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What's In Store For The New Year?

The global economy saw another year of solid economic growth in 2006, supported by two of the emerging market giants, China and India. The resilience of the world economy is expected to remain broadly on track going into 2007. First quarter world output increased at a remarkably buoyant pace and is projected to rise by 5.1% for the full year 2006. This follows growth of 5.3% in 2004 and 4.8% in 2005.

The US economy experienced a strong first quarter, with growth of 5.6%, then substantially weakening in the subsequent three-month period to 2.6%. The marked slowdown was partly attributed to the cooling of the housing market and the effects of rising energy costs. New and existing home sales have declined, but still remain at fairly robust levels. Underlying inflation in the US economy has also been on the up-tick as core inflation rose to 2.6% up from just around 2.0% at the beginning of the year. Additionally, consumer confidence, as measured by the University of Michigan Survey of Consumer Confidence, has been waning- declining consecutively since October 2006. The challenges that the US is likely to face going into 2007 are the impact of higher energy prices, the lagged effects of the monetary tightening of the previous two years and the slowing housing market. Moreover, any further interest rate hikes are likely to pose a drag on an already slowing US economy.

Expansion in the previously lagging Euro-zone gained momentum in 2006, growing at a solid 2.7% in the September quarter of 2006. Output in the 12-nation region has been largely on track and quite resilient in the face of high oil prices. Indeed, real GDP growth in the region exceeded that of the US for the first time since 2001. The recovery was mainly driven by the industrial and external sectors, which can have adverse implications, given the potential for a slowdown in the US economy. However, there is speculation that growth in the Euro-zone may have peaked as business confidence is withering and as the ECB continues to raise interest rates. The Euro labor market has always been a ticklish area for the authorities, with the unemployment rate remaining sticky around 8.5% in 2005. It was only in the second quarter of 2006 that the unemployment rate fell below the 8% mark. The outlook for the Euro region appears to be mixed. While retail sales continue to thwart prospects, surveys of consumer confidence and household spending intentions point to some acceleration ahead. With relatively steady growth of just over 2% in 2007 and as inflationary concerns linger, the ECB is expected to raise interest rates further.

Economic activity in Japan has also been firming, and should continue to grow in excess of 2% in 2007. The Bank of Japan has also shifted its zero-interest rate policy and raised the rate to 0.25% during the year. Asian colossal, China registered blistering growth of 10% in the first half of 2006, which is being driven by investments, which increased by 30% during the six-month period. Exports continue to grow, but at a slowing rate, while imports continue to soar. Inflation remained relatively subdued during 2006. While there is likely to be further measures to contain investment growth, increases in the interest rates will have to be substantial for it to have any significant impact on growth. However, the authorities may utilize administrative measures to control the growth of investments. The Indian economy expanded at an impressive rate of 8.4% in the first quarter of 2006, driven partly by industrial production, which registered growth of 10% (YoY) in May.

In the currency market, the US dollar is set to depreciate further on the back of structural concerns about the US economy, particularly the large imbalances in the external current account. The US is China's biggest trading partner, and US authorities as well as manufacturers are criticizing China for keeping its currency, the yuan undervalued, giving them a competitive advantage. Additionally, as the US pauses its cycle of interest rate hikes, interest rate differentials will start to narrow, placing further pressure on the greenback. Both the yen and the euro have strengthened significantly against the US dollar during this year, by 0.4% and 11.3%, respectively.

Yields on US treasuries have displayed a general downward trend in 2006, with the shorter end of the curve higher than the longer end. The spread between the 3-month T-bill and the 30-year Treasury Note ended November at 47 bps, with the higher yield on the shorter tenor. As the US economy slows and the market starts to price in rate cuts, yields on US Treasuries are expected to continue on a downward path, leading to an inversion of the US yield curve. As US rates starts to level off, the search for yield is likely to lead to greater demand for emerging market bonds.

During 2006, oil prices hit new highs, but the latter half of the year saw a moderation in the prices reverting to levels below US$60 per barrel, on more favorable weather conditions and assuaged supply concerns. There may further moderation in oil prices, impacted by declining demand for oil due to slowing economic growth, especially from the US, which is the world's largest oil consumer.

FINANCIAL & ECONOMIC INDICATORS

As at 21 December 2006

Exchange Rate/US$	Closing Value	Previous Week
Yen	118.33	117.83
Euro	1.32	1.31
Jamaica	66.93	66.93
Guyana	201.70	201.7

Commodity Prices	Closing Value	Previous Week
Crude oil (US$/bbl)	62.66	62.51
Natural Gas (US$/mmbtu)	6.08	7.23
Gold (US$/Troy Ounce)	618.50	625.85

Eurobond Indices (Returns, % YTD as of 21- Dec- 06)	
Lehman Brothers Global Aggregate Index	3.92
JP Morgan EMBI+	-25.9
CMMB Eurobond Index	4.54

Policy Interest Rates (%)	Closing Value	Previous Month
United States	5.25	5.25
Euro Zone	3.25	3.25
Japan	0.25	0.25
Brazil	13.25	13.25
Trinidad	8.00	8.00
Jamaica	11.95	11.95
Barbados	5.25	4.75

Market Interest Rates (%)	Closing Value	Previous Week
US 90-day T-Bill	4.8	4.81
US 10-Yr Treasury	4.6	4.60
3-month UK Libor	5.31	5.30
Japan 90-day T-Bill	0.33	0.33
Brazil 90-day T-Bill	12.85	13.21
TT 90-day T-Bill	6.75	6.74
Jamaica 90-day T-Bill	11.90	11.73
Barbados 90-day T-Bill	6.60	6.60

Sources: Bloomberg, CMMB Research Centre, Central Bank of Trinidad and Tobago, Bank of Jamaica, Central Bank of Barbados, www.lehman.com