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Global Economic Developments

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Contents

Canada: GDP Contracts – Part Temporary, Part Lasting 1
Europe 2
Central Europe 2
Asia and Pacific 3
The America 4
Africa 4
Focus on Switzerland 7

Tables

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

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Canada: GDP Contracts – Part Temporary, Part Lasting

Coming in weaker than most forecasts, which were overwhelmingly centered on a flat quarter-on-quarter print, Q2 GDP data revealed a 0.4% contraction (annualized) from the quarter prior. Q1 growth was revised down to a 3.6% gain, from 3.9%. Still, the result was probably more in line with "actual" expectations, given the likelihood that some of the "unchanged" cohort was reluctant to tack a negative sign onto published estimates.

Temporary factors including the Japan earthquake, constrained consumer spending due to higher energy food and energy prices, petroleum production disruptions on account of wildfires in Alberta, and weak U.S. demand all played a role. On the external front, net exports subtracted a whopping 5.7 percentage points from the headline figure. Elsewhere, business investment and inventory accumulation provided the largest offsetting positive contributions, while consumer and government expenditures rose as well.

Among other details, household consumption rose 1.6% in Q2 following a 0.1% decline in the first quarter, and investment rose 9.7%, the latter largely due to another surge in business spending on machinery and equipment. Inventories added 2.5 percentage points to the headline result, similar in magnitude to the Q1 impact. A paring-back of unwanted stocks could easily weigh on growth later this year.

On the trade front, oft-cited supply chain disruptions can only shoulder some of the blame, as a deteriorating net export position has been in place for quite some time. An 8.3% drop in exports and 10.0% import surge translated into a negative contribution from trade for the eighth time in nine quarters. Weak productivity growth, an unfavourable competitive position exacerbated by a strong CAD, and minimal exposure to key emerging markets are all longer-term trends that remain intact. Overwhelmingly exposed to U.S. and European demand, neither of which will be described as "robust" any time soon, further disappointment to the downside for the export sector cannot be ruled out. Even a rebound in energy prices, with positive impacts on exports and incomes in the resource sector, would in part be offset by depressed consumer spending power, and weaker U.S. demand.

On a less gloomy note, it appears businesses are taking advantage of easy credit conditions to boost investment, as recent Bank of Canada surveys point to still-solid intentions for periods ahead. In the absence of a serious and lingering shock to confidence in response to market turmoil and global uncertainties, investment could easily remain a bright spot.

A question mark in recent quarters, consumer spending should benefit from an easing in food and energy prices, but high debt loads pose longer-term risks. The housing market and household balance sheets navigated the prior recession relatively unscathed. Whether they navigate the next quite as well given froth in some property markets remains to be seen.

In the near term, a rebound as strong as that expected by the Bank of Canada as recently as July (when it saw growth of 1.5% in Q2, accelerating to near-3.0% in the second half) is quite likely not in the cards. Business and consumer sentiment surveys in both Canada and the U.S. have come down markedly. Though it provides only a rough read on actual activity, Canada's Ivey PMI tipped into contraction territory in July, a development shadowed by waning consumer confidence and decelerating employment and wage growth. Of key importance in coming weeks will be the early round of hard monthly data, which will hint at the strength of a rebound in Q3. Externally, signs of continued growth in the U.S., however modest, would help to support the case for a gradual pickup in Canada in the second half, but at a pace that will leave the Bank of Canada on the sidelines deep into 2012. What this week's release does remind investors is that Canada is far from immune to global risks; should worst-case downside scenarios be realized, some potentially a headline away, the risk the economy hits its own "Wile E. Coyote moment," cannot be ignored.

— Andrew Husby, DE New York

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Europe

Eurozone

- **Inflation:** *Inflation stable.* Matching expectations, the flash HICP estimate for August saw inflation remain at 2.5% Y/Y, still down from the 30-month high of 2.8% posted in April.

- **Employment:** *Unemployment edging back up?* Exceeding expectations, the unemployment rate was 10.0% in July, also matching the upwardly revised June and May outcomes, data that very much underscores that the drop to 9.9% in April was very fleeting. Indeed, underscoring the fresh rise in joblessness now evident, the actual level of unemployment increased by 61 000, a third successive increase.

