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Global Economic Developments

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Eurozone: Is Germany Cracking Too?

The August Eurozone flash PMIs pointed to a continued near-stagnation in private sector activity for the Eurozone, but (unlike the three previous surveys) with no fresh softening having occurred. However, and echoed in the broad fall in both the August ZEW and Ifo surveys, there was evidence of a further and clear slowing in activity in Germany. However, the theme of continued weakness outside of France and Germany was still very much evident in the PMIs, as output growth outside of these countries contracted for the third successive month, though the pace of decline moderated a touch as the rate of contraction in services eased, a development that offset the fastest fall in factory sector output in two years.

There will be some relief that the deeper erosion some had feared that these flash PMIs would produce did not transpire. However, the immediate omens are far from promising given the forward-looking aspects of the surveys such as the drop in services sector expectations and the manufacturing new orders to inventories ratio. In addition, the clear signs of slowing in Germany are very much worrisome given the vanguard status the economy has had through the most recent economic cycle.

Regardless, and given the further and geographically broader erosion, it looks less and less likely that temporary factors (such as the disruptions to supply chains emanating from the earthquake in Japan) are the root cause. Indeed, 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 once again highlights that the export sensitive Eurozone is as much vulnerable to policy tightening abroad as to what is happening domestically. In addition, the deterioration in business confidence in the services sector suggests that a more fundamental slowing in the pace of economic growth is occurring, possibly linked to the on-going headwinds provided by fiscal consolidation and banking sector fragility. As a result, the survey data certainly imply that GDP growth this quarter may fall short of the anemic 0.2% Q/Q pace seen in Q2.

To date, ECB thinking has very much reflected the strength in the Eurozone-wide PMI data. 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, which are also now encompassing Germany and France, these latest survey readings will cause increasing reverberations in terms of the clear slowing being signaled in regard to activity and now also to price pressures. Notably, over and beyond the clear strains in financial markets, the weakness in these numbers provides an even more fundamentally economic rationale for the ECB to prevaricate: indeed, these PMI readings are now at levels historically associated with ECB being on hold and possibly even cutting rates.

For markets, the continued fragility in activity seen outside of France and Germany will remain an issue, accentuating already-marked worries about both the willingness and ability of the Eurozone as a whole to bail-out peripheral countries. However, the (understandable) softening in price pressures is something that may also be registering, especially as it already seems to be feeding through into CPI numbers, a development that will sap the inflation hawkishness of the ECB. Indeed, the question is the extent to which the ECB inflation mindset may already be shifting; last week, Austrian ECB Council member Nowotny acknowledged his concern that the Eurozone faces a Japanese scenario of a long period of limited growth with low inflation resulting.

— Andrew Wroblewski, DE London

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

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

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

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

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Europe

Norway

- **Growth and Production:** *Economy picks up more speed.* Mainland Q2 GDP numbers surprised to the upside somewhat with growth picking up clearly. Indeed, mainland GDP rose by 1.0% Q/Q, twice the revised 0.5% rise of the previous quarter, but with downward revisions evident to previous figures. As a result, Y/Y growth improved clearly to 2.7%. The pick-up in Q/Q growth, moreover, was broad-based, with household consumption reviving while capex staged a less sizeable fall. In addition, there was a modest bounce in exports. Meanwhile, overall GDP (which encompasses oil and gas production) increased by 0.4% Q/Q in Q2, recouping much of he drop in the previous quarter.

Sweden

- **Employment:** *Employment growth slowing?* Coming in slightly below expectations, the (unadjusted) unemployment rate still fell further in July relative to its year-before counterpart. At 6.9%, it was 1.1 percentage points below that of the same month in 2010, a somewhat larger Y/Y drop to that evident in previous readings. However, seasonally adjusted numbers confirmed an on-going drop in underlying joblessness (to a rate of 7.4%), albeit with the rate of decline slowing. On a more unambiguously less upbeat note, there was a further slowing also evident in terms of Y/Y employment growth.

Central Europe

Hungary

- **Monetary and Fiscal Policy:** *Rate held on forint concerns, still-firm inflation.* Global shifts in risk sentiment were part of the reason Hungary's central bank left its benchmark rate unchanged, along with weaker than expected global activity, subdued domestic demand, and still-rising core inflation. The bank expects weaker exports to in part be offset by large-scale auto-related investment projects. Left intact was language that "it may be necessary to maintain interest rates at their current level over a sustained period in order to meet the target for CPI inflation in the medium term."

