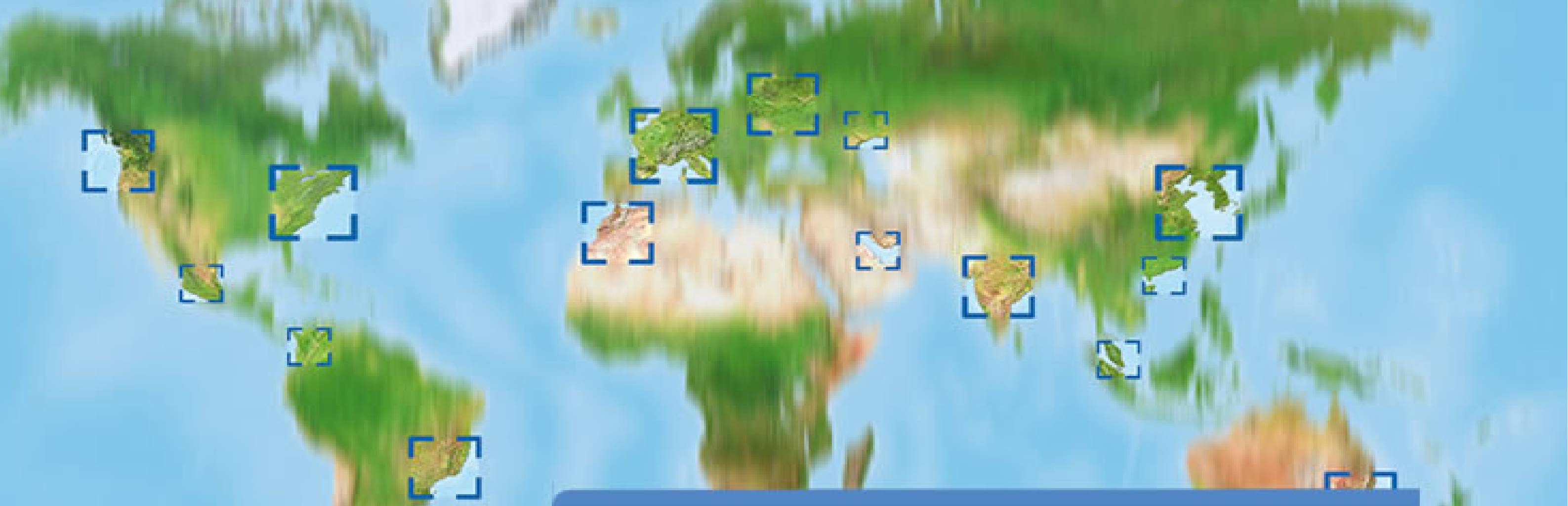

Weekly Export Risk Outlook

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22 August 2012

In the Headlines

FIGURE OF THE WEEK: 4%+ >Q2 YR/YR GDP GROWTH IN MEXICO AND THAILAND

World Economy: Consensus GDP forecasts

Consensus forecasts for 2012 GDP growth improved slightly in August for North America (+0.1pps to 2.1%), remained unchanged for all emerging regions and deteriorated further for the EU, with the latter in recession (-0.1pps to -0.3%). In the EZ, expectations for 2012 improved slightly for Ireland, but again deteriorated for several countries, with recession now forecast in six countries (Ireland, Netherlands, Spain, Italy, Portugal and Greece). Forecasts for the UK also indicate recession (-0.2%). Forecasts for 2013 GDP growth in all emerging regions are little changed from July but show a deterioration for the third consecutive month for North America and Western Europe (both by -0.2pps, to +2.1% and +0.5%, respectively). Forecasts for 2013 for the Eurozone deteriorated, including Germany (-0.1pps) and France (-0.2pps), with Spain (-0.5pps) and Portugal (-0.6pps) registering the two strongest downward revisions and remaining in recession in 2013, along with Greece and Italy.

US: Some (moderately) positive data

The latest employment report (for July) was better than expected, but contained data still far below levels that would indicate a strong recovery. Retail sales were up in July, but it was the first time in four months. Housing permits increased in July, but starts fell for the fourth time in six months. In July, industrial production increased by 0.6% mo/mo but the New York Fed's manufacturing survey and the Philadelphia Fed's survey of general business conditions were both in negative territory in August. While consumer sentiment of current conditions increased, expectations for the future fell. Leading indicators fell 0.4% mo/mo in June but increased by 0.4% in July. On balance, the recent positive data are welcome, without suggesting a strong rebound.

Eurozone: Crisis update

Expectations of ECB intervention (alongside use of the ESM, after it is ratified by Germany in September) allowed yields on Portuguese and Spanish bonds to ease from their recent peaks, but negotiations with Greece on the next tranche of the bail-out programme have returned to the fore. PM Samaras has been holding discussions with EU leaders on the programme set by the "Troika", particularly over the time frame for the EUR11.5bn additional budget savings that are still required (which, according to some unconfirmed reports, could have increased since the original target was set). With latest estimates of Q2 GDP showing that the economy contracted by 6.2% yr/yr and little prospect of any immediate improvement, political pressures (domestic and international) on the Greek leader are intense.

