



# Weekly Global Economic Brief

Number 102

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28 July 2011

The ongoing debt-limit debate and disappointing growth reports weighed on the U.S. dollar and equities this week. However, U.S. Treasuries remained resilient as yields held relatively steady. Investors appear more concerned about negative spillover-impacts on growth of a potential default, abrupt spending cuts, and/or credit-rating downgrade than about bond coupon-payments being honored. Worries center on the risks of prolonging the current soft-patch in growth, or on the downside of recession. Global activity slowed markedly in Q2-2011, as reflected in ongoing deterioration in the global PMI manufacturing and services surveys in June—despite the sharp post-Tohoku rebound in Japan and some easing of inflationary pressures. Global PMI new-order surveys also fell on concerns that policy-turmoil and deepening fiscal consolidation in the Euro Area and the United States could undermine growth, and that several developing countries could see a slowdown given tighter monetary policy aimed at curbing inflation. Gross capital inflows to developing countries fell in June, as bond and equity inflows faltered on a flight-to-quality. Still, total inflows nearly doubled in 1H-2011 from a year-prior—buoyed by bank-lending—and likely contributed to strong credit growth in some countries.

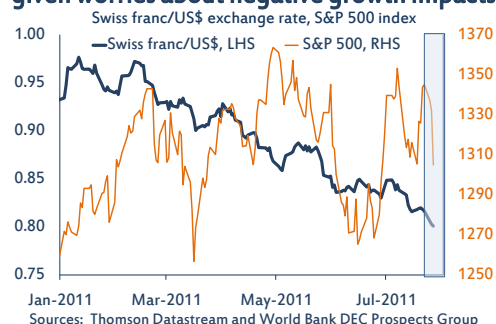
The US-dollar and equities fell this week on mounting concerns of a credit-rating downgrade, abrupt spending cuts or temporary default—and associated negative growth impacts. Investors turned to safe-haven assets, including the Swiss franc and gold, which appreciated to record highs against the dollar during the week. The cost of insuring against a U.S. sovereign default also rose, reaching a ...-month high (5-yr. CDS). Reports from the Commerce Department, that U.S. durable goods orders contracted unexpectedly (2.1%, m/m) in June, and from the Federal Reserve, that the slowdown in U.S. growth broadened through mid-July over mid-June, contributed to market jitters. In contrast, Treasuries remained relatively stable, partly reflecting weaker growth prospects as well as apparent confidence that U.S. interest and principal payments will be met. While market confidence has remained relatively strong, it could quickly deteriorate if political gridlock drags on.

Global PMI surveys for manufacturing and services suggest global growth slowed in Q2-2011. These declines are underscored by the new orders components, which are down a pronounced 8.8 and 6.0 points for manufacturing and services, respectively, since January 2011. Moreover, the ratio of new orders to finished goods components for manufacturing declined over the same period, suggesting continued inventory adjustment to softer demand. PMI manufacturing surveys are down from earlier-peaks in 2011 in 27 of 28 countries (mostly high-income) with current data. All BRICs saw lower June readings on monetary policy tightening, slowing foreign demand and heightened uncertainty, with Brazil's manufacturing PMI flagging a mild contraction, and Russia and China's pointing to marginal growth.

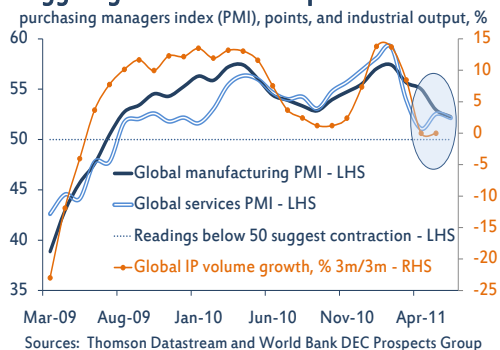
Despite a fall-off in June, gross capital inflows to developing countries rose 41% above year-earlier levels in 1H-2011, with bank lending up 57%. Inflows slowed to \$40 bn in June from \$51 bn in May, as bonds and equities faltered on a flight-to-quality given heightened uncertainty in Europe. But bank lending held steady, as volatile international market conditions prompted some borrowers to switch to syndicated loans. While bank-lending remains well below pre-crisis peaks, emerging market corporates have started tapping the syndicated loan market again. Bond issuance has been robust as well this year, with Latin America accounting for 40% of total issuance.

