Weekly Export Risk Outlook

EULER HERMES
Our knowledge serving your success

15 May 2013

In the Headlines

FIGURE OF THE WEEK: +9.3% >CHINA'S Y/Y APRIL GROWTH IN INDUSTRIAL OUTPUT

Eurozone: Q1 GDP and outlook

GDP contracted by -0.2% q/q in Q1—slightly below consensus expectations (-0.1%) and the sixth consecutive quarterly contraction—and it was broad based, with Spain (-0.5%), Italy (-0.5%) and France (-0.2%) contracting and only Germany (+0.1%) of the larger economies recording expansion. Weakness was also reflected in retail sales, which contracted by -0.1% mo/mo in March, suggesting depressed private consumption. EH does not expect a strong improvement in demand as labour markets remain weak (March unemployment 12.1%) and business confidence remains at a low level, with the composite PMI continuing to signal contraction. A (slight) positive sign came from industrial production, which increased by +1% mo/mo in March, suggesting that business activity may gradually improve over the course of 2013. EH forecasts a slight recovery in H2, with growth stabilising at a low level because of weak fundamentals, but expects GDP to contract by -0.3% for full-year 2013.

China: Moderate growth

Growth in industrial output in April picked up to +9.3% y/y (+8.9% in March) but was below consensus forecasts and fixed asset investment growth in January-April slipped to +20.6% y/y, still driven mainly by residential property and infrastructure, with manufacturing lagging. Retail sales growth held up at +12.8% y/y (+12.6% in March) and credit growth accelerated, with net new lending at its highest April level, which should be supportive of future economic growth. Total social financing also accelerated, to +21.8% y/y (+21.1% in March), the highest since June 2011. Growth of exports and imports improved in April, to +14.7% y/y and +16.8%, respectively. April Inflation picked up to +2.4% y/y (+2.1% in March) but was driven by food prices (vegetables) with non-food inflation at +1.8%. Overall, April indicators point to continued—if relatively more moderate—growth (EH forecasts +8% in 2013) and probably will not prompt further policy easing, at this stage.

US and Canada: Recent data and outlook

In the **US**, April retail sales increased by +0.1% mo/mo, helped by a +1% increase in auto sales, but there was a -4.7% fall in gasoline sales due to a sharp price decline. Stripping out autos and gasoline, sales increased by a healthy +0.6%. On a y/y basis, auto sales were up a steep +7.7%, masking weakness in all other retail sales, which were up only +2.8%. Notions that the Fed might taper its bond purchases later this year have driven up the 10-year Treasury yield 30bps to 1.95% in just 10 trading days. Although the federal debt ceiling may be hit technically by 19 May, recently-increased tax revenues and temporary measures will now help the Treasury avoid that ceiling, in practice, until at least September. In **Canada,** April employment increased by a modest 12,500 (+0.9% y/y), while unemployment fell to a still high 7.2%. Continued weakness in employment and exports may pressure the BOC to lower rates and weaken the overvalued CAD.

Germany: Strong March indicators

New orders received by the industrial sector continued to increase in March, up by a surprisingly robust +2.2% mo/mo, following a similar rate of expansion in February and a fall of -1.6% in January. In March, external demand (+2.7%) increased at a more rapid rate than domestic demand (+1.8%), providing some evidence of a cautious recovery in the eurozone (+4.2% after +1.2% in February). Moreover, industrial production increased by +1.4% in March after +0.8% in February, including higher output in the car industry (+7%), computers and electronics (+6.3%) and the ship and aircraft industry (+4.4%), while printing (-1.7%) and machinery (-0.6%) recorded lower figures. Construction output continued to contract, falling by -3.1% (-1.6% in February). Also disappointing in April was the Ifo Business Climate Index, which was down by -2.2% mo/mo after -0.7% in March.

