Euler Hermes Economic Research

Weekly Export Risk Outlook

19 October 2016

In the Headlines

FIGURE OF THE WEEK

+7.2% y/y

Input PPI in the UK for September

China: GDP supported by stimulus

Economic growth remained within the authorities' target, helped by supportive macro-policies. Real GDP increased by +6.7% y/y in Q3 supported by the tertiary sector (+7.6% y/y). Demand wise, government and households expenditures were the main drivers. Retail sales continued to increase above +10% y/y in September. State investment remained strong (+21.1% YTD y/y in Jan-Sep) keeping overall investment growth (+8.2% YTD y/y) in a decent range. On the opposite, exports continue to disappoint with a significant contraction in USD denominated exports in September (-10% y/y). On prices, inflation edged up in September (+1.9% y/y from +1.3% in August) driven by a rise in food prices. More importantly, the producer price index increased by +0.1% y/y in September, after 54 months of y/y decline. Looking ahead, GDP growth is set to decelerate gradually to around +6.4% in 2017. On the upside, domestic demand will prove resilient thanks to active fiscal support and resilient private consumption. On the other hand, (i) weak overseas demand and (ii) a more cautious approach on credit expansion (to avert financial risks) would translate into weak private investment growth.

Ghana: Market friendly stabilization

Ghana's GDP growth is losing pace but other news are currently quite good. GDP grew by +2.5% y/y during the 2nd quarter, among the weakest growth rates in a decade. But, Ghana benefited from welcomed evolutions. As foreign exchange reserves were very low (import cover structurally under 3 months of imports) and the current account deficit quite strong (weaker than -10% of GDP), the currency was hardly hit (depreciated by -50% between end-13 and mid-15) by a sudden stop in capital flows, and the inflation rate skyrocketed to about +20%. Since the country turned to the IMF and the Central Bank was tough (+1300 basis points to 26%), the situation is somewhat stabilizing. The IMF program and recovering private capital flows (USD 750 M Eurobond issuance in September) helped to cope with financing needs. Moreover, the recent decision implemented to allow more dollars from cocoa-exporters to be exchanged on the interbank dollar markets is welcomed. It will make dollar liquidity less scarce and stabilize the economy.

Eurozone: Investment drives credit demand from corporates

Credit demand in the Euro area continues to expand. According to the recent ECB October 2016 Bank Lending Survey, demand has increased across all loan categories in Q3 2016, largely driven by low interest rates. A net percentage of Euro area banks reported an increase in demand for corporate loans (+11%, measured as the difference between the share of banks reporting an increase in loan demand and the share of banks reporting a decline), pushed also by M&A activities. Both Germany and France have recorded a net increase (+6% and +54% respectively), while net declines have been registered in Italy (-13%) and Spain (-20%). As for demand for loans to households, the net increase across the Eurozone (+23%) remains above historical average, helped by stronger consumer confidence and by eased credit supply conditions. On the supply side, a substantial net percentage of Euro area banks continue to report narrowing margins on loans, in a context where ECB's asset purchase program is also weighing negatively. Indeed, a larger net percentage of Euro area banks has reported a negative effect on net interest margins (-46%) than the net percentage of banks boasting capital gains (+19%).

Argentina: Inflation moderates amid anchored expectations

Inflation hiked to +1.1% m/m in September compared to a +0.2 % m/m increase in August. Recent figures have been driven by changes in regulated energy prices and a substantial reduction in seasonal item prices. Despite these components, inflation showed a downward trend. Excluding volatile items, inflation scored +1.5% m/m in September. This is another consecutive month of deceleration since the new series was launched in May. Bringing down inflation to its target rate remains challenging and our overall forecast for 2016 is +40.2% y/y. The Central Bank will reduce its reference rate in line with predicted changes in prices. Corporates and SMEs will benefit from lower interest rates on loans from the banking sector as inflation is expected to continue its descending path in the near-term. Ease of business' access to finance, together with the government's roadmap to get the economy back on its feet, could spur investment. These elements would come to strengthen our view that GDP will rebound in 2017 compared to our projection for 2016 of -1.1% y/y.

