Weekly Export Risk Outlook

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In the Headlines

FIGURE OF THE WEEK: 7.8%>US UNEMPLOYMENT IN SEPTEMBER

US: Labour market

The Establishment employment report met expectations of creation of 114,000 jobs in September. It also showed large upward revisions in July and August indicating growth in government jobs for three consecutive months for the first time since the recession began. However, the economy needs to create 200,000-250,000 jobs per month to generate meaningful overall growth and the number of manufacturing jobs contracted for the second consecutive month. The separate Household survey, which is based on a much smaller and more volatile sample, showed that the rate of unemployment fell an unexpectedly sharp 0.3pps in September, to 7.8%. Unemployment has now fallen 0.5pps in two months, which is very unusual. Meanwhile, factory orders (ex-aircraft) and the ISM services index both showed modest growth in August.

North Africa: Transition update

Libya's democratically-elected General National Congress (GNC, legislature) dismissed PM Mustafa Abushagur after only four weeks in the job. Abushagur could not forge a government acceptable to the GNC. Libya is still without a constitution and is politically fragile at a time when security issues (some militia have yet to be disarmed) also mark a complex transition. In **Tunisia**, the government led by the moderate Islamist Nahda party authorised Salafism, although jihadi elements within that movement provide security concerns. Here too, a new constitution has yet to be drafted and democratic institutions are not fully embedded. Meanwhile, **Egypt's** President Morsi appears to have consolidated his power base but the economy remains sluggish and the injection of confidence and funding that signing an IMF facility (USD4.8bn) will provide remain critical. Regionally, expect political transitions to remain fragile at a time when key European markets offer only weak trade, investment and employment opportunities and limit domestic growth potential.

Venezuela: Presidential elections

President Hugo Chavez, in office since 1998, won the presidential elections held last weekend. Despite a stronger challenge from the opposition than in previous elections, Chavez, who was elected to serve another six-year term, took 54% of the vote, giving him a comfortable 9pps winning margin over united opposition (MUD) candidate Henrique Capriles. Chavez won 22 of 24 states, including Capriles' home state. Capriles quickly accepted defeat and the wide margin of victory will give Chavez a strong mandate to continue and extend his "socialist revolution". Regional elections are due in December and municipal elections in March 2013. A key issue will be whether Capriles will continue to lead a united opposition or, if not, will the MUD again fragment. The health of President Chavez also remains a key uncertainty.

World Economy: Gloomier IMF forecasts

The IMF's latest (October) World Economic Outlook indicates a gloomier picture, despite recent financial improvements in response to EZ crisis measures and US Fed actions. Projections are revised down both for 2012 (-0.2pps to +3.3% for world output) and for 2013 (-0.3pps to +3.6%), reflecting not only further deterioration in activity but also the high level of uncertainties. Advanced economies will remain on a weaker-than-expected tempo (+1.3% 2012, +1.5% 2013), constrained by fiscal consolidation. The EZ will not recover quickly (-0.4% 2012, +0.2% 2013) and, along with the US "fiscal cliff", remains among the main risks. Emerging economies will be affected through both trade and financial channels, with growth rates (+5.3% 2012, +5.6% 2013) still not recovering pre-crisis levels despite strong fundamentals and macro-economic room for manoeuvre. Within emerging economies, developing Asia will continue to lead the way (+6.7% 2012, +7.2% 2013). World trade will also register weaker momentum than previously expected (forecasts down by -0.6pps to +3.2% for 2012 and by -0.7pps to +4.5% for 2013).

Countries in Focus

Mediterranean, Africa & Middle East – *Cyprus: Downgrade*

Last week, Moody's lowered its LT sovereign rating by three notches, to B3 from Ba3, and retained a negative outlook. The action—following earlier downgrades by two notches in June and one notch in March this year—mainly reflects the growing difficulties in the banking sector and their adverse effects on the sustainability of public debt and on Cyprus' growth potential. The large deterioration in asset quality over the last year has led to sharply rising recapitalisation costs of the banking sector—estimated at EUR3-4bn by the EU and Cyprus and EUR8bn by Moody's. Cyprus applied for a bailout by the EU/IMF in June 2012 and is also seeking new bilateral support from Russia but negotiations are delayed by disagreements over conditionality.

Americas – *Brazil: Local elections and update*

In the first round of local elections for mayors held last weekend the ruling PT (President Roussef's party) and its allies performed relatively well. The PMDB won the largest number of municipalities (1,025 of 5,568 contested) including Rio de Janeiro, although this was a lower number than in the previous election in 2008, with the PT and the PSB, also an ally, gaining. Second round run-off votes will be necessary later in October for key cities, including Sao Paulo. On the economic front, with inflation edging up slightly in September (5.58% yr/yr), industrial production data moving ahead (up +1.5% in August mo/mo) but external demand weak, the central bank's decision on interest rates this week looks finely balanced between no change and a 25bps cut.

Asia-Pacific – *Pakistan: Monetary policy and outlook*

The central bank this week cut its key policy interest rate by a further 50bps, to 10%, following its 150bps cut in August, reflecting an improved inflationary environment. Consumer price inflation declined to 8.8% yr/yr in September, from 9.1% in August and a recent peak of 12.3% in May. However, inflationary pressures are unlikely to ease substantially as food prices and government domestic borrowing remain high. Even so, official concern over weak growth and, perhaps, some pre-election priming (despite already weak fiscal accounts) are likely to produce a further interest rate cut this year. Its impact may be limited by power shortages, current lack of investment and a weak external outlook, so expect GDP growth in FY2012/13 (July-June) of only +3.5%

Europe – *Hungary: Budget revisions*

Last week, the government proposed major revisions to the current and the 2013 budgets, including new austerity measures, greater efficiency of tax collection and exemption of the central bank from the already approved introduction of a financial transactions tax. The latter removes one obstacle to a new IMF lending programme. Based on more realistic growth forecasts (-1.2% in 2012 and +1% in 2013) than before, the government now targets fiscal deficits of 2.7% of GDP this year and next which, if realistic, will pave the way for financial support from the EU, which requires deficits to be below 3% of GDP. However, this threshold may still be breached as further austerity and continued weak external demand from the EZ may result in the revised growth forecasts being too optimistic.

Worth knowing

Turkey/Syria

The shelling of a Turkish border village by the Syrian army on 3 October—perhaps as a result of stray gunfire—led to retaliation by Turkish forces and ongoing cross-border artillery exchanges since then. Serious escalation appears unlikely at this stage but it cannot be ruled out entirely in the event of further miscalculation or misadventure.

GDP growth

Kenya: +3.3% yr/yr in Q2, down from a revised +3.4% in Q1 and the slowest quarterly growth rate since Q4 2009. **Morocco:** +2.3% yr/yr in Q2 after 2.8% in Q1. **Mauritius:** +1.3% qtr/qtr and +2.5% yr/yr in Q2, after 0% and +2.9% in Q1, respectively. **Qatar:** +5% yr/yr in Q2 (preliminary estimate) after +7.6% in Q1.