Turkey

- **Monetary and Fiscal Policy:** *Rate held, easing bias clear.* Turkey's central bank held the one-week repo rate at 5.75%, in line with broad expectations, though many had been looking for a potential cut this week. The Committee indicated that it expects the early-August rate cut to have "contained the downside risks for the economy for the time being…" But, the Committee reiterated that "all policy instruments may be eased should global economic problems further intensify and the slowdown in domestic economic activity becomes more pronounced." On global activity, today's statement noted that it "continues to decelerate," while on the domestic front there is an "ongoing slowdown in domestic demand since the second quarter." Credit growth has slowed, and the Committee still expects an improvement in the current account balance ahead. On inflation, any increase in inflation due to recent lira weakening would be "temporary." In short, downside risks are in focus and an easing bias remains clear. The global slowdown is making the central bank's embarking on an unorthodox mix of rate cuts and higher reserve requirements look especially clever in hindsight. What is less clear is how effective such a strategy (which began in December) would have been had firmer expansion taken hold, as the current account deficit had so far shown little sign of improvement, and credit growth only slowed in the last couple of weeks. Rate cuts are certainly on the table if incoming data continue to disappoint. Worryingly, improvement in the current account in an environment of weaker external demand would imply an even more pronounced weakening in domestic demand. Absent the external drivers, downside risks to Turkey's growth story may be more pronounced than many anticipate.

Asia and Pacific

Hong Kong

- **Inflation:** *Inflation rises.* Coming in below expectations, July consumer price inflation still jumped by 2.3 percentage points to 7.9% Y/Y from the preceding month, a ninth-straight increase and the biggest gain since 1995. The latest jump was mostly due to base effects caused by the Government's payment of public housing rentals in July last year, reflected by a jump in housing inflation to 16.4% Y/Y from 6.5% in June, outweighing a clear swing into negative for utilities (-16.0% from 8.2%).

- **Trade:** *Trade deficit widens.* Surprising clearly to the downside this time around, July trade data showed export growth edging up modestly to 9.3% Y/Y from 9.2% in the previous month. Meanwhile, import growth actually slowed to 10.2% from 11.5% in June, a three-month low. As a result, the trade deficit widened to HK$ 35.9 bln last month from a shortfall of HK$ 30.5 bln in July 2010.

Singapore

- **Growth and Production:** *Output growth slows.* July seasonally adjusted industrial production rose by 0.3% M/M, slowing clearly from the 1.9% gain in the previous month. In unadjusted Y/Y terms, meanwhile, output saw a similar

slowing in growth to 7.4% from an increase of 10.7% in the previous month. The Y/Y breakdown showed the latest moderation to be largely a reflection of a further gain in biomedical production (46.8% from 37.6% in June), being outweighed by a weakening across all other components, led by a steeper fall in electronics production to 18.2% from 15.3% in the preceding month.

- **Inflation:** *Inflation rises.* Coming in above expectations, consumer price inflation rose by 0.2 percentage point to 5.4% Y/Y in July from the preceding month, now just 0.1 point below the cycle-high in January. Meanwhile, in M/M terms, prices rose by 1.5% last month, boosted by housing and transport costs. The Y/Y breakdown showed the latest gain to be the result of rising price pressures for housing (9.5% from 8.8% in June), transport (11.5% from 10.4%) and a less negative communications reading, outweighing falling inflation across all other components.

Philippines

- **Trade:** *Import growth rebounds.* June data showed import growth picking up by 5.0 percentage points to 6.6% Y/Y, but still unwinding little of the 18.7 point plunge seen in the previous month, now the second lowest in the cycle. The latest recovery was a reflection of a clear swing into the positive for mineral fuels (42.5% Y/Y from -33.5% in May), outweighing slower growth in raw materials (10.7% from 34.1%) and a steeper fall in capital goods (-16.9% from -11.6%). Combining the latest reading with export data released earlier this month, the June trade balance swung clearly into a deficit of $ 376 mln from a surplus of $ 332 mln in the same month of the previous year.

New Zealand

- **Trade:** *First July trade surplus in 20 years.* Surprising to the upside for once, data for July showed the trade balance swinging into a surplus of NZ$ 129 mln from a shortfall of NZ$ 186 mln in the same period of 2010. This was a reflection of a rise in export growth to 4.7% Y/Y from 4.2%, while imports swung clearly into the negative to fall 4.0% last month from a gain of 5.1% in June. Elsewhere, the 12-month cumulative trade surplus widened clearly to NZ$ 1 314 mln from NZ$ 587 mln in the same period of the previous year.

