Global markets: equities and commodities rally, government bonds continue to fall. Global stocks and commodities rallied as the fresh optimism about European debt crisis boosted investor sentiment. The benchmark MSCI World Index was up for a second day rising 1.8%, a week-to-date gain of more than 2.5%. The gauge lost more than 7% last week amid mounting concern European leaders won’t resolve their debt crisis. European stocks advanced the most this month, with the benchmark Stoxx Europe 600 Index gaining 3.2%, while Asian shares rallied from a 16-month low yesterday, sending the benchmark MSCI Asia Pacific Index to its biggest surge since April 2009. U.S. equities climbed again this morning, with the Dow Jones industrial average and S&P 500 index surging 2% and 1.9%, respectively. Nevertheless, investors remain cautious given that there is so much uncertainty about the European debt situation.

Commodities rallied as well, with copper rebounding from a seven-day slump and oil rising for a second day. The Standard & Poor’s GSCI index of 25 raw materials climbed as much as 2.7%, with copper price rising as much as 3% from a 14-month low yesterday. The gauge has lost 2.8% this year, after posting a 20% gain in the first four months of 2011.

Meanwhile, U.S. Treasuries and German bunds fell for a third day on Tuesday as European debt optimism reduced demand for safe-haven assets. Yields on 30-year Treasury bonds rose 9 basis points (bps) to 3.08% this morning, while benchmark 10-year note yields climbed 7 bps to 1.97%. German 10-year bund yields increased 13 bps to 1.96%, after reaching a record low of 1.636% on September 23rd.

US housing prices continue downward slide. Reflecting sluggish demand, a large inventory of foreclosed properties and tight credit conditions, the downward slide in US home prices continued through July. According to the widely watched S&P/Case Schiller index of home values, home prices in the US fell by 4.1% on a year-on-year basis [see Chart at http://gem or http://www.worldbank.org/gem]. However, on a month-on-month basis home prices were up 0.9%. This may not however reflect strengthening demand but rather ongoing investigations into bank foreclosure practices have led to delays in processing foreclosures and helped stabilized prices in recent months. Overall demand for houses remains soft as mortgage conditions remain tight, and unemployment levels remain elevated (9.2%). With the current inventory of 1.8 million distressed homes, some experts predict that it would take an additional three years to sell distressed property at current rates. Further, the ongoing fall in house prices may serve to increase the mounting foreclosure pressures as currently more than 20 percent of borrowers owe more than their home is worth and an additional 33
percent have equity cushions of 10 percent or less, putting them at risk should house prices decline much further.

Among Emerging Markets… in East Asia and Pacific, Viet Nam’s industrial production rose 7.8% year-on-year in the first nine months of the year, with output up 12% year-on-year in September. Manufacturing and processing industries, which account for 70% of the industrial sector’s value added, rose 15% year-on-year in September, and were up 10.7% in the first nine months of the year. Meanwhile retail sales and service revenues rose an estimated 22.8% year-on-year in the first nine months of the year.

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