

Weekly Export Risk Outlook

30 May 2018

FIGURE
OF THE WEEK

+0.2%

Q1 2018 y/y
GDP growth
in France

In the Headlines

Italy: Navigating political uncertainty

In the wake of renewed political blockage, market reaction has been subsequent: the surge in the 10-year spread has been one of the fastest in history and the sovereign yield curve has flattened for the first time since 2007. While asymmetric, there was a reaction in the CDS of Italian banks as markets turned their attention on possible liquidity tensions. Fresh elections are now likely to be organized as early as July and as latest as early 2019. While it is difficult to predict what could come next, we envisage several scenarios. The most probable one (our baseline) sees a governing coalition that will implement moderate fiscal expansion while markedly toning down Eurosceptic rhetoric amid elevated market tensions. We continue to expect the ECB to prolong its QE program until December 2018 at least and to delay its first rate hikes until late 2019. Moderate fiscal expansion will drive fiscal deficit slightly above -3% of GDP in 2019 and primary surplus down to around +0.5% of GDP. Liquidity tensions for banks would remain limited as well as contagion to the peripheral Eurozone countries. Italian annual GDP growth would be below +1% on average in 2019-20.

Germany: Upswing remains robust

The German economy got off to a weak start in 2018, with growth halving to +0.3% in Q1 compared to Q4 2017 (+0.6%). Within the euro area, the German economy is now growing at below-average rates. Germany's real GDP in the first quarter of 2018 was only +2.3% higher than the corresponding prior-year level, but that of the euro area by +2.5%. However, the domestic economic conditions for a continuation of the upswing in Germany remain very good. The earnings situation of companies is positive and financing conditions are exceptionally favorable. Corporate and household debt is relatively low and high capacity utilization is supporting investment demand. Rising employment creates additional income and the real purchasing power of disposable incomes is growing despite higher oil prices. We therefore expect domestic demand to pick up again as early as in the second quarter of this year. All in all, despite increased risks, we expect overall economic utilization in Germany to continue to increase in 2018 and 2019. However, with a working-day adjusted real GDP growth of +2.2% this year and +1.9% next year, the rate of 2017 (+2.5%) will not quite be reached.

France: Twisted nerve

The French economy landed more than expected in Q1. Quarterly GDP grew +0.2% in 2018Q1 down from +0.7% in Q4. Private consumption was the weakest demand-side driver (+0.1% q/q). Purchasing power issues were pervasive (as it grew +0.2% q/q in Q4 and would probably stagnate in 2018Q1). External demand was revised downwards as well (-0.3% q/q). The recent oil price increase is also nurturing new purchasing power issues in Q2. As a result, private consumption should stay on pause in Q2 (+0.2% q/q). Hence corporates will need more time to decrease inventories, after starting in Q1. This longer duration of the growth slump will also have an impact on the investment momentum. Q2 growth should not particularly accelerate (+0.3%). Overall, we revise our 2018 growth forecast down from +2.1% to +1.8%. From Q3 onwards, growth should recover to +0.5% per quarter, since wage growth suggests more positive purchasing power evolutions. As a result, our 2019 forecast is revised up from +1.9% to +2%, driven by higher consumption and wage growth (both growing +1.8%) in 2019.

Turkey: Monetary policy reacts, but more is needed

On 23 May, the Monetary Policy Committee (MPC) hiked the late liquidity window lending rate (then the effective monetary policy rate in the large set of Turkish rates) by 300bp to 16.5% in an emergency meeting in the afternoon. That move was triggered by the ongoing and accelerating sell-off in the TRY, which fell to a new low of 4.92 against the USD around noon (-5% in the day). Further, on 28 May, the Central Bank decided to simplify the operational framework of monetary policy. Starting 1 June, the one-week repo rate will be the key policy rate. This rate will be equal to the current funding rate (i.e. the late liquidity window lending rate, at 16.50%). The Central Bank overnight borrowing and lending rates will be determined at 150bp below/above the one-week repo rate. Overall, the two moves have helped the TRY to recover some lost ground to around 4.47 against the USD at the time of writing. We believe that another rate hike of 300bp or so is needed in order to facilitate a soft landing of the economy. If it does not come, or too late, there is a risk of a hard landing.

