

FIGURE
OF THE WEEK

USD36

Barrel price of
Brent crude oil
(-40% y/y)

In the Headlines



Spain: Coalition conundrum

The results of general elections on 20 December appear to suggest the end of a bipartisan political environment. Mariano Rajoy's PP (Partido Popular) won 123 seats in the Congress but failed by 53 seats to achieve an absolute majority. As a result, and in order to form a government, the PP needs to form alliances with other parties with congressional seats. The socialist party (PSOE), the other main traditional party, won only 90 seats, the worst electoral result in its history. Among the new political players, the leftist Podemos won 69 seats and the centrist Ciudadanos 40 seats. With a highly fragmented Congress and wide-ranging policy divergences among the parties it will be difficult to create a strong coalition. Whatever party combination is forged into a coalition, the government will have to deal with a PP-dominated Senate. Despite political uncertainties, the country has recorded solid growth in 2015, with GDP expanding +0.8% q/q in Q3, after +1% q/q in Q2, supported by dynamic domestic demand and low oil prices. Spain will continue to exert a positive momentum to overall Eurozone GDP growth as we forecast it will grow by +3.1% in 2015 and +2.6% in 2016.



Japan: Slowly recovering?

Advanced indicators still point to a fragile outlook. The trade balance in November deteriorated to -JPY379.7bn (+JPY108.3bn in October). Export volumes contracted (-3.1% y/y) due to lower demand from the U.S. and Asia and imports registered a small upturn (+1.6%/y from -3.8%) as demand for EU goods recovered. Industrial activity gained some traction, with production increasing +1.4% m/m in October (+1.1% in September). Business surveys point to a robust outlook, with manufacturing PMI at 52.5 in December. Meanwhile, policy actions to support growth were announced, including a stimulus package of USD27bn. On the monetary front, the Bank of Japan maintained its easing stance but added some changes including: (i) an extension in the average remaining maturity of the Bank's JGB purchases to 7-12 years (from 7-10) and (ii) supplementary annual purchase of exchange-traded funds (JPY300bn) composed of stock issued by companies that are "proactively making investment in physical and human capital". EH expects GDP growth of +1.3% in 2016 (from +0.8% in 2015).



France: Fluctuat nec mergitur

Following the terrorist attacks on 13 November, confidence surveys in December understandably showed a sharp fall in the retail and services sectors (-4pts and -2pts, respectively) but they remain strong and point towards further growth in the coming months. The overall index still stands at 101, marginally above the long-term average, as business confidence improved by +1pt in both manufacturing and construction. Meanwhile, consumption fell -1.1% m/m in November, reflecting declines of -4.7% in consumption of textile clothing and -5.6% in spending on energy, although both these result from the mild temperatures recorded in November. Indeed, a better indicator of consumer willingness to purchase is spending on durable goods, which increased by +0.5% m/m and +3.1% y/y. As a result, we believe the current modest downturn is temporary. Even so, Q4 will be less strong than initially expected and we have revised our 2015 and 2016 GDP growth forecasts by -0.1pps, to +1.1% and +1.4%, respectively.



Qatar: Gas guzzler?

Currently weak oil and gas prices are now feeding through to economic data, with official forecasts for economic growth in 2015 halved to +3.7% from June projections of +7.3%, although a rebound to +4.3% is expected in 2016. The government still expects a fiscal surplus equivalent to +1.7% of GDP this year (+1.4% in June) but the budget for 2016 is indicating a deficit for the first time in 15 years (-QAR46.5bn, equivalent to around -2% of GDP). The government intends to maintain high spending on health, education and infrastructure (a combined 45% of total expenditure). EH expects budgetary shortfalls will be comfortably financed through local and international debt issuance and the current account, although deteriorating, will remain in surplus throughout the period to end-2017.

NOTE: WERO is taking a break. The next issue will be 13 January 2016.

