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Global Economic Developments

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Turkey's Central Bank: Further Easing

Turkey's central bank cut their policy rate (the one-week repo) by 50 basis points, to 5.75 percent. This is the third interest rate reduction since December 2010, for a cumulative 125 basis points. A stark contrast with monetary policy elsewhere, the continued easing is part of a strategy that aims to deal with the most visible vulnerability in Turkey's economy, a very large current account deficit, by inducing a weaker Lira. In this framework, inflation has been seen as a problem of a distant second-order, although policymakers have raised bank reserve requirements to slow lending growth, both to prevent *eventual* overheating and bubbles and the concomitant risks to financial-sector health.

Whether this approach can be called a success thus far is debatable: the Lira has, in effect weakened, but the current account deficit has not narrowed; inflation has moved up, but just slightly. Be that as it may, the most likely 12-month scenario for Turkey includes—barring a sudden collapse of activity—some monetary tightening, as the TCB's strategy is likely, on present trends, to reach a natural limit.

Up until now, for example, inflation has remained well-behaved relative to history and to the central bank's expectations, although a step up has been noticed in the past few months, nonetheless without evident upward dynamism. Meanwhile, the economy's pace of activity has surprised, with GDP in the first quarter jumping 11% year-on-year. Should such pace of expansion be maintained it would almost undoubtedly translate rather soon into a change of conditions enough to force the central bank's hand near-term.

That, however, may not be occurring. To be sure, import activity suggests that domestic demand has continued to expand at a very strong pace; there was only a slight reduction in the annual rate of imports in the three months to June (41.6% year-on-year), versus the first quarter (45.6% year-on-year). But industrial production has slowed more noticeably, from 14.1% year-on-year in the first quarter to 8.4% in the two months for which data are available in the second.

Also important from the standpoint of central bank policymaking is that the data now show a reduction of the pace of consumer lending during the past five weeks, prominently in mortgage and car financing. All of this against the background of still-considerable slack in manufacturing: capacity utilization has continued to rise, but at a slower pace, and it remains well below the pre-crisis norm. And for the central bank—as mentioned in their post-meeting communiqué--against a background of increasing external risks that warranted their move to ease to-- in their words--"reduce the risk of a domestic recession that may be caused by the heightened problems in the global economy".

Should those risks not materialize, however, the current trajectory of the Turkish economy, particularly given the boost of low borrowing costs, is likely to lead to a more significant rebound of inflation within a 12-month horizon, fueled by strong demand and by a weak lira (now close to a historic low).

The bottom line is that the current policy has not aggravated the inflation problem, but has failed to remedy the risk posed by a widening external shortfall, and unless the trend changes abruptly on account of global forces, monetary policy will likely have to take a different course over the next few months, with interest rate increases likely perhaps as early as the first few months of next year.

— Francisco J. Larios, DE Miami

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Europe

Eurozone

- **Monetary and Fiscal Policy:** *Fresh unconventional measures.* As with all policy decisions of late, there was no surprise that the ECB kept the refi rate at 1.50% after its latest Council meeting, having hiked for a second time in the current cycle last month. More notable, and more surprisingly, ECB President Trichet announced some fresh unconventional policy measures, acknowledging that the central bank was (from today) purchasing government bonds after a lull of several months. President Trichet also surprised in announcing fresh liquidity measures for the banking sector, reviving long-term financing and extending the guarantee of medium-term funds for a further three months, ie into the new year.

- **Employment:** *Unemployment edging back up?* Matching expectations, the unemployment rate was 9.9% in June, also matching the unrevised March, April and May outcomes, but was still down from the 10.1% rate set last November, the latter having been the highest in 12 years. However, the actual level of unemployment increased by 18 000, a second successive increase.

Netherlands

- **Inflation:** *Inflation jolts higher*. Consumer price inflation increased 0.3 percentage points to 2.6% Y/Y in July, the highest since October 2008. This latest outcome came on the back of a flat M/M reading, the latter mainly reflecting a further seasonal fall in clothing prices, offset by a rise in education costs. Meanwhile, the EU-harmonized reading rose 0.4 percentage point to 2.9% Y/Y.

Belgium

- **Growth and Production:** *Solid GDP data.* Preliminary data showed GDP rising by a seasonally adjusted 0.7% Q/Q in Q2, down from he 1.0% pace set in the preceding quarter. This helped pull Y/Y growth 0.5 percentage point lower to 2.5%.

Norway

- **Employment:** *More mixed labor data.* The seasonally adjusted unemployment decreased 0.1 percentage point to 3.3% in the three months to May, reversing the rise seen in the previous report. However, there were less clear signs of an increase in employment as the data did show a smaller rise of 0.5% in the last three months with base effects also helping pull down the Y/Y change in employment growth to 0.9%.