Germany

- **Inflation:** *Consumer price inflation slows.* According to preliminary data, August CPI inflation decreased 0.1 percentage point to 2.3% Y/Y, thereby exactly unwinding the increase of the previous month. Prices fell by 0.1% M/M, matching expectations. The EU-harmonized measure decreased even more, easing 0.2 percentage point to 2.4% Y/Y.

- **Employment:** *Strength in labor market still evident?* Showing another smaller-than-expected decline, unemployment still decreased by 8 000 in August, also being a slightly smaller drop than in the previous month. Even so, the level of joblessness (at 2.95 mln) was a fresh 20-year low, albeit with the adjusted unemployment rate remaining at 7.0%. On a further upbeat note, (July) employment continued to rise clearly, albeit not appreciably faster than in previous months, with Y/Y growth actually edging down to 1.2%. Reassuringly, there was also a further rise in vacancies, actually somewhat larger than the modest rises between August and May.

Italy

- **Inflation:** *Slightly higher inflation.* Coming in above expectations, preliminary data showed that consumer price inflation edged up a notch to 2.8% Y/Y in August, the highest in 34 months, albeit with the core rate steady at 2.1%. Overall, prices rose 0.3% in M/M terms. The EU-harmonized measure rose similarly, but to 2.2%, up from a five-month low.

Switzerland

- **Growth and Production:** *Resilient economy.* GDP rose by 0.4% Q/Q in Q2, a largely as-expected gain that was more muted than in Q1, albeit only due to the latter having been revised up clearly, actually with the outcome twice that previously envisaged at 0.6%. Indeed, there were clearly upward revisions to previous data worth 0.6 percentage points, something that helped keep the Y/Y rate of growth little changed at 2.3%. Even so, the Q2 Q/Q outcome was the weakest since Q2 2009, when GDP fell outright.

Belgium

- **Inflation:** *Inflation eases back.* Slowing from a rate (of 3.75% Y/Y) that was the highest since October 2008, CPI inflation softened to 3.60% in August. Higher energy costs were apparently behind the pick-up.

Spain

- **Inflation:** *Inflation eases back.* Slowing from a rate (of 3.75% Y/Y) that was the highest since October 2008, CPI inflation softened to 3.60% in August. Higher energy costs were apparently behind the pick-up.

Central Europe

Hungary

- **Employment:** *Labor market conditions improve.* The unemployment rate in the three months to July fell by 0.2 percentage point to 10.8% from the same period in 2010. The level of unemployment, meanwhile, dropped 4 000 to 463 200 from the same quarter of the previous year. On a further upbeat note, the employment rate picked up by 0.6 percentage point to 49.9% last month and the participation rate increased to 56.0% from 55.4%.

Poland

- **Growth and Production:** *Growth remains strong.* Coming in above expectations, Q2 GDP growth fell by 0.1 percentage point to 4.3% Y/Y, but still being the third highest in the cycle. On a seasonally adjusted Q/Q basis, meanwhile, growth was stable at 1.1%. The expenditure side breakdown showed the latest slowing in growth to be a reflection of a moderation in private consumption (3.5% Y/Y from 3.9% in Q1), alongside a swing into negative for government consumption (-1.3% from 1.5%). Capex growth also fell last quarter to 12.3% Y/Y from 12.9% in Q1.

Elsewhere, net trade provided a boost to the economy, with the rise in export growth (6.7% Y/Y from 5.9%) outpacing the increase in import growth (6.6% from 6.2%). On the output side, meanwhile, falling growth for industry, transport and the non-market services sector was tempered by increases in construction, trade and the market services sector.

Asia and Pacific

Japan

- **Growth and Production:** *Industrial production growth moderates more clearly.* Surprising a little to the downside, preliminary data for July showed industrial production rose 0.6% M/M, the smallest in a run of four successive rises, now all repairing the earth-quake affected record-fall of 15.5% in March. Further recovery is expected. Indeed, METI revised up its estimate for August output growth from the month-ago estimate of 2.0% to 2.8% but pointed to September seeing a correction of 2.4%.

