

## ECONOMIC CALENDAR

(LONDON TIME)

COUNTRY	TIME	EVENT	SURVEY	PRIOR
GE	09.00	IFO - Business Climate JAN	107.6	107.2
GE	09.00	IFO - Current Assessment JAN	116.8-	116.7
GE	09.00	IFO - Expectations JAN	99	98.4
IT	09.00	Retail Sales s.a. (MoM) NOV	-0.20%	0.10%
IT	09.00	Retail Sales (YoY) NOV	-1.50%	-1.50%
UK	09.30	Bank of England Minutes		
UK	09.30	BBA Loans DEC	35000	34738
UK	09.30	GDP (QoQ) 4Q A	-0.10%	0.60%
UK	09.30	GDP (YoY) 4Q A	0.80%	0.50%
UK	09.30	Index of Services (MoM) NOV	0.40%	-0.70%
UK	09.30	Index of Services (3mth/3mth)	-0.10%	0.20%
UK	11.00	CBI Trends Total Orders JAN	-23	-23
UK	11.00	CBI Trends Selling Prices JAN	3	7
UK	11.00	CBI Business Optimism JAN		-30
US	12.00	MBA Mortgage Jan-20		23.10%
CA	14.00	National Bank HPI MoM NOV	-0.20%	0.00%
CA	14.00	National Bank HPI YoY NOV	7.30%	7.00%
CA	14.00	National Bank HP Index NOV		149.46
US	15.00	House Price Index MoM NOV	0.00%	-0.20%
US	15.00	Pend Home Sales MoM DEC	-1.00%	7.30%
US	15.00	Pending Home Sales YoY DEC		6.90%
FR	17.00	Jobseekers- Net Change DEC	25	29.9
FR	17.00	Total Jobseekers DEC	2870.0k	2844.8k
US	17.30	FOMC Rate Decision Jan-25	0.25%	0.25%

## Merkel at Davos, U.K. GDP, Citi Spending Cuts

EUROPEAN DAYBOOK:  
Chris Kirkham

■ **WHAT TO WATCH:** German Chancellor Angela Merkel will deliver the opening speech today at the World Economic Forum's annual meeting in Davos. **German Economy Minister Philipp Roesler** opposes combining Europe's two rescue funds, saying the existing instruments are sufficient, Stuttgarter Zeitung reported, citing an interview. **Bondholders** are

hopeful of finding "common ground" on a Greek debt swap. **U.K. GDP** may have fallen 0.1 percent in the fourth quarter, the first decline in a year, economists forecast. **Bank of England Governor Mervyn King** said slower inflation gives policy makers room to increase bond purchases.

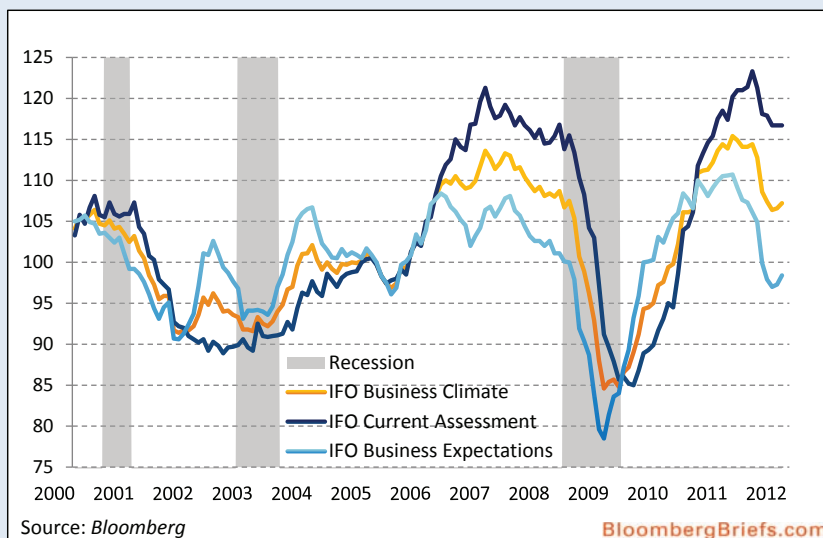
■ **ECONOMICS:** An **Australian index** of leading economic indicators dropped for the second month in three.

■ **GOVERNMENT:** The **European Union's** embargo on Iranian oil threatens to accelerate refinery closures in Europe, the head of Italy's refiners' lobby said.

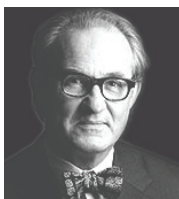
■ **COMPANIES:** **Citigroup**, the third-biggest U.S. bank, may make more spending cuts at its securities unit. **Apple** reported quarterly profit that more than doubled on holiday purchases of the iPhone.

■ **MARKETS:** **Treasury bonds** fell for a fifth day. The risk of holding **Australian corporate bonds** is poised to decline in consecutive months for the first time since March 2010. **The dollar** was 0.2 percent from its lowest level in three weeks against the euro.

### German Business Confidence Probably Rose to Five-Month High



German business confidence probably rose to a five-month high in January. The Ifo institute's business climate index, based on a survey of 7,000 executives, climbed to 107.6 from 107.2 in December, according to the median forecast of 42 economists in a Bloomberg News survey. That would be the highest since August and the third straight increase. The institute will release the report at 10 a.m. in Munich today. - Niraj Shah

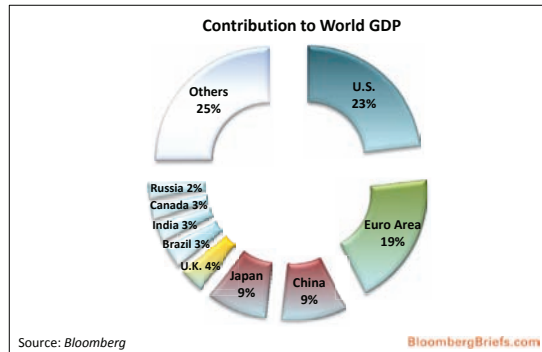


**Kit Juckes**, head of foreign-exchange research at Societe Generale, talks about prospects for a European bond market with **Ken Prewitt**

