Euler Hermes Economic Research

# Weekly Export Risk Outlook

16 March 2016

FIGURE OF THE WEEK

-13%

Egyptian pound devaluation against USD

## In the Headlines

### China: Glass half-full or half empty?

While the Chinese National People's Congress met to approve a new five-year plan, latest figures show a mixed trend. Nominal retail sales growth slowed to +10.2% Jan-Feb y/y (from +11.1% y/y Dec 2015). Real industrial production growth decelerated to +5.4% (from +5.9%). Financial volatility in January eroded household's confidence, while lower external demand and the seasonal effect of the Chinese New Year also weighed down on growth.
On the upside, nominal urban fixed-asset investment grew by +10.2% in February (y/y). Fiscal figures signal a rise in government expenditures in January (+24 % y/y).
Looking ahead, we expect economic activity to weaken in Q1, before stabilizing from Q2 onwards as macro-policies get further traction. Eased monetary policy will keep credit at a comfortable range, and fiscal stimulus should boost activity. Domestic demand will remain firm thanks to higher government spending and resilient private consumption. External demand will remain the main drag in the short run, weighing on industrial production. EH forecasts that GDP growth will slow down to +6.5% in 2016.

### Ireland: Fastest growing eurozone economy

As Irish communities celebrate St Patrick's Day around the world, the home country has one more reason to rejoice: Ireland's GDP grew by +2.7% q/q in Q4 2015. The Irish economy is now the fastest growing member of the Eurozone.
Growth was mainly driven by net trade (+1.5pp) followed by investment (+0.6pp) and consumption (+0.5pp). Overall growth stands at an impressive +7.8% in 2015, thanks to an unprecedented peak in investment (+28.2%) and a rise in consumption back to pre-crisis levels. However, over the whole year, imports continued to outpace exports (+16.4% against +13.8%).
Investments are stimulated by an advantageous tax regime. With corporate tax at 12.5%, the lowest in the EU, many companies choose to relocate to Dublin. However, the European Commission has recently sped up its investigation of state aid provided to some multinationals. Our forecast for the country's GDP in 2016 is +4.5%, with a slowdown in both consumption and investment.
Meanwhile, no government has been formed since the February elections which resulted in a hung parliament. Still, a grand coalition may emerge before April 6, when another vote for PM is expected.

### US: Intermediate-term outlook remains stable

February retail sales fell -0.1% m/m. Much of the decline was due to a sharp drop in gasoline sales, the eighth consecutive monthly decline. Autos were also a drag, declining -0.1% m/m. Discounting gasoline and autos, retail sales were better, rising a firm +0.3% m/m. On a y/y basis, retail sales increased by +3.1%, only half the long-term average, but ex-autos and gasoline sales were up +4.3%, the same as the long-term average. Overall, while the intermediate-term outlook remains steady, there was another setback to even stronger growth: January sales were revised down to -0.4% m/m from +0.2%.
Meanwhile, the manufacturing sector displayed another sign of potential recovery as the Empire State (NY) Fed survey went positive for the first time in seven months. It was driven in part by new orders, which increased for the first time in nine months. Moreover, inflation remains dormant, with producer prices falling in February by -0.2% m/m, as expected, to a 0% y/y rate.
Ex-food and energy, prices were flat, bringing the y/y inflation rate to a weak +1.2%.

### Egypt: Pound for pound?

In a further twist to the country's unfolding policymaking the Central Bank this week devalued the EGP by around 13% to 8.85 against the US dollar. The bank announced a "more flexible exchange rate" to resolve market imbalances and bolster foreign reserves. These stood at USD16.5bn in February - providing import cover of three months - compared with USD36bn pre-2011. The EGP was overvalued but the authorities had preferred to use, to date, a patchwork of policy measures, including import restrictions (see also **WERO 10 March 2016**). More clarity and transparency of policy are welcome but the new flexibility suggests further depreciation may be implemented later this year. Moreover, devaluation will increase inflationary pressures (headline CPI at 9.1% in February) at a time when the government is seeking to limit fuel and food subsidy provision. Social tensions may increase if countervailing social safety nets are not also increased and these will worsen the fiscal accounts. Market reaction was initially positive.

