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Global Economic Developments

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NOTE: At the request of clients, we are combining the best features of the *Radar Screen*, *GED*, and *U.S. Markets Weekly* into a new publication entitled *The Global Markets Weekly*, with the first issue appearing Monday, September 26.

Contents

China: A Few Thoughts on Monetary Policy, Inflation and Growth....1
Europe....2
Central Europe....3
Asia and Pacific....3
Focus on Eurozone Banks....7

Tables

Comparative International Economic Indicators....5-6
International Capital Market Statistics....8

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China: A Few Thoughts on Monetary Policy, Inflation and Growth

The most recent data, and the public central bank commentary about it strongly suggest that the People's Bank of China (PBOC) has entered a period of at most marginal technical changes to monetary policy, with the practical implication that additional interest rate increases have become unlikely near term and policymakers will be very hesitant to lower rates until inflation data show a clearer downtrend.

The underlying fundamentals indeed point to an apparent stabilization of both prices and of the pace of expansion of the economy, a situation one would be tempted to describe as a soft-landing, except that there is a significant risk that earlier policy steps might further depress activity in the months ahead and that conditions in the global economy look increasingly fragile.

Still, perhaps ironically, the most constructive growth data have in recent days come from the external sector: exports continue to expand in strong double-digits, with little sign of softening demand. In August, for example, Chinese sales abroad grew 24.5% year-on-year, clearly by any standards a good performance, and actually better than during the previous three months: no sign of export slowdown in the numbers. As for imports, the most recent statistics are also very healthy (August: 30.2% year-on-year), indirect evidence of a strongly growing domestic demand.

There is, to be sure, the appearance of a gradual deceleration of fixed asset formation. But such trend is relatively mild, and indeed both expected and benign, given the breathtaking pace of investment during the recent past. In August, the official figures imply that fixed capital formation grew 22.9% year-on-year during the month, down from close to 25% year-on-year the previous month, but obviously a more than respectable annual number.

As for inflation, the most recent figures (August: CPI 6.2% year-on-year) are consistent with DE's view that consumer prices could begin to slow in the final months of the year. Thus far, the past three months have seen a rather sideways movement, after nearly a year of continuous uptrend.

Nonetheless, CPI inflation remains above the PBOC's comfort levels (their view seems to be that *price stability* means inflation of about 4%), and policymakers are—for the time being—confident enough regarding growth that they continue to call inflation their most pressing problem: *"Fundamentals of the Chinese economy are good, and there are a lot of favorable conditions and positive factors support the work to keep stable and relatively fast development, so confidence should be strengthened. However, some factors in the economic development are unbalanced and unsustainable… In particular, domestic inflation expectation remains strong and the basis for price stabilization is not solidly based. Therefore, once the policy is relaxed, price level may rebound."*

— Francisco Larios, DE Miami

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Europe

Eurozone

- **Growth and Production:** *Output bounces.* Coming in below expectations once again, industrial production still rose by 1.0% M/M in July, thereby more than reversing the 0.8% drop of the previous month and now a new cycle low. The sector break-down revealed recoveries, save for a correction back in energy. Meanwhile, in Y/Y terms, output growth picked up from 2.6% in June to 4.2%, thereby up from the cycle-low of the previous month. However, the good news ends with the data showing fresh contraction in the peripheral economies, Greece being the clear exception.

- **Employment:** *Employment growth pick ups.* Employment grew 0.3% in Q/Q terms in Q2, three times the pace of the upwardly revised reading of the previous quarter. As a result, but as much to do with base effects, the Y/Y rate in Q4 swung turned slightly more positive at 0.4%. The partially available break-down showed that the Q/Q pick-up was largely a result of a recovery in construction, with a softening evident within manufacturing. The geographical details also highlighted a deeper drop within peripheral countries, at least in Y/Y terms.

France

- **Inflation:** *Inflation climbs afresh.* Exceeding expectations, headline CPI inflation rose by 0.3 percentage point to 2.2% Y/Y in August, thereby swinging from a July reading which had been the lowest since February to a fresh cycle-high. In M/M terms, prices rose 0.4%, largely a reflection of a seasonal bounce in clothing prices. The Y/Y breakdown showed the higher Y/Y rate was largely the result of less negative clothing price inflation, alongside some push from food and energy. As a result, the seasonally adjusted core inflation (excluding fresh food, energy and taxes effects) recovered 0.3 percentage point to 1.2% Y/Y. Meanwhile, EU-Harmonized inflation increased from 2.1% Y/Y to 2.4% last month, a 34-month high.

