Euler Hermes Economic Research

Weekly Export Risk Outlook

14 January 2016

FIGURE OF THE WEEK

USD30

Barrel price of benchmark Brent crude oil (-34% y/y)

In the Headlines

China: Tough start

To date, 2016 has been challenging. December 2015 data renewed concerns of a further slowdown. In particular, both Markit/Caixin Manufacturing and Services PMI deteriorated, highlighting difficult operating conditions for companies. Price data indicate persistent deflation, with producer prices declining for the 46th consecutive month (-5.9% y/y). Although USD-denominated exports (-1.4% y/y from -6.8% in November) and imports (-7.6% y/y from -8.7% in November) showed some improvement, it is too early to conclude that a trade recovery is emerging as regional economies (Taiwan and South Korea) continued to report export contraction in December (-13.9% and -13.8% y/y, respectively). Against this background, financial markets have been extremely volatile. On 13 January, the Shanghai composite closed at 2949 (-17% below its reading at the end of December 2015) and the RMB was at 6.58 (6.49 end-December). In the short term, there is still scope for volatility. The recent flow of economic news has not been supportive, with GDP growth in 2015 estimated at +6.8%, following +7.3% in 2014. Investor sentiment is still nervous as misperceptions on policy orientation persist.

Germany: Continued robust growth in 2015

First official estimates indicate that real GDP increased by +1.7% in 2015 and by +1.5% in calendar-adjusted terms (2015 had more working days than 2014), following +1.6% in 2014, and above the average of the past 10 years (+1.3%). Domestic demand was the main growth driver in 2015, with private consumption expanding by +1.9% and government consumption by +2.8%. Fixed investment increased by +1.7%, with machinery and equipment up by +3.6% while construction investment slowed to +0.2%. However, inventories subtracted -0.4pps from growth in 2015. Both export and import expansion picked up, to +5.4% and +5.7%, respectively, so that net exports made a moderate contribution of +0.2pps to 2015 growth. Euler Hermes expects an acceleration in full-year growth of +1.8% in 2016, supported by additional public sector spending related to the refugee influx. Low oil prices for an extended period pose an upside risk to this forecast, but related deflationary pressures are a downside risk. Headline inflation fell to 0.3% y/y in December (0.4% in November).

U.S.: Strong jobs, but still no wage growth

The December employment report was stronger than expected with 292,000 jobs created, above expectations of 200,000, and included upward revisions of 50,000 jobs to the previous two months. Even manufacturing rebounded moderately, with 8,000 new jobs, the most in five months. Unemployment remained at 5%. However, hourly wage growth disappointed, edging down to USD25.24 in December from USD25.25 in November. The December hourly wage growth was +2.5% y/y but this includes a temporary boost because of weaker data in the earlier period and next month's y/y wage growth is likely to be less positive. The employment report is mixed news for the Fed as it shows job growth, but not wage growth. Similarly, the Fed's "Beige Book" of anecdotal evidence reported "little overall change in wage and price pressures" and also noted that growth of consumer spending and holiday sales ranged from "slight to moderate." We expect interest rate increases this year will be gradual, with two or three hikes at most, less than Fed projections of four separate moves.

Saudi Arabia: A busy start to the year

The state budget for 2016 indicates a period of relative austerity, with projected expenditure down -14% on the 2015 outcome and revenues down -15.5%. Fiscal consolidation is seen as necessary over a protracted period, with energy subsidies to be reduced over a five-year period. The same time horizon extends to privatisation of state assets. However, with almost immediate effect, petrol prices, electricity tariffs for the wealthiest consumers, water costs and energy prices for industrial use were all increased. Moreover, recent announcements that a partial sale of state oil company, Saudi Aramco, is being contemplated suggest that a concerted reform agenda is taking shape. Meanwhile, fractured diplomatic and some trading relations with Iran and continuing military action in Yemen indicate regional tensions will remain heightened. We expect the fiscal deficit will improve to around a still challenging -12% of GDP in 2016 (-16% in 2015), further drawdown in financial assets controlled by SAMA, further debt issuance but that the exchange rate peg to the USD will remain unchanged, for now.

