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Global Economic Developments

June 17, 2011

Greece: Domestic Divisions Deepen

Facing increasing and more violent demonstrations against further austerity measures, Greek PM Papandreou last Wednesday failed to form a cross-party coalition to help overcome such opposition. Papandreou evidently was unwilling to meet demands to dilute the € 28 bln of further measures that are being asked of Greece in order to obtain the additional bail-out that it needs.

The irony is that this resistance to further austerity in Greece arrived just as the chances of a credible bail-out seemed to be increasing. Indeed, in this regard, Germany has apparently softened its stance on private sector involvement in any further Greek bail-out, now being more willing to accept a voluntary roll-over of debt. In addition, one of the rating agencies (Fitch) has changed its mind in its interpretation of such a roll-over, now saying it would not lower its rating for Greece to default status if such a roll-over occurred. Moreover, EU governments have seemingly won more time to cobble together a package for Greece given a change of stance from the IMF. The latter had previously stressed that it would not provide its part of the next tranche under Greece's existing bail-out programme until Eurozone governments had pinned down exactly how they would fill the Greek funding gap for 2012. However, the IMF's executive board now seems prepared to release money on the strength alone of a promise of European funding, rather than concrete commitments. The IMF concession has allowed EU officials to put off a debate on how to deal with private bondholders until July 11, the next scheduled gathering of European finance ministers in Brussels.

However, the Greek political developments over the last days makes the details and timing of a bail-out almost irrelevant and could very well make the IMF change it mind once again. Indeed, it could be argued that the Greek debt crisis is no longer in the hands of Eurozone policy-makers, instead lying purely with Greece. In this regard, the appetite of Greece to stomach further budget cuts looks uncertain at best. While PM Papandreou has reshuffled his government and hopes to win a confidence vote by next Tuesday, the risks are that he may lose given the growing opposition to austerity not only from the main rival party but also from his own. Alternative leaders could be considered to placate opposition (eg ex ECB VP Papademos has been touted a possible stop-gap leader). Regardless, the risk has very much risen regarding Greece's ability and willingness to pass the further austerity measures needed in order to secure a fresh bail-out. As a result, the chance that a general election will have to be called has increased clearly, something that would not only undermine Greece meeting the terms of any bailout, but could also result in an electoral backlash that would more definitively scupper any chance to carry out further austerity. Indeed, the risk could very well be that any such election result could even see Greece signal its opposition to remaining within the Eurozone.

Obviously, the latter could result in pressure for Greece to exit the euro. More immediately, the risk is of contagion, with peripheral market debt already reacting more adversely, with markets not just pricing in a Greek default but now looking to the possibility of such a default being disorderly and thereby spreading throughout the Eurozone mainly via financial channels. Against this backdrop, the time that policy-makers have received in terms of a Greek bail-out deal may have to be used elsewhere, ie in preparing for further and deeper market turmoil. The question is whether there is the political momentum to (for instance) increase the size of the EFSF dramatically from its current € 750 bln as well as make it more flexible. Regardless, any added flexibility, such as the ability to purchase government debt and provide liquidity to banks may also have an added effect, namely tempering the ECB's hawkishness. Indeed, the rate hiking of the central bank is probably as much a result of its inability to extricate itself from its emergency and unconventional policy measures as it is a reflection of genuine inflation worries.

— Andrew Wroblewski, DE London

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Europe

Eurozone

- **Growth and Production:** *Output edges higher, but softer trend still evident.* Coming in just above expectations this time around, industrial production increased by 0.2% M/M in April, up from the upwardly revised flat reading seen in March (the net impact of revisions was slightly positive).The sector break-down showed generally better developments in April, save for a drop back in energy. Notably, the data showed some rebound in consumer goods production. Regardless, base effects helped push the Y/Y growth rate down further to 5.2%, a 15-month low.

- **Trade:** *Mixed trade results.* The (unadjusted) trade balance was in deficit by € 4.1 bln in April, deteriorating from the € 0.7 bln shortfall in the same month of the last year. This was due to exports rising at a somewhat slower pace of 15% in Y/Y terms, while imports increased by 18%. Seasonally adjusted data also showed a deterioration, with the March deficit of € 2.2 bln widening to a gap of € 2.9 bln. This reflected exports (0.6% M/M) rising less clearly than imports (1.1%).

France

- **Inflation:** *Inflation little changed.* Undershooting expectations this time around, headline CPI inflation fell by 0.1 percentage point to 2.0% Y/Y in May, thereby exactly unwinding the rise to the highest since October 2008 seen in the previous month. In M/M terms, prices rose by 0.1%, largely a reflection of a bounce in fresh food prices. The Y/Y breakdown showed the fall was largely a result of base effects related to energy prices. Indeed, the seasonally adjusted core inflation (excluding fresh food, energy and taxes effects) actually edged up 0.1 percentage point to 1.2% Y/Y. Meanwhile, EU-Harmonized inflation remained at 2.2% Y/Y, still a two-and-a-half-year high.

