Rallying oil, German growth, and Greek optimism lift stocks ... Eurozone growth picks up in Q4 ... Poland’s deflation extended to a seventh month

Financial Markets

*European* and U.S. stocks advanced on Friday amid stronger-than-expected German growth data, Greek optimism that the country will eventually reach a deal with its creditors, and rallying oil prices. The Stoxx Europe 600 Index rose 0.4% to the highest level since late 2007 in afternoon trading with German benchmark DAX index reaching a historic high, while Greek ASE index rose for a second day, climbing 5.6% to the highest level since December 9. U.S. equities also traded higher with the S&P 500 index reaching a record intra-day high as rebounding oil lifted energy stocks.

Oil prices extended their gains Friday, with global benchmark Brent rising above $60 a barrel for the first time in 2015, as encouraging economic data from Euro Area and another drop in the U.S. oil rig count booted hopes for crude demand. Brent was up $2.22 at $61.50 a barrel, while U.S. crude climbed $1.94 a barrel to $53.15. Despite the recent rise, oil prices are still down by nearly 50% from the peaks in June last year.

High Income Economies

Reflecting deterioration in both consumers’ assessment of current conditions as well as their expectations possibly due to harsh weather conditions, a preliminary reading indicated that the University of Michigan consumer sentiment index tumbled to 93.6 in February from the final January reading of 98.1. The steep drop came as a surprise to economists, who had expected the consumer sentiment index to edge up to a reading of 98.5. The current economic conditions index slumped to 103.1 in February from 109.3 in January, while the index of consumer expectations fell to 87.5 from 91.0.

With a strong showing by Germany and Spain, flash estimates indicated that Eurozone GDP growth accelerated from 0.2% (q/q) in Q3 to 0.3% in Q4, faster than economists’ forecast of a 0.2% increase. The latest increase was attributed to the lower oil prices and weaker euro boosting demand and in turn
underpinning activity. On a yearly basis, GDP grew 0.9% following Q3’s 0.8% expansion. Over the whole year of 2014, GDP gained 0.9%. The European Commission has forecast a 1.3% growth this year and 1.9% in 2016.

**Developing Economies**

**East Asia and Pacific**

*Chinese* banks lent 1.47tn yuan in January compared to 697bn in December, exceeding economists’ expectation of 1.35tn. Total social financing, a broad measure of liquidity in the economy, rose for the third consecutive month to 2.05tn yuan from 1.69tn in December. Meanwhile, M2 money supply growth slowed to 10.8% (y/y) in January from 12.2% in December, the slowest pace since at least 1996. China last week cut its reserve requirement ratio by 50 basis points which is expected to inject as much as 600bn yuan into the banking system, according to an estimate.

**Europe and Central Asia**

*Romania*’s Q4 GDP growth slowed less than expected to 2.6% (y/y) from 3.3% in Q3. Economists had expected a slowdown to 2.0%. For the year 2014, real GDP advanced 2.9% versus a 3.4% growth in 2013. The National Institute of Statistics will publish detailed data on March 6.

*Poland*’s deflation extended to a seventh month, declining 1.3% (y/y) in January from 1% in December. Inflation dropped below zero in July, starting the country’s longest stretch of deflation since the statistics office started publishing monthly price data in the 1980s. The inflation rate has not only missed the central bank’s 3.5% target by a wide margin but also undershot the lower end of its 1.5-3.5% tolerance range for 24 months. The central bank kept its key policy rate on hold last week as a precaution against heightened volatility in financial markets. Market expects at least 25 basis point cuts in the next meeting on March 3-4.

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