

## Bloomberg BRIEF

# Economics

NEWS, ANALYSIS AND COMMENTARY

THURSDAY  
06.12.14  
www.bloombergbriefs.com

### MOST READ ON BLOOMBERG

Carney Faces Reckoning on Osborne Pledges

Osborne Threatens Jail for Rate Riggers

BOJ Said to Mull Keeping Big Balance Sheet

China's New Loans Top Estimates

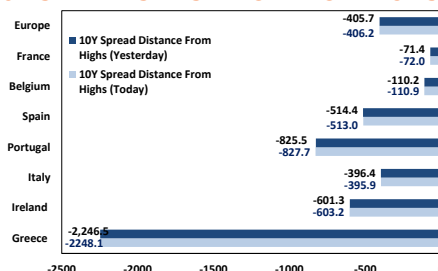
### DATA REPORTS (NEW YORK TIME)

TIME	EVENT	SURVEY	ACTUAL	PRIOR
8:00	BZ Retail Sales MoM	0.1%	-	-0.5%
8:30	CA Capacity Utilization	82.4%	-	82.0%
8:30	CA New HPI YoY	-	-	1.6%
8:30	CA New HPI MoM	0.2%	-	0.2%
8:30	US Retail Sales Adv MoM	0.6%	-	0.1%
8:30	US Retail Sales Ex Auto	0.4%	-	0.0%
8:30	US Retail Sales ExAutoGas	0.4%	-	-0.1%
8:30	US Control Group	0.4%	-	-0.1%
8:30	US Import Price Ind MoM	0.2%	-	-0.4%
8:30	US Import Price Ind YoY	0.5%	-	-0.3%
8:30	US Initial Jobless Claims	310K	-	312K
8:30	US Continuing Claims	2605K	-	2603K
9:00	CA T/NB HPI MoM	-	-	0.5%
9:00	CA T/NB HPI YoY	-	-	4.9%
9:00	CA T/NB HP Index	-	-	161.28
9:45	US Bloomberg Cons Cmft	-	-	35.1
10:00	US Business Inventories	0.4%	-	0.4%

### ECONOMIC-EVENTS CALENDAR

TIME		
6:45	SP	Bank of Spain's Duran Speaks in Madrid
10:30	CA	Bank of Canada Financial System Review
10:30	FI	Thomas Piketty Speaks to Media in Helsinki
11:15	CA	BoC Gov Poloz, Senior Dep. Wilkins Press Conf.
6/13	JN	Bank of Japan Monetary Policy Statement
6/13	JN	BOJ Gov. Kuroda Press Conference

### 10Y SPREADS: DISTANCE FROM HIGHS



## U.S. Retail Sales; Iraq; BOE's Carney Speaks

DAYBOOK  
Alex Brittain

■ **WHAT TO WATCH:** U.S. retail sales may have accelerated in May and initial jobless claims probably rose last week, 8:30 a.m. Bank of England Governor Mark Carney and U.K. Chancellor of the Exchequer George Osborne speak at the annual Mansion House dinner in London, which starts at 2 p.m.

■ **ECONOMICS:** Bank of Japan officials were said to be considering maintaining a large balance sheet for the central bank even after it achieves its inflation target. Euro-area industrial production rose faster than expected in April, supporting expectations for second-quarter economic growth. Italy's Finance Minister Pier Carlo Padoa-Schioppa speaks in Milan at 6:45 a.m. and 11:30 a.m.

■ **GOVERNMENT:** An al-Qaeda offshoot extended its gains in Iraq after capturing both the country's second-biggest city and the birthplace of Saddam Hussein, as the U.S. weighed an Iraqi request for air support. The U.K. plans to extend laws criminalizing labor-manipulation to gauges used in currency, fixed-income and commodity markets.

■ **COMPANIES:** BNP Paribas SA said senior executive Georges Chodron de Courcel will step down this month. New York's top banking regulator had pressed for his dismissal as U.S. authorities prepare to fine the bank for dealings with sanctioned countries.

■ **MARKETS:** New Zealand's dollar headed for its biggest daily gain in four months after the central bank raised interest rates and flagged further increases. Asian stocks fell from a six-year high. WTI crude touched its highest level since September.

**BIG PICTURE** COMMENTARY BY JOSEPH BRUSUELAS, BLOOMBERG ECONOMIST

## U.S. Data Flow Points to Below Consensus 2Q Growth

U.S. economic data for May and June will prove decisive on whether second quarter growth meets the lofty expectations put forward by the professional forecasting community. Data flows for April and May to the present have improved compared to the dismal results posted in the first three months of the year. On the whole the figures have been mixed at best, pointing to a slightly slower quarterly gain than that indicated by the Bloomberg consensus forecast of 3.5 percent.

Investors still may see growth well above the post-recession trend of 2.2 percent thanks to a rebound in auto sales and strong durable goods orders linked to the civilian aircraft industry. These factors will create some momentum that spills over into the third quarter of the year. Even so, the consensus forecast will probably be rolled back to closer to 3 percent, in line with the growth in gross domestic income of 2.7 percent on a year-ago basis.

Private sector hiring has increased at a

*continued on next page*



## KEENE'S CORNER

Michelle Girard, RBS, on why asset price inflation may be a bigger problem than consumer price inflation

**BIG PICTURE** JOSEPH BRUSUELAS

continued from page 1

229,000 average pace during the past three months and will probably continue to expand near the three-year average of 198,000. Strong seasonal hiring in the leisure and hospitality sector should boost the June estimate. Meanwhile, soggy wage gains will continue through this year. Average hourly earnings are unlikely to increase to the level of 3.5 percent on a year-ago basis necessary to support a sustained acceleration in overall growth.

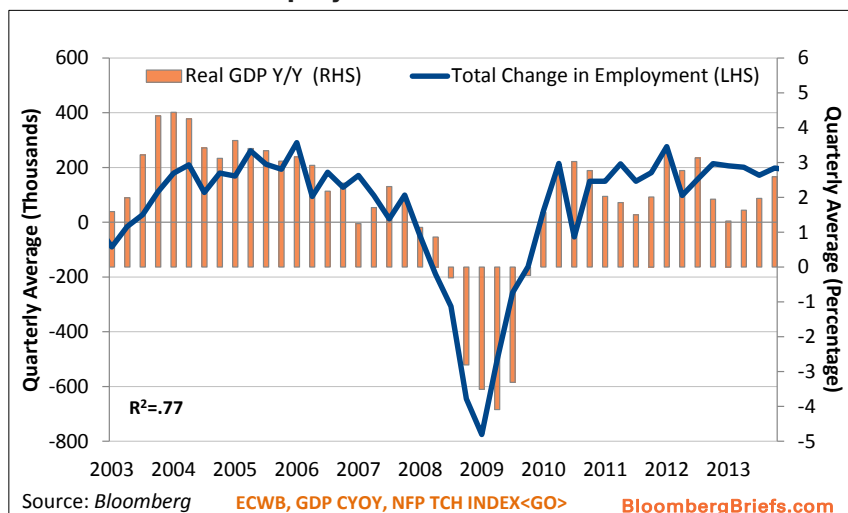
Meanwhile, private credit creation improved in the first quarter relative to nominal GDP, which is a good sign for growth. Recent Fed weekly lending data and the 10.2 percent April increase in demand for credit suggests the stronger private credit creation has continued into the current quarter. The Bloomberg U.S. Financial Conditions Index shows the environment remains very supportive of growth even with the ongoing issues in the housing mortgage market.

