

Weekly Export Risk Outlook

3 April 2014

In the Headlines

FIGURE
OF THE WEEK

+2.6%

US q/q
annualised Q4
2013 GDP
growth



Ukraine & Russia: Crisis update



Russia increased economic pressure on Ukraine by cancelling (effective from 1 April) the 33% gas price discount agreed in December 2013. The higher import costs will put Naftogaz (Ukraine's state-owned gas company) and ultimately the Ukrainian government under more financial strain. This could rise even further as Russia steps up claims for payment of gas arrears, estimated at USD1.5 billion, and asserts that a separate gas price discount from 2010 – agreed in exchange for the 25-year lease that provides the Russian Black Sea naval fleet a base in Crimea – is no longer valid, since the lease is redundant now that Crimea is part of Russia. On a positive note, there have been tentative signs of rapprochement between Russia and the US on resolution of the conflict. Moreover, the IMF announced staff level agreement with Ukraine on a two-year Stand-By Arrangement (SBA), with the total financial support from the international community envisaged at USD27 billion. If approved by the IMF Board, the SBA will reduce the risk of economic collapse in the short term, but it will require painful economic reforms and a recession in 2014 is unavoidable. Overall, the economic crisis in Ukraine appears to have stabilised at a very high level, with considerable downside risks related to internal and external political uncertainties.



US: GDP and home sales data remain weak

GDP increased by a modest +2.6% q/q annualised in Q4 2013, putting the full-year rate at an anaemic +1.9%. Consumption increased by +3.3% but, excluding a large inventory build, real final sales increased by only +2.7% q/q. Personal income and personal consumption expenditure both increased by +0.3% in February, but taxes and inflation have taken their toll; over the past three months, disposable income contracted by -0.2% annualised, while consumption increased by only +1.8%. Meanwhile, pending home sales in February fell for the eighth consecutive month, suggesting that existing home sales, which have fallen in six of the past seven months, will also be weak. Fed Chair Yellen sought to reassure markets that interest rates will stay low for an extended period, noting that the "recovery still feels like a recession to many Americans". On a brighter note, the ISM manufacturing index continued to recover from winter weather, rising 0.5 to 53.7 in March, with new orders rising 0.6 to 55.1, while production and order backlogs increased strongly above the expansionary 50-level.



Turkey: 2013 GDP growth and local election results

Q4 2013 real GDP growth remained robust at +4.4% y/y (+4.3% in Q3) and +0.5% q/q (+0.8% in Q3), taking full-year 2013 growth to +4% (up from +2.1% in 2012), matching the EH forecast. Domestic demand was the sole growth driver, with private consumption expanding by +4.6%, public consumption + 5.9% and fixed investment +4.3%. Exports were almost flat at +0.1% while imports increased by +8.5%, so net exports made a large negative contribution to full-year 2013 growth. In 2014, domestic demand is expected to moderate as a result of monetary tightening and TRY depreciation, while the latter should support exports. However, stronger external demand is unlikely to offset fully weaker domestic demand and EH forecasts growth will ease to +3% in 2014. Local elections on 30 March resulted in a resounding victory for the ruling AKP - 45% of the vote, up from 39% in 2009 but below the 50% it got in the 2011 parliamentary election. Seen as an informal referendum on the leadership of PM Erdogan, the AKP win reduced short-term political uncertainty and calmed financial markets. However, with a potential crackdown on opponents who accuse Erdogan and other AKP leaders of corruption, prospects for an easing in political tensions and of reconciliation within the highly polarised society appear remote.



France: A new sheriff in town

Despite a slowdown in public outlays, primarily due to lower interest expenditures, the fiscal deficit was higher than the government's target (at -4.3% of GDP compared with an expected -4.1%), reflecting lower receipts. Consequently, public debt increased to 93.5% of GDP in 2013, from 90.6% in 2012. The second estimates of GDP show a downward revision in private consumption (-0.1pps to +0.4% q/q), as well as for total investment (-0.1pps to +0.5% q/q). Disposable income fell by -0.2% for a second consecutive quarter, but households have reduced their savings rate to compensate (15.2% in Q4 2013 compared with 15.7% in Q3). Investment continues to be hampered by weak profitability and private consumption. Meanwhile, following the centre-left defeat in the municipal elections, President François Hollande instigated a major government reshuffle, including a new PM, Manuel Valls, the leader of the right-wing of the socialist party. Expect the new government to postpone further austerity measures and negotiate with Brussels for more time to comply with fiscal targets.

