Euro at fresh highs versus greenback. Closing New York trade at $1.3787 on Friday, the euro set new highs against the dollar, as in the short-run, markets are latching onto data adding to evidence of either a pick-up—or potential slow-down in the U.S. economy [see Daily Chart at http://GEM or www.worldbank.org/gem]. Friday’s news was the disappointing outturn for retail sales in June, falling 0.9% in the month. Over the year to date, the euro has advanced 4.5% against the dollar, with most of the gain occurring since April.

Markets point to several factors driving the downslide of the dollar—narrowing interest differentials favoring dollar-based assets, as the ECB is moving quickly to shift policy rates higher, while the Fed has remained on hold for more-than a year; shifting expectations for growth in the U.S. and Europe, with a new-found optimism regarding the state of European recovery, and more uncertainty around that in the United States, and (more much more uncertain) the beginnings of Central Bank diversification of reserve holdings out of dollars and into euro, notably for those emerging markets experiencing robust growth and building reserve levels.

New York Fed survey shows jump in factory activity. Manufacturing activity in the New York region increased unexpectedly in July to the fastest pace in more-than a year, on the back of strong orders growth and employment gains. The FRB-NY general economic index, one of the earliest indicators available in the monthly data ‘cycle’, advanced to 26.5 from 25.8 in June, providing a snapshot of the recent pickup in manufacturing and business activity in evidence elsewhere. The ISM nationwide survey results for June showed a gain to 14-month highs in factory activity, underpinned by a pick-up in new orders and production.

European inflation remains tame. Inflation in the Euro Area (HICP) came in below the ECB’s 2% (y/y) target for a tenth consecutive month in June, as landed fuel prices eased (in part due to the strength of the euro), and costs of telephone service declined from a year-earlier. HICP increased 1.9% in June (y/y), the same rate as in May. But there remains worry about acceleration in inflation, given the relative strength of the recovery and increasingly tight labor markets, as well as the potential for a rebound in global oil prices (which in fact has occurred over the first weeks of July).
Among emerging markets... in Central and Eastern Europe, Romania’s current account deficit ballooned to €5.94 billion euros ($8.2 billion) in the first five months of 2007, as the trade deficit widened to €7.6 billion from €44.6 billion due to 29% surge in imports. Foreign direct investment declined to €2.14 billion down from €2.9 billion in the like period of 2006, covering 36% of the current account gap. That deficit is predicted to increase to 12% of GDP this year. In Turkey the unemployment rate declined to 9.8% in the three months to May as more people were employed in the manufacturing and service sectors. And in Ukraine, GDP advanced 7.9% in the first seven months of 2007 (y/y), as processing industries expanded 13.7%, construction advanced by 11.8%, while trades (wholesale and retail) gained 15.5%.

In Latin America, Brazil’s retail sales increased 10.5% in May (y/y) up from a revised 7.6% in the previous month. Over the twelve months to May, retail sales are up 7.5%. Mexico’s industrial production inched 1.1% higher in May (y/y), the sixth consecutive month that output fell below a 2% pace, reflecting continued weakness in the economy. Automobile production increased 3.2%, following an 11% jump in April, while construction output grew 1.7% contrasted with a 0.9% gain the previous month.

In Middle-East and North Africa, Egyptian Prime Minister Ahmed Nazif’s government targets economic growth of more than 7% in the next five years, and aims to achieve this by boosting household spending, increasing exports, attracting more foreign investment and boosting tourism and Suez Canal receipts. Economic growth in the fiscal year that ended in June is estimated at 7%, up from 6.8% the previous fiscal year.

The Daily Brief is a summary of economic news items for Bank staff whose responsibilities require that they stay abreast of changes in global markets. The views expressed here are those of the various authors and do not necessarily reflect those of the World Bank Group's Executive Directors or the countries they represent. The content is subject to copyright and is not for quotation outside of the World Bank. The Prospects Group of the World Bank is pleased to share this content with GEM subscribers, under the terms and conditions of use agreed upon login (at www.worldbank.org/gem) to the extranet GEM site. Feedback and requests to be added to or dropped from the distribution list, may be sent to eriordan@worldbank.org.