

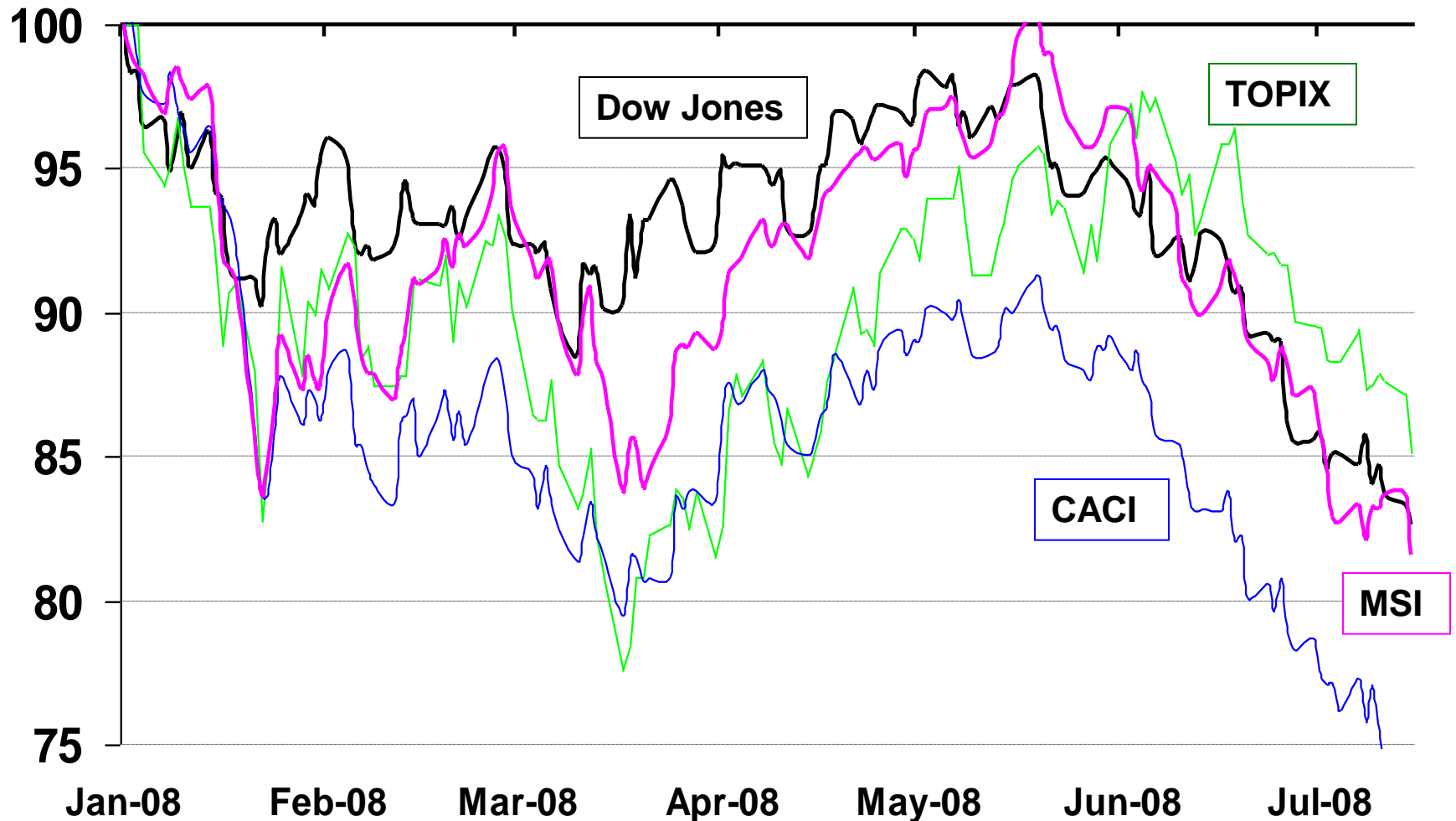
The External Environment for Developing Countries

July 2008

The World Bank
Development Economics
Prospects Group

“Bear market” spurred by financial and inflation uncertainties

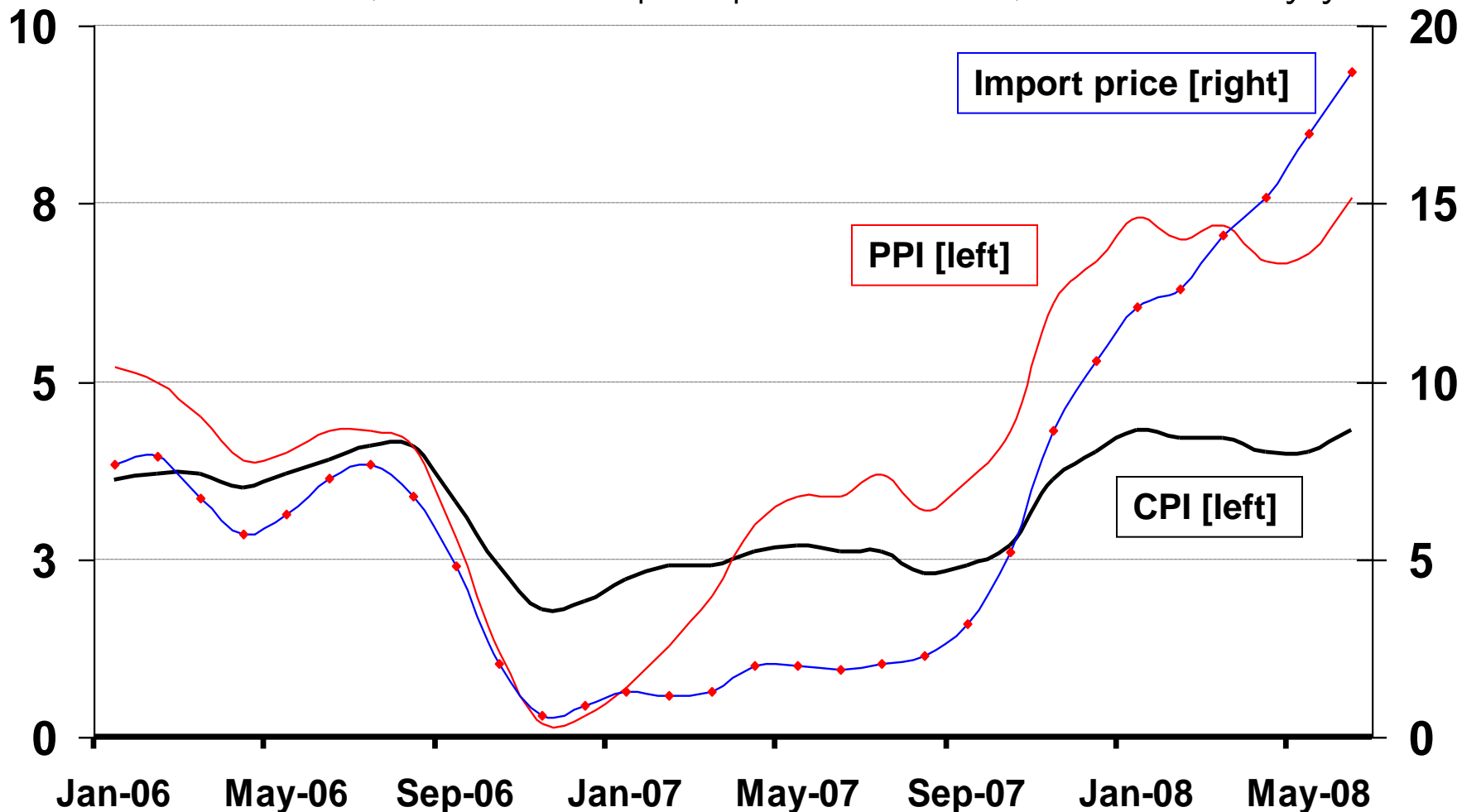
indexes, Jan1 2008=100



Source: Thomson/Datastream.

U.S. inflation pipeline suggests further price hikes for consumer

Headline CPI, PPI- and Import price indexes, ch% 3mma y/y

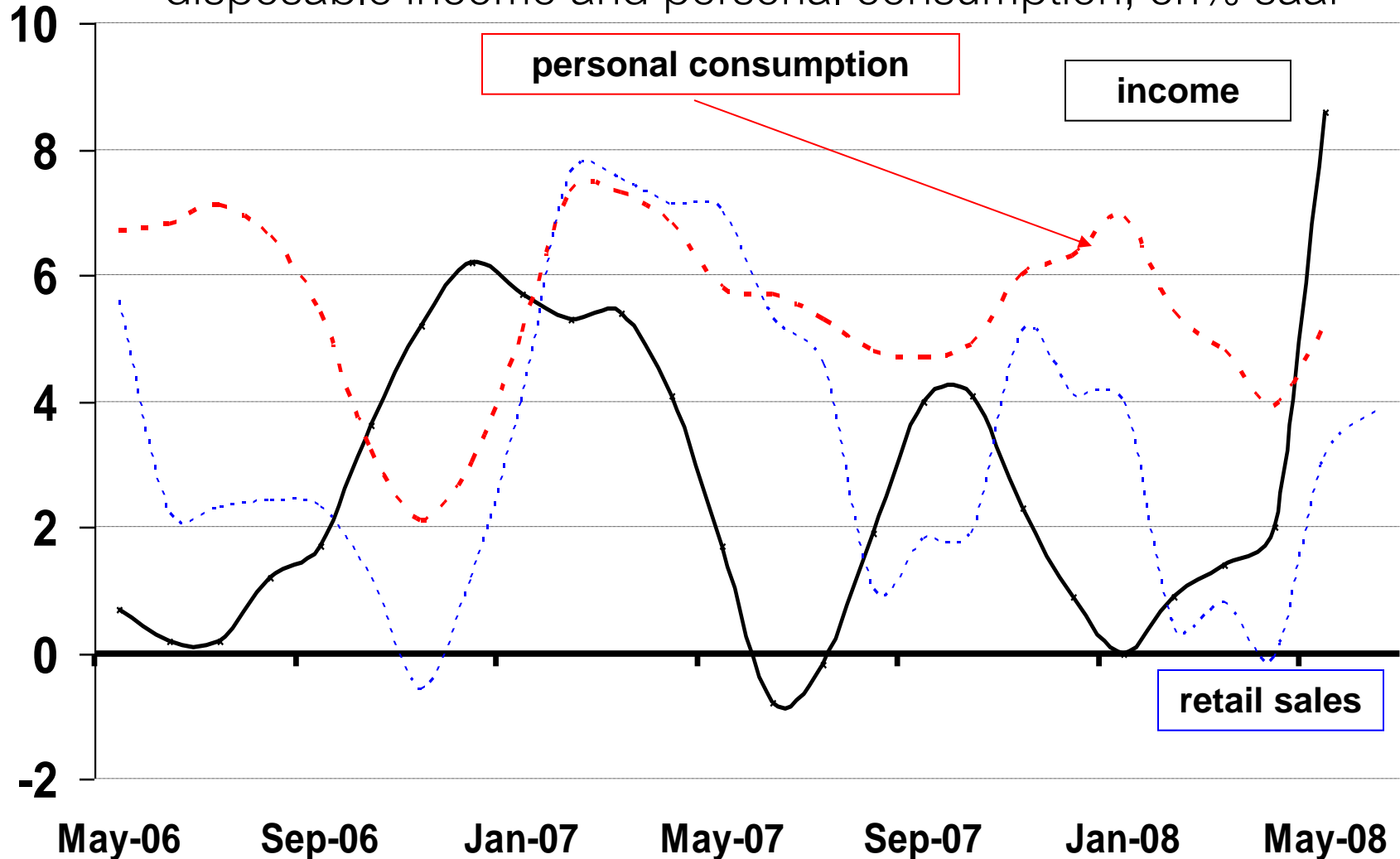


Source: U.S. Department of Commerce.

Industrial countries

Stimulus checks boost disposable incomes in May – but outlays rise less

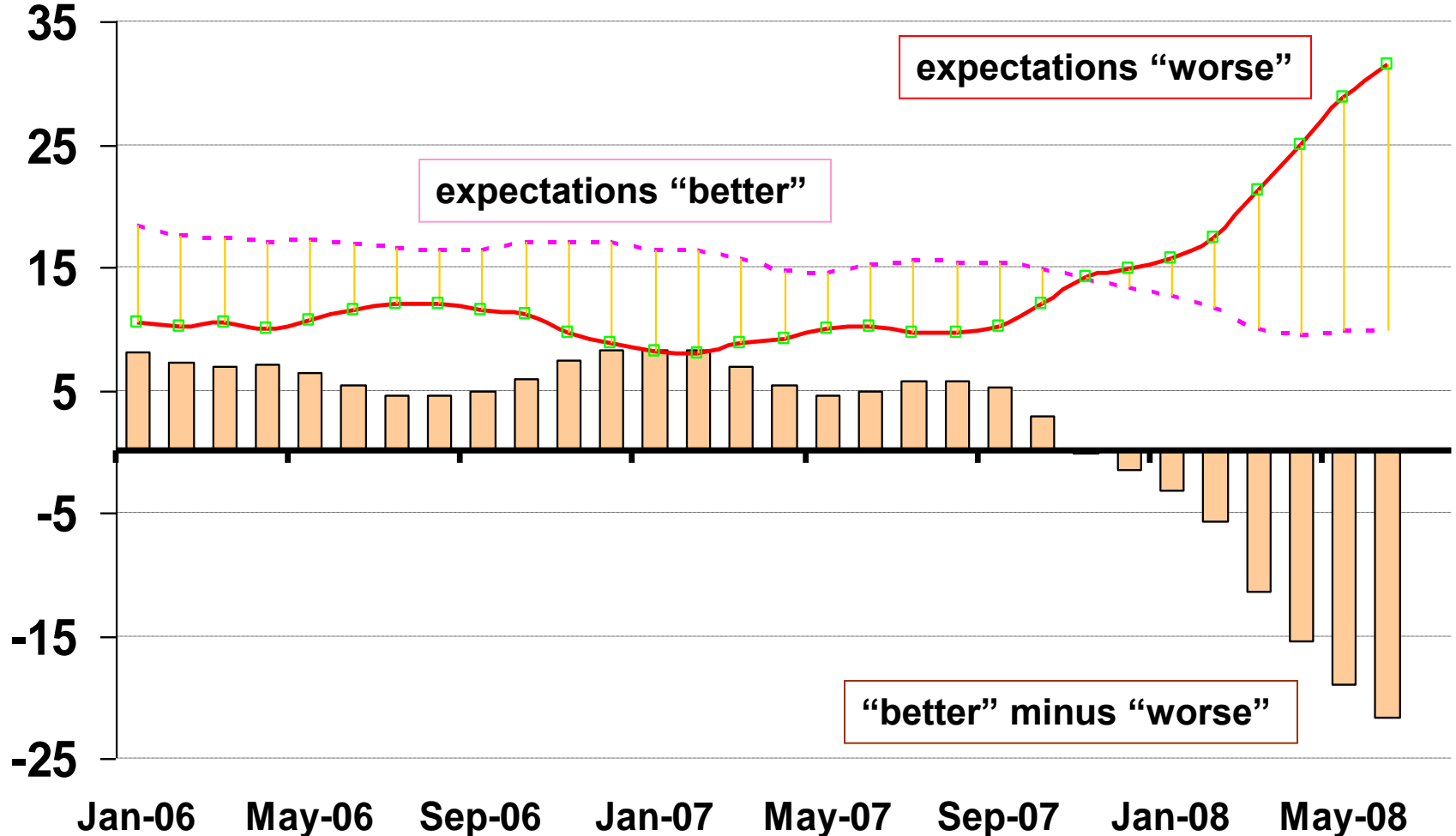
disposable income and personal consumption, ch% saar



Source: U.S. Department of Commerce.

