Weekly Export Risk Outlook

EULER HERMES

14 March 2012

In the Headlines

FIGURE OF THE WEEK: 4.3% >POLAND'S YR/YR Q4 2011 GDP GROWTH

Euro-zone: Industrial output up

Industrial production rebounded in January, with growth of 0.2% mo/mo seasonally adjusted, driven by an increase in all of the sub-components but particularly in energy, which increased by 1.4% mo/mo. Nevertheless, overall momentum remains weak, given the data from the previous two months, which saw contractions of 1.1% (December 2011) and 0.4% (November). Meanwhile, annual CPI inflation in the zone stabilised at 2.7% yr/yr growth in February, but at such rates it remains above the 2% ECB threshold for a 15th consecutive month. Meanwhile, the EU officially approved the second bail-out for Greece. With elections pending in Greece and considerable uncertainty over growth prospects, however, the debt situation remains fragile.

US: Strong retail sales

The string of good economic news continues. February's employment report was better than expected, showing a robust gain of 227,000 jobs and upward revisions of 61,000 for the previous two months. It was the sixth consecutive month of 200,000+ gains. Retail sales increased by a sharp 1.1% mo/mo in February and, although they were boosted by auto and gasoline sales, most industries were positive. Over the last year, real retail sales increased by a strong 3.8% (2.7% excluding autos and gasoline) compared with a long-term average of 2.0%. Meanwhile, the Federal Reserve continues to give a slightly more upbeat view of the economy saying it "…has been expanding moderately" and that "labor market conditions have improved further" but the Fed has yet to signal a change in its highly accommodative stance.

China: Inflation, trade and growth

February trade data were distorted by the calendar shift in the Lunar New Year. Averaging Jan-Feb gives a better picture—exports increased by 6.9% yr/yr and imports by 7.7%, while the first two-month deficit was the largest since 2004. There is a clear slowdown in exports, which may remain subdued through H1, and the sharp deceleration in import growth is compatible with slowing domestic demand, but the trade balance is still likely to return to surplus through the year. February inflation fell sharply to 3.2% and, again averaging, Jan-Feb was 3.9% yr/yr, below the 4% target for the year, which should support further policy loosening. The announced official 7.5% GDP growth target, while lower than previous years, is more a sign of what is regarded as balanced growth than a precise forecast. Typically, actual growth tends to be higher.

Poland: Robust growth in 2011

Real GDP increased by 4.3% yr/yr and 1.1% qtr/qtr sa in Q4, maintaining the momentum of the previous three quarters and defying the EZ slowdown. Full year 2011 growth was 4.3% (up from 3.9% in 2010), mainly driven by domestic demand. Private consumption expanded by 3.1% in 2011. Government consumption declined by 0.7%, but public-sector investment related to the preparations for the European football championship in 2012 pushed overall fixed investment growth to 8%. Inventories added about 0.5pps to 2011 growth. Net trade also contributed 0.5pps as the expansion of exports (7.3%) exceeded imports (6%). Expect GDP growth to slow to around 2.5% in 2012 as a result of an ebbing investment boom, fiscal restraint required by the government's plan to reduce the budget deficit to 3% of GDP from 5.6% in 2011 and some adverse impact of the EZ debt crisis.

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Countries in Focus

Mediterranean, Africa & Middle East – *Bahrain: Protests*

On 9 March, the largest pro-reform and anti-regime protests this year were mainly peaceful but were well attended, suggesting that opposition to the current al-Khalifa ruling family remains large and active. Further demonstrations can be expected and there is a likelihood of further violence unless the regime makes significant concessions, which seems unlikely in the ST. Staging of the Formula 1 Grand Prix, scheduled for April, may now be jeopardised and some financial institutions are closing (or reducing) operations in the kingdom. Bahrain's reputation as a business-friendly environment is therefore being severely tested at a time when regional competition from financial hubs in Dubai and Qatar is intense. Against this background, expect GDP growth of around 2.5% this year (LT average of 5.8%).

Americas – *Brazil: Interest rates*

The central bank's monetary policy committee again lowered the key interest rate (SELIC) last week, by a more-than-expected 75bps to 9.75%. The fifth successive cut, from a peak of 12.5%, followed the latest release of Q4 GDP, which showed qtr/qtr sa growth of just 0.3% and 2011 yr/yr growth of just 2.7%. Inflation is on a downward trend, falling to 5.9% yr/yr and 0.45% mo/mo in February and is within the 4.5% +/- 2% target range. With inflation likely to continue on a downtrend and amid concerns over the strength of the exchange rate, further interest rate cuts can be expected. The government is also reportedly considering additional tax cuts to stimulate the economy, although it retains an overall objective to reduce the fiscal deficit as a proportion of GDP.

Asia-Pacific – *India: Monetary easing*

The central bank cut the cash reserve ratio by 75bps to 4.75%, the second reduction in two months. It is estimated that an additional INR480bn (USD9.6bn) will be injected into the banking system and it is partly intended to ease potential cash shortages ahead of a tax filing deadline. Expectations are that an interest rate cut is likely soon, probably after the federal budget on 16 March. Meanwhile, industrial output growth accelerated to 6.8% yr/yr in January from 2.5% the previous month, although output of capital goods declined by 1.5% and indicates the impact of still-high borrowing costs. With budgetary considerations focused on limiting the deficit (currently around 5.5% of GDP) expect monetary actions to be the main policy driver as the authorities attempt to halt deceleration in GDP growth.

Europe – *Slovak Republic: Election result*

The opposition centre-left Smer-SD party of Robert Fico comfortably won the general election on 10 March, securing over 44% of the vote and 83 out of 150 parliamentary seats, paving the way for the first one-party government since independence in 1993. The snap election was called because the four-party and centre-right coalition under PM Radicova, which had replaced Smer-SD in mid-2010, collapsed in October 2011 following a lost confidence vote that was tied to a vote on Slovakia's increased contribution to the EFSF. The latter was approved in a second vote with the support of Smer-SD. Expect PM-elect Fico to continue pro-EU policies. However, investors are concerned about some of his campaign proposals, especially higher taxes on the strongest businesses and high earners.

Worth knowing

Turkey

Industrial production fell by 3.1% mo/mo sa in January 2012 and increased by just 1.5% yr/yr (8.9% annual average in 2011). Inflation edged down marginally to 10.4% yr/yr in February from 10.6% in January.

Nigeria

GDP growth accelerated in Q4 2011, to 7.68% yr/yr from 7.4% in Q3 but oil output was down to 2.4mbpd from 2.6mbpd in Q3, so it was the non-oil sector that spurred overall growth, expanding by 9.07% yr/yr (8.93% Q3), led by telecoms and construction.

Egypt

Net international reserves declined by 3.9% mo/mo and 52.8% yr/yr in February, to USD15.7bn. However, this was the slowest mo/mo rate of depletion since September 2011. A loan of USD1.2bn (over three years) to pay for commodity imports was signed with the International Islamic Trade Finance Corporation, perhaps bringing an IMF facility of USD3.2bn closer to agreement.