Taiwan

- **Growth and Production:** *Slight improvement in output growth.* Clearly undershooting expectations once again, July industrial production growth rose 0.09 percentage point to 3.93% Y/Y, unwinding little of the 3.72 point drop in June and still the second-lowest in the cycle. The breakdown showed the latest recovery to be the result of a clear pick up in construction growth (36.24% from 12.70%), alongside a less steep fall in mining (-4.36% from -9.00%), being undermined by a swing into negative for utilities (-0.85% from 5.23%) and a very modest fall in manufacturing growth (3.73% from 3.74%).

- **Employment:** *Modest fall in unemployment.* The seasonally adjusted unemployment rate fell by 0.03 percentage point in July to 4.37%, a second straight decline but still failing to unwind the 0.06 percentage point increase seen in May. The level of unemployment, meanwhile, fell for the seventeenth-straight month in July by 14.21% Y/Y, a less steep fall than the 14.67% drop in the previous month and a fourth successive slowing. On a more upbeat note, the level of employment rose by 2.04% Y/Y in July, up slightly from 2.03% in June.

Thailand

- **Monetary and Fiscal Policy:** *Rates hiked, but policy pause coming?* As was expected by most, the Bank of Thailand (BoT) raised its benchmark interest rate by 25 bp to 3.50% at its latest policy meeting, the ninth hike in its last ten meetings and the seventh successive tightening in policy. The accompanying statement began with a pessimistic view of the global economy once again, noting slowed growth in advanced economies, in particular the slowdown in growth for the US and core member economies in the Eurozone, albeit with Asia expected to be able to withstand some of the impact of the global slowdown. The domestic economy, meanwhile, was expected to see some dampening impact on exports from this slowdown, but with domestic consumption and investment expected to continue picking up due to favorable employment conditions, improved confidence and continued fiscal stimulus. With regard to inflation, the Bank repeated that price pressures remained high, in part due to strong domestic demand and continued fiscal spending. Notably, inflation expectations were noted to have risen in this month's statement, contrasting with the observation that pressures may result in heightened inflation expectations in July.

- **Growth and Production:** *Weaker growth readings.* Coming in below expectations, national accounts data showed GDP falling by a seasonally adjusted 0.2% Q/Q in Q2, a clear contrast to the 2.0% increase in the previous quarter and ending a run of two successive gains. Meanwhile, on a Y/Y basis, economic growth slowed from an upwardly revised 3.2% in Q1 to 2.6% last quarter, now the lowest since Q3 2009.The expenditure breakdown showed the slowing in Y/Y growth to be the result of a fall in growth for both private (2.8% from 3.3% in Q1) and government (1.0% from 1.8%) consumption, while capex growth more than halved last quarter to 4.1% from 9.3% in Q1. Elsewhere, net trade dampened growth further, with the fall in export growth outpacing that in imports. On the output side, meanwhile, the breakdown revealed weaker growth in both the primary (6.7% Y/Y from 7.6% in Q1) and secondary (2.2% from 2.8%) sectors, while tertiary sector growth was mixed. *Output falls.* July industrial production fell 1.11% Y/Y, swinging into

the negative from the 3.82% increase in the previous month and extending the volatility in the series. In seasonally adjusted M/M terms, output dropped clearly by 5.80% from a 7.98% increase in the previous month and now a new cycle-low. Moreover, on a further downbeat note, capacity utilization fell to 63.01% last month from 64.55% in the same period of 2010.

- **Trade:** *Exports jump.* Coming in above expectations once again, data from the Ministry of Commerce showed July export growth jumping to 38.27% Y/Y from 16.83% in the previous month, now a 13 month high. The latest pick up was boosted by a recovery in both agricultural and industrial export growth, led by a swing into the positive for electronics (15.6% Y/Y from -1.6% in June) and a jewelry (302.0% from -26.8%). Import growth, however, fell by 12.67 percentage points to 13.45% Y/Y last month, a second straight slowing and now a new cycle low. As a result, the trade balance showed a surplus of $ 2 798 mln in July, up clearly from the shortfall of $ 940 mln in the same month of 2010.

The Americas

Mexico

- **Monetary and Fiscal Policy:** *Rate held, easing possible.* Banxico held the overnight rate at 4.5% for the 21st straight meeting, surprising no one, but did signal that it could cut if it deems rates as "unnecessarily" restrictive. The central bank stated that the "pace of growth has lost dynamism," and that it doesn't see much in the way of broad price pressures, meaning that current rates would keep headline and core CPI measures within the 3% +/- target band. Domestic demand also showed signs of decelerating, which combined with the clearly softer external picture, justifies opening the door to easing. A cut is not imminent with inflation still running well above 3%, but all eyes are of course on the data flow, particularly as it pertains to the U.S.-facing export sector, which has been a source of strength throughout the recovery.