Italy

- **Growth and Production:** *Industrial output softens further.* Surprising to the downside yet again, July industrial production fell for a third successive month, with the drop of 0.7% M/M largely in line with the falls seen in June and May. Notably, the data saw further and clearer signs of weakness in consumer goods production. Y/Y work-day adjusted growth turned negative, swinging from 0.1% in June to -1.6%.

Netherlands

- **Employment:** *Jobless rate rises further.* The seasonally adjusted unemployment rate rose by 0.1 percentage point to 5.4% in the three months to August, now reaching a new cycle-high. The headline (unadjusted) figure, however, fell to 5.0%.

Sweden

- **Inflation:** *Higher headline inflation.* Slightly overshooting expectations once again, August headline CPI increased to 3.4% Y/Y from 3.3%, the highest in almost three years. Prices were flat in M/M terms last month, a result of seasonal bounce in clothing costs being offset by lower transport costs. Notably, the long-standing core measure (CPIX, which excludes mortgage costs and taxes) remained at 1.4% Y/Y while the underlying measure (CPIF, which the Riksbank puts more emphasis on and which holds mortgage interest expenditure constant) stayed at 1.6%.

- **Employment:** *Employment growth slowing?* Coming in slightly below expectations, the (unadjusted) unemployment rate still fell further in August relative to its year-before counterpart. At 6.6%, it was 0.6 percentage points below that of the same month in 2010, a much smaller 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.

Spain

- **Inflation:** *Inflation falls clearly.* Coming in lower than that expected, flash data showed EU-Harmonized CPI inflation at 2.7% Y/Y, 0.3 percentage point down on the previous month and the lowest since last November. Headline CPI inflation fell from 3.1% to 3.0%, the latter a touch higher than flash numbers. Meanwhile, and notably, core inflation (excluding energy and fresh foods) remained at a cycle-low of 1.6%.

United Kingdom

- **Inflation:** *Inflation rises.* Matching expectations, August consumer price inflation edged up by 0.1 percentage point to 4.5% Y/Y, a three-month high. Prices rose 0.6% in M/M terms, however, a reflection of a sharp bounce in the price of clothing and household goods, both these categories also responsible for the higher Y/Y rate (alongside higher utility charges). Meanwhile, and notably, the core rate (which excludes energy, food, alcohol and tobacco) remained at 3.1%, as record-high clothing price inflation was tempered by a sharp fall back in airfares

- **Employment:** *Weaker labor market more evident.* Surprising to the downside for once, claimant count unemployment showed a further but less steep rise in August, with a 20 300 M/M rise, contrasting with the (downwardly revised) 33 700 jump in July, the latter having been the largest since May 2009. This further increase seems to be less distorted by technical factors and, given that it is the sixth in a row, still very much implies an underlying uptrend continues, even though the unemployment rate on this basis stayed at 4.9% (now up 0.4 percentage point from the trough in March. On a corroborating downbeat note, the (broader) ILO measure of unemployment saw a further and actually much steeper increase of 80 000 in the three months to July, albeit keeping the rate on this basis at 7.9%, the quarterly increase being the largest in two years. On a less downbeat note, vacancies fell no further in this update, while hours worked recovered during the quarter, although the rate of redundancies picked up afresh. However, on the negative side, employment showed a fresh

decrease (of 0.2% in the quarter to July, albeit very much a result of a drop in part-time working, with new sector data for Q2 unsurprisingly confirming a clear (and record) erosion in public sector employment.

- **Trade:** *Exports bounce.* Once again revealing a larger shortfall than expected, the total visible trade gap widened from a little-revised shortfall of £ 8.87 bln in June to a shortfall of £ 8.92 bln in July, the latter being the highest since the record gap posted last December. The latest data reflected a 3.2% M/M bounce in exports to a fresh record level alongside a 2.8% recovery in imports (also to a record-high). Excluding oil and erratics, the deficit widened afresh. In terms of import prices, the data showed clear and widespread rises.