One downside to the credit data is that April auto purchases saw an increase in dollar volume and a decline in unit sales, which suggests that upper-end consumers accelerated purchases. In addition, rising food and gasoline costs during the past several months may have resulted in middle and lower-income cohorts turning to credit to smooth consumption under conditions of weak wage gains.

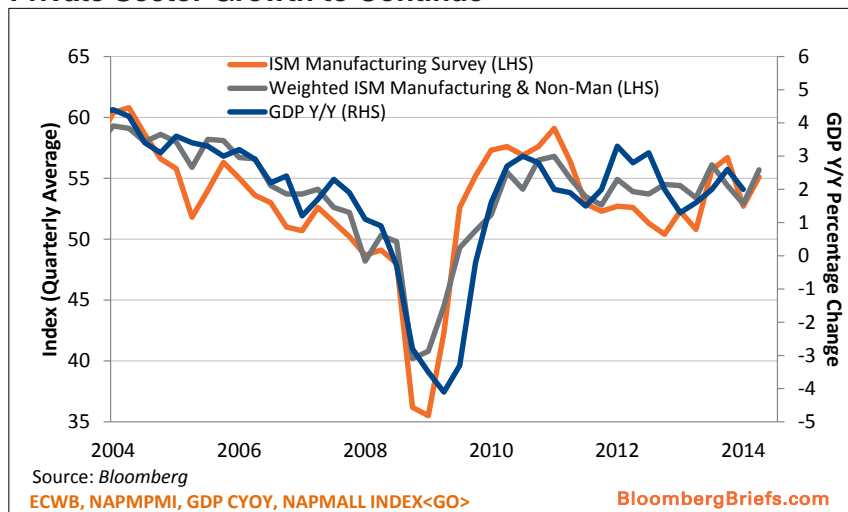
Rising consumer confidence has been accompanied by stress in U.S. households linked to rising food and gasoline prices, which has resulted in a decline in consumer expectations. May auto sales increased at a 16.7 million annualized pace, which will boost the topline monthly retail sales data to be published this Thursday. Capital expenditures have yet to expand in a meaningful fashion.

Consumer expectations in both the Bloomberg Consumer Comfort Index and the University of Michigan survey point toward a slower pace of inflation-adjusted spending, which appears directly linked to the rising costs of necessities. Thus, investors will want to look at spending excluding autos, gasoline and building materials to ascertain whether households are spending less on discretionary items in order to pay the higher bills for staples. Wholesale gasoline futures point to little relief in the offing for U.S. households

## U.S. Growth and Employment



## Private Sector Growth to Continue



and indicate gasoline prices may actually increase modestly in coming weeks.

As midyear approaches, manufacturing appears to be one of the major growth drivers for the remainder of 2014. Manufacturing hours worked excluding the auto sector are up 0.4 percent through May, reflecting accelerated production. This bodes well for the creation of higher-paying jobs in the goods-producing sector.

Meanwhile, the inventory adjustment in Detroit appears complete and recent manufacturing data suggests stronger growth. The ISM output index points to an increase in production that will be boosted by the transportation sector. During the

past four years, orders for civilian aircraft have accelerated sharply from May through July, culminating with June's Paris Air Show. This pattern typically bolsters industrial production through the third quarter of the year.

Finally, a wider than anticipated trade deficit related to weaker foreign demand and rising oil prices will probably result in a 0.5 percentage point reduction in first quarter growth from the current estimate of minus 1 percent. That larger trade deficit in April, should it hold or expand further during the remainder of the quarter, would constitute a greater-than-projected drag on growth.

## MARKET CALLS

BY BLOOMBERG NEWS

**Ryan Larson**, an analyst at Research Affiliates LLC, says that emerging-market stocks have trailed U.S. shares so badly during the past three years that they are worth buying in anticipation of a "meaningful appreciation."

**Patrick Bennett**, a strategist at Canadian Imperial, said that "intervention is certainly a hurdle" to the won's rally. "Korean exports have handled the strength so far, but caution is needed from here," Bennett said. He predicts the currency will weaken to 1,025 per dollar by the end of this year.

"Larger returns given the hiking cycle add to the [Colombian] peso's strengthening trend," said **Armando Armenta**, an economist at Deutsche Bank. "Colombia's peso bonds should continue outperforming in dollar terms." The peso will strengthen 1.8 percent to 1,850 per dollar within two months, he said.

## TWEET OF THE DAY



**Joseph A. LaVorgna**  
@Lavorgnanomics



The Duke/CFO magazine business outlook survey on [#capitalspending](#) rose to its highest level in 3 years which augers for a Q2 capex rebound

12:19 PM - 11 Jun 2014

For simple solutions to follow tweets about companies, industries and markets on the Bloomberg terminal run **TWTR<GO>**

**Joseph A. LaVorgna**, [@Lavorgnanomics](#) Joseph A. LaVorgna, Managing Director and Chief US Economist at Deutsche Bank. New York City [globalmarkets.db.com](http://globalmarkets.db.com)

"European yields may fall dramatically, and people will chase yields in the U.S.," said **Hideo Shimomura**, chief fund investor at Mitsubishi UFJ Asset Management. In the U.S., "there's a recovery in the economy, but I don't think its gaining momentum." Ten-year yield may fall to 2.25 percent by year end, he said.

"The view of the market is there is still potential appreciation [for the Chinese yuan] in the near term," said **Khoon Goh**, a currency strategist at ANZ Bank. "The yuan still offers some decent yields. With the ECB joining the stimulus party with their policy actions as well, the market is of the view that carry trades are the way to go."

## Smart Beta Investing, North America Report

Published June 2014



The second annual report bringing together asset owners, smart beta fund managers, ETF and index providers, stock exchanges, data providers and other stakeholders to explore the growth of Smart Beta funds as an alternative to pure passive or active strategies.