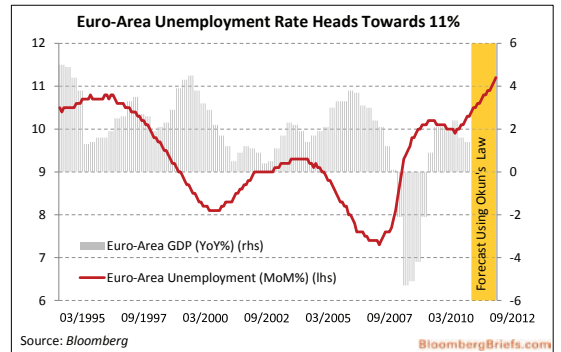
# GLOBAL ECONOMY NIRAJ SHAH, BLOOMBERG ECONOMIST

## Economic Turbulence Swirls Round Policy Makers, Leaders Gathered in Davos

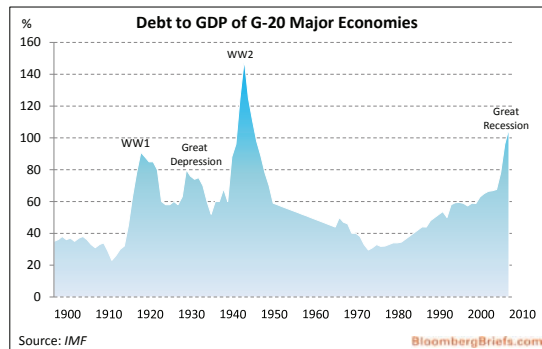
The Davos gathering of leaders, policy makers and corporate executives will kick off this morning under the shadow of economic and fiscal crises for a fourth consecutive year. This time, the euro-area sovereign debt crisis poses as much of a threat to global growth as the credit crunch that followed the collapse of Lehman Brothers, though the downturn may be more prolonged. Narrowing budget deficits and reducing debt mountains without stifling economic growth, recapitalizing banks, addressing youth unemployment and stimulating trade will be among the key topics of debate.



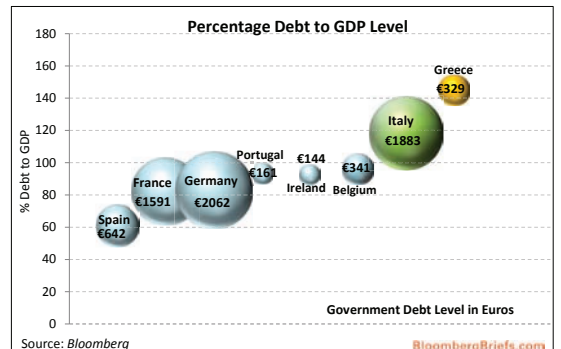
The U.S. economy represents 23.1 percent of global GDP, the euro area 19.3 percent and the BRIC nations 17.7 percent, for a combined total of 60.1 percent of world output. Switzerland accounts for 0.83 percent.



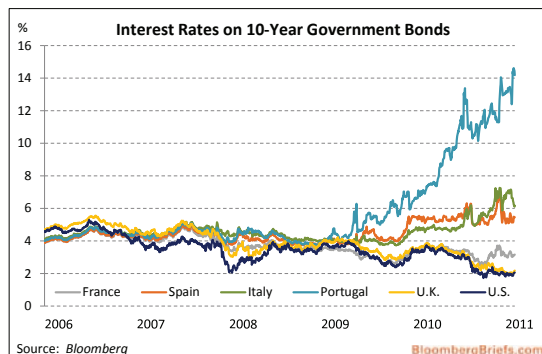
There are 27 million more unemployed globally since 2007, ILO global employment trends show, with 74.8 million 15-24 year-olds unemployed in 2011, up by over 4 million. Spain's youth unemployment rate is 49.6 percent.



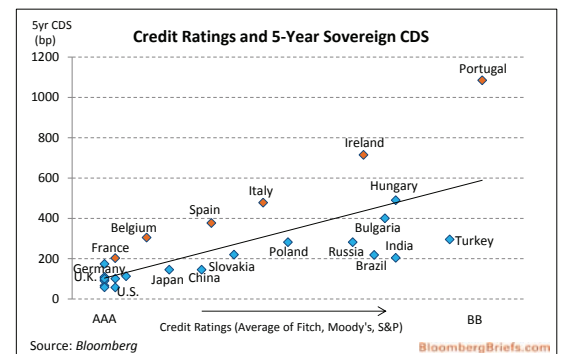
The average government debt of the G-20 countries has surpassed 100 percent of GDP, according to IMF estimates, as the euro-area sovereign crisis escalates and global growth slows. That increases the risk of global fiscal and financial turmoil, the fund says.



Greece, the 27th-largest economy in the world by nominal GDP, has the second largest debt-to-GDP ratio after Japan, the third-biggest economy. By the same measure, Italy has the third-largest amount of outstanding sovereign debt at 1.9 trillion euros after Japan and the U.S.



Government borrowing rates in the euro area have risen as the sovereign debt crisis deepened. In contrast, the cost of debt is close to record lows in the U.S. and the U.K.



Portugal is the second most-likely defaulter in the world after Greece based on ratings and CDS spreads. The cost of insuring against a Portuguese default is 3.6 times more than for Kazakhstan according to 5-year CDS spreads.

## HEARD IN DAVOS

"Davos Man has taken on the lessons of recent years and is asking how to do things differently," said Richard Edelman, president and chief executive officer of public relations agency Edelman. Businesses and policy makers are having to "process accurately the vox populi."

The need for them to do so is demonstrated by Edelman's annual poll on trust, released yesterday in conjunction with the Davos meeting. Trust in government fell a record nine percentage points to 43 percent, while faith in business slid to 53 percent from 56 percent.

The credibility of CEOs slid 12 points to 38 percent, the largest drop in nine years, and banks and financial services remained the two least trusted industries. The online survey questioned a total of 30,600 people in at least 25 countries from Oct. 10 to Nov. 30 last year.

*"Davos Man is not this caricature of the rich and powerful person. Davos Man is a person who, as I define it, should be concerned with the present state of the world and who should be ready to engage and contribute so that the state of the world is improved."*

-Klaus Schwab, founder of the World Economic Forum

*"I'm going to Davos to talk with business and world leaders about jobs, inequality and the excesses of bankers' bonuses, I certainly won't be going there to play polo."*

-Philip Jennings, general secretary of the Switzerland-based UNI Global Union, which coordinates more than 20 million workers in 150 countries.

*"Let's be clear what Davos does. Davos brings to our attention all of the major issues - tier one, tier two, tier three issues. And everything we discuss in the next three or four days will be newsworthy items for the next 12 months."*

*Davos doesn't resolve problems. It cites issues.*

*What this year we want to see in Davos is a sign of emerging leadership. So far, we haven't seen it from too many pockets. Lots of people are trying to ascend the throne of the leader. And maybe it's not necessarily going to come from the government. Maybe it's not going to come from the banking system. Maybe it's going to come from somewhere else. I think the leadership could come from the United States. I think this is going to be a very powerful year for the U.S. economy and given the U.S. has been through 2008 and managed that reasonably well, I think there's a lot of people now looking at Europe, trying to understand what are the lessons learned from 2008 and how does that apply to what's happening in Europe."*

-John Studzinski, Senior Managing Director, Blackstone Group



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## DEBT WATCH COMMENTARY BY DAVID POWELL, BLOOMBERG ECONOMIST

### IMF Forecasts Imply Italian Sovereign Debt Is Unsustainable, Haircut Required

The IMF has implicitly stated the sovereign debt of Italy is unsustainable and will have to be reduced through a haircut.