Italy

- **Growth and Production:** *Industrial output rises further.* Surprising to the upside this time around, industrial production rose further and faster in April, with a rise of 1.0% M/M building on the upwardly revised 0.7% increase posted in the previous month. Notably, the data saw fresh signs of life in consumer goods production. Y/Y growth, meanwhile, picked up to 3.7% from 3.4% in March.

- **Trade:** *Trade deficit widens.* The global unadjusted trade deficit widened to € 3 761 mln in April, up from the € 1 311 mln deficit recorded in the same month of the previous year. In seasonally adjusted terms, the trade gap also widened, albeit more modestly, to € 4 297 mln from a March reading of € 4 260 mln, as a further rise in exports growth was accompanied by a same-sized rise in imports.

Switzerland

- **Monetary and Fiscal Policy:** *Still dovish?* Surprising few once again, after its latest quarterly policy assessment, the SNB left its target range for 3-month Libor unchanged at 0.0%-0.75%, stressing that it is still aiming to keep the rate to the lower part of the range (ie around 0.25%). More notably, but far from unexpected, the typically dovish SNB made it clear that it was still worried about growth prospects, which it envisages will produce a slowing in Swiss GDP growth this year to 2.0% from 2.6% in 2010, implicitly meaning growth of a fairly anaemic 0.3% Q/Q per quarter in the rest of current year.

- **Growth and Production:** *Production setback.* Industrial production fell for the first time in four quarters in Q1, and with the 9.2% Q/Q drop contrasting with the 7.7% fain inQ4. Partly as a result, there was a slow-down in Y/Y terms (to 5.0%). This slow-down in Y/Y production came alongside softer growth in regard to new orders (4.4% vs 5.6%) while orders in hand saw its growth rate remain at 8.7%.

Sweden

- **Inflation:** *Tame inflation.* Slightly undershooting expectations, May headline CPI remained at 3.3% Y/Y, ie matching the cycle-high (actually the highest in 30 months) set in April. Prices increased 0.2% in M/M terms last month, a result of a broad-based rise in all but food and air transport costs. Notably, the long-standing core measure (CPIX, which excludes mortgage costs and taxes) fell 0.1 percentage point to 1.3% Y/Y, a four-month low, while the underlying measure (CPIF which the Riksbank puts more emphasis on and which holds mortgage interest expenditure constant) fell similarly but to 1.7%.

United Kingdom

- **Inflation:** *Stable inflation.* Matching expectations, May consumer price inflation remained at 4.5% Y/Y, still a 26-month high. Prices were up 0.2% in M/M terms reflecting disparate movements, with falls in airfares being more than offset by higher fuel, food and alcohol/tobacco costs, these largely offsetting factors also responsible for the stable Y/Y rate. However, the core rate (ie excluding energy, food, alcohol and tobacco) fell back sharply, dropping 0.4 percentage point to 3.3%, ie unwinding most of the surge to the record-high seen in April data.

- **Employment:** *More mixed labor market signs?* Surprising to the upside even more so this time around, claimant count unemployment showed a further and steeper rise, with a 19 600 jump in May, the largest since mid-2009. Unlike the April data, this update looks less distorted by technical factors. Moreover, the fact that it is the third in a row does increasingly suggest a fresh uptrend has emerged, even though the unemployment rate on this basis remained at 4.6% (it rose in the last report, however). Admittedly, the (broader) ILO measure of unemployment painted a clearly contrasting picture, with an 88 000 drop in the three months to March, the largest such a fall in over a decade and enough to cause the jobless rate on this measure to edge back down to 7.7%. As with previous reports, details elsewhere in the labor market numbers also contained

more mixed tones. On a clearly downbeat note, vacancies fell for a fourth successive month and still a fall not exclusively a result of distortions arising from census workers. Also on a gloomy note, hours worked fell afresh and clearly so. More optimistically, the rate of redundancies fell back. More notably, and also on the positive side, employment showed a further, significant increase (0.4%) in the quarter to April, a jump that was still very much underpinned by a clear bounce-back in full-time employee jobs.

Central Europe

Hungary

- **Inflation:** *Inflation eases back.* Surprising to the downside this time around, consumer price inflation slipped by 0.8 percentage point to 3.9% Y/Y in May, the first fall in five months and now the lowest since September 2010. In M/M terms, prices rose by 0.2%, driven by rising clothing (1.0% M/M) and food (0.4%) costs. The Y/Y breakdown, meanwhile, showed the latest easing back to be the result of a fairly broad-based fall in price pressures, led by utilities (4.4% Y/Y from 8.4% in April) and food (8.6% from 9.4%) and being tempered by rises in clothing (3.8% from 2.2%). Core inflation, however, remained at 2.7% Y/Y from the preceding month, still a cycle-high.

Poland

- **Growth and Production:** *Output firms.* Industrial output quickened to a 7.7% y/y pace in May, as mining and manufacturing activities both picked up, the latter to 8.1% y/y, from 7.2%, and the former to 12.4% from 3.4% in April. Construction output also accelerated to a firm 23.9% y/y clip.

