

Weekly Export Risk Outlook



20 December 2012

In the Headlines

FIGURE OF THE WEEK: **USD110** > BARREL PRICE OF BRENT OIL (+6.8% Y/Y)

▶ Japan: Election result

The Liberal Democratic Party (LDP), led by Shinzo Abe, won an absolute majority (60.4%) in general elections for the lower house in parliament. This should allow the government to pass legislation in the lower house and the right-of-centre coalition LDP-Komeito holds more than two-thirds of seats in the upper chamber. The outgoing ruling party, the Democratic Party of Japan (DPJ), won only 57 seats out of 480. The next stage in the electoral timetable is elections for the six-year term upper house, which are scheduled for July 2013. The LDP can be expected to push for the adoption of further expansionary fiscal and monetary policies to combat deflation and to support growth. However, the government will have limited leeway on the fiscal side, given the high public debt-GDP ratio (in excess of 200%). Meanwhile, the BoJ announced more quantitative easing. Expect GDP growth of +0.8% in 2013.

▶ US: Further QE

The Fed announced unprecedented actions to stimulate the economy whereby, in addition to the USD40 billion in mortgage-backed securities it is buying each month (Quantitative Easing, QE3), it will now start buying USD45 billion in Treasuries each month (QE4). As each round of QE becomes less effective, the latest measures are unlikely to help boost the economy markedly, but they do raise significant inflation risks. The Fed also changed its guidance as to when it may increase interest rates from "at least mid-2015" to hard targets, such as when unemployment falls below 6.5% and the rate of inflation moves above 2.5%. In the meantime, November retail sales and industrial production rebounded after being adversely affected by Hurricane Sandy in October. Core CPI inflation was 1.9% y/y in November.

▶ Eurozone: Manufacturing PMI

The flash EZ composite PMI increased moderately in December to 47.3, up for the second consecutive month and signalling a slowdown in the contraction of output. The PMI for both manufacturing and services improved—although very slightly for the industrial sector—by 0.1pp to 46.3 and 1.1pp to 47.8, respectively. Regionally, for the first time in the last eight months, the German composite PMI increased above the 50 threshold, suggesting that activity returned to expansion territory. However, the French index continues to point to sluggish growth in Q4, although at a lower rate of contraction (45 against 44.3 in November). The outlook remains weak as surveys continue to reveal contraction in new orders and deterioration in employment intentions.

▶ Germany: Fewer start-ups

The number of start-ups of larger businesses that provide a marked contribution to the overall economy totalled 103,000 from January to September 2012. According to data from the Federal Statistical Office, that number was down -6.3% y/y. In addition, newly-formed smaller businesses recorded an even sharper contraction, to 190,700 or -15.3% y/y. In the same period, start-ups of part-time businesses were stable at around 183,000. Business de-registrations in the first three quarters of this year show that closures of large businesses were +3.9% y/y, totalling 91,900, and that for part-time farms they were +2.7% y/y (111,500), although closures of small businesses were -1.9% y/y (215,700).

Please note that this is the last WERO of 2012.

The next issue will be on 9 January 2013.

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► **Mediterranean, Africa & Middle East – *South Africa: ANC***

At its five-year leadership and policy conference, the ANC re-elected Jacob Zuma as its head, making him the strong front-runner for the state presidency (elections in 2014). Given that deputy state president Kgalema Motlanthe lost out in the ANC leadership polls, it is likely that Cyril Ramaphosa will run as Zuma's deputy in 2014. Ramaphosa's recent background is in business—after trade union leadership and key interlocution in the country's political transition—but nationalisation (including mines) remains a popular policy option within the ANC. Accordingly, despite the continuity resulting from Zuma's re-election at party level, business and investor confidence is unlikely to improve in the ST. Expect economic, as well as social, challenges and annual GDP growth capped at +3% in 2013.



► **Americas – *Costa Rica: Country risk update***

GDP growth will slow in 2013, to 3.5%, from a strong pace in 2012, which was boosted by a very strong Q1 performance, but should remain in line with the longer-term trends. Inflation is expected to remain within target. Although there are some weaknesses, such as large fiscal and current account deficits, the overall external balance is satisfactory, helped by substantial net FDI flows. Also, public debt levels are moderate in relation to GDP and external debt ratios are low. Costa Rica has a long record of political stability, with well established representative government and, overall, systemic political risk is low. However, the current government, like its predecessor, has struggled to maintain a working majority in congress that would be able to approve much-needed comprehensive tax reforms.



► **Asia-Pacific – *South Korea: Election result***

Park Geun-hye, daughter of former president Park Chung-hee (president 1961-79), narrowly won yesterday's presidential election, with 51.6% of the vote compared with the 48% of Moon Jae-in of the centre-left Democratic United party. Turnout was 76%, the highest for 15 years. Park will become the first female president in February, replacing Lee Myung-bak who will step down after his five-year term, as required by the constitution. Park already led her conservative Saenuri Party (formerly known as the Grand National Party) to win parliamentary elections in April 2012, providing her with a strong mandate to follow up on campaign promises. These include expansion of the welfare system, reduction in the influence of the chaebol and improved ties with North Korea.



► **Europe – *Ukraine: Risk update***

Last week, the new parliament that resulted from October elections confirmed PM Azarov from the ruling Party of Regions for a second term, even though policies under his government strained Ukraine's relations with the IMF, the EU and Russia and also contributed to an adverse economic outlook. Real GDP shifted to contraction in Q3, falling by -1.3% y/y (+3% in Q2) and -1.2% q/q sa (+1.9% in Q2). In November 2012, the central bank, authorised by parliament, introduced capital controls to protect the UAH/USD peg and FX reserves, which had fallen by -24% y/y. Country risk remains high. In December, Ukraine's LT sovereign ratings were further downgraded by one notch by both S&P and Moody's and a negative outlook was retained by both.

Worth knowing

► **Turkey**

The central bank lowered its key policy interest rate by 25bps to 5.5% (18 December).

► **Egypt**

Unofficial reports suggest that 56.5% voted in favour of a new constitution put to a national referendum (first stage only).

► **Ireland**

Q3 GDP +0.2% q/q (+0.4% Q2) and +0.8% y/y. Household consumption showed positive growth for the first time since Q2 2010.

► **Croatia**

Last week, S&P downgraded its LT and ST sovereign ratings to BB+ (stable outlook) from BBB-, becoming the first major rating agency to move Croatia into speculative grade, citing a lack of structural and fiscal reforms and poor MT growth prospects.

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