The fund's economists revised the ratio of general government gross debt to GDP for 2013 to 126.6 percent in the Fiscal Monitor Update, published yesterday, from 120.1 percent in September. The reading for 2012 has been changed to 125.3 percent from 121.4 percent.

The IMF staff described a debt-to-GDP ratio of 120 percent as "the maximum level considered sustainable for a market access country," in the fifth review of Greece, published on Nov. 30. The organization had previously refrained from identifying the level of the ratio that it considers consistent with solvency.

In addition, these forecasts are probably too optimistic, because they are likely based on unrealistic growth projections. IMF economists wrote in August in a paper titled "Modernizing the Framework for Fiscal Policy and Public Debt Sustainability Analysis" that "Timmerman (2006) found that World Economic Outlook real GDP growth forecasts showed a tendency to systematically exceed outcomes. This phenomenon was particularly prevalent in countries with an IMF-supported program. Such bias was found to be most statistically significant in the next-year forecast."

The debt-to-GDP ratio revisions for Italy still appear to have been primarily driven by weaker growth projections, even though they may be inflated. The fund's staff downgraded the GDP forecasts, in the simultaneously released World Economic Outlook Update, to minus 0.6 percent for 2013 and minus 2.2 percent for 2012. Those compare with the projections of 0.5 percent and 0.3 percent, respectively, from September. The differences between those new and old forecasts are 1.1 percentage points for 2013 and 2.5 percentage points for 2012. That means the denominator of the ratio is decreasing.

The effect on the deficit of spending cuts is being negated by the resultant contraction in growth. The overall fiscal balance as a percent of GDP was revised down by 1.1 percentage points for 2013 and by 0.4 percentage point for 2012, even

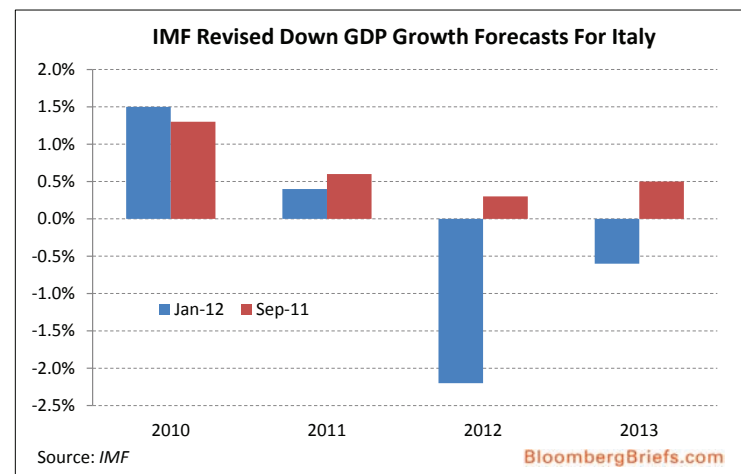
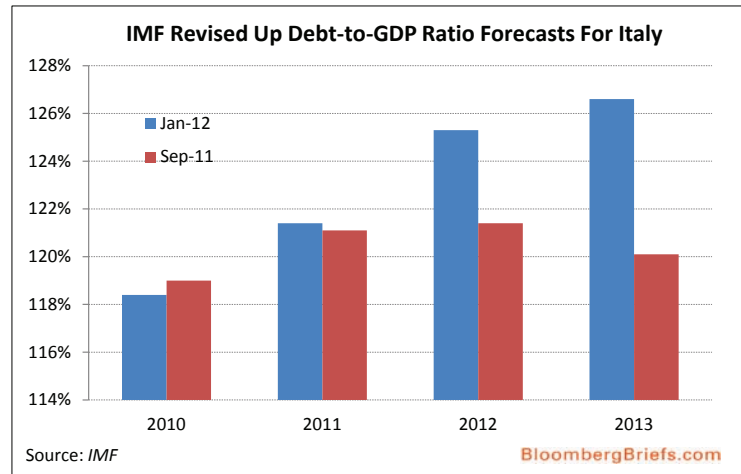
though the general government cyclically adjusted balance as a percent of potential GDP was unrevised for 2013 and revised up by 0.3 percentage point for 2012.

The overall fiscal deficit is now more important than the underlying structural shortfall. The staff of the fund acknowledged that in a footnote of the update, writing, "In principle, the temporary deceleration of growth that normally accompanies a fiscal tightening should not affect long-term solvency risks (for which potential growth matters) [sic]. However, after four years of high volatility, markets seem to be focusing at present on short-term developments and therefore seem

to react negatively to even temporary decelerations in growth."

The IMF staff in the paper of August prescribed a remedy for countries unable to stabilize their debt-to-GDP ratios. When "the primary balance needed to stabilize the debt ratio is politically and/or economically infeasible...public debt would be unsustainable (solvency problem) [sic] and debt restructuring would be necessary."

Euro-area heads of government were referring to that process at their December summit, when they said, "Concerning the involvement of the private sector, we will strictly adhere to the well-established IMF principles and practices."



## COMMENTARY BY GUEST COLUMNIST STEVE KEEN, UNIVERSITY OF WESTERN SYDNEY

### Economists Must Abandon Obsessions, Build Realistic Macroeconomic Theory

For its entire history, macroeconomics has been dominated by mathematical models that ignore the existence of money, debt and banking and perceive the economy's movement through time as transitions from one state of equilibrium to another.

At any time, these would be heroic assumptions. Could it really be true that models without either money or instability are provably superior at predicting the economy's future course than models in which money and banking exist, and in which the model economy can be out of equilibrium? If not, is it the case that such models are simply too difficult to construct — that the best we can do is pretend the economy doesn't have banks or money, and that it's always in equilibrium, even if we know these assumptions are false?

Before the crisis of 2007, few non-economists even asked those questions, because there seemed to be no need to challenge what economists did. The economy, after all, was going gangbusters. Professional economists, using the very latest mathematical models of the economy, took credit for its sterling performance, and predicted more of the same.

Robert Lucas, the father of "Rational Expectations Macroeconomics," said "macroeconomics... has succeeded. Its central problem of depression prevention has been solved, for all practical purposes, and has in fact been solved for many decades." Ben Bernanke lauded "improved control of inflation" as the cause of "the Great Moderation." In June 2007, the OECD, guided by its macroeconomic model, said "the current economic situation is in many ways better than what we have experienced in years. Our central forecast remains indeed quite benign."

Then all hell broke loose, and almost five years later, it shows no signs of abating. Now non-economists are challenging what economists do, and finally realizing what a minority of dissidents within economics have long known: these assumptions are not merely heroic, they are both false and unnecessary. Money, debt and disequilibrium dynamics play crucial roles in the actual behaviour of

the economy, and it is relatively easy to develop mathematical models which include money and banks, and in which the economy is always in disequilibrium. I should know: it's what I do, and it's why I was one of two mathematical economists who saw this crisis coming, and warned of it publicly before it happened (the other was the late Wynne Godley).

