Weekly Export Risk Outlook

EULER HERMES

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In the Headlines

FIGURE OF THE WEEK: €110BN > GREECE'S EMERGENCY LOAN PACKAGE

Greece: Rescue plan involves austerity measures

The EU/IMF €110bn package of emergency loans (€80bn from the EU and €30bn from the Fund) approved 2 May 2010 is designed to avoid a sovereign default by Greece, prevent a crisis of confidence spreading to other EU countries and insure the stability of the euro. This rescue plan involves new austerity measures, including cuts in public spending over three years to reduce public expenditure from 50% of GDP in 2009 to 7% in 2013. It aims to reduce the overall budget deficit from 13.6% of GDP in 2009 to below 3% by 2014 and will adversely affect domestic demand. Accordingly, the Greek economy could contract by 4% in 2010 (after falling 2% in 2009) and by a further 2.6% next year.

USA: Q1 2010 GDP data suggest real demand growth

In a very positive Q1 2010 report, GDP grew at an annualised real rate of 3.2%, the third consecutive increase. Consumption posted a 3.6% gain, the best in three years, proving that the US consumer is still alive. Investment grew at a brisk 15% rate, following Q4 2009's blistering 46%. While net exports did increase slightly, growth in both exports and imports is still a positive for the global economy. Perhaps most importantly, the quarter's activity was not driven by a change in inventory, suggesting genuine demand in the economy. Other recent strong reports include personal consumption expenditures, ISM manufacturing, factory orders and pending home sales. This Friday's April employment report is critical. Consensus expectations are for an unemployment rate of 9.5%- 9.7% and about 200,000 new jobs.

Thailand: PM calls early polls

In a fresh attempt to end more than seven weeks of anti-government protests that have paralysed parts of Bangkok and resulted in violence on 10 April, PM Abhisit this week outlined a reconciliation plan and offered to hold early elections in November. The red-shirt protesters have cautiously welcomed the plan, although they originally demanded snap elections within three months. However, they want more clarification and a fixed date for the dissolution of parliament. The latter is a prerequisite for setting an election date, which has to be done in any case by the electoral commission—not the PM. A peaceful end to the turmoil now seems possible, but do not expect a swift and full reconciliation of the underlying social divides within the country.

Iran: Oil sector changes but unremitting overall stance

Last week's personnel changes in the oil sector, including the head of NIOC (the state oil company) increase the influence of the Islamic Revolutionary Guards Corps in the industry. They may also indicate some urgency in increasing oil output as capacity has stagnated at around 4mbpd because of limited foreign inputs. Expect further attempts to increase sanctions against Iran and for this to maintain energy shortages in the country, but also expect Tehran to be intransigent in relation to demands to curtail its nuclear activities and for this to maintain heightened regional and global tensions.

Countries in Focus

Mediterranean countries & Africa - *Mauritius: Parliamentary elections hold no threat to stability*

Today's parliamentary elections are unlikely to present an upset. PM Navin Ramgoolam and the ruling Labour Party (MLP) are likely to be returned to office and policy continuity should therefore be relatively assured. The MLP campaigned in alliance with the MSM, led by Pravind Jugnauth, which has been in opposition since the 2005 poll, and with the PMSD, which has been Labour's junior partner in government for the past five years. Expect Jugnauth to take over the finance portfolio in cabinet. Also expect investment in education and infrastructure as further diversification is pursued away from the current main economic drivers (sugar, textiles, tourism and financial services). In this relatively dynamic economy expect annual GDP growth of 4-5% in 2010-11 after around 3% in 2009.

Americas – *Venezuela: Good rains ease energy crisis*

Early rains have reportedly improved the water level in the Guri dam—source of around 75% of national electricity supply—and thereby eased the energy crisis, which results in periodic power blackouts. Nevertheless, expect continuing energy rationing, particularly as relatively high water retention is needed ahead of the forthcoming dry season in November-May. Power shortages will delay economic recovery and they are also likely to be a partial contributory factor behind the decline in approval ratings of President Hugo Chavez (now at the lowest in seven years). Congressional elections are scheduled for September and opposition parties are gaining ground. However, Chavez has proved adroit at managing electoral expectations, so it is too early to expect a change in political leadership.

Asia-Pacific – *Philippines: Elections scheduled for May*

Elections for the presidency, the vice-presidency, one-half of the Senate (upper house), all of the 250 seats in Congress (lower house) and some 17,000 local-government positions are due on 10 May. Benigno "Noynoy" Aquino, the son of a former president, Corazon Aquino, is the front-runner for the presidency. Crucially, computerised vote-counting will be used for the first time, and problems in the system that became evident in tests have already raised fears of miscounting or fraud. The Philippines has a history of elections marred by alleged vote-rigging and corruption, as well as violence. So expect some short-term political uncertainty as official results are likely to be delayed and defeated candidates may claim poll fraud, especially if the winning gap is narrow.

Europe - *Ukraine: Gas deal with Russia*

A deal that prolongs Russia's lease on the Black Sea Fleet base in Sebastopol for 25 years until 2042, in exchange for a 30% discount for Ukrainian gas imports from Russia until 2019, was ratified by both countries' parliaments last week. The discount should save Ukraine at least USD2bn this year, easing fiscal pressures and allowing a budget proposal that is likely to be acceptable to the IMF, which had suspended funding in November 2009. However, the deal is highly controversial politically—reflected in chaos in parliament during the debate—and could deepen differences between the EU-leaning west of the country (now in opposition) and the Russia-leaning east and south. Meanwhile, expect real GDP to grow modestly, by 2-3% in 2010 after -15.1% in 2009.

Worth knowing

Australia

The Reserve Bank of Australia (RBA) increased its target interest rate to 4.5%, the sixth upward adjustment in eight months.

Russia

Encouraged by an 11-year low inflation of 6.5% yr/yr in March, the Central Bank cut its key policy interest rate by 25bps to a historic low of 8% last week, in order to spur the still fragile economic recovery.

Commodity Prices

Benchmark Brent Oil: USD86/barrel; year average to date USD80/b (year average for 2009, USD63/b).

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