



Weekly Export Risk Outlook



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In the Headlines

FIGURE OF THE WEEK: 3.2% > TURKEY'S YR/YR Q1 GDP GROWTH (5.2% Q4 2011)

▶ Eurozone: Crisis update

The EZ took some important steps forward with proposed actions at the summit meeting last week. First, and possibly most important, the ESM is to be allowed to re-capitalise banks directly once a single supervisory body involving the ECB is established. Second, EFSF/ESM resources are to be used flexibly to stabilise markets, using the ECB as agent. Third, financing for Spain initially will be from the EFSF and will transfer to the ESM without gaining seniority status. Moreover, for the first and second of these proposed actions conditionality is to be limited to a memorandum of understanding that members are respecting commitments under other EZ arrangements. A "compact for growth and jobs" package of EUR120bn was also announced. This is not yet a comprehensive solution and much detail remains to be filled in, but nonetheless is an important demonstration of political commitment to the EZ, albeit with necessary compromises.

▶ Turkey: Continued slowdown

Q1 real GDP growth decelerated to 3.2% yr/yr from 5.2% in Q4 and 8.5% in full-year 2011, according to figures released by the Statistical Institute. This slowdown was a result of further moderation in domestic demand, with investment increasing by 1.6% yr/yr (2.4% in Q4) and private consumption by just 0.3% (3.2% in Q4), even though public consumption returned to 5.5% growth (-4.3% in Q4). In contrast, the contribution of net exports to overall growth increased in Q1 as export expansion accelerated to 13.2% (6.7% in Q4) while imports continued to decline, by 5% (-5.1% in Q4). The current account deficit in Q1 narrowed by 25% yr/yr, to USD16.3bn, but remained large at 8.9% of GDP (10% in full-year 2011). Inflation picked up to 8.9% yr/yr in June from 8.3% in May, but the monthly CPI decreased for the second consecutive month, by 0.9% mo/mo (-0.2% in May).

▶ Mexico: Election results

According to initial official results, opposition PRI candidate Enrique Pena Nieto won the presidential elections held last weekend, with 38.1% of the vote. Andres Manuel Lopez Obrador (AMLO) of the PRD was second (31.7%) and Josefina Vazquez Mota of the ruling PAN a distant third (25.4%). The PRI will return to office for the first time since losing the 2000 elections, which ended more than 70 years of continuous rule. In the legislative elections, held the same day, it looks as though the PRI will not secure an absolute majority in Congress. AMLO is challenging the election's legitimacy, as he did unsuccessfully in 2006, but whether he can mount a prolonged campaign (the result was more clear-cut this time) remains to be seen. Expect broad macro-economic policy continuity.

▶ US: Health care and latest data

The Supreme Court ruled that health care reforms (Obamacare) are constitutional, which could provide health insurance for 30mn people previously without such cover, and sets the stage for large tax increases over the next 10 years. If the Republicans win the House, the Senate and the Presidency in November, this controversial law is likely to face repeal. Meanwhile, most economic data remain weak. In June, consumer confidence fell for the fourth consecutive month, to its lowest level since January, and the ISM manufacturing survey, hurt by weak exports in Europe and China, tumbled below the 50 level, indicating contraction in the sector. Moreover, Friday's employment report is expected to show further weakness in the labour market.

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► **Mediterranean, Africa & Middle East – Morocco: Drought**

Recent drought conditions will reduce economic growth this year (through weaker agricultural output and incomes and therefore softer domestic demand) at a time when the Eurozone debt crisis is also having negative effects on the economy through reduced trade, tourism, investment and remittance flows. GDP growth is now forecast at only 3.5% in 2012 (4.8% in 2011), perhaps returning to 5% in 2013, subject to improved agricultural output and a more stable external environment. Meanwhile, political reforms (including expanded powers of the prime minister) and advent of a moderate Islamic-led government following elections in November 2011 have prevented severe contagion from the Arab Spring. King Mohammed VI and the monarchy remain popular but expect calls for further political reforms.



► **Americas – Colombia: Q1 growth and country update**

GDP growth in Q1 slowed to 4.7% yr/yr and 0.3% qtr/qtr sa (6.1% and 1.2%, respectively, in the previous quarter). In April, retail sales were down on a year earlier and industrial output fell mo/mo for the second consecutive period. Nevertheless, expect growth of around 4% in 2012, although downside risks are increasing as global demand and commodity prices ease. Oil, coal, coffee and ferro-nickel together account for 70% of total goods exported. After tightening monetary policy through 2011 and early 2012 there is scope for interest rate reductions if the economy weakens more than expected. Overall, fiscal and monetary policies have been sound, the external balance is robust and external debt ratios are moderate. Despite long-running security issues, systemic political risk is also moderate.



► **Asia-Pacific – Sri Lanka: Update**

Overall stability is much improved, despite some concerns relating to alleged authoritarian tendencies among the political elite and reports of humanitarian abuses, particularly regarding the Tamil minority (12% of the population) during a 25-year civil war that ended in 2009. The economy is dominated by services (over 60% of GDP), particularly tourism, and agriculture (15%) but the textiles and clothing sector provides a developing export trade in manufactured goods. Fiscal and current account deficits require careful management but external liquidity is comfortable. Expect the current slowdown in the Indian economy—a key export market and the leading source of imports—to affect adversely growth prospects but for GDP still to expand by around 5.5% in both 2012 and 2013 (average 6.1% 2002-11).



► **Europe – Slovenia: Q1 GDP**

GDP contracted by 0.2% yr/yr in Q1, the third consecutive quarter of annual decrease, after -2.8% in Q4 and -0.5% in Q3 2011. In seasonally and working-day adjusted qtr/qtr terms, GDP expanded by 0.2% in Q1, the first increase after four contractions. Domestic demand remained weak in Q1, even though private and public consumption returned to growth of 1.4% and 0.2% yr/yr, respectively, because investment continued to contract sharply, by 10.9%. Inventories subtracted 0.3pps from Q1 growth. External trade activity moderated further, but net exports contributed 1.4pps to Q1 growth as imports shifted to a 1.1% yr/yr contraction while exports maintained a modest 0.9% expansion. Against a background of weakening external demand from the EU, expect full-year GDP to decline by 0.4%.

Worth knowing

► **South Africa**

The Purchasing Managers' Index (PMI) in June showed a decline for the fifth consecutive month and, at 48.2pps (53.6 in May), is now suggesting contraction in manufacturing output. Eight out of nine sub-indices within the PMI declined in June.

► **Iran**

On 1 July, the EU embargo on Iranian oil exports and sanctions against insurance and transport of such global trade came into force. Although widely anticipated—some leading Asian importers cut their supplies in advance—expect oil prices to firm (benchmark Brent is already back over USD100/barrel), particularly as some in Tehran have called for partial closure of the Strait of Hormuz through which 35% of all seaborne oil shipments are made.

► **East African inflation**

Kenya: headline inflation fell to 11.5% yr/yr in June (12.2% in May and 19.7% in November 2011), with food inflation falling to 10.5% yr/yr (14.6% May). **Uganda:** headline inflation 18% in June (18.6% May).

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