For economics to have a future, it has to abandon the obsession with equilibrium modelling, and realistically incorporate

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*Economists have to abandon their fetish with "comparative statics" and instead model processes of change. Dynamics has to be the core of economic analysis, not equilibrium.*

”

money, banking and finance into macroeconomics. Both things are easy to do.

The starting point for modelling any process in a true science is a position of disequilibrium — Newton, after all, modelled gravity by considering a falling apple, not one at rest! Economists have to abandon their fetish with "comparative statics" and instead model processes of change. Dynamics has to be the core of economic analysis, not equilibrium.

Money is also easily modelled by borrowing the basic tool of the accountant, double-entry bookkeeping. Money and debt are created by book-keeping entries, and the same paradigm can be used to derive dynamic models of the flow of

money in one direction, propelling the movement of goods and financial assets in the other.

The difficulty in developing a monetary dynamic macroeconomics comes not from the tools themselves, but from the beliefs that must be abandoned to employ them sensibly. There are enough of these to fill a book — to wit, my *Debunking Economics* — but I'll single out three:

"Rational" expectations — which really means assuming that everyone can accurately predict the future;

Representative agents — which really means assuming that there's only one person in the economy, who produces and consumes just one commodity.

Perceiving macroeconomics as applied microeconomics — this, and not a quest for greater realism, has been the driving force behind the development of macroeconomics since World War II. It was a fool's errand, since as physicists realized decades ago, "More Is Different" — to quote the title of a paper from Physics Nobel Laureate Philip Anderson. Biology cannot be treated as merely applied chemistry, even though the elementary building blocks of living entities are chemicals, because properties emerge from the interactions of these chemicals that can't be explained by chemicals alone.

We call one of these emergent properties "Life." We know a great deal about chemistry, but no chemist has as yet created life. The attempt to build macroeconomics from applied microeconomics is as futile a quest.

*(Steve Keen is a professor in economics and finance at the University of Western Sydney and author of *Debunking Economics*.*

*See [www.debtdeflation.com/blogs/](http://www.debtdeflation.com/blogs/).)*

For the list of economists who warned of the crisis, see Bezemer, D. J. (2009). "No One Saw This Coming": Understanding Financial Crisis Through Accounting Models. Groningen, The Netherlands, Faculty of Economics University of Groningen.

[http://mpra.ub.uni-muenchen.de/15892/1/MPRA\\_paper15892.pdf](http://mpra.ub.uni-muenchen.de/15892/1/MPRA_paper15892.pdf)

'The Future of Economics' will be the topic of a Davos panel discussion today.

## LEVERAGING RANKINGS TABLES

### MOST-LEVERAGED DEVELOPED ECONOMIES

RANK	COUNTRY	SCORE (AVERAGE OF 5 RANKS)	RANK, OUT OF 62 COUNTRIES				
			EXTERNAL DEBT TO EXPORTS (2010)	PUBLIC DEBT TO GDP (2010)	BUDGET DEFICIT OR SURPLUS TO GDP (2010)	AVERAGE CORPO- RATE LEVERAGE (2001 TO 2011)	CONSUMPTION TO SAVINGS (2010)
1	Greece	5.6	2	2	2	20	2
2	Portugal	7.6	7	9	5	9	8
3	United Kingdom	8.4	3	16	3	13	7
4	Ireland	12.4	4	8	1	3	46
5	United States	12.4	6	19	6	25	6
6	France	12.6	8	12	15	11	17
7	Spain	14.6	9	21	4	10	29
8	Italy	15.2	16	5	28	8	19
9	Canada	17.8	23	10	19	17	20
10	Belgium	18.6	18	7	31	2	35
11	Germany	19.2	19	11	38	4	24
12	Japan	20.0	21	1	7	49	22
13	Austria	22.6	15	18	26	14	40
14	Denmark	25.2	11	35	40	6	34
15	Iceland	28.4	53	4	11	38	36
16	Finland	30.2	13	32	41	39	26
17	Australia	30.6	10	48	37	21	37
18	Sweden	30.8	14	41	50	7	42
19	Luxembourg	32.0	1	54	47	1	57
20	Switzerland	32.6	17	43	55	5	43

Source: Bloomberg, CIA World Factbook, World Bank

### MOST LEVERAGED LATIN AMERICA COUNTRIES

RANK	COUNTRY	SCORE (AVERAGE OF 5 RANKS)	RANK, OUT OF 62 COUNTRIES				
			EXTERNAL DEBT TO EXPORTS (2010)	PUBLIC DEBT TO GDP (2010)	BUDGET DEFICIT OR SURPLUS TO GDP (2010)	AVERAGE CORPORATE LEVERAGE (2001 TO 2011)	CONSUMPTION TO SAVINGS (2010)
1	Brazil	36.4	34	24	57	56	11
2	Venezuela	37.0	47	51	18	42	27
3	Colombia	37.6	36	33	43	60	16
4	Argentina	39.8	33	34	53	51	28
5	Mexico	42.2	54	44	41	58	14

### MOST LEVERAGED DEVELOPING ASIA COUNTRIES

RANK	COUNTRY	SCORE (AVERAGE OF 5 RANKS)	RANK, OUT OF 62 COUNTRIES				
			EXTERNAL DEBT TO EXPORTS (2010)	PUBLIC DEBT TO GDP (2010)	BUDGET DEFICIT OR SURPLUS TO GDP (2010)	AVERAGE CORPORATE LEVERAGE (2001 TO 2011)	CONSUMPTION TO SAVINGS (2010)
1	Pakistan	20.2	22	29	17	29	4
2	Sri Lanka	21.4	27	13	9	45	13
3	India	28.6	41	29	19	23	31
4	Philippines	31.8	39	27	35	46	12
5	Malaysia	35.6	58	25	19	26	50

#### METHODOLOGY:

To rank countries on leverage, we looked at five factors:

External debt-to-exports ratio, which is said to reflect the weakness of a country's external accounts and vulnerability to foreign capital flows. External debt is the total debt owed to nonresidents by residents.

Public debt, or the total amount of government borrowings less repayments denominated in a country's home currency, is relevant to discussions of government default and debt ceilings.

Budget surplus or deficit as a percentage of GDP is calculated by subtracting government expenditure from government revenue and dividing the result by GDP. Countries with high budget deficits relative to their GDPs generally have more difficulty raising funds to finance expenditures.

Annual average of corporate leverage, from 2001 to 2011. This is year-end total assets divided by year-end total equity of each country's main equity index.

Consumption to savings measures leverage on the consumer front. It is calculated by dividing household final consumption expenditures as a percentage of GDP by gross domestic savings as a percentage of GDP. Household final consumption is the market value of all goods and services purchased by households.

To qualify for the ranking, a country had to have recent data in all five categories. There were 62 countries with adequate data. They were ranked globally and within their geopolitical-economic group on a scale from 1 to 62 in order of leverage. A country's final score is its average rank in all five factors.

