

Weekly Export Risk Outlook



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In the Headlines

FIGURE OF THE WEEK: EUR14.9BN >EUROZONE TRADE SURPLUS IN APRIL

▶ Eurozone: Demand remains weak

Industrial production increased by +0.4% mo/mo in April, slightly above consensus expectations (0%) and marking the third consecutive monthly increase. In June, the economic expectations indicator (ZEW) increased by three points to 30.6, while the current conditions indicator was slightly down. However, while the supply side of the economy shows some positive signs, it remains constrained overall by the weakness in demand. Employment decreased by -0.5% q/q in Q1, suggesting domestic demand is not likely to recover strongly in the short term. Likewise, external demand was also weak in April, as exports were down by -EUR4.1 billion but imports were up, with a resulting surplus in the merchandise trade balance of EUR14.9 billion from EUR22.5 billion in March. Encouraging signs come from consumer prices, with annual inflation remaining at low levels (+1.4% y/y in May), which may help encourage some pick-up in internal demand from a resulting improvement in purchasing power.

▶ US: Latest economic data

Recent data are mostly weak, with consumer sentiment falling in the first half of June, manufacturing data from the Fed's New York region lacklustre and industrial production was flat in May (with manufacturing increasing by only +0.1% mo/mo). In contrast, May retail sales were a bit stronger than expected at +0.6% mo/mo, although on a yr/yr basis the trend is still weak, especially if autos are excluded. The one strong report from recent releases, unsurprisingly, was from the housing market, the single bright spot in the economy. The housing market index survey increased sharply in June, showing a majority of homebuilders are optimistic about the industry and by the greatest margin in seven years. All eyes now turn to the Fed on Wednesday for more clarity about the future of quantitative easing programmes.

▶ Germany: Fewer start-ups in Q1

According to the first provisional results released by the Federal Statistical Office, almost 35,000 large businesses (ones that are considered to provide a marked contribution to the overall economy) were founded in Q1, representing a decline of -7.6% y/y. In addition, the number of newly-formed small businesses fell even more sharply, by -8.8% to 60,000. By contrast, start-ups of part-time businesses increased by +2.1% to 65,900. Data on company closures show that business de-registrations in the first three months decreased by -2% y/y (to 33,500) for large businesses, decreased by -4.2% y/y (to 77,100) for small businesses but the number of de-registrations of part-time farms increased by +12% (to 45,500).

▶ Iran: Election result

Presidential elections (14 June) resulted in an outright win (without recourse to a run-off) for Hassan Rohani (18.6 million votes, almost 51% of the total) who will succeed incumbent Mahmoud Ahmadi-Nejad in August. Rohani's victory followed pre-election alliances within the moderate camp, which fielded just a single candidate, but it also indicates a general level of electorate disenchantment with hardline fundamentalism. Rohani's initial pledges include greater transparency over nuclear activities and easing in tensions that led to sanctions against the country. His election may help forestall a possible pre-emptive strike against nuclear sites in Iran. Whether he is a moderate or not is yet to be seen but, in any event, Supreme leader Ayatollah Ali Khamenei retains overall authority.

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► **Mediterranean, Africa & Middle East – Turkey: Economy**

Q1 real GDP growth accelerated to +1.6% q/q (+0.1% in Q4 2012) and +3% y/y (+1.4% in Q4) after the slowdown in 2012 (+2.2%). Domestic demand took the lead in Q1, with private consumption expanding by +3.9% y/y, public consumption +7.2% and investment +0.2% (reflecting a surge by +82% in public sector investment). External demand softened and contributed zero to Q1 growth as exports increased by +3.4% y/y and imports by +3.2%. The current account deficit widened sharply in April, bringing the January-April gap to USD24.3 billion, an increase of +17% y/y. Meanwhile, the central bank last week announced that FX intervention will be used whenever needed to stabilise the TRY. The TRY lost 6.2% against a 0.5USD+0.5EUR basket from early May, to register a low on 11 June.



► **Americas – Chile and Peru: Interest rates**

Chile's central bank again left the policy interest rate unchanged at 5% at its policy meeting last week. Inflation remains low, unchanged in May at 0.9% y/y but, as slower growth reflects investment while consumption is holding up, the committee retains a cautious approach. In **Peru**, the central bank also left the policy interest rate unchanged (4.25%) as inflation is within target and economic growth is seen as on trend. April monthly GDP increased +7.7% y/y, up from +3% in March (although this partly reflects the number of working days in each month). While growth should remain relatively robust in both economies, the pace is likely to slacken with the drag from global commodity demand and prices, raising the likelihood of a rate cut in the coming months.



► **Asia-Pacific – Indonesia: Monetary policy**

Last week, Bank Indonesia (BI, the central bank) raised both the overnight deposit facility rate and its key policy interest rate by 25bps, to 4.25% and 6%, respectively. The increases are intended to support the currency and to pre-empt inflation expectations. Downward pressure on the IDR has increased recently as a result of uncertainties in relation to the US Fed's stance on quantitative easing. As a result of BI intervention, the IDR fell by only -1.7% against the USD from early May to mid-June—no more than other emerging market currencies—but this caused a 2% (USD2.1 billion) decline in FX reserves in May. Headline inflation eased slightly to 5.5% in May but the BI expects a significant inflationary impact from fuel subsidy cuts that the government is planning for the coming months.



► **Europe – Czech Republic: Political and economic woes**

PM Petr Nečas resigned after Jana Nagyova, his chief of staff, was charged by prosecutors in a corruption investigation. The ruling coalition led by Nečas' ODS party will try to form a new government but this may prove difficult as, under the constitution, President Zeman—a political rival—could name his own candidate to head an interim government until early elections are held. Expect a period of government ineffectiveness. On the economic front, Q1 real GDP contracted by -1.1% q/q and -2.8% y/y, marking the fifth consecutive quarter of decline. Government consumption increased by +0.9% y/y but all other demand side components declined, with private consumption -0.9%, investment -5.3%, exports -3.8% and imports -3.5%. EH expects full year GDP to contract by around -0.3% in 2013.

Worth Knowing

► **India**

The central bank left its key policy interest rate unchanged at 7.25%, citing elevated food inflation, INR depreciation and uncertainties in relation to monetary policies at a global level and associated funding flows.

► **Pakistan**

The first budget of the newly-elected government led by PM Nawaz Sharif and his PML-N party projects a fiscal deficit of -4.6% of GDP for FY2013/14 (starting 1 July). The new government is generally pro-business but expect the target to be challenging.

► **Syria**

The US announced that it had firm evidence of the use of chemical warfare in Syria and will now consider providing arms and other military support to selected groups of opposition to the regime of President Assad.

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