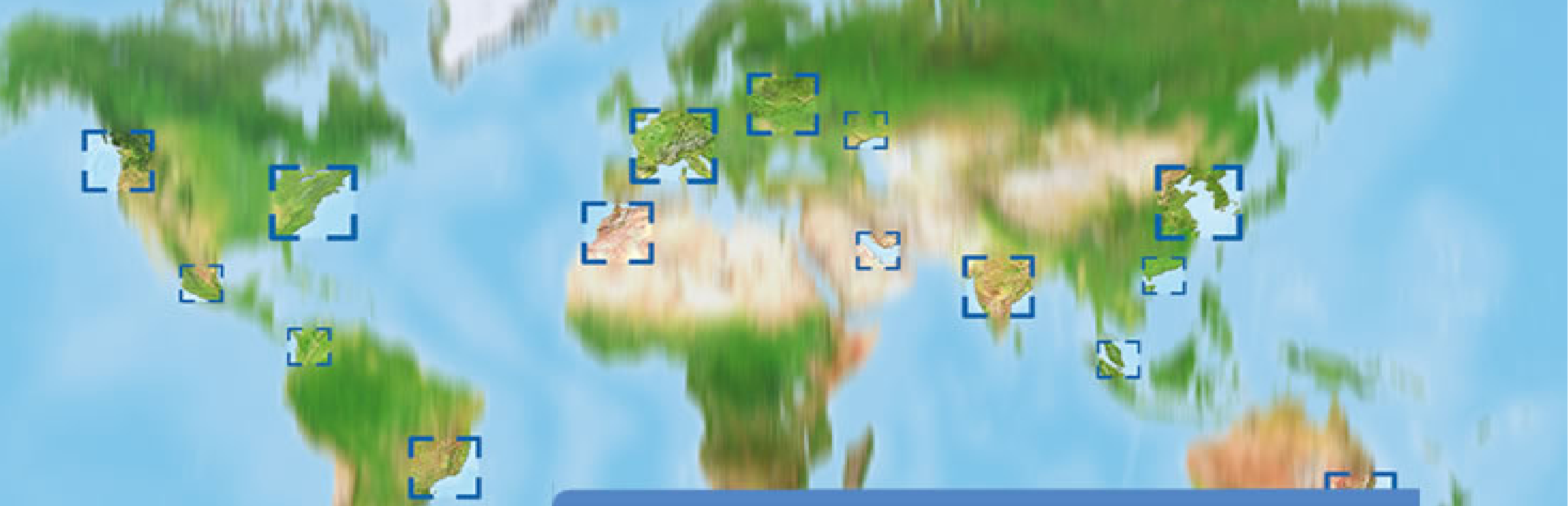

Weekly Export Risk Outlook

EULER HERMES
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5 September 2012

In the Headlines

FIGURE OF THE WEEK: +5.5%>INDIA'S YR/YR GDP GROWTH IN APRIL-JUNE

US: Further QE?

In his much anticipated speech in Jackson Hole, Wyoming, last Friday, Fed Chairman Ben Bernanke made a strong case for more quantitative easing (QE). Bernanke noted that the previous two rounds of QE were effective and, in an unusually impassioned speech, he advocated further easing because unemployment is a "grave concern…" that entails "…enormous suffering and waste of human talent…" and that it could "…wreak structural damage… that could last for many years". Recent data appear to support this approach, with the ISM manufacturing index below the 50 level for the third consecutive month in August, signalling contraction, and new orders have plummeted since May. Other weak data include construction spending (July), GDP (Q2), consumer confidence (August), personal consumption expenditures and personal income, although auto sales and housing data firmed in August. Friday's employment report may be critical for policy initiatives.

Eurozone: Update

The EZ composite PMI continues to fall and in August was below the 50 threshold for the seventh consecutive month, signalling further business contraction in Q3. The final index was revised down to 46.3 (flash estimate 46.6, and 46.5 in July). The data are consistent with latest European Commission surveys, in which the economic sentiment indicator fell by 1.8pps, and also with the latest hard data, notably unemployment, which increased to its highest level of 11.3% in July. With the holiday period over, EZ leaders are shuttling between capitals to advance key elements of proposals to deal with the debt crisis, notably the "Draghi plan", which will involve ECB intervention alongside EZ fund actions. There may be some further announcements at the ECB policy meeting this week, although reports suggest much detail is outstanding, and possibly a policy rate cut. Meanwhile, the ESM awaits Germany's constitutional court ruling (12 September) and Greece continues to negotiate its Troika programme.

Brazil: Interest rate cut

The central bank's monetary policy committee cut the policy interest rate (SELIC) by another 50bps to 7.5%, a cumulative reduction of 500bps since the latest easing cycle began in August 2011. The government also announced that it is extending current tax breaks on various consumption items for a further four months. With Q2 GDP figures also released at the end of last week showing growth of just +0.4% qtr/qtr sa and +0.5% yr/yr and inflation within target range and expected to remain there, the latest interest rate move was unsurprising. Yet Q2 qtr/qtr growth had a little more momentum than Q1 and latest retail sales and industrial production data are stronger, so the central bank is likely to be more cautious over future cuts as H2 growth picks up.