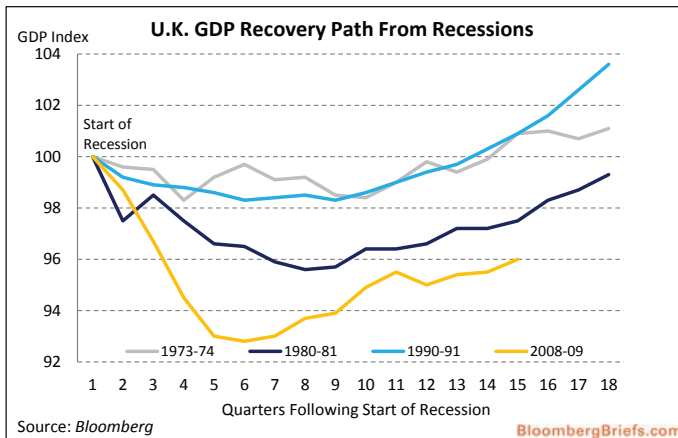
# U.K. GDP

## U.K. May Slip Closer to Recession as King Sees Scope for Further Asset Purchases

Britain's economy may slip closer to a double-dip recession today as Europe's debt crisis and a slump in consumer spending undermine exports and domestic demand, according to economists.

GDP fell 0.1 percent in the fourth quarter, the first decline in a year, according to the median of 33 forecasts in a Bloomberg News survey. Ernst & Young's ITEM Club forecasts another decline in the current quarter, which is the technical definition of a recession. It would be the first double dip in almost four decades.

Bank of England Governor Mervyn King said yesterday policy makers can increase so-called quantitative easing again if needed once their current program of bond purchases ends early next month. The IMF cut its U.K. growth outlook this week as European leaders fight a debt crisis that's jeopardizing global expansion.



A double dip would be the first since 1975, when the economy shrank in the second and third quarters of that year. It had previously contracted in the nine months through March 1974, as the oil

crisis pushed up global energy prices. Britain's economy exited the most recent recession in the July-September period of 2009 after shrinking for five quarters. -By Scott Hamilton and Jennifer Ryan

# WHAT IN THE WORLD MUST CHANGE?

## BLOOMBERG COVERS THE WORLD ECONOMIC FORUM

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## EUROPE TODAY BLOOMBERG NEWS

### Spanish Cleanup Plan May Backfire on Banks

Spanish Prime Minister Mariano Rajoy's proposal to force banks to recognize further losses from real estate holdings may backfire by saddling healthy lenders with the bill.

"The plan is for a massive effort in provisioning of real estate and consolidation, and that has to be paid for," said Daragh Quinn, an analyst at Nomura International.

By refusing to use public funds to help purge a system burdened with 176 billion euros of what the Bank of Spain calls "troubled" assets linked to real estate, Rajoy may not do the job properly or he may hurt solvent banks by leaving them with the costs, said David Moss, director of European equities at F&C Investments.

-By Charles Penty

### King Says BOE Has Scope to Expand Bond Plan

Bank of England Governor Mervyn King said slower inflation gives policy makers room to increase bond purchases to aid the U.K. economy and guard against a "renewed severe downturn."

"With inflation falling back and wage growth subdued, there is scope for interest rates to remain low, and, if necessary, for further asset purchases, to prevent inflation falling below the 2 percent target," King said yesterday. He also said tight credit conditions "will continue to act as a headwind to the economic recovery."

-By Jennifer Ryan and Scott Hamilton

### RBS Board Meets on Bonuses as Restraint Demanded

Royal Bank of Scotland Group Plc's directors meet today to discuss bonuses as U.K. policy makers urged Britain's biggest government-owned lender to show restraint.

Chief Executive Officer Stephen Hester is entitled to shares valued today at about 1.62 million pounds, according to the Edinburgh-based lender's annual report. Hester, who made 1.22 million pounds in salary in the last two years, took an all-stock bonus of 2 million pounds for 2010, his first in three years since he replaced Fred Goodwin.

"Not paying him his bonus will be a mistake as he could walk away," said Christopher Wheeler, an analyst at Mediobanca. "Hester is not a philanthropist and has done a good job at RBS. This is a high-risk strategy the government is playing."

RBS executives have also been urged by Prime Minister David Cameron to show restraint on pay at a time when real household incomes are falling and public spending is being squeezed the most since World War II.

-By Gavin Finch

### Danish Bank Merger Bill to Be Broadened

Denmark is close to unveiling extra measures to accelerate bank mergers and avert insolvencies as losses in the industry swell, according to a member of the parliamentary group overseeing lenders.

The parliament's business committee is in talks to broaden a consolidation bill passed in September as healthy banks in the Nordic country show reluctance to buy their troubled peers, said Brian Mikkelsen, a member of the committee who, as economy minister until last year, was an architect of the original legislation. The September bill offered subsidies if lenders bought troubled rivals.

-By Frances Schwartzkopff

## POLITICAL WATCH

### Merkel Declares Truce

Angela Merkel has declared a truce in her campaign to master financial markets. Merkel, who began the euro crisis seeing politicians and investors locked in a battle for supremacy, is now using markets' judgments to support her calls for austerity to rescue the single currency. The shift underscores Merkel's journey from scientist to dominant crisis manager. Delivering the opening speech today in Davos, she'll be addressing critics who say her conversion may be too late to stop woes from splintering the 17-nation euro.

### U.K. Seeks Court Changes

U.K. Prime Minister David Cameron will propose changes to the European Court of Human Rights so that the body focuses on major cases and interferes less with national governments. The U.K. is one of 47 countries that allows the Strasbourg-based court to make the final decisions on domestic human-rights issues. Some of its rulings have angered Cameron and his Conservative Party for what they see as overreaching interference in Britain's internal affairs. A 2005 order that prisoners should be allowed to vote was a focus of anger, with U.K. lawmakers voting last year to reject such a move.

### Turkey Criticizes France

Turkish Prime Minister Recep Tayyip Erdogan accused France's parliament of racism for a measure criminalizing the denial of genocide against Armenians in Anatolia, while holding back on announcing additional sanctions. The law, which passed in the French Senate last night and would make the offense punishable by as much as a year in prison and a 45,000-euro fine, isn't legal and Turkey will ignore it, Erdogan told lawmakers.

## U.S. FOCUS BLOOMBERG NEWS

### Obama Vows to Restore Promise of Prosperity

Barack Obama vowed to restore the promise of broad-based prosperity and “fight obstruction with action” in dealing with Congress, as he runs for re-election with the economy still struggling to recover from the recession.

Obama’s State of the Union address set out both his policy priorities and his campaign themes. In excerpts released by the White House, he combined a call to rebuild the U.S. economy on a stronger foundation with a promise to confront critics who stand in the way.

“We can either settle for a country where a shrinking number of people do really well, while a growing number of Americans barely get by,” Obama said, according to the excerpts. “Or we can restore an economy where everyone gets a fair shot, everyone does their fair share, and everyone plays by the same set of rules.”

