



Weekly Export Risk Outlook



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In the Headlines

FIGURE OF THE WEEK: **8.1%** > CHINA'S YR/YR Q1 GDP GROWTH

▶ China: Q1 GDP growth

Q1 real GDP growth slowed to 8.1% yr/yr (8.9% Q4 2011) but at 1.8% qtr/qtr sa was only slightly below Q4's 1.9%, as investment, notably construction, and export growth slowed, although consumption is holding up. Nonetheless, Q1 growth was above the official 7.5% annual target and the qtr/qtr pace is consistent with moderation not a hard landing. Monetary data were also supportive of growth and indicative of monetary loosening, as net new lending increased strongly in March. The exchange rate's trading band was also widened to +/- 1%, but the pace of appreciation will still be determined largely by central bank intervention and, in 2012, most likely will remain limited. With global demand set to constrain export growth and monetary loosening relatively cautious, expect 2012 GDP growth at the lower end of an 8-8.5% range.

▶ US: Retail sales and housing

Retail sales in March were much stronger than expected, rising 0.8% over February compared with expectations of 0.3%. Gasoline sales, which have been propelled by higher prices, were up 1.1% mo/mo but this was a slower pace than in the previous two months. Sales ex-auto and gasoline were up a strong 0.7%. Overall retail sales are now growing at a real rate of 3.9% yr/yr, nearly twice as fast as the long-term average. Other sales gains were widespread, with notable increases in building materials and home furnishings, coinciding with an increase in housing permits of 4.5% mo/mo. Yet, housing starts fell a sharp 5.8% mo/mo, the second consecutive drop. There is still no discernible positive overall trend in the housing market.

▶ Singapore: Q1 GDP growth and monetary policy

Advance estimates for Q1 real GDP growth show a slowdown to 1.6% yr/yr from 3.6% in Q4 2011 but an acceleration to 9.9% from -2.5% on a qtr/qtr saa basis. Manufacturing contracted by 2% yr/yr but expanded by a sound 14.7% qtr/qtr saa in Q1, the latter a result of strong output of electronics and precision engineering. The difference between annual and quarterly growth data is explained by a high base in Q1 2011 and a low base in Q4. On balance, the data suggest an improved growth momentum from late 2011. Expect growth of 3% in full-year 2012, after 4.9% in 2011. Inflation slowed to 4.6% yr/yr in February from 5.5% at end-2011 but the Monetary Authority tightened policy last week, concerned about continuing inflationary pressures stemming from wage increases and high global oil prices.

▶ India: Policy shift?

The benchmark wholesale price index (used as an official gauge of inflation) remained stable in March, with price increases slowing moderately to 6.89% yr/yr from 6.95% in February. Inflationary pressures continue to feed through from high food prices, costs of imported oil imports, INR depreciation and continuing large fiscal deficits. Nevertheless, the protracted monetary tightening cycle—from March 2010 to mid-April 2012 the key policy interest rate was increased by a cumulative 375bps—was reversed yesterday, when the central bank lowered its benchmark repo by an unexpectedly large 50bps, to 8%. This appears to be a bid to boost demand, investment and economic growth and appears to reflect a partial policy shift. The size of the rate cut suggests that the central bank will now await new evidence on inflationary pressures and economic growth before taking further rate action. Real GDP growth slowed to 6.1% yr/yr in Q4 2011. Expect GDP to increase by around 7-7.5% in FY2012/13.

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► Mediterranean, Africa & Middle East – *Guinea-Bissau: Coup*

Following the swift intervention of a West African regional organisation, ECOWAS, leaders of the recent coup (12 April) pledged to relinquish power and restore democratic rule. A timetable for these has yet to be made public and it also remains unclear whether the leading presidential candidate Carlos Gomes Junior—elections were scheduled for 29 April—was released. Coup leaders appear to have backed down on a proposed transitional government, which would not have been acceptable locally or internationally. This further disruption to governance may be based in strong vested business interests in the informal economy. Expect development aid and international budgetary support to be on hold and GDP growth in the formal economy—based on cashew nuts—to slow to 2-3% in 2012.



► Americas – *Costa Rica: Policy setback*

The constitutional court rejected government-backed tax reform measures because of procedural flaws in the fast track process. The proposed reforms, a central plank of PM Chinchilla's programme, aimed at reducing the fiscal deficit (currently 4.5-5% of GDP) on a structured basis, have been a difficult area of policy for a long time and have met with public and political opposition. The PM also suffered a setback with the resignation of FM Herrero over alleged tax under-payment and will need to rally political support on both fronts. While both the fiscal and current account deficits need to be reduced, debt and the external liquidity positions are robust, inflation is on a downward trend and real GDP growth of 3.5-4% can be expected in 2012-13 (4.2% 2011).



► Asia-Pacific – *South Korea: Election result*

The conservative ruling Saenuri Party (formerly known as the Grand National Party or GNP) narrowly won last week's parliamentary election, taking 152 out of 300 seats (down from a previous 165). The centre-left opposition Democratic United Party got 127 seats, up from 89. Saenuri's victory was relatively unexpected after a series of scandals affecting the party and President Lee Myung-bak, in office since February 2008, has become unpopular. Much credit for the result must therefore go to Park Geun-hye, who was recalled as chairwoman of the former GNP at end-2011, rebranded the party and edged policy away from Lee's course, which has been widely perceived as too pro-big business. Park now has a good chance of becoming Saenuri's candidate for the December 2012 presidential election.



► Europe – *Croatia: Stagnation*

Downwardly revised data show that, after two years of recession, the economy stagnated in 2011, lagging behind most other countries in the region. Domestic demand was weak, with private consumption growing by just 0.2%, government consumption declining by 0.2% while gross fixed investment continued to drop sharply, by 7.2%. Export expansion was subdued at 2.2% in 2011, although import growth was even weaker, at just 1%. EU economic weakness, tight monetary policy aimed at keeping the HRK/EUR exchange rate stable and limited scope for fiscal stimulus resulting from the urgent need for fiscal consolidation will dent growth prospects for a longer time. The economy is likely to slip back into recession in 2012, before gradually recovering in 2013.

Worth knowing

► **Argentina**

The government announced the nationalisation of YPF, the energy company largely owned by Repsol of Spain, taking a controlling stake of 51% of the shares.

► **South Africa**

Manufacturing output growth accelerated to 4.1% yr/yr in February, from 2.3% in January.

► **Egypt**

Further confusion surrounds the political transition after the electoral commission decision that disqualifies several leading candidates from standing in forthcoming presidential elections (23-24 May). Early appeals against the decision were rejected.

► **Other GDP growth**

Botswana: Q4 2011 -5.8% qtr/qtr and +1.4% yr/yr, with first estimates for 2011 overall of 5.1% (7.7% in 2010). **Namibia:** 2011 average 3.8% (6.6% in 2010).

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