India: Weak data influence outlook

Real GDP increased by +5.5% yr/yr in Q1 of FY2012/13 (April-June), compared with +5.3% in the previous quarter. The agricultural sector strengthened moderately but manufacturing remained weak and services remained largely flat. Domestic economic and policy weaknesses, perceptions of corruption and uncertainties relating to political evolution are negative influences on investor sentiment. This is indicated in relatively weak recent data, including overseas trade, with exports of goods declining by -14.8% yr/yr in July and imports down by -7.6%. As a result of weak 2012 monsoon rains, agricultural output is unlikely to generate strong growth in the ST, with negative effects on rural spending patterns. Expect growth of around 6-6.5% in FY2012/13 (recent trend of almost 8%—2002-11), but even this subdued rate depends on a firm policy response in H2.

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Countries in Focus

Mediterranean, Africa & Middle East – *Angola: Elections*

Final results have yet to be released after parliamentary elections on 31 August to renew the National Assembly and indirectly elect the head of state—constitutionally, the victorious party's leader automatically becomes president. Over 20 political parties participated in the polls, mainly through coalitions but, as expected, preliminary results indicate an emphatic win for the ruling MPLA and that President José Eduardo dos Santos will have a renewed mandate. Expect continuity of policies, particularly as former head of Sonangol (state oil and gas company) Manuel Vicente appears favourite to succeed dos Santos. Hydrocarbons have generated large FX inflows and annual average GDP growth was +12% in 2002-11. Despite a weak global environment, expect growth of around +8% this year and +6% in 2013.

Americas – *Costa Rica: Risk update*

Growth will slow through 2012 but, after a strong H1, full-year growth will be slightly higher than in 2011 (+4.3% against +4.2%) followed by +3.8% in 2013. Inflation eased to 3.9% yr/yr in July and is on a downtrend, although the rate may edge up again by year-end (but within the 5%+/-1% target range). The fiscal deficit is wide and persistent (above 5% of GDP in 2011). Prospects for durable reforms remain poor, although the public debt-GDP ratio remains moderate. The current account deficit is relatively large (above 5% of GDP) although net FDI flows cover 85% of the shortfall. FX reserves cover around three months of imports of goods and services and 120% of external debt falling due in 2012. External debt ratios are low. Systemic political stability risk is low.

Asia-Pacific – *Philippines: Q2 growth retains momentum*

Q2 real GDP growth remained strong at +5.7% yr/yr, continuing the rebound in Q1 (+6.3%) from an overall lacklustre 2011. However, the balance of growth in Q2 shifted towards domestic demand. Private consumption increased by +5.7% yr/yr in Q2 (+5.1% in Q1) and government spending by +5.9% (down from a base effects-driven +20.9% in Q1). Investment growth picked up to +8.5% (+3.9% in Q1), driven by accelerated construction activity. Exports increased by +8.3% (+10.9% in Q1) while imports shifted back to growth of +4.4% (-3.2% in Q1). In qtr/qtr sa terms, Q2 GDP growth slowed to +0.2% from +3% in Q1, largely reflecting contraction in industry of -2.4% after +3.8% growth in Q1. Amid ongoing global uncertainties, expect growth to ease in H2, with around +5.2% in full-year 2012.

Europe – *Poland: Growth continues to slow*

Q2 real GDP growth decelerated further to +0.4% qtr/qtr sa (+0.6% in Q1) and +2.4% yr/yr (+3.5% in Q1), curbed by weakening domestic demand and a sharp drop in inventories. Private consumption expanded by +1.5% yr/yr (+2.1% in Q1) while the decline in public consumption decreased to -0.1% (-1.3% in Q1). Investment growth eased markedly to +1.9% from +6.7% in Q1 as preparations for the European football championship ended. Inventories subtracted -1.5pps from Q2 growth after +0.8pps in Q1. Export expansion moderated slightly to +3.6% in Q2 (+4.8% in Q1) but imports shifted to a -2% decline (+3.2% in Q1), so that the contribution of net exports to Q2 growth jumped to +2.6pps from +0.7pps in Q1. Expect growth to slow further in H2 and come in at +2.5% or less in full-year 2012.

Worth knowing

Canada

Real GDP increased by +1.8% qtr/qtr annualised in Q2, with business investment the key driver, but growth was dragged down significantly by net exports, highlighting Canada's exposure to the weak US economy (+1.7% qtr/qtr growth). Meanwhile, in June, business bankruptcies hit their lowest level in 30 years.

Other Q2 GDP growth

Australia: +0.6% qtr/qtr sa and +3.8% yr/yr. **Croatia**: -2.1% yr/yr. **Slovenia**: -3.2% yr/yr and -1% qtr/qtr sa.

Uganda

On 4 September, the central bank lowered its key policy interest rate by 200bps to 15% and the rediscount and bank rates to 19% and 20%, respectively. The key rate has been reduced by a cumulative 800bps since easing began in February.