- **Inflation:** *Another jump in consumer prices.* Consumer price inflation sharply exceeded expectations in May, rising 5.0% from the year prior, accelerating on the 4.5% pace recorded in April. Food and energy prices once again appeared to be behind the gains, and to the extent the Council still expects those factors to ease heading into the second half of the year, the result does not automatically move the central bank off of its recently-expressed desire to pause its tightening cycle. However, the magnitude of the surprise could unsettle some of the hawks, and certainly boosts the odds of a hike in July, a scenario that seemed quite unlikely after the Bank's most recent meeting.

Asia and Pacific

Japan

- **Monetary and Fiscal Policy:** *BoJ unchanged.* Surprising no-one, the BoJ Board voted unanimously to continue the target for the overnight call loan rate among commercial banks at zero to 0.1%. However, it did launch another low-interest loan program for commercial banks to help boost Japan's growth potential. The new lending facility to banks will not exceed ¥ 500 billion, again at a fixed rate 0.1%, without any start date being specified. As for the economy, the Board upgraded its economic assessment slightly from the previous verdict. It now suggested that Japan's economy continues to face downward pressure, mainly to the production side due to the effects of the earthquake disaster, but is showing signs of picking up, previously having referred to strong downward pressure. However, it remained clearly cautious about the outlook, albeit with Governor Shirakawa underscoring (in a subsequent press conference) that the most important factor is the world economy backdrop.

- **Growth and Production:** *Industrial production rebounds.* Showing a clearer bounce by coming in 0.5 percentage point above the preliminary reading, final data for April showed industrial production rising a 1.5% M/M, albeit with that gain still coming on the back of an earth-quake affected record fall of 15.5% in March. Elsewhere, the data showed an upwardly revised 2.6% M/M drop in shipments in March, alongside an unrevised 0.5% rise in inventories.

China

- **Monetary and Fiscal Policy:** *Reserve requirement raised.* The People's Bank of China (PBoC) raised bank reserve requirements by 50 bp, effective 20 June, following similar moves in the two preceding months. This was the eighth tightening in policy by the PBoC since the start of the year and will bring the reserve ratio for the largest lenders to a record-high of 21.50%.

- **Inflation:** *Consumer price pressures rise further.* Meeting expectations, consumer price inflation rose by 0.2 percentage point to 5.5% Y/Y in May, now the highest in almost three years. In M/M terms, prices rose by 0.1%, the same pace as in the previous month. The Y/Y breakdown, meanwhile, showed the latest rise to be broad-based, driven in part by rising price pressures from food (11.7% from 11.5% in April), clothing (1.8% from 1.4%) and household items (2.5% from 2.1%).

Hong Kong

- **Employment:** *Unemployment rate unchanged.* In line with expectations, the seasonally adjusted unemployment rate was unchanged at 3.5% in May. The level of unemployment, meanwhile was up by 2.3% M/M to 135 000, a third straight gain following a series of six consecutive declines. However, Y/Y growth turned even more negative in May, slipping from -20.0% to -21.8%.

Singapore

- **Trade:** *Exports rebound.* Surprising to the upside this time around, seasonally adjusted core (non-domestic oil) exports rose by 7.5% M/M in May, bouncing back clearly from the 3.7% drop in the previous month and now a five-month high. In Y/Y terms, core exports rose by 7.8% in the month, following a 2.0% fall in April. The breakdown revealed the latest recovery to be a reflection of a surge in non-electronic products export growth (23.1% Y/Y from 2.6% in April), driven by a swing into

positive for petrochemicals (0.7% from -11.3%), while pharmaceuticals growth pick up to 61.8% from 48.6%. Electronic products export growth, however, turned more negative to -15.2% Y/Y in May from -10.5% in the preceding month. As for total exports, growth rose to 9.6% Y/Y in May from 4.9%, while imports picked up to 18.0% from 4.5%.

Philippines

- **Monetary and Fiscal Policy:** *Rates on hold but policy still tightened.* Surprising most, the Bangko Sentral ng Pilipinas (BSP) left its benchmark interest rates on hold following its June meeting, with the reverse repurchase rate by 25 bp to at 4.50% and the repurchase rate at 6.50%. However, the central bank nevertheless tightened monetary policy, with a hike in the reserve requirement ratio by one percentage point. In justifying the decision, the BSP cited its latest inflation forecast showing a lower path for inflation than at the last (May) meeting and with inflation expectations showing signs of leveling off. Meanwhile, the BSP still saw a need to counter inflationary pressures from excess liquidity. The statement was very terse in comparison those seen in the last few meetings, providing no views on the economic outlook. However, the central bank still underscored that upside risks to inflation remained and would require vigilance from the BSP, which stood ready to implement further monetary measures as necessary.

South Korea

- **Employment:** *Unemployment drops.* Contrary to expectations of a slight rise, the seasonally adjusted unemployment rate fell back 0.3 percentage point to 3.3%, the lowest since November last year. Moreover, the level of unemployment fell by 7.6% M/M, a second straight drop but one that was smaller than the April slump (9.7%). On a further up-beat note, the level of employment saw some further gains, rising by 0.5% on an M/M basis, a gain that was the largest since February. Admittedly, on a Y/Y basis, employment growth eased back from 1.6% to 1.5%, a four-month low, as weaker manufacturing employment more than canceled out improvements elsewhere. Meanwhile, the participation rate rose by 0.5 percentage point to 62.1%.