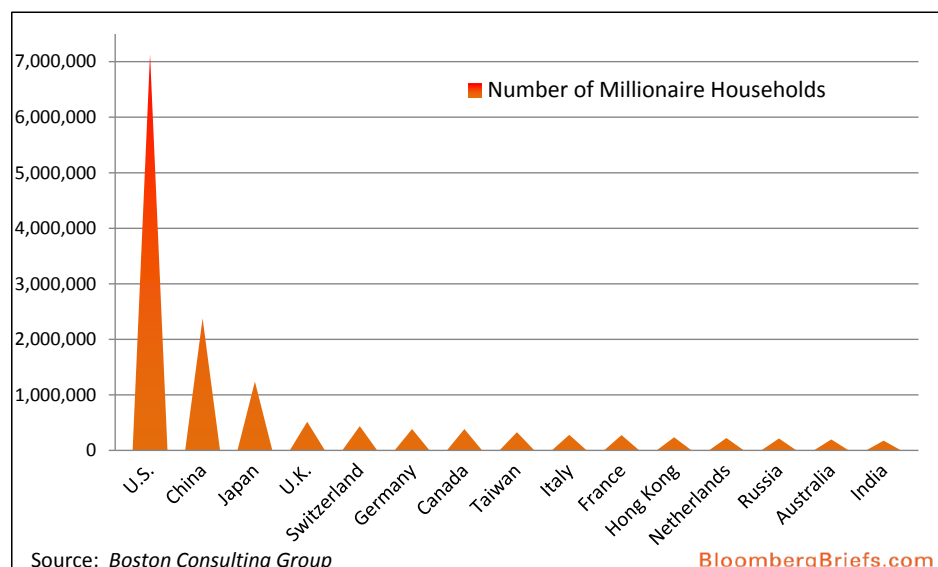
**DOWNLOAD THIS REPORT & OTHER  
FREE FINANCIAL REPORTS FROM  
[WWW.CLEARPATHANALYSIS.COM](http://WWW.CLEARPATHANALYSIS.COM)**



Clear Path Analysis specialise in the publishing of high quality, free online reports in the financial services and investment sectors.

FOR MORE INFORMATION: [www.clearpathanalysis.com](http://www.clearpathanalysis.com) | T: +44 (0) 207 822 8559 | E: [marketing@clearpathanalysis.com](mailto:marketing@clearpathanalysis.com)

## Millionaire Households Hit 16.3 Million in 2013



Rising stocks contributed to the number of U.S.-dollar millionaire households growing by 19 percent in 2013 to 16.3 million worldwide, according to a report by the Boston Consulting Group. The U.S. accounted for almost 44 percent of them, while the U.K. had the most in Europe. Qatar had the highest density of millionaires at 175 out of every 1,000 households. — Niraj Shah, Bloomberg Economist

## AROUND THE WEB

New research and commentary on the Web

**A New York Fed staff report** examines liquidity risk and U.S. bank lending at home and abroad. "While the balance sheet structure of U.S. banks influences how they respond to liquidity risks, the mechanisms for the effects on and consequences for lending vary widely across banks. We demonstrate fundamental differences across banks without foreign affiliates versus those with foreign affiliates." <http://goo.gl/ZWjKuf>

**An IMF working paper** takes a look at small and medium size enterprises, credit supply shocks and economic recovery in Europe. "The limited access to bank credit in recent years has increased the pressure on small and medium size enterprises (SMEs), forcing them to scale down investment plans and production." <http://goo.gl/A1gEgV>

**Carlos A. Vegh and Guillermo Vuletin, writing for Vox**, look at the question of whether fiscal policy should be pro- or countercyclical. "This column provides causal evidence from South American countries showing the success of countercyclical policy in improving social indicators of economic success, combined with correlative evidence from Europe. This represents a strike against the case for austerity-led growth." <http://goo.gl/7JXnIC>

## OVERNIGHT

BY BLOOMBERG NEWS

### Asia

■ **Australian** employers unexpectedly cut **payrolls** in May, underscoring the likelihood interest rates will remain at a record low. The number of people employed fell by 4,800. That compares with the median estimate for a 10,000 increase in a Bloomberg News survey. The jobless rate held at 5.8 percent.

■ **China's new yuan loans** and money-supply topped estimates in May. Local-currency loans were 870.8 billion yuan (\$140 billion), the People's Bank of China said exceeding the 750 billion yuan median estimate of economists. **M2**, the broadest measure of money supply rose 13.4 percent, compared with a median projection for 13.1 percent.

■ The **Bank of Korea** left its **7-day repurchase rate** unchanged for the 13th straight month at 2.5 percent as predicted by all economists surveyed by Bloomberg. **Bank Indonesia** held its reference interest rate at 7.5 percent for a seventh straight meeting.

### Europe

■ **France's May consumer price index** rose 0.7 percent from a year earlier in line with economists' predictions. The previous month's figure was also 0.7 percent.

■ **Turkey's current account deficit** for April widened to \$4.79 billion after a revised deficit of \$3.28 billion was reported for the previous month. The result was broadly in line with survey expectations which predicted a deficit of \$4.9 billion.

■ **Hungary's WDA April industrial production** rose 10.1 percent year on year. The result was the same as that posted for the previous month.

■ **Sweden's CPI headline rate** for May was down 0.2 percent from a year ago, in line with the median forecast. The monthly underlying inflation rate was up marginally at 0.1 percent compared to 0.4 percent for the prior release.

■ The **Eurozone's seasonally adjusted industrial production** was up 0.8 percent from the previous month compared to an estimate of 0.5 percent. The yearly WDA figure was up 1.4 percent.

The Web's best **Economics Blogs** are on Bloomberg. **Click** {STNI BESTECONOMICSBLOGS <go>}



## GDP WATCH

ALICIA GARCIA HERRERO, BBVA, CHIEF ECONOMIST FOR EMERGING MARKETS

### China Casts a Long Shadow on Latin America Copper

China's economic slowdown may affect South America more than its Asian neighbors. As one of the world's main commodity consumers, a slowdown of China's economy will impact both the volume and prices of commodity exports — including those from commodity-dependent South American countries. This is all the more evident as China rebalances its economy away from investment-led growth.

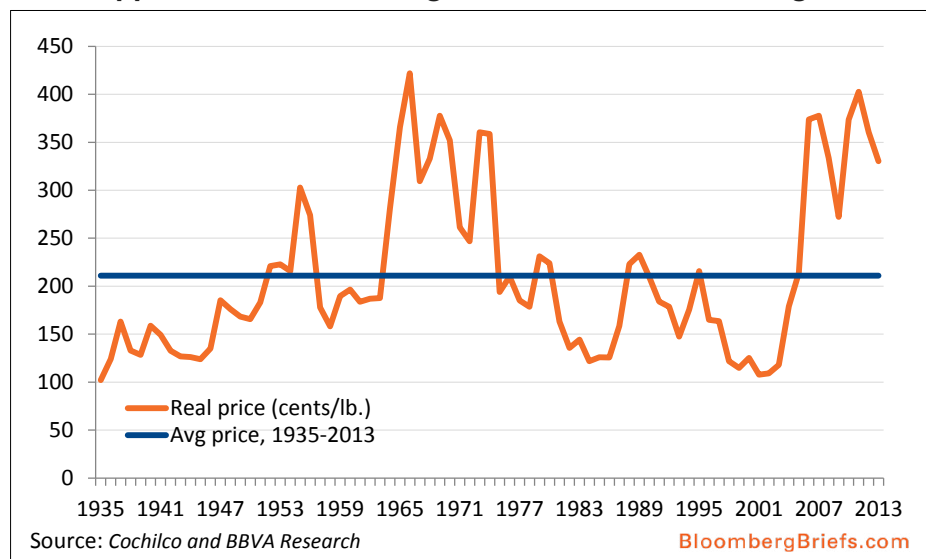
Copper is probably the clearest example of a commodity that has suffered from China's rebalancing. The so-called super cycle of copper prices began in 2004, when the value of the metal shot well over its historical average. Although prices have fallen during the last two years, its value remains high from a historical perspective.

