-5.2	-1.2	11.5
Finland	4.1421	-3.2	0.2	12.1
Spain	115.91	-3.2	0.2	12.1
Portugal	139.67	-3.2	0.2	12.1
Indonesia	8588.0	-0.3	0.8	6.5
Philippines	43.150	-1.0	0.0	4.9
Malaysia	3.0071	-1.6	0.6	7.6
Thailand	30.240	-1.2	-0.3	6.3
India	44.795	1.3	1.4	-1.1
China	6.4932	0.0	0.8	4.9
Argentina	4.0803	0.0	-0.6	-4.7
Brazil	1.6149	-2.5	0.0	12.9

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

Week ended: 5/6/2011

Focus on India: Will RBI Tightening Derail Growth?

The Reserve Bank of India (RBI) has tightened again, raising the repo rate by 50 basis points. More importantly, the bank has outlined in clear terms a plan of action that, at least on the surface, looks like an open-ended tightening strategy, and which implies a *bet* that current signs of slower growth do not point towards a fundamental change in the balance of risks away from inflation and towards recession.

This policy approach suggests a rough environment for equities ahead, and greater support for the rupee coming from higher interest rates. The danger of demand *overkill* has risen to the extent that the economy seems to be already cooling and that the ultimate reason for Indian inflation's resilience is imported commodity prices, outside the reach of policy except for some exchange-rate mitigation.

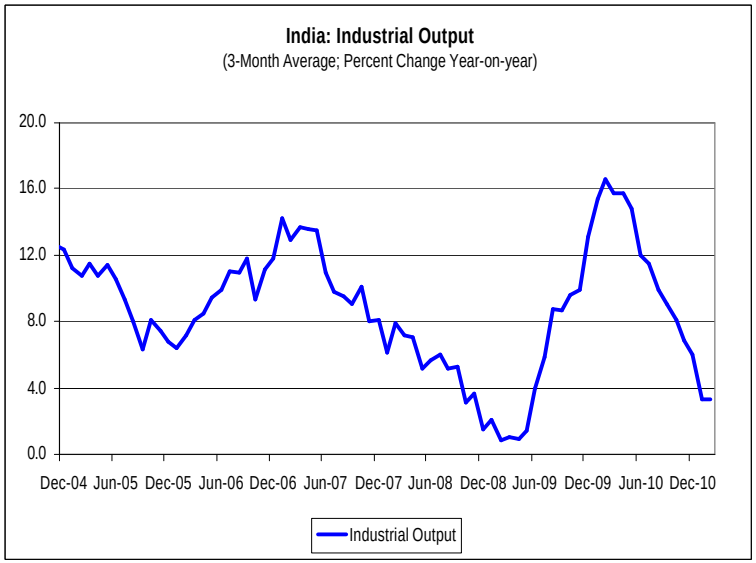
In a nutshell, the RBI's concern is that "*demand has been strong enough to allow significant pass-through of input price increases*". Policymakers express awareness of the "*visible signs of moderating growth*", but insist that current rates of inflation are unacceptable: *bringing them down, therefore, even at the cost of some growth in the short-run, should take precedence.*

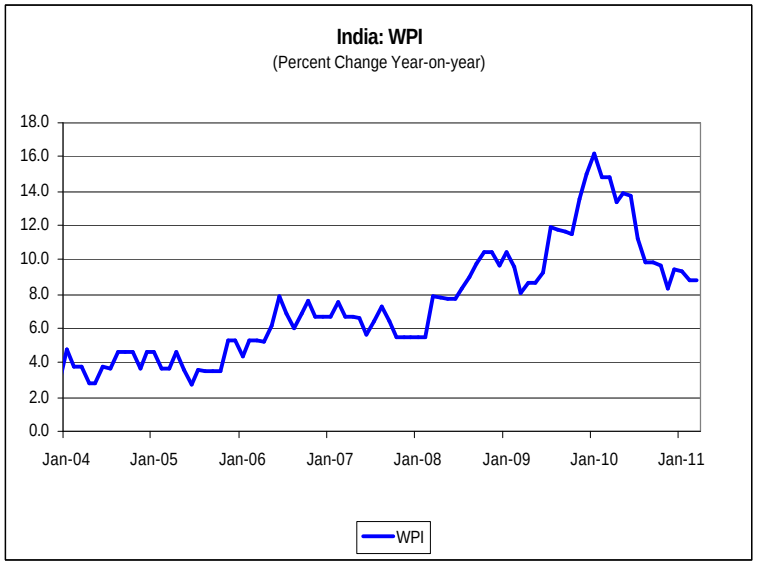
The bank make it clear that they will continue to respond to supply-side pressures, particularly as managed fuel prices will probably (*should*, according to the RBI) be adjusted to reduce fiscal subsidy costs. In fact, it must be noted that the RBI's list of factors that will likely shape the inflation outlook in coming months is related to either supply-side originated pressures (crude oil and other raw material prices, the monsoon) or domestic firms ability to pass-through cost increases.

