

Weekly Export Risk Outlook

24 October 2013

FIGURE
OF THE WEEK

+7.8%

China's Q3
y/y GDP
growth

In the headlines



China: On track

GDP growth accelerated to +7.8% y/y in Q3 (+2.2% q/q), from +7.5% in Q2 (+1.9%). A full GDP breakdown is not yet available but the latest data release suggests a strong contribution by private consumption and by investment. Nominal retail sales increased by +13.3% y/y in September, industrial production was up by +10.2% and urban investment expanded by +20.2% in the first nine months of the year. The outlook is broadly supportive of a smooth landing for the economy, with growth components continuing to prove resilient and generally sound policies set in place. Confidence within industry is improving, with manufacturing PMI in October increasing for the third month, to 50.9 (from 50.2 in September) and with a rise in most of the components, particularly new export orders. Against this background, EH has revised its GDP forecast for 2013, with growth now +7.6% (previously +7.4%).



US: Weak labour and housing data

The September jobs report disappointed, with only 148,000 jobs created, below expectations of 180,000 and well below the 250,000 needed to create a strong labour market. The data were unaffected by the government shutdown that started on 1 October. Job growth has slowed throughout the year, averaging 207,000 jobs per month in Q1, 182,000 in Q2 and only 143,000 in Q3. Unemployment inched down to 7.2%, but the labour force participation rate remained unchanged at 63.2%, the lowest since 1978. The report almost certainly means that the Fed will not be tapering its QE programmes until next year, at the earliest. Moreover, the housing market continues to show signs of slowing as mortgage application volume for purchases fell for the third consecutive week and is down -1.7% since rates started to rise in May. Unit sales of existing homes fell -1.9% in September, while prices dropped -5%, the third consecutive decline.



Eurozone: Business confidence on a progressive recovery path

In October, the Composite PMI remained in expansionary territory for the fourth consecutive month, albeit deteriorating slightly (51.5 from 52.2 in September). The overall PMI was below consensus expectations as a result of weakness in the PMI for the services sector, which fell to a two-month low of 50.9, from 52.2 in September. However, there was a moderate improvement in confidence in the manufacturing sector, with the PMI at 52.9, compared with 52.2 in September. At a country level, the manufacturing PMI for Germany was 51.5, a two-month high, but France continued to surprise on the downside, with the PMI at 49.4 and now in contractionary territory for 20 consecutive months. In both countries, confidence in the services sector surprised on the downside, with the PMI down to 52.3 in Germany (from 53.7 in September) and to 50.2 in France (51.0). All in all, business confidence remains on a progressive recovery path (from very weak levels) suggesting stabilisation in activity in Q3-Q4 (between +0% and +0.2% GDP growth), below the Q2 reading that was mostly a result of a rebound after a weak weather-related Q1. Going forward, EH expects a moderate recovery into 2014, at +0.9% (after -0.5% this year), slightly below consensus expectations of +1%.



Commodities: Gold price weakness

The price of gold is currently around USD1,330/ounce, which is over USD360 lower than at the beginning of the year (-21%). Gold prices have fallen over this period for two main reasons. Firstly, some central banks (including Cyprus) signalled a desire to sell gold from reserves to boost hard currency liquidity. Secondly, the US Fed announced in mid-year that its tapering policy would start, although the time period was left uncertain, and the prospect of higher US interest rates is negative for gold prices. EH expects continuing weakness in gold markets as the tapering exercise is likely to be phased in over the course of 2014. Gold producers (corporates and nationals) without locked in prices will have revenues squeezed. While China's output is now the largest (13.7% of world supply), the economies that may have increased vulnerabilities include Russia (7.6%), South Africa (6.3%), Peru (6.1%), Indonesia (3.5%), Uzbekistan (3.3%) and Ghana (3.3%). Although South Africa's dependence on gold is much reduced (it accounted for 11.5% of global output in 2006) weak prices at a time when it runs a challenging current account deficit and has confrontational labour relations in its mines suggest additional pressures.



