



Weekly Export Risk Outlook



7 June 2012

In the Headlines

FIGURE OF THE WEEK: **5.3%** > INDIAN Q1 2012 YR/YR GDP GROWTH

▶ Euro-zone: Crisis update

The ECB left interest rates unchanged this week and did not signal its intention to intervene in other ways, perhaps not surprisingly as the bank awaits a political response to the crisis. In its latest economic projections, significantly, inflation is expected to fall below the 2% target in 2013. Meanwhile, market pressures remain intense as Spain seeks to deal with its banking sector problems (a core issue) with most speculation focusing on ways of providing financial support for recapitalisation, including access to the ESM, although direct bank access is likely to meet resistance and the extent of any required finance will not become clear until the banks' audit is completed (possibly end-June). In Greece, final opinion polls before the 17 June election (none are allowed in the 14 days before the vote) tended to favour New Democracy ("pro-bail-out") but are close and the outcome remains uncertain. Ireland's "fiscal pact" referendum saw a comfortably positive result. The second official EZ GDP estimate confirmed that output stagnated in Q1 (-0.3% qtr/qtr in Q4 2011).

▶ US: Weak labour market


The May employment report was disappointing, with the economy generating only 69,000 jobs, compared with expectations of 150,000, and data for the two previous months were revised down 49,000. Perhaps of more concern is that May was the fourth consecutive month of slower job growth, a significant (and negative) trend in this important indicator. By comparison, the economy needs to create at least 250,000 jobs each month to start significantly lowering the rate of unemployment and increasing aggregate income. Indeed, in the May report, unemployment increased 0.1pps to 8.2%, marking 40 consecutive months of a rate of unemployment in excess of 8%. The employment data were immediately used in political debates, with Republicans accusing President Obama and the Democrats of mismanagement of the economy and the Democrats blaming prior Republican policies—which they liken to Romney's—of starting the recession.

▶ India: Weak Q1 GDP growth

Economic growth fell to a recent low of 5.3% yr/yr in Q1 2012 (Q4 of FY 2011/12), with most sectors signalling a slowdown, particularly manufacturing (-0.3% yr/yr) and agriculture (+1.7%). In the corresponding quarter of the previous year, GDP increased by 9.2% yr/yr and in Q4 2011 (Q3 FY 2011/12) it was 6.1%. For the full FY, GDP increased by 6.5%, significantly below official targets and consensus expectations. Recent data indicate that industrial output and export trade remain weak, suggesting that overall growth in H1 2012 will also be limited. However, weakening international oil prices will reduce inflationary pressures—as well as reducing the trade deficit as energy products account for around 30% of the import bill—and provide scope for further monetary policy easing in an attempt to foster growth. Even so, expect GDP growth to remain well below the annual average 8.4% of 2003-10, perhaps reaching 7-7.5% in calendar 2012 and 2013.

▶ Egypt: Mubarak trial verdict

Former President Hosni Mubarak was sentenced to life imprisonment after a guilty verdict was announced on charges of complicity in the deaths of demonstrators during last year's protests. However, the judgement dismissed bribery charges against the Mubarak family and exonerated top security officials of direct responsibility for the deaths during battles with riot police. Do not expect Mubarak to serve a lengthy jail sentence, particularly as his health is reportedly poor, but expect the Moslem Brotherhood's Freedom and Justice Party candidate, Mohamed Morsi, to have increased his chances of winning the 16-17 June presidential run-off vote as his rival, Ahmed Shafiq, is closely associated with the Mubarak regime.

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► Mediterranean, Africa & Middle East – *Israel: Slowing*

With approximately 35% of merchandise trade conducted with EU markets and continuing regional geo-political concerns (including Iran and Egypt, as well as the Palestinian territories), the Israeli economy is expected to slow. Indeed, GDP expanded by 3% yr/yr in Q1 after 3.2% in Q4 2011. Consumption and investment held up well in Q1 but government spending was relatively flat and net exports provided a negative contribution to overall growth. Against this background and with inflationary pressures likely to ease (growth in consumer prices remains within the official 1-3% target range) some loosening in monetary policy is likely as a means of stimulating economic activity. Expect GDP growth of 2.5-3% in 2012 overall, perhaps rising to 4% in 2013, but much depends on the external environment.



► Americas – *Brazil: Interest rate cut*

The key policy interest rate was lowered last week, by 50bps to 8.5%, which follows two successive cuts of 75bps and brings the cumulative fall since last August to 400bps. With inflation within target range (5.1% yr/yr in April)—although still above the 4.5% mid-point—policymakers can afford some relaxation, reinforced by Q1 GDP data at the end of last week. Growth was just 0.8% yr/yr and 0.2% qtr/qtr sa in Q1, not helped by a 7.3% fall in agriculture, but qtr/qtr industry was positive for the first time since Q1 2011. On the demand side, fixed investment fell again and export and import growth slowed but private consumption held up and public consumption accelerated. The economy should gain momentum through 2012, although expect full year growth of only 2.5-3% (2.7% 2011), picking up to 3.5-4% in 2013.



► Asia-Pacific – *Philippines: Growth rebounds*

Q1 real GDP growth accelerated to 2.5% qtr/qtr sa (1.7% in Q4 2011) and to 6.4% yr/yr (4% in Q4). The rebound from an overall lacklustre 2011 was driven by robust domestic demand and a recovery in net exports. Private consumption expanded by 6.6% yr/yr in Q1 (6.4% in Q4) while government spending surged by 24% (7.6% in Q4), although this was partly a result of base effects as there was a 15.8% decline in Q1 2011. Fixed investment grew by 2.8% (-2.4% in Q4). Exports recovered to 7.9% growth in Q1 (-8.2% in Q4) while imports continued to contract, by 2.6% (-6.2% in Q4). Amid an uncertain global environment, expect full-year growth of around 4% in 2012. Inflation edged down slightly to 2.9% yr/yr in May from 3% in April, just below the central bank's 3-5% target range for 2012.



► Europe – *Poland: Growth slows*

Real GDP increased in Q1, by 0.8% qtr/qtr sa, down from 1% in Q4 2011. Yr/yr Q1 GDP growth slowed to 3.5%, from 4.3% in Q4. Private consumption growth was unchanged at 2.1% yr/yr in Q1 while the decline in public consumption intensified to 1.3% from 0.3% in Q4 as the government accelerated fiscal consolidation. Investment growth eased to a still sound 6.7% from 9.7% in Q4, while inventories added 0.8pps to Q1 growth after -0.6pps in Q4. Both export and import expansion moderated, to 4.8% and 3.2% (from 7.9% and 5%), respectively, resulting in net exports contributing 0.7pps to overall Q1 growth after 1pps in Q4. Expect full-year 2012 growth of just below 3% as inventory restocking and external demand are likely to soften.

Worth knowing

► China

The benchmark one-year lending and deposit interest rates were cut by 25bps, underscoring the authorities' switch to an expansionary policy focus.

► Australia

Q1 GDP increased by 1.3% qtr/qtr (larger than expected) driven by domestic demand. Last week, the RBA lowered its key policy interest rate by a further 25bps, to 3.5%.

► Turkey

The central bank left its key policy one-week repo rate unchanged at 5.75% and both ends of its overnight interest rates also unchanged at 5% and 11.5%, respectively, last week. Consumer price inflation fell markedly in May, to 8.3% yr/yr from 11.1% in April, largely due to base effects. Producer price inflation edged up to 8.1% in May from 7.7% in April.

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