

Weekly Export Risk Outlook



EULER HERMES
Our knowledge serving your success

1 August July

In the Headlines

FIGURE OF THE WEEK: **1.5%** > US Q2 QTR/QTR GDP GROWTH

▶ US: Weak Q2 GDP growth

As expected, Q2 real GDP growth was weak at only 1.5% qtr/qtr (2% in Q1)—far below the long-term average of 3.3%. Consumption was equally anaemic at 1.5%. New orders for non-defence capital goods excluding aircraft (a proxy for future business spending) fell for the third time in four months in June, contracting in real terms by 1.6% yr/yr. Meanwhile, new home sales fell a sharp 5.1%, but home prices as measured by the Case-Shiller home price index increased slightly for the fourth consecutive month, although the index was still down -0.7% yr/yr. Personal consumption expenditures fell for the second consecutive month in June. Overall, economic data are continuing to suggest a weakening economy.

▶ Eurozone: Update

June unemployment was unchanged at 11.2%, a record high, but there was an increase in three of the four largest economies, Italy (to 10.8%), France (to 10.1%) and Spain (to 24.8%). Youth unemployment decreased slightly (-0.1pps) but, at 22.4%, remained high and is particularly concerning in countries such as Spain (52.7%), Portugal (36.4%) and Italy (34.3%). Meanwhile, inflationary pressures are slow to ease, with July inflation unchanged at 2.4% yr/yr (Eurostat flash estimate). The July manufacturing PMI also fell again. Positive statements by key EZ leaders ahead of Thursday's ECB meeting raised expectations of further action to try to lower bond yields in Spain and Italy. Action, if it materialises, is expected to centre on already proposed EFSF bond purchases alongside ECB intervention. Meanwhile, Greece's coalition government continues to struggle to find the required EUR11.5bn of additional budget savings.

▶ Asia: Further slowdown

Q2 GDP data for South Korea and Taiwan underscore the regional and global slowdown. Advance estimates for Korea show growth decelerated to 2.4% yr/yr (2.8% in Q1) and 0.4% qtr/qtr sa (0.9% in Q1). All GDP components shifted to qtr/qtr contraction—government spending -0.2%, fixed investment -2.3%, exports -0.6% and imports -1.7%—except private consumption, at +0.5%. Only imports contracting faster than exports kept the economy growing qtr/qtr. Expect full-year 2012 growth of 2.5% or less. With June inflation at a 32-month low (2.2% yr/yr), the central bank lowered the policy interest rate by 25bps to 3% in July to support growth. In Taiwan, GDP contracted -0.2% yr/yr (+0.4% Q1), although it increased by 0.8% qtr/qtr sa (0.3% Q1). Private consumption growth slowed further, investment fell 8.4% and both exports and imports decreased. The government lowered its 2012 forecast to 2.1% from 3%, but even this will need a robust H2 performance.

▶ Commodities: Market forces

Although supply disruptions (including drought in the US, Russia and Kazakhstan and weak early monsoon rains in India) and geo-political concerns (including disrupted oil supplies from Iran and Syria) are exerting upward price (and social) pressures a benchmark all-commodity index currently indicates that prices overall, although up 11% mo/mo, are still down over 12% yr/yr.

Please note that the next issue of the WERO will be on 15 August 2012.

A company of Allianz 

These assessments are, as always, subject to the disclaimer provided below.

Cautionary Note Regarding Forward-Looking Statements: Certain of the statements contained herein may be statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. In addition to statements which are forward-looking by reason of context, the words 'may, will, should, expects, plans, intends, anticipates, believes, estimates, predicts, potential, or continue' and similar expressions identify forward-looking statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation, (i) general economic conditions, including in particular economic conditions in the Allianz SE's core business and core markets, (ii) performance of financial markets, including emerging markets, (iii) the frequency and severity of insured loss events, (iv) mortality and morbidity levels and trends, (v) persistency levels, (vi) the extent of credit defaults (vii) interest rate levels, (viii) currency exchange rates including the Euro-U.S. Dollar exchange rate, (ix) changing levels of competition, (x) changes in laws and regulations, including monetary convergence and the European Monetary Union, (xi) changes in the policies of central banks and/or foreign governments, (xii) the impact of acquisitions, including related integration issues, (xiii) reorganization measures and (xiv) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences. The matters discussed herein may also involve risks and uncertainties described from time to time in Allianz SE's filings with the U.S. Securities and Exchange Commission. The Group assumes no obligation to update any forward-looking information contained herein.



