



# Weekly Export Risk Outlook



30 May 2012

## In the Headlines

FIGURE OF THE WEEK: **0.5%**>GERMAN Q1 QTR/QTR GDP GROWTH

### ▶ Euro-zone: Crisis update

There was some relief in the latest Greek opinion polls, a number of which showed New Democracy (ND) edging ahead and the possibility of a ND/Pasok coalition (“pro-bailout”). Even so, the election outcome remains too close to call and pressure to adjust the bail-out programme is likely to remain intense whatever the result. Meanwhile, as Bankia shares were suspended and as the scale of required government-provided re-capitalisation becomes clearer, bond yields in Spain have risen amid concerns over the needs of the financial sector overall and regional government financing, not helped by the latest fall in retail sales of 9.8% yr/yr. Discussions over re-capitalisation could increase pressure to allow the EZ bail-out fund to support banks directly, although agreement on this is likely to prove difficult. Ireland also moves to the fore again, as the referendum on the EZ fiscal pact takes place on 31 May. Opinion polls point to a yes vote, although a relatively large proportion of voters remains undecided.

### ▶ US: Mixed data

Recent data have been contradictory, illustrating the economy’s non-linear recovery. The University of Michigan Consumer Sentiment survey improved in May to its highest level during the recovery, driven by optimism over jobs, but the Conference Board’s Consumer Confidence survey (also for May) slumped to its lowest level in four months, driven by pessimism over jobs. Meanwhile, the Case-Shiller home price index increased for the second consecutive month, which was the first time in almost two years, but prices are still down 2.6% yr/yr. New orders for durable goods were disappointing, yet the four-week moving average of weekly jobless claims improved (fell) for the third consecutive week. A possible explanation for the apparently diverging forces within the economy is that the domestic recovery and global uncertainty are pulling in different directions.

### ▶ Germany: GDP growth 0.5% qtr/qtr in Q1

The economy regained momentum in Q1, with GDP increasing by 0.5% qtr/qtr following a temporary slowdown in Q4 2011 (-0.2% qtr/qtr), according to the latest data from the official statistics office. The main growth driver was exports, which increased by 1.7% qtr/qtr after a slump in Q4 2011 (-1.5%). As imports remained stable, net exports contributed 0.9pps to overall growth. Notably, in March 2012, exports of goods reached a new record value of EUR98.9bn, up 8.4% mo/mo. While consumer demand in Q1 was positive (up 0.4% qtr/qtr), capital investment was negative, with machinery and equipment down by 0.8% qtr/qtr and construction down by 1.3%. A decline in inventories also resulted in a negative contribution to growth (-0.4pps).

### ▶ Egypt: Presidential poll goes to run-off

As expected, the presidential election needs a second-round run-off (16-17 June) and this will be contested by Mohamed Morsi (Freedom and Justice Party backed by the Moslem Brotherhood) and Ahmed Shafiq (with an armed forces background and a former PM under the Mubarak regime). A candidate needed to win at least 50% in the first round vote to be elected outright but Morsi (24.3%) and Shafiq (23.3%) both fell a long way short and now need to gain support from the majority 52%—and middle ground—that voted for neither of them. Expect an element of compromise, with calls for a coalition of interests in governance—at least in the ST—rather than domination by a single political flank. Even so, the transition remains protracted and containment of expectations will be challenging, with a risk of some further localised violence.

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► **Mediterranean, Africa & Middle East – South Africa: Policy**

Yesterday's release of GDP data surprised on the upside, with growth in Q1 of 2.7% qtr/qtr (3.2% Q4 2011) against consensus expectations of 2.3%. The main drivers were manufacturing, which contributed 1.2pps, and finance (0.9pps). In yr/yr terms, GDP growth in Q1 was 2.1%. Last week, the monetary policy committee left the key repo interest rate unchanged at 5.5%, citing uncertainties relating to global growth and its impact on the domestic economy. The bank suggests that inflation peaked in Q1 at 6.1% yr/yr but official forecasts for 2012 and 2013 are 6% and 5.5%, on average, respectively. With this inflation background limiting monetary policy action and a weak external environment, expect overall GDP growth this year to be 2.5-2.7%, below our initial forecast of 3%.



► **Americas – Peru: Q1 GDP and country update**

Q1 2012 GDP increased by 6% yr/yr and by 1.8% qtr/qtr as both fixed investment and export growth remained strong. Expect growth to slow in 2012 overall, to 5.2% from 6.9% in 2011. Inflation eased to 4.1% yr/yr in April and is back on a downward trend. The fiscal balance swung into surplus in 2011, at 1.9% of GDP, and the public debt-GDP ratio is low at 22%. The external balance is strong as the current account deficit is less than 2% of GDP and is comfortably covered by net FDI, while FX reserves are more than 500% of external debt falling due in 2012. External debt ratios are low. President Humala, elected last year, has so far tended towards a pragmatic approach to policies, despite his nationalist/populist background.



► **Asia-Pacific – Malaysia: Q1 GDP and economic update**

Q1 real GDP growth slowed to a still robust 4.7% yr/yr from 5.2% in Q4 2011, driven by strong domestic demand while external demand weakened markedly. Private consumption expanded by 7.4%, government spending by 5.9% and investment surged by 16.1%. Net exports made a negative contribution to growth as exports grew by just 2.8% while imports increased by 6.8%. On the supply side, construction grew by 15.5%, followed by services (5%), manufacturing (4.2%) and agriculture (2.1%). Expect full-year growth of around 4%. The current account surplus narrowed in Q1 but remained sizeable at USD5.9bn, equivalent to 8.1% of GDP (11.5% in full-year 2011). Inflation moderated to a 17-month low of 1.9% yr/yr in April, mainly as a result of easing food prices.



► **Europe – Bulgaria: Q1 GDP growth slowdown**

According to flash estimates, real GDP was flat in Q1 (0%) qtr/qtr (+0.1% Q4 2011) although it was up 0.5% yr/yr (+0.9%). Q4 2011 data were also revised downward markedly. Private and public consumption grew by 0.4% and 0.5% qtr/qtr in Q1, respectively. Investment finally shifted to growth, of 2.5% qtr/qtr, after a protracted period of decline, although it continued to contract yr/yr by 3.4% (-10.5% in Q4 2011). The overall stagnation in Q1 largely resulted from a sharp 4.6% contraction in exports (+2.8% in Q4 2011) that led to a negative contribution by net exports even though imports also declined, by 2.4% (+0.2% in Q4). This trade pattern also shifted the current account into a deficit in Q1, of 0.9% of GDP, from a 1.9% surplus in full-year 2011. Expect less than 1% GDP growth in full-year 2012.

**Worth knowing**

► **UK GDP**

According to second official estimates, Q1 GDP contracted by 0.3% qtr/qtr (first estimate -0.2%) and by -0.1% yr/yr, confirming a technical recession.

► **Japan**

Fitch downgraded its LT foreign- and local-currency sovereign ratings to A+ (negative outlook) from AA and AA-, respectively, citing rising gross and net public debt ratios (230% and 130% of GDP) and the government's plan of slow consolidation.

► **Bangladesh**

Preliminary estimated data indicate that GDP will increase by 6.3% in FY 2011/12 (ending 30 June), which is below the central bank's earlier projections of 6.5-7% and the original official target of 7%. Expect the actual FY outcome to be nearer 6%, or even less, given a weak external environment and continuing political and security concerns.

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