A company of Allianz

Countries in Focus

Mediterranean, Africa & Middle East – *Israel: Policy changes*

This week, the central bank announced a cut in the key policy interest rate, by 25bps to 1.5% percent (effective 17 May), and a new policy directive as it intends to purchase FX to offset potential undue effects on the ILS of output and sales of natural gas from the Tamar offshore field. These measures reflect reduced inflationary pressures—growth in prices is below the middle of the official target range—and ILS effective appreciation, which amounts to 5.4% over the last three months as other countries cut rates and implemented quantitative easing. Meanwhile, the new finance minister tabled a draft austerity budget (including cuts in defence spending) that projects a fiscal deficit of -4.65% of GDP this year falling to -3% in 2014. Expect further anti-austerity protests but these are unlikely to deter policymakers.

Americas – *Panama: Country update*

Growth is likely to moderate in 2013 and 2014, to +7.5% and +6.8%, respectively, which may remove residual concerns of overheating (annual growth in the previous five years averaged +8.6%). Growth has been supported by expansion of the Panama Canal and other large infrastructure projects and is underpinned by generally sound policies, anchored by use of the USD. There is no independent monetary policy. Strong credit expansion is slowing, the fiscal deficit is moderate and the public debt/GDP ratio is on a declining trend, although still on the high side. The current account deficit is wide, but largely covered by FDI flows and the external balance is manageable. Presidential elections will be held in 2014, with leading candidates to succeed incumbent President Ricardo Martinelli already chosen.

Asia-Pacific – *Indonesia: Q1 GDP growth and inflation*

Q1 GDP growth eased slightly to +6% y/y from +6.1% in Q4 2012, but remained strong overall, reflecting an improved net export balance. Private consumption expanded by +5.2%, public consumption +0.4% and fixed investment +5.9%. Exports increased by +3.4% (+0.5% in Q4 2012) while imports contracted by -0.4% (+6.8%), so net exports contributed +1.5pps to Q1 growth. EH expects +6% growth in full-year 2012 (+6.2% in 2011). Headline inflation eased from 5.9% y/y in March to 5.6% in April, but remained above the authorities' 3.5-5.5% target range for 2013. Inflation may increase further in the near term if the government finally pushes through a long-planned reduction in fuel subsidies. Accordingly, the central bank kept its key policy interest rate on hold at 5.75% this week.

Europe – *Bulgaria: Election result*

Sunday's parliamentary elections left Bulgaria with the prospect of a hung parliament. The former ruling centre-right GERB party of ex-PM Borisov, which resigned in February amid protests over poor living standards, took 30.5% of the vote, followed by the centre-left BSP (26.6%), the ethnic-Turkish MRF (11.3%) and the far-right Ataka (7.3%). No other party passed the 4% threshold required to gain parliamentary seats. Given deep animosities between the GERB and the BSP and MRF there is no obvious coalition option with a clear majority in parliament. The next government is likely to be unstable and will probably not last a full term. It will also have difficulties in solving social problems that led to the resignation of the previous government. Even so, do not expect major policy shifts in the near future.

Worth knowing

Pakistan

Despite pre-election intimidation, violence and political assassinations, the 11 May polls received a high turnout and former PM Nawaz Sharif of the PML-N party will form the new government, representing the first handover between civilian administrations.

Other GDP

Hong Kong: growth in Q1 remained subdued, increasing by +2.8% y/y (virtually the same as Q4 2012) and +0.2% q/q. EH expects overall growth in 2013 to be a moderate 3-3.5% before picking up to +3.8% in 2014. **Estonia**: +1% y/y in Q1 (+3.7% in Q4 2012) and -1% q/q in Q1 (+0.9% in Q4). **Latvia**: +3.1% y/y in Q1 (+5.1% in Q4) and +1.2% q/q in Q1 (+1.3% in Q4).

Interest rates

Poland: key policy rate cut by 25bps to 3% last week. **Serbia:** key policy rate cut by 50bps to 11.25% this week. **South Korea:** key policy rate cut by 25bps to 2.5% last week. **Vietnam:** key policy rate cut by 100bps to 7% last week.