

# Weekly Export Risk Outlook

1 October 2014

## In the Headlines

FIGURE  
OF THE WEEK

USD94

Barrel price of  
benchmark  
Brent crude oil  
(-14.3% y/y)



### China: Low Q3 GDP growth – better Q4?

The official manufacturing PMI survey for September points to economic resilience, remaining in expansionary territory at 51.1. The breakdown by components reveals that output and new orders are increasing but suggests that domestic orders are losing momentum. In terms of company size, the divergence between large and small firms has increased, with the latter, in particular, experiencing headwinds. These mixed results partly reflect the difficulties of the economy at large, which include depressed activity in the property sector and a more cautious stance towards credit supply to curb shadow banking activities. After deteriorating in August, economic activity is expected to gain traction in Q4 supported by external demand and targeted measures. Indeed, recent moves by the authorities continue to show an official intention to revive the economy. As an example, the government decided to ease mortgage restrictions to stimulate the property market. Moreover, the Central Bank announced that it will start direct trading between the RMB and the EUR. In addition to being a significant step for RMB internationalisation, this will help to reduce transaction costs and reduce currency risk.



### UK: Peaking?

Q2 GDP growth was revised upwards (+0.1pps to +0.9% q/q). Domestic demand was the main driver for growth in Q2 as net exports stagnated (exports and imports fell by -0.4% q/q and -0.3% q/q, respectively). Private consumption continued to expand (+0.6% q/q after +0.7% q/q in Q1) and public spending recovered strongly (+1% q/q). Investment increased at a slower pace than in Q1 (+1.4% q/q compared with +2.3% q/q) as both construction and equipment recorded lower growth. Inventories had a positive net effect on growth (+0.1pps), for the first time since mid-2013. Going forward, EH expects private consumption will continue to expand at a good rate, given the recovery in the labour market, although subdued wages growth continues to be a drag. Investment is likely to expand at a slower pace in coming quarters, as suggested by the fall in the manufacturing PMI index in September (-0.6pps to 51.6) with new orders falling to a 19-month low. The BoE is likely to keep interest rates at a record low of 0.5% at least until Q1 2015. Based on Sweden's experience, the BoE is likely to favour a macro-prudential approach; increasing interest rates will be driven by wage growth and inflation. Overall, EH expects GDP will expand by +2.9% in 2014 and by +2.5% in 2015, slightly below consensus.



### U.S.: Mixed data

Recent data have given apparent conflicting signals and are difficult to gauge: new home sales increased strongly, pending home sales were virtually flat and home prices fell; GDP growth was revised up; personal income and spending were modest; and consumer confidence fell sharply. August new home sales increased by +18% m/m, the most in over 22 years, driving the y/y rate to +33% from -8.7% in June. Pending home sales edged down -1% m/m, and the Case-Shiller home price index fell for the second consecutive month after a string of 28 positive readings, bringing the y/y rate to +8.1% from +13.2% in January. Q2 GDP growth was revised up moderately, to +4.6%, with +2.9% for investment. August personal consumption increased by +0.5% m/m while personal income lagged slightly at +0.3%; both are running below average after adjusting for inflation, which was steady at +1.5% y/y. In July, consumer confidence pierced the 90 level indicating a "stable" economy for the first time since the recession. However, it fell strongly to 86.0 in September, losing -7.5 points, the most in a year.



### Middle East: A tangled web

The U.S.-led coalition of forces that is attempting to stem and then push back the progress of Islamic State (IS) militants in **Syria** and **Iraq** includes contingents or support from **Saudi Arabia**, the **UAE**, **Kuwait**, **Bahrain** and **Jordan**, as well as some European nations, reflecting a broad concern that IS represents an existential threat in the region and is a source of potential imported terrorist activity worldwide. EH does not expect a quick resolution to problems in the area. Even if IS is defeated, or at least contained, both **Iraq** and **Syria** will need international assistance to rebuild defences, institutions (civil and political) and basic infrastructure, as well as healing tribal and religious divides. The latter include the Sunni/Shia split, accommodating Kurdish autonomy aspirations and allowing for smaller religious groups, including Christian and Yazidi, to feel assimilated. Meanwhile, the commercial environment will remain challenging, although business continues to be conducted and remains vibrant in the wider region, which includes the GCC countries. Even with significant conflict within the region, EH expects Middle East GDP growth of +3.4% in 2014 and +3.9% in 2015 (10-year average to end-2013 +5%).