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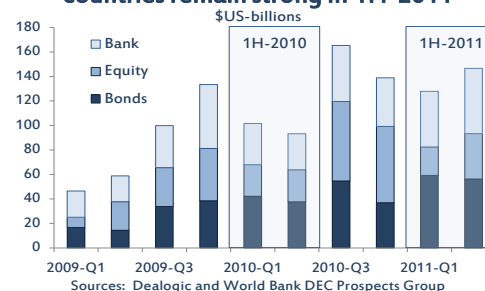
## Debt-debate weighs on US\$ and equities, given worries about negative growth impacts



## Global manufacturing and services surveys suggest growth slowdown persisted in June



## Gross capital inflows to developing countries remain strong in 1H-2011



## Economic Developments

indicators expressed as %ch y/y, except Industrial Production quarterly figures are %ch q/q, annualized

28-Jul-11

	2008	2009	2010	2010		2011		2011				
				Q3	Q4	Q1	Q2	Feb	Mar	Apr	May	Jun
<b>Industrial Production, S.A.</b>												
World	0.4	-8.5	9.1	0.7	7.9	8.6	-	6.9	4.4	2.6	5.9	-
High Income Countries	-2.0	-12.9	8.1	-0.4	5.1	6.4	-	5.9	2.3	0.4	4.3	-
Developing Countries	6.0	0.9	10.9	2.8	13.2	12.7	-	8.8	8.3	6.7	-	-
East Asia and Pacific	10.7	8.4	14.5	6.2	17.1	18.6	-	12.4	12.8	11.4	-	-
East Asia x. China	2.3	-4.3	8.7	-7.2	13.9	3.2	-	2.1	2.5	-0.4	2.1	-
Europe and Central Asia	0.1	-10.1	9.5	-0.9	19.2	8.8	-1.3	8.8	6.9	5.2	6.2	7.0
Latin America and Caribbean	1.0	-7.0	6.5	0.2	4.8	10.3	-	5.6	4.4	2.1	4.8	-
Middle East and N. Africa	3.1	-3.5	1.6	-6.0	6.0	-18.0	-	-4.6	-10.7	-9.0	-	-
South Asia	6.8	-0.2	9.3	3.6	11.0	12.4	-	6.2	8.7	4.2	5.1	-
Sub-Saharan Africa	1.0	-6.7	5.6	-7.8	-3.4	6.2	-	0.9	-1.8	-3.9	-	-
<b>Inflation, S.A. <sup>1</sup></b>												
High Income Countries	4.3	1.2	1.9	1.9	2.5	3.3	3.5	3.4	3.5	3.4	3.5	3.4
Developing Countries	10.3	4.0	4.4	4.0	5.0	5.2	-	5.3	5.8	6.2	6.5	-
East Asia and Pacific	9.5	1.5	4.0	3.7	4.2	5.1	-	4.9	5.4	5.0	5.5	-
Europe and Central Asia	10.2	3.1	6.5	6.8	7.6	7.5	8.3	7.1	7.7	8.4	8.5	6.3
Latin America and Caribbean	8.8	3.3	4.4	4.0	5.3	3.3	2.9	5.6	5.9	6.3	6.5	6.5
Middle East and N. Africa	10.8	3.4	4.2	3.7	4.9	-	-	2.9	2.9	4.5	-	-
South Asia	10.9	10.8	10.0	9.1	9.2	9.7	-	9.7	10.5	10.7	9.6	-
Sub-Saharan Africa	10.4	7.5	4.0	3.0	3.8	5.0	-	5.1	5.8	6.7	7.2	-

<sup>1</sup> Inflation is calculated as medians for all groups.

## Trade and Finance

indicators expressed as %ch y/y, except International Reserves are %ch p/p and trade quarterly figures are %ch q/q, annualized

