Oil price falls on surging supply data...Germany rejects Greek proposal for a bailout extension...Russian economic indicators slump in January

Financial Markets

Oil prices fell sharply after data showed U.S. crude inventories surged, adding to concerns about oversupply. A possible increase in production from the world’s largest oil exporter, Saudi Arabia, also weighted negatively on the prices. U.S. crude supplies for the week ended February 13th saw a 14.3 million-barrel jump from a week earlier, significantly higher than market expectations of a 3.2 million barrel increase. Brent crude futures declined $2.35 (or 3.9%) to $58.18 a barrel on the London Exchange, while West Texas Intermediate (WTI) oil futures fell $2.70 (or 5.2%) to $49.44 a barrel on the New York Exchange.

The dollar bounced back today from losses that followed the release of Fed’s minutes showing that policy makers argued for keeping interest rates lower for longer. The dollar appreciated the most in more than a week against a basket of currencies, including 0.18% against the euro to $1.1381 after Germany rejected Greece’s proposal for a bailout extension. Despite the initial reaction to the Fed’s minutes, many investors remain convinced rate increase is likely by year-end with Federal fund futures traded on the Chicago Exchange showing 77% possibility of a rate hike by December 2015.

High Income Economies

Germany has rejected Greece’s application to extend its loan agreement and renegotiate the terms of its bailout program, despite a significant U-turn by the new Greek government, which, for the first time, promised to work on completing the economic reform measures required in the existing rescue program. A spokesman for Germany’s finance ministry said that the letter from Athens did not offer a substantial proposal for a solution, but rather aimed for a bridge financing without meeting the demands of the program.

The Organization for Economic Cooperation and Development (OECD) raised Italy’s economic outlook,
citing gains from stimulus measures from the European Central Bank (ECB), the fading effect of the earlier fiscal consolidation and gains in real income due to falling oil prices. The OECD now expects the economy to expand 0.4% and 1.3% in 2015-2016, compared to its November forecasts of 0.2% and 1.0%. The forecasts, however, remain weaker than those of the central bank and government. The Bank of Italy earlier this month upgraded its growth forecasts to 0.5% and 1.5% in 2015-16 from 0.4% and 1.2%.

Japan’s leading economic index climbed to 105.6 in December, higher than the flash estimate of 105.2 and November’s reading of 103.7. The coincident index, which reflects the current economic activity, also rose to 110.7 in December, in line with flash estimate, from 109.2 in November. It was the highest score since May, when the reading was 111.1. Meanwhile, the lagging index, which measures the past economic activity, dropped to 119.8 in December from 120.5 in November.

Developing Economies

Turkey’s consumer confidence rose to 68.06 in February, up from 67.71 in January and better than economists’ expectation of 68. The index measuring probability of saving increased to 25 from 23.69, and the index measuring expectation for the number of unemployment people in the next twelve months rose to 69.64 from 67.81. Meanwhile, the index measuring the expectations on the financial situations of households in the next twelve months fell to 86.75 from 87.84. The general economic situation expectation index also fell slightly to 90.87 from 91.49.

Russia saw steep declines in key economic activity indicators in January, reinforcing expectation that the country is heading for recession under the weight of Western sanctions and a sharp decline in oil prices. Retail sales declined 4.4% (y/y) in January for the first time in more than five years, and after expanding 5.3% in December. Real wages plunged 8%, the sharpest decline since 1999, and following a 4% drop in the previous month. Meanwhile, fixed capital investments extended their decline to 6.3% (y/y) after a 2.4% fall in the previous month. Unemployment also rose to 5.5% from 5.3%. “Overall, the data has clearly surprised on the downside in terms of key domestic demand components,” an analyst said. “It is clear that the squeeze on consumers is intensifying, and the downturn is likely to gather pace over the coming months.”

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