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# Countries in Focus

## Americas



### Brazil: Dilma leads the polls before presidential elections

Elections take place on 5 October to elect a president, the National Congress, state governors and state legislatures. If a single candidate in the presidential and gubernatorial elections does not receive more than 50% of the vote, a second-round run-off will be held on 26 October. President Dilma Rousseff is seeking re-election. According to a recent survey, if elections go to a run-off, 49% intend to vote for Rousseff and 41% for her main opponent, Marina Silva (from the Brazilian Socialist Party). This contrasts sharply with surveys a month ago, that showed Silva as winner with 50% of the vote, compared with 40% for Rousseff. The outcome of the elections will be analysed closely as it could herald changes in economic policy direction, possibly with more business-friendly programmes aiming to boost investment. Brazil was in technical recession in Q2 and the outlook remains subdued. EH expects near-stagnation this year (+0.3%) and growth will remain below +1% in 2015 (+0.8%).

## Europe



### Latvia: GDP growth slows, in part due to Russia crisis

Revised data show that Q2 real GDP growth picked up to +0.9% in q/q sa terms (+0.4% in Q1) but moderated to +2.3% y/y (+2.8%). Domestic demand remained solid in Q2, with consumer spending up by +2.3% y/y (+2.7% in Q1), public spending +4.9% y/y (+5.2%) and fixed investment +1.8% y/y (+9.3%). However, external demand weakened, with export growth slowing to +1.7% y/y in Q2 (+3.4% in Q1) while imports increased by +2.3% y/y (+0.5%) so that net exports provided a negative contribution to Q2 growth. The Russia crisis had an impact on this as nominal exports to that country declined by -15.1% y/y in Q2 and the share of those exports in total exports decreased to 10% from 11.8% in Q2 2013. External demand is likely to remain soft in H2, while robust expansion in retail sales, by +3.9% y/y in July-August (slightly up from +3.8% in H1), indicates ongoing buoyant domestic demand. EH expects full-year GDP growth of +2.7% in 2014 and +3% in 2015.

## Africa & Middle East

### Kenya: Bigger now

As elsewhere in the region, including Nigeria (most notably) and Ghana (with Tanzania to follow), GDP data have been rebased and now take account of significant recent structural changes in the economy, led by growth in the services sector. As a result, data now show that the economy is around 25% larger than previously estimated. This suggests that GDP in 2013 was USD53.3bn, compared with earlier projections of USD42.6bn, making Kenya the fifth largest economy in Sub-Saharan Africa, with a per capita income of over USD1,200 that lifts the country to lower-middle income status using the World Bank classification. The data rebasing also means that debt levels expressed as a proportion of GDP are lower, perhaps enabling the government increased access to borrowing to finance plans to improve infrastructure. Using the rebased data, GDP growth in 2013 is now officially given as +5.7% (previously +4.7%). EH expects GDP growth of around +5% in 2014 and +5.5% in 2015.

## Asia Pacific



### Hong Kong: Below potential in 2014

August data give encouraging signals for Q3 GDP growth. Trade figures remained supportive, with rising exports (+6.4% y/y) and a narrowing trade deficit (-HKD31.5bn from -HKD42.1bn in July). Retail sales increased for the first time in seven months in both value (+3.4% y/y) and volume (+2.8%) reflecting rising local consumption ahead of the mid-Autumn Festival. In the short term, recent developments point to a mixed outlook. On the one hand, as global demand recovers it will support export growth and unemployment is low, which is supportive for private consumption. On the other, tourism expenditures (around one third of total retail sales) are weak, confidence (both consumer and business) has deteriorated and recent protests are likely to have an overall negative effect in the short term. Against this background, EH expects GDP growth will remain below potential in 2014 (+2.6%, compared with a pre-crisis average growth of +5%) limited by slow growth in domestic demand.



## What to watch

- October 2 – Eurozone ECB meeting
- October 2 – UK BoE meeting
- October 2 – Brazil August industrial production
- October 2 – Austria Q2 GDP (final)
- October 3 – Eurozone September PMI (final)
- October 3 – Eurozone August retail sales
- October 3 – Japan July leading indicator
- October 3 – U.S. August leading indicator
- October 4 – Colombia September CPI
- October 5 – Brazil general elections
- October 7 – Chile September CPI
- October 7 – Chile September trade balance
- October 7 – UK August industrial production
- October 7 – Germany August industrial production
- October 8 – Brazil September CPI
- October 8 – Spain August industrial production
- October 8 – UK BoE credit conditions survey
- October 8 – Romania Q2 GDP (final)

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