



Weekly Export Risk Outlook



21 November 2012

In the Headlines

FIGURE OF THE WEEK: **USD109.8** > BARREL PRICE OF BRENT OIL (-2.3% mo/mo)

▶ Eurozone: Weak data, continued uncertainty

Flash estimates show that EZ GDP contracted by -0.1% qtr/qtr in Q3. Details of the components of GDP are not available yet, but high frequency data provide some guide to the growth profile. In one key sector—construction—EZ output stabilised in Q3 compared to Q2, although monthly data signalled a deterioration at the end of the quarter, as output fell by -1.4% mo/mo in September after +0.3% and +0.6% in July and August, respectively. Except in Germany, where activity registered a small rebound of +2.7% mo/mo (-2.6% in August), all the main economies saw a decrease, especially Italy with a fall of -8% mo/mo. Weak economic data are accompanied by uncertainty over funding for Greece, as finance ministers and the IMF failed to agree on the release of the outstanding tranche at the latest meeting yesterday. More negotiations will be held next week as the EZ and IMF try to agree on ways to achieve an acceptable debt-GDP ratio.

▶ Thailand: Q3 GDP growth

Q3 real GDP growth decelerated to +1.2% qtr/qtr sa (+2.8% in Q2) and +3% yr/yr (+4.4% in Q2), dampened by a sharp drop in inventories, which subtracted -3.8pps from the annual rate (+2.8pps in Q2). Domestic demand picked up further in Q3, with private consumption expanding by +6% yr/yr (+5.3% in Q2), public consumption by +9% (+7.4% in Q2) and fixed investment by +15.5% (+10.2% in Q2). However, weak global demand led to a decline in external trade activity, with exports falling by -2.8% yr/yr (+1.1% in Q2) and imports by -1.8% (+8.6% in Q2), so net exports subtracted -1.1pps from Q3 growth (-4.2pps in Q2). Nevertheless, exports should surge and lead to strong annual growth in Q4 as the severe flood-related downturn a year ago provides a low base. Expect full-year growth of around +5% in 2012 and moderation to +4% in 2013.

▶ US: Housing market

The housing market continues to strengthen. In November, the Housing Market Index increased to its highest level in over six years. Existing home sales increased by +2.2% mo/mo in October, despite a -1.7% fall in sales in the north-east because of Hurricane Sandy. On a yr/yr basis, sales in October were up +10.9% and median prices by +11%. Supply fell to 5.4 months at the end of October, the lowest since February 2006. Housing starts increased by +3.6% mo/mo in October (+15% in September) despite a small dip in the north-east, again as a direct result of Hurricane Sandy. Starts and permits were up +42% and +30% yr/yr, respectively—both very strong numbers—but the increase is from a very weak base and both are more than 60% below the peaks recorded in late 2005 and early 2006.

▶ Israel: Renewed tensions

The cross-border exchange of rocket fire between Israeli forces and Hamas and other groups located in the Gaza Strip has resulted in fatalities and heightened regional tensions. These come at a time when instability in Syria, ongoing concerns relating to Iranian nuclear plans and fragile political transitions across the area already impact negatively on business and trading environments, as opposing forces attempt to influence the significant changes in underlying regional dynamics. Attempts to broker a ceasefire between Israel and Hamas (partly sponsored by Egypt) may yet be successful but, even so, the region will remain tense. Against this background, economic prospects remain uncertain and initial forecasts of Israel's GDP growth in 2013 of 2.5-3% may need revision either way as events unfold.

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► **Mediterranean, Africa & Middle East – Sierra Leone: Election**

The third general elections since the end of the protracted civil war in 2002 were conducted peacefully, despite a north-south divide and a strongly contested campaign. Although a run-off election may yet be needed, President Ernest Bai Koroma and his APC party appear likely winners. If opposition parties eventually accept the result—some allegations of electoral malpractice were lodged—a period of investment-led growth may be extended. The APC and main opposition SLPP both promote free market policies and foreign investment as a spur to job creation and improvements in infrastructure, so a significant redirection in the business and trading environment is not expected following the results. However, if violence ensues, GDP growth in 2013 is unlikely to match the annual average 8%+ of 2002-12.



► **Americas – Mexico: Growth slows**

Growth slowed in Q3 as GDP increased by +0.5% qtr/qtr sa (+0.8% Q2) and by +3.3% yr/yr (+4.4% Q2). Manufacturing output eased to +4.1% yr/yr from +5.1% in Q2, as US demand (the major export market) weakened, although some of the overall slowdown could be attributed to weather-related low growth in agricultural output. Expectations surveys suggest that Q4 growth is unlikely to accelerate but, nonetheless, full year 2012 growth should still be +3.9%. Moreover, providing the US economy retains momentum, expect growth in 2013 of around +3.5%. The recent passage by congress of labour reforms is a plus for medium-term growth and may be a positive indication for the future of President-elect Enrique Pena Nieto's energy reforms, although this remains a difficult area politically.



► **Asia-Pacific – Hong Kong: Return to weak growth**

The economy grew by a modest +1.3% yr/yr in Q3, up slightly on the +1.2% in Q2. On a qtr/qtr basis the economy returned to growth in Q3, as GDP increased by +0.6%, after a contraction of -0.1% in Q2, the sixth consecutive quarter of low growth or contraction. Domestic demand retains momentum, with private consumption up +2.8% yr/yr as employment and income conditions remain supportive. Export momentum improved, with goods exports up +4% yr/yr after falling in Q2. External demand, particularly from mainland China, is crucial for growth (exports of goods and services are around 200% of GDP). With a GDP increase of just +1% in the first nine months of the year, growth in 2012 may not exceed +1.2% but expect +3-3.5% in 2013.



► **Europe – Central Europe: Q3 GDP growth**

Regional Q3 GDP growth weakened further, according to "flash" estimates. The **Czech Republic** and **Hungary** remain firmly in recession and will contract in full-year 2012. The former contracted by -0.3% qtr/qtr sa (the fifth consecutive quarter of decline) and by -1.5% yr/yr sa. The latter contracted by -0.2% qtr/qtr sa and -1.5% yr/yr. **Romania** moved out of recession in Q2 but showed a renewed fall of GDP in Q3, by -0.5% qtr/qtr sa and -0.6% yr/yr. In **Bulgaria**, Q3 GDP growth slowed to 0.1% qtr/qtr sa but remained stable at +0.5% yr/yr sa. The **Slovak Republic** remained comparatively robust in Q3, with growth unchanged at +0.6% qtr/qtr sa and slightly down to +2.2% yr/yr (+2.6% Q2). Expect regional weakness to continue as a result of austerity measures and depressed external demand from the EZ.

Worth knowing

► **Egypt**

Agreement was reached (20 November) with the IMF on a 22-month Stand-By Arrangement (SBA) of around USD4.8bn to support the government's economic programme. Expect the IMF Executive Board to approve the SBA before the end of the year and for this to unlock further multilateral and bilateral financial assistance. The EU pledged USD6.4bn in aid.

► **Other Q3 GDP growth**

Cyprus: -2.2% yr/yr (-2.5% Q2) and -0.5% qtr/qtr sa (-0.9% Q2). **Malaysia:** +5.2% yr/yr (+5.6% Q2). **Singapore:** downward revision to +0.3% yr/yr (+1.3% Q3 advance estimate) and -1.5% qtr/qtr sa (-0.4% advance estimate).

► **Nigeria**

At its monetary policy meeting (19-20 November), the central bank left key interest rates unchanged. Expect policy to remain on hold for the rest of the year, with GDP increasing by 6.4% yr/yr in Q1-Q3 2012 and core inflation in steady decline.

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