



Weekly Export Risk Outlook



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20 June 2012

In the Headlines

FIGURE OF THE WEEK: **3%** > CONSENSUS GLOBAL GDP GROWTH IN 2013

▶ World Economy: EZ concerns affect consensus outlook

June consensus 2012 GDP growth forecasts deteriorated slightly from the previous month, according to Consensus Economics. At the regional level, Latin America (+3.6%) and Middle East/Africa (+4.0%) are back to April levels and North America is at +2.2% with Europe the only region in recession (-0.4%). In the EZ, forecasts have improved slightly for Germany (+0.9%) and also, while still showing recession, for Spain (-1.6%) and Portugal (-3.5%). However, forecasts for several countries—Belgium, Finland, France, Greece, Ireland, Italy and the Netherlands—have deteriorated, with consensus expectations of recession now in 7 countries (6 in May). Forecasts for 2013 also deteriorated for almost all regions, except Latin America and Eastern Europe, and particularly for all EZ members, with the Netherlands (-0.3pps), Italy (-0.3pps) and Portugal (-0.6pps) registering the three strongest downward revisions. Overall, world GDP growth is expected to be 3% in 2013 after 2.6% in 2012.

▶ Euro-zone: Debt crisis update

The election result in Greece provided some breathing space as New Democracy won most parliamentary seats and, with the support of Pasok (third) and the smaller Democratic Left, is set to form a government. These parties were broadly “pro-bail out”, but will seek to adjust some of the terms of the Troika programme, with pressure from “anti-austerity” Syriza (second with 27% of the vote) opposition likely to be strong. It remains to be seen what will be negotiated, but the elections provide a mandate for continuing EZ financing and EZ membership. In Spain, the government continues to struggle to establish market credibility. The EZ crisis also loomed large at the G-20 meetings this week. Discussions appear to have been positive, although EZ decisions are likely to remain geared to the scheduled summit at the end of the month.

▶ Cyprus: Ongoing recession

Real GDP contracted for the third consecutive quarter in Q1, by 1.6% yr/yr and by 0.4% qtr/qtr sa, largely due to weakening government consumption and investment activity. Expect the recession to last, with GDP falling by about 0.5% in full-year 2012, as fiscal austerity and credit tightening continue and external demand weakens. Meanwhile, Moody's last week again lowered its LT sovereign rating, from Ba1 to Ba3, three notches below investment grade, and retained a negative outlook. The downgrade mainly reflects an increase in the likely amount of support that a government bailout of the banking sector may need, following the enforced 70%+ haircut on its extensive holdings of Greek sovereign debt, and the increased likelihood that the government may itself have to request external support. Two of the three largest Cypriot banks were also downgraded by one notch.

▶ Egypt: Further turmoil

The result of the run-off vote for the presidency—the power of which is yet to be defined—is still officially undeclared, a court ruling dissolved the current parliament after finding recent legislative elections unconstitutional and the ruling military council adopted sweeping additional political and security powers. Accordingly, the country's political transition—already protracted and messy—appears in danger of stalling, with potential for confrontation and, possibly, violence. Expect further turbulence.

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► **Mediterranean, Africa & Middle East – Saudi Arabia: Politics**

The death of Crown Prince Nayef bin Abdulaziz al-Saud at the age of 78—he became heir apparent only in October 2011—again raises questions relating to succession. King Abdullah—who is almost 90—moved quickly to appoint Prince Salman, his half-brother, as Crown Prince. Salman, himself, is 76, suggesting that a younger royal generation is yet to break into the most senior positions at a time when there is a growing disconnect between the ageing leadership and the population at large—60% is under the age of 21. Despite speculation, do not expect a marked change in policy direction as Salman, like Nayef, is a strong supporter of the Wahhabist interpretation of Islam. Expect the al-Saud ruling family to have mapped out a succession continuity plan but for it to be managed behind closed doors.



► **Americas – Chile: Interest rates and update**

At its rate setting meeting last week the central bank held the policy interest rate unchanged at 5% for the fifth consecutive month. Inflation is currently close to target and on a downward trend. The bank's GDP growth forecasts have also been lowered, reflecting the global slowdown, which is hitting demand for commodities, particularly from China. (Copper alone accounts for 60% of total exports.) The April monthly activity indicator slowed to 4.8% yr/yr (5% March) and Q1 2012 growth in GDP was 5.6% yr/yr. Expect some further monetary easing through the year and full year 2012 GDP growth of 4.3% (6% 2011). Strong built-in policy safeguards, sound public finances with moderate debt ratios and a robust external balance leave Chile well positioned to manage stresses from the external environment.



► **Asia-Pacific – India: Inflation concerns**

With output and overall economic growth slowing, there were expectations of further monetary easing but the central bank (RBI) this week kept its key policy interest rates unchanged. This cautious approach reflects continuing concerns relating to inflationary pressures—in May, the CPI recorded an increase of 10.4% yr/yr and the WPI (still the official benchmark) was up 7.54% yr/yr (7.23% in April). With partial paralysis in policy implementation because of a weak political environment, the independent RBI is the main agency whereby any remedial action for the current slowdown can be instigated. Perhaps in this respect, the finance minister recently announced he would stand down to run for the (largely ceremonial) presidency. Expect GDP growth of around 7% in FY2012/13.



► **Europe – Hungary: Sharp decline in Q1 GDP**

The economy shifted into sharp contraction in Q1, with real GDP declining by 1.2% qtr/qtr (0% in Q4 2011) and 0.7% yr/yr (+1.4% in Q4). Domestic demand weakened further as private consumption decreased by 0.7% yr/yr, government consumption increased by 1% and investment fell by 6.6%. Inventories contributed -1.6pps to Q1 growth (after -0.3pps in Q4). External trade eased overall as exports increased by just 1.9% while imports moved to a 0.3% decline. As a result, net exports contributed 2.2pps to Q1 GDP growth, down from 2.9pps in Q4. Weaker external demand, as well as limited scope for fiscal stimulus and monetary easing, will affect growth prospects in 2012. Expect full-year real GDP to stagnate, at best, after modest 1.6% growth in 2011.

Worth knowing

► **Interest rates**

South Korea, Indonesia, the Philippines and Thailand all left their key policy rates on hold last week, at 3.25%, 5.75%, 4% and 3%, respectively. **Iceland** raised its key policy rate by 0.25bps to 5.75%.

► **Pakistan**

The supreme court yesterday forced Prime Minister Yusuf Raza Gilani out of office, citing his refusal to reopen corruption charges involving President Asif Ali Zardari—and resulting (nominal and symbolic) jail sentence—as reasons for stripping him of his status as member of parliament and therefore of the premiership. Expect continuing political uncertainties.

► **Syria**

UN peace observers suspended their mission in the country, citing security concerns and categorising the country's conflict as a civil war. Meanwhile, there is growing concern relating to the safeguard of the country's stock of chemical weapons.

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