Euler Hermes Economic Research

Weekly Export Risk Outlook

11 May 2016

In the Headlines

FIGURE OF THE WEEK

26.7%

South Africa's Q1 2016 rate of unemployment

U.S. & Canada: Bad week for Canada

Weaknesses in **U.S.** labour, trade and manufacturing are indicative of the slow growth expected through 2016. Only +160,000 jobs were added in April (expectations of +200,000), unemployment remained 5% and the labour force fell -362,000, the first contraction in seven months. Wages increased by +0.3% m/m and +2.5% y/y; this rate varied between +2.3% and +2.6% in the past six months, indicating tepid inflationary pressures. Core factory orders gained only +0.1% m/m and are still down -2.3% y/y. The trade deficit contracted to –USD40.4bn from -USD47bn, but details suggest it resulted from weak domestic and global demand. The only positive came from the ISM non-manufacturing index, which gained +1.2 to 55.7. Meanwhile, it was a bad week for **Canada**, with the trade deficit increasing to a record -CAD3.4bn in March, -2,100 jobs were lost in April and widespread wildfires burned through the oil province of Alberta. Initial estimates of the damage vary widely, with some Q2 GDP growth estimates turning negative; insured losses are estimated at between -CAD4bn and -CAD9bn. Oil production is expected to come back on line quickly and a rebound in Q3 is likely.

Austria: Political turmoil ahead?

On Monday, Chancellor Faymann stepped down with immediate effect and also resigned as head of the Social Democratic Party (SPÖ), triggered by the loss of support from his party following the failure of the SPÖ's candidate in the first round of the presidential election last month (he got 11% of the vote). Austria is currently governed by a "grand" coalition comprising the SPÖ and the centrist ÖVP whose candidate for the presidential post also failed with 11%. Thus the run-off on 22 May will see first round winner Hofer (35%) from the nationalist FPÖ compete against the independent and Greens-backed van der Bellen (21%). In practice, presidents have merely acted as ceremonial figureheads since 1945. However, Hofer has threatened, if elected, to make use of a presidential right to dissolve parliament before the 2018 elections. As a result, the SPÖ and ÖVP will be keen to try to form a new government as soon as possible since recent opinion polls show the FPÖ with a clear lead while SPÖ and ÖVP would be unable to form a new two-party coalition if early elections are held now.

Philippines: And the election winner is…

Presidential, legislative and local elections were held on 9 May, with the presidential poll attracting most attention as this determines the head of state and of government. Preliminary results indicate that the winner is Rodrigo Duterte (mayor of Davao for almost 22 years) who campaigned in favour of tough measures on law and order; Duterte promotes unconventional methods to reduce crime and is seen as somewhat controversial. In terms of the economy, Philippines has been performing close to the regional average. The short-term impact of the elections is likely be minimal and we expect GDP growth of +5.8% in 2016. The outgoing Aquino administration is leaving office with a broadly positive legacy of strong growth and solid public finances and external accounts. Advanced indicators show increasing credit growth and rising remittances, which will underpin domestic demand. In the medium term, risks to the outlook include potential reductions in domestic investment growth and foreign investment inflows, particularly if the new government loses international confidence.

Greece: The first step is almost finalised

Following the Eurogroup meeting on 9 May, the latest Troika review on Greece seems near to completion, at which point it will allow the disbursement of EUR5.6bn. This should cover all bonds and IMF loans maturing at end-July and help pay for pensions and civil servant salaries. With the exception of some technical details that still need to be agreed, the contingency mechanism, which will be implemented automatically if the government fails to meet the annual primary surplus target of 3.5% of GDP in 2018, should be ready soon. It will complement a first set of measures, equivalent to 3% of GDP, including an overhaul of the pension system, just voted through by the Greek Parliament. Eurozone finance ministers also recalled their willingness to lighten Greece's debt burden. This could take the form of grace periods or longer maturities; more details are likely to be revealed on 24 May. For now, any haircut on the outstanding amount is excluded. The deal will allow further easing of capital controls in H2, thereby boosting economic growth.