Central Europe

Czech Republic

- **Monetary and Fiscal Policy:** *Rate held, hikes pushed out a quarter.* The CNB voted 5-2 to keep rates on hold at 0.75%, and pushed back the anticipated start of any tightening cycle to "late 2011/early 2012," certainly not a surprising development in light of global conditions. The accompanying report reiterated little in the way of domestic inflation pressures "not significant," with a rise in headline inflation to above 3% in 2012 expected to return to the target in 2013, with core inflation holding near the target throughout. Fiscal consolidation, slower growth in external demand, and a fading inventory cycle is expected to cause a decelerating in growth through 2012, in the bank's view. Risks to the forecast include lower foreign interest rates to the downside, and a weaker koruna, to the upside.

Hungary

- **Growth and Production:** *Output falls.* June seasonally adjusted preliminary industrial production fell by 0.6% M/M, a slightly less steep decline than the 0.7% fall seen in the preceding month. Meanwhile, in unadjusted Y/Y terms, output growth fell for a second straight month to 1.0% in June from 2.3% in May, the slowest since December 2009.

Turkey

- **Monetary and Fiscal Policy:** *Benchmark rate cut, overnight rate raised.* At a previous unscheduled policy meeting (just two weeks after its previous meeting), the Central Bank of Turkey decided to cut the benchmark interest rate by 50 bp to a record low of 5.75%, in an effort to shield the economy from the impact of uncertainties in the global economy. However, in an opposing move to support the lira, the Bank also raised the overnight borrowing rate by 350 bp to 5.00%, narrowing the interest rate corridor between the borrowing and lending (unchanged at 9.00%) rates.

- **Inflation:** *Modest rise in inflation.* Surprising to the downside this time around, consumer price inflation still rose by 0.07 percentage point to 6.31% Y/Y in July, the second highest in over seven months. On a M/M basis, prices fell by 0.41%, dragged down by a 4.84% drop in clothing prices. The Y/Y breakdown, meanwhile, revealed the latest outcome to be the result of fairly broad-based increases in price pressures, with the only exceptions being utilities, furnishings and education. Elsewhere, and notably, core inflation (which excludes food and energy) also picked up to 5.43% Y/Y from 5.27% in the previous month.

Asia and Pacific

Japan

- **Monetary and Fiscal Policy:** *BoJ expand asset purchases, intervenes afresh.* Surprising no-one, the BoJ Board voted unanimously to continue the target for the overnight call loan rate at zero to 0.1%. However, and more notably in a policy decision brought forward by a day, policymakers voted to expand the scale of its asset-buying program to ¥ 15 tln from ¥ 10 tln with the overall scale of the asset-buying program, including three and six-month funding operations, being increased to ¥ 50 tln from ¥ 40 tln. Very clearly, the Board decision reflected concern about the rising yen alongside worries about sagging global growth, with the new statement very much emphasizing that uncertainty over global economic developments and the ensuing fluctuations in the foreign exchange and financial markets may have adverse effects on business sentiment, and consequently on economic activity in Japan. Nevertheless, the BoJ upgraded slightly its economic assessment of the Japanese economy's current performance for the third consecutive month, adding steadily to its previous phrasing, ie Japan's economic activity has been picking up steadily with an easing of the supply-side constraints caused by the earthquake disaster. Against this backdrop of FX concern, it was no surprise that the Finance Ministry, via the BOJ, intervened to sell the yen for the first time since March. BoJ Governor Shirakawa, in a speech following the meeting, declined to comment further in regard to the FX backdrop, stressing hat the Board decision was made independent of the Government.

Australia

- **Monetary and Fiscal Policy:** *Policy held, but tightening bias maintained?* As was expected by most, the RBA decided to leave the Cash Rate unchanged at 4.75% in August, extending its policy pause now to an eighth straight meeting. The statement by Governor Stevens following this month's meeting revealed relatively neutral tones, with no major changes from the previous month. The RBA continued to note a slowing in the expansion of the global economy, dragged down by the earthquake in Japan and high commodity prices. The domestic economy, meanwhile, was assessed to see above-average growth over the next couple of years, but now with increasing downside risks stemming from fiscal problems in Europe and the US being highlighted. The Bank also noted ongoing strength in investment in resources sectors and related services sectors, but with cautious behavior from households and the high exchange rate having a dampening effect elsewhere. Furthermore, the Board observed that a full recovery in coal production now looks unlikely before next year, and thus real GDP growth in 2011 is now likely to be at trend, but with growth still expected to be at trend or higher over the medium term. In regard to inflation, the RBA reiterated its view that price pressures have been high due to weather disruptions earlier in the year, and are expected to fall as these temporary effects reverse in coming quarters. Notably, however, the Board now observed a rise in the trend in inflation over the past six months and, while currently still remaining consistent with the RBA's target range of 2-3%, highlighted concerns about the medium term outlook.

