



Weekly Export Risk Outlook



EULER HERMES
Our knowledge serving your success

11 July 2012

In the Headlines

FIGURE OF THE WEEK: **2.2%** > CHINA'S YR/YR JUNE INFLATION RATE

▶ China: Interest rate cut

Policy interest rates were cut unexpectedly at the end of last week, with the lending rate lowered by 31bps. Inflation fell sharply in June, with the CPI up only 2.2% yr/yr (3% May) underscoring the scope for monetary policy easing, but the early cut in interest rates was also most likely in response to the evident weakening of activity in Q2. Just how weak will be revealed in Q2 GDP data later this week (expect around 7.5% yr/yr) and the next bank lending growth figure will be scrutinised closely. June's foreign trade data were in line with the slowdown, as import growth slipped to 6.3% yr/yr (12.7% May). Exports held up better (11.3% yr/yr, 15.3% in May) but weakness in exports to the US is a concern. The overall trade surplus is again rising strongly.

▶ Eurozone: Crisis update

The ECB followed up the recent EU summit meeting with an important cut in the policy interest rate. EZ FMs meeting earlier this week—with markets taking some convincing—agreed to make an initial EUR30bn tranche financing (of EUR100bn) for Spain's banking system available by the end of July and allowed Spain another year (to 2014) to reduce its fiscal deficit to 3% of GDP. The timing of the single supervisory body for EZ banking, however, remains the end of 2012. Details of conditionality on Spain's financing have also yet to be finalised, although the country announced today additional measures to curb the fiscal deficit. Elsewhere, reports suggest that Cyprus formally requested a bilateral loan from Russia (EUR5bn). It remains to be seen how this will dovetail with the requested EZ financing. Italy introduced further fiscal measures to compensate for a deferred increase in VAT (to help consumer spending). In Ireland the government was able to re-access short-term bond markets.

▶ US: Weak jobs market

Creation of 80,000 jobs in June was markedly below modest expectations of around 100,000 and far below the 250,000 per month needed to lower the level of unemployment and gain overall economic momentum. Perhaps more importantly, the trend is a concern because job growth peaked in January and has steadily declined. June was the third consecutive month with job growth under 100,000 and it was the 41st successive month with unemployment greater than 8%. Weak labour markets may increase the likelihood of further quantitative easing (QE) but the intention of lowering long-term interest rates and increasing liquidity may prove of limited effectiveness as real rates are already negative and illiquidity is not evident.

▶ Eurozone: Unemployment

EZ unemployment is projected to peak at around 11% in 2013 (OECD) or 11.5% in 2014 (ILO), according to reports from these organisations. Unemployment has diverged significantly within the area, with a marked increase in the south but a decrease in some other countries, including Austria and Germany. However, the reports suggest that this divergence may narrow as overall growth weakens. The ILO projects a loss of 4.5mn jobs in the EZ if current austerity measures (without clear growth and job strategies) continue and it notes that LT unemployment is increasing, with 31.5% of the working age population unemployed or inactive at the beginning of 2012. Moreover, youth unemployment (15-24 years of age) was 22% in April 2012.

A company of Allianz 

These assessments are, as always, subject to the disclaimer provided below.

Cautionary Note Regarding Forward-Looking Statements: Certain of the statements contained herein may be statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. In addition to statements which are forward-looking by reason of context, the words 'may, will, should, expects, plans, intends, anticipates, believes, estimates, predicts, potential, or continue' and similar expressions identify forward-looking statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation, (i) general economic conditions, including in particular economic conditions in the Allianz SE's core business and core markets, (ii) performance of financial markets, including emerging markets, (iii) the frequency and severity of insured loss events, (iv) mortality and morbidity levels and trends, (v) persistency levels, (vi) the extent of credit defaults (vii) interest rate levels, (viii) currency exchange rates including the Euro-U.S. Dollar exchange rate, (ix) changing levels of competition, (x) changes in laws and regulations, including monetary convergence and the European Monetary Union, (xi) changes in the policies of central banks and/or foreign governments, (xii) the impact of acquisitions, including related integration issues, (xiii) reorganization measures and (xiv) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences. The matters discussed herein may also involve risks and uncertainties described from time to time in Allianz SE's filings with the U.S. Securities and Exchange Commission. The Group assumes no obligation to update any forward-looking information contained herein.