India

- **Monetary and Fiscal Policy:** *Rates hiked with a more hawkish policy stance emerging.* Surprising few, the Reserve Bank of India (RBI) hiked the repo rate by 25 bp to 7.50% at its June meeting, the tenth tightening in policy since the beginning of 2010 and with the latest hike (of 50 bp) coming in the previous month. The latest mid-quarter monetary policy review saw some notable changes from the Bank's previous policy statement in May. The June statement began by noting the weakening of the global economy in Q2, contrasting with the expectation of a continued recovery in May, caused by elevated commodity prices as well as spillover effects from the Japanese earthquake, policy tightening in emerging market economies and the uncertainty regarding the Eurozone sovereign debt problems. As for the domestic economy, a deceleration in some sectors were noted, but with no risk of a sharp or broad-based deceleration seen. The growth outlook stated in May was unchanged but now with global economic developments noted as posing downside risks. Turning to inflation, the Bank noted elevated WPI inflation in recent months and observed that these figures are provisional likely to be revised upwards. Furthermore, the statement noted that these headline figures understate current price pressures as domestic fuel prices do not yet reflect elevated global prices. In particular, the Bank pointed to non-food manufactured products inflation being above its medium-term trend as suggesting generalized inflationary pressures, as rising wages and cost of service inputs are being passed on by producers along the entire supply chain.

The Americas

Argentina

- **Growth and Production:** *Growth picks up.* Real GDP accelerated to 2.8% in the first quarter, lifting the year-on-year growth rate to 9.9%. Highly expansionary macroeconomic policies and improved terms of trade have fueled domestic consumption growth as well as inflation. The central bank has signaled no change to the policy stance in the foreseeable future

- **Inflation:** *Inflation remains high.* Consumer prices climbed 0.7% in May, led by increases in the price of food, clothing and education. Year-on-year inflation was unchanged at 9.7% – one of the highest rates in the region – although this official measure has moderated from the recent peak of 11.2% in July 2010. Macroeconomic conditions remain highly expansionary, which is expected to further stoke inflationary pressures, while the Central Bank of Argentina sits on the sidelines. DE expects no change in the policy stance in the near future.

Mexico

- **Growth and Production:** *Industrial production slows.* Industrial production contracted for the third consecutive month in April, falling 0.1%, led by a drop in utilities. This slows the pace of year-on-year growth to 1.4%, from 4.4% in March. Total industrial output has been softening since peaking in mid 2010; compared to the same period last year, mining activity has fallen 3.1%, while the utilities, construction, and manufacturing sectors expanded. With real GDP growth and inflation moderating, the latter being around the middle of the central bank's target band, DE expects no changes to the policy stance for at least the remainder of the year.

Comparative International Economic Indicators

Real Growth*

	Latest Period	Chg. Over Prev. Period	Chg. Over Year Ago Period
United States	2011:Q1	1.8	2.3
Canada	2011:Q1	3.9	2.9
Eurozone	2011:Q1	3.4	2.5
United Kingdom	2011:Q1	1.9	1.8
Germany	2011:Q1	6.1	4.8
France	2011:Q1	3.9	2.2
Italy	2011:Q1	0.5	1.0
Switzerland	2011:Q1	1.0	2.5
Japan	2011:Q1	-3.5	-0.7
Korea	2011:Q1	5.4	3.9
Taiwan	2011:Q1	-26.2	6.5
Hong Kong	2011:Q1	-22.4	7.2
Singapore	2011:Q1	8.6	8.3
Australia	2011:Q1	-4.7	1.0
Mexico	2011:Q1	2.1	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:M5 •	0.2	3.4
	2011:M4	0.3	3.3
	2011:M5 •	0.0	2.7
	2011:M5 •	0.2	4.5
	2011:M5	0.1	2.3
	2011:M5 •	0.1	2.0
	2011:M5	0.1	2.6
	2011:M5	0.0	0.4
	2011:M4	0.3	0.3
	2011:M5	0.0	4.1
	2011:M5	0.2	1.7
	2011:M4	0.7	4.6
	2011:M4	0.3	4.5
	2011:Q1	1.6	3.3
	2011:M5	-0.7	3.2

**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:M5 •	0.1	3.4
Canada	2011:M3	1.1	5.2
United Kingdom	2011:M4	-1.7	-1.1
Germany	2011:M4	-0.6	9.6
France	2011:M4 •	-0.3	2.6
Italy	2011:M4 •	1.0	3.7
Switzerland	2011:Q1	-9.2	5.0
Japan	2011:M4	-11.0	-13.6
Korea	2011:M4	-2.7	6.9
Taiwan	2011:M4	-5.6	6.9
Hong Kong	2011:Q1 •	-12.9	3.6
Singapore	2011:M4	-15.0	-9.6
Australia	2011:Q1	-3.8	-5.4
Mexico	2011:M4 •	-7.0	1.4

