Russia downgraded to ‘junk’ by S&P...U.K. growth at 7-year high...Turkey capacity utilization and confidence slip in January

Financial Markets

U.S. Treasuries advanced on Tuesday, pushing 30-year yields as much as 8 basis points (bps) to a record low of 2.328%. Yields on benchmark 10-year notes also fell 6 bps to 1.77%. The rally in U.S. government bonds is supported by 10-year yields averaging 82 bps more than those on G7 counterparts.

Standard & Poor’s Rating Services downgraded Russia’s foreign-currency credit ratings by one notch from ‘BBB-’ to ‘BB+,’ making Russia the first among the BRIC countries to lose investment-grade rating, as the country continues to struggle under the collapse in oil prices and Western sanctions. The downgrade sent Russian bond and stocks lower, but its currency gained against the dollar after reaching a record low yesterday. Russian sovereign and corporate borrowers are already cut off from international debt market due to sanctions, but losing the investment grade would increase the cost of refinancing existing debt because many institutional investors are subject to limit their exposures to non-investment grade bonds.

High Income Economies

U.S. Conference Board consumer confidence index surged to a seven-year high 102.9 in January from an upwardly revised 93.1 in December and much higher than economists’ forecast of 96.0. The present situation index also climbed to 112.6 from December’s 99.9, while the expectations index climbed to 96.4 from 88.5, reflecting an improvement in consumers’ optimism about the short-term outlook.

U.S. new orders for manufactured durable goods declined 3.4% (m/m) in December following a downwardly revised 2.1% decline in November and badly missing economists’ forecast of a 0.5% increase. Orders for non-defense aircraft and parts showed the sharpest decline, falling by 55.5%. Excluding orders for transportation equipment, durable goods orders fell a more modest 0.8% following a 1.3% fall in November.
U.K. GDP grew 0.5% (q/q) in Q4 2014, slower than the 0.7% in Q3 and the 0.6% forecast by economists, due to weakness in the production and construction sectors. For 2014 as a whole, GDP expanded an estimated 2.6% (y/y), its strongest growth in seven years.

**Developing Economies**

**Europe and Central Asia**

*Turkey*’s capacity utilization rate declined to 73.7% in January from 74.6% in December, while confidence in two main sectors, retail and construction, also slipped in the same month. Retail sector confidence declined 2.7% (m/m) to 104.2 points in January from 107.2 points in December. Construction sector confidence also slipped by 1% in January to 82.4 points from 83.2 points in December.

**Sub-Saharan Africa**

*South Africa*’s leading business cycle indicator rose 1% (m/m) in November to 100.8 from 99.9 in October, data from the central bank showed. Seven out of eleven components of the index increased in November, with the major positive contribution coming from the average number of hours worked in the manufacturing sector. Meanwhile, the coincident index for October rose to 117.6 from 117 in September, while the lagging indicator for October rose to 105.1 from 104.9 in September.

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