- **Employment:** *Softer jobs data.* Exceeding expectations, the unemployment rate increased a further 0.1 percentage point to 4.7% in July, a six-month high. However, once more the data did not include results from the three main areas (prefectures) hit by the earthquake. Also on a more downbeat note, Y/Y employment continued to fall, slipping 4.8%, somewhat more steeply than in previous months. However, the participation rate fell back, easing another 0.2 percentage point to 59.4% but with the job-to-applicant ratio rising a notch to 0.64.

Philippines

- **Growth and Production:** *Growth weakens further.* Coming in below expectations, GDP growth eased back to 3.4% Y/Y in Q2 from 4.6% in the first quarter, a fourth straight slowing and now the lowest since 2009. On a seasonally adjusted Q/Q basis, the economy showed a clear moderation in growth to 0.6% from 1.9% in Q1. The output side breakdown revealed the Q/Q slowing to have been driven mostly by a marked swing into the negative for industry to -3.0% last quarter from a rise of 3.1% in Q1, ending a run of two successive increases. In contrast, both agriculture (2.2% from 1.8%) and services (2.4% from 1.3%) sector growth actually saw gains in the quarter. Meanwhile, on the expenditure side, government spending saw a clear swing into positive to 4.5% Y/Y from a fall of 17.2% in the previous quarter, while private consumption growth picked up modestly to 5.4% from 5.3% in Q1. Capex growth, however, saw a marked slowing to just 0.9% Y/Y last quarter from the 42.3% jump in the preceding quarter. Elsewhere, net trade provided a further dampener on growth, with exports falling by 0.3%, outpaced by a 4.1% rise in imports.

South Korea

- **Growth and Production:** *Clearly weaker output.* Undershooting expectations clearly, July industrial production fell by 0.4% M/M in seasonally adjusted terms, swinging into the negative from a 0.9% rise in June and ending a run of two consecutive increases. On a Y/Y basis, output growth slowed clearly to 3.8% last month from 6.5% in the preceding month, a fresh cycle-low and driven by weaker growth across all subsectors. Elsewhere, growth in shipments slowed further in the month to 3.0% Y/Y from 5.8% in June, a second straight fall to a fresh cycle-low. In contrast, services sector output growth actually picked up for a third straight month to 3.8% Y/Y in July, up from 3.5% in the preceding month and now the highest since January. This was a reflection of improvements in transport, technology & science and education. However, in seasonally adjusted M/M terms, services output growth slowed to 0.4% from 0.9% in June.

- **Inflation:** *Inflation rises to three-year high.* Coming in above almost all forecasts, consumer price inflation jumped 0.6 percentage point to 5.3% Y/Y in August, reaching a three-year high and remaining above the BoK's target ceiling of 4.05% now for an eighth-straight month. The latest increase was the result of broad-based gains in price pressures, led by food (11.4% Y/Y from 10.0% in July), and with the only exception being a fall in furnishings. On a M/M basis, prices rose by 0.9%. Elsewhere, the core rate picked up by 0.2 percentage point to 4.0% Y/Y, also a new cycle-high.

- **Employment:** *Labor market conditions improve.* The unemployment rate in the three months to July fell by 0.2 percentage point to 10.8% from the same period in 2010. The level of unemployment, meanwhile, dropped 4 000 to 463 200 from the same quarter of the previous year. On a further upbeat note, the employment rate picked up by 0.6 percentage point to 49.9% last month and the participation rate increased to 56.0% from 55.4%.

- **Trade:** *Trade surplus narrows.* Data for August showed export growth rising by 27.1% Y/Y, up from the 25.3% increase in the previous month and now a five-month high. Import growth, meanwhile, saw an even clearer rise to 29.2% last month from 25.0% in July, a three-month high. As a result, the trade surplus narrowed to $ 821 mln in August from $ 1 206 mln in the same period of 2010.

