Weekly Export Risk Outlook

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In the Headlines

FIGURE OF THE WEEK: +0.1% >GERMANY'S Q/Q GDP GROWTH IN Q1

Eurozone: Financing for NFC remains challenging

In April, lending to the private sector contracted by -0.9% y/y, with lending to households up by +0.4% y/y, while the rate of contraction in credit to non-financial corporations (NFC) accelerated (-3% y/y, the most rapid decline since early 2010). Credit conditions remain tight—although to a lesser extent than in Q4 2012—against weak demand, elevated perceptions of corporate credit risk and regulatory capital requirements for banks. Financial fragmentation prevails, with corporates in some periphery countries experiencing financing costs higher than those prevailing elsewhere in the zone. In this context, the investment cycle is expected to remain depressed, reflecting long term corporate financing issues—in April, medium and long term loans were down -5.4% y/y. Financing, in general, is likely to remain challenging for NFC. In 2013, EH expects a third consecutive year of growth in insolvencies, with an increase of +21%.

US: Fed deliberations

Recent economic data have been broadly positive, led by the housing sector, which registered increases in both new and existing single-family home sales of +29% y/y and +9% y/y, respectively, in April. The Case-Shiller home price index for March was up by +10.9% y/y, the 12th consecutive month of increase, and an index of a leading consumer confidence survey increased by +7.2 points in May, to 76.2, the highest in over five years, driven by perceptions of improvements in the job market, housing and stock markets. Meanwhile, Fed Chairman Ben Bernanke and several Fed presidents last week gave seemingly contradictory signals about when they might taper asset purchases. Bond market participants apparently think it could be by September and have driven the yield on the 10-year Treasury note up over 20bps in five days as a result.

Germany: Weakness in Q1

A detailed data release from the Federal Statistical Office confirmed the weakness in the economy in Q1, with GDP increasing by only +0.1% q/q after contraction of -0.7% in Q4 2012 (revised downwards from -0.6%). The main driver to growth was consumer demand, which expanded by +0.8%, after -0.3% in the previous quarter. Despite difficult global conditions, there was also a small positive contribution (+0.1pps) from net exports, although exports (-1.8%) and imports (-2.1%) both contracted. Investment in equipment registered a further decline, of -0.6%, falling for the sixth consecutive month, while capital formation in the construction sector contracted markedly, by -2.1%, with activity particularly affected by adverse weather conditions. A decline in inventories provided a further negative contribution to overall growth (-0.1pps).

South Africa: Slowdown

GDP growth in Q1, at +0.9% q/q was the weakest since a contraction in Q2 2009 and followed an increase of +2.1% in Q4 2012. It was also markedly below the consensus forecast of +1.6%. The key drivers in the Q1 data were contractions in manufacturing (-7.9% q/q) and the agriculture, forestry and fishing sector (-4.9% q/q, after +7.9% in 2012 as a whole) balanced by strong growth in the mining sector (+14.6%). Given that mine output reflected recovery from strike-related disruptions in 2012, the underlying growth performance is probably even weaker. The latest GDP data provide a policy dilemma as a slowing economy is combining with inflation (5.9% y/y in April) at the upper limits of the official target range (3-6%). In this context, SARB, the central bank, kept monetary policy on hold last week, keeping the key policy interest rate unchanged at 5%. Some of the headwinds (including increased electricity tariffs, weak external demand, output disruptions through strike action and high labour costs) appear set to continue and EH now expects GDP growth in 2013 will be +2.5% (previously +3%).

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Countries in Focus

Mediterranean, Africa & Middle East – *Ghana: Policy*

Last week, the central bank increased the key policy interest rate by 100bps to 16%, reflecting concerns about upward price pressures, with headline inflation at 10.6% y/y in April (10.4% in March). Seasonal agricultural effects explain some of the current higher prices but inflation expectations have been increased as a result of adjustments to petroleum prices in February and these will filter through over an extended period. Meanwhile, with a budget deficit equivalent to -3.8% of GDP in Q1, fiscal policy is also being amended, with the government planning to limit spending, partly through a freeze on new projects, and increase revenue generation. Despite policy tightening and business and consumer confidence surveys suggesting weaker sentiments, expect GDP growth of +7% in 2013 (+7.9% in 2012).

Americas – *Colombia: Peace progress*

The government and the main insurgent group FARC announced this week that they have reached agreement on Rural Development, the first issue of five in the negotiation of an overall peace accord. The next stage will be discussions on political participation, which will start in mid-June. The government's objective is to reach an overall agreement by the end of November. It has taken more than six month to reach this point and the negotiations remain highly complex, but this week's agreement points to real momentum behind the talks. Progress in the negotiations is also crucial for President Santos, who is thought likely to seek a second term in the presidential elections to be held next March. Santos has not declared his intentions but he appears to be preparing to run again.

Asia-Pacific – *Malaysia: Slowdown in Q1*

Q1 GDP growth decelerated markedly to +4.1% y/y from +6.5% in Q4 2012, largely reflecting the overall impact of net exports. Real exports contracted by -0.6% in Q1 (-1.6% in Q4) while imports moved back to an increase of +3.6% (-0.6% in Q4). Domestic demand remained the growth driver, as private consumption expanded by +7.5%, government spending by +0.1% and fixed investment by +13.2%. EH expects this growth pattern to continue in coming quarters and full year growth of around +4.5%. The current account surplus continued to narrow in Q1, to USD2.8 billion, equivalent to 3.7% of GDP (7.4% in Q1 2012 and 6.1% in full year 2012). Inflation remained low in April, at 1.7% y/y, continuing to support consumer confidence and robust private sector credit growth.

Europe – *Ukraine: Further GDP contraction*

The State Statistics Service reported that Q1 GDP contracted by -1.3% y/y, marking the third consecutive quarter of decline, after -2.5% in Q4 and -1.3% in Q3 2012. Demand-side details have not been revealed yet, but supply-side data suggest that decreasing investment and faltering external demand were major causes for the contraction, while private consumption continued to grow. Industrial and construction output declined in Q1, by -5% and -16.8% y/y, respectively. Nominal goods exports fell by -1.5% y/y in Q1, although imports also contracted, by -6.2%. In contrast, retail trade increased by +13.4% y/y in Q1 as strong nominal wage growth and deflation have boosted household's purchasing power. Annual consumer prices have been falling since November 2012, reaching -0.8% y/y in April 2013.

Worth knowing

Brazil

Official data released today show Q1 GDP increased by +1.2% y/y and +0.6% q/q, below expectations.

Other GDP

Kazakhstan: +4.6% y/y in Q1 (+4.7% in Q4 2012). **Singapore**: sharply revised estimates for Q1 show growth of +0.2% y/y and +1.8% on a q/q seasonally-adjusted annualised basis (against earlier flash estimates of -0.6% and -1.4%, respectively).

Syria

EU foreign ministers agreed to lift the Union's embargo on the supply of arms to forces opposing President Assad's regime.

Thailand

As expected, the central bank today cut the key policy interest rate by 25bps to 2.5%.