Countries in Focus

Americas

Peru: Growth to remain among the region's best

Despite a slowdown in 2013, real GDP growth remained among the highest in the region. Growth decelerated to +5% from +6.3% in 2012, with a slowdown in all components, particularly investment, which was dampened by weaker prospects for commodities. The economy has weathered well the more difficult financing conditions facing emerging market since the first hint of US Fed tapering, largely because of actions by the monetary authorities (sales of USD and lowered reserve requirements to stabilise the exchange rate). However, risks of renewed financial tensions remain, especially if Chinese economic activity levels weaken as that country is Peru's leading export market. However, potential weaker export levels to China could be attenuated by the recovery in global trade and shipments to other markets. EH expects GDP growth will accelerate to +5.6% in 2014 and +6% in 2015, with the main driver strong domestic demand.



Europe

Portugal & Spain: Satisfactory fiscal consolidation in 2013

The fiscal deficit in **Portugal** was equivalent to -4.5% of GDP in 2013 (-4.9% including support to banks) and therefore better than the target of -5.5% agreed with the European Commission. Despite this good performance, public debt continued to increase in nominal terms and reached 129% of GDP, among the highest in the eurozone. In **Spain**, the fiscal deficit (excluding support to banks) was reduced to -6.6% of GDP (after -6.8% in 2012), slightly above the target of -6.5%. However, including public support for the banking system the deficit widened to -7.1% of GDP. Public debt increased significantly in 2013, to 93% of GDP, after 86% in 2012. EH expects fiscal consolidation will be pursued in both countries in 2014 and 2015, but targets are unlikely to be achieved. The fiscal deficit in Spain is forecast at -6.1% in 2014 (against a target of -5.8%) and -5.2% in 2015 (target -4.2%) and in Portugal the deficits will be -4.3% (target of -4%) and -3% (target -2.5%), respectively.



Africa & Middle East

Saudi Arabia: Further succession manoeuvres

King Abdullah formally appointed his half-brother, Prince Muqrin (second deputy PM since February 2013), as deputy crown prince. As a result, Muqrin becomes the next in line, after Crown Prince Salman who is generally acknowledged to be in fragile health. It appears likely that the Allegiance Council, set up in 2006 to manage the succession process, approved the appointment and that this is part of a staged transition to the third generation of Saudi princes (Muqrin is second generation). Even so, with Abdullah also frail, expect considerable speculation to continue, with largely unsubstantiated reports of infighting between rival camps within the extended royal family. This is happening at a time when US-Saudi Arabian relations are perhaps being realigned and against a background of continuing regional tensions. Meanwhile, Fitch recently improved its sovereign credit rating to AA from AA-, reflecting strong fiscal and external accounts and sound policies.



Asia Pacific

Japan: First increase in sales tax since 1997

On 1 April, the sales tax was increased from 5% to 8%, the first increase since 1997. This hike is a first step in addressing fiscal pressures (public debt is above 230% of GDP) as it is expected to add JPY8 trillion to government revenues. However, the impact on debt sustainability will be attenuated by other stimulus measures, such as a cut in the corporate tax and social transfers. Taking into account the very accommodative policy stance and some improvement in wages, private consumption is likely to contract by only -1.8% q/q in Q2 (compared with -3.5% q/q in 1997) and then recover moderately as it will be limited by rising prices and weak confidence. Indeed, consumer confidence decreased to 38.3 in February (after 40.5 in January) and business sentiment is less buoyant than expected, signalling weak investment in the short term. For the full year 2014, EH expects GDP growth of +1.2%, compared with +1.5% in 2013.



What to watch

- April 4 – Canada March unemployment
- April 4 – Russia March CPI
- April 4 – US March non-farm payrolls
- April 4 – US March employment report
- April 7 – South Africa March international reserves
- April 7 – Japan February current account
- April 7 – Egypt March net international reserves
- April 7 – Spain February industrial production
- April 7 – Spain March CPI
- April 7 – Italy 2013 fiscal deficit
- April 9 – Portugal February trade balance



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