

Weekly Export Risk Outlook

16 July 2014

FIGURE
OF THE WEEK

+7.5% y/y

Q2 GDP growth
in China

In the Headlines



Eurozone: Not too much, but not enough

In Q2, eurozone business confidence remained positive overall, suggesting an expansion in economic activity. New orders rose at the fastest pace in 3 years, notably in Southern eurozone countries where GDP growth is expected to strengthen. However, the latest advanced indicators in Germany (industrial production, retail sales, external trade) signal a moderation of growth in Q2 (+0.6% q/q). Full year growth is expected at +1.9% in 2014, followed by +2% in 2015. France remains the outlier with business confidence indicators suggesting continued weakness in growth in Q2 (+0.2% q/q). Full year growth is expected to remain subdued at +0.7%. Eurozone GDP is expected to grow by +0.3% to +0.4% q/q in Q2 (after +0.2% in Q1) – preliminary estimates will be published on August 14. Over the whole year, EH expects eurozone GDP growth to reach +1.0% in 2014. Downside risks to this forecast prevail and relate to long-lasting low inflation, the strength of the EUR, the weakness of the banking sector and the elevated stock of private and public debt. To fight part of these outstanding issues, the ECB is expected to announce further stimulus measures in Q4 2014/Q1 2015.



Portugal: Bumpy confidence

Portuguese long term bond yields rose significantly last week (+33bps to 4% last Friday) following financial concerns regarding Banco Espirito Santo (BES), the second largest bank in the country. BES shares were suspended after falling by more than half last week after Rioforte holding group, a main BES shareholder, missed a payment due on some outstanding commercial paper. PM Coelho stated that BES capital ratios are quite comfortable, and direct consequences on the whole Portuguese banking system seem limited at the moment. Moreover, the Portuguese Bank Solvency Support Facility that was created within the framework of EU/IMF financial program still has sufficient resources (EUR 6.5bn or 3% of GDP) to finance a possible public bailout, if needed. The major risk remains the sudden loss of investor confidence, which would jeopardize the financing of public debt and the economic recovery, but this is not our central scenario. However, we do not exclude temporary volatility. EH expects Portugal to grow by +1.0% in 2014 and by +1.3% in 2015, outperforming Italy, France and Spain.



Slovenia: Uncertainty over reforms after parliamentary election

The Party of Miro Cerar (SMC) won the early parliamentary election last Sunday (35% of the votes, 36 seats out of 90). The centre-right SDS finished second (20%, 21 seats), followed by the left-leaning DeSUS (10 seats). Four smaller parties with quite different policy agendas gained between 4 and 6 seats each. The SMC is a new party founded only in June which does not have any clear program or political orientation but appears to be left-leaning. Hence the most likely outcome will be an SMC-led centre-left government, raising some concern over continuation of ambitious socio-economic reforms, the privatization process and improvements of the business climate which had been introduced by the previous four-party coalition government under prime minister Alenka Bratusek; those changes had put Slovenia on the path out of an economic and banking crisis, thereby avoiding an international bailout. That government fell in May after Bratusek lost the leadership of her party, and voters did not honor the reforms, as three of the coalition parties failed to be re-elected. Meanwhile, monthly data for industrial production and exports suggest that GDP growth will moderate in Q2 from the rebound in Q4 (+2.1% y/y) and Q1 (+1.9% y/y). EH expects full year growth of +0.7% in 2014 and +1% in 2015 (after -1.1% in 2013).



BRICS: New Development Bank – evidence of further integration?

On Tuesday at a summit in Brazil, the leaders of the five so-called BRICS countries – Brazil, Russia, India, China and South Africa – launched a new development bank with initial subscribed capital of USD50 billion (0.3% of the five countries' GDP), equally shared among the founding members, and an emergency reserve fund with an initial USD100 billion (0.6% of GDP). The "New Development Bank" (NDB) will be headquartered in Shanghai, its first president will be from India, the first chair of the Board of Directors from Brazil and the first chair of the Board of Governors from Russia, while an African regional centre of the NDB will be established in South Africa. This setup reflects the difficulties in reaching a balanced package that was satisfactory to all. The objectives of the NDB are described as to help developing countries avoid short-term liquidity pressures, promote further BRICS cooperation, strengthen the global financial safety net and complement the efforts of existing international and regional financial institutions. The NDB shall also give emerging markets (EM) a greater say in the international financial order. The BRICS as well as other EM have long criticized the World Bank and the IMF for not giving them enough voting rights. Against the background of large political and economic differences between the BRICS it remains to be seen whether the NDB can keep up with its ambitious targets

