

# Weekly Export Risk Outlook



13 March 2013

## In the Headlines

FIGURE OF THE WEEK: **USD109.7** >BARREL PRICE OF BRENT OIL (-2.5% YEAR TO DATE)

### ▶ Eurozone: ECB to retain accommodative stance

The president of the ECB, Mario Draghi, announced that the institution's impact on monetary policy will remain accommodative as long as needed. This reflects a significant lowering in inflationary expectations and the fact that economic activity remained weak in early 2013. Projected GDP growth in 2013 was revised downwards moderately (by -0.2pps to -0.5%) and inflation is expected to remain low (at 1.6%). While market confidence has improved recently, financial conditions remain a drag on economic activity. Indeed, market fragmentation within the eurozone is still high, weighing on funding conditions for the corporate sector (-4% y/y for credit to non-financial corporates in January 2013). In this respect, we would expect the ECB to lower its key interest rate (currently at 0.75%) over the coming months and to announce further long-term refinancing operations (LTRO).

### ▶ China: Latest data

Exports increased strongly in February (+21.8% y/y), but import growth was relatively low. Fixed asset investment growth in Jan-Feb accelerated to +21.2% y/y (+20.6% for the whole of 2012), but industrial output was up +9.9%, after +10.3% in December 2012, although it was still above the April-October 2012. Retail sales eased to +12.3% in Jan-Feb from +15.3% in December and below the rate evident in 2012. Inflation accelerated to 3.2% y/y in February and, although this was probably affected by the New Year, the trend appears upwards. These mixed data are in keeping with a moderate growth recovery this year (+8% from +7.8% in 2012). Inflation and property sector concerns are likely to limit monetary policy options if growth begins to fade, although there are fiscal options and the authorities are unlikely to be too concerned if growth is above, or in line with, the +7.5% target.

### ▶ US: Recent indicators

Recent data suggest the economy is improving somewhat, despite higher taxes and gasoline prices. In addition to the sharp rebound in housing, a leading indicator of business spending increased +7.2% mo/mo in January, putting its annualised growth rate at a very strong +30% over a three-month period, and the four-week average of jobless claims fell 349,000. However, analysts were overly enthusiastic about the February employment report. Although the rate of unemployment fell from 7.9% to 7.7%, almost half of the improvement was because people left the workforce. Non-farm payroll jobs increased by 236,000, which was more than expected but still less than the 250,000+ needed each month to signal full employment. Moreover, data for the previous two months were revised down 15,000.

### ▶ Kenya: Election update and prospects

Deputy PM Uhuru Kenyatta was declared president-elect after winning 50.07% of votes cast (50%+ required to avoid a second round of voting). His nearest rival, PM Raila Odinga, received 43.31% in a turnout of 86% of registered voters. The narrow margin by which a second round was avoided encouraged Odinga to challenge the result and seek redress for perceived electoral shortcomings—including the breakdown of a new electronic vote counting system—through the courts. Odinga called for his supporters to respect the law (the Supreme Court will give a ruling) and remain peaceful, although it was post-poll violence after end-2007 elections (not the vote itself) that resulted in around 1,300 deaths and significant economic disruption (GDP growth was +1.5% in 2008, after an average +6% 2004-07). This time, prospects look better for a peaceful transition. Expect GDP growth of +5% this year, but much depends on domestic stability and the international reaction to a president-elect who goes before an ICC tribunal in July for alleged crimes against humanity from the 2008 violence.

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### ► Mediterranean, Africa & Middle East – *Malta: Update*

Real GDP increased by +1.1% y/y in Q4 2012 (+1.7% in Q3), taking full-year growth to +0.8%. Over the year, growth was driven by external demand and by public consumption. The latter increased by +5.5%, while private consumption contracted by -0.5%. Gross capital formation fell by -7.3%, reflecting a sharp fall in inventories as fixed investment declined by -2.5%. Exports increased by +5.2% y/y and more rapidly than imports (+4.4%) so net exports made a positive contribution to full-year 2012 growth. Expect growth to remain subdued in 2013. On the political front, the centre-left Labour Party, led by PM-designate Joseph Muscat, won a landslide victory (55% of the vote) in the parliamentary election held on 9 March that will return it to power for the first time since 1998.



### ► Americas – *Venezuela: Presidential elections called*

The electoral authorities set 14 April as the date for the presidential election, which had to be called within 30 days of President Hugo Chavez' death last week, reducing some near-term uncertainty surrounding the succession. Interim President Nicolas Maduro will be the ruling PSUV's candidate and Henrique Capriles, beaten by Chavez in the October 2012 election, will again represent the opposition coalition, MUD. Capriles took 44.9% of the vote last October and is likely to mount a serious challenge, although Maduro, who commands large state resources, looks to be the favourite, helped by the short run-in period to the election. If elected, Maduro can be expected to continue the broad thrust of his predecessor's policies, but he (or anyone) will find it hard to replicate Chavez' charismatic leadership.



### ► Asia-Pacific – *North and South Korea: Rising tensions again*

Tensions are high again following North Korea's long-range missile test in December 2012 and its third nuclear test, on 12 February 2013 (previous tests were in 2006 and 2009). The UN tightened sanctions in January, and again last week, with even China criticising the nuclear test. In response to the latest sanctions, as well as to joint military exercises between South Korea and the US, the North threatened to end all non-aggression pacts with the South, including the 60-year-old armistice, as well as a pre-emptive nuclear strike against attackers. While this sounds like previous rhetoric, it also suggests that Kim Jong-un, the North's young leader, wants to maintain his father's foreign policy stance. Outright military conflict is unlikely, although risks remain of an unanticipated incident leading to escalation.



### ► Europe – *Romania: Weak 2012 GDP growth*

Revised official estimates confirm that Q4 2012 GDP returned to modest growth of +0.1% q/q sa (-0.3% Q3) and +0.3% y/y (-0.3% Q3). This took full-year 2012 growth to a modest +0.3%, led by domestic demand. Private consumption grew by +0.8% in 2012 and government consumption by +2.8%. Fixed investment expanded by +4% but gross capital formation increased by just +1.1%, suggesting inventories had a negative impact on annual GDP, as did net exports because import contraction (-1.3%) was less than that for exports (-3.2%). Quarterly data reveal that investment and government consumption lost momentum in Q4, probably reflecting the need to bring the fiscal deficit in line with IMF conditions for a precautionary credit facility. Expect growth to pick up slightly, to +0.8% in 2013.

## Worth knowing

### ► Other GDP

**Armenia:** +7.2% in 2012 (+4.7% in 2011). **Iceland:** +1.4% y/y in Q4 (+2.2% in Q3) and +0.5% q/q sa in Q4 (+4.8% in Q3), +1.6% in 2012 as a whole (+2.9% in 2011).

### ► Poland

The central bank lowered the key policy interest rate by 50bps to 3.25% last week, the fifth cut since monetary easing started in November 2012. Inflation fell to 1.7% y/y in January, just above the lower end of the central bank's target range of 1.5–3.5%.

### ► Sudan and South Sudan

Agreement was reached on the resumption of oil exports from South Sudan (as of 24 March) through pipelines across its northern neighbour. Full output could involve around 350,000 bpd of additional crude coming to global markets but relations between the two countries are fragile, with unresolved border and economic issues, so oil prices may not respond significantly.

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