- **Trade:** *Trade surplus narrows.* Coming in slightly below expectations, the June seasonally adjusted trade surplus narrowed to A$ 2 052 mln from A$ 2 699 mln in the previous month. This was the result of a swing into negative for exports (-0.1% M/M from 3.6% in May), being outpaced by the recovery in imports (2.6% from -0.5%).

Malaysia

- **Trade:** *Export growth rebounds.* Surprising to the upside this time around, June export growth rose by 8.6% Y/Y, bouncing back following a 5.7 percentage point fall in growth to 5.4% in the previous month, boosted by improvements in petroleum, gas and palm oil, while electronics exports fell further and more steeply. Import growth, meanwhile, saw a more modest pick up to 6.3% from 5.6% in the preceding month. As a result, the trade surplus widened to 7.60 bln ringgit from 6.04 bln ringgit in the same month of the previous year.

Philippines

- **Inflation:** *Inflation moderates.* Coming in slightly above expectations, July CPI inflation fell slightly by 0.1 percentage point to 5.1% Y/Y from the June reading which was the highest in 26-months, using 2006 as the base year. In M/M terms, prices rose by 0.1%. The Y/Y breakdown showed the latest easing back to be the result of falling price pressures for food (5.7% from 6.0% in June) and utilities (5.4% from 5.9%), being tempered by increases for clothing (4.2% from 3.9%).

New Zealand

- **Employment:** *Flat job growth.* Largely in line with expectations, the Q2 seasonally adjusted unemployment rate was unchanged at 6.5% from the previous quarter, still unable to unwind fully the 0.3 percentage increase to 6.7% in Q3 last year. The level of unemployment, meanwhile, was also unchanged at 154 000 from Q1. However, on a more downbeat note, employment growth was flat last quarter, slowing clearly from the 1.3% rise in Q1 and extending the volatility in the series. This was a reflection of a clear swing into negative for part-time employment (-0.1% Q/Q from 4.0% Q1), alongside a moderation in full-employment growth to 0.2% from 0.4%. Hours worked, meanwhile, bounced back to rise 1.6% after a 0.2% drop in Q1, while the participation rate fell slightly to 68.4% from 68.6%.

South Korea

- **Inflation:** *Inflation rises further.* Consumer price inflation rose by 0.3 percentage point to 4.7% Y/Y in July from the preceding month, now the joint-highest since October 2008 and remaining above the BoK's target ceiling of 4.05% now for a seventh-straight month. The latest increase was the result of a broad-based rise in price pressures, led by food (10.0% Y/Y

from 8.5% in June), and with the only exception being a fall in recreation & culture. On a M/M basis, prices rose by 0.7%. Elsewhere, the core rate picked up by 0.1 percentage point to 3.8% Y/Y from 3.7% in the previous month.

- **Trade:** *Export growth rebounds.* Trade data for July showed export growth rising by 27.3% Y/Y, bouncing back from the 8.4 percentage point drop to 13.6% in June and ending a run of three successive falls. Import growth, meanwhile, saw a modest fall to 24.8% from 27.5% in the previous month, now a three-month low. As a result, the trade surplus widened to $ 7 223 mln last month from $ 5 002 mln in the same period of 2010.

Taiwan

- **Inflation:** *Inflation falls.* CPI inflation fell by 0.61 percentage point to 1.32% Y/Y in July from the previous month, now a three-month low. On a M/M basis, prices actually fell by 0.29%. The Y/Y breakdown, meanwhile, showed the latest fall to be a reflection of falling price pressures across most components, but being tempered by rises in clothing and housing. Elsewhere, and in contrast, wholesale price inflation rose further to 4.00% Y/Y from 3.83%, while import price inflation saw a very slight moderation to 7.43% last month from 7.44% in May.

India

- **Trade:** *Export growth falls.* Trade data for June showed exports growing by 46.4% Y/Y, down from 56.9% in May, but still being the highest in four months. Import growth, meanwhile, slowed to 42.5% Y/Y from 54.1% in the preceding month, dragged down by a fall in non-oil imports while oil import growth rose for a second straight month to a new cycle-high. The trade balance showed a deficit of $ 7.66 bln in the month.