Consumer expectations at record lows... a threat to second-half growth

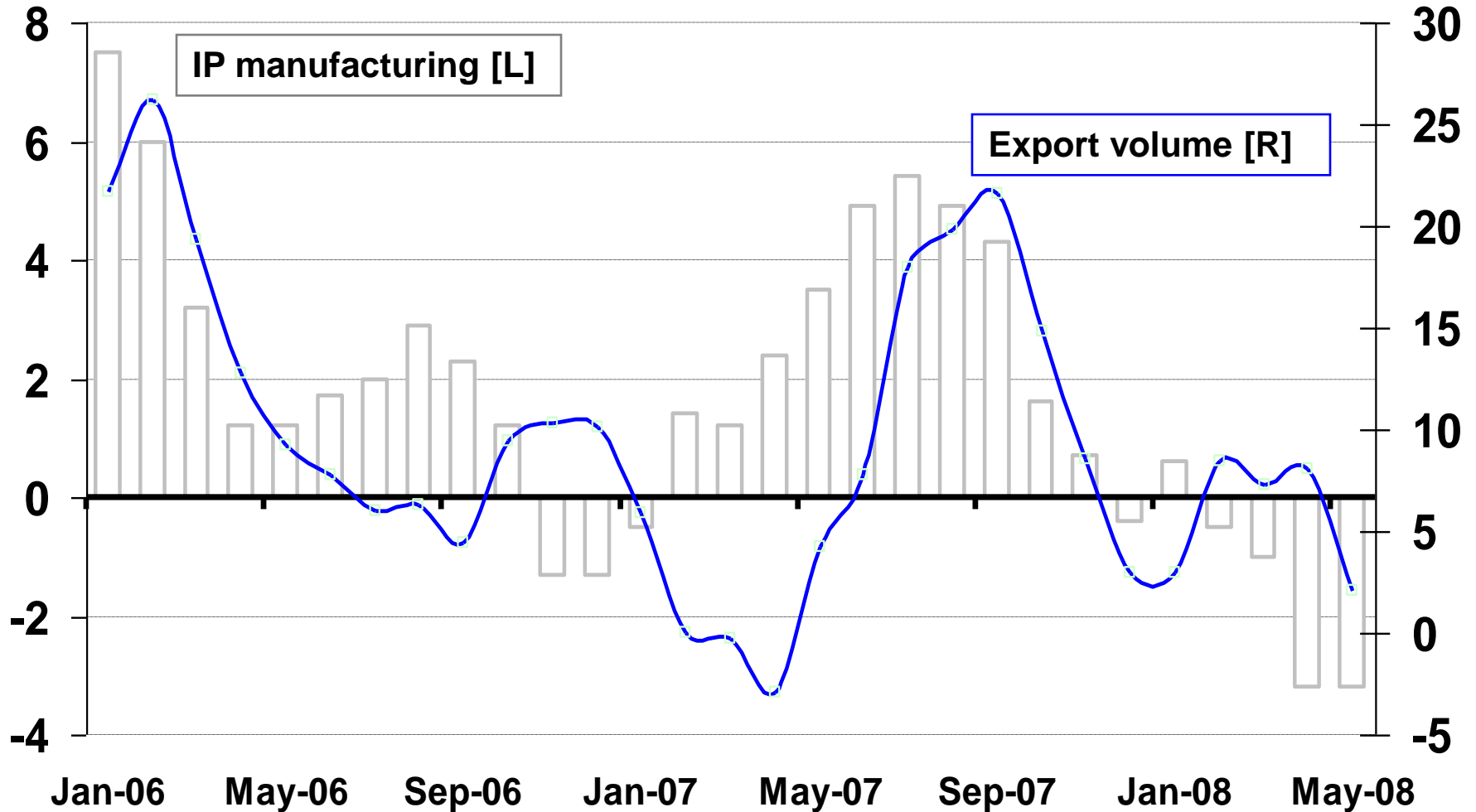
expectations for economy: percentage of survey responses, 3mma



Source: Conference Board.

Manufacturing losses had been spared worse outturns by overseas demand

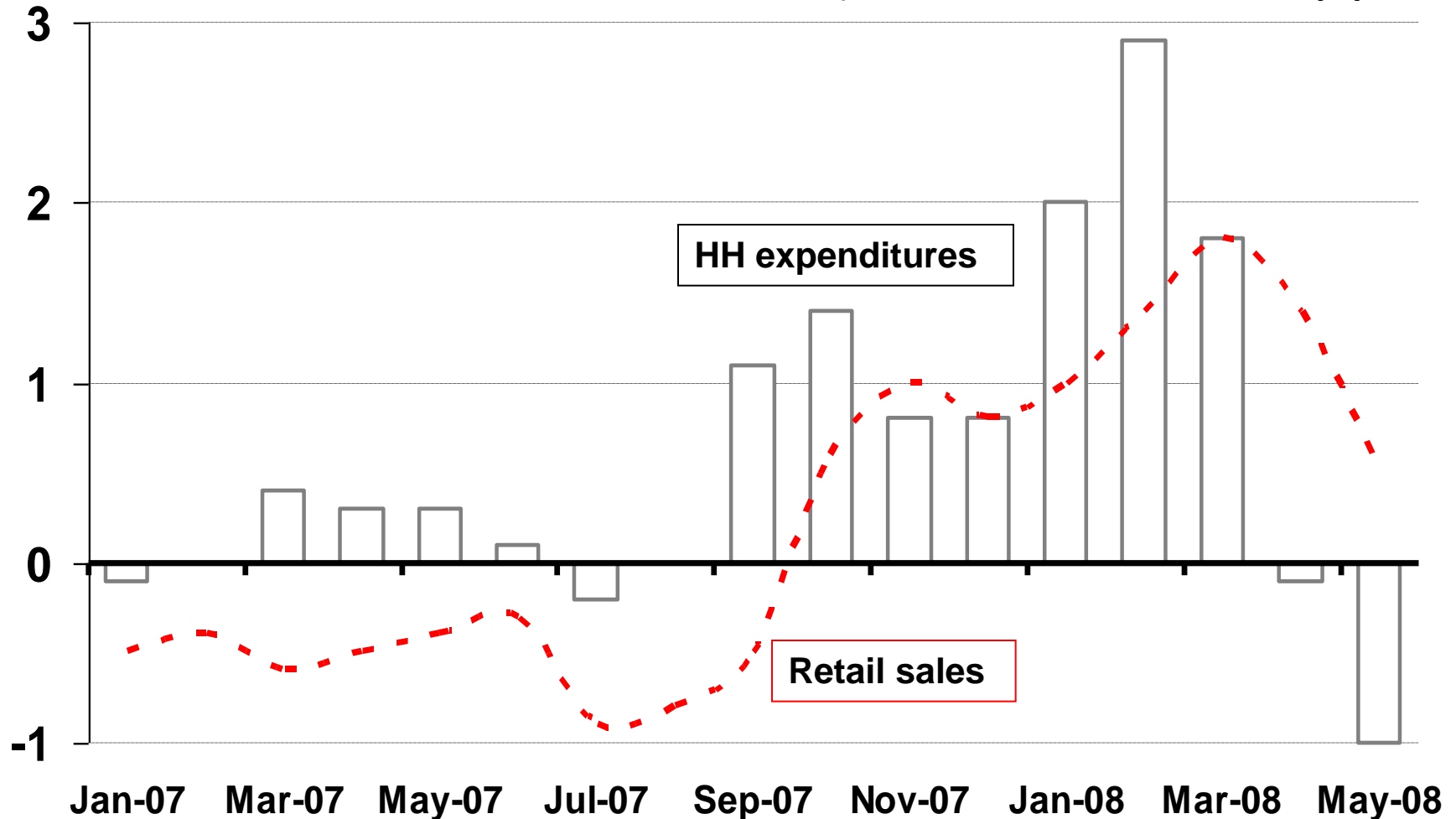
goods export volume and IP, ch% saar



Source: Department of Commerce, Thomson/Datastream.

Japan's households retrench after strong spending in first quarter

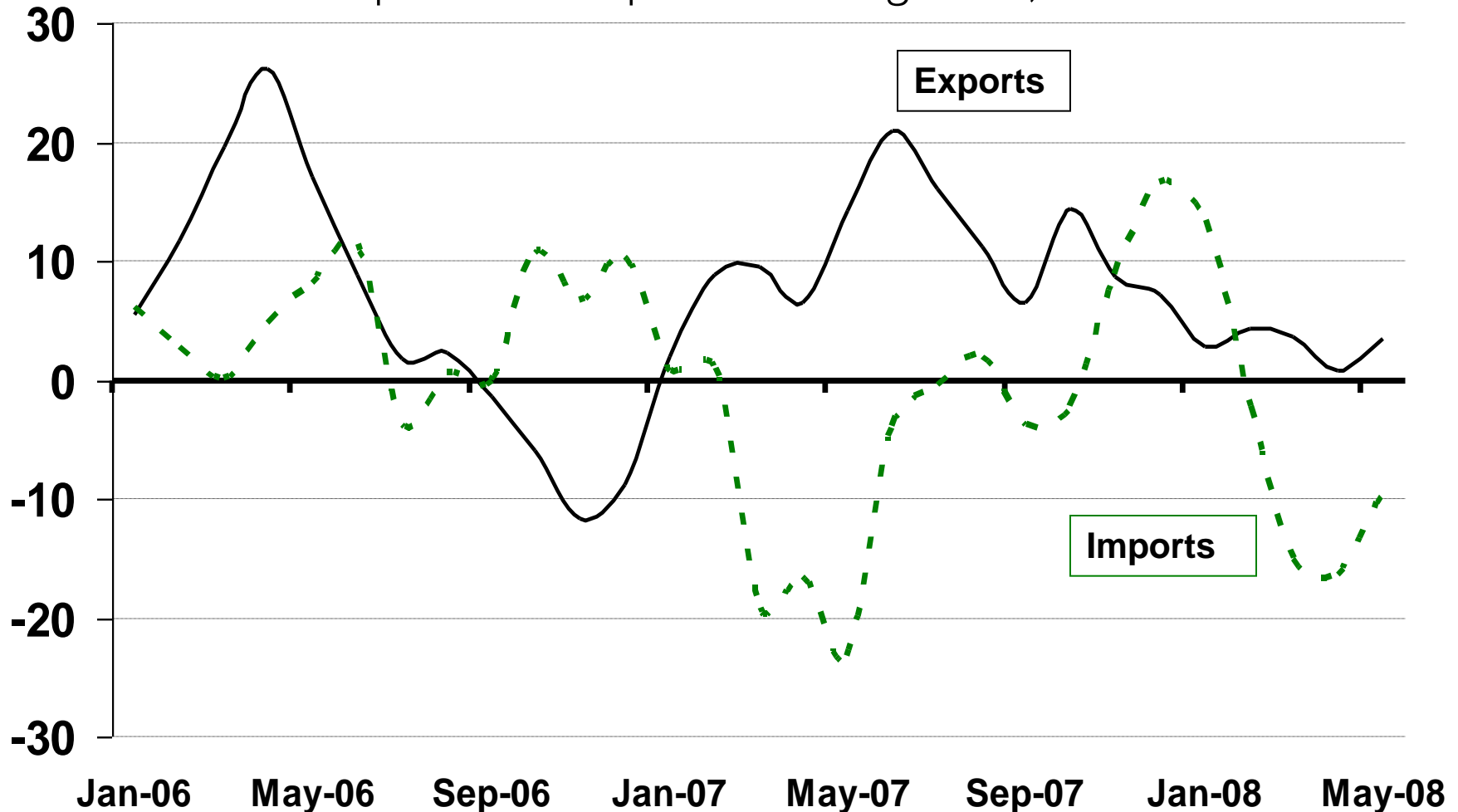
retail sales volume and household expenditure, ch% 3mma y/y



Source: Cabinet Office-- Thomson/Datastream.

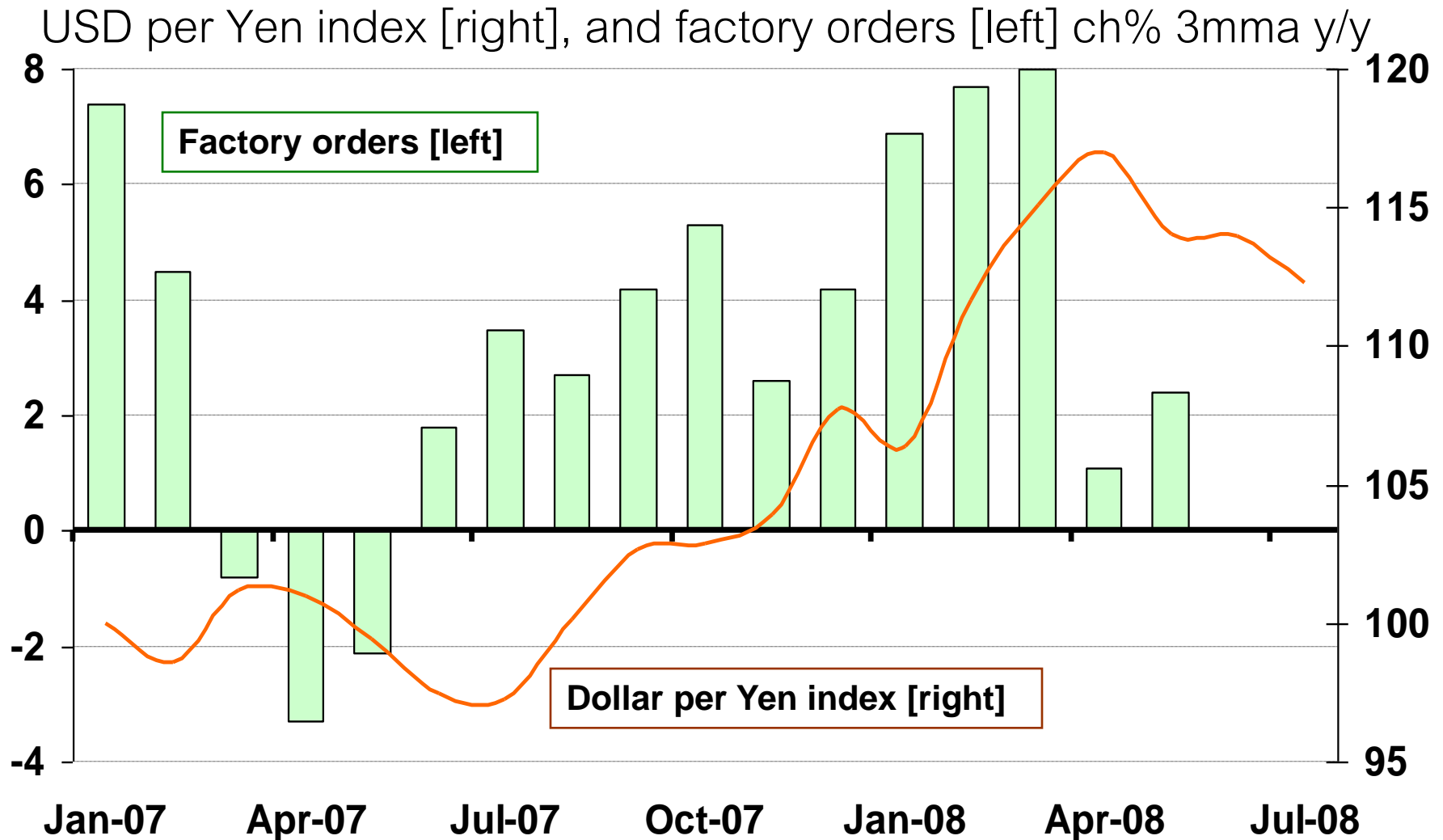
Japan's export growth waning as import demand plummets

Export- and import volume growth, ch% saar



Source: Japan Cabinet Office.

