

Weekly Export Risk Outlook



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In the Headlines

FIGURE OF THE WEEK: 30[>] MILLION BARRELS/DAY - OPEC'S OIL OUTPUT TARGET (UNCHANGED)

► Turkey: Anti-government protests

After 28 May, what had been small-scale demonstrations opposing the demolition of a park in Istanbul widened into nationwide anti-government protests, including violent clashes with police. Parallels have been drawn to the 'Arab Spring' protests in North Africa in 2011 but references to a 'Turkish Spring' appear to overstate the risk to government stability. The ruling religiously-conservative AKP under PM Erdogan was democratically elected three times from 2002, with almost 50% of the vote in 2011. However, the AKP's success cannot hide the deep-rooted division in society between secularists and religious conservatives. The short-term impact of the unrest on the economy was seen in tumbling markets, with the TRY falling by around 2% in the week to 3 June, to a 16-month low, the stock market falling by 10.5% and the spreads on sovereign debt increasing by 100bps. It remains to be seen whether there will be a long-term impact on the economy, but there is a risk that the attractiveness to foreign investors may suffer temporarily and that the upgrade trend—Turkey regained investment grade status just last month for the first time in two decades following an upgrade by Moody's—will be put on hold, for now.

► Eurozone: Contraction likely to continue in Q2

In May, business confidence indicators (composite PMI) gained 0.8 points to 47.7, slightly above consensus expectations (47.2). The increase was driven by both manufacturing (+1.6 points to 48.3) and services (+0.5 to 47.5), with the levels suggesting a slower pace of contraction of activity. The strongest improvement in the data is registered by Spain, with the manufacturing PMI gaining 3.4 points to 48.1, its highest level in two years. The manufacturing PMI for France also increased relatively substantially (+2 points to 46.4), exceeding expectations (consensus at 45.5), although confidence within the services sector remained stable (at 44.3). In Germany, business confidence increased marginally in both manufacturing (+0.4 points to 49.4) and services (+0.2 to 49.8). Overall, current levels of business confidence suggest that the recession in the eurozone will continue in Q2, although at a slower pace than in Q1. EH expects GDP growth will stabilise towards the end of the year.

► US: Latest economic data

Data continue to suggest that a strong revival is not yet evident. Q1 GDP growth was revised down slightly to a relatively weak annualised +2.4% y/y but, if the impact from inventories is excluded, the rate of growth was a very weak +1.8%. The trade deficit widened in April to USD40 billion from USD37 billion, suggesting downward pressure on Q2 GDP. Moreover, economic growth is also coming under pressure from taxes. In April, and after allowing for inflation, taxes increased by +10.6% y/y, driving personal disposable income growth to a low +1% and resulting in weak personal consumption expenditure growth of only +2.1%. Meanwhile, the ISM manufacturing index fell below 50 in May for only the second time in almost four years, signalling contraction. Perhaps significantly, the new orders component, which is a gauge of future activity, fell sharply from 52.3 to 48.8.

► Switzerland: Strong Q1 growth

The economy continued to be robust in Q1 2013, with GDP expanding by a surprisingly strong +0.6% q/q, after increasing by +0.3% in the previous quarter. Growth was mainly driven by private consumption, which registered further expansion of +0.6% after +1.1% in Q4 2012. A positive contribution to growth was also provided by capital formation in the construction sector (+0.3%). On the downside, public spending declined markedly, by -0.9% after +0.9% in Q4, and investment in equipment fell -0.8% after +0.2% in Q4 2012. Net exports also contributed negatively to the overall GDP figures (-0.6ppps), with both exports (-1.2%) and imports (-1.7%) declining, reflecting the weakness in the European economy, in general.

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

The East African Community (EAC) and trading bloc COMESA provide a relatively vibrant regional economy. Moreover, energy deposits (particularly offshore gas) provide scope for continuing rapid expansion, subject to security and stability concerns. Despite secessionist tensions relating to Zanzibar and regional concerns relating to religious extremism, Tanzania's political environment is relatively stable. Poverty alleviation remains a challenge (annual per capita income is around USD600) and the business operational environment is perceived as weak but GDP growth was strong in the period 2000-12, with an annual average expansion of +6.7%, above the average for Sub-Saharan Africa in all but one of those years. EH expects GDP growth of +6.9% in 2013 and +6.5% in 2014.



► Americas – *Brazil: Interest rate rise*

The policy interest rate was increased last week, by 50bps to 8%, in response to inflation above the upper band of the target range. This move to prioritise inflation comes despite evidence of a softer-than-expected recovery. Data released last week show Q1 GDP increasing by +0.6% q/q and +1.9% y/y. The quarterly rate of growth was the same as in Q4 2012 and both quarters were ahead of the +0.3% of Q2 and Q3, signalling that, while there is momentum, the recovery is more sluggish than previously thought. Industrial production data for April released this week is positive and one bright spot in the Q1 GDP data is the pick-up in gross fixed investment. Nonetheless, EH expects that growth in 2013 is unlikely to be more than +2.7%.



► Asia-Pacific – *India: Growth remains subdued*

In January-March (Q4 of FY2012/13), GDP growth was +4.8% y/y (+4.7% in Q3), bringing the rate of growth for 2012/13 to +5%, the lowest in a decade and compared with an annual average +7.3% in 2000-11. In Q4, agriculture (+1.4%) and manufacturing (+2.6%) remained sluggish and mining contracted (-3.1%) but construction increased by +4.4% (+2.9% in Q3). The outlook is slightly better, with economic reforms implemented last September taking effect, forecasts of a good monsoon in 2013 (a boost to rural incomes and demand) and perhaps scope for further monetary easing (if wholesale prices are contained). EH expects GDP growth of +6% in 2013 and +7% in 2014, subject to enactment of further economic reforms and successful elections next year, with the risks to the downside.



► Europe – *Slovenia: Q1 GDP worse than expected*

Q1 real GDP contracted sharply by -4.8% y/y (-3% in Q4 2012) and -0.7% q/q (-1% in Q4), marking the sixth consecutive quarter of decline. Domestic demand remained particularly weak, with private consumption falling by -5.4% y/y, public consumption -2% and fixed investment -2%. Moreover, inventories subtracted -3.7pps from Q1 growth. Imports were also down, by -1.8% y/y, but exports returned to modest growth of +1.8%. As a result, net exports (+2.7pps) prevented an even deeper contraction. There is no room for fiscal stimulus as the urgently needed banking sector restructuring—which Slovenia aims to solve without an international bailout—will push the fiscal deficit to an estimated -8% of GDP in 2013. EH expects full year 2013 GDP to contract by around -3%.

Worth Knowing

► Eurozone

Data for April suggest continuing generally-tight credit conditions. Credit to non-financial corporations in Southern Europe remains in contractionary territory. This has been the case for more than three years in Spain and Ireland (-19% y/y and -5.5%, respectively), for two years (or more) in Portugal and Greece (-6.2% and -4.5%, respectively) and for more than one year in Italy (-4.5%). Credit contraction recently spread to the core countries, with credit to NFC in Germany (-0.2%) and France (-0.4%).

► Other GDP

Israel: +2.8% y/y in Q1 (+2.6% in Q4 2012). **Philippines:** +7.8% y/y in Q1 (+7.1% in Q4 2012) and +2.2% q/q (+1.9% in Q4).

► OPEC

Despite global attention on output of oil from North American shale deposits and on a slower rate of growth in China, OPEC kept its production target steady at 30 million barrels per day, remaining satisfied with a current benchmark USD100/barrel.

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