

# Weekly Export Risk Outlook



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## In the Headlines

FIGURE OF THE WEEK: **7.6%** > CHINA'S Q2 YR/YR GDP GROWTH

### ▶ **China: Q2 GDP slows**

Q2 GDP growth slowed to 7.6% yr/yr, the slowest pace since Q1 2009 but broadly in line with expectations. On a qtr/qtr basis, however, there was a slight pick-up in activity in Q2, as GDP increased by 1.8% against 1.6% in Q1. In other data, the increases in June retail sales and fixed asset investment were slightly above expectations at 13.7% yr/yr and 20.4% yr/yr, respectively, although industrial production growth at 9.5% yr/yr was down slightly on May. Per capita disposable income growth was also up a solid 13.3% in H1. Importantly, bank lending was stronger in June than in May. With the policy focus clearly switched to expansionary mode, as the recent interest rate cut underscored, full year growth in 2012 should still reach 8%.

### ▶ **Eurozone: A modicum of positivity**

Annual inflation was stable at 2.4% yr/yr in June but the mo/mo trend is clearly downward (-0.1% mo/mo in June). May industrial production increased by 0.6% mo/mo, after two months of decrease (-0.1% and -1.1% in March and April, respectively). Meanwhile, the trade balance recorded a surplus of EUR6.9bn in May, compared with a deficit of EUR1.2bn in May 2011, largely as a result of an increase in exports (6% yr/yr) and import stagnation. At a national level, the improvement in the trade figures was particularly marked in Spain and Italy, where the trade balances in the January-April 2012 period (relative to the corresponding period of 2011) improved from -EUR16.9bn to -EUR15.3bn and -EUR15.9bn to -EUR3.6bn, respectively, reflecting stronger export growth relative to imports.

### ▶ **US: Weak sales and other data**

Recent data continue to suggest that consumption remains weak. Last week's statistical release on consumer sentiment showed further deterioration, with the index falling to its lowest level of the year, while retail sales in June fell for the third consecutive month. Moreover, the weakness was widespread, putting the annualised rate of growth in retail sales over Q2 at -0.8%, suggesting negative influences on overall economic performance. Fed Chairman Ben Bernanke added to the pessimism by citing in Congressional testimony increasing risks in Europe and the looming "fiscal cliff," and saying "reduction in unemployment is likely to be frustratingly slow". On a more positive note, but not enough to outweigh the negative tone elsewhere, industrial production in June slightly exceeded expectations and showed firmness across most manufacturing and mining sectors.

### ▶ **Israel: Coalition changes**

When, in May, the Kadima party joined the Likud-led coalition government it gave PM Binyamin Netanyahu control of 94 out of 120 Knesset seats and with it, the ability to drive a reform agenda, as well as the prospect of remaining securely in office until elections in February 2013. Yesterday, Kadima leader Saul Mofaz withdrew his party from the coalition because Netanyahu would not endorse a significant change in the system of military conscription. Currently, ultra-orthodox Jews (Haredim, approximately 10% of the population), as well as the Arab minority, are excluded from military service. Netanyahu is not in imminent risk of being unseated but expect his powers to instigate economic reforms to be circumscribed by a resulting reliance on his remaining coalition of ultra-orthodox and right wing parties. Moreover, domestic matters may prevent a firm hand when it comes to managing a challenging period of regional geo-political risks.

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### ► Mediterranean, Africa & Middle East – *Congo, Rep: Elections*

The final results of the legislative elections held on 15 July are not yet released but expect the ruling Congolese Workers' Party (Parti congolais du travail, PCT) to win comfortably, with an absolute majority. As a result, the state president and head of PCT, Denis Sassou-Nguesso, continues to have a firm mandate to govern. Unlike 2007, when there was a general boycott of the polls, the current main opposition groups, UPADS and ARD, fielded candidates but did not anticipate much success, given the ruling party's access to state funding and the media. Accordingly, the turnout was low. Nevertheless, as confrontations this week between ARD loyalists and the security forces testify, opposition has not acquiesced and further demonstrations can be expected when poll results are announced.



### ► Americas – *Mexico: Update*

The second placed candidate in the presidential elections, Manuel Lopez Obrador (AMLO), lodged a formal legal challenge against the result—which placed PRI candidate Enrique Pena Nieto as the winner by a comfortable margin (6.62%)—alleging electoral irregularities. The Electoral Tribunal has until 6 September to make a decision, but is unlikely to overturn the result. In the meantime, it remains to be seen whether opposition activist groups, who announced a series of protests and demonstrations in the coming months, can gain critical mass or provide momentum for a sustained campaign by AMLO but, at this point, the opposition looks containable. Inflation accelerated in June, to 4.34% yr/yr, so expect the central bank again to leave interest rates on hold at its policy meeting later this week.



### ► Asia-Pacific – *Singapore: Vulnerabilities*

Advance estimates (based on data for two months) indicate that Q2 GDP contracted by 1.1% qtr/qtr (+9.4% Q1), reflecting the economy's openness and associated vulnerability to external factors, including weakness in the EZ, uncertainties in the US and slowdown in China and elsewhere in Asia. Manufacturing was particularly weak in Q2, contracting by 6% (+21% Q1), with a sharp fall in output of biomedical products. However, manufacturing is relatively diverse, with sub-sectors in pharmaceuticals, electronics, aerospace, oil rig construction and petrochemicals and Q2 GDP was still up 1.9% yr/yr (1.4% Q1), suggesting a measure of economic resilience. Nevertheless, given the economy's export dependency and a weak global environment, expect full year 2012 growth of 2-3%.



### ► Europe – *Hungary: IMF negotiations begin*

Parliamentary approval earlier this month of amendments to the law governing the central bank paved the way for the start of much-delayed talks with the IMF and the EU on a financing programme. The revised text of the law replaced the original version, which had been heavily criticised by the IMF and EU as infringing central bank independence, causing the negotiations to stall. The initial round of negotiations began this week in Budapest, but agreeing a programme is likely to be a long and arduous process (months rather than weeks). There are still complex economic issues to be resolved, including the 2013 budget framework and the financial transactions tax (which includes the central bank) approved by parliament this week, and domestic politics will also come into play.

## Worth knowing

### ► Other GDP growth

**Ghana:** 8.7% yr/yr (Q1, 3.3% Q1 2011). **Morocco:** 2.8% yr/yr (Q1, 5.3% Q4 2011). **Senegal:** 4% yr/yr (Q1). **Qatar:** 3% qtr/qtr, 6.9% yr/yr (Q1). **Israel:** 2.7% yr/yr (Q1 third estimate, revised from 3% and then 2.9% in earlier projections).

### ► India

Industrial output increased 2.4% yr/yr in May, with manufacturing (76% of production) up 2.5%. Growth in wholesale prices (the main inflation gauge) moderated to 7.25% yr/yr in June, down from 7.54% in May and the slowest increase since January.

### ► Libya

Although the final results of the first free nationwide elections in five decades will not be released for two weeks, the liberal/secular National Forces Alliance (NFA) won 32 seats in the 200-seat National Assembly, with the Moslem Brotherhood's Justice and Construction Party 17 and liberal National Front 3 (the balance will go to independent candidates).

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