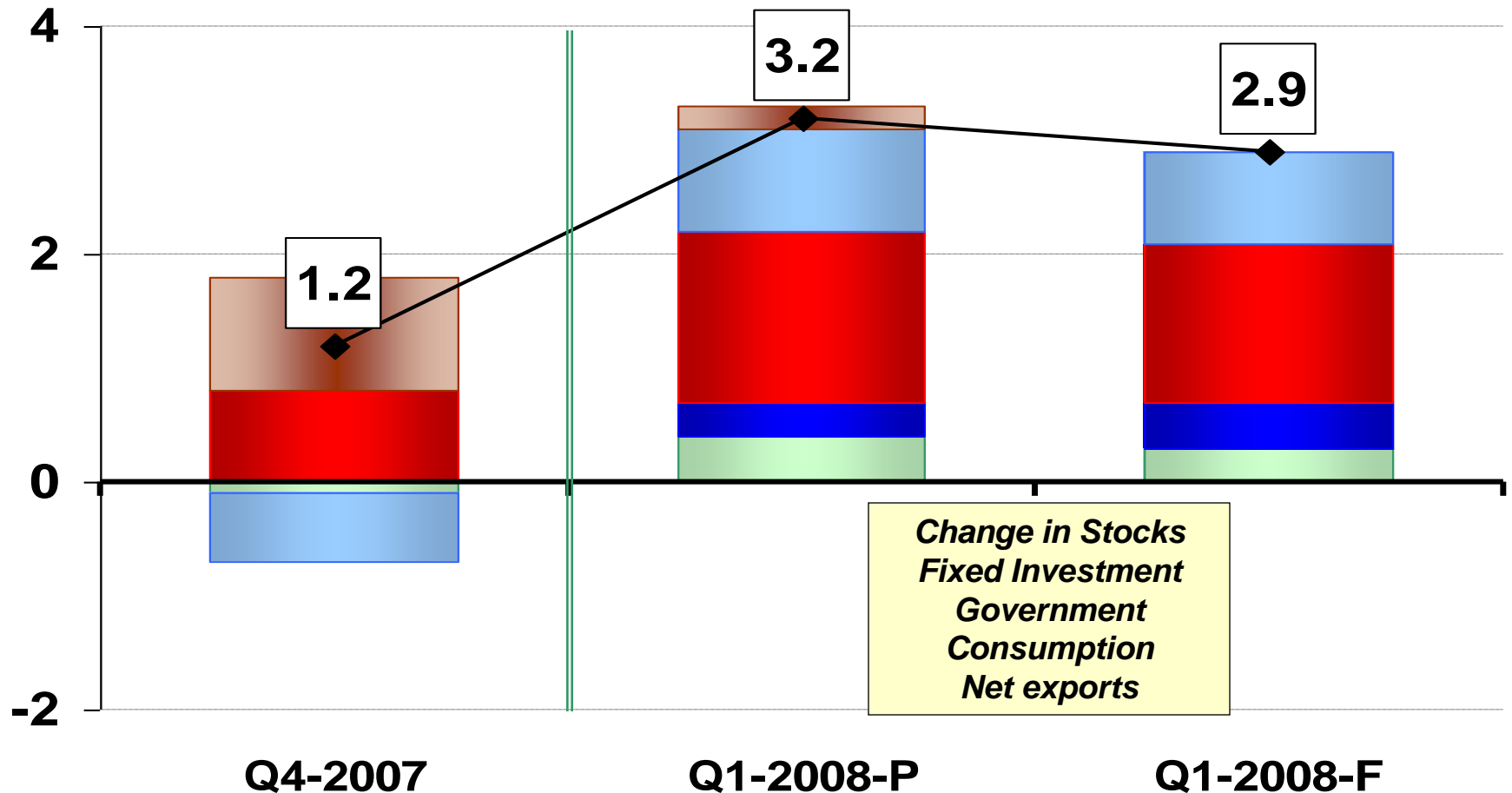
Fall of the yen and new orders growth sustain export hopes



Source: Japan Cabinet Office; Thomson/Datastream.

Euro Area first-quarter GDP marked down on investment and net-X

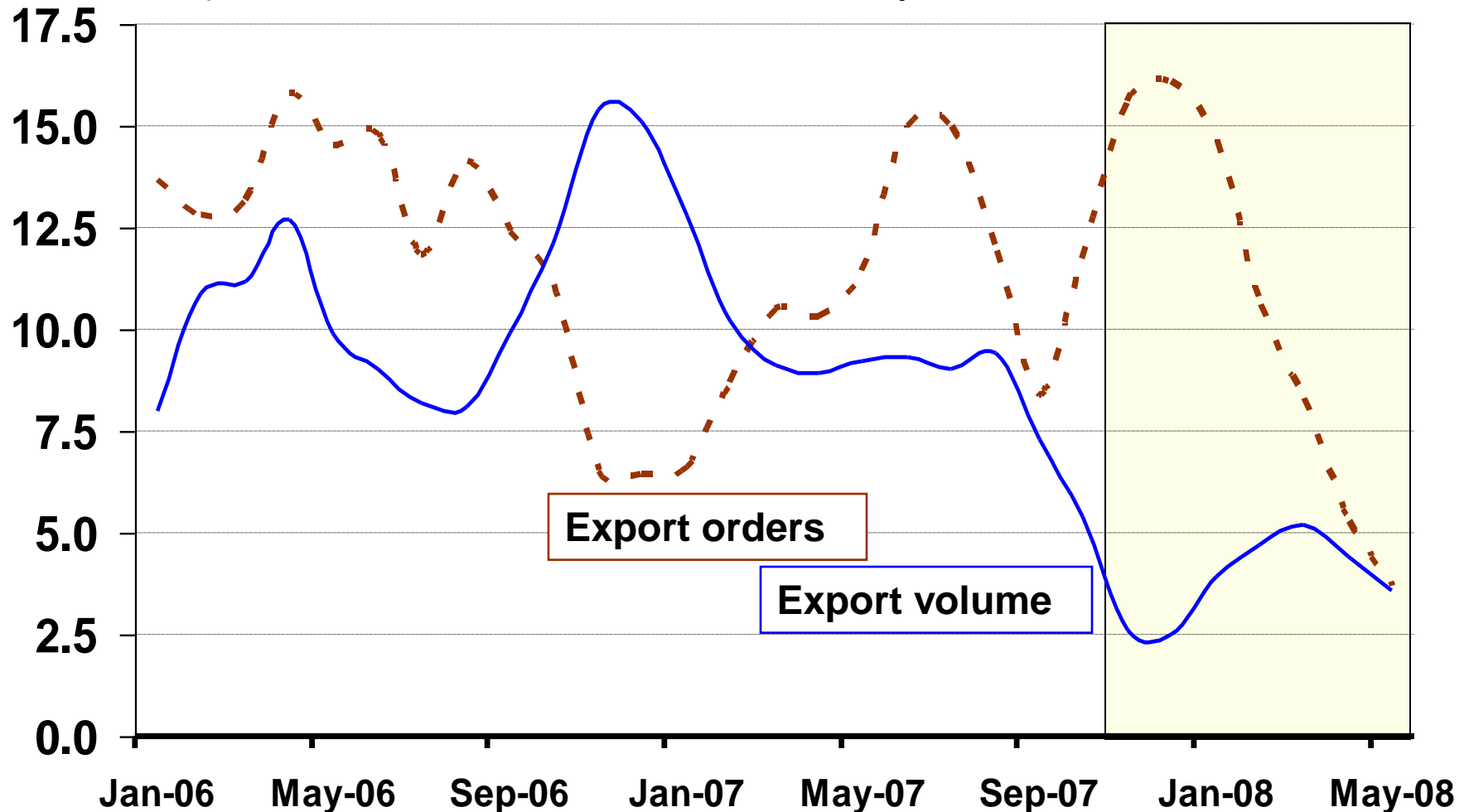
growth of real GDP, and contributions to growth in percentage points



Source: Eurostat and DECPG calculations.

German exports drop sharply in May in step with export orders growth

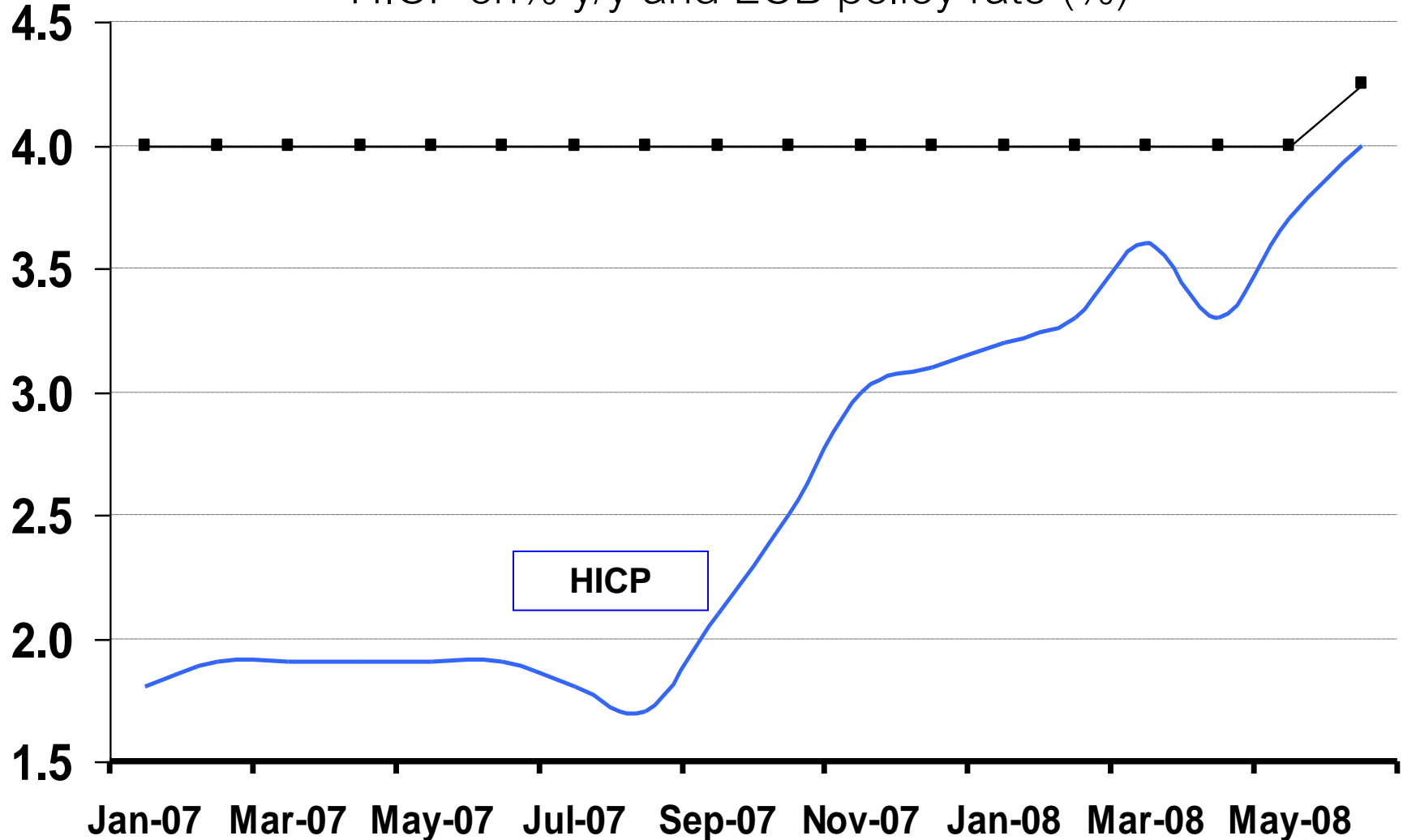
export volumes and overseas factory orders, ch% 3mma



Source: Bundesbank-- Thomson/Datastream.

HICP breaches 16-year highs illiciting ECB 25-bp rate hike

HICP ch% y/y and ECB policy rate (%)

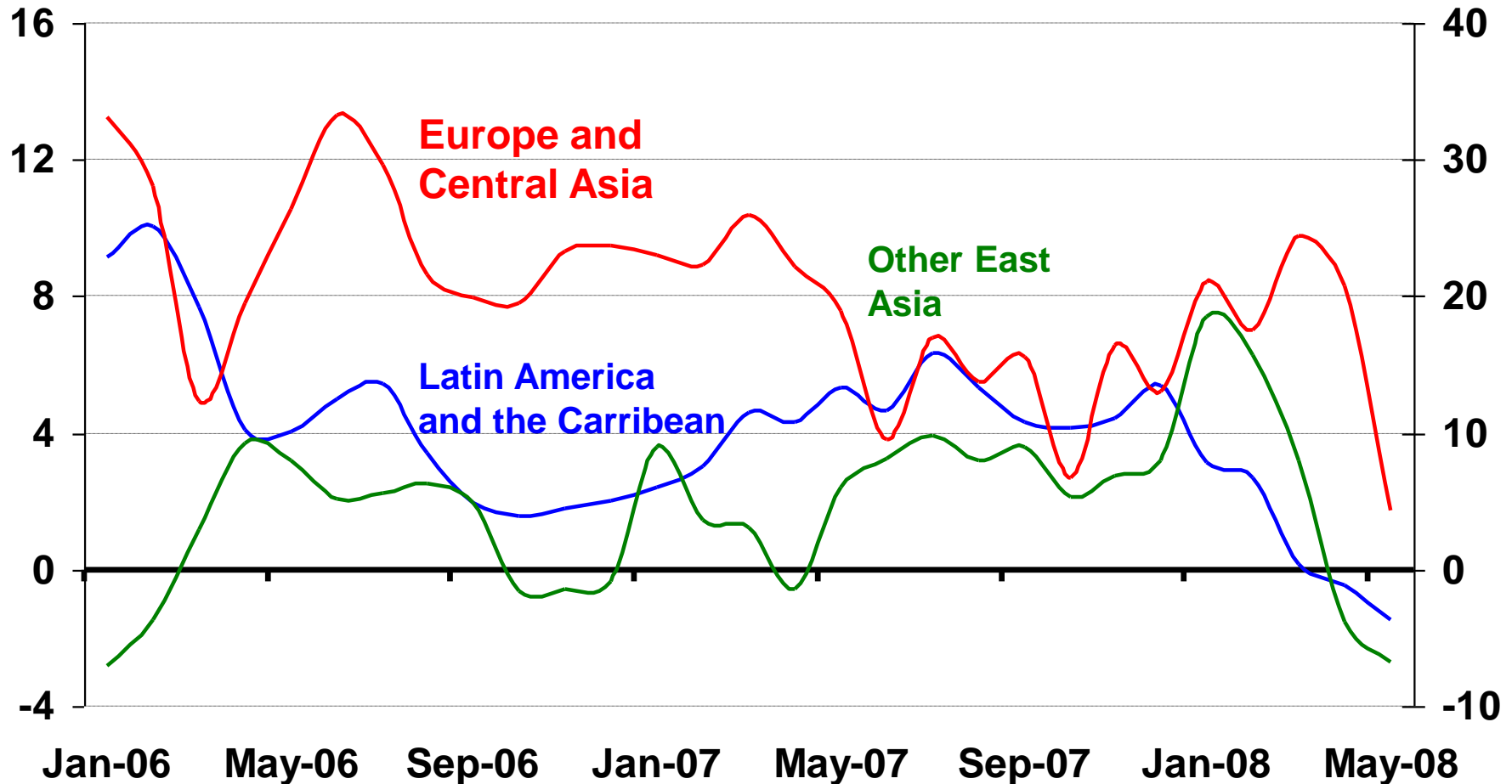


Source: Eurostat through Thomson/Datastream.