The RBI appear determined to prevent such pass through, but given high (and perhaps rising) international commodity prices, and particularly strong and resilient oil markets, the exercise could translate into deeper demand-suppressing tightening than currently foreseen—assuming in the end that policymakers are willing and able to stick to their guns.

Whether they do or not, however, a challenging environment is taking shape for domestic producers' earnings, which are facing a squeeze from higher operating and financing costs and the prospect of softer demand ahead. And while exports have shown unusual vitality in recent months, in the context of India's economy they represent only a small outlet for the country's goods and services.

— Francisco J. Larios, DE Miami





DECISION ECONOMICS				May 6, 2011
	Latest	Week Ago	% Chg. YTD *	12/31/10
Yen/$	80.55	81.19	-0.7	81.12
$/Euro	1.4352	1.4807	-7.2	1.3384
Yen/Euro	115.61	120.22	6.5	108.57
$/STG	1.6399	1.6707	-5.0	1.5612
Sfr/$	0.8771	0.8653	-6.2	0.9352
Can$/US$	0.9661	0.9451	-3.2	0.9980
Mexican Peso/$	11.636	11.496	-5.7	12.340
Brazil Real/$	1.6150	1.5754	-2.8	1.6613
Thai Baht/$	30.240	29.880	0.6	30.060
Malaysian Ringgit/$	3.0071	2.9610	-1.8	3.0635
Indonesian Rupiah/$	8587.5	8563.0	-4.5	8996.0
Korean Won/$	1083.3	1071.5	-3.8	1126.0
Philippines Peso/$	43.150	42.735	-1.5	43.800
India Rupee/$	44.795	44.219	0.2	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	0.27	-0.04	0.30
Canada	1.20	1.20	-0.03	1.23
Euro	1.37	1.35	0.43	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.	3.16	3.29	-0.13	3.30
US 10 Year Swap Rate	3.25	3.37	-0.13	3.38
Canada	3.20	3.21	0.08	3.12
Italy	4.66	4.73	-0.15	4.82
Germany	3.17	3.24	0.21	2.96
U.K.	3.38	3.57	-0.01	3.40
Switzerland	1.98	2.06	0.26	1.72
Japan (JGB)	1.15	1.23	0.02	1.13
Australia	5.43	5.43	-0.12	5.55
Brazil	4.38	4.51	-0.24	4.61
India	8.18	8.13	0.26	7.92
Spreads to US 10-Year				
10 Year Swap Spread	0.09	0.08	0.01	0.08
10 Year - 2 Year	2.60	2.68	-0.09	2.70
Moody AAA	1.69	1.74	-0.04	1.73
UK Gilt	0.22	0.28	0.12	0.10
German Bund	0.01	-0.05	0.34	-0.33
Italian 10-year	1.50	1.44	-0.02	1.52

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

STOCK MARKETS				
U.S. (DJIA)	12639	12811	9.2	11578
S&P 500	1340	1364	6.6	1258
NASDAQ Composite	2828	2874	6.6	2653
Russell 2000	833	865	6.3	784
Canada (TSE-300)	13567	13945	0.9	13443
Mexico (Bolsa)	35170	36963	-8.8	38551
Argentina (Merval)	3312	3406	-6.0	3524
Brazil (Bovespa)	64473	66133	-7.0	69305
Germany (DAX, XETRA)	7492	7514	8.4	6914
U.K. (FT-SE 100)	5977	6068	1.3	5900
France (CAC-40)	4058	4107	6.7	3805
Switzerland (SMI)	6527	6540	1.4	6436
Japan (Nikkei-225)	9859	9672	-3.6	10229
Hong Kong (Hang Seng)	23159	23806	0.5	23035
Australia (All Ordinaries)	4816	4899	-0.6	4847
South Korea (KOSPI)	2147	2208	4.7	2051
Thailand	1051	1101	1.8	1033
India (BSE)	18519	19136	-9.7	20509
China (Dow Jones Shanghai Index)	362	367	1.6	356
Singapore (Straights Times Index)	3100	3185	-2.8	3190

COMMODITIES				
Gold (USD/Troy Ounce)	1491.33	1563.70	5.0	1420.78
Crude Oil (WTI, Spot)	98.41	113.93	7.7	91.38
CRB Futures	337.35	370.56	1.4	332.80
CRB Raw Industrials (Spot)	558.79	566.37	7.4	520.33