

Weekly Export Risk Outlook



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12 September 2012

In the Headlines

FIGURE OF THE WEEK: **+2.9%** > TURKEY'S Q2 YR/YR GDP GROWTH

▶ Eurozone: Update

The ECB announced Outright Monetary Transactions last week, under which it will make sterilised purchases of sovereign bonds (1-3 years maturity) in unlimited amounts. Purchases will depend on the country accessing the EFSF/ESM facility on a precautionary basis, which will require an approved economic programme. This is an important and substantive step forward, as the unlimited nature of the programme, for the first time, gives the EZ a credible back stop. Yet it is not a cure-all, as countries will still have to implement economic adjustment and a virtuous circle needs to start that restores economic growth expectations. Also, Germany's courts ruled favourably on the ESM's constitutionality, but Greece has still to find agreement with the Troika. Meanwhile, EZ July industrial production rebounded slightly, up +0.6% mo/mo (-0.6% June) with capital goods the main driver (+2.4%), followed by intermediate goods (+0.1%), while the largest decline was energy (-1.2%). At a country level, performance remained mixed, down again in Spain and Italy (both -0.2% mo/mo), but up in France (+0.3%) and Germany (+1.3%).

▶ US: Weak job growth

The employment report provided another statistical disappointment, showing that the economy gained only 96,000 jobs in August—compared with expectations of 125,000—and was again markedly below the 200,000-250,000 needed to provide solid economic growth. There were also downward revisions for the previous two months, amounting to 41,000 jobs, and zero growth in wages. In addition, while the rate of unemployment fell from 8.3% to 8.1% it did so because 368,000 people stopped actively seeking jobs and left the potential workforce, sending the labour participation rate to its lowest since 1981. Given Fed Chairman Ben Bernanke's recent impassioned speech about the need to improve the weak employment situation, the report may spur policy action, with a third round of quantitative easing, perhaps as early as tomorrow.

▶ China: Data remains weak

August data releases dampened further hopes that Q3 would mark the start of a rebound. Indeed, Q3 yr/yr growth is now more likely to be lower than Q2. Industrial production slipped to 8.9%, export growth remained subdued (+2.7% yr/yr) and imports fell (-2.6% yr/yr). However, January-August fixed investment growth was +20.2% yr/yr (+20.4% in July) and retail sales grew by +13.2% yr/yr in August (+13.1% July). Moreover, bank lending was much stronger than in July, although the main driver of the increase was lending to households. The government also approved a large number of infrastructure investments, although most of these do not appear to be new and are multi-year. More stimulus is still likely, but at a measured pace, with the leadership handover a possible distraction, and full year 2012 growth is now likely to be +7.6%, followed by +8.1% in 2013.

▶ Switzerland: Moderate dip in growth

GDP contracted by -0.1% qtr/qtr in Q2, after somewhat surprisingly strong outcomes in the two preceding quarters (+0.4% in Q4 2011 and +0.5% in Q1 2012), mainly reflecting a marked reduction in inventories, which reduced overall growth by -0.5pps. While capital investment as a whole remained unchanged in Q2, private consumption expanded by +0.3% qtr/qtr (+0.9% Q1) and public consumption by +1%. Net exports made a positive contribution of 0.1pps, despite CHF strength. The Swiss National Accounts were revised in the summer (including data adjustments back to 1990) leading to significant downward revisions. These include Q3 2011, with GDP growth revised from +0.3% qtr/qtr to -0.2%, which contributed to full-year 2011 growth of 1.9% from an original estimate of 2.1%. Expect growth of 1% in 2012 and 1.3% in 2013.