**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
	2011:Q1 •	-471.9	-470.9	-376.6
	2011:Q1	-50.0	-49.3	-40.3
	2010:Q4	-56.2	-56.2	-37.1
	2011:Q1	184.7	185.1	189.6
	2011:Q1	-53.9	-45.6	-40.0
	2011:Q1	-75.6	-71.2	-41.3
	2010:Q4	76.6	76.6	57.2
	2011:Q1	183.2	196.0	142.6
	2011:Q1	30.6	28.2	32.8
	2011:Q1	40.3	39.9	42.9
	2010:Q4	13.9	13.9	18.0
	2011:Q1	52.5	49.5	35.1
	2011:Q1	-27.6	-31.9	-43.3
	2011:Q1	-7.4	-5.6	-6.4

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

Unemployment Rate*

	Latest Period	Latest	Prev. Period	Year Ago Period
United States	2011:M5	9.1	9.0	9.6
Canada	2011:M5	7.4	7.6	8.1
United Kingdom	2011:M5 •	4.6	4.6	4.6
Germany	2011:M4	6.1	6.2	7.3
France	2011:M4	9.4	9.5	9.8
Italy	2010:Q4	8.5	8.4	8.3
Switzerland	2011:M5	3.0	3.1	4.0
Japan	2011:M4	4.7	4.6	5.1
Korea	2011:M5 •	3.2	3.7	3.2
Taiwan	2011:M4	4.3	4.5	5.4
Hong Kong	2011:M5 •	3.5	3.5	4.6
Singapore	2011:Q1	1.8	2.0	2.1
Australia	2011:M5	4.9	4.9	5.1
Mexico	2011:M4	5.1	4.6	5.4

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

Long-Term Government Bond Yield

	Latest	Prev. Month	Year Ago
United States	2.93	3.18	3.19
Canada	2.94	3.23	3.30
United Kingdom	3.20	3.39	3.48
Germany	2.96	3.12	2.66
France	3.61	3.60	3.09
Italy	4.82	4.63	4.02
Switzerland	1.71	1.90	1.55
Japan	1.12	1.16	1.23
Korea	4.24	4.33	4.90
Taiwan	1.49	1.45	1.46
Hong Kong	2.19	2.41	2.44
Singapore	2.28	2.32	2.55
Australia	5.12	5.34	5.36
Mexico	2.84	2.98	2.78

Call Money Rate

	Latest	Prev. Month	Year Ago
Euro	1.25	1.25	1.00
United States	0.11	0.11	0.13
Canada	1.00	1.00	0.50
United Kingdom	0.50	0.50	0.48
Germany	1.25	1.25	1.00
France	1.25	1.25	1.00
Italy	1.25	1.25	1.00
Switzerland	0.09	0.09	0.05
Japan	0.09	0.09	0.10
Korea	3.26	3.03	2.01
Hong Kong	0.09	0.11	0.05
Singapore	0.16	0.16	0.13
Australia	0.00	4.75	4.50
Mexico	4.47	4.52	4.53

Exchange Rate

	Latest Level	Chg. Over Last Week	Chg. Over Prv. Month	Chg. Over Year Ago
Euro	1.4306	-0.3	0.4	15.5
United States	78.24§	0.2	-0.1	-9.2
Canada	0.9807	-0.1	-1.1	4.6
United Kingdom	1.6183	-0.3	0.1	9.2
Germany	1.3676	0.3	-0.4	-13.4
France	4.5868	0.3	-0.4	-13.4
Italy	1353.94	0.3	-0.4	-13.4
Switzerland	0.8487	-0.7	3.7	23.7
Japan	80.02	0.4	2.0	12.1
Korea	1085.9	-0.3	0.2	10.5
Hong Kong	7.7902	0.1	0.2	0.1
Singapore	1.2331	0.4	0.6	11.4
Australia	1.0616	0.7	-0.1	22.2
Mexico	11.9044	0.0	-1.7	5.4

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*

	Latest Period	Chg. Over Prev. Period	Chg. Over Year Ago Period
Belgium	2011:Q1	4.3	3.0
Netherlands	2011:Q1	3.5	2.7
Denmark	2011:Q1	-4.5	1.0
Sweden	2011:Q1	3.3	6.5
Norway	2011:Q1	-1.8	0.1
Finland	2011:Q1	3.4	5.8
Spain	2011:Q1	1.2	0.8
Portugal	2011:Q1	-2.4	-0.6
Indonesia	2011:Q1	6.2	6.5
Philippines	2011:Q1	-31.2	4.9
Malaysia	2011:Q1	-11.7	4.6
Thailand	2011:Q1	9.1	3.0
India	2011:Q1	32.2	7.7
China	2011:Q1	---	9.7
Argentina	2010:Q4	10.5	10.1
Brazil	2011:Q1	5.4	4.2

**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:M5	0.3	3.3
Netherlands	2011:M5	0.1	2.3
Denmark	2011:M5	0.2	3.1
Sweden	2011:M5 •	0.2	3.0
Norway	2011:M5	-0.2	1.6
Finland	2011:M5 •	0.0	3.3
Spain	2011:M5	0.0	3.5
Portugal	2011:M5	-0.1	3.8
Indonesia	2011:M5	---	---
Philippines	2011:M5	0.0	4.5
Malaysia	2011:M4	0.2	3.2
Thailand	2011:M5	0.3	4.2
India	2011:M4	0.5	9.4
China	2011:M5 •	---	5.5
Argentina	2011:M4	0.8	9.7
Brazil	2011:M5	0.5	6.6