	2008	2009	2010	2010		2011		2011				
				Q3	Q4	Q1	Q2	Feb	Mar	Apr	May	Jun
<b>Exports, Nominal, US\$, S.A.</b>												
World	15.2	-22.8	22.3	1.8	43.8	47.4	-	21.0	23.4	22.3	28.4	-
High Income Countries	12.6	-22.9	18.8	3.6	38.9	45.6	-	20.7	20.5	19.4	28.5	-
Developing Countries	21.1	-22.6	29.9	-1.7	53.9	50.9	-	21.4	29.4	28.2	28.2	-
East Asia and Pacific	16.8	-16.4	30.9	-0.6	39.2	35.5	20.1	9.0	31.6	29.3	19.8	18.9
Europe and Central Asia	31.0	-32.7	27.1	-17.6	89.6	83.2	-	31.4	32.1	37.7	37.7	-
Latin America and Caribbean	11.7	-20.3	28.5	6.8	48.3	39.2	-	27.8	24.4	21.2	30.3	-
Middle East and N. Africa	33.9	-33.9	29.9	13.1	58.9	57.5	-	32.2	18.3	-	-	-
South Asia	24.9	-11.5	28.5	-6.7	112.2	84.9	-	49.0	46.5	35.5	55.5	-
Sub-Saharan Africa	28.6	-30.8	34.3	-8.8	61.1	101.0	-	38.3	24.2	-	-	-
<b>Imports, Nominal, US\$, S.A.</b>												
World	15.7	-23.4	21.6	1.3	38.6	52.8	-	21.6	21.9	21.0	28.7	-
High Income Countries	12.1	-24.6	18.0	1.9	31.4	48.9	-	20.5	19.8	20.0	27.3	-
Developing Countries	25.4	-20.4	30.1	-0.1	55.0	61.1	-	24.2	26.4	23.1	31.6	-
East Asia and Pacific	21.3	-15.4	37.6	-6.2	81.6	60.5	-15.4	21.1	27.5	23.6	27.8	18.5
Europe and Central Asia	27.1	-33.5	27.1	17.4	60.3	73.6	-	42.2	40.9	37.3	41.7	-
Latin America and Caribbean	22.2	-24.7	29.1	2.6	25.2	49.5	28.2	27.2	22.3	19.9	30.6	25.5
Middle East and N. Africa	39.1	-8.5	14.2	2.8	36.4	23.5	-	10.4	8.2	-	-	-
South Asia	38.7	-17.2	27.6	-7.6	20.0	122.5	-	22.5	25.9	15.2	52.6	-
Sub-Saharan Africa	25.9	-18.5	14.4	7.1	37.8	38.8	-	14.5	17.0	-	-	-
<b>International Reserves, US\$</b>												
High Income Countries	5.8	15.8	10.8	5.7	0.4	3.9	-	0.7	2.1	2.3	0.6	-
Developing Countries	12.5	14.8	14.6	7.6	4.8	6.0	-	1.8	1.8	3.5	0.4	-
East Asia and Pacific	23.5	22.6	19.3	8.2	7.5	7.0	5.3	2.1	2.0	3.9	0.6	1.0
Europe and Central Asia	-8.9	2.1	7.5	7.7	-2.1	6.0	-	1.6	2.2	3.8	-0.6	-
Latin America and Caribbean	11.3	10.3	15.6	7.6	4.3	6.2	-	2.3	1.6	2.5	1.1	-
Middle East and N. Africa	22.6	5.1	5.9	6.2	1.9	-	-	-	-	-	-	-
South Asia	-9.0	11.0	5.6	6.1	1.5	2.8	-	1.0	1.0	2.5	-1.1	-
Sub-Saharan Africa	8.0	2.2	0.7	3.5	0.0	6.4	-	0.9	2.7	-	-	-