*-By Kate Andersen Brower and Catherine Dodge*

### Romney Reports Income From Goldman, Golden Gate Funds

Mitt Romney’s \$21.6 million of income in 2010 included profits from elite funds run by Goldman Sachs and Golden Gate Capital illustrating how one of America’s wealthiest presidential candidates has diversified his private-equity fueled fortune.

Trusts set up for Romney and his wife held investments in Goldman Sachs US\$ Liquid Reserves Fund and a Golden Gate Capital fund, as well as a Credit Suisse-backed collateralized-debt obligation, according to tax returns released today by his campaign. Romney, who stepped down as head of private-equity firm Bain Capital in 1999, also owns a stake in a buyout fund started by the Boston-based company in 2008.

*-By Cristina Alesci and Jason Kelly*

### Gross Counters Gundlach Pushing U.S. Bank Bonds

Pimco’s Bill Gross bet on debt of big U.S. banks last year, his worst against peers. DoubleLine Capital’s Jeffrey Gundlach cut bank bonds in May, dodging their second-half slide and beating 99 percent of rivals.

The competing bond managers haven’t changed their minds. Gross, whose \$244 billion Pimco Total Return is the world’s largest mutual fund, recommended financial debt in this month’s investment outlook, saying senior, higher-rated securities “should be considered” as clients await the result of central-bank efforts to reinvigorate the global economy.

“You want to be underweight banks,” Gundlach told clients of DoubleLine Capital in a Jan. 5 conference call. “Certainly, we are.”

More than three years after the U.S. rescued major banks, money managers are debating how the industry will cope in a world of stricter regulation, Europe’s debt crisis, lower Wall Street trading volumes and sliding home prices.

*-By Charles Stein*

### Jobless Rates Decreased in 37 U.S. States

Unemployment dropped in 37 U.S. states in December, indicating the improvement in the job market is broad based as the economy picks up.

Alabama showed the biggest decrease in joblessness, with its rate falling to 8.1 percent last month from 8.7 percent in November, a report from the Labor Department showed today in Washington. Payrolls increased in 25 states, led by Texas.

Further employment gains put consumers in a better position to boost household spending. U.S. employers added 200,000 workers in December and the unemployment rate unexpectedly fell to 8.5 percent, the lowest since February 2009.

*-By Timothy R. Homan*

## ASIA OVERNIGHT

### Korea Economy Slows

South Korea’s economy probably grew at a slower pace in the fourth quarter as the European debt crisis damped demand for Asian exports, pressuring the nation’s central bank to hold rates steady next month. Gross domestic product expanded 0.5 percent in the three months through December from the prior quarter, when it gained 0.8 percent, according to the median of 10 estimates in a Bloomberg News survey before a government report tomorrow. From a year earlier, the economy grew 3.5 percent, according to the median of 14 estimates.

### Indian Debt Purchases

Indian bonds are paring gains on concern the central bank will halt debt purchases that pumped more than \$14 billion into financial markets since November. Yields on 10-year government notes surged 20 basis points yesterday, the most since 2009, to 8.37 percent after Reserve Bank of India Governor Duvvuri Subbarao said it’s “too early to decide” whether to buy more debt. The central bank, which has been buying bonds to help ease a cash squeeze at banks, may scale back the purchases after it cut the reserve requirement for lenders yesterday for the first time in three years.

### N.Z. Skilled Vacancies Fall

New Zealand’s skilled vacancy index, a measure of demand for workers based on vacancies posted on the nation’s two largest recruitment websites, fell in December, according to the Labor Department. The number of skilled jobs advertised declined 0.9 percent from November, the department said in a statement on its website, citing an index that measures vacancies. From a year earlier, skilled vacancies gained 7.7 percent.

MARKET INDICATORS

MSCI EQUITY INDICES

TICKER	COUNTRY	LAST PRICE	1D %Chg	YoY %Chg	30D Chart	FORWARD PE 12M
<b>Europe</b>						
Euro Area						
MXAT Index	Austria	102.8	4.2%	-29.4%		7.4
MXBE Index	Belgium	48.6	0.1%	-6.5%		11.0
MXEST Index	Estonia	613.1	0.2%	-26.3%		11.5
MXFI Index	Finland	75.2	0.6%	-26.2%		9.0
MXFR Index	France	92.7	0.5%	-16.2%		8.9
MXDE Index	Germany	93.3	0.5%	-11.3%		7.7
MXGR Index	Greece	15.4	6.6%	-61.0%		20.0
MXIE Index	Ireland	25.9	-0.3%	15.5%		7.8
MXIT Index	Italy	48.3	2.0%	-25.5%		9.4
MXNL Index	Netherlands	73.1	0.4%	-11.2%		10.4
MXPT Index	Portugal	50.5	-0.7%	-27.7%		8.8
SKSM Index	Slovakia	213.0	0.8%	-7.7%		10.0
MXES Index	Spain	93.9	0.7%	-22.3%		
Non-Euro EU						
MXBU Index	Bulgaria	149.9	0.5%	-32.8%		10.1
MXCZ Index	Czech Republic	312.1	-0.4%	-13.3%		7.4
MXDK Index	Denmark	3598.9	0.2%	-11.6%		
MXHU Index	Hungary	1044.9	-1.0%	-21.1%		
RIGSE Index	Latvia	380.4	0.1%	-9.3%		
VILSE Index	Lithuania	311.0	-0.2%	-25.4%		
MXPL Index	Poland	1569.7	-0.1%	-16.6%		8.8
MXRO Index	Romania	449.5	-0.2%	-20.5%		14.2
MXSE Index	Sweden	7939.1	0.8%	-10.5%		11.4
MXGB Index	U.K.	1710.8	0.9%	-2.8%		10.0
Non EU						
ICEXI Index	Iceland	609.3	0.3%	0.0%		
MXNO Index	Norway	2193.4	0.6%	-6.5%		
MXRU Index	Russia	818.5	-0.5%	-15.1%		
MXCH Index	Switzerland	796.6	0.1%	-7.7%		11.6
MXTR Index	Turkey	781062.2	-0.9%	-14.3%		8.1
MXUK Index	Ukraine	270.1	1.8%	-51.0%		
<b>Americas</b>						
MXUS Index	U.S.	1257.0	0.1%	2.0%		11.2
MXBR Index	Brazil	3224.0	-0.4%	-13.6%		8.5
MXMX Index	Mexico	5857.5	-1.3%	-9.4%		15.6
<b>Middle East &amp; Africa</b>						
MXAE Index	United Arab Emirates	176.1	1.1%	-20.2%		
MXZA Index	South Africa	866.9	-0.6%	6.6%		10.1
<b>Asia/Pacific</b>						
MXAU Index	Australia	854.3	-0.4%	-12.4%		10.3
MXCN Index	China	58.0	0.0%	-13.4%		8.3
MXHK Index	Hong Kong	9847.9	0.8%	-15.5%		13.2
MXID Index	Indonesia	4973.3	-0.4%	22.3%		12.8
MXIN Index	India	650.2	-0.3%	-14.5%		11.5
MXJP Index	Japan	464.8	0.2%	-18.9%		11.6
MXKR Index	Korea	558.4	2.1%	-5.6%		8.6
MXMY Index	Malaysia	559.7	0.4%	-2.1%		14.4
MXPH Index	Philippines	770.1	-0.9%	11.2%		13.9
MXSG Index	Singapore	1518.9	0.0%	-13.9%		14.2
MXTH Index	Thailand	422.9	0.3%	10.7%		10.3

