Euler Hermes Economic Research

Weekly Export Risk Outlook

22 January 2014

FIGURE OF THE WEEK

+3.1%

EH's forecast for 2014 world economic growth

In the headlines

World Economy: Back in the game

World GDP growth is finally gaining traction. EH forecasts that global activity will grow modestly, by +3.1% in 2014 and by +3.3% in 2015. Although emerging economies will remain the largest contributors to global growth, economic activity is set to be more evenly distributed as a result of improved prospects for advanced economies (+2.2% in 2014 and +2.3% in 2015). Growth momentum in emerging markets is expected to remain relatively moderate (+4.6% in 2014 and +4.8% in 2015). In the US, GDP growth is set to improve from +1.8% in 2013 to +3% in 2014 and +3.2% in 2015. In the eurozone, after two consecutive years of recession, GDP growth is likely to reach +0.9% in 2014 and +1.3% in 2015, mainly driven by stronger activity in Germany (+1.6% in 2014 and +1.7% in 2015). Italy and Spain are expected to pull out of recession in 2014 and to recover progressively in 2015 while activity in France will grow at a very moderate pace (+0.6% in 2014 and +1.2% in 2015). However, downside risks to the recovery remain as the eurozone will continue to face headwinds from record unemployment, subdued credit growth and high debt levels while a prolonged period of low inflation could make the deleveraging process more acute. Global trade is forecast to benefit from improving economic prospects, with growth of +4.8% in 2014 and +5.5% in 2015 (compared with +2.5% in 2012 and 2013). Asia will remain the main trade hub but the upswing in North America and in the eurozone is now ongoing.

Ukraine: New anti-protest laws trigger intensification of protests

The government rushed through controversial anti-protest laws last week, with hefty fines or jail sentences for breaching them, aimed at curbing ongoing anti-government protests in Kiev that were triggered by a decision on 21 November 2013 not to sign an EU Association Agreement. As a result, however, the protests escalated into violent clashes between police and demonstrators, leaving hundreds of people injured. Allegedly, a little-known far-right group, Right Sector, instigated the violence but it appears that the attacks on government forces have the backing of many of the protesters, even though two opposition leaders, former boxing champion Vitali Klitschko and Arseniy Yatsenyuk (an ally of former PM Yulia Tymoshenko), condemned the violence. These two were ready to negotiate with President Yanukovich prior to the clashes but are also facing rising criticism from many activists that their campaigns have been too passive. Today, as the controversial anti-protest laws came into force, police stormed a protest area to dismantle a camp, resulting in new clashes and the first fatalities. Any hope of fruitful government talks with the opposition is diminished. The political crisis is unlikely to end soon, adding to an already prolonged economic crisis.

Ireland: Entering a positive trend?

After successfully completing the EU/IMF adjustment programme in mid-December 2013 without requiring a precautionary credit line from the European Stability Mechanism (ESM) there was a return in investor confidence, with bond yields falling to the lowest level since 2006. Against this background and for the first time since 2011, Ireland issued a 10-year bond through a syndicated sale. Demand exceeded expectations (3.7 times the amount offered) and the borrowing cost was the lowest in eight years (3.5%). The recent upgrade by Moody's of one notch to Baa3 - the third main credit rating agency to rank Ireland as investment grade - helped bond yields fall even further. The economic outlook is also improving, with internal imbalances considerably reduced. EH expects GDP growth of +1.5% in 2014 and +1.9% in 2015. However, public debt is expected to reach 122% of GDP in 2014, while private debt is close to 300% of GDP (far above the EU safety threshold of 160%). Significant debt repayments are scheduled in the short- to medium-term as the country starts to reimburse the IMF loan in 2015 and the EU loans in 2019. As a result, debt sustainability and fiscal deficit reduction remain challenging.

Egypt: Referendum result

Last week's referendum on a new constitution provided a vote of confidence in the military-backed transition. In a turnout of 38.6% of the electorate, 98.1% voted in favour of the constitution. An announcement is imminent that will schedule presidential and parliamentary elections for later this year. General Abdel Fattah al-Sisi, army leader and defence minister, is likely to run for the presidency and he will be favourite to win. Although a semblance of stability has returned, security remains fragile, with militants attacking a gas pipeline in Sinai and disaffected opposition groups continuing protests.