Industrial production

Industrial production growth across developing regions is slowing

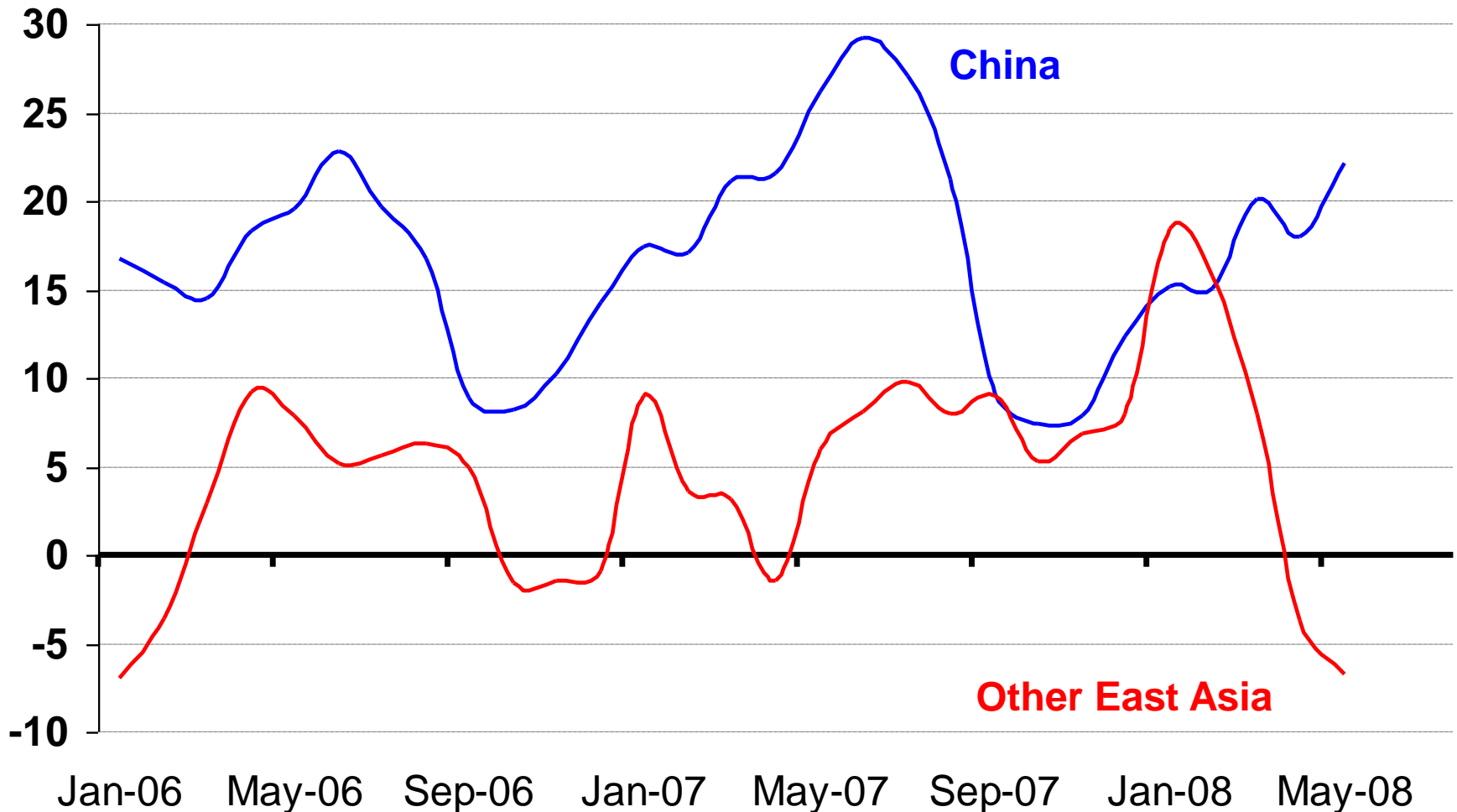
IP ch% saar: ECA, LAC [left]; Other East Asia [right]



Source: Thomson/Datastream, DECPG.

China remains strong; output in the remainder of East Asia is lapsing

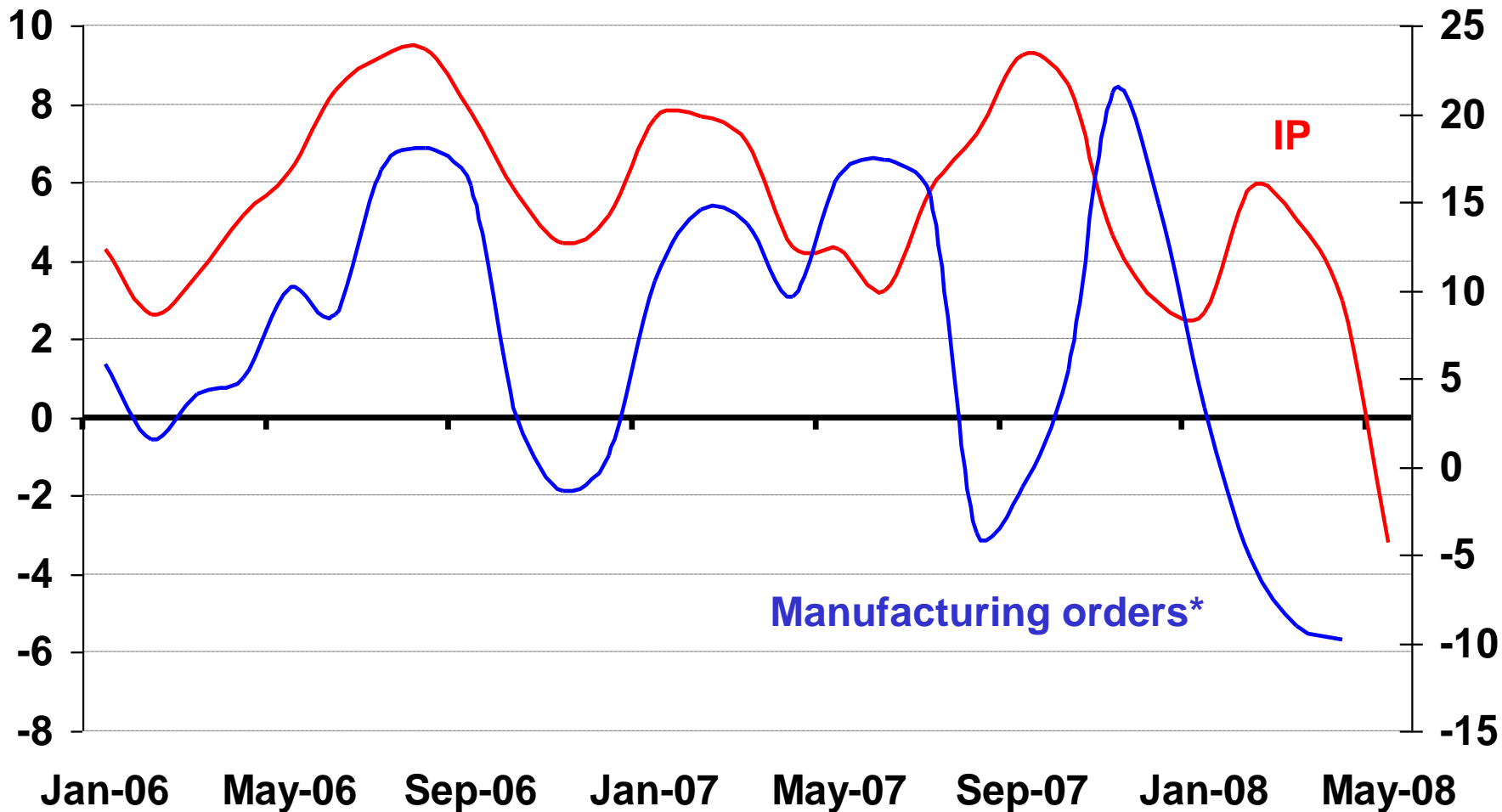
IP ch% saar



Source: Thomson/Datastream, DECPG.

Weaker manufacturing orders take a toll on German production

IP ch% saar: production [left], orders [right]



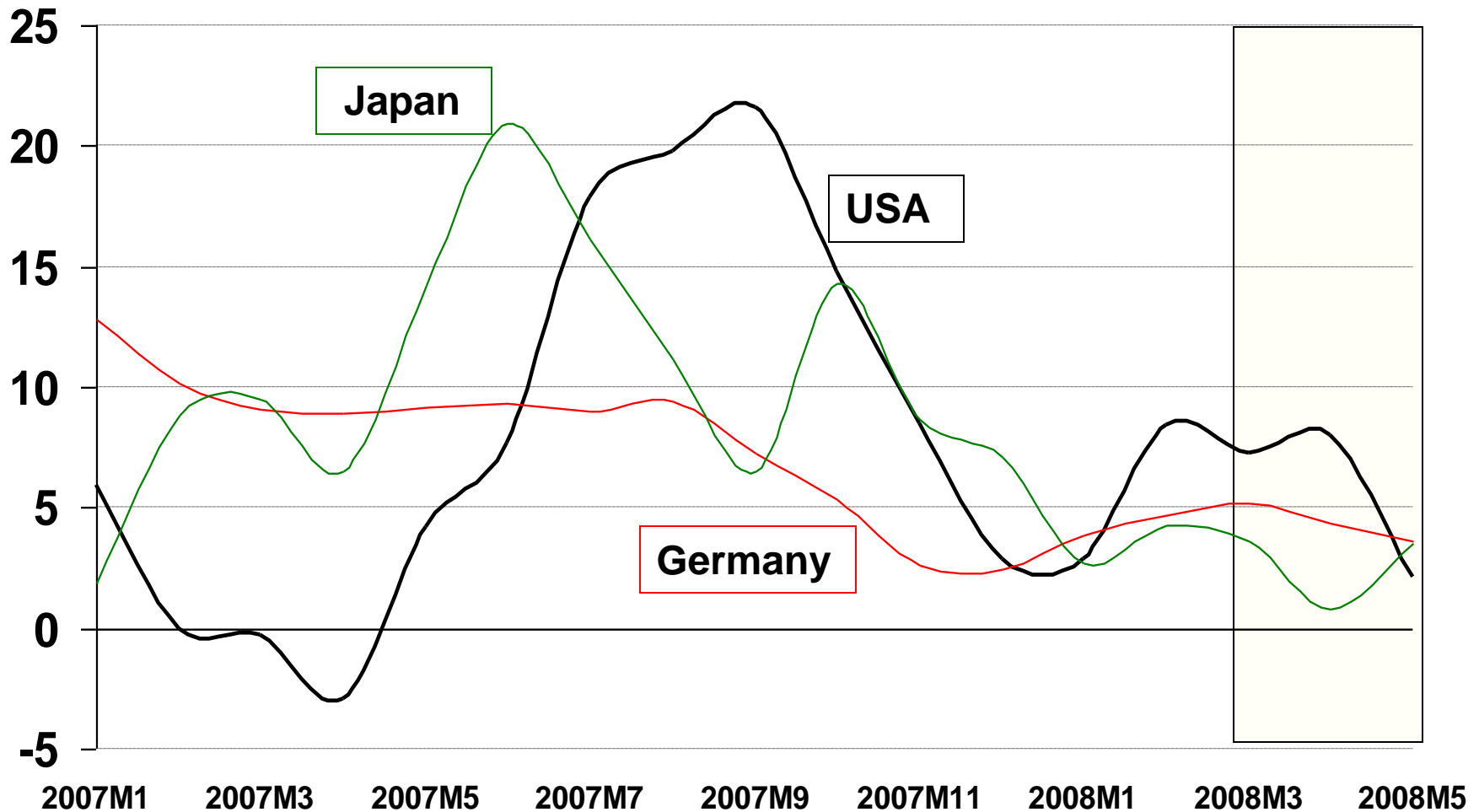
Source: Thomson/Datastream, DECPG.

* One month lag

International trade

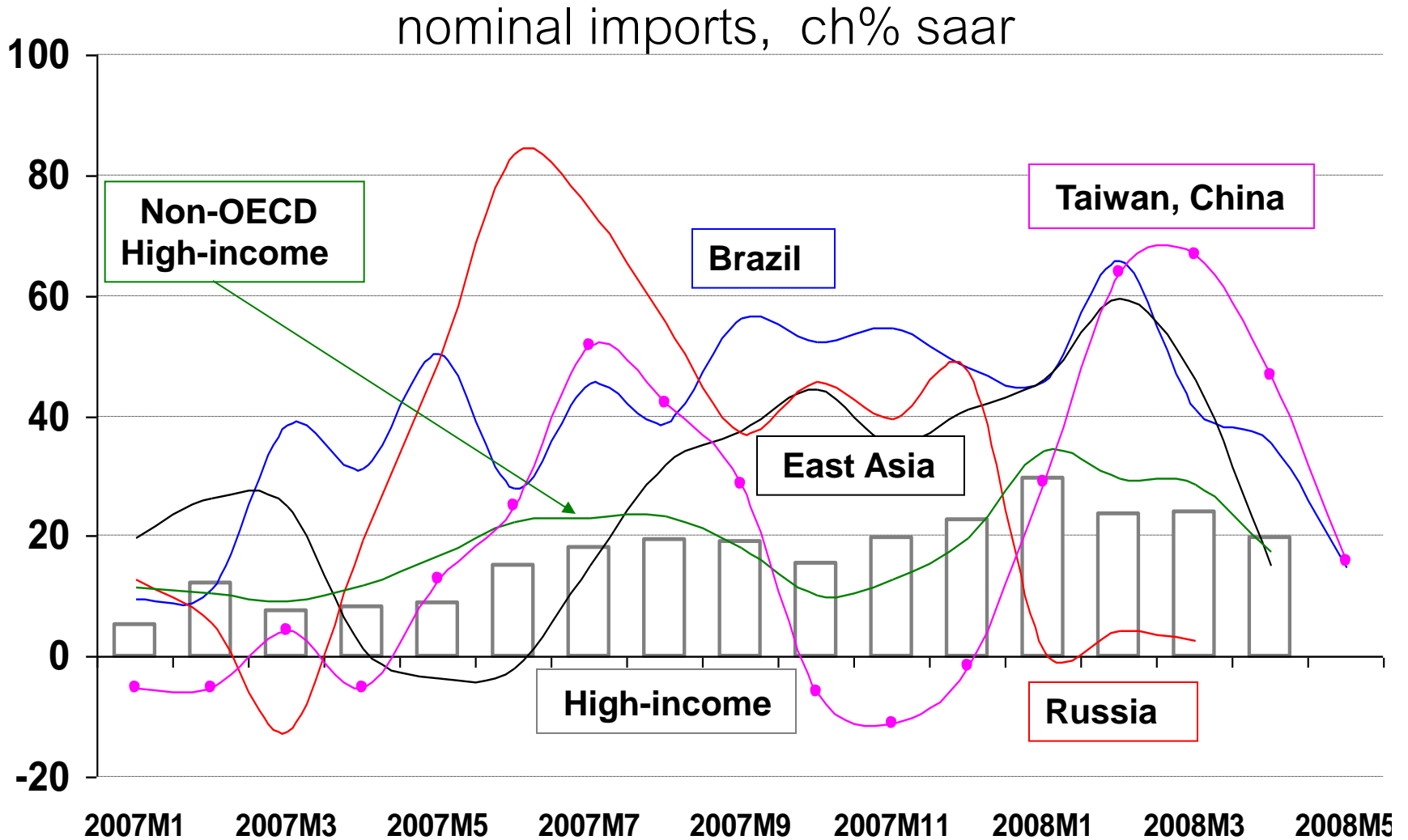
G-3 exports slow into second quarter of 2008

