

# Weekly Export Risk Outlook

24 January 2018

FIGURE  
OF THE WEEK

+6.9%

China's 2017  
GDP growth

## In the Headlines



### China: Stronger, faster? Not really

Real GDP increased by +6.8% y/y in Q4 (the same pace as in Q3), taking full-year 2017 growth to +6.9%. However, the quarterly growth rate indicates a slowing momentum (+1.6% q/q in Q4 compared to +1.8% in Q3). Growth in Q4 was mainly driven by the tertiary sector (+8.3% y/y, up from +8% in Q3). Expansion in the secondary sector eased further to +5.7% y/y in Q4 (from +6% in Q3). High frequency indicators for December also point to slower impetus. Firstly, nominal retail sales growth moderated to +9.4% y/y (from +10.2% in November). Secondly, cumulative YTD urban investment growth remained at a low level of +7.2% y/y. Thirdly, real industrial production edged up slightly to +6.2% y/y in December from +6.1% in November, yet it is still low compared to previous rates (e.g. +6.6% y/y in September 2017). As expected, the authorities' moves to improve growth quality (for example financial and property market tightening and cuts in overcapacity) have started to dent growth. Against this background, we maintain our forecast of a deceleration of GDP growth to +6.4% in 2018.



### U.S.: Manufacturing and housing robust

The manufacturing sector continues to thrive. Regional Fed surveys from New York, Richmond, and Philadelphia indicated continued expansion in manufacturing although at a slower pace than last month, while the Chicago survey of general conditions rose to 0.27 from 0.11. Manufacturing industrial production gained +0.1% m/m to +2.4% y/y, just below last month's three and one-half year high. Fourteen of 19 sub-sectors are growing y/y. Frigid weather drove utilities output up a sharp +5.6% m/m which put the headline industrial production up to +3.6% y/y, the fastest pace in three years. On the housing front, homebuilders remain highly optimistic; even though sentiment slipped from 74 to 72 points, it's still the highest in almost 13 years. Volatile housing data showed permits were virtually unchanged but starts fell -8.6% m/m in December, perhaps due to weather. Overall the economy continues to demonstrate strength and we expect Friday's Q4 GDP report to do the same. We maintain our 2018 forecast of +2.6% GDP growth and three to four interest rate hikes.



### Turkey: Mixed signals

The Monetary Policy Committee (MPC) kept its set of policy interest rates unchanged last week, as inflation eased slightly to 11.9% y/y in December and the TRY stabilized against the USD since the previous MCP meeting in mid-December (though it lost -3% against the EUR). We do not expect rate hikes in the near term since inflation is forecast to ease slightly to an average 9% in 2018 while GDP growth should slow, so that the MPC is likely to begin modest monetary loosening this year. Meanwhile the current account balance posted a hefty deficit of -USD4.2bn in November, taking the cumulative shortfall in the first 11 months of 2017 to -USD39.4bn, a +37% y/y increase. Worrisome, net FDI inflows covered only 19% of that shortfall. While the trade deficit widened to -USD51bn in January-November (-USD14bn y/y) largely due to the weakened TRY, the services surplus increased by +USD4bn to +USD19bn as tourism from Russia rebounded last year. On a positive note, Turkstat's Consumer Confidence Index jumped to 72.3 points in January, up from 65.1 in December and well above the average 68.6 recorded for all of 2017. This bodes well for retail sales growth – which picked already up to an average +3.3% y/y in October-November from +1.4% in Q3 2017 – in the next months.



### Philippines: Robust growth ahead

Real economic growth slowed to +6.6% y/y in Q4 2017 (from +7% in the previous quarter), taking growth for all of 2017 to +6.7%. On the production side, growth was driven by a strong expansion in industry (+7.3% y/y) and services (+6.8% y/y) while agriculture increased at a more modest pace (+2.4% y/y). On the expenditures side, exports kept rising at a high pace (+18.6% y/y) and public consumption remained a strong driver (+14.3% y/y), followed by investment (+9.3% y/y). Looking ahead, we expect growth to remain robust and edge up to +6.8% in 2018, for several reasons. Firstly, the exports outlook is well oriented, supported by higher economic growth in advanced economies. Secondly, the continued rise in remittances and a solid job market portend firm growth in private consumption. Lastly, investment is set to remain firm, underpinned by a strong business sentiment (manufacturing PMI at 54.2 in December) and a rise in public infrastructure spending (as part of the "Build, Build, Build" program).