Central Europe

Hungary

- **Inflation:** *Inflation rebounds.* Coming in above expectations this time around, CPI inflation rose by 0.5 percentage point to 3.6% Y/Y in August from a July reading which was the lowest since March 2009. The latest outcome ended a run of three successive falls in inflation, but was still the third-lowest in the cycle. In M/M terms, prices fell by 0.1%, dragged down by food (-1.1%) and clothing (-2.6%). The Y/Y breakdown, meanwhile, showed a fairly broad-based rise in price pressures, led by food (6.3% from 5.4% in July) and utilities (4.8% from 3.5%), but being tempered by a fall for clothing (3.8% from 4.9%). Elsewhere, and notably, core inflation (which excludes food and energy) actually eased back in the month to 3.1% Y/Y from 3.2% in July, but still being the second-highest in the cycle.

Russia

- **Growth and Production:** *Industrial output still sluggish in August.* In seasonally-adjusted terms, output rose 0.2% in August, decelerating on 0.7% in June and 0.4% in July. In year-ago terms, production did pick up on base effects (+6.2% vs +5.2% y/y).

Turkey

- **Growth and Production:** *Growth moderates.* Overshooting expectations, national accounts data for Q2 still showed seasonally and workday adjusted GDP growth slowing to 1.3% Q/Q from an upwardly revised reading of 1.7% in Q1. The latest gain was a ninth-straight positive reading, but now also a joint five-quarter low. Meanwhile, the calendar adjusted Y/Y rate of growth, also slowed, but to a three-quarter low of 8.8% from 11.6% in the previous quarter. The breakdown showed the latest slowing to be a reflection of fairly broad based falls across components, led by slips in manufacturing (8.0% Y/Y from 13.7% in Q1) and utilities (5.9% from 12.3%), but being undermined by increases in financial services (14.3% from 9.1%) and hotels and restaurants (8.3% from 5.6%).

- **Employment:** *Labor market conditions improve.* The unemployment rate in the three months to July fell to 9.2% from 10.5% in the same period of 2010. On a seasonally adjusted basis, meanwhile, the unemployment rate was stable at 10.3% from June, now a joint five-month high. Meanwhile, also on an adjusted basis, the July employment rate picked up to 45.0% from 44.8% in May, while, on an unadjusted basis, the employment rate rose to 46.5% from 44.7% in the same period of 2010. Elsewhere, the participation rate increased to 51.2% on an unadjusted basis, and 50.1% in adjusted terms.

Asia and Pacific

Australia

- **Trade:** *Trade surplus widens modestly.* Coming in just below expectations once again, the July seasonally adjusted trade surplus widened slightly to A$ 1 826 mln from A$ 1 817 mln in the previous month. This was the result of a slightly steeper fall in exports (-0.9% M/M from -0.3% in June), being outpaced by a clear swing into the negative for imports (-0.9% from 2.1%).

China

- **Trade:** *Trade surplus narrows.* Overshooting expectations once again, visible trade data for August showed the trade surplus narrowing to $ 17.76 bln from $ 20.04 bln in the same month of the preceding year. The breakdown revealed the latest narrowing to be a reflection a clear pick up in import growth (30.2% Y/Y from 22.9% in July), outpacing the gain in export growth (24.5% from 20.4%). On a geographical basis, and encouragingly, export growth increased to nearly all regions, with the only exception being a slight moderation for Hong Kong.

Singapore

- **Employment:** *Jobless rate stable.* Labor market data showed the seasonally adjusted unemployment rate stable at 2.1% in Q2. Meanwhile, employment rose by 24 800, a smaller gain than in Q1 (28 300), but with most of the increase once again coming from services employment, as manufacturing employment was up by a mere 700, albeit with this gain still a second straight rise following three successive declines.

Philippines

- **Employment:** *Mixed messages in labor market.* The unemployment rate was 7.1% in the three months to July, down slightly from 7.2% the previous quarter. The latest result was 0.1 percentage point higher, however, than the outcome from same period in the previous year. The participation rate, meanwhile, picked up modestly to 64.3% from 64.2% in the three months to April, hitting a new cycle-high. Compared with the same period in 2010, the participation rate was up by 0.4 percentage point.

