Weekly Export Risk Outlook

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In the Headlines

FIGURE OF THE WEEK: +0.2%>GERMANY'S Q3 QTR/QTR GDP GROWTH

Greece: Eurozone financing approved

A third meeting of EZ finance ministers this week agreed adjustments to the financial assistance programme, and final approval at national level of the release of EUR43.7bn financing (from the second bail-out) should be concluded by mid-December. Fiscal targets were amended, as the primary surplus target of 4.5% of GDP was postponed from 2014 to 2016, when the debt-GDP ratio is expected to be reduced to 175%, followed by a further reduction to 124% of GDP by 2020 and to below 110% by 2022. Some initiatives have been agreed to help Greece meet these targets including: lowering by 100 bps of the interest rate on the loans provided in the context of the Greek Loan Facility; lowering by 10 bps of the guarantee fee costs paid by Greece on the EFSF loans; an extension of the maturities of the bilateral and EFSF loans by 15 years; a deferral of interest payments on EFSF loans by 10 years; Greece will receive the equivalent of the income earned from the SMP programme; and a debt buy back scheme. Troïka members also indicated their readiness to take additional measures to lower the GDP ratio in 2020 if Greece shows an annual primary surplus. The agreement provides some breathing space, but the relationship between implementation of adjustment measures and financing is likely to remain fragile.

Germany: Q3 GDP growth

Despite the moderate overall recession in the EZ, the German economy continued to grow in Q3, although slowing to +0.2% qtr/qtr, following +0.3% in Q2. According to the Federal Statistical Office, positive contributions were made by foreign demand, with exports rising by +1.4% qtr/qtr in Q3, despite the challenging global environment. As imports increased at a somewhat slower rate, net exports contributed 0.3pps to overall growth. Domestic demand was mixed, with consumer demand increasing by +0.3% qtr/qtr in Q3 and capital formation in construction was also positive, growing by +1.5%. However, investment in machinery and equipment decreased for the fourth consecutive quarter, declining by -2% in Q3. In addition, a fall in inventories resulted in a negative contribution to growth of -0.3pps.

US: Holiday boost

Consumer confidence increased in November, with the index at 73.7 (73.1 in October), the highest since the recovery began, boosted by expectations of further gains in employment and the housing market. Indeed, housing prices firmed for the eighth consecutive month in September, putting the Case-Shiller Home Price index up +3% yr/yr. Moreover, holiday (Thanksgiving) sales had a decent start last weekend, growing +13% yr/yr, although this was less than last year's growth of +16%. The National Retail Federation expects sales for the entire holiday period to grow +4.1% yr/yr (+5.6% last year). Retailers are now meeting or beating rivals' prices on their websites or even prices consumers present to them via mobiles in their brick and mortar stores.

Egypt: Further transition concerns

President Mohamed Morsi issued decrees that gave him (temporary) extended powers, particularly over judicial decisions. The reaction to Morsi's decrees—including demonstrations and strikes—indicate two significant features of the political transition. Firstly, it remains somewhat chaotic, as was to be expected, given the country's new-found uncharted political territory. Secondly, there remains a strong popular determination not to return to autocratic leadership. The Moslem Brotherhood (and its political wing, the FJP) adopts a relatively pragmatic stance to governance. So expect some concessions to popular demands as Morsi attempts to maintain stability and security, as well as retain international financial support to keep the transition on track.

Countries in Focus

Mediterranean, Africa & Middle East – *South Africa: Update*

SARB (central bank) kept the key policy (repo) rate on hold at 5% (22 November) and expressed concerns about the impact of labour disruptions on growth, above-inflation wage increases and inflationary effects resulting from a weakening ZAR. The official inflation forecast is an average 5.5% in 2013 and 5% in 2014, with a peak of 5.7% expected in Q1 2013 (target range 3-6%). Reflecting SARB concerns, GDP growth slowed in Q3, to +1.2% qtr/qtr from an upwardly revised +3.4% in Q2—not surprising, given disruptions to mine output. On a yr/yr basis, GDP growth slowed to +2.3% in Q3 from +3.1% in Q2. A background of weakening growth and continuing inflationary pressures may complicate policy decisions going forward, with SARB unlikely to ease its monetary stance in the ST.

Americas – *Peru: Growth still robust*

GDP increased by +6.5% yr/yr in Q3 (+6.3% Q2, +6% Q1). Consumer spending, +5.8% yr/yr, continued to underpin strong domestic demand growth, although private and public investment, +15.9% and +22.6%, also grew strongly. On the supply side, construction continued to lead growth—housing, commercial and mining infrastructure—mining and hydrocarbons output remained buoyant and manufacturing output strengthened after two quarters of little yr/yr growth. Weak external demand, however, continued to create headwinds for exports, while imports increased +15%. Domestic demand is likely to remain buoyant, so expect 2012 GDP growth of more than 6% followed by +5.8% in 2013. The fiscal balance remains in surplus, inflation on target and the external balance relatively strong.

Asia-Pacific – *Malaysia: Strong Q3 growth*

Q3 real GDP growth again surprised on the upside, at +5.2% yr/yr, only slightly down from an upwardly revised +5.6% in Q2. Domestic demand remained the growth driver, offsetting weakness in external demand. Private consumption expanded by +8.5%, government spending by +2.3% and fixed investment continued to soar, by +22.7%. Net exports made a negative contribution to Q3 growth as exports contracted by -3%, while imports increased by +4.4%. However, Q3 also saw a large increase in inventories, the largest in two years. Accordingly, some drawdown in inventories is likely to moderate growth in coming quarters. Expect full-year growth of slightly above 5% in 2012, easing to the low 4-4.5% range in 2013. Inflation remained low at 1.3% yr/yr in October.

Europe – *Bulgaria: Modest Q3 growth*

According to flash estimates, seasonally and working-day adjusted Q3 real GDP growth slowed to just +0.1% qtr/qtr (+0.3% in Q2) and remained stable at +0.5% yr/yr. Public consumption contracted by -0.5% qtr/qtr in Q3 (+1.2% in Q2) as the government continued fiscal constraint. Growth in private consumption and fixed investment both decelerated to +0.4% qtr/qtr in Q3, from +2.4% and +1.5% in Q2, respectively. The slowdown in private consumption also affected imports, which declined by -3.7% qtr/qtr in Q3 (+7.6% in Q2) while exports retained modest growth of +0.2% (+3.4% in Q2). The shift in the trade pattern in Q3 moved the current account back into surplus, to 0.5% of GDP in the first nine months of 2012. Expect full-year GDP growth of around +0.5% in 2012, rising to +1% in 2013.

Worth knowing

Sovereign ratings

Cyprus: Fitch lowered its LT rating by two notches to BB- from BB+ and retained a negative outlook, citing ongoing delays in negotiating bailout terms with the IMF and EU, as well as deteriorating economic conditions. **Hungary:** S&P lowered its LT rating by one notch to BB from BB+ (stable outlook), pointing to unorthodox economic policies, which could erode medium-term growth prospects, and a breakdown in IMF talks. **India**: Moody's retained a stable outlook on its Baa3 rating.

Canada

The head of the central bank, Mark Carney, was appointed to be the new Governor of the Bank of England. Under Carney's monetary policy, Canada was able to weather the financial crisis and global recession much better than most.

Sierra Leone

President Ernest Bai Koroma was re-elected for a second term, winning 58.7% of the vote.