

FIGURE
OF THE WEEK

+5%

Vietnam's y/y Q2
GDP growth

In the headlines



Japan: And the winner is...Abe

The Liberal Democratic Party and its ruling coalition partner, New Komeito, won 76 seats in elections on 21 July. They now have 135 seats out of a total of 242 in the upper chamber of parliament, which should give PM Shinzo Abe's government a stable majority in both Houses of the Diet for the next three years. This result confirmed the popularity of Abenomics, suggesting a further deepening in monetary policy loosening, fiscal stimulus and pro-growth reforms in the coming years, especially on the structural side. There is also the prospect of more flexibility in labour markets and the creation of deregulated economic areas to attract foreign investments. EH expects the economy to grow by +1.6% in 2013, boosted by both public and private consumption.



Eurozone: Continuing tight credit conditions for corporates

The Q2 ECB Bank Lending Survey suggests that credit standards on loans to non-financial corporations (NFC) continue to remain tight, notably for SME. However, banks expect credit conditions associated with loans to NFC to be less tight in Q3. Lending policies remain affected by macro-economic uncertainty and by borrowers' risk (industry and company specific). Loan demand from the NFC continued to decline in Q2, but at a slower pace, and banks expect this trend to continue. Several initiatives to support lending to corporates were taken at the recent EU summit, including an increase in EIB capital (allowing EUR180 billion of additional investment, equivalent to 1.4% of eurozone GDP), an easing in ABS collateral requirements by the ECB and the EIB-European Commission proposals on loan securitisation for SME. Within the latter, the most interesting option (securitisation of new and old SME loans and risk mutualisation) would allow additional bank loans of around EUR100 billion for one million SME.



US: House arrest?

The housing market appears to have hit a bump in the road in its substantial recovery phase. Since May, when talk of the Fed's tapering of asset purchases first arose, the interest rate on a 30-year mortgage has increased from approximately 3.5% to 4.5%. Perhaps as a result, sales of existing single family homes fell -1.1% m/m in June, the first decline in four months. Prices increased by 5.5% m/m (13.2% y/y), also hurting sales. In addition, June starts and permits fell -9.9% m/m and -7.5% m/m, respectively, although they may have been affected by wet weather and volatility in the multi-family components. Meanwhile, manufacturing showed another sign of a rebound as the Philadelphia Fed's July survey improved sharply to 19.8, the highest since March 2011, and the Fed's "Beige Book" reported economic activity rising at a "modest to moderate pace" including expansion in manufacturing.



Eurozone: Early signs of improvement in Q3

Business confidence surprised on the upside in July, suggesting that recession could be avoided in Q3. The PMI composite index increased by 1.7 points to 50.4 (consensus at 49.1), above the no-growth threshold for the first time since January 2012, with the manufacturing output PMI at 52.3 and services at 49.6. Prospects have improved in the manufacturing sector with output at its highest level since mid-2011 and new orders on the rise for the first time since May 2011. The current level suggests a slight improvement in economic activity in the coming months but this trend is not yet firmly established. While business confidence improved substantially in Germany (+1.7 points to 50.3 in manufacturing and +2.1 points to 52.5 in services) it continues to suggest contraction in France (+1.4 points to 49.8 in manufacturing and +1.1 points to 48.3 in services). For the peripheral countries, output persists in contractionary territory, but the rates of decline have slowed.

Countries in focus

America



Costa Rica: Leader of the PAC

The opposition Partido Acción Ciudadana (PAC) provisionally elected Luis Guillermo Solís as its candidate to contest presidential elections in February 2014. In a primary election on 21 July, Solís won 35.53% of the votes cast, compared with 35.22% for Juan Carlos Mendoza. The narrow margin of victory led to a manual recount, with the final result likely by the end of the week, but it suggests that the PAC is divided and that Solís, if confirmed as the party's candidate, will need to campaign effectively to make headway against the ruling PLN. Currently, the PLN candidate Johnny Araya, who is mayor of the capital San José, is the favoured candidate of those responding to recent opinion polls. However, Araya's popularity may be affected adversely by scandals besetting the current government of President Laura Chinchilla, so expect an active election campaign.

Europe



Turkey: TRY and help

The central bank yesterday raised its overnight lending rate by 75bps to 7.25% while keeping its key policy one-week repo rate and the overnight borrowing rate unchanged at 4.5% and 3.5%, respectively. The widening in the interest rate corridor is aimed at supporting exchange rate and price stability. Inflation picked up to 8.3% y/y in June from a two-year low of 6.1% in April. The TRY has depreciated by around 7% against a 0.5USD+0.5EUR basket since end-April, despite liquidity controls and significant direct interventions by the central bank. As a result of the latter, official foreign exchange reserves dropped by USD10.4 billion up to mid-July, although they are still comfortable at just over USD100 billion. The central bank also doubled its credit offered to exporters through Turkish Eximbank aiming to support exports as well as foreign exchange reserves.

Africa & Middle East



United Arab Emirates: Oil platform

GDP increased to AED1,409.5 billion (USD384 billion) in 2012, recording real growth of +4.4%. Official data also show that growth in 2011 was +3.9%, compared with an earlier projection of +4.2%. In 2012, crude oil production averaged 2.65 million barrels per day (mbpd, up +5.9% on 2011), the oil and gas sector accounted for 40% of GDP and hydrocarbons contributed +6.3% to overall growth. However, robust domestic demand also enabled the non-oil sector to boost growth, increasing by +3.5% (+2.6% in 2011). The outlook this year is for output of crude to moderate and oil prices to ease, but the non-oil sector is likely to drive overall growth, partly benefiting from perceptions that the country is stable in a region with significant uncertainties. EH expects GDP growth to ease to +3.5% in 2013 before recovering to around +4% in 2014, subject to the anticipated pick up in the global economy.

Asia Pacific



Vietnam: Growth below government expectations

Real GDP growth in Q2 picked up slightly, to +5% y/y from +4.8% in Q1. As a result, growth in H1 2013, at +4.9% y/y, was close to the full year 2012 outcome of +5%, although it remained well below the annual average +6.9% in 2002-2011 as well as the government's 2013 growth target of +5.5%. Demand-side data have not been published but the General Statistics Office indicated that domestic demand remained weak, partly due to banking sector problems. On the supply side, growth in H1 was led by services, which expanded by +5.9% y/y. Industry (including construction) increased by +5.2% y/y, while agriculture remained weak at +2.1% y/y. The government announced some policy changes to promote growth and started with a 1% devaluation of the official VND/USD exchange rate to 21.036 at end-June. Also, corporate taxes will be lowered, but not before 2014.

What to watch



- July 25 – Brazil June unemployment
- July 25 – UK Q2 GDP (preliminary)
- July 25 – South Korea Q2 GDP
- July 25 – Philippines Monetary Board meeting
- July 25 – Togo parliamentary elections
- July 26 – Singapore June industrial production
- July 30 – Lithuania Q2 GDP
- July 30 – Spain Q2 GDP (preliminary)
- July 31 – Zimbabwe elections
- July 31 – FOMC meeting
- August 1 – ECB meeting
- August 1 – US July Manufacturing ISM Index

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