Indonesia

- **Growth and Production:** *Continued strong growth.* Coming in largely in line with expectations, national accounts data showed GDP growth stable at 6.5% Y/Y in Q2 from the previous quarter, still the second highest in the recent cycle. In Q/Q terms, output increased by 2.9%. The expenditure side breakdown provided upbeat signs for domestic demand growth in the quarter, with private consumption growth (4.57% Y/Y from 4.48% in Q1) and growth in capex (9.20% from 7.32%) both picking up. Government spending also saw a clear increase (4.54% from 2.76%), and net trade providing a further boost, with export growth (17.41% from 12.29%) picking up clearly, outpacing the growth in imports (15.96% from 15.62%).

- **Inflation:** *Clear fall in consumer price inflation.* Coming in below expectations this time around, consumer price inflation fell clearly to 4.61% Y/Y in July from 5.54% in June, a sixth-straight decline and now the lowest since May 2010. The latest decrease was a reflection of a fairly broad-based easing back in price pressures, led by a fall for food to 5.21% Y/Y from 8.16% in June, and with the only exception being a slight rise for clothing and education. In M/M terms, prices rose by 0.67%.

- **Trade:** *Marked widening in trade surplus.* Data for June showed export growth rising 49.3% Y/Y from 44.9% in the previous month, now a new cycle-high. Import growth, meanwhile, saw a clear drop to 28.3% Y/Y from 48.6% in May. As a result, the trade balance showed a surplus of $ 3 332 mln in June, widening clearly from a surplus of $ 570 mln in the same month of 2010.

Thailand

- **Inflation:** *Modest rise in price pressures.* Coming in below expectations once again, July consumer price inflation picked up slightly to 4.08% Y/Y from 4.06% in the preceding month, the second-highest since September 2008. In M/M terms, prices rose by 0.18%. The Y/Y breakdown, meanwhile, revealed the latest decrease in price pressures to be a reflection of a rise in non-food inflation (2.21% from 1.81% in June), being undermined by falls for food (7.17% from 7.76%) and raw food & energy (7.96% from 8.01%) costs. Notably, core inflation picked up to 2.59% Y/Y from 2.55% in June, also being the highest since September 2008.

The Americas

Canada

- **Employment:** *Employment growth reasonably steady.* The headline jobs number came in a weaker-than-expected +7,100 for the month of July, but the details were modestly firmer, with education and healthcare seeing large declines, (-30.0K, -39.4K), the former impacted by seasonal adjustment difficulties, while other sectors saw solid growth. Manufacturing employment rose 10,100 following a 5,300 increase in June. The sector has so far not recovered from cuts in excess of 30K during the months after the Japan disaster. Construction employment rose 30,800 after very modest growth in recent months, which reflects the observed rise in building activity in recent months in both the residential and non-res sectors. How lasting those gains prove to be, however, remains to be seen. In the service industries, trade (+27,500) transportation (+27,700), and accommodation and food services (+14,700) all saw jobs growth, among others. The full-time/part-time breakdown too is encouraging, the former up 25,500, a fifth consecutive increase, hinting at continued confidence in the outlook. Part time jobs fell 18,000. However, and on a more downbeat note, hourly wage growth slowed to a 1.4% y/y pace from 2.0% the month prior, indicating that wage gains are being clearly outpaced by inflation – a negative in terms of the fundamental consumer backdrop. Spending and income data have been decelerating for some time, leaving a very subdued domestic picture as a very real reality, should external conditions deteriorate further.

Comparative International Economic Indicators

Real Growth*

	Latest Period	Chg. Over Prev. Period	Chg. Over Year Ago Period
United States	2011:Q2	1.3	1.6
Canada	2011:Q1	3.9	2.9
Eurozone	2011:Q1	3.4	2.4
United Kingdom	2011:Q2	0.7	0.7
Germany	2011:Q1	6.1	4.8
France	2011:Q1	3.8	2.2
Italy	2011:Q2 •	1.0	0.8
Switzerland	2011:Q1	1.0	2.5
Japan	2011:Q1	-3.5	-0.7
Korea	2011:Q2	3.4	3.3
Taiwan	2011:Q2	12.1	4.9
Hong Kong	2011:Q1	-22.4	7.2
Singapore	2011:Q2	-0.6	0.5
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:M6	-0.2	3.4
	2011:M6	-0.7	3.1
	2011:M6	0.0	2.7
	2011:M6	-0.1	4.2
	2011:M7	0.2	2.4
	2011:M6	0.1	2.1
	2011:M7	0.3	2.6
	2011:M7 •	-0.8	0.5
	2011:M6	-0.1	0.2
	2011:M7 •	0.7	4.7
	2011:M7 •	-0.3	1.3
	2011:M6	0.5	5.6
	2011:M6	-0.2	5.2
	2011:Q2	0.9	3.6
	2011:M6	0.0	3.3