Countries in Focus

Americas



US: A "more positive" overall view

June retail sales were hurt by auto sales which unexpectedly fell by +0.3%. But core retail sales which exclude auto, gasoline and building materials, rose by +0.6%, bringing the real, annualized quarterly rate to a robust +4.8%. Strength was also seen in the Fed's NY state regional manufacturing survey which rose to a solid 25.6 in July from 19.3 last month and single digit readings earlier in the year. New orders are particularly strong at 18.8 after having been negative late last year and early this year. Minutes from the Fed's June meeting indicate that its QE programs would end in October, and that its balance sheet may start shrinking after the first increase in interest rates which is not expected until mid-2015. In her semi-annual testimony to Congress, Fed Chair Yellen reiterated that substantial labor market slack, low wage growth, and a disappointing housing market all require continued highly accommodative monetary policy, despite her "more positive" overall view. She also indicated concern over high valuations in leveraged loans, corporate debt, and some equity sectors.

Europe



Russia: Plunging investment drags down growth

Expenditure side quarterly GDP data were released in early July, showing that the -0.3% q/q real GDP contraction in Q1 was entirely due to a sharp -7% q/q drop in gross capital formation. This reflects a plunge in inventories as fixed investment decreased by -3.3% q/q. Private consumption actually gained some momentum in Q1, expanding by +1.1% q/q (+0.5% in Q4) while government consumption remained stable at +0.5% q/q. External trade activity weakened, with exports down by -0.9% q/q and imports by -1.5% q/q resulting in a small positive contribution to Q1 growth from net exports. EH expects full year growth of +0.5% in 2014 in its baseline scenario. The Ukraine conflict represents a key geopolitical downside risk. Meanwhile, weak imports have widened the current account surplus to USD44 billion in H1 (USD27 billion in H1 2013) while worsening investor confidence has pushed up net private capital outflows to USD74 billion in H1 (USD33 billion in H1 2013).

Africa & Middle East



Nigeria: Rebasing GDP, again!

A few months after the first Nigerian GDP rebasing exercise in April 2014, the National Bureau of Statistics last week released its final estimates by output approach. This initial rebasing had propelled Nigeria to Africa's top new economy with 2013 GDP at USD509.9 billion. The final rebasing exercise confirms this figure but 2013 GDP growth was revised down by about 2pps, from +7.4% to +5.5%. GDP growth in 2012 was also revised downwards from +6.5% to +4.2%. The manufacturing sector grew fastest in 2013, at +21.8%, while mining and quarrying production, accounting for about 14.4% of GDP, decreased by -12.8%. Motion pictures, sound recording and music production (or the "Nollywood" industry), newly accounted for in this rebasing exercise, grew by +24.2% in 2013. The outlook remains one of relatively strong growth, spurred by the oil and gas sector but also by the non-oil parts of the economy, particularly telecommunications, construction and agriculture.

Asia Pacific



China: Strengthening growth in 2014

As expected, GDP accelerated by +0.1pp to +7.5% y/y in Q2 (+0.6pp to +2.0% q/q). The most recent hard data suggests that the economy benefited from rising domestic demand following the authorities' mini-stimulus (fiscal stimulus and monetary easing) and improving external trade figures (exports up +7.2% y/y in June). Government expenditures continued to rise in June (+26% y/y from +24.6% in May) reflecting increased spending on infrastructure projects. Industrial production gained traction (+9.2% y/y in June from +8.8% y/y in May) and retail sales growth remained solid (at +12.4% y/y in June). For the coming quarters, the outlook is positive with an expected growth of +7.5% in 2014, driven primarily by two factors. First, the policy mix will likely remain accommodative to smooth the economic transition. Second, private investment is projected to pick up speed as (i) confidence is on the rise, (ii) financing conditions are improving (Bank lending up 13% y/y over 6 months of 2014), and (iii) external demand is expected to accelerate.

What to watch



- July 17 – US June housing starts and permits
- July 17 – Thailand June car sales
- July 17 – Eurozone June inflation rate
- July 18 – Mexico June unemployment rate
- July 21 – Portugal May current account balance
- July 22 – Eurozone Q1 2014 public debt
- July 22 – US June CPI
- July 22 – US June existing home sales
- July 22 – Hungary monetary policy meeting
- July 22 – Mexico May retail sales
- July 22 – Colombia June trade balance
- July 22 – Japan May industrial activity index
- July 23 – BoE July meeting minutes
- July 23 – France July Insee business climate

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