Euler Hermes Economic Research

Weekly Export Risk Outlook

20 April 2016

FIGURE OF THE WEEK

367

Votes in Brazil's Lower Chamber favouring impeachment procedures

In the Headlines

Brazil: The beginning of the end?

Last Sunday's Lower House impeachment vote against President Dilma Rousseff, currently serving a second term in office, was the beginning of the official process against her following accusations of manipulation of budgetary accounts. A large number of representatives (367) voted for her impeachment and only 137 voted against such a procedure. This reflects the president's unpopularity in the country as a whole, with polls indicating that less than 10% of the population holds a favourable opinion of Rousseff and 60% supports the current impeachment procedure. The Senate (Upper House) will now decide, by the beginning of May, whether to carry the process forward towards trial and, if so, Rousseff will have to step down for a period of up to 180 days, temporarily replaced by Vice-President Michel Temer. The final vote of the Senate could be as early as June or as late as November. If Roussef is impeached (60% probability) Temer will hold office until the end of the current mandate, which expires in 2018. This political turmoil takes place amid economic recession (we expect GDP will contract by -3.5% in 2016), high inflation (9.4% y/y in March) and revived social tensions.

China: Bumpy ride or smooth sailing?

GDP growth slowed to +6.7% y/y in Q1 (after +6.9% in 2015). The tertiary sector was the main growth driver, with +7.6 % y/y (+8.3% in 2015) but the secondary sector continued to underperform (+5.8% in Q1). High-frequency indicators suggest that most of the momentum came in March, with nominal retail sales up +10.5% y/y (+10.2% in Jan-Feb), nominal urban fixed investment up +10.7% (from +10.2%) with stronger public investment and exports up by +11.5%. Real industrial production picked up to +6.8% y/y (+5.4% in Jan-Feb) as a result of improved new orders and better financing conditions. Meanwhile, price data indicate that manufacturing deflation is easing and consumer inflation is strengthening. Advanced indicators point to improved activity in Q2 as both official and unofficial PMI sent positive signals in March. Credit is expanding rapidly (easing monetary policy) and fiscal stimulus is scheduled, so GDP growth, although decelerating, will still be +6.5% in 2016. However, corporate risks remain elevated (insolvencies up +20%) with high corporate leverage and more payment delays.

Russia: External trade remains weak

Initial official estimates indicate that the current account surplus in Q1 was +USD11.7bn, a decrease of –USD18.3bn (-61% y/y) from Q1 2015. Exports of goods contracted by -34% y/y as a result of a renewed fall in global oil prices as revenues from oil and oil products fell by -45% y/y. Imports of goods were also down but by a more moderate -15% y/y, reflecting the impact of a weaker RUB, still elevated inflation (average 8.4% y/y in Q1) and interest rates on domestic demand. As a result, the trade surplus contracted to +USD22bn in Q1, down from +USD46bn in Q1 2014. Meanwhile, industrial production edged up by +0.4% m/m in March (after +0.1% m/m in February) and its decline in y/y terms moderated to -0.7% in Q1 (from -3.9% y/y in Q4 2015). However, the manufacturing component remained weak and the manufacturing PMI deteriorated to 48.3 points in March (49.3 in February) while the services PMI edged up to 50.8 (from 50.6). Overall, this indicates that the slump in domestic demand is perhaps easing. Euler Hermes forecasts a contraction in GDP of -0.9% in 2016 (after -3.7% in 2015).

Argentina: Welcome back to capital markets

On 18 April, the country made a striking return to capital markets after 15 years in exile. An initially-planned offering of USD15bn in sovereign bonds was easily surpassed, with actual sales of USD16.5bn. The offer was four times oversubscribed for all maturities. Overall, USD2.75bn three-year bonds were sold at 6.25% interest, USD4.5bn five-year bonds at 6.9%, USD6.5bn ten-year bonds at 7.5% and USD2.75bn 30-year bonds at 7.6%, implying an average interest rate of 7.1%. These rates reflect an improved investor confidence since Mauricio Macri won the presidential run-off at end-2015. The ten-year yield is markedly below that for Brazil (currently around 13%). Part of the new debt will be used to pay USD9.4bn due to the debt holdouts next Friday, thus ending the legal battle in New York courts that began in 2014 and reclassifying the country away from default. This represents a successful first step towards economic recovery but there is still a long way to go (see our latest Country Report).

