



Weekly Export Risk Outlook



4 October 2012

In the Headlines

FIGURE OF THE WEEK: **+3%** >2013 INCREASE IN EH GLOBAL INSOLVENCY INDEX

▶ World Economy: Improvement in 2013, but limited

World economic growth will improve only moderately in 2013 (+2.8%) after an even weaker than expected 2012 (+2.5%) according to EH's latest forecasts, posting a downward revision from June's forecasts of -0.1pps in 2012 and -0.2pps for 2013. World output will remain short of its pre crisis tempo. World trade will pick up in 2013, but only to +5.1%, after decelerating sharply in 2012 to +3.8% (+5.9% 2011). Weakness continues to be mainly concentrated in the advanced economies (+1.2% growth expected 2012 and +1.3% 2013), largely as a result of fiscal consolidation, but the deepening EZ slowdown (-0.5% 2012 and +0.4% 2013) is also weighing on previously resilient economies worldwide. Emerging regions are expected to register lower growth in 2013 than in 2011 despite a recovery from 2012. Insolvencies in 2012 are trending up, as forecasted, and the EH Global Insolvency Index is set for to increase by +4% in the full year, with all regions faring less favourably. This shift in trend is expected to continue in 2013 with an increase in the global index of +3%, including another marked rise in the EZ (+11% after +18% in 2012) owing to the performance of Mediterranean countries (+19%).

▶ US: More mixed data

U.S. economic data have been mixed. Q2 GDP was revised sharply down from +1.7% qtr/qtr annualized to a more anaemic +1.3%. August durable goods orders fell a dramatic 13.2% led by cancelled orders at Boeing, but even excluding transport orders were down -1.6%. One proxy for business spending in the report is now down -3.1% yr/yr. Real disposable personal income and spending remained well below averages last month. Yet auto sales were strong, consumer confidence leapt (but is still well below average) and both the manufacturing and non-manufacturing ISM surveys surprised on the upside and are both above the 50 level signaling expansion. On balance, however, there still isn't enough data to indicate a strengthening recovery and one shouldn't be expected any time soon.

▶ EU: Budget perspectives

Germany remained by far the largest net payer to the EU in 2011, according to the recently published European Commission Budget Report. In 2011 Germany transferred around EUR 9bn more than it received, followed by France (-6.4bn), Italy (-5.9bn) and UK (-5.6bn). The largest net beneficiaries were Poland (EUR +11bn), Greece (+4.6bn), and Hungary (+4.4bn). Measured in terms of economic output, however, the rankings change somewhat. With a -0.38% share of aggregate economic output, Italy was the largest relative net payer, followed by Netherlands and Belgium (-0.36% each) Germany, Denmark and Finland (-0.34% each). The two largest relative beneficiaries were Hungary (+4.67%) and Lithuania (+4.63%).

▶ Iran: Currency free-fall

The unofficial exchange rate of the rial reportedly fell by more than 25% in two days at the start of the week, exacerbating a strong downward movement since the end of 2011 and even before. Economic and financial sanctions against Iran seem to be taking their toll as dollars become scarce and previous import subsidies hard to maintain. It is not clear what the central bank and government response will be at this stage. It is equally unclear whether this will harden or soften the leadership's stance on nuclear issues and indeed, how the mounting pressure on the various factions within the leadership will resolve themselves.

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► Mediterranean, Africa & Middle East – *Malta: Update*

Real GDP grew by +0.9% yr/yr in Q2 after two consecutive quarters of decline, driven largely by external demand, but supported by public consumption. The latter was up +4.5% yr/yr, in contrast to private consumption which contracted by -3.2%. Gross capital formation dropped -33%, largely reflecting a sharp fall in inventories, as fixed investment declined by -1.7%. Exports increased by +9.5% yr/yr, much faster than imports (+3.2%), resulting in overall positive Q2 growth. Moreover, the current account balance shifted into surplus of around 3.2% of GDP, following deficits of 4.7% in Q1 and 1.4% in full-year 2011. Headline inflation moderated to 3.2% yr/yr in August from 4.2% in July. Expect GDP growth to be broadly flat in 2012 as a whole and inflation around 3% at the year-end.



► Americas – *Venezuela: Presidential election*

The presidential election will be held this weekend (7 October) in which President Chavez, in office since 1998, will seek another six-year term. Opinion poll results published have been mixed and while generally suggesting a Chavez' win, at least one recent poll put the candidates neck-and-neck. Most polls also have a large undecided element and have tended to show opposition candidate Henrique Capriles making small gains. Although Chavez remains the most likely winner, given resources and incumbency, the outcome is much more uncertain than previous elections, as Capriles presents a serious alternative in an environment where the economy is not performing so well and the president's health is a factor. A very close result could test the resolve of both sides.



► Asia-Pacific – *Vietnam: Q3 growth*

Real GDP growth picked up further in Q3 to +5.4% yr/yr from +4.7% in Q2 and +4% in Q1, but remains well below the annual average +7.2% in 2001-2010 and +5.9% in 2011. Services grew by a robust +6% yr/yr in Q3, but industry (+4.4%) and agriculture (+2.5%) underperformed. Expect full-year growth of about +5% in both 2012 and 2013 as problems in the banking sector will forestall a return to earlier rates. Following very rapid credit growth in 2009-2010, non-performing loans have risen sharply, exacerbated by monetary tightening in 2011. Many banks now face intense liquidity pressure and, as a result, credit growth has retreated sharply, curtailing domestic demand. Last week Moody's lowered Vietnam's foreign and local currency government bond ratings to B2 from B1, with a stable outlook.



► Europe – *Croatia: Firmly in recession*

Q2 real GDP contracted by -2.2% yr/yr, the third consecutive quarter of decline (-1.3% in Q1; -0.4% in Q4). Very weak domestic demand as a result of tight credit conditions, rising unemployment (17.7% in August) and high interest rates were the main drivers of continued decline. Private consumption fell -3.4% yr/yr, public consumption -0.2% and fixed investment -5.9%. External trade activity also decreased, but net trade made a positive contribution to Q2 growth as imports contracted more sharply (-3.3%) than exports (-1.8%). Domestic demand is unlikely to recover soon as there is no indication of improving credit or labour markets, and the EZ crisis will leave external demand weak. Expect GDP to contract by -1.5% in full-year 2012 and a modest recovery in 2013, at best.

Worth knowing

► Georgia

President Saakashvili has conceded that his party lost Monday's parliamentary election, paving the way for a peaceful transition of power. The President, in office since 2003, will remain in power until presidential elections in 2013.

► Interest rates

Australia: key policy rate cut by 25bps to 3.25%. **Czech Republic:** key policy rate cut by 25bps to 0.25%. **Kuwait:** key policy rate cut by 50bps to 2%. **Uganda:** key policy rate cut by 200bps to 13%.

► Canada

July GDP was stronger than expected but is still anaemic at 1.9% yr/yr. Unlike the U.S., the Canadian housing market appears to be weakening. The Bank of Canada is likely to drop its tightening bias on its 23rd October meeting.

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