**Not seasonally adjusted.*

Industrial Production*

	Latest Period	Chg. Over Prev. Period	Chg. Over Year Ago Period
Belgium	2011:M3	14.6	7.0
Netherlands	2011:M4	-0.6	-0.8
Denmark	2011:M4	2.8	3.8
Sweden	2011:M4 •	-0.8	10.6
Norway	2011:M4	-1.7	-8.0
Finland	2011:M4 •	0.3	5.4
Spain	2011:M4	-14.8	-4.1
Portugal	2011:M4	-8.1	-1.6
Indonesia	2011:M4 •	0.2	5.6
Philippines	2011:M3	5.5	11.1
Malaysia	2011:M4 •	-7.6	-2.1
Thailand	2011:M4	-3.1	-7.3
India	2011:M4 •	-12.6	6.3
Argentina	2011:M4	-1.2	5.4
Brazil	2011:M4	-6.4	-1.3

**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	2011:Q1 •	61.8	56.2	38.9
Denmark	2011:Q1	17.7	15.9	6.8
Sweden	2011:Q1	32.2	28.8	28.3
Norway	2011:Q1	49.6	51.4	44.5
Finland	2011:Q1	7.5	7.5	5.9
Spain	2011:Q1	-65.9	-63.8	-75.3
Portugal	2011:Q1	-20.9	-22.6	-25.7
Indonesia	2011:Q1	6.0	6.2	31.8
Philippines	2010:Q4	8.5	8.5	21.9
Malaysia	2011:Q1	28.5	27.3	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:M4	7.7	7.7	8.5
Netherlands	2011:M4	4.2	4.2	4.5
Denmark	2011:M4	3.8	3.9	4.2
Sweden	2011:M4	7.4	7.7	9.1
Norway	2011:M5	2.5	2.8	2.7
Finland	2011:M4	8.2	9.3	9.3
Spain	2011:M4	20.7	20.7	19.8
Portugal	2011:M4	12.6	12.6	10.9
Indonesia	2010	7.1	7.9	7.9
Philippines	2011:Q2 •	7.2	7.4	8.0
Malaysia	2011:Q1	3.1	3.2	3.7
Thailand	2011:M3	0.7	0.7	1.0
China	2009	4.3	4.2	4.2
Argentina	2011:Q1	7.4	7.3	8.3
Brazil	2011:M4	6.4	6.5	7.3

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

Long-Term Government Bond Yield

	Latest	Prev. Month	Year Ago
Belgium	4.12	4.21	3.48
Netherlands	3.28	3.39	2.92
Denmark	4.12	4.21	3.48
Sweden	2.87	2.95	2.59
Norway	3.37	3.43	3.52
Finland	3.54	3.45	2.93
Spain	5.57	5.36	4.77
Portugal	10.91	9.19	5.59
Indonesia	—	—	—
Philippines	—	—	—
Malaysia	3.92	3.99	4.04
Thailand	3.77	3.78	3.16
China	—	—	—
Argentina	—	—	—
Brazil	—	—	—

Call Money Rate

	Latest	Prev. Month	Year Ago
Belgium	1.25	1.25	1.00
Netherlands	1.25	1.25	1.00
Denmark	1.00	1.00	0.75
Sweden	2.05	1.92	0.25
Norway	2.25	2.25	2.00
Finland	1.25	1.25	1.00
Spain	1.25	1.25	1.00
Portugal	1.25	1.25	1.00
Indonesia	6.10	6.16	6.09
Philippines	4.50	4.50	4.00
Malaysia	0.00	0.00	0.00
Thailand	—	—	—
India	7.00	7.60	5.35
China	—	—	—
Argentina	9.78	9.93	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	28.2077	-0.3	0.4	13.4
Netherlands	1.5409	-0.3	0.4	13.4
Denmark	5.2143	-0.3	0.4	13.2
Sweden	6.4121	-1.3	-1.8	17.0
Norway	5.5216	-0.7	0.3	13.2
Finland	4.1576	-0.3	0.4	13.4
Spain	116.35	-0.3	0.4	13.4
Portugal	140.19	-0.3	0.4	13.4
Indonesia	8608.0	-1.0	-0.5	6.0
Philippines	43.705	-0.9	-1.2	5.4
Malaysia	3.0443	-0.8	-0.4	6.8
Thailand	30.550	-0.4	-1.0	5.7
India	44.866	0.3	-0.4	-3.1
China	6.4757	0.1	0.4	5.2
Argentina	4.0960	0.0	-0.2	-4.4
Brazil	1.5973	0.0	0.8	10.3

Note: All figures in percent unless otherwise indicated. • Data updated in the last week. *Week ended: 6/17/2011*

