

Summary

Emerging Markets growth is set to rise in 2013. Policy makers in the growth-challenged HIDCs (Heavily Indebted Developed Countries) are however becoming increasingly focused on currencies as the World Bank and the IMF predict another year of HIDC sub-par growth. Global sentiment improved marginally as the US Congress agrees to push the debt ceiling issue four months into the future.

Global

The US Congress decided to extend the debt ceiling for the US government by another four months, thus postponing a near-term source of uncertainty. The other important story was the adoption of a 2% inflation target by the Bank of Japan alongside a commitment to open-ended Quantitative Easing. JPY was volatile, but ended the week close to where it started as the jury is out whether Prime Minister Shinzo Abe succeeds in breaking Japan free from its two-decade economic malaise. Japan's attempt to weaken its currency and the reaction of the Europeans suggest an increasing focus on currencies as growth continues to lag in the HIDCs. In another example of displacement activity, the United Kingdom government announced the intention to hold an in-out referendum on EU membership.

In Europe, Spain conducted a successful bond auction, while Portugal returned to market. Eurozone consumer confidence and PMIs surprised to the upside, though French data disappointed and the market remains nervous about the outcome of the Italian election next month. There is also focus on the scale of tomorrow's repayment of the ECB's Long-term Repo Operations. US manufacturing data were weaker last week, though this may in part be due to noise from the aftermath of Hurricane Sandy. Bank earnings were stronger but overall the earnings picture in the US remains somewhat mixed. China recorded higher than expected GDP for Q4 and stronger than expected manufacturing for the month of January. The World Bank and the IMF both predicted higher global growth in 2013 than in 2012, though the expansion happens in Emerging Markets, not in the HIDCs.

Against these developments, global sentiment continued to improve marginally in the past week with the S&P500 rising 94bps, though the pace of the rally is waning as US stock markets approach pre-Lehman levels. US treasury yields declining to 1.81% from 1.88%, while equity market volatility (VIX) declining to 12.50 from 13.60. EURUSD stabilized around the 1.33 level. Oil prices increased \$1.6 to \$112.60 per barrel. Emerging Markets investors took a slightly more cautious view of the world as Dollar assets outperformed local currency denominated assets. Emerging Markets corporates rallied 13bps and sovereigns 8bps, while Emerging Markets currencies weakened 22bps and bonds 15bps. Emerging Markets equities, however, were broadly flat over the week.

Latin America

Brazil's IPCA-15 price index rose 0.88% mom vs 0.82% expected, while the current account deficit was wider than expected, though supported by a very strong FDI pipeline. **Mexican** retail sales picked up at a healthy 3.5% pace in November and central bank governor Carstens said that rate cuts are not imminent. The government in **Venezuela** announced that President Chavez's health is improving, while the opposition said that it would choose a consensus candidate in the event of fresh elections. **Costa Rica's** government put forward a bill to boost taxes on capital inflows. **Colombia** announced plans to issue a 10 year dollar sovereign benchmark bond. **Argentina's** trade surplus rose to \$12.7bn in 2012 from \$10bn in 2011.

Asia

China's HSBC flash PMI printed 51.9 in January versus 51.7 expected and 51.5 previously as the economy continues to pick up at a modest pace following the leadership transition last year. Growth in Q4 2012 accelerated to 7.9% from 7.4% in Q3 2012. **Malaysian** inflation in December rose at a lower than expected pace of 1.2 yoy (consensus was 1.5% yoy). On the other hand, **Singaporean** inflation rose to 4.3% yoy versus 3.8% expected. India raised quota ceilings for foreign investment in the country's government and corporate bond market and removed residual maturity restrictions in government securities plus lock-in periods in corporate bonds. In Q4 2012, the **South Korean** economy expanded 1.5% versus a year ago, the same pace as in Q3 2012.

Eastern Europe, Africa, and Middle East

Turkey's central bank left repo rates unchanged, cut lending and borrowing rates, and tightened reserve requirements. **Russia** announced that it may be possible to launch the euro-clearable OFZ market at the January bond auction. The Reserve Fund will be increased to \$90bn, according to the Finance Ministry. Industrial production, meanwhile, increased at pace of 1.4% yoy in December, somewhat softer than the 1.9% expected by the market. **Poland's** finance ministry announced that the government has already secured 40% of the country's 2013 borrowing needs as the government extended the term of its \$33.8bn credit line with the IMF. The government of Netanyahu was returned to power by voters in **Israel** but with a reduced majority of 31 out of 120. **Serbian** officials indicated that they could undertake an earlier than expected London Club repayment. **Nigeria's** central bank left rates unchanged at 12%. **Dubai** issued a Sukuk at substantially lower yields as the credit continues to improve.

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