



Weekly Export Risk Outlook



EULER HERMES

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In the Headlines

FIGURE OF THE WEEK: **8.3%** >US JANUARY UNEMPLOYMENT RATE

▶ US: Labour market gains

The labour market continues to improve. Non-farm payrolls increased by 243,000 in January, markedly above expectations of 135,000, while the previous two months data were revised up 60,000 in total, and private payrolls increased by 257,000. The unemployment rate, which was 9.1% just five months ago, declined to 8.3% in January. Further, the January employment index of the ISM non-manufacturing survey leapt 8pps, to 57.4—notably above the 50 level denoting expansion and the strongest level of the recovery to date. Finally, private sector job openings in December increased the most in almost a year, reaching the highest level since August 2008. While all these latest data are positive news and represent a good trend, there are still 5.6mn fewer jobs now than when the recession started, some four years ago.

▶ Euro-zone: Public debt

Eurostat released data on EZ countries' public debt this week. At the end of Q3, public debt of the EZ as a whole had decreased slightly to 87.4% of GDP from 87.7% at end-Q2. Except for Greece (+4.4pps of GDP to 159.1% in Q3), Portugal (+3.6pps to 110.1%) and Belgium (+0.5pps to 98.5%) most countries improved their public debt-GDP ratios, including Italy and France, which fell by 1.6pps to 119.6% and -0.8pps to 85.2%, respectively. German public debt is also on downward trend (-0.2pps to 81.8%). Meanwhile, negotiations with Greece have reached a critical juncture, as local politicians wrestle with the implications of necessary reforms, although they appear to be edging towards an agreement, as do private sector bondholders.

▶ Hong Kong: Q4 GDP growth slows

Real GDP growth slowed to 3% yr/yr in Q4 2011 (4.3% Q3) as private consumption growth slackened. Growth remained positive and improved slightly at 0.3% (0.1% Q3) on a qtr/qtr (seasonally adjusted) basis. On a qtr/qtr basis, exports of services were also weak, although exports of goods picked up slightly. Annual growth in full year 2011 was 5%. Latest government forecasts, which accompanied a mildly expansionary budget, project growth in 2012 at 1-3%. Demand from Mainland China should continue to provide support, as should relatively low unemployment, but global export demand will ease and business sentiment indicators have weakened recently. Headwinds from the EZ crisis remain a key uncertainty, but expect 2012 growth to be around the upper band of government projections.

▶ Egypt: Stuttering transition

Last week's football stadium tragedy in Port Said and associated street violence and rioting are symptomatic of ongoing tensions that a protracted and uncertain political transition is not alleviating. Against this background, the economy is expected to deteriorate further. The EU (USD650mn) and World Bank (USD500mn) appear ready to provide "emergency aid" to the government in the way of ST fiscal relief. This will be additional to the USD3.2bn facility currently under negotiation with the IMF. However, with international reserves severely depleted to support the EGP—FX reserves fell again in January (by USD1.7bn) and, at USD16.35bn, were 55% below those at end-2010—perceptions of stability are essential to arrest the economic decline and potential for a full financial crisis.

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► **Mediterranean, Africa & Middle East – Cyprus: Bank impact**

Fitch lowered its LT sovereign rating by one notch to 'BBB-', the lowest investment grade, and retained a negative outlook. The downgrade mainly reflects the impact of an anticipated sovereign debt restructuring by Greece on the Cypriot bank sector and, potentially, on Cyprus' fiscal situation, as the three largest banks—which were subsequently all downgraded by one notch to 'BB+'—may require government assistance. While the government has effectively covered its 2012 borrowing needs by a EUR2.5bn loan from Russia, it might require further external support if it has to recapitalise the banks, having lost access to international markets. Despite the government's reluctance to approach the EU and IMF for assistance, this is likely to be available, although with policy conditionality.



► **Americas – Argentina: Import measures**

Regulations introduced last week require imports to be pre-authorized through a sworn advance declaration to the local tax authority of the goods involved. Formal approval is then required from the interior commerce secretariat. This follows other steps taken in recent months to give greater control of currency flows, including, among others, approval for foreign exchange transactions above a certain size and the removal of exemptions that allowed energy and mining companies to liquidate FX earnings abroad, and looks like another part of the government's approach in defending the economy against any potential global shocks and managing its own macro-imbalances. Meanwhile, the IMF remains critical of the lack of progress in improving the quality of official inflation and GDP statistics.



► **Asia-Pacific – Indonesia: Sustained growth**

Real GDP grew by 6.5% yr/yr in Q4, maintaining the strong momentum of the previous three quarters and taking full year 2011 growth to 6.5% as well, the highest since 1996. The full-year result was driven by both sound domestic demand and robust external demand. Private consumption expanded by 4.7%, public consumption 3.2% and investment 8.8%. Exports grew by 13.6% while imports increased by 13.3%, such that the higher level of exports meant that net trade made a significant contribution to growth. However, quarterly data show that external demand weakened markedly in Q4, reflecting an impact of the global downturn. Nevertheless, expect Indonesia to be less vulnerable to the latter compared with its Asian peers because of a lower export intensity. Expect 5.5% growth in 2012.



► **Europe – Romania: Government falls**

The centre-right coalition government led by the PDL of PM Boc resigned last Monday, after weeks of public protests against years of austerity measures following an IMF/EU-led bailout in March 2009, which have resulted in declining living standards. President Basescu (also PDL) swiftly nominated an ally, Mihai Razvan Ungureanu, the head of foreign intelligence, as the new PM, who will have 10 days in which to form and gain parliamentary approval of cabinet. Even if Ungureanu is successful in forming a government with the support of Boc's coalition partners, it may not be sufficient to calm public discontent, as the PDL has become highly unpopular and could face continued pressure to call early elections, which currently are due in November 2012.

Worth knowing

► **Slovenia**

Almost two months after early elections, parliament endorsed Janez Janša as new PM whose proposed five-party coalition government is likely to be approved later this week. Meanwhile, Fitch downgraded Slovenia by two notches to A from AA-.

► **India**

Official advance estimates now suggest that GDP will increase by 6.9% yr/yr in FY2011/12 (April-March), after 8.4% in 2010/11.

► **Mexico**

The ruling PAN last weekend chose Josefina Vazquez Mota as presidential candidate. This completes the line up for the main parties in the June election. PRI candidate, Pena Nieto remains the front runner.

► **Maldives**

The democratically-elected president, Mohamed Nasheed, resigned yesterday, following weeks of demonstrations.

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