Countries in Focus

Americas

U.S.: Q3 GDP sluggish, +2.5% forecast for 2016

The final estimate of Q3 real GDP growth was a sluggish +2% q/q annualised rate, markedly below the long-term average of +3.3% and even below the +2.2% average for the current recovery. The stronger USD was evident as exports increased only by +0.7% while imports gained +2.3% and inflation as measured by the GDP deflator was held down to a +0.9% y/y rate. One bright spot was consumption, which increased +3% in the quarter, closer to the long-term +3.3% average, but it should be noted that weakness in consumption in October will weigh on Q4 GDP. For the full years 2015 and 2016, we expect GDP growth of +2.5%. Meanwhile, in November, existing home sales fell for the second consecutive month, down a sharp -10.2% m/m, the largest decline since July 2010. The National Association of Realtors, which publishes the report, blamed the sharp decline on a change in lending laws that reportedly lengthens the mortgage-lending process, perhaps making November an outlier.



Europe

Germany: Outlook is for continued robust growth

Retail trade continued to grow by a solid +2.9% y/y in October, while manufacturing output increased by just +0.4% y/y, following an average +1.1% in Q3, and new orders in manufacturing fell by -1.2% y/y, after stagnating in Q3. Meanwhile, survey indicators show a mixed picture in December, with the manufacturing PMI slightly up to 53.0 (from 52.9), the Ifo Business Climate Index edging down to 108.7 points (from 109.0) and the ZEW Economic Sentiment Expectations Index up to 16.1 (from 10.4). The overall GfK Consumer Climate Indicator eased to 9.3 in December (from 9.4 in November) but is forecast to reverse back to 9.4 in January. However, the PMI, Ifo and GfK indices all compare favourably with end-2014 figures, as well as historic averages. Overall, these high-frequency indicators continue to signal steady, domestic-demand driven growth and support Euler Hermes' forecast of +1.5% real GDP growth in 2015 and +1.8% in 2016.



Africa & Middle East

Rwanda: Playing by the rules

A referendum on constitutional changes overwhelmingly endorsed the amendments that had already received parliamentary approval. The main change is to the presidential term, which is now reduced to five years (from seven) - a two-term limit remains intact. However, the changes also provide specific constitutional allowances for incumbent President Paul Kagame, who can now run for a third seven-year term in 2017 and then to stand for two further five-year terms. This could potentially keep him in power until 2034 and raises concerns about the concentration of power. In response, the international donor community is not indicating that it will restrict aid and Kagame appears to retain domestic backing, partly because he has governed during a period of rapid economic expansion (annual average GDP growth of +7.5% in 2005-14). EH expects similar rates of growth for 2015-17 as long as ethnic tensions do not escalate and there is no contagion from the current unrest in neighbouring Burundi.



Asia Pacific

Asia: When the Fed hikes...

The full impact of the U.S. Fed's increase in short-term interest rates ([see WERO 17 December 2015](#)) is yet to become clear and there were different initial reactions from Central Banks in Asia. With its currency peg framework, **Hong Kong** followed the U.S. and increased its base rate by +25bps, to 0.75%. However, the Bank of **Thailand**, the Bangko Sentral ng **Pilipinas** and Bank **Indonesia** all decided to remain neutral and keep policy rates unchanged while awaiting future developments. In contrast, monetary easing is currently adopted by the Bank of **Japan** as it fine tunes its monetary policy to support growth and **Taiwan's** deteriorating economic outlook (lower growth and deflationary pressures) prompted a cut in its policy rate to 1.625% from 1.750%. In **China**, no move has yet been made but the Central Economic Work Conference (annual top leadership meeting) pledged a more flexible monetary policy and lower costs for corporates, thereby suggesting further easing in the short term.



What to watch

- December 24 – Israel November unemployment
- December 24 – Saudi Arabia Q3 GDP
- December 24 – France November total job seekers
- December 25 – Japan November jobless rate
- December 25 – Japan November CPI
- December 27 – Germany November retail sales
- December 28 – Saudi Arabia SAMA Nov. foreign assets
- December 28 – Egypt Q3 GDP
- December 28 – Japan November industrial production
- December 29 – U.S. December consumer confidence
- December 29 – Jordan Q3 GDP
- December 29 – Qatar Q3 GDP
- December 29 – Italy Dec. consumer & bus. confidence
- December 30 – Russia December manufacturing PMI



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