Financial Markets... The U.S. dollar fell for a second day versus the yen, weakening 0.4% to 90.50 yen in Tuesday morning trade, before a report on U.S. consumer confidence for January and as investors watched a Federal Reserve two-day meeting that may signal a change to its third round of asset-buying program. The greenback also weakened against most of its 16 major counterparts.

The Italian government sold €8.5 billion ($11.4 billion) of 181-day Treasury bills on Tuesday as borrowing costs fell to the lowest in nearly three years. The new bills were priced at 0.731%, the lowest rates since March 2010 and down from 0.949% at the auction of similar-maturity debt in December. Investor demand was strong despite rising political concerns before February national election.

Developing-country equities rose for the first time in five days, with the MSCI Emerging Market Index climbing 0.6% from a four-week low level, as technology stocks rallied. South Korea’s Kospi index gained 0.8%, while China’s Shanghai stock index rose 0.5%, extending its gains since Dec. 3 to 20%, a threshold indicating a bull market. Meanwhile, India’s Sensitive Index fell 0.4% even after the central bank cut interest rates.

High-income Economies... The S&P/Case-Shiller 20-city index of home prices in the US edged down 0.1% (m/m) in November mainly due to the seasonally weak time of the year. On a seasonally adjusted basis, however, home prices rose 0.5% (m/m) in November and were 5.5% higher than a year earlier, suggesting that the US housing market continues to be on the mend.

German consumer confidence improved slightly, with the forward-looking GfK consumer sentiment index forecast to edge up to 5.8 in February from 5.7 in January, mainly due to a stable labor market, moderate inflation and higher income expectations. A sub-index of economic expectations rose to -11.3 in January from -17.9 in December.

French consumer confidence remained stable in January, with the Insee’s consumer sentiment index remaining at 86, the same level as December. While fewer households anticipate a rise in unemployment than in December, the sub-index for expectations about the general economy one-year ahead fell to -55 in January from -53 in December.

Spanish retail sales declined at a faster pace in December, falling by 10.7% (y/y) compared with a 7.8% (y/y) fall in November, as an earlier hike in sales tax deterred consumers already suffering from a recession and high unemployment. Retail sales for the whole of 2012 were down 6.8% compared with 2011.
Poland’s GDP growth slowed to 2.0% (y/y) in 2012, its slowest pace in three years, from 4.3% in 2011, with the Euro Area economic downturn and subdued domestic demand contributing to the weaker outturn.

Hungary’s central bank cut its key policy interest rate by 25 basis points to 5.5%, its sixth consecutive quarter percentage point reduction in the last six months, to support a slowing economy amid moderating inflation.

Developing Economies....India’s central bank cut its key policy repurchase rate by 25 basis points to 7.75% and reduced the cash reserve ratio (CRR) for banks to 4.0% citing tight liquidity conditions. The cut in the CRR should inject around 180 billion rupees into the banking system. India’s main measure of inflation, the wholesale price index inflation, edged down to 7.18% in December from 7.24% in November due a moderation of prices of non-food manufactured products. Food inflation, however, has been moving into the double digits, reflecting cyclical and structural factors, and remains well above the central bank’s 4-5% comfort zone.

Colombia’s central bank cut its benchmark intervention rate by a further 25 basis points to 4.0% in its fifth policy rate cut since July 2012 for a total reduction of 125 basis points. Colombia’s inflation rate fell to 2.4% (y/y) in December from 2.8% in November – remaining below the 3% long-term inflation target.

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