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Global Economic Developments

June 24, 2011

Brazil: A Soft Landing?

The most recent statistics on Brazil's sales, inflation and the labor market describe an economy moving towards full employment just as the effects of a period of monetary tightening begin to surface.

The evidence suggests that there is substantial quantitative and qualitative improvement in employment underway, which should be supportive of consumption growth at moderate rates in coming quarters. Interest sensitive sectors, however, face some headwinds as rates continue to move up.

As for policy, the state of fundamentals seems conducive to a pause. From the central bank perspective, the question seems to be largely of message, as policymakers would need to take the risk of stopping the tightening process as annual inflation remains at or above the upper ceiling of the target range of 4.5%± 2 percentage points.

And as they hesitate, the balance of risks is shifting away from inflation and in the direction of recession. A sharp slowdown is not yet very likely, but the odds are increasing the longer the current policy stance is maintained, particularly given the rising dangers of a soft global economy from multiple sources, including Europe's debt problems, the anemic performance of the US economy and the *cooling* process underway in China. This is not a favorable environment for equities, and in fact even the real is in some danger from a near-term perspective.

Some of the data detail:

- Anfavea (National Automakers Association) announced that auto sales had fallen 5% year-on-year through June 20. The time series on vehicle sales is rather volatile, but the three-month average has decelerated noticeably in the third quarter, with annual expansion now in low single-digits.

- The sector is not only under pressure as borrowing costs rise, but also faces the consequences of a strong exchange rate, and of a slowing global economy: A sharp rebound in 2010 brought them back to pre-crisis levels by the end of last year, but the expansion has decelerated to an average pace slightly below 6% year-on-year in the first five months of 2011.

- Formal employment, as reported by CAGED (General Census of Employment and Unemployment) increased by 252,000 in May, bringing the year-to-date total to 1.17 million jobs. This series includes net job creation (jobs created minus layoffs) and it has been advancing at a more rapid pace than the growth of the labor force, indicating that the share of formal jobs in the economy, i.e. jobs that pay social security taxes, among others, is expanding. Thus, one of the positive by-products of this trend is fiscal improvement. Meanwhile, the rate of unemployment stayed at 6.4% in May, near record levels, and in fact the lowest for a month of May since at least 1992. Twelve months ago, the unemployment rate stood at 7.5%.

— Francisco J. Larios, DE Miami

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Europe

Norway

- **Monetary and Fiscal Policy:** *Policy held, further hikes still seen this year.* As expected, the Norges Bank kept its key policy rate at 2.25% after its latest Board meeting, having hiked rates for the first time in a year at its previous meeting on May 12, that actually being the third such move in a tightening cycle that started back in October 2009. Some had anticipated that the mixture of softer domestic spending data, signs of a weaker global economy and the risks arising from the European sovereign debt would persuade the Norges Bank to pare back the further hiking it has been flagging. The opposite was the case. While the updated Monetary Policy Report (released alongside this Board decision) largely adhered to the previous rate projections (from March), which envisage eventual hiking to just under 5% by the end of 2014, they now actually point to slightly faster hiking in the rest of this year, ie two more 25 bp moves as opposed to just the one. This is all the more surprising given that the MPR partly recognises the softer demand backdrop, albeit making little formal acknowledgement of the flat consumer signals so far this year. Instead, the MPR focuses on the fact that wages have been a touch higher than expected (albeit evidently failing to support consumer spending) whilst also pointing to more capacity strains with the Norges Bank saying that utilization has been higher than expected while the jobless rate has been lower: it actually has been rising of late! All of which underscores that the Norges Bank is keen to hike rates, with its motivation probably as much to keep in check growth in household debt and house prices as to keep control over inflation pressures. However, it has created hostages to fortune in pointing to the further and more sizeable hiking this year. For a start, the Norges Bank is making an heroic assumption that the Eurozone debt crisis is resolved without significant spill-over effects whilst also assuming that its relatively more hawkish tone will not make the Krone rally too much. It may also be ignoring the likelihood that the softer consumer signals of late are actually a response to the damage to spending power from higher commodity prices and that the strong immigration that is seen continuing is as much likely to boost the capacity of the economy as it is to increase demand.