While experts have debated the reasons for this super cycle, China generally stands out as one of the main drivers. Between 2003 and 2012, the country more than doubled its share of world copper consumption, climbing to 43 percent from 20 percent of the total. This accounts for more than 100 percent of the increase in world consumption during that period. To a large extent, this greater demand for copper has been fueled by China's investment binge, especially in real estate and infrastructure.

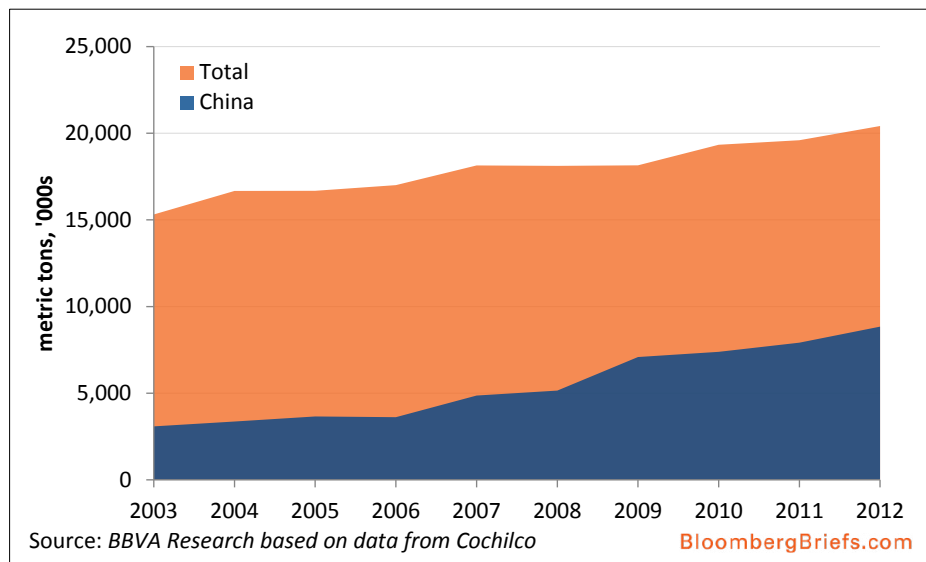
China's slowdown, as well as its gradual rebalancing away from investment and towards consumption, led to an 8 percent fall in the price of copper during the beginning of 2014 — its lowest level since July 2010. Concerns about the sustainability of Chinese shadow banking are also negatively impacting copper prices, as the metal is increasingly being used as collateral. Copper imports have plummeted (from 52 percent growth in April to 5.9 percent in May) possibly as a reaction to regulators' crackdown on the use of copper as collateral. This effect is significant, and on par with the slowdown in construction and investment in general.

Not everything that happens to copper prices is related to China — supply factors are another critical component. Overreactions by suppliers following several years of high copper prices have contributed to a surplus in global markets. Between 2004 and 2012, global demand for refined copper grew by 3.3 percent on average,

#### Real Copper Prices Remain Higher Than Historical Average



#### Chinese Copper Consumption Climbing Versus Global Total



compared to 2.5 percent growth in global supply. This trend has reversed in recent years, as global supply grew an estimated 4.8 percent in 2012 and 6.8 percent in 2013. For this reason, the refined copper market will report a surplus between 2013 and 2015, suggesting that prices will continue to drop. Falling prices should have a self-correcting effect on supply, and lead

to a deficit versus demand by 2018.

The bottom line is that copper prices will continue to face downward pressure as China's growth slows, but supply factors should put a floor under the fall in the medium term. Growth in India and other emerging Asian economies should also help create new sources of demand, mitigating reduced demand from China.

## DATA WATCH

RICHARD YAMARONE, BLOOMBERG ECONOMIST

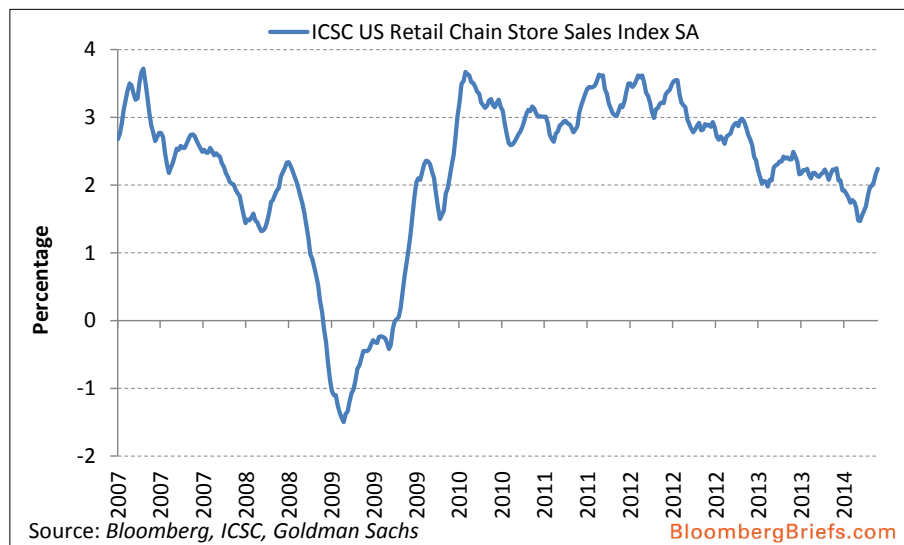
### U.S. Retail Sales May Beat Consensus Forecast

Economists polled by Bloomberg are expecting total retail sales to advance by 0.6 percent in May, after April's 0.1 percent increase. Several reasons support a stronger than consensus posting.

First, advance retail sales are not adjusted for inflation, so month-to-month gains or losses are a function of price and volume. Since we know that several prices increased last month – autos, gasoline, food, many basic materials – there's a good chance that spending at motor vehicle dealerships, gasoline stations, grocery stores and building material stores registered strong gains.

Related indicators support a stronger headline number as well: The Richmond Fed's retail revenues index soared to 53 in May from a minus 4 in April, and the Retail big ticket sales index climbed to 25, up from a minus 24 in April. The Retail Shopper Traffic index was 26 in May, a strong reversal from minus 28 the previous month.

### ICSC-Goldman Sachs Weekly Retail Sales Index Rebounding



Finally, the International Council of Shopping Centers-Goldman Sachs weekly

gauge of retail activity has trended higher in recent weeks after a long downward trend.



