



# Weekly Export Risk Outlook



EULER HERMES

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## In the Headlines

**FIGURE OF THE WEEK: 8.9%** >CHINA'S YR/YR Q4 2011 GDP GROWTH

### ▶ Euro-zone: Debt crisis update

S&P lowered the long-term sovereign rating of nine EZ members last week, including France and Austria from AAA to AA+. As a consequence, S&P also lowered the rating on the EFSF (guaranteed by EZ members). The market response was muted, however, as the actions had been largely anticipated. The ratings action also coincided with the temporary suspension of negotiations with private sector bondholders on the Greek debt swap, but these should resume today. The immediate focus remains on the Greek debt swap—where pressure to conclude a deal remains intense as failure could lead to disorderly default—“Troika” discussions, moving ahead with the revised fiscal compact and bringing forward the start of the ESM (the EZ permanent “bail-out” fund). Meanwhile, the ECB will need to remain active in the background.

### ▶ US: Sentiment improving

Signs of improvement in the economy are becoming more abundant, although there is still a long way to go to return to any sort of “average” level of activity. The Federal Reserve’s “Beige Book” survey noted that economic activity was expanding at a “modest to moderate pace” in 11 of 12 districts. At its next meeting on 24-25 January, the Fed will take the unprecedented step of forecasting the Fed Funds rate along with the periodic forecasts of growth, inflation, and unemployment. Presumably this added transparency is aimed at increasing certainty and helping to promote economic growth. Meanwhile, overall holiday sales exceeded expectations, although the yr/yr growth rate was still less than last year, and consumer sentiment improved sharply from 55.7 in August 2011 to 74.0 in January.

### ▶ China: Moderate slowdown

Q4 real GDP was a stronger-than-expected 8.9% yr/yr (9.1% Q3) and a still robust 8.2% qtr/qtr, seasonally adjusted. As a result, 2011 annual growth was 9.2%, down from 10.3% in 2010. Industrial production and retail sales data for December released this week were also stronger than expected, although fixed asset investment slowed. Growth will probably ease further in Q1 2012, as the global slowdown affects exports and previous monetary tightening has a domestic impact, but policy is also set to become more expansionary, given concerns over export demand, the EZ crisis and the political leadership transition later this year. While the effect of policy loosening is likely to be more limited than in 2009/10, growth in 2012 as a whole should still exceed 8%.

### ▶ Egypt: Return to the IMF

This week’s request for an IMF USD3.2bn stand-by facility reflects significant economic deterioration associated with the uncertain political transition and an ill-defined future policy stance. Expect the Fund to agree to the request—an initial accord had been agreed in June last year but Cairo did not take up the facility at that time. Since then, tourism revenues have remained weak, inward investment has been on hold and FX reserves have been further depleted. Reserves fell to around USD18bn in December, down 50% since end-2010. Tourist arrivals fell 27.5% yr/yr in November, with the largest decline from Europe, but Suez Canal dues increased 9.5% yr/yr in the first 11 months of 2011, to USD5.2bn. With significant uncertainties relating to the political transition, investment (domestic and foreign) is unlikely to expand strongly and EH forecast for overall growth in 2012 is only around 2.5%, with negative implications for job creation and likelihood of further social tensions.

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► **Mediterranean, Africa & Middle East – Tunisia: Recovery?**

Q3 2011 real GDP increased by 3.2% qtr/qtr and 1.2% yr/yr, after two consecutive quarterly contractions, reflecting relatively good agricultural output but a disappointing performance by manufacturing. Although there now appears to be positive momentum, expect 2012 overall growth to be modest, given the ongoing political transition, regional uncertainties and weaker global economic environment, particularly in the key EU market. Moreover, growth is likely to be driven by public spending rather than rapid expansion in industrial activity or return of a vibrant tourism sector—tourist arrivals were down 39% in 2011 and associated revenues therefore sharply curtailed. Expect around 2-3% growth in 2012, after the economy stagnated in 2011, assuming that political and social stability are maintained.



► **Americas – Chile: Early interest rate cut**

The central bank's monetary policy committee unexpectedly reduced the policy interest rates by 25bps to 5% at its latest meeting last week, a month earlier than generally expected. The bank cited the international growth slowdown and uncertainty over the EZ debt crisis as reasons for the cut, despite unexpectedly high inflation in December (4.4% yr/yr)—which it saw as largely the result of temporary factors (food prices and lagged exchange rate depreciation effects)—as inflation expectations remain near to the target. With the global slowdown and the knock-on effects to copper demand and prices looming larger than inflation pressures the central bank is likely to remain inclined towards monetary easing in the coming months. Expect GDP growth of around 4% in 2012.



► **Asia-Pacific – Singapore: Q4 2011 GDP**

According to advance estimates, Q4 real GDP growth decelerated to 3.6% yr/yr from 5.9% in Q3, taking full year 2011 growth to 4.8%. On a qtr/qtr, seasonally adjusted annualised basis, Q4 GDP contracted by 4.9%, following a modest 1.5% gain in Q3. Manufacturing was the main growth driver in 2011 as a whole (6.9%), but also the cause for high quarterly fluctuations, expanding by 6.5% yr/yr in Q4 after 13.4% in Q3 and declining by 22% qtr/qtr in Q4, following 10% growth in Q3 and another 22% decline in Q2. While the biomedical cluster has been the main source of the volatility, the continued decline in the electronics cluster, which accounts for half of manufacturing activity, points to a weaker outlook for 2012. Expect full year 2012 growth of 3%, at best.



► **Europe – Croatia: On course for EU accession**

A referendum on EU membership will be held on 22 January, following the accession treaty signed with the EU on 9 December 2011. Opinion polls suggest that 53-60% of the population is in favour of joining, signalling a likely positive outcome, although this is not a clear certainty. Assuming a "yes" vote and the agreement of the existing 27 member states, Croatia will formally join the EU on 1 July 2013. Meanwhile, the economy is recovering very slowly from the 2009-10 recession, growing by just 0.2% yr/yr in Q1-Q3 2011. Croatia has not seen the pre-accession economic boost that other candidate countries have enjoyed in the past, which is only partly due to the wider economic uncertainty. Structural rigidities and high public and external debt burdens are weighing on economic prospects.

Worth knowing

► **India**

The wholesale price index (key inflation measure) increased by 7.47% in December 2011 (9.11% in November) suggesting that some price pressures are moderating and that the monetary policy stance may change to easing, but perhaps not in Q1.

► **Kazakhstan**

The presidential ruling Nur Otan party won overwhelmingly the parliamentary elections on 15 January, with 80.7% of the vote. The pro-business Ak Zhol (7.5%) and the Communists (7.2%) also passed the entry threshold of 7%.

► **Taiwan**

Presidential elections held last weekend were won by the incumbent President Ma Ying-jeou. His party, the KMT, retained its majority in the Legislative Yuan (parliament).

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