export volumes, ch% saar



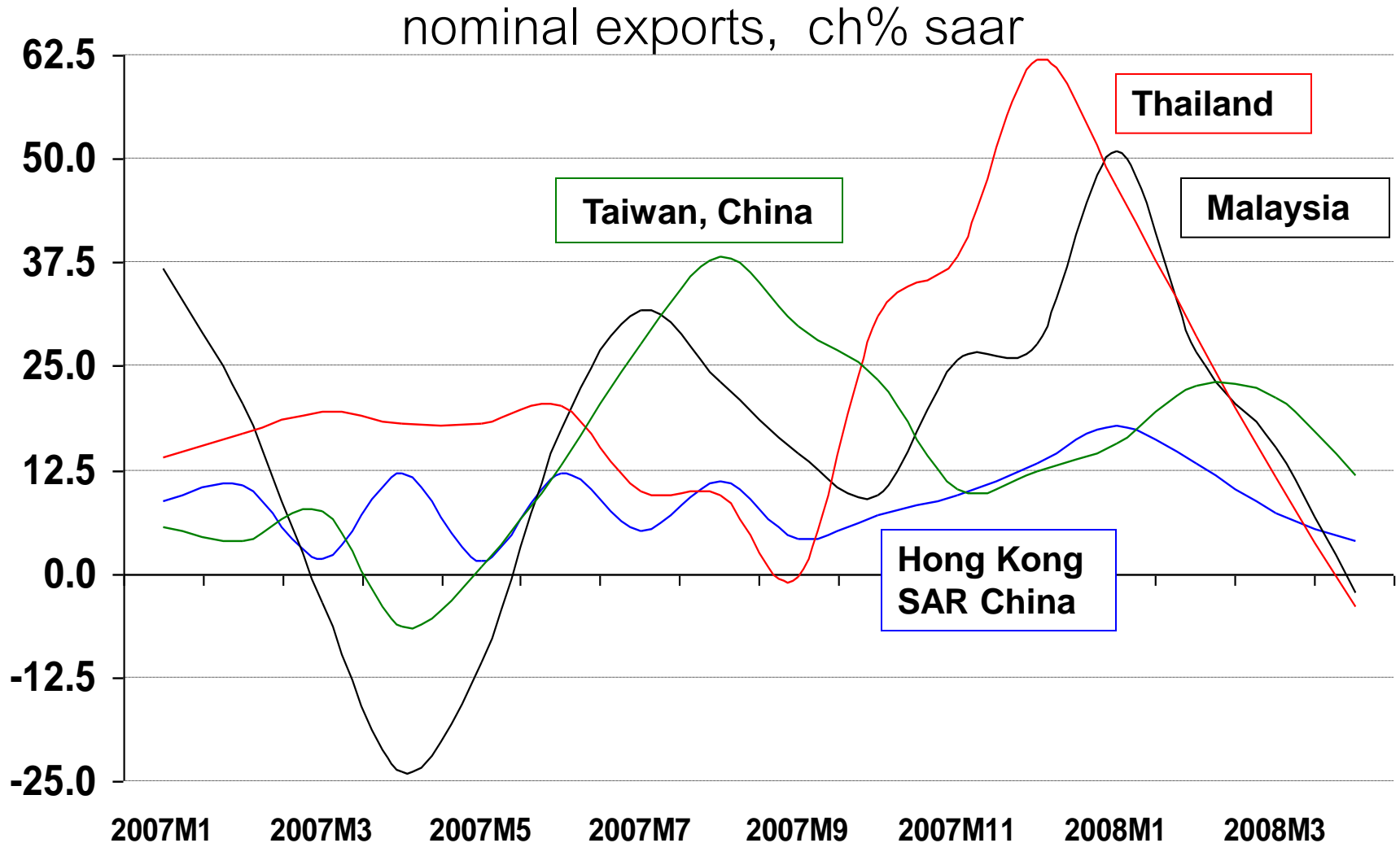
Source: Thomson/Datastream, DECPG calculations.

Export market demand falling more quickly than anticipated



Source: Thomson/Datastream, DECPG calculations.

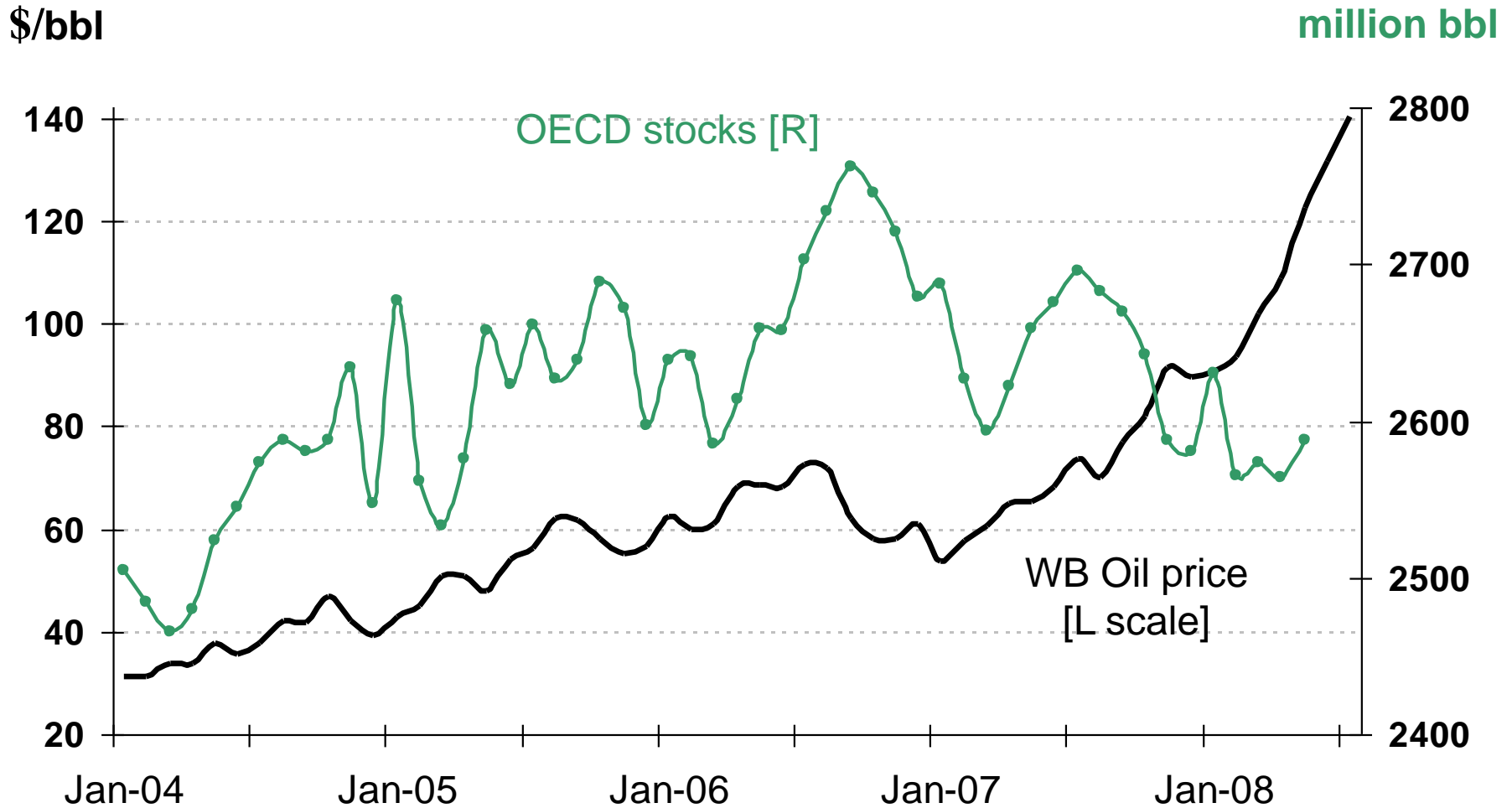
High-tech exporters see slowdown in outbound shipments



Source: Thomson/Datastream, DECPG calculations.

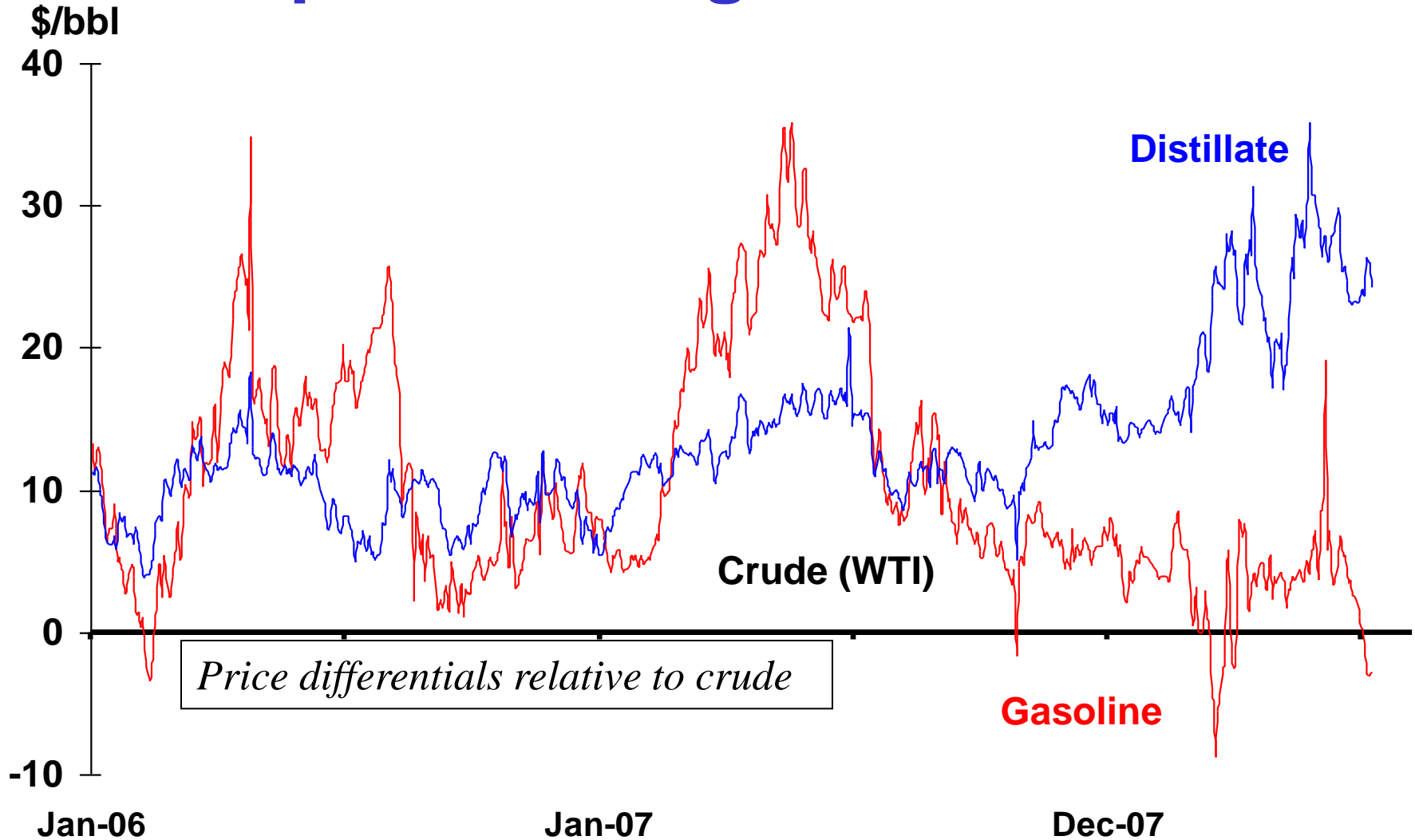
Oil prices

Oil prices climb on low stocks and sluggish supply growth



Source: IEA and DECPG Commodities Group.

Tight distillate market bidding up prices for light crudes



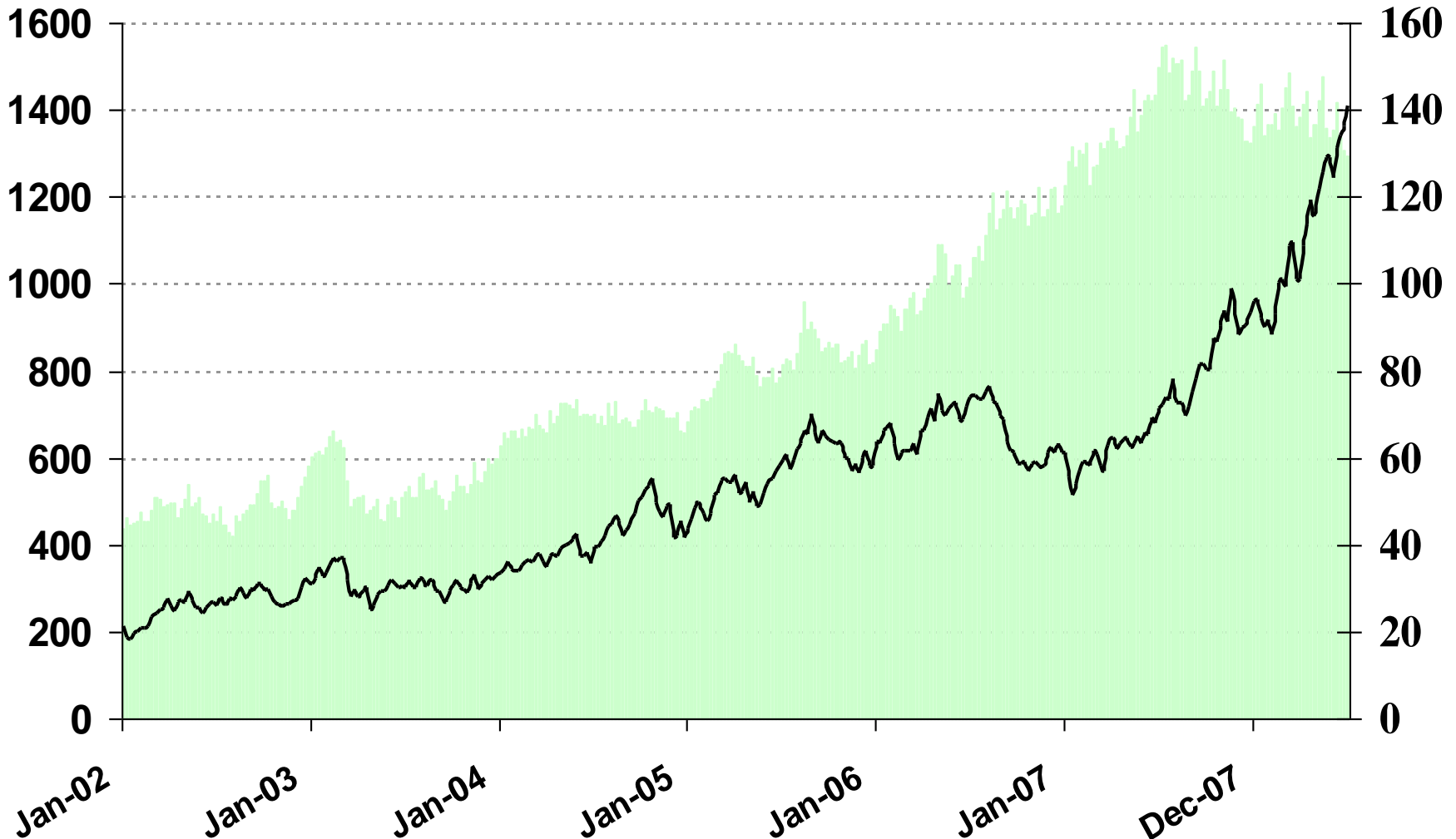
Source: Datastream and DECPCG Commodities Group.