### GET THE MARKET INFORMATION YOU NEED TO KNOW WITH MV PRO+, THE ULTIMATE TRADING TOOL.

MV PRO+ alerts traders, portfolio managers, and financial advisors alike to profitable stock, bond, options, and commodity trading ideas -- in real time. This desktop app updates all day long and serves as a virtual trading desk on your PC or mobile device.

### ENJOY THESE BENEFITS:



Fast and unique trading ideas that can make you money, from 30+ market professionals, including Todd Harrison, Jeff Cooper, and Brandon Perry.



Complete access to premium articles filled with market commentary that will keep you informed and entertained -- all brought to you by Minyanville, a trusted name in financial media for over 12 years.



Live webcasts covering a wide range of topics, from global economic news to geopolitics.



All-day access to smart market analysis.

**NO OBLIGATIONS. NO CONTRACT. NO COMMITMENT. JUST MONEY WAITING TO BE MADE.**

## GET STARTED TODAY!

Visit [mvp.minyanville.com/go-mv-pro-plus/](http://mvp.minyanville.com/go-mv-pro-plus/) or call (212) 991-6200 EXT 1115

## TAKING CREDIT

CHASE VAN DER RHOER, BLOOMBERG APPLICATION SPECIALIST

### Performance Will Come From 'Non-Consensus' Ideas, Iraq May Be One



Chase takes a look at yesterday's trading in credit default swap indexes and corporate bonds against the backdrop of broader investor sentiment, the equity markets and monetary policy changes.

While low volatility markets have translated into disappointing performance for many hedge funds, there are exceptions.

Man Group Plc has been seeking to acquire those that specialize in quantitative strategies such as Pine Grove Asset Management LLC, which Man agreed to buy on June 9. These funds often apply sophisticated relative value techniques to undervalued ideas that have long-term potential.

In 2005, Byron Wien, then a senior strategist at Morgan Stanley (now at Blackstone), said "performance will come from having a substantial weighting in a number of non-consensus ideas that turn out to be right."

It's for this reason some may have noticed this week that Iraq 5-year CDS has tightened from 500 basis points to 250 basis points and that the Iraq 5.8 percent January 2028 bonds rallied from \$80 to \$96 between September and June.

Iraq 5.8s fell to \$90 yesterday after fighters from a breakaway al-Qaeda group took control of the northern city of Mosul. Oddly, the CDS market tightened, while the Bloomberg VCDS credit spread term structure model pointed to a theoretical bond price north of \$100.

Traders are probably aware that the fighting doesn't pose an immediate threat to the southern provinces, which account for the majority of oil reserves. "If violence can stay away from the oil region, you'll probably see a rebound in asset prices," said Anthony Simond at Aberdeen Asset Management Plc to Bloomberg News. "The ability to pay is there, and the willingness to pay is there at the moment."

As Byron Wien said, clients have to recognize that "above-average volatility may be a characteristic of superior investment performance."

Contact Chase at [cvdr1@bloomberg.net](mailto:cvdr1@bloomberg.net)

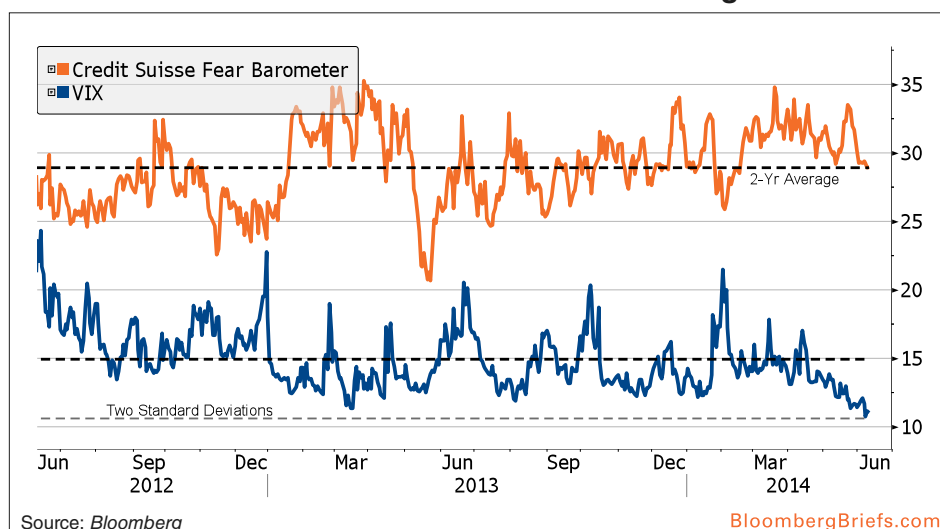
#### U.S. CDS INDEXES

IG	58	(+1)
HY	303	(+5)
EM	242	(+6)

#### EUR CDS INDEXES

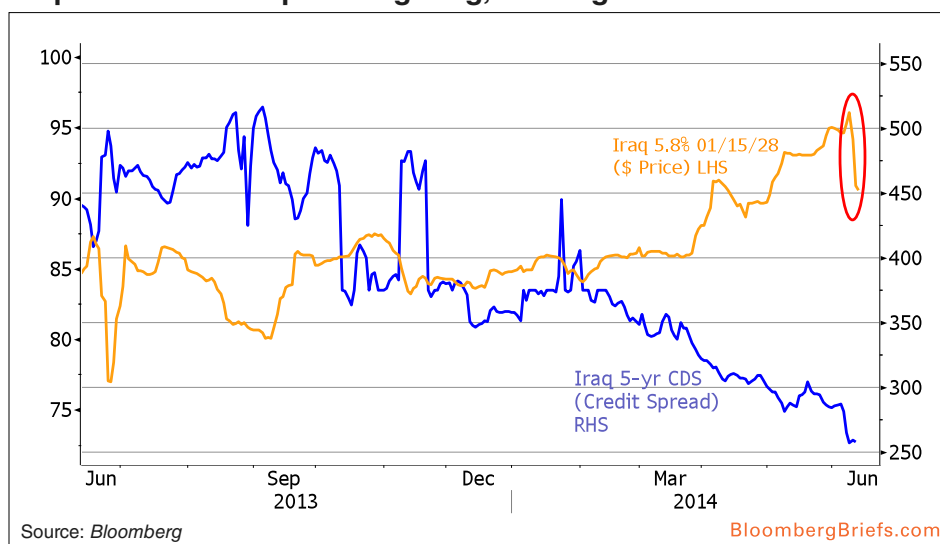
ITRAXX	60	(+2)
HIVOL	72	(unchanged)
XOVER	231	(+6)

#### VIX Two Standard Deviations Below Two-Year Average



While the VIX is about two standard deviations below its two-year average, the Credit Suisse Fear Barometer is close to its average. The barometer measures investor sentiment for three-month horizons by pricing a zero-cost collar; selling a 10 percent out-of-the-money S&P 500 call option and using the proceeds to buy an OTM put.

