

# Weekly Export Risk Outlook

22 January 2015

## In the Headlines

FIGURE  
OF THE WEEK

EUR60bn

Monthly asset-  
purchases by  
the ECB until at  
September  
2016



### ECB: Better later than never

In line with our expectations in terms of timing and type of asset purchases, the ECB announced that it will start purchasing investment-grade bonds in the secondary market issued by the Eurozone governments, agencies and EU institutions in March 2015 at a monthly pace of EUR60bn. Purchases will be conducted until the inflation outlook improves, with an earliest termination date of September 2016 (giving a total of at least EUR1140bn). The purchases of securities issued by euro area governments and agencies will be based on the Eurosystem NCBs' shares in the ECB's capital key. Some additional eligibility criteria will be applied in the case of countries under an EU/IMF adjustment programme. The sovereign bond purchases will add to the existing ABS and covered bonds purchases program. While the ECB is late to the QE-party, compared to the Fed or the BoE, we expect limited positive impact on the real economy: a cumulative impact of 0.5pp of GDP growth and +0.3pp on inflation over the next 12 to 18 months. For corporates this will mean an easing in financing conditions, that, coupled with the weaker euro (1.12 in Q4 2015 or even lower) and the fall in oil prices (60 USD/barrel on average) should support business expansion while giving +1pp relief on margins in 2015-16. However, we estimate that money-printing to the tune of EUR2000bn would be necessary to truly rekindle nominal growth.



### China outlook: 7.3% in 2015

As EH expected, GDP grew by +7.4% in 2014 (after 7.7% in 2013). In Q4, economic activity increased by +7.3% beating consensus expectations (+7.2%). Several output indicators indicate economic resilience and that the transition is better managed than anticipated. Industrial production grew by 7.9% y/y in December (from 7.2% in November). Retail sales increased to 11.9% (from 11.7% in November). Urban fixed asset investment decelerated slightly to 15.7% YTD y/y (from 15.8% in November). Rebalancing is on track with private consumption being a key engine for growth (51.2% of 2014 growth). Going forward, the activity is set to decelerate to 7.3% in 2015. The economy should prove resilient supported by targeted and conventional monetary policy easing, gradual improvement in private consumption due to rising real wages and moderate rise in global demand. We see three major risks to the Central scenarios in the short-term especially ongoing financing pressures on companies and the banking system, prevailing imbalances in the property market and continued fiscal consolidation for local government



### Turkey: Improved inflation outlook triggers modest monetary easing

This week the Monetary Policy Committee lowered its key policy one-week repo rate by 50bps to 7.75%, the first cut since July 2014, but kept the overnight borrowing (7.5%) and lending (11.25%) rates unchanged. The repo rate cut was explained with credit growth being at reasonable levels and the expectation of declining inflation. Indeed, private sector credit growth has fallen from a two-year high of 37% y/y in January 2014 to a more adequate 20% y/y in October. Inflation fell to a 10-month low of 8.2% y/y in December (from 9.2% in November), in part thanks to the decline in global oil prices. Lower energy prices combined with an expected stabilization of the exchange rate – on average the TRY was 15% weaker against both the EUR and USD in 2014 than in 2013 – should support disinflation and economic recovery this year. Euler Hermes forecasts average annual inflation of about 7% in 2015 (8.9% in 2014) and real GDP growth to accelerate to +4.3% (from an estimated +2.8% in 2014). Further monetary policy action is likely to come in tandem with the development of inflation.



### Brazil: Fiscal consolidation to renew with investor confidence

Against the background of a growing public deficit and a stagnant economic growth last year, the brand new Finance Minister, Joaquim Levy, asserted that budget control will be his first goal. Accordingly, he announced several tax increases on loans and fuels as of February, while President Dilma Rousseff vetoed on Tuesday a decree that would have exempted more workers from income tax this year. According to the government, balanced fiscal accounts will generate greater business confidence and encourage investment, one of Brazil's main needs (for further details, see our latest [Economic Outlook](#) published January 2015). But in order to reach a public surplus of 1.3% of GDP in 2015, Mr. Levy's measures will weigh on an already weak economy on the short run, especially as the monetary policy tightening is pursued by the Central Bank to combat inflation. The SELIC was risen again by 0.50bps to 12.25% yesterday, the highest level since August 2011, as price increase continues to be far above the target of 4.5% +/-1pps by standing at +6.3% in December.



