Greek bonds advance...Australian business conditions deteriorate...Chinese inflation picks up

Financial Markets... Greek government bonds advanced for a third day on Tuesday after the European Union agreed to release additional aid to the country yesterday—€2.5 billion this month and €500 million in October if the government delivers on economic reforms and budget cuts. The Greek 10-year bond yield fell 14 basis points to 10.79%, extending its three-day declines to 90 bps.

China’s central bank is tightening rules on interbank bond trading by mandating all transactions to be supervised through the National Interbank Funding Center in an effort to bolster transparency in the banking system. Chinese government is seeking to clean up the $3.8 trillion bond market and reduce the high dependency of many Chinese companies on bank lending for their funding needs.

High-income Economies...Euro area finance ministers agreed yesterday to release €6.8bn in financial assistance to Greece as part of the second bailout program, provided certain conditions are met, including an overhaul of the tax system and cutbacks in the civil service. Under the terms of the deal, some €4bn would be paid out "in the coming weeks," and a further €1bn in October. The IMF would contribute €1.8bn

UK industrial production (IP) is showing signs of stagnating after being on a weakening trend since mid-2011 led partly by a significant fall in production due to oil field maintenance. Overall, headline IP edged up by 0.1% (m/m sa) in May, with the pace of growth slowing to 0.8% (3m/3m saar) from 1.6%. Manufacturing output fell by 0.8% (m/m) after 0.2% fall in April.

Business conditions in Australia deteriorated to the lowest level in four years in June, according to a survey by the National Australia Bank, which showed its headline business conditions index declining to -8 in June from -4 in May reflecting weaker trading conditions and profitability, combined with still poor employment conditions.

Developing Economies...East Asia and Pacific: China’s consumer prices rose 2.7% (y/y) in June, up from 2.1% (y/y) May, the highest rate since February. Higher pork prices, a major component of China’s consumer price basket, were the biggest contributor to the jump. Rental costs also edged higher, a reflection of how Chinese property inflation has accelerated this year.
Separately, China’s producer prices fell 2.7% (y/y) in June. This was a 16th straight month of producer prices in deflationary territory, a reflection of falling commodity prices as well as sluggish domestic demand.

**Latin America and the Caribbean:** Mexico’s consumer price inflation decelerated to 4.1% (y/y) in June, down from 4.6% (y/y) in May. Main driver of the inflation were food prices (+5.7% y/y) and transportation costs (6.5% y/y). Inflation remains slightly above the upper bound of the central bank’s target of 4%.

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