Open Interest Crude Oil NYMEX

(‘000 lots)

Open interest

\$/bbl

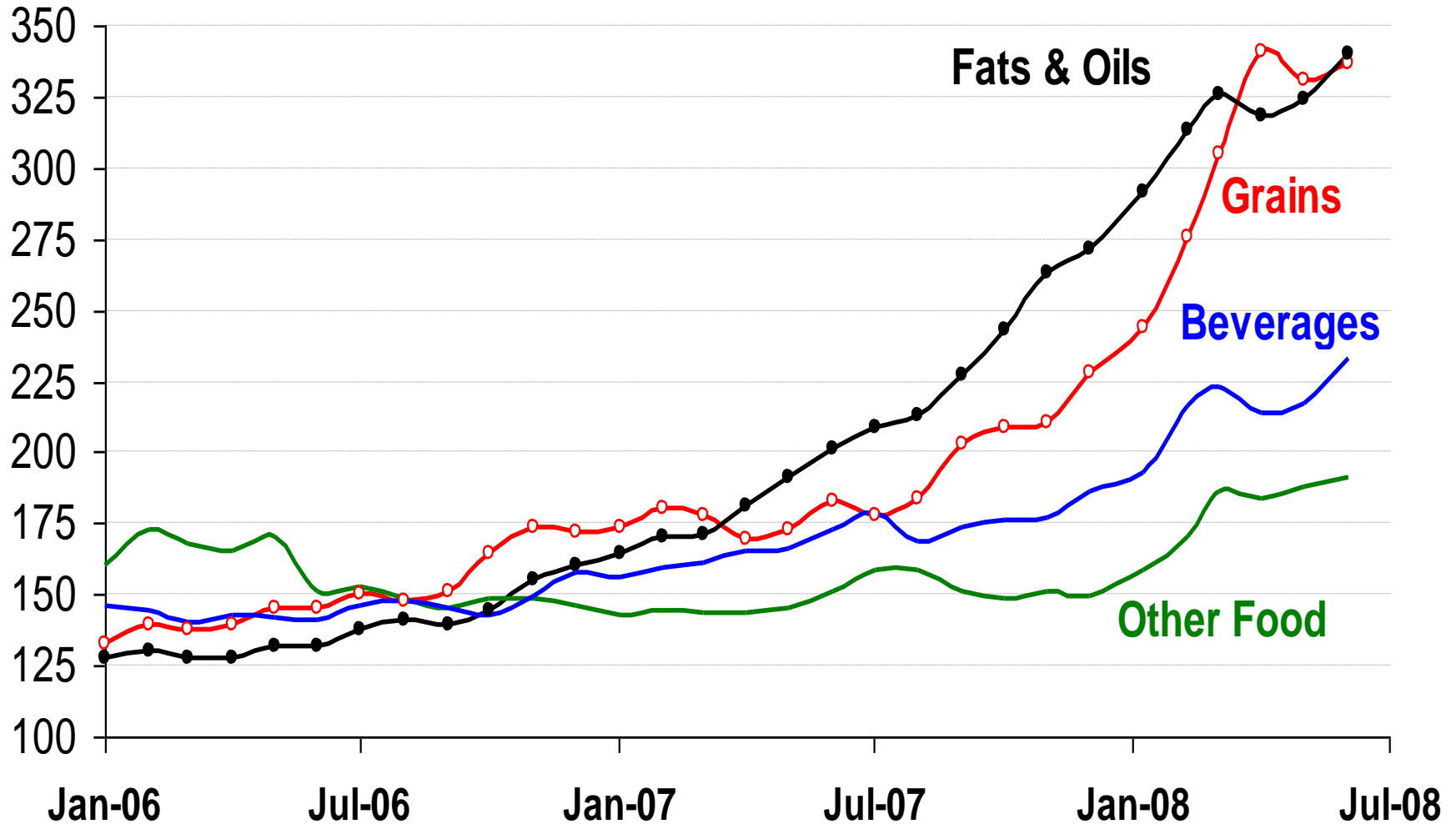


Source: NYMEX and DECPG Commodities Group.

Non-oil commodity prices

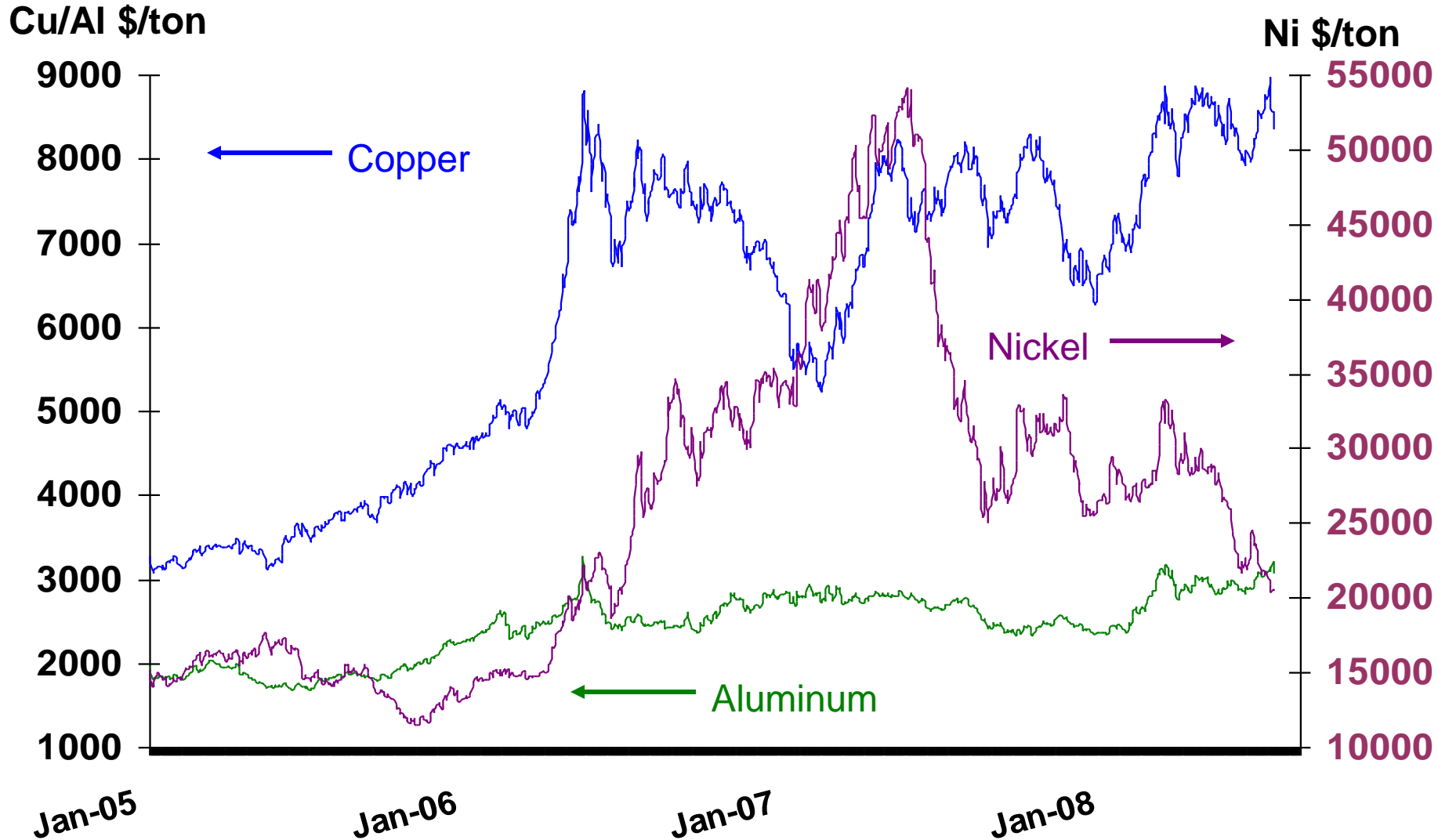
Continued gains in food prices

(2000=100)



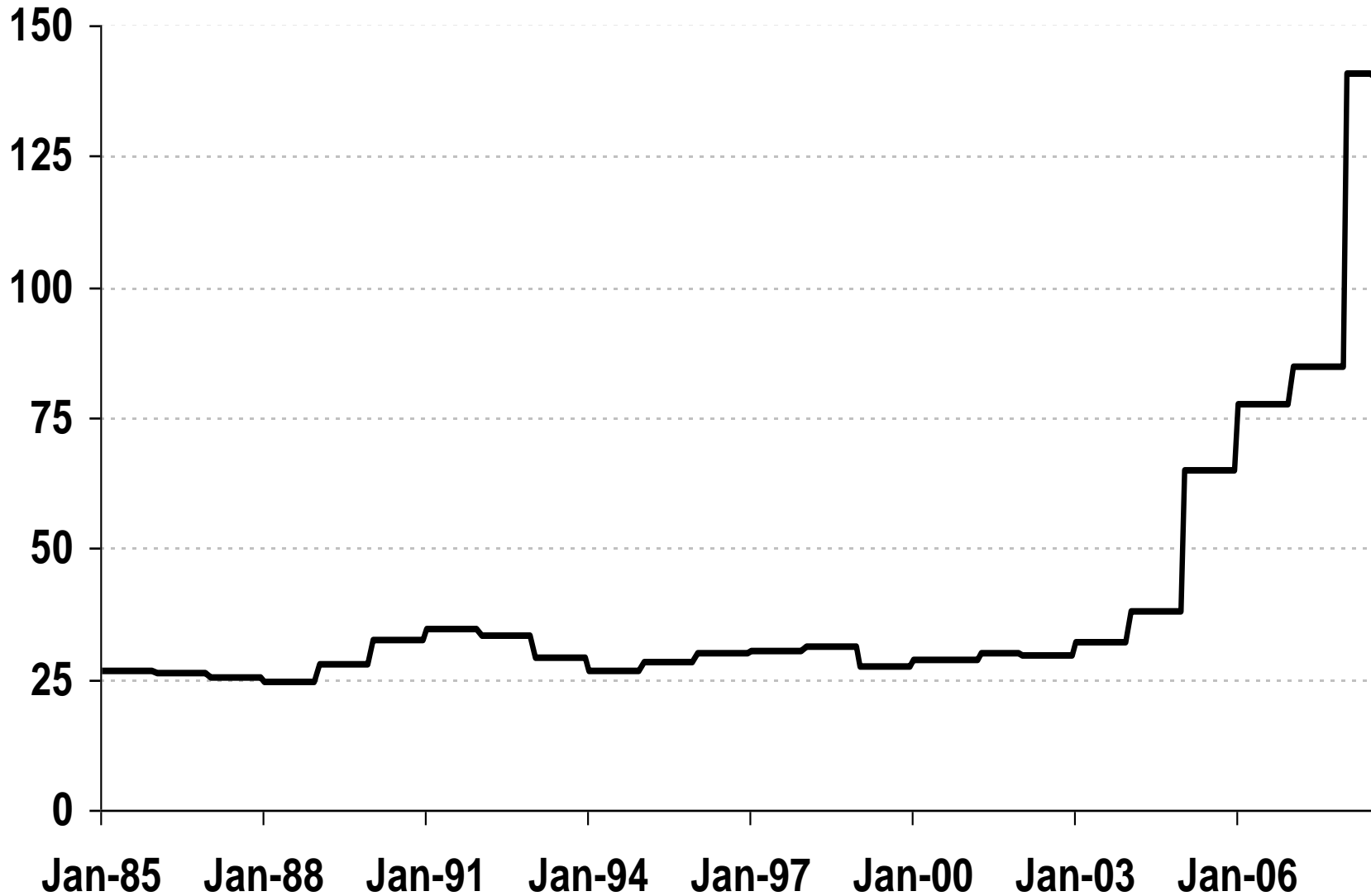
Source: DECPG Commodities Group.

Copper and aluminum remain firm while other metals prices drop



Source: LME and DECPG Commodities Group.

Iron Ore Prices (\$/mt)



Source: LME and DECPG Commodities Group.

International Finance

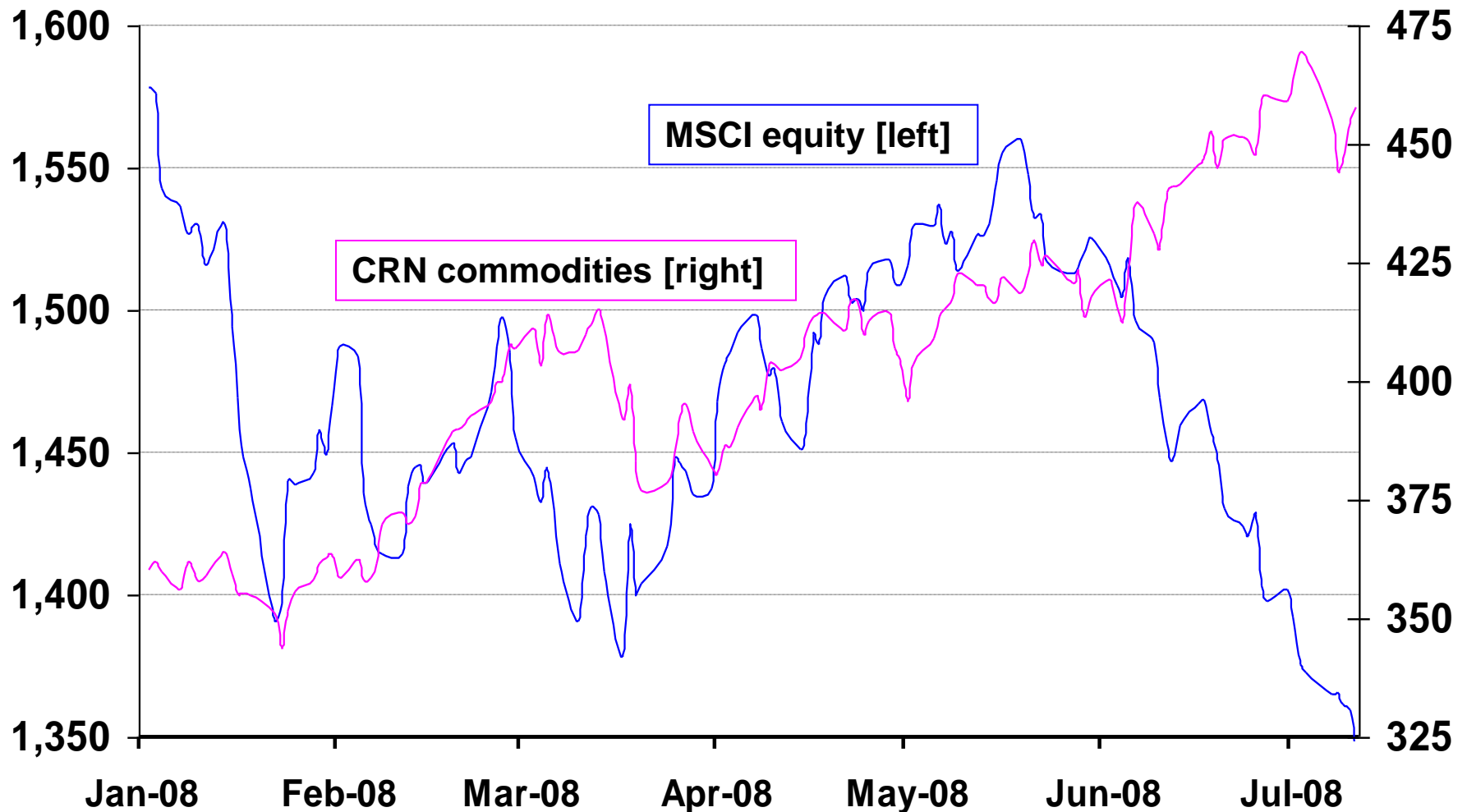
Bank lending leads flows in June

Gross capital flows to emerging markets								
<i>\$ billion</i>	2006	2007			2008			
	Total	H1	H2	Total	H1	Apr	May	Jun
Total	494	357	326	683	267	48	45	58
Bonds	137	107	39	146	58	13	12	19
Banks	246	164	180	343	165	22	24	36
Equity	111	86	107	194	44	13	8	3
Lat. America	116	69	88	157	54	14	12	9
Bonds	41	31	14	45	17	5	6	1
E. Europe	179	156	96	252	104	15	16	35
Bonds	64	50	14	64	33	7	5	15
Asia	153	110	113	213	90	16	13	11
Bonds	19	18	6	23	7	0	1	3
Others	45	32	28	60	20	3	4	2

Source: DECPG Finance Team.

