

# The **PREYMA**



## Report

### The G20 and Global Capital Markets

Critical Issues and Analysis

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## Introduction

August saw a flurry of activity on the regulatory front. Agencies are hard at work trying to get down to the business of creating rules that adhere to the *Dodd-Frank Wall Street Reform and Consumer Protection Act* that was passed in the United States in July. Uniformity of rules around the world has never been more important: global players in Europe are trying to streamline their regulatory guidelines so that no single jurisdiction has a competitive advantage over any other and no regulatory arbitrage can occur.

Second quarter results for many countries and regions were strong for the most part but economic recovery is not yet uniform. In Germany, growth hit 2.2%, due mainly to trade, and imports from European countries were unexpectedly high and showed that the country was doing its part in rebalancing. In Sweden, exports have paved the way for a strong economic rebound of 3.6% — dramatic increase of last year's -5.1% — and 80% of the biggest Swedish companies beat analyst expectations. The United Kingdom grew by 1.2% due largely to increased consumer consumption and inventories; while the increase in inventories is an unsustainable short-term spike, growth also came from a narrowing of the trade gap. However, China's economic growth slowed to 10.3% (down from 11.9% in the first quarter), causing concern because of the country's role in helping the global recovery and its decision to start removing stimulus measures. Canada and the U.S. also saw a tremendous increase in trade deficits, with imports grow-

ing and comparatively low export demand. India, with a nearly 10% inflation rate, managed to grow 8.8% year over year and has been raising interest rates all year. The Reserve Bank of India will continue with fiscal tightening but must be prudent as foreign direct investment was down almost 20% in the first two quarters. Much of India's growth came from the manufacturing sector, which is unsustainable over the long run. Third quarter results are not anticipated to be as strong.

China has also opened its domestic bond market up to broader use of the renminbi as McDonald's issued renminbi-denominated bonds in Hong Kong. China will not likely move toward a reserve currency, however, as that would bring freer rate movement. With increased demand for the currency comes an increase in its value, which would make exports — long China's tool for growth — more expensive.

French president Nicolas Sarkozy unveiled his leadership agenda for the G20 presidency, which France will assume in 2011. Chief among his concerns are speeding up the pace for international institutional reform, stabilizing currency fluctuations and curbing commodity speculation. Given that the U.S. Commodity Futures Trading Commission recently settled with the Gavilon Group (formerly the ConAgra Trade Group) for \$12 million for manipulating oil prices in 2008, commodity speculation is a particularly timely issue.



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