Africa

South Africa

- **Inflation:** *Inflation rises further.* Largely in line with expectations, consumer price inflation rose by 0.3 percentage point to 5.3% Y/Y in July, the ninth increase in the last ten months and now a fresh cycle-high. On a M/M basis, prices rose by 0.9%. The Y/Y breakdown showed the latest gain to be the result of rising price pressures for food and housing, being only partially offset by falls in transport costs.

Comparative International Economic Indicators

Real Growth*

	Latest Period	Chg. Over Prev. Period	Chg. Over Year Ago Period
United States	2011:Q2	1.0	1.5
Canada	2011:Q1	3.9	2.9
Eurozone	2011:Q2	0.7	1.7
United Kingdom	2011:Q2	0.7	0.7
Germany	2011:Q2	0.5	2.8
France	2011:Q2	0.0	1.6
Italy	2011:Q2	1.0	0.8
Switzerland	2011:Q1	1.0	2.5
Japan	2011:Q2	-1.3	-0.9
Korea	2011:Q2	3.4	3.3
Taiwan	2011:Q2	14.4	5.0
Hong Kong	2011:Q2	-3.7	5.1
Singapore	2011:Q2	1.0	0.9
Australia	2011:Q1	-4.7	1.0
Mexico	2011:Q2	4.5	3.6

**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
United States	2011:M7	0.5	3.6
Canada	2011:M7	0.2	2.7
Eurozone	2011:M7	-0.6	2.5
United Kingdom	2011:M7	0.0	4.5
Germany	2011:M7	0.3	2.5
France	2011:M7	-0.4	1.9
Italy	2011:M7	0.3	2.6
Switzerland	2011:M7	-0.8	0.5
Japan	2011:M7 •	0.0	0.2
Korea	2011:M7	0.7	4.7
Taiwan	2011:M7	-0.3	1.3
Hong Kong	2011:M7	-0.2	7.9
Singapore	2011:M7	1.5	5.4
Australia	2011:Q2	0.9	3.6
Mexico	2011:M7	0.5	3.5

**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:M7	0.9	3.7
Canada	2011:M5	-2.2	0.7
United Kingdom	2011:M6	0.0	-0.3
Germany	2011:M6	-1.1	6.6
France	2011:M6	-1.7	2.1
Italy	2011:M6	-0.6	0.3
Switzerland	2011:Q1	-9.2	5.0
Japan	2011:M6	16.5	-1.7
Korea	2011:M6	0.4	6.4
Taiwan	2011:M7	2.3	3.9
Hong Kong	2011:Q1	-12.9	3.6
Singapore	2011:M7 •	-0.8	7.4
Australia	2011:Q1	-3.8	-5.4
Mexico	2011:M6	-0.6	3.7

**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
United States	2011:Q1	-471.9	-470.9	-376.6
Canada	2011:Q1	-50.0	-49.3	-40.3
United Kingdom	2011:Q1	-70.4	-71.6	-37.1
Germany	2011:Q2	190.6	184.4	189.7
France	2011:Q2	-63.4	-45.0	-39.1
Italy	2011:Q2	-83.3	-71.2	-41.3
Switzerland	2011:Q1	76.7	76.6	57.2
Japan	2011:Q2	166.0	196.0	142.6
Korea	2011:Q2	28.2	28.2	32.8
Taiwan	2011:Q2	38.3	39.9	42.9
Hong Kong	2011:Q1	14.7	13.9	18.0
Singapore	2011:Q2	51.3	49.5	35.1
Australia	2011:Q1	-27.6	-31.9	-43.3
Mexico	2011:Q2	-8.9	-5.7	-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:M7	9.1	9.2	9.5
Canada	2011:M7	7.2	7.4	8.0
United Kingdom	2011:M7	4.9	4.8	4.6
Germany	2011:M6	6.1	6.1	7.1
France	2011:M6	9.7	9.6	9.8
Italy	2011:Q1	8.2	8.4	8.5
Switzerland	2011:M7	3.0	3.0	3.8
Japan	2011:M6	4.6	4.5	5.2
Korea	2011:M7	3.3	3.3	3.7
Taiwan	2011:M7	4.4	4.4	5.2
Hong Kong	2011:M7	3.4	3.5	4.3
Singapore	2011:Q2	2.7	1.8	2.8
Australia	2011:M7	5.1	4.9	5.3
Mexico	2011:M7	5.6	5.4	5.7