India

- **Growth and Production:** *Growth remains strong.* Coming in above expectations this time around, GDP growth slipped slightly by 0.1 percentage point to 7.7% in Q2, a less marked slowing than the 0.5 point fall in growth in the previous quarter but still being the slowest pace since Q4 2009. The output side breakdown showed the latest moderation to be the result of a further slowing in the agricultural sector (3.9% Y/Y from 7.8% in Q1), while the secondary sector showed more mixed messages, with a pick up in manufacturing (7.2% from 5.5%) being balanced by a slowing in construction (1.2% from 8.2%). The services sector, meanwhile, also saw mixed tones, with a rise in trade/hotel/transport (12.8% from 9.3%) and finance & insurance (9.1% from 9.0%) being undermined by a fall in community & social services (5.6% from 7.0%).

- **Trade:** *Export growth surges.* Trade data for July showed exports increasing by 81.8% Y/Y, jumping up from 46.4% in June and hitting a new cycle-high. Import growth, meanwhile, saw a less marked pick up to 51.5% Y/Y from 42.5% in the preceding month, boosted by increases to new cycle-highs for both oil and non-oil imports. The trade balance, however, still showed a deficit of $ 11.08 bln in the month.

The Americas

Canada

- **Growth and Production:** *Some positive signs in monthly GDP data.* Monthly GDP data for June showed a 0.2% increase after a 0.3% decline in May, and the June figure is now slightly above the quarter average, implying that flat or higher results in coming months will be supportive of a rebound in Q3 data. Service sector output rose 0.2% on a strong contribution from retail trade (+1.0%). That had been driven by a rebound in vehicle sales, though some of likely reversed in July, according to vehicles sales data compiled by Statistics Canada. Real estate and insurance activities rose 0.3%, a second straight advance after stalling in April. Elsewhere, goods sector output rose only 0.2% as well, as manufacturing growth fell 0.1%, and mining output rose 0.7%, the latter making up little ground after a 5.3% plunge in May. The good news is that stabilization appears to be occurring in a statistical sense, but with little hard Q3 data in hand, cautious optimism is the best that can be mustered.

- **Trade:** *Current account deficit widened.* As anticipated, the current account deficit widened markedly in Q2, coming in at a $15.3 billion shortfall after a downwardly revised $10.1 billion deficit in the first quarter. The overriding factor was a swing into the red for the goods balance, to the tune of $3.5B, compared to a $1.8B surplus in Q1.

Brazil

- **Monetary and Fiscal Policy:** *Surprise rate cut.* In contrast to most expectations, the Central Bank of Brazil's Monetary Policy Committee (COPOM) voted 5-2 to cut the benchmark interest rate (Selic) by 50 bp to 12.00% at its latest meeting. The decision follows five successive rate hikes since the beginning of the year, which increased the Selic by a cumulative 1.25 percentage points. Notably, the accompanying statement (usually one or two sentences), was nearly a page this time around, citing a deteriorating international scenario, an improved fiscal outlook domestically and an improving inflation outlook due to lower growth forecasts.

- **Growth and Production:** *Output growth recovers from month prior, down from year ago.* Industrial production rose 0.5% in seasonally-adjusted month-on-month terms in July, after an upwardly-revised 1.2% decline in June. In year-ago terms, output dipped 0.3%, flattening further after a 1.1% pace of expansion in June.

Africa

South Africa

- **Growth and Production:** *Growth slows clearly.* National accounts data for Q2 showed GDP growth slowing clearly to 1.3% on an annualized Q/Q basis from the 4.5% gain the previous two quarters, now a fresh cycle-low. The output side breakdown showed the marked slowing in the Q/Q reading to be a reflection of a clear swing into the negative for manufacturing (-7.0% from 14.5%), alongside a steeper fall for agriculture (-7.8% from -3.7%) and slower growth in financial & real estate services (2.9% from 4.8%).