► Mediterranean, Africa & Middle East – *Ghana: New president*

The transfer of power following the death in office of President John Evans Atta Mills (24 July) was conducted with constitutional transparency and broad-based support within political and social circles, providing further evidence of an entrenched democracy. John Dramani Mahama, the former VP, was sworn into office for the remainder of Mills' tenure and appears set to contest presidential elections in December as the ruling NDC candidate. Expect those polls to be as close as the preceding ones in 2008, which the current opposition NPP lost by the narrowest of margins. Nana Akufo-Addo will again be the NPP candidate. Although campaigning is likely to be both extensive and forceful, with tensions rising, expect the result to be accepted and the political environment to remain stable overall.



► Americas – *Colombia: Interest rate cut*

At its monetary policy committee meeting last week, the central bank unexpectedly lowered the policy interest rate. The 25bps reduction was the first cut in more than two years, a period in which the rate was raised by 225bps before a pause from March this year. Significantly, the central bank also lowered its GDP growth forecast for 2012 to 3-5% from 4-6% and also noted that inflation expectations were down to 3.1% at end-2012, almost at the mid-point of the target range. Actual inflation was 3.2% yr/yr in June. With inflation likely to remain close to the mid-point of the target range for the remainder of the year and external demand and global commodity prices weaker, expect further interest rate cuts and GDP growth in 2012 of 3-4%.



► Asia-Pacific – *Vietnam: Q2 GDP growth*

Real GDP growth picked up to 4.7% yr/yr in Q2 from 4% in Q1, but remained below the annual average 6.9% in 2006-2010 and 5.9% in 2011. The moderation in early 2012 was largely a lagged response to sharp monetary and fiscal policy tightening in 2011, adopted by the authorities as they were confronted at that time with surging inflation, downward pressure on the exchange rate and rapidly falling FX reserves. Meanwhile, inflation has fallen markedly, to 5.4% yr/yr in July, and the central bank began loosening its policy in March, cutting the key interest rate by a cumulative 500bps, to 10% in July. Expect growth to recover further in H2 but to remain just below 5% for 2012 as a whole. The VND/USD exchange rate has been held stable since end-2011 but FX reserves are still low.



► Europe – *Romania: Impeachment vote*

Approximately 87% of the electorate voted to remove President Basescu in an impeachment poll (29 July) but the low turnout, at just 46%, fell short of the constitutionally-required 50%, allowing him to resume in office. He was controversially suspended by parliament (early July) for allegedly exceeding his limited constitutional powers. PM Ponta said he would accept the outcome, but the power struggle between his (left of centre) coalition government and the centre-right president is likely to continue. Expect ongoing political and policy uncertainty, with potential adverse economic effects. The move to impeach Basescu was criticised internationally and it resulted in the RON/EUR exchange rate registering a record low last week, although there was some (perhaps temporary) strengthening early this week.

Worth knowing

► Israel

Austerity measures—spending cuts and tax increases—were introduced this week as the economy is weakening because of contagion effects from key trading partners (the EZ and US). Expect GDP growth this year of 3% after 4.8% in 2010 and 2011.

► South Asia

Significant power failures in **Pakistan** and **India** and their underlying causes—largely reflecting a surge in demand because of extreme temperatures and weak monsoon rains, but also underinvestment in the sector—will negatively affect GDP growth. Official forecasts for India's 2012/13 growth were already revised down to 6.5% from a previous (April) projection of 7.3%.

► Lithuania

Q2 real GDP growth decelerated to 2.1% yr/yr from 3.9% in Q1, although it picked up slightly to 0.4% qtr/qtr sa from 0.3% (revised downwards from 0.8%) in Q1. The statistics office noted that all major sectors contributed to growth in H1.

For more information, visit

www.eulerhermes.com

A company of Allianz 

These assessments are, as always, subject to the disclaimer provided below.

Cautionary Note Regarding Forward-Looking Statements: Certain of the statements contained herein may be statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. In addition to statements which are forward-looking by reason of context, the words 'may, will, should, expects, plans, intends, anticipates, believes, estimates, predicts, potential, or continue' and similar expressions identify forward-looking statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation, (i) general economic conditions, including in particular economic conditions in the Allianz SE's core business and core markets, (ii) performance of financial markets, including emerging markets, (iii) the frequency and severity of insured loss events, (iv) mortality and morbidity levels and trends, (v) persistency levels, (vi) the extent of credit defaults (vii) interest rate levels, (viii) currency exchange rates including the Euro-U.S. Dollar exchange rate, (ix) changing levels of competition, (x) changes in laws and regulations, including monetary convergence and the European Monetary Union, (xi) changes in the policies of central banks and/or foreign governments, (xii) the impact of acquisitions, including related integration issues, (xiii) reorganization measures and (xiv) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences. The matters discussed herein may also involve risks and uncertainties described from time to time in Allianz SE's filings with the U.S. Securities and Exchange Commission. The Group assumes no obligation to update any forward-looking information contained herein.