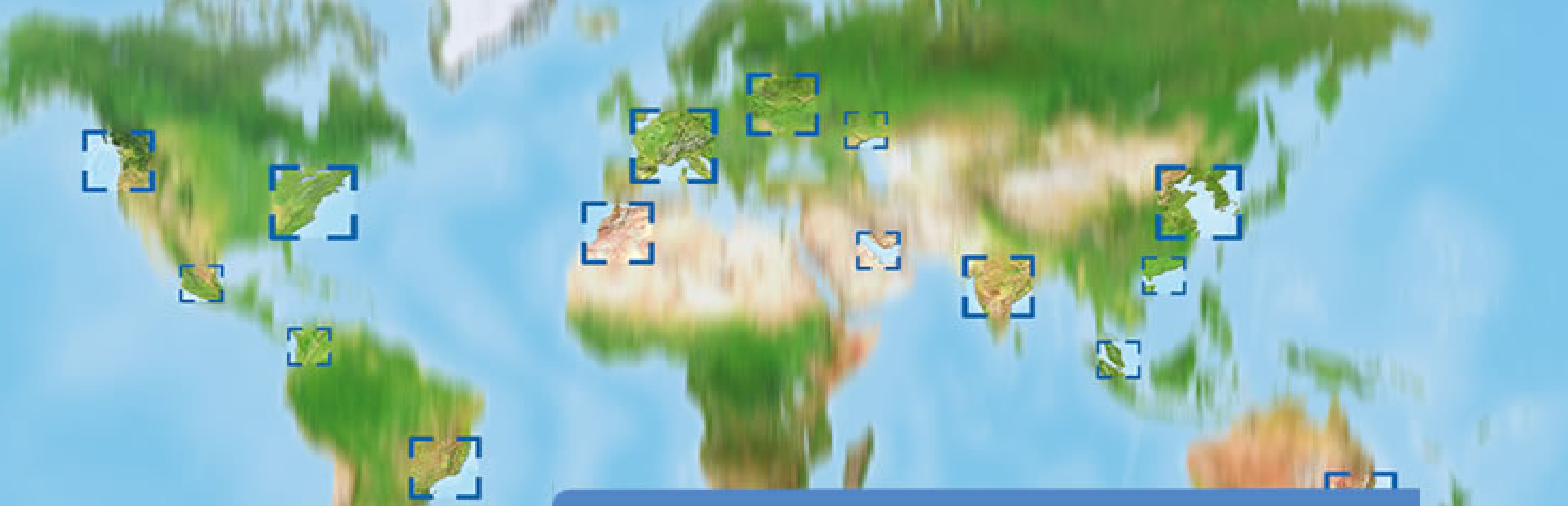

Weekly Export Risk Outlook

EULER HERMES
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29 August 2012

In the Headlines

FIGURE OF THE WEEK: +0.3% >GERMAN QTR/QTR Q2 GDP GROWTH

Germany: Net exports maintain growth

The rate of GDP growth slowed to +0.3% qtr/qtr in Q2, from expansion of +0.5% in Q1. According to the Federal Statistical Office, exports were the main growth driver in Q2, increasing by +2.5% qtr/qtr, despite the challenging global economic environment. Import growth was subdued and, as a result, net exports contributed 0.3pps to overall growth. While consumer demand was up by +0.4% qtr/qtr, capital investment continued to be a drag on growth in Q2, with machinery and equipment -2.3% qtr/qtr (the third consecutive quarterly decline) and construction was down by -0.3%. Given the current uncertainties and risks arising from the European debt crisis, together with the recent deterioration in some lead indicators, expect 2012 GDP growth of around +1.0%.

US: Housing data against the trend

The minutes from the meeting held by the Federal Reserve on 1 August indicate a somewhat surprising bias towards continued quantitative easing. More policy pointers may be evident at the end of this week when Fed Chairman Ben Bernanke issues his statement from Jackson Hole. Recent data confirm an overall weakness, with the latest weekly jobless claims increasing for the second consecutive period, July business spending falling by -3.4% mo/mo, the fourth decline in five months, and consumer confidence in August dropping to its lowest level in 10 months. However, housing data are improving as prices on existing homes increased for the fifth consecutive month in July, making the yr/yr rate positive for the first time since September 2010. Unit sales of existing and new homes were up +9.9% yr/yr and +25.4% yr/yr, respectively, while starts and permits were up +21.5% and +29.5%, respectively.

Eurozone: Money supply and credit growth

Broad money supply (M3) registered its strongest performance over the last three years, increasing by +3.8% yr/yr in July, after +3.2% in the previous month. Also in a positive vein, credit availability to euro area residents remains on an upward trend, with the stock of credit up by +1.2% yr/yr in July and supported by increased loans to all sectors. The flow of loans to the private sector became positive in July (+EUR37bn compared with -EUR1bn in June), with loans to businesses +EUR45bn from -EUR5bn in June.

