

## Summary

In a holiday shortened week, the pace of global growth declined, led by weaker US data. The first response was a lurch towards much easier monetary policy in Japan. We believe these policies are intended in part to weaken the Japanese Yen as other policies have failed to re-ignite the economy. As such, events in Japan foreshadow what is likely to happen in other HIDCs (Heavily Indebted Developed Countries).

## Global

In Japan, the 10 year bond rallied a strong 7bps to 0.45% following the announcement of further easing by the Bank of Japan, which is now moving to open-ended Quantitative Easing (QE), buying longer bonds, in bigger size, faster, and for longer, in fact, until they hit their 2% inflation target. USDJPY rallied from 93 to 95.50 on the news. In our view, Japan is very important to watch, because it is among the first of the HIDCs to openly engage in currency manipulation following the failure to restore economic health through rate cuts, QE, fiscal stimulus, and reforms. US stocks dropped 55bps over the past week and US treasuries yields fell by 3bps to hit 1.82% as US data began to disappoint. In particular, claims for unemployment benefit were higher than expected, while ADP payrolls disappointed. This places the focus firmly on the non-farm payroll number due to be released tomorrow. Manufacturing data, including Chicago PMI, Kansas City Fed, NAPM-Milwaukee, Markit's PMI, ISM manufacturing, and ISM services also fell short of expectations. Bill Dudley of the New York Fed confirmed the FOMC's dovish stance. In Europe, the crisis in Cyprus was resolved through a combination of European support, haircuts on large depositors in Cypriot banks, and the closure of a bank, whose recapitalisation would otherwise have been unacceptably high. Capital controls remain in place to prevent bank runs. Events in Cyprus have exposed the most serious vulnerability in Europe, namely her undercapitalised banks. Fitch placed UK's AAA ratings on ratings watch negative. Italy continues to struggle to form a government, increasing odds of a technocratic government or new elections. EURUSD rose only marginally from 1.2820 to 1.2830 over the course of the week. In commodities, gold prices dropped from 1600 to 1550 and oil prices fell from \$110 to \$107. Over the past week, global PMIs dropped from 51.2 in February to 50.3 in March, the first drop in eight months. The decline was driven principally by weaker US and European numbers. Emerging Market PMIs were largely unchanged (51.4 in March versus 51.6 in February). China and the rest of Asia (except India) saw stronger PMIs, while PMIs softened in Latin America and Eastern Europe, Middle East, and Africa.

## Latin America

**Colombia** is preparing fiscal intervention to be announced on 15 April to improve supply side conditions in the economy, according to Finance Minister Mauricio Cardenas. **Argentina's** submission to the Court of Appeals was identical to previous offers to holdouts. Holdout investors are due to reply no later than 22 April. **Brazilian** Industrial Production softened 2.5% mom in February, while the trade surplus for March was \$11.2bn. In **Venezuela**, voting intentions show that Nicholas Maduro leads the polls by nearly 18% over opposition challenger Henrique Capriles ahead of the election scheduled for 14 April. We expect a resounding victory for Maduro, but gradual erosion of his support subsequently.

## Asia

Tensions between **North Korea** and the US rose over the past week in response to sanctions imposed by the UN Security Council in early March. It is likely, in our view, that North Korea's strong rhetoric is an attempt to place itself in a strong bargaining position for foreign aid. **China** services PMI rose to 55.6 in March from 54.4 in February. **Indonesia's** trade deficit widened as exports and imports both softened in February. Inflation rose to 5.9% yoy on the back of rising food prices. **Korean** industrial production declined in February as the rate of inflation declined to 1.3% yoy in March from 1.4% in February. **Taiwan's** central bank left rates unchanged at 1.875%.

*Continued overleaf*

## Eastern Europe, Africa, and Middle East

Russian inflation dropped to 0% in the week to 1st April, taking yoy inflation from 7.3% in February to 7.1% in March. The central bank left rates unchanged as Q4 2012 showed that Russia's economy expanded 3.4% during 2012. Headline inflation in **Turkey** rose to 7.3% yoy in March from 7.0% in February due to rising food prices. Core prices remained roughly unchanged. Q4 2012 real GDP increased at a pace of 1.4% yoy. **Hungary's** trade surplus increased to 1.6% of GDP in 2012 from 0.8% of GDP in 2011, but retail sales beat expectations. The **Czech** central bank left rates unchanged at 0.05%, maintaining a dovish bias as retail sales declined 4.7% yoy in February.

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