European government bonds receive strong demand... Lower oil prices "won't spur global growth" – Moody's... Turkey's current account deficit drops to a 4 year-low

Financial Markets

European government bonds were auctioned at record-low borrowing costs on Wednesday as the European Central Bank's upcoming quantitative easing and the risk of deflation boosted investors' demand. Such was the appetite that Germany was able to sell €4 billion of 2-year bonds at a yield of minus 0.22% today. Portugal sold €1.25 billion of 10-year notes at a record low yield of 2.51%, and Italy sold €7 billion of 1-year Treasury bills at a yield of 0.21%, much lower than a five-year average of 1.45%. Also on Wednesday, Switzerland raised SFr122.6 million of 10-year bond are all-time low yield of just 0.01%, while Sweden was able to issue SKr3.5 billion of bonds with a negative yield of 0.05%.

Venezuela's dollar bonds plunged today amid skepticism that a new foreign exchange platform announced yesterday is sufficient enough to resolve the country's crippling economy. The South American nation's benchmark dollar-denominated bonds due in 2017 tumbled 3.38 cents to 42.17 cents per dollar. The country's international bonds are currently trading at distressed levels and on average their yields pay 27% higher than those of similar-maturity U.S. Treasuries due to a high possibility of a sovereign default.

High Income Economies

According to the latest Quarterly Global Macro Outlook report from Moody's Investor Service, lower oil prices will fail to give a significant boost to global growth in the next two years as the gradual slowdown in China and headwinds from Japan, Russia and the Eurozone hold back economic activity. In addition, the rating agency believes that factors such as political uncertainty and high unemployment will offset an expected consumer spending windfall from lower energy prices in countries that are net importers of oil. Moody's expects Eurozone GDP to rise 1% in 2015, almost unchanged from 2014, and 1.3% in 2016. The growth forecast for the G20 countries was maintained at just under 3% in 2015 and 2016, almost the
same as in 2014. Meanwhile, the 2015 growth estimate for the U.S. was raised to 3.2% from 3%. In 2016, the U.S. economy is set to grow 2.8%.

With lower oil prices and a weaker euro improving business sentiment, the German Chambers of Industry and Commerce (DIHK) lifted the growth forecast for Germany this year to 1.3% from earlier forecast of 0.8%. Exports were forecast to grow 5% after a 3.7% gain in 2014. Imports are expected to rise 6% in 2015 following 3.3% rise. Private consumption is set to grow at 1.5%. According to preliminary figures released by Destatis last month, the German economy grew 1.5% in 2014, which was the fastest expansion in three years, amid record high employment.

**Developing Economies**

**Europe and Central Asia**

*Turkey’s* current account deficit narrowed to $45.8bn in 2014 from $64.7bn in 2013, the lowest in four years and in line with expectations. As a share of GDP, the deficit narrowed to 5.8% of GDP in 2014 from 7.9% in 2013. Gold trade balance improved notably in 2014, accounting for 41% of the current account adjustment. The lira depreciation of around 30% over the same period and weak domestic demand also contributed to a significant reduction in imports, pushing the trade deficit down by over 15%.

*Russia’s* trade surplus shrunk less-than-expected in December to $12.9bn from $13.4bn in November. Economists had expected the surplus to narrow to $12.3bn. Compared to the previous year, the trade surplus fell 24% in December, after plunging 21% in the previous month. Russia’s currency lost almost half of its value against the dollar in 2014 after falling oil prices added to damage from sanctions imposed by the U.S. and the European Union over the crisis in Ukraine. The economy of the world’s largest energy exporter is forecast to contract 4% this year.

**Latin America and Caribbean**

*Brazil’s* retail sales declined 2.6% (m/m) in December, much more than the 0.6% fall expected by economists, and down from 1.5% growth recorded in November, data from the statistical office IBGE showed. Broad retail sales, which includes sales of vehicles and construction materials, declined 3.7%, more than the 0.8% fall expected by economists and down from November’s gain of 1.7%. For the year 2014, the cumulative retail sales growth was 2.2% versus 4.3% in 2013. Broad retail sales declined 1.7%.

You’ll find recent issues of this Daily and lots of other current analysis and high-frequency data on our GEM intranet website: [http://go.worldbank.org/0TC32BNV30](http://go.worldbank.org/0TC32BNV30)

See also our [Prospects blog](http://blogs.worldbank.org/prospects)

The Daily Economic News is an informal briefing for Bank staff whose responsibilities require that they stay abreast of changes in global markets. The views expressed here do not reflect those of the World Bank Group.

Feedback, and requests to be added to or dropped from the distribution list, may be sent to: dchen2@worldbank.org or gkambou@worldbank.org.