



Weekly Export Risk Outlook



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In the Headlines

FIGURE OF THE WEEK: **USD112** > CURRENT BARREL PRICE OF BRENT OIL

▶ US: QE3

Last week, the Fed announced another plan for stimulating the faltering economy. The scheme, known as Quantitative Easing part 3 (QE3), will consist of monthly purchases of USD40bn of mortgage-backed securities (MBS) for an unlimited time period. By making such large purchases of MBS, the Fed is hoping to bid up the prices of those securities and lower their interest rates (bonds and MBS prices move in the opposite direction of yields), thereby stimulating the housing market and the rest of the economy. Expect the plan to have only limited effect because mortgage rates are already near record lows and the real problem is that banks are unwilling to lend. In addition, previous QEs, which targeted Treasury securities, also had limited effect.

▶ World Economy: Latest consensus forecasts

Consensus forecasts in September for 2012 GDP growth show a slight improvement for Eastern Europe (+0.1pps to +2.7%) and the Middle East/Africa (+0.1pps to +4%), deterioration in Latin America (-0.4pps to +2.9%) and recession in the EU (-0.3%). In the EZ, 2012 forecasts show an improvement of +0.1pps for Spain and Portugal and +0.3pps for Greece but deterioration for some others including Germany, Finland, Belgium, Netherlands and Italy. Recession is still forecast for six EZ countries (Belgium, Netherlands, Spain, Italy, Portugal and Greece) and for the UK (-0.1pps to -0.3%). For 2013, forecasts of GDP growth have deteriorated for the world as a whole (-0.1pps to +2.8%), mainly reflecting deterioration in Latin America (-0.2pps to +3.8%), Eastern Europe and EZ (both -0.1 pps to +3.3% and +0.2%, respectively), while North America (+2.1%) and Asia-Pacific (+4.9%) remain unchanged. Latest forecasts for 2013 for the EZ show a fifth consecutive monthly deterioration, with Germany (-0.2pps), Belgium (-0.2pps) and Finland (-0.3pps) registering the three strongest downward revisions. Italy (-0.6%), Spain (-1.4%), Portugal (-2.2%) and Greece (-3.3%) will be in recession in 2013, with France and Belgium moving closer.

▶ India: Sentiment edges up on reforms

Recent economic and business reforms provide some optimism that the partial policy paralysis and weaker growth momentum may be halted, if not reversed. New measures include an increase in diesel prices of 14% (effectively a subsidy reduction), liberalisation of the retail and aviation sectors to allow foreign companies to take a 51% stake in local multi-brand ventures in the former and 49% in the latter and some potential privatisation targets. Such measures may yet be watered down—the recent track record on this is not good. Even so, markets and investors reacted positively. Meanwhile, consumer price inflation was 10.03% yr/yr in August (9.86% in July) and wholesale prices, used officially for gauging inflationary pressures, increased by 7.55%. Against this inflationary background, expect the central bank to remain cautious in terms of interest rate policy in the ST.

▶ Saudi Arabia: Growth slows, oil markets will be supplied

The kingdom signalled that it will fill any oil market shortfall and that it seeks crude prices of around USD100/barrel, compared with Brent's current USD112/b. Meanwhile, real GDP growth moderated slightly in Q2, to +5.5% yr/yr from +5.9% in Q1. This reflects a divergence between external influences—weaker global environment—and internal dynamics—relatively strong domestic demand driven by government spending and consumption buoyed by social support measures introduced to offset potential Arab Spring contagion. Some planned state expenditures, including infrastructure projects, have yet to materialise, so the same influences are likely to drive growth in 2013. Expect GDP growth of around +5.5% this year and +4% in 2013.

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

Real GDP contracted for the fourth consecutive quarter in Q2, by -2.3% yr/yr and by -0.8% qtr/qtr sa, reflecting weak domestic demand. Private consumption fell by -2.3% yr/yr, public consumption by -1.5% and fixed investment contracted by -17.6%. Although external trade fell overall, net exports made a positive contribution to Q2 growth as imports contracted more sharply (-11.7%) than exports (-0.4%). Expect the recession to continue, with GDP falling by at least -1.5% in full-year 2012, as external demand will remain weak because of crisis in the EZ, credit is being tightened and fiscal austerity will continue because of the banking sector crisis and conditionality of the IMF/EU bailout requested in June. However, bailout talks are reportedly stalling, with the government reluctant to accept further austerity.



► **Americas – Venezuela: Elections**

Presidential elections will be held on 7 October and Hugo Chavez (in office since 1998) will seek another six-year term. Chavez declared that he is fit, having undergone treatment for his health for much of the year but, given the lack of transparency over his illness, uncertainty lingers on. Opinion polls mostly give Chavez a significant lead over opposition candidate Henrique Capriles but, while his re-election is probably the most likely scenario, it is not a foregone conclusion. Another term for President Chavez suggests policy continuity but, while economic growth has returned—helped by fiscal stimulus—severe imbalances have built-up under the current government, including high inflation and the necessity for foreign exchange controls.



► **Asia-Pacific – Sri Lanka: Monetary policy on hold**

Real GDP increased by +6.4% yr/yr in Q2 (+7.9% in Q1), the slowest rate since Q4 2009, but this moderation in growth—broad based but marked by slowing domestic demand and weaker net exports reflecting slowdown in key markets for outward shipments of manufactures (US and EU)—is unlikely to spur monetary easing in the short term. Indeed, on Monday, the central bank left its key policy interest rate unchanged at 7.75%, reflecting concern about current inflationary pressures—consumer prices increased by +9.5% yr/yr in August, partly because fuel prices were raised at the beginning of the year. In addition, inflationary pressures stem from high food prices because of adverse weather patterns (including drought) and rapid credit growth. Expect GDP growth of 5-7% in 2012 and 2013.



► **Europe – Iceland: Q2 GDP growth slows sharply**

Seasonally adjusted Q2 real GDP contracted by -6.5% qtr/qtr, after +0.3% growth in Q1. The sharp decline in Q2 was largely driven by an unusual fall in inventories of fishery products and a contraction of -17.4% qtr/qtr in fixed investment. In unadjusted yr/yr terms, Q2 real GDP growth decelerated to +0.5% from +4.2% in Q1. Private consumption increased by +4.7% yr/yr in Q2 (+3.4% in Q1), government consumption fell by -1.2% (-0.1% in Q1) and fixed investment increased by +4.5% (+36.2% in Q1). Export growth picked up to +5.3% yr/yr (+4.4% in Q1) while import expansion eased slightly to +8.5% (+9.1% in Q1). Expect full-year 2012 growth to moderate to +2.2% from +2.6% in 2011 (the latter was revised down from an earlier much stronger estimate of +3.1%).

Worth knowing

► **Interest rates**

Latvia: key policy rate cut by 50bps to 2.5% (effective 24 September). **Russia:** key policy rate increased by 25bps to 8.25%. **Turkey:** the overnight lending rate cut by 150bps to 10%, while the overnight borrowing rate kept at 5% and the one-week repo rate (the policy rate) kept at 5.75%. **Nigeria:** the monetary policy committee left its key policy interest rate (12%) and other market rates unchanged this week after tightening monetary conditions at the previous meeting in July.

► **Other Q2 GDP growth**

Mozambique: +8% yr/yr (+6.3% in Q1 and +7.2% in H1).

► **South Africa**

Consumer price inflation was up +5% yr/yr in August (+4.9% in July) and 0.2% mo/mo (0.3%).

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