Countries in Focus

Americas

Latin America: Tightrope walking

For regional economies, earlier strong depreciations have now fed through to inflation and Central Banks have tightened monetary policies. The pain was initiated by a fall in commodity prices last year. However, since the beginning of 2016, commodity prices and exchange rates have recovered somewhat (see WERO 27 April 2016), but inflation is still quite strong (9.3% y/y in **Brazil**) as past depreciations initiated structurally-stronger inflation expectations. Central Banks are still waiting for lower expectations before easing their stance. This is likely to arise in countries experiencing recession (deflationary pressures on the labour market) but the situation is different for overheating economies, as in **Colombia**, where inflation is still accelerating despite monetary tightening. **Mexico** is an outlier as inflation has remained low but the Central Bank had to tighten monetary policy to offset downside pressures on the MXN (related to monetary policy expectations in the U.S.).

Europe

Ukraine: Gradual easing of capital controls

The Central Bank partly eased currency controls, effective from today. The most important change is that companies are no longer required to convert 75% of their FX earnings in UAH. Currency controls for individuals, which were somewhat relaxed in March, remain in place, along with a ban on early repayment of loans by firms to foreign lenders. The decision follows recent UAH strengthening against the USD and some improved short-term economic indicators. The UAH has recovered from the low of end-February and currently trades around 1:25 against the USD, the same as at end-2015. Inflation fell to 21% y/y in March (43% at end-2015) and allowed the Central Bank to cut its policy interest rate by 300bps to 19% in April. Industrial production increased by +3.7% y/y in Q1, the first rise since Q2 2012. Nonetheless, the economy remains in poor condition overall. EH forecasts real GDP will edge up by +1% in 2016, reflecting base effects, after the sharp -10% drop in 2015.

Africa & Middle East

Saudi Arabia: Change upon change

A government reshuffle on 7 May came shortly after the launch of the 'Vision 2030' programme of reforms (see WERO 27 April 2016). The personnel changes and organisational restructuring include a new governor at the Central Bank (SAMA) and a new oil minister with additional responsibilities for power and other natural resources. The changes are intended to improve government responsiveness and efficiency and to support the programme of reforms. EH expects recent key policies will remain unchanged: (i) the oil strategy will concentrate on maintaining market share and keeping output high and (ii) the exchange rate system (pegging the SAR to the USD) will remain unchanged this year and probably through 2017. Expect further policy announcements; a more-detailed road map for implementing 'Vision 2030' is scheduled to be released in June. Changes to the regulatory environment will also be required; a new insolvency law is reportedly close to finalisation.

Asia Pacific

China: Is the worst behind? Not really

Price data suggest deflationary pressures eased in April; consumer prices increased by +2.3% y/y and producer prices contracted by -3.4% y/y (slower than in the previous month). However, an improved outlook for trade in March did not carry over to April, with USD-denominated exports contracting by -1.8% y/y (+11.5% in March). Demand for Chinese goods decreased in the U.S. and Japan, while growth was mainly evident in markets in the EU and ASEAN. Further contraction was reported in import data (-10.9% in April) and this was broad based, with the exception of Hong Kong. Imports from the latter continued to increase rapidly (+203% y/y) perhaps inflated by trade invoicing designed to disguise capital outflows from the Mainland. Regulatory bodies in both China and Hong Kong are working to reduce such flows through implementing further controls. Looking ahead, advanced indicators suggest only a very gradual recovery, reflecting soft new orders and deteriorated price competitiveness.

What to watch

- May 12 – EU members April CPI
- May 12 – UK BoE monetary policy meeting
- May 13 – U.S. April retail sales & PPI
- May 13 – Poland March current account
- May 13 – Germany April CPI (final)
- May 13 – EU-28 & Eurozone Q1 GDP (flash estimates)
- May 13 – Italy March trade balance
- May 13 – Brazil March economic activity
- May 14 – China April retail sales
- May 14 – China April industrial production
- May 14 – China April fixed asset investment
- May 16 – Israel Q1 GDP
- May 16 – Russia & Ukraine Q1 GDP (1st estimates)
- May 17 – U.S. April housing starts & permits & IP
- May 17 – Canada March manufacturing shipments
- May 18 – South Africa April CPI
- May 18 – Austria April CPI
- May 18 – Russia April industrial production

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