

FIGURE
OF THE WEEK

+6.4%

Q3 2016 y/y
GDP growth
in Vietnam

In the Headlines



Greece: Fresh money to come soon

On Monday, the Eurogroup agreed on the payout of the remaining EUR2.8bn of the second tranche under the three-year financial aid program. EUR1.1bn will be disbursed immediately for debt servicing needs while the remaining EUR1.7bn will be disbursed as soon as net arrears from September will be cleared by the Greek government. The Eurogroup has acknowledged the Greek government's compliance with the 15 policy "milestones" (including energy sector liberalization, pension reform and setting up of a privatization agency) although last month only two reforms were found to be completed. The Eurogroup's decision gives short-term relief as tough negotiations might take place with the IMF regarding its participation in the bailout. The Fund intends to decide by the end of the year on this, depending on potential debt relief measures for Greece by the Europeans on which the IMF insists. However, no discussions on this topic were held at this Eurogroup meeting. The second review of the European institutions is expected to start in mid-October. Euler Hermes expects full-year GDP to decline by -0.2% in 2016 before returning to growth of +2% in 2017.



U.S.: Modest job creation, Fed on track for December hike

156,000 jobs were created in September, slightly less than expectations, while the unemployment rate rose +0.1pps to 5.0%. Manufacturing lost 12,000 jobs, the second consecutive decline, otherwise gains were widespread across most industries. The labor force increased by 444,000, inching the participation rate up +0.1pps to 62.9%. Wages rose +0.2% m/m to +2.6% y/y, a figure which has been between +2.3% and +2.7% over the past year, indicating little wage pressure. The ISM non-manufacturing index was strong in September, gaining +5.7 points to 57.1, well into expansionary territory. New orders gained +8.6 points to a strong 60.0, while export orders rose a huge +10 points to 56.5. Nine of the ten components rose and all ten are now above 50. Euler Hermes believes the recent data makes a Fed rate hike in December quite likely. Financial markets are also pricing in a 70% chance of a move. The increase is unlikely to have a significant effect on the real economy since it is only a 25bps move off of still historically low rates, and U.S. financial markets have almost certainly priced in the move.



Brazil: Time for fiscal orthodoxy

Brazil's lower house of Congress approved on 10 October a measure to limit public spending in real terms, with an upper bound fixed to the previous year's inflation rate. It will be effective for the next decade. The new President, Michel Temer, secured his largest victory to date with 366 votes in favor and 111 against the measure. Although Temer's approval rating was just below 20% in May right after the impeachment of Dilma Rousseff, his predecessor, it seems that meanwhile he has gathered the conditions to set Brazil on the path of reforms. The public spending cap is the cornerstone of Temer's new administration to tackle Brazil's structural issues. With an overall budget deficit larger than -10% of GDP and economic activity still contracting by -3.2% y/y in Q2 2016, the new legislation was the first to be approved in a set of measures that intends to gain back investors' confidence through fiscal discipline. Since President Temer took office in May, the BRL gained +23% against the USD while stock markets skyrocketed. The IMF also welcomed the new fiscal orthodoxy path.



Germany: Rebound of economic activity in August

Industrial activity indicators surged in August, more than correcting July's weakness which was linked to the earlier average timing of school holidays and plant shutdowns this summer. Industrial production surged by +2.5% m/m and +8.1% y/y in August, after decreasing by -1.5% m/m and -7.7% y/y in July. Likewise, turnover in manufacturing rose by +4.1% m/m and +8.8% y/y in August, following declines of -1.5% m/m and -9.3% y/y in July. Moreover, new orders in manufacturing increased by +1% m/m and +7.7% y/y in August, up from +0.3% m/m and -6.3% y/y in July, indicating a good performance during the remainder of the year. This outlook is supported by the final Manufacturing PMI for September which rebounded to 54.3 (from 53.6 in August) close to June's 28-month high of 54.5. Key drivers of the stronger PMI were accelerations in the forward-looking new orders and export orders components. Exports surged already by +5.4% m/m and +9.8% y/y in August, after dropping by -2.6% m/m and -10% y/y in July. Euler Hermes expects GDP growth of +1.8% in 2016 and +1.7% in 2017.