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# Countries in Focus

## Americas

### Argentina: Unexpected monetary policy shift

Yesterday, the central bank (BCRA) cut its key policy rate again, by 75bps to 27.25% from 28%. The move was unexpected by markets. It is the second straight cut since the government relaxed inflation targets for 2018 (15%, up from 8-12%), 2019 (10%, up from 5%) and 2020 (5%). As a key argument for the cut, the BCRA noted greater “*contractionary bias in monetary policy, ... with a real interest rate much higher than at the beginning of 2017.*” Indeed, the Bank shows a real interest rate of 10.5% in early 2018 against 3.9% in early 2017. Yet, it mentioned that high-frequency data was “mixed” as inflation ended 2017 at a high 25%. Further, despite a higher real interest rate, credit data already shows a trend reversal. Total credit growth accelerated to +51% y/y in December 2017 from +31% in December 2016, mostly driven by a rapid recovery of credit to NFCs. The BCRA will need to reaffirm its commitment to tame inflation in order to maintain its credibility on the markets.

## Europe

### Russia: Overall improving exports

First estimates indicate that the annual current account surplus increased to +USD40bn in 2017, equivalent to an estimated +2.6% of GDP, up from +USD26bn in 2016 (+2% of GDP). In Q4 2017, exports of goods surged to USD103bn (+22% q/q and +25% y/y). But this is still well below the USD139bn peak reached in Q4 2013. Rising oil prices supported the outcome in the final quarter of last year, boosting oil and gas exports by +22% y/y. However, non-oil and gas exports rose even stronger, by +29% y/y, returning to the pre-crisis level. In all this indicates that economic sanctions have a lower impact on Russia’s economic performance than oil prices. In full-year 2017, exports of goods reached USD354bn, up by +USD72bn or +25% y/y and above the USD341bn reached in 2015, while imports grew by +USD46bn y/y (+24%) to USD238bn thanks to improved domestic demand as a result of the stabilized RUB and much lower inflation. EH expects higher average oil prices in 2018 (USD62/bbl of benchmark Brent, after USD55/bbl in 2017) to widen the current account surplus to about +3% of GDP this year.

## Africa & Middle East

### South Africa: Growth should surprise on the upside

Growth cycles are sometimes quite contrarian. Several rating downgrades, a trend increase in debt levels and political uncertainty triggered many downward revisions of growth forecasts (the latest from the IMF, to +0.9% in 2018). However, we see growth accelerating in South Africa, with external conditions being supportive. Metal prices increased (+17% y/y) and the ZAR appreciated to its best level since May 2015 (below 12 ZAR per USD). Even the 10-year sovereign bond rate is back to the levels observed before the last rating downgrade (8.7% on 24 January) driven by the election of C. Ramaphosa to head the ANC and the possibility that President Zuma’s term may end soon. Economic data improved as well. Core inflation fell to a six-year low of 4.2% y/y in December and retail sales growth rebounded to +8.2% y/y in January. EH expects GDP growth to accelerate from +0.8% in 2017 to +1.4% in 2018. However, public debt at 53% of GDP poses a downside risk, especially debt related to SOEs.

## Asia Pacific

### Japan: BoJ holds monetary policy steady

Accelerated growth in core private machinery orders (+5.7% m/m) and in the private consumption index (+1.1% m/m) in November suggest a positive contribution of private domestic demand to Q4 GDP growth. Despite these favorable signs and against market speculation that the central bank might be nearing the start of policy normalization, the Policy Board of the BoJ continued to signal patience at this week’s meeting, leaving the policy stance unchanged (short-term rate at -0.1%, target for the 10-year JGB yield at around 0%). Also in the quarterly outlook report, growth and inflation forecasts were unchanged from the last report. Yet, in a small sign of progress, the assessment of inflation expectations was revised slightly upwards to “more or less unchanged”. However, the BoJ continues to focus on inflation momentum which it described as “not yet sufficiently firm”. Although CPI inflation excluding fresh food and energy has picked up slightly recently, it still stood at just +0.3% y/y in November.

## What to watch

- January 25 – Canada November retail sales
- January 25 – Eurozone monetary policy meeting
- January 25 – Germany January Ifo business climate
- January 25 – U.S. December new home sales
- January 26 – Canada December consumer prices
- January 26 – France January business confidence
- January 26 – UK Q4 GDP growth
- January 26 – U.S. December durable goods orders
- January 26 – U.S. Q4 GDP growth
- January 30 – France Q4 GDP growth
- January 30 – Eurozone Q4 GDP growth (flash estimate)
- January 30 – Hungary monetary policy meeting
- January 30 – U.S. January consumer confidence
- January 31 – Canada November GDP
- January 31 – U.S. Federal Reserve policy statement

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