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

Long-Term Government Bond Yield

	Latest	Prev. Month	Year Ago
United States	2.19	2.98	2.48
Canada	2.39	2.88	2.80
United Kingdom	2.50	2.98	2.89
Germany	2.16	2.65	2.16
France	3.35	3.33	2.49
Italy	5.07	5.76	3.77
Switzerland	1.01	1.42	1.10
Japan	1.04	1.09	0.95
Korea	3.87	4.23	4.47
Taiwan	1.39	1.55	1.19
Hong Kong	1.76	2.28	1.93
Singapore	1.63	2.12	2.02
Australia	4.40	4.98	4.79
Mexico	1.93	2.25	2.17

Call Money Rate

	Latest	Prev. Month	Year Ago
Euro	1.50	1.50	1.00
United States	0.12	0.10	0.17
Canada	1.00	1.00	0.75
United Kingdom	0.53	0.50	0.50
Germany	1.50	1.50	1.00
France	1.50	1.50	1.00
Italy	1.50	1.50	1.00
Switzerland	-0.08	0.08	0.06
Japan	0.09	0.09	0.10
Korea	3.26	3.27	2.28
Hong Kong	0.10	0.11	0.01
Singapore	0.14	0.16	0.13
Australia	0.00	4.75	4.50
Mexico	4.47	4.45	4.58

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
Euro	1.4494	0.7	0.9	14.0
United States	77.82§	0.2	1.4	-8.4
Canada	0.9828	0.7	-3.5	7.1
United Kingdom	1.6350	-0.7	0.1	5.3
Germany	1.3493	-0.7	-0.9	-12.3
France	4.5254	-0.7	-0.9	-12.3
Italy	1335.87	-0.7	-0.9	-12.3
Switzerland	0.8062	-2.7	-0.6	21.3
Japan	76.65	-0.1	1.7	9.2
Korea	1081.9	0.5	-3.0	9.1
Hong Kong	7.7962	0.0	0.1	0.3
Singapore	1.2029	0.6	0.1	11.2
Australia	1.0578	1.7	-4.0	19.4
Mexico	12.4599	-1.3	-7.0	4.7

§ Morgan Guaranty Trade-Weighted Index.

Comparative International Economic Indicators (Cont.)

Real Growth*

	Latest Period	Chg. Over Prev. Period	Chg. Over Year Ago Period
Belgium	2011:Q2	3.2	2.7
Netherlands	2011:Q2	0.6	1.7
Denmark	2011:Q1	-3.2	1.6
Sweden	2011:Q2	3.9	5.3
Norway	2011:Q2	1.5	0.3
Finland	2011:Q1	1.7	5.1
Spain	2011:Q2	0.6	0.7
Portugal	2011:Q2	0.1	-0.9
Indonesia	2011:Q2	12.0	6.5
Philippines	2011:Q1	-31.2	4.9
Malaysia	2011:Q2	11.8	4.0
Thailand	2011:Q2	-22.7	2.6
India	2011:Q1	32.2	7.7
China	2011:Q2	---	9.5
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:M7	0.1	3.8
Netherlands	2011:M7	0.0	2.6
Denmark	2011:M7	-0.1	2.9
Sweden	2011:M7	0.0	3.0
Norway	2011:M7	-0.2	1.6
Finland	2011:M7	-0.3	4.0
Spain	2011:M7	-0.5	3.1
Portugal	2011:M7	-0.1	3.2
Indonesia	2011:M7	---	---
Philippines	2011:M7	0.1	5.1
Malaysia	2011:M7	0.2	3.4
Thailand	2011:M7	0.2	4.1
India	2011:M6	1.1	8.6
China	2011:M7	---	6.5
Argentina	2011:M6	0.7	9.7
Brazil	2011:M7	0.3	6.6

**Not seasonally adjusted.*

Industrial Production*

	Latest Period	Chg. Over Prev. Period	Chg. Over Year Ago Period
Belgium	2011:M5	-0.2	12.6
Netherlands	2011:M6	-1.6	0.6
Denmark	2011:M6	-5.8	-3.1
Sweden	2011:M6	-2.3	3.6
Norway	2011:M6	5.2	-4.1
Finland	2011:M6	-3.3	0.5
Spain	2011:M6	3.6	3.3
Portugal	2011:M6	-3.5	1.5
Indonesia	2011:M6	1.6	4.9
Philippines	2011:M6	-1.9	-0.2
Malaysia	2011:M6	3.4	1.0
Thailand	2011:M6	11.8	3.3
India	2011:M6	2.7	8.7
Argentina	2011:M6	0.2	2.3
Brazil	2011:M6	-3.9	0.9

