France and Spain successfully sell new government debt at mostly lower yields. France and Spain, both hit by the Standard & Poor’s ratings downgrades last week, sold €14.6 billion ($18.8 billion) of medium- and long-term bonds on Thursday, with both countries paying much lower borrowing costs than at their previous auctions. French government raised €7.97 billion in two-, three-, and four-year notes, just shy of its maximum target of $8 billion, with the average yields on all notes sliding from previous auctions. Spain also drew strong demand at its bond auction, raising €6.61 billion in bonds maturing in 2016, 2019, and 2022, significantly more than €3.5 billion and €4.5 target range. Its 10-year bond offering was priced at a yield of 5.403%, down more than 150 basis points from a previous auction in November. With today’s auction, Spain has completed nearly 20% of annual gross issuance target of $86 billion. Strong demand for French and Spanish bond sales suggest investors aren’t overly worried about ratings downgrades for these countries (in other words, they don’t think they will default on their debt obligations) as market sentiment was upbeat across government bond markets in the region.

U.S. weekly unemployment claims fall by largest amount in over 5 years. With employers firing lesser number of workers, the US labor market continues to show signs of improvement. The US Labor Department reported that the number of people receiving unemployment benefits for the first time fell by 50,000 to a seasonally adjusted 352,000 in the week ending January 14th – the largest drop in weekly unemployment claims since September 2005. In part this sharp drop might have been affected by the Martin Luther King holiday, as many states had their numbers estimated [see Chart at http://prospects or http://www.worldbank.org/prospects]. The four-week moving average, which gives better idea of trends by removing weekly volatilities fell to 379,000, the tenth successive week that it has remained below the critical 400,000 mark. The previous longest stretch of weekly claims remaining below the 400,000 mark during the current recovery was an 8-week period in March and April last year, which coincided with the period when government ramped up hires for temporary census workers.

Among Emerging Markets…In East Asia and the Pacific, the Philippines central bank cut its overnight borrowing rate by a quarter of a percentage point to 4.25%, citing likely external headwinds and a benign inflation outlook for 2012, which allowed scope for a reduction in policy rates to help boost domestic economic activity. Meanwhile, Malaysia’s consumer price inflation eased to a nine month low of 3.0% year-on-year (y/y) in December from 3.3% in November.
In Central and Eastern Europe, Bulgaria's consumer price inflation eased to 2.8% y/y in December, the slowest pace since August 2010, according to the National Statistics Institute of Bulgaria. Georgia's central bank lower its refinancing rate by 25 basis points to 6.5% while monthly inflation slowed to 0.6% (1.9% on y/y basis) in December.

In Latin America and the Caribbean, Brazil's central bank cut its benchmark Selic rate by half a percentage points to 10.5% citing the need to mitigate the effects of a more restrictive global environment without compromising on its goal of lowering inflation to 4.5 percent in 2012.

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