Financial Markets…After yesterday’s rally on the ECB announcement, stocks struggled for direction in a tight range Friday morning. While last month’s U.S. job growth turned out to be slower than the forecast, it also increased expectations for further easing from the Federal Reserve. US and Latin American stocks opened weak, while the dollar slid and Treasuries and gold advanced. Asian stocks closed higher before the US job announcement, with the regional benchmark index (MSCI Asia Pacific Index) posting its biggest gain since December. China's stock market marked its best day in eight months, outperforming other Asian markets, after state-run media reported more infrastructure project approvals, adding to signs that Beijing is accelerating spending to bolster growth.

Among Developed Economies…Non-farm employment in the US rose at a slower pace of 96,000 in August compared to a 141,000 increase in July, according to the US Labor Department [see Chart at http://prospects or http://www.worldbank.org/prospects]. The unemployment rate however edged down to 8.1% from 8.3%, primarily due to workers dropping out of the labor force. A stagnating labor market may increase pressure on the Fed for additional policy stimulus at the FOMC meeting next week. Industrial production in Germany rose 1.3% (m/m) in July after falling 0.4% the previous month, adding to positive signs (factory orders, exports) that German firms are weathering the European debt crisis; but weak business sentiment could point to loss of momentum going forward. Germany’s trade surplus narrowed slightly to 16.3bn euros in July from 16.1bn euros in June as imports (+0.9% m/m) outpaced exports (+0.5% m/m). The UK’s industrial production jumped 2.9% (m/m) in July, the most in over two decades, rebounding from a 2.4% decline in June. Spain’s industrial output dropped for the 11th straight month by 5.4% (y/y) in July, a slightly slower pace than the 6.1% decline in June. Greece’s GDP fell 6.3% (y/y) in the second quarter of 2012, similar to the 6.5% decline in the first quarter, with private consumption, government spending and exports all falling as the country remains mired in recession.

Among Developing Markets…In East Asia and Pacific, Malaysia’s exports were down 1.9% (y/y) in July compared to a 5.4% increase in June reflecting weak regional and global demand. Imports grew at a faster pace of 9.5% (y/y) in July than in June (3.6%) supported by strong domestic demand. Trade surplus fell to MYR 3.6 billion in July. China approved plans to build 2,018 kilometers (1,254 miles) of roads, its second major construction project announced this week, as the government boosts spending on
infrastructure to stimulate the economy. The projects include highways in Zhejiang and Xinjiang provinces.

In Latin America and Caribbean, The central bank of Mexico left its benchmark interest rate unchanged at 4.5 percent. CPI inflation rose to 4.57% (y/y) in August compared to 4.42% in July. Colombia’s consumer prices rose 0.04% (m/m) in August while annual inflation was 3.11%, which is within the 4% central bank’s upper bound inflation target for 2012. The Central Reserve Bank of Peru left the reference interest rate unchanged at 4.25%. Inflation rose by 0.09% in July, due to increase in food prices as a result of unfavorable weather conditions affecting grain producers, bringing the 12-month CPI increase to 3.28% above the upper bound of its inflation rate target range of 1.0% to 3.0%.

In Middle East and North Africa, The Central Bank of Egypt kept its benchmark overnight deposit rate unchanged at 9.25 percent expressing concern over the latest pick up in international food prices which may pose an upside risk to the inflation outlook. The headline CPI inched up by 0.38 percent (m/m) in July, the annual rate declined to 6.39% from 7.26 % in July.

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