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► **Mediterranean, Africa & Middle East – Turkey: Q2 GDP**

Real GDP growth eased further in Q2, to +2.9% yr/yr from +3.3% in Q1 and +8.5% in full-year 2011. Credit tightening by the central bank kept private consumption growth low at +0.4% in Q2 and sent investment plunging by -7.4% (+1.5% in Q1). Public consumption growth remained robust at +4.4%. The contribution of net exports to overall growth increased further in Q2 as export expansion accelerated to +19.8%—buoyed by strong gold exports to Iran—while imports continued to decline, by -3.6%, squeezed by the slowdown in domestic demand. Expect full-year 2012 growth of around +3.2% as the data suggest a soft landing for the economy after overheating in 2010-2011. However, continued loose fiscal policy and a still large current account deficit (-8% of GDP in H1) remain concerns.



► **Americas – Dominican Republic: Risk update**

Growth will slow to 3.5% in 2012 and 3.6% in 2013 from 4.5% in 2011. Inflation accelerated to 7.8% yr/yr at end-2011 (food and energy) but fell back to 1.6% yr/yr in July. The fiscal deficit is moderate (around 3% of GDP) and the public debt-GDP ratio low (just over 30%) although revenues as a proportion of GDP are structurally low. The current account deficit is persistently large (8%+ of GDP in 2010-12) and net FDI flows cover only 50% of the deficit. FX reserves cover less than two months of imports (goods and services) and less than 100% of external debt falling due in the next 12 months. External debt ratios are moderate. Overall, growth is relatively strong and debt ratios manageable but the external balance is weak. Systemic political risk is low-to-moderate.



► **Asia-Pacific – Bangladesh: Update**

There is a deep-rooted hostility between the two main political parties, the BNP and the AL, which results in a highly-confrontational political and social environment that is not conducive to effective governance, policy implementation and LT social and economic development. An active military and Islamic fundamentalist militants add to this volatile mix. Nevertheless, annual average economic growth was over +6% in 2008-11, during which period current account surpluses were recorded. However, with the clothing industry accounting for around 80% of export receipts and goods destined mainly for US and European markets (while imports are weighted towards Asian sources), small current account deficits are forecast for 2012 and 2013. Expect GDP growth to slow but still remain over +5% this year and in 2013.



► **Europe – Slovenia: Q2 GDP growth sharply lower**

Real GDP contracted sharply in Q2, by -3.2% yr/yr, following an upward revision to +0.2% growth in Q1. In seasonally- and working-day adjusted qtr/qtr terms, GDP declined by -1% in Q2 after being flat in Q1. In particular, domestic demand weakened in Q2, with private consumption falling by -3% yr/yr, public consumption by -2% and fixed investment by -8.9%. Moreover, inventories subtracted -2.9pps from Q2 growth. External trade activity also fell, but net exports contributed +3.4pps to Q2 growth as imports contracted more sharply (-5.4%) than exports (-0.5%). Domestic demand is unlikely to recover soon because of mounting problems in the banking sector and external demand will remain weak as a result of the EZ crisis. Expect GDP to contract by -1.5% in full-year 2012 and to be flat in 2013, at best.

Worth knowing

► **Other Q2 GDP growth**

Iceland: +0.5% yr/yr (+4.2% in Q1), -6.5% qtr/qtr sa (+0.3% in Q1). **Malta:** +0.9% yr/yr (-1.2% in Q1). **Tunisia:** +2.1% yr/yr (+4.6% in Q1 and +3.3% in H1). **Israel:** +3.2 yr/yr (+2.8% in Q1). **Bahrain:** -1.3% qtr/qtr (+0.9% Q1), +4.3% yr/yr (+5.9% Q1).

► **Kenya**

On 5 September, the monetary policy committee cut its key policy interest rate by 350bps, down to 13%. This reflects a positive official outlook on inflationary pressures, a relatively stable KES and a stock of FX providing over four months of import cover.

► **Somalia**

On 10 September, parliament elected Hassan Sheikh Mohamud (190 votes) as state president and head of state, ahead of the pre-poll favourite and incumbent leader of the Transitional Federal Government, Sheikh Sharif Sheikh Ahmed (79 votes).

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