

FIGURE  
OF THE WEEK

-1bn

People lifted out  
of extreme  
poverty in 2000-  
15 (World Bank)

## In the Headlines



### U.S.: Lingerin weakness, so the Fed may hold until 2016

The September employment report was disappointing and may have pushed a Fed rate hike into 2016. The economy created only +142,000 jobs (expectations of +200,000), August was revised down from +173,000 to a weak +136,000 and July was revised down another -23,000. Hourly wages fell one cent as the y/y increase remained at +2.2%, barely above inflation. Moreover, 350,000 workers left the labour force, driving the participation rate down to 62.2% from 62.4%, the lowest since October 1977. The manufacturing sector lost -9,000 jobs after losing -18,000 in August. The September ISM manufacturing index was also weak, falling to 50.2 from 51.1, barely above the level signalling expansion, and markedly below the 56.1 in September 2014. New orders also fell, to 50.1 (59.4 last year), and export orders were an anaemic 46.5. A separate report also showed export weakness in August (-2% m/m) while imports increased by +1.2%, widening the trade deficit to -USD48.3bn from -USD41.8bn in July and pressuring Q3 GDP growth. The only recent bright spot was the ISM non-manufacturing index, which was still strong at 56.9 in September, despite falling -2.1 points.



### Russia: Elevated inflation and very weak domestic demand

Headline inflation edged down to 15.7% y/y in September (15.8% in August) as a result of modest disinflation in the prices of both food (17.4%) and services (13.8%), with the latter suggesting continued weakness in domestic demand. Core inflation remained stable at 16.6% y/y. Last week, RosStat also published the demand side breakdown of Q2 GDP. Private consumption fell by -8.6% y/y while gross capital formation plunged by -37.8% y/y, reflecting a -7.4% y/y decrease in fixed investment and a large negative contribution of -5.7pps from inventories. Net exports somewhat mitigated the overall Q2 GDP contraction of -4.6% y/y, with a positive contribution of +7.1pps as real exports increased by +1.4% y/y while imports contracted by -29.9%. However, the outlook for Q3 remains gloomy as nominal exports of goods fell -40% y/y in July (-30% in Q2) in the wake of the renewed fall in oil prices. Industrial output contracted by -4.8% y/y in July-August (-4.9% in Q2) and the average manufacturing PMI in Q3 was 48.4, unchanged from Q2. EH forecasts full-year GDP will contract by -4% in 2015 and -0.3% in 2016.



### Greece: Waiting for debt relief

Eurozone finance ministers reiterated the importance of a strong reform momentum and agreed on a set of milestones that need to be implemented by mid-October to allow disbursement of EUR2bn of the remaining EUR3bn of the first tranche of EUR26bn (out of the total EUR86bn three-year programme). Further milestones will be discussed later in the month (including reforms to pensions, the financial sector – senior bondholders bail-in, NPL reform - and labour and product markets, as well as setting up of the privatisation fund by year-end). These will allow disbursement of the remaining EUR1bn. The first programme review is expected to be finalised by the end of October and, if it is positive, debt relief measures will be considered (including longer maturities and lower interest rates), but a nominal debt haircut remains excluded. In parallel, the ECB Asset Quality Review and the Stress Tests on banks are scheduled to be finalised by year-end, with banks progressively recapitalised during November and December (up to EUR25bn). We expect capital controls will be removed gradually, financing will remain challenging, GDP will contract by -2% in 2015 and business insolvencies will increase by +15%.



### Kenya: It's not all doom and gloom

Good weather conditions for the growing season boosted agricultural output in Q2 and abundant rainfall enabled strong gains in hydroelectricity generation. As a result, GDP growth in Q2 was +5.5% y/y, compared with +4.4% in Q1. As with other frontier African markets, global uncertainties have prompted an outflow of portfolio equity. This has weakened the KES. However, the IMF is providing total access to around USD610mn under a 12-month Stand-By Arrangement and a Standby Credit Facility and, while acknowledging strong exogenous headwinds, the Fund remains relatively upbeat on the economy. The government has yet to request a draw-down in either of the Fund precautionary arrangements, which are intended to provide a policy anchor and mitigate the impact of external shocks. With growth also boosted by spending on infrastructure projects, EH expects annual GDP growth of at least +6% in 2015 and 2016, although El Niño weather effects have downside potential.