#### Iraq Bond Price Drops on Fighting, CDS Tightens



MARKET INDICATORS

MSCI EQUITY INDICES										10Y GOVERNMENT BOND YIELDS									
TICKER	COUNTRY	LAST PRICE	1D %Chg	YoY %Chg	52W Min	Average Last	52W Max	FORW. PE 12M		TICKER	COUNTRY	LAST YIELD	1D CHG BPS	YoY BPS	52W Min	Average Last	52W Max	5Y CDS	
North America										North America									
MXCA Index	Canada	1876.5	-0.1%	23.1%	1495		1878	14.7		GCAN10YR Index	Canada	2.34%	-0.3	16.8	2.1		2.8	n.a.	
MXUS Index	U.S.	1859.1	-0.3%	20.9%	1499		1866	15.8		USGG10YR Index	U.S.	2.65%	1.2	42.3	2.1		3.0	17.9	
Latin America										Latin America									
MXAR Index	Argentina	2470.0	-3.1%	88.9%	1,202		2548	7.5			Argentina							1740	
MXBR Index	Brazil	2450.3	0.6%	5.8%	1,916		2548	9.8		GEBR09Y Index	Brazil	11.91%	-1.9	230.2	10.5		13.5	136.0	
MXCL Index	Chile	1824.9	-0.8%	-11.4%	1,577		2122	15.5			Chile							69.8	
MXCO Index	Colombia	1158.7	0.5%	6.5%	888		1201	15.5		COGR10Y Index	Colombia	6.33%	-1.7	-35.9	6.1		7.6	77.6	
MXMX Index	Mexico	7023.9	0.0%	7.6%	5,951		7194	17.8		GMXM10YR Index	Mexico	5.69%	-0.6	20.9	5.3		6.7	67.4	
MXPE Index	Peru	1201.3	-0.6%	1.2%	1,020		1238	13.5		GRPE10Y Index	Peru	5.35%	-3.0	n.a.	5.0		6.6	81.1	
Europe										Europe									
MXAT Index	Austria	116.9	-0.2%	6.4%	101		127	11.4		GAGB10YR Index	Austria	1.73%	1.4	-28.7	1.5		2.5	25.3	
MXBE Index	Belgium	79.6	-0.3%	20.4%	62		80	16.8		GBGB10YR Index	Belgium	1.87%	0.5	-54.5	1.8		2.9	35.6	
MXCZ Index	Czech Rep.	287.7	-0.1%	15.0%	223		288	13.0		CZGB10YR Index	Czech Rep.	1.55%	-0.6	-50.9	1.6		2.6	43.2	
MXDK Index	Denmark	6296.5	0.9%	36.0%	4,322		6299	17.6		DKGB10YR Index	Denmark	1.77%	2.2	8.4	1.4		2.2	24.2	
MXFI Index	Finland	104.5	0.3%	38.5%	74		105	16.4		FIN10YR Index	Finland	1.62%	0.6	-25.3	1.6		2.3	24.0	
MXFR Index	France	127.9	0.3%	20.6%	100		129	14.1		GFRN10 Index	France	1.76%	0.5	-43.6	1.7		2.6	36.5	
MXDE Index	Germany	132.8	0.1%	19.4%	105		134	13.0		GD8R10 Index	Germany	1.41%	1.0	-17.8	1.3		2.0	19.9	
MXGR Index	Greece	20.6	-0.9%	63.5%	12		22	27.0		GGGB10YR Index	Greece	5.72%	-0.3		5.6		11.7	n.a.	
MXHU Index	Hungary	886.0	0.0%	-17.7%	749		1087	10.4		GHGB10YR Index	Hungary	4.42%	3.0	-196.0	4.4		6.8	167.1	
MXIE Index	Ireland	38.9	-0.2%	40.1%	27		43	19.6		IGIB10YR Index	Ireland	2.42%	-0.7	na	2.4		4.3	42.5	
MXIT Index	Italy	64.3	-0.1%	38.8%	43		66	13.9		GTPGR10 Index	Italy	2.81%	1.9	-157.3	2.7		4.9	88.3	
MXNL Index	Netherlands	102.9	0.2%	19.4%	82		103	14.3		GNTH10YR Index	Netherlands	1.65%	0.7	-31.5	1.6		2.5	26.7	
MXNO Index	Norway	2882.1	-0.1%	23.6%	2,256		2902	12.0		GNOR10YR Index	Norway	2.66%	0.5	23.5	2.4		3.3	13.5	
MXPL Index	Poland	1783.6	-0.5%	2.4%	1,543		1852	13.3		POGB10YR Index	Poland	3.53%	-3.6	-37.1	3.5		4.9	59.9	
MXPT Index	Portugal	58.2	0.3%	13.5%	47		59	18.0		GSPT10YR Index	Portugal	3.31%	-1.1	-310.6	3.3		7.5	142.8	
MXRU Index	Russia	744.8	0.1%	7.9%	591		841	na		RUGE10Y Index	Russia	4.42%	0.7	47.4	3.7		5.7	176.4	
MXES Index	Spain	123.9	0.2%	41.9%	81		125	15.5		SGPG10Y Index	Spain	2.66%	2.6	-196.3	2.6		5.1	65.3	
MXSE Index	Sweden	10617.1	0.0%	17.9%	8,495		10667	15.9		GSGB10YR Index	Sweden	1.82%	0.1	-16.6	1.8		2.7	13.7	
MXCH Index	Switzerland	1128.4	-0.2%	14.0%	938		1136	16.0		GSWS10 Index	Switzerland	0.77%	0.0	-3.9	0.7		1.3	na	
MXGB Index	U.K.	2014.4	-0.1%	8.1%	1,783		2029	13.5		GUGK10 Index	U.K.	2.74%	2.6	59.3	2.1		3.1	20.5	
Middle East & Africa										Middle East & Africa									
MXEG Index	Egypt	1656.9	0.6%	61.6%	992		1670	10.3			Israel		2.96%	-2.0	-93.0	2.9		4.1	81.6
MXIL Index	Israel	235.6	-0.2%	22.4%	179		242	10.5											
MXJO Index	Jordan	222.8	0.1%	9.5%	172		245	n.a.											
MXMA Index	Morocco	273.8	0.0%	0.0%	247		292	13.4											
MXZA Index	South Africa	1245.6	0.0%	31.6%	916		1249	14.1		GSAB10YR Index	South Africa	8.43%	-1.5	79.5	7.3		8.9	179.0	
Asia/Pacific										Asia/Pacific									
MXAU Index	Australia	1113.1	-0.4%	15.1%	956		1137	14.5		GACB10 Index	Australia	3.82%	-2.6	36.6	3.4		4.4	n.a.	
MXCN Index	China	61.5	-0.4%	8.2%	51		66	8.7		GCNY10Y Index	China	4.09%	0.0	63.0	3.5		4.7	71.2	
MXHK Index	Hong Kong	12430.6	-0.1%	12.1%	10600		12599	14.6		HKGG10Y Index	Hong Kong	2.13%	3.8	50.5	1.6		2.6	n.a.	
