

Weekly Export Risk Outlook



24 January 2013

In the Headlines

FIGURE OF THE WEEK: **+7.9%** > CHINA'S Y/Y Q4 2012 GDP GROWTH

▶ China: Stronger Q4 GDP

Latest official data show Q4 2012 GDP growth picked up to +7.9% y/y (+7.4% in Q3) taking full year 2012 growth to +7.8% and ending seven consecutive quarters of decelerating y/y growth. Official data put q/q expansion at +2% in Q4 (+2.1% in Q3). While investment accounted for more of the 2012 slowdown than consumption, investment is also leading the upturn (infrastructure and real estate in Q4). While the latest data indicate that China has avoided a "hard landing" the pace of the pick up in 2013 is still set to be quite moderate rather than the strong rebound of 2010-11, as expansionary policies will remain cautious. For the time being, EH retains a growth forecast of +8% in 2013, as there are still several headwinds, although the risk to the forecast may be shifting towards the upside.

▶ US: Housing and budgetary issues

Housing market data continue to show strength, with December 2012 starts increasing by +12.1% mo/mo (+37% y/y) and permits—up by only +0.3% mo/mo—by +29% y/y. Supply of existing homes is down to 4.4 months, the lowest since 2005 and this weak supply is likely to be mainly responsible for the fall in existing home sales by -1% mo/mo in December (+13% y/y) and for the rapid 11.5% y/y increase in prices. Meanwhile, House Republicans proposed raising the debt ceiling through to May in order to get more time to negotiate a budget. Nonetheless, automatic budget cuts are still scheduled for 1 March. President Obama's inauguration speech laid out a long "to-do" list and was thought by many to be a warning to Republicans that entitlement reform on Medicare and Social Security is not on that agenda.

▶ World Economy: IMF forecasts

The IMF's update to its World Economic Outlook (released 23 January) revises global growth forecasts moderately downward for both 2013 and 2014 (by -0.1pp, to +3.5% and +4.1%, respectively) reflecting weaker than expected performance by the advanced economies (-0.2pp to +1.4% in 2013 and -0.1pp to +2.2% in 2014). In turn, this results from recession in the eurozone in 2013 (-0.2% from +0.1% previously forecast) before a moderate pick-up in 2014 (+1%). Forecasts for the emerging economies remain broadly unchanged at +5.5% in 2013 (-0.1pp compared with October 2012 forecasts) and +5.9% in 2014. The IMF is slightly more optimistic than EH, notably in relation to the advanced economies and partly because it takes account of Japan's recent stimulus plan. However, the IMF cites elevated downside risks because of the EZ crisis and US fiscal tightening in the ST.

▶ Algeria: Security risk

Domestic security forces adopted a hardline approach in ending the In Amenas gasfield occupation by jihadist rebel extremists with links to al-Qaida and reportedly to criminal activities. In Amenas produces around 6bn cubic metres of gas each year, which equates to 15% of the country's output and to 2% of Europe's annual gas imports. Recent events do not help the government of President Abdelaziz Bouteflika's attempts to improve relations with oil and gas majors through easing business restrictions or in winning foreign support to implement a USD260 billion investment plan to upgrade infrastructure, education, healthcare and water supply. Nevertheless, Algeria is not a weak economy as it registers strong current account surpluses, its foreign debt obligations are low and FX reserves of around USD190 billion provide import cover of over 36 months. Expect heightened security at hydrocarbon installations, output to return to normal quickly and international oil and gas companies to maintain a presence. However, further sporadic rebel incidents are expected against a background of heightened regional security tensions.

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► **Mediterranean, Africa & Middle East – Israel: Elections**

Preliminary results from 22 January general elections suggest, as signposted by polls, that PM Binyamin Netanyahu will remain premier and head a new coalition government. Netanyahu's Likud-Beiteinu bloc needs to forge an alliance with smaller parties, likely to be centre and right-of-centre to reflect a marked shift in political attitudes and voting patterns. Significantly, two issues high on the international agenda—relations with Palestinian agencies and with Iran—did not register decidedly during electoral campaigning, although they are likely to be key challenges for the new administration. Despite recent US-Israeli differences expect bilateral relations to remain strong, even though a two-state solution involving Palestine appears unlikely under the revised domestic political balance.



► **Americas – Brazil, Mexico & Chile: Interest rates**

The central banks of Brazil, Mexico and Chile left their policy interest rates unchanged—at 7.25%, 4.5% and 5%, respectively—at regular meetings last week. In **Brazil**, with inflation a constraint at 5.8% y/y at end-2012 (4% +/-2% target range) and growth expected to pick up to +3-3.5% in 2013, the decision was not a surprise. Nonetheless, growth concerns are likely to remain in sharp policy focus. In **Mexico**, inflation has declined to below 4%, providing scope for a rate cut if growth moderates more than expected but, for the time being, with growth still relatively resilient, rates remain on hold. **Chile's** growth is also still resilient and inflation low, so the decision was also no surprise, but again there is scope to cut if necessary.



► **Asia-Pacific – Japan: Monetary policy changes**

A weakening in central bank independence was signalled this week, as monetary policy will now be reviewed by the Council on Economic and Fiscal Policy, a government body in charge of overall economic policy. Aggressive easing in monetary policy is set to continue to overcome deflation and sustain economic growth. The annual inflation target was increased from 1% to 2% and the asset purchase programme will continue without a specific termination date ("open ended asset purchasing"). Expect these changes to reinforce the fiscal stimulus and contribute to a growth boost in the ST. However, the impact is uncertain as the fiscal component of the policy mix is weighted towards public works and the private sector is expected to remain cautious because of medium- and long-term risks.



► **Europe – Eurozone: Public debt**

EZ public debt remained broadly stable in Q3 2012, at 90% of GDP compared with 89% in Q2. At a country level, there are diverging trends among the four largest economies. Germany and France registered a decline in their public debt ratios, by -0.8pp and -1.1pp, respectively, driven by "safe haven" status of their bond markets. In contrast, Italy and Spain recorded increases in their public debt, by +1.4pp and +1.3pp, respectively, again reflecting recent developments in bond markets. For Spain, there is the additional burden on debt derived from the financial aid for the banking system. In this context, expect public debt to GDP ratios to continue increasing, given a poor economic outlook and still-high interest rates, although the pace of the increase is likely to slow.

Worth knowing

► **Switzerland**

The country will be represented in this year's four G20 meetings of finance ministers and central bank governors, reflecting an invitation from the Russian presidency of that grouping and the important role of Switzerland in the international financial system.

► **Jordan**

Parliamentary elections (23 January) were boycotted by several parties, including the main Islamist opposition group, the Islamic Action Front (IAF). Voting was supervised by an independent electoral commission and monitored by international agencies.

► **Eritrea**

Reports of an attempted coup now appear overblown. Public protests and calls for political reforms and release of political prisoners led to a group of soldiers storming a government building but a settlement was negotiated and normality resumed.

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