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Mixed outturns for world stock markets. Global equities were mixed on Thursday, with Asian markets trading slightly higher after the Fed's decision to keep interest rates on hold, while bank stocks dragged European markets lower. Investor's in Asian shares were encouraged by a fall in the oil-price (dipping below $135 a barrel), which raised optimism about export growth across the region. The region's benchmark index—the MSCI Asia-Pacific—gained 0.4%, led by electronics makers and banks. About half of region's benchmark indexes climbed, with China up 0.4%, India 1.4%, and Malaysia 0.4%. In contrast, benchmarks in Japan (0.1%) and Korea (0.01%) retreated slightly, led by trading companies.

European equities tumbled Thursday on renewed concern about the health of the financial sector, following a plan by Dutch-Belgian banking group *Fortis* to raise additional cash to boost solvency. Europe's Dow Jones Stoxx-600 Index retreated 1.9% to 290.44 in midday trading, the lowest level since 2005. The index has declined 20% thus far this year. And national benchmarks fell in all of 18 western European markets, with the U.K.'s FTSE-100 index off 1.5%, France's CAC-40 down 1.7% and Germany's DAX falling 1.8%.

Fed affirms no change in Funds rate at 2%. At the conclusion of yesterday's FOMC meeting, it was announced that- after a series of some 7 rate reductions, the Fed funds rate would remain unchanged from its current 2% level. At the same time the Central Bank raised warning flags about potential inflation pressures stemming from the continuing surge in fuels and food prices, "upside risks to inflation have picked up"; and that given signs of a stronger-than earlier anticipated economy (notably as consumers have spent tax rebate checks during May and likely through June), inflation would be placed on the front burner for the time being.

But they noted that financial stress continues at high levels, while pointing to the "elevated state" of some measures of inflation expectations. Moreover, an earlier forecast for a near-term "leveling out" of commodity prices was dropped. "I don't think the Fed is signaling a rate hike as a possibility for their next meeting," notes Carey Leahey of Decision Economics in New York. "Before they would tighten

credit, they would have a statement that would say 'we do have a tightening bias' and they would say that as clearly as they can."

U.S. first-quarter GDP revised up to 1% gain. Second-round revisions to U.S. GDP for the first quarter of the year brought growth higher by 0.1 point to 1% saar, largely on the back of stronger data for exports and for consumer outlays. Consumption spending increased 1.1% during the quarter (saar) up from 1% estimated last month; and net exports contribution to growth increased by 0.1 points, offset to a degree by a downgrading of the buildup in inventories. On balance, this picture provides a slightly better position from which to move into the second quarter.

U.S. sales of existing homes pick up in May. Sales of previously owned homes increased from a record low in May, signs that the substantial price declines of the last year may be pulling-in buyers from the sidelines. Home re-sales increased 2% in the month (m/m), the first such gain in 2008, moderating the year-over year falloff to 16.3% from 18.9% in April. At the same time the median price for existing homes sold during the month picked-up 3.6% (m/m), standing 8.1% below levels of May 2007, representing a modest pull-back [see Daily chart at http://GEM].

"Although it looks like its improving, the housing market still has a long period of adjustment," notes Zach Pandl of Lehman Brothers in New York. "There is still a huge imbalance between sales and inventories." Nonetheless, the pick-up in sales during the month shows that continuing price declines should elicit greater numbers of potential buyers in the next months. According to Mark Zandi of Moody's Economy.com in Philadelphia, "This could mark the beginning of the end to the slide in housing, though there remains a long workout period ahead."

In other U.S. economic news, *initial claims for unemployment insurance* were flat in the latest reporting week at 384,000 persons, but this represented a disappointment to economists' expectations of declining first-time applicants, given that school-leavers would be less likely to be inflating the roles at this point in the season. The number of people now collecting State Unemployment Insurance (SUI) stands at 3.139 million, the highest since 2004. This suggests in turn that labor markets continue sluggish; but rather than engage in large-scale layoffs in response to disappointing sales or financial returns, companies appear to be restricting hiring.

French consumer confidence falters in June. Pulse-taking by the INSEE organization in France has found that household confidence in economic conditions fell to an all-time low in June, battered by rising prices, potential higher interest rates and the strength of the euro affecting export potential. INSEE's index of sentiment dropped to a reading of minus 46, the lowest since the Institute introduced the measure in 1987.

Among emerging markets...in East Asia, *Vietnam's* CPI jumped to 26.8% in June (y/y) the biggest increase since 1992, as food prices surged 74% year-on-year. The government continues to cap gasoline prices, preventing inflation from picking-up at an even faster pace as oil prices reached record highs on international markets. Meanwhile, Vietnam's trade deficit increased to $14.8 billion in the first half of 2008, almost trebling from the same period a year ago,

due to higher import prices- and faster expansion of domestic credit that has fueled an import boom. Steel imports increased 68% year-on-year reaching $4.6 billion. Total imports jumped 60% in the first half of the year to $44.5 billion. Meanwhile exports gained 32% to $29.7 billion in the first half, while crude oil sales increased 49% to $5.6 billion notwithstanding a 12% decline in volume.

Indonesia's government expects growth to range between 6% and 6.4% in 2009, compared to estimated GDP gains of 6.4% in 2008, with inflation to slow to between 5.8 and 6.5%.

In South Asia, *Pakistan's* balance of payments deficit increased to $13 billion in the first eleven months of the fiscal year from $7.2 billion a year earlier, as the trade deficit widened to $18.7 billion from $12.3 billion. In May, exports gained 22.8% (y/y) imports surged 41.2%. The economy is projected to expand 6% this fiscal year down from an earlier estimate of 7.2% and from 7% recorded in the previous fiscal year.

In Central and Eastern Europe, *Turkey's* energy markets regulator approved a 22% increase in electricity prices for industrial users and a 21% increase in tariffs for households effective July 1st, to rein-in losses incurred by power companies due to record oil and gas prices. *Romania's* central bank increased its policy interest rate by 25 basis points to 10% to stem second-round effects of inflation, as the government increased gas prices by 12.5% and electricity prices by 5.3%.

Georgia's economic growth eased to 9.5% in the first quarter of the year from 11.7% in the fourth quarter (y/y), driven largely by trade and investment. Confidence in the *Czech* economy declined by 6.4 points in June, as consumer sentiment dropped 6.2 points and business confidence fell 6.4 points, due to declining external demand and a strong currency, high inflation and expected impacts of current government reforms.

In Latin America, *Brazil's* unemployment rate declined to 7.9% in May from 8.5% in April. *Argentina's* trade surplus eased to $1 billion in May from $1.3 billion a year ago, as exports increased 28% to $6.2 billion while imports jumped 47% to $5.2 billion. Meanwhile the economy expanded 9% in April year-on-year, according to the National Statistics Institute.

In Sub-Saharan Africa, *South Africa's* government will raise gasoline prices by about 8% next month, with the price for the benchmark grade rising 80 cents per liter to 10.76 rand per liter in the commercial province of Gauteng, according to Nhlanhla Gumede, the deputy director general of hydrocarbons. Furthermore producer price inflation accelerated to 16.4% in May (y/y), the fastest pace since 1989, on account of higher prices for steel- and for imported goods used in manufacturing, which were up 23%. *Zambia's* trade surplus increased to 120.5 billion kwacha ($37.7 million) from 24.5 billion kwacha in April as exports dropped 23% while imports declined 29%. Refined copper continues to account for more than 80% of exports. The country's consumer price inflation accelerated to 12.1% in June (y/y) from 10.9% the previous month, due largely to higher food prices.

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