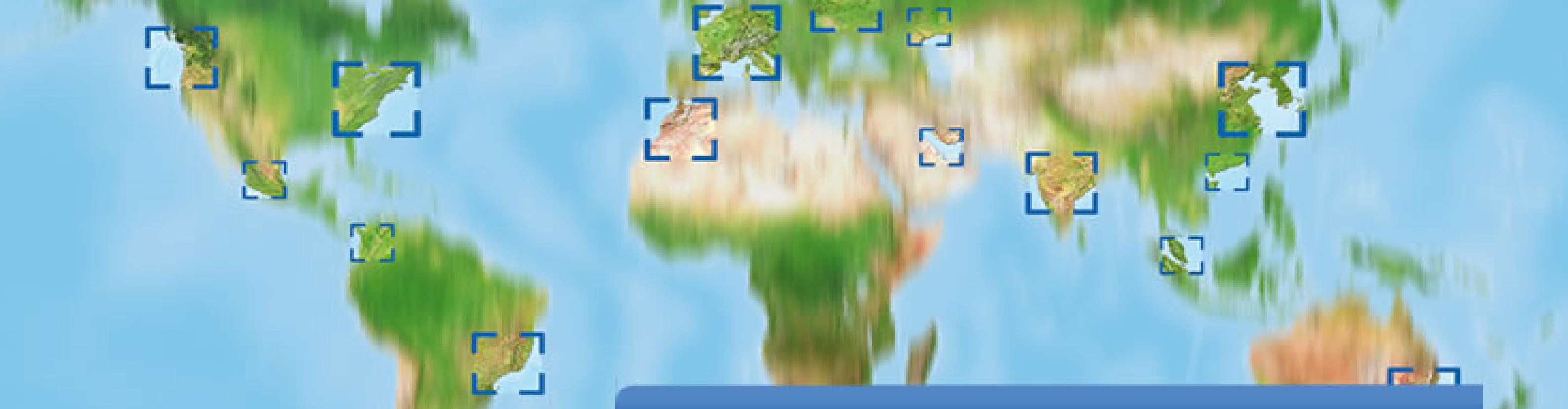

Weekly Export Risk Outlook

EULER HERMES
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7 November 2012

In the Headlines

FIGURE OF THE WEEK: +6.2%> INDONESIA'S Q3 YR/YR REAL GDP GROWTH

US: Re-election, economy fragile

President Obama was re-elected for a second term in elections yesterday. His immediate challenge will be to deal with the "fiscal cliff" issue in order to maintain economic momentum. Latest pre-election data suggest that the economy is still fragile. October's employment report showed an improvement in the data but they were still anaemic. The economy created 171,000 jobs against expectations of around 130,000 and there was an upward revision to the previous month. Yet, in only five of the last 32 months since job growth became positive did the economy produce more than the 250,000+ jobs needed to provide a solid recovery, and real wages have actually contracted slightly over the year. So, although this was better, it was by no means a "good" report. However, other releases were more positive. Both the manufacturing and non-manufacturing ISM surveys remained positive, consumer confidence reached its highest level of the year, construction spending improved and factory orders were mixed.

Euro zone: PMIs remain weak

The EZ manufacturing PMI for October remained in negative territory for the 15th consecutive month, at 45.7, a level slightly lower than the previous estimate (45.8), pointing to an extension of recession in the early part of Q4. The regional breakdown reveals a weakening in activity in all areas, with all the main economies below the 50 expansion threshold, including Germany (46), Italy (45.5), France (43.7) and Spain (43.5). In October, Ireland was the only country in positive territory, at 52.1. The services PMI for the EZ also edged down in October and remained in negative territory for the ninth consecutive month. In this context, Q4 GDP is likely to remain weak, with conditions as difficult as in Q3. Meanwhile, on the political front, Greece will vote today in parliament, amid a two-day general strike, on the proposed additional fiscal measures, approval of which is necessary for the disbursement of the latest tranche of funding from the EZ and IMF.

Saudi Arabia: Leadership changes

The interior minister, Prince Ahmed bin Abdel-Aziz al-Saud—who was appointed as recently as June—was removed from office in uncertain circumstances. His nephew, Prince Mohammed bin-Nayef al-Saud, replaced him. Prince Ahmed's departure, officially for personal reasons, was a surprise and again raises speculation relating to succession. King Abdullah is almost 90 years old and Prince Mohammed is 53 and his elevation places him towards the front of a younger (third) generation of princes vying for ultimate power. When it happens, expect the succession to be managed behind the scenes, with little disruption on the surface or to overall policies. However, an injection of "youth" into the ruling elite may help improve communication with a generally young population.