- **Employment:** *More mixed labor data.* The seasonally adjusted unemployment increased 0.1 percentage point to 3.4% in the three months to April, a second successive rise back to the rate seen at the end of last year. However, there are continued, if not clearer, signs of an increase in employment as the data did show a larger rise of 0.6% in the last three months with base effects also helping pull the Y/Y change in employment growth to a new cycle-high of 2.1%.

Sweden

- **Employment:** *Employment growth slowing?* Coming in slightly above expectations, the (unadjusted) unemployment rate still fell further in May relative to its year-before counterpart. At 7.9%, it was 0.9 percentage points below that of the same month in 2010, albeit a somewhat smaller 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, albeit with the rate of decline slowing and apparently coming to halt as far as women is concerned. On a more unambiguously upbeat note, hours worked rose again last month, with the Y/Y gain picking back up to 3.6%.

Central Europe

Czech Republic

- **Monetary and Fiscal Policy:** *Rate held.* The CNB once again voted 5-2 to keep rates on hold at 0.75%, amid still-weak domestic demand driven price pressures, and ongoing uncertainties about the Eurozone debt crisis. The Board presented a wider array of risks to the outlook than earlier foreseen, though they remain "balanced," hinting that the likely start of tightening (currently, "starting in 2011 Q4") could very well shift based on the near-term data flow. The presentation accompanying the decision noted (as it did in May) that the Board expects both headline and core inflation close to the target over the policy horizon, and that under the current forecast, interest rates would begin to rise gradually starting in the fourth quarter of 2011. In its discussion of external conditions, the Board noted that expectations for growth and inflation in the euro area had eased somewhat, while on the domestic front, the Bank recognized that domestic growth, inflation, and wages had come in a bit firmer recently and unemployment lower, relative to what had been expected in May. Post-meeting comments by vice-Governor Tomsik included mention that incoming data confirmed revival in economic activity, but also that much of the upside surprise to Q1 GDP was accounted for by the export sector. Higher inflation, meanwhile, continue to be driven by commodity prices, not domestic demand. The combination of recent developments both external and domestic shed some light on the wider array of risks to the inflation outlook. At its May meeting, the Board noted only a "less anti-inflationary domestic economic environment" to the upside, and the "debt crisis in some euro area countries" to the downside. Now, "higher current inflation" and a 2012 VAT increase have been added to the upside, while a "lower foreign interest rate outlook" has been added to the downside.

Hungary

- **Monetary and Fiscal Policy:** *Rate held.* Surprising no one, Hungary's central bank left interest rates on hold, and once again suggested that despite elevated inflation in the near term, leaving rates on hold for a "sustained period" would allow the 3% inflation target to be met by the end of 2012. The Monetary Council did outline risks to that outlook. To the upside, sustained increases in commodity prices could require further interest rate hikes, as would a renewed bout of risk aversion on account of fiscal crises in the Eurozone. To the downside "further decline in the risk premium on the forint in response to the fiscal adjustment may ease inflationary pressures through an appreciation of the forint exchange rate, which in turn may provide scope for an easing of monetary conditions in the medium term." As to the latter, the important distinction is that scope for

easing would be provided in "the medium term," hinting that even a measurable improvement in risk sentiment would take some time, presumably at least six months or more to translate into a rate cut, taking any potential easing off the table until at least the end of the year. In its discussion on the economy, the bank noted weak domestic demand and relatively stronger external demand, net exports likely contributing significantly to growth over the next two years, while domestic demand is seen as slower than earlier expected, in part due to high indebtedness and fiscal consolidation measures. The Council once saw subdued domestic demand and high unemployment contributing to "disciplined" wage and price setting, providing support to its longer-term projection that inflation should decline to meet the target later in 2012.

Poland

- **Employment:** *Unemployment rises.* Coming in above expectations, the (unadjusted) unemployment rate rose to 12.2% in May, up from 12.1% in the same month of 2010. The level of unemployment, meanwhile, picked up by 2.9% Y/Y to 2.0 mln.