New Zealand

- **Monetary and Fiscal Policy:** *Policy on hold, but for how long?* As was expected by most, the Reserve Bank of New Zealand decided to leave the Official Cash Rate (OCR) unchanged at 2.50%, after a similar decision in its two previous meetings, all following the 50 bp rate cut in March in response to the earthquake. In the updated quarterly Monetary Policy Statement (MPS) released this month, Governor Bollard began by noting an upside surprise in domestic activity, and with elevated commodity prices and the reconstruction efforts after the earthquake seen as continuing to boost demand over the projection horizon. The outlook for the global economy, however, was noted to have deteriorated, now with a real risk of a sharp slowdown in global economic activity. Overall, projections for GDP growth were revised up for the second half of 2011 from the June statement, but were seen as being below June forecasts in 2012 and through to the middle of 2013. Growth forecasts from the second half of 2013 onwards were again revised higher. CPI inflation, meanwhile, was noted to have remained above the Bank's 1-3% target band, but with much of the current increase attributed to last year's increase in the GST and seen as temporary in nature. Furthermore, the Bank observed the high level of the New Zealand dollar as having a dampening effect on price pressures. However, and notably, underlying inflation, while rising, was estimated to be near 2 percent. In terms of projections, forecasts for the second half of 2011 and through to the first quarter of 2012 were revised slightly higher, but with all projections from Q2 2012 onwards revised down.

India

- **Growth and Production:** *Clear fall in output growth.* Undershooting expectations clearly, July industrial production growth slowed markedly to 3.3% Y/Y from 8.8% in the previous month, now the smallest gain in 21-months. The result was mostly due to a drop in manufacturing output growth from 10.3% Y/Y to 2.3% in July, outweighing a pick up electricity (13.1% from 7.9%) and a swing into the positive for mining (2.8% from -1.1%). On a M/M basis, industrial output actually fell by 2.2%.

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:Q2	-0.4	2.2
Eurozone	2011:Q2	0.6	1.6
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	1.2	0.8
Switzerland	2011:Q2	1.4	2.3
Japan	2011:Q2	-2.1	-1.1
Korea	2011:Q2	3.6	3.4
Taiwan	2011:Q2	14.4	5.0
Hong Kong	2011:Q2	-3.7	5.1
Singapore	2011:Q2	1.0	0.9
Australia	2011:Q2	4.8	1.4
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:M8 •	0.4	3.8
Canada	2011:M7	0.2	2.7
Eurozone	2011:M8 •	0.2	2.5
United Kingdom	2011:M8 •	0.6	4.5
Germany	2011:M8	-0.1	2.2
France	2011:M8 •	0.5	2.2
Italy	2011:M8	0.3	2.7
Switzerland	2011:M8	-0.3	0.2
Japan	2011:M7	0.0	0.2
Korea	2011:M8	0.9	5.3
Taiwan	2011:M8	0.0	1.3
Hong Kong	2011:M7	-0.2	7.9
Singapore	2011:M7	1.5	5.4
Australia	2011:Q3	0.9	3.6
Mexico	2011:M8	0.2	3.4

**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:M8 •	0.2	3.4
Canada	2011:M6	0.1	0.0
United Kingdom	2011:M7	-0.2	-0.7
Germany	2011:M7	4.0	10.3
France	2011:M7 •	1.6	3.7
Italy	2011:M7 •	-0.7	-1.3
Switzerland	2011:Q2 •	3.6	2.3
Japan	2011:M7	-0.9	-2.8
Korea	2011:M7	-2.4	3.8
Taiwan	2011:M7	2.3	3.9
Hong Kong	2011:Q2 •	8.6	1.9
Singapore	2011:M7	-0.8	7.4
Australia	2011:Q2	1.2	-3.3
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:Q2	-53.4	-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	-64.7	-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	27.2	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:Q2	-33.5	-33.1	-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:M8	9.1	9.1	9.6
Canada	2011:M8	7.3	7.2	8.1
United Kingdom	2011:M8 •	4.9	4.9	4.6
Germany	2011:M7	6.1	6.1	7.0
France	2011:M7	9.9	9.8	9.8
Italy	2011:Q1	8.2	8.4	8.5
Switzerland	2011:M8	3.0	3.0	3.8
Japan	2011:M7	4.7	4.6	5.1
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:M8	5.3	5.1	5.1
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	2.06	2.17	2.76
Canada	2.29	2.39	2.98
United Kingdom	2.48	2.43	3.14
Germany	1.86	2.20	2.48
France	3.36	3.36	2.83
Italy	5.51	4.93	3.91
Switzerland	1.01	1.05	1.51
Japan	1.01	1.03	1.05
Korea	3.68	3.94	4.19
Taiwan	1.38	1.43	1.21
Hong Kong	1.54	1.78	2.00
Singapore	1.61	1.64	2.16
Australia	4.24	4.49	5.04
Mexico	2.22	1.95	2.13

