



Weekly Export Risk Outlook



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In the Headlines

FIGURE OF THE WEEK: **11%**>THAILAND'S QTR/QTR Q1 GDP GROWTH

▶ Euro-zone: Crisis update

Pressure on EZ leaders to include more of a growth focus in the approach to dealing with the EZ crisis is increasing, as the G-8 leaders' meeting last week stressed the need for promoting growth. The question of what will stimulate growth remains open, however, with much debate likely around the respective impact of structural reforms and demand-side measures. This is unlikely to be resolved at the informal EU heads' summit this week. President Hollande has also declared his intention to raise again the contentious issue of euro-bonds, which is likely to be resisted by Germany as a general solution. A modest compromise, however, could be some indication to move towards providing additional funds for infrastructure in the weaker economies. Meanwhile, opinion polls show New Democracy (pro-bailout) and Syriza as very close in the June elections and the outcome remains open, but pressure to re-negotiate the terms of the bail-out to some extent is likely to remain whatever the outcome. In Spain the banking sector remains under pressure, following the government's latest attempts at re-capitalisation.

▶ US: Housing market

Housing data are leading some analysts to see the basis for a sector recovery, but that view is probably overly-optimistic. A 3.4% mo/mo increase in existing home sales in April was only the second positive reading in five months. Additionally, while housing starts and permits are now showing strong double digit yr/yr growth, April starts were the first to be positive in three months and permits fell. The supply of existing homes is 6.6 months, markedly down from the peak, but it is the highest since last November. Median prices for existing homes have firmed, rising 7.6% mo/mo in April, the third consecutive increase, and are now increasing by 10.1% yr/yr. Overall, while housing data are better it is too early to suggest that they signal a recovery.

▶ Euro-zone: Sentiment indicators

Confidence within the EZ fell at the beginning of Q2, confirming a weakening economic outlook. After stabilising in March, the Economic Sentiment Index (ESI) declined in April, by -1.7 points to 92.8, reflecting weaker confidence in all the main countries, with Italy down by -5.7 points, Spain by -1.8, Germany by -1.0 and France by -0.4. A breakdown by sector shows that the fall in confidence was particularly evident in services and industry (-2.1 and -1.9 points, respectively), although retail trade went against trend, with an improvement in confidence of 0.6 points.

▶ Egypt: Presidential elections

Today's presidential elections represent the country's first genuine attempt at a democratic poll to appoint a head of state and are a key stage in the country's political transition. They will not, however, resolve all Egypt's political problems and any euphoria and heightened expectations surrounding the vote need to be tempered by a realistic assessment of the ongoing process—the powers of the president have yet to be defined and a new constitution has still to be drafted. The result of the poll is difficult to predict. Parliamentary elections were won comfortably by Islamist parties but that does not necessarily point to a similar pattern in the current ballot—there are five candidates who appear to have a reasonable prospect of winning and they range across the political and religious spectrum. The presidential elections are an important and symbolic event in Egypt's political evolution but expect a run-off vote for president to be required in June and the transition to remain protracted and messy.

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► **Mediterranean, Africa & Middle East – Mali: Political update**

Interim president Dioncounda Traore was reportedly hospitalised with head injuries after protestors broke into his office in Bamako, the capital. This latest episode in a confusing political environment follows shortly after the former military junta that toppled the previous president—a coup was staged on 22 March—agreed to an ECOWAS-backed plan to extend Traore's mandate as head of a transitional civilian government. The protests indicate continuing support for the military and general distrust of the country's civilian political class. Meanwhile, a large area of the country—perhaps two-thirds—remains under rebel (Tuareg and Islamist) control, further complicating the political transition at a time when strong central governance is required. Expect continuing political upheaval and security concerns.



► **Americas – Dominican Republic: Presidential election**

The candidate of the ruling PLD, Danilo Medina, comfortably won the presidential election held last weekend and, with 51.21% of the vote against 46.95% for his nearest rival, former president Hipolito Mejia of the main opposition PRD (more than the 50% required), avoided a second-round run-off. The Central Electoral Board and international observers both recognised the result. Outgoing president Lionel Fernandez was constitutionally ineligible to stand for another consecutive term, but his wife was Medina's running mate as vice-president, and Medina is likely to represent policy continuity. Growth was relatively strong in the last two years (7.8% in 2010 and 4.2% in 2011) but the new government faces challenges in the electricity sector and the external balance remains fragile.



► **Asia-Pacific – Thailand: Post-flood recovery in Q1**

The economy rebounded in Q1 from the severe flood-related downturn in Q4 2011 as real GDP grew by 0.3% yr/yr (-8.9% in Q4) and 11% qtr/qtr sa (-10.8% in Q4). The main recovery drivers were post-flood inventory restocking, adding 3pps to yr/yr growth, and private investment, which increased by 9.2% yr/yr. However, public consumption and public investment, which fell by 1.6% and 9.6% yr/yr in Q1, respectively, disappointed, although some government stimulus probably worked indirectly through the flooding compensation programme that supported moderate private consumption growth of 2.7%. Exports declined by 3.2%, improving from a 6.4% fall in Q4, while imports grew by 4.5%, resulting in a deduction of 4.8pps from Q1 yr/yr growth. Expect around 5% growth in full-year 2012.



► **Europe – Central Europe: Q1 GDP growth**

Q1 real GDP growth decelerated across the region, according to "flash" estimates. The **Czech Republic** is firmly in recession as real GDP contracted by 1% qtr/qtr sa (after -0.1% in the two previous quarters) and also by 1% yr/yr sa (+0.3% in Q4). **Romania** is also in recession as Q1 GDP contracted by 0.1% qtr/qtr sa (-0.2% in Q4) and expanded by just 0.3% yr/yr (1.9% in Q4). **Hungary** also shifted into sharp contraction in Q1, to -1.3% qtr/qtr sa (+0.3% in Q4) and -0.7% yr/yr (+1.4% in Q4). In **Bulgaria**, the economy stagnated in Q1 after 0.3% growth in Q4 and yr/yr slowed to 0.5% (1.6% in Q4). The **Slovak Republic** remained resilient, with growth unchanged at 0.8% qtr/qtr sa and down only slightly to 3.1% yr/yr (3.4% Q4). Expect continued regional weakness in Q2 overall.

Worth knowing

► **India**

The country's new consumer price inflation index increased by 10.3% yr/yr in April (9.3% March), with food (10.2%, 47% weighting) and fuel (11.4%, 10% weighting) the key drivers. Inflationary pressures and a weak INR may delay monetary easing.

► **Serbia**

Tomislav Nikolić (49.8%) won the run-off presidential poll over Boris Tadić (47%), the incumbent, on 20 May. This may complicate Serbia's EU prospects—Nikolić appears to be less pro-EU and ruled out recognising Kosovo's independence—and the formation of a new government. Nikolić's nationalist SNS party came first with 24% in the recent parliamentary poll but is unlikely to be able to form a majority coalition.

► **Iran**

Ahead of today's resumption of talks between the international community and Iran relating to the latter's nuclear programme, the UN's IAEA reported successful talks with Tehran. It is too early to conclude that a settlement is impending.

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