

WEEKLY ECONOMIC BRIEF

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Markets have reacted positively to news that a ceasefire in eastern Ukraine may be imminent. A diplomatic resolution to the conflict in Ukraine would help growth to resume in Russia, which would benefit the wider region, and would also reduce risks of spillovers to the global economy.

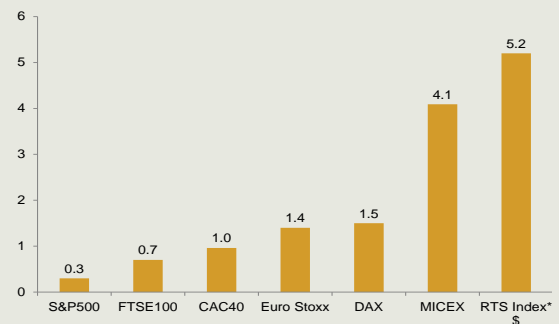
Global financial markets rallied briefly this week following news of an apparent ceasefire agreement in eastern Ukraine. This helped lift financial markets in Russia and Ukraine, and across Europe on Wednesday, although markets gave up some of their gains on confusion over whether a deal really had been reached. The news also contributed to some unwinding of safe-haven flows into German government bonds, dampening demand for German five-year notes at an auction on Wednesday though yields have since turned lower following the ECB's decision to lower benchmark rates and pledge to purchase asset backed securities to support the Euro Area economy and combat risks of deflation.

An easing in tensions would be particularly welcome given the heavy toll the conflict has taken on Ukraine and Russia. An estimated 260,000 people have been displaced by the conflict in Ukraine and some 2,500 have died according to UN estimates. Moreover, armed strife in the east (where Ukraine's heavy industry is located) has severely impacted an already fragile Ukrainian economy, which contracted by over 12% (q/q saar) in the first two quarters of 2014, while the currency has fallen 34% since the start of 2014 amidst capital flight. IMF and World Bank support packages of \$17bn and \$1.5bn respectively have reduced risks of an outright default, but financing difficulties remain. In Russia, activity has been weakening and the imposition of widening sanctions by Western governments and retaliatory measures by Russia have raised inflation, added to funding difficulties for corporates, and disrupted trade. Consequently, 2014 growth forecasts in the June Global Economic Prospects report for Russia of 0.5% are unlikely to be achieved and outturns for Ukraine may prove worse than projections of a 5% GDP contraction in 2014.

A re-escalation of the crisis could pose risks to the global economy. Direct spillovers from the conflict in Ukraine are mainly regional, reflecting the fact that Russia accounts for more than 10% of total exports from Belarus and most countries in the Baltics, the Caucasus and Central Asia, and remittances from Russia account for more than 10% of GDP for Armenia, Moldova, Tajikistan, and Kyrgyz Republic. However, wider spillovers could emerge from increased risk aversion in global financial markets or major disruptions in production or transportation of oil and natural gas. Although existing sanctions have had only limited effects in a few sectors, a shutdown of gas supplies especially could disrupt production in Western Europe, which depends on Russia for nearly 30% of its natural gas supplies.

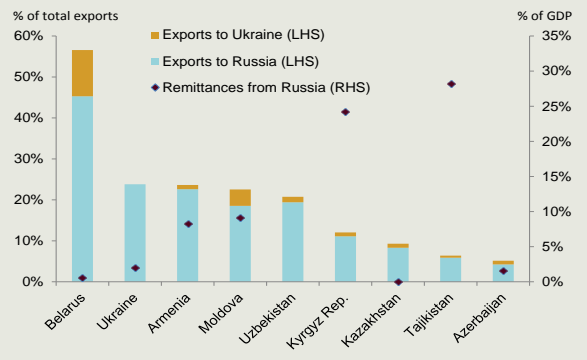
Global stocks rallied on Wednesday on news of an imminent truce in Ukraine

% change in benchmark indices, Sep 3, 2014



Source: World Bank, Bloomberg. * Russian Trading System Index, which is a free-float US\$ denominated index of 50 Russian stocks traded on the Moscow Stock Exchange

