



Weekly Export Risk Outlook



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In the Headlines

FIGURE OF THE WEEK: +2%[>]US QTR/QTR ANNUALISED Q3 GDP GROWTH

▶ Eurozone: Sentiment index weakens again

The Eurostat Sentiment Index for the euro area declined by -0.7pps in October, the eighth consecutive monthly fall. Confidence in industry and in construction had the main impact on deterioration in sentiment, with a drop of -2.1pps and -2.6pps, respectively. However, some other sector components recorded improvements, notably retail trade (+2.4pps). Moreover, consumer confidence remained broadly stable. Geographically, the two main economies, Germany and France, continued to show signs of weakness, with sentiment down -1.4pps and -1.8pps, respectively, but there was some improvement in other large economies, with confidence in Spain and Italy increasing by +1.8pps and +0.5pps, respectively. Nevertheless, recently-released official flash estimates show that Spain's GDP contracted by -0.3% qtr/qtr in Q3, the fourth consecutive quarter of contraction. Meanwhile, Spain's central bank announced steep discounts to be applied to distressed assets transferred to the "bad bank" to be set up as part of the banking sector reform/stabilisation plan.

▶ US: GDP growth, elections and hurricanes

Advance estimates of GDP show relatively anaemic growth of +2% annualised qtr/qtr in Q3 but this was up from +1.3% in Q2, driven by government spending. Other data are mixed. Personal consumption expenditures increased by 0.8% mo/mo in September but at a relatively weak rate of 2.1% yr/yr. New home sales increased by 5.7% mo/mo in September and are now 11.7% higher than a year ago, while prices of existing homes increased by 0.5% mo/mo and 2% yr/yr. The Federal Reserve left interest rate policy and QE3 plans unchanged. Meanwhile, the presidential election campaign is proving a close contest and, with only one week to go, attention is focused on Hurricane Sandy, which hit the east coast, flooding parts of New York City and disrupting economic activity. Insured losses were initially estimated at around USD10bn, but expect this figure to climb higher.

▶ South Korea: Q3 GDP reflects continued slowdown

Advance estimates indicate that Q3 real GDP growth decelerated to +1.6% yr/yr, from +2.3% in Q2, and to +0.2% qtr/qtr sa from +0.3% in Q2. Domestic demand remained weak as investment declined for a second consecutive quarter, by -2% yr/yr, and private consumption expanded by just +1.5%. Public spending continued to mitigate the slowdown, rising by +3.3%. External trade activity moderated further in Q3, reflecting weakness in the global economy, but net exports remained a positive contributor to overall growth, as exports expanded by +2.6% yr/yr while imports increased by only +0.9%. The Economic Sentiment Index declined to 89 in October from an average 92 in Q3, suggesting that the economy may lose further momentum in Q4. Expect full-year GDP growth of around +2% in 2012 before picking up slightly in 2013.

▶ South Africa: Fiscal stance

Economic news has been largely negative of late—labour problems and associated loss of output, particularly in the mining sector (7% of overall GDP), some policy concerns (including uncertainty over potential for forced nationalisation) and impact on the export sector of weak European markets. However, last week's Medium Term Budget Policy Statement re-affirmed the country's relatively sound fiscal stance. The budget balance is projected to fall from almost 5% of GDP in 2012/13 to around 3% in 2015/16, without recourse to stringent austerity measures. Nevertheless, expect fiscal targets to be challenging, particularly as there are risks to growth and there are political and policy uncertainties linked to an ANC conference in December (including party leadership elections) and expenditure plans may be subject to amendment ahead of 2014 general elections.

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► **Mediterranean, Africa & Middle East – Israel: Politics**

Two right-of-centre political parties are merging prior to parliamentary elections in January. Leaders of these parties already serve in government, Likud's Binyamin Netanyahu as PM and Israeli Beiteinu's Avigdor Lieberman as foreign minister. The merger strengthens Netanyahu's prospects of remaining PM but expect the election to be strongly contested, perhaps with the centre and left of the political spectrum (including Kadima and Labour) also forming an electoral coalition—Israeli political alliances tend to be fluid. This is not likely to improve relations with Palestinian authorities—Israeli Beiteinu is anti-peace process—but a renewed mandate for a right-wing government may provide a firmer support base for action against Iran, if progress on limiting Tehran's nuclear aspirations is not otherwise forthcoming.



► **Americas – Colombia: Interest rates and update**

At its latest policy meeting, the central bank left interest rates unchanged at 4.75%. Support for this decision came from domestic demand, which is holding up (although slowing) as both consumption and investment retain momentum and also from inflation and expectations converging towards the mid-point target of 3%, still high commodity prices and easing credit growth. A further consideration, according to the central bank, was the improvement in global financial conditions brought about by recent actions of central banks. The biggest threat going forward is seen as a strong recession in Europe. That and the future trend of commodity prices will be key factors in maintaining growth prospects and the future course of interest rates into 2013. EH expects GDP growth of +4% in 2012 and +3.8% in 2013.



► **Asia-Pacific – Taiwan: Q3 GDP, slow improvement**

Real GDP returned to yr/yr growth in Q3, increasing by +1.0%, after -0.2% in Q2, although the outturn was below expectations. Qtr/qtr sa the economy continued to make slow progress, as GDP expanded by +0.9%, after +0.6% in Q2 and +0.4% in Q1. Domestic demand returned to yr/yr growth, as fixed investment turned positive, but private consumption growth weakened further. Another positive was that both exports and imports were higher than a year ago. Latest monthly data and surveys also indicate that Q3 ended on a stronger note, pointing to a more robust Q4. Nonetheless, full year 2012 growth is now likely to be only +1%, although a pick-up to around +3% can be expected in 2013 based on EH projections of a moderate improvement in global demand.



► **Europe – Lithuania: Election result and Q3 GDP growth**

The centre-right coalition government was unseated in parliamentary elections held on 14 and 28 October, obtaining just 42 out of 141 seats. However, formation of a new centre-left coalition—comprising the Social Democrats (LSDP, 40 seats), the Labour Party (29 seats) and the Order and Justice Party (11 seats)—is complicated by President Grybauskaitė's unprecedented threat to veto the inclusion of Labour in a new government because of alleged accounting fraud and election violations. LSDP leader Butkevicius is still likely to become the next PM, probably of a minority government. Meanwhile, the statistical office announced surprisingly strong Q3 GDP growth estimates of +4.4% yr/yr (+2.1% in Q2) and +1.3% qtr/qtr sa (+0.6% in Q2).

Worth knowing

► **UK**

Q3 GDP data surprised on the upside with growth of +1% qtr/qtr. However, while positive, this was partly the result of statistical distortions that lowered output in Q2 and Q4 is unlikely to be as strong.

► **Interest rates**

Hungary: key policy rate was cut by 25bps to 6.25%. **Philippines:** key rates were cut by 25bps, the overnight borrowing rate to 3.5% and the overnight lending rate to 5.5%, based on a continuing benign inflation outlook.

► **Ukraine**

Preliminary results from last Sunday's parliamentary election suggest a victory for the ruling Party of Regions of President Yanukovich. If that party reaches an outright majority, a coalition government, as now, would not be necessary.

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