Call Money Rate

	Latest	Prev. Month	Year Ago
Euro	1.50	1.50	1.00
United States	0.12	0.12	0.20
Canada	1.00	1.00	1.00
United Kingdom	0.50	0.53	0.50
Germany	1.50	1.50	1.00
France	1.50	1.50	1.00
Italy	1.50	1.50	1.00
Switzerland	-0.04	-0.75	0.07
Japan	0.09	0.10	0.10
Korea	3.25	3.20	2.28
Hong Kong	0.09	0.10	0.02
Singapore	0.16	0.16	0.13
Australia	0.00	4.75	4.50
Mexico	4.15	4.47	4.56

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	1.3786	1.0	-4.4	5.4
United States	79.49§	0.0	2.7	-5.1
Canada	0.9795	1.7	0.1	4.6
United Kingdom	1.5796	-0.5	-4.5	1.1
Germany	1.4189	-1.0	4.7	-5.1
France	4.7588	-1.0	4.7	-5.1
Italy	1404.72	-1.0	4.7	-5.1
Switzerland	0.8769	0.8	-11.0	13.7
Japan	76.84	1.0	-0.3	10.4
Korea	1112.1	-3.2	-3.8	4.5
Hong Kong	7.7920	0.0	0.0	0.3
Singapore	1.2415	-1.1	-3.3	7.2
Australia	1.0365	-1.0	-1.8	10.6
Mexico	13.0261	-2.6	-7.0	-1.8

§ 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:Q2	4.5	1.4
Sweden	2011:Q2	3.9	5.3
Norway	2011:Q2	1.5	0.3
Finland	2011:Q2	2.5	2.7
Spain	2011:Q2	0.6	0.7
Portugal	2011:Q2	-0.1	-0.9
Indonesia	2011:Q2	12.0	6.5
Philippines	2011:Q2	34.5	3.4
Malaysia	2011:Q2	11.8	4.0
Thailand	2011:Q2	-22.7	2.6
India	2011:Q2	-35.8	8.5
China	2011:Q2	---	9.5
Argentina	2011:Q1	11.8	9.6
Brazil	2011:Q2	3.1	3.1

**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:M8	-0.1	3.6
Netherlands	2011:M8	0.1	2.6
Denmark	2011:M8 •	0.0	2.6
Sweden	2011:M8 •	0.0	3.0
Norway	2011:M8	-0.6	1.3
Finland	2011:M8 •	0.4	3.8
Spain	2011:M8	0.1	3.0
Portugal	2011:M8 •	-0.4	2.9
Indonesia	2011:M8	---	---
Philippines	2011:M8	0.1	4.7
Malaysia	2011:M7	0.2	3.4
Thailand	2011:M8	0.4	4.3
India	2011:M7	2.1	8.4
China	2011:M8	---	6.2
Argentina	2011:M7	0.8	9.7
Brazil	2011:M8	0.4	6.8

**Not seasonally adjusted.*

Industrial Production*

	Latest Period	Chg. Over Prev. Period	Chg. Over Year Ago Period
Belgium	2011:M6	-0.2	12.6
Netherlands	2011:M7	-1.6	0.6
Denmark	2011:M7	2.2	1.1
Sweden	2011:M7 •	3.3	5.4
Norway	2011:M7	-1.5	-3.4
Finland	2011:M7 •	-0.3	2.5
Spain	2011:M7	3.6	3.3
Portugal	2011:M7	-3.5	1.5
Indonesia	2011:M7 •	2.9	5.7
Philippines	2011:M6	-1.9	-0.2
Malaysia	2011:M7	-0.6	-0.6
Thailand	2011:M7	-7.3	-1.1
India	2011:M7 •	-2.2	3.3
Argentina	2011:M6	0.2	2.3
Brazil	2011:M7	2.9	-0.3