MXID Index	Indonesia	5786.6	-1.0%	8.5%	4,487		5959	14.0		GIDN10Y Index	Indonesia	8.04%	-0.6	152.6	6.4		9.2	141.5	
MXIN Index	India	959.7	0.0%	29.4%	699		963	15.6		GIND10YR Index	India	8.53%	-0.2	123.9	7.3		9.2	n.a.	
MXJP Index	Japan	762.1	-0.1%	11.8%	648		808	13.2		GIGB10 Index	Japan	0.60%	-0.2	-28.2	0.6		0.9	37.3	
MXKR Index	Korea	587.7	-0.4%	8.1%	509		605	9.1		GVSK10YR Index	Korea	3.36%	1.5	15.5	3.2		3.8	52.3	
MXMY Index	Malaysia	660.9	-0.3%	3.3%	603		669	15.2		MGY10Y Index	Malaysia	4.06%	-0.2	58.9	3.5		4.3	83.4	
MXNZ Index	N. Zealand	113.4	0.5%	12.3%	99		119	17.9		GNGB10Y Index	N. Zealand	4.45%	3.3	75.3	3.7		4.8	n.a.	
MXPH Index	Philippines	1168.2	0.5%	8.3%	941		1184	18.4		PDSF10Y Index	Philippines	4.19%	4.7	64.6	3.5		4.6	83.8	
MXPK Index	Pakistan	548.5	-0.4%	10.8%	445		552	8.2		PKB10YR Index	Pakistan	13.00%	0.0	224.0	10.8		13.1	n.a.	
MXSG Index	Singapore	1750.1	0.1%	5.8%	1,579		1756	n.a.		MASB10Y Index	Singapore	2.43%	3.0	29.0	2.1		2.8	n.a.	
MXTH Index	Thailand	505.1	-0.7%	2.1%	432		535	12.1		GVTL10YR Index	Thailand	3.81%	1.2	31.5	3.4		4.4	113.6	
MXTR Index	Turkey	1132939	-0.5%	4.3%	866K		1175K	10.9			Turkey							174.2	
OTHER INDICATORS										CURRENCIES									
TICKER	SPREAD/RATE/INDEX	LAST PRICE	1D Chg bps/%	YoY bps/%	52W Min	Average Last	52W Max	1Y Z-SCORE		TICKER	CURRENCY	LAST PRICE	1D %CHG	YoY %CHG	52W Min	Average Last	52W Max	1Y Z-SCORE	
Fixed Income										Americas									
\$\$\$SWAP10 Curncy	10Y US Swap Spread	10.5	0.0	-8.9	7		26	(0.3)		ARS Curncy	Argentine Peso	8.13	0.0%	-34.7%	5.3		8.1	9.6	
\$\$\$SWAP2 Curncy	2Y US Swap Spread	14.5	0.0	-2.5	4		20	(0.1)		BRL Curncy	Brazilian Real	2.23	0.4%	-4.5%	2.1		2.5	1.0	
USGGBE01 Index	1Y Breakeven Rate	1.3	0.0	0.8	(0.2)		2.1	0.3		CAD Curncy	Canadian Dollar	1.09	-0.1%	-5.9%	1.0		1.1	3.3	
2Y10Y Index	2Y10Y Spread	221.2	0.4	na	186		265	(7.9)		CLP Curncy	Chilean Peso	554.81	0.1%	-9.6%	492.6		574.3	4.5	
10YV3MSP Index	3M10Y	262.1	7.4	43.8	209		297	1.4		COP Curncy	Colombian Peso	1883.00	0.0%	1.2%	1872.9		2055.3	0.8	
1ED3M Index	3M Ted Spread	19.9	0.5	-2.8	14		26	(1.5)		MXN Curncy	Mexican Peso	13.02	0.1%	-0.7%	12.5		13.5	0.9	
1LBORIS Index	3M Libor/OIS	13.3	-0.4	-3.2	13		17	(2.2)		Europe									
JPEIPLSP Index	EMBI+ Spread	283.6	5.6	-53.9	274		405	(0.2)		GBP Curncy	British Pound	1.68	0.3%	7.3%	1.5		1.7	3.2	
AAA10Y Index	IG Corp Spread	165.7	-1.4	-39.5	150		206	(2.5)		CZK Curncy	Czech Koruna	20.28	0.0%	-5.5%	18.6		20.4	2.1	
AAABAA Index	IG HY Corp Spread	54.0	0.0	-34.0	54		108	(5.0)		DKK Curncy	Danish Krone	5.52	0.0%	1.4%	5.4		5.8	-1.9	
MUNSMNT01 Index	Muni Spread	90.8	1.0	-13.6	86		115	(1.9)		EUR Curncy	Euro	1.35	0.0%	1.4%	1.3		1.4	1.9	
	Equity									HUF Curncy	Hungarian Forint	226.37	0.3%	-1.7%	211.7		232.3	0.5	
VIX Index	CBOE VIX Index	11.6	0.6	-7.0	10.7		21.4	(1.6)		NOK Curncy	Norwegian Krone	6.00	0.0%	-4.1%	5.7		6.3	1.3	
SKEW Index	CBOE Skew Index	126.7	1.3	9.7	112.9		143	(1.9)		PLN Curncy	Polish Zloty	3.04	0.1%	5.2%	3.0		3.4	-2.2	
COMMODITIES										Americas									
TICKER	COMMODITY	LAST PRICE	1D %Chg	YoY %Chg	52W Min	Average Last	52W Max	RSI 30D		TICKER	CURRENCY	LAST PRICE	1D %CHG	YoY %CHG	52W Min	Average Last	52W Max	1Y Z-SCORE	
Agricultural										Europe									
C 1 Comdty	Corn	442.3	0.3%	-32.0%	412		717	38.4		TRY Curncy	Turkish Lira	2.11	-0.2%	-11.2%	1.9		2.3	3.2	
KC1 Comdty	Coffee	170.3	-0.8%	38.7%	102		212	46.2		UAH Curncy	Ukrainian Hryvnia	11.70	0.1%	-30.4%	8.1		12.7	(110.3)	
SB1 Comdty	Sugar	16.8	-0.4%	3.3%	15		20	46.2		Middle East & Africa									
W 1 Comdty	Wheat	592.5	0.6%	-13.3%	552		732	37.0		ILS Curncy	Israeli Shekel	3.46	0.0%	4.7%	3.4		3.7	(-2.1)	
Metals										Asia/Pacific									
LA1 Comdty	Aluminum	1834.0	0.2%	0.5%	1,641		1899	55.4		ZAR Curncy	S. African Rand	10.75	0.0%	-5.9%	9.6		11.3	2.6	
HG1 Comdty	Copper	304.5	0.1%	-5.6%	298		347	44.7		AUD Curncy	Australian Dollar	0.94	0.1%	-1.0%	0.9		1.0	-1.0	
GC1 Comdty	Gold	1260.4	0.0%	-9.4%	1,195		1421	44.4		CNY Curncy	Chinese Renminbi	6.22	-0.1%	-1.4%	6.0		6.3	0.7	
S11 Comdty	Silver	19.2	0.3%	-11.8%	19		25	46.9		HK									