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		0.7	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:Q2	•	1.4	2.3
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:M8	•	-0.1	2.2
France	2011:M7		-0.4	1.9
Italy	2011:M8	•	0.3	2.7
Switzerland	2011:M7		-0.8	0.5
Japan	2011:M7		0.0	0.2
Korea	2011:M8	•	0.9	5.3
Taiwan	2011:M7		-0.3	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: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:M6	•	0.1	0.0
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:M7	•	-0.9	-2.8
Korea	2011:M7	•	-2.4	3.8
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: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		-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		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: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:M8	•	9.1	9.1	9.6
Canada	2011:M7		7.2	7.4	8.0
United Kingdom	2011:M7		4.9	4.8	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:M7		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: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	2.00	2.62	2.63
Canada	2.30	2.67	2.87
United Kingdom	2.44	2.74	2.96
Germany	2.01	2.40	2.28
France	3.41	3.41	2.57
Italy	5.28	6.09	3.80
Switzerland	0.98	1.29	1.23
Japan	1.03	1.02	1.12
Korea	3.79	4.21	4.38
Taiwan	1.43	1.52	1.21
Hong Kong	1.73	2.03	1.94
Singapore	1.58	1.84	2.04
Australia	4.41	4.63	4.82
Mexico	1.95	2.12	2.14

Call Money Rate

	Latest	Prev. Month	Year Ago
Euro	1.50	1.50	1.00
United States	0.12	0.13	0.21
Canada	1.00	1.00	0.75
United Kingdom	0.53	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	-0.15	0.09	0.07
Japan	0.10	0.10	0.10
Korea	3.26	3.25	2.27
Hong Kong	0.10	0.12	0.01
Singapore	0.14	0.16	0.13
Australia	0.00	4.75	4.50
Mexico	4.47	4.47	4.59

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	1.4194	-2.1	-0.9	10.7
United States	77.96§	0.2	1.2	-8.0
Canada	0.9840	-0.3	-2.3	6.5
United Kingdom	1.6219	-0.9	-1.3	5.3
Germany	1.3781	2.2	0.9	-9.6
France	4.6219	2.2	0.9	-9.6
Italy	1364.31	2.2	0.9	-9.6
Switzerland	0.7897	2.1	-2.5	22.0
Japan	76.81	-0.2	0.3	8.9
Korea	1063.0	1.7	-0.2	10.0
Hong Kong	7.7880	-0.1	-0.1	0.2
Singapore	1.2036	0.0	0.1	10.6
Australia	1.0655	0.8	-0.9	17.0
Mexico	12.4026	0.4	-4.9	4.8

§ 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: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: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
	2011:M8 •	-0.1	3.6
	2011:M7	0.0	2.6
	2011:M7	-0.1	2.9
	2011:M7	0.0	3.0
	2011:M7	-0.2	1.6
	2011:M7	-0.3	4.0
	2011:M8 •	0.1	2.9
	2011:M7	-0.1	3.2
	2011:M7	---	---
	2011:M7	0.1	5.1
	2011:M7	0.2	3.4
	2011:M8 •	0.4	4.3
	2011:M7 •	2.1	8.4
	2011:M7	---	6.5
	2011:M7 •	0.8	9.7
	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: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:M7 •	3.6	3.3
Portugal	2011:M7 •	-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:M7 •	-7.3	-1.1
India	2011:M6	2.7	8.7
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
	2011:Q1	2.7	4.4	-0.5
	2011:Q1	61.8	56.2	38.9
	2011:Q2	21.0	16.6	6.8
	2011:Q2 •	34.9	30.5	28.4
	2011:Q1	49.6	51.4	44.5
	2011:Q2	5.6	7.5	5.9
	2011:Q2 •	-61.5	-64.5	-75.3
	2011:Q2	-21.2	-22.7	-25.7
	2011:Q2	4.6	5.6	31.8
	2011:Q1	8.2	8.5	21.9
	2011:Q2	30.3	27.3	8.8
	2011:Q2	16.2	14.8	7.1
	2011:Q1	-44.3	-51.9	10.5
	2011:Q1	2.9	3.1	11.1
	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:M7	4.3	4.1	4.6
Denmark	2011:M7 •	4.1	4.1	4.3
Sweden	2011:M7	7.4	7.4	8.5
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:Q2	7.2	7.4	8.0
Malaysia	2011:Q1	3.1	3.2	3.7
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
	4.03	4.46	2.93
	2.48	2.84	2.43
	4.03	4.46	2.93
	2.02	2.43	2.42
	2.64	2.76	3.30
	3.33	3.34	2.47
	5.12	6.26	4.01
	10.27	11.19	5.53
	—	—	—
	—	—	—
	3.60	3.76	3.70
	3.55	4.00	2.94
	—	—	—
	—	—	—
	—	—	—

