



## DECPG Daily Economics and Financial Market Commentary January 18, 2013

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**Financial Markets...** *Global stock markets* rallied on Friday, with the benchmark MSCI world equity index hitting a 20-month high level of 552.16, as positive economic data from the two world's largest economies boosted market sentiment. Along with robust U.S. labor and housing market reports, *China's* better-than-expected fourth-quarter GDP growth (y/y), buoyant industrial production and retail sales figures added to signs that the global economic recovery is gaining traction.

*Japanese yen* fell further against the dollar, sliding to a 2 1/2 –year low of 90.21 per dollar in early-morning New York trade, amid speculation the Bank of Japan may start open-ending asset buying program later this month. The yen has depreciated 13% versus the dollar in the past 3 months as the Japanese government signaled greater stimulus measures to boost slumping economy, which may lower the currency and stoke inflation.

*U.S. Treasuries* rose slightly on Friday, with the benchmark 10-year yields sliding 2 basis points from the highest level in a week to 1.87%, as growing concerns over the country's debt ceiling debate revived demand for the safe-haven government securities. U.S. lawmakers need to raise the nation's \$16.4 trillion debt ceiling next month, and they will also have to deal with the \$110 billion in automatic spending cuts and an expiring short-term measure that funds government agencies in March.

**High-income Economies...** *US consumer confidence* fell for the second month in a row in December, with the Thomson Reuters/University of Michigan consumer confidence index declining to 71.3 from 72.9 the previous month. More than a third of consumers referred to concerns related to fiscal cliff negotiations. The consumer expectations sub-index slipped to its lowest since November 2011.

*UK retail sales* fell 0.1% (m/m) in December, with sales only 0.3% (y/y) higher than a year earlier, underscoring the weakness of consumer spending as the economy continues to struggle after emerging from a double-dip recession in the third quarter of 2012.

*Poland's industrial production* plunged 14.2% (m/m) in December, the steepest fall in almost four years, with annual industrial output falling 10.6% (y/y). A part of the decline was due to fewer working days in December, but also reflects weak domestic demand and difficult economic conditions in key Euro Area export markets.

New industrial orders in *Spain* fell 1.5% (y/y) in November, reversing the 5.5% gain seen in October. While consumer goods orders fell 1.4% (y/y), orders of capital goods and energy products increased 4.7% and 7.5%.

**Developing Economies...** *China's* GDP growth was reported at 7.9% (y/y) in the fourth quarter of 2012 showing a strong rebound from 7.4% growth in the third quarter.

Quarterly GDP growth rates have been revised for the last three quarters of 2011 and the third quarter of 2012. The revised quarterly growth rates were reported at: 11Q1 - 2.2%, 11Q2 - 2.4%, 11Q3 - 2.3%, 11Q4 - 1.9%, 12Q1 - 1.5%, 12Q2 - 2.0%, 12Q3 - 2.1% and 12Q4 - 2.0% respectively compared with the earlier 11Q1 - 2.2%, 11Q2 - 2.5%, 11Q3 - 2.4%, 11Q4 - 1.7%, 12Q1 - 1.5%, 12Q2 - 2.0% and 12Q3 - 2.2%. The revised quarterly numbers suggest a deceleration in GDP growth to 8.2% in the fourth quarter of 2012 from 8.7% reported in the third quarter.

Annual GDP growth was reported at 7.8% in 2012, the weakest growth rate since 1999 and lower than 9.3% achieved in 2011.

Industrial production in China grew 10.3% (y/y) in December, accelerating from 10.1% rise in November. Retail sales expanded 15.2% (y/y) in December, faster than the 14.9% growth in November. China's urban fixed asset investment in the 12 months through December increased 20.6% (y/y). Monthly price increase for the newly built homes was registered in 54 of the 70 cities surveyed. On an annual basis, 40 cities reported increase in prices in December compared to 25 cities in November.

*Chile's* central bank kept its monetary policy rate steady at 5.0%. Inflation in Chile eased to 1.5% in December 2.1% in November remaining below the central bank's 3.0% annual target.

Mexico's central bank left its benchmark interest rate unchanged at 4.50%, but indicated that it is considering monetary easing in light of weak growth and moderating inflation.

**World Bank's Global Economic Prospects, January 2013 featured in "The Economist".**

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