Focus on China: Credit Growth and the Economy

The latest data on China's loan activity suggest a diminished pressure on the PBOC to tighten further *to the extent* that bank lending, including that which is associated with the real estate sector, has slowed to comfort-zone rates, a key to monetary stability and inflation from the perspective of the country's central bank. This does not mean that further interest rate increases will not occur, or that reserve requirements have peaked. The PBOC will probably push reserve requirements up a few more times to deal with continued net-inflows that may, from their perspective, threaten the economy's uncertain price stability. But the bank's unusually rapid sequence of interest rate hikes may be coming to an end, given policymakers aim to grow domestic consumption's share of GDP, and the apparent stabilization of CPI inflation. Two questions are now critical: 1) whether lending at current rates is sufficient to feed the desired pace of real GDP expansion (in the 8%-plus range); and, 2) whether the surge of lending in the aftermath of the US financial collapse will become a significant burden for the economy. In other words, whether it will turn into such a mass of non-performing loans that it would either impair government action in an policy emergency or become a source of weakness for private demand.

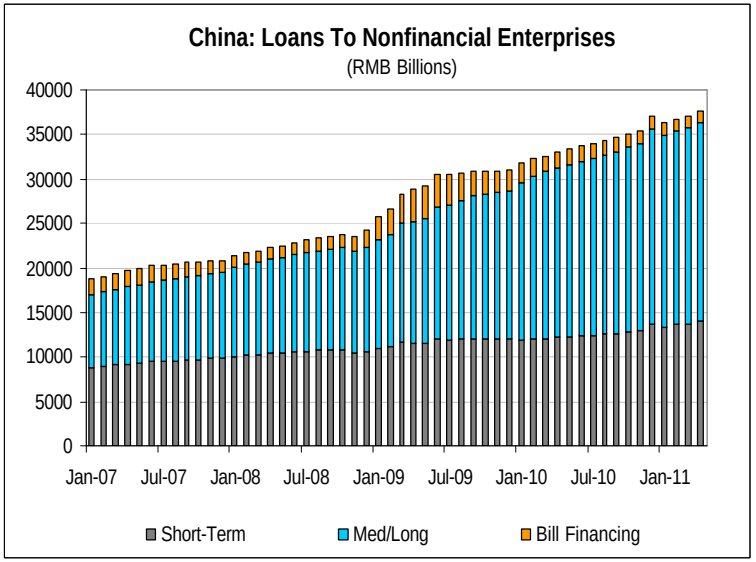
On the first question: newly released data, history and the seeming availability of plenty of non-bank lending in the middle of a very liquid global economy, suggest that financing at current volume-growth does not constitute a constraint on real GDP. In fact, the May figures on industrial production, fixed asset investment and retail sales describe an economy that continues to grow at a fast pace, down from the annual rates that prevailed a few months ago, but no signs that the expansion phase may be exhausted. Industrial output, for example, has for the past two months *landed* and moved sideways above the 13% year-on-year mark. Interestingly, a look at the long history of the series reveals that industry both recovered more swiftly and is expanding more rapidly now than during the three years following the Asian and Russian crises of 1997-98—its performance is in fact closer to the boomy 2000s. Meanwhile, fixed asset investment continues to grow in the 25%+ range, with most of that growth coming from the private sector, reversing the post-2008 pattern which had the public sector in the leading role. As for private consumption, the evidence points towards significant resilience: the pace of expansion of inflation-adjusted retail sales, for example has slowed from the stimulus-induced peaks but it is fast relative to history.

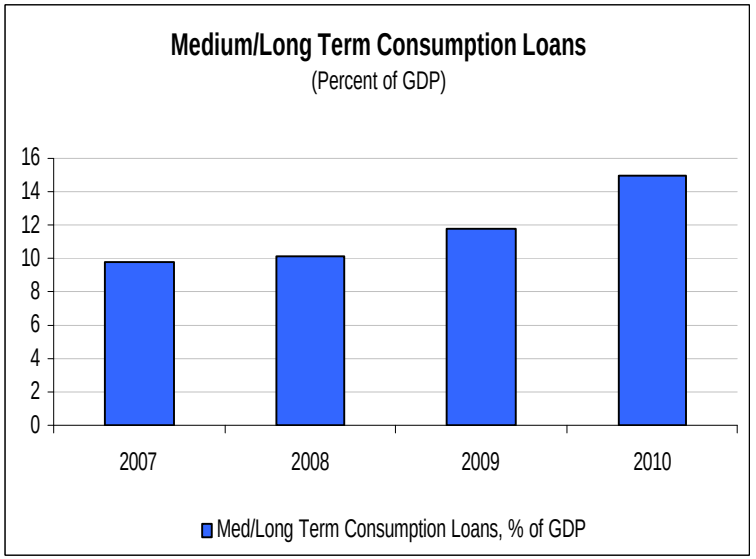
The second question is less tractable, and thus it may from time to time over the next few quarters, especially in view of the doubts on the US and European recoveries, affect the perceptions and behaviors of markets. Risks have evidently increased to the extent that a soft-landing of the economy, while seemingly unfolding, cannot be taken for granted given the potential for earlier monetary tightening to slow activity further and also considering that a non-negligible component in the strength of China's economy originates in the export sector, which might still face some headwinds from US and European developments.