**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:M6	0.2	3.4
Canada	2011:M5	-2.2	0.7
United Kingdom	2011:M5	0.8	-0.8
Germany	2011:M6 •	-1.1	6.6
France	2011:M5	2.0	2.6
Italy	2011:M6 •	-0.6	0.3
Switzerland	2011:Q2	-9.2	5.0
Japan	2011:M6	16.7	-1.6
Korea	2011:M6	0.4	6.4
Taiwan	2011:M6	-2.8	3.6
Hong Kong	2011:Q2 •	-12.9	3.6
Singapore	2011:M6	9.0	10.5
Australia	2011:Q2 •	-3.8	-5.4
Mexico	2011:M5	6.7	4.6

**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
	2011:Q1	-70.4	-71.6	-37.1
	2011:Q1	183.8	184.2	189.6
	2011:Q1	-52.3	-45.0	-39.1
	2011:Q1	-78.0	-71.2	-41.3
	2011:Q1	76.7	76.6	57.2
	2011:Q1	185.6	196.0	142.6
	2011:Q2	28.2	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:M7 •	9.1	9.2	9.5
Canada	2011:M7 •	7.2	7.4	8.0
United Kingdom	2011:M6	4.7	4.7	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:M6	3.0	3.0	3.9
Japan	2011:M6	4.6	4.5	5.2
Korea	2011:M6	3.3	3.2	3.5
Taiwan	2011:M6	4.4	4.3	5.2
Hong Kong	2011:M6	3.5	3.5	4.6
Singapore	2011:Q2	2.7	1.8	2.8
Australia	2011:M6	4.9	4.9	5.1
Mexico	2011:M6	5.4	5.2	5.0

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

Long-Term Government Bond Yield

	Latest	Prev. Month	Year Ago
	2.57	3.11	2.90
	2.63	3.04	3.11
	2.69	3.25	3.24
	2.35	2.93	2.56
	3.34	3.47	2.82
	6.09	5.12	3.83
	1.24	1.65	1.42
	1.01	1.18	1.04
	4.01	4.31	4.84
	1.48	1.48	1.33
	1.95	2.35	2.27
	1.81	2.31	2.02
	4.48	5.21	5.14
	1.89	2.70	2.43

Call Money Rate

	Latest	Prev. Month	Year Ago
Euro	1.50	1.25	1.00
United States	0.10	0.10	0.13
Canada	1.00	1.00	0.75
United Kingdom	0.53	0.50	0.50
Germany	1.50	1.25	1.00
France	1.50	1.25	1.00
Italy	1.50	1.25	1.00
Switzerland	0.05	0.09	0.05
Japan	0.10	0.09	0.10
Korea	3.26	3.30	2.28
Hong Kong	0.12	0.09	0.03
Singapore	0.16	0.16	0.13
Australia	0.00	4.75	4.50
Mexico	4.42	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
	1.4291	-0.7	-0.2	8.4
	78.11§	1.8	0.3	-6.2
	0.9779	-2.4	-1.3	3.8
	1.6391	-0.2	2.4	3.1
	1.3696	0.8	0.3	-7.6
	4.5936	0.8	0.3	-7.6
	1355.95	0.8	0.3	-7.6
	0.7662	2.5	8.7	26.7
	78.49	-2.3	3.0	8.5
	1067.4	-1.3	-0.4	8.5
	7.8077	0.2	0.3	0.6
	1.2161	-1.0	1.0	10.2
	1.0464	-4.8	-2.2	14.2
	11.9910	-2.2	-3.1	4.6

§ 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:Q1	3.6	2.3
Denmark	2011:Q1	-3.2	1.6
Sweden	2011:Q2	3.9	5.3
Norway	2011:Q1	-1.8	0.1
Finland	2011:Q1	1.7	5.1
Spain	2011:Q1	1.2	0.8
Portugal	2011:Q1	-2.4	-0.6
Indonesia	2011:Q2 •	12.0	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: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
	2011:M7	0.1	3.8
	2011:M7 •	0.0	2.6
	2011:M6	-0.2	3.0
	2011:M6	-0.2	2.7
	2011:M6	-0.4	1.3
	2011:M6	0.3	3.5
	2011:M7	-0.5	3.1
	2011:M6	-0.2	3.4
	2011:M7 •	---	---
	2011:M6 •	0.0	4.5
	2011:M6 •	0.3	3.3
	2011:M7 •	0.1	4.0
	2011:M6 •	0.5	8.7
	2011:M6 •	---	5.5
	2011:M6 •	0.7	9.7
	2011:M7 •	0.2	6.9