**Not seasonally adjusted except for Netherlands, Sweden, Norway, Finland, and Spain. Thailand reported as 12-month moving average.*

Current Account (Billions of Dollars)

	Latest Period	Trailing 12-Month Sum	2010 Total	2009 Total
Belgium	2011:Q1	2.7	4.4	-0.5
Netherlands	2011:Q1	61.8	56.2	38.9
Denmark	2011:Q2	21.0	16.6	6.8
Sweden	2011:Q1	32.2	28.8	28.3
Norway	2011:Q1	49.6	51.4	44.5
Finland	2011:Q2	5.6	7.5	5.9
Spain	2011:Q1	-65.8	-64.5	-75.3
Portugal	2011:Q2	-21.2	-22.7	-25.7
Indonesia	2011:Q2	4.6	5.6	31.8
Philippines	2011:Q1	8.2	8.5	21.9
Malaysia	2011:Q2	30.3	27.3	8.8
Thailand	2011:Q2	16.2	14.8	7.1
India	2011:Q1	-44.3	-51.9	10.5
Argentina	2011:Q1	2.9	3.1	11.1
Brazil	2011:Q2	-49.0	-47.4	-24.3

Unemployment Rate*

	Latest Period		Latest	Prev. Period	Year Ago Period
Belgium	2011:M6		7.4	7.3	8.4
Netherlands	2011:M7		4.3	4.1	4.6
Denmark	2011:M6		4.0	4.0	4.1
Sweden	2011:M7	•	7.4	7.4	8.5
Norway	2011:M7		2.8	2.5	3.0
Finland	2011:M7		6.9	8.4	7.5
Spain	2011:M6		21.0	20.8	20.2
Portugal	2011:M6		12.2	12.4	12.1
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:M5		0.5	0.8	1.5
China	2009		4.3	4.2	4.2
Argentina	2011:Q2		7.3	7.4	7.9
Brazil	2011:M7		6.0	6.2	6.9

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

Long-Term Government Bond Yield

	Latest	Prev. Month	Year Ago
Belgium	3.95	4.28	2.86
Netherlands	2.57	3.01	2.34
Denmark	3.95	4.28	2.86
Sweden	2.04	2.63	2.24
Norway	2.60	3.10	3.07
Finland	3.24	3.27	2.38
Spain	5.00	5.98	4.02
Portugal	11.17	10.87	5.42
Indonesia	—	—	—
Philippines	—	—	—
Malaysia	3.65	3.89	3.63
Thailand	3.49	4.03	3.04
China	—	—	—
Argentina	—	—	—
Brazil	—	—	—

Call Money Rate

	Latest	Prev. Month	Year Ago
Belgium	1.50	1.50	1.00
Netherlands	1.50	1.50	1.00
Denmark	1.25	1.25	0.75
Sweden	2.16	2.09	0.65
Norway	2.25	2.25	2.00
Finland	1.50	1.50	1.00
Spain	1.50	1.50	1.00
Portugal	1.50	1.50	1.00
Indonesia	5.88	6.01	6.21
Philippines	4.50	4.50	4.00
Malaysia	0.00	0.00	0.00
Thailand	—	—	—
India	6.50	7.40	4.65
China	—	—	—
Argentina	9.70	10.20	9.80
Brazil	11.16	11.16	0.00

Exchange Rate

	Latest Level	Chg. Over Last Week	Chg. Over Prv. Month	Chg. Over Year Ago
Belgium	27.8302	0.7	0.9	12.3
Netherlands	1.5204	0.7	0.9	12.3
Denmark	5.1408	0.6	0.9	12.2
Sweden	6.2960	1.4	0.8	15.1
Norway	5.3712	1.7	0.6	14.7
Finland	4.1019	0.7	0.9	12.3
Spain	114.79	0.7	0.9	12.3
Portugal	138.32	0.7	0.9	12.3
Indonesia	8565.0	-0.1	-0.9	4.7
Philippines	42.500	0.3	-0.9	5.9
Malaysia	2.9885	-0.3	-1.7	4.9
Thailand	29.980	-0.6	-0.8	4.4
India	46.155	0.9	4.7	-1.5
China	6.3875	0.1	0.9	6.1
Argentina	4.1840	-0.2	-1.1	-6.1
Brazil	1.6033	-0.2	-3.1	9.0

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

Week ended: 8/26/2011

Focus on Brazil: Is Monetary Policy Easing on the Horizon?

