



Weekly Export Risk Outlook



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In the Headlines

FIGURE OF THE WEEK: EUR130BN_{>EZ} GROWTH PACT FINANCING

▶ Euro-Zone: Debt crisis update

Spain formally requested support for its banking sector, the final amount and conditionality of which are to be agreed in a memorandum of understanding by 9 July. Cyprus has also formally requested financing support. The new Greek coalition government's joint policy document sets the parameters for discussions with the Troika mission, the arrival of which was postponed because of the ill-health of the PM, who will also miss the EU summit this week (Thursday/Friday). A meeting last week of the leaders of France, Germany, Italy and Spain agreed on a EUR130bn "growth pact" aimed at infrastructure spending, but summit leaders are likely to find it hard to reach firm agreement on other key issues, including direct financing for Spain's banks, pan-European banking supervision and further steps towards fiscal and political integration. The EU summit will set the scene for the next ECB meeting, when markets seem likely to be looking for further signs of support.

▶ US: Twist again

Consumer confidence in June fell for the fourth consecutive month on a weakening employment market, low income growth and uncertainty relating to Europe and also to Washington. The housing market does not appear to have bottomed out as, while prices for existing homes have firmed, sales of existing homes and housing starts have fallen in three of the last four months and prices of new homes have fallen for three consecutive months. In a continuing attempt to stimulate the economy, the Fed announced an extension of "Operation Twist" to lower long-term interest rates, although such rates are already negative in real terms so it is uncertain how much more help such action can engender. That probably explains Fed Chairman Bernanke's indication to Congress that fiscal rather than monetary responses are now required.

▶ Germany: Mixed data

The economy continues to be influenced by two seemingly opposing trends—strains from a generally weak global economy and a robust domestic market. In turn, this divergence is reflected in two recent indicators. Firstly, the Consumer Climate Index remained unchanged in June (stable in May) and remained driven by relative optimism in relation to job prospects and income expectations. Secondly, the Ifo Business Climate Index continued to fall, by 1.5% in June (-2.6% in May), which resulted from markedly lower expectations for the next six months with regard to the impact of the EZ crisis, although companies' assessments of the current business situation were moderately up in June, after deteriorating in May.

▶ Egypt: New president

After investigating some allegations of malpractice, the electoral commission announced that Mohamed Morsi of the Moslem Brotherhood's Freedom and Justice Party won the run-off presidential poll on 16-17 June. Morsi—who will take office from 1 July—received 51% of the vote and his challenger 48%, suggesting a divided or uncertain society and that the new president has a challenging period ahead. Expect a new government to include individuals representing other religions and secularists but the authority vested in the president, government and parliament remains unclear as the military retains significant powers. Expect the complex power struggle to continue. Meanwhile, the central bank forecast economic growth will be below 2% in 2012.

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► Mediterranean, Africa & Middle East – *Cyprus: Bailout*

On Monday, the government formally applied for EZ and IMF financial support, which was received favourably by both. The application was triggered by Cyprus's second largest bank, Cyprus Popular Bank, requesting EUR1.8bn (equivalent to around 10% of GDP) from the government, which it needs to meet new EU minimum capital requirements due to come into effect on 30 June, although financing will probably also take into account broader needs. Cyprus' banks have large exposure to Greek private-sector and sovereign debt and were affected adversely by the recent 70% write-down on the latter. Also on Monday, Fitch lowered its LT sovereign rating from BBB- to BB+ (sub-investment grade). Fitch also downgraded the three largest Cypriot banks, by one notch to BB.



► Americas – *Paraguay: Presidential impeachment*

President Lugo was impeached over his handling of a land dispute and removed from office by an overwhelming vote in both houses of congress at the end of last week. Under the constitution, Vice-President Franco took over and can serve out the rest of the presidential term until elections in April 2013. The move was remarkably swift as the two main traditional political parties came together against the leftist president. Although Lugo's ousting appears to have followed the constitution, its speed generated serious concerns among neighbouring countries, although there is no clear consensus, as yet, on the response. Meanwhile, Lugo set up a parallel government and there could be mass demonstrations on both sides. At this stage, the immediate economic impact is likely to be fairly limited.



► Asia-Pacific – *India: Policy actions, but more needed*

This week, the Reserve Bank of India (RBI, central bank) announced measures aimed at halting INR weakness and boosting inflows of foreign capital. However, the extent of the increase in caps on foreign investment in government bonds and on limits on overseas commercial borrowings, together with a lack of new initiatives, left markets unimpressed. The INR depreciated by around 25% in nominal terms over the last twelve months and, at USD1:INR57, is close to its record low of last week. The RBI does not target a level for the exchange rate but intervenes in the market to reduce currency volatility. However, it is action on the fiscal side that may prompt an upturn in assessments of the economic outlook and, in this respect, the experienced PM Manmohan Singh took over the finance portfolio.



► Europe – *Slovak Republic: Q1 GDP growth*

Q1 real GDP increased by 0.7% qtr/qtr sa and 3% yr/yr, only slightly down from Q4 2011. Domestic demand remained weak. Private consumption fell by 0.1% yr/yr in Q1 (-0.4% in Q4), public spending increased by 0.4% (-3.7% in Q4) and investment contracted by 3.9%, sharply down from an 8.4% increase in Q4. As a result, net exports were again the main growth driver even though export growth moderated to 2.6% yr/yr (7.5% in Q4) as imports continued to decline, by 1.3% (1% in Q4). On the supply side, a robust 8.7% yr/yr expansion in manufacturing—with particularly strong output from the automotive sector—continued to drive the economy. However, the continuing crisis in the EZ is likely to result in a further decline in external demand. Expect around 2.3% GDP growth in 2012 as a whole.

Worth knowing

► Euro-zone

The Economic Sentiment Indicator (ESI) declined from 90.5 to 89.9 between May and June—its lowest point since Q3 2009—mainly reflecting a fall in sentiment in France (-1.5pps) and Germany (-1.4pps). At a sector level, the decline in confidence was across the board, including industry -12.7 in June from -11.4 in May and services (-7.4 from -5.2).

► Côte d'Ivoire

This week, completion point under the Enhanced Heavily Indebted Poor Countries initiative was reached, with the IMF and World Bank approving debt relief of USD4.4bn. This unlocks additional multilateral and bilateral relief that, in total, will reduce the overall foreign debt burden by around USD7.7bn in current values, or by around 60%.

► Pakistan

The National Assembly elected a former minister of water and power, Raja Pervez Ashraf, as prime minister. He received 211 votes in the lower chamber of parliament, compared with 89 for his nearest challenger.

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