Weekly Export Risk Outlook

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In the Headlines

FIGURE OF THE WEEK: +1.8% >SINGAPORE'S Q/Q ANNUALISED Q4 GDP GROWTH

Eurozone: Leading indicators

Economic sentiment within the EZ improved for the third consecutive month in January (ESI up +1.4 points to 89.2) while the Composite PMI reached a 10-month high at 48.2. Confidence picked up in most sectors but remained broadly unchanged in industry and retail. Although still below the long-term average, this improvement bodes well for EZ activity, which could show some signs of stabilization in the coming months. Similar to the January Composite PMIs, confidence improved in Germany (ESI +2.5pts to 99.1), Netherlands (+1.0pt to 86.3), Spain (+0.5pt to 88.2) though it deteriorated in France (-0.3pt to 88.2). At its current level, the Economic Sentiment Index (ESI) continues to point to negative GDP growth in Q1 2013. On the monetary front the ECB announced that EUR137.2bn of liquidity will be repaid by 278 EZ banks on January 30 representing 26% the total amount tendered within LTRO 1 operation in Dec 2011. The amount exceeded analysts' expectations and suggests that banks managed to rebuild balance sheets.

US: Mixed data

Consumer confidence plunged from 66.7 to 58.6, reaching the lowest level since November 2011. The drop was probably caused by the 2% increase in the payroll tax and yet another delay in addressing the "fiscal cliff." The Case-Shiller home price index for 20 cities rose for the 10th consecutive month, putting the y/y rate at 5.6%, the highest since before the bubble burst in 2006. The latest rounds of Quantitative Easing (QE) have had little effect. Since QE3 was implemented in September to lower mortgage yields, these have fallen just 12 bps. In December QE4 was announced to drive down Treasury yields, yet the yield on the 10 year issue has risen by 32 bps. Nonetheless, it is unlikely that the Fed will change its policy stance for some time yet.

India: Interest rates

After nine months on hold the central bank (RBI) moved to resume rate cutting this week, lowering the key policy rate by 25bps to 7.75%. It also reduced the cash reserve ratio for banks to 4% from 4.25% to ease liquidity and strengthen credit flows. Despite recent less than dovish statements, the influence of three consecutive months in which the pace of inflation, as measured by the Wholesale Price Index, policymakers preferred measure in India, has eased (to 7.18%) has prompted the move, when set against the background of still soft economic activity. Though inflation is still relatively high the RBI notes that it has probably peaked and the economic outlook remains "lacklustre". As the RBI also acknowledges, there is scope, if limited, to reduce rates further, so expect more cuts, probably small and growth to pick up moderately in FY 2013/14.

UK: Q4 GDP reversal

Real GDP contracted again in Q4 by -0.3% q/q (for the fourth time in the past five quarters, but after an increase of +0.9% in Q3) leaving 2012 growth for the year as a whole flat. The downturn in Q4 was largely driven by the production sector (services were flat, while construction grew by +0.3%, the first quarterly increase since Q4 2011. Once again, one-off factors were important, as the extended and later than usual maintenance of the largest North Sea oil field led to a large fall in oil & gas extraction, which contribute -0.2pp of the overall -0.3% fall in output in Q4. A weaker Q4 was expected after the temporary lift to Q3 growth provided by the Olympic Games. Latest data, despite quarterly volatility, confirm that the underlying trend of the economy is broadly flat. Recent bad weather may weaken Q1, but the economy is still likely to resume modest growth in 2013 (EH forecast +0.8%).

Countries in Focus

Mediterranean, Africa & Middle East – *Jordan: Elections*

Electoral officials announced a relatively high turnout (57%) in parliamentary polls on 23 January, despite a boycott by the main opposition Islamic Action Front and some smaller parties. International observers declared that the polls were without systemic violations. Pro-regime tribal loyalists and independents will dominate the new parliament and, following a revised electoral law of mid-2012, King Abdullah II now has to select the PM from the legislative body. Political reforms have done little to stem protests (generally peaceful) relating to perceptions of corruption and to subsidy cuts. In addition, they have yet to address societal divides between Transjordanians and those of Palestinian descent. Expect a period of post-election adjustment and assessment but also further social discord.

Americas – *Colombia: Interest rate cut*

The central bank lowered the policy interest rate by another 25bps to 4% at its latest meeting this week. This followed cuts in November and December. With December inflation at 2.4% y/y (against a target of 2-4%) growth having slowed sharply (Q3 GDP was up only 2% y/y and November industrial production fell -4.1% y/y) and the exchange rate strong (capital inflows) the move was not a surprise. The central bank also confirmed that it will continue to intervene in the exchange rate and accumulate FX reserves, though it did not impose controls on inflows. Meanwhile, on the political front the third round of government peace talks with the FARC guerrilla movement, which focused on rural development, as scheduled, concluded in Havana last week, but without significant progress.

Asia-Pacific – *Singapore: Q4 GDP*

Advance estimates (based on data for two months) indicate that Q4 real GDP growth picked up to +1.1% y/y (flat in Q3) and +1.8% on a q/q annualised basis (-6.3% in Q3), taking full year 2012 growth to a modest +1.2%. Manufacturing remained weak, declining by -1.5% y/y and -10.8% q/q in Q4, reflecting sluggish external demand from advanced economies, especially for electronics products. Construction continued to grow by +5.9% y/y but contracted for the second consecutive quarter on a q/q basis (-8.9%), suggesting the sector may lose steam in 2013. Services led the rebound in Q4, expanding by +1.5% y/y and +7% q/q, indicating a measure of resilience in domestic demand and financial services. Expect full year 2013 GDP growth of around 2%.

Europe – *Slovenia: Government crisis*

Civic List, a junior partner has left the ruling five-party coalition after PM Janša refused to resign over a corruption scandal, depriving the government of its parliamentary majority. Other small coalition partners are also considering leaving if Janša does not step down. Public protest against the PM is also mounting, as a general strike and protest over austerity measures turned into anti-Janša rallies. The political crisis comes at an unfortunate moment for the country's difficult economic situation. The economy remains mired in protracted recession and is likely to contract again in 2013, while the government has been pushing for austerity and reforms in order to retain fiscal sustainability while recapitalising the ailing banking sector. Political standstill could increase the likelihood of an international bailout.

Worth knowing

Other interest rates

South Africa: The central bank held its key policy interest rate at 5%, citing a deteriorating inflationary outlook (ZAR weakness, as well as wage pressures). Inflation increased to 5.7% y/y in December 2012, at the high end of the central bank's target range of 3-6%.**Hungary**: The key policy rate was cut by 25bps to 5.5% (effective today). **Turkey**: Last week both ends of the overnight interest rates were cut by 25bps, to 4.75% (borrowing) and 8.75% (lending), while the key policy one-week repo rate was kept at 5.5%.

Cyprus

Last week, Fitch lowered its LT sovereign rating by two notches to B from BB-, and retained a negative outlook, citing revised, higher estimates of banking sector recapitalisation costs that will cause a heavy public debt burden.