

Weekly Export Risk Outlook

16 April 2014

In the Headlines

FIGURE
OF THE WEEK

+7.4%

y/y Q1 2014
GDP growth in
China



Ukraine & Russia: Crisis update

Unrest in the east of Ukraine has escalated over the past week as well-armed pro-Russian activists have seized police and security force buildings in about 10 towns and cities. The West has urged Russian President Putin to use his influence to make separatists in eastern Ukraine stand down but without success. The interim government in Kiev announced an "anti-terrorist operation" against the rebels and, on 15 April, sent troops to restore control of the occupied locations and the region. The situation remains extremely fluid and President Putin warned that Ukraine is on the brink of civil war. The planned four-way talks on the crisis on 17 April, involving the EU, Russia, the US and Ukraine, will be very important now. A diplomatic solution of the conflict is still possible, but the tail risk of miscalculation on both sides resulting in civil war and/or Russian intervention remains significant. On the economic front, the UAH continued its slide against the USD, falling by 11% in the second week of April (down by 52% year-to-date), prompting the Ukrainian central bank to hike the benchmark discount rate by 300bps to 9.5% and the overnight rate by 700bps to 14.5% on 15 April. Inflation accelerated to 3.4% y/y in March from 1.2% in February and deflation as recent as October 2013.



US: Rebound in spring retail sales, but housing still on hold

Retail sales are displaying a recovery from harsh winter weather, gaining 0.7% in February and rising 1.1% in March, the most since September 2012, despite a 1.3% fall in gasoline sales. Auto sales in particular have rebounded strongly, gaining 2.7% in February and 3.4% in March. After stripping out the volatile auto and gasoline components retail sales gained a robust 1% in March, the most in over two years. The April Housing Market Index crept up 1 to 47, remaining below the breakeven 50 level for the third consecutive month. The Index has been dragged down by a measure of prospective buyers, which has been stuck at a very weak 32 for two months, boding poorly for future sales. Consumer prices crept up 0.2% in March to a y/y rate of 1.5%. Gasoline prices fell by 1.7% for the second consecutive month. But a severe drought in the West has driven up food prices a sharp 0.4% in each of the past two months, perhaps starting a trend as drought conditions continue.



China: Growth target of +7.5% is achievable

In Q1 2014, GDP growth decelerated to +7.4% y/y (+7.7% in Q4 2013), the lowest rate for 6 quarters. The slowdown was widely expected (EH projected +7.3%) and in line with recent trends in advanced indicators. Foreign trade was a particular drag on growth as exports fell sharply in Q1 (-3.3% y/y) affected by the Lunar year holidays but also data distortions reflecting over-invoicing problems. During the first 3 months of the year, industrial production growth averaged +8.7% y/y (against +9.7% in December 2013) and retail sales moderated to +12% (after +13.6% in December). Meanwhile, normalization of financial conditions is ongoing as the drop in social financing (a broad measure of credit) in Q1 (-9.3% y/y) reflected a decrease of non-banks and off balance sheet components. Indeed, bank lending increased by +9.4% y/y in Q1, reflecting an improvement in credit quality. All in all, EH expects the government to meet its economic growth target in 2014 (+7.5%) as activity should be supported by a forthcoming boost from public spending, especially in infrastructure.



Greece: First bond issuance since 2010

Last week, Greece issued EUR3bn of 5-year bonds at a yield just below 5% after 4 years of no access to the bond market. Demand was very high with an order book of EUR20bn showing strong investor appetite. This was mainly driven by a broad return in confidence in Southern European countries given improving economic prospects since H2 2013, ongoing fiscal consolidation efforts, the successful bailout exit for Ireland last December and the return of capital from emerging markets to Southern European countries that offer a good risk-return ratio. However, uncertainties related to the uncovered Greek funding needs in 2014 (estimated at EUR4.4bn) remain as the EU/IMF bailout ends in December. The financing gap could prove even higher, especially after the end of the banking sector review that could reveal higher-than-expected recapitalization needs. Even though further bond issuances later this year are possible, a new form of financial assistance from the EU is likely. Indeed, a precautionary credit line could be approved by the ESM (ECCL) that would allow primary market purchases by the ESM for Greece at lower interest rates (~1.5%).