**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	2011:Q1	2.7	4.4	-0.5
Netherlands	2011:Q1	61.8	56.2	38.9
Denmark	2011:Q2	20.2	16.2	6.8
Sweden	2011:Q2	34.9	30.5	28.4
Norway	2011:Q2	54.1	51.4	44.5
Finland	2011:Q2	2.6	4.5	5.0
Spain	2011:Q2	-61.5	-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	7.0
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:M7	7.5	7.4	8.4
Netherlands	2011:M8 •	4.4	4.3	4.5
Denmark	2011:M7	4.1	4.1	4.3
Sweden	2011:M8 •	7.4	7.3	8.2
Norway	2011:M8	2.7	2.8	2.9
Finland	2011:M7	6.9	8.4	7.5
Spain	2011:M7	21.2	21.0	20.3
Portugal	2011:M7	12.3	12.5	12.1
Indonesia	2010	7.1	7.9	7.9
Philippines	2011:Q3 •	7.1	7.2	7.0
Malaysia	2011:Q2	3.0	3.1	3.2
Thailand	2011:M6	0.4	0.5	1.2
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	3.72	3.89	3.30
Netherlands	2.29	2.57	2.68
Denmark	3.72	3.89	3.30
Sweden	1.87	2.15	2.64
Norway	2.41	2.45	3.50
Finland	3.04	3.26	2.70
Spain	5.29	4.96	4.20
Portugal	11.18	10.46	5.96
Indonesia	—	—	—
Philippines	—	—	—
Malaysia	3.73	3.66	3.65
Thailand	3.70	3.50	3.08
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	2.26	2.23	0.85
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	5.37	5.89	6.22
Philippines	4.50	4.50	4.00
Malaysia	0.00	0.00	0.00
Thailand	—	—	—
India	7.55	7.50	6.00
China	—	—	—
Argentina	9.95	9.70	9.83
Brazil	11.16	11.16	0.00

Exchange Rate

	Latest Level	Chg. Over Last Week	Chg. Over Prv. Month	Chg. Over Year Ago
Belgium	29.2656	1.0	-4.7	5.1
Netherlands	1.5987	1.0	-4.7	5.1
Denmark	5.4023	0.9	-4.6	5.1
Sweden	6.6218	-1.3	-4.6	6.0
Norway	5.5753	-0.5	-3.4	8.5
Finland	4.3135	1.0	-4.7	5.1
Spain	120.71	1.0	-4.7	5.1
Portugal	145.45	1.0	-4.7	5.1
Indonesia	8803.0	-2.6	-3.2	2.0
Philippines	43.325	-1.9	-2.1	2.2
Malaysia	3.0820	-2.7	-3.5	0.9
Thailand	30.350	-0.9	-1.6	1.4
India	47.268	1.5	4.1	2.4
China	6.3836	0.1	0.1	5.1
Argentina	4.2040	0.0	-0.9	-6.4
Brazil	1.7316	-3.4	-9.0	-1.2

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

Week ended: 9/16/2011

Focus on Eurozone Banks

The fact that the Eurozone banking sector is fragile has become very much more evident in recent days. Despite measures to provide liquidity by the ECB, most recently in dollars, the stock market performance of the banking sector has seen further declines, with headlines being made by a downgrading to the rating for two high-profile French banks. In addition, and as the upper chart highlights, liquidity hoarding has been more visible, causing many banks to deposit cash at the ECB despite the low returns, while signs of overall banking sector stress have been increasing given the increase in the Euribor-OIS spread.

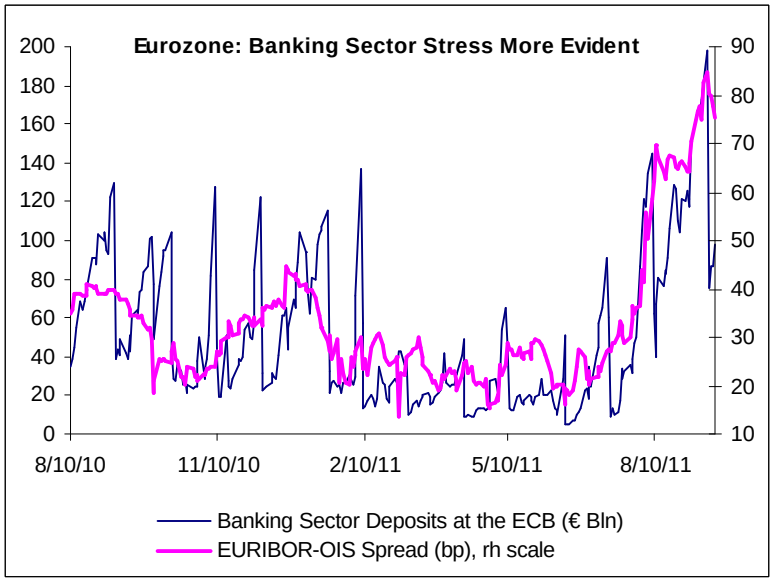
All of which continues the long-running theme of the Eurozone debt problems, namely weak banks helping to support weak sovereign debtors who in turn prop up the fragile banking sector directly (via recapitalization) or indirectly via the ECB. Indeed, the continued weakness in the Eurozone banking system underscores yet further the policy mismanagement by the area's government, ie a failure to get fresh equity into the system. Some suggest that this lack of action is a result of the banking sector's problems only coming to light both in the wake of the recent sharp economic slow-down and the evidence provided by somewhat more stringent bank stress tests.

