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AUTHORS **Derek Chen (x-81602)** **Eung Ju Kim (x-85804)**
Gerard Kambou (x-32386)

Global equities advance on strong Chinese data... Eurozone PMI dips as French downturn deepens... China's manufacturing PMI improves in June

Financial Markets

Global stock markets started the second half of 2014 on a strong note, supported by solid Chinese manufacturing data. Encouraging *U.S.* and *Japan* factory figures also pushed shares prices higher. *Europe's* Stoxx 600 index advanced 0.9%, the most in nearly two months, while the benchmark MSCI Asia Pacific index climbed 0.3%, heading for the highest closing in 6 years. The MSCI developing-country stock index also gained 0.1%, after climbing 5.6% in the second quarter, the largest quarter gain since September 2012. U.S. equities opened higher as well with the S&P 500 index rising to a fresh record high.

Ukraine's government bonds retreated on Tuesday as the country's military resumed its campaign against pro-Russian rebels in the violence-torn east, increasing the possibility of a prolonged conflict. The yield on the country's dollar-denominated bonds due in 2017 jumped 29 basis points to 9.10%, the most in two weeks. The country's currency also weakened for the first time in four days, sliding 0.6% to 11.8250 per dollar and extending its depreciation against the dollar in the past 6 months to 30%.

High Income Economies

The Institute for Supply Management (ISM) purchasing managers index (PMI) for the *U.S.* unexpectedly edged down to 55.3 in June from 55.4 in May, although a reading above 50 still indicates growth in the manufacturing sector. Economists had forecast the index to inch up to 55.8. The modest decrease by the headline index was partly due to a slowdown in production growth, as the production index dipped to 60.0 in June from 61.0 in May.

The *Eurozone* unemployment rate remained unchanged at an elevated level in May as flattening recovery in Q2 strained job creation. In line with economists' estimates, the jobless rate held steady at a seasonally adjusted 11.6% in May, after April's figure was revised down from 11.7%. The overall EU28 jobless rate fell marginally to 10.3% in May from 10.4% in April. The lowest rates were registered in Austria, Germany and Malta, while Greece and Spain logged the highest rates.

At the same time, providing some indication that the upturn is losing momentum, the Markit PMI for the *Eurozone* manufacturing sector dipped to a seven-month low of 51.8 in June, down from 52.2 in May and below the earlier flash estimate of 51.9. The decline came as growth of output and new orders slowed. Among member countries, operating conditions brighten in Spain and Ireland, but France fell further into contraction territory.

Developing Economies

East Asia and Pacific

China's official manufacturing Purchasing Managers' Index improved in June, rising to 51.0 up from 50.8 in May. The improvement was broad-based with nine out of the 12 indices showing increases. Meanwhile Markit/HSBC's final estimate of China's manufacturing PMI for June came in at 50.7, slightly less than the flash estimate of 50.8 but up from 49.4 in May, rising above the no-change 50 mark which signals expansion, with new orders and factory output increasing at a fast pace. However, staffing levels remained weak while input costs rose for the first time since December 2013.

South Asia

India's manufacturing sector continued to strengthen in June. HSBC manufacturing PMI rose to 51.5 in June from 51.4 in May. Output and new orders continued to expand as domestic and foreign demand remained robust; but employment in the sector rose marginally, and both input and output prices increased.

Sub-Saharan Africa

South Africa's manufacturing PMI rose to 46.6 in June, up from 44.3 in May, continuing to remain below the no-change 50 mark which indicates contraction. This improvement was due mainly to a sharp increase in the employment index which rose to 49.3 in June from 37.2 in May. Meanwhile, the new sales orders index fell to 43.9 from 44.8; and, reflecting a slowdown in demand, the business activity index declined for the third consecutive month to 39.5 in June, its lowest level since July 2011. The price index in the manufacturing sector rose as weakness in the exchange rate pushed up prices of imported inputs.

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dchen2@worldbank.org or **gkambou@worldbank.org**.