Countries in Focus

Americas

Colombia: Activity to have strengthened in Q1

According to latest data, Colombian economic activity appears to have rebounded in Q1 2014. Industrial production increased by +2.8% y/y in February, confirming our anticipation of a reinforcement of industrial activity during this year after having shown a relatively disappointing development in recent years. Indeed, the real production level in the sector has just returned to its pre-crisis peak reached in Q2 2008. The confidence in industry has also improved since the beginning of the year. On the demand side, retail sales pursued solid growth and increased by +6.7% y/y in February despite a slight decline in consumer confidence. They now stand 30% above the pre-crisis peak, reflecting that domestic demand has been the main growth driver during the last years. EH expects real GDP to accelerate to +4.3% in 2014 and +4.4% in 2015, above the regional average.

Europe

Romania: Growth to remain modest

Real GDP growth rebounded to +3.5% in 2013 from +0.7% in 2012, driven by exports while domestic demand weakened, constrained by fiscal austerity and still tight bank lending. Private consumption grew by +0.7% while public consumption contracted by -4.1% and fixed investment by -5.7%. However, inventories made a positive contribution of +0.6pps to growth in 2013. Net exports contributed +4.1pps to full year growth as exports surged by +12.8% (-3% in full year 2012) while imports expanded by just +2.3% (-0.9% in 2012). On the production side, the recovery was boosted by a rebound in agricultural output (+23.4%) and new vehicle production capacity that came on line in 2013. As these effects will wane in 2014, EH forecasts growth to ease slightly to a still robust +3%. A still vulnerable banking sector and the possibility of fresh political tensions ahead of the presidential election scheduled for November pose some downside risks.

Africa & Middle East

South Africa: Towards moderate growth in 2014

While Q4 2013 GDP growth (+3.8% q/q annualised) had been boosted by manufacturing output and mining, data for January and February 2014 released last week revealed less encouraging signals. Mining production dropped in February (-4.8% y/y and -7% m/m) and gold output, a major export industry, decreased by -6.2% y/y in January and by -3.6% y/y in February. This disclosure came just after the endorsement in March of the Minerals and Petroleum Resources Development Act (MPRDA) Amendment, which raised concern about potential nationalisation and export bans. Additionally, manufacturing production slowed to +1.4% y/y in February from +2.2% in January, reflecting the current weak business sentiment (manufacturing PMI at 50.5 in Q1 2014). Recent monetary tightening, labour conflicts and forthcoming parliamentary elections in May 2014 may add to negative perceptions. In that context, EH expects moderate growth in 2014 (+2.8%).

Asia Pacific

Indonesia: No absolute majority after the elections

Indonesia held legislative elections on April 9th. This event aimed at selecting the parties that will control the Parliament and the regional assemblies, and then, the ones who can nominate a candidate for the presidential election. Final results will be given on May 9. At this stage, first estimates indicate that opposition parties strengthened and that the PDI-P, the party of the favorite Joko Widodo, will become the largest group in the next Parliament (19% of the vote). The party in power (PD of Susilo Bambang Yudhoyono) dropped to fourth place (9%). This result complicates the short term outlook as it means that (i) the Parliament will be ruled by a coalition as there is no dominant party, (ii) the PDI-P will probably need support to nominate its candidate (Joko Widodo) for the presidential elections as a party needs to have won 25% of the popular vote or 20% of the seats to be able to nominate its own candidate.

What to watch

- April 16 – US March Industrial Production
- April 16 – US March Housing Starts
- April 17 – Chile Monetary Policy Meeting
- April 17 – Brazil March Unemployment Rate
- April 20 – Japan March Trade Balance
- April 22 – US March Existing Home Sales
- April 22 – Portugal February Current Account Balance
- April 22 – China April Business Confidence (PMI Index)
- April 23 – Eurozone April Business Confidence (PMI Index)
- April 23 – Bank of England Minutes
- April 23 – Mexico March Retail Sales
- April 23 – South Korea Q1 2014 GDP

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