Countries in Focus

Americas

Canada: Very strong job gains, but BoC on hold

The economy produced a massive 67,200 jobs in September versus expectations of only 7,500. It was the biggest increase in 4.5 years and the best back-to-bank gain in two years. Job creation was broad-based across most sectors. Perhaps the best news was that 13,300 jobs were created in Alberta, the second consecutive gain after four straight months of job losses, as well as losses in eight of the ten previous months. The data suggest that rebuilding from the wildfires might already be creating jobs. Also, like in the U.S., the labor force grew, gaining a substantial 70,000. However, unlike in the U.S., the Bank of Canada (BoC; the central bank) is in no hurry to raise interest rates as the economy faces slow growth and falling inflation. Furthermore, new rules intended to slow the housing market have created an uncertain environment with a significant risk of rapidly declining activity.

Russia: Domestic demand remains weak

Consumer price inflation fell to 6.4% y/y in September (6.9% in August) as a result of further disinflation in the prices of both food (5.9%) and non-food products (7.5%) while the price of services edged up slightly (5.6%). The headline figure represents a 31-month low and is well below the 15.7% recorded a year ago. Last week, RosStat also published the demand side breakdown of Q2 GDP growth which was confirmed at -0.6% y/y. Domestic demand remained particularly weak, with consumer spending contracting by -5.2% y/y, public spending -1.2% and fixed investment -4.3%. Real exports were flat in Q2 while imports dropped by -6.7% y/y so that net exports added +1.4pps to growth. A positive contribution of +1.9pps to Q2 growth came from inventories which rebounded markedly after three full years of destocking, thus mitigating the ongoing recession. Euler Hermes forecasts full-year GDP to contract by -0.9% in 2016, followed by a modest recovery and +1% growth in 2017.

Egypt: Strong measures underway

Inflation stood at +14.1% y/y in September, well above what a stable exchange rate should warrant. After a devaluation by -14% in March, the official exchange rate has stabilized at about 8.9 EGP per USD. However, as the black market exchange rate is around 15 EGP per USD, the premium is approaching +40%. Indexation of some local prices (especially of goods that are priced in foreign currency) to the black market rate means that these prices are rising in line with this rate. As a result, the Central Bank raised its policy rate by +300bps to 12.25%. Moreover, in order to secure a USD12bn, three-year loan from the IMF – needed as foreign currency shortages are still evident – Egypt has to implement corrective economic policy measures. In the pipeline are a further strong devaluation, import restrictions in order to limit foreign currency needs and reductions of subsidies (which currently stand at about 10% of GDP) in order to reduce the fiscal deficit.

Vietnam: Q3 GDP growth gains momentum

First estimates show that Q3 real GDP expanded by +6.4% y/y, up from +5.8% y/y in Q2 and +5.5% y/y in Q1, taking average growth in the first three quarters to +5.9% y/y. On the production side, industrial output (+7.4% y/y) was the main growth driver in Q1-Q3, with manufacturing rising by +11.2% and construction by +9.1% while mining declined by -3.6%. The services sector increased by +6.7% y/y in Q1-Q3. The agricultural sector grew by +0.7% y/y in Q1-Q3, reflecting a turnaround in Q3 as it had contracted by -0.8% y/y in H1 as a result of bad weather conditions. Demand-side details are limited but a +9.5% y/y rise in retail sales in Q1-Q3 indicates healthy private consumption growth. Net exports should also have made a positive contribution to overall growth as total export turnover increased by +6.7% y/y in Q1-Q3, outpacing import turnover at +1.3%. Euler Hermes forecasts full-year GDP growth of around +6% in 2016 and +6.5% in 2017.

What to watch

- October 14 – Singapore Q3 GDP growth (1st estimate)
- October 14 – Nigeria September CPI
- October 14 – Poland August external trade
- October 14 – U.S. September retail sales
- October 14 – U.S. September producer prices
- October 17 – Russia September industrial production
- October 17 – Japan August industrial production
- October 17 – U.S. September industrial production
- October 18 – UK August house price index
- October 18 – U.S. September consumer prices
- October 18 – Canada August manufacturing shipments
- October 18 – Bank of Canada policy statement
- October 19 – Brazil interest rate decision
- October 19 – China Q3 GDP growth (1st estimate)
- October 19 – Poland September industrial output
- October 19 – Poland and Russia September retail sales
- October 19 – South Africa September CPI

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