Euler Hermes Economic Research

Weekly Export Risk Outlook

26 January 2017

In the Headlines

FIGURE OF THE WEEK

+2%

The UK's 2016 GDP growth

U.S.: Trump becomes President

Donald Trump was sworn in as the 45th President of the U.S. on 20 January. Trump ran on a populist, anti-trade, "America first" agenda, making his election controversial and polarizing. His economic proposals include a 10-year plan to cut income taxes by USD5.5tn and increase infrastructure spending by USD10tn, corporate tax reform, and aggressive deregulation. The plan is expected to add +0.5% to 2017 GDP and has spurred consumer and business confidence with stock prices setting record highs. But policies on immigration reform and free trade (in addition to spending) are expected to be inflationary, driving interest rates and the USD up. Other concerns include increased government debt and the possibility of a trade war. Trump's Republican Party holds a majority in both houses of Congress for at least two years, making it likely that his proposals will be implemented in one form or another. He has also operated outside normal governmental bounds, convincing corporations to stay in the U.S., and getting cost cuts from government suppliers. He immediately signed executive orders to repeal Obamacare, withdraw from TPP, reduce regulations, and boost infrastructure projects using U.S.-made steel.

UK: Consumers counterbalanced the Brexit effect in 2016

Q4 GDP increased by +0.6% q/q, the same pace as in Q3 and Q2 . This was above expectations of +0.5% by consensus and +0.4% by EH. Once again, the services sector was the only positive contributor to growth in Q4 with a strong contribution from consumer-focused industries such as retail sales and travel agency services. Industrial production and construction were flat in Q4 after contracting in Q3. Full-year 2016 GDP growth came in at +2%, in line with our expectations. The demand-side breakdown will be available on 22 February. Private consumption is expected to have remained the main driver of growth in Q4, estimated at +1% q/q, up from +0.7% in Q3. Also, the households' savings rate reached a low level of 5.6%, the lowest since 2008, while confidence has remained relatively resilient. However, consumers' view on their future economic situation in the next 12 months has deteriorated strongly since November. Coupled with a rise in prices (average inflation forecast at 2.5% in 2017, after 0.9% in 2016) and the likely slowdown in wages, this should result in lower purchasing power.

Turkey: Timid monetary tightening

The Monetary Policy Committee kept its key policy one-week repo rate unchanged at 8% on Tuesday, somewhat surprisingly as inflationary pressures have risen in the wake of the recent TRY depreciation and increasing food and energy prices. However, the overnight lending rate was raised by 75bps to 9.25% while the overnight borrowing rate remained unchanged at 7.25%. Inflation picked up to 8.5% in December (from 7% in November) and is expected to rise further to around 10% in the next months as a result of higher oil and food prices and the impact of further currency weakening. After losing -10% against both the USD and the EUR and hitting a record low in the first ten days of this year, the TRY lost again -2% over the past two days as markets had expected a bolder monetary tightening. Exchange rate risks will remain high as ongoing large external imbalances and political uncertainty continue to weigh on investor sentiment. A possible downgrade by Fitch Ratings Agency to speculative grade (a decision is expected by the end of this week) might cause a renewed drop in the TRY. EH expects further, and perhaps more decisive, monetary tightening to come in the next months.

South Korea: Slowing momentum

Preliminary estimates point to a slowdown of real GDP growth to +0.4% q/q in Q4 (from +0.6% in Q3). Exports contracted by -0.1% q/q (after +0.6% q/q in Q3) while domestic demand weakened due to a decrease in construction investment (-1.7% q/q) and a lower increase in private consumption. Yet, full-year growth of +2.7% was in line with the central bank's target and slightly up from +2.6% in 2015. Euler Hermes expects GDP growth to decelerate to +2.5% in 2017 and an uptick to +2.7% in 2018. Political uncertainties and high household indebtedness (94% GDP) will weigh on domestic consumption. Externally, any acceleration in export growth will be limited due to modest improvement in global demand and more global protectionist sentiment. Moreover, further tensions with China (due to Korea's decision on deploying a U.S. Terminal High Altitude Area Defense anti-missile defense unit) could have a detrimental effect on exports. For now, China has already banned 19 Korean cosmetics products.