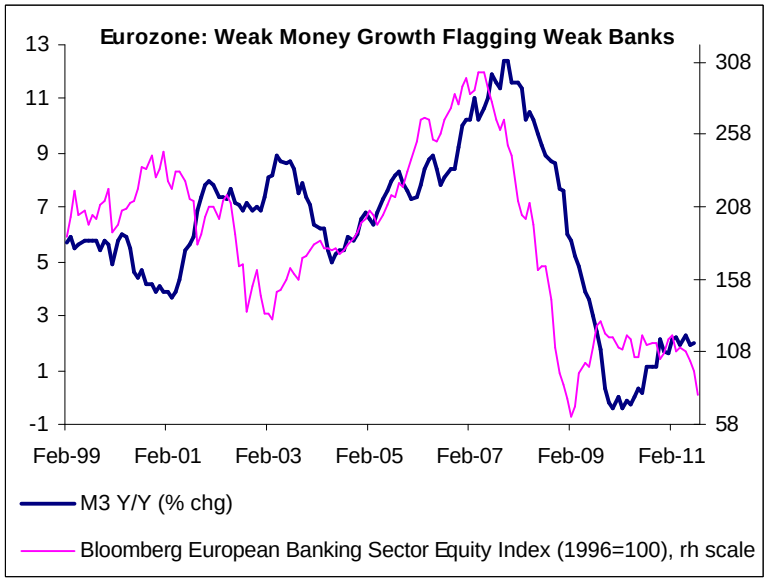
However, banking sector fragility has been evident for some time, not just in its lackluster stock market performance, but more clearly in the weakness in Eurozone broad money growth. Indeed, as the lower chart illustrates, Y/Y growth in M3 has very clearly tracked the stock market performance of European banks, a not surprising result given the extent to which the weakness in broad money has been a result of the softness in private sector lending which: even after something of a recovery in the last year, lending growth is actually still flat in real terms. This therefore raises criticism not only of Eurozone governments, but also the ECB. Indeed, the ECB not only had its own-compiled monthly monetary update to remind it of the banking sector fragility that was continuing within the Eurozone but also the market pressures that repeatedly prevented it from unwinding fully the liquidity provisions that it first offered to beleaguered banks back in 2008.

Moreover, the ECB not only ignored, or at least downplayed, this repeated evidence of banking sector vulnerability, but (in spite of the weakness in domestic monetary dynamics) actually suggested that there were upside risks to price stability emerging in the Eurozone, enough to have persuaded the ECB into hiking official rates twice this year. To what extent these rate hikes were a reflection of the Germanic influence on the ECB Council is unclear, after all, the focus on a monetary analysis should have led to the opposite conclusions. However, and if so, then the departure of Board member Stark last week may actually give the ECB more degrees of freedom to conduct policy in coming months, especially in regard to matters such as government bond purchases (the so-called Securities Markets Program), an issue which is clearly causing great discomfort for all policy-makers in Germany.

However, given the likely continued, and possibly more vocal, criticism regarding ECB bond purchases, the question is whether the ECB can or will feel able to continue with the Securities Markets Program for much longer. This issue is perhaps the increasingly valid one for markets to ponder over. Admittedly, the hope (certainly from the perspective of the ECB), is that the EFSF will be able to take over the bond buying role. However, the delays involved in getting political approval for an enlarged and more flexible EFSF could become even more protracted, with the weakness in the banking sector also meaning that even if the EFSF is passed, its resources could be quickly used up in recapitalizing Eurozone banks, something that may be needed if Greece defaults in the near-term. The ECB may hope that if a recapitalizing occurs, a less stressed banking system may help quell bond market worries.