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	2.15	2.11	0.60
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	5.95	6.23
Philippines	4.50	4.50	4.00
Malaysia	0.00	0.00	0.00
Thailand	—	—	—
India	7.40	7.40	4.60
China	—	—	—
Argentina	9.70	9.70	9.88
Brazil	11.16	11.16	0.00

Exchange Rate

	Latest Level	Chg. Over Last Week	Chg. Over Prv. Month	Chg. Over Year Ago
	28.4237	-2.2	-0.9	9.6
	1.5527	-2.2	-0.9	9.6
	5.2481	-2.1	-0.9	9.6
	6.3926	-1.6	-0.7	11.7
	5.4039	-0.7	-0.7	12.0
	4.1894	-2.2	-0.9	9.6
	117.24	-2.2	-0.9	9.6
	141.26	-2.2	-0.9	9.6
	8519.0	0.5	-0.4	5.5
	42.165	0.8	0.2	6.1
	2.9637	0.8	0.3	5.2
	29.900	0.2	-0.5	4.2
	45.788	-0.8	3.3	-2.0
	6.3821	0.1	0.8	6.3
	4.2015	-0.4	-1.2	-6.4
	1.6358	-2.0	-4.8	5.2

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

Week ended: 9/2/2011

Focus on Switzerland

The SNB has had a busy time of late as it has repeatedly tried to combat the soaring Swiss franc (the SNB has characterized the currency as being massively overvalued). Three times in August the central bank announced measures designed to temper the allure of the currency, basically increasing the supply of Swiss francs, albeit steering clear of direct FX intervention. The aversion to the latter seemingly reflects the unwillingness to repeat the massive interventions seen in 2010 that not only failed to hold back the currency, but actually cost the central bank over $ 20 bln in FX losses. Even so, and irrespective of the fact that the SNB would (again) have to act unilaterally, markets remain wary that intervention could again be tried, possibly alongside the (temporary) introduction of an exchange rate target against the euro. However, the SNB must be increasingly aware that the financial market turmoil that re-emerged over the last month is underpinning the Swiss franc's safe haven status, the latter very much accentuated by the strong banking sector and inter-related solid domestic economic backdrop.

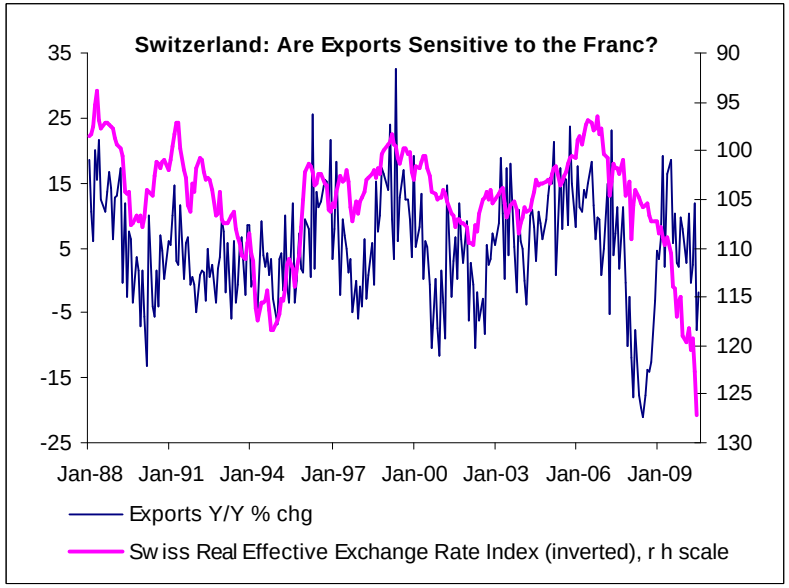
A reminder of the solid economic backdrop came last week with Q2 national accounts. These showed that GDP rose by 0.4% Q/Q, a more muted gain than in Q1, albeit only due to the latter having been revised up clearly, actually with the outcome twice that previously envisaged at 0.6%. Indeed, there were clearly upward revisions to previous data worth 0.6 percentage points. This was something that helped keep the Y/Y rate of growth little changed at 2.3%, ie over half a percentage point up on the Eurozone Q2 outcome and actually still above the long-run rate of growth for Switzerland.