Countries in Focus

Americas



Colombia: Time to recover

After last Sunday's election round, right-wing candidate Iván Duque will face left-wing Gustavo Petro in a runoff for the presidency on June 17th. A Duque win appears likely, as he gathered 39% of the votes against 25% for Petro. Yet the support of Sergio Fajardo (23%) could boost the left-wing candidate. Duque would be positive news for markets as he vowed to cut corporate taxes and support the private sector, thus accelerating the investment recovery in the country. The pro-business candidate also backs the oil sector. Yet, his harder stance on the peace deal with the FARC – although he has softened it lately – could fuel social tensions. The worst is behind for the Colombian economy: higher oil prices, the infrastructure agenda and the tax reform should boost exports and investment. It should bring growth to around +2.5% in 2018 after +1.8% in 2017, albeit still below potential. The new government will also have to deal with the significant influx of Venezuelan migrants (over 1 mn since 2015).

Europe



UK: The economy should stay on a resilient path in 2018

We know more about the softness of the Q1 GDP release. Excluding stocks, GDP growth stood at +0.4% q/q. Consumer spending grew by a muted +0.2% q/q after +0.4% in Q4. Fixed investment increased by +0.9% q/q after +1.1% in Q4 but growth came mostly from private dwelling and general government as business investment fell by -0.2% q/q with gross operating surplus of corporations decreasing by -1.3%. Public spending supported growth (+0.5% q/q) to the greatest extent since Q1 2016. Going forward, we expect the domestic economy to grow moderately. Consumer spending should be supported by the rise in real purchasing power as wage growth has recently outpaced inflation. Investment growth will remain weak in light of softening business confidence. Our forecast of +1.5% in 2018 is on the upper end of the consensus but we are relatively confident that there will be an upside revision on June 29 or a stronger than expected Q2 rebound. Above +2% inflation in 2018 and 2019 would justify a +25bp rate hike by the Bank of England in November 2018.

Africa & Middle East



Africa: Different pulses

Inflation data characterizes divergent economic momentums in Africa. Most of the currencies depreciated a lot in the last four years, resulting in quite visible inflation accelerations in key economies, like South Africa, Egypt, Angola, Nigeria, Kenya, Ghana or Ethiopia. At the same time, the CFA Franc protected its members from any exchange rate move, but the lower export price shock triggered a deflationary shock. The two developments took their toll on growth, with an impact also depending on policy space and timely international support. Currently, the first country group is benefitting from a disinflation bonanza accompanied by a growth recovery, magnified by easing monetary policy and credit conditions. The group of CFA Franc countries diverges, as inflation remains very low and growth is not widespread. Within the CFA country group, the West African zone shows strong growth, allowed by lower debt levels and stronger international support. In the Central African zone, a debt deflationary shock is still materializing, with the Congo Republic being the most heavily affected.

Asia Pacific



Singapore: Positive signals

April figures provided a certain amount of positive news for the Singaporean economy. Firstly, non-oil domestic exports rose by +11.8% y/y in April (after -3.2% in March) thanks to a rise in non-electronic exports. Demand was driven by the EU (+45.4% y/y), the US (+37.8%) and China (+26.8% y/y). Secondly, manufacturing production gained some traction (+9.1% y/y in April from +6.1% y/y in March) driven by chemicals and electronics. Thirdly, the SIPMM manufacturing PMI continues to suggest firm growth in the short run despite a slight decrease (52.9 in April from 53 in March). For now, the main drag on economic growth is the construction sector hindered by weaker growth in private demand. Against this background, we expect a slightly slower - but still healthy - economic growth of +3% in 2018 (compared to +3.6% in 2017).



What to watch

- May 31 – Russia April industrial production
- May 31 – China NBS PMIs for May
- May 31 – France May CPI
- May 31 – Eurozone May CPI
- May 31 – Spain Q1 GDP (final estimate)
- May 31 – UK May consumer confidence
- June 1 – Second estimate Q1 GDP Italy
- June 1 – South Korea Q1 GDP (second estimate)
- June 1 – Poland, Russia, Turkey May Manufact. PMIs
- June 1 to June 5 – EU May Manufacturing and Services PMI
- June 1 – Turkey May CPI and PPI
- June 5 – Russia May Services PMI

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