

# Weekly Export Risk Outlook

18 September 2014

FIGURE  
OF THE WEEK

307 years

Scotland's  
duration, so  
far, in the UK

## In the Headlines



### Russia: Sanctions update

After a few days of delay, new EU sanctions came into effect on 12 September, indicating that the EU does not see sufficient evidence that Russia has ceased its alleged efforts to destabilise Ukraine. The new measures extend existing measures, in particular: (i) expanding restrictions on access to EU capital markets to oil companies (Rosneft, Transneft, Gazpromneft), pipeline operators and defense firms; (ii) including loans in the capital market sanctions; (iii) reduction from 90 to 30 days of the maturity for new debt granted to sanctioned Russian companies; (iv) banning the export of services for deep water and arctic oil exploration; (v) travel bans and asset freezes on 24 additional individuals. The U.S. also announced new sanctions, including: (i) export ban to five major energy companies (including Gazprom which notably has been excluded from EU sanctions so far); (ii) extension of capital market restrictions to Sberbank, Russia's largest bank; (iii) reduction from 90 to 30 days of the maturity for new debt granted to sanctioned Russian companies (consistent with the EU). Russia is likely to impose counter-sanctions potentially including an airspace ban for Western airlines and import ban on clothing and used cars. These new sanctions saw the RUB fall to a record low of 38.71 against the USD (down 15% since end-June). Euler Hermes expects the sanctions to have a lasting impact on the Russian economy and has revised downwards its GDP growth forecasts to -0.6% in 2014 and +1% in 2015 (for further analysis of the impact of sanctions, see our Economic Insight: [Russia and the West: tough love?](#)).



### Ukraine: Fragile ceasefire has held, so far

On 16 September, Ukraine's parliament granted the separatist-held regions of Donetsk and Lugansk temporary self-rule for three years after elections on 7 December. The law was part of a ceasefire in eastern Ukraine, agreed on 5 September, that has been fragile but held to date. Separatist leaders have classified the law as an invitation to the negotiation table but remained firm on their demand for full independence. Also on 16 September, the EU and Ukrainian parliaments ratified a major EU-Ukraine association agreement. However, the free-trade part of the agreement will be delayed until 2016, a result of negotiations with Russia held last week. On the economic front, real GDP declined by -4.6% y/y in Q2 (-1.1% in Q1), driven by a huge -52% y/y drop in gross investment. Consumer spending fell by -2.3% y/y but this was largely balanced by a +6.9% y/y increase in public spending. External trade activity slumped but still made a positive contribution to Q2 growth as imports (-11.3% y/y) contracted more sharply than exports (-7.4% y/y). Euler Hermes forecasts full-year 2014 GDP to contract by nearly -7%.



### UK: Scottish referendum

Thursday brings Scotland's vote on its place in the United Kingdom, with the final result expected early on Friday. Latest opinion polls show the decision will be close, with No (to independence) expected to just edge it. However the large "undecided" component of the voting population sees a very real possibility of victory for either side. Should the No to independence camp win, then the status quo will hold (for now). If the YES vote succeeds the political and economic ramifications are broad and path ahead still uncertain. Perhaps the most pressing issue for the market is what this will mean for Scottish assets; will they be priced in British Pounds, will the Euro be adopted or can Scotland introduce its own currency. Scotland's entry to the EU is unlikely to be quick after vocal opposition from Spain, primarily concerned about Catalan independence hopes. An independent Scotland would be greatly exposed to future energy prices as the hydrocarbon sector would account for 17% of GDP, a blessing and a curse.



### China: you can't make an omelette without breaking eggs

August's latest activity indicators show the Chinese growth model's evolution towards a more domestic demand-led growth is not an easy and rapid process. Industrial production lowered to +6.9% y/y in August from +9.0% y/y in July, the lowest growth rate since December 2009. Retail sales show a similar softening to +11.9% y/y (from +12.2% y/y in July). These numbers raise concerns over the government reaching its growth targets for 2014. However, EH thinks that the lack of momentum should not lead to a hard landing in H2: despite the deceleration in exports in August (+9.4% y/y against +14.5% y/y in July) trade activity is likely to act as a cushion in Q3. Encouraging signs come from the credit figures: new banks loans grew from RMB702 bn (from 385 bn in July) while shadow banking components continue to decrease. With that not being sufficient to support domestic demand in the short term, further support is expected from the authorities through targeted liquidity measures and rise in public expenditures. EH forecasts GDP to grow by +7.5% in 2014 and by +7.4% in 2015.