Developing Europe and Central Asian economies have strong linkages with Russia



Source: World Bank

Major Data Releases

Fri, 29 August - Thu 4 Sep, 2014

Country	Date	Indicator	Period	Actual	Forecast	Previous
Euro Zone	8/29/2014	Flash CPI - EU Harmonised (Y-o-Y)	AUG	0.30%	0.30%	0.40%
Brazil	8/29/2014	GDP (Q-o-Q)	Q2	-0.60%	-0.40%	0.20%
India	8/29/2014	GDP (Y-o-Y)	Q2	5.70%	5.50%	4.60%
China	8/31/2014	PMI Manufacturing	AUG	50.2	51.1	51.7
Eurozone	9/1/2014	PMI Manufacturing	AUG	50.7	50.8	51.8
USA	9/2/2014	PMI Manufacturing	AUG	57.9	56.5	55.8

Fri, 5 Sep - Thu, 11 Sep 2014

Country	Date	Indicator	Period	Previous
Brazil	9/5/2014	CPI (Y-o-Y)	AUG	6.59
Turkey	9/8/2014	Industrial Production (Y-o-Y)	JUL	0.01
Russia	9/8/2014	GDP (Y-o-Y)	Q2	0.809
Mexico	9/9/2014	CPI (Y-o-Y)	AUG	4.19
Turkey	9/10/2014	GDP (Q-o-Q)	Q2	1.79
Indonesia	9/11/2014	Interest Rate Decision	-	7.59

Weekly Economic Brief

Financial Markets

	2013				2014				2014								MRV ¹	Chg since Sep-12 '08 ³		
	2010	2011	2012	2013	Q3	Q4	Q1	Q2	Feb	Mar	Apr	May	Jun	Jul	Aug					
Interest rates and LIBOR (%)																				
U.S. Fed Funds Effective	0.18	0.10	0.14	0.11	0.09	0.09	0.07	0.09	0.07	0.08	0.09	0.09	0.10	0.09	0.09	0.09	0.09	0.09	0.15	-2.01
ECB repo	1.00	1.25	0.88	0.55	0.50	0.35	0.25	0.22	0.25	0.25	0.25	0.25	0.16	0.15	0.00	0.00	0.00	0.15	0.15	-4.10
US\$ LIBOR 3-months	0.34	0.34	0.43	0.27	0.26	0.24	0.24	0.23	0.24	0.23	0.23	0.23	0.23	0.23	0.24	0.24	0.24	0.23	0.23	-2.58
EURIBOR 3-months	0.75	1.34	0.49	0.15	0.15	0.20	0.27	0.27	0.26	0.27	0.30	0.30	0.21	0.17	0.16	0.16	0.16	0.12	0.12	-4.84
US 10-yr Treasury yield	3.20	2.77	1.78	2.33	2.70	2.73	2.75	2.61	2.70	2.72	2.69	2.55	2.59	2.52	2.43	2.43	2.43	2.43	2.43	-1.29
German Bund, 10 yr	2.78	2.65	1.57	1.63	1.79	1.79	1.68	1.43	1.66	1.59	1.53	1.40	1.35	1.20	1.02	1.02	0.93	0.93	0.93	-3.25
Spreads (basis points)																				
JP Morgan Emerging Markets	301	341	342	319	347	342	352	300	368	341	315	303	282	282	310	307	307	188	188	-50
Asia	206	218	216	219	254	237	231	197	238	214	209	193	189	195	202	188	188	188	188	-108
Europe	247	301	320	267	299	290	301	265	306	313	288	271	236	244	274	278	278	278	278	-35
Latin America & Caribbean	360	404	393	379	406	409	429	360	457	408	371	365	343	336	373	373	373	373	373	-15
Middle East	342	366	449	435	438	428	408	376	414	398	387	379	360	372	379	367	367	367	367	-131
Africa	274	364	337	322	359	338	332	287	347	316	294	288	278	278	292	272	272	272	272	272
Stock Indices (end of period)²																				
Global (MSCI)	331	300	340	409	382	409	411	429	410	411	414	422	429	423	432	433	433	1752	1752	35.3
High-Income (\$ Index)	1280	1183	1339	1661	1544	1661	1674	1743	1675	1674	1688	1715	1743	1714	1749	1752	1752	2009	2009	36.5
United States (S&P-500)	1258	1258	1426	1848	1682	1848	1872	1960	1859	1872	1884	1924	1960	1931	2003	2009	2009	2009	2009	60.5
Euro Area (S&P-350\$)	1124	1005	1143	1339	1267	1339	1361	1401	1376	1361	1382	1408	1401	1380	1404	1417	1417	1417	1417	22.6
Japan (Nikkei-225)	10229	8455	10395	16291	14456	16291	14828	15454	14841	14828	14304	14632	15454	15621	15425	15676	15676	15676	15676	28.3
Developing Markets (MSCI)	1151	916	1055	1003	987	1003	995	1051	966	995	995	1028	1051	1066	1088	1101	1101	1101	1101	28.7
EM Asia	468	379	447	446	431	446	444	472	438	444	444	461	472	485	489	493	493	493	493	50.6
EM Europe	529	395	473	438	446	438	409	435	406	409	396	428	435	403	399	411	411	411	411	-19.2
EM Europe & Middle East	450	336	402	372	379	372	348	360	345	348	337	364	360	340	337	349	349	349	349	-14.8
EM Latin America & Caribbean	4614	3602	3798	3201	3303	3201	3194	3370	2941	3194	3254	3242	3370	3399	3664	3704	3704	3704	3704	4.8
Exchange Rates (LCU / USD)																				
High Income																				
Euro Area	0.76	0.72	0.78	0.75	0.75	0.73	0.73	0.73	0.73	0.72	0.72	0.73	0.74	0.74	0.75	0.76	0.76	104.09	104.09	8.3
Japan	87.76	79.74	79.85	97.61	98.88	100.51	102.78	102.14	102.12	102.36	102.51	101.84	102.06	101.69	102.91	104.09	104.09	104.09	104.09	-3.6
Developing																				
Brazil	1.76	1.67	1.95	2.16	2.29	2.28	2.36	2.23	2.38	2.33	2.23	2.22	2.23	2.23	2.27	2.24	2.24	2.24	2.24	25.5
China	6.77	6.46	6.31	6.15	6.13	6.09	6.10	6.23	6.08	6.17	6.22	6.24	6.23	6.20	6.15	6.14	6.14	6.14	6.14	-10.2
Egypt	5.63	5.94	6.07	6.87	6.97	6.89	6.96	7.07	6.96	6.96	6.98	7.09	7.15	7.15	7.15	7.15	7.15	7.15	7.15	31.9
India	45.73	46.67	53.41	58.55	62.14	62.00	61.75	59.78	62.19	60.98	60.22	59.37	59.76	60.10	0.00	60.52	60.52	60.52	60.52	32.4
Russia	30.37	29.41	31.06	31.86	32.79	32.56	35.07	34.96	35.31	36.13	35.67	34.84	34.37	34.79	36.26	37.12	37.12	37.12	37.12	45.4
South Africa	7.32	7.26	8.21	9.65	9.99	10.16	10.86	10.54	10.95	10.75	10.54	10.41	10.68	10.67	10.65	10.67	10.67	10.67	10.67	33.5
Memo: USA nominal effective rate	100.19	98.59	102.16	105.06	106.19	106.71	108.77	109.10	109.07	108.96	108.53	109.04	109.73	109.87	110.88	110.78	110.78	110.78	110.78	15.6