Germany: Slowdown's employment impact

In October, the Ifo Climate Index deteriorated for the sixth consecutive month, which means that overall GDP growth is likely to virtually stagnate during H2 2012, after +0.8% growth in H1. The slowing economy is having an increasing impact on the labour market by dampening the usually typical autumn revival. According to the latest figures from the Federal Employment Agency, 2.75mn people were registered unemployed in October, 35,000 less than in September and below the 'normal' reduction of around 50,000. The number of unemployed in October was 16,000 higher on a yr/yr basis, representing the first such increase since February 2010. Nevertheless, in isolation, these figures do not signal a trend reversal, although it would appear that the pace of reduction in unemployment has lost some momentum.

Countries in Focus

Mediterranean, Africa & Middle East – *Uganda: Outlook*

The central bank cut its key policy interest rate by a further 50bps to 12.5% at its latest monetary policy committee meeting (1 November) but indicated an end to the recent easing cycle may soon be appropriate—rates have been cut by a cumulative 10pps since February. Core inflation (4% yr/yr in September after 4.8% in August) is now expected to stabilise in the ST around the bank's medium-term target of 5%. Meanwhile, a recent (relatively favourable) IMF report noted that large current account deficits (over 11% of GDP in FY2011/12) are largely financed by FDI inflows, fiscal policy is tight and quantitative targets in the Fund-supported economic programme were all met comfortably in H1 2012. EH expects GDP growth of around +4% in calendar 2012 and +5% in 2013.

Americas – *Brazil: Update*

Data released last week show that industrial production fell by -1% mo/mo in September and -3.1% yr/yr. However, this was partly the influence of relatively volatile mining output. Manufacturing fell by only -0.6%, which followed increases in June and July and a 1.6% rise in August alone. Overall, industrial production is still noticeably above the level of a few months ago and the October manufacturing PMI released last week was above 50 and up on September. All this points to continued recovery in output, although 2013 GDP growth will probably fall short of the 4% consensus expectations. On the policy front, without some modification (probably by technical adjustment to public sector investment), the primary fiscal surplus looks set to fall short of this year's target.

Asia-Pacific – *Indonesia: Strong Q3 growth*

Real GDP growth continued at a strong pace in Q3, at +6.2% yr/yr, taking the average for the first three quarters of 2012 to +6.3%. Domestic demand was again the key growth driver in Q3, boosted by robust increases in private consumption (+5.7%) and fixed investment (+10%). Government consumption actually declined by -3.2%, but healthy public finances will allow for supportive expansionary public spending, in need. External trade activity slowed markedly, reflecting weakness in the global economy. Net exports subtracted -1.2pps from overall Q3 growth, as exports contracted by -1.4% yr/yr and imports by only -0.2%. Inventories contributed around +2pps to Q3 growth, suggesting that output may fall in coming quarters. Expect full-year growth of around +6% in both 2012 and 2013.

Europe – *Czech Republic: Monetary easing, fiscal austerity*

Last week, the Czech National Bank (CNB, the central bank) lowered the key policy interest rate by 20bps to 0.05%, following two earlier cuts of a cumulative 50 bps in June and October. The CNB is trying to support economic activity, which is markedly curtailed by fiscal austerity. The CNB forecasts GDP in 2012 will decline by -0.9%, similar to EH's forecast (-1%) and meagre growth of +0.2% in 2013, which is lower than EH's current forecast of +1%. Inflation will remain under control in the next two years, despite an increase to an average 3.5% in the first nine months of 2012 from 1.9% in 2011, mainly the result of tax increases. Austerity should also contain the annual budget deficit to around 3% of GDP in 2012-13 and total public debt at 45% of GDP, relatively favourable by current EU standards.

Worth knowing

Australia

The central Bank (RBA) left the policy interest rate unchanged at 3.25%. Inflation remains low and, although the economy is slowing, key commodity prices have seen a partial recovery and China's economy is showing signs of picking up.

Egypt

At USD15.5bn at end-October, net international reserves recorded an increase of +2.9% mo/mo. Bilateral assistance packages supported the reserves but they are still down -29.8% yr/yr. An IMF facility remains crucial to unlock further funding.

Libya

At the end of October, the 200-member General National Congress approved the government list nominated by PM Ali Zidan. However, since then, clashes between rival militia suggest that the new government's authority will be strongly tested.