# Countries in Focus

Americas

## Colombia: Stay cautious

GDP grew by +0.6% q/q in Q4 2015, a slight deceleration from the previous quarter, but better than expected. With the exception of the mining sector, which contracted again by -0.6% q/q (after -1.9% q/q in Q3), other sectors showed overall positive growth. Notably, the construction sector rebounded by +0.8% q/q, after -2.9% q/q/ in Q3. Despite a slowdown, the manufacturing and services sectors continued to show some resilience. All in all, the economy expanded by +3.1% in 2015, after +4.4% in 2014 and +4.9% in 2013.
The fall in oil prices strongly hit the country's output as petroleum products account for more than 50% of exports. This also led to a sharp depreciation of the Colombian peso, which has lost almost -60% against the USD since June 2014, fuelling inflation. Inflation reached +7.6% y/y in February, far above the target of 3% (+/-1pp). We expect the economy to decelerate again this year to +2.6%.

Europe

## Turkey:  Early indicators point to a slowdown in 2016

Despite optimism at the start of the year, thanks to growth of seasonally and calendar-adjusted industrial production, which picked up to five-month highs of +1% m/m and +5.6% y/y in January, the overall picture is less than positive. The PMI manufacturing weakened to 50.3 points in February – after 50.9 in January and the 22-month high of 52.2 in December – still indicating expansion but a loss of steam. Meanwhile, seasonally and calendar-adjusted real retail sales contracted by -1.6% m/m and edged up by just +0.2% y/y in January (after an average annual +3.6% in 2015). This suggests that consumer spending, so far a robust growth driver, may weaken this year. At the same time, geopolitical problems intensified the contraction of exports to -22% y/y in January, while imports also dropped by -19.7% y/y thanks to lower commodity prices. Euler Hermes expects annual real GDP growth to moderate to +3.3% in 2016, from an estimated +3.6% in 2015.

Africa & Middle East

## Angola:  DOS commands?

President José Eduardo dos Santos, who has led the country since 1979, announced that he will step down from office in 2018. Uncertainties remain as the country's next elections are scheduled for August 2017 and there are concerns relating to potential dynastic succession. Meanwhile, officials announced that the kwanza (AOA) will not be devalued, although it may be allowed to depreciate incrementally. Furthermore, policymakers claim that currency support remains adequate and that "technical assistance" from the World Bank and the IMF is aiding economic diversification. A financial facility from the IMF is not currently under negotiation but opaqueness of debt obligations to China raises further uncertainties. As a direct response to weak oil prices and deterioration in the outlook for GDP growth and fiscal and current accounts, state spending in the 2016 budget will be cut by -20%. The impact of this will be felt largely in the private SME sector and delay/non-payment risks will increase.

Asia Pacific

## Japan:  Green shoots

Industrial production picked up in January, with +3.7% m/m after a contraction in the previous month. Capacity utilization also showed a positive sign: it increased by +2.6% in January m/m, against -1.0% in December. Meanwhile, machinery orders picked up by +15.0% m/m, signaling more dynamic investment. All in all, these indicators point toward a gradual recovery of the industrial sector. However, on a year-on-year basis the industrial production growth indicator remains negative at -3.8%. This decrease is even more important than the one experienced in the previous month (-1.9% y/y). Other sectors also showed positive – though fragile – signs: the tertiary industry index rose by +1.5% m/m in January, but remains negative on a y/y basis (-0.6%). On the monetary side, the Bank of Japan's governors decided to keep their negative rate, at -0.1%, showing confidence in their forecasts and in their assessment of the country's economic and monetary outlook.


# What to watch

- March 17 – South Africa SARB interest rate decision
- March 18 – BOE monetary policy decision
- March 18 – Canada January retail sales
- March 18 – Canada February consumer prices
- March 21 – U.S. February existing home sales
- March 22 – France, Germany and Eurozone Markit PMI
- March 22 – UK February inflation rate
- March 22 – Brazil March Business confidence
- March 22 – Hungary interest rates
- March 22 – Germany March ZEW survey
- March 22 – Germany March Ifo business climate
- March 24 – Turkey interest rates