Equity market downturn appears mirrored in commodity market gains

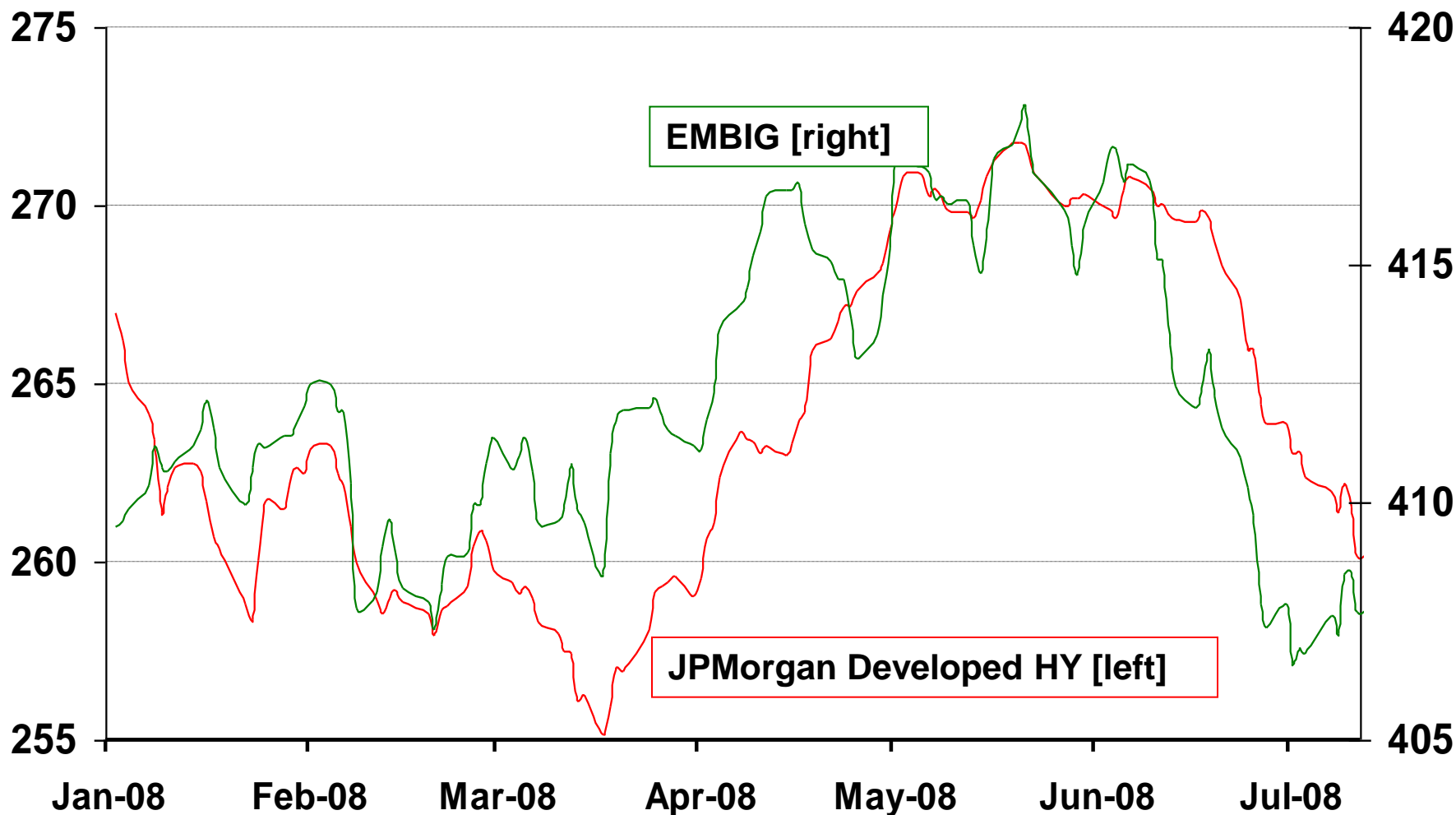
MSCI global equities (USD) [left]; Reuters/Jeffries CRN [right]



Source: Bloomberg.

Returns on high-yield assets suffer amid flight to quality

Developed market- high-yield bond index [left]; EMBIG [right]

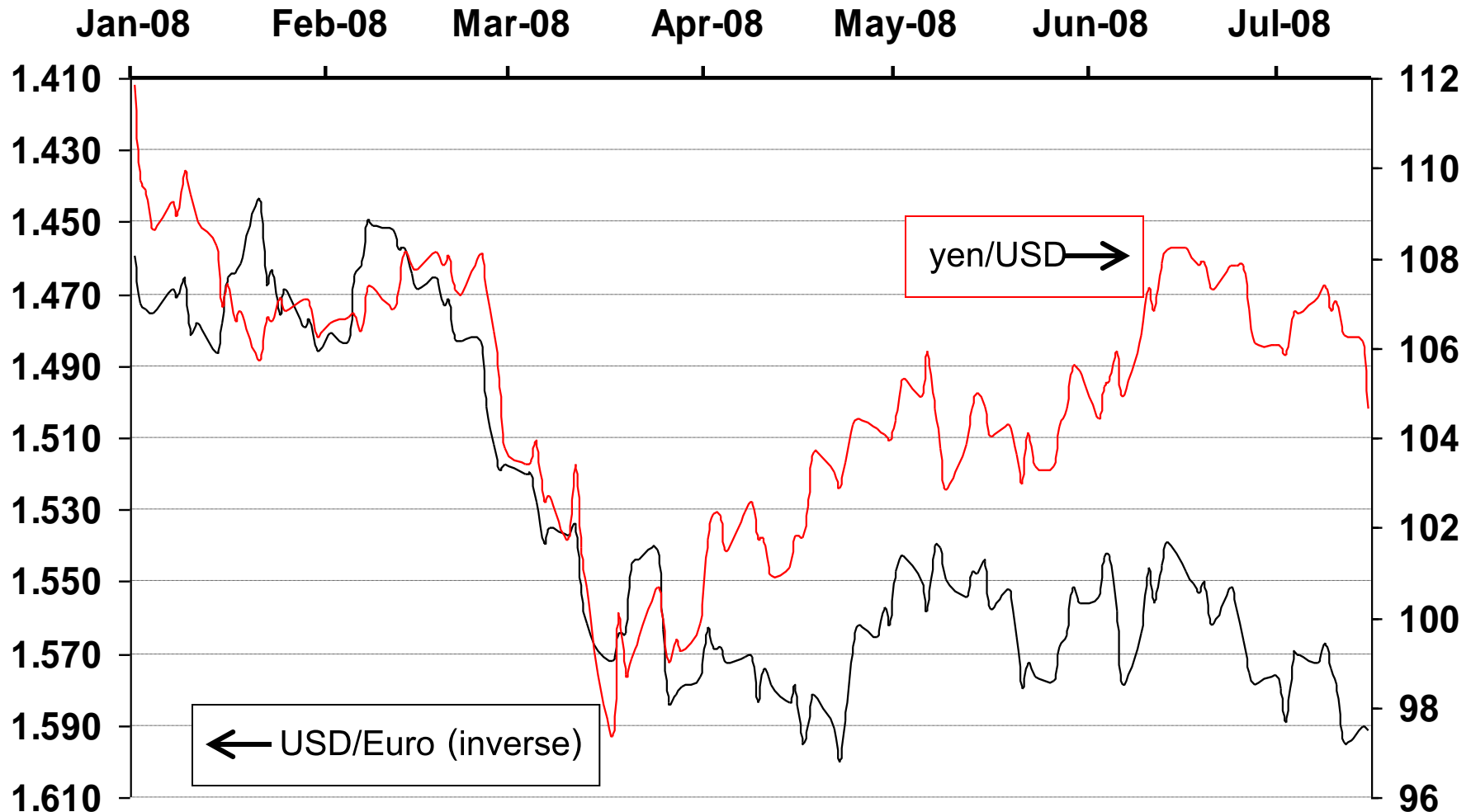


Source: JPMorgan-Chase and Morgan-Stanley.

Currencies

Dollar continues move-up on yen... step-down on euro at ECB rate hike

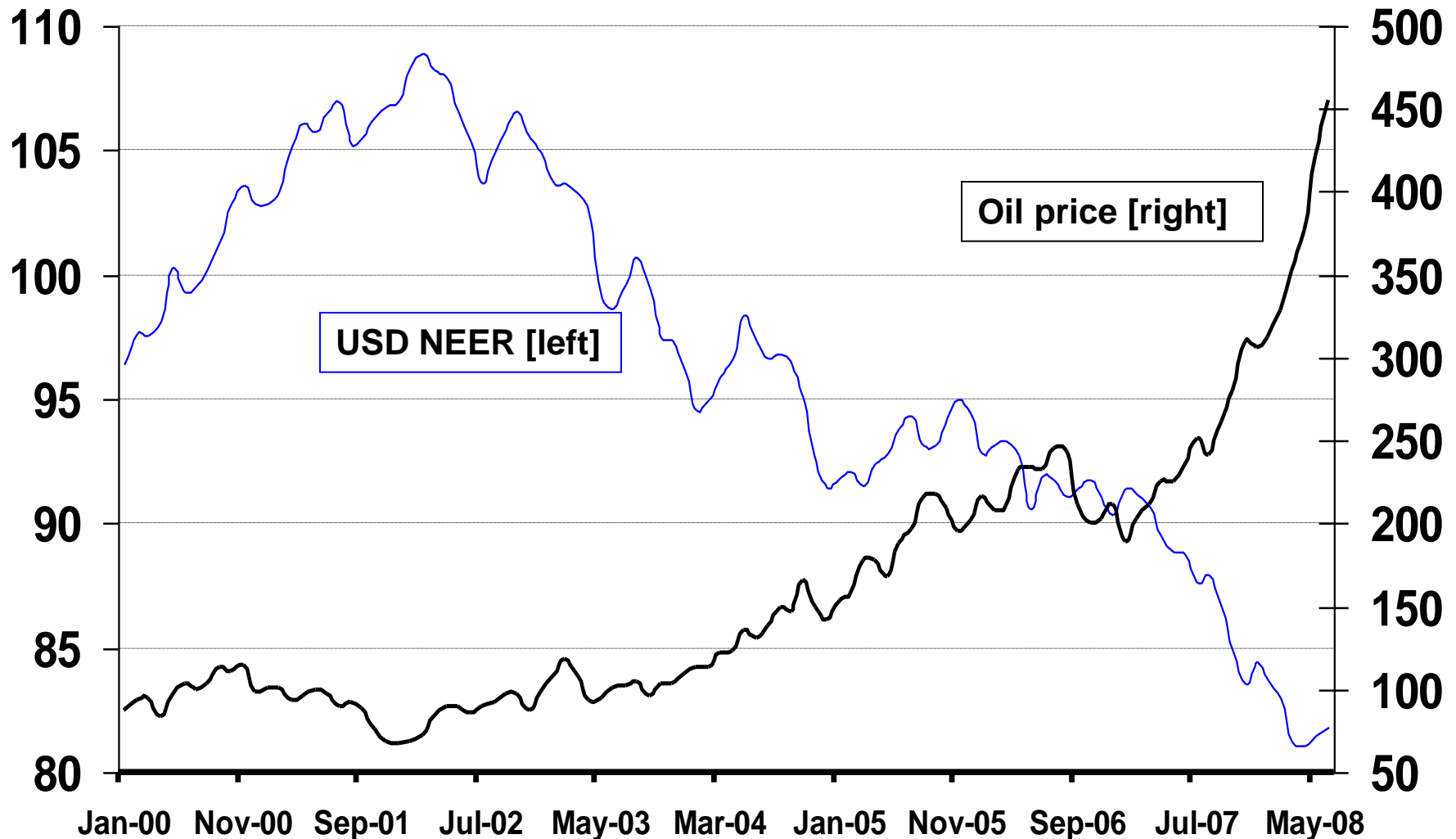
USD per Euro (inverse) [Left] and Yen per USD [right]



Source: Thomson/Datastream.

Is oil being viewed as a dollar hedge?

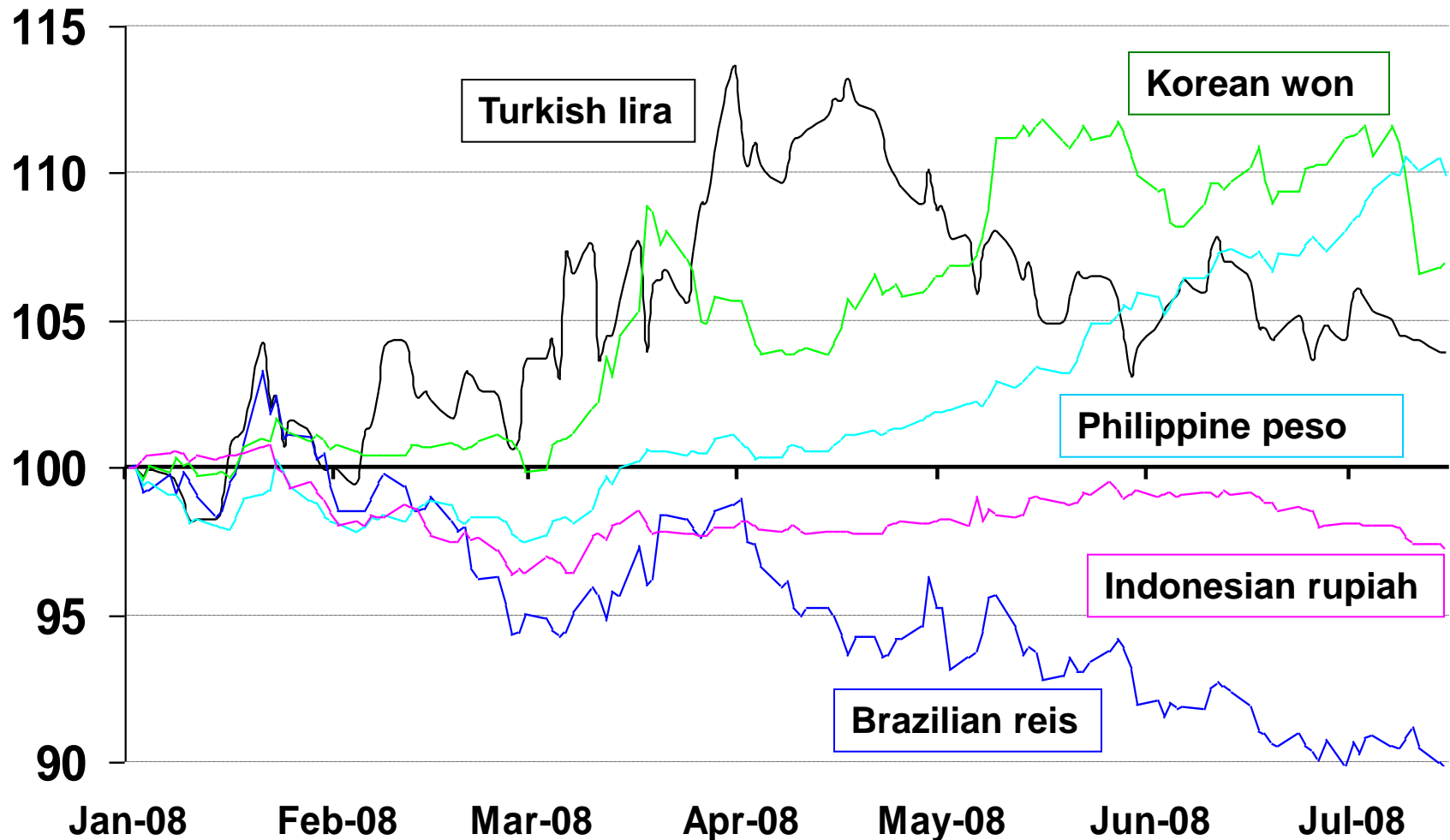
USD nominal effective rate [left], oil price [right], index 2000=100



Source: Thomson/Datastream, DECPG Commodities Group.