Countries in Focus

Americas

U.S.: Retail sales rise but Q3 consumption looking weak

Retail sales grew +0.6% m/m in September, driven by gasoline sales which rose for the first time in three months, gaining +2.4% m/m due to increasing prices. But Q3 core sales are only growing at +0.3% q/q on an annualized basis, as opposed to +6.9% at the end of Q2, suggesting continued GDP weakness in Q3. Gasoline prices rose a steep +5.8% m/m in September driving CPI to a 1.5% y/y rate, the highest in two years. Core prices remained steady at +2.2% y/y. Manufacturing industrial production (IP) rose +0.2% m/m in September, pulling the y/y rate up to 0% from -0.5%. But much of the gains in IP have been dependent on one sector, autos. Ex-auto, IP is falling -1.4% y/y, suggesting manufacturing remains weak. Fed minutes from the September meeting showed that the decision to keep rates steady was a “close call” entailing considerable disagreement. We believe the Fed is quite likely to raise rates in December.

Europe

U.K.: GBP depreciation spurs inflation

Inflation figures for September 2016 reveal that consumer prices rose at the highest pace in almost two years, by +1.0% y/y. Restaurants and hotels (+0.35pp), transport (+0.19pp) and clothing and footwear (+0.08pp) mainly contributed to this increase. Still, most of the surge in prices caused by GBP depreciation (-18% against the USD since the vote) was absorbed by firms. While input producer prices rose by +7.2% y/y this month (against +7.8% last month), factory-gate prices only increased by +1.2% y/y. The surge in input prices is mainly due to crude oil, but also home-produced and imported food, products that rely a lot on imports from abroad. Higher input costs have yet to be passed on to the consumer while company margins are already weakening. For 2017, we expect inflation to edge up to 2.5% on average, slightly above the Bank of England’s target. While the BoE would support temporarily higher inflation compared to target, this will make new monetary-easing measures more challenging.

Africa & Middle East

Angola: Bad moon rising

Angola’s economy was hit by the oil shock, but the government decided to avoid recession by increasing its fiscal deficit. As a result, growth is weak (+1.5% in 2016) but still positive. However, a decision to stick with a fixed exchange rate regime after some depreciations (-42% from June 2014 to date) failed to stabilize the economy. The black market exchange rate is still lower than the official one by 72% and, as a result, inflation jumped (+40% y/y in September). Moreover, the decision to avoid an IMF program is bad news, since it means that the government is in a kind of blind run. The fiscal balance (-7% of GDP this year and next) increased, adding to public debt, also burdened by contingent liabilities related to the state-owned oil producer Sonangol. As a result, public debt should increase to 77% of GDP in 2016 (40% in 2014). This evolution is not sustainable and will have to be addressed.

Asia Pacific

Singapore: GDP caught in an (economic) typhoon?

Real GDP growth slowed rapidly in Q3 (+0.6% y/y from +2.0% y/y in Q2) according to preliminary estimates. Manufacturing was the main culprit (-1.1% y/y) followed by services (-0.1% y/y). Demand indicators suggest that exports are still the main drag. In September, non-oil domestic exports contracted (-4.8% y/y) due to lower demand especially from ASEAN, Japan, China and the US. In the short run, advanced indicators suggest an improvement. The last manufacturing PMI survey was encouraging. The index rose to 50.1 in September (from 49.8 in August), signaling an expansion of activity for the first time in 15 months. This improvement was driven by an increase in new orders and output especially from the electronic sector. However the recovery pace will likely be gradual as overseas demand growth is weak. The economy will post below +3% growth in 2017, far from its long term average (+5%/+6%).

What to watch

- October 20 – UK September Retail Sales
- October 20 – Eurozone Monetary Policy
- October 21 – Canada August Retail Sales
- October 21 – Argentina Budget Balance
- October 24 – Eurozone October Manufacturing PMI
- October 25 – France October Business Confidence
- October 25 – Germany October IFO Business Climate
- October 25 – US October Consumer Confidence
- October 25 – South Korea Q3 GDP Growth
- October 25 – Spain Budget Balance
- October 26 – France September Unemployment
- October 26 – France Consumer Confidence
- October 26 – Mexico August Economic Activity

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