## Financial Markets

28-Jul-11

	2008	2009	2010	2010		2011		2011					MRV <sup>1</sup>	Chg since Sep-12 '08 <sup>3</sup>
				Q3	Q4	Q1	Q2	Feb	Mar	Apr	May	June		
<b>Interest rates and LIBOR (%)</b>														
U.S. Fed Funds Effective	1.93	0.16	0.18	0.19	0.19	0.16	0.19	0.16	0.14	0.10	0.09	0.09	0.07	-2.03
ECB repo	3.78	0.70	0.48	0.50	0.69	0.78	1.14	0.79	0.89	1.07	1.14	1.23	1.22	-3.15
US\$ LIBOR 3-months	2.91	0.69	0.34	0.39	0.29	0.31	0.26	0.31	0.31	0.28	0.26	0.25	0.25	-2.56
EURIBOR 3-months	4.63	1.23	0.81	0.87	1.02	1.09	1.41	1.09	1.18	1.32	1.43	1.49	1.61	-3.35
US 10-yr Treasury yield	3.65	3.24	3.20	2.77	2.85	3.45	3.19	3.57	3.41	3.43	3.15	2.99	2.98	-0.75
German Bund, 10 yr	3.99	3.24	2.76	2.44	2.60	3.17	3.12	3.22	3.24	3.35	3.08	2.92	2.62	-1.56
<b>Spreads (basis points)</b>														
US Corporate (High Yield Bonds)	915	1011	538	577	521	427	436	404	418	396	426	485	483	-250
JP Morgan Emerging Markets	406	472	301	315	285	289	305	286	297	296	305	314	297	-61
Asia	355	374	206	200	172	181	196	180	189	192	196	199	173	-123
Europe	370	449	247	268	232	230	239	227	231	223	240	254	255	-58
Latin America & Caribbean	426	510	360	374	347	352	379	348	364	371	379	388	361	-27
Middle East	585	574	342	380	339	309	331	313	321	309	334	350	338	-160
Africa	452	431	274	324	294	362	304	371	362	298	297	317	320	-15
<b>Stock Indices (end of period)<sup>2</sup></b>														
Global (MSCI)	228	299	331	305	331	344	342	345	344	357	348	342	339	6.0
High-Income (\$ Index)	920	1168	1280	1179	1280	1335	1331	1352	1335	1389	1355	1331	1319	2.8
United States (S&P-500)	903	1115	1258	1141	1258	1326	1321	1327	1326	1364	1345	1321	1305	4.2
Euro Area (S&P-350\$)	1039	1358	1353	1302	1353	1436	1451	1453	1436	1544	1480	1451	1402	-4.7
Japan (Nikkei-225)	8860	10546	10229	9369	10229	9755	9816	10624	9755	9850	9694	9816	9901	-18.9
Developing Markets (MSCI)	458	783	912	851	912	925	905	876	925	951	922	905	907	30.1
Asia	457	778	906	848	906	917	909	856	917	950	933	909	921	45.1
Europe & C. Asia	434	616	635	629	635	702	708	671	702	768	731	708	672	-10.5
Latin America & Caribbean	2078	4117	4614	4382	4614	4632	4464	4486	4632	4634	4486	4464	4263	20.6
Africa	567	815	1049	937	1049	1008	983	975	1008	1050	1004	983	985	28.3
<b>Exchange Rates (LCU / USD)</b>														
High Income														
Euro Area	0.68	0.72	0.76	0.77	0.74	0.73	0.69	0.73	0.71	0.69	0.70	0.69	0.70	-0.9
Japan	103.37	93.53	87.80	85.84	82.51	82.31	81.68	82.52	81.81	83.26	81.28	80.49	77.67	-27.7
Developing														
Brazil	1.83	2.00	1.76	1.75	1.70	1.67	1.59	1.67	1.66	1.58	1.61	1.59	1.57	-12.2
China	6.95	6.83	6.77	6.77	6.66	6.58	6.50	6.59	6.57	6.53	6.50	6.47	6.44	-5.9
Egypt	5.44	5.55	5.64	5.70	5.76	5.87	5.95	5.88	5.93	5.96	5.95	5.95	5.96	9.5
India	43.52	48.42	45.73	46.48	44.85	45.28	44.72	45.44	44.97	44.39	44.93	44.84	44.08	-3.6
Russia	24.88	31.76	30.38	30.60	30.71	29.27	27.99	29.25	28.41	28.05	27.94	27.98	27.60	7.9
South Africa	8.26	8.43	7.32	7.32	6.90	7.00	6.79	7.18	6.90	6.72	6.86	6.79	6.70	-16.9
Memo: USA nominal effective rate	84.39	86.30	83.47	83.68	80.56	79.55	77.47	79.65	78.43	77.72	77.44	77.23	77.23	-10.1

<sup>1</sup> MRV = Most Recent Value.

<sup>2</sup> MSCI Indices for Asia, Africa, and Europe and C. Asia, for 2008 are calculated from February-December, due to data availability.

<sup>3</sup> Change expressed in levels for interest rates and spreads; percent change for stock market and exchange rates.

## Commodity Prices

	2008	2009	2010	2010		2011		2011					MRV	Chg since Sep-12 '08 <sup>3</sup>
				Q3	Q4	Q1	Q2	Feb	Mar	Apr	May	June		
Oil price, \$/b, nominal <sup>1</sup>	97	62	79	76	85	100	110	98	109	117	108	106	109	11.6
Non - Oil Index <sup>2</sup>	199	151	196	191	229	259	250	266	256	258	246	245	248	24.7
Food Index <sup>2</sup>	218	175	199	196	239	264	259	269	260	260	256	259	259	22.2
Metals and Minerals Index <sup>2</sup>	188	127	189	181	210	234	227	241	231	236	224	222	234	26.2
Baltic Dry Index <sup>3</sup>	6348	2598	2755	2358	2330	1364	1373	1180	1493	1331	1354	1433	1296	-73.0

<sup>1</sup> Simple average of Brent, Dubai and WTI.

<sup>2</sup> Base Date = Jan 1, 2005

<sup>3</sup> Base Date = May 1, 1985