All seems to indicate that Brazil's central bank will enter a pause in the very near-term. This may be, quite possibly, the result of next week's meeting, but even if such expectation does not materialize, it would be highly surprising to see the bank tightening again in October. In fact, circumstances are evolving in such direction that the possibility of an interest rate reduction is now to be considered seriously, suggested even by recent official statements.

Justification for a pause is increasingly clear, despite the fact annual inflation is still—and may remain during the next couple of months-- above the 6.5% central bank ceiling (latest figure: 6.9% year-on-year in July). It should be noted the monthly pace of inflation points to a decline of the annual rate as early as October toward the 6.5% mark, descending into the target range thereafter.

Importantly, this is the view of inflation on which the central bank has publicly based the current policy discourse, as well as the general market expectation. There is clearly some chance that such optimistic assessments might not be vindicated, but for now the stabilization of commodity prices and the strength of the real actually provide additional encouragement. Thus the focus of policymaking is rapidly shifting from containment of inflation to ensuring the continuation of the expansion, subject to numerous external risks. To be sure, the economy's vital signs are quite healthy, with unemployment at very low levels, export revenues growing strongly, the current account deficit at a very manageable (indeed falling) level, retail sales expanding at a seemingly stable but relatively strong pace, and domestic investment still quite vigorous.

Nonetheless, economic activity has decelerated sharply from last year's extraordinary rates, and some sectors, such as industry, are expanding only at a modest pace. In part this results from a comparison with a very strong base. The data as a whole actually point to GDP growth close to 4% during the second quarter. This is quite respectable given the central bank's efforts to slow the economy. But there are a few pieces of recent statistical evidence that suggests that further tightening might take domestic demand growth from moderate to anemic, exposing GDP to a potential recessionary turn, especially in view of mounting external risks.

It will not escape policymakers' attention, for example, that the central bank's own index of economic activity dropped 0.26% during June, the first negative figure since the brutal drops caused by the recession at the end of 2008. Lending growth has also—finally—stabilized, after its sharp acceleration of 2010, as borrowing costs escalate for individuals and corporations.

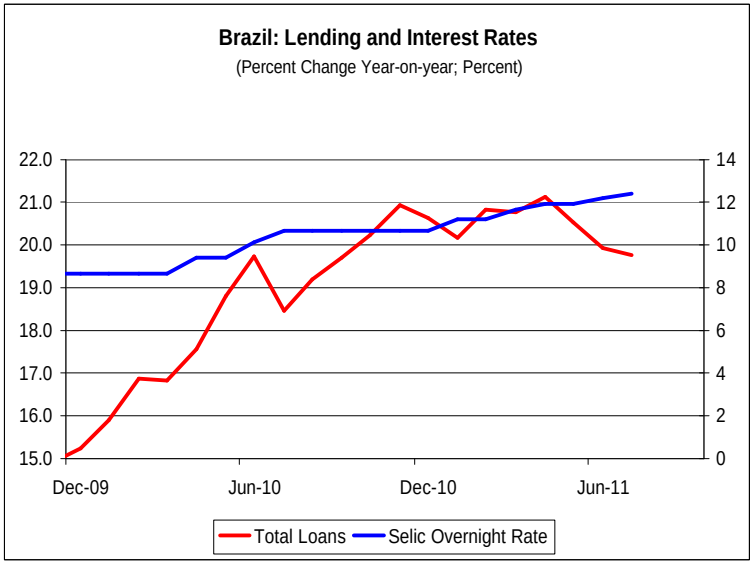
Thus, this is probably a moment during which modifying monetary policy makes sense. There seems to be no compelling need to apply more tightening medicine, either on the basis of overheating activity or of out of control inflation. Will this shift in policy take place? The rhetoric from the central bank is becoming increasingly dovish, and the interest rate hike that we had previously expected in August, and which would close the tightening cycle, is now at best a 50/50 probability event. The likelihood of an immediate pause is rising. After August, the bank would have a chance to reassess policy again with a bit more time to examine fresh data and information regarding the global economy (the next meeting is in October).

If, by then, inflation shows continuing signs of returning to the target range, present global trends and risks suggest that policymakers may in short order be confronted with the need to undo, at least partially, their aggressive monetary tightening of the past two years. One pivotal factor will be the economic costs of the real's sharp appreciation since the end of the recession, manifest in the slow pace of manufacturing production.

