Euler Hermes Economic Research

Weekly Export Risk Outlook

23 September 2015

FIGURE OF THE WEEK

5

New Greek coalition's parliamentary majority

In the Headlines

U.S.: Fed on hold, until December

As expected (see WERO 2 September 2015), the Fed held interest rates at 0% at last week's meeting and adopted an overall dovish stance. The Fed's rationale was three-fold. First, inflation is still low as a result of weak energy prices and a stronger USD lowering import prices. Second, the labour market still has slack as indicated by a low rate of labour-force participation, high involuntary unemployment and slow wage growth. Third, concerns are emerging relating to slowing global growth and the resulting uncertainty and volatility in financial markets. Reflecting expectations of weakening growth, the Fed also lowered its forecast of 2016 GDP growth from its June estimate of between +2.4% and +2.7% down to +2.2% to +2.6% and it also lowered its inflation forecast from 1.6%-1.9% to 1.5%-1.8%. Although the first dissenting vote for increasing rates was cast at the latest meeting, 13 of the 17 Fed members still expect to see the first rate hike in 2015, suggesting increasing pressure to raise rates. Euler Hermes expects that the first interest rate hike from 0% will most likely come at the year's final meeting in December and that the path of subsequent rate increases will be very gradual.

China: Advanced indicators still point to a fragile outlook

The Conference Board Leading Economic Index improved in August (+1% m/m, +0.9% in July) reflecting higher bank credit growth and some improvement in housing. However, other components – declining consumer expectations and official PMI export orders - indicate continuing fragility. The Flash Caixin manufacturing PMI decreased further in September (47.0, 47.3 in August, indicating contraction) showing a decrease in new orders, prevailing deflationary pressures and lower employment prospects. As expected, financial sentiment weakened. Going forward, a macro-policy reaction is likely, although the authorities will probably wait for September's real activity figures to evaluate the scale of support needed. Policy indicators (policy rate, credit supply and government expenditure) improved recently and their impact should be reflected in Q4 figures. In the short term, GDP growth will continue to rely on policy support. The lower cost of credit should help to halt investment deceleration and then gradually boost private consumption. EH expects GDP growth will decrease to +6.8% this year.

Greece: Focus on reform implementation after elections

In last Sunday's legislative elections, the second in a year, more than 45% of the electorate did not vote. Eight political parties will now be represented in parliament, with the left-leaning Syriza commanding the most seats (145 out of 300, 35.5% of the vote), followed by the centre-right New Democracy (75, 28%), the right-wing Golden-Dawn (19, 7.1%) and the right-wing Independent Greeks (10, 3.7%). Dissident Syriza deputies who formed a new party (Popular Unity) did not reach the 3% threshold. The new coalition (Syriza-Independent Greeks) has a five-seat majority (12 previously) and needs to accelerate reform implementation as the Troika review, on which depends debt relief and IMF participation in the new three-year programme, is due at end-October. The economic environment remains challenging, with capital controls still in place, although recently softened. International payment delays are still expected and financing will remain tight as banks have yet to be recapitalised. We expect GDP will contract by -2% in 2015 and business insolvencies will increase by +15%.

Eurozone: Decoupling from EM turmoil?

The September PMI Composite Output index declined from 54.3 to 53.9 (slightly below expectations) but capped off the best quarter since Q2 2011. Services continued to outpace manufacturing even as its growth fell back to its July level. Robust expansion is expected in Q4 as growth in new orders registered a 5-month high in September, with inflows of new businesses hitting 5- and 16-month highs in services and manufacturing, respectively. Employment increased for the 11th consecutive month. The **German** Composite PMI fell to 54.3 from 55.0 but the country recorded its strongest quarter since Q3 2014, reflecting strong services and solid growth in manufacturing. The **French** Composite PMI surprised positively, increasing to a 2-month high of 51.4, as it escaped near-stagnation through growth in services and manufacturing, with the latter at an 18-month high of 51.9. Elsewhere in the zone, data show even faster growth. Survey data suggest that Eurozone Q3 growth will be +0.3% to +0.4% q/q, putting the region on course for growth of +1.4% in 2015.