It is also clear that the government's exposure through the overwhelmingly state-owned commercial banking sector escalated after the 2008 global crisis. Medium and Long Term Consumption Loans by the banking sector, for example, went from a pre-crisis GDP share of 10% to around 15% of GDP in the subsequent two years. This series largely reflect mortgage lending to households; it continues to grow as a share of GDP, but at a much slower pace, apparently stabilizing. Of greater concern, Medium and Long Term loans to non-financial enterprises expanded by 10.6 trillion yuan between December 2008 and April 2011 (at current exchange rates roughly US$1.6 trillion), and as a share of GDP jumped from 38% to roughly 56%.

These are worrisome numbers if viewed as a continuing trend, although they constitute manageable risks at present, given the policy and financial resources in the hands of the central bank. In other words, the risk of a financial crisis is low, but the room for maneuver by the Chinese authorities would diminish significantly if the upward shift shown by these series continued without a pause over the next few years. Still, a banking crisis would also probably require a turn towards recession that would sharply slow the flow of fiscal resources into provincial and local governments that carry much of the debt—from current perspective a reduced probability scenario, but one which may affect the behavior of market participants and government policymakers in the quarters to come.

— Francisco J. Larios, DE Miami





June 17, 2011

DECISION ECONOMICS				June 17, 2011
	Latest	Week Ago	% Chg. YTD *	12/31/10
Yen/$	80.02	80.32	-1.4	81.12
$/Euro	1.4303	1.4347	-6.9	1.3384
Yen/Euro	114.45	115.24	5.4	108.57
$/STG	1.6182	1.6227	-3.7	1.5612
Sfr/$	0.8491	0.8430	-9.2	0.9352
Can$/US$	0.9807	0.9799	-1.7	0.9980
Mexican Peso/$	11.905	11.907	-3.5	12.340
Brazil Real/$	1.5969	1.5970	-3.9	1.6613
Thai Baht/$	30.550	30.420	1.6	30.060
Malaysian Ringgit/$	3.0443	3.0200	-0.6	3.0635
Indonesian Rupiah/$	8607.5	8520.0	-4.3	8996.0
Korean Won/$	1085.9	1082.7	-3.6	1126.0
Philippines Peso/$	43.705	43.325	-0.2	43.800
India Rupee/$	44.866	44.721	0.4	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	0.25	-0.06	0.30
Canada	1.18	1.20	-0.05	1.23
Euro	1.45	1.41	0.51	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.	2.93	2.97	-0.36	3.30
US 10 Year Swap Rate	3.08	3.08	-0.30	3.38
Canada	2.94	3.01	-0.18	3.12
Italy	4.82	4.79	0.00	4.82
Germany	2.96	2.96	0.00	2.96
U.K.	3.20	3.22	-0.20	3.40
Switzerland	1.71	1.71	-0.01	1.72
Japan (JGB)	1.12	1.14	-0.01	1.13
Australia	5.12	5.20	-0.42	5.55
Brazil	4.09	4.15	-0.53	4.61
India	8.26	8.27	0.34	7.92
Spreads to US 10-Year				
10 Year Swap Spread	0.14	0.11	0.06	0.08
10 Year - 2 Year	2.56	2.57	-0.14	2.70
Moody AAA	1.84	1.89	0.25	1.59
UK Gilt	0.26	0.25	0.16	0.10
German Bund	0.02	-0.01	0.36	-0.33
Italian 10-year	1.88	1.82	0.36	1.52
** Year-to-date changes are calculated from the difference in yields.				
STOCK MARKETS				
U.S. (DJIA)	12004	11952	3.7	11578
S&P 500	1272	1271	1.1	1258
NASDAQ Composite	2616	2644	-1.4	2653
Russell 2000	782	780	-0.2	784
Canada (TSE-300)	12791	13084	-4.9	13443
Mexico (Bolsa)	35062	34964	-9.0	38551
Argentina (Merval)	3245	3228	-7.9	3524
Brazil (Bovespa)	60949	62697	-12.1	69305
Germany (DAX, XETRA)	7164	7070	3.6	6914
U.K. (FT-SE 100)	5715	5766	-3.1	5900
France (CAC-40)	3824	3805	0.5	3805
Switzerland (SMI)	6145	6271	-4.5	6436
Japan (Nikkei-225)	9351	9514	-8.6	10229
Hong Kong (Hang Seng)	21695	22420	-5.8	23035
Australia (All Ordinaries)	4551	4622	-6.1	4847
South Korea (KOSPI)	2032	2047	-0.9	2051
Thailand	1019	1020	-1.3	1033
India (BSE)	17871	18269	-12.9	20509
China (Dow Jones Shanghai Index)	330	339	-7.2	356
Singapore (Straights Times Index)	3005	3078	-5.8	3190
COMMODITIES				
Gold (USD/Troy Ounce)	1538.40	1531.65	8.3	1420.78
Crude Oil (WTI, Spot)	93.09	99.29	1.9	91.38
CRB Futures	335.48	348.04	0.8	332.80
CRB Raw Industrials (Spot)	556.25	562.62	6.9	520.33