The timing for that next phase of central bank policy will depend on whether the weakening of growth in the developed world intensifies. That could force Brazil's central bank to cut rates sooner, even before inflation moves close to the target-range mid-point, which could conceivably occur, on current trends by the second quarter of 2012. At that time, even without a deeper global slump, the BCB would probably begin to adjust interest rates downward from the extremely high levels of today, possibly by as much as 100-to-200 basis points over the following year. As pointed out above, a pivotal factor for this decision could be the need for a less expensive real; another, which has recently entered in the official pronouncements on policy, is the government's desire to reduce debt-servicing costs, which are substantially linked to the Selic-overnight rate.

— Francisco J. Larios, DE Miami





August 26, 2011

DECISION ECONOMICS August 26, 2011

	Latest	Week Ago	% Chg. YTD *	12/30/09
Yen/$	76.65	76.55	-5.5	81.12
$/Euro	1.4496	1.4397	-8.3	1.3384
Yen/Euro	111.11	110.21	2.3	108.57
$/STG	1.6351	1.6465	-4.7	1.5612
Sfr/$	0.8062	0.7851	-13.8	0.9352
Can$/US$	0.9825	0.9901	-1.6	0.9980
Mexican Peso/$	12.454	12.298	0.9	12.340
Brazil Real/$	1.6029	1.5996	-3.5	1.6613
Thai Baht/$	29.980	29.810	-0.3	30.060
Malaysian Ringgit/$	2.9885	2.9799	-2.4	3.0635
Indonesian Rupiah/$	8564.5	8558.0	-4.8	8996.0
Korean Won/$	1081.9	1087.6	-3.9	1126.0
Philippines Peso/$	42.500	42.615	-3.0	43.800
India Rupee/$	46.155	45.748	3.2	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.	0.32	0.30	0.02	0.30
Canada	1.14	1.13	-0.09	1.23
Euro	1.48	1.48	0.54	0.94
U.K.	0.88	0.87	0.12	0.76
Japan	0.19	0.19	0.01	0.19
LONG-TERM (10-Year Benchmark)**				
U.S.	2.19	2.06	-1.10	3.30
US 10 Year Swap Rate	2.36	2.20	-1.02	3.38
Canada	2.40	2.30	-0.73	3.12
Italy	5.07	4.93	0.26	4.82
Germany	2.16	2.11	-0.81	2.96
U.K.	2.50	2.39	-0.90	3.40
Switzerland	1.01	0.91	-0.71	1.72
Japan (JGB)	1.04	0.99	-0.09	1.13
Australia	4.40	4.23	-1.15	5.55
Brazil	3.97	4.00	-0.64	4.61
India	8.30	8.27	0.38	7.92
Spreads to US 10-Year				
10 Year Swap Spread	0.16	0.14	0.08	0.08
10 Year - 2 Year	2.00	1.87	-0.70	2.70
Moody AAA	2.09	2.07	1.20	0.89
UK Gilt	0.31	0.32	0.21	0.10
German Bund	-0.03	0.04	0.30	-0.33
Italian 10-year	2.88	2.87	1.36	1.52

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

STOCK MARKETS				
U.S. (DJIA)	11285	10818	-2.5	11578
S&P 500	1177	1124	-6.4	1258
NASDAQ Composite	2480	2342	-6.5	2653
Russell 2000	692	652	-11.7	784
Canada (TSE-300)	12328	12007	-8.3	13443
Mexico (Bolsa)	34053	33137	-11.7	38551
Argentina (Merval)	2875	2870	-18.4	3524
Brazil (Bovespa)	53351	52448	-23.0	69305
Germany (DAX, XETRA)	5537	5480	-19.9	6914
U.K. (FT-SE 100)	5130	5041	-13.1	5900
France (CAC-40)	3088	3017	-18.8	3805
Switzerland (SMI)	5323	5094	-17.3	6436
Japan (Nikkei-225)	8798	8719	-14.0	10229
Hong Kong (Hang Seng)	19583	19400	-15.0	23035
Australia (All Ordinaries)	4271	4172	-11.9	4847
South Korea (KOSPI)	1779	1745	-13.3	2051
Thailand	1037	1069	0.4	1033
India (BSE)	15849	16142	-22.7	20509
China (Dow Jones Shanghai Index)	333	323	-6.4	356
Singapore (Straights Times Index)	2748	2734	-13.9	3190
COMMODITIES				
Gold (USD/Troy Ounce)	1825.88	1852.10	28.5	1420.78
Crude Oil (WTI, Spot)	85.37	82.26	-6.6	91.38
CRB Futures	335.25	329.47	0.7	332.80
CRB Raw Industrials (Spot)	538.56	542.66	3.5	520.33