**Not seasonally adjusted.*

Industrial Production*

	Latest Period	Chg. Over Prev. Period	Chg. Over Year Ago Period
Belgium	2011:M4 •	14.6	7.0
Netherlands	2011:M6 •	0.5	-1.5
Denmark	2011:M5	2.7	7.1
Sweden	2011:M5	0.7	8.2
Norway	2011:M6 •	5.2	-4.1
Finland	2011:M5	1.9	5.7
Spain	2011:M6 •	10.0	0.8
Portugal	2011:M6 •	7.4	-0.3
Indonesia	2011:M5	5.1	9.2
Philippines	2011:M5	4.2	0.9
Malaysia	2011:M5	-1.3	-5.1
Thailand	2011:M6	11.8	3.3
India	2011:M5	-1.0	5.6
Argentina	2011:M5	2.8	6.3
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:Q1	17.5	15.7	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	-65.8	-64.5	-75.3
Portugal	2011:Q1	-20.9	-22.6	-25.7
Indonesia	2011:Q1	5.6	5.7	31.8
Philippines	2011:Q1	8.2	8.5	21.9
Malaysia	2011:Q1	28.5	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:M6	4.1	4.2	4.5
Denmark	2011:M6	4.0	4.0	4.1
Sweden	2011:M6	7.5	7.7	8.1
Norway	2011:M7	2.8	2.5	3.0
Finland	2011:M6	8.4	9.8	8.8
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:Q1	7.4	7.3	8.3
Brazil	2011:M6	6.2	6.4	7.0

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

Long-Term Government Bond Yield

	Latest	Prev. Month	Year Ago
	4.46	4.13	3.15
	2.78	3.29	2.74
	4.46	4.13	3.15
	2.36	2.87	2.63
	2.67	3.38	3.33
	3.31	3.43	2.75
	6.04	5.61	4.11
	10.97	13.06	5.08
	—	—	—
	—	—	—
	3.72	3.92	3.88
	4.00	3.93	3.42
	—	—	—
	—	—	—
	—	—	—

Call Money Rate

	Latest	Prev. Month	Year Ago
Belgium	1.50	1.25	1.00
Netherlands	1.50	1.25	1.00
Denmark	1.25	1.00	0.75
Sweden	2.13	2.27	0.56
Norway	2.25	2.25	2.00
Finland	1.50	1.25	1.00
Spain	1.50	1.25	1.00
Portugal	1.50	1.25	1.00
Indonesia	5.90	6.04	6.21
Philippines	4.50	4.50	4.00
Malaysia	0.00	0.00	0.00
Thailand	—	—	—
India	7.25	7.25	4.50
China	—	—	—
Argentina	9.70	9.95	9.93
Brazil	11.16	11.16	0.00

Exchange Rate

	Latest Level	Chg. Over Last Week	Chg. Over Prv. Month	Chg. Over Year Ago
	28.2496	-0.8	-0.3	7.6
	1.5432	-0.8	-0.3	7.6
	5.2123	-0.7	-0.1	7.7
	6.4689	-3.1	-1.8	9.2
	5.4774	-1.9	-1.1	8.5
	4.1637	-0.8	-0.3	7.6
	116.52	-0.8	-0.3	7.6
	140.40	-0.8	-0.3	7.6
	8548.0	-0.5	0.0	4.4
	42.630	-1.2	0.7	5.3
	3.0120	-1.5	0.0	4.5
	29.820	-0.2	2.1	7.0
	44.740	1.2	0.6	-3.1
	6.4407	-0.1	0.4	4.9
	4.1555	-0.3	-0.9	-5.6
	1.5802	-2.0	-0.7	9.8

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

Week ended: 8/5/2011

Focus on the ECB

As with all policy decisions of late, there was no surprise that the ECB kept the refi rate at 1.50% after its latest Council meeting last Thursday, having hiked for a second time in the current cycle last month. More notable, and more surprisingly, ECB President Trichet announced some fresh unconventional policy measures, acknowledging that the central bank was (from today) purchasing government bonds after a lull of four months. President Trichet also surprised in announcing fresh liquidity measures for the banking sector, reviving long-term financing and extending the guarantee of medium-term funds for a further three months, ie into the new year.