Latin America: Politics

In **Mexico**, the Federal elections Tribunal (TEPJF) said that it will annul only 0.37% of the vote cast in the contested July presidential election, seemingly ending opposition candidate Andres Manuel Lopez Obrador's challenge over voting irregularities. However, the TEPJF has yet to rule on allegations of vote buying and campaign financing illegalities (due by 6 September). In **Paraguay**, the electoral court confirmed that presidential elections will be held in April 2013, supporting interim President Franco's assertions that he will uphold democratic institutions, notwithstanding the ousting of President Lugo (by impeachment). In **Colombia**, the government announced that it is entering exploratory peace talks with the main rebel group, FARC. These are likely to be protracted and difficult, but are perhaps better placed to succeed than previous attempts.

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

The monarchy is popular but there are increasing social and political frustrations that King Abdullah II's democratic reforms do not go far enough. However, the key risk currently remains further contagion and/or spill-over effects from Syria and these stem from economic (close trading ties) and security causes. There are also long-standing domestic socio-political tensions, which include competing claims of Trans-Jordanians and Palestinians, with the latter accounting for at least 60% of the overall population. Fiscal and current account deficits remain challenging (-4% and -14% of GDP, respectively). However, the US, the GCC (Jordan is a prospective member) and the IMF (in July, the Fund approved a three-year USD2bn facility) remain supportive. Expect GDP growth of +2.5% in 2012 and +3% in 2013.

Americas – *Guatemala: Update*

GDP growth is set to slow to +3.2% in 2012 (+3.9% 2011) with a similar pace likely in 2013. Inflation has eased but is susceptible to rising food prices. External liquidity indicators are fairly strong (current account deficit around -3% of GDP and FX reserves provide 4.3 months import cover and are equivalent to 160% of external debt falling due) and the fiscal deficit (-2.8% of GDP in 2011) and debt ratios are moderate. The economy, however, is vulnerable to changes in commodity prices and the US business cycle. On the political front, institutions and the rule of law remain relatively weak and political parties fragmented, although transfers of power have been orderly through elections generally regarded as transparent since the end of the civil war in 1996.

Asia-Pacific – *Malaysia: Q2 growth surprisingly strong*

Q2 real GDP growth accelerated to +5.4% yr/yr from +4.9% in Q1, driven by strong domestic demand, while the external sector remained weak. Private consumption expanded by +8.8%, government spending by +9.4% and investment soared by +26.1%. Net trade made a negative contribution to growth as exports grew by just +2.1% while imports increased by +8.1%. On the supply side, construction surged by +22.2%, followed by services (+6.3%) and manufacturing (+5.6%) while agriculture contracted by -4.7% in Q2. Expect full-year growth of around +4.6%. The current account surplus narrowed in Q2, but remained sizeable at USD3.1bn, equivalent to +4.1% of GDP (+8% in Q1). Inflation moderated to a 28-month low of 1.4% yr/yr in July, signalling subdued price pressures for now, despite strong growth.

Europe – *Serbia: Deteriorating outlook*

Q2 real GDP contracted by -0.6% yr/yr, after declining by -1.3% in Q1, with the economy adversely affected by both weak domestic demand and fading external demand amid the ongoing EZ crisis. Moreover, investor confidence deteriorated further, reflecting a change in economic policy direction under a newly-elected coalition government. The more nationalist-populist government advocates fiscal and monetary loosening and a controversial amendment on the governance of the central bank, which threatens to undermine its independence, raises concerns. Year-to-date, the RSD depreciated by around 12% against the EUR and FX reserves fell by 20%. In August, S&P downgraded Serbia's LT sovereign rating to BB- from BB. Expect recession to continue for the remainder of 2012.

Worth knowing

South Africa

Q2 GDP growth increased by +3.2% qtr/qtr, after +2.7% in Q1, and by +3% yr/yr. However, mining added 1.5pps to overall growth, reflecting a rebound from a strike-effected Q1. Current mining unrest, perhaps spreading from the platinum sector to other metal/mineral industries, suggests weaker growth in H2, with around +2.5% GDP growth overall in 2012.

Hungary

The central bank today lowered its key policy interest rate by 25bps to 6.75%, despite higher-than-expected inflation (5.8% yr/yr in July, well above the 3%±1pps target), in order to support the faltering economy.

Kyrgyzstan

The ruling four-party government, in power since end-2010 following the political unrest earlier that year, collapsed last week, heightening concerns about political stability in the only parliamentary democracy in Central Asia.