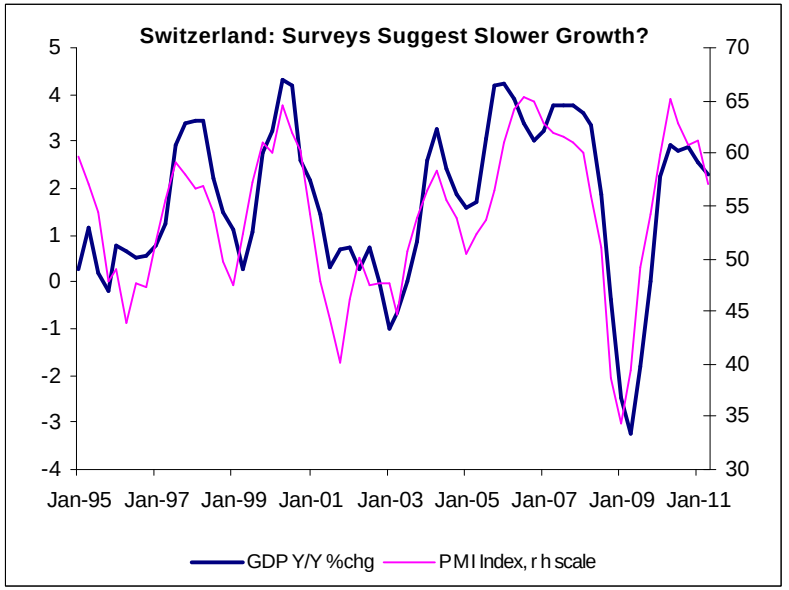
The expenditure breakdown was quite revealing. Most notable was the fall in exports of 1.3%, something that would seemingly advance arguments that the soaring Swiss franc is inhibiting activity, despite the fact that the link between the currency and exports is hardly decisive (see upper chart). However, the fall was solely within services exports which are supposed to be less price-sensitive, while the clearly more price-sensitive goods exports actually increased further. In addition, there was no sign that the strong currency was enhancing the shift from domestic production to the purchase of produce from abroad as imports actually fell on a broad basis.

Admittedly, the domestic economy offered mixed signals with a broad-based fall in capex, alongside a clear bounce in consumer spending, the question being the extent to which the boost to spending power coming from the strengthening exchange rate, alongside solid domestic fundamentals such as the low jobless rate, is underpinning such solid consumer activity. Otherwise, the GDP data shows that growth last quarter was buoyed by a recovery in inventories and government spending, the latter still providing a bulwark for the economy given the enviable state of public finances in Switzerland.

Overall, the GDP numbers very much suggest that the SNB GDP projection of 2% for 2011 is likely to be met, even if the economy slows further in second half of the year as surveys such as the latest PMI numbers hint might be the case, albeit with the latter possibly having exaggerated activity of late (see lower chart). However, some overshoot of the growth projection is still possible, albeit a risk that is unlikely to be acknowledged by the very dovish SNB at its upcoming quarterly press conference on September 15. Instead, the SNB is likely to emphasize the deflationary risks that the strong currency may be bring in its wake, ignoring the fact that the Swiss economy and monetary backdrop are not showing any signs consistent with this.