Countries in Focus

Americas

U.S.: Weak consumption and other data indicate anaemic Q1

March retail sales fell -0.3% m/m to a slow +1.7% y/y rate. In particular, auto sales fell a sharp -2.1% m/m, to a +1.4% y/y rate, the slowest since August 2010. Moreover, sales excluding autos and gasoline gained only +0.1% m/m, putting the y/y rate at +3.9%, compared with a long-term average of +4.3%. Similarly, the Fed's Beige Book reported only moderate consumer spending and the Consumer Sentiment survey fell for the fourth consecutive month, losing -1.3 points to 89.7. Meanwhile, industrial production fell -0.6% m/m in March, the sixth decline in seven months, and by -2% y/y. The manufacturing component also fell, losing -0.3% m/m to a lowly +0.4% y/y rate. Inflation remained quiet in March; CPI and PPI are running at y/y rates of 0.9% and -0.1%, respectively, while y/y core rates are running at 2.2% and 1%, both down -0.1pps from last month's reading. March housing starts fell -8.8% m/m and permits fell -7.7% m/m.

Europe

Eurozone: Further credit easing for the private sector

The Q1 ECB Bank Lending Survey indicates continued easing in credit standards for all types of loans, except housing. Demand increased for consumer credit, housing loans and loans to corporates, although at a slower pace than in Q4 2015 in terms of corporate and consumer credit. Improved optimism, along with fiercer competition, helped ease standards, terms and conditions for credit, while also triggering lower interest rates that stimulated credit demand. The ECB's additional accommodative monetary policy measures have had a notable impact on the banking sector. The survey reveals that, since March 2015, the asset purchasing programme has boosted lending and eased credit conditions, but has had a negative impact on bank profitability. Likewise, the negative deposit rate has been positive for lending volumes but reduced net bank interest income. We expect further action from the ECB, most probably in H2, as inflation will remain only 0.2% in 2016 and 1.3% in 2017.

Africa & Middle East

Mozambique: Tarnished image?

The IMF suspended funding. This follows allegations that during last year's negotiations for a USD283mn Standby Credit Facility (SCF, USD119mn of which was disbursed in December 2015) the country failed to disclose debt liabilities to commercial lenders of over USD1bn. In addition to delayed disbursements from the SCF, other multilateral and bilateral financial support may be withheld pending resolution of the dispute. With very large deficits on its current account (estimated at -37.5% of GDP in 2015), the country can ill afford to lose balance of payments support, in particular, or antagonise the lending and donor communities, in general. We expect a revised agreement will be reached with the Fund but with stronger conditionalities attached to the funding. As such, we also expect that some contractors involved in infrastructure project work (including ports and railways) will face payment delays. We revised down our projected GDP growth for this year to +5% (from +6%).

Asia Pacific

Singapore: Downward pressures are increasing

Retail sales declined by -3.2% y/y in February (+7.6% in January). Other than motor vehicles, most of the key items recorded a fall in demand, particularly food and drink (-34.7% y/y) but also telecoms, clothing and computer products (-16.6%). Non-oil domestic exports (NODX) contracted by -15.6% y/y in March (+2% in February) and the decline was broad based but particularly evident in both electronic and non-electronic domestic exports. Demand fell in most major trade partners, including the EU, ASEAN, the U.S. and South Korea, with only markets in Hong Kong and Japan showing resilience. This data follow a preliminary GDP growth estimate of +1.8% y/y (0% q/q) and the Central Bank's decision to ease monetary policy. We expect GDP growth of +2% in 2016, compared with a long-term annual average of +6%. External-oriented activities remain prone to downward pressures, reflecting weak global demand and lower retail sales indicate weakening domestic demand.

What to watch

- April 21 – Eurozone ECB monetary policy meeting
- April 21 – UK March retail sales
- April 21 – U.S. April Phil. Fed manufacturing survey
- April 22 – Canada February retail sales
- April 22 – Eurozone April PMI
- April 22 – Eurogroup meeting (incl. Greek troika review)
- April 25 – Germany April Ifo business climate
- April 25 – U.S. March new home sales
- April 25 – U.S. April Dallas Fed manufacturing survey
- April 26 – U.S. March durable goods orders
- April 26 – U.S. April consumer confidence
- April 26 – South Korea Q1 GDP
- April 26 – Hungary interest rates
- April 27 – France April consumer confidence
- April 27 – UK Q1 GDP (preliminary estimate)
- April 27 – Germany April GfK consumer climate index
- April 27 – Eurozone April M3 money supply
- April 27 – Mexico March unemployment
- April 27 – U.S. February international trade
- April 27 – U.S. Fed meeting
- April 28 – U.S. Q1 GDP

View all Euler Hermes Economic Research online
http://www.eulerhermes.com/economic-research

Contact Euler Hermes Economic Research Team
research@eulerhermes.com

Publication Director
Ludovic Subran, Chief Economist
ludovic.subran@eulerhermes.com