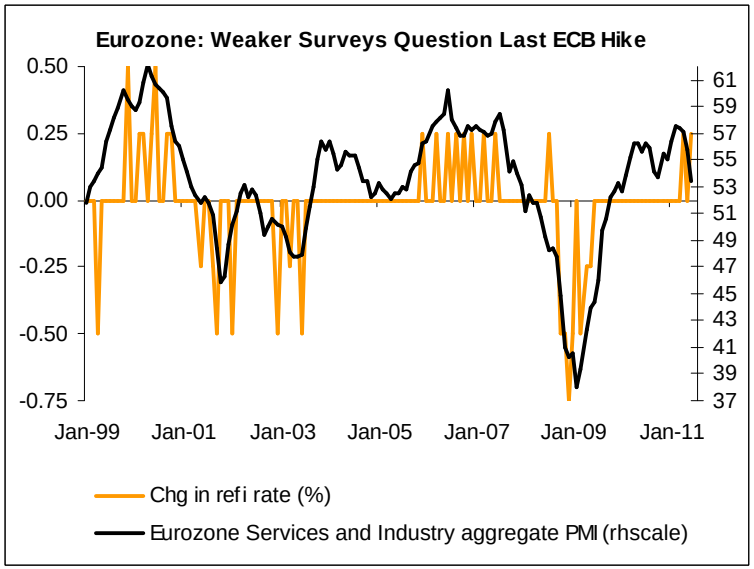
As for future conventional policy, little explicitly was offered by President Trichet again resorting to rhetoric not inconsistent with hikes in coming months by suggesting the ECB would monitor all developments very closely, but with implicit pointers to further hikes given the continued stressing in the accompanying statement that the current policy stance is accommodative and that short-term interest rates are low, albeit with the tacit admission that longer-term rates are no longer low. In addition, the ECB again pointed to balanced growth risks and inflation risks remaining to the upside.

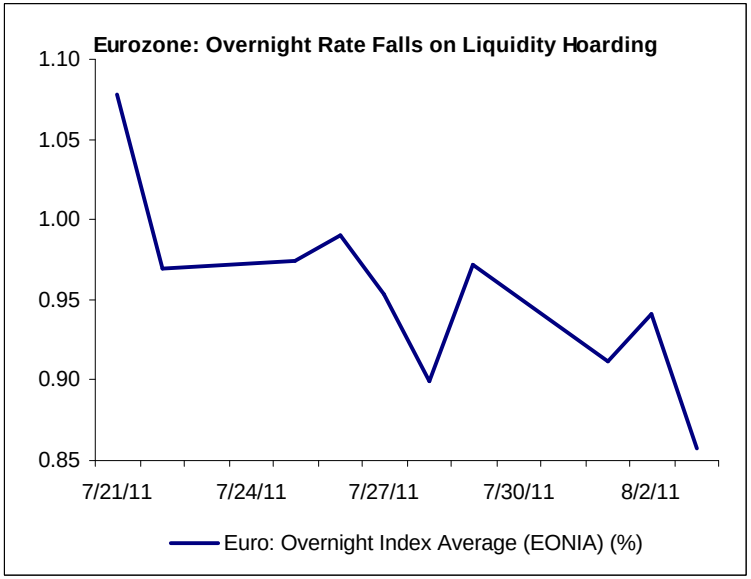
However, these assertions regarding the risks to growth and inflation look hard to justify and may more reflect the usual defensive posturing of the ECB, the latter very much evident in the Council statement trying to justify the last rate hike after a month in which survey, monetary and inflation data, as well as fresh sovereign debt and banking sector turmoil, suggest the very opposite. Indeed, as the upper chart clearly illustrates, survey readings over the last month question the need for the last hike, just as they argued against the one-off (and short-lived) hike in 2008. In this regard, there are hints from the ECB statement that the Council has accepted that downside risks have both materialized and intensified. A softer interpretation of the monetary backdrop was also evident from the statement, alongside an appreciation of some softer data, the latter involving no further acknowledgement of favorable business surveys. In addition, the ECB underscored the extent to which uncertainty had risen further, now to particularly high levels.

Regardless of its rhetoric, the actions of ECB are the more telling, with the series of unconventional policy measures surely underscoring that the Council has accepted increased downside risks and the need to address them. Indeed, the bank liquidity measures are a relatively rapid (and welcome) reaction to a hoarding of liquidity in money markets that has seen overnight rates slump in recent days (see lower chart) alongside a fresh rise in bank deposits at the ECB. Indeed, in explaining that such measures were needed to ensure that the monetary policy transmission mechanism continued to function, President Trichet implicitly accepted that the headwinds to Eurozone growth caused by banking sector fragility may now be blowing even more strongly.

As for the fresh purchasing of government bonds (something that President Trichet conceded has not been approved unanimously by the Council), this looks to be aimed at addressing the spread widening seen in some peripheral markets. Details are still sparse, but the ECB probably felt compelled to step in at this juncture, aware that it will take some time before the new flexibility of the EFSF allows the latter to perform a similar function. Regardless, President Trichet underscored that these fresh unconventional measures are independent of conventional policy. However, the mere fact that the ECB is having to take these unconventional measures is a result of fresh market turmoil emerging largely on the back of weaker economic activity. The latter therefore provides a more traditional justification for the ECB keeping conventional policy on hold for some time ahead, ie much longer than the three month gap between the last two refi rate hikes, with the possibility that the central bank may have to reverse its recent hikes far from remote.