Turkey

- **Monetary and Fiscal Policy:** *Rates, reserve requirements unchanged, no hint of abandoning current strategy.* Turkey's central bank left both policy rates and reserve requirements unchanged, and gave no sign that it would more to using more traditional rate hikes to quell firmer inflation pressures. Markets had been anticipating a not-insignificant likelihood that some mention of the need for eventual rate hikes, or at least a hint that a new strategy might be taken, would come at this meeting. The bank saw private consumption and investment growth moderating, and a weak external demand outlook. Employment growth, meanwhile, "continues to improve." On inflation pressures, the statement noted a decline in unit labor costs and low levels of capacity utilization, but also that core inflation will increase at a "moderate" pace over the short term. Looking further out, the bank still expects inflation to decline (currently 7.2% y/y in May) later this year. With respect to policy measures, the statement took a somewhat firmer stance in defending the bank's measures, stating that "owing to the measures taken so far, the current account balance will start to improve in the final quarter of the year. In light of these assessments, combined with the ongoing uncertainty regarding the global economy and the slowdown in domestic economic activity, the Committee has decided to maintain the current policy stance." Importantly, the TCB left open taking additional measures "along the same lines, if needed."

Asia and Pacific

Japan

- **Trade:** *Exports bounce modestly.* Coming in below expectations, and still clearly distorted by the March earthquake, the May (unadjusted) trade balance deteriorated significantly to a shortfall of ¥ 853.7 bln from a surplus of ¥ 316.0 bln in the same month of the previous year. The seasonally adjusted trade gap also worsened but modestly to a deficit of ¥ 474.6 bln. The latest adjusted result was a reflection of a modest recovery in exports of 2.5% M/M, while imports, bounced 2.4%.

Hong Kong

- **Inflation:** *Inflation rises.* May consumer price inflation increased by 0.6 percentage point to 5.2% Y/Y, a seventh-straight rise and now the highest since July 2008. This was the result of a fairly broad-based rise in price pressures, led by food, housing rental and clothing costs.

Singapore

- **Growth and Production:** *Output plunges.* Confounding expectations of a clear rise, May seasonally adjusted industrial production actually fell by 3.8% M/M, still a much less marked fall than the 18.7% plunge seen in the previous month but being the first back-to-back decline since 2009. Partly as a result, in unadjusted Y/Y terms, output dropped 17.5% from a 9.5% decline in the previous month, the largest decrease since March 2009. The Y/Y breakdown revealed the latest outcome to be the result of a steeper fall for the biomedical/pharmaceuticals sector (-42.1% from -22.9% in April) and general manufacturing (-12.2% from -8.5%), offsetting a slight improvement in electronics (-5.4% from -7.6%) and gains elsewhere.

- **Inflation:** *Stable inflation.* Coming in above market expectations, consumer price inflation was stable at 4.5% Y/Y in May, a joint six-month low. In M/M terms, prices rose by 0.6%, driven mainly by an increase in housing costs and with all other components either flat or falling. The Y/Y breakdown revealed a similar picture, with rising price pressures for housing (8.1% from 5.1% in April) outweighing flat to lower inflation in all other components, led by a drop in transportation to 7.5% from 11.7%.

New Zealand

- **Trade:** *Mixed messages in current account data.* Balance of payments data for Q1 showed a modest deficit of NZD 0.097 bln, clearly worse than the surplus of NZD 0.159 bln in the same quarter of 2010. On a seasonally adjusted basis, the deficit actually narrowed to NZD 1.753 bln from a shortfall of NZD 2.854 bln in Q4, reaching a four-month high. The (unadjusted) breakdown revealed the latest outcome to be the result of a slight widening in the goods balance surplus being outweighed by a narrowing in the services balance surplus and a larger income balance deficit.

Taiwan

- **Growth and Production:** *Output growth edges higher.* Confounding expectations of a drop, May industrial production growth rose by 0.64 percentage point to 7.82% Y/Y from an upwardly revised April reading, but still being the second-lowest in 19-months. The breakdown revealed the latest rise to be the result of a recovery in manufacturing (7.72% Y/Y from 7.44% in April), being tempered by a steeper fall in mining (-3.15% from -1.31%) and a swing into negative for utilities (-0.73% from 2.01%).

- **Employment:** Unemployment rebounds. The seasonally adjusted unemployment rate rose to 4.41% in May from 4.35%, almost completely unwinding the 0.07 percentage drop in the previous month but still being the second lowest since October 2008. Meanwhile, the level of unemployment fell by 16.00% Y/Y in May to 476 000, a fifteenth-straight decrease but a less steep fall than the 19.53% drop seen in April. On a similarly upbeat note, the level of employment picked up further by 2.01% Y/Y in the month, following a 2.25% rise in April.

