Weekly Export Risk Outlook

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In the Headlines

FIGURE OF THE WEEK: USD1,602>GOLD PRICE 10% OFF THIS YEAR'S PEAK

Euro-zone: Election uncertainty

Elections in France and Greece last weekend added to EZ uncertainty. In France, the incoming socialist president, François Hollande, was elected on a platform that includes greater focus on growth, while in Greece parties of the left and right opposed to the current bail-out programme have denied the two traditionally dominant parties, New Democracy and Pasok, the ability to form a two-party coalition. In response to Hollande's victory, the EU is to hold an informal meeting on 23 May to discuss a possible "growth pact" to complement the "fiscal pact", which could form the basis of a compromise between Germany and the new French leadership. In Greece, it would seem difficult for anyone to form a coalition from the present distribution of seats, without significant compromise/movement, which could lead to fresh elections. It also remains to be seen how far a new government and the EZ leaders will be prepared to negotiate.

US: Weak employment

April's employment report was a notable disappointment, showing that only 115,000 jobs were created, compared with expectations of around 160,000. Even though data for the previous two months were revised upwards, this is the third consecutive month that job creation has fallen. It can be argued that abnormally warm weather in the prior months may have pulled jobs forward from April, but there is no convincing evidence to support such a hypothesis. Furthermore, while the unemployment rate improved, moving down by 0.1pps to 8.1%, it was for a negative reason as more people became discouraged about employment prospects and left the work force. The labour market, which had shown positive momentum just a few months ago, now seems to be stumbling, mirroring many other recent indicators of the economy's general health.

Indonesia: Q1 GDP growth and inflation

Real GDP growth eased slightly in Q1, to 6.3% yr/yr from 6.5% in Q4 2011, but remained strong overall as a result of sustained robust domestic demand. Private consumption expanded by 4.9%, public consumption 5.9% and investment 9.9%. Exports increased by 7.8% and imports by 8.2%, so net exports made only a small contribution of 0.7pps to Q1 growth. As consumer confidence fell to an 18-month low in April, expect growth to ease further in Q2, with around 5.8% in full-year 2012. Meanwhile, headline inflation picked up from a recent low of 3.6% yr/yr in February, to 4.5% in April, but is comfortably within the authorities' 3.5-5.5% target range for 2012. Expect the central bank to keep its key policy interest rate on hold at 5.75% this week.

Israel: National unity government

It had appeared likely that an early general election would be called for September rather than the current parliament see out its full term to February 2013. However, PM Binyamin Netanyahu surprised many by forging an alliance of his Likud party with the main opposition group Kadima, now led by Shaul Mofaz following the resignation in March of the previous incumbent, Tzipi Livni. Israel has a track record of governance by coalition and alliances tend to be fluid within an overall effective system. The new coalition will control 94 out of 120 Knesset (parliament) seats and passing legislation will therefore be easier. Netanyahu's new mandate raises the prospect that he will lead the country into 2013 but do not expect that this revised political environment will hasten a decision on a possible pre-emptive strike against Iran or a resumption of peace talks with the Palestinian Authority.

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Countries in Focus

Mediterranean, Africa & Middle East – *Malawi: Policy change*

Foreign exchange restrictions were lifted this week and the MWK's peg to the USD removed, effectively instigating a local currency devaluation of around 50%. Expect inflationary pressures to increase—headline consumer price inflation was already 11.4% yr/yr in March. However, these new policies—following shortly after Joyce Banda took over the presidency and installed a different central bank governor—are likely to result in full restoration of relations with the IMF and renewed access to the international donor community. Expect the political and economic environments to remain challenging, even when an IMF facility is in place and budgetary support is forthcoming from donors. The impact on GDP growth is likely to be limited in the ST, so expect the economy to grow by only 3-4% this year.

Americas – *Panama: Country update*

GDP growth will moderate in 2012 but remain strong at 7.5%, boosted by Canal expansion. Nonetheless, with the Canal, international banking and the Colon free trade zone as important contributors, the economy is vulnerable to external developments. Monetary policy is not independent, as the USD is the legal currency. Inflation accelerated in 2011 (food and energy prices) but should ease to 5.5% yr/yr by end-2012. The fiscal deficit was a moderate 2.3% of GDP in 2011 and the public debt-GDP ratio was a relatively low 42%. The current account deficit is 12% of GDP, but in large part this reflects imports related to Canal expansion. The external debt-GDP ratio is a moderate 43%. Transfer risk is mitigated by formal dollarisation. Systemic political risk is relatively low.

Asia-Pacific – *India: Policy initiatives*

Last Friday, among measures aimed at augmenting foreign currency inflows, the central bank increased the interest rate ceilings on foreign-currency non-resident deposits. The bank hopes this will provide support for the INR, which is close to an all-time low against the USD. Expect the central bank—a relatively effective economic agency in a country where policy implementation is subject to political and regional divisions—to act further to smooth any potential INR volatility. Meanwhile, the government postponed for one year implementation of the General Anti-Avoidance Rules and proposed amendments to the finance bill, which should also support the INR by encouraging inward capital flows. Overall, the authorities are regaining some policy credibility but investor confidence remains muted.

Europe – *Serbia: Election results*

Serbia held parliamentary and presidential elections on 6 May. According to preliminary results, the nationalist opposition SNS party of Tomislav Nikolic won 24% of the parliamentary vote to take 73 out of a total of 250 seats, followed by the pro-EU ruling DS party of President Tadic (22%, 67 seats) and its current main coalition partner, the Socialist Party (SPS, 14.5%, 44 seats). The SPS will be pivotal in the next coalition government, although support from at least one smaller party will be needed in addition. President Tadic narrowly won the first round of the presidential poll with 26.7% and will face Nikolic (25.5%) in a run-off on 20 May. Expect a close outcome, which may have an impact on the coalition negotiations for the next government.

Worth knowing

Interest rates
The **ECB**, **Romania** and **Thailand** all kept their key policy rates unchanged, the ECB at 1%, Romania 5.25% and Thailand 3%.

Bahamas
The centre-right Progressive Liberal Party of Perry Christie won 29 out of 38 seats in parliamentary elections on 7 May. The previously-ruling Free National Movement retained only 9. Christie has premiership experience, having filled that role in 2002-07.

Egypt
After 16 months of decline, foreign reserves were up 0.7% mo/mo at end-April, although still down 42% yr/yr.

Romania
As expected, parliament endorsed on 7 May the new centre-left coalition government led by PM Ponta, following the collapse of two centre-right coalitions within the past three months.

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