# Countries in Focus

## Americas



## Europe



## Africa & Middle East



## Asia Pacific



## US: Moderately better data, but remain cautious

Recent economic data has been modestly positive. August's Retail sales rose for the seventh straight month, gaining +0.6% m/m and +2.9% y/y, substantially faster than the long term average of +2.0%. Gasoline sales fell -0.8% m/m driven by a fall in prices. Auto sales rose by a sharp +1.5% m/m. Core goods excluding gasoline, autos, and building and garden equipment also rose for the seventh consecutive month, gaining +0.4% m/m. Industrial production slipped -0.1% m/m in August, driven by an unusually sharp drop in auto production of -7.6%, most likely a payback from a +9.3% surge in July. Auto production historically swings sharply between July and August due to factory re-tooling. Excluding auto production, total industrial production gained +0.3% m/m and manufacturing production gained +0.1% m/m. On a y/y basis, industrial production has risen +4.1% with manufacturing gaining +3.6%, both well above long term averages. Inflation was benign in August as falling gasoline prices drove the CPI down -0.2% m/m and the core rate did not rise for the first time in four years. The Fed kept its pledge to maintain near zero interest rates "for a considerable time after" its bond-buying program ends in October, as Fed Chair Yellen declared that the labor market had yet to fully recover. It also lowered its 2015 GDP forecast, and changed its assessment of inflation from running "somewhat closer" to its 2% target to now "running below" that target.

## Sweden: new government, same predicament?

Swedish general elections have brought in a minority center-left government. The Social Democratic Party government led by Stefan Löfven a former trade union leader, swayed public opinion with a more open stance on immigration and favoring public spending over tax friendly measures. Löfven seeks to increase public spending on education, health care and care for the elderly while limiting the profitability of privately funded schools. Sweden's main concerns are unemployment (8% in 2014) and deflationary pressures: since 2010, monetary policy has been tighter than it should have, thus leading to today's deflationary environment. The Riksbank belated rate cut in July (-50bp to 0.25%) was not sufficient to rekindle inflation expectations as previously. Consequently, Euler Hermes expects inflation to be negative in 2014 at -0.1% with a modest +0.3% increase in 2015, which puts our growth forecasts (i.e., +1.7% in 2014 and +1.9% for 2015) at risk. In addition, political risk arises from the new government's capacity to rule parliament among deep political divisions.

## Tanzania: Star in the east

Tanzania will soon become the latest Sub-Saharan African country to rebase its national accounts data. Such updates tend to involve substantial upward revisions in nominal GDP estimates (and associated changes to economic ratios), as was the case for Nigeria. Currently, Tanzania's GDP is estimated at around USD37 billion and it has been growing strongly; annual average GDP growth in the 10-year period to end-2013 was +7%. In Q1, GDP increased by +7.4% y/y, compared with +7.1% in Q1 2013, with growth spurred by strong expansion in transport and communication (+16.5%), electrical power and water supply (+12.6%), mining (+8.7%) and manufacturing (+8.5%). Agriculture increased by only +1.6% y/y in Q1 2014. Investments in the offshore natural gas sector suggest that growth has the potential to remain strong in the medium term, if regional stability does not deteriorate significantly. EH expects GDP growth of +7% in 2014 and +7.5% in 2015.

## India: Policy credibility begins

The hawkish stance of the RBI continues to bear fruit with slowing inflationary pressures in both gauges of inflation. The wholesale price index growth decreased to a five year low in August (3.7% y/y from 5.2% in July). The consumer price also grew slower (+7.8% from 8%). The details indicate that the deceleration was driven mainly from the slowing rate of inflation for vegetables, housing, fuel and transport communication. Core inflation suggests this trend is solid having also decreased to 6.9% (from 7.4%). This gives some leeway to the Central bank to ease its hawkish stance as its targets to bring inflation close to 8% by Q1 2015 is almost achieved. This continues to support our positive outlook on India. The rebound in domestic demand is expected to pick up speed in the near term, we expect growth of 5.8% in FY2014-2015.

## What to watch

- September 18 – Ireland Q2 GDP
- September 18 – UK August retail sales
- September 18 – Spain July current account
- September 18 – U.S. August housing starts and permits
- September 19 – Scottish referendum results
- September 19 – Japan July industry activity index
- September 22 – U.S. August existing home sales
- September 22 – Mexico August unemployment rate
- September 23 – Mexico July retail sales
- September 23 – Hungary monetary policy meeting
- September 23 – Eurozone, France and Germany Sept. PMIs
- September 23 – China September manufacturing PMI
- September 24 – Germany September IFO business climate
- September 24 – U.S. August new home sales
- September 24 – Brazil August current account

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