OTHER INDICATORS

TICKER	SPREAD/RATE/INDEX	LAST PRICE	1D Chg bps/%	YoY %Chg	30D Chart	1Y Z-SCORE
<b>ECB</b>						
EUR003M Index	3M Euribor	1.16%	-1.0	12.9		-1.1
EONIA Index	EONIA	0.38%	0.7	-53.8		-1.8
EUSA10 Index	EUR 10Y Swap Rate	2.44%	3.0	-96.8		-1.8
<b>Non-Euro EU</b>						
SOBR3M Index	Bulgaria SOFIBOR 3M	3.28%	1.0	-62.8		-3.6
PRIO3M Index	Czech Interbank Rate 3M	0.79%	1.0	-4.0		-0.6
CIBO03M Index	Denmark CIBOR 3M	1.01%	0.0	-21.5		-2.0
BUBOR03M Index	Hungary BUBOR	7.65%	1.0	181.0		3.5
RIGI3M Index	Latvia RIGIBOR 3M	0.93%	0.0	61.0		2.2
LHDRC Currency	Lithuania LTL 3M Deposit	1.30%	-8.0	32.5		-4.4
WIBO3M Index	Poland WIBO 3M	4.88%	1.0	91.0		1.3
BURB3M Index	Romania ROBOR 3M	5.14%	-7.0	43.0		-1.1
STIB3M Index	Sweden STIBOR 3M	2.60%	-0.3	54.5		0.8
BP0003M Index	U.K. LIBOR GBP 3M	1.09%	0.0	31.3		2.1
<b>Non EU</b>						
SEDA3MRE Index	Iceland REIBOR 3M	4.80%	0.0	75.0		1.5
MOIB91 Index	Russia Moscow Interbank	7.19%	0.0	216.0		1.5
SF0003M Index	Switzerland LIBOR CHF	0.06%	0.0	-10.8		-0.7
TRLIB3M Index	Turkey TRLIBOR 3m	11.47%	0.0	399.0		2.3
<b>Other</b>						
.TED3M Index	3M Ted Spread	52.4	-0.1	37.0		1.7
JPEIPLSP Index	EMBI+ Spread	359.9	-5.1	119.2		-6.0

COMMODITIES

TICKER	COMMODITY	LAST PRICE	1D %Chg	YoY %Chg	30D Chart	VOLATILITY
<b>Agricultural</b>						
SPGCAGR Index	S&P GS Agriculture Index	695.1	1.0%	-19.0%		21.9
<b>Metals</b>						
SPGCINTR Index	S&P GS Indus Metal Index	1710.7	0.3%	-12.8%		21.3
GC1 Comdty	Gold	1664.5	-0.8%	23.8%		22.9
<b>Energy</b>						
SPGCENTR Index	S&P GS Energy Index	1099.2	-0.2%	7.3%		20.5
<b>Indices</b>						
CRY Index	CRB Index	314.7	0.4%	-5.4%		18.3
SPGSCITR Index	S&P Commodity Index	4980.5	1.1%	1.1%		22.3
DBLCDBAT Index	DBIQ Diversified Ag Index	234.4	0.5%	-13.0%		13.1

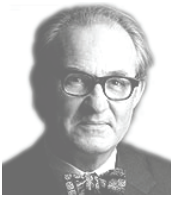
Source: Bloomberg, L (Updated midnight, London time.)

10 YEAR GOVERNMENT BOND YIELDS

TICKER	COUNTRY	LAST YIELD	1D CHG BPS	YoY BPS	30D Chart	5Y CDS
<b>Europe</b>						
Euro Area						
GAGB10YR Index	Austria	3.16%	3.5	-40.1		176.1
GBGB10YR Index	Belgium	4.02%	-4.0	-16.8		262.4
GFIN10YR Index	Estonia	2.41%	5.7	-91.3		135.0
GFRN10 Index	Finland	2.41%	2.1	-31.3		67.6
GDBR10 Index	France	3.16%	2.1	-115.7		171.0
GGGB10YR Index	Germany	1.99%	2.2	-115.7		90.9
GIGB10YR Index	Greece	33.36%	-20.3	2214.2		
GIRL10YR Index	Ireland	8.21%	47.1	175.9		658.5
GBTB10YR Index	Italy	6.17%	6.1	149.5		433.8
GNTB10YR Index	Netherlands	2.27%	2.1	-102.5		109.2
GSPT10YR Index	Portugal	14.19%	-25.3	725.1		1287.7
GRSK10Y Index	Slovakia	4.74%	0.1	42.8		285.5
GSPG10YR Index	Spain	5.45%	-0.8	21.6		365.3
Non-Euro EU						
CZGB10YR Index	Czech Republic	3.39%	-8.6	-66.9		152.3
GDGB10YR Index	Denmark	1.93%	3.6	-121.2		127.9
GHGB10YR Index	Hungary	9.14%	-12.0	155.0		596.1
	Latvia					321.3
	Lithuania					324.8
POGB10YR Index	Poland	5.68%	4.9	-59.4		246.0
GRR05YR Index	*Romania (5Y)	5.95%	-4.9	52.8		420.1
GSGB10YR Index	Sweden	1.88%	4.5	-147.2		67.1
GUKG10 Index	U.K.	2.18%	1.6	-149.2		81.9
Non EU						
GNOR10YR Index	Norway	2.43%	7.2	143.2		39.2
MICXR10 Index	Russia	8.67%	0.3	19.3		232.8
GSWISS10 Index	Switzerland	0.82%	-0.4	-104.8		
TGBY10T0 Index	Turkey	9.48%	-6.0	41.0		291.8
	Ukraine					842.7
<b>Americas</b>						
USGG10YR Index	U.S.	2.06%	0.9	-134.4		45.2
GERBR5Y Index	*Brazil (5Y)	11.24%	6.7			151.7
GMXN10YR Index	Mexico	6.11%	0.7	-125.9		148.3
<b>Middle East &amp; Africa</b>						
GSAB10YR Index	South Africa	8.20%	0.3	23.7		189.1
<b>Asia/Pacific</b>						
GACGB10 Index	Australia	3.92%	3.0	-165.2		78.0
GCNY10YR Index	China	3.40%	0.0	-60.0		140.3
HKG10YR Index	Hong Kong	1.44%	0.1	-133.3		89.1
GIDN10YR Index	Indonesia	5.64%	4.3	-354.7		198.6
GIND10YR Index	India	8.20%	2.8	-1.1		
GIGB10 Index	Japan	1.01%	0.9	-22.9		131.9
GVSK10YR Index	Korea	3.82%	3.0	-89.0		156.9
MGY10Y Index	Malaysia	3.58%	0.2	-51.1		138.4
PDSF10YR Index	Philippines	5.38%	0.4	-208.3		180.8
MASB10Y Index	Singapore	1.63%	2.0	-99.0		
GVTL10YR Index	Thailand	3.16%	-1.0	-54.8		176.8

