Euler Hermes Economic Research

Weekly Export Risk Outlook

23 March 2016

FIGURE OF THE WEEK

41.7

Barrel price of benchmark Brent crude oil (+53% from recent low)

In the Headlines

U.S.: Surprisingly dovish Fed

The Fed left interest rates unchanged last week and gave a dovish outlook. At last December's meeting, the Fed suggested it would increase rates four times in 2016 and by a total of +100bps, but now it projects only two increases and a total of +50bps. Euler Hermes expects only one hike, at most, in 2016. The Fed also lowered its 2016 GDP forecast to +2.2% from +2.4% and lowered its inflation forecast to 1.2% from 1.6%. The Fed cited soft investment and net exports, as well as cautioning that "global economic and financial developments continue to pose risks". Energy prices fell a steep -6% m/m in February, dragging consumer prices down -0.2% m/m to a +1% y/y rate. However, after stripping out the volatile energy and food components, core prices actually increased by 0.3% m/m and 2.3% y/y, matching a recovery high, but still not enough to worry the Fed. Meanwhile, the manufacturing sector is showing signs of life as industrial output gained +0.2% m/m in February to a +1.8% y/y rate, compared with only +0.4% y/y just three months ago. Moreover, the Fed's Empire State (NY) manufacturing survey turned positive for the first time in seven months.

Eurozone: Robust growth in the services sector

PMI flash estimates suggest that economic activity is picking up speed, particularly in the services sector. The Composite PMI rebounded +0.7 points to 53.7 after two consecutive falls, with Services up to 54.0, while Manufacturing remained relatively stable at 52.7. The **German** Composite PMI remained stable at a high level (54.1) with Services slightly up to 55.5 but Manufacturing registering a moderate decline to 51.3, a 16-month low. The latter, while remaining in expansionary territory, reflects slowing in a sector that is affected by less buoyant demand from emerging markets. In **France**, both Services (+1.9 points to 51.2) and Manufacturing (+1.3 points to 50.8) drove the Composite PMI up to 51.1 in March from 49.3 in February. For the Eurozone overall, the start of the year indicates that services remain a bright spot, while the manufacturing sector is making slow progress. Downside price pressures remain as indicated by corporate average selling prices. The Q1 PMI suggest that growth will not accelerate beyond the +0.3% q/q on average registered since Q1 2014.

Indonesia: Red, orange or green light?

Economic activity gathered pace in Q4 2015, supported by increased public expenditure and firm private consumption. There are signs of further improvement in 2016, but the trend is fragile. Exports continue to be a drag on growth, with another decline in February (-7.2% y/y) but domestic consumption is driving expansion (retail sales +11.9% y/y) supported by a positive mix of low inflation, firm labour markets and improving consumer confidence. Investment remains the key challenge as business confidence, although improving in Q1, remains volatile. Credit growth is struggling to pick up speed (+9.6% loans growth in January). The Central Bank cut its policy interest rate for the third time this year, to 6.75% from 7%. Going forward, there is room for further easing: (i) inflation is still in the target range of 3-5% and (ii) downward pressures on the IDR have receded. However, expect easing to be gradual to avoid creating financial distortions. Progressive increases in credit growth to a 12-14% y/y range will support domestic investment and push GDP growth above +5%.

Israel: Despite regional concerns, the outlook remains good

GDP growth in 2015 was officially revised downwards, but only to +2.5% y/y from the earlier estimate of +2.6%. Consumption growth was revised upwards, private to +4.9% (from +4.7%) and government to +3.1% (+3%). However, the contribution of net exports was revised downwards, with exports -3.1% (from -2.5%) and imports +0.6% (+0.1%). This supports our earlier analysis (see WERO 17 February 2016) that consumption will drive growth this year and that GDP expansion will be around +3% in 2016, one of the highest in the OECD grouping. The BoI's Composite State of the Economy Index for February 2016 (+0.25% m/m) supports that outlook. Meanwhile, the current account surplus in 2015 improved to +4.7% of GDP, the highest since 2004, partly reflecting lower energy import costs (oil and petroleum products account for 20% of the import bill). EH expects a current account surplus of around +5% of GDP in 2016 and +4.5% in 2017. Also in 2015, FX reserves increased by USD4.5bn and amounted to USD90.6bn by the end of the year and this provided an import cover of around 13 months.