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Latin America: Monetary policy variations

The region remains very diverse, not only in terms of rates of economic growth and pace and depth of structural reforms but also in terms of monetary policy. While **Brazil** is increasing interest rates and **Mexico** is cutting them, monetary policies in **Chile, Peru, Argentina** and **Colombia** remain on hold. Minutes of the October 9 Copom meeting in **Brazil** (when the Selic policy interest rate was hiked by 50bps) highlighted the inflation dynamics, with year-to-date average headline and core inflation standing at 5.9% and 6.1%, respectively, in September and near the upper target range of 4.5% ($\pm 2.0\%$). In recent months, the central bank has also relied on large FX intervention to contain imported inflation from sharp BRL depreciation. In contrast, the limited impact from financial market volatility, as well as easing headline inflation (3.4% year-to-date average in September) and subdued core inflation, enabled **Mexico** to reduce its policy rate by 25bps to 3.75% in September.

Spain: Stabilising before slowly recovering

Bank of Spain estimates show that GDP increased by +0.1% q/q in Q3 (-0.1% in Q2), in line with consensus expectations and the first quarterly expansion since Q1 2011. External trade contributed +0.4pps to overall growth, with a decline in imports (-0.7% q/q) and moderate expansion in exports (+0.4%). Domestic demand remained negative (-0.3% q/q, unchanged from Q2). Private consumption increased by +0.1% q/q, the first growth since the beginning of 2012. However, domestic demand is likely to remain weak in the short term because of labour market difficulties, high household indebtedness, weak credit availability in the private sector and further fiscal consolidation. EH's central scenario is of stabilisation in growth in H2 2013 and a gradual recovery in 2014, mainly driven by stronger exports and partly reflecting further downward adjustments in labour costs and easing deterioration in domestic demand. EH expects GDP to contract by -1.4% in 2013 and grow by +0.5% in 2014.

Israel: Policy mix and outlook

After four months of deliberation, Karnit Flug was appointed governor of the central bank (subject to ratification). Flug is deputy governor (and acting governor after Stanley Fischer left the post at end-June), so monetary policy is unlikely to alter substantially. During her acting governorship, she oversaw a cut in policy interest rates of 0.25pps to 1% (23 September) and monetary easing (cumulative cuts of 1pps since December 2012) reflect subdued price pressures (inflation now comfortably within the target range of 1-3%). Meanwhile, fiscal austerity is improving the budgetary accounts, thereby easing deficit financing and the debt burden, while helping to maintain the sovereign rating. However, austerity measures will limit potential GDP growth. EH expects expansion of around +3% in 2013 and a rebound in 2014, at +4%, reflecting the domestic policy mix, further expansion in the natural gas sector, and an anticipated improvement in the global environment.

Singapore: Q3 GDP and monetary policy

Advance estimates (based on data for two months) indicate that Q3 GDP increased by +5.1% y/y, after +4.2% in Q2, but declined by -1% on a q/q seasonally-adjusted annualised basis, following the strong +16.9% expansion in Q2. The y/y increase in Q3 was led by a strong +5.7% rise in the services sector (+5.6% in Q2) that was supported by sound growth in the finance and insurance and wholesale and retail trade sectors. Growth in the manufacturing sector reached +4.5% y/y (+1.3% in Q2) reflecting strong output in transport engineering and electronics. Construction sector growth moderated to +3.6% y/y (+6.9% in Q2) reflecting weaker public sector construction activity. A detailed breakdown of the GDP data will be released by early November. EH expects GDP growth to reach +3% in 2013 and to strengthen to +3.8% in 2014. Meanwhile, inflation eased to 1.6% y/y in September from 2% in August and the Monetary Authority last week kept monetary policy unchanged.

What to watch

- October 24 – Brazil September unemployment
- October 24 – US September new home sales
- October 24-25 – EU leaders' summit, Brussels
- October 25 – Czech Republic parliamentary elections
- October 25 – UK Q3 GDP
- October 27 – Argentina mid-term elections
- October 27 – Georgia presidential elections
- October 29 – US Fed FOMC meeting (decision Oct. 30)
- October 29 – South Africa Q3 unemployment
- October 30 – Spain, Lithuania and Ukraine Q3 GDP
- October 30 – Taiwan Q3 GDP
- October 30 – ECB bank lending survey

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