Daily Brief
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U.S. manufacturing activity drops to 26-year lows in October. Against the background of mounting credit constraints to financing day–to-day operations, as well as for investing in new plant and equipment, the Institute for Supply Management's (ISM) headline index of activity in manufacturing dropped to a reading of 38.9 in October—the fastest pace of contraction in 26 years—from 43.5 in September [see http://GEM]. Declining domestic orders, a slackening pace of exports (which had been a mainstay for the factory sector, as U.S. domestic demand faltered), and a shortage of credit and capital were sufficient to yield these results. An associated gauge of employment dropped sharply in the month, not an encouraging sign, from 41.8 in September to 34.6, suggesting that job cuts in manufacturing may pick-up to a faster pace. The report raises the risk that the current slump may be deeper than the last two recessions in 2001 and 1991, as businesses are forced to retrench in a big way.

Among emerging markets...in East Asia, *China*'s central bank reduced its key one-year lending rate to 6.66% from 6.93%, the third time in two months in an effort to boost growth as export demand wanes on account of the global financial crisis. The deposit rate will decline to 3.60% from 3.87%. Export orders declined to the lowest level since 2005 during the third quarter, while home sales plunged 55.5% in Beijing and slid 38.5% in Shanghai in the first eight months of the year relative to the same period of 2007. Meanwhile China's current account surplus surged 18% year-on-year in the first half of 2008, to $191.7 billion, while the surplus on its capital and financial account fell 20% to $71.9 billion.

Korea's exports expanded at the slowest pace in 13 months in October gaining 10% year-on-year down from 28.2% in September after shipments to China declined for the first time since 2002. Today the Korean government announced a 14 trillion won plan ($10.8 billion) designed to boost economic growth, as the country is facing the worst conditions since the 1997 crisis. The *Vietnamese* government revised down its economic growth target to 6.7%, from 7% earlier, as the economy is being affected by the international financial crisis, as well as the adverse impacts of recent floods on growth. The central bank reduced its benchmark rate to 12%, down 100 basis points effective November 5th, to prevent a further slowdown in the economy.

In Central and Eastern Europe and the CIS, *Russia* cut its GDP growth estimate for 2008 to 7.3% from 7.8% previously, according to a statement from the Economy Ministry, as the global financial crisis triggered capital flight and led to declines in the global oil price. The economy grew an annual 7.6% in the third quarter, brining growth over the first nine months of 2008 to 7.7%. The country's reserves plunged $31 billion last week as the central bank intervened to defend the ruble. This is the largest decline on record. International reserves declined to $484.7 billion, the lowest since the end of January, with a third of the loss due to the depreciation of the euro and pound against the dollar. The *Polish* central bank kept its key interest rate unchanged for a fourth consecutive month, in a bid to prevent the zloty's further decline and to support the economy which is being hit by the global economic slowdown. *Hungary's* unemployment rate rose to 7.7% in the July-September period, up 0.5 percentage points from the same period a year earlier, adding to evidence that economic growth is slowing.

The *Czech Republic's* economic growth was revised down to 4.4% for 2008 and 3.7% for 2009 from 4.6% and 4.8% respectively. Consumer price inflation is projected at 6.4% for 2008, coming down to 2.9% in 2009, while the budget deficit is projected at 1.2% of GDP in 2008. *Bulgaria's* producer price inflation eased to 12.6% year-on-year in September, down from 14.4% in August, as international prices of raw materials declined. *Hungary's* producer price inflation accelerated to 4.7% in September (y/y), picking up for the first time since April, as prices of manufactures and energy products rose faster. Meanwhile domestic producer prices rose an annual 12.8%, down from 12.9% the previous month. *Romania's* central bank increased its inflation target for this year to 6.7%, from 6.6% predicted in December, adding that the prediction carries a high level of uncertainty as higher wages and resurgence in food-price inflation could push headline CPI.

In Latin America, *Brazil's* Banco Real Purchasing Managers' Index declined to 45.7 in October, from 50.4 in September pointing to contraction in industrial production. *Chile's* budget surplus amounted to $9.6 billion in the first nine months of the year, the equivalent of 5.1% of GDP, according to Budget Director Alberto Arenas. *Mexico's* central bank revised down its forecast for GDP growth in 2008 to 2%, its fourth downward revision, and expects the economy to expand between 0.5% and 1.5% next year. The central bank expects remittances from Mexicans living abroad to fall 2.5% this year, because of the U.S. slowdown.

In Sub-Saharan Africa, *South Africa's* consumer price inflation moved down to 13% in September, from a record 13.6% in August, easing pressures on the central bank to tighten monetary policy further. Lower oil costs and food prices helped bring down the inflation rate. Headline inflation, which includes mortgage rates slowed to 13.1% from 13.7%, while core inflation eased to 13.9% from 14.3%. Meanwhile higher interest rates caused credit growth to ease to 16.4% in September (y/y) the slowest pace in almost four years, while retail sales growth also slowed to 11% in September, from 11.5% in August. IN pother news, the Investec Purchasing Managers Index retreated to 46.2 in October from 47.7 in

September, the sixth consecutive month of decline, as consumer spending slumped and the global financial crisis worsened.

Mozambique's GDP growth may ease to 6.5% in 2008, as higher fuel and food prices affect growth adversely. Headline inflation is projected to exceed 10% by the end of the year, while core inflation is expected to remain below 4%. *Seychelles'* rupee plunged 43% against the US dollar, euro and the pound in the first day of trading as a free-floating currency. Previously Seychelles pegged its currency to a basket of currencies comprised of 59% euros, 31% UK pounds and 10% U.S. dollars. Seychelles external debt amounts to $800 million and is equivalent to some 175% of GDP. The country missed its October 3rd interest payment on the $230 million of bonds maturing in 2011.

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