Countries in Focus

Americas

Brazil: Key policy interest rate increased by 0.5pps

At its January monetary policy meeting (COPOM), the central bank decided to increase the key policy Selic interest rate by 0.5pps to 10.5% aiming at “continuing the adjustment process of the basic interest rate” initiated in April 2013. The market only expected a 0.25pps hike to avoid adverse effects on the still weak recovery in economic growth. However, the inflationary environment deteriorated recently, with depreciation of the BRL and the CPI increasing by 0.92% m/m in December 2013, after 0.54% in November, and by 5.9% y/y in the full year. The official inflation target is 4.5% (±2%) and the unanimous decision at the latest COPOM suggests that the monetary authorities are committed to keep price pressures under control. A slight change in tone has been detected within the COPOM and the market is now expecting a slowdown in the strength of monetary tightening, with perhaps a final 0.25pps increase in interest rates at the February meeting.

Europe

Turkey: Interest rates on hold despite ongoing currency slide

The TRY continues its slide, reaching new historic lows against the USD (2.25) and the EUR (3.05) on 21 January, down around 9% against a 0.5USD+0.5EUR basket since 18 December (the day after a large-scale corruption probe was uncovered and on which the start of the US Fed's tapering was announced). The underlying reason for the vulnerability of the TRY is the large current account deficit, which increased to USD56 billion in January-November 2013, up by +28% y/y and on course to reach 7.3% of GDP in full-year 2013 (6.1% in 2012). The external shortfall is largely financed through short-term capital inflows that are increasingly at risk of being reversed in the wake of recent political turmoil. Even so, the central bank kept its policy interest rates on hold at its 21 January meeting and, instead, continued liquidity tightening through unconventional measures. EH expects interest rates to be increased but perhaps only after the municipal elections in March.

Africa & Middle East

Morocco: Towards more balanced growth in 2014-15

GDP growth in Q3 2013 slowed to +4% y/y, after +5.1% in Q2, with agriculture (around 15% of total output) as the main driver (+19.9%, still rebounding from drought in 2012). Growth in the non-agricultural sectors slowed to only +1.6% y/y in Q3 (+2.5% in Q2), with contraction in mining, construction and manufacturing. However, on a q/q basis, the data suggest that industrial activity was picking up in that period, with construction increasing +2.2% q/q and manufacturing +3.2%. As a result, the non-agricultural sectors are likely to compensate for slowing growth in agriculture, particularly as European economies (seven of Morocco’s top 10 export markets) recover. Overall, and with the likelihood of a more balanced sector contribution to growth, EH expects GDP expansion of around +4.5% in 2014 (broadly similar to 2013) and perhaps +5% in 2015 if drought does not return to reduce agricultural output and if the global environment is largely positive.

Asia Pacific

China: Ongoing smooth landing

GDP growth moderated slightly in Q4 2013, to +7.7% y/y from 7.8% in Q3, but was above consensus expectations of +7.6%. The deceleration was more pronounced on a q/q basis, with growth of +1.8%, compared with +2.2% in Q3. Growth for the full year was +7.7%, similar to 2012. Recent data suggest that investment was the main drag on growth in Q4 reflecting deceleration in infrastructure investment, tightening liquidity conditions and weakening industrial production. EH expects GDP growth will continue to ease, to +7.5% in 2014 and +7.3% in 2015. Rebalancing from investment/export-led growth to consumer based growth is expected to progress, but at a moderate pace. Private consumption is likely to gain traction (supported by wage increases) and investment should moderate (limitations on credit growth and a strengthened regulatory framework). Even so, net exports (despite a stronger RMB) will remain a key contributor to overall growth.

What to watch

- January 23 – US December 2013 leading indicator
- January 23 – US December 2013 existing home sales
- January 23 – Germany January PMIs
- January 23 – Eurozone January PMIs (preliminary)
- January 24 – Canada December 2013 CPI
- January 24 – Austria November 2013 IP
- January 27-28 – Eurogroup/Ecofin meetings
- January 27 – Germany January IFO Business Climate
- January 28 – US Fed FOMC meeting
- January 28 – UK Q4 2013 GDP (preliminary)
- January 29 – US Fed FOMC decision
- January 29 – Belgium Q4 2013 GDP (preliminary)
- January 29 – China January HSBC/Markit manufacturing PMI

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