— Andrew Wroblewski, DE London





DECISION ECONOMICS September 16, 2011

	Latest	Week Ago	% Chg. YTD *	12/30/09
Yen/$	76.84	77.61	-5.3	81.12
$/Euro	1.3785	1.3656	-3.0	1.3384
Yen/Euro	105.92	105.98	-2.4	108.57
$/STG	1.5793	1.5883	-1.2	1.5612
Sfr/$	0.8767	0.8838	-6.3	0.9352
Can$/US$	0.9795	0.9967	-1.9	0.9980
Mexican Peso/$	13.026	12.692	5.6	12.340
Brazil Real/$	1.7313	1.6741	4.2	1.6613
Thai Baht/$	30.350	30.070	1.0	30.060
Malaysian Ringgit/$	3.0820	3.0002	0.6	3.0635
Indonesian Rupiah/$	8802.5	8578.0	-2.2	8996.0
Korean Won/$	1112.1	1077.3	-1.2	1126.0
Philippines Peso/$	43.325	42.535	-1.1	43.800
India Rupee/$	47.268	46.565	5.7	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.	0.35	0.34	0.05	0.30
Canada	1.18	1.16	-0.06	1.23
Euro	1.48	1.48	0.55	0.94
U.K.	0.92	0.90	0.16	0.76
Japan	0.19	0.19	0.01	0.19
LONG-TERM (10-Year Benchmark)**				
U.S.	2.07	1.92	-1.23	3.30
US 10 Year Swap Rate	2.26	2.14	-1.12	3.38
Canada	2.29	2.11	-0.83	3.12
Italy	5.51	5.41	0.70	4.82
Germany	1.86	1.77	-1.10	2.96
U.K.	2.48	2.26	-0.91	3.40
Switzerland	1.01	1.01	-0.71	1.72
Japan (JGB)	1.01	1.01	-0.12	1.13
Australia	4.24	4.27	-1.30	5.55
Brazil	3.97	4.00	-0.64	4.61
India	8.36	8.31	0.44	7.92
Spreads to US 10-Year				
10 Year Swap Spread	0.19	0.22	0.11	0.08
10 Year - 2 Year	1.89	1.75	-0.81	2.70
Moody AAA	1.93	1.99	1.18	0.75
UK Gilt	0.42	0.34	0.32	0.10
German Bund	-0.20	-0.15	0.13	-0.33
Italian 10-year	3.45	3.49	1.93	1.52

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

STOCK MARKETS				
U.S. (DJIA)	11509	10992	-0.6	11578
S&P 500	1216	1154	-3.3	1258
NASDAQ Composite	2622	2468	-1.2	2653
Russell 2000	714	674	-8.8	784
Canada (TSE-300)	12274	12388	-8.7	13443
Mexico (Bolsa)	35181	34712	-8.7	38551
Argentina (Merval)	2752	2753	-21.9	3524
Brazil (Bovespa)	57090	55778	-17.6	69305
Germany (DAX, XETRA)	5574	5190	-19.4	6914
U.K. (FT-SE 100)	5368	5215	-9.0	5900
France (CAC-40)	3031	2975	-20.3	3805
Switzerland (SMI)	5453	5431	-15.3	6436
Japan (Nikkei-225)	8864	8738	-13.3	10229
Hong Kong (Hang Seng)	19455	19913	-15.5	23035
Australia (All Ordinaries)	4230	4277	-12.7	4847
South Korea (KOSPI)	1840	1833	-10.3	2051
Thailand	1033	1062	0.1	1033
India (BSE)	16934	16867	-17.4	20509
China (Dow Jones Shanghai Index)	314	316	-11.8	356
Singapore (Straights Times Index)	2789	2825	-12.6	3190
COMMODITIES				
Gold (USD/Troy Ounce)	1809.85	1855.70	27.4	1420.78
Crude Oil (WTI, Spot)	87.96	87.24	-3.7	91.38
CRB Futures	329.55	334.24	-1.0	332.80
CRB Raw Industrials (Spot)	535.35	542.10	2.9	520.33