Brazil: Infrastructure spending

The government announced a Rs133bn (USD65.5bn) infrastructure investment programme last week, focused on highways and railroads. A key feature is that the projects are to be undertaken in a public-private partnership scheme, which it is hoped will invest Rs85bn in the first five years. Actual investment is unlikely to materialise until late 2013 and 2014, although a major improvement in infrastructure is essential for sustainable medium-term growth. Meanwhile, July retail sales increased by 1.5% mo/mo and the central bank's June monthly activity indicator was up 0.75% mo/mo (0.38% in Q2), signs that fiscal and monetary loosening are having a positive effect and pointing to a stronger H2. Nonetheless, the central bank's monetary policy committee still seems likely to cut interest rates again when it meets next week, although food prices could pressure inflation.

Countries in Focus

Mediterranean, Africa & Middle East – *South Africa: Update*

Recent strikes and violence at platinum mines will disrupt output and profitability for producers at a time when prices are low because of reduced demand, particularly from the European automotive industry. However, the whole mining sector now only accounts for around 7% of GDP, so recent events will not have a significant impact on the overall economy. However, they highlight some structural problems, including lack of jobs, high unemployment, combustible labour relations, income inequalities, poor service delivery and, at a political level, perceived policy paralysis (mining nationalisation is a recurrent debate), reports of corruption and cronyism and a fractious ruling ANC. Against this background, expect GDP growth of around 2.5% this year and around 3% in 2013 (3.1% in 2011).

Americas – *Mexico: Q2 GDP growth*

Growth slowed in Q2, to 4.1% yr/yr (4.6% Q1) and 0.87% qtr/qtr sa (1.19% Q1). Yr/yr increases were strong in agriculture, manufacturing, construction and services. Demand-side data have not been released yet, but relatively strong investment in April and May, buoyant consumer confidence and government spending ahead of the election all point to still relatively robust domestic demand. Nonetheless, weaker US demand (exports are heavily concentrated on the US) is likely to affect the external sector and government spending is likely to be less strong with elections out of the way, so a further moderation in growth can be expected in H2 (full year 2012 growth 3.5-4%). With food prices pressuring inflation, expect the central bank to continue to keep the policy interest rate on hold for the time being.

Asia-Pacific – *Thailand: Domestic demand drives growth*

Recovery from the severe flood-related downturn in Q4 2011 continued in Q2, with real GDP increasing by 4.2% yr/yr and 3.3% qtr/qtr sa, driven by strong domestic demand. Private consumption expanded by 5.3% yr/yr, public consumption by 5.6% and fixed investment by 10.2%. There was further post-flood inventory restocking, adding 2.8pps to yr/yr growth. Export growth disappointed at just 0.9%, reflecting, in particular, weakness in European demand. Import growth, at 8.5%, remained robust and, as a result, net exports subtracted 4.4pps from potential Q2 yr/yr growth. The current account recorded a deficit of 2.7% of GDP in Q2, the first quarterly shortfall since end-2008. For 2012 as a whole, expect around 5% GDP growth and a manageable current account deficit of approximately 1.5% of GDP.

Europe – *Bulgaria: Q2 GDP growth and current account*

According to flash estimates, seasonally- and working-day adjusted real GDP growth increased moderately in Q2, by 0.2% qtr/qtr (0% in Q1) and remained stable at 0.5% yr/yr. Public consumption continued to contract, by 0.6% qtr/qtr in Q2 (-2.1% in Q1) as the government targets a 1.3% of GDP fiscal deficit in 2012. However, growth in private consumption and fixed investment accelerated to 2.1% and 1.5% qtr/qtr in Q2, from 0.5% and 0.4% in Q1, respectively. Both exports and imports shifted to growth in Q2 after declining in Q1, but with imports (+5.9% qtr/qtr) expanding faster than exports (+2.4%), net exports made a negative contribution to Q2 qtr/qtr growth. The current account remained in small deficit in Q2, at 1.2% of GDP. Expect around 0.5% GDP growth in full-year 2012.

Worth knowing

Other Q2 GDP growth

Azerbaijan: 2.5% yr/yr (0.5% Q1). **Belarus:** 2.8% yr/yr (3% Q1). **Kazakhstan:** 5.6% yr/yr (5.6% Q1). **Malaysia:** 5.4% yr/yr (4.9% Q1). **Serbia:** -0.6% yr/yr (-1.3 Q1). **Ukraine:** 3% yr/yr (2% Q1) and 1.9% qtr/qtr sa (-0.3% Q1).

Egypt

The IMF's Managing Director, Christine Lagarde, was in Cairo today, following an invitation by the Egyptian authorities, who are expected to seek (and should get) a financial facility. The Fund is committed to support Egypt during its political transition.

Ethiopia

PM Meles Zenawi died after a lengthy illness and his deputy, Hailemariam Desalegne, assumed leadership as acting premier.

These assessments are, as always, subject to the disclaimer provided below.