



# Weekly Export Risk Outlook



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## In the Headlines

**FIGURE OF THE WEEK: +5.3% > INDIA'S Q3 YR/YR GDP GROWTH**

### ▶ US: Mixed data

Recent data have been mixed. October construction spending was stronger than expected, with residential construction posting a robust 3% mo/mo gain. By contrast, the November ISM manufacturing index fell below the 50 level, indicating contraction, and the employment component fell for the first time in three years. Q3 GDP increased by +2.7% yr/yr annualised but its composition was uneven, with inventories contributing significantly and consumption growing by only +1.4%. The effects of Hurricane Sandy are beginning to feed through as expected, with overall economic activity initially slowing and then boosted by recovery operations. Similarly because of the storm, auto sales were markedly down in October and then artificially enhanced to a very strong 15.5mn in November. Personal incomes were flat in October, driving spending down 0.2% mo/mo, but expect an improvement in November.

### ▶ Eurozone: Slight improvement in business confidence

Manufacturing PMI in the Eurozone increased moderately in November to reach an eight-month high of 46.2, much in line with that month's industry confidence indicator published by the European Commission, which registered its second and highest increase in the last 10 months. The manufacturing PMI survey reveals that the best performer in the period was Spain, while France, Germany and Greece also posted relatively strong increases. Conversely, Austria and the Netherlands were the worst performers. However, in a majority of countries (Ireland is a notable exception), the PMI remained below the threshold of 50, still suggesting that the outlook for the manufacturing sector is one of contraction, with new domestic and export orders close to mid-2009 levels on the back of ongoing fiscal adjustments in most of the countries, as well as the global slowdown. In this context, the Eurozone manufacturing PMI continues to suggest that GDP will contract in Q4 2012.

### ▶ Poland: Q3 GDP

Q3 real GDP growth was slightly up, at +0.4% qtr/qtr sa (+0.2% in Q2), but continued to slow markedly in yr/yr terms, to +1.4% from +2.3% in Q2, as domestic demand shifted to a contraction phase. Private consumption expanded by just +0.1% yr/yr in Q3 (+1.2% in Q2) and public consumption by +0.2% (+0.5% in Q2). Investment contracted by -1.5% yr/yr after +1.3% in Q2. Inventories added -0.5pps to Q3 growth (-1.5pps in Q2). Net exports was the sole growth driver in Q3—contributing +2.1pps (+2.7pps in Q2)—as the weakness of domestic demand pulled down imports by -3.7% yr/yr (-3.1% in Q2) while exports maintained modest growth of +0.7% (+2.6% in Q2). Expect the downtrend to continue into the first half of 2013, resulting in full-year growth of around +2% in both 2012 and 2013. Today, the central bank lowered its key policy interest rate by 25 bps to 4.25%.

### ▶ India: Relative weakness

GDP growth in calendar Q3 (Q2 FY2012/13) was +5.3% yr/yr, down from +5.5% in Q2 and +6.7% in Q3 in 2011. The manufacturing sector grew by only +0.8% yr/yr in Q3 and agriculture (reflecting erratic monsoon rains) +1.2% but construction was up +6.7% and services by +7.1%. Overall, the growth momentum remains lacklustre and, with September's economic reforms yet to feed through, Q4 GDP is unlikely to be much stronger. Growth is likely to pick up in 2013 but its rate of expansion is unlikely to be restored to annual rates of 8-9% for some time, reflecting a relatively weak global environment and a political system that makes policy implementation difficult. However, the independent central bank may begin an easing phase in monetary policy in 2013, which would boost investor and consumer confidence. Much will depend on the course of inflation, which remains high (WPI was up 7.5% yr/yr in October). Expect GDP growth of around +5.5% this FY and +6.5% in FY2013/14.

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► **Mediterranean, Africa & Middle East – Egypt: Update**

Demonstrations continue, but are largely peaceful. These are in response to President Mohamed Morsi's decree (22 November) extending presidential powers, including immunity over judicial oversight. Protests are also in response to perceptions that the draft constitution was rushed and does not provide adequately for individual freedoms and is vague on religion as a constitutional basis. Morsi called a national referendum on the constitution for 15 December. Expect some negotiations to be going on to try and resolve the stand-off but the situation contains significant downside risk. For now, the IMF and the donor community remain supportive, but will be so only as long as the transition continues and economic policies are sound. Expect investors and traders to be even more wary.



► **Americas – Brazil: Moderate growth pick-up**

Growth accelerated in Q3 as GDP increased by +0.6% qtr/qtr sa, less than expected but ending four quarters of near stagnation. Yr/yr growth was +0.9% (+0.5% in Q2). Private consumption remained robust, but fixed investment again contracted. Q4 should show further improvement—the latest manufacturing PMI was the highest since March 2011 and industrial production was up +0.9% mo/mo in October. Growth in full year 2012 is now likely to be 1-1.2%, but should still reach 3-3.5% in 2013. With signs of a pick-up in activity and inflation still at 5.5%, the central bank at its latest meeting last week left the policy interest rate unchanged for the first time since starting to ease in August 2011. Since then the rate has been lowered to 7.25% from 12.5%.



► **Asia-Pacific – Philippines: Growth acceleration**

Q3 real GDP growth surged to +7.1% yr/yr (+6% in Q2) as external weakness has been offset by strengthening domestic demand, supported by reasonably expansionary economic policies. Private consumption expanded by +6.2% yr/yr in Q3 (+5.9% in Q2) while government spending accelerated to +12% (+6.8% in Q2). Fixed investment grew by +8.7% (+11.8% in Q2), supported by strong investment in construction (+24.8% in Q3). Although slowing, exports continued to increase, by +6.9% in Q3 (+8.3% in Q2), while imports grew by +8.3% (+10.3% in Q2). As inflation has remained moderate throughout the year (3.1% yr/yr in October), interest rates have been cut four times. Expect growth to ease somewhat in Q4 and in early 2013, resulting in full-year growth of around +6% in 2012 and +4.5% in 2013.



► **Europe – Romania: Election preview**

This weekend, Romanians will elect members of both chambers of parliament for a new four-year term. The centre-left ruling coalition, the Social Liberal Union, headed by PM Ponta, continues to lead the polls, with around 60% support, while the centre-right opposition coalition, the Right Romania Alliance (ARD), has markedly lost support (to around 15% of voting intentions in some polls). Since end-2011, the political mood in Romania has shifted considerably, with President Basescu's then ruling Democratic Liberal Party, now part of the ARD, consistently losing popularity because of austerity measures. Moreover, the new radical-left People's Party is likely to enter parliament with around 15% of the votes. PM Ponta, if re-elected, is likely to ease some of the austerity measures.

Worth knowing

► **Other Q3 GDP growth**

**Croatia:** -1.9% yr/yr (-2.2% Q2). **Slovenia:** -3.3% yr/yr (-3.2% Q2) and -0.6% qtr/qtr sa (-1.1% Q2).

► **Greece**

7 December is the deadline for investors to express interest in the Greek bond buyback scheme agreed by the Eurogroup last week that could allow Greece to reduce its overall debt stock by around EUR20bn (10% of GDP).

► **Cyprus**

The government agreed a Memorandum of Understanding with the IMF and the EU on the terms of a preliminary "bailout" deal. The actual size will need to be determined after the conclusion of an ongoing assessment of the troubled banking sector.

► **Africa: diverging monetary policies**

**Uganda:** the central bank cut its key policy interest rate by 50bps to 12%. Headline inflation remains below the 5% medium-term official target. **Malawi:** the key policy interest rate was increased by 400bps to 25% (inflation 30.6% yr/yr in October).

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