Countries in Focus

Americas

Canada: Dovish BoC, real retail sales strong

The Bank of Canada (BoC; the central bank) left the key policy overnight rate unchanged at 0.5%. The statement displayed a balance of risks, including strengthening in the U.S. and global economies and rising commodity prices, offset by rising interest rates and a stronger CAD. Governor Poloz did say “a rate cut remains on the table.” November retail sales were mixed, gaining +0.2% m/m to a solid +3% y/y rate. Brick and mortar retailers lost -0.2% m/m in a crucial holiday month, but the y/y rate is a still respectable +4.7%. But the real strength lies in the inflation-adjusted data where retail sales rose by a sharp +0.7% m/m, the third consecutive strong gain. Even if December growth in real retail sales is flat, for all of Q4 real retail sales growth will be a very strong +7% q/q annualized, yet another upside surprise from the economy, suggesting a strong overall Q4 GDP. We maintain our 2017 forecast of +2% GDP growth.

Europe

Russia: Current account surplus falls in 2016, set to rise in 2017

Initial official estimates indicate that the annual current account surplus narrowed by -68% to USD22bn in 2016, equivalent to an estimated +1.7% of GDP (down from +5.2% in 2015). The breakdown of the current account balance reveals that the decreased surplus is solely due to a large drop in the trade surplus (-USD61bn or -41%) on the back of lower oil prices in 2016 while the services deficit declined (-USD13bn or -34%). Revenues from oil and oil products fell by -24% in 2016 (after -42% in 2015), taking the decline of total exports of goods to -18% (-31% in 2015). Meanwhile, imports of goods began to increase again in y/y terms in H2 2016, reflecting the impact of a recovering RUB, resulting in a stabilization (-1%) for the year as a whole. Euler Hermes expects higher average oil prices in 2017 (54 USD/bbl of benchmark Brent, after 45 USD/bbl in 2016) to result in a widening of the annual current account surplus to about 2% of GDP.

Africa & Middle East

Côte d’Ivoire: Growth to stay broadly on track

Growth in the Ivorian economy was relatively stable at +8% in 2016 and should remain close to that pace in 2017. Despite a busy political calendar (presidential election in 2015 and legislative election in December 2016) and related frictions, political stability has prevailed. Economic balances are adequate: the current account deficit is under control (-2% of GDP in 2016) and public debt has stabilized (50% of GDP). Foreign exchange reserves cover an adequate five months or so of imports and Côte d’Ivoire secured a USD650mn loan with the IMF last December. Hence liquidity problems should be alleviated despite some possible pressures related to the fixing of the CFA franc to the EUR. However, structural challenges remain. The improvement in the World Bank’s Doing Business survey ended with rank 142 in 2017 (unchanged from 2016) and the investment-to-GDP ratio is still low at 20%. It means that new reforms will be necessary to channel more funding into the Ivorian capital stock.

Asia Pacific

Taiwan: Better, but not strong yet

Real GDP growth accelerated to +2.6% y/y in Q4 (from +2% in Q3) according to advance estimates. However, in q/q terms growth decelerated to +0.5% (from +1% q/q in Q3). Full-year 2016 growth came in at +1.4%, a clear improvement from 2015 (+0.7%) but still weak. Growth rebounded in H2 2016, supported by stronger exports related to the launch of new tech products. In 2017, economic growth is forecast to accelerate slightly to +1.6% but to remain well below the long- term average annual rate of +3.5%. The economy is set to benefit from a modest improvement in exports and a more supportive monetary policy. This could stimulate a rise in investment. Fiscal policy will remain cautious, privileging fiscal stability over growth, focusing more on targeted expenditures (infrastructure) than on broad and bold support to the economy. Downside risks are still elevated, mainly stemming from rising tensions with Mainland China and lower global trade growth.

What to watch

- January 27 – France, Italy Jan. consumer confidence
- January 27 – Germany December retail sales
- January 27 – U.S. Q4 GDP
- January 30 – Germany January CPI
- January 30 – Latvia, Lithuania Q4 GDP (flash est.)
- January 31 – Argentina December industr. production
- January 31 – Canada November GDP
- January 31 – Eurozone Q4 GDP (flash estimate)
- January 31 – Eurozone December unemployment rate
- January 31 – France Q4 GDP
- January 31 – France January CPI and PPI
- January 31 – Kenya January CPI
- January 31 – U.S. January consumer confidence
- February 1 – Brazil December industrial production
- February 1 – China January official Manufacturing PMI

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