— Andrew Wroblewski, DE London





DECISION ECONOMICS September 2, 2011

	Latest	Week Ago	% Chg. YTD *	12/30/09
Yen/$	76.81	76.64	-5.3	81.12
$/Euro	1.4193	1.4499	-6.0	1.3384
Yen/Euro	109.02	111.12	0.4	108.57
$/STG	1.6220	1.6368	-3.9	1.5612
Sfr/$	0.7898	0.8063	-15.5	0.9352
Can$/US$	0.9840	0.9813	-1.4	0.9980
Mexican Peso/$	12.404	12.455	0.5	12.340
Brazil Real/$	1.6361	1.6033	-1.5	1.6613
Thai Baht/$	29.900	29.960	-0.5	30.060
Malaysian Ringgit/$	2.9637	2.9885	-3.3	3.0635
Indonesian Rupiah/$	8518.8	8565.0	-5.3	8996.0
Korean Won/$	1063.0	1081.9	-5.6	1126.0
Philippines Peso/$	42.165	42.500	-3.7	43.800
India Rupee/$	45.788	46.155	2.4	44.705

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

BENCHMARK YIELDS				
SHORT-TERM (3-Month LIBOR)**				
U.S.	0.33	0.32	0.03	0.30
Canada	1.16	1.14	-0.08	1.23
Euro	1.48	1.48	0.54	0.94
U.K.	0.89	0.88	0.13	0.76
Japan	0.19	0.19	0.01	0.19
LONG-TERM (10-Year Benchmark)**				
U.S.	2.00	2.19	-1.29	3.30
US 10 Year Swap Rate	2.20	2.36	-1.17	3.38
Canada	2.30	2.40	-0.82	3.12
Italy	5.28	5.07	0.47	4.82
Germany	2.01	2.16	-0.96	2.96
U.K.	2.44	2.46	-0.96	3.40
Switzerland	0.98	1.01	-0.73	1.72
Japan (JGB)	1.03	1.04	-0.10	1.13
Australia	4.41	4.40	-1.14	5.55
Brazil	3.97	4.00	-0.64	4.61
India	8.34	8.23	0.42	7.92
Spreads to US 10-Year				
10 Year Swap Spread	0.20	0.16	0.12	0.08
10 Year - 2 Year	1.80	2.00	-0.90	2.70
Moody AAA	2.13	2.09	1.05	1.07
UK Gilt	0.44	0.27	0.34	0.10
German Bund	0.00	-0.03	0.34	-0.33
Italian 10-year	3.28	2.88	1.76	1.52

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

STOCK MARKETS				
U.S. (DJIA)	11240	11285	-2.9	11578
S&P 500	1174	1177	-6.7	1258
NASDAQ Composite	2480	2480	-6.5	2653
Russell 2000	683	692	-12.8	784
Canada (TSE-300)	12602	12328	-6.3	13443
Mexico (Bolsa)	35116	34042	-8.9	38551
Argentina (Merval)	2870	2884	-18.6	3524
Brazil (Bovespa)	56573	53351	-18.4	69305
Germany (DAX, XETRA)	5538	5537	-19.9	6914
U.K. (FT-SE 100)	5292	5131	-10.3	5900
France (CAC-40)	3149	3088	-17.2	3805
Switzerland (SMI)	5360	5323	-16.7	6436
Japan (Nikkei-225)	8951	8798	-12.5	10229
Hong Kong (Hang Seng)	20213	19583	-12.3	23035
Australia (All Ordinaries)	4322	4271	-10.8	4847
South Korea (KOSPI)	1868	1779	-8.9	2051
Thailand	1065	1037	3.1	1033
India (BSE)	16821	16285	-18.0	20509
China (Dow Jones Shanghai Index)	322	333	-9.7	356
Singapore (Straights Times Index)	2843	2766	-10.9	3190
COMMODITIES				
Gold (USD/Troy Ounce)	1881.93	1827.95	32.5	1420.78
Crude Oil (WTI, Spot)	86.13	85.37	-5.7	91.38
CRB Futures	338.06	335.25	1.6	332.80
CRB Raw Industrials (Spot)	541.22	537.85	4.0	520.33