# Countries in Focus

## Americas

### Brazil: Rearranging deckchairs?

President Dilma Rousseff, whose approval rating has now fallen to only 9%, reshuffled her cabinet, providing the PMDB, the government's main ally in Congress, an increased presence in the government (seven ministries, previously six). It remains to be seen whether this and other personnel adjustments will improve coalition unity and Rousseff's ability to implement an austerity programme. The latter is required to tackle the fiscal deficit, which is unsustainable over a protracted period. The primary budget balance moved from a surplus in July to a deficit of -USD1.3bn in August and pushed the government's overall fiscal budget into a deficit for the year. Meanwhile, in August, industrial output declined for the third consecutive month (-1.2% m/m and -9% y/y), partly reflecting weak demand for capital goods. EH expects GDP will contract by -2.4% this year. Against this background Rousseff's position appears vulnerable, particularly as the opposition is formally seeking her impeachment.

## Europe

### Poland: Monetary policy to remain loose

The Monetary Policy Council (MPC) kept its key policy interest rate unchanged at 1.5% yesterday, for the seventh consecutive month. Deflation continued to ease gradually to -0.6% y/y in August from the record low of -1.6% y/y in February and the MPC expects price growth to increase slowly in the coming quarters, supported by a projected closing of the output gap and a favourable labour market at home. Real GDP grew by a healthy +3.4% y/y in H1, broadly driven by private (+3.1%) and public (+2.9%) consumption, fixed investment (+8.5%), stocks (+0.4pps) and net exports (+0.6pps) as export growth (+6.6%) outpaced imports (+5.7%). The manufacturing PMI eased to a 12-month low of 50.9 in September but remained above the 50.0-threshold indicating expansion and industrial output grew by +4.6% y/y in July-August (up from +4.2% in Q2). EH expects solid full-year GDP growth of around +3.3% in both 2015 and 2016 while interest rates should remain unchanged until early 2016.

## Africa & Middle East

### Central African Republic: CAR sick?

Following closely after the coup and counter-coup in Burkina Faso (see [WERO 23 September 2015](#)) recent events in CAR provide further evidence that democracy and stability are far from entrenched everywhere in Sub-Saharan Africa, although political crises are now less prevalent. In CAR, a referendum on a new constitution and national elections were scheduled for 4 and 18 October, respectively, but postponement became inevitable following renewed sectarian and intercommunal violence in which an estimated 40 people were killed and approximately 40,000 were displaced from the capital, Bangui. Interim President Catherine Samba-Panza claimed the violence and associated jail breaks were part of a highly organised plot to derail the electoral timetable and, probably, amounted to a coup attempt. The UN peacekeeping force appears to be ill-equipped to keep armed groups (including the anti-balaka and the ex-Séléka militia) apart. Expect further trade disruption.

## Asia Pacific

### Asia: Business surveys still point to a weak short-term outlook

Apart from **Japan** (51.0) and **India** (51.2), all manufacturing PMI in September are below the expansionary level. **China** stabilised at a low level (Caixin PMI at 47.2). For the four dragons – **Hong Kong** (45.7), **Taiwan** (46.9), **Singapore** (48.9) and **South Korea** (49.2) – manufacturing continued to contract hit by lower external demand and weak new order prospects. In **Indonesia**, industry weakened further (47.4 from 48.4) reflecting output and new order contraction. Companies face high input costs because of currency depreciation and difficult financing conditions as a result of high domestic interest rates and lack of external financing. In **Vietnam**, manufacturing is showing signs of weakness (49.5 from 51.3) after 25 consecutive months of expansion. Regional GDP growth is expected to remain weak in Q3, with a gradual recovery from Q4 onwards as stimulus measures take hold. We expect GDP growth will remain below trend in 2015 (+4.6% compared with a long-term average of +5%).

## What to watch

- October 8 – Germany August current account balance
- October 8 – UK BoE interest rate decision
- October 8 – South Africa August mining output
- October 8 – U.S. FOMC minutes
- October 8 – Turkey August industrial production
- October 9 – Canada September unemployment
- October 9 – France August industrial output
- October 9 – Russia Q3 current account balance
- October 12 – Mexico August industrial output
- October 12 – Romania August industrial output
- October 13 – Germany October ZEW survey
- October 13 – U.S. NFIB Sept. small bus. optimism
- October 14 – Brazil August retail sales
- October 14 – Turkey August current account balance

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