— Andrew Wroblewski, DE London





DECISION ECONOMICS August 5, 2011

	Latest	Week Ago	% Chg. YTD *	12/30/09
Yen/$	78.43	76.76	-3.3	81.12
$/Euro	1.4285	1.4398	-6.7	1.3384
Yen/Euro	112.04	110.52	3.2	108.57
$/STG	1.6390	1.6426	-5.0	1.5612
Sfr/$	0.7656	0.7855	-18.1	0.9352
Can$/US$	0.9779	0.9552	-2.0	0.9980
Mexican Peso/$	12.018	11.735	-2.6	12.340
Brazil Real/$	1.5816	1.5493	-4.8	1.6613
Thai Baht/$	29.850	29.760	-0.7	30.060
Malaysian Ringgit/$	3.0120	2.9685	-1.7	3.0635
Indonesian Rupiah/$	8547.5	8504.0	-5.0	8996.0
Korean Won/$	1067.4	1054.1	-5.2	1126.0
Philippines Peso/$	42.630	42.138	-2.7	43.800
India Rupee/$	44.740	44.188	0.1	44.705

* For Year-to-Date change calculations, all signs refer to the movement of the U.S. dollar, except for the Yen/Euro rate, where the sign refers to the euro.

BENCHMARK YIELDS				
SHORT-TERM (3-Month LIBOR)**				
U.S.	0.27	0.26	-0.03	0.30
Canada	1.14	1.18	-0.09	1.23
Euro	1.52	1.56	0.58	0.94
U.K.	0.83	0.83	0.08	0.76
Japan	0.20	0.20	0.01	0.19
LONG-TERM (10-Year Benchmark)**				
U.S.	2.57	2.80	-0.72	3.30
US 10 Year Swap Rate	2.74	2.93	-0.63	3.38
Canada	2.63	2.88	-0.50	3.12
Italy	6.09	5.87	1.27	4.82
Germany	2.35	2.54	-0.62	2.96
U.K.	2.69	2.86	-0.71	3.40
Switzerland	1.24	1.41	-0.48	1.72
Japan (JGB)	1.01	1.08	-0.12	1.13
Australia	4.48	4.90	-1.07	5.55
Brazil	3.97	4.00	-0.64	4.61
India	8.32	8.45	0.40	7.92
Spreads to US 10-Year				
10 Year Swap Spread	0.17	0.13	0.09	0.08
10 Year - 2 Year	2.29	2.44	-0.41	2.70
Moody AAA	1.57	1.91	0.10	1.46
UK Gilt	0.11	0.06	0.01	0.10
German Bund	-0.23	-0.26	0.10	-0.33
Italian 10-year	3.51	3.07	1.99	1.52

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

STOCK MARKETS				
U.S. (DJIA)	11445	12143	-1.1	11578
S&P 500	1199	1292	-4.6	1258
NASDAQ Composite	2532	2756	-4.5	2653
Russell 2000	715	797	-8.8	784
Canada (TSE-300)	12162	13048	-9.5	13443
Mexico (Bolsa)	33685	35999	-12.6	38551
Argentina (Merval)	3064	3322	-13.0	3524
Brazil (Bovespa)	53138	58823	-23.3	69305
Germany (DAX, XETRA)	6236	7159	-9.8	6914
U.K. (FT-SE 100)	5247	5815	-11.1	5900
France (CAC-40)	3279	3671	-13.8	3805
Switzerland (SMI)	5172	5871	-19.6	6436
Japan (Nikkei-225)	9300	9833	-9.1	10229
Hong Kong (Hang Seng)	20946	22440	-9.1	23035
Australia (All Ordinaries)	4170	4501	-14.0	4847
South Korea (KOSPI)	1944	2133	-5.2	2051
Thailand	1093	1134	5.9	1033
India (BSE)	17306	18197	-15.6	20509
China (Dow Jones Shanghai Index)	333	343	-6.4	356
Singapore (Straights Times Index)	2995	3189	-6.1	3190
COMMODITIES				
Gold (USD/Troy Ounce)	1660.93	1627.88	16.9	1420.78
Crude Oil (WTI, Spot)	86.88	95.70	-4.9	91.38
CRB Futures	326.80	342.08	-1.8	332.80
CRB Raw Industrials (Spot)	551.37	556.13	6.0	520.33