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# Countries in Focus

## Americas

### Peru: Rate cut against economic slowdown

Peruvian activity continues to slowdown. The monthly GDP index expanded by only +0.6% y/y in November, the slowest pace since 2010 while industrial production increased by +0.3% y/y. Real investment and exports are particularly disappointing, as both contracted in Q3 by -2.7% and -9.7% y/y respectively. Both indicators were strongly penalized by the fall in commodity prices, especially metals (50% of Peruvian exports), and by the slowdown of investment in China, Peru's larger export market. Against this, the Central Bank cut the key rate last week by 25bps to 3.25%. Further cuts are possible in coming months despite the picking-up in inflation which reached +3.2% y/y in December 2014, above the target range of 2% +/-1pp. Pressures on consumer prices are however considered as manageable, as they partly due to the PEN depreciation and to supply shocks (mainly on food) that are expected to dissipate over 2015. Euler Hermes expects the Peruvian economy to recover markedly in 2015 to +4.0%, after +2.8% in 2014, the slowest pace since 2009.

## Europe

### Bulgaria: Gradually improving outlook

Revised data indicate that real GDP growth eased slightly to +1.9% y/y in Q3, following +2.1% in Q2 and +1.1% in Q1. The first three quarters of 2014 saw a rebound in domestic demand while external demand weakened against the background of sluggish Eurozone performance and the Russian crisis. Private consumption grew by +2% y/y in Q1-Q3, government consumption by +4.3% y/y and fixed investment by +3.3% y/y. Real exports expanded by just +0.6% y/y while imports increased by +2% y/y so that net exports subtracted -1pp from Q1-Q3 growth. Euler Hermes expects private consumption and investment to remain robust in 2015 and exports to recover, supported by both lower oil prices and a weaker lev which is pegged to the euro. As a result, the gradual economic uptrend should continue and economic sentiment improve. Euler Hermes forecasts full-year real GDP growth of +1.6% in 2014 and +2% in 2015.

## Africa & Middle East

### Israel: Upward revisions, downside risks

Official data revised upwards real GDP growth estimates for 2014, to +2.6% (+2.2% in previous projections). This is not the final estimate but suggests there was a rebound in activity in Q4-2014, perhaps an annualised +5.5% q/q. Private consumption and fixed investment were key drivers in Q4, partly a response to a weak Q3 (-0.1%) when disruptions resulted from the conflict with Hamas in Gaza. Given a strengthening U.S. (source of 28% of Israeli export receipts) and relatively weak oil prices (20% of the total import bill) EH expects growth to recover further, to around +3.5% in 2015. However, snap parliamentary elections are scheduled for 17 March, with opinion polls showing a divided electorate. Moreover, ongoing troubled relations with Palestinian authorities and associated risk of potential European sanctions, together with regional concerns, provide scope for downward adjustments.

## Asia Pacific

### Japan: Inflation target to be missed in 2015

On Wednesday 21<sup>st</sup>, the BoJ lowered its inflation forecasts for FY2015 to 1.0% in 2015 (from 1.7%), far below its 2%-target. As a matter of fact, this cut of the BoJ is the consequence of a strong downward trend in consumer prices, since not only inflation went down to 2.4% y/y in November 2014 (from 3.3% in September), but Japanese core inflation also decreased to +2.7% (from 3%). Moreover there are no signs that this trend will reverse in the short run as oil prices remain at low level and domestic demand is weak. In that context, EH expects inflation to be 0.9% in 2015. In terms of activity, GDP will likely grow by 1.0%. Exports are set to recover with rising global demand. Favorable policy mix will continue to be a key driver with additional USD29.17bn fiscal stimulus. Private consumption will improve gradually benefitting from increasing real wages and the delaying of the sales tax.

## What to watch

- January 23 – Eurozone January PMI
- January 23 – China HSBC China Manufacturing PMI
- January 24 – Dubai airport cargo
- January 25 – Japan December Balance of Trade
- January 26 – Germany January IFO business climate
- January 27 – France December Total Jobseekers
- January 27 – UK Q4 GDP (preliminary estimate)
- January 27 – Mexico December Balance of Trade
- January 28 – Russia December Unemployment Rate
- January 28 – Brazil December Federal Debt Total
- January 28 – France January Consumer Confidence

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