¹ MRV = Most Recent Value.

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

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

Commodity Prices

	2013				2014				2014								MRV	Chg since Sep-12 '08 ³		
	2010	2011	2012	2013	Q3	Q4	Q1	Q2	Feb	Mar	Apr	May	Jun	Jul	Aug					
Oil price, \$/b, nominal ¹	79	104	105	104	107	105	104	106	105	104	105	106	108	105	100	98	98	98	98	0.2
Non - Oil Index ²	..	97	85	79	76	75	76	78	76	78	79	78	76	75	73	73	73	73	73	..
Food Index ²	..	99	97	89	86	85	86	90	86	90	91	91	86	79	76	75	75	75	75	..
Metals and Minerals Index ³	103	117	99	94	91	92	88	87	89	86	88	87	87	90	89	90	90	90	90	-13.7
Baltic Dry Index ⁴	2755	1545	916	1215	1298	1876	1375	980	1140	1484	1035	992	912	796	944	1149	1149	1149	1149	-76.1

¹ Simple average of Brent, Dubai and WTI.

² Base Date = Jan 3, 2011 due to data availability.

The Index component combination in the Weekly tables differs from that of the Pink Sheet.

³ Base Date = Jan 4, 2010 due to data availability.

The Index component combination in the Weekly tables differs from that of the Pink Sheet.

⁴ Base Date = May 1, 1985