Weekly Export Risk Outlook

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In the Headlines

FIGURE OF THE WEEK: USD97 >BARREL PRICE OF BRENT OIL (MARCH USD126)

Euro-zone: Crisis update

The EZ agreed last weekend to provide EUR100bn support for Spain's banking system. While this is a positive step forward, there are a number of open questions regarding the precise mechanism and the implementation of bank re-capitalisation and restructuring. Importantly too, the market also seemingly remains focused on a crucial issue for the EZ, the need to break the feedback loop between bank stress and sovereign debt and resume sustained economic growth, which is also likely to be the main focus of the forthcoming summit at the end of the month. In this regard, the EU floated proposals for EU-wide banking supervision, seen as one of the pillars of further integration. Meanwhile, the Greek elections next weekend loom large over expectations, with the result too close to call. Cyprus, too, is reportedly edging closer to a request for support for its banks.

China: Latest data

May economic data produced a mixed picture, although they did not show further overall deterioration. Trade data were better than expected, with exports up 15.3% yr/yr (4.9% in April) and imports by 12.7% (0.3% in April). Retail sales growth decelerated, fixed asset investment growth was hardly changed and industrial output was slightly stronger than in April, although still relatively subdued (9.7% yr/yr). Importantly, however, net new bank lending increased from the previous month, with a late surge in the latter part of the month, and consumer price inflation continued to fall, to 3% yr/yr from 3.4%, underpinning the recent shift to policy loosening—illustrated clearly in last week's interest rate cut—which should start to be reflected in improving data. Expect full year 2012 growth of 8%.

Germany: Mixed indicators

A leading research company's Consumer Climate Index was stable in May, driven by relative optimism over the economy, jobs and income expectations. In line with this, the rate of unemployment fell to 6.7% in May from 7% in April. In contrast, however, industrial production in April decreased by 2.2% mo/mo, following an increase of 1.2% in March, with deterioration recorded in textiles (-1.3%), machinery and equipment (-6.8%) and the automotive sector (-3.6%). A decline in the construction sector of 6.0% needs to be seen against the marked jump of 26% in the preceding month. New orders received by industry were also disappointing at -1.9% after +3.2% in March, caused by weak foreign demand (-3.6%), while domestic demand remained moderately positive, at 0.4%. Meanwhile, the Ifo Business Climate Index declined by 2.7% in May, the first fall after six consecutive months of increases.

US: Further QE?

The economy appears to be continuing to slow, with factory orders falling for the third consecutive month in May, first quarter productivity declining, the four-week average of jobless claims moving slightly up and the Fed's "Beige Book" of anecdotal reports showing only "moderate" growth in April-May. Moreover, despite overall strength, the employment component within May's ISM non-manufacturing index dropped significantly. Against this background, some Fed governors/presidents appear to be favouring another round of quantitative easing (QE) to lower long-term interest rates. However, since the yield on the 10-year Treasury note is at record lows—and negative in inflation-adjusted terms—it is uncertain how helpful it would be to have more QE. With ammunition running low, Fed Chairman Bernanke urged Congress to support the economy by resolving fiscal issues.

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Countries in Focus

Mediterranean, Africa & Middle East – *Saudi Arabia: Update*

Although oil prices have fallen (see below), the Saudi authorities will not be overly concerned about the economic impact in the ST. External liquidity risk is low, given large fiscal and current account surpluses, FX reserves that provide at least 20 months of import cover and substantial net foreign assets (USD571bn in April) that provide a cushion in times of weak oil prices or global downturn. Foreign debt obligations and repayment schedules are not onerous. In Q1 2011, social support packages valued at around USD130bn over the next seven years were announced, partly in response to perceived risks of contagion from the Arab Spring, and these will support overall GDP growth and domestic income generation over the next few years. Expect annual GDP growth of at least 4% this year and in 2013.

Americas – *Mexico: Presidential elections and update*

Televised debates ahead of the 1 July presidential elections do not seem to have brought a major shift in voting intentions, with Enrique Pena Neto of the opposition PRI maintaining a comfortable lead. Andres Manuel Lopez Obrador of the PRD is in second place, with the ruling PAN's Josefina Vazquez Mota in third. Recently, a youth-led movement has taken to the streets to protest against the PRI candidate, but voters still look likely to put aside any residual concerns over the PRI as they reject the PAN's recent record. Industrial production and investment data released last week suggest that the economy is holding up reasonably well and, with inflation easing, the central bank again held interest rates unchanged. Expect 3% GDP growth in 2012 (4% 2011).

Asia-Pacific – *Vietnam: Monetary policy and update*

Headline inflation continued to ease in May, to 8.3% yr/yr from 10.5% in April and the temporary high of 23% in August 2011. The main driver of this weakening in inflationary pressure was easing growth in food prices, which declined to 8.5% in May from 11.9% in April and 17.8% in March. Against this background of downward trend in price growth, the central bank on Monday lowered its key policy interest rate, by another 100bps to 11%. This was the fourth cut since monetary loosening was instigated in March 2012. Expect further easing in inflation and more rate cuts during the remainder of 2012. Meanwhile, S&P last week revised its outlook on the LT sovereign credit rating (BB-) from Negative to Stable. Even so, with relatively low FX reserves, external liquidity risk remains high.

Europe – *Czech Republic: In recession*

Revised estimates by the Statistical Office confirm that the Czech economy is in recession as Q1 real GDP contracted by 0.4% yr/yr (+0.3% in Q4 2011) and 0.8% qtr/qtr sa (-0.2% in Q4). Net exports provided a positive contribution of 2pps to overall GDP, as export growth of 7.3% yr/yr outpaced the 4.7% increase in imports, although the boost from the external sector was insufficient to compensate for declining consumption and inventories. Private and government consumption continued to decline, by 2.8% and 0.2% yr/yr, respectively. Gross capital formation contracted by 5.3% yr/yr, suggesting a large drop in inventories, as gross fixed investment increased by 1.2%, the first gain in three quarters. Expect full-year GDP growth to slow to around 0.5% in 2012 from 1.7% in 2011.

Worth knowing

India

Industrial output in April contracted by 0.4% mo/mo and increased by only 0.1% yr/yr (3.2% March). Expect the central bank to ease further monetary policy, following a 50bps cut in key policy interest rates in April.

Turkey

The current account deficit narrowed by 28% yr/yr (USD8bn) in January-April 2012 as a result of falling imports (-2.4% yr/yr) and increasing exports (+9.8%), although the shortfall was still large, at USD21bn. Industrial production growth slowed to 1.8% yr/yr in April from 2.4% in March and 8.9% in April 2011.

OPEC

Tomorrow's meeting of the oil exporters comes at a time when oil prices—Brent is currently USD97/barrel—have fallen by around 23% over the last three months. Concerted group action on supply may be difficult to achieve but expect key producers—Saudi Arabia's output is around one-third of OPEC's total—to manage supply and target a price of around USD100/b.