



Weekly Export Risk Outlook



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In the Headlines

FIGURE OF THE WEEK: **USD115**>BARREL PRICE OF BRENT OIL

▶ US: Strong retail sales

Retail sales showed their third consecutive month of strong performance, growing +1.1% mo/mo in September after an upwardly revised +1.2 % in August. High prices drove gasoline sales up +2.5% mo/mo after a sharp +6.1% increase in August. Even without the volatile gasoline and auto components, retail sales increased by +0.9% mo/mo in September. After adjusting for inflation, total retail sales were up a strong +3.4% yr/yr. High gasoline prices were also the driving force behind an increase in the Consumer Price Index (CPI), which was up 0.6% mo/mo in September, after a similar increase in August. However, growth in overall and core CPI remained at a relatively mild 2% yr/yr in September, giving the Fed room to continue its easing stance in monetary policy. Fed Chairman Ben Bernanke defended accommodative monetary policies in the US and even suggested that emerging market countries should allow their currencies to appreciate to offset perceived ill effects.

▶ China: September data

Inflation (CPI) eased further, to 1.9% yr/yr in September (2% in August). While expectations are for some pick-up in Q4, inflation does not look like a major constraint on policy loosening in the near-term. However, with the leadership transition underway (the 18th Party Congress will start on 8 November) there may still be caution over policy. In other releases, monetary data showed M2 and M1 growing a little faster and, although bank lending was unexpectedly weak, the broader “total social financing” took up the slack. Trade data showed that exports—up 9%—were surprisingly strong in September, although import growth was sluggish (+2.4%). Industrial production and investment data to be released later this week will provide more evidence. Q3 GDP data will also be released, most likely pointing to activity stabilising, although the yr/yr figure could be less than in Q2.

▶ India: Inflation limits monetary policy

Consumer price inflation was 9.73% yr/yr in September (10.03% in August) and wholesale price inflation (still the main official gauge of price pressures) was 7.8% yr/yr (7.6% in August). Such data, at a time of relatively weaker overall economic growth—recent reforms are unlikely to spur GDP expansion in the ST—present a policy challenge for the authorities who would otherwise implement a more aggressive loosening in monetary policy. With the full effects of September’s fuel subsidy reduction and delayed monsoon (weaker agricultural output) yet to work through the inflation data, do not expect the monetary policy committee to announce a cut in interest rates later this month. Lower interest rates may yet be tabled before year-end (and are likely in H1 2013) but much depends on official perceptions of the growth-inflation balance.

▶ World Economy: Consensus is subdued growth

Consensus forecasts now project 2012 world GDP growth of +2.5% yr/yr, representing a decrease of -0.1pps compared with the previous forecast released in September (+2.6%). In the latest forecasts, the rate of GDP contraction in Western Europe in 2012 is increased moderately relative to September, by -0.1pps to -0.3%, reflecting a deterioration in prospects for southern European countries, particularly Italy (from -2.2% to -2.4%) and Greece (from -6.3% to -6.7%) but also Belgium (from -0.1% to -0.3%). Expectations of GDP growth also deteriorated for North America (-0.1pps to +2.1%) because of the downgrade in the US forecast (-0.1pps to +2.1%) and for Asia Pacific (-0.1pps to +4.8%). Growth forecasts remain unchanged for Eastern Europe (+2.8%) and also for Latin America (+2.9%). The only region to record an improvement in growth forecasts is the Middle East and Africa, by +0.3pps to 4.4%.

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► **Mediterranean, Africa & Middle East – Ghana: GDP & update**

Official statistics indicate that GDP growth slowed to +2.5% yr/yr in Q2, after registering +15.7% in Q1 and +20.6% in Q2 2011, and by +2.4% qtr/qtr (+0.1% in Q1 and +16.8% in Q2 2011). Achievement of an official growth target of +9.4% in 2012 now appears unlikely. Economic performance (including distribution of oil wealth) is likely to feature in upcoming presidential election campaigning. Nana Konadu Agyeman-Rawlings (wife of a long-serving former head of state) secured the nomination for these elections as candidate of the newly-formed National Democratic Party (NDP)—a breakaway movement from the ruling NDC. Nevertheless, expect the polls to be a direct contest between the NDC and NPP, with the result too close to call, although significant policy redirection is unlikely, whatever the result.



► **Americas – Peru: Growth & interest rates**

August monthly GDP data show a yr/yr increase of +6.3%, still strong but lower than market expectations and July's +7.1%. Growth in construction remained particularly strong, up +17.6%. Inflation in September was 3.7% yr/yr (3.5% in August) above the central bank's target range but, excluding energy and food, the price index increased only 2.1%. Unsurprisingly, against this backdrop and with the exchange rate strengthening, the central bank last week left the policy interest rate unchanged at 4.25% and rates may remain unchanged for some time, although there could be some further adjustment to bank reserve requirements. Expect GDP growth of close to +6% in 2012 and 2013, although the economy remains susceptible to global commodity prices.



► **Asia-Pacific – Singapore: Q3 GDP & monetary policy**

Advance estimates indicate that Q3 real GDP growth eased to +1.3% yr/yr (+2.3% in Q2) and contracted by -1.5% qtr/qtr sa, but the upward revision of Q2 qtr/qtr sa growth to +0.2% (from a preliminary estimate of -0.7%) meant the country avoided recession. The large revision was mainly a result of new data from the construction sector, which is now estimated to have grown by +10.1% yr/yr in Q2 and +8.6% in Q3. The overall economic slowdown in Q3 is a result of weak manufacturing, which grew by just +0.7% yr/yr (+4.6% in Q2), reflecting sluggish external demand from advanced economies. Expect full-year 2012 growth of around +2%. Despite overall economic weakness and easing inflation (3.9% yr/yr in August), the Monetary Authority kept monetary policy unchanged last week.



► **Europe – Romania: Update**

Revised official estimates show that Q2 real GDP growth picked up to +0.5% qtr/qtr sa (+0.1% in Q1) and +1.1% yr/yr (+0.3% in Q1). Fixed investment was the main growth driver in H1, expanding by +14.2% yr/yr. Private consumption grew by a modest +1.1% and government consumption declined by -2.8%. Net exports, however, had a negative impact on H1 GDP as exports contracted by -1.4% yr/yr while imports stagnated. Early indicators for Q3 suggest that the economy continued to grow modestly. Expect real GDP growth of around +1% in full-year 2012, after +2.5% in 2011. Consumer price inflation accelerated to 5.3% yr/yr in September from 3.9% in August and a low of 1.8% in May, mainly driven by rising food costs.

Worth knowing

► **Canada**

The ratio of household debt to disposable personal income increased to a record high 163.4% in Q2, fuelled in part by a rapidly growing housing market, which now appears on the verge of a slowdown.

► **Interest rates**

With inflationary pressures appearing under control, both **South Korea** and **Thailand** cut key policy rates by 25bps to 2.75% to support growth via domestic demand as external demand remains weak. **Brazil** lowered its policy rate by 25bps to 7.25%.

► **GDP growth**

Egypt: +2.2% yr/yr in FY 2011/12 (July-June). **Botswana:** +8.4% yr/yr in Q2 2012 after an upwardly revised +6.7% in Q1. **Namibia:** +8.9% yr/yr in Q2 2012 after +3.7% in Q1.

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