Emerging market currencies show mixed movements against the dollar

LCU per USD indexes, Jan1 2008=100 [*increase = weaker LCU]



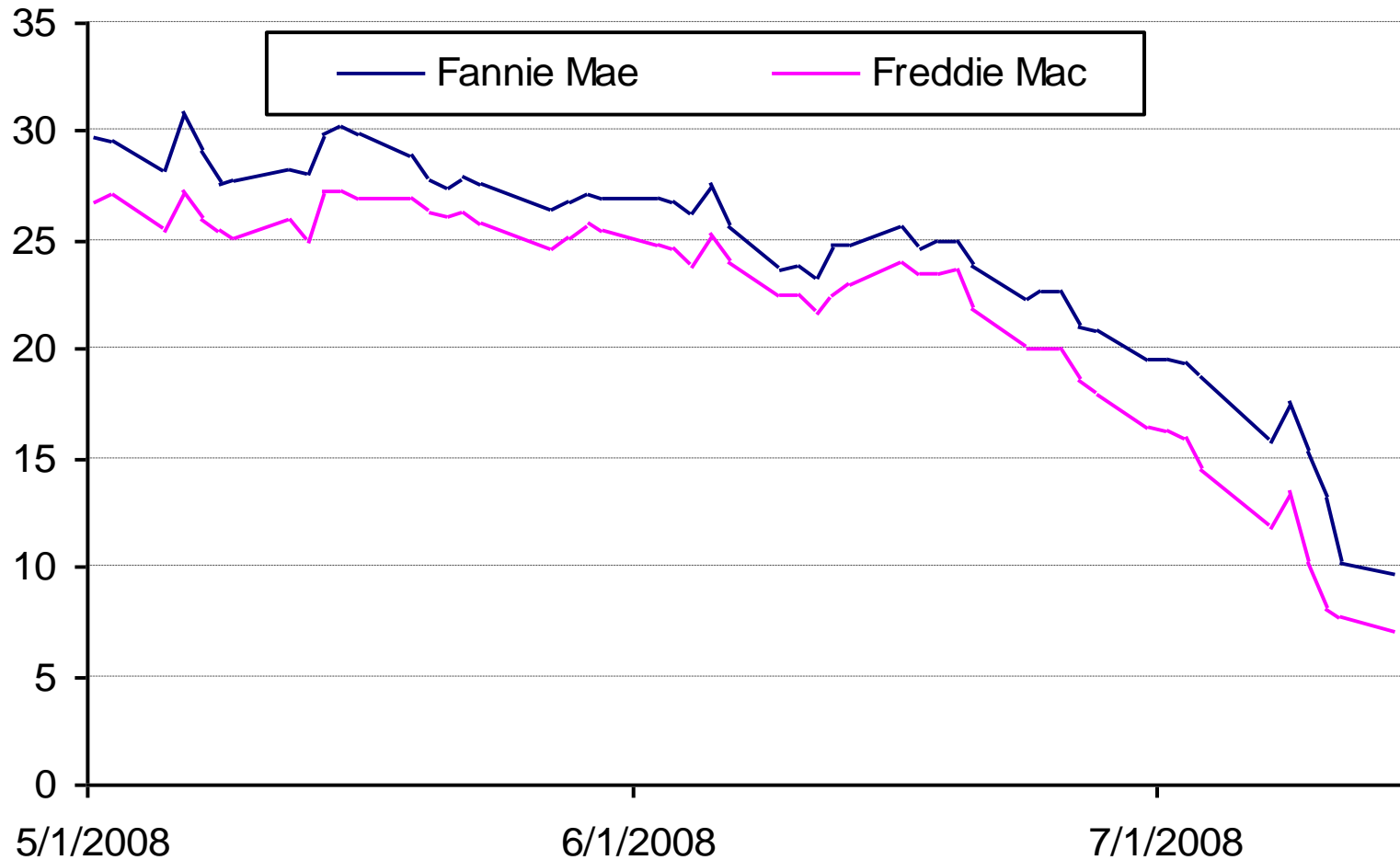
Source: Thomson/Datastream.

FOCUS
July 2008

Difficulties at Fannie and Freddie

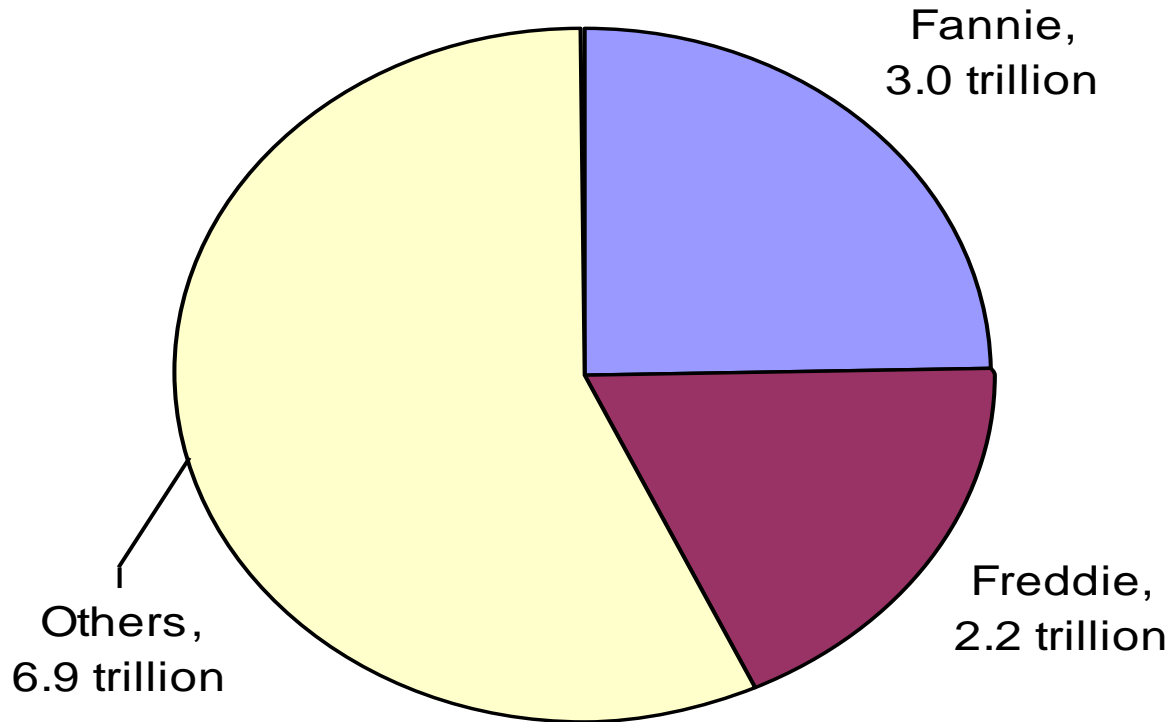
Fannie and Freddie share prices halve over the 2nd week of July

Share prices (\$)



Source: Thomson/Datastream.

Mortgage portfolios and guarantees held by Fannie and Freddie

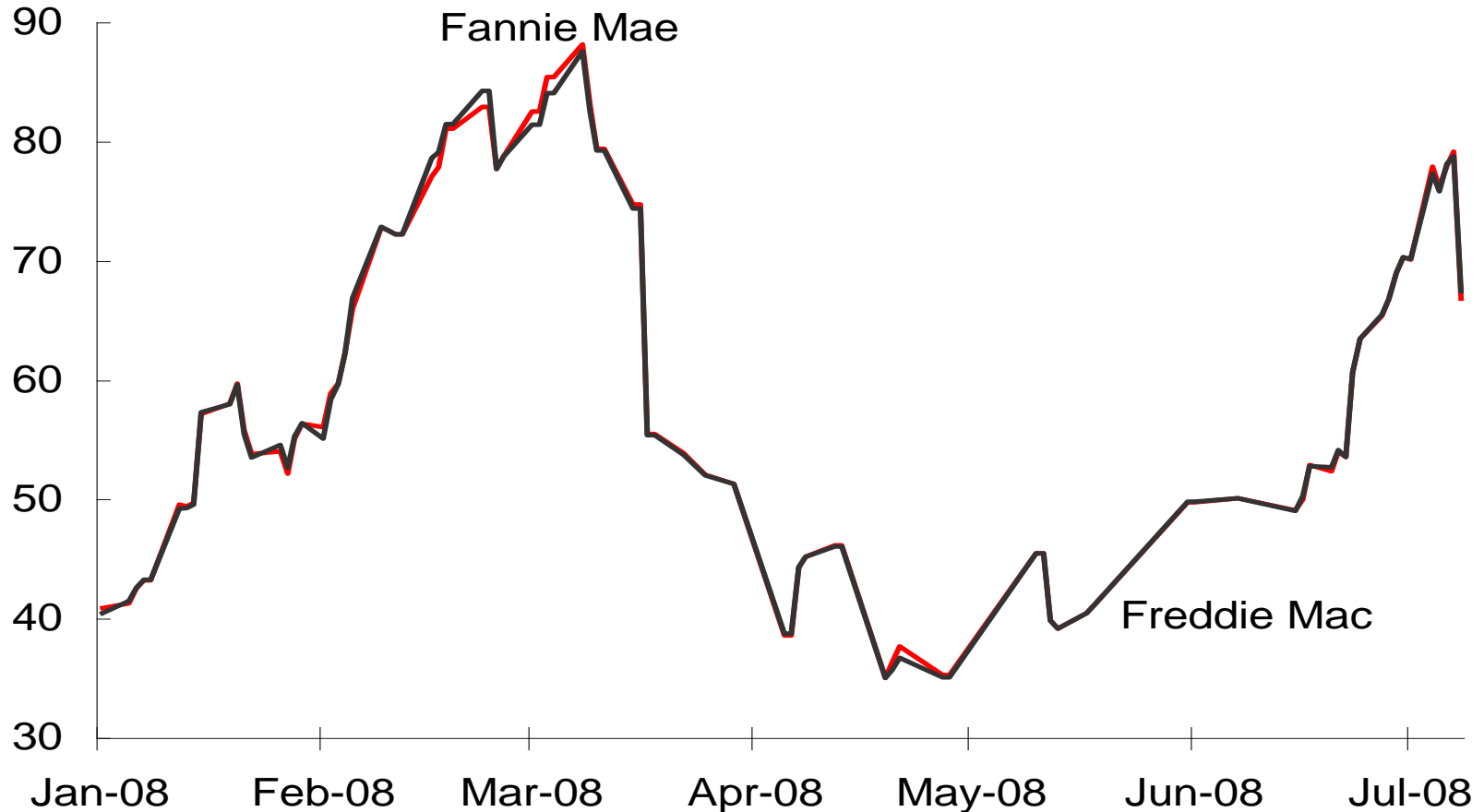


Source: OFHEO.

Market tension eases post actions by Treasury and Federal Reserve

CDS spreads of Freddie Mac and Fannie Mae

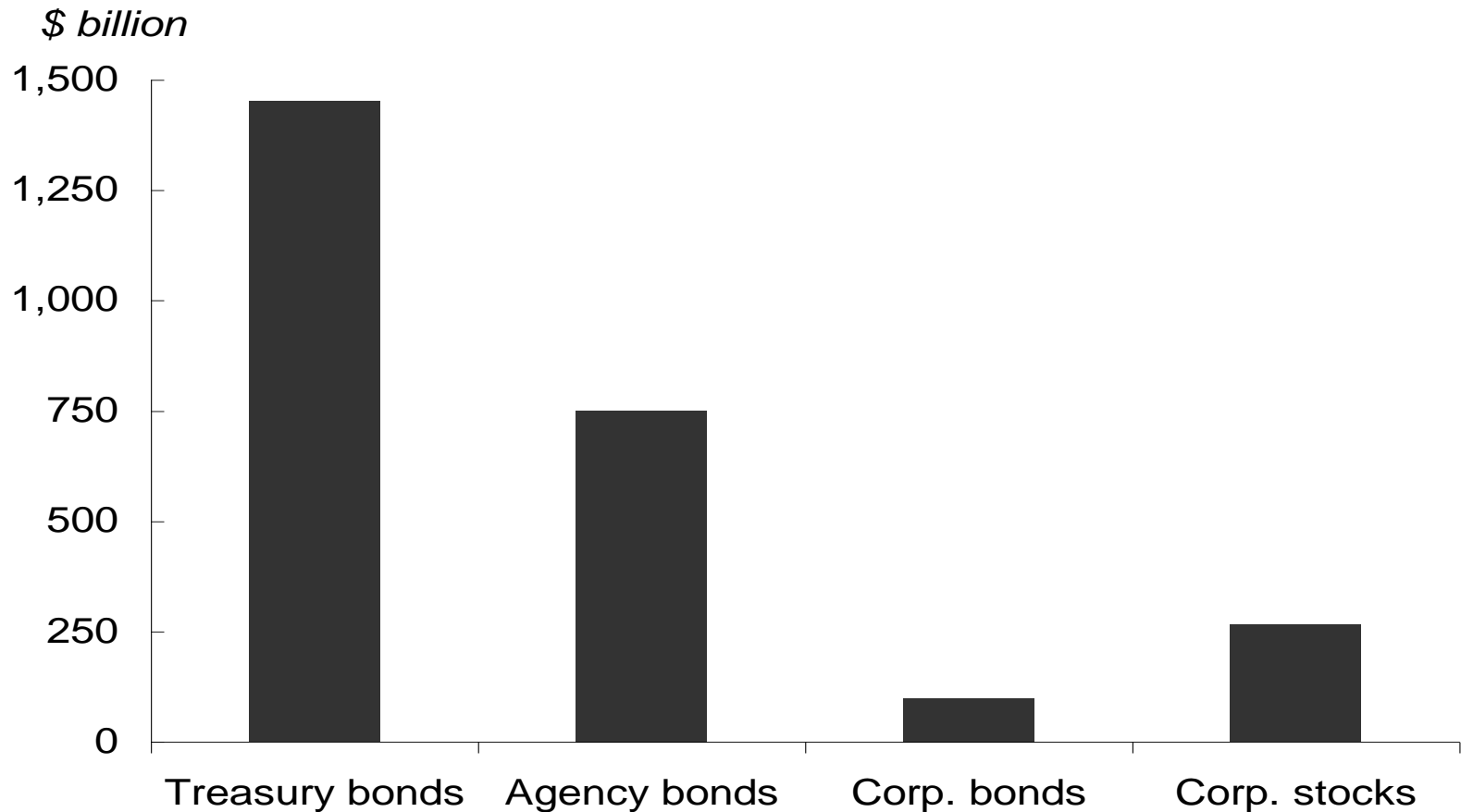
Basis points



Source: Thomson/Datastream.

Further difficulties could carry worldwide repercussions

**Value of US LT securities held by foreign official institutions
(As of June 30, 2007)**



Source: U.S. Treasury.

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