Countries in Focus

Americas

Brazil: Uncertain 2016

2016 has just begun, and it is already full of uncertainties for Brazil. Important economic indicators continue to deteriorate. Industrial production fell more than expected in November (-12.9% y/y) and has tumbled more than -20% since its last peak in mid-2013. Retail sales contracted by -6.8% y/y and unemployment rate stood at 7.5% (vs. 4.8% a year earlier). Inflation rate reached +10.7% y/y in December, a 13-year peak and well-above the Central Bank target of 4.5% +/-1pp. Moreover, the change of finance ministers added to investors' nervousness. Former minister Levy led a fiscal consolidation which was well received by markets. The new minister, Mr. Barbosa, will not have an easy task: the economic outlook is gloomy and the popularity of the president who appointed him is very low. Euler Hermes expects Brazilian GDP to contract by at least -2.4% in 2016, after -3.7% estimated for 2015. Corporate insolvencies will continue to soar: +18% in 2016 after +20% in 2015.

Europe

Greece: Another positive baby step, more on the agenda

A parliamentary vote on pension reform remains a milestone in the country's journey toward debt relief. It is a key in achieving a positive Troika review, and the start of negotiations on easing measures. The Greek Parliament is expected to vote on the week of January 20 - 25 while the Troika review is scheduled to start on January 18. A completion of the reform agenda should boost domestic confidence and allow a removal of capital controls. These have been recently loosened: a 150K EUR limit, above which the Minister of Finance needs to approve firms' payments abroad, was raised to 250K EUR. This should allow faster payments abroad as banks can directly approve higher sums. Next week further discussions are expected between the IMF and the Greek Prime Minister in Davos at the World Economic Forum. The IMF hasn't yet confirmed its participation in the 3rd bailout program as its main request on further debt relief measures is still pending.

Africa & Middle East

Tanzania: Continuing growth story

GDP increased by +6.3% y/y in Q3 2015, compared with +7.9% in Q2 and with +5.4% in Q3 2014. The weaker (but still robust) growth in Q3 reflected weather-related disruption to agricultural output (+2.7%); as with other southern African nations, a drought resulted in reduced harvests. The construction (+17.6%), transport and storage (+10.6%), public administration and defence (+10.6%) and mining and quarrying (+8%) sectors all continued to expand strongly in Q3. GDP growth in the January-September 2015 period was +6.9% y/y. Real GDP growth has been strong for a protracted period, +6.7% annual average over the period 2000-15, and EH expects it will remain high supported by a continuing expansive fiscal policy partially made possible by resumption of EU budgetary support in April 2015, by strong domestic demand, by weak oil prices (petroleum represents over 20% of the import bill) and by inflows of FDI into the energy sector. EH forecasts GDP growth of +7.5% in 2016.

Asia Pacific

Japan: Outlook in the balance

Hard data indicate some weaknesses. Nominal wages decelerated in November 2015 (+0% y/y, +0.7% in October) and retail sales contracted (-1% y/y from +1.8%). Industrial production was mixed (+1.6% y/y, -1% m/m). Machinery orders, an early indicator of capital spending, weakened (+1.2% y/y from +10.3%). Bank lending growth decelerated further to +2.2% y/y (+2.3% in October, +2.6% in Q3 2015). However, private sector surveys still point to a resilient outlook. Manufacturing PMI stabilised at 52.6 in December and the services PMI edged slightly down (51.5 from 51.6) but remains above the 50-threshold. Consumer confidence improved slightly to 42.7 in December (from 42.6 in November). Going forward, activity will strengthen gradually. Accommodative measures, with a cut in corporate tax, further support for households and monetary policy easing will allow GDP growth of +1.3% in 2016, but risks are tilted to the downside (weak wage growth and further slowdown in China).

What to watch

- January 15 – U.S. December industrial production
- January 15 – U.S. December producer prices
- January 15 – U.S. December retail sales
- January 15 – Brazil October unemployment
- January 15 – Brazil December industrial confidence
- January 15 – Spain December CPI
- January 15 – Italy December CPI
- January 15 – EU Ecofin meeting in Brussels
- January 15 – Russia December FX reserves
- January 18 – Russia Q4 BOP
- January 19 – China Q4 GDP
- January 19 – Germany December CPI
- January 19 – Germany January ZEW survey
- January 19 – UK December CPI, RPI and PPI
- January 19 – Russia Q4 net capital outflows
- January 19 – Turkey interest rate decision
- January 20 – WEF annual meeting, Davos (until 23rd)
- January 20 – UK November unemployment
- January 20 – Brazil December consumer confidence
- January 21 – France January business confidence
- January 21 – Germany January consumer confidence