## KEENE'S CORNER

**Michelle Girard, chief economist/managering director, Royal Bank of Scotland, on why asset price inflation may be a bigger problem than consumer price inflation.**

**Q: As we look at the American economy, I'm sort of lost. I can't get my hands on where consensus is.**

**A:** First of all, the data have been all over the place with the noise of the weather, and different data doing different snapshots at different times. Let's face it, many people came into the year really optimistic about the outlook, that this was going to be the year that we finally achieved some traction. And I was a little skeptical. Through all the noise of the data, when you step back, I think it does kind of bear out our general feeling, which is that the economy is growing. It's not that the economy is weak at all, it's growing. It's improving. It's going to be better I think on an underlying basis this year than last year. But it's still not growing fast enough for people. It's still not going to be a 3 percent-plus year as many people had hoped.

**Q: What really matters is the trend in the last two quarters of the year. That's what Fed officials have been saying lately. The St. Louis Fed's Jim Bullard is thinking that if we can get to 3 percent this quarter, we can get to 3 percent next two quarters.**

**A:** You're exactly right. From just looking at the weakness in the first part the year statistically, even with better than 3 percent growth for the year and fourth quarter, which is how the Fed looks at it, you're not going to be much above 2 percent. A lot of the noise and the data, particularly with GDP, has been due to inventories and trade. That was really why you had a negative GDP print in the first quarter. We look at one of these calculations, final sales to domestic purchases, which strips out inventories and trade, that number was up 0.6 percent in the first quarter. It's going to be even better in the second

quarter. I think it is going to be about 2.5 percent this year. That's why I think the underlying trend is around that level. That's really a domestic demand measure. And that tells me that the underlying economy is still kind of falling short.

**Q: As an economist, you look at the equity market as sort of an indicator of vibrancy. Are we taking too far the nominal GDP buoyancy that leads to expectations of better earnings and high stock prices?**

**A:** When I step back, particularly in the corporate sector, we've got strong corporate balance sheets. We've got earnings numbers that are still good. Companies can make money even in a relatively modest growth environment. Corporate profits as a percent of GDP are at all time highs. So, when people say, 'oh, the only reason the equity market is where it is is because of the Fed and all the liquidity that's being provided.' I guess I take a bit of an exception to that. I mean I can't tell you whether we should pull 4 percent or 5 percent. But I don't think it's all about the Fed and the Fed is pushing bond prices higher. I think there's a fundamental piece here that is supportive of the equity market.

**Q: If the economy is growing perhaps a bit slower than people anticipate, then that would put you, I assume, on the side of the inflation-is-not-a-problem angels.**

**A:** Right. We do have inflation in our forecast moving up very gradually toward the Fed's 2 percent target. What worries me though is not consumer price inflation. It's asset price inflation. I'm not sure that the end results of all of this Fed liquidity, which I think ultimately is probably an overly accommodative policy, will show itself in the form of higher inflation. What I fear is that while consumer price inflation looks very tame, there is asset price inflation that ultimately may be the consequence of this easy money, and that may be what's coming home to roost as opposed to a higher reported CPI inflation rate. We think the first Fed rate increase will come in September 2015. Ultimately, I think the pace of tightening will probably be faster than what they're indicating. Right now, they're signaling 2.33 percent at the end of 2015. I think they're going to have to move quicker than that.

(This interview was condensed and edited.)

*Today's guests:*

*Robert Wolf, 32 Advisors; Drew Matus, UBS; David Gergen, Harvard University; Susan Anderson, FBR; Mark Kiesel, Pimco*

**On Air** Listen on the radio at these regularly scheduled times and dates.

**SURVEILLANCE**

Weekdays 7:00 AM-10:00 AM.

Tom Keene joins Ken Prewitt for Bloomberg Surveillance

**BLOOMBERG ON THE ECONOMY**

Monday-Thursday 7:00-8:00 PM.

Tom Keene interviews high-profile guests and looks at the economy.

**PodCast** Listen on the web at

<http://www.bloomberg.com/podcasts/surveillance/>

Also available on the Bloomberg terminal: BPOD <GO>

**Twitter / On Demand** Full interviews are available at

Tom Keene on Demand <http://www.bloomberg.com/tvradio/> radio/ and follow him on twitter @tomkeene

### Bloomberg Brief Economics

**Bloomberg Brief Executive Editor** Ted Merz  
tmerz@bloomberg.net  
+1-212-617-2309

**Bloomberg News Executive Editor** Dan Moss  
dmoss@bloomberg.net  
+1-212-617-1881

**Bloomberg Brief Managing Editor** Jennifer Rossa  
jrossa@bloomberg.net  
+1-202-624-8074

**Economics Newsletter Editors** Kevin Depew  
kdepew2@bloomberg.net  
+1-212-617-3131

Jennifer Bernstein Scott Johnson  
jbernstein60@bloomberg.net sjohnson166@bloomberg.net  
+852-2977-6733 +44-20-3525-8027

**Global Head of Economics** Michael McDonough  
mmcdonough10@bloomberg.net  
+1-212-617-6815

#### Staff Economists

Joseph Brusuelas David Powell  
jbrusuelas3@bloomberg.net dpowell24@bloomberg.net  
+1-212-617-7664 +44-20-7073-3769

Richard Yamarone Niraj Shah  
ryamarone@bloomberg.net nshah185@bloomberg.net  
+1-212-617-8737 +44-20-7330-7383

Tamara Henderson Tom Orlik  
thenderson14@bloomberg.net torlik4@bloomberg.net  
+65-6212-1140 +86-10-6649-7211

Maxime Sbailhi Josh Wright  
msbailhi1@bloomberg.net jwright136@bloomberg.net  
+44-20-3525-4538 +1-212-617-3794

**Newsletter Business Manager** Nick Ferris  
nferris2@bloomberg.net  
+1-212-617-6975

**Advertising** Adrienne Bills  
abills1@bloomberg.net  
+1-212-617-6073

**Reprints & Permissions** Lori Husted  
lori.husted@theygsgroup.com  
+1-717-505-9701

To subscribe via the Bloomberg Terminal type **BRIEF <GO>** or on the web at [www.bloombergbriefs.com](http://www.bloombergbriefs.com).

To contact the editors: [econbrief@bloomberg.net](mailto:econbrief@bloomberg.net)

This newsletter and its contents may not be forwarded or redistributed without the prior consent of Bloomberg. Please contact our reprints and permissions group listed above for more information

© 2014 Bloomberg LP. All rights reserved.

**Subscribe NOW** Call +1-212-617-9030 or visit [www.bloombergbriefs.com](http://www.bloombergbriefs.com)