CURRENCIES

TICKER	CURRENCY	LAST PRICE	1D %Chg	YoY %Chg	30D Chart	1Y Z-SCORE
<b>Europe</b>						
GBP Currency	British Pound	1.56	0.0%	-1.2%		-2.0
CZK Currency	Czech Koruna	19.43	0.0%	-9.1%		2.4
DKK Currency	Danish Krone	5.70	0.0%	-4.5%		2.5
EUR Currency	Euro	1.30	0.0%	-4.7%		-2.4
HUF Currency	Hungarian Forint	229.29	0.0%	-12.2%		2.2
NOK Currency	Norwegian Krone	5.89	0.1%	-2.2%		2.1
PLN Currency	Polish Zloty	3.28	0.0%	-13.5%		1.8
RON Currency	Romanian Leu	3.33	0.0%	-6.6%		2.1
RUB Currency	Russian Ruble	30.79	-0.2%	-3.3%		1.4
SEK Currency	Swedish Krona	6.76	0.0%	-3.4%		1.9
CHF Currency	Swiss Franc	0.93	0.0%	1.6%		1.2
TRY Currency	Turkish Lira	1.82	0.1%	-14.1%		1.3
UAH Currency	Ukrainian Hryvnia	8.03	0.4%	-1.2%		2.2
<b>Americas</b>						
BRL Currency	Brazilian Real	1.76	0.2%	-5.0%		1.0
CAD Currency	Canadian Dollar	1.01	0.0%	-1.3%		0.9
MXN Currency	Mexican Peso	13.11	0.1%	-7.8%		1.2
<b>Middle East &amp; Africa</b>						
ZAR Currency	South African Rand	7.94	0.1%	-11.1%		1.2
<b>Asia/Pacific</b>						
AUD Currency	Australian Dollar	1.05	-0.1%	5.2%		0.1
CNY Currency	Chinese Renminbi	6.31	-0.4%	4.3%		-1.5
HKD Currency	Hong Kong Dollar	7.76	0.0%	0.4%		-1.6
INR Currency	Indian Rupee	50.07	0.0%	-8.8%		1.3
IDR Currency	Indonesian Rupiah	8970.00	0.1%	1.1%		1.9
JPY Currency	Japanese Yen	77.68	0.0%	5.9%		-1.1
NZD Currency	New Zealand Dollar	0.81	0.0%	5.6%		0.2
SGD Currency	Singapore Dollar	1.27	0.0%	0.9%		0.9
KRW Currency	South Korean Won	1128.07	-0.2%	-0.6%		1.0
THB Currency	Thai Baht	31.43	0.2%	-1.4%		2.6
TWD Currency	Taiwan Dollar	29.95	-0.1%	-3.0%		0.9
<b>Euro Crosses</b>						
EURSEK Currency	EUR/SEK	8.8	0.0%	1.4%		-1.3
EURGBP Currency	EUR/GBP	0.8	0.0%	3.7%		-2.2
EURNOK Currency	EUR/NOK	7.7	0.0%	2.7%		



## KEENE'S CORNER

**Kit Juckes**, head of foreign-exchange research at Societe Generale, talks about prospects for a European bond market with Ken Prewitt and guest host Carol Massar.

### Q: Another finance ministers' meeting, what is going to come out of it?

**A:** Here we go onto the wire again. This is last-minute haggling. I suppose that the most likely outcome is that when neither side feels they can give any more that they will meet in the middle somehow. But this has been going on for a long time. You get the contrast between the inability to solve the political aspect of the debt crisis and the willingness of the European Central Bank to effectively bankroll the financial system with these three-year loans that they are making, that certainly make everything feel better.

### Q: What confidence do you have that something ultimately is going to happen at this point?

**A:** It is difficult to see why you would not be able to reach a deal at the last minute. It is a pretty aggressive piece of negotiating from both sides. Ultimately, we need to get past this and get onto the bigger political issues, which are: can we move toward a single European bond market, can we push through the kind of moving closer toward being one country that is necessary to hold the system. I think we can get a Greek deal that gets this particular public sector initiative out of the way. But it does not solve the long-term problems of Greece. But I would still think more than 50 percent of this will get done.

### Q: How does a single European bond market operate?

**A:** There are lots of ways of getting there. You have to set out on a path of saying we are going to borrow in common, we are going to have to have a set of rules

about how we run our finance policies. We might not be able to borrow all of our money together on day one. But the idea that you can go back to the world we were in before where French, German investors bought Spanish, Italian, Greek debt believing there was no risk of default or of those countries leaving the euro, I cannot believe that. We can feel better for a bit. We can have short covering rallies that improve the mood. But I do not believe you can put Humpty Dumpty back together again to that degree.

### Q: But we have difficulty getting everyone together to agree on anything. How can we get them to agree on a common European bond market?

**A:** Well, ultimately they have to work out that if they want this project to survive, it requires much closer economic and political and fiscal union or the alternative is likely to be economically disastrous for the whole area. So it is a question of why did they start down this road of the euro zone in the first place and what was the ultimate goal. It was supposed to be moving toward much closer fiscal, monetary, political, and economic union over time. And now is the time to make the next big step before it all falls apart.

### Q: Well, I know hindsight is 20/20. Didn't anybody see this coming?

**A:** Lots of people wrote a lot of stuff about this right at the start saying this was a flawed structure, this is a bad design. The idea that you can have a shared currency with lots of different sovereign entities as part of it, it is going to end horribly. But you come over to the U.K., there are any number of people in the press and around the place who just think the whole thing is madness and are pretty vocal about it. And I think the important piece in that sense is this is as good a plan, as good an economic area to have a single currency as the U.S. or the U.K., but you have to want to make that step. They are now caught between two extremes.

### Q: What happens a couple of months from now?

**A:** Well, the first thing that happens be-

tween now and then is the second tranche of this three year loan to the banking system from the ECB, that is on Feb. 29, that is likely to be bigger than the first. So that could be any number, a half a trillion euros, more perhaps, a real, massive injection of liquidity into the financial system of the kind that is helpful to the liquidity crisis and the solvency of the banking system. I think we will talk about that a lot. I think we will be talking quite a lot as well about what a good job Mario Draghi had done in terms of pushing liquidity into this system.

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