Countries in Focus

Americas

Argentina: Growth driven by the elections

Official data show that real GDP expanded by +0.5% q/q in Q2, mainly driven by public consumption (+11% q/q) and investment (+5.6%) that reflect actions in the pre-election period; general elections are scheduled for October. In the 12-month period to July, primary expenditure of the public sector increased by +41% y/y, driven by increased spending on goods and services (+43% y/y),wages and salaries (+40%) and social security payments (+42%). As revenues increased at a lower (but still strong) rate of +34% (mainly driven by non-tax revenues and import duties), the primary fiscal deficit in July registered a record shortfall of -2% of GDP. Most of the continuing deficits are financed by monetisation of the Central Bank, thereby maintaining upward pressure on prices (+15% y/y in August). A growth downturn is likely once the electoral calendar is complete, with outright contraction expected in Q3 and Q4. Consequently, we expect the economy will stagnate this year (+0.3%).

Europe

Hungary: Monetary policy will remain loose

The Monetary Council of the Magyar Nemzeti Bank (MNB, the Central Bank) retained its key policy interest rate at 1.35% this week and, in addition, announced that from now on the three-month MNB deposit facility will replace the former two-week deposit facility as its main policy instrument. Continued loose monetary policy reflects the Bank's expectation that inflation will remain below target (3%) in 2015-16, while economic growth is projected to slow in 2016 as EU transfers decline. After moving into positive territory in May-July 2015, CPI inflation fell back to 0% in August, mainly due to lower fuel prices. Meanwhile, Q2 GDP growth was confirmed at +2.7% y/y, down from +3.5% in Q1. Average growth of +3.1% y/y in H1 was driven by consumer spending (+2.6%) and net exports (+2.2pps) while public spending (-3.2%) and fixed investment (-0.8%) contracted. Euler Hermes expects full-year GDP growth will moderate from +3.6% in 2014 to around +3% in 2015 and +2.5% in 2016.

Africa & Middle East

Burkina Faso: Another troubled front in a fragile region

Last year, Blaise Compaoré attempted to force changes to allow him to exceed the two-term constitutional limit on his presidency but protests were so significant that he had to step down in October. A caretaker administration was overseeing the period before elections could be held. Elements in the military, perhaps loyal to Compaoré, were not satisfied with the transition and instigated a coup. In turn, the rest of the army appears to have retaken the capital and is attempting to overturn the coup. Political compromise appears feasible but there are downside risks. Overthrow of political regimes is now less frequent in Africa, particularly as regional (including ECOWAS) and continental (AU) bodies are willing to impose sanctions and/or use joint military forces against coup perpetrators. Mali to the north indicates what can happen in a fractured state without strong and united leadership. For now, expect trade disruptions because of border closures, aid suspensions and considerable uncertainties.

Asia Pacific

Asia: Pressures increasing on regional dragons

Trade-driven countries continue to face strong headwinds as nominal exports remained on a downward trend in August. In particular, **Singapore** recorded a fall in non-oil domestic exports (-8.4% y/y, SGD terms), while **Taiwan** and **South Korea** registered sharp decreases in total exports (-14.8% y/y and -14.7%, respectively, USD terms). Deflationary pressures are still elevated, especially in **Taiwan** (CPI down -0.4% y/y) and **Singapore** (-0.8%). While household fundamentals are still resilient (including labour markets) and support private consumption, lower exports are acting as a drag on these trade-oriented economies. Going forward, risks are tilted to the downside. Global demand growth is moderate, China is undertaking a difficult rebalancing (with lower growth in demand expected) and financial conditions are still volatile even after the U.S. Fed decision to delay a rate hike. Against this background, policymakers will probably support growth through monetary easing and fiscal stimulus.

What to watch

- September 24 – Brazil August unemployment
- September 24 – Germany Sept. Ifo business climate
- September 24 – Germany Sept. GfK cons. confidence
- September 24 – U.S. August durable goods orders
- September 24 – U.S. August new home sales
- September 24 – France Sept. Insee bus. confidence
- September 24 – Italy June industrial production
- September 24 – France August jobseekers
- September 25 – U.S. Q2 GDP (final revision)
- September 25 – Austria July industrial production
- September 27 – Germany August retail sales
- September 28 – U.S. Aug. personal incomes/outlays
- September 28 – U.S. August pending home sales
- September 29 – U.S. Sept. consumer confidence
- September 29 – Eurozone Sept. econ. confidence
- September 30 – Romania interest rate decision
- September 30 – UK Sept. consumer confidence
- September 30 – France August consumer spending

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