World stock markets edge mostly higher. Shares in Asia and Europe posted gains on Thursday, following Wall Street’s rally on Wednesday afternoon. Concerns were easing about the tightening of China’s monetary policy, and stronger-than-expected jobs data in Australia came to reinforce investor confidence in global recovery. Market sentiment was also supported by a Federal Reserve survey (the “Beige Book”) that offered a degree of optimism regarding current conditions in the United States; and by an ECB decision to keep policy interest rates unchanged at 1%. Emerging market stocks also advanced, increasing for the first in three days, with the benchmark MSCI Emerging Market Index climbing 0.3%. Meanwhile, oil prices rebounded in early trading today, after heavy losses Wednesday, as rising stock markets cheered energy traders.

European shares advanced for a second day, led by healthcare and bank shares, as the benchmark Dow Jones Stoxx-600 Index advanced 0.3%, paring an earlier gain of 0.8%. Meanwhile, the MSCI Asia-Pacific Index gained 1%, rising for a fourth time in five days. This gauge has picked-up 45% in the past year, led by China. And U.S. equities opened lower his morning, after retail sales were reported down in December, and initial jobless claims increased more than expected.

ECB holds rates at 1%...Trichet comments on situation in Greece. In today’s monthly press conference, the European Central Bank (ECB) announced that intervention rates would remain unchanged at 1%, noting that the current level “...remains appropriate for recovery.” Officials will wait for additional signs of a stronger economic rebound before withdrawing emergency financial measures further than they have been to date. Trichet also alerted his audience to the fact that the Euro Area economy still faces a “bumpy road” and a “great level of uncertainty.” In this vein, he warned Greece that the country cannot expect “special treatment” among EU members, and the ECB would not change its collateral rules to take account of the country’s debt problems. This statement may increase pressure on the country to cut its budget deficit more deeply.

World Economic Forum cites risk of China overheating. A rapid pace of growth stimulated by massive fiscal outlays and a surge in credit creation has raised the risk of bubble formation in financial and real estate assets in China, as well as a marked pick-up in inflation that poses a “major risk” to global growth, notes the World Economic Forum (WEF), in a report released prior to its upcoming meeting in Davos, Switzerland. A co-author of the report, Daniel Hoffman says: “The Chinese economy is in the
process of overheating... large cities like Shanghai and Beijing saw house price increases of more than 60 percent in 2009 alone. And GDP growth below 6 percent in China is a red alert in 2010... a hard landing is a major risk."

**U.S. retail sales weak in December, but overall momentum still strong.** Sales at U.S. retailers unexpectedly fell 0.3% in December (m/m), after upwardly revised gains of 1.8% in November, according to the latest release from the Commerce Department. Sales of motor vehicles were down 0.8% (m/m) after a 1.2% increase in the previous month, and the decrease in general sales may have been affected to the downside by extreme weather conditions in December. For 2009, nominal retail sales were down 6.2% from the previous year, the largest decline in sales since comparable statistics have been collected beginning in 1993. Momentum in sales remains positive despite the weak December performance, and in year-over-year terms sales grew 6% compared to December 2008 [see Chart at http://gem or http://www.worldbank.org/gem].

The Commerce Department also released a report on business inventories for November, showing a larger-than-expected month-on-month increase of 0.4% for stocks. November marks the second consecutive month of growth in inventory levels at businesses, after a 13-month streak of declines. Stockpiles increased by 1.5% at the wholesale level, while manufacturing inventories rose 0.2%, and retail stockpiles, which comprise the majority, dropped by 0.2% for the month. The shift from liquidation- to accumulation of inventories is expected to contribute positively to GDP growth in the fourth quarter; but may also lead to a softened recovery in industrial production, as business commits to a leaner level of stocks until the recovery firms up.

**In other U.S. economic news...** initial claims for unemployment insurance increased by 11,000 persons to a seasonally adjusted 444,000 for the week ending January 8th, adding to disappointing headlines for December. The increase in new layoffs appears to have been the result of large seasonal layoffs, particularly in the retail sector as holiday season draws to an end. The 4-week moving average of claims, which provides a less volatile measure, continued its declining trend, dropping to 440,750 new claims, the lowest number since September 2008, indicating that labor markets continue to improve gradually.

**Japan factory orders fall to record lows.** Machinery orders received by Japanese manufacturers in November dropped a full 8% from October, reaching lowest levels since May 1987. Orders from non-manufacturing establishments dropped a full 10.6%, while those from all industries (a leading indicator of business investment in 3 to 6 months) fell to an all-time low. Momentum has weakened across the last months of 2009, from a strong 48% gain during the third quarter, to 28.6% in November (saar). Should domestic investment have faltered during the fourth quarter of 2009, the country’s reliance on exports to power the recovery will have intensified—and export performance has been tortuous in the final months of the 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