Countries in Focus

Americas

Brazil: Troubled times

A rapid deterioration in the public accounts is of particular concern. The fiscal deficit of the general government registered -10.3% of GDP in 2015, a record-high, and is expected to push public debt close to 80% of GDP in 2016. Against this backdrop, Minister of Finance Nelson Barbosa will present to the Congress a new set of fiscal measures. In particular, this will include an obligation for the federal government to provide multi-annual plans in order to limit public spending. Also, in order to help the Central Bank control inflation, the package allows it to take voluntary deposits from banks in an attempt to improve control of local market liquidity. However, obtaining the support of Congress to approve the package is likely to prove challenging since political tensions are increasing strongly. Recent events and protests added more instability to an already tense political environment in which the impeachment procedure against the state president was officially initiated by the lower House of Congress.

Europe

Hungary: Further monetary easing to tackle disinflation

The Monetary Council of the Magyar Nemzeti Bank (MNB, the Central Bank) lowered its key policy interest rate by 15bps to 1.2% today, the 30th consecutive cut since August 2012 but the first since July 2015, citing a degree of unused capacity in the economy that has a disinflationary impact. Consumer price inflation fell to 0.3% y/y in February from 0.9% in January and the MNB expects it will remain below its 3% target until 2018. Nonetheless, economic activity gained momentum in Q4 2015, with real GDP up by +3.2% y/y, taking full-year 2015 growth to +2.9%. The latter was broad-based, with private consumption up by +2.6%, government consumption +0.6% and fixed investment +1.9%. Exports increased by +8.4%, outpacing imports at +7.8% so that net exports contributed +1.1pps to 2015 growth. Euler Hermes forecasts a slowdown in growth to +2.5% in 2016 as a result of a deceleration in funding inflows from the EU.

Africa & Middle East

Nigeria: Policy conundrum

The Central Bank yesterday unexpectedly increased the benchmark interest rate by +100bps to 12% and also increased the cash reserve ratio by +250bps to 22.5%, while retaining the liquidity ratio at 30%. This change in policy stance (previously easing, with -200bps for the key rate in November 2015) comes at a time when GDP growth is weakening – we expect only +2% in 2016, compared with over +7% in 2000-14 – but there are strong inflationary pressures, with consumer prices up 11.4% y/y in February (inflation target range 6-9%). Recent policy making has emphasised measures to curb imports in an attempt to support the NGN and the authorities, to date, have declined to devalue the currency. With inflationary pressures unlikely to dissipate quickly, partly because food prices are influenced by a weaker parallel market exchange rate, monetary policy is unlikely to be reversed again in the short term. A more flexible FX regime appears unlikely until H2 2016, at the earliest.

Asia Pacific

Japan & Singapore: Data suggest weak growth in Q1

In **Japan**, exports continued to contract in February (-4% y/y from -12.9% in January). In **Singapore**, non-oil exports surprised on the upside (+2.1% y/y from -10.1%) but new export orders are still on a downward trend and external demand is still sluggish in main trading partners, including China. Domestically, demand momentum is waning; retail sales in **Singapore** contracted by -1.2% m/m in February (-1.1% in January). Against this backdrop and for both economies, Q1 data are suggesting a weak growth trajectory. Trade figures are disappointing and this affects the domestic market through a weaker performance in the manufacturing sector and lower private confidence, which undermines both private consumption and investment. In **Japan**, the authorities have already adjusted policies to offset the current economic downturn, but further easing will probably be needed to prop up growth. In **Singapore**, the next MAS meeting will probably result in a more dovish policy stance.

What to watch

- March 24 – U.S. February durable goods orders
- March 24 – Turkey interest rate decision
- March 24 – Germany March GfK consumer confidence
- March 24 – France February total jobseekers
- March 24 – Saudi Arabia Q4 2015 GDP
- March 25 – U.S. Q4 2015 GDP
- March 25 – Austria January industrial production
- March 25 – Japan February CPI
- March 28 – U.S. January international trade
- March 28 – U.S. Feb. personal income & expenditure
- March 28 – U.S. March consumer confidence
- March 28 – Saudi Arabia February net foreign assets
- March 29 – Italy March bus. and cons. confidence
- March 29 – Germany February retail sales
- March 30 – Germany March CPI
- March 30 – Mexico February unemployment
- March 30 – Brazil March consumer confidence
- March 31 – Turkey Q4 2015 GDP

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