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

Full results of parliamentary elections—the country's first in almost 50 years—are not yet available but it appears that Libya may provide further evidence that the Arab Spring is far from a homogenous movement. Unlike elsewhere, Islamists are unlikely to form the majority within the legislature. The Alliance of National Forces, a coalition of largely liberal groups, may therefore form the basis of a new government, although it is likely to co-opt members of the Moslem Brotherhood's Justice and Construction Party. Reports suggest that the elections were largely peaceful, despite periodic confrontations between rival armed militia. Expect the political transition to remain difficult as security remains uncertain and the east-west divide is a potential flashpoint, particularly as the east seeks a degree of autonomy.



► Americas – *Paraguay: Update*

Following the impeachment of President Lugo and his replacement by Vice-President Franco an Organisation of American States (OAS) mission visited Paraguay, but did not recommend specific actions against the new government. The OAS is more likely to seek to ensure that elections scheduled for April 2013 go ahead and, with signs that the political change is being accepted domestically, it seems likely that the new government will be allowed to continue until the elections. Mercosur, the regional trade bloc, temporarily suspended Paraguay but did not impose economic sanctions. An important side-effect is that Venezuela will now be allowed to take up full membership (previously blocked by Paraguay's Senate). On the economic front, GDP contracted in Q1 (-2.5% yr/yr) but external liquidity remains adequate.



► Asia-Pacific – *Pakistan: Challenging job*

The National Assembly elected Raja Pervez Ashraf as PM at the end of June. He was formerly a minister of water and power and was already unpopular as the country suffers from severe power disruptions. The previous PM, Yusuf Raza Gilani, was disqualified from office by the Supreme Court because he did not support corruption proceedings against President Asif Ali Zardari. Expect Ashraf to be similarly confronted by the courts and also to have a challenging tenure as he tries to balance competing demands from the ruling PPP, its coalition partners, the electorate and the military. Positively, relations with the US are currently improving as Pakistan re-opened the important transport routes into (and out of) Afghanistan. Expect the US to support a potential approach by Pakistan for IMF assistance.



► Europe – *Germany: Small craft-based business*

Recent data from Destatis, the Federal Statistical Office, indicates that over 573,000 businesses were classified as craft (trades) enterprises in survey year 2009, accounting for 16% of all companies (3,597,000). Craft businesses employed around 4.9mn workers and generated a turnover in that year of EUR464bn. The average number of workers per enterprise was nine and the average turnover per person employed was EUR95,000. The crafts sector is divided into seven groups of trades, with the largest by number of enterprises construction finishing with over 228,000 businesses and a turnover of EUR125bn. Other trades include those supporting general industry and the automotive, foodstuffs and health sectors, with the latter, the smallest group, generating a turnover of over EUR12bn.

Worth knowing

► World Economy

The latest global PMI data released by Markit suggest that business confidence eased further in June both in the service sector (slowing activity) and in manufacturing (back into contraction), confirming the disappointing monthly PMI data posted for almost all countries. PMI data indicate a likelihood that global economic growth in Q2 fell back to its slowest rate since 2009.

► Kenya

With price pressures declining, the central bank initiated monetary policy easing after a tightening phase that included an increase in the key interest rate of a cumulative 1,175bps in H2 2011. Last week, the key rate was cut by 150bps to 16.5%. Expect consumer price inflation to slow to single-digit growth before year-end and further interest rate cuts in H2 2012.

► Senegal

President Macky Sall's Benno Bokk Yakaar (United for One Hope) coalition won a clear parliamentary majority in the National Assembly and now has a strong mandate to instigate legislation to address socio-economic and other reforms.

For more information, visit

www.eulerhermes.com

A company of Allianz 

These assessments are, as always, subject to the disclaimer provided below.

Cautionary Note Regarding Forward-Looking Statements: Certain of the statements contained herein may be statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. In addition to statements which are forward-looking by reason of context, the words 'may, will, should, expects, plans, intends, anticipates, believes, estimates, predicts, potential, or continue' and similar expressions identify forward-looking statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation, (i) general economic conditions, including in particular economic conditions in the Allianz SE's core business and core markets, (ii) performance of financial markets, including emerging markets, (iii) the frequency and severity of insured loss events, (iv) mortality and morbidity levels and trends, (v) persistency levels, (vi) the extent of credit defaults (vii) interest rate levels, (viii) currency exchange rates including the Euro-U.S. Dollar exchange rate, (ix) changing levels of competition, (x) changes in laws and regulations, including monetary convergence and the European Monetary Union, (xi) changes in the policies of central banks and/or foreign governments, (xii) the impact of acquisitions, including related integration issues, (xiii) reorganization measures and (xiv) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences. The matters discussed herein may also involve risks and uncertainties described from time to time in Allianz SE's filings with the U.S. Securities and Exchange Commission. The Group assumes no obligation to update any forward-looking information contained herein.