Thailand

- **Trade:** *Slower export growth.* Data from the Ministry of Commerce showed export growth slowing from 23.7% Y/Y in April to 17.6% last month, a seven-month low. In contrast, import growth was up, rising from 27.9% Y/Y to 33.8%, hitting the highest since November last year. As a consequence, the trade surplus narrowed to $ 278 mln in May from $ 2 212 mln in the same month of 2010.

The Americas

Argentina

- **Trade:** *Trade surplus shrinks from a year ago.* May's trade surplus shrank almost 13% from a year ago, as imports continued to surge. Exports over the past year have grown 24% on the back of the global recovery and strong commodity prices, but imports have soared 39% fuelled by strong domestic demand. As the election looms – President Kirchner has officially announced her bid for re-election in October, with the robust economy a key plank of her campaign – no change is expected in the stance of monetary policy even as the economy seems to be overheating.

Brazil

- **Employment:** *Unemployment remains low.* The unemployment rate held steady in May at 6.4% (not seasonally adjusted), down from 7.5% a year ago. Tight labour market conditions and upward pressures on nominal wages were cited as an important risk to inflation in the latest minutes of the Monetary Policy Committee; at that June meeting, the main policy rate was raised a further 25 basis points to 12.25%. Although inflation at 6.55% is still above the central bank's target range of 4.5% ± 2 percentage points, recent data point to a gradually moderating economy. DE expects a pause soon in the central bank's aggressive tightening campaign, to avoid the risks of a hard landing.

Mexico

Africa

South Africa

- **Inflation:** *Inflation rises further.* Surprising to the upside, consumer price inflation rose by 0.4 percentage point to 4.6% Y/Y in May from April, a third-straight increase and now the joint-highest since May 2010. In M/M terms, prices rose by 0.5%. The Y/Y breakdown showed the latest increase to be a reflection of a relatively broad-based rise in price pressures, led by food, transport and recreation & culture costs.

- **Trade:** *Current account deficit narrows.* Q1 balance of payments data showed a deficit of 87.8 bln rand, down from the 113.0 bln rand deficit seen in the same period of the previous year. As a percentage of GDP, the deficit was 3.1% in Q1, also lower than the 4.4% reading in Q1 2010.

Comparative International Economic Indicators

Real Growth*

	Latest Period	Chg. Over Prev. Period	Chg. Over Year Ago Period
United States	2011:Q1	1.9	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:M5	0.6	5.3
•	2011:M5	0.6	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:M5 •	2.7	7.8
Hong Kong	2011:Q1	-12.9	3.6
Singapore	2011:M5 •	-5.9	-17.5
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	184.8	185.1	189.6
	2011:Q1	-53.9	-45.6	-40.0
	2011:Q1	-75.9	-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
•	2011:Q1	15.2	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:M5 •	4.3	4.3	5.1
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:M5 •	5.2	5.1	5.1

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

Long-Term Government Bond Yield

	Latest	Prev. Month	Year Ago
	2.87	3.13	3.14
	2.87	3.08	3.22
	3.13	3.33	3.39
	2.83	3.05	2.60
	3.61	3.69	3.06
	4.98	4.73	4.03
	1.63	1.86	1.52
	1.11	1.13	1.15
	4.26	4.22	4.98
	1.52	1.43	1.41
	2.21	2.40	2.46
	2.28	2.24	2.47
	5.08	5.26	5.31
	2.59	2.95	2.80

Call Money Rate

	Latest	Prev. Month	Year Ago
Euro	1.25	1.25	1.00
United States	0.10	0.10	0.10
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	0.04	0.08
Japan	0.09	0.09	0.11
Korea	3.26	3.05	2.02
Hong Kong	0.09	0.09	0.04
Singapore	0.16	0.16	0.13
Australia	0.00	4.75	4.50
Mexico	4.47	4.47	4.47

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
	1.4177	-0.9	0.6	15.0
	78.51§	0.3	-0.2	-9.3
	0.9864	-0.7	-0.9	5.4
	1.5964	-1.4	-1.9	6.9
	1.3799	0.9	-0.6	-13.0
	4.6279	0.9	-0.6	-13.0
	1366.07	0.9	-0.6	-13.0
	0.8381	1.2	4.0	24.0
	80.49	-0.5	1.8	10.2
	1078.8	0.7	2.1	9.3
	7.7901	0.0	0.1	0.2
	1.2383	-0.4	0.8	11.1
	1.0495	-1.2	-0.4	21.1
	11.9072	0.0	-2.0	6.5

§ 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	4.3	3.0
Netherlands	2011:Q1	3.6	2.3
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	2011:Q1 •	11.8	9.6
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:M5 •	0.3	3.3
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	2011:Q1 •	8.2	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	2011:Q1 •	2.9	3.1	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:M5 •	4.2	4.2	4.5
Denmark	2011:M4	3.8	3.9	4.2
Sweden	2011:M5 •	7.7	7.5	8.6
Norway	2011:M5	2.5	2.8	2.7
Finland	2011:M5 •	9.8	8.2	10.5
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:M5 •	6.4	6.4	7.5

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

Long-Term Government Bond Yield

	Latest	Prev. Month	Year Ago
Belgium	4.14	4.18	3.48
Netherlands	3.19	3.33	2.87
Denmark	4.14	4.18	3.48
Sweden	2.84	2.91	2.64
Norway	3.40	3.40	3.52
Finland	3.56	3.55	2.86
Spain	5.68	5.36	4.45
Portugal	11.38	9.73	5.70
Indonesia	—	—	—
Philippines	—	—	—
Malaysia	3.92	4.00	3.96
Thailand	3.80	3.77	3.14
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	2.00	1.90	0.27
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	6.05	6.30	6.17
Philippines	4.50	4.50	4.00
Malaysia	0.00	0.00	0.00
Thailand	—	—	—
India	6.90	8.75	5.20
China	—	—	—
Argentina	9.88	9.78	9.65
Brazil	11.16	11.16	0.00

Exchange Rate

	Latest Level	Chg. Over Last Week	Chg. Over Prv. Month	Chg. Over Year Ago
Belgium	28.4605	-0.9	0.6	13.0
Netherlands	1.5548	-0.9	0.6	13.0
Denmark	5.2611	-0.9	0.6	12.8
Sweden	6.5014	-1.4	-2.7	16.5
Norway	5.4926	0.5	1.0	15.4
Finland	4.1948	-0.9	0.6	13.0
Spain	117.39	-0.9	0.6	13.0
Portugal	141.44	-0.9	0.6	13.0
Indonesia	8599.0	0.1	0.0	5.1
Philippines	43.408	0.7	0.3	6.4
Malaysia	3.0400	0.1	0.8	6.1
Thailand	30.700	-0.6	-0.9	5.3
India	44.995	0.3	-0.7	-3.2
China	6.4742	0.0	0.3	4.8
Argentina	4.0995	-0.1	-0.3	-4.4
Brazil	1.6048	-0.4	1.5	10.0

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

Week ended: 6/24/2011

Focus on Eurozone

Over and beyond the deepening risks around sovereign debt markets, economic data has seemingly added to Eurozone woes in the last week. The June flash PMIs pointed to a further marked slowing in private sector activity for the Eurozone, actually more marked than that seen in May. As notably, however, while momentum was still clear in France and Germany (albeit apparently very much softer for the former), the PMIs suggested that output growth elsewhere contracted for the first time since November 2009 while there was a further marked softening in new orders.

Indeed, while the aggregated Eurozone PMI continued to show further expansion, activity through the region actually grew at the softest pace since October 2009, led by a further sharp slowing in manufacturing. Specifically, the manufacturing PMI very much undershot expectations, slumping 2.6 points to an 18-month low of 52.0, the third fall in the last four months, albeit from the 11-year high seen in March, with the extent of erosion reminiscent of the hemorrhaging seen after the Lehman collapse. Meanwhile, the flash services PMI also undershot expectations, but less markedly so. Even so, the headline dropped 1.8 points to 54.2, a six-month low. Of some note, and ominous for the outlook, expectations within the sector saw the joint-largest drop since the immediate aftermath of Lehman, with the employment situation also less promising.

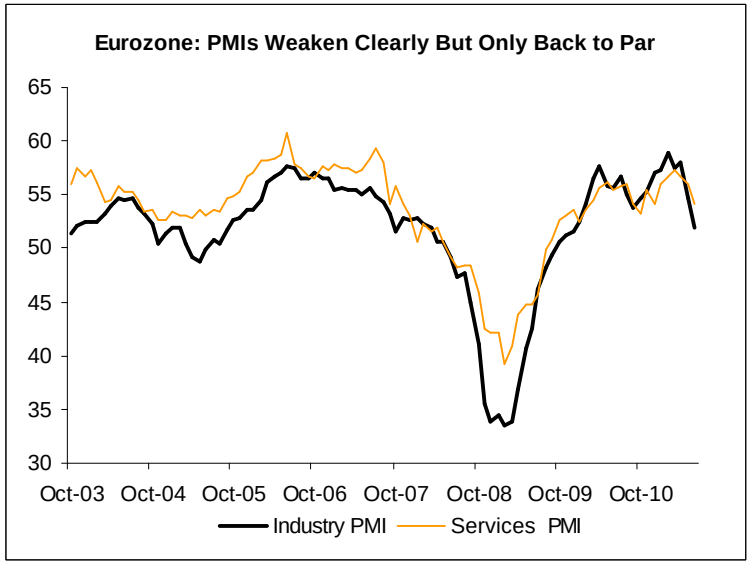
However, this PMI weakness has to be put into proper context. Firstly, it is notable that the PMI data have merely returned to their long-term averages. Secondly, it is not clear the extent to which this erosion reflects temporary factors such as the disruptions to supply chains emanating from the earthquake in Japan, something that would hit the vehicle industry in particular. In this regard, it is notable that the June French INSEE and German Ifo survey actually painted a contrasting picture to the PMI numbers, very much a result of a better tone within car manufacturing.

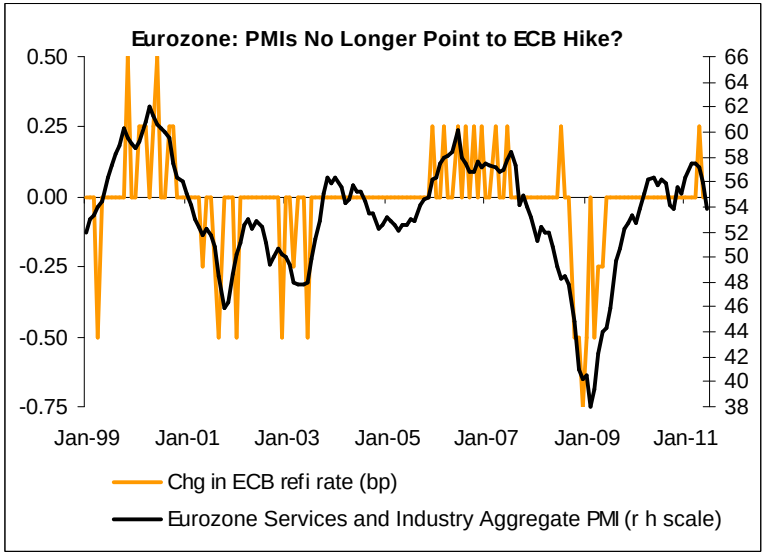
However, even given these qualifications, the further sharp and broader fall on the manufacturing side will be seen as additional evidence of a softer global economy hitting the export orientated factory sector, a development that highlights that export sensitive Eurozone activity is as much vulnerable to policy tightening abroad as to what the ECB may be have in store. Regardless, the deterioration in business confidence in the service sector suggests that a more fundamental slowing in the pace of economic growth is occurring.

To date, ECB thinking has very much reflected the strength in the Eurozone-wide PMI data, in regard to both prices and activity, rather than the further signs of economic divergence highlighted by survey numbers. To some extent this is understandable given the Eurozone-wide remit of the ECB. However, especially as a series of setbacks have now been signaled, these latest survey readings will cause increasing reverberations in terms of the clear slowing across the whole of the Eurozone in regard to activity. Admittedly, price pressures are still evident, but with input pressures clearly receding and output costs starting to slow in manufacturing.

As for markets, numbers such as these will therefore only accentuate already-marked sovereign debt worries that have spread back to the likes of Spain in the last month. Indeed, these PMI data may only serve to reinforce these worries as they highlight the lack of growth in peripheral countries without which debt sustainability looks to be very tenuous. These sovereign debt and inter-related banking sector risks clearly can be seen arguing against the ECB exercising its July rate hike threat. More notably, the weakness in these numbers provide a more economic fundamental rationale for the ECB to prevaricate: these PMI readings are now very much back below levels historically associated with ECB hiking.

— Andrew Wroblewski, DE London





DECISION ECONOMICS June 24, 2011

	Latest	Week Ago	% Chg. YTD *	12/31/10
Yen/$	80.49	80.05	-0.8	81.12
$/Euro	1.4176	1.4306	-5.9	1.3384
Yen/Euro	114.10	114.52	5.1	108.57
$/STG	1.5964	1.6194	-2.3	1.5612
Sfr/$	0.8381	0.8482	-10.4	0.9352
Can$/US$	0.9865	0.9794	-1.2	0.9980
Mexican Peso/$	11.909	11.902	-3.5	12.340
Brazil Real/$	1.6048	1.5978	-3.4	1.6613
Thai Baht/$	30.700	30.530	2.1	30.060
Malaysian Ringgit/$	3.0400	3.0443	-0.8	3.0635
Indonesian Rupiah/$	8599.0	8608.0	-4.4	8996.0
Korean Won/$	1078.8	1085.9	-4.2	1126.0
Philippines Peso/$	43.408	43.705	-0.9	43.800
India Rupee/$	44.995	44.866	0.6	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	1.17	1.18	-0.06	1.23
Euro	1.47	1.45	0.53	0.94
U.K.	0.83	0.83	0.07	0.76
Japan	0.20	0.20	0.01	0.19
LONG-TERM (10-Year Benchmark)**				
U.S.	2.87	2.95	-0.42	3.30
US 10 Year Swap Rate	3.02	3.09	-0.36	3.38
Canada	2.87	2.95	-0.26	3.12
Italy	4.98	4.82	0.16	4.82
Germany	2.83	2.96	-0.13	2.96
U.K.	3.13	3.20	-0.26	3.40
Switzerland	1.63	1.71	-0.08	1.72
Japan (JGB)	1.11	1.12	-0.02	1.13
Australia	5.08	5.12	-0.46	5.55
Brazil	4.00	4.09	-0.61	4.61
India	8.25	8.26	0.33	7.92
Spreads to US 10-Year				
10 Year Swap Spread	0.15	0.15	0.06	0.08
10 Year - 2 Year	2.53	2.57	-0.16	2.70
Moody AAA	1.90	1.83	0.36	1.54
UK Gilt	0.26	0.25	0.16	0.10
German Bund	-0.04	0.01	0.30	-0.33
Italian 10-year	2.11	1.87	0.59	1.52

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

STOCK MARKETS				
U.S. (DJIA)	11935	12004	3.1	11578
S&P 500	1268	1272	0.9	1258
NASDAQ Composite	2653	2616	0.0	2653
Russell 2000	798	782	1.8	784
Canada (TSE-300)	12909	12790	-4.0	13443
Mexico (Bolsa)	35376	35026	-8.2	38551
Argentina (Merval)	3295	3235	-6.5	3524
Brazil (Bovespa)	61063	60881	-11.9	69305
Germany (DAX, XETRA)	7121	7164	3.0	6914
U.K. (FT-SE 100)	5698	5715	-3.4	5900
France (CAC-40)	3785	3824	-0.5	3805
Switzerland (SMI)	5998	6145	-6.8	6436
Japan (Nikkei-225)	9679	9351	-5.4	10229
Hong Kong (Hang Seng)	22172	21695	-3.7	23035
Australia (All Ordinaries)	4565	4551	-5.8	4847
South Korea (KOSPI)	2091	2032	1.9	2051
Thailand	1023	1019	-1.0	1033
India (BSE)	18241	17871	-11.1	20509
China (Dow Jones Shanghai Index)	345	330	-3.1	356
Singapore (Straights Times Index)	3067	3005	-3.9	3190
COMMODITIES				
Gold (USD/Troy Ounce)	1500.35	1539.45	5.6	1420.78
Crude Oil (WTI, Spot)	90.83	93.01	-0.6	91.38
CRB